

# ECONOMIC UPDATE

## GLOBAL & INDIAN JUNE 2014

### **Azevêdo congratulates International Trade Centre on 50th anniversary**

Director-General Roberto Azevêdo, in a speech to the International Trade Centre (ITC) Advisory Group on 11 June, commended ITC's achievements in helping developing-country exporters since its founding 50 years ago. "Since its creation the ITC has worked with the private sector and governments in developing countries to improve the institutional environment for prospective exporters," he said. The ITC is a joint agency of the WTO and the United Nations. When the ITC started operations in 1964 it had a staff of just five people. They were housed at the Villa Le Bocage, just up the hill from here — which was then part of GATT headquarters. And the operating context was rather different too. The Kennedy Round of negotiations had been launched around the same time. The sum of global exports stood at 176 billion dollars per annum — compared to more than 18 trillion dollars now. Container trade, as we know it today, was in its infancy. Bill Gates and Steve Jobs were both in elementary school!. It seems like a different world — and there's no doubt that both of our organisations have come a long way since then.

ITC products like Trade Map, Market Access Map, and Standards Map have become popular sources of useful, timely intelligence about market conditions for developing countries. Under the Trade Facilitation Agreement, not only does a country have to have the capacity before it is required to implement the provisions of the agreement, but assistance and support should be provided to help them achieve that capacity.

### **Members discuss green technology, 'incubation' and IP disputes when no rules breached**

The discussion on green technologies was the latest

in a series, put on the agenda at the request of Ecuador, which proposes easing patent terms and strengthening TRIPS flexibilities for environmentally sound technologies (document IP/C/W/585) so that the technologies can be transferred more easily to them. This would be similar to the flexibilities for pharmaceutical products. Ecuador said it is preparing a revised proposal for the next TRIPS Council meeting in October.

Some developing countries continued to support Ecuador's position (for example, Cuba, El Salvador, Peru), while others simply stressed that the flexibilities and other tools that already exist in the intellectual property agreement should be used (for example, Chile).

A number of developed countries countered that intellectual property protection does not hinder innovation and technology transfer in developing countries. Some (such as the US) described successful inventions around the world and the role of intellectual property in their development. Others (such as the EU) pointed out that only a tiny percentage of green technologies are patented in many developing countries, meaning these countries can freely use the technologies described and published in patents applications in developed countries. The obstacles to adopting green technologies lie elsewhere, for example in lack of financial resources, high investment costs, subsidies and import duties, they said.

Ecuador also called for a short information session on the subject before the next meeting with outside experts contributing. Some members supported the call, while others said they need to know more about the proposed event before endorsing it.

## Innovation incubators

A number of members, both developed and developing, described their experiences in providing services to support innovation by small and medium-sized enterprises, and start-up companies, described as “incubation” services. Where invention and intellectual property are concerned, these services can range from giving advice on management or for filing patents, to providing office space or laboratories.

Introduced by Chinese Taipei and the US, the discussion was intended to illustrate how smaller companies and newcomers could be supported to use intellectual property in developing their innovations. Also sharing their experiences were: Panama, Japan, Chile, New Zealand, Canada, Switzerland, Botswana and El Salvador. India cautioned that intellectual property protection can sometimes hinder innovation, a view that Brazil partly shared although Brazil also described its own innovation incubators.

## Non-violation dispute

The US called for an end to the “moratorium” on “non-violation” disputes in TRIPS. A non-violation case arises in the WTO when one country challenges the legality of another's actions, if it feels it is deprived of an expected benefit, even if no actual agreement or commitment has been violated. Non-violation disputes are allowed for goods and services, but not in intellectual property under a temporary agreement (the “moratorium”) that has been extended several times. The most recent two-year extension was agreed at the Bali Ministerial Conference in December 2013.

The US call came in a new paper circulated immediately before the meeting (document IP/C/W/599). The paper cites WTO case law and other factors to rebut a number of reservations countries have raised. It asserts that “non-violation” complaints are fully appropriate under the TRIPS Agreement. Findings in legal disputes under the General Agreement on Tariffs and Trade (the main treaty covering trade in goods), and guidance from the Dispute Settlement Understanding (which

governs legal disputes in the WTO) clarify adequately how the complaints would apply, it says.

Two thirds of the WTO's membership are needed to accept it for the amendment to take effect, and when that is reached, the amendment applies to those members that have accepted it. (Details of the system set out in the amendment, known as “Paragraph 6”, are here.)

## IMF Cuts U.S. 2014 Growth Forecast to 2%

The International Monetary Fund, forecasting that U.S. inflation will sit below the Federal Reserve's 2% target through 2017, said the central bank should keep its policy rate near zero even longer than investors now expect. In its annual review of the U.S. economy, the IMF cut its forecast for U.S. economic growth this year by 0.8 percentage point to 2%, citing a harsh winter, a struggling housing market and weak international demand for the country's products. The fund maintained its 3% growth outlook for next year, saying a meaningful economic rebound is under way. Still, the IMF said significant slack remains in the economy and U.S. officials must do more to stimulate growth in the near term. At the same time, the U.S. must cut spending and raise revenue in the long term to avoid public debt overwhelming the country's finances, the fund said. The remarks came ahead of a Fed policy meeting this week where officials will consider whether to change or clarify guidance on future rate decisions.

Markets currently expect the Fed to begin raising rates—from near zero where they've been since late 2008—in the middle of next year. “We're not that certain,” IMF Managing Director Christine Lagarde said in a news conference. She pointed to uncertainty over how much unemployment will fall over the next year. Nigel Chalk, the IMF's U.S. mission chief, said the fund expects “relatively high unemployment and a lot of slack in the labor market” to persist, and consumer inflation to remain well below target into 2017. That is why the fund said the U.S. government should boost near-term spending, notably on infrastructure, education, job training and child-care subsidies. Fund economists argue more government stimulus would take the burden off the Fed and

reduce the risk that easy-money policies fuel too much risky investing.

That means the Fed needs to continue to stimulate the economy through its cheap-cash policies, risking fueling instability in financial markets, the IMF said. Even if inflation were to temporarily rise above the central bank's target, the IMF said the Fed should be willing to accommodate higher price increases with the economy still well short of full employment. The fund warned that markets don't seem to be adequately factoring in "substantive ambiguities" in the economic outlook that could force the Fed to adjust its

monetary policies. "This sets up the risk, even with a successful and well-communicated increase in interest rates, for significant swings in market flows and prices in the months ahead," the IMF said. Ms. Lagarde said an earlier rise in interest rates by the Fed could stall the U.S. recovery, harm employment and create "severe consequences" for the global economy. Given the risks, the IMF also said the Fed needs to bolster its communication. The fund recommended the Fed consider news conferences after every policy meeting, instead of the quarterly conferences the Fed currently holds. The IMF also suggested the Fed should provide greater clarity about how it factors financial-stability risks into its decisions. As part of its review of the U.S. economy, the IMF also weighed in on a host of other controversial topics. Among its recommendations, fund economists said the U.S. should hike the minimum wage to help cut poverty levels and "significantly increase" gasoline taxes to bulk up federal revenues.

### **US Current Account Deficit increased**

The U.S. current-account deficit—a net measure of transactions between the United States and the rest of the world in goods, services, primary income (investment income and compensation), and secondary income (current transfers)—increased to \$111.2 billion (preliminary) in the first quarter of 2014 from \$87.3 billion (revised) in the fourth quarter of 2013. The deficit increased to 2.6 percent of current-dollar gross domestic product (GDP) from 2.0 percent in the fourth quarter. The increase

in the current-account deficit largely reflected an increase in the deficit on goods and a decrease in the surplus on primary income. In addition, the deficit on secondary income increased and the surplus on services decreased.

### **The Trade Negotiations Committee of WTO**

The Trade Negotiations Committee, which oversees the Doha Round negotiations, holds an informal meeting on 25 June. Director-General Roberto Azevêdo chairs the TNC.

DG Azevêdo meets with the Committee on International Trade of the European Economic and Social Committee on 24 June. The EESC is a consultative body of the European Union representing Europe's organised civil society. On 26 June he meets Harold McGraw, chairman of the International Chamber of Commerce and other ICC board members. On 27 June DG Azevêdo takes part in the General Council of the World Customs Organization in Brussels.

Yemen becomes the WTO's 160th member on 26 June. It is the seventh least-developed country to join the organization since it was created in 1995. Yemen deposited the "Instrument of Acceptance", confirming their government completed ratification of their membership terms, with DG Azevêdo on 27 March.

Committees dealing with regional trade agreements, government procurement, information technology and customs valuation also hold meetings during this week.

### **Azevêdo warns against revisiting Bali decisions**

Director-General Roberto Azevêdo, at the Trade Negotiations Committee meeting on 25 June 2014, noted concerns about efforts by some delegations to revisit the Trade Facilitation Agreement agreed in Bali. He warned that "everything we worked together to achieve in Bali would be potentially be lost". He assured members that the WTO Secretariat is "working hard" to ensure the provision of technical assistance to developing countries in trade facilitation