ECONOMIC UPDATE

GLOBAL & INDIAN

March 2014

Revised WTO Agreement on Government Procurement to come into force on 6 April 2014

The revised WTO Agreement on Government Procurement (GPA) will come into force on 6 April 2014, effectively two years from the date on which the Protocol amending the Agreement was adopted in March 2012. The Chairman of the WTO Committee on Government Procurement, Bruce Christie of Canada, confirmed that the threshold of acceptances by two-thirds of the Parties, which is required for the revised Agreement to come into force, had been met, with Israel accepting the Protocol on 7 March. The revised Agreement streamlines and modernizes the Agreement's text, for example by taking proper account of the widespread use of electronic procurement tools. It provides gains in market access for the Parties' businesses that have been estimated as in the range of $80-100 billion annually. This results from the addition, to the Agreement's scope of application, of numerous government entities (ministries and agencies) and the coverage of new services and other areas of the public procurement activities. The revision also incorporates improved transitional measures that are intended to facilitate accession to the Agreement by developing and least-developed economies. The ten Parties that have, to date, accepted the Protocol to amend the Agreement are, in the order in which they have accepted it, Liechtenstein; Norway; Canada; Chinese Taipei; the United States; Hong Kong, China; the European Union; Iceland; Singapore and Israel. The Chairman, Mr Christie, said that the prompt bringing into force of the revised agreement "shows the Parties' firm commitment to the Agreement and augurs well for its future as an increasingly important element of the framework for global trade." The entry into force of the GPA is in keeping with Ministers' undertaking at Bali to work hard to achieve this goal by the two year anniversary of the adoption of the GPA revision. Once again, Members can celebrate a successful outcome.

GDP growth stars

Any publicity is good publicity, but if you asked the central bankers of almost any emerging market country right now, surely they would happily dispense with the gloomy press their economies are receiving.

Since the new year, the currencies of many of the former stars — including Turkey, Brazil, India, Indonesia, Russia and others — have taken a serious dive.

This has led to interest rate hikes in many countries, all due to worries the slowing of China's growth and of the US Federal Reserve's stimulus will sour the world on the emerging markets story.

But wait! If the BRICS are stumbling, what about "frontier markets" — the super-fast growing nations of Africa and Asia that post garish double-digit annual GDP growth. Surely, there must be opportunity there.

Well, maybe. But in most cases, growth is not as wonderful as it seems thanks to a phenomenon known to economists as "base effects," the one-time events like civil war or tsunamis that devastate an economy, making the next year look fantastic.

The Economist magazine, a venerable purveyor of international financial news, puts out one such listing: "Top Growers." Leading all comers for 2014 in terms of year-over-year GDP growth is ... wait for it ... South Sudan, projected to grow at 35 percent this year.

Of course, South Sudan, the world's newest state and one of its poorest and most volatile, is hardly an investor paradise. Oil revenues have sparked growth, yes, but from what economists would term "a very low base."South Sudan is the "base effect" defined. The county's 35 percent growth projection for 2014 has little to do with economic boom times and everything to do with the statistical abyss of the previous years. Put simply: It's a lot easier to grow at a faster rate if last year was terrible. It's motto might be, "South Sudan: Growing like hell since Jan. 1, 2012."The Economist and most sophisticated investors know this. GDP growth does not equal good investment, nor does it equal economic progress. But some of this growth does represent a genuine shift in the fortunes of these nations. So, in these frontier markets, how can the economic wheat be separated from the chaff?

One issue is scale. For all their high percentage growth, the combined GDP of the nations on the Economist's top 12, for instance, equal about 1/200th of the US economy. Measured by sheer size of the economic expansion, then, a US economy growing at 3 percent, or a Chinese economy growing by 7-8 percent, is a far more important development in global terms. Growth in big places lifts the fortunes of hundreds of millions, while growth in a place like Laos or Eritrea benefits mostly a few private equity groups and the elites who run those dictatorships.

Wage rise in Japan

Japan's economic progress over the past year has been impressive, with strong growth, and inflation, investment, and credit growth all heading in the right direction. But that progress is largely the result of last year's sizable fiscal and monetary stimulus—the first two arrows of "Abenomics". Now, the economy needs to transition to more sustainable, private-sector led growth. A hike in wages could be just the push needed to propel that shift.

As the ongoing annual wage-bargaining round draws to a close, total earnings are set to increase this year for employees at some well-known car manufacturers. But, in the past, these increases have not trickled down to higher basic wages at small and medium-sized enterprises and to non-regular workers. This is problematic as higher inflation without higher incomes can hardly be characterized as a successful reform

Members query India's export subsidies on sugar and other farm trade programmes

India's new support programme for sugar sparked comment among a number of delegations with some urging India to remove immediately what they described as export subsidies that will potentially impact world trade, when WTO members met as the Agriculture Committee on 21 March 2014.The discussion was about one of 31 sets of questions and answers, a key part of the agenda of the committee, whose major responsibility is to oversee the present Agriculture Agreement and members' commitments in agriculture. The largest number of comments from delegations were on India's sugar programme. The topics that also aroused interest included Costa Rica's on-going breach of its domestic support limit resulting from its guaranteed rice prices and its intention to correct this breach in 2015 (the US said it appreciated the fact that Costa Rica had shared information consistently but that breaches of

commitments are always a serious concern), Thailand's rice support programme known as “paddy pledging”, Canada's reclassification of pizza toppings to prevent traders avoiding import duties, and India's domestic support for rice and wheat and its food security programmeAustralia, Colombia, Brazil and the EU asked India about a new policy announced in February involving incentive payments to Indian sugar exporters (the questions are in document G/AG/W/119 and questions and answers will be in the Agriculture Information Management System (AG-IMS)with ID numbers AG-IMS ID **73036**, **73055**, **73067**, and **73068**). Along with the facts and figures they sought, some of them asked what the legal basis under the WTO was for the export subsidies. Several pointed out that India has agreed not to subsidize exports.India said the policy is designed to encourage diversification away from white sugar to raw sugar and that no intervention payments have been paid yet. India said export subsidies will be notified to the WTO.Australia said the 3,300 rupees per tonne incentive payment is the equivalent of 14–16% of the world price. Since India is the third largest exporter of sugar this threatens to seriously distort trade, Australia said and it asked India to remove export subsidies immediately. It said that the amount envisaged could potentially finance all its own exports half way across the Pacific Ocean.The Agriculture Agreement allowed developing countries to subsidize marketing costs and internal transportation costs during the agreement's “implementation period” (under Article 9.4).Brazil asked how India could justify the subsidies since there has been no consensus to extend these special provisions for developing countries. Previously, in response to similar questions raised in the past, India argued (see the 2012 question-and-answer document G/AG/W/103) that developing countries are still allowed to use the special provision because the 2005 Hong Kong Ministerial Declaration says, “developing country Members will continue to benefit from the provisions of Article 9.4 of the Agreement on Agriculture for five years after the end-date for elimination of all forms of export subsidies” — and export subsidies still have not yet been eliminated.

US Economy

The U.S. net international investment position at the end of the fourth quarter of 2013 was -$4,577.5 billion (preliminary) as the value of foreign investments in the United States exceeded the value of U.S. investments abroad. At the end of the third quarter, the net position was -$4,171.8 billion (revised). The $405.7 billion decrease in the net position reflected a $777.8 billion increase in the value of foreign-owned assets in the United States that exceeded a $372.1 billion increase in the value of U.S.-owned assets abroad

Chinese export restrictions on rare earths

This dispute concerns Chinese export restrictions on rare earths, tungsten, and molybdenum. These are raw materials used in the production of various kinds of electronic goods. China argued that the restrictions are related to the conservation of its exhaustible natural resources, and necessary to reduce pollution caused by mining. The complainants disagreed, arguing that the restrictions are designed to provide Chinese industries that produce downstream goods with protected access to the subject materials.China imposes three distinct types of restrictions on the export of rare earths, tungsten, and molybdenum: *first*, it imposes duties (taxes) on the export of various forms of those materials; *second*, it imposes an export quota on the amount of those materials that can be exported in a given period; *third*, it imposes certain limitations on the enterprises permitted to export the materials. The majority of the Panel agreed with the complainants and found that the "General Exceptions" contained in Article XX of the GATT 1994 are not available to justify a breach of the obligation to eliminate export duties contained in China's Accession Protocol. Accordingly, the majority held that China could not invoke the exception in Article XX(b) to seek to justify its export duties China also imposes quantitative limits (quotas) on the amount of rare earths, tungsten, and molybdenum that can be exported in a given period. Although it recognized that such restrictions are inconsistent with the GATT 1994, China argued that they are justified under the exception in Article XX(g) of the GATT 1994, since they relate to the conservation of an exhaustible natural resource

China imposes certain restrictions on the right of enterprises to export rare earths and molybdenum. Although China has committed to eliminating trading restrictions in its Accession Protocol, it argued that the restrictions in question are justified pursuant to Article XX(g), since they too relate to the conservation of exhaustible natural resources