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Azevêdo launches intensive consultations on taking the Bali package forward

Director-General Roberto Azevêdo told a meeting of ambassadors to the WTO on 15 September that "we must begin a period of intensive and comprehensive consultations, starting now" on taking the Bali package forward. Emphasizing the importance of this coming work, he said that "we are in a very precarious position…and at a present I am not sure that the scale of the risk is fully appreciated by all". This is what he said:

Specifically:

- how we can continue to advance the implementation of the Bali decisions, and
- how we can advance our efforts on the post-Bali work programme.

These are the issues which we need to tackle. And clearly a vital aspect of our conversations on taking the Bali package forward will be how we can implement the Trade Facilitation Agreement. As you know, midnight on the 31st of July came and went with no breakthrough. We missed the deadline for the adoption of the protocol of amendment on the Trade Facilitation Agreement, which was the first deadline that ministers set us in Bali. In that sense it was a very significant moment.

Steps officially agreed for mediating food safety, animal-plant health friction

The voluntary procedure (document G/SPS/61) was agreed subject to confirmation ("ad referendum")in the –910 July 2014 meeting of the Sanitary and Phytosanitary Measures (SPS) Committee, with members given until 5 September to raise any final objections. No delegation did and so the decision has now been officially adopted.

The mediation decision, sometimes called "ad hoc consultations", is the committee's latest contribution to helping trade flow more smoothly as it deals with one of the pre-occupations of importers and exporters facing non-tariff barriers — the standards countries set on a range of issues, from maximum pesticide residues in food to preventing the spread of pests such as fruit fly and diseases such as bird flu in agricultural products. It adds a new tool for resolving differences on specific trade concerns, while avoiding expensive and complicated legal challenge under the WTO's dispute settlement procedure. Concerns of this nature are usually first raised in the committee, when members seek a resolution through consultations, discussion in the committee, and peer pressure. Here, the two sides are left to resolve their differences on their own. The new system bridges a gap between raising concerns in the committee and full-scale litigation. It is voluntary and is not legally binding but it does provide an opportunity for the two sides to hear the opinion of a third party: a mediator, usually the SPS Committee's chairperson. This could be confidential or reported publicly. The SPS Agreement already allows members to seek the chair's services as a mediator (Art.12.2). The new decision spells out steps that the members concerned and the chair should follow, provided those members agree to use the system.

A number of countries objected to India's opposition to accepting the Trade Facilitation Agreement by the 31 July deadline agreed in Bali, and India's tying this into its call for a permanent solution to be found for the currently "interim" decision on public stockholding for food security in developing countries. Some were less specific, simply calling for all the Bali decisions to be implemented. On 15 September, India had reiterated its position in a meeting of ambassadors — that members should strike a deal on a permanent solution on stockholding by the end of 2014 and that agreeing to the legally cleaned up trade facilitation text would also have to wait until then. In this agriculture meeting it said it would not repeat that statement. The objecting countries said the back-tracking on the Bali decision had "ruptured trust" — as one delegation put it — making it difficult to progress on implementing the whole Bali package. (Details of the agriculture part of the Bali package are in the chairperson's opening remarks

Australia asked India to explain the difference between the –G33 group's 17 July 2014 proposal — which calls for a permanent solution on stockholding to be agreed by 2017 (the 11th WTO Ministerial Conference) as was agreed in Bali — and India's own position that both the permanent solution and the Trade Facilitation Agreement should be concluded by the end of 2014. India said it would explain the G–33 proposal when members start negotiating a permanent solution. Some countries also said they were unclear about what the problem with the Bali decision on public stockholding was. If the problem arose because of lack of clarity about the duration of the present interim decision, then they would be happy to confirm that it will remain in place until a permanent solution is found, they said. However, negotiating the content of the permanent solution would take time and could not be completed by the end of 2014, they added. However, India countered that members recently showed that they could successfully negotiate a complicated text within weeks — a reference to the trade facilitation negotiations before Bali — and therefore agreeing a permanent solution by December 2014 is possible.

WTO lowers forecast after sub-par trade growth in first half of 2014

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China overtakes the US – a symbol of shifting global economic power

According to one measure of economic size, GDP at purchasing power parities (PPPs), China could overtake the US as early as 2014 according to new estimates by the World Bank published last week. This is three years earlier than projected in our own "World in 2050 study in January 2013, and five years earlier than previous IMF estimates.

The reason for this earlier overtaking date is not, however, that China is growing faster than expected or that the US is growing slower. Rather it reflects new estimates of the relative price levels in the two countries, suggesting that average price levels in China, compared to the US, were comparatively lower in 2011 than had previously been estimated.

As a result, the purchasing power of Chinese national income (GDP at PPPs) is now estimated to have been around 87% of US levels in 2011, compared to previous estimates of just under 70% of US levels in that base year. Since Chinese real GDP growth has been around 7-8% per annum since 2011, with US growth only around 2-3% per annum, calculations by the FT suggests that China could narrowly overtake the US on this measure as early as 2014, with a clear gap emerging in 2015.

This is all rather technical, and if we were to use current market exchange rates, rather than PPPs, to compare GDP levels, we would find that the Chinese economy is only around 60% of the size of the US, with takeover unlikely to happen until the late 2020s. Since businesses have to operate with market exchange rates, rather than PPPs estimated by economic statisticians, this means that the size of the Chinese market in dollar terms will still be quite a lot smaller than the US for a decade or more to come.

Furthermore, since China's population is more than four times as great as the US, its average income levels (even measured using PPPs) are less than a quarter of those in the US. While there are increasing numbers of wealthy individuals in China, as well as a burgeoning middle class, it's still not a rich country and may not reach current Western levels of average incomes until the middle of the century.

These caveats are important to note, but they don't change the bigger picture that global economic power is shifting to the East, as documented in our recent megatrends analysis. This isn't just about China as these new GDP at PPP estimates also show that:

- India has risen to third place in the world rankings on this measure, overtaking Germany and Japan since 2005
- Indonesia has risen to tenth place, only narrowly behind France and the UK and ahead of Italy.

Three other emerging economies (Brazil, Russia and Mexico) also now rank in the top 12 economies in the world on this measure, driven in part by strong demand from China for their exports of oil, gas, food and metals. This is likely to continue to keep global commodity prices high and volatile for some time, though it will also stimulate new sources of supply such as shale gas and shale oil in the energy sector.

German data, downgrades add to global economic worries

Concerns grew that Germany's economy may not rebound as expected in the third quarter as data showed a four per cent drop in industrial output during August. It was the biggest monthly drop in industrial production in five years. It also came on the heels of another report Monday showing that German factory orders dropped 5.7 per cent in August from the previous month.

Also, the World Bank said developing countries in East Asia Pacific will see slightly slower economic growth this year. It said growth will come in at 6.9 per cent this year and next, down from 7.2 per cent in 2013. It added that the pace of growth in the region will pick up next year but not in China.

The World Bank said Chinese growth will ease slightly to 7.4 per cent this year and 7.2 per cent in 2015.

Also, the International Monetary Fund trimmed its outlook for global economic growth this year and next, mostly because of weaker expansions in Japan, Latin America and Europe.

"It's part of a bigger trend we're seeing clear signs of weakness for both Europe and Asia in general with data that has been steadily deteriorating now for a few quarters," said Jean-Francois Dion, portfolio adviser at wealth management, RBC Dominion Securities.

"And it stands in pretty stark contrast to the U.S., which is posting much healthier growth numbers.