PODCAST

Asia Brief

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The [Asia Brief] is meticulously crafted to give Swiss-Asian business stakeholders a comprehensive understanding of Asia's rapidly changing economic and business landscapes. This region presents a dynamic blend of challenges and opportunities crucial for Swiss businesses and their global counterparts. Through the [Asia Brief], we aim to empower SwissCham ASIA's members with enhanced strategic positioning and informed decision-making, fostering success for Swiss and Asian businesses within the dynamic Asian market.

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Bonus: *IWT:PCA's Ruling* (Farhat Ali)

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Switzerland

Switzerland Faces Economic Pressure from New US Tariffs

Switzerland, a nation known for its prosperity and stability, is facing significant economic challenges following the implementation of new US tariffs. On August 7th, the United States imposed a **39% tariff** on certain Swiss exports, despite urgent diplomatic efforts by **Swiss President Karin Keller-Sutter and Economics Minister Guy Parmelin.**

Switzerland's Deep Trade Ties with the US

This development is particularly concerning for Switzerland due to its heavy reliance on international trade and the critical importance of the US market.

- **Export-Driven Economy:** Despite its relatively small size, Switzerland's export sector is vital. Exports reached 283 billion Swiss francs in 2024, growing by 3% from 2023. Key exports include pharmaceuticals (Roche, Novartis), machinery, and precision instruments like watches (Rolex, Swatch, Patek Philippe).
- **The US as a Key Partner:** The United States is Switzerland's single largest export market, absorbing 19% of all Swiss exports in 2024. Furthermore, Switzerland is a major investor in the US, with roughly 500 Swiss companies employing approximately 500,000 people. Swiss investment in the US totals $307 billion, exceeding its combined investments in Germany, France, Italy, and the UK. US investment in Switzerland is also substantial, at around $212 billion.

- **High Economic Dependence:** Analysis indicates that Switzerland has the highest level of export dependence on the US relative to GDP among major European economies. Exports to the US averaged 6.7% of Swiss GDP over the past year.

Targeted Sectors and Potential Risks

The immediate impact of the 39% tariff – more than double the 15% rate applied to many EU goods – falls heavily on specific Swiss industries:

- **Watch Industry Impacted:** The Swiss watch sector, which exported $7.6 billion worth of goods to the US in 2024, faces increased costs. While high-end brands may have more resilience due to brand loyalty and margins, mid- and lower-tier brands are particularly vulnerable, especially with the added pressure of a strong Swiss franc. Consumer shifts to other brands are a potential risk if prices rise significantly.
- **Pharmaceutical Sector Under Threat:** Although the current 39% tariff does not directly target pharmaceuticals – Switzerland's largest source of trade surplus with the US ($35 billion in 2024) – the sector faces uncertainty. President Trump has publicly commented that Swiss drugmakers are "making a fortune" and separately proposed plans for potentially very high tariffs (up to 250%) on imported pharmaceuticals in the future. This creates a significant looming threat for a cornerstone of the Swiss economy.

Swiss Government Response: Seeking Solutions

- **Limited Retaliation Options:** Recognizing the vast disparity in market size (Switzerland's 9 million vs. the US's 341 million), the government has explicitly ruled out imposing retaliatory tariffs, stating such escalation "does not serve Swiss interests."

- **Domestic Mitigation Measures:** The government announced support measures focused on "partial unemployment" (short-time work schemes). These allow companies affected by reduced orders to temporarily reduce employee working hours, with the state partially compensating lost wages. This aims to preserve jobs and provide breathing room, with the scheme potentially extendable up to 24 months.
- **Continued Diplomatic Efforts:** Despite the initial lack of success in preventing the tariffs, Swiss officials continue negotiations in Washington. Potential solutions under discussion reportedly include offers of increased Swiss investment in the US or reaffirming planned defense procurement, such as the F-35 fighter jet deal.

The Swiss government expects economic growth to slow as a result of the tariffs. While the full impact on consumers is yet to be seen, strong domestic preferences for local "Swiss-made" products might offer some buffer. The effectiveness of the government's mitigation measures and the outcome of ongoing diplomatic talks will be crucial in determining the longer-term economic consequences for Switzerland.

In summary, the new US tariffs present a substantial economic challenge for Switzerland, exposing its vulnerability as a small, trade-dependent nation heavily reliant on the US market. The Swiss government is pursuing diplomatic solutions and domestic support measures, while ruling out retaliation, as it navigates this complex situation with its most important trading partner.

Bahrain

As of August 2025, Bahrain continues its economic diversification under Vision 2030, with non-oil sectors driving 84.8% of GDP and growing 2.7% YoY, led by financial services and construction. While benefiting from $1.8 billion in GCC development funds, the country faces fiscal pressures with public debt at 112% of GDP, prompting an S&P downgrade to "negative." Key digital initiatives include the Digital Twinning Program and Saudi-Bahrain fintech corridor development. Bahrain is strengthening international ties through agreements with Cyprus and Tunisia while advancing workforce development through Tamkeen programs.

Bangladesh

Bangladesh's interim government faces mounting challenges with 10% inflation and 112% debt-to-GDP ratio, while economic growth stagnates at 3.3-3.8%. Political tensions escalate ahead of April 2026 elections, with ongoing violence (72 deaths in Q2) and military deployment to curb crime. The garment sector and remittances provide limited stability, but power shortages persist despite new regional energy deals. Constitutional reforms face opposition as Rohingya refugee inflows continue, with EU election support failing to ease deep political divisions. The nation stands at a crossroads between recovery and prolonged instability.

Bhutan

Bhutan's economy is projected to grow by 7.2% in FY24/25, driven by hydropower expansion and tourism recovery, though public debt remains high at 122% of GDP. The government has introduced new FDI rules (2025), allowing full foreign ownership in key sectors like renewables and tourism, while the $300 million World Bank partnership (2025-2029) supports digital and climate resilience initiatives. Tourism arrivals surged 85% in July 2025, with India as the top source market, though Bhutan maintains strict Sustainable Development Fee ($100/night) to limit environmental impact. Politically, Bhutan balances constitutional monarchy reforms with growing youth activism, as seen in recent parliamentary forums demanding inclusive policies on drug abuse, gender equality, and employment.

Challenges persist, including brain drain, rural-urban disparities, and reliance on hydropower exports, but the Gelephu Mindfulness City project signals long-term economic ambitions. The country remains committed to Gross National Happiness (GNH), though modernization pressures test its traditional development model.

Brunei

Brunei's government continues diversification efforts under Wawasan Brunei 2035, with progress in halal exports and aviation, while grappling with structural challenges like high public sector employment (75% of workforce) and 112% debt-to-GDP ratio. Key initiatives include digital economy partnerships and pilot renewable energy projects, though these lag behind regional counterparts. New U.S. tariffs (25% from August 2025) pose fresh trade challenges. Politically stable under its absolute monarchy. The World Bank's $300 million partnership aims to boost regional trade and climate resilience, as the country balances hydrocarbon dependence with strategic investments in tech and regional integration through Borneo-linked projects.

Central Asian Region

Central Asia continues balancing great-power relations, with deepening China ties (55 new agreements at June's summit) and EU outreach (Samarkand bloc talks), while navigating U.S. uncertainty under Trump's reciprocal tariffs (10-27%). Regional GDP growth remains steady (~6% avg), driven by energy exports (Kazakhstan supplies 13% of EU oil/gas) and critical minerals (Uzbekistan's $2.6B rare earth projects). Security concerns persist over Afghan spillover, though intra-regional trade ($11B) and C5+1 diplomacy offer stability. Water scarcity and youth unemployment (avg age 28.7) remain key challenges.

- **Kazakhstan:** Kazakhstan's economy demonstrates robust growth, with GDP expanding 6.3% year-on-year in the first seven months of 2025, driven by strong performance in transportation (22.5% growth), construction (18.5%), and trade (8.6%). The country is aggressively modernizing its 16,000 km railway network, aiming to double transit volumes to 54 million tons by 2026 and solidify its role as a key Eurasia logistics hub. Digital transformation initiatives, including AI integration in education and real-time cargo tracking, are prioritized. Despite high inflation (11.8% year-on-year in June), food price growth has recently slowed. Kazakhstan also advances its nuclear energy plans and hosts a new UN Sustainable Development Goals center for Central Asia.
- **Uzbekistan:** Uzbekistan maintains strong economic momentum with 6.2% GDP growth in the first half of 2025, driven by industrial production expansion and increased foreign investment. The country continues implementing ambitious economic reforms, including privatization of state assets and liberalization of key sectors. Major infrastructure projects advance, particularly in transportation and energy, enhancing regional connectivity. Uzbekistan strengthens its regional leadership role through active participation in Central Asian cooperation formats while maintaining balanced foreign relations with major global powers. The agricultural sector undergoes restructuring to improve productivity and water efficiency amid ongoing climate challenges.

Mongolia

Mongolia's economy shows robust growth, with GDP expanding 5.6% year-on-year in the first half of 2025, driven primarily by strong performances in the mining, construction, and service sectors. The government continues to prioritize infrastructure development and economic diversification, with mining remaining central to the economy, contributing over 20% to GDP and 80% of exports. Reforms aimed at enhancing fiscal stability and public spending efficiency are underway, as recommended by the World Bank to mitigate risks from global commodity market fluctuations. Culturally, Mongolia celebrates its nomadic heritage through events like the Naadam Festival and promotes tourism as a key growth sector.

China

China's economy maintains stable growth with 4.8% GDP expansion in the first half of 2025, driven by strong performance in advanced manufacturing and green energy sectors. The government continues implementing structural reforms to boost domestic consumption and technological innovation, with particular focus on semiconductor independence and AI development. The property market shows signs of stabilization after government intervention, though local government debt continues to pose challenges. China deepens international cooperation through Belt and Road initiatives while navigating complex geopolitical relationships. Environmental protection and carbon neutrality targets remain key policy priorities, with renewable energy investment reaching new records. The country maintains proactive fiscal and monetary policies to ensure economic stability amid global inflationary pressures.

- **Chinese Taipei (Taiwan):** The economy shows resilience with strong export performance, as July 2025 export orders reached $57.64 billion, a significant 15.2% year-on-year increase. The region's Q2 2025 economic growth reached 8.01%. The region faces trade challenges including Japan's anti-dumping investigation on its chemical exports (specifically bisphenol A) and broader global tariff uncertainties. The region is actively pursuing economic diversification through initiatives like the "Investment in Taiwan" and strengthening regional partnerships, particularly with Southeast Asian countries through financial cooperation agreements. However, consumer confidence has weakened, with buying sentiment for homes dropping to -50.5 and economic outlook optimism declining to -39.9 in August 2025.
- **Hong Kong:** Hong Kong's economy continues its steady growth trajectory, with Q2 2025 GDP expanding by 3.1%, slightly higher than the previous quarter's 3.0% growth. The region benefits from strong export performance, particularly to mainland China and Asian markets, though exports to the US and EU have declined. The region continues to strengthen its position as a cultural and events hub, hosting various concerts and cultural performances throughout August 2025. However, challenges persist from elevated US tariff policies and uncertain interest rate environments, which may affect trade flows and investment sentiment in the coming months.

Macao: Macao's economy demonstrates robust recovery with gaming revenue reaching MOP$18.2 billion in July 2025. The region's tourism sector continues to strengthen, with visitor arrivals exceeding 2.8 million in the second quarter, representing 85% of pre-pandemic levels. The government maintains fiscal stability with budget surplus projections of MOP$12.6 billion for 2025, supported by sustained recovery in luxury retail and hospitality sectors. Infrastructure development advances with the new Light Rail Transit East Line project progressing on schedule. However, the region faces challenges from regional competition and changing consumer preferences, requiring continued innovation in entertainment and cultural offerings. Environmental initiatives include coastal protection projects and green building standards to address climate resilience concerns.

Cambodia

Cambodia's economy faces headwinds as growth is projected to slow to 5.2% in 2025 (from 6.0% in 2024) due to U.S. tariff impacts and subdued real estate activity, though services remain resilient. The government is pursuing economic diversification and market expansion to mitigate trade tensions, while implementing targeted fiscal support. Politically, Cambodia is embroiled in a serious border dispute with Thailand, involving allegations of landmine use and ceasefire violations, which has led to casualties and displaced thousands. This conflict has strained bilateral relations, disrupted trade and tourism, and prompted international concern, with China urging peaceful resolution. On the policy front, Cambodia is expanding its green bond program to finance climate-related projects, supporting national sustainability goals. The government continues to prioritize diplomatic solutions to the border crisis while focusing on economic stability and structural reforms.

India

India's economy demonstrates robust growth, with GDP expanding 6.5% in FY2024-25 and projected to grow between 6.3% and 6.8% in FY2025-26, reinforcing its position as the world's fastest-growing major economy. Structural reforms under initiatives like Make in India and Production Linked Incentive (PLI) schemes continue to boost manufacturing and attract foreign direct investment, which saw equity inflows surge 27% in the first nine months of FY2025. However, challenges persist, including exposure to global trade tensions and the need to address agricultural sustainability and employment generation. India's digital economy remains a standout, with UPI processing 172 billion transactions in 2024 and tech exports driving services growth.

Indonesia

Indonesia's economy shows resilience with Q2 2025 GDP growth reaching 5.12%, driven by robust investment and export activity ahead of new U.S. tariffs. Despite inflationary pressures remaining mild, challenges persist, including 19% U.S. tariffs on key exports like shrimp and fragile domestic demand. Politically, the government faces scrutiny over data reliability and structural reforms, while President Prabowo's administration prioritizes defense spending and food security programs. The World Bank emphasizes the need for productivity-boosting reforms to sustain long-term growth.

Japan

Japan faces mounting economic pressures with Q1 GDP contracting 0.2% amid persistent 3.5% inflation and declining real wages. Politically, Prime Minister Ishiba's administration navigates domestic challenges from the rising right-wing "Sanseito" party while pursuing active diplomacy. Japan strengthens defense cooperation through its first ministerial visit to Turkey and maintains support for Ukraine through multilateral engagements.

Relations with China remain strained despite some trade progress, with ongoing tensions over East China Sea activities and rare earth export controls. The government balances Western-aligned security commitments with managing complex economic ties with Beijing, all while addressing domestic discontent over rising living costs and demographic challenges.

Laos

Laos continues to navigate significant economic challenges. The government prioritizes infrastructure development, evidenced by a new JICA-funded water treatment plant in Vientiane to expand water supply. Efforts to boost economic self-reliance include partnerships with local retailers like Sokxay Group to promote domestic products. Diplomatically, Laos strengthens regional ties, celebrating 70 years of relations with Myanmar and expanding cooperation in trade, energy, and connectivity. However, the country remains on the FATF "grey list" for AML/CFT deficiencies, having deferred its progress report. The government maintains its one-party political system under President Thongloun Sisoulith, with ongoing policies focused on gradual economic stabilization and regional integration.

Malaysia

Malaysia's economy shows resilience with strong tourism performance in August, a peak season due to summer vacations in many countries. Key economic developments include the implementation of a new Transfer Pricing Tax Audit Framework and updates to service tax policies and the high-value goods tax (HVGT). Politically, the country continues to play an active regional role, having recently facilitated a ceasefire agreement between Thailand and Cambodia in July. Infrastructure advances with the merger of the Civil Aviation Authority of Malaysia (CAAM) and the Malaysian Aviation Commission (MAVCOM) into a single regulatory body. Environmentally, the country faces seasonal haze challenges from agricultural burning in neighboring regions. The government maintains its focus on economic diversification and regional diplomacy, while managing domestic priorities like the National Day celebrations on August 31st.

Middle East Region

The Middle East remains embroiled in conflict and geopolitical shifts. The Israel-Hamas war in Gaza continues, with significant civilian casualties and aid-related violence. US-Israel operations have degraded Iran's nuclear and military capabilities, though regional tensions persist. Economically, the region faces modest growth (2.6% in 2025), hampered by trade tensions, oil production cuts, and conflict impacts. The US-backed regional order, centered on Israel, Turkey, and Gulf states, struggles with internal rivalries and unresolved issues like Palestine and Kurdish demands. Humanitarian crises and political instability continue to challenge development prospects.

- **Saudi Arabia:** The country faces emerging twin deficits, with a fiscal deficit of 2.5% of GDP and a current account deficit of 0.5% of GDP in 2024, financed through external borrowing and reduced foreign asset accumulation. Inflation remains contained at 2.3% (April 2025), while the banking sector stays well-capitalized. Major infrastructure investments, including NEOM and Red Sea projects, continue to advance economic diversification. However, downside risks persist from global trade tensions and potential oil market volatility.
- **United Arab Emirates (UAE):** Dubai continues to lead regional recovery with record tourist arrivals exceeding pre-pandemic levels. The country's digital economy expansion accelerates through blockchain adoption and smart city initiatives. The UAE strengthens its position as a global business hub through progressive visa reforms and sustainable energy investments. The country's strategic diversification efforts under Vision 2031 show sustained progress across renewable energy, technology, and logistics sectors.

Myanmar

The country's GDP remains 9% below pre-coup levels, with ongoing conflict disrupting trade and agricultural production. International sanctions have severely constrained foreign investment, while China maintains its position as Myanmar's largest trading partner and investor. The military government faces persistent armed resistance from ethnic groups and pro-democracy forces, particularly in border regions. Humanitarian conditions continue to deteriorate, with over 2.6 million people displaced and nearly half the population living below the poverty line. The banking system remains fragmented, with chronic cash shortages and restricted foreign exchange access. Regional diplomatic efforts continue through ASEAN channels, though with limited progress toward political resolution.

North Korea

North Korea continues to face significant economic challenges with widespread food shortages and chronic energy deficits affecting daily life. The country maintains its closed economic system while increasingly relying on clandestine trade networks with China and Russia to bypass international sanctions. Military spending consumes approximately 25% of GDP, diverting resources from civilian needs. Recent reports indicate expansion of cyber operations as a revenue source, particularly through cryptocurrency theft and illicit financial activities. Agricultural production remains insufficient to meet basic needs, with the UN estimating 42% of population undernourished. International monitoring reports suggest deteriorating public health conditions and limited access to essential medicines.

Pakistan

Pakistan's economy shows signs of stabilization with inflation moderating to 12.3% in July 2025, though food inflation remains elevated at 15.2%. The country has secured a new $7 billion IMF program to address fiscal challenges. The government continues to grapple with energy sector reforms and circular debt exceeding $14 billion, while implementing structural reforms in taxation and state-owned enterprises. Political stability remains fragile with ongoing tensions between the government and opposition parties. Humanitarian challenges persist from climate-related disasters, particularly affecting agricultural communities in flood-prone regions.

Philippines

The Philippines' economy remains robust, with GDP growth projected at 5.3% in 2025, driven by strong domestic consumption, a vibrant labor market, and stable remittances. The country is on track to achieve upper-middle-income status by 2026. However, challenges persist, including a widening fiscal deficit (7.3% in Q1 2025) and the need for structural reforms to boost SME productivity and global value chain integration. The government prioritizes infrastructure development through public-private partnerships (176 projects worth $44 billion) and aims for 35% renewable energy by 2030. Politically, human rights concerns continue, though drug-war killings have decreased under President Marcos. The tourism sector is set for a record year, contributing PHP 5.9 trillion (21% of GDP) and supporting 11.7 million jobs.

Singapore

Singapore's government continues to advance its digital transformation agenda, with the recently launched National AI Strategy 2.5 focusing on generative AI adoption across key industries. Inflation remains manageable at 1.8% while unemployment stays low at 2.1%. Singapore strengthens its position as a regional hub through new green finance initiatives and expanded digital trade agreements with ASEAN partners. The country faces ongoing challenges in managing rising business costs and maintaining competitiveness amid global economic uncertainties. Housing affordability remains a key social priority, with new measures introduced to support first-time home buyers.

South Korea

South Korea faces unprecedented political turmoil following the imprisonment of former President Yoon Suk-yeol and First Lady Kim Keon-hee on corruption charges, creating deep societal divisions. President Lee Jae-myung's administration navigates this crisis while managing economic challenges, including 9.2% export growth amid high household debt ($1.8 trillion) and the world's lowest fertility rate (0.68). The government pursues technological advancement through AI and biotech reforms while addressing the lingering constitutional crisis from Yoon's attempted martial law declaration. Inter-Korean relations show cautious progress through trade talks, though tensions persist.

Thailand

The government's digital wallet stimulus program continues to boost domestic consumption, though concerns persist about its fiscal sustainability. Agricultural exports, particularly rice and rubber, benefit from improved global prices and trade diversification efforts. The Bank of Thailand maintains a cautious monetary policy amid moderate inflation and currency stability considerations. Political stability has improved following the formation of a coalition government, though structural reforms in energy subsidies and state enterprise efficiency face implementation challenges. Infrastructure development advances with high-speed rail projects, while environmental initiatives focus on climate resilience and renewable energy transition. The country positions itself as a regional hub for electric vehicle production and digital innovation, attracting increased foreign investment in technology sectors.

Vietnam

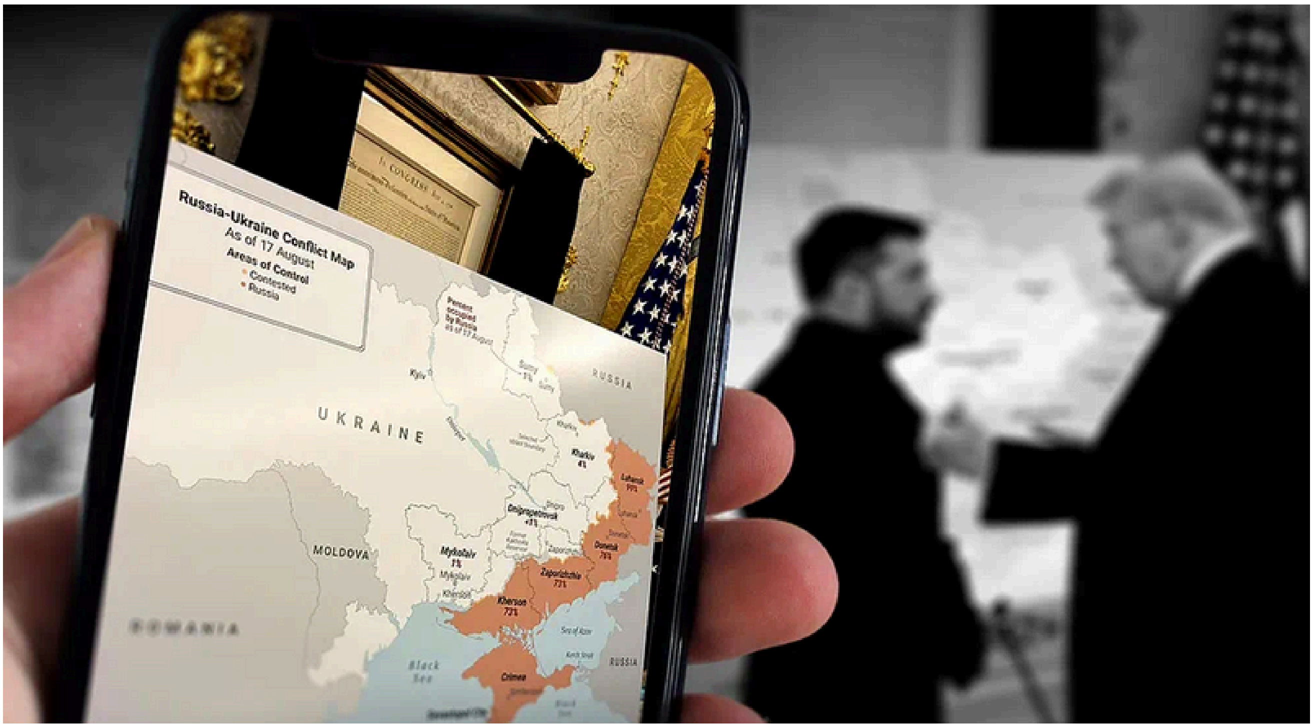
Vietnam's economy maintains strong growth momentum with GDP expanding 6.2% in the first half of 2025, driven by robust manufacturing exports and recovering domestic demand. The electronics sector remains a key growth engine, accounting for over 35% of total exports, though the industry faces challenges from global semiconductor market fluctuations. Infrastructure development accelerates with new expressway projects and port upgrades enhancing regional connectivity. However, the property market shows signs of cooling after recent overheating, with authorities implementing measures to ensure stable development. Environmental initiatives gain prominence as Vietnam advances its energy transition roadmap, focusing on renewable expansion and climate resilience. The country maintains active diplomatic engagement while navigating evolving regional trade dynamics.

COLUMN REPORT

CEASEFIRE PROSPECTS EMERGE AS UKRAINE CONFLICT ENTERS FOURTH YEAR AFTER MAJOR POWER NEGOTIATIONS

After more than 1,200 days of devastating warfare that has reshaped global security architecture, the deadliest European conflict since World War II shows initial signs of potential resolution. This month's extraordinary diplomatic activity, featuring back-to-back meetings between U.S. President Donald Trump and both Russian President Vladimir Putin and Ukrainian President Volodymyr Zelenskyy alongside European leaders, represents the most significant movement toward peace.

The flurry of diplomatic activity commenced on August 15th with a carefully orchestrated Trump-Putin summit in Alaska, followed just three days later by an August 18th gathering at the White House that brought together Zelenskyy with leaders from Britain, France, Germany, Italy, the European Union, and NATO. The rapid sequence of high-level meetings suggests all parties recognize the conflict has reached a critical juncture, with battlefield momentum favoring Russia but political pressures mounting across all capitals for resolution.



Divergent Interests Shape Negotiating Positions

The competing interests among stakeholders have created a complex diplomatic landscape. The Trump administration appears motivated by dual objectives: recouping American investments in Ukrainian defense while burnishing presidential legacy through conflict resolution.

Concerns about potential U.S.-Russia arrangements that might sacrifice European interests have created anxiety in Brussels and national capitals. Russian objectives appear focused on securing international recognition of territorial gains, particularly in Donetsk, Luhansk, Zaporizhzhia, Kherson, and Crimea. The Alaska meetings yielded significant Russian advantages with no additional sanctions and Trump's public suggestion of "great economic cooperation potential" between the nations.

Breakthrough: Movement Toward Direct Talks

The most concrete outcome emerging from August's diplomatic whirlwind appears to be the potential for direct Putin-Zelenskyy negotiations. In a remarkable shift, Zelenskyy has dropped his previous precondition that Russia cease hostilities before talks could begin, stating during his Washington visit that he is willing to meet Putin "now."

According to German Chancellor Merz, Trump interrupted the multilateral meeting with European leaders to place a 40-minute call to Putin, after which the Russian leader reportedly agreed to direct talks with Zelenskyy within two weeks. Trump subsequently announced plans to arrange a Putin-Zelenskyy meeting followed by trilateral U.S.-Russia-Ukraine negotiations.

However, Russian officials have been more circumspect, with Presidential Advisor Yuri Ushakov mentioning only the possibility of "studying the possibility of raising the level of Russian-Ukrainian negotiation representatives" without confirming presidential-level talks.

Obstacles Remain Formidable

Despite diplomatic progress, fundamental disagreements continue to obstruct comprehensive settlement. The territorial issue remains most contentious, with Russia demanding recognition of all currently occupied territories, the U.S. suggesting a compromise allowing Russia to keep three regions while withdrawing from two, and Ukraine insisting on restoration of its full 1991 borders.

The sequencing of ceasefire and negotiations also divides parties. European leaders and Ukraine advocate immediate ceasefire along current frontlines before comprehensive peace talks, arguing that continued fighting allows Russia to consolidate and potentially expand territorial control. Russia and now the U.S. favor immediate negotiations without preliminary ceasefire.

Security guarantees present additional complications. While Trump has promised Ukraine "very good protection and very good security," his clarification that European nations should provide the primary security commitment as "first line of defense" raises questions about implementation. The specific mechanisms, potential international troop deployments, and relationship to NATO structures all remain unresolved.

Prospects for Peace

The recent diplomatic activity suggests the conflict may be approaching its final phase, though the path to comprehensive settlement remains uncertain. Several scenarios appear possible in coming months:

A frozen conflict with ceasefire but unresolved political status appears most immediately achievable, potentially followed by prolonged negotiations over final status issues. Alternatively, should direct Putin-Zelenskyy talks materialize, they could produce breakthrough on core issues despite significant obstacles.

The least optimistic scenario would involve collapse of current diplomatic efforts followed by renewed intensive fighting, as both sides potentially seek improved battlefield position before eventual resumed negotiations.

What appears clear is that all parties now recognize the conflict has reached a point of mutual exhaustion where continued fighting brings diminishing returns despite enormous costs. As a senior European diplomat noted anonymously: "Everyone has gotten what they can get through fighting. Now they must try getting something through talking."

The coming weeks will prove decisive in determining whether August 2025 marked the beginning of the end of Europe's bloodiest conflict in generations, or merely another diplomatic interlude before further violence.

IWT: PCA's ruling

The Hague-based Permanent Court of Arbitration's (PCA's) August 2025 decision on the Indus Waters Treaty (IWT) is more than a dry legal pronouncement — it is a diplomatic milestone in Pakistan's decades-long efforts to safeguard its lifeline rivers from upstream interference.

Farhat Ali

In its ruling, the Court declared it has full jurisdiction over Pakistan's complaint regarding India's hydropower projects on the Indus system's Western Rivers — the Indus, Jhelum, and Chenab — and that India must design such projects strictly in accordance with the treaty's specifications.

The phrase "strictly" is indeed the heart of the matter. For years, Pakistan has criticized India for bending the rules in the name of "best engineering practices" to exert more control over water flows. The Court has now affirmed that the treaty does not permit such unilateral reinterpretation.

Signed in 1960 with World Bank's mediation, the IWT divided six rivers between the two countries: three eastern rivers to India and three western ones to Pakistan. While India was allowed limited non-consumptive uses, such as run-of-river hydropower on the Western Rivers, those rights came with clear technical limits on dam designs and water storage.

The Ruling by the court is a 'Legal Win' for Pakistan and a 'Political Test' for India. But, this is not the end of it. It may well be a head start for Pakistan on the long process of the dispute resolution. What lies ahead is complex and challenging.

The following challenges could unfold as the process moves on:

1. **Sanctity of the court ruling and 'India's legal room to manoeuvre':**

The Court's decision is binding, but enforcement is a different game. India has little legal ground to "overrule" the PCA. The IWT's own dispute resolution mechanism — agreed by both countries — provides for binding arbitration if bilateral talks fail.

What New Delhi can do is political and procedural: delay implementation through extended technical discussions, seek "clarifications" on design changes, or partially comply with the ruling while keeping its projects largely intact. India might also use the verdict to re-open the broader debate about modernising the treaty, a move that could dilute Pakistan's hard-won protections.

2. **India's acceptance of the PCA ruling:**

An unconditional "yes" is improbable. But, legally, overturning the ruling is nearly impossible; politically, India can slow-walk or sidestep compliance.

India has already expressed discomfort with the arbitration path, preferring the "neutral expert" process that offers more room for technical compromise. Accepting the ruling without challenge could be seen domestically as conceding strategic ground to Pakistan.

More likely is a pattern of selective compliance — making some design adjustments with a view to appeasing the Court while ensuring that the core of India's hydropower ambitions remains unaffected.

3. **The 'Enforcement Gap' in relation to Court's ruling:**

The PCA cannot send inspectors or impose sanctions. Its power lies in the moral weight of international law and the political cost of open defiance. The World Bank, as treaty guarantor, can exert diplomatic pressure and even influence the flow of international development finance. Still, without active global backing, enforcement risks could become a slow grind of procedural follow-ups rather than a decisive action.

4. **Developing Scenario:**

In the near term, the most likely scenario is "managed tension." India delays, Pakistan protests, but both avoid a direct treaty breakdown. The IWT has survived wars and political crises for over six decades; neither side wants to be blamed for killing it.

Yet, climate change and domestic politics are making the ground more unstable. Melting glaciers, erratic monsoons, and growing populations are intensifying competition over water. If relations between the two countries take another sharp downturn — as they did after Pulwama in 2019 — water could move from being a managed dispute to an openly weaponised tool of statecraft.

The nightmare scenario for Pakistan is an Indian withdrawal from or suspension of the treaty, something periodically floated in Indian political circles. Such a move would trigger a diplomatic firestorm and invite international intervention — but in a more multipolar, transactional world, that risk cannot be dismissed.

5. **A moment to 'build on'**

> *For now, Pakistan can justifiably claim a legal and diplomatic victory. But this win will only matter if Islamabad can convert it into enforceable compliance. That requires sustained engagement with the World Bank, alignment with other riparian states facing similar upstream challenges, and careful public diplomacy to keep the issue alive at international forums.*

For Pakistan, the stakes are existential: about 80 percent of its agriculture and a significant share of its hydropower rely on uninterrupted flows from these rivers. Any upstream alterations — even those framed as "minor" — can disrupt planting cycles, power generation, and rural livelihoods.

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