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In a Q&A Brian Stuart-Young talks about the establishment of Antigua as a financial centre

Daniel Gros writes that US President Donald Trump may save the euro

We are in a transition towards a new international regime, finds Daniel Dăianu

THE GLOBAL TRADE PLATFORM

Capitalism 4.0

Capitalism is a system that responds to crises by transforming both economic relations and political institutions. The message of the Trump presidency, like anti-establishment upheavals in Europe and elsewhere, will force people to start asking fundamental questions about how the relationship between markets and governments in the next phase of global capitalism should evolve. Politicians must tear up their pre-crisis rulebooks and encourage a revolution in economic thinking.

Many commentators' views of Trumponomics do not fall neatly along ideological lines. Some, such as the Harvard development economist Dani Rodrik, certainly no market fundamentalist, finds reason for hope in Trump's opposition to 'free trade' deals laden with extra provisions that have nothing to do with trade. As he puts it, the trade agreements that Trump has denounced *"incorporate rules on intellectual property, capital flows, and investment protections that are mainly designed to generate and preserve profits for financial institutions and multinational enterprises at the expense of other legitimate policy goals."*

Meanwhile, the EU has issued a White Paper on its future. The European Commission sees the future of the EU as one of more integration. This new White Paper complements the *5 Presidents Report* and goes beyond it, reciting favourably the Spinelli/Rossi vision of a united Europe published at the end of World War Two. It will mean the continuation of special preferences for specific industries and vested interests; in effect a continuation and deepening of policies that have resulted in the current malaise.

Trump, on the other hand, represents a comprehensive rejection of the economic thinking that has dominated the world for generations. Trade and financial liberalisation that would ensure prosperity for all – the key reforms underpinning globalisation – has led to stagnated standards of living across the developed world, and voters have concluded that their leaders didn't know what they were doing, or lied.

Trump's fiscal stimulus and emphasis on deregulation will boost demand in the classic Keynesian manner and the rise in the stock market indicates business support. An easing of financial regulations that locked many households out of mortgage markets, and some sensible tax reforms, particularly those aimed at encouraging profit repatriation by US companies and broadening the tax base, could be seen as beneficial.

Shaping the new economic thinking will be the most important challenge for both economists and politicians in the years ahead. Complacency among the establishment and its supporters is one of the driving forces behind the rise of populist sentiment in Europe and the United States, and a continuation of the current course is unlikely to rise to the challenge.

Under Trump, US economic policies in the next four years are unlikely to provide the right answer; but his administration may at least show the world what not to do. What global policy players need to do is react positively to the growth of anti-establishment parties. If not the world, and Europe in particular, will revert to the pre-World War Two status of self-interested nation states. ■

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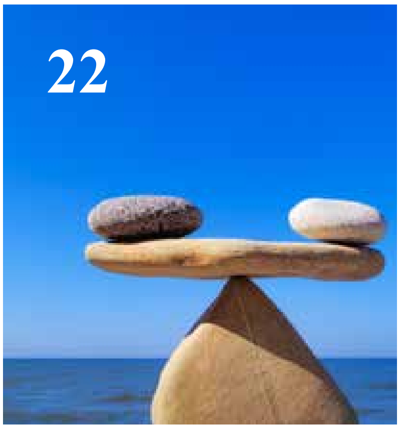

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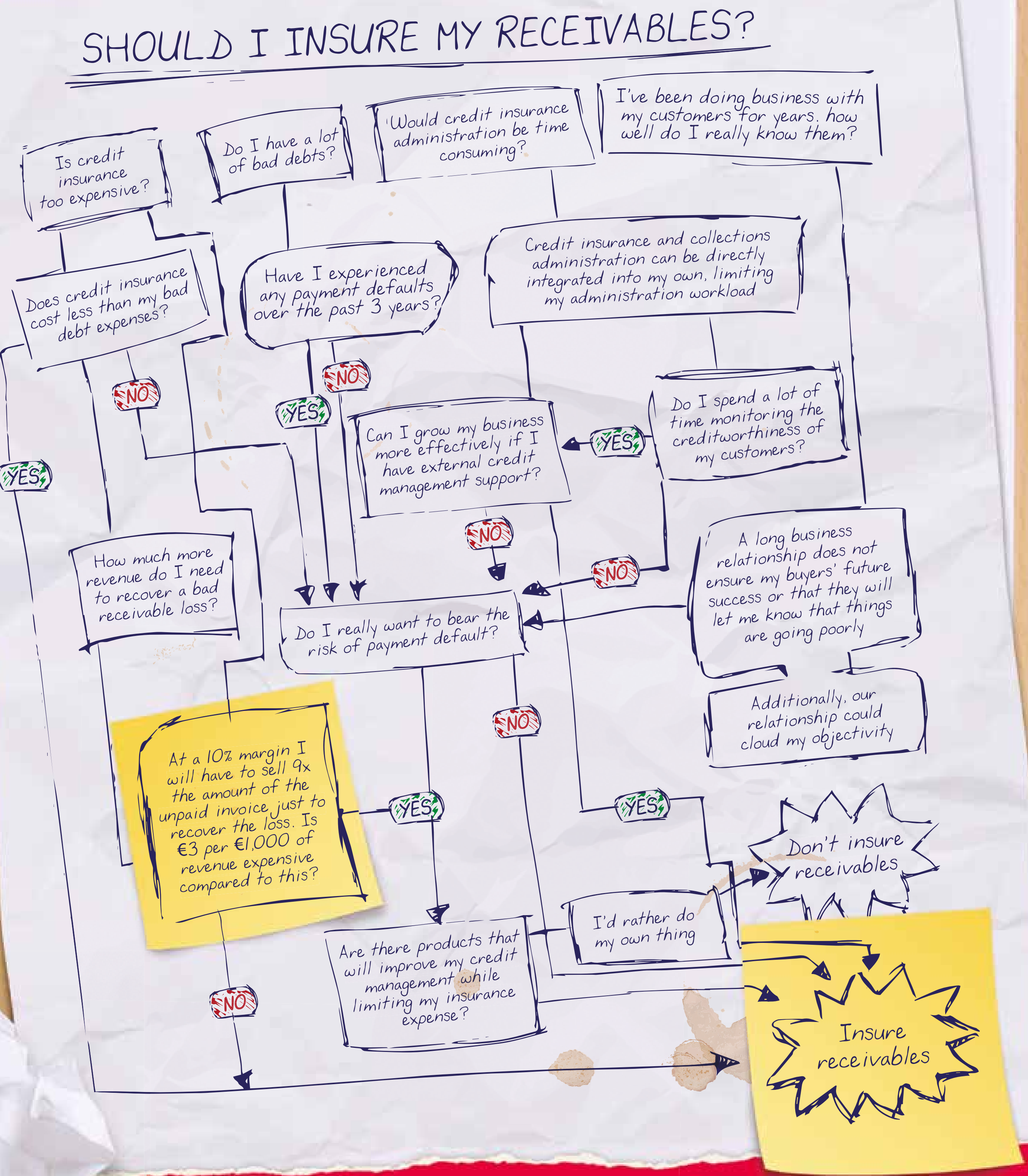

The new protectionism: where does it come from and where may it go?

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During hearings in the US Congress the Commerce Secretary in the new Republican administration asserted that the United States wish 'fair trade'. Such a statement indicates a radical change of vision regarding foreign trade relations if compared with the thinking that prevailed after 1945. The denouncement of the Trans-Pacific Partnership, a new stance regarding NAFTA and TTIP go in the same direction.

There is increasing talk in Washington about entering bilateral trade agreements, using tariffs in order to protect industrial sectors. US companies are encouraged to move operations back home and repatriate their profits, and doubts have been raised concerning the reformed regulatory and supervision framework of finance.

Traditionally, the fair-trade concept is part and parcel of developing countries' rhetoric. Ironically, statements by Chinese leaders in Davos this January pleaded for free international trade and globalization although the functioning of their economy has in-built protectionist features.

Views in the United States which advocate a 'strategic' approach to international trade (Clyde Prestowitz's name comes to one's mind) were mostly marginal in public debate for decades; trade without obstacles was the dominant paradigm even if control was accepted in areas related to national security (ie. defence industry or telecoms) and currencies' swings was a permanent topic in the dialogue among finance ministers of major countries.

But what we are witnessing now could be judged in a much deeper sense and having possibly wide-ranging effects. It may also be puzzling as the unemployment rate in the US is below 5 percent (versus about 9 percent immediately after 2009), although income distribution and the quality of jobs need to be factored in. And to consider it as only a temporary anomaly would be simplistic for the liberal order has been questioned for years now[1].

In EU member states national economic concerns are on the rise too, but EU rules stipulate a free trade order. Many European leaders feel uncomfortable with the new vision that is taking shape across the ocean. Brexit however, can be judged in the logic of changes underway in the States, even though the United Kingdom remains attached to the free markets vision.

What may be labeled as the 'New Protectionism' (NP) involves more intervention in the economy/society; it has various forms and operates at different paces. When the multilateral architecture of the international policy arrangements is questioned a radical new approach comes into being. There are nevertheless other insidious ways which, without questioning multilateralism, seek to support national firms or even economic sectors.

Within the European Union, the Single Market rules prevail in the context of a variety of national economic situations. But vis-à-vis outsiders this framework is less so, or it may be changing. As *Reuters* reported on February 15 this year, France, Germany and Italy urge a rethink of foreign investment in EU.

It is a fact that NP undermines globalization, a liberal economic order, as it has evolved during the past half century. To see where the New Protectionism comes from it is worth going a little bit into history and relate it to the current context. What follows is an attempt to interpret and understand where the propensity for protectionism come from rather than to be normative.

A few historical benchmarks

Following WWII the US was the champion of free trade as a reflection of a system based on free markets and a tool to promote their own interests. Liberal democracy was seen in a symbiotic relationship with free trade and openness, with globalization – in stark contrast with the command systems of the communist countries. The fall of the Berlin Wall heightened that vision in international relations, which, when seen historically, matched the UK's role in the second half of the 19th century - when Pax Britannica epitomized the world order, an international economic system.

The 'Washington Consensus', which was promoted by international institutions (the World Bank and the IMF in particular) after 1945, espoused a strong belief in unhinged globalization as an overriding principle in the functioning of the world economy.

Notwithstanding, dissenting voices in economic and policy thinking did exist. Robert Wade, Alice Amsden, Lance Taylor and others underlined risks associated with a premature opening of markets. UNCTAD, the Geneva-based institution, which is a loudspeaker for less developed countries, had always been quite ambivalent about full commercial and financial openness. In Latin America, too, views pointed out structural problems afflicting less developed economies and that demanded a nuanced approach to financial liberalization.

For decades, Harvard professor Dani Rodrik pleaded for pragmatic policies that should pay attention to market imperfections and asymmetries[2]. The economic success of several Asian economies tested the 'Washington Consensus'; and the lessons of the financial crisis episodes of the recent decades prompted international institutions to reexamine financial liberalization when undertaken irrespective of circumstances.

It is worth to remember that the US' economic emancipation from the British Crown, after the independence war, was supported by protectionist measures in order to develop a manufacturing base; Germany, too, replicated this approach in its relationship with the UK, while Japan's response to the economic assault of Western powers was industrial development, which relied on protectionism too. In other words, protectionism was part of the toolkit for economic development, in ensuring economic security and changing an international balance of power. In Europe, Friedrich List is known for his protectionist thinking, which inspired Germany's economic policy in the second half of the 19th century onwards. In the US, the first Treasury Secretary, Alexander Hamilton, and a series of Presidents including Abraham Lincoln come to one's mind in the same vein.

The post-WWII EU and world order were aimed at bringing peace between states and preventing economic conflicts[3]. The decolonization process is worth mentioning in this context. This inference does not ignore the major geopolitical confrontation of the last century, military conflicts around the world.

Why does protectionism return in the developed world?

Why do 'sirens' of protectionism ring in the developed world currently? Processes and factors are to be mentioned in this regard; these can be grouped in two categories: Firstly, economic evolutions; and secondly, security threats.

Among fundamental economic developments are to be counted:

- A significant erosion of US status in the balance of power globally which is related to economic and military overstretch. It is worth to notice that economic and industrial strength underpins military and technological power;
- For the first time in centuries the economic pre-eminence of the Western world seems to be at threat; the rise of Asia, especially of China, but also India, are to be mentioned in this respect;
- New technologies (the Fourth Industrial Revolution) are cutting jobs massively, but economic and public policies are also responsible for social strain and unrest.

"One can surmise that had public policies been more attentive to the needs of those individuals and firms that are on the losing side in global competition, social stress would have been lesser"

- The Financial Crisis has fragmented and divided societies and turned them inward-looking;
- The Financial Crisis has induced governments and central banks to adopt non-standard, unconventional measures; these involve hands on practices in economies;
- Bad corporate governance and tax dodging (including profit-shifting) fuel anti-globalization reactions;
- There is a widespread sentiment that external financial markets have an excessive influence over national governmental policies. This is a delicate issue as the legitimacy of those who have a mandate to articulate public policies is at stake.

The New Protectionism in developed countries comes, arguably, as a reaction to unrestrained, unmanaged globalization. More than a decade ago, Paul Samuelson, the author of *The Neoclassical Synthesis* (which is the backbone of mainstream economics), highlighted that the flow of factors of production may erode comparative advantages of industrialized states[4]; he basically restated what David Ricardo, a leading contributor to international trade theory, considered to be the reverse side of the coin when capital, investments, knowledge move to countries where wages are pretty low. One can surmise that had public policies been more attentive to the needs of those individuals and firms that are on the losing side in global competition, social stress would have been lesser.

It should be emphasized that globalization is not an automatic, mechanical outcome of technological change. Reversals can happen following social and economic distress. In addition, concerns vis-à-vis the loss of economic status can combine with worries about increasing technological and military vulnerabilities. This is why NP can signal a return of, or more state economic intervention.

Security and protection of citizens

The role of the state as a guardian of public interests comes ever higher on the public agenda in the western world. The US was badly hit in September 2001 by terrorist attacks, which led to a review of concepts regarding ways to ensure citizens' and state security. Europeans have also been hit by terrorist attacks in recent years, which has triggered anxiety and claims to public authorities similar with the ones across the Atlantic.

Terrorism, unconventional threats (cyber attacks, hybrid wars, etc), fear for the future, big uncertainties, are pushing many citizens to ask for firm measures from their national governments to protect them and protect national interests. In France and Belgium state of emergency measures operate. New security measures are proliferating. The refugee/ migrants crisis in Europe has posed major difficulties for the Schengen space to function. And in the US the new

Administration has a new approach, be it highly controversial, regarding immigration.

How open societies can answer to such challenges is an open question[5]; without balanced policies, outcomes can be largely suboptimal. Authoritarian temptations come up in liberal democracies during hard times – these propensities are similar to what happens to state conduct in times of heightened tensions, of war (the *war economy* syndrome). For there is a big difference between the fear for tomorrow as regards one's job and the one that is linked with terrorist threats and military conflicts. But isolation, exacerbated protectionism may act as a boomerang and worsen things – as opposed to the aimed ends.

Simple analytics of a trade-off

Dilemmas that an open society has when facing threats and trade-offs may be captured by economic analysis. More specifically, one can relate protection/security to openness (economic freedom) as public goods. This may be illustrated as a social utility function which includes protection/security (S) and economic freedom (O) as an expression of economic openness, as public goods. A function F = F (S, O) would indicate levels of citizens' comfort in terms of these public goods; it could look like F = ((1- a) xS + a xO), where (a) would be a variable in consonance with people's attitude toward the two public goods; this variable could not be higher than 1 and not lower than 0.

The substitution between protection/security measures and economic openness (economic freedom) has limits because these two public goods (as a state of the social and economic system) are not completely independent of each other; from a certain level, protection measures, or restrictions may distort open society (democracy) exceedingly. Likewise, a total openness of the economy/society, with no rules and protection measures, may cause enormous costs, social anomia.

Graph 1 illustrates citizens' growing need for protection in times of hardships, when threats abound. Various combinations of (S) and (O) may be imagined so as to ensure a degree of citizens' acceptance that would minimize discontent/discomfort in given conditions.

An optimal combination is where the price line (S, O) is tangent to the preference (social choice) curve (I). The (a) point refers to an initial level of economic freedom – as flows of capital, workforce, investment, and the range and scope of regulations. At point (a) things are relatively good, calm, and this is revealed by the price line between (S) and (O); a steeper slope, Pa, shows that (S) is regarded as being sufficient (people feel safe) and economic openness as a public good is in high demand.

When times worsen a more inward looking society emerges; such a turnaround is revealed by the change in preferences in favour of (S). When the need for protection measures grows, the change is reflected by a less steep slope of the relative price, (Pb), between (S) and economic openness (O); this may involve protectionism and other restrictive measures and their combination is indicated by point (b) on the indifference (utility) curve.

The graph simplifies reality not least because it refers to people in general, but, nonetheless, is not irrelevant. Who decides and how decisions are made regarding the two public goods brings politics into the limelight, as citizens may have different options, may share different political views or values; a community may be made up of different ethnical groups and religions, a large part of the population could be made up of immigrants, etc.

In a democracy, one is accustomed to think that the social collective option (social) is given by the majority vote. But things are much more complicated if society is profoundly divided and various values are guiding people' choices[6]. Moreover, economic interdependencies between countries may be very strong.

It is also a fact that the way people value protection vs. openness may vary over time. What is abnormal, unpalatable today, may be termed differently at another moment in time; it may be that people adjust to different circumstances, their habits and perceptions change.

Protection measures can trigger similar responses from partners - and trade wars will likely lead to damages for all parties involved. Therefore, any measures at a national level should be pondered given potential answers from partners. Widespread protectionism comes along with significant dangers; beggar your neighbour policies can easily backfire. It is worth recalling that the globalism of the 19th century Victorian Era was followed by commercial and 'hot' conflicts.

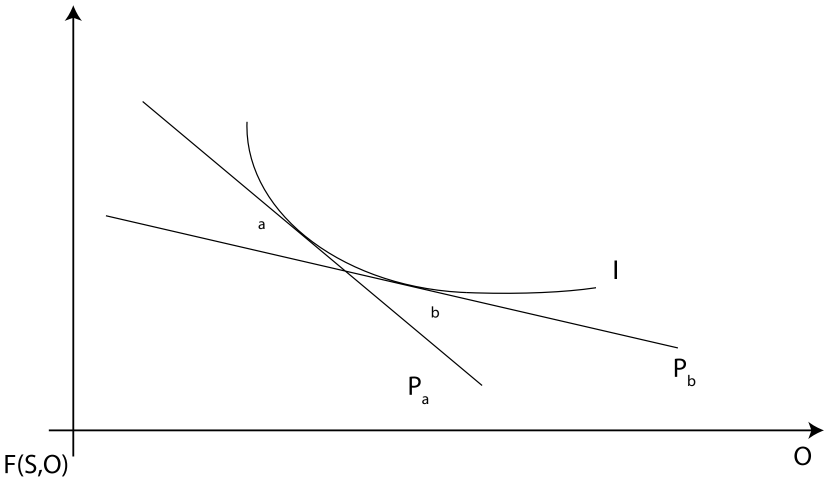
The analysis should be adapted for the case of economic and military alliances. For example, within the EU there is a pressing need for common efforts in the area of intelligence, border protection, military defence - as all these are European public goods.

A resurrection of national interests

The context outlined above might explain why some developed states seem to be seeking to regain a former power status via a journey back in time. There are additional aspects that can help to see through future trends:

- The global economy gets multipolar;
- The EU is fragmented by centrifugal forces and weakened by Brexit. However, it is not improbable that, after a while, Brexit could stir up the appetite for deeper integration amid growing dangers in the global space;
- The post WWII institutional economic arrangements (Bretton Woods's arrangements) are under siege due to alternative accords and institutions promoted mainly by China;
- Unrestrained globalization has brought benefits, but it has also damaged social cohesion by neglecting distributional effects (see also IMF[7], OCDE and World Bank pieces of analysis);
- 'Realpolitik', as a way to articulate foreign policies, increases at the expense of placing moral values and the interests of what is called the international community at centre stage;
- There is a revival of national interests (of nationalism) in a world faced with large disturbances, with a redistribution of economic power (multipolar

Graph 1. The relation between protection (S) and economic openness (O)



and disorder – Ian Bremmer calls it 'G-0'), with conventional and unconventional threats that proliferate.

Can an open international system, which is based on multilateral accords, be saved under such circumstances? Such a question begs others:

- Are there international arrangements that can address and redress flaws of unrestrained globalization?
- Is it possible to reinvent the EU, to make it fit the new conditions in the global economy?
- Can the eurozone be turned into a genuine monetary union, with proper fiscal arrangements? For this to happen the German-France nexus is vital.
- Can the EU get safer security arrangements? This involves its relations with the US and NATO, with Russia, and US-Russia relations.
- How should military conflicts, in different areas of the globe, be tackled?
- How would the new big rivals in the world (the US and China) cooperate on issues of interest for the whole world (such as climate change) in a systematic way?

What seems to be going on now in the United States is to be judged in conjunction with rivalries that grow in an ever more uncertain world. As in the Cold War decades, the control of the transfer of sensitive technologies may be put in place and adapted to the new context. Trade blocs may proliferate simultaneously with an erosion of multilateralism. As a matter of fact, the EU is a de jure and de facto commercial bloc, be it of a benign sort and attached to multilateralism in world economic affairs.

A resurrection of national interests should not be ascribed exclusively to the American territory; it happens in Europe as well. Theresa May's industrial policy measures do not see eye to eye with the vision promoted by Margaret Thatcher decades ago. France has always been attracted by the mirage of its perceived national interests. It is worth noting here Thierry de Montbrial's interview in *Le Figaro*[8] in which he underscores the significance of national interests in today's world.

Germany has been a strong supporter of economic globalization over the past decades given its overperforming industrial structure, in a eurozone that helped it boost its exports and keep its jobless rate low; its current account surplus, nearly 8.5 percent of the GDP currently, is by far the largest in the world. But what would happen were this economic situation to change significantly with ensuing high unemployment? Fortunately, Germany is still a stronghold of the liberal order while being the economic mainstay of the EU. In several emerging economies from Central and Eastern Europe, national prerogatives are getting stronger despite their EU membership.

In Europe, forms of NP can also be related to waves of immigrants during the past two decades; in some developed EU member states there is growing discontent over the free movement of labour from Central and Eastern Europe, even though that human capital inflow was positive for host countries. But it is fair to acknowledge that macro data may be at odds with some granular, micro data.

NP should be judged not only in commercial terms. A bunch of crises demand a state to intervene more in the economy. Consequently, the crisis of globalization is to be examined from a ampler perspective, one that goes beyond economic issues.

The New Protectionism: whither?

NP can be interpreted in a narrow sense, along the lines of trade/economic relations and in a broader sense, when it covers a vast array of measures targeting national security (which has other dimensions, too, than the pure economic one). In both senses, the liberal order, as it was set following the WWII, is questioned. It should be emphasized however, that a liberal order is not synonymous with market fundamentalism.

The world that we seem to be bumping into shows signs of fragmentation, with societies more polarized. Not a few developed states feel threatened and seek self-protection via various measures; protectionist measures are part of a return of the state in the economy. There is a competition between the developed world and the one that is arising, and this contest needs to be managed through clear rules. And rules imply a world order.

What would be the result of NP as an economic defence response? It may probably open the door to a prolonged interregnum, with a corrosion of international, global institutional arrangements. Such an evolution is likely to lead to a precarious balance, an unstable equilibrium in international relations.

The global trade slowdown can be a proof in this regard, although some may say that it was only a matter of time before reaching a peak with regard to the share of global trade as against global GDP. Currency wars may heighten. Big uncertainties and exacerbated volatility are already features of the new international environment. Such a bad equilibrium, which some may call disorder, is worrisome for those who believe in the virtues of multilateralism, of rules. Europeans know from their own history where unrestrained rivalries may lead to.

If those who lose in the global economy and inside their societies are not given the chance to not be left stranded (the role of the public policies is desirable here), if exclusion gets deeper and spreads, tensions will rise and conflicts will intensify. Inter-ethnic and religious conflicts add to the social and political picture. And the New Industrial Revolution does not make efforts to adapt to shocks easier. This is why protectionist propensities increase.

If national security reasons, geopolitical rivalries, are brought into the picture one understands why global optimizations (similar to the logic of global supply chains and win-win games) may lose relevance; and competition may turn into a win-lose game. This is likely to occur especially when economic growth is quite feeble and income distribution becomes an acute social and political issue.

Central and East European countries would suffer a double blow: via global arrangements that are cracking because of protectionist measures; via what may happen in in the EU. Globally, the effects on trade and investment flows, technology transfers are to be taken into account. Within the Union, the Single Market functioning, changes in the EU framework, the fate of the EU budget, are to be examined.

For example, a minimum wage imposed all across the EU may be seen as a tool for dealing with highly skewed income distribution as well as a measure to combat social dumping. Emerging EU economies would suffer following a deteriorating climate in Europe and across the world. Dismantling the EU would be dramatic for Europeans if we consider what the Union meant for economic recovery and peace after 1945. Jean Claude Juncker, the EC President, talks about a 'fair deal' for the UK; this heralds not a simple Brexit negotiation while both parties have common needs in terms of security and military protection.

Terrorism, other unconventional threats, increase citizens' needs for protection; safety is more valuable in peoples' preferences and this could lead to restraints on economic openness. It remains to be seen how such a possible evolution will impact open societies. The deterioration of trade relations on a large scale is likely to fuel animosities and mistrust and may cause conflict.

There may be an optimal degree of economic openness that varies according to circumstances. The New Protectionism may be tied to tides of economic openness in the inter-state system, with alternating upswings and downswings along secular cycles (as defined by Nikolai Kondratieff and Joseph Schumpeter).

Realpolitik will probably put a firmer imprint on the relations between states, including EU members; Realpolitik is to be linked with divergent and conflictual interests, that emerge from multiple roots and which cannot be summed up only as economic gains and losses. Moreover, economic assessments are not infallible and are not always decisive for decisions made in the area of public or foreign policy.

What will be the new economic order is a big question. What will remain from the Liberal Order? Will multilateralism survive as a basic principle? What will happen with the institutional arrangements created after the WWII? What will be the rules and norms in the future world? It seems we are in a transition towards a new international regime, a new order; and it is vital that big conflicts and large damages be avoided.

To conclude by returning to Europe. The EU is a public good in itself; it has to be saved despite phenomena that undermine the traditional order in the international system. As Javier Solana puts it, the EU may be the world's best line of defence against what threatens the multilateral, liberal order[9].

It is nevertheless true that the EU itself needs reforms; it has to be reinvented. And the *Five Presidents Report*[10] offers an inspiring perspective to this end. Europe also needs security arrangements adapted to the new reality. ■

1. In his introduction to a special issue of Foreign Affairs, "Out of Order: The Future of the International System", Gideon Rose echoes the view that "the liberal order has been fraying around the edges for years"(January/February, 2017)
2. Dani Rodrik, "The New Global Economy and Developing Countries: Making Openness Work", Washington DC, Overseas Development Council, 2000. See also his "One Economics, Many Recipes", Princeton University Press, 2007, and Justin Yifu Lin "The Quest for Prosperity", Princeton University Press, 2012
3. For references to economic relations and interdependences in the post-war free world see Richard Cooper: "The Economics of Interdependence", New York, McGraw Hill, 1968
4. Paul Samuelson, "Where Ricardo and Mill rebut and confirm arguments of mainstream economists supporting globalization", Journal of Economic Perspectives, 2004
5. See also my text "Open Society and Wars", Curs de Guvernare/Adevarul, 29 January 2015
6. The Nobel Prize winner John Kenneth Arrow explained the difficulties of building social utility functions in "Social Choice and Individual Values", Wiley, 1951
7. See Thomas Piketty and Emmanuel Saez "Top incomes and the Great Recession: recent evolutions and policy implications", IMF Economic Review, 61(3); Jonathan Ostry, Andrew Berg and Charalambos Tsangarides: "Redistribution, Inequality and Growth", IMF Discussion Note, February 2014
8. Thierry de Montbrial, "La France ne devrait pas avoir honte de defendre ses interets", La Figaro, 27 Janvier 2017
9. Javier Solana, "The European Union First", Project Syndicate, 20 February, 2017
10. Report signed by European Council President, European Parliament President, European Commission President, ECB President and Eurogroup Chief, 2015

The author bears sole responsibility for the views expressed in this article.

Europe in a new world order

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The United States is the European Union's most important trade and bilateral investment partner, which has, until now, supported a multilateral trade system and European integration and has provided a security guarantee to the countries of the EU. But like other advanced economies, the US's relative weight in the global economy has declined. The new US administration seems intent on replacing multilateralism with bilateral deals.

In trade, it aims to secure new trade deals in order to reduce bilateral trade deficits and to protect, in particular, the US manufacturing sector. In climate policy, the US commitment to the Paris Agreement is being questioned. In defence, the security umbrella appears less certain than previously. The overall promise behind this change of direction is to put 'America first' and deliver better results for US citizens.

The EU is a relatively open economy and has benefited from the multilateral system. If the US does change from its previous course, the EU should respond with a four-part strategy:

1. Collaborate with partners around the world in defence of the World Trade Organization;
2. Establish deeper economic relations with China and other partners; in particular, the EU should accelerate discussions on the Bilateral Investment Treaty with China while safeguarding its interests and favouring public courts for dispute settlement;
3. Reform EU trade governance and address internal imbalances, to increase the EU's external credibility. Moreover, strengthening Europe's social model would provide a response to protectionist temptations;
4. Prepare tools that could be deployed bilaterally against the US, including WTO-compatible anti-subsidy measures and possible tax measures.

Introduction

From Europe's perspective, the world in 2017 looks very different to how it looked just one year ago. But despite significant upsets resulting from elections and/or referendums, not all of the changes that are taking place are breaks from previously-trodden paths. Some are continuations of previous trends that have now become more visible or more entrenched.

One major trend, which started some 20 years ago, is the diminishing relative economic importance of advanced countries. This trend became evident around 2010, when advanced countries started to account for less than half of global GDP in purchasing power terms.

This reduction in economic importance is associated with so-called diminished giant syndrome, otherwise known as the curse of declinism. Previous world hegemons pursue *"myopic and self-indulgent … 'what's in it for us' economic policies in the world arena"*, which end up undermining their roles as world leaders[1].

In the case of the United States this trend emerged during the Clinton administration (1993-2001), when the question of *"what's in it for us?"* first arose in terms of *"regaining competitiveness"*.

Donald Trump's victory in November 2016 seems to have made this principle into the underpinning of all the new administration's policies.

Other advanced economies have also seen their shares in global trade and income decline, leading to calls for protectionism. The European Union remains unsure about its role in the world, not least in terms of its security and its ability to do new trade deals.

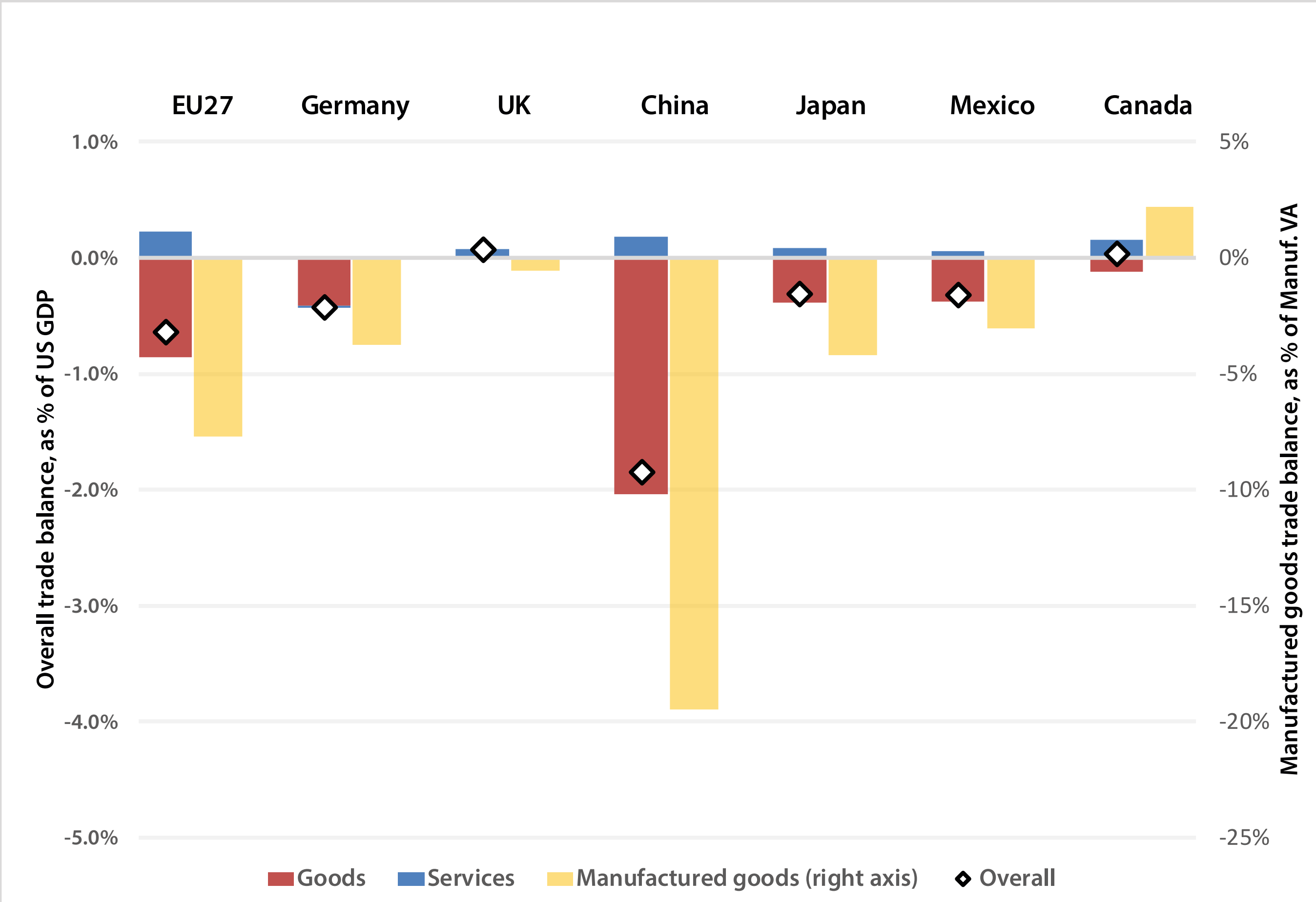
Brexit will diminish the EU's size and possibly its trade and security influence.

By contrast, China's position in the world has strengthened during the last 20-25 years. President Xi Jinping's speech in Davos in January 2017[2] was more like that of a 'growing giant' and reminiscent of presidents' speeches calling for an open global economic system during the heyday of US hegemony.

However, Trump's election also marks a break from trends in terms of the US's world role in defence, trade and spreading of cultural values. Importantly, the current administration does not only aim to reduce the US's role as an anchor of the global multilateral system, it may be on course to openly challenge it, either by threatening to withdraw from it unilaterally or by imposing protectionist measures, such as high tariffs. Culturally, the US may draw back from liberal values. Meanwhile, the US's military commitment to NATO is being questioned. The underlying rationale of *"what's in it for us?"* is well captured by President Trump's 'America first' rhetoric.

In this article we consider what the EU's strategic reaction should be to US diminishing giant policies, and the EU's role

Figure 1. US bilateral trade balances with main partners in 2015



in a world of declining hegemons and shifting balances. We start by exploring the geopolitical reasons for the new US administration's 'America first' orientation. We then discuss the central elements of the emerging US policies and possible consequences for Europe. Lastly, we discuss how Europe should respond, how it could sustain a multilateral system and what partnerships it could build.

Our focus is on the economic aspects but cultural and security aspects also play central roles in the broader picture.

What lays behind Trump's 'America first' approach?

Since the second world war, the US has played a clear leadership role in building, supporting and policing the global system. This sense of responsibility for maintaining the world order was supported by a view that it was beneficial to the US.

This view is not shared by the newly elected US president. On the contrary, President Trump argues that the rules-based multilateral system has not benefitted US citizens, and in fact has hurt them. While this view was not necessarily shared by the majority of Americans in the election, it was shared by a sufficient number to make a difference.

There are two versions of this argument. The first is that the multilateral system has benefitted foreign countries at America's expense. The second is that the possible benefits that the US might have enjoyed, deriving for instance from the dollar's exorbitant privilege, accrue to Wall Street at the expense of Main Street – the multilateral system is seen as having favoured the financial sector at the expense of the manufacturing jobs that 'ordinary' folk lost.

Supporting and protecting the multilateral system was politically easy for the US when it was considerably richer than the rest. However, as the level of income in the rest of the world increased, the US began to see other countries as competitors. China's economic advance is a case in point. Chinese growth and its emergence as a major trading partner for the US have led to the belief that it is now a competitor and threatens US economic interests. The Trump administration's view of Mexico and even Europe also fits this narrative[3].

The United States has experienced a long period during which real wages for most American citizens have not increased. The sense of unfairness has been reinforced by a welfare system in which healthcare expenditure has risen rapidly, leaving many citizens without protection[4]. Trump's central argument to address these woes and to *"make America great again"* is to turn away from globalisation, while rejecting the notion of building a welfare state.

Trade, in particular in manufactured goods, is very much at the heart of Trump's zero-sum view of international relations, and contrasts with the typical view of economists of trade as a positive-sum game. Trump blames trade for the real wage stagnation observed primarily in manufacturing and intends to bring manufacturing jobs back to the US because they are

"The EU itself needs to reform... the EU and in particular the euro area, must address their internal imbalances by reducing external trade surpluses and strengthening domestic growth"

supposedly highly paid[5]. A major theme of the presidential campaign was therefore about introducing protectionist measures to correct a system, which in the view of many Trump supporters led to the US trade deficit[6].

The contours of Trump's 'America first' policy

Trump's 'America first' vision is thus very much about bringing back manufacturing jobs to the US. Clearly, there has been a big decline in US manufacturing employment since the 1970s. But this decline is part of a common trend in all advanced economies, rather than specific to the US (Figure 2). However, the US has always had the lowest share of manufacturing jobs during the past 40 years, compared to the main industrialised countries.

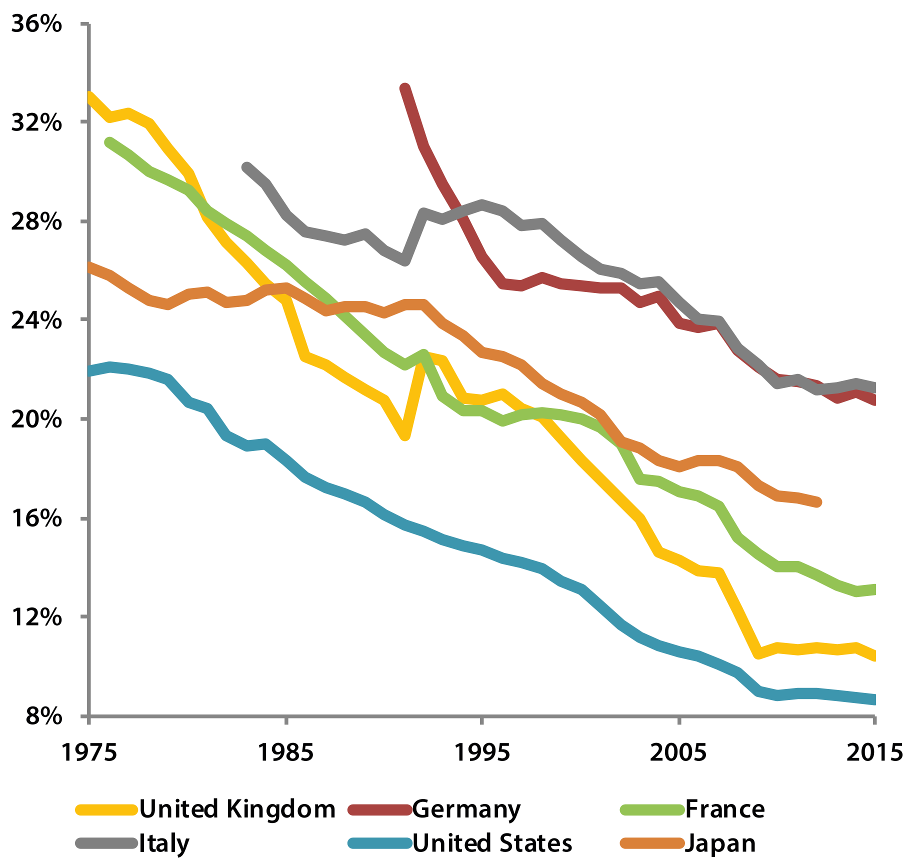
But high manufacturing employment shares do not necessarily correlate with trade surpluses. Japan, Germany (countries with persistent trade surpluses) and Italy (broadly in trade balance over time) currently have similar manufacturing shares in employment. Employment share differences rather suggest differences in specialisation. Moreover, there is little difference in wage levels in manufacturing and services in the US[7].

Nevertheless, it is correct that the trade balance at the margin can matter for the relative size of the manufacturing sector. If an economy is at full employment and increases its net exports, its tradable sector (or manufacturing sector) would increase. Manufacturing therefore has a zero-sum dimension, but this operates at the margin and cannot explain the long-term decline in employment in manufacturing.

One way Republicans in the House of Representatives have put forward to improve the US trade balance is through a 'destination-based cash-flow tax' (DBCFT). This would impose a 20 percent tax on all imports, while providing a special tax exemption for income generated from exports[8]. Such an approach to taxation is known as 'border adjustment'.

The DBCFT would be levied on producers not consumers, and would act as a penalty on imports and as a subsidy for exports. Unlike a value added tax, it would therefore discriminate against foreign producers, and would (depending on its precise formulation) be incompatible with World Trade Organization rules[9]. A levy on imports and a subsidy for exports would both increase the value of the dollar. A more expensive dollar would then counteract the benefits of this tax in terms of promoting exports and reducing imports.

Figure 2. Employment in manufacturing, % of total employment



Sources: ILOSTAT, FRED. Notes: Total activity is from LFS where available, and from official estimates otherwise. Manufacturing is measured with Rev.4, otherwise Rev.3 or Rev.2 measures are used upon availability.

Table 1. Bilateral imports (goods) in 2015 for selected partners, (US$ billion)

		US	EU27	UK	China	Japan	Mexico	Canada
From	US	-	249.4	58.1	150.5	68.3	187.3	223.2
	EU27	376.5	-	340.0	190.4	64.8	41.4	40.9
	UK	58.7	188.5	-	18.9	6.5	2.3	7.2
	China	502.6	366.3	63.0	-	160.6	70.0	51.4
	Japan	134.8	72.3	10.2	143.1	-	17.4	11.6
	Mexico	297.5	21.2	2.1	10.1	4.8	-	24.4
	Canada	301.0	18.7	10.7	26.3	9.2	9.9	-
	World	2,306.8	1,978.8	630.3	1,681.7	625.6	395.2	419.2

Source: Bruegel based on UN Comtrade data (available here: https://comtrade.un.org/data/).
Note: Bilateral trade relies on import statistics, which are considered more accurate given the customs system in place to collect tariff revenues.

Table 2. Bilateral imports (services) in 2014 for selected partners, (US$ billion)

		US	EU27	UK	China	Japan	Mexico	Canada
From	US	-	214.1	38.5	n.a.	57.9	n.a.	62.0
	EU27	119.0	-	105.6	n.a.	23.2	n.a.	13.3
	UK	49.8	160.0	-	n.a.	12.6	n.a.	5.8
	China	14.4	28.7	1.7	-	11.9	n.a.	2.1
	Japan	31.2	15.9	4.3	n.a.	-	n.a.	2.0
	Mexico	19.5	4.2	0.9	n.a.	0.3	-	2.4
	Canada	30.1	12.4	2.8	n.a.	2.1	n.a.	-
	World	477.4	849.3	214.9	452.8	192.1	33.5	110.3

Source: Bruegel based on ITC Trade Map and OECD Statistics on International Trade in Services by partner country. Both sources follow the Extended Balance of Payments Services Classification (EBOPS 2010). Note: data on EU27 estimated by subtracting UK imports from all the bilateral import flows of EU28. In particular, EU27 (EU without the UK) total imports are equal to (EU28 total imports – UK total imports from ExtraEU28 + EU27 imports from UK).

Table 3. FDI stocks 2015, $ billions

		US	EU27	UK	China*	Japan	Mexico	Canada
From	US	-	2,156.3	433.0	116.6	51.6	222.0	280.0
	EU27	1,382.3	-	679.9	257.9	58.4	184.1	150.0
	UK	484.0	1,248.6	-	42.3	13.2	20.5	24.8
	China*	25.9	97.1	20.6	-	8.4	3.8	26.7
	Japan	411.0	115.3	67.7	180.7	-	13.4	15.9
	Mexico	16.6	43.4	n.a.	0.1	0.0	-	1.0
	Canada	269.0	214.3	34.4	15.8	1.2	28.1	-
	World	3,130.0	6,863.6	1,550.0	2,580.0	171.0	509.0	555.0

*Source: CDIS (Coordinated Direct Investment Survey), IMF. Note: * including Hong Kong.*

Whether the tax and the rise in the value of the dollar would totally offset one another remains a point of empirical debate because exchange rates are also affected by other factors[10]. DBCFT would generate significant tax revenues in countries with a trade deficit, like the US, while countries with trade surpluses would lose tax revenues.

Beyond taxes, President Trump appears also to see bilateral, rather than regional or multilateral, trade deals as the instrument of choice for promoting US interests. Bilateral deals, in his view, could maximise US leverage in negotiations. In particular, they are seen as the right approach to reduce trade deficits that supposedly destroy jobs.

Figure 1 at the start of this piece[11] shows that the US has a trade deficit with most countries, certainly in goods and in particular in manufacturing. The biggest deficit is with China, followed by the EU and Mexico/Japan. The trade deficit with EU countries is particularly high with Germany. However, the deficits are much smaller when measured on a value added basis.

Consequences of 'America first' for global trade and investment

The new US administration's attempts to back-pedal on multilateral trade arrangements will have profound implications for global trade and investment because of interlinkages between the US and its partners (see Tables 1 to 3).

As far as goods trade is concerned, the top five sources of US imports are, in descending order, China, the EU27 (the EU without the UK), Canada, Mexico and Japan. On the export side, the top five destinations are Canada, the EU27, Mexico, China and Japan.

For the EU27, the US is the number one destination for exports, just before China, and the number two source of imports, just behind China.

The close relationship between the EU27 and the US is even more intense for trade in services, where the EU27 and the US are each other's largest export destination and import source.

The close interconnectedness between the EU27 and the US is even more important as far as foreign direct investment stocks are concerned. Table 3 shows that 44 percent of US's FDI comes from the EU27, and 31 percent of the EU27 FDI comes from the US.

The EU reaction to possible US trade measures will depend on the size of the measures and their effects on the EU economy (as well as on geostrategic considerations to which we will return later). There are preliminary attempts to measure the effects of such actions[12] but the real effects will not be understood before US plans become clearer and the rest of world decides how to react.

How can the EU defend a multilateral system?

Trump's America first policy threatens to upset the global trading system and even put the WTO in danger. This will naturally precipitate reactions from other global players, and in particular the EU and China.

The EU has a strong economic and political interest in preventing the demise of the multilateral trading system. Openness, measured as exports relative to a country's GDP, is far greater in the EU (43.8 percent) than China (22.1 percent) or the US (12.6 percent).

The rules-based system allows all players, including the weaker ones, to trade with each other based on high and comparable standards that have to be followed by all. Protectionism would reduce EU and global welfare, hurt global growth and could mean lower standards and unfair competition. In particular, in the EU with its strong trade relationships around the world, many jobs could be at stake.

However, though the EU is the largest trading bloc in the world, it cannot sustain a strong multilateral system on its own. The EU's inability to replace the US as a global hegemon is partly for internal reasons (the state of the economy, a weak defence and security policy) and partly for external reasons (the world balance has changed with the increasing economic relevance of China and other emerging countries).

At the same time, all three leading global trade players have expanded the number of regional trade agreements. The

world therefore is evolving from a multilateral system centred around the US into a more multipolar system resting on the three strong trading poles of China, the EU and the US, each with several bilateral and regional trading arrangements. This has been criticised as already undermining existing multilateral frameworks[13].

This raises two questions: whether the poles of the system are collectively interested in supporting at least the core of the existing multilateral system, and whether the EU and China are willing and able to jointly support the multilateral system as the US steps back from its central role.

While the EU and China each clearly has an interest in supporting the multilateral trading system, it is an open question whether they can act in a coordinated manner as the EU and the US have done in the past. This is not a trivial question because the European and Chinese economic systems are much more different from each other than the European and American economic systems. Nevertheless, in certain areas, such as support for the WTO, EU-China collaboration should be relatively straightforward. The EU should also seek other partners for collaboration in support of the WTO.

Stepping up trade relations with partners

Strategically, the EU should continue its bilateral trade and investment negotiations with other partners. The bilateral deals should be designed as stepping stones rather than obstacles to the multilateral system, including in investment matters, where the ultimate goal could be an expansion of the WTO into a 'WITO' (to include investment).

An obvious objective is to complete on-going bilateral investment treaty (BIT) negotiations with China. But the EU differs most from China in terms of the role of state-owned enterprises (SOEs) in manufacturing. It is natural, therefore, that the role of SOEs is at the heart of the BIT negotiations that both the EU and the US are pursuing China. An additional priority is bridging the gap between different approaches to state aid and competition policy.

Moreover, the two parties should agree to use a public court system for the settlement of their bilateral investment disputes (as has been done in the EU-Canada Comprehensive Economic and Trade Agreement, CETA), rather than the investor-state dispute settlement (ISDS) system favoured by the US. They should agree, like in CETA, that the ultimate goal should be the creation of a multilateral investment framework. The BIT itself

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should ensure reciprocity in investment conditions[14]. Only after an EU-China BIT has been agreed, say by 2020, should the two partners start negotiations on a bilateral investment and trade agreement.

The aim of the EU-China bilateral deal should be to improve market access and set high environmental, corporate governance, consumer safety and workers' rights standards. It should ensure fair competition and reciprocity. A deal that would materially lower standards in the EU is not in its interest and should therefore be rejected.

The EU should seek new and complete bilateral deals also with other countries, including Japan, India and the Mercosur bloc. Again the aim must be to ensure high standards for EU citizens because otherwise support for such deals will be lacking.

And the aim should be to do the deals in a way that strengthens rather than weakens the global system. In trade and investment matters, the EU has an opportunity not only to uphold but even strengthen the global system according to the EU's high standards and values.

The EU needs to step up internally to become more credible externally

For the EU to assume a bigger role in safeguarding multilateralism and in forming new, and deepening old, alliances, a number of reforms would be required. We see three main areas in which reforms would increase the credibility of Europe's claim to a bigger global role.

First, addressing distributional concerns domestically is a prerequisite for entering new trade arrangements. Europe's social model is a major factor in reducing inequality and is rightly thought of as softening the impact of rapid change on citizens in an age of globalization and technological change.

But many EU countries still need to reform their social systems to deliver inclusive growth and better social protection[15]. The EU's role should primarily be to empower its members to achieve desired levels of redistribution by effectively combatting tax evasion and social fraud that relate to the single market[16].

Second, the governance of EU trade and investment policy has become cumbersome. The recent difficulties in signing CETA have increased partners' doubts about the EU's ability to deliver.

We consider it imperative that the EU institutions regain citizens' trust so that they can negotiate trade agreements on citizens' behalf. This requires more transparency in negotiations. It will also be important to ensure greater EU legitimacy, including through a reformed European Parliament.

Third, the EU as a large open economy cannot sustainably run large current account surpluses. The large surpluses, and in particular Germany's surplus, are a result of imbalances in the euro area that need to be resolved irrespective of the global environment. Strengthening domestic demand in Germany is pivotal[17].

Structural reforms at the national level, for example by addressing the debt overhang and remaining banking problems in other countries, would further boost demand. Such actions in surplus and former deficit countries will help speed up the normalisation of European Central Bank policy and strengthen the euro, thereby also helping to address the large euro- area surplus.

What bilateral actions should the EU take?

While future EU reforms can set new trends in motion in terms of the new global economic order, there remains the question of how to respond to a potentially antagonistic US administration.

At a higher level, Europe's possible responses range from pure antagonism and retaliation, to staying the course and building alliances with other countries. Then there are more specific questions: what is the worst-case scenario in terms of US trade and investment discrimination and over what time horizons should the EU prepare to react? What are the implications beyond the purely economic relations, in terms of defence and cultural values?

In our view, the underlying objective of the EU's response to unilateral measures by the US should be to sustain the multilateral trading system. The aim should be to react strongly and decisively but based on principles. The aims would be to wait until future US administrations change course and abandon unilateral actions, and to prevent an unnecessary escalation that would be damaging to all: the EU, the US and the rest of the world.

In the event that the US terminates the North American Free Trade Agreement and imposes tariffs on imports from Mexico that are above the US most-favoured nation (MFN) tariffs, it would amount to a violation of the US's WTO obligations. The EU and other WTO members would be affected directly because they have foreign direct investments in Mexico to serve the US market (see Table 3). The EU and Mexico (with which the EU has an FTA) and other WTO members that would be similarly affected, should then file a WTO complaint against the US.

In case the US introduces a form of DBCFT that is clearly in violation of WTO rules, the EU should carefully consider, again in collaboration with other WTO members, stronger measures. There is for example the possibility to adopt reciprocal measures on corporate taxation that would only be directed against the US.

An alternative would be to use anti-subsidy measures against US exports to the EU or even to third countries. The latter is entirely within the EU's remit and one of the WTO legal instruments at the European Commission's disposal.

Concluding remarks

It remains an open question to what extent Trump and his presidency are an acceleration of a trend or a real break from past US policies. In either case, but particularly in case of a strong break, the EU should rethink its global position.

The US will remain the EU's most natural partner in economic, cultural and probably military terms. But if differences grow significantly during the term of the current US administration, not least because of different social models, the EU needs to stand ready to defend its interests.

The EU should prioritise measures that help to sustain the multilateral trading system. It should be firm in its response to the US, based on the principle of multilateralism. Building coalitions with as many players as possible, but especially large ones like China, will be important to defend the system. The EU could also support smaller partner countries in their WTO complaints against potential unilateral trade measures.

Strengthening the collaboration between the EU and China, two large global players with a clear interest in and support for multilateralism, would seem particularly relevant for trade and investment. But the EU and China could also work closely together on environmental and climate matters to ensure that other countries do not drop their commitments under the Paris Agreement on climate change, should the US drop theirs.

But beyond China, the EU would benefit from forging alliances with other countries. Promoting multilateralism would protect smaller countries that naturally rely on established frameworks, and would help for keeping to existing agreements. This is of crucial importance for issues such as upholding commitments to the Paris Agreement or combating tax evasion and fraud at the global level.

Maintaining domestic support for trade in the EU depends on ensuring that trade and financial flows do not undermine environmental standards and countries' capacities to deliver adequate social systems. To the extent that multilateralism helps the latter, it also helps support the pursuit of free trade.

The EU itself needs to reform. Real or perceived, the EU's credibility in trade matters has suffered and needs to be restored. Moreover, the EU and in particular the euro area, must address their internal imbalances by reducing external trade surpluses and strengthening domestic growth.

Also important is what relationship the EU should foster with the United Kingdom once it leaves the EU. The arrival of President Trump has arguably increased the need for the two sides to reduce the Brexit-related damage that both could suffer.

Such an agreement should preserve Europe's ability to weigh in on world affairs, at a time when European values of liberal democracy and social market economy are threatened. In particular, the EU and the UK should be natural partners in supporting the multilateral system in areas such as trade, climate and financial regulation.

Finally, the EU remains a weaker player than its size suggests, not only because of its internal divisions but also because of its dependence on the security guarantee that the US provides and its dependence on energy imports.

How and whether the EU and its member states address these two concerns is a crucial subject that goes beyond the scope of this article. ■

1. Quote from Bhagwati, JN (1993) 'The Diminished Giant Syndrome', Foreign Affairs Vol 72.
2. See https://www.weforum.org/agenda/2017/01/full-text-of-xi-jinping-keynote-at-the-world-economic-forum
3. This zero-sum view of economic relations is not new. It was already part of the 'diminished giants' narrative in the 1990s when the US viewed Japan, rather than China, as the emerging threat. But it has certainly taken on a new dimension with Trump's insistence on 'America first'.
4. The recent introduction of Obamacare apparently was not enough to change the sentiment.
5. Navarro, Peter and Wilbur Ross (2016) 'Scoring the Trump Economic Plan: Trade, Regulatory & Energy Policy Impacts', mimeo.
6. Ibid.
7. Guntram Wolff (2017) 'Manufacturing in the US: Will Trump's strategy repatriate highly-paid jobs?' Bruegel Blog, 6 January.
8. For an academic discussion, see Auerbach, Alan, Michael P Deveraux, Michael Keen and John Vella (2017) 'Destination-Based Cash Flow Taxation, Oxford Univesity Centre for Business Taxation', WP No. 1. For the proposal discussed by Republicans, see Mitchell, Daniel J (2017) 'Concerns About the 'Border Adjustable' Tax Plan From the House GOP, Part I', Forbes, 3 January.
9. See Davies, Gavyn (2017) 'The Worrying macro-economics of US border taxes', Financial Times Blog, 15 January; and Avi-Yonah, Reuven and Kimberly Clausing (2017) 'Problems with Destination-Based Corporate Taxes and the Ryan Blueprint', Law and Economics Research Paper Series, Paper No. 16-029.
10. See Pomerleau, Kyle (2016) 'Exchange rates and the Border Adjustment', Tax Foundation, 15 December The DBCFT can have benefits in terms of promoting efficiency and would not distort trade if others also implemented it (Auerbach et al, 2017; see footnote 8).
11. The figure is based US Bureau of Economic Analysis and data on manufacturing based on UN Comtrade and Bureau of Economic Analysis, US Department of Commerce. Note: Manufactured goods comprise sectors 5 to 8 (less 667 and 68) of the Standard International Trade Classification (SITC Rev. 3). Manufacturing value added and gross output measures are, instead, based on the BEA industry economic accounts (based on 2007 NAICS code structure). Since the former is product-based, while the latter is sector-based, potential mismatches between the two classifications cannot be excluded.
12. For preliminary estimates of the impact of a Trump tariff on European employment and output, see Vandenbussche, Hylke, William Connell, Wouter Simons and Elena Zaurino (2017) "America First!" What are the Job losses for Europe?', KULeuven (VIVES) DP, 57 January.
13. On the importance of structuring bilateral deals in a way that they do not undermine the multilateral trading system, see this 2006 speech by Pascal Lamy:
https://www.wto.org/english/news_e/sppl_e/sppl46_e.htm
14. The European Union Chamber of Commerce (2016) European Business in China – Position Paper 2016/2017, 1 September.
15. See for example Darvas, Zsolt and Guntram Wolff (2014) 'Europe's social model and its implications for economic growth', Policy Brief 2014/03, Bruegel. A model that combines flexibility and security, as some EU countries have implemented, appears particularly suited to the challenge; see Sapir, André (2005) 'Globalisation and the reform of European social models', Policy Contribution, Bruegel.
16. See Aussiloux, Vincent, Agnès Benassy-Quéré, Clemens Fuest and Guntram Wolff (2017) 'Making the best of the European single market', Policy Contribution 2017/03, Bruegel.
17. We would consider a combination of public investment, tax reforms incentivising corporate investment and lowering tax burden for low-income households, structural reforms increasing home ownership and wage increases in sectors with skilled labour shortages.

Can Trump save the euro?

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At the end of last year, Italians delivered a stinging rebuke to their government – and opened the way for populist forces to come to power. In France, Marine Le Pen is polling well, and is likely to make it at least to the second round of the Presidential election due in May. Add to that a Brexit that has yet to unfold and the eurozone's still-lackluster economic performance, and the survival of the common currency is far from guaranteed.

With the euro taking the blame in recent years for Europe's many economic travails (from a double-dip recession to a slow and uneven recovery), nationalist, eurosceptic and populist political movements have gained ground. Austria has sidestepped their advance, but Italy may not.

Prime Minister Matteo Renzi's decision to make good on his promise to resign if voters rejected his government's proposed constitutional reforms has thrown Italian politics into disarray, and an early general election is likely. At a time of substantial economic challenges – Italy's output has been stagnant for a decade, and its public finances remain precarious – the populist Five Star Movement, which has pledged to hold a referendum on continued euro membership, may well tempt voters.

If the eurozone's breakdown is to be avoided, Italy – indeed, the entire currency area – urgently needs an economic boost. US President Donald Trump may be just the person to deliver it.

Long-term interest rates have risen in the United States and are expected to climb higher. That has contributed to a (much smaller) rate increase in Europe. Yields on German ten-year bunds are in positive territory, having risen by around 50 basis points since the US election. Populists can no longer complain that the European Central Bank is taxing German savers.

In the eurozone's periphery, the increase has been more marked; in Italy, for example, ten-year bond yields are up almost a full percentage point. While this might seem problematic, the reality is that the negative impact of higher rates in the periphery is likely to be limited. After all, a large share of the borrowing by households and businesses in the periphery is indexed to short-term rates, which are set by the ECB, not the markets, and therefore have remained low.

Moreover, periphery governments are largely shielded from the increase in the risk premium on long-term bonds, because their central banks continue to purchase their outstanding debt. And the US dollar's substantial appreciation in the wake of Trump's election is likely to make European exports more competitive.

So the immediate impact of Trump's victory has been a net positive for the eurozone – and the benefits seem set to continue. Trump has pledged to implement sweeping tax cuts, including a reduction of the corporate tax rate from 35% to 15%. Add to that plans to subsidise infrastructure investment and increase military spending, and it seems likely that the US will face rapidly rising fiscal deficits and a huge short-term increase in demand. With the US economy already operating at close to full capacity (unemployment is

below 5%), higher imports – and a stronger US dollar – will be needed to meet that demand.

All of this will be good for the eurozone, for which the US remains a leading export market. But it is the peripheral countries that are likely to benefit the most. For example, the impact of a euro depreciation is about three times larger in Italy than it is in Germany, because demand for Germany's exports of specialised capital goods is not very price elastic. As a result, rapid demand-fuelled growth in the US, together with the strong dollar, could contribute to a much-needed rebalancing of the eurozone.

Europe may also benefit from Trump's energy policy. During the campaign, Trump pledged to ensure energy self-sufficiency – an effort that would probably entail new subsidies for domestic oil, gas and possibly coal production. That would help to suppress oil prices – a boon for the eurozone's energy-importing countries.

There is a precedent for Trumponomics' potential benefits for Europe. After the collapse of the dollar-based Bretton Woods system of fixed exchange rates in the 1970s, Europe created the European Monetary System to serve as an island of stability in an ocean of widely fluctuating exchange rates. While maintaining stable exchange rates within the EMS initially proved difficult, owing to large differences in national inflation rates and economic-policy priorities, the situation quickly improved, thanks to US President Ronald Reagan.

"If the eurozone's breakdown is to be avoided, Italy – indeed, the entire currency area – urgently needs an economic boost. US President Donald Trump may be just the person to deliver it"

'Reaganomics' produced large fiscal deficits and an ultra-strong dollar. Together with low oil prices, this put Europe in a strong position to overcome challenging disparities and achieve growth. In fact, it was the last time Italy's GDP grew faster than the EMS average. Trumponomics aims to create precisely the same conditions.

Whatever the potential downsides to Trump's policies, there is one clear upside: they will boost growth and employment in a eurozone where economic dissatisfaction is generating political turmoil – and the gains will be most pronounced in the countries that most need them.

As Italians face the prospect of a referendum on eurozone membership, and the French prepare for the elections, the value of these benefits cannot be overestimated. Indeed, Trump could well end up saving the euro. ■

2017 - the year Europe's fate hangs in the balance

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The European project has never been under more pressure than now. The question is, *"will it crack?"* and for three reasons this year will likely provide an answer. First the USA can no longer be counted on to uphold the Western liberal order and Europe will need to prove whether it can emancipate itself from its bigger brother.

Second, the EU's second largest economy and biggest geopolitical and military power, the UK, will start the process of exiting the Union. Finally, the Union's two most important remaining members, Germany and France, both hold general elections and in both countries nationalist forces seeking to destroy the EU are on the rise.

All of this comes at a time when Europe is still in the grip of three intertwined crises. First, a twofold security crisis consisting of Russian aggression, threatening the EU's eastern flank, and the Syrian war that has so blatantly laid bare Europe's incompetence in security matters and is closely connected to one of the greatest terrorist threats Europe has ever faced.

Partly emerging from this Middle Eastern challenge, the second crisis is the 'refugee crisis' that the EU in its current configuration has proven itself incapable of solving. The third crisis is the persisting economic (debt) crisis of the eurozone. This crisis will return to the front pages with full force this year as Greece faces yet another deadline in repaying part of its third bailout and creditors (especially Germany and the IMF) are conflicting over whether the country will ever be able to get back on its feet without substantial debt relief.

To us at the PDU it is quite obvious that the IMF, who is insisting Greece needs a 'hair-cut', is on the right side of this argument. Germany and other eurozone creditors have persistently argued that Greece will be able to meet its repayment goals if only it implemented the fierce austerity measures that it agreed upon with its creditors. A recent study[1] suggests that something close to the opposite may be true. The study shows that it is very likely that one of the main reasons for why Greece and other countries are having a much harder time to get out of the financial crisis than most other economies is the amount of austerity measures they had to endure.

For instance, there is significant correlation between reductions in government spending (austerity) and lower long term real GDP. To end this Greek tragedy the austerity measures (some of which are necessary, by all means) need to be relaxed and accompanied by a substantial debt relief. The same goes for Italy. Here too, the government and banks have accrued huge amounts of debt they will never be able to repay. Unlike Greece, however, Italy's economy is one of the biggest of the eurozone and of huge systemic importance. If Italy goes under, this could well be the end of the eurozone. These are the risks that we need to be talking about. However, this fact doesn't seem to figure in the minds of some European leaders, partly because they have an almost pathological fear of debt relief.

For Germany the problem with debt relief is that it sounds too much like 'transfer union', a term that lets Berlin shriek in horror. The question is why? Every economist worth her salt will tell you that currency unions like the eurozone will only ever be successful if accompanied by a fiscal union. Indeed, those were the ideas for further European integration advocated for by the very creators of the euro.

Only with a common fiscal policy that takes account of the differences in competitiveness within the eurozone and respects the fundamental 'laws of gravity' of the single currency, can we bring stability to the most vulnerable parts of the eurozone and thereby avoid spillover effects. Automatic transfers, for example through a European unemployment insurance system, are a necessary part of such a union. The fact that this has been overlooked or rather willfully ignored

in the creation of the euro is a historic mistake. It is high time that we eurozoners fix this mistake.

Of course, as has been pointed out by commentators like Hans-Werner Sinn, a European fiscal union will not function properly if it is created outside the structures of a state and before the formation of such a state. A common debt and a fiscal union without other elements of a state, such as a common defence force, could create moral hazard by inclining member-states to run up large spending deficits in the knowledge that the shortfall would be absorbed by the common budget.

It is partly for this reason that we should not call for step-by-step European integration, but rather one big move to a federal state, including the creation of a single army. This army would, by the way, take Europe a lot further in increasing her defence capabilities and her contribution to NATO than simply increasing individual member states' defence spending to reach the 2% target would, and at a much lower price tag.

For one thing, this is the best way for Europe to survive the age of Donald Trump. It is hard to overstate the dramatic effects the Trump presidency could have on Europe. This is so for two reasons. First of all, unlike most of its internal policy, US foreign policy lies to a great extent in the president's prerogative.

As the repeal of the 'Muslim ban' and serious push back from congress in many cases has shown, the American system of checks and balances has proven and will continue to prove that Trump's ability to fundamentally change the internal structure of the Unites States is limited.

This is not the case regarding the US government's external outlook. It is this policy area where Trump and his very powerful, far-right chief strategist Steve Bannon can most easily implement their radical and to some extent dangerous beliefs.

Second of all, this is the area where Trump seems to hold his most genuine beliefs and where he is most likely to actually act on them. As Irish historian and president of the PDU, Brendan Simms, shows in his recent book *Donald Trump: The making of a world view* (co-authored with Charlie Laderman) Trump has consistently over years been advancing a view of US foreign policy that we may now see put into action.

"What would be needed is that European leaders and civil societies realize that this year Europe has looked into the abyss and call for systemic change. If this happens there is hope for Europe"

In his mind American presidents have for decades failed in unleashing the USA's true national 'greatness'. In terms of economics they have put too much effort on international trade and cooperation and too little on US manufacturing and construction. In Trump's mind, this emphasis on trade has invited America's partners to exploit her domestic economic potential.

What's worse, the president thinks that in terms of geopolitics his predecessors have failed in realizing how America's allies are free-riding under the US defence umbrella. Trump thinks America's protection of her friends and allies is a waste of resources that are being kept away from restoring America's greatness. He doesn't think that European security is in the United States' own interest. Trump believes that we Europeans have long realized this and laugh up our sleeves at this manifestation of American stupidity. His plan is to put an end to our European party, which America has paid for without even being on the guest list.

If Trump is successful in implementing this plan and Europe fails to grow up, emancipate itself and stand up to him defending the Western liberal order based on close cooperation and unconditional solidarity, Europe risks falling apart. What needs to happen then is that we Europeans pool our resources to create a viable alternative to relying on our

partners across the pond to uphold our values and safeguard our security. The problem is that a lot of the EU's resources will be taken up by an unnecessary internal struggle, the organisation of an orderly exit of the UK from the union.

The challenge posed by Brexit thus is twofold. First, it needs be done in a way that serves the interests of both parties. For example, the EU should not be too set on keeping the UK out of the single market and punishing it economically, while the UK should make it clear that it will continue to use its full military and geopolitical power to serve European security interests. This is the bargain negotiators on both sides should have in mind. Second, however, it needs to be done in a way that doesn't tie up too much of European resources, keeping them away from even bigger challenges.

If this twofold challenge is met, then Brexit may after all not be the catastrophe many people take it to be. Of course, it would have been better had the referendum not happened. However, the UK would never have had any part of the full political union that should now be the goal of continental Europe.

So once article 50 is triggered, which will likely happen around the time this article is published, the UK and the EU should not waste any time and see to it that the terms of the new relationship are set out as quickly as possible. If this doesn't happen, forces hostile to the project of European integration, Mr Putin in the East and Mr Trump in the West, will use their chance to exploit a further weakened Europe, preoccupied with unnecessary internal struggles.

Adding even more uncertainty to all of this are the French and German elections to be held in April/May and September respectively. Since the German Social Democrats (SPD) have proposed Martin Schulz, former president of the European Parliament, to be their candidate for the chancellorship, the race between the CDU's Angela Merkel and her contender has become tighter than anyone would have expected. However, both of them can be counted on to commit the next German government to continued European integration.

The real danger lies in widespread support for the 'Alternative for Germany' (Afd). This young party, initially founded as a one-issue eurosceptic party, took a sharp right turn after Germany welcomed close to a million refugees in 2015 and is now a nationalist force, threatening the liberal consensus that dominates German politics.

Given current polls, the AfD is set to be one of the strongest opposition parties in the next Bundestag, which would make it hard for any new government to ignore the substantial share of voters they represent. It is thus imperative for all German political forces committed to a liberal order and to European integration to find a strategy to get back voters they have lost to the AfD.

However, potentially the real European doomsday comes already five months before the German elections. On May 7th, the French people will elect their next president in a run-off vote. As polls suggest, this ballot will contain the names Marine Le Pen and the liberal, committed European Emmanuel Macron. If Le Pen, leader of the right-wing Front National wins the election, then it is likely game over for Europe. Though it is doubtful whether she would actually commit to pulling France out of the EU and the euro, these two institutions would take irreparable damage.

Le Pen has built her career on two pillars, more or less blatant racism and hostility towards European integration. Should she win, Germany, who has always led every single step towards closer European cooperation in tandem with France, will be left to its own devices. The project of European integration would effectively be over.

The best case scenario we can hope for this year is thus that Emmanuel Macron defeats Marine Le Pen in the French elections and recommits France to European integration, that the outcome of the German elections makes it possible for either Schulz' SPD or Merkel's CDU to lead a stable government, committed to a solidary Europe, that the UK and the EU find a way to come up with an agreement that is in the best interest of everyone and that Europe takes the Trump presidency as an opportunity to grow up, emancipate itself and finally complete the foreign policy and security union.

However, even if this happens, we will have only bought ourselves more time. The underlying systemic flaws will still not go away. What would be needed is that European leaders and civil societies realize that this year Europe has looked into the abyss and call for systemic change. If this happens there is hope for Europe.

The worst-case scenario is that Le Pen will be the new French president taking the country en route towards Frexit (by far the most dangerous of all potential outcomes), that the AfD will win even more seats than expected in the German general elections, making it almost impossible for any new government to ignore the eurosceptic sentiment within the German population such an outcome would be testament of.

Furthermore, the EU and the UK end their failed marriage in tears, Donald Trump continues his dangerous path away from a stable liberal American democracy and Europe fails to stand up to him, risking being crushed between an authoritarian Russia in the east and a completely unreliable partner in the west. If this scenario materializes, it could well mean the end of the EU and European integration altogether.

Both scenarios are equally unlikely. Odds are that after this year is over we will find ourselves somewhere in between these two extremes. However, the worst-case scenario is far too frightening not to do everything we can to prevent it. ■

1. *http://www.nber.org/papers/w23147*

Promoting climate protection while preventing protectionism

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The implementation of the international climate deal, the Paris Agreement, puts high demands on national policy making across the board. 195 countries have signed up in 2015. They have submitted a first set of climate targets to the secretariat of the United Nations Framework Convention on Climate Change (UNFCCC), and they are now responsible for delivery. The EU, for instance, announced a 40 percent decrease in CO_2 emissions until 2030 compared to 1990.

Under the Paris Agreement, all efforts will be monitored and shall be renewed every five years. In order to limit global warming to below 2 degrees Celsius, the policy measures will need to go beyond improving energy efficiency and investing in low carbon energy production. More sectors will have to get on board, such as agriculture, buildings, or transport. And also consumption patterns need to change in order to broaden the scope of emission reductions at the national level.

Reducing emissions, however, is not a target ending at national borders given that goods and services flow around the globe. Thus, also trade policy tools will play an increasing role in limiting emissions, and trade rules will become more relevant when climate policies are implemented. A well-known issue for effective climate protection is keeping business from circumventing national climate action by replacing domestic production by foreign goods from regions with laxer or no climate policies.

Another issue is the alleged protectionism behind local content clauses that governments include in their renewable energy programs. The number of disputes brought forward under the WTO is telling. Trade policy thus needs to deliver on both ends, protecting the climate while keeping protectionism at bay.

Border carbon adjustments

A potential tool for increasing the effectiveness of climate policy in a world with different climate rules are border adjustments. They made it to the headlines lately, when the US government announced border taxes as part of a planned corporate tax reform that should promote exports and reduce imports. The proposal includes to rebate direct taxes at the border and to charge imports. Also, a group of Republican policymakers and economists has suggested a tax on CO_2 that combines taxing with rebates and with a border adjustment (CLC – Climate Leadership Coalition). While the US proposals have triggered a debate on WTO legality and about the new US protectionism taking up speed, an EU initiative has gone widely unnoticed.

In mid-February the European Parliament (EP) voted on the reform of the EU's emissions trading scheme (EU ETS) for the next trading period, starting in 2021. An amended proposal, brought forward by the ENVI (Committee on the Environment, Public Health and Food Safety), included a border carbon adjustment for sectors with low trade intensity (mainly mineral industries, such as lime and cement). Although the proposal was dismissed by the EP, it is worth looking into its details and motivations, because it has the potential to improve policy effectiveness. And it might return.

The key idea behind it is that instead of receiving the allowances for free, EU cement, lime and other producers would have had to buy the certificates, while imported inputs and products of those sectors would have faced a charge equivalent to the EU-wide price of CO_2 per ton. Thus, competition within the EU market would have been levelled.

The proposal was motivated by the concerns about carbon leakage. The effect that occurs if a domestic carbon price leads to relocation of production or to rising importation of products to circumvent the carbon costs at home. Emissions would decrease domestically, while globally they would not, making national climate action ineffective.

Levelling the playing field

Thus, from a climate policy point of view, in a world without a global approach on CO_2 prices, there needs to be some kind of levelling at the border in order to make the policy environmentally effective. Prices on emissions are regarded as an efficient way to stimulate investment in cleaner technologies, to signal to consumers the external costs, and to bring down emissions eventually.

A carbon price leaves it to companies how they want to react to carbon costs. They could invest in better technology, reduce output or just pay and carry on. Some firms can pass through those costs, depending on the competitive environment they operate in.

The higher the international competition though, the higher the risk that a carbon price will lead to a loss of competitiveness as foreign competitors take over market shares. This risk exists as long as there is no international policy approach on pricing carbon. Thus, after years of 'behind the border' measures to prevent carbon leakage from the EU ETS, the inclusion of imports is a consequence of observed strategic behavior to circumvent the carbon costs through trade. It would have helped to achieve consistent pricing on EU territory. A full levelling of carbon costs would include export rebates for firms so that they could keep up with competitors in third markets. The creation of a 'carbon pricing territory' by taking into account imports and exports flows would eliminate the undesired carbon leakage effect that undermines environmental effectiveness.

"It is time to talk openly about the options and the risks and to agree on protecting the climate without protectionism"

The leverage effect, sanctioning, and dual production

Yet, and this is where the latest trade policy debates come in, there is also the leverage effect. Climate-related charges at the border will send out two signals to trade partners. First, exporting countries – especially those with a large share of high-emissions products in their portfolio - will interpret a carbon adjustment by the importing country as a punishment for not taking climate action.

Developing countries almost instantaneously raise their hands in protest if confronted with the idea of border carbon adjustment, lamenting protectionism. Second, the industries

in exporting countries will consider to split their production according to climate policy requirements abroad, selling the 'dirty' products at home, and export the 'clean' ones. Both reactions are not desirable, neither from a political nor from an environmental policy point of view.

The leverage argument dies hard in the context of the climate debate. It was openly promoted in Marrakesh at the UN-climate conference (Conference of the Parties, COP) in November 2016 after the US election outcome. Climate policy makers from Mexico started thinking aloud about imposing a carbon tariff on imports from the US – in case the US would withdraw its international climate commitments. But of course, this statement was also motivated by the harsh announcements during the Trump election campaign on reducing immigration from and trade with Mexico.

The aggressive stance of Trump against the Paris Agreement and the UN climate policy at that time led to a range of ideas on how to move forward in international climate policy making without the major player, who, after all, made the big difference in climate diplomacy during the last three years. Leveraging US climate policy cooperation by sanctioning the US for a withdrawal from the Paris deal seemed to offer a straightforward answer. Would it lead anywhere? There should be doubts.

Separating the good from the bad and the ugly

And how do measures need to look like if they shall implement effective climate policy without being protectionist? To this end, the WTO rules are very helpful. First of all, increasing competitiveness at the expense of foreign producers is forbidden. Accordingly, a country must not discriminate against other countries when implementing a border measure.

Or put differently, the measure must not target particular countries of origin and it must not treat national and foreign goods of the same kind in different ways. Moreover, the measure must not subsidize exports in order to promote the competitiveness of own goods in world markets.

Second, if a measure is implemented, its design needs thorough attention in order to comply with either the non-discriminatory rules of the WTO or – in case it is not compatible with those rules – to meet the exemption clause which takes care of specific circumstances that overrule the rules of non-discrimination. Protecting the earth's atmosphere is a motivation that is in line with WTO exemptions.

Thus, a border carbon adjustment has to be justified on the grounds of preventing carbon leakage. With the Paris Agreement in force, the parties to both international regimes would need to start a dialogue on the relationship between the trade and the climate rules, the sooner the better.

In the long run…

A global solution to the pricing of carbon has a short-term and a long-term dimension. In the short term, climate policymakers want to avoid carbon leakage which is likely as long as there is no international agreement on how to deal with the carbon content of traded goods. In the long-term, a consistent pricing system would be desirable. And there is in fact a copy-and-paste example. The idea of adjusting traded goods for their domestic taxes and charges at the border could follow the international value-added tax system. Here, adjustments work in the interest of many countries.

The difference to climate policy, however, is that VAT are a well-established source of fiscal revenues, the tax base is measurable, and it comes without a sticker beyond that of its fiscal purpose. The border tax adjustment of VAT is, by the way, fully WTO compatible as VAT are indirect taxes, while adjustment of direct taxes, such as income or corporate taxes, are not allowed under WTO rules.

The carbon adjustment at the border in an ideal world would work in a similar way: a critical mass of countries, which apply carbon pricing nationally, decides to cooperate by agreeing on the destination principle. The carbon content of a product, ie. the emissions that come along with its inputs and accumulate from upstream to downstream, and its consumption, is charged in the country where the good is being consumed. Imported goods, thus, would be included, exported goods excluded from the domestic carbon pricing system.

However, for this to work, more information will be needed on the carbon intensity of production, and on the energy used during production. The Paris Agreement offers two inroads to such a long-term vision. It includes a clause on carbon pricing coalitions, some call them 'clubs', in its Article 6. If countries want to work together in pricing carbon, they are encouraged to do so.

Moreover, the current negotiations of detailed rules also focus on more transparency when measuring and monitoring emissions in industrialized and developing countries. This is needed for carbon content calculations.

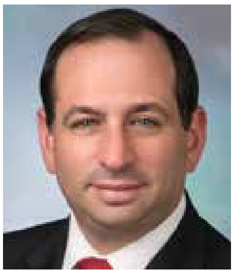
We are far from this ideal setting. Yet, implementing a price signal that works across markets has to start somehow and somewhere. This is where the EU ETS reform proposal for the inclusion of imports comes in. The production of cement is not complicated, it is known that producing clinker emits roughly 0.8 tons of CO_2 per ton on average.

So charging it when imported will not fail, as often argued, due to lack of data. Rather, filling this loophole that made carbon leakage from EU cement production so easy, would make the difference. It is, of course, a completely different story, to apply such average numbers not to inputs, but to final goods such as cars.

There is no way around putting a price on emissions as a key instrument for national policies that bring the Paris deal to live. The World Bank counts some 40 countries with carbon pricing in place. The next big player to install a nation-wide scheme is China.

It's time to talk

The G20 summit this year has the issue on its list, too. There are lessons to learn from the EU ETS about handling carbon leakage risks and there is potential for trade policy to assist countries in achieving their goals under the Paris Agreement. It is time to talk openly about the options and the risks and to agree on protecting the climate without protectionism. ■



Trump, Iran, and guidance for European businesses

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The Trump Administration's approach to Iran has left many in Europe confused, especially on how – and whether – they should pursue business opportunities in Iran. They fear that President Trump will 'tear up' the Iran nuclear deal, known as the Joint Comprehensive Plan of Action (JCPOA), and impose new restrictions on doing business with Iran. They can't be blamed.

During the 2016 campaign, then-candidate Trump made competing statements, first saying *"My number one priority is to dismantle the disastrous deal with Iran."* At another time he seemed to bemoan the fact that European business were benefiting from the Iran deal when American companies were not, stating *"All of these countries are going to do business with Iran… They're going to make lots of money and lots of other things with Iran...And we're going to get nothing."*

Here, we see the tension in President Trump's desires – on the one hand he wants to contain and confront Iran. On the other hand, if European businesses are going to benefit, he wants America to get its share too.

Those advising President Trump have not made the situation any clearer. His top national security advisors, especially Secretary of Defense James Mattis, believe the JCPOA is imperfect, but seem more concerned with the threat Iran poses to the United States and its allies in the Middle East than the particulars of the nuclear agreement. Mattis has called Iran *"the biggest destabilizing force in the Middle East"* and believes its policies are contrary to America's interests. However, he has also supported a policy of keeping the deal in place, saying *"when America gives her word, we have to live up to it and work with our allies."*

The Trump Administration approach to Iran

Simply put, many in the Trump Administration believe the JCPOA was fundamentally flawed. They believe that the deal still allows Iran to develop a nuclear weapons program; that Iran still threatens US interests and made no concessions on non-nuclear areas of concern for the United States, such as Iran's support for terrorist groups and its military buildup; and that Iran has now received billions of dollars – with more on the way through Iran's new access to international markets - that can now be used to threaten US interest. They also feel that the Obama Administration gave up most of its leverage on Iran without achieving gains on the fundamental threat Iran poses.

However, the Administration may be able to live with the JCPOA by instead focusing on the goal of containing Iran's ability to negatively affect US interests in the region. Though it would also like to find new ways to limit even more Iran's ability to acquire nuclear weapons through enhanced enforcement of the JCPOA or new side-agreements.

Of course, there is an inherent tension in these goals. On the one hand, the Trump Administration is willing to negotiate with Iran to gain further concessions around Iran's nuclear

program. On the other hand, it wants to prevent Iran from pursuing its own security interests in the region.

Overall, the Trump election does not necessarily mean that the JCPOA will be torn up, Iran sanctions will snap back, and the world will rewind back to 2012 where there was a unified Western front against Iran. That being said, there are most definitely additional risks that the United States will impose new sanctions on Iran and there will be a marked increase in tension in the US-Iran relationship.

Of key importance, it is misleading to think just about the JCPOA as the only tool in the President's kit when it comes to dealing with Iran. So-called Snap Back, the tool contained in the JCPOA that allows the deal to be terminated, is of course an option.

To trigger it, the United States would need to launch a series of consultations on the basis that Iran has violated the terms of the JCPOA. Fundamentally, these consultations, which include UN Security Council sessions, and the other steps in the process, cannot block the United States from unilaterally cancelling the JCPOA if it so desired.

However, Snap Back is not necessary for President Trump to achieve his policy goals. In fact, given the likely negative international diplomatic consequences of driving through Snap Back over the objection of allies, as well as the fact that cancelling the JCPOA would allow Iran to restart its nuclear program, suggest that it is not the ideal tool to be used.

"Iran still remains generally open for European businesses, but careful planning and evaluations is still required, as well as a dynamic understanding of unfolding developments"

President Trump has plenty of other tools, though, including broad powers to impose new sanctions on Iran unrelated to its nuclear program, or to expand existing sanctions. He has the authority to impose sanctions on Iran in response to its support for terrorist groups, its human rights violations, or its ballistic missile programs. This could also include secondary sanctions.

Several US experts have argued that any economic gain for the Iranian government directly translates into actions that hurt US interests, so therefore – they argue – any new sanctions must hit the overall Iranian economy. We may therefore see the Trump Administration use an asymmetrical approach to achieve its goals. That is, the Administration may threaten or launch sanctions under the excuse of counter-terrorism in an effort to obtain concessions from Iran across multiple policy fronts including both nuclear and non-nuclear issues.

We have already seen this play out recently when the US Government imposed sanctions on 25 individuals and

companies, including several from China, in response to Iran's ballistic missile test.

Unlike many other topics in foreign policy, it should be kept in mind that President Trump has broad Congressional, as well as bureaucratic support, for these actions. In fact, increasing sanctions on Iran, or confronting it more aggressively, is one of the few things that President Trump, Senator John McCain and the Republican foreign policy hawks, and Democrats all agree on. In fact, the last Congress ended with several bills pending that would impose new sanctions. Many will likely be reintroduced this year.

The global reaction

Of course, US policy towards Iran is not made in a vacuum. America's European, Arab, and Israeli allies all have an interest in Iran, as do Russia and China, who President Trump is engaging on multiple other issues. Accordingly, America's policy will factor in these influences. Additionally, Iran itself will react to negative policies and has some ability to push back against America if needed.

If the Trump Administration tries to re-open the JCPOA, it is likely to face stiff opposition from European allies. In particular, if President Trump attempts to impose secondary sanctions unrelated to the JCPOA on European companies, European governments likely would object strongly. Italy, France, and Germany would be the most impacted European countries as their businesses have big plans for Iran.

Conversely, the Gulf Arab States would like to see Iran more constrained, but are wary of chaos and direct confrontation. Those in the region may end up pushing a containment and JCPOA enforcement strategy over tearing up the JCPOA and pursuing a directly confrontational strategy that could lead to open conflict beyond the existing proxy battles occurring around the region.

Iran is also a major ally of Russia. President Trump is seeking to realign the US-Russia relationship, especially in the fight against ISIS, which is a common interest among Russia, Iran, and the United States. Similarly, the Trump Administration is looking for major trade concessions from China. China, though, has deep commercial ties to Iran and reacted angrily when Chinese nationals were included in the most recent sanctions listing over Iran's ballistic missile test. Accordingly, the bilateral US-Iranian relationship will likely also become wrapped up in the US-Russia and US-China relationship and other multilateral engagements.

Of course, Iran will react to all of this. President Rouhani has already said that renegotiation is not an option. It is impossible to predict what Iran would do should President Trump threaten the deal or impose new sanctions, but two options are clear.

First the Iranian government could engage in deal making. Alternatively, Iran could seek to put more pressure on US interests, including deeper interventions in Syria, Yemen, and elsewhere in the region; increased assistance to Hezbollah; and further ballistic missile tests. It could also restart its nuclear program.

In the background to all of this, there is also a plausible scenario that suggests President Trump is looking to cut a deal with Iran that would allow a reduction of sanctions in exchange for significant Iranian concessions on multiple areas of concern, not just Iran's nuclear program. Any deal, though, would likely only come after an increase in tensions and confrontation.

European businesses must recognize that the opportunity of the Iran market includes severe geopolitical risk, including what actions Iran may take – from supporting Hezbollah to testing ballistic missiles – that could provoke a US response.

Guidance for European businesses

We are clearly in a period of uncertainty and expect more confusion as these issues play out. Recognizing that the Trump Administration has an interest in and capability to put much more pressure on Iran, it will also be a period of intense scrutiny on Iran and those doing business with Iran by US policymakers, intelligence agencies, and law enforcement.

Simply put, the US rules applying to European companies dealing with Iran may not change, but the consequences of making mistakes in compliance may be much more severe. Given all of this, what can European businesses do other than just watch and wait? Strong and dynamic compliance programs remain a key safeguard for businesses looking to do business with Iran. Even in this period of economic opening, now is not the time to be lax toward compliance.

In particular, in this time of uncertainty, counter-party risk is more acute. Many of the scenarios for what President Trump might do include adding Iranian entities to the Office of Foreign Assets Control's Specially Designated Nationals list. When examining possible Iranian partners, European businesses must consider whether these Iranian entities might be a likely target for future US actions. Among other things, this assessment includes understanding the Iranian party's business, links to the Iranian government and military, and importance to the Iranian economy overall.

Companies that were sanctioned before, especially those that were sanctioned not because of their direct involvement in Iran's nuclear program, but because of their importance in funding the Iranian government's budget and perceived Iranian bad acts, are particularly at risk. Iranian companies in the natural resources sector are a prime example of this.

Given this, payment risk also becomes more acute, as Iranian counterparties may suddenly find themselves cut off from international banking for reasons possibly outside of their control. This could make payment to European partners impossible. Depending on the type of transaction, one option is to manage some of these risks through contract clauses and insurance.

Finally, active monitoring and understanding of developments in Washington and Iran are essential to successful execution of projects with Iran. Direct engagement with US policymakers on major project should also be considered. Iran still remains generally open for European businesses, but careful planning and evaluations is still required, as well as a dynamic understanding of unfolding developments. ■

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WTO Trade Facilitation Agreement entry into force is a watershed moment for world trade

The entry into force last month of the World Trade Organization's (WTO) Trade Facilitation Agreement (TFA) – a landmark global trade agreement – could provide a boost to global trade flows of over US$1 trillion, write the International Chamber of Commerce

More than two-thirds of WTO member states have ratified the agreement, with Chad, Jordan, Oman and Rwanda the latest countries to do so as part of an almost two-year process. Reaching this threshold means the TFA now becomes an official part of the multilateral trading system which covers more than 96% of global GDP.

The TFA-the first multilateral trade agreement to enter into force in over two decades-aims to make trade easier and simpler by cutting red-tape at borders.

The International Chamber of Commerce (ICC) has estimated that the deal could support the creation of some 20 million jobs worldwide – the vast majority in developing countries.

ICC Chairman Sunil Bharti Mittal has described the entry into force of the TFA as a watershed moment for global trade.

> *"The reality today is that many small businesses find themselves unable to trade internationally due to complex customs requirements. By cutting unnecessary red-tape at borders, the TFA will have a transformational effect on the ability of entrepreneurs in developing countries to access global markets,"* he said.

Mittal added:

> *"The TFA can help ensure that, for the first time, all companies-regardless of size or location-can benefit from global trade. The entry into force of the agreement could not come at a more important moment given the imperative to make global growth more inclusive."*

ICC has been a leading proponent of the TFA, playing a key role in the 2013 negotiations that led to the agreement and working closely with the WTO and other international organizations to coordinate and support the deal's implementation.

John Danilovich, ICC Secretary General, said:

> *"ICC has tirelessly championed the TFA because we know that making trade easier through simple customs reforms can provide a major boost to small business growth. It's*

estimated that the TFA could increase SME exports by 80% in some economies. This means more jobs, more consumer choice and-ultimately-more inclusive development."

Danilovich also called on governments to take action to implement the TFA:

"The entry into force of the TFA is just one step to making the potential benefits of this landmark agreement a reality. Governments must work without delay to implement the provisions of the TFA working hand-in-hand with local businesses to identify key bottlenecks to trade across national borders."

ICC is actively supporting the implementation of the TFA through the Global Alliance for Trade Facilitation – a major public-private partnership supported by a number of donor governments and international businesses. The Alliance is currently rolling out trade facilitation projects in Colombia, Ghana, Kenya and Vietnam based on TFA standards. ■

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The role of TIR Convention in effective implementation of the BBIN Motor Vehicles Agreement

Bipul Chatterjee is an Executive Director and Surendar Singh is a Policy Analyst at CUTS International

Introduction

The Bangladesh, Bhutan, India, Nepal (BBIN) region has evolved as one of the most promising blocs and it has made steady progress through various unilateral, bilateral, regional and multilateral arrangements. However, efforts to liberalise regional trade have not contributed much to the growth of regional trade due to ineffective transit agreements; low level of harmonization of transit procedures, non-existent common guarantee mechanism.

A plethora of studies suggest that inadequate attention was given to trade and transport facilitation measures such as efficiency of customs, quality of transport, cost of international and domestic transport and related border procedures. The current state of regional connectivity of BBIN countries can be gauged from the World Bank's Logistic Performance Index (LPI) which highlights the performance of BBIN countries on various logistic related indictors (customs, infrastructure, international shipment, logistic competence, tracking and tracing and timeliness). Figure 1 and Table 1 indicates that the average LPI score and ranking of BBIN countries.

India ranks first on the index, followed by Bangladesh, Nepal and Bhutan. While analysing the sub-components of LPI, it is to be noted that India's performance on various components of the LPI index is relatively better than Bangladesh, Bhutan and Nepal. The existing gap between India and Bangladesh, Bhutan and Nepal on these parameters reflects prevailing asymmetries in logistics and trade related infrastructure development. The sub-optimal performance of BBIN countries on LPI index draws attention to the urgency of reforms in key areas such as transport, transit, trade infrastructure and custom clearance procedures.

State of BBIN corridors

The BBIN region faces massive challenges with regard to their transit and transport connectivity which include inadequate space at land and sea ports, dearth of flyovers and bridges, ineffective transport corridors, regulatory lassitude, frequent loading and unloading at border points, lack of logistic facilities, absence of integrated transit system and lack of harmonization of trade and technical standards.

Consequently, cross border movement of goods are fraught with 'institutional and regulatory complexities' which affect connectivity in the sub-region. Some of the key issues pertinent to transit and transport facilitation are as follow:

Customs clearance procedures: it was noted that customs procedures differ significantly from country to country. Each country has its own set of rules and regulations for customs clearance procedures for submitting documents at five checkpoints are not streamlined and harmonised. The working hours of custom offices differ from country to country and create problems for the customs clearance procedures.

Export and import of cargo involves a number of parties and a complex set of steps and procedures in which trade documents are submitted for approval to customs officials at five checkpoints in three countries. While interacting with traders, it was found that time taken for customs clearance varies at all five border checking points and a significant time is wasted in furnishing customs clearance formalities at five border points in three countries (Table 2).

Procedural and documentation related issues: the findings of the field survey show that each country uses different documents in its own prescribed format. There is no standardised procedure for the submission of documents related transit, export, import and other formalities. For all five border points, traders need to prepare separate sets of documents for each customs point for exports and imports to complete the formalities of customs clearance at borders.

In India, each customs point requires three documents for both exports and imports but additional documents required if the product falls under special categories such as the sensitive list. In Nepal, each custom point requires nine documents for imports and seven for exports.

In Bangladesh, eight documents are needed for both exports and imports. The whole procedure of submitting documents is laden with administrative and regulatory complexities and substantial time goes in taking approval from various authorities (customs, plant quarantine, border management agencies, standard related organisation) at checkpoints.

Another problem with regard to submission of documents is the frequent failure of the internet at border crossing points.

This causes considerable delays in completing documentation related formalities. In such cases, documents are submitted manually with due permission from higher officials of customs.

Absence of robust insurance guarantee mechanisms: there are two major problems in the case of insurance guarantee in BBIN region. The first relates to high cost of insurance and absence robust guarantee mechanism for cross border trade. The cost of insurance varies significantly across countries and encourages logistic firms to buy insurance in those countries where it is available at lower prices.

The second relates to the problem of non-recognition of insurance policies in the region. For instance, Bangladesh does not recognise insurance policies of India, Nepal and Bhutan. Non-recognition of insurance policies contributed to the development of 'contractual arrangements' for recognition and coverage between insurance providers so that their policies can be accepted.

The problem of non-recognition of insurance policies in the BBIN region indubitably underlines the importance of robust insurance guarantee mechanisms thereby dispensing with the need for multiple or contractual arrangements (Abel, 2016).

BBIN MVA and its importance

In order to address challenges related transit and transport connectivity, the BBIN countries have entered into a landmark Motor Vehicles Agreement in 2015. The BBIN MVA is a framework agreement, and it is signed with the conviction to enhance economic integration in the BBIN region through effective transit and transport facilitation. The goal of the agreement is to enhance trade and economic activity, people to people contact, effective movement of cargo, in the region.

The BBIN MVA is envisaged to expand and build economic cooperation and connectivity among the four countries, and is expected to lower the transaction costs of doing trade significantly, hence creating new economic opportunities, particularly in border areas of the region, thus, promoting sustainable and inclusive development through employment generation and poverty alleviation.

The BBIN MVA includes several provisions such as appropriate clauses to address insurance, permits, visas (multiple-entry), applicability of local laws and business facilitation. Although vehicles have the right to travel through the BBIN countries, most of the associated agreements are bilateral, and require a variety of permits at different stages of a journey, the BBIN MVA will streamline the process of acquiring cross-border permits.

The BBIN MVA is expected to address these problems and work on the development of infrastructural and regulatory mechanisms in the region. Furthermore, the BBIN MVA is likely to yield maximum dividends for the land-locked countries and underdeveloped North East India, as it will integrate them more effectively with the global economy. Especially in the case of Nepal, the agreement would facilitate unhindered movement of cargo vehicles carrying exports to third countries through India and Bangladesh.

"It is important for BBIN countries that they should make concerted efforts towards implementation of the TIR Convention in BBIN MVA. Such an approach, backed by strong political will, holds the promise of boosting regional connectivity and changing the geography of trade"

The agreement is set to ultimately pave its way through Myanmar and Thailand, to explore the untapped trading potentials. Overall, the BBIN MVA will facilitate trade creation and investment linkages among the member countries. It will also assist in the development of possible bilateral and regional value chains, as it will cater for the easy movement of goods across the borders, thus building opportunities for the development of regional production networks.

TIR Convention

The Customs Convention on the International Transport of Goods under cover of TIR[1] Carnets (TIR Convention, 1975) is one of the most successful conventions under the multilateral framework of United Nations Economic Commission for Europe[2] (UNECE). Today, it is the only global customs transit system that provides easy and smooth movement of goods across borders in sealed compartments or containers under customs control from the customs office of departure to the customs office of destination.

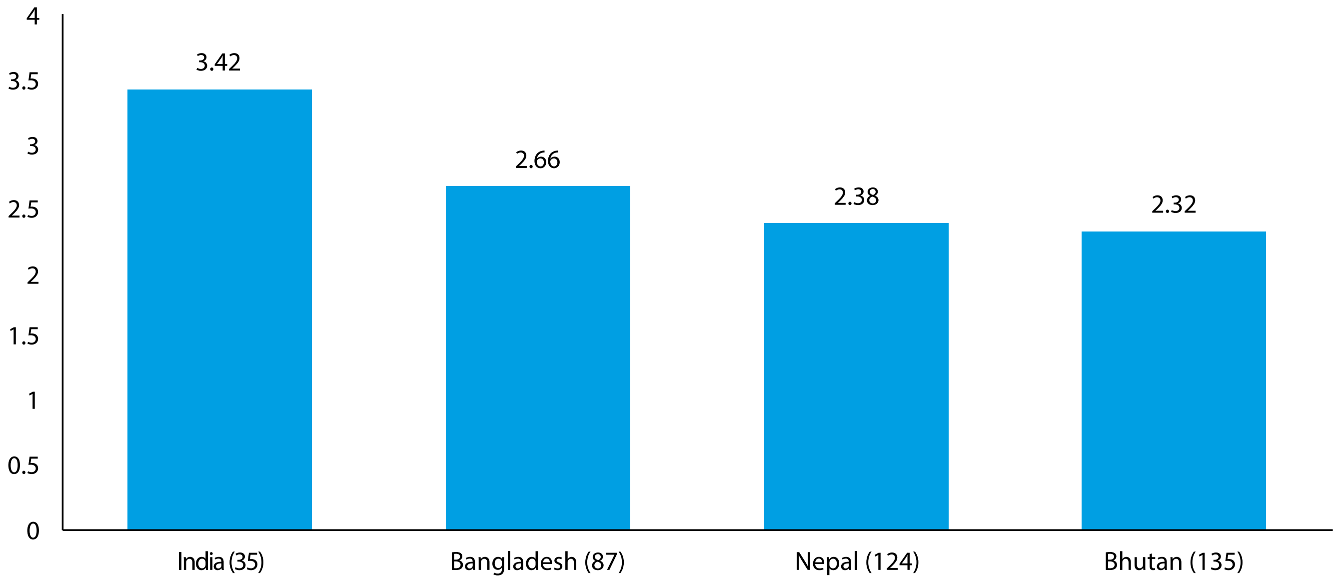
Globally, there are seventy Contracting Parties to the TIR Convention from different regions such as Central Asia, Europe, Middle East and North Africa[3]. Seventeen countries from the Asia Pacific region are Contracting Parties to the TIR Convention (Table 3). The TIR Convention has been implemented and operationalised in most of the Asia Pacific countries. Other countries from East Asia and South-East have also expressed interest to accede to the TIR Convention but they are yet to accede to the TIR convention[4]. China has recently ratified the TIR Convention and become the 70th contracting party in 2016[5].

The TIR System operates on six pillars: i) secure vehicles or containers, ii) international guarantee chain, iii) TIR carnet, iv) reciprocal recognition of customs controls, v) controlled access vi) TIR IT risk management tools. These pillars ensure that goods travel across borders with minimum interference en route and at the same time, provide maximum safeguards to custom administrations (Abel, 2016).

Benefits of TIR Convention in implementing the BBIN MVA

Given the significance of the TIR System in boosting regional connectivity, there is a compelling case for BBIN countries to accede to the TIR Convention in the context of current BBIN MVA. The TIR System can significantly improve the

Figure 1. LPI Score and Ranking of BBIN Countries (2016)



Source: Logistic Performance Index, World Bank 2016
***Score on a scale lowest to highest score from 1 to 5, **Ranking out of 189*

Table 1. LPI of BBIN Countries, 2016 vis-à-vis (2014)

(Score on a scale of 1 to 5 - lowest to highest)				
Indictors	**Bangladesh**	**Bhutan**	**India**	**Nepal**
LPI Rank (Out of 189 countries)	87 (108)	135 (143)	35 (54)	124 (105)
Customs	2.57 (2.09)	2.21 (2.09)	3.17 (2.72)	1.93 (2.31)
Infrastructure	2.48 (2.11)	1.96 (2.18)	3.34 (2.88)	2.27 (2.26)
International shipments	2.73 (2.82)	2.50 (2.38)	3.36 (3.20)	2.50 (2.64)
Logistics competence	2.67 (2.64)	2.30 (2.48)	3.39 (3.03)	2.13 (2.50)
Tracking & tracing	2.59 (2.45)	2.20 (2.28)	3.52 (3.11)	2.47 (2.72)
Timeliness	2.90 (3.18)	2.70 (2.28)	3.74 (3.51)	2.93 (3.06)

Source: Logistic Performance Index, World Bank, 2016

Table 2. Time Required for Customs Clearance in BBIN Corridor-2

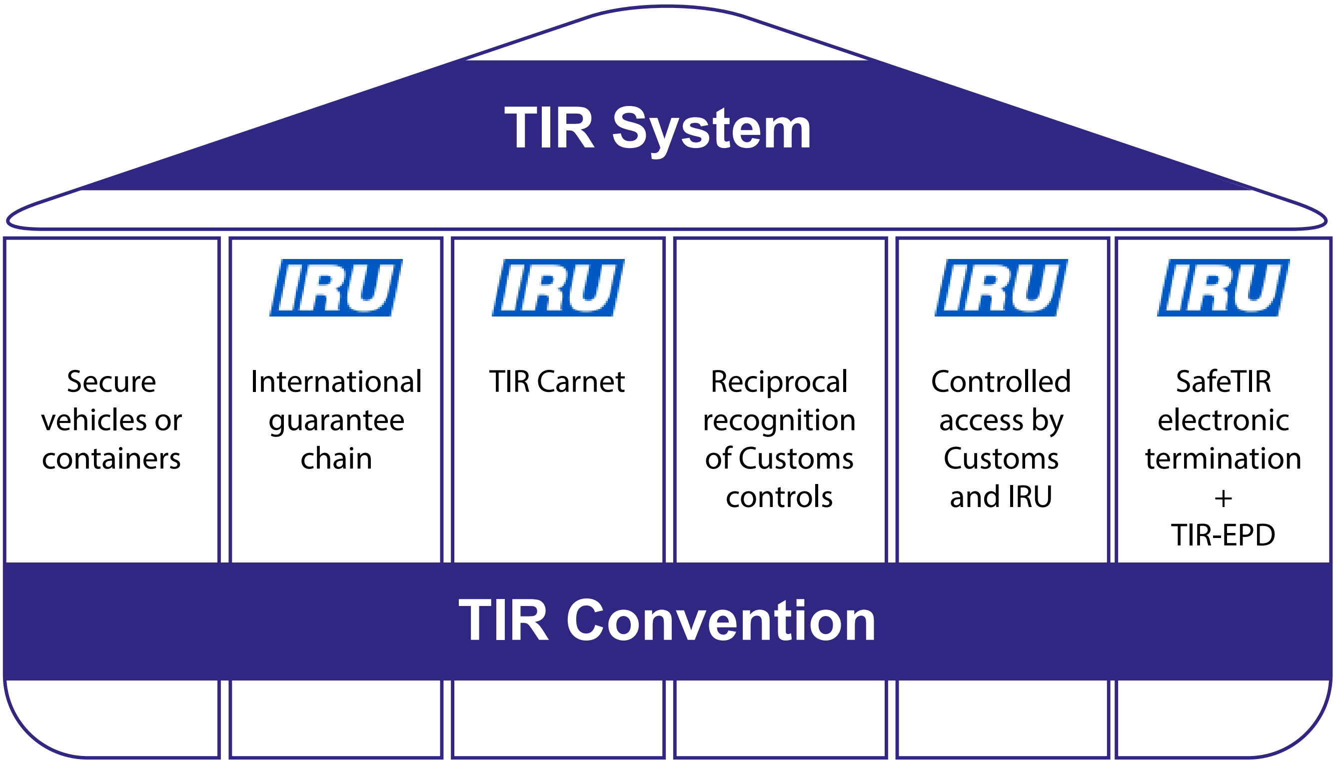
BBIN Corridor-2 (Kathmandu-Kakarvitta/PanitankiPhulbari/Banglabandha-Dhaka-Mongla/Chittagong)					
Particulars	Nepal	India		Bangladesh	
Import	Karkarvitta	Panitanki	Phulbari	Banglabandha	Chittagong
Time for Customs Clearance	3 hrs	2-3 hrs	3-4 hrs	2-3 hrs	5-6 hrs
Export					
Time for Customs Clearance	2 hrs	2 hrs	2 hrs	2 hrs	5 hrs

Source: CUTS Survey, 2016

Table 3. Contracting Parties to the TIR Convention, 1975 in the Asia-Pacific region

Contracting Party	*Time of accession*	*Contracting Party*	*Time of accession*
Afghanistan	23 Sep 1982	Mongolia	1 Oct 2002
Armenia	8 Dec 1993	Republic of Korea	29 Jan 1982
Azerbaijan	12 Jun 1996	Russian Federation	8 Jun 1982
Georgia	24 Mar 1994	Tajikistan	11 Sep 1996
Indonesia	11 Oct 1989	Turkey	12 Nov 1984
Iran	16 Aug 1984	Turkmenistan	18 Sep 1996
Kazakhstan	17 Jul 1995	Uzbekistan	28 Sep 1995
Kyrgyzstan	2 Apr 1998	Pakistan	21 January 2016
		China	5 July 2016

Source: United Nations Treaty Collection Database, Chapter XI Transport and Communications, A. Customs Matters, 16 and United Nations ESCAP, 18 July 2016.



Source: United Nations Economic Commission for Europe, 2016

effectiveness and robustness of the BBIN MVA in the region. Considering its unique features, the TIR system is a globally accepted Convention.

It can significantly contribute to the successful implementation of the BBIN MVA and also addressing existing concerns related to transit and transport facilitation. Some of key benefits in the event of a possible implementation of the TIR System to BBIN MVA are as follow:

1. The TIR System offers a 'single customs guarantee' backed by international guarantee chain led by IRU and national association. The adoption of TIR System in BBIN MVA will be beneficial for customs authorities as it will cover duties and taxes at risk during international transit for a minimum of USD 50,000 or EUR 100,000 per TIR Carnet. It means that customs officials of BBIN countries should be concerned about the potential losses of duties and taxes during international transit.
2. The TIR System provides an important transit facilitation instrument through its standardized format for transit declaration. The implementation of the TIR system in BBIN MVA will promote standardization of documents and procedures, from which both customs authorities and trade partners will benefit. The standardized customs control and harmonized procedures will substantially lower the cost of transportation and transit delays.
3. The TIR System is the only global customs transit system

that enables the movement of goods across borders in sealed compartments or containers under customs control from the customs office of departure to the customs office of destination. It ensures that 'goods cannot be removed or introduced into the sealed part of vehicle without breaking the Customs seal or without leaving obvious traces of tampering' (UNECE, 2006).

4. The TIR Carnets are only issued to those transport operators who have credible track record and have passed the approval of their national association and customs authorities to be admitted to the TIR system. This would contribute to the development of authorized transport operators in BBIN countries, mutually recognized by the four countries and in other TIR Contracting Parties, which would induce more competition and efficiency to transport sector.
5. The TIR System has a globally accepted electronic control system for integrated transit operations. The Real-Time Safe TIR integrates customs with other stakeholders and allows them to validate the status of TIR Carnet in the course of traffic in transit and to transmit the information on the termination of the TIR operation in the territory of a country. This is an important risk management instrument in the TIR system and enables early detection of potential irregularities. The adaptation of the TIR system in BBIN MVA will facilitate the integration between customs and other stakeholders based on mutually accepted protocols thereby eliminating the potential risks and irregularities in the course of the clearance of traffic and transit. Therefore, it is good for BBIN countries to accede to TIR system rather than explore other options. In short, the adoption of the TIR System in BBIN MVA is expected to address existing glitches in transit and transport facilitation among the four countries.
6. Accession to the TIR System in BBIN MVA will providebetter market access to those regions which have already acceded to the TIR Convention. Enhanced market access through the TIR System will facilitate a greater amount of cross border trade flows and integration with the world economy. The potential benefits of the TIR System will be accrued through greater amount of 'cross border trade and investment' which would allow BBIN countries to attain the larger goal of sub-regional economic integration. In addition, the inter-modal aspect of the TIR System will help BBIN countries to connect with other regions such as Middle East, Central Asia, and Europe through maritime transport in the light of the International North South Trade Corridor (INSTC) and the recently concluded Chabhar Agreement.
7. The TIR Convention can help BBIN countries not only implementing the BBIN MVA but also in fulfilling their commitment to the WTO Trade Facilitation Agreement (TFA). Many provisions of TIR Conventions support the implementation of the TFA. For instance, Article 11 on 'freedom on transit' of the TFA stipulates that each contracting party will encourage the easy and smooth movement of vehicles across border and will avoid any 'disguised restriction on traffic in transit'. This Article is in line with Article 2 of the TIR Convention which states that transportation of goods should not take place through transshipment. In short, the TIR Convention could serve the dual purpose of implementing both the MVA and the TFA

Conclusion

It is amply clear that the BBIN region encounters diverse ranges of problems with regard to transit and transport facilitation. The sup-optimal trade and transport facilitation is significantly hindering the growth of intra-regional trade among the BBIN group of countries.

Inadequate transport infrastructure, ineffective transit agreements, inefficient customs clearance, absence of insurance mechanism, mundane administrative and regulatory procedures and lack of inter-governmental cooperation and integration are playing a major role in this regard. In practical terms, Nepal and Bhutan are landlocked countries and their connectivity with the world solely hinges on connectivity with India. Both countries rely on India's trade and transport infrastructure for doing their international trade.

Today, all BBIN countries are placed at a competitive disadvantage on all indicators relating to the efficiency of logistic and border administration. Despite a significant volume of trade between them, the administrative, procedural and regulatory frameworks are still fragmented. The current transit arrangements include a plethora of rules and regulations, dealing with various aspects of trade, transit and transport facilitation.

In other words, it is can be said that there is a complete absence of regulatory and procedural harmonization in the domain of movement of trucks. As a result, goods are subject to trans-shipment of cargo at borders, which increases both the time and cost of international transport of goods among the group of BBIN countries. It is anticipated that the problem of trans-shipment will get resolved with the implementation of the BBIN MVA and the TIR Convention is likely to improve the condition of cross border vehicular traffic for cargo and passengers among the four countries.

The BBIN-MVA has been ratified by India, Bangladesh and Nepal. It is expected that Bhutan will ratify the agreement in due course. The effective implementation of the agreement requires substantial amount of work on its implementation of Protocols which includes fixing custom procedures, developing insurance mechanism, fixing transit fee, routes

and volumes of cargo. In this context, it is challenging to assess the actual impact of BBIN MVA, especially because it is an agreement that aims to facilitate trade and transit and reduce the cost of doing trade amongst the four countries.

The important question in this regard is that the success of the agreement critically hinges on the 'design and the quality of implementation'. It is important for BBIN countries to ensure that the design of the agreement incorporates the micro and meso level concerns and makes the agreement more effective.

Given the structure of the agreement, it is challenging to implement several provisions of the agreement as they require separate enabling legislation - at bilateral or trilateral bases. For instance, creating an insurance mechanism for cross border movement of vehicles requires additional legislation and adding any legislation in the BBIN MVA would add to the administrative and regulatory complexities. This in turn, would affect harmonization and standardization of procedures. On the other hand, the TIR Convention has all elements – 'comprehensive, harmonized procedure' and it could play an important role in effective implementation of many provisions of the BBIN MVA.

For example, Article 4 of the agreement relates to 'custom duties and taxes' to be managed by Joint Land Transport Facilitation Committee (JLTFC). The involvement of JLTFC in the application of 'fee and charges' could create serious coordination problems and potential opportunities for rent seeking. In the case of the TIR Convention, the issues related to duties and taxes can be easily resolved by an international guarantee chain which covers all risks related to duties and taxes.

Similarly, Article V of the agreement relates to establishment of electronic monitoring platforms for efficient tracking of vehicles. In order to do so, BBIN countries need to develop a new electronic monitoring platform at regional levels to monitor cross border movement of vehicles. In this respect, the TIR Convention provides two globally tested electronic tools (ie, Real-Time Safe TIR and TIR-EPD) which would ensure smooth exchange of information between different agencies.

The implementation of the TIR Convention in BBIN MVA is expected to provide legal and operational certainty of knowing what a procedure entails and how it will be applicable throughout the region (Abel, 2016). The consistency in rules and regulations would infuse a sense of confidence among stakeholders and would mobilise greater investment in export, transport and logistics sectors. This would enhance immensely the volumes of traffic and trade and it would also ensure the security of State revenues through better controls at border points.

The TIR System would help BBIN countries in customs controls, mutli-modal connect, improved logistics and ease of doing trade. A fully operational TIR System would facilitate the effective implementation of BBIN MVA and would contribute to better regional connectivity in the BBIN region. Finally, the accession to the multilateral legal instruments such as the TIR Convention, in any country or region requires political buy-in, generated by all stakeholders, who are key beneficiaries. It is therefore, important for BBIN countries that they should make concerted efforts towards implementation of the TIR Convention in BBIN MVA. Such an approach, backed by strong political will, holds the promise of boosting regional connectivity and changing the geography of trade. ■

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1. TIR is the abbreviation for Transports Internationaux Routiers. More information about the TIR system, TIR Handbook and eTIR project can be found at https://www.unece.org/tir/welcome.html
2. UNESCAP, (2014), 'Towards Electronic TIR Customs Transit System (eTIR) http://unnext.unescap.org/pub/brief12.pdf
3. Ibid
4. Ibid
5. IRU(2015),Pakistan joins the United Nations TIR Convention https://www.iru.org/resources/newsroom/pakistan-joins-united-nations-tir-convention

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Brian Stuart-Young
International Banker of the Year

In a Q&A with *World Commerce Review* Brian Stuart-Young says Antigua and Barbuda is well poised to establish the jurisdiction as a stable hub for the growing demand of foreign and local investments

Congratulations on your award; how does it feel to receive this recognition?

I am very humbled to receive this award on behalf of the great team we have operating our banking group. We have been proud to provide financial services to our valued clients, from generation to generation and this award will motivate us even further to meet the expectations and current lifestyle requirements of customers for financial services.

Please tell us of your banking experience

I actually spent the first part my professional life in the creative arts and business services but was invited to enter the banking sector to manage the development of services for and relationships with customers. Twenty-five years later, I have been called a serial investor in financial services. Before there was FinTech there were some of us pushing the envelope because we felt that the last major innovation to come out of the banking sector was the founding of Visa and MasterCard by banks.

All other aspects of our daily lives were developing rapidly, but banking services became fixed in the same ways. We can't blame the regulators, because they will always point out that they are not meant to be innovators - that is up to the banks and they must manage their developments so they can be evaluated and regulated. It was with the goal of wanting to make banking a better experience that I became involved in acquiring Global Bank of Commerce to manage international financial services.

As its Chief Executive Officer for several years, I have led a team that has supervised the growth and development of this institution and the formation of affiliates, including a domestic commercial bank – Caribbean Union Bank, Ltd – which serves Antigua and has the potential to play a regional financial sector role; a certified processing centre for Visa, MasterCard and UnionPay International – Global Processing Centre – which serves financial institutions locally, regionally and in North America; and a local alternative payment system – SugaPay – which is currently expanding to other islands in the Caribbean region.

As a citizen of Antigua and Barbuda, I am very committed to supporting domestic, regional and international banking and wealth management, as well as Caribbean business, trade, ecommerce and communications. In addition to my corporate responsibilities I try to oversee all strategic relations for the group's banking, investment and technology services.

Regionally, I was proud to be a recipient of the Caribbean Association of Banks' award for distinguished service in 2010, and had the privilege to chair its Advocacy Committee that established the Caribbean Principles (www.caribbean-principles.com) as a policy to support the integrity of Caribbean Banks.

I participate in the Advisory Committee of Antigua's Financial Services Regulatory Commission to assist the development and compliance to international standards of local financial services and have served as Chairman of the Antigua and Barbuda Compliance Association. In order to better serve as a Senior Caribbean Banker and board member, I have studied and achieved an international CAMS accreditation as a Certified Anti-Money Laundering Specialist.

How have you seen the development of personal banking over the years?

A lot of the personal banking requirements for individuals are now being met by a variety of FinTech providers, who have invested in supplying products and services to individuals who no longer wish to take the time or experience any 'branch banking' distractions to conduct their personal financial services. In our banking group we have made the necessary investments to offer financial services to match the ever-changing lifestyles of our clients.

What would you say is the benefit of Antigua as a location?

Located in the Eastern Caribbean islands, Antigua represents a crossroad for financial services within the Caribbean, and its more than 30-year-old financial centre is conveniently time-zoned to provide international financial services. There are eight domestic commercial banks and twelve financial institutions providing international financial services.

Although best known for its 365 white-sand beaches, Antigua enjoys a growing reputation as a trusted Caribbean destination for both tourism and international financial services. The government is vigorously pursuing programmes to enhance and strengthen these two sectors as key pillars of the economy.

As the world financial crisis gets repaired, there is a resurgence of business towards the Caribbean and, whilst Antigua's international financial centre is still relatively small, there is a strong indication that the non-volatile, politically stable and sovereign jurisdictions are attracting clients seeking more personal attention for their wealth management portfolios. Antigua and Barbuda is positioned as an up-market tourism destination for the more discriminating visitor and similarly appeals to client relationships for banking services.

What can clients expect by partnering with GBC?

As the first international Bank to be licensed in Antigua and Barbuda under local legislation established in 1982, it has the distinction of being the 'grandfather' of international financial services operating in the jurisdiction's Financial Centre.

GBC has embraced the tradition of service excellence over the past three decades to meet client demands generation by generation. It values its clients and understands the requirements of the more particular investor seeking superior wealth management, private banking and even immigration services. GBC has a wealth management department, which caters to clients requiring personalized individual and corporate financial services.

What new products/services do you have in the pipeline?

GBC's investments in banking technology that were made for international services are also being leveraged for improving financial services domestically. That is why our indigenous banking Group, through common shareholding, invested in the formation a local commercial bank – Caribbean Union Bank; a local processing centre; and a local alternative payment solution. All of these investments in financial services work together with the objective of improving Caribbean financial lifestyles and making Caribbean bank services and payments more convenient, efficient and secure.

In order to drive electronic financial services, a bank must have its own financial processing centre to manage electronic financial transactions and ensure the integrity and protection of transactions hosted within the jurisdiction. The banking Group made the necessary investment when it established its own local data centre, known as Global Processing Centre (GPC, www.gpcantigua.com) which functions as a fully certified PCI DSS processor of financial transactions, and operates a home-based modern and integrated processing platform for all card, electronic wallet, mobile wallet, private label card and ecommerce services.

These services enable alternative payment systems to support retail trading, government payments, and international remittances. GPC is connected into gateways that can process Visa and MasterCard transactions, and, most recently, established direct integration with China's Union PayInternational. In addition to Antigua, GPC serves Caribbean financial institutions from Guyana in the south to Haiti in the north.

How strong is the protection/regulation environment in Antigua?

Antigua has successfully reshaped its regulatory and business operations to meet the requirements of a safe environment for foreign direct investments and to attract international banking and business services seeking a more stable environment. The jurisdiction strives to balance the client's needs for confidentiality with the requirements of meeting all international financial standards.

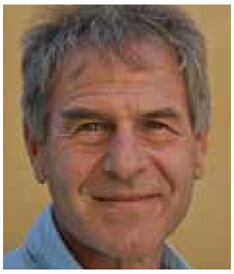
It has a robust mutual legal regime which facilitates a transparent process under which information may be exchanged. It became tax compliant with the OECD phase one requirements and was placed on the OECD's 'white list'. Mutual legal assistance in anti-money laundering and financing of terrorism matters is also provided for under the Mutual Assistance in Criminal Matters Act. Mutual assistance exists for all countries that are members of the British Commonwealth, the United States of America and other countries with whom Antigua and Barbuda has signed mutual legal assistance treaties (MLATs).

There is no legal or practical impediment for rendering assistance where both countries criminalize the underlying offence. The jurisdiction also benefits from being a member of the Egmont Group through Antigua's supervisory authority, Office of National Drug and Money Laundering Control Policy (ONDCP), which assists communications between Financial Intelligence Units to prevent money laundering and the financing of terrorism. The governing legislation for the management of its international financial centre is regularly updated, and an International Banking Act 2016 was passed to ensure on-going compliance with international standards.

How do you see the sector developing in 2017?

We believe that both the international and domestic banking sector in Antigua and Barbuda is well poised to establish the jurisdiction as a stable hub for the growing demand of foreign and local investments. With a very modern international airport and expansion underway for modernizing the St John's seaport, the infrastructure and added capacity will open up interesting opportunities for business developments, all of which will be dependent on a very active financial sector in 2017. ■

Antigua has successfully reshaped its regulatory and business operations to meet the requirements of a safe environment for foreign direct investments and to attract international banking and business services seeking a more stable environment. The jurisdiction strives to balance the client's needs for confidentiality with the requirements of meeting all international financial standards



When the IMF evaluates the IMF

Charles Wyplosz is Professor of International Economics, Graduate Institute, Geneva; Director, International Centre for Money and Banking Studies; and CEPR Research Fellow

The IMF has just released its self-evaluation of its Greek lending, in which it admits to many mistakes. This column argues that the report misses one important error – reliance on the Debt Sustainability Analysis – but notes that the IMF's candour should be a model for the other participants in the lending, namely, the European Commission and the ECB.

The IMF has now released its self-evaluation report on the programme for Greece between 2012 and 2016[1]. This report admits most, if not all, of the glaring mistakes and calls for significant changes. Unfortunately, it does not always get to the bottom of why these mistakes were made.

The requirement that the IMF self-assesses and publishes its interventions in the case of programmes with exceptional access was adopted in the wake of the highly controversial East Asian crisis. Exceptional access occurs when the amounts lent by the Fund exceed the normal ceiling of 145% of the country's quota per year, or a total of 435%. (At the time the limits were 200% and 600%, respectively). A first programme provided for 3,200% of the Greek quota. As it was going astray in 2012, it was interrupted and replaced with a second programme worth 2,159% of the quota. These are numbers never seen before.

What's good

The report is candid on a significant number of mistakes. It acknowledges that its forecasts were 'overly optimistic', which justified the front-loaded and historically deep budget deficit reduction condition that created one of the longest and deepest contractions ever recorded. This, in turn, led to a rising debt to GDP ratio, the opposite of the stated goal. The IMF has already admitted this failure, based on low fiscal multipliers[2]. The report further notes that export price elasticities were expected to be large and that the banking system was presumed to be healthy throughout.

The report goes further by listing the implications of this mistake, including political turmoil, the rise in non-performing loans (NPL) that undid banks several times over, and failure to meet a number of programme conditions that appear ex post as unrealistic.

Exceptional access can only be granted if the staff certifies that the debt has a 'high probability' of being fully serviced. With considerable internal misgiving, the staff obliged. It did so not once, by twice, for each programme. Its assessment was based on its highly optimistic forecasts, which is open to the interpretation that optimism was endogenous to the need to certify debt sustainability.

At the same time, well aware that the debt situation was dicey, the IMF supported the deep budgetary measures that it now regrets. The IMF offers two explanations. The first one is that a deep debt-restructuring would have hurt some systemic foreign banks. So soon after the Lehman Brothers collapse, it was feared that the Global Crisis could be reignited. This led the staff to surreptitiously add global systematic stability as a new clause to provide exceptional access. The precedent

thus created was explicitly repealed in 2015, effectively acknowledging that it had been a mistake.

The second explanation is that the EU and the ECB were staunchly opposed to any form of debt restructuring. This raises even deeper questions of cooperation with a monetary union. The report candidly recognises that it had made no preparation for such an event and that this issue still remains largely untreated.

Several other mistakes are acknowledged. They cannot all be presented here, but a few can be mentioned. One is the failure to recognise early on that the Greek polity did not 'own' the programmes, which indeed resulted in backtracking. Another is that the request that a great many structural reforms be designed and implemented exceeded both administrative capacity and political feasibility. Yet another one is a failure to properly monitor bank fragility.

In addition, structural reforms were assumed to immediately boost the supply side, in contrast with much accumulated evidence that the benefits come in very slowly. Finally, the report mentions the failure to reform the goods market, in contrast with the labour market – deep labour costs did not lead to significant gains in export competitiveness. More generally, it notes acute problems of governance in both corporations and the government, which have remained largely untreated.

What's lacking

The frequent references to the co-management of the Greek crisis with the European Commission and the ECB – the Troika arrangement – suggest that this was a complicating factor that led to conflicts. Rather lamely, the report calls for an in-depth search for procedures to deal with a monetary union. Reading between the lines, one can guess that the IMF considers that the biggest mistakes (optimistic forecasts, no debt restructuring, excessively tight budgetary conditions, etc.) were not due to internal analytical failures, but to its position as junior partner in the Troika.

"... self-evaluation should be a model for the two other Troika institutions, the European Commission and the ECB"

The Troika was a historical precedent. Normally, when it lacks sufficient resources, the IMF single-handedly manages its programmes while calling upon 'friends' of the treated country to provide the needed additional resources. With the exception of Latvia in 2008, never before had the IMF accepted a junior role. So far, there has been no explicit analysis of this momentous step. Since it goes beyond the Greek case, the report may not be the place to tackle an issue that is politically hot, as the continuing disagreements between the IMF and the EU show.

The report emphasises the unusual amount of uncertainty affecting the programme. It considers that the programme

was extraordinarily risky and that its chances of success were limited from the start. The lesson it draws is that, in such a situation, the conditions required from a country must be gradual and spaced out over a long period. Neither the observation, nor the implications are explained. Of course, many weaknesses pre-existed in Greece, but this is standard fare in most countries that need IMF support.

Two factors made Greece special. First, it could not devalue to counterbalance budgetary stabilisation, and second, it did not have access to lending in last resort. Devaluations, however, are not a panacea. In this case, not only would it have aggravated indebtedness, already excessive, but Greece would had had to leave the eurozone, a momentous move for which neither Greece nor the eurozone had made the slightest preparation.

The proper conclusion, therefore, would indeed have been to be gradual with budgetary stabilisation – but not for 'risk' reasons – and to encourage the ECB to fulfil its (implicit) lending in last resort duty. Diplomatically, the report does not touch upon the role of the ECB, its fellow Troika member.

What's wrong

Two critical mistakes are not mentioned. The first one is technical. In view of the exceptional, but not unique, access situation, debt sustainability was a crucial issue that remains at the heart of current debates. The IMF has developed a Debt Sustainability Analysis (DSA) procedure, which goes as follows. It starts with assumptions about the path of future primary budget balances, interest and growth rates over some 30 years or more. A straightforward simulation then delivers the future path of the debt ratio. The IMF then compares this path with some benchmarks. As with all compounding exercises over long horizons, the results are extremely sensitive to small changes in the assumptions.

The debt path, therefore, is no more than the unstable representation of assumptions, as are the benchmarks[3]. Assumptions over long horizons are highly uncertain, however. It would seem natural to associate the simulation results with confidence intervals. Zettelmeyer et al.[4] show that the confidence intervals are very wide, casting doubt on whether any policy conclusion can be drawn from DSA. Sadly, there is no hint in the report that the Fund is ready to question this procedure.

It may be true, as US and European policymakers forcefully argued at the time, that a Greek default would have sparked global systemic effects. Preventing the crisis was therefore in the interest of a large number of important countries, which raises the issue of burden sharing. Fairness and feasibility argue in favour of sharing the burden. Instead, as we know, Greece was instructed to borrow, which means that the burden has fallen entirely on its taxpayers. The burden is so heavy that the IMF now calls for a debt reduction, which would be ex post burden sharing.

As the world's benevolent referee, it should have refused ex ante to be complicit and part of such an imbalanced approach. The issue of burden sharing is not even mentioned in the report. The implicit answer is that political realities had closed that door, but then it raises grave concerns about the Fund's independence. It also reminds us of Keynes' two famous lost battles. First, after WWI, he had opposed German reparations. Second, in Bretton Woods, he had raised the issue of symmetry. Greece represents his posthumous third loss.

Conclusion

The IMF must be commended for imposing self-evaluation reports upon itself. They sometimes come on top of reports by the IMF's Independent Evaluation Office[5]. It is about speaking truth to yourself, which can be delicate because the programme's actors, most of whom are active in the building, have skin in the game.

These reports can fulfil an extremely important role if they identify mistakes that should not be repeated in the future. Does it happen? A previous self-evaluation took place after the first Greek programme. Many of its observations are the same as those of the second report, which is disheartening.

The Fund argues that, because the first report was published after the start of the second programme, its conclusions could not be taken on board. It calls for a faster production of the self-evaluation reports. Would that be enough? Scepticism is warranted when we observe that a number of the mistakes reported in this report were already mentioned after the East Asian crisis.

With all its limitations, the fact that self-evaluation occurs and that the report is made public deserves to be commended. The procedure should be a model for the two other Troika institutions, the European Commission and the ECB. Most regrettably, self-evaluation is not part of their institutional culture. They seem to follow the prescription attributed to Napoleon: *"In politics never retreat, never retract, never admit a mistake".* ■

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How do you compensate losers from globalisation?

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Globalization has come under attack, being accused of deepening societal tensions and creating new inequalities. Trade is made responsible for job losses and economic decline in some regions, industries, affecting the middle class in high-income countries.

Migration is seen as a major threat to jobs for natives. Oftentimes, some take a reference point in the past with less globalization, less offshoring and shorter, more local value chains, lower import penetration and fewer migrants, assuming this situation was better for most of the domestic population, in particular workers in the manufacturing sector.

Now, given the electoral success of Donald Trump and the Brexit referendum in the UK a new wave of protectionist, anti-globalization and anti-migration policies, putting even multilateral agreements such as the WTO at risk looks like a real policy option. If the anti-EU swing continues, eg. with the presidential elections in France this might even challenge the very existence of the post-war European integration process.

From a politico-economic point of view we have first to understand where the massive discontent comes from. Who is dissatisfied with the economic and political situation, and for what reason? Who votes in favour of protectionism? Are those really the disadvantaged? If not, there would be less a substantial economic policy issue, but rather a cultural or rhetorical issue regarding aversion against cultural or ethnic diversity or heterogeneity.

In fact, recent voting behaviour in western societies like the Brexit and the election of Donald Trump reveal information about the supporters for protectionist policy. Furthermore, continental Europe faces a rise in right-wing parties which promote protectionism. Analyzing their supporters offers information about individuals who perceive to be a looser of the globalization or will be losers.

The latter is something we should not overlook because in some prospering countries puzzling pictures occur. Whereas overwhelming majorities of voters state high levels of self-satisfaction they do overestimate the dissatisfaction of the rest of the society which makes them prone for protectionist policy either because of altruism or because they think they will find themselves in such a situation.

Although country specific differences exist there are many similarities which protectionist voters or supporters share. Current or past migration inflows often form the basis for discussion between supporters and opponents of protectionism. In that regard, inflow reasons do not seem to play a major role.

However, discussions about inflows in some countries are mostly related to labour market migration inflows whereas in others they are shaped by refugees. Thus, the discussion in Austria, France, Germany and the Netherlands, for example, is rather about public security whereas in the US and UK it is more about migration induces job losses. Interestingly, the effect of age tend to be different between countries.

In the UK and US, supporters are rather old whereas in continental Europe supporters tend to be younger. Nevertheless, right-wing voting is always induced by a fear of loss, either cultural or economical. From an economic perspective, these fears are not only driven by migration but also by globalization which increases pressure on regional labour markets.

We see, for example, that regions in the US which face high globalization induces competition tend to vote more in favour of protectionism, and in the UK areas with declining industries and high long-term unemployment showed larger support for the Brexit referendum. The same can be shown in France where Front National receives particularly strong votes in areas with fewer jobs available.

In general, within country variation gives us information about influencing factors. Regions with more heterogeneous origins tend to be less protectionist and less discriminating. On the one hand, this is a mechanical effect because non-natives vote less protective but on the other hand access to other cultures reduces anxieties. In Germany for example, regional variation in the number of refugees is not associated with right-wing voting but rather with voting against the regional governing party. This can be interpreted as concerns about the general allocation of resources and less as protective voting against foreigners.

The allocation of resources is fundamental to compensate the losers from globalization. Whereas income per se does not seem to have an effect, poverty as well as income inequality and corresponding fears about the own and general financial economic situation foster protectionist votes or support.

This is in line with the already mentioned argument that the own situation is of importance but perceptions about others should not be neglected. Furthermore, voters tend to have lower secondary or secondary education, are unemployed or blue-collar workers and rather male. With regard to these socioeconomic characteristics it is not surprising that protectionist parties activate former non-voters.

"So how can we make sure that the gains from openness can be realized without undermining support for trade and migration?"

Thus, the current situation seems to be characterized by an emerging economic, social and political divide. On the one hand more dynamic, urban areas and high-skilled groups benefitting from and supporting economic integration via open borders to trade and migration and on the other hand groups that are more afraid of these changes, calling for a stabilization attempt via reducing the speed and depth of change through closing borders.

Both quite successful liberal market economies, such as the UK and US, as well as social market economies in Continental Europe with larger welfare states and elaborate structures of social partnership, such as Germany, Austria, the Netherlands, Denmark or France, are vulnerable to right-wing populism. In fact, in both worlds protectionist policies are be favoured by those who feel left behind and the political camp they support.

However, closed borders will hardly work in practice, and they would probably not really help those that feel threatened – in

terms of more jobs for domestic workers or higher incomes. Rather, in economic terms such a policy shift would be harmful for all in the medium and long run.

Supporters and policy actors might still want to continue in that direction, however the disappointment with the socio-economic conditions will most probably not go away. But obviously, over the last decades many policy makers and economists may have underestimated the perceived or actual costs, in particular distributional consequences of openness to trade and migration.

So how can we make sure that the gains from openness can be realized without undermining support for trade and migration? One way is to still try to reap the benefits from globalization but to compensate those who do not benefit that much or are hurt by trade or migration in a systematic, yet economically effective way.

This can be achieved without putting a break on the dynamic innovation and adjustment processes triggered by globalization. But it would mean that those who benefit the most from technological innovation, global economic integration and open borders in general, ie. through more job opportunities, higher wages and income from capital, have to contribute more to efficient ways of redistribution. That would imply a partial redistribution of the gains from globalization from those who win to those who lose – or at least perceive to be benefitting less.

Apart from a substantial policy issue this is about communication, making clear that policy makers care about those who feel left behind and take the distributional effects of globalization seriously. However, policies to ensure efficient compensation should also make sense economically and cannot suppress globalization itself.

Rather, supporting the dynamic character of globalization allows for the generation of resources for compensation more easily than trying to redistribute within a (potentially poorer) less open economy. What does that mean in practice?

First, welfare states using progressive income taxation and social insurance to fund social benefits, active labour market policies and training exist and in Continental Europe they are larger than in Anglo-Saxon countries. They continue to redistribute market incomes for social purposes and welfare states have not declined in terms of their size or capacities.

However, they might need to be adapted to strengthen their role in the age of globalization. It might make sense to review the progressivity of taxation, in particular regarding top income earners and corporate taxation.

If globalization and technological progressive leads to rising top incomes, a more progressive tax model might not only make sense as a political symbol, but also substantially. Second, it makes sense to avoid contributing to even higher levels of actual or perceived insecurity via a massive deregulation or a deterioration of social standards.

In this context eg. minimum wages, clear rules regarding self-employment, crowdworking and (sub) contracting are useful, also attaching flexible forms of work to social protection. Third, policies to compensate those at risk of being in precarious employment or unemployment should not primarily focus on passive benefits – ie. transfer payments – but also provide for active support so that they are better equipped to cope with a changing labour market.

This calls for educational policies at different stages of live, from schooling to vocational training and continuous life-long learning systems. As these policies work more indirectly and only in a more long-run perspective, from a political point of view the visibility of the support in phases of actual economic restructuring is most critical. One interesting example of such a visible mechanism of compensation can be found in the EU.

The European Union provided foresight when the European Globalisation Adjustment Fund was introduced in late 2006. By supporting workers it should cushion negative consequences of unemployment resulting from trade liberalization without co-financing purely passive social protection measures such as early retirement. Thus, it is not a transfer mechanism.

However, it provides for funding for up to 60% of the cost of projects designed to help workers made redundant to find a new employment opportunity such as assisting job search and mobility allowances, careers advice, mentoring and coaching and training or entrepreneurial support.

Support is managed and implemented by national or regional authorities. Projects run for two years. The European Globalisation Adjustment Fund kicks in if over 500 workers are made redundant by a single company, or if workers are laid off in a particular sector in one or more neighbouring regions. Furthermore young people not in employment, education or training (NEETs) in regions with high youth unemployment are also entitled.

The European Globalisation Adjustment Fund is an interesting and promising example, well designed, but not prominent and visible enough. The latter is certainly the result of the low funding with a current annual limit of €150 million. For comparison, the total spending of the EU is currently about €145 billion.

However, reinforcing the basic principle of this fund through higher spending and increased visibility by letting people know that they are directly supported by the European Union can probably help further the acceptance of open economies and the European Union as a mechanism to assist citizens under such conditions.

Clearly, well-designed policies alone will not be sufficient. Apart from policy design and effective implementation this has something to do with communication about benefits and costs, and there must be a visible link between the resources mobilizable through a dynamic open economy and useful forms of targeted compensation, where those being supported also see and understand the links. ■

Prepare now for Brexit's tax implications

Les Secular is a Partner at TPC Management (UK) Limited

Multinational firms should start preparing now for the effects of Brexit in 2019. Unless new agreements are put in place, tax arrangements could get a lot more complex.

There are three major areas in the international tax arena where changes may have to be made without even touching on the many VAT changes that will also be necessary.

Interesting information

The first factor that could have an immediate impact following Brexit is the EU's Interest and Royalties Directive. Under this directive, interest and royalties paid between associated entities in different member states can be made free of any withholding taxes. After 2019, unless a new arrangement is entered into or transitional arrangements apply, withholding taxes will be governed by the provisions of double taxation treaties. Not all double taxation agreements between the UK and EU member states provide for full exemption from withholding taxes on interest and royalty payments.

For instance, under the UK's double taxation treaty with Poland, withholding taxes of five percent can apply on certain payments of interest and royalties. Other treaties also contain provisions allowing such payments to be subject to withholding taxes, albeit at reduced rates.

Joining up

The second area is the Mergers Directive (MD). Adopted in 1990, the MD was designed to remove obstacles to cross-

border reorganisations involving companies in two or more member states. In the case of mergers and divisions, where the transferring company transfers assets and liabilities to one or more receiving companies, the MD provides for deferral of taxes that could be charged on the difference between the real value of assets and liabilities transferred and their value for tax purposes.

Where there is a share exchange, the MD provides for deferral of the taxes that could be charged on the income or capital gains derived by the shareholders of the transferring or the acquired company from the exchange of such shares for shares in the receiving or the acquiring company. After 2019 potential capital gains issues could arise.

Conflict resolution

The final area is the EU Arbitration Convention (AC), and double taxation arising from transfer pricing adjustments. Initially in force from January 1 1995 for a period of five years (with extensions), an amending protocol was ratified in 2004 and the AC re-entered into force on November 1, 2004, with retroactive effect from January 1, 2000.

The AC applies in all EU member states, and establishes a procedure to resolve disputes where double taxation occurs as a result of an upward adjustment of profits of an enterprise of one member state.

It specifically refers to arbitration and a three-year timeframe, and imposes a binding obligation on contracting states to eliminate the double taxation.

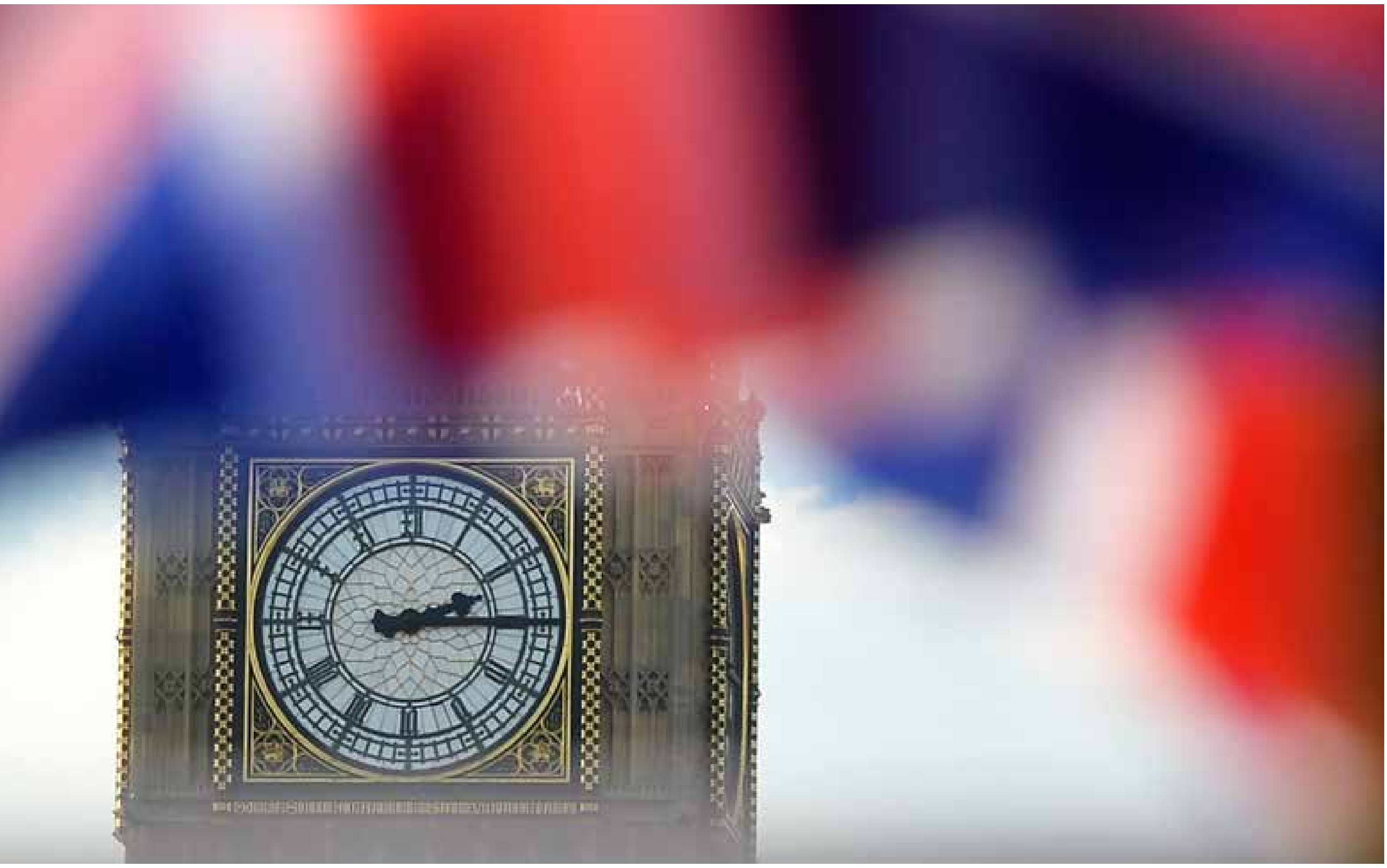
"Although changes are unlikely to have any impact until 2019, MNEs should be preparing now"

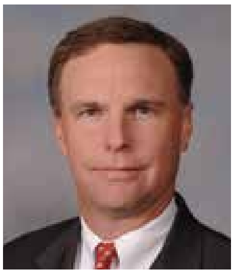
The AC only applies to member states and, unless a specific deal is brokered or transitional arrangements are made applicable, taxpayers suffering double taxation on their profits, income or gains would have to resort to the pre-1995 system of relying on the provisions of the specific double taxation agreement with each separate EU member state. While some double taxation agreements provide for arbitration and a time limit, the provision is not in all treaties.

Consequently, until such treaties are renegotiated, any action may become more time-consuming, with no guarantee a decision will be made between the states to eliminate the double taxation.

Although changes are unlikely to have any impact until 2019, MNEs should be preparing now. This is particularly the case if changes to their systems are needed, and because the potential impacts mentioned above will also have an impact for EU entities investing in the UK.

Brexit will have enormous tax implications for companies working in the UK and on the continent. Unless they start preparing now, 2019 will be a major financial and bureaucratic shock. ■





In its 70th year, NBAA continues highlighting business aviation's vital contributions

Ed Bolen is President and CEO of the National Business Aviation Association (NBAA)

In 2017, the National Business Aviation Association (NBAA) celebrates its 70th year of advocacy on behalf of a vital and diverse global industry that offers innumerable contributions to citizens, companies, and communities around the world.

Business aviation offers the unparalleled ability to connect stakeholders across North America, Europe, and the Asia-Pacific. In much the same way business aircraft transcend borders and cross oceans, however, so too will the issues and concerns in one country or region often reverberate across these vast distances.

These common factors and shared challenges are why NBAA engages with global industry stakeholders on many levels, including through hosting and co-hosting a series of worldwide conferences and conventions highlighting the industry's diverse scope and numerous contributions to communities around the globe.

For example, NBAA's enormously successful 2016 Business Aviation Convention & Exhibition (NBAA-BACE) featured strong participation and enthusiasm from exhibitors and attendees alike, in an impressive demonstration of the industry's size and significance in the US, and around the world.

Held last November in Orlando, FL, NBAA-BACE featured attendees representing all 50 US states, and approximately 100 countries. A sold-out static display of aircraft featured 114 aircraft at Orlando Executive Airport (ORL) and the largest-ever indoor static display at the Orange County Convention Center, showcasing nine fixed-wing airplanes and six helicopters.

The shows Opening General Session on November 1 drew a standing-room-only crowd for a salute to golfing legend Arnold Palmer, a longtime industry champion. The session also featured remarks from industry champion Rep. Sam Graves (R-6-MO), as well as US Customs and Border Protection Commissioner R. Gil Kerlikowske. Attendees also heard *Wright Brothers* author David McCullough share lessons in leadership from the aviation pioneers.

A well-attended Second Day General Session opened with a moving tribute to Bob Hoover, an aviation hero and renowned air show performer. The session also included remarks from Rep. Bill Flores (R-17-TX) and Sen. Bill Nelson (D-FL), who was presented with NBAA's Meritorious Service to Aviation Award.

Authors and political analysts James Carville and Mary Matalin also provided insights into the upcoming presidential election.

Safety was also in focus throughout NBAA-BACE, including NBAA's annual Single-Pilot Safety Standdown focusing on single-pilot risk management. Additionally, the second annual National Safety Forum featured remarks from Peggy Gilligan, Associate Administrator for Aviation Safety at the Federal Aviation Administration (FAA), as well as National Transportation Safety Board (NTSB) Chairman Chris Hart and NTSB board member Robert Sumwalt.

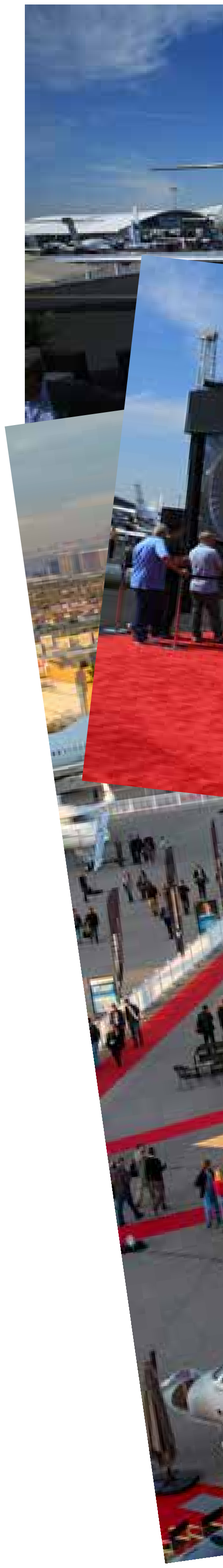
A full roster of education sessions also took place throughout the week, including several hosted at NBAA's popular Innovation Zone on the exhibit floor, where experts discussed lithium-battery concerns for aviators, considerations related to the emergence of drones, and other timely topics.

NBAA-BACE also highlighted the importance of promoting the next generation of business aviation professionals, with more students than ever attending the 2016 show. Approximately 1,100 individuals participated in Careers in Business Aviation Day on November 3, which included a packed College Roundtable Seminar, where more than 200 students engaged with industry leaders. The convention also featured Young Professionals (or 'YoPro') networking opportunities and education sessions designed specifically for young people in the industry.

Without question, NBAA-BACE was truly a memorable event that showcased our industry's vitality and relevance, and we are already are looking forward to the 2017 edition of the show in Las Vegas, NV from October 10-12, 2017.

Regional Forums share messages to local leaders

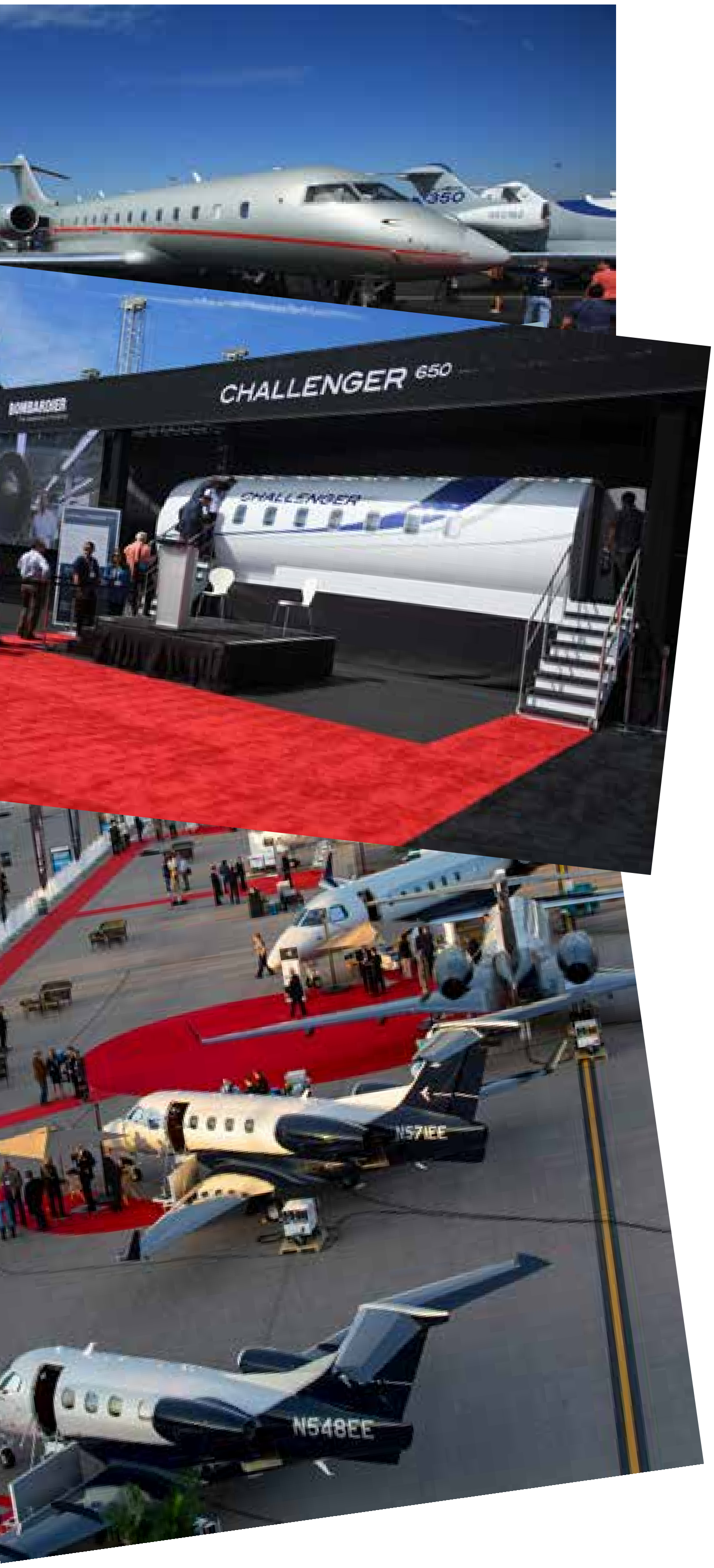
For those unable to make the trek to NBAA's annual convention, NBAA also hosts three Regional Forums every year, in different locations throughout the country, providing local opportunities for aviation professionals to network and expand



their knowledge about the issues affecting business aviation.

These Regional Forums take place at some of the most accessible airports and FBOs across the US, bringing many of the features and benefits of NBAA's larger events – including educational sessions, influential speakers, and aircraft static displays – to venues closer to home.

These events bring together local business aircraft owners, operators, manufacturers, customers and other business aviation professionals to share knowledge, discuss issues affecting the region, and learn how business aviation can help companies succeed. Every NBAA Regional Forum includes participation by important local, state, and even national leaders, providing a vital opportunity for business aviation stakeholders to engage with these representatives on critical matters for the industry.



Perhaps most important, however, is the role these gatherings also serve to underscore the importance of business aviation to local leaders in business and government, as it positively impacts communities by aiding companies in efficiently performing day-to-day operations, generating new jobs and spurring economic activity and local investment.

Already this year, NBAA hosted an extremely successful Regional Forum in West Palm Beach, FL that set a new attendance record for NBAA's South Florida forums. That event, held in late January, established an impressive precedent for NBAA's other regional forums for 2017, scheduled for March 23 in Fort Worth, TX and in Morristown, NJ on September 7.

International events showcase industry's global contributions

Business aviation's ability to transcend borders, bringing vital contributions to companies and communities of all sizes, will also be showcased at two upcoming international events, the 2017 Asian Business Aviation Conference & Exhibition (ABACE2017) and the 2017 European Business Aviation Convention & Exhibition (EBACE2017).

Coming to Shanghai Hongqiao International Airport from April 11-13, ABACE2017 is the largest event dedicated to showcasing business aviation's impact throughout China and the Asia-Pacific region. This year's event will highlight efforts to further develop aviation infrastructure throughout China, including expanding available airspace and building new airports and other support facilities.

For example, the opening day of ABACE2017 on Tuesday, April 11 will include the CAAC Business Aviation Development Forum, a collaborative discussion about the industry's role in China hosted by the Eastern Region of the Civil Aviation Authority of China (CAAC), the Shanghai Airport Association (SAA), and NBAA.

China's 12th Five-Year Plan, issued in 2010, highlighted the need for investment in new facilities supporting general aviation (GA) operations, including business aviation; the most recent Five-Year Plan for 2016-2020 added to this effort the Chinese government's support for improving access for GA and business aviation to the nation's airspace, which is controlled by the military.

Co-hosted by NBAA, the Asian Business Aviation Association (AsBAA) and the Shanghai Airport Authority (SAA), ABACE2017 will also offer a high level of educational content, addressing topics important not only to established business aviation operators, but also to those new to the industry who want to learn more about how the industry will improve their flexibility and competitiveness.

ABACE2017 will also offer an expanded static display area showcasing the unprecedented range of business aircraft models suited for a wide variety of specific roles and missions. More than 30 fixed-wing aircraft – including the first-ever Chinese appearance of the HondaJet – and rotorcraft will be on display, ranging from single-engine piston aircraft, to large-cabin intercontinental business jets.

The following month will bring the European Business Aviation Convention & Exhibition (EBACE2017) to Geneva's Palexpo Convention

NBAA remains committed to protecting and promoting the global development of business aviation

Center from May 22-24. Jointly hosted each year by NBAA and the European Business Aviation Association (EBAA), the leading association for business aviation in Europe, EBACE is Europe's largest event showcasing business aviation products and services.

In addition to serving as a valuable opportunity to learn about the many roles of business aviation across Europe, as well as the latest products and services available throughout the industry, EBACE2017 will also celebrate an important advocacy milestone. This year marks EBAA's 40^{th} year of advocacy on behalf of Europe's business aviation community, and several events and featured speakers throughout the event will showcase the association's efforts in this vital role.

New business aircraft manufacturers, avionics firms, handling organizations, fractional providers, and charter/lease companies and aircraft resellers will display their latest products and services to delegates across three Exhibit Halls, and get critical business done for the year ahead.

Of course, a key aspect of EBACE is its ability to bring together influential leaders, government officials, and key industry stakeholders to discuss regulations and policies of importance to not only European business aviation operators, but to the industry across the globe.

For 2017, EBACE is honoured to welcome Maltese Minister for Tourism Edward Zammit Lewis to share his perspectives on aviation in the European Union (EU) during the Opening General Session. Malta currently holds the presidency of the European Council, which is facing a number of issues, not the least of which is the impact from Brexit on air transport throughout Europe.

Also scheduled to speak at the Opening General Session is Bertrand Piccard, chairman of the Solar Impulse project, adventurer, pioneer and the first to fly a solar-powered aircraft around the world. Piccard, along with Solar Impulse's co-founder Andre Borschberg, and a team of engineers, technicians, mathematicians, pilots and others developed the first zero-fuel airplane capable of flying day or night.

Across the globe, business aviation offers the unparalleled capability to link cities with smaller regional markets, including areas that may offer limited infrastructure for ground transportation. This directly serves to increase economic activity and investment in those areas, boosting regional economies while also promoting global commerce and economic growth.

In our organization's 70^{th} year, and beyond, NBAA remains committed to protecting and promoting the global development of business aviation. On behalf of the more than 10,000 members of NBAA, I invite the readers of *World Commerce Review* to consider attending one or more of these impressive events in 2017, where you may experience the strength and scope of our industry firsthand. ■

The Registration Process

The Civil Aviation Authority of the Cayman Islands (CAACI) is the statutory organization responsible for aviation regulatory oversight throughout the Cayman Islands and for aircraft registered in the Cayman Islands. The Cayman Islands Aircraft Registry (The Registry) is the registry of choice for many owners, financiers, management companies, attorneys and other key decision makers. Stringent standards and a mandate for absolute safety guide our oversight of Cayman registered aircraft. The Registry has been operating as a reputable offshore aircraft registry since the early 1970s and has an outstanding safety record.

The dedicated team at the head office in Grand Cayman work with aircraft operators on annual plans to ensure regulatory timelines are met and where appropriate, optimal flexibility afforded. Staff is familiar with Cayman Islands industry experts in the legal, financial and company registration sectors and will work to ensure sound and secure transactions in the initial registration phase. Our technical team in the Air Safety Registration (ASR) Division are highly qualified and experienced in safety regulatory oversight and in working with aircraft management and maintenance organisations to ensure that each aircraft meets the necessary requirements to maximise its safety.

The CAACI will ensure that your application process is smooth and effortless. When ready to register an aircraft, the first step is the submission of ownership documents through an online Registration Application for the due diligence process and the initial phase of the registration application to determine eligibility in accordance with the Air Navigation (Overseas Territories) Order, as amended. The following is a list of entities/persons eligible to apply for registration of aircraft to the Register:

a. the Crown in right of Her Majesty's Government in the United Kingdom or in right of the Government of the Territory (Cayman Islands);

b. United Kingdom nationals;

c. Commonwealth citizens (which includes citizens of the Cayman Islands);

d. nationals of any European Economic Area State;

e. bodies incorporated in any part of the Commonwealth and which have their registered office or principal place of business in any part of the Commonwealth; or

f. undertakings formed in accordance with the law of an European Economic Area State and which have their registered office, central administration or principal place of business within the European Economic Area.

Upon receiving a request for registration, a link to the online Registration Application will be sent to the applicant's email address along with a due diligence checklist and instructions to initiate the first phase of the registration process. A Due Diligence Checklist comprises the following: aircraft registration application, payment of a deposit of 50% of the initial Certificate of Airworthiness,

corporate documents of the registrant, a transparent overview of the registrant's/Company's business activities, disclosure of beneficial owner(s) and a listing of company directors/owners.

Once the required documents have been uploaded to the Registration Application, the application will be reviewed and the applicant notified of its status, usually within 3 business days. Upon approval of the registration application, it is turned over to our Air Safety Regulation (ASR) Division, for the technical phase of the registration process. ASR will then become the primary contact for ongoing certification, maintenance and operational issues for the life of the aircraft on the C I Aircraft Registry.

At the beginning of the technical phase, the aircraft database will be made available to the Technical Coordinator of the aircraft for submission of aircraft documents for approval. The scheduling of a survey/inspection of the aircraft for grant of the initial Certificate of Airworthiness will be the first submission in the technical phase of the registration process.

The majority of the application submission process is facilitated through an interactive document processing portal called VP-C Online. This online data management system provides a secure way to manage the registration, licensing and certification processes of each aircraft '24-7-365' for the client and the ASR Division. The system is a very convenient way to submit requests for documents and approvals, as well as to download and print Temporary Certificates ahead of the original certificates being sent by mail or courier.

The aircraft registration mark can be selected through the online Registration Application. A registration mark for the aircraft can also be reserved, given details of the aircraft and the name of the proposed registering owner, or if that is not yet available then the name of the registering agent. The aircraft registration mark would be 5 letters starting with VP-C. If a specific mark is requested, a check on the availability will be made or otherwise the next in sequence can be reserved. There is a cost related to the reservation of registration marks, which is refundable if the registration application is received within 3 months of the reservation.

One of the requirements in the due diligence checklist is a 50% deposit on the initial Certificate of Airworthiness. A quote can be provided on the initial/first year registration costs as well as subsequent annual costs if it should be required before completing the Registration Application. The Maximum Take-Off Weight (MTOW) of the aircraft and the location of the aircraft for the initial survey will be required to provide the comprehensive quotation on cost of services.

The Certificate of Registration is normally issued within 3 and 6 weeks after the submission of the application and the timeliness largely depends on how quickly all of the required information for the due diligence of the owner and the aircraft applications are submitted. The Staff of the CAACI will ensure timely attention to detail and personalized service from the time the Registration Application is requested and continues throughout the aircraft's existence on the Register. ■

For more information on registering your aircraft in the Cayman Islands please visit www.caacayman.com or email registrationenquires@caacayman.com.

> *"The dedicated team at the head office in Grand Cayman work with aircraft operators on annual plans to ensure regulatory timelines are met and where appropriate, optimal flexibility afforded"*

Blockchain technology: a true game changer

Matthew Ward is a Manager at Sytel Reply

About blockchain technology

Today, if you want to do something useful with your data, money, or contracts you have to put your trust in one or more central third parties. For instance – a bank to send money to or receive money from someone, the government for documentation about your house or car, a stock broker to help people to buy and sell shares from each other, the list goes on. What they have in common is that they all act as 'middlemen', who you need to trust, in order to allow the useful trade or storage of money and information.

This is the way things have worked up until now. What has changed is the rise of blockchain or 'Distributed Ledger Technology' (DLT), a technology which enables two or more parties to trust each other directly, peer to peer; and in the process rendering many of these middlemen organisations unnecessary to a large extent. Why do this? To make processes and businesses much more efficient, scalable, and to enable outcomes which are just not possible at present, or at least not without huge cost and complexity.

In removing these central third parties, what exactly creates the trust that they provided? The answer is a heady mix of mathematics, resources and energy which effectively creates persistence to virtual objects, allowing participants to agree on the state of the system at any point in time, without having to refer to a third party. This is blockchain technology, a distributed ledger of everything which has happened on a particular system, replicated in multiple places and secured by novel cryptographic systems such as 'Proof of Work' or 'Proof of Stake' in such a way to make records immutable.

Launched in 2008, Bitcoin now has half a million unique addresses, and 300,000 transactions per day, with one bitcoin trading at over US$1,100 at the time of writing, which is an indication on the faith in the system's security and the potential utility of bitcoin.

Since then, hundreds of other blockchains have been launched, each with their own currency and with their own distinct (or in some cases, not so distinct) attributes. For example, alternative blockchains can tweak the open source bitcoin code, to make it faster, or allow for more coins, or to enable something completely different. One alternative blockchain worthy of note is Ethereum, which allows for peer to peer 'smart contracts' between two people, machines or entities and which also allows the creation of 'nationless' companies run without centralised control (Distributed Autonomous Organisations, or DAOs).

Ethereum's currency is the Ether but can be viewed less as a digital currency, more as 'fuel' for the Ethereum global computer, a computer which can run applications which can never be stopped or taken down, and one which allows two or more parties to enter into contracts with each other. So if you have an internet connection and some Ether, you can program the Ethereum global computer or utilise a contract which has already been written. Applications around the 'sharing economy' – allowing others access to houses (think AirBnB), cars (for renting to others), and other resources can be enabled by Ethereum blockchain smart contracts which enable the access to the resource in return for automatic payment for the owner.

The following paragraphs investigate areas of blockchain application developed by Reply and applied to a number of industries.

Finance

With bitcoin's roots in the world of finance - more fintech - perhaps it's not surprising that the blockchain/DLT R&D in the financial industry is significantly ahead of other industries. There is no appetite for banks to disrupt themselves or to make themselves redundant, but with a growing awareness of the features which blockchain can enable – trust without a central third party, provenance of data, immutability of records - financial organisations can see how this technology – or a version of it - can realise benefits such as expedited settlement between financial players.

Using a shared or distributed ledger in this way can be viewed as putting a database in the middle of a number of parties, and allowing everyone to access and update it in real time very efficiently, rather like a Google sheet, without even having to trust a 'Google' in the middle.

Now that the fundamental features of blockchain and related technologies are becoming understood, other industries are catching up with the fintech world in terms of investigating how it can be used. Reply tracks the key initiatives around the world in a comprehensive 'Blockchain Observatory' book, which is updated twice a year. Below are some of the key trends and areas of application in other industries.

Insurance and betting

With blockchain, it is possible to enter into a 'peer to peer' insurance (or betting) contract with another person, company, or entity, with the peers themselves setting the subject of the bet or insurance, the conditions, and agreeing on third-party oracles separate from the blockchain, but which feed into a smart contract on the blockchain, in order for the contract to evaluate the conditions and automatically 'pay' the correct peer the correct amount as set by the insurance/betting smart contract itself. As a result, this can create a very scalable system for betting exchanges to extend their reach, and for

"Now that the fundamental features of blockchain and related technologies are becoming understood, other industries are catching up with the fintech world in terms of investigating how it can be used"

insurance companies to create a platform in a very easy and non-labour-intensive way, with the platform/company taking a cut from each P2P contract completed, for example.

Telco & IoT

One of the exciting aspects about blockchain, is that machines can now have a digital currency wallet, and enter into smart contracts and financial relationships with other machines and humans. One can envisage a smart motorway with autonomous cars travelling in a grid formation at a set speed, where one car enters into an agreement with the car in front to overtake, by paying a small amount of digital currency. So in the Telco and IoT space we see in particular three key areas of application:

1. IoT communication and security – ensuring that all communication on a IoT network is trusted, with its origin and destination known and verified, and with the message integrity guaranteed. Reply offers the 'Blokcom' blockchain PoC in this space.
2. Future networks security – ensuring future Software-Defined Networks are secure by design, by integrating blockchain security technology such as 'SecureChain', which is a system created by Reply in 2015 which

leverages the immutable records of blockchain as a feature to create forensic auditability on networks, as well as using the blockchain as a gateway into the network so that all changes are filtered by the blockchain before the network is even touched.

3. Mobile-based finance – by using the mobile phone as a gateway into the finance, retail, and other vertical solutions, and allowing remittance solutions between countries in a cost-effective way.

Energy

With the increasing penetration of solar technologies into the domestic space, together with the government-backed spread of smart meters, there is significant potential in this space, such as:

1. Smart energy MicroGrids – using blockchain and smart meters to enable one house to sell solar-generated power to another house down the street and vice-versa. This is being piloted in Brooklyn, NY and elsewhere and can potentially allow the more efficient use of power and power grids
2. Energy trading and tracking of origin – using blockchain to enable generators to sell in a peer to peer open market to consumers and intermediaries, with each kWH being marked as whether it is wind-power, nuclear, etc, which can potentially be linked into carbon credit mechanisms and other markets; and which avoids current problems around double-counting in green energy markets and slow settlement between organisations.

Real estate, notary and government

To buy or sell a house or car in the UK and elsewhere often involves much paperwork to be sent between the parties and the government departments, which are the 'trusted third parties' in this case.

As stated in the introduction, wherever you have a trusted third party acting as an intermediary there is a potential that this could be replaced by blockchain systems, and these two examples are no exception. Government departments could potentially save significant proportions of their annual budget by moving to blockchain-based system behind the scenes.

Reply has a blockchain PoC called 'That's Mine' which is designed to handle the use-case of car ownership and selling to another person with an easy-to-use mobile App interface. In terms of real estate, a blockchain system could be used to combat real estate fraud, by creating digital ownership certificates that would be almost impossible to replicate, meaning that advertising or selling properties you do not own would potentially be a thing of the past.

Retail

There are a number of applications in retail industry for blockchain technology, around monitoring the efficiency of the supply chain and verifying the provenance of certain goods, such as diamonds, luxury shoes or fairtrade coffee. Enforcing the correct transportation of certain goods utilising IoT temperature/movement/humidity sensors in crates of wine, linked to blockchain smart contracts which allow the recipient to automatically accept or reject delivery if the goods have not been transported in the correct way, is one such application area.

Once the goods have been tracked from manufacturer, to distributor, to retail unit, the journey also continues to the customer itself who can enjoy a frictionless purchasing experience, and then into post-sales where the retailer or manufacturer can see who has bought their product can offer warranties or loyalty programmes, all enabled by the common blockchain technology.

Ticketing

In the same way as in retail, by leveraging a blockchain system for ticketing, you now have a way to manage the issuing of tickets, tracking the purchase and use of tickets and, using the built-in auditability of a blockchain system, a way for customers to verify the validity of the ticket to reduce fraud.

Voting

Much has been made of the potential to use blockchain technology as a way to facilitate the voting systems of the world and make them impervious to fraud, mainly applied to country-wide general elections but potentially to other areas too. This requires some careful thought about its implementation, but fundamentally blockchain could provide the following:

1. A digital identity for each person making the vote, so that each identity can make one vote and one vote only.
2. An immutable record of the vote which was made by that digital identity.
3. A system which is forensically auditable by anyone at the end of the voting period.

Some challenges of a system are as follows:

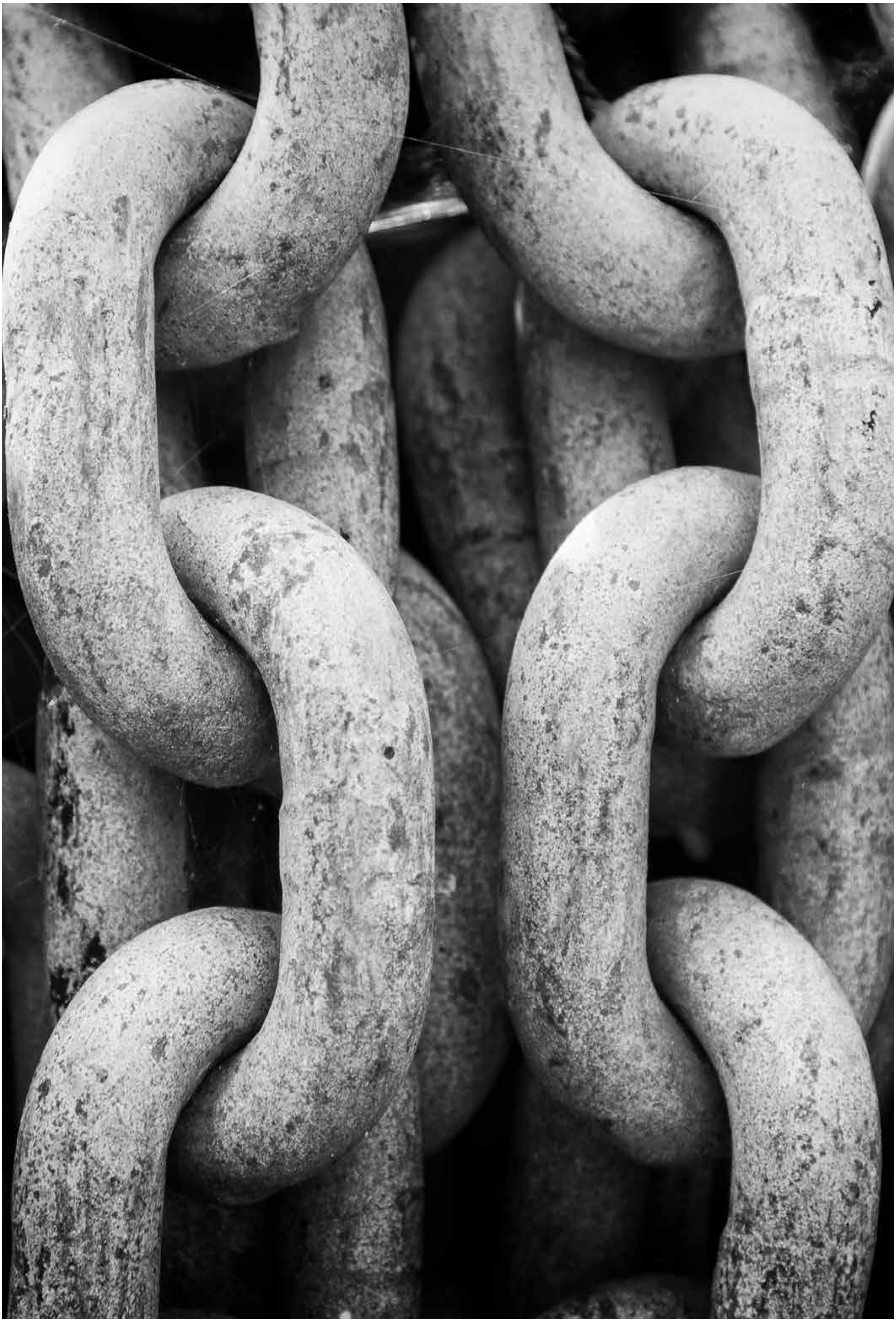
a. Ensuring that one person has only one digital identity, and not more than one (some kind of identity management system is needed here).
b. Ensuring the system doesn't identify a particular person to a particular vote, so it's anonymous in this regard.
c. Ensuring that no-one can see the result of the vote, until the end of the election, but at the end of the election, anyone can check and audit the result.

In today's world where even very well established democracies have claims of fraud at every election, such a blockchain system, if properly implemented, should be able to create an environment where trust of the result is absolute, and in any case fully auditable.

Conclusions

This article explores at a high level the technology and application of blockchain, and some of its endless potentials. As we are living in times where the word 'trust' plays a vital role, blockchain can be considered as today's revolution, the beginning of a new era.

It is the gap-filling answer: a reliable solution that helps two or more parties to connect and trust each other directly, able to link individuals no matter of their distances and cultural backgrounds. ■



Sprouting new growth opportunities

John Narraway is Consultant - Emerging Technologies at the Bermuda Business Development Agency

As the world becomes increasingly connected, a tremendous amount of value creation is found in the intangible assets of intellectual property or content. In this respect, Bermuda is well positioned for exponential growth.

It is no secret that Bermuda is a globally-recognised centre for insurance and reinsurance innovation. The infrastructure required to build and maintain this industry is also fertile ground for new industries to be established.

Looking to the short-term future, the following areas have seen early successes spawn new opportunities:

Insurtech and regtech

Bermuda's thriving international business community and globally renowned reinsurance markets offer technology companies a dense market of potential customers. Fintech has traditionally evolved through a focus on the banking industry but now that this market has evolved to the point of saturation, technology companies are starting to realise there are opportunities to connect the entire financial services ecosystem. The latter is especially true for emerging technologies like blockchain/distributed ledger, which, by definition, represent a peer-to-peer paradigm and require a networked community of users. Bermuda represents an opportunity to build these new customer communities both easily and quickly.

Insurtech feels like a new frontier because traditionally, insurance companies have not been early adopters of technology. Now however, there are indications that this industry sector is beginning to appreciate that emerging technology is likely to have a profound impact both in terms of how its businesses will look in the next five years and with whom it will be competing.

Bermuda is particularly attractive because it offers fintech companies a very sophisticated talent pool, comprising both advisory expertise and also a user base of customers who can help shape product design. The Bermuda reinsurance market has already been responsible for driving insurance market innovation with products like insurance linked securities (ILS), which is why it can now offer the same subject-matter expertise for fintech companies looking to adapt their technology to a range of new market opportunities.

The Bermuda Monetary Authority is also a key to this equation. It is rare to find a globally respected financial services regulator that is willing to take such a responsive and pragmatic approach to helping companies along the pathway to approval. The fintech and regtech market moves very quickly and speed to market is critical for many fast-growing companies; so access to legislators is a very important benefit that Bermuda offers, somewhat uniquely.

There are multiple companies that have already placed strategic parts of their global operations in Bermuda. The Island has seen some exciting new potential entrants. For example, R3, a major global blockchain innovation company is currently working with key players in the Bermuda financial services market to explore how distributed ledger technology might be a catalyst for market evolution.

In addition, new advisory associations have formed to focus on providing thought leadership, promoting best practices and creating a touchpoint for fintech companies interested in exploring the Bermuda market.

Global eCommerce clearing

Bermuda has established bi-lateral Tax Information Exchange Agreements (TIEAs) with 41 countries. There is a long tradition

of close political and commercial ties between Canada and Bermuda, including the history of a common legal framework and reinforcement of the same accounting standards. On Canada Day (1 July) 2011, the relationship became even closer with the ratification of the Canada-Bermuda TIEA.

This has allowed for a unique value proposition of repatriation of income generated through non-domestic eCommerce traded through Bermuda with zero taxation when repatriating the income to Canada. Canadian retailers who sell their goods and services online are able to use this agreement to expand their international sales into foreign markets with highly beneficial tax advantages.

Several commercial licensing (and chain-of-title) tax structures are available to ensure fair market value/transfer pricing issues are carefully addressed; this allows companies to customise their approach to an eCommerce solution. Tax-free dividends repatriated from the Bermuda company in accordance with the Canada-Bermuda TIEA can be used to fund expansion of the domestic parent company.

Biopharma and life sciences

As a centre of excellence for financial services and capital management, Bermuda is an ideal location for biotech. That is especially true for life sciences and pharmaceutical companies with international centres around the world that use Bermuda as a hub for financial and intellectual property holdings.

Bermuda offers such corporations the ability to license and distribute globally via a centralised administrative structure. This is increasingly relevant with the increasing presence of 'platform' pharma companies with complex international licensing agreements.

In 2017, OceanTech, a non-profit collaborative marine ocean research project, will launch a species tracking device with multidimensional data collection, including criteria such as ocean acidity, topographical mapping of the sea floor and 360 video interactions. The overall mission is to create data points necessary to create new ocean conservation policies for governments around the world.

"Bermuda can look forward to being a natural launchpad for innovative ventures over the next few years"

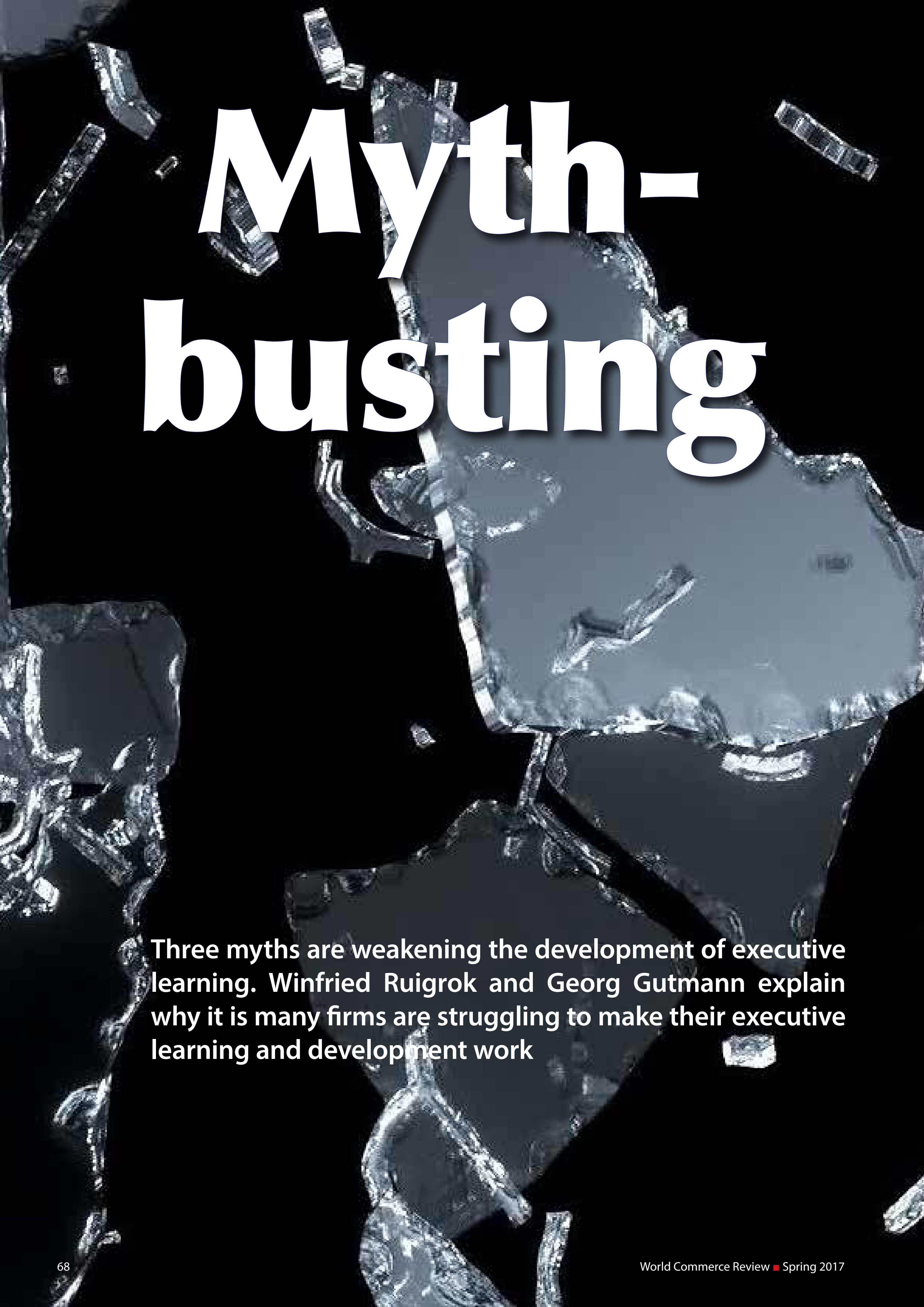
Many of these types of projects establish partnerships with the Bermuda Institute of Ocean Sciences (BIOS), a world-renowned marine research organisation. BIOS has collected a substantial repository of deep ocean data and performed groundbreaking molecular and genomic research on marine invertebrates for application in medicine and biotechnology. BIOS sits at the core of Bermuda's growing science and technology capabilities and is often approached to participate in academic and commercial partnership opportunities.

International film and entertainment

Today's film and entertainment markets are crossing borders, thanks to new digital distribution methods and it is no secret that Asia is becoming the world's biggest film market. Bermuda is home to several entertainment groups that use the Island as a global hub for content licensing and intellectual property holdings. With the explosion of virtual reality and non-cable content such as Netflix, suddenly hundreds of productions are faced with the challenges of cross-border licensing.

Many of these companies make use of segregated accounts companies (SACs) for project financing and overall protection needed by the industry's project based approach. What makes the proposition unique is that a single corporation can individually fund, cross-fund and manage multiple film projects without many of the financial risks.

These are exciting avenues for potential economic growth as well as industry diversification and Bermuda can look forward to being a natural launchpad for such innovative ventures over the next few years. ■



Myth-busting

Three myths are weakening the development of executive learning. Winfried Ruigrok and Georg Gutmann explain why it is many firms are struggling to make their executive learning and development work

Getting managers ready to take up or extend executive responsibilities has always been important but never easy. Over 90% of companies consider executive learning and development (L&D) key to their long-term success yet only 20% are satisfied with the state of executive L&D in their organisations. Why are only few firms able to capitalise on their executive L&D efforts? What does it take to become an executive L&D champion?

The St Gallen Executive Education Report 2016[1] offers answers to these questions based on insights from leading companies in this area.

Our report captures the assessments of 350 top executives as well as HR and L&D professionals across a wide range of industries in 13 European countries. The report has uncovered pervasive myths about executive L&D as well as best practice examples from executive L&D champions.

Myth 1: Scarcity of talent keeps firms from excelling in executive L&D
Scarcity of talent has been blamed for many organisational deficiencies, particularly when it comes to preparing managers to take up executive responsibilities. How big a challenge is scarcity of talent really? According to the St Gallen report less than we often hear. Only 38% of respondent firms claim to be held back by talent shortage. This is good news for L&D professionals and top managers alike.

What are the key talent management challenges? Two-thirds of companies indicate that they struggle with changing expectations of the new management generation. For example, today's managers are less than excited by the prospect of spending time in traditional classroom settings and absorbing knowledge in a passive way. Instead, the leaders of tomorrow expect to be taken on a participative learning journey that is flexible and rich in variety.

How can firms respond to these expectations? There are numerous new opportunities to design and deliver executive L&D initiatives. Innovative didactical approaches such as action or experiential learning and new technology based formats have broadened the portfolio of possibilities. Unfortunately, the financial implications may be overwhelming. New approaches and formats require high investments and often substantial modifications to the corporate learning architecture. Nearly eighty per cent of companies mention resource limitations to be the biggest barrier to advancing their executive L&D.

L&D directors will have little choice but to lobby actively in their organisations to obtain the necessary financial support to meet the L&D expectations of today's younger executives. In doing so, they should explain to the top management team that becoming an executive L&D champion will require advanced solutions.

As one board member and former CHRO we interviewed put it:

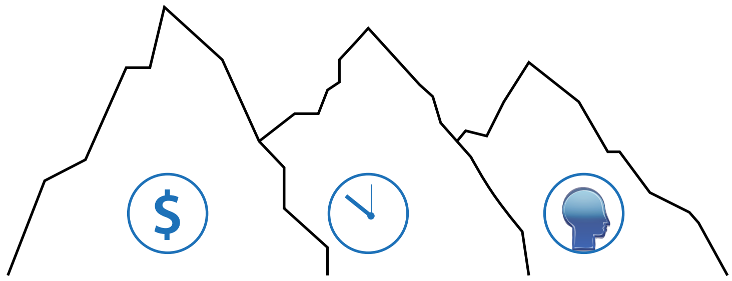
"Companies should stop treating executive L&D as a cost and start embracing it as a priority investment in the future."

Myth 2: Executive L&D is just another administrative task for the HR department
Who should be in charge of driving executive L&D? The answer is not straightforward. Executive L&D responsibilities range from purely administrative tasks (such as implementation of L&D initiatives or the evaluation of providers) to inherently strategic decisions (for example, budget authority or the power to launch strategic L&D initiatives). Today's reality is that most HR and L&D departments are understood primarily as operational facilitators of executive L&D activities.

L&D directors find it difficult to address the demanding challenges facing executive L&D with the limited means and authority they have at their disposal. The sobering picture that many study respondents paint of the state of their executive L&D is also a result of misaligned hierarchies and reporting structures. Indeed, even the few companies (17%) that report having appointed a Chief Learning Officer (CLO) typically equip their highest-ranking learning steward with operational responsibilities only.

Fortunately, there are clear solutions to this problem. Firms can increase executive L&D effectiveness by strengthening their C-level commitment (the extent to

Figure 1. Top three challenges of executive learning and development

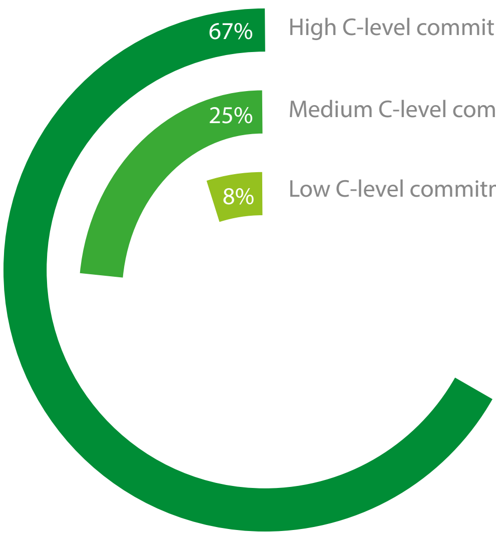


77%	67%	65%
Limited resources	Short-term business goals underming long-term activities	Changing expectations of newly incoming management generation

90%

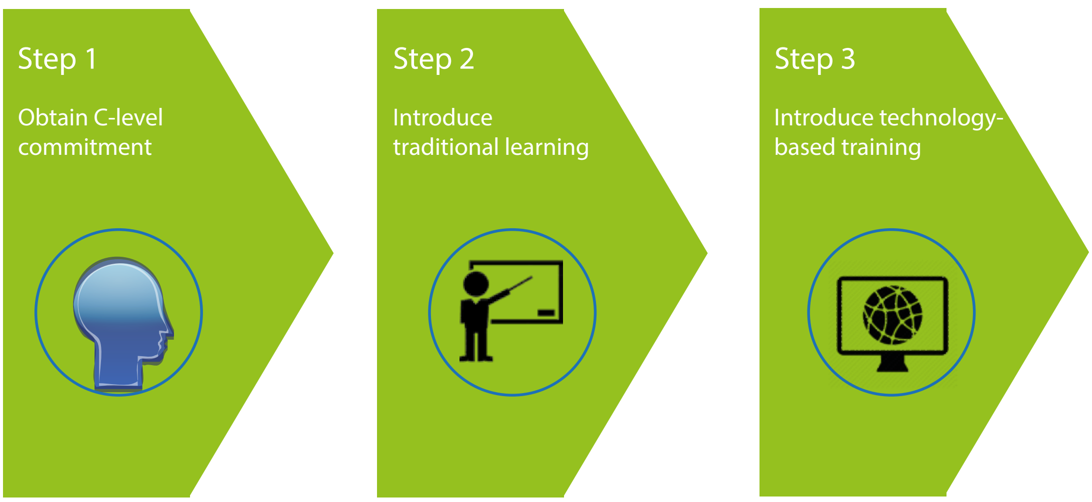
Over 90% of companies consider executive learning and development (L&D) key to their long-term success yet only 20% are satisfied with the state of executive L&D in their organisations

Figure 2. Chances of becoming an executive L&D champion



"Our report captures the assessments of 350 top executives as well as HR and L&D professionals across a wide range of industries in 13 European countries. The report has uncovered pervasive myths about executive L&D as well as best practice examples from executive L&D champions"

Figure 3. Steps towards increasing executive L&D effectiveness



Executive L&D Novice	Executive L&D Challenger	Executive L&D Champion

which they appreciate executive L&D as a strategic management challenge) in two ways.

First, organisations with high C-level commitment are much more likely to include executive L&D on their board agenda. Second, in such organisations top managers are more likely to step up their involvement in designing and facilitating executive L&D activities. This latter point may be helped by installing a CLO and equipping him or her with executive responsibilities.

Executive L&D success depends heavily on C-level commitment. We find that C-level commitment is the single strongest predictor for becoming an executive L&D champion. The chances of becoming an executive L&D champion without having obtained C-level commitment are at a meagre 8%, compared to 67% when C-level commitment is high. Moreover, many firms with high C-level commitment have also developed other capabilities crucial to successful executive L&D management, such as the ability to employ predictive and analytical measures to support executive L&D decision-making.

Myth 3: Technology-based learning is executive L&D's silver bullet

Few developments over the recent years have been discussed as intensely by L&D officials as the promise of innovative, technology-based learning. Some consider it a silver bullet whereas others reject its potential value. We find that few firms have adopted technology-based learning and that most remain wedded to what they know best, emphasising traditional, face-to-face learning over technology-based learning formats.

For example, over three-quarters of firms often use singular classroom courses while two-thirds of companies do not use any form of technology-based learning (such as individual online courses, mobile learning, massive open online courses) frequently. Should corporate decision-makers rethink? Unfortunately, impartial and objective guidance on the true potential of technology-based learning has been sparse. Most reports on the topic have been coloured by the agendas of respective authors and institutions, either by making a case for sticking to existing solutions or insinuating the urgent need to invest in specific new infrastructures.

We find that achieving executive L&D effectiveness follows a clear trajectory. Firms benefit from different learning formats at different stages of their development (Figure 3). Simply adding technology-based formats will not create miracles for firms at earlier stages (before they have obtained C-level commitment), formulated an executive L&D strategy and developed more traditional, face-to-face learning formats. Despite the enticing promise of technology-based learning (allowing for faster, more flexible and better tailored delivery of L&D activities), those firms are not able to unlock any performance gains from it.

Our study reveals that the less experience respondents have with a specific technology, the more sceptical they are about its effectiveness. However, overcoming this hesitation will pay off for firms which have done their homework.

> **8%**
>
> C-level commitment is the single strongest predictor for becoming an executive L&D champion. The chances of becoming an executive L&D champion without having obtained C-level commitment are at a meagre 8%, compared to 67% when C-level commitment is high

It is the select group of companies that have secured top-level strategic ownership and implemented traditional learning formats prior to venturing into technology-based learning that reap measurable benefits from it. Firms that have followed this trajectory report by far the highest effectiveness in their executive L&D, which is why we label them executive L&D champions.

Towards a strategic approach on executive L&D

Executive L&D represents a form of non-routine investments for a limited group of executives where past pay-offs offer no guarantee for future success. It is a strategic function that requires top decision makers' attention. Executive L&D may perhaps be compared with research and development, which carries equally uncertain pay-offs but is indispensable for most companies' future success.

Top management teams and boardrooms should be directly involved in shaping and supporting executive L&D programmes. Becoming an executive L&D champion means becoming a learning organisation with a highly involved executive suite, an effective learning architecture, and deep knowledge about how to use a wide range of formats and vehicles.

Looking ahead, the imperative of career-long learning and development is likely to become even stronger in the years to come. Companies that fail to acknowledge the importance of executive L&D will likely have difficulties prevailing in an increasingly competitive, uncertain, and complex business environment. L&D directors should be prepared to be confronted with higher and more sophisticated expectations in the future. We therefore urge firms to not fall for common myths in executive L&D and instead rely on sound evidence to advance their executive L&D. ■

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Download the St Gallen Executive Education Report 2016: www.es.unisg.ch/seer

BIG OPPORTUNITIES

The University of Wisconsin-Whitewater's connected, comprehensive business school offers intimate college experience with big opportunities

With 4,600 students enrolled, the University of Wisconsin-Whitewater's College of Business and Economics is more than just a place to study business—it is a well-connected network and a thriving community. As Wisconsin's largest business school, the college is proudly AACSB-accredited, comprehensive, and affordable.

Internships, national competitions, and more

A strong focus on applied learning means students are actively engaged with internships and activities such as national student competitions. This holds true across all of the business school's programs, ranging from undergraduate majors to the AACSB-accredited Doctorate of Business Administration (DBA) (one of six of its kind in the US). A strong alumni network further exposes the College of Business and Economics students to opportunities both before and after graduation.

Excellence in distance education

International students interested in shorter programs may be attracted to the certificates or online course offerings. *"We have basically every business program you could want here,"* noted Dean John Chenoweth. More unique options include the online Master's of Science in Environmental Safety and Health program, as well as MBA specializations in Supply Chain Management or Data Analytics, among many others.

Business students participate in projects with major companies such as the Miller Brewing Company and Harley-Davidson through many forms of applied and experiential learning opportunities.

The university's DECA team (a prominent national business organization) recently won 25 awards and placed several students in the top 10 internationally at the 2016 International Career Development Conference. Also this year, the school's American Marketing Association (AMA) Chapter won the International Chapter of the Year Award for a fifth consecutive year at the International Collegiate Conference.

UW-Whitewater's standing amidst the best online MBA programs in the United States of America is reflective of ongoing efforts to offer exceptional learning from high quality, full-time faculty with access to the latest technology. With an excellent performance record since the program's launch in 1998, the college has not only helped pioneer graduate-level distance learning but has also helped perfect the delivery of rigorous curriculum in an online format.

To further enhance the student experience, the online MBA program is piloting two synchronous online classes in the fall of 2017. A synchronous online class is a real-time learning method; synchronous learning gives professionals a unique experience to participate in an on-campus class from anywhere in the world. This eliminates the isolation of asynchronous courses, and promotes collaboration and fosters a sense of community.

> *UW-Whitewater's standing amidst the best online MBA programs in the United States of America is reflective of ongoing efforts to offer exceptional learning from high quality, full-time faculty with access to the latest technology*

The importance of accreditation

In addition to independent rankings and awards, prospective MBA students considering an online program should investigate accreditation, which is a critical measure of quality. UW-Whitewater's online MBA is accredited by AACSB International—the most rigorous accrediting standard globally.

Associate Dean Paul Ambrose, Ph.D., stressed, *"AACSB International accreditation is the only accreditation that matters for business schools. Currently, less than 5% of business schools worldwide are AACSB accredited."*

Beyond experience, performance, and independently verified quality, UW-Whitewater's online MBA offers tremendous flexibility. The average age of students enrolled in the program is 31; most students take courses part-time while maintaining full-time employment. And with the same cost-per-credit for Wisconsin resident, out of state and international students, it also represents a superior value.

It is no surprise that the program has enjoyed strong enrollment; however, Ambrose emphasized that UW-Whitewater is focused on sustainable growth. He added, *"Our goal is to grow*

the program while maintaining our high-quality standards. We're focused on developing well-rounded professionals to meet the demand for managerial and executive talent by employers throughout the region and beyond."

International student life at UW-Whitewater

Whitewater offers a safe, small-town college experience with easy access to the nearby major cities of Chicago and Milwaukee. The university is located in a naturally scenic and rural area, but student life on the 400-acre university campus is regularly packed with exciting sports, music, and cultural activities.

International students are welcome to join one of the 170 student-run clubs and organizations (including 28 at the business school) or the university's thriving Greek community. For those looking for a truly American college experience, opportunities abound at UW-Whitewater.

The College of Business and Economics hopes to extend this thriving network to European partners interested in student exchange agreements. UW-Whitewater encourages students to study abroad and strives to bring international perspectives into the classroom. *"We want to increase the international experience of all our students,"* stated Mr Chenoweth. ■

The future is blended

Santiago Iñiguez explains why business schools and corporations must accommodate the increasing role of technology in education

"There is a fear, expressed frequently, that technology will replace professors. But I can say emphatically and unequivocally, THAT IT WILL NOT SUBSTITUTE THEM."

Bill Gates
Road to the Future, 1995

Technology, in parallel with developments in cognitive psychology and education sciences, is producing a formidable paradigm shift in the learning process and the mission of educators and, of course, in business schools.

Traditionally, the objective of education has been standardisation: to teach students the 'three Rs', prepare them for a particular job, and help them develop the skills required to engage in and contribute to society.

That said, the future of the learning process is focused on personalised development, seen as an opportunity to stretch and strengthen each individual's qualities. This is where the real change lies.

Thanks to technology, education will not just be about acquiring the knowledge needed to do this or that job. Rather, it will allow us to help develop a student's personality by focusing particularly on their strengths, adapting the time spent studying to their needs and capacity–all while measuring the results of the learning process and which teaching methods best help with personal and professional development. This personalisation will undoubtedly foster the entrepreneurial profile of learners and identify many new job opportunities.

Though it may sound counterintuitive, technology can humanise the learning process. We sometimes look at technology as an obstacle to personalisation, proximity, sociability and humanity but this fallacy is rooted in the myth that technology is a threat to mankind – for example, the destruction of jobs through automation and, in short, that the robots will end up taking over the world.

Aside from adapting to learners' circumstances, the integration of technology and teaching brings teachers closer to their students and students closer to one another. It also helps teachers with repetitive tasks such as assessing academic performance, passing on basic information and answering frequently asked questions.

In doing so, technology frees teachers' time, allowing them to focus on activities with greater added value for faculty and students alike and enables the so-called phenomenon of 'flipping the classroom'.

Flexible, adaptable, intensive, user-friendly and, yes, even entertaining: these are the hallmarks of blended learning, which combines online learning with a classroom-based approach. The advantage of high-quality and engaging online methodologies is that they keep the learning momentum going by adapting to the specific circumstances of the learner. It also allows for greater interactivity between participants.

70.8%

The 2015 Grade Level: Tracking Online Education in the United States survey shows that 70.8% of chief academic leaders believe online education is a critical component of their long-term strategies (up from the 48.8% who believed this back in 2002)

Blended teaching methods, both in university education and in corporate learning, are here to stay and will only continue to expand. That said, there are still some analysts who downplay the importance of the impact of online learning, and those who argue that nothing can replace face-to-face teaching[1].

At this point, it is important to highlight that I am talking here about blended programmes of the highest quality, with online modules delivered by the same academics as those giving classroom sessions to small groups of highly motivated students.

There is a tendency to assume that online teaching automatically means the cheaper option of open entry and open access as well as MOOCs (mass open online course.) This assumption is wrong. There are high-quality online and face-to-face forms of education, which fit the standards of excellence demanded from premium educational institutions. Associating technology-based learning methods with low-quality, cheapness and the massively distributed is an old fashioned and outdated cliché.

It is also widely believed that senior management is averse to online in-company training. This has been largely true until recently; we need to ask ourselves whether this is a generational problem and if the upcoming generation of CEOs, who will be quite familiar with the online environment and communication via mobile platforms, will be more receptive to these methodologies.

We need only to think back to the panelled boardrooms of a century ago with their ornate furniture, coal fires and other luxuries and compare them with their 21st century descendants who rely on digital platforms, video conferencing and other technologies to communicate globally round the clock.

Despite research showing that online learning can be at least as effective as classroom sessions – and even more transformational – there is still a widespread bias against it among educators, HR managers and executives. Interestingly enough, some 80% of teachers with no experience in online teaching say it is less effective than face-to-face teaching while the majority of educators with online experience say the results are as good if not better. Not to mention that many academics believe that online teaching will ultimately lead to layoffs[2].

This bias against online teaching likewise extends to many professionals, particularly senior managers who have been educated along traditional lines and tend to associate quality education with face-to-face teaching. But what really determines the quality of a programme is its methods of teaching and learning rather than the means by which they are delivered.

Whatever the arguments, the simple truth is that those educational institutions that offer blended courses (combining quality online training with traditional classroom teaching)

are growing, and rapidly. It is very likely that in few years' time most business schools will run a majority of programmes on blended formats.

For example, the *2015 Grade Level: Tracking Online Education in the United States* survey shows that 70.8% of chief academic leaders believe online education is a critical component of their long-term strategies (up from the 48.8% who believed this back in 2002.

At the same time, 77% believe that online training produces the same or better results than traditional face-to-face teaching. Just 28% admit that their teaching staff accept the value and legitimacy of online teaching[3].

Another survey of corporate learning[4] estimates that in 2014 77% of US companies used e-learning for their professional development programmes while in Europe, more than 3,000 companies used these types of teaching methods. The same survey estimates that 90% of companies will be using e-learning platforms by 2017.

It is clear, then, that blended learning will play a growing role in executive education, particularly in cases where participants are unable to attend classroom sessions. The question is thus not whether blended learning is the future or whether classroom teaching is more effective than online teaching but rather: what is the optimal blend of online and face-to-face?

Obviously, achieving the right combination of online and classroom teaching depends on a programme's objectives, participant profile, content, the abilities and skills being developed, as well as costs, infrastructure, and the ability of instructors and faculty to teach online.

What are the main challenges for blended education in the near future? I believe they are mainly three:

- First, and most importantly, the adequate preparation and involvement of faculty. In the new blended environment, the professor becomes the orchestrator of the learning process, calibrating the use of different methodologies adapted to each individual participant and balancing group and personal learning. In order to achieve this, it is essential to invest in faculty development and expose them to the full educational potential of learning technologies. The basic requirement for success in this new environment is that the faculty remains forever passionate about teaching.
- Second is striking the right balance between the three different components of blended learning: face-to-face modules, which remain essential for the socialisation and integration of the class; live videoconferences and synchronous sessions (there are some developments that radically improve the look and feel of live streaming, like the 'WOW Room,' recently launched by IE Business School); and friendly and engaging asynchronous sessions via forums, chats, tutored-led interaction, and peer learning and feedback support.
- Third, the development of teaching materials that better adapt to this new learning context. For example, multimedia case studies set in real time, interactive group and individual simulations, personalised content and individualised assessment tools to maximise personal progress. Gamification enriches the learning experience and can be applied to nearly every context and educational content as well as serving as a vehicle for instant feedback. There are even those who argue that it can help change personal behaviour and, perhaps most appealing, that it has a positive impact on the bottom line.

Technology will certainly contribute to the humanisation of learning. However, in this new and fascinating context of education, the competitive advantage of a business school will rest on the unique experience it provides to students.

Content may be prince; technology may be king; but experience is emperor. ■

90%

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The Malta Business Aviation Association (MBAA) aims to promote excellence and professionalism amongst our Members to enable them to deliver best-in-class safety and operational efficiency, whilst representing their interests at all levels in Malta and consequently Europe. The MBAA will strive to ensure recognition of business aviation as a vital part of the aviation infrastructure and the Maltese economy.

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