

An aerial view of a port or industrial facility, overlaid with a grid of colorful semi-transparent shapes in shades of green, blue, purple, and red. The background shows various structures, roads, and markings, including 'STOP' signs and alphanumeric codes like 'P7', 'P6', 'P5', 'P4', 'P3', 'P2', 'P1', 'J16', 'J15', 'J14', 'J13', 'J12', 'J11', 'J10', 'J9', 'J8', 'J7', 'J6', 'J5', 'J4', 'J3', 'J2', 'J1', 'K 71', 'K 72', 'K 73', 'K 74', 'K 75', 'K 76', 'K 77', 'K 78', 'K 79', 'K 80', 'K 81', 'K 82', 'K 83', 'K 84', 'K 85', 'K 86', 'K 87', 'K 88', 'K 89', 'K 90', 'K 91', 'K 92', 'K 93', 'K 94', 'K 95', 'K 96', 'K 97', 'K 98', 'K 99', 'K 100'.

GLOBAL TRADE: NAVIGATING DISRUPTION

A WEBER SHANDWICK REPORT

WHAT WE DO

Weber Shandwick is a leading communications consultancy on public affairs, with deep expertise in global trade and investment. We help clients navigate complex U.S., EU, emerging markets and global institutions; reach business, finance and media audiences; and understand political and business risks, opportunities and trends. We support clients to enter new markets through trade and cross-border investments.

We have advised governments and multinational companies during trade negotiations, and helped multinational companies communicate their trade policy agenda, monitor executive and legislative actions, and navigate dumping and trade disputes. Our expertise includes media relations, industry and grassroots support, attitudinal research, advertising campaigns, digital and social media, and communications and policy strategies.

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GLOBAL POLICY TRENDS



The free trade consensus has been shattered and globalisation seems to have lost its shine in the eyes of many citizens and politicians alike. Political risks have compounded and are no longer limited to the developing world, while the promise of the BRICS (shorthand for Brazil, Russia, India, China and South Africa) as the new driver of the world economy has largely failed to materialise for most of its members. At the same time, power politics in foreign policy is taking hold in many corners, putting nationalist rhetoric front and centre, while placing trade politics at the mercy of foreign policy aims.

> **DISRUPTION IS THE NEW NORMAL.**

Multinationals are increasingly exposed to political risk and cross-border threats due to the intricate web of global value chains that underpin the world economy. Whether it is the fallout from Brexit, political upheavals in Brazil, a more assertive Chinese foreign policy or the inversion of U.S. trade policy, disruption is increasingly causing headaches for global CEOs.

Many of these disruptive developments are **symptoms of geopolitical change and globalisation fatigue**. We are witnessing profound changes in the geopolitical relevance of the world's power centres, and the emergence of a multipolar world order is bringing instability in its wake. Meanwhile socio-economic inequality, societal division and environmental challenges show that globalisation in its old guise is not the panacea for welfare.

These developments are also **impacting international trade growth and policies**. The World Trade Organization (WTO) expects global trade to grow by 2.4% in 2017, which seems positive. However, there is so much uncertainty and risk around short-term economic and policy developments around the world that the figure is placed within a wide range of 1.8% to 3.6%. It is also well below the 4.7% average annual growth rate since 1980. Recent changes to key countries' trade policies can in part be attributed to these global developments.

The developments point to various **emerging macro trends** that will likely shape global trade policymaking in the years ahead. Weber Shandwick has identified the following macro trends:

1 DEEPENING LEADERSHIP GAPS AND COMPETITION FOR STANDARDS

2 EQUITABILITY OF TRADE TERMS TAKES CENTRE STAGE

3 RESURGENCE OF ECONOMIC NATIONALISM

As a result of these trends and the political risk they prompt, stakeholders across the globe are left with unclear short- and long-term business prospects. The growing politicisation of trade policy makes for a volatile global investment environment. More than ever, international businesses must be aware of the interplay between political dynamics at the regional, national and global level in order to identify risks and opportunities in time.

This report identifies contemporary trade policy trends at global and national level; assesses the clashing concepts in trade policymaking, before outlining a number of scenarios and their potential impact on business; and concludes with sections on key markets such as Japan, India, the U.S., South Africa, China, Brazil, the UK and the EU.

> CONTEMPORARY GLOBAL TRADE POLICY TRENDS

Just one year ago the world looked on as ambitious regional free trade agreements (FTAs) were forged. Now, unilateral protectionist measures are rising and bilateral deal-making is once again in vogue. This is piling pressure on the WTO and the multilateral trading system. Eye-catching developments include President Trump tossing the Trans Pacific Partnership (TPP) and the UK seeking to cut itself out of the world's largest single market. Elsewhere, China tries to present itself as the new flag bearer of free trade and the EU moves to occupy the power vacuum left by the U.S. in the Asia-Pacific.

While these developments undoubtedly represent tectonic shifts, the most salient aspect is how they blur national boundaries. These countries' policy choices were instigated as much by domestic as international political considerations. The success of Chinese economic diplomacy is directly impacting its leaders' ability to ensure growth and keep its social contract. The displacement of U.S. manufacturing proved fertile ground for Donald Trump's mercantilist trade agenda. International trade and politics evidently permeates the domestic arena as never before, potentially affecting the factory worker in Guangzhou, the start-up founder in Bangalore and the lawyer in New York.

This disappearing distinction between domestic and foreign policy is a key feature of the globalised economy. It plays out at the level of norms regulating the global economy and at the level of sectoral standards. In fact, there are many instances of internationally agreed standards being applied at national level. Whether in automotive or pharma, countries are increasingly unable to regulate in splendid isolation. Such norms and standards are often based on those applied in a key market, so that other regulators and commercial operators have to align to operate on that market. Whose domestic standards and norms become dominant is therefore a constant battle with huge commercial consequences.

TREND I / DEEPENING LEADERSHIP GAPS AND COMPETITION FOR STANDARDS

The West is losing global economic relevance

While both the EU and U.S. economies have continued to grow, the global economy has grown faster. The declining share of the West's global GDP affects the global power balance, which in turn impacts where and what norms are adopted. In that sense, the relative departure of the U.S. from the multilateral trading system is only hastening the process of a political and economic shift towards Asia: it is no longer a given for countries to adopt Western norms and standards in global trade. We will likely see the emergence of more fragmented leadership, with diverse groups of countries following distinct norms, rather than one country or block becoming dominant.

The battle for standards is on

The transatlantic leadership on trade is crumbling. The election of Donald Trump, Brexit and the likely demise of the Transatlantic Trade and Investment Partnership are accelerating this process. TTIP was intended to cement joint EU-U.S. leadership for decades to come, setting global rules and norms on issues such as regulatory, environmental, safety and labour standards. Their combined economic weight would force others to follow suit. U.S. rules in TPP on issues such as Intellectual Property Rights and data flows would have given American companies greater access to Asia-Pacific markets. Without the economic weight of the U.S. however, it is unlikely that the standards included in the TPP will be adopted outside the FTA signatories. Instead, the EU and China are stepping into the space left by

the U.S. China is forging ahead with the tariff-focused Regional Comprehensive Economic Partnership (RCEP), while the EU is doubling down on its economic pivot to Asia with a flurry of larger and smaller deals focused on ambitious standards and breaking down non-tariff barriers.

A new coalition of the willing emerges

Just when you thought it was over, multilateralism returned. The EU, Japan, and to some extent also China, are actively seeking to prevent an unravelling of the liberal economic order in the wake of the U.S. retreat. With WTO negotiations showing limited progress and regional deals such as TTIP and TPP further away than ever, successes are needed. After having isolated the U.S. by ensuring a pro-free trade joint statement at the G7 in May, the EU and Japan kept the momentum going as they signed an agreement in principle on a bilateral FTA. The achievement at the G7 was repeated in July at the G20 Summit. Much has also been made of President Xi Jinping's tribute to free trade, globalisation and multilateralism in Davos early in 2017. China however remains far from an open market, making it challenging to accept the country as a new leader of the liberal economic order.

TREND II / EQUITABILITY OF TRADE TERMS TAKES CENTRE STAGE

Growing use of anti-dumping investigations

Whether it is the dumping of Chinese steel or textile, European poultry products, American or Indian social dumping, the issue never strays far from the headlines. There has been a sharp rise in anti-dumping investigations globally. According to the 2016 annual report from the WTO Committee on Anti-Dumping Practices, 267 new investigations were launched by 45 WTO members between mid-2015 and mid-2016. This has led to collaborative efforts, such as the Global Forum on Steel Excess Capacity established last year, as well as political strife. New Delhi recently imposed anti-dumping duties on 93 Chinese products, leading some Chinese media outlets to warn of a trade war. Meanwhile, President Trump's 'America First' policy seems to embolden U.S. companies, such as Boeing filing an anti-dumping case against Canada's Bombardier.

Developed countries seek to level the playing field

Another trade war is looming elsewhere as the U.S. and the EU are preparing measures aimed at driving more 'reciprocal' trade relations with China. France, Germany and Italy released a joint policy paper in July setting out the contours of 'A common approach to investment control', which has been picked up by the European Commission. This should look at state-led, strategic FDI by non-EU investors in key enabling technology companies, as well as issues concerning the reciprocity of investment conditions and market access. President Trump signed an executive memorandum ordering U.S. Trade Representative Robert Lighthizer to investigate Chinese Intellectual Property (IP) practices. If the investigation confirms that China is violating IP rules and harming U.S. IP, innovation and technology, this could lead to tough trade penalties. The U.S. approach however differs notably from that of the EU, as there seems to be no intention to align its investigation with WTO rules.

TREND III / RESURGENCE OF ECONOMIC NATIONALISM

Mercantilist trade policy is back

Liberal economic integration is looking frail in comparison with some of the current nationalist economic rhetoric. National economic interests are staging a comeback



in key markets, fuelled by populism, globalisation fears and rising income inequality. 'Buy American' and 'British jobs for British workers' is offered as a solution. The U.S. in particular is driving a resurgence of unilateral trade measures and initiatives, as well as reverting back to bilateral deals to leverage its economic weight. Trump said in March that the US would ignore any WTO rulings it sees as a limitation to U.S. sovereignty, while defining the country's trade policy in the narrow terms of reducing trade deficits. It is equally difficult not to see Brexit as a form of economic nationalism with its promise of greater economic autonomy and warnings of turning the country into a Singapore-style tax haven.

Industrialisation to substitute imports abounds

Trump's 'America First' policy and his focus on 'Made in America' aligns closely with the views in Beijing. The 'Made in China 2025' plan aims to boost domestic production massively in 10 sectors. One goal is to increase the share of domestic content of core materials used in high-tech sectors to 40% in 2020 and 70% in 2025. This is underpinned by a stable influx of subsidies, domestic standards, fiscal policies and investment. Increasingly, the central government in Beijing focuses its efforts on supporting domestic companies at home with the aim of strengthening their international competitiveness. China still controls more than 100 central state-owned enterprises (SOEs) and the majority of the largest companies in the country are SOEs. This is in addition to local government SOEs. Whereas the number of central SOEs has dropped since 2000, the quality of assets, as well as their size, competitiveness and efficiency, are improving gradually, most recently via mixed-ownership reform breakthroughs.

> CLASHING CONCEPTS IN INTERNATIONAL TRADE AND FUTURE SCENARIOS

The heyday of cross-border trade is probably behind us, said the CEO of Norway's \$1 trillion welfare fund, Yngve Slyngstad, in a recent interview with Bloomberg. The fund owns approximately 1.3% of globally listed stocks across almost 80 countries, and depends for its success on medium to long-term scenario planning. "The global supply chains have in a way had a one-time gain primarily through outsourcing of multinationals to China", he noted.

With global value chains 'thinning' and cross-border production under pressure, Mr. Slyngstad is likely to be right. What his remarks do not capture is how the norms of global trade and the standards underpinning them may change as well. A range of clashing concepts is coming into play as the transatlantic consensus on what constitutes free trade dissipates and the advent of a more vocal Asia on the global economic stage takes its rightful place.

Protectionism vs free trade

The concept of free trade is somewhat misleading as it does not imply absolute free trade, free of public intervention. How much regulation is needed may depend on who you are and, in some cases, could entail forms of 'legitimate' protection to ensure a level playing field. Once public regulation of the market starts to favour domestic actors over foreign ones we slide into protectionism.

Mercantilism vs fair trade

Mercantilism is an economic theory from 16th century Europe that sees trade as a zero-sum game. Paying for imports amounts to a loss, local production should be preferred and trade deficits prevented at all cost. This tends to involve raising trade barriers and subsidising exports, some of which we see today. This approach appears to preclude agreeing on common standards ensuring fair trade, both in terms of guaranteeing a level playing and environmental, social and health standards.

Regionalism vs multilateralism

With the WTO Doha Round of trade negotiations failing, regional trade deals were launched across the globe. While some such as TTIP have not materialised, the sentiment of regionalism is still very present, as the RCEP negotiations and relaunch of the TPP show. The growing integration of the ASEAN, Mercosur, SADC and EU communities in itself is testament to the success of regionalism. What differs is the extent to which regional trade deals are considered building blocks for multilateral action or platforms for regional dominance.

The outcome of this on-going clash of trade policy concepts will have a large bearing on the norms and standards that will be adopted around the globe in the years to come. Ultimately, this will depend on the number of countries and the economic weight they represent which signs up to the norms and standards promoted by one of the leading powers in global trade. We have developed below three potential scenarios for the medium-term (2017–2023) domination of global (trade) norm and standard setting:

**"THE GLOBAL
SUPPLY CHAINS
HAVE IN A WAY
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THROUGH
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MULTINATIONALS
TO CHINA."**

YNGVE SLYNGSTAD

1 / THE EURASIAN ERA

- + The EU clinches trade deals with Japan, Mercosur, Mexico and Vietnam to complement those with Canada, South Korea and Singapore. A deal with India is negotiated, while EU-ASEAN region-to-region FTA negotiations are re-launched in 2018. A growing number of countries sign up to a Multilateral Investment Court, later brought under the WTO. Japan concludes an amended TPP without the U.S., putting to bed (for now) the idea of TPP as heralding the Asia-Pacific age.
- + China continues building its clout in East Asia through the Belt and Road Initiative (BRI) and the Asian Infrastructure Investment Bank (AIIB). RCEP negotiations are concluded, removing tariff barriers across the board. It also bolsters the WTO as it files cases against the U.S. and partners with the EU, at least in words if not in deeds, in promoting open markets. India is on board when it comes to RCEP, but continues to face domestic opposition to Chinese imports. Distrust between both countries remains an obstacle to cooperation and they are unable to jointly lead on setting the norms and standards of global trade policymaking.
- + The WTO itself muddles on, being challenged by U.S. unwillingness to abide by its rules and implement its dispute settlement body's rulings. The country fails to drive a compromise with Mexico and Canada over the renegotiation of the North American Free Trade Agreement (NAFTA) and decides to issue unilateral measures. Trade friction with China increases, also as a result of unilateral trade actions. Key trading partners take retaliatory measures.

2 / THE BALKANISATION OF GLOBAL TRADE NORMS AND STANDARDS

- + The U.S. successfully renegotiates NAFTA, effectively formalising its new strategic approach to trade, based on boosting local content rules and protecting domestic manufacturing. It triggers new negotiations with other key trading partners it has a trade deficit with. Other countries also focus more on promoting domestic production, leading to a 'thinning' of global value chains. Multilateral trade policymaking is in a downward spiral and the WTO is increasingly losing relevance as a growing number of its members fail to abide by its rules.
- + There is no EU-India or EU-ASEAN deal, and the EU fails to sign up other countries to the Multilateral Investment Court. The EU is therefore unable to create sufficient economic and political clout to entice other key trading countries to adopt its norms and standards. It is unsuccessful in taking the global lead on promoting the liberal economic order.
- + China's efforts stay the same as in scenario 1. The successful conclusion of the TPP led by Japan further contains the country's efforts to promote its norms and standards in the immediate region, let alone at global level.

3 / THE AGE OF ASIA

- + China and India partner to jointly lead the various economic and trade initiatives in the region. RCEP is amended to take account of India's concerns, while China bi- or multi-lateralises the BRI, ensuring a transparent governance process in which India is given a leading role. The significant economic clout that this creates is sufficient to counter the dilution of the multilateral trading system as a result of a U.S. unilateralist approach. With both countries supporting the continued role of the WTO, especially its dispute settlement, the

multilateral organisation remains in place.

- + U.S. trade policy stays the same as in scenario 2. The country becomes increasingly marginalised in its approach to trade policy as a result of the success of the China-India tandem in triggering the emergence of intra-Asian collaboration around standard harmonisation.
- + The EU finds itself in a bind as other key trading partners do not adopt its ambitious norms and standards. At some point, it decides to seek an alignment with the China-India tandem, watering down some of its demands on environment and labour standards, particularly human rights.

CONCLUSION

Whichever scenario eventually prevails and in what shape will depend on a myriad of factors. Anticipating and navigating this complex and moving environment, in full knowledge of the risks and opportunities, will be key for global corporations and organisations engaged in international commerce.

- + Across North America, Europe and Asia, the trade landscape has shifted dramatically over the past year. Global businesses now face a period of greater uncertainty and unpredictability. This means global companies must be more vigilant in monitoring and more outspoken in advocating favourable outcomes.
- + Rising tariffs, and the threat of new tariffs, are suddenly a risk that multinational companies need to monitor and respond to.
- + Multinational companies are increasingly reliant on global supply chains, and countries where they operate want to both attract this investment and protect existing ones. This gives companies some leverage, but it also increases the risk that any disruption in the supply chain in any one market can impact global operations.
- + In some markets, tax and trade risks are converging. Global companies must be able to plan business decisions and strategies that take both policy areas into consideration simultaneously.
- + Companies should seek to personalise their trade narratives. Trade is not just about goods and data, it is also about workers and communities.
- + Trade policy is driven by politics as much as commerce. It is important for global companies to understand the political dynamics in play in different markets and how competing factions are impacting the policy landscape.

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UNITED STATES

The Trump Administration is reviewing U.S. international trade policy with the goal of negotiating better deals for U.S. companies and workers. President Trump believes the country's trade deals benefit foreign companies more than domestic ones. He is especially critical of large U.S. trade deficits with China, Mexico, Japan, South Korea and the EU (about 43% with Germany), and cites these as evidence of unfair trade practices. The growing global U.S. trade deficit reached \$502.3 billion in 2016.

A dedicated policy to address these issues is gradually taking shape. Trump wasted no time in implementing his vision and ditched the TPP upon entering office—the TTIP was already on ice. The U.S. also initiated the renegotiation of NAFTA with Canada and Mexico. They are the first and third largest U.S. trade partners in the world, with a stunning \$1.3 trillion intra-NAFTA trade in 2016. Contrary to the U.S., Mexico and Canada mainly prefer the deal as it is, especially the Rules of Origin that spurred a network of elaborate cross-border value chains. If successful, the new provisions could well become a template for the renegotiation of other U.S. deals. Trump expressed interest in a bilateral deal with Japan and the UK post-Brexit, and renegotiating the FTA with South Korea.

TRUMP EXPRESSED INTEREST IN A BILATERAL DEAL WITH JAPAN AND THE UK POST-BREXIT, AND RENEGOTIATING THE FTA WITH SOUTH KOREA.

These actions follow the administration's 'America First' policy, which stretches beyond the remits of international trade policy. They show a preference for bilateral deals over multilateral agreements, and unilateral action (based on Article 301 U.S. Trade Law) over bringing cases to the WTO, as also shown by the country's withdrawal from the Paris Climate Agreement. U.S. trade policy under Trump seems to focus on leveraging the country's economic weight to get greater concessions from its partners. This includes exerting pressure through punitive trade restrictions; a strategy that may be successful in some cases but risks retaliation in others. Especially when we take into account the countries targeted for trade deficits are also vital export destinations.

Retaliation could especially be painful for U.S. agri-food exports, which is where the U.S. has a trade surplus (in addition to services) and valued over \$135 billion in 2016. About 20% of U.S. agricultural production by volume is destined for export. A different picture emerges when looking at specific products. More than 70% of U.S. production of tree nuts (mostly almonds) and cotton are exported, as well as over 50% of U.S. rice and wheat production (USDA). A salient detail, job losses in this sector due to retaliatory measures would target farm states belonging to Trump's electoral heartland.

MAIN INTERNATIONAL TRADE ISSUES

1 Topping the U.S. trade agenda is the economic impact of **large trade deficits** on U.S. economic growth, companies and workers. To reduce deficits, the Trump administration is committed to stricter enforcement of U.S. trade laws. It is encouraging companies and industry sectors to file dumping and countervailing duty (CVD) cases and initiate disputes through other legal mechanisms. A handful of key partners is being targeted, but China seems first on the list.

2 The **U.S. and China** recently conducted a 100-day review of bilateral trade issues. The result was limited and the Trump administration is now initiating measures to pressure China to crack down on alleged IP theft. It also seeks to ease requirements that foreign companies establish a joint venture with a Chinese partner and share their advanced technologies with this partner to gain entry to the Chinese markets; a central element of Beijing's economic strategy. Chinese FDI in the U.S. reached \$45 billion in 2016, according to a report by research firm Rhodium Group, and is increasing in strategic industries. The U.S. may also expand the mandate of an interagency task force (CFIUS) that reviews foreign investments on national security to include 'economic interests'.

3 To boost manufacturing at home, the Trump administration is putting forward a **'Made in America' vision**. It actively discourages U.S. companies from 'outsourcing' production to other countries, at times targeting specific companies on social media to raise the stakes. This has been a particularly sensitive issue in the automotive sector, where original equipment manufacturers (OEMs) have created sophisticated cross-border supply chains to share production across different markets. In parallel, President Trump is also encouraging foreign companies to invest in the U.S. to create 'Made in America' goods. Responding to the call, Taiwan's electronics giant Foxconn recently announced a \$10 billion investment in Wisconsin.

KEY PLAYERS TO WATCH

International trade policy impacts both **U.S. multinational corporations and smaller firms that export globally**. Sectors with valuable innovation and IP assets (such as pharma, tech and entertainment) have a stake in ensuring that trade deals include strong provisions on IP rights, while the export-oriented **agri-food sector** is particularly vocal in support of global market access.

On the other end, the main opponents of trade liberalization include **labour unions, consumer rights groups, and environmental NGOs**. They argue that trade agreements generally benefit big corporations at the expense of workers, consumers and the environment. This is to some extent reflected in public opinion. In a recent survey, the Pew Research Center notably found that while 52% of the respondents considered U.S. FTAs a good thing, 40% view them negatively.

CULTURE OF ENGAGEMENT

While there are concerns over transparency, there are ample opportunities to engage and influence U.S. trade policymaking. The direction and content is shaped through dialogues between the U.S. government and business coalitions, multinational companies, farm groups, labour unions, as well as consumer and environmental interest groups. There is intense competition among these actors to influence policy. Stakeholders engage in direct lobbying with the U.S. administration and Congress, in particular members serving on the Senate Finance and House Ways & Means committees. Advocacy is also conducted through industry coalitions, paid media campaigns, social media conversations, earned media outreach, and policy events with think tanks and influencers.

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CHINA

China's profile as global trade advocate emerged at the World Economic Forum in Davos. President Xi Jinping delivered a keynote speech defending economic globalisation, stating that the world must *"promote trade and investment liberalisation and facilitation through opening up and saying no to protectionism"*. As China's economy transitions towards services and innovation, sustaining its industrial value chains, large domestic market, and burgeoning innovation capabilities will depend on free trade.

Through initiatives such as the regional FTA RCEP, the BRI and the AIIB, China seeks to leverage multilateral opportunities. A condition is that China holds the leading role. Where relevant, it also seeks to strengthen bilateral trade ties with key partners. At the same time, China has become more familiar with the WTO system and increasingly uses it to its benefit. It has launched a complaint against the EU and U.S. for unjustified anti-dumping rulings and may use the WTO dispute settlement process to counter any unilateral measures from the U.S. resulting from its on-going investigation into IP theft.

Despite the government's official embrace of free trade, key sectors of the economy remain closely supervised, including finance, telecoms, energy and defence. Liberalising these sensitive sectors is seen as tantamount to inviting potential stability risks. FDI in these sectors is highly constrained and the sectors themselves are dominated by state-owned enterprises (SOEs), for whom profit is less relevant than contributing to macro-economic policy goals. If there will be any medium-term liberalisation, it will probably involve the less strategic segments of these sectors. For now, political stability and order on the financial markets are the maxims.

Meanwhile, some foreign firms have raised concerns over the country's 'Made in China 2025' strategy, a long-term policy aimed at boosting manufacturing innovation and promoting home-grown products. The EU Chamber of Commerce in China released a report in March criticising the government subsidies for domestic companies. This is combined with concerns over requests to change the terms of joint ventures with SOEs to allow more political involvement in business operations and investment decisions.

"[THE WORLD MUST] PROMOTE TRADE AND INVESTMENT LIBERALISATION AND FACILITATION THROUGH OPENING UP AND SAYING NO TO PROTECTIONISM."

PRESIDENT XI JINPING

MAIN INTERNATIONAL TRADE ISSUES

1 Externally, China faces a **mix of capricious global demand and rising manufacturing competition**.

Even as its economy pivots towards services and innovation, manufacturing is still highly important. The inevitable decline of manufacturing may be a sign of growing welfare, but requires careful management not to upend growth projections and the social contract that comes with it. Growing competition from developing countries with lower production costs and broader government incentives, as well as the rising automation of production in the developed world, are considered constant threats.

2 In parallel, there are **increasing trade frictions with other major economies**. The EU and China are no closer to resolving long-running disputes over steel dumping and unequal market access, and the Trump Administration is a constant area of concern. We may well see more contention ahead, with both the EU and U.S. preparing measures to counter what they see as unfair trading practices by China. There is some anxiety over the recent calls for FDI screening and market access reciprocity in both the U.S. and EU, in particular among SOEs that are the main source of Chinese FDI.

3 The political leadership is keen to reduce China's over-reliance on trade with the U.S. The country's infrastructure diplomacy linked to the BRI is one way to **diversify away from the U.S.**, but comes with its own difficulties. A domestic debate has emerged over the commercial value of the BRI strand known as the China-Pakistan Economic Corridor. The Baluchistan region, in particular, has proven a complex operating environment, highlighting the need for public diplomacy. This also extends to other countries in the region, some of whom such as India have publicly voiced concern over the initiative. Beijing wants more countries to participate, but has not yet made moves to 'multi-lateralise' the BRI's governance. For now, it is based on a series of bilateral arrangements.

4 Closely related to most of the previously mentioned issues is the **domestic debt challenge**. China's total private and public debt now exceeds 250% of its GDP, of which about 175% is corporate debt, with SOEs accounting for about 75% of that (OECD). These high debt levels may be a consequence of excessive government spending on infrastructure, often through local government financing vehicles (LGFVs)—corporate entities created by cities and provincial authorities to circumvent official limits on fundraising—and speculative investment in real estate by SOEs. The country's 'Go Out Policy' has also recently come under scrutiny as big public and private companies borrowed heavily from domestic banks for aggressive offshore acquisitions, which added to the

debt problem. The government is now calling on Chinese businesses to scale down overseas investments in less strategic assets such as hospitality and entertainment.

KEY PLAYERS TO WATCH

Capricious global demand and manufacturing competition are having the biggest impact on **Chinese light industrial exporters** in textile and garments, footwear, bag making, toys, furniture, which are traditionally low value-adding and labour intensive. These sectors are dominated by private enterprises that were instrumental in China's manufacturing and export-driven economic transformation, but now face an economy being redirected away from their strengths.

As China reduces its reliance on the U.S. market and focuses more on the BRI, the biggest beneficiaries will be the country's SOEs, which operate in sectors relevant to the initiative, such as construction, transportation, energy, steel and cement. SOEs will spearhead China's outbound investment for the BRI. This may give some of the more cumbersome and inefficient SOEs the necessary impetus to fully commit to structural and managerial reforms which the government has laid out in recent years.

The BRI project may also provide some relief from the overcapacity issues that affect certain **sectors such as steel, cement, glass, paper and chemicals**. Whether the support could offset the damage that on-going trade frictions could do to these sectors remains to be seen.

CULTURE OF ENGAGEMENT

Direct lobbying on trade negotiations tends to be reserved for government-to-government relations and SOEs. The government favours SOEs, since their leadership is appointed and paid by the government, and they often maintain political positions. Foreign-invested enterprises (FIEs) can influence policy making by engaging think tanks and research institutes affiliated with the government, or use industry associations serving as go-between for the private sector and central government departments. This is in addition to traditional avenues offered by embassies, foreign trade delegations and chambers of commerce. When acting on their own, FIEs can engage with industry officials at public events and by joining local advisory boards. Policy events are not organised frequently, but can provide an effective platform for private-public engagement. Finally, as public opinion is of increasing relevance, conventional media, academia and social media channels can be used to influence policymaking indirectly.

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JAPAN

Prime Minister Shinzō Abe's administration has relentlessly promoted the expansion of free trade, mainly focusing on the Japan-EU FTA and the TPP. Both are regarded as important pillars of 'Abenomics'—the national economic policy aimed at reinvigorating the country's fledgling economy. Japan is also highly supportive of the multilateral trading system and joined the EU in its bid to isolate the U.S. approach to trade policy at recent G7 and G20 summits.

At the recent signing of the agreement in principle of the FTA with the EU, Abe doubled down on his administration's trade stance. He stated that the agreement sends a strong message that Japan and the EU lead the world by flying high the flag of free trade. He stressed that the Japanese government continues to make the utmost efforts for the early signature and entry into force of the FTA. Japan has in parallel relaunched the TPP negotiations without the U.S.

Mergers and acquisition activities of Japanese business in third countries mainly focus on high-value tech and large-scale infrastructure, such as semi-conductors, biotech and airports. The country is also keeping a close eye on China's BRI projects and has launched competing initiatives, such as the Japan Infrastructure Initiative. As Abe quipped when meeting Xi at the G20 in Hamburg earlier this year:

“IT HAS POTENTIAL [...] WE HOPE THE INITIATIVE WILL CONTRIBUTE TO REGIONAL AND GLOBAL PEACE AND PROSPERITY BY ADOPTING IDEAS HELD BY ALL IN THE INTERNATIONAL COMMUNITY. WE WANT TO COOPERATE IN THAT RESPECT.”

PRIME MINISTER SHINZO ABE

These are but two of the various competing visions from regional powers for Asia's 'silk road' of the 21st century.



MAIN INTERNATIONAL TRADE ISSUES

1 With the U.S. pulling out of the TPP, **finalising the Japan-EU FTA negotiations** has become priority number one. Expectations are that the talks could be wrapped up before year-end, although some sensitive issues remain, not in the least the matter of investor-state dispute settlement. The ratification process itself may also take another one to two years, with many pitfalls still in store.

2 **Relaunching the TPP negotiation** has become another focal point for the Abe Administration. It aims to ensure the entry into force of the agreement and hopes to bring the U.S. on board at a later stage. The success of this strategy largely depends on the other TPP countries, some of whom may be less willing to stick to their earlier concessions without gaining access to the U.S. market. Their position will be influenced by the China-led competing trade initiatives in the region.

3 Similar to other key trading nations, the Trump Administration has started piling pressure on Japan to address its trade surplus and **ensure a correction of bilateral trade imbalances**. Finance Minister Taro Aso and Vice President Mike Pence intend to discuss this issue in the coming months.

KEY PLAYERS TO WATCH

The **agri-food sector** is still highly protected for farmers in certain parts of the country. Up until the agreement in principle reached with the EU, this sector formed the

most potent stumbling block for the talks, especially concerning dairy products. After the country successfully introduced reforms in its agriculture sector, a horse-trading exercise of ‘cheese for cars’ enabled the signature.

Japan’s **automobile industry** is also affected by international trade policy, as it operates international value chains. Regulatory cooperation on the sector under the Japan-EU FTA will ensure further alignment. In addition to the country’s **tech sector**, which is highly involved when it comes to data transfer and market access issues, the automobile industry is also keen to tap into new markets.

CULTURE OF ENGAGEMENT

Government engagement in Japan features a mix of open and closed-door pathways. Often not well understood by western businesses, governmental agencies tend to avoid one-on-one communication with private companies, preferring to interact with trade associations instead. Direct lobbying is not considered appropriate, making it essential to know how to organise multi-stakeholder policy events to engage governmental agencies and how to involve the media to raise awareness on issues of concern. While the internet penetration rate is high in Japan, social media is not commonly used as an engagement tool due to concerns over the credibility of the information. Conventional media is still influential, which makes it important to invest in media relations.

**Maiko Morikawa, Vice President, Client Services,
Weber Shandwick Tokyo**



SOUTH AFRICA

There is limited opposition to free trade in South Africa, with support for pan-African trade deals particularly strong. The country has been keen to leverage its preeminent position as the most sophisticated economy of sub-Saharan Africa to form regional trading groups. Together with other countries included in the Southern African Development Community (SADC), South Africa signed a development-oriented FTA with the EU. The deal is applied provisionally while ratification is on-going.

At the same time, the country is seeking to remedy inequalities of the past, for example by limiting foreign ownership in the mining sector. The African National Party (ANC), which has been in government since the end of apartheid, believes that local people need to have their jobs protected. For example, the ANC believes that instead of just banning Zimbabweans from being waiters, there should be a ratio system where a business would have to employ at least 80% South African staff.

SOUTH AFRICA HAS BEEN KEEN TO LEVERAGE ITS PREEMINENT POSITION AS THE MOST SOPHISTICATED ECONOMY OF SUB-SAHARA AFRICA.

This is related to the fact that South Africa has only just emerged from a deep recession and is facing political turbulence, low consumer confidence and significant unemployment. The financial and services sectors are doing well, with finance growing by about 2.5%, becoming the second largest contributor to GDP growth in the second quarter of 2017. The mining sector also expanded by 3.9%. Struggling sectors include the automobile industry, with General Motors recently pulling out of the country. Various sectors have also been hit hard by dumping, including the steel and poultry sectors. Meanwhile, South Africa is dealing with a large unskilled labour force, with relatively high labour costs.

The government is pushing people to pursue more opportunities, in particular in the mining and financial sector. Finance Minister Malusi Gigaba recently presented a 14-point plan to this end, although local economists have criticised it for being non-transformational. With the ANC National Executive Committee (NEC) coming up in December 2017, current policy discussions within the party seem to be a proxy for the leadership battle ahead. This makes it difficult to reach consensus on the required reform agenda, fostering inaction instead.



MAIN INTERNATIONAL TRADE ISSUES

1 Keeping **sound trade relations with the EU** is of vital importance. South Africa is plugged into the world economy as a major exporter of commodities, primarily to the EU, and is an importer of capital intensive equipment, manufactured products and services. At the same time, EU operators have been involved in the dumping of food products in South Africa, souring relations to some extent.

2 In order to **protect local businesses from unfair competition and dumping**, the country has raised import tariffs on a number of products. Dumping has been a serious issue, having resulted in significant job losses. In particular, the textile and steel industry have suffered due to alleged dumping from China, while EU and U.S. dumping threaten the poultry sector.

3 Eastern and Southern Africa have the highest level of **child labour** in the world—36% of children between 5 and 14 years (UNICEF). This is a major issue in the context of international trade and the integrity of the countries and companies involved. Especially since multinational companies are increasingly exposed to legal and public scrutiny forcing them to ensure responsible value chains.

4 **Formalising Africa's vast but informal cross-border trade** could contribute to improving livelihoods and regional integration. Informal trade is a great means of distributing services and goods during food crisis and other shocks. Formalising it could make these producers and traders follow rules and regulations more closely, improving conditions for the people involved.

KEY PLAYERS TO WATCH

The **agri-food sector** in South Africa is highly exposed to the development of trade relations with the EU and the consequences of dumping. With the SADC-EU FTA, it has become easier to export agriculture and fisheries products to Europe. It has also made the country's local producers more vulnerable to dumping, as well as enforcement of rules on sustainable development and labour laws.

South African **manufacturers** have suffered from international competition over the country's raw materials. In order to ensure competitiveness in the mining sector, South African manufacturers have to pay so-called 'import parity prices' to national mining companies. They therefore have no competitive advantage in sourcing local minerals compared to international competitors.

CULTURE OF ENGAGEMENT

The extent of engagement and the openness of the system depends on the sector involved. The food sector in particular has an on-going dialogue with the government, mainly as a result of dumping issues in recent years. The utilities and healthcare sector are equally active, whereas the tech sector pursues limited engagement. In addition to directly lobbying policymakers, advocacy is also conducted through paid and social media campaigns, earned media outreach, as well as policy events.

Graeme Scala, Account Director, Weber Shandwick Johannesburg

BRAZIL

Brazil has a tendency towards protectionism, with import tariffs averaging 13.5%. It has been a lukewarm promoter of free trade and regional economic integration, depending on the government in place. Its long-term pro-free trade credentials do show in its membership of Mercosur, the sub-regional trading bloc including Argentina, Paraguay, Uruguay and Venezuela (suspended membership). Mercosur forms a single customs union and trading bloc constituting the fifth largest economy globally.

With Michel Temer assuming the presidency last year after the impeachment of Dilma Rousseff, there is now new appetite for economic liberalisation. A key objective has been to increase foreign market access and court foreign investors after the slump in FDI since 2010. Its primary export destinations include the EU, China, the U.S. and Argentina, with key products including soybeans, iron ore, crude petroleum, raw sugar and poultry meat. This list may however change soon. Together with Bolivia and Argentina, Brazil hosts some of the largest lithium deposits in the world. This potential successor to hydrocarbons has seen demand growing exponentially as the uptake of batteries accelerates.

Mercosur offers a critical vehicle for this new policy of economic openness. It has concluded a number of small trade deals with third countries and maintains a cooperation agreement with the Andean Community, another Latin American trading bloc. But the real prize may lie in clinching the two decades old Mercosur-EU FTA negotiations. The EU is already Mercosur's largest trading partner and source of FDI. On top of that, the souring of U.S.-Mexico relations opens opportunities to boost cooperation with the free market oriented Pacific Alliance trading bloc, which includes Mexico, Chile, Peru and Colombia.

The success of some of these moves may in the end only be realised in full if Brazil can get its own house in order. The economy is at long last emerging from a recession—it contracted 3.8% in 2015—and consumer and business confidence is growing. But Brazil's economy continues to suffer from weak domestic demand and political and policy-making uncertainty. The corruption investigations linked to state-owned oil company Petrobras loom dangerously over the nascent economic recovery. Recently announced intentions for labour and social security reforms, as well as the privatisation of 57 publicly owned companies and projects can no doubt further boost economic recovery, but will likely only deliver in the long run if systemic issues are addressed.



MAIN INTERNATIONAL TRADE ISSUES

1 Brazil continues to have a significant **dependence on foreign capital coupled with a substantial fiscal deficit** of about 9% in 2016. Economic policy has failed to diversify its engines of growth, making it vulnerable to the whims of global capital markets. This has played against it in a time when political risk has scared investors away. The country dropped in the ranking of the FDI Confidence Index by A.T. Kearney, a global management consulting firm, from the 6th place in 2015 to the 16th in 2017.

2 This dependence on foreign capital is compounded by **economic sluggishness and limited high value added exports**. Under the impact of a recession spanning eight consecutive quarters in a row, imports have regressed to levels not seen since 2009, when the international financial crisis reached its peak. Meanwhile, Brazil's exports remains very dependent on the performance of a limited number of basic or semi-manufactured goods.

3 The international trade potential of Brazil lies as much in domestic reforms as it does in the **success of Mercosur**. For now, Mercosur's current foreign trade deals represent only about 7% of the world's trade volume and political turbulence in Venezuela and limited market integration have been dragging it down. The forthcoming FTA with the EU would massively expand foreign market access for Brazil and may also help shift the bloc's attention away from its historical focus on political issues towards beefing up its economic and trade agenda.

KEY PLAYERS TO WATCH

The **hydrocarbon industry** is the most concerned sector when it comes to international trade policy. The low oil price continues to destabilise Brazil's trade balance. Political handling of the sector has historically shown strong tendencies towards resource nationalism, but reforms are underway to make it more attractive for foreign investors. This is of vital importance to ensure the extraction of complex deep-sea hydrocarbon deposits which require foreign expertise and immense capital investment.

The **agri-food and biofuels sectors** are also involved in shaping the country's international and intra-Mercosur trade policy. With commodities such as soybeans making up about 11% of the country's export value in 2015, the agri-food sector is one of the key export sectors in Brazil. Meanwhile, higher prices of sugar compared to bioethanol shifted the use of Brazilian sugarcane from ethanol to sugar production. To protect its market from a surge in U.S. bioethanol exports, Brazil recently imposed an immediate two-year tariff-rate quota system for ethanol imports from the U.S. This means that a 20% tariff will be applied to sales from the U.S. after a 600 million-litre quota is reached.

CULTURE OF ENGAGEMENT

Direct government engagement is common but should be pursued with care. Lobbying is unregulated and has been at the core of recent corruption scandals. Paid and earned media, as well as social media campaigns, are commonly used to strengthen engagement efforts. Policy events are equally common, providing a transparent platform for public-private interaction. Forming alliances tends to deliver the most success when it comes to direct lobby, in particular when composed of both national and international actors.

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INDIA

India is the fastest growing economy in the world and has the potential to become the new growth engine of our time. With a firm 6.8% growth in GDP over 2016 (IMF) and a relatively stable policy outlook, the country moved from the 11th place in the A.T. Kearney FDI Confidence Index to the 8th place in 2017. The country's official goal outlined in its 2015 Foreign Trade Policy is to boost its share of the global economy from 2.1% to 3.5% in 2020. This is an economy that will be roaring for years to come, if left to its own devices.

Such is not today's trend. Rising protectionism and the global economic slowdown of recent years affect India's economic performance. And with a \$2 trillion economy and 1.3 billion people, the country still faces major development challenges at home, hampering its ability to look outward. India was notably unable to engage as a leading nation in the recent trend of mega-FTA negotiations, opting for a wait-and-see approach. The country did join the AIB, but has not entered into a new FTA for over three years. Meanwhile, the growing internationalisation of its preeminent regional competitor does not help to instil confidence. India is the only country in Asia which openly opposes China's BRI.

RIISING PROTECTIONISM AND THE GLOBAL ECONOMIC SLOWDOWN OF RECENT YEARS AFFECTS INDIA'S ECONOMIC PERFORMANCE.

Clearer skies may be ahead though. The recent border dispute with China has receded and the country completed a review of its existing FTAs—it has trade deals in place with the ASEAN trade bloc, South Korea, Malaysia, and Japan. Renegotiation of several FTAs to rebalance their benefits has been initiated and new trade talks were launched with resource-rich Peru. In a time of Brexit, U.S. protectionism and China's growing regional clout, even the stalled India-EU trade talks may be revived, as signalled by the bilateral meeting between PM Narendra Modi and German Chancellor Angela Merkel in May, as well as the 14th EU-India Summit in October. India has also been engaged in the RCEP negotiations, although there are growing concerns over whether market opening would lead to a flood of Chinese imports.



MAIN INTERNATIONAL TRADE ISSUES

1 The recent border disputes between India and China have reinvigorated calls for controls on Chinese imports to counter alleged **dumping**. Anti-dumping duties are already in force against 93 Chinese products and a new probe into Chinese solar imports was launched in July. Local news outlets have warned of a looming trade war.

2 The increase in anti-dumping measures targeting China may in part be fuelled by uncertainty over the country's **lagging manufacturing sector**. The 'Make in India' programme, launched in 2014 to turn India into a global manufacturing hub and magnet for FDI, has yet to deliver tangible results. There is also a growing realisation that China-style export-led manufacturing may not succeed in the face of growing automation of production processes.

3 Over the years, India has suffered from a **major brain drain**, depriving the country of highly skilled workers. According to a 2015 report by the U.S. National Science Foundation, Indian-origin scientists and engineers in the U.S. grew 85% between 2003 and 2013. The rising anti-immigration sentiment in traditional host countries and job opportunities in India itself may reverse this trend in the coming years.

KEY PLAYERS TO WATCH

The rise of protectionism in some parts of the developed world has a large bearing on India's **IT services industry**. The capping of U.S. visas for Indian IT professionals in

particular has affected a large segment of the population in the country. This sector benefits immensely from free trade in services.

The **pharma sector** is equally vulnerable to protectionism. It has notably come under the radar of U.S. regulators, which has affected exports to this country. Indeed, clearances for manufacturing plants in India have become scarcer over the past two years, denting Indian pharmaceuticals exports to the U.S.

On the other hand, India's **manufacturing industry**, in particular the steel sector, has been lobbying the government extensively for protection against intense international competition and dumping. Safeguarded, the sector is given time to ensure domestic expansion before opening up to competitors.

CULTURE OF ENGAGEMENT

Direct government engagement is a common feature. Dialogue through think tanks, stakeholder committees set up by the government trade bodies and trade associations are often used to amplify policy asks. This also applies to paid and earned media, including working through thought leaders. Major successes can be achieved by generating government attention via social media campaigns which showcase the country's international appeal. With internet penetration growing rapidly, social media is gaining importance as a channel to influence public opinion.

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UNITED KINGDOM

THIS HAS LED TO SPECULATION THAT THE UK WILL ‘CRASH OUT’ OF THE EU IN MARCH 2019, WHICH WOULD REQUIRE IT TO FEND FOR ITSELF AS A WTO MEMBER.

In the United Kingdom, trade is readily on the lips of politicians, press and the public like never before. The reason is Brexit, and with 18 months to go before the country is expected formally to leave the European Union, the public debate over the country’s future trading arrangements with Europe and the rest of the world is intensifying. After gambling on a snap election in June 2017, Prime Minister Theresa May has seen her ‘wobble room’ severely diminish. She lost the Conservative Party’s majority in the lower House of Commons, and can only win votes there with the support of Northern Ireland’s socially conservative party and the protestant Democratic Unionist Party.

Crucially, too, she must retain the confidence of the ‘Brexiters’ in her party, the fervently anti-EU band of MPs represented in her Cabinet by Foreign Secretary Boris Johnson, Brexit Secretary David Davis and International Trade Secretary Liam Fox. Ironically, the two most powerful people in government, in theory at least, the Prime Minister herself and Chancellor of the Exchequer, Philip Hammond, campaigned to remain in the EU, and there is a lurking suspicion that they will conspire to dilute any Brexit deal.

Progress in the Brexit talks between the UK and the EU has been painfully slow. The EU has insisted that three key issues related to the UK’s departure—the ‘divorce bill’ payable on exit by the UK, the rights of 2.9 million EU citizens residing in the UK, and the land-border between Northern Ireland (UK) and the Republic of Ireland (EU)—must be resolved before talks can proceed to the substantive issue of a future trade deal between the UK and the EU. Brexit Secretary David Davis agreed to this sequence in the first round of negotiations following the June elections. There is the additional hurdle ahead that any agreement between the UK and the bloc will need approval from the European Parliament, with its broad range of political factions and interests. All in all, this has led to the increasingly gloomy speculation that the UK will ‘crash out’ of the EU in March 2019, which would require it to fend for itself as a WTO member and apply rules to treat all trading partners as equals on tariff and non-tariff matters.

There are now two polarities in the debate over how the UK’s Brexit story will end. The Eurosceptic right is taking a pointedly relaxed attitude to a no-deal exit from the EU, arguing that the UK is a big enough economy—fifth largest in the world—to stand on its own two feet and trade its way through Brexit, while falling back on the WTO as a global framework. On the other side—a side that includes pretty much every sector of the economy and, most recently, all six leading business organisations in the UK—are calls for a pragmatic two-year (or longer) transition period to Britain’s new status as a trading partner with the EU and the broader world. The latter scenario would

be founded upon a wide-ranging, multi-chapter free trade agreement between the UK and the EU, reflecting the fact that equivalent standards across all primary economic sectors is the starting point for both sides.

MAIN ISSUES RELEVANT TO INTERNATIONAL TRADE

1 Membership in the EU has afforded the UK a two-generation period in which **tariff and non-tariff barriers** have not existed for 44% of imports and 53% of exports. The effect of the EU Single Market and Customs Union is significant because it provides ready and simple mutual market access. However, this does not mean that the country is unfamiliar with the realities of existing in a global trade environment. The UK has also relied on the EU's capacity to negotiate third-country deals for the benefit of the entire 28-strong membership of the bloc; deals which, as it currently stands, the UK will cease to have access to as of spring 2019.

2 In a 'crash-out' Brexit scenario, the UK will be required to fall back on the **Most Favoured Nation ('MFN') principle**, which would apply to the country's WTO-governed trade arrangements. In plain terms, this means that the best trade deal offered to any one country would need to be offered to all countries, in order to maintain equal conditions of market access. In some sectors, this principle would have profound consequences for competitiveness of UK-produced goods.

3 One consequence of EU membership has been the UK's ability to integrate **supply chains** across 28 European markets. The most palpable expression of this came in the multi-country Eurofighter Typhoon and Airbus aerospace projects. But there is much more significant supply chain integration across a wide range of sectors, among second and third tier suppliers, which have taken advantage of frictionless trade to enable applying 'just-in-time' principles across the bloc. The UK's future role in supply chain environments will need to be carefully re-thought, and fast. This is especially true since the preferential Rules of Origin, which are used to determine where a product comes from and whether it can benefit from any agreed preferential tariffs, will likely change for a post-Brexit UK.

4 The UK's cultural, linguistic and legal heritage has enabled it to exert the **value of the British brand and its associated soft power** against the backdrop of a fluid 28-country trading bloc with which the rest of the world has naturally prioritised engagement. The future value of these non-monetary assets will be sorely tested whatever the outcome of the Brexit talks. For some sectors and large corporates, the rupture with the EU will be simply too much to stomach. For others, the link and location will merit retention, though in what form remains to be seen.

KEY PLAYERS TO WATCH

While not self-sufficient in food by any measure, the UK has a proud farming tradition and a sophisticated **food-manufacturing and retail sectors**. Production is closely associated with the character of the landscape and regional self-worth. Niche products like Scotch whisky and Welsh lamb have global appeal. Retailers like Marks & Spencer and Tesco continue to drive innovation in their sphere. However, there is concern that food and agriculture could become exposed to global markets, with food prices driven up by currency, commodity and tariff impacts.

The City of London's **financial services sector**—despite the scandals and the crash—is a significant jewel in the UK's economic crown. Paris, Frankfurt and Dublin, among others, are moving quickly to try to prise key functions and institutions away from London. Some global sectors, such as insurance, and niche services in legal, financial and professional segments, will continue to exert their worth, while others are already falling away. There is a future, but it will be a different, and not so universal one, for the Square Mile.

The UK is also home to a significant **automotive sector**, with leading Japanese manufacturers Nissan, Toyota and Honda repeatedly committing investment to Sunderland, Derby and Swindon over the years, alongside BMW and Jaguar Land Rover. Last year, 1.7 million cars were built in the UK, and the sector employed 814,000 people. All this activity relies on 'just-in-time' supply chains and free access to the EU market. While existing investments appear secure in the immediate term, the future location of key manufacturing sites for the next generation of electric vehicles will be a key indicator of whether the UK can weather the Brexit storm. The UK car industry is pushing for the softest possible Brexit deal to support this critical industry.

CULTURE OF ENGAGEMENT

British political culture is open at official and political level. While networks do undoubtedly exist, and the off-the-record briefing plays a healthy role, there is almost no corruption and no material restriction on access to key actors. If anything, the current UK government's slender grip on power has made it more open than ever to learn what interlocutors have to say. Whether it is able to act on those representations to any great effect is another matter.

Jonathan McLeod, Chairman, UK, Corporate & Public Affairs, Weber Shandwick London



EUROPEAN UNION

FOLLOWING THE BREXIT VOTE AND THE U.S. ELECTIONS, PEOPLE AND POLITICIANS HAVE GALVANISED SUPPORT FOR A MORE EXTRAVERT EU.

The EU is in the midst of a hectic period when it comes to trade policy formulation. In the past two years it witnessed a roller-coaster ride from being an ardent supporter of free trade, to facing a trade policy in near disarray, emerging in 2017 as one of the preeminent supporters of the multilateral trading order. Substantial political capital is being mustered to back this up with new policies and a flurry of trade deals. In this time of disrupting trends, the EU has become a flag bearer of free trade.

Such an outcome was unimaginable only a year ago. With FTAs ever broader in scope, far beyond addressing tariff barriers, public opposition grew. This focused specifically on TTIP and Chinese dumping of excess steel. Nationalist populism, including its generally protectionist and inward-looking foreign policy, reigned in the lead-up to critical elections in Austria, the Netherlands and France, making support for globalisation politically toxic. Trade was framed in terms of secret arbitration tribunals, corporate takeovers and hormone beef.

Fast forward one year and the landscape is unrecognisable. Following the Brexit vote and the U.S. elections, people and politicians have galvanised support for a more extravert EU. External disruptions such as these have forced the EU to come together and step up as one of the main keepers of international trade. The EU is in fact highly reliant on multilateralism for a number of reasons. Not only does this political and economic union boast an intra-EU trade of more than €3 trillion in 2015 (Eurostat), it is one of the largest exporters in the world, with 1 in 7 jobs linked to exports in 2015. Moreover, the EU has mainly soft power at its disposal when it comes to external relations, making trade policy a key tool to advance its foreign policy objectives.

The WTO is considered as enforcer of a level playing field. Seeing the lack of progress in WTO negotiations under the Doha Round, the EU has pursued an aggressive trade policy aimed at large, ambitious agreements. This is not surprising, given that the benefits of reducing tariffs with many of its key trading partners are limited. Addressing non-tariff barriers and promoting regulatory cooperation is where the real value lies. This aligns with the EU's practice of exporting its norms and standards as part of its foreign policy. Ensuring ever broader alignment with EU standards gives European business a competitive advantage as 'early regulatory adopters'. A case in point is the growing adoption of EU data privacy rules, as showcased by the recent Indian Supreme Court ruling.

MAIN INTERNATIONAL TRADE ISSUES

1 To take account of popular criticism, the European Commission wants to **ensure that free trade also means fair trade**. It launched a discussion paper laying out options to strengthen sustainability provisions in FTAs and better enforce existing ones. The aim is to ensure that partner countries respect minimum standards on issues like workers' rights and the environment. Two models are considered at this stage: a bilateral monitoring system and a sanctions model. The European Parliament and Council of the EU will discuss the proposals in the months ahead.

2 With the recently concluded EU-Canada FTA (CETA) almost stumbling due to national ratification demands, **calls to make the ratification procedure leaner have grown**. The European Court of Justice ruling on the EU-Singapore FTA in May showed that national ratification is not needed if investment protection provisions are not included. Proposals are now considered to carve out the investment protection chapter and ratify it separately, with the remaining majority of a trade deal only needing to be ratified at EU level.

3 A new sense of urgency has also emerged over the need to **level the playing field with China**, after years of Chinese acquisitions in high-value sectors. A joint German, French and Italian proposal to screen FDI in strategic sectors and ensuring reciprocity in market access is now circulating. The European Commission has also prepared a draft regulation that would allow EU Member States to block investments in critical infrastructure and technologies 'on grounds of security or public order.' This could take into account whether the foreign investor is state controlled.

4 Dealing with the **fall-out from Brexit and the U.S. elections** continues to weigh on EU trade policymaking. Transatlantic ties are in disarray, with Trump seemingly bent on discrediting multilateral institutions across the board and pulling out of major multilateral deals such as TPP and the Paris Climate Agreement. Meanwhile, the UK is pulling out of the largest single market and is keen to start bilateral talks with a range of non-EU countries. Central to the EU's response has been to **push forward with major trade deals**. A political agreement on the EU-Japan FTA was reached in July and seems within reach in the talks with Mercosur and Mexico. The EU-Vietnam FTA is about to enter the ratification process and talks with Australia and New Zealand are expected to start soon. Meanwhile, the 2018 EU-ASEAN Ministerial will look at relaunching a region-to-region deal. The Commission will likely ask for a mandate to start negotiating a Multilateral Investment Court.

KEY PLAYERS TO WATCH

International trade policy developments have a large bearing on a wide range of actors in the EU. When assessing the interests at stake, a range of sectors seem to take a mixed approach on free trade. They seek open markets where competition is limited, but demand protection from unwanted foreign competition at home. Similarly, there are key stakeholders that do not oppose international trade as such, but require it to be 'fairer'. This variation of offensive and defensive sectoral interests depends on the FTA in question and its relative impact on different EU Member States.

The **automotive sector** proved defensive in deals with South Korea and Japan, but was an offensive interest in the TTIP negotiations. The European **financial services sector** is by and large keen to have unfettered access to a post-Brexit UK, but was adamant about regulatory cooperation and firm oversight under a possible TTIP. The same applies to the **agri-food sector**, which sees huge opportunities in Japan, but fears competition from Mercosur operators.

More defensive have been parts of the **manufacturing industry**, especially those facing intense competition, and the **audiovisual industry**, which is concerned with competition from the U.S. and China. **Labour unions, consumer rights groups, as well as environmental and development NGOs** tend to be wary of free trade in its old guise. They are pushing for 'free and fair' trade and have a proven track record of radically shaping public opinion and indirectly trade policymaking.

Broadly offensive sectors, irrespective of the trade relationship at stake, include **hydrocarbon energy, pharmaceuticals, high value machineries, engineering, chemicals**, as well as **the institutional investor community**. These sectors tend to fare well in a global competitive environment.

CULTURE OF ENGAGEMENT

Trade negotiations have become increasingly transparent, allowing stakeholders to monitor progress closely. Opportunities for engagement already existed before this growing openness. EU trade policy tends to result from Commission initiatives, Council mandates and Parliamentary scrutiny. Much of this is conducted in an open process, including wide ranging public consultations and dialogues with civil society and industry. Stakeholders compete amongst each other and engage in direct lobbying with EU and national institutions. This is often flanked with coalition building efforts, paid and earned media, social media campaigns, as well as policy events.

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Takeo Nishitani has been acknowledged as one of Japan's most articulate communications "bridges" and has served as a link between foreign companies and government agencies in Japan for more than forty years. He provides strategic counsel to major clients in utilities, healthcare, manufacturing, financial and consumer/entertainment organisations, and public institutions. He authored the first book in Japan on global public affairs strategies and lobbying, published by Toyo Keizai Shinposha.

BRAZIL



Andreia Salles

Managing Director, Brasilia Office
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Andreia Salles has more than 15 years of experience developing customised public relations and content creation strategies for brands across a wide range of industries. She was recognised by PRWeek Powerful Book for two years for her influence in the PR industry. Prior to her career in Public Relations she worked as a journalist and holds a graduate degree in digital journalism.

INDIA



Valerie Pinto

CEO, India
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Valerie Pinto, CEO, India, has been instrumental building an environment that brings creativity alive and innovation that inspires best in class talent to deliver unique and relevant client experiences. With over 20 years' experience in communications and reputation building, Valerie has been closely advising clients on Indian integration strategies, public affairs, executive positioning, network management and thought leadership. Valerie Pinto was named one of the top 40 under 40 professionals to watch out for across APAC by Campaign Asia Pacific.

SOUTH AFRICA



Jill Hamilton

Managing Director, Africa
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Jill Hamilton has extensive experience in international affairs, public relations and strategy development in emerging market economies; having worked in over 25 countries, lived in 11 and travelled to more than 70. Jill is a specialist in understanding diverse working environments associated with high-risk environments with a special focus on Sub Saharan Africa.

PHOTO CREDITS

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An aerial photograph of a container yard, viewed from a high angle. The image is overlaid with several large, semi-transparent, colorful shapes: a purple shape on the left, a red shape in the upper center, an orange shape on the right, and a teal shape at the bottom. The containers are stacked in neat rows, and some have visible logos and numbers. The Weber Shandwick logo, consisting of a stylized white square icon followed by the text 'WEBER SHANDWICK' in white, is centered over the red and orange areas.

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