ECONOMIC UPDATE

GLOBAL & INDIA
June 2015

Azevêdo says time for political decisions draws closer

Director-General Roberto Azevêdo has used the opportunity of the OECD annual Ministerial Council Meeting in Paris on 4 June to talk with a range of Ministers on the ongoing work in Geneva to conclude, by July this year, a work programme on the remaining issues of the Doha Development Agenda. The work programme will be an important springboard towards a successful WTO Ministerial Conference in Nairobi in December. While in Paris, the Director-General was able to accept an invitation to participate in an informal ministerial meeting co-chaired by Ambassador Amina Mohamed, Kenya's Cabinet Secretary for Foreign Affairs and International Trade, and Steve Ciobo MP, Australia's Parliamentary Secretary for Foreign Affairs, Trade and Investment. The Director-General updated Ministers on work in Geneva, as he had done with all WTO members in Geneva on 1 June. Speaking after the meeting, the Director-General said:"While I am encouraged by the good engagement that we have seen in recent months, I am becoming increasingly concerned that we are not making the progress we need to deliver a substantive work programme in July. This is particularly the case in the key areas of agriculture, industrial products and services. I heard views today that are clearly divergent on some of these issues. It is vital that we move quickly to find convergence if we are to deliver results that is both meaningful and achievable. I will do everything I can to support members to find a way forward.

"I told ministers that we were rapidly approaching the point where political calls will be required. It was encouraging in this regard to hear strong support from Ministers for the WTO and recognition of the importance that they attach to a successful Nairobi meeting.

"I was delighted that Amina Mohamed was able to co-chair the meeting on behalf of Kenya. She gave a clear message on the need to deliver outcomes at the Nairobi meeting. There was a strong focus throughout the discussion on the importance of development and LDC issues."The Director-General will attend a meeting of G7 Leaders on Monday 8 June, before returning to Geneva to continue his consultations on the July work programme.

Chair welcomes new notifications under the Trade Facilitation Agreement

Sixty-six developing country and least-developed country members have now submitted notifications to the WTO outlining which provisions of the new Trade Facilitation Agreement (TFA) they intend to implement upon entry into force of the pact.

At the 11 June meeting of the WTO's Preparatory Committee on Trade Facilitation (PCTF), the chairman, Ambassador Esteban Conejos of the Philippines, said the number of "Category A" notifications received is an "encouraging sign of members' continued commitment" to the TFA. "I am especially heartened to see the number of LDC notifications on the rise with three additional LDC submissions (Burundi, Rwanda and Tanzania)," the chairman added. In addition to the three least-developed countries (LDCs), new Category A notifications have been received from Dominica, Kenya, the United Arab Emirates, St. Kitts and Nevis, St. Vincent and the Grenadines, Antigua and Barbuda, Grenada and Trinidad and Tobago.

The TFA broke new ground for developing and least-developed countries in the way it will be implemented. For the first time in WTO history, the requirement to implement the Agreement was directly linked to the capacity of the country to do so. In addition, the Agreement states that assistance and support should be provided to help them achieve that capacity. To benefit from this, developing and LDC members must notify the WTO which provisions they will implement when the Agreement enters into force or, in the case of LDCs, within one year after entry into force (Category A commitments); which provisions they will implement after a transitional period following the entry into force of the Agreement (Category B); and which provisions they will implement on a date after a transitional period following the entry into force of the Agreement and that require the acquisition of assistance and support for capacity building (Category C).

Ratifications trickling in…

The TFA will only enter into force once two-thirds of the WTO membership (108 members) has formally accepted the Agreement. To date, Hong Kong China, Singapore, the United States, Mauritius, Malaysia, Japan and Australia have ratified the TFA, representing 6 per cent of the total needed to ensure entry into force. Viet Nam told the committee that its government has completed acceptance procedures and that the national parliament was expected to give its approval soon. The Philippines noted that the Asia Pacific Economic Cooperation (APEC) forum economies have committed to ratify the TFA as soon as possible and ideally by the WTO's 10th Ministerial Conference in Nairobi in December, in order to express strong APEC support for a successful meeting. Ambassador Conejos said he hoped the committee would be able to welcome a substantive number of new ratifications by the time the PCTF next meets in October.

Trade Facilitation Agreement Facility, national committees

WTO members also reviewed the latest state of play regarding the Trade Facilitation Agreement Facility (TFAF), which became operational in November 2014. New contributions to the fund continue to come in, most recently from Austria, Norway, Australia and the United Kingdom. The TFAF was created at the request of developing country and LDC members to help ensure that they receive the assistance needed to reap the full benefits of the TFA and to support the ultimate goal of full implementation of the new agreement by all members. The TFAF will support these countries in assessing their specific needs and identifying possible development partners to help them meet those needs through a diverse number of activities. Cameroon expressed concern that, with entry into force for the Agreement approaching, funding for the TFAF appeared to be limited. The European Union noted that the TFAF was intended as a backstop to help developing and LDC countries that are unable to secure assistance from bilateral or regional donors (note: the World Bank has $7.1 billion for overall TF reforms, with $30 million earmarked specifically for implementation of the TFA). The United States said it has disbursed some $4 billion in funding for trade facilitation activities since 2008 and has a number of new projects under way in Central America and the Caribbean, Southeast Asia, the Middle East and Sub-Saharan Africa. Members also heard from Malaysia, Mexico, Guatemala, Nigeria, Dominica, Brazil, Viet Nam, Sri Lanka, Pakistan and Nigeria on the progress they have made, and the challenges they confronted, in establishing national committees on trade facilitation. The TFA calls on members to establish and/or maintain a national committee on trade facilitation, or designate an existing mechanism, to facilitate both domestic coordination and implementation of the provisions of the Agreement.

Asian Development Bank (ADB) has decided to increase its lending to India as part of efforts to support the country's new initiatives that target higher growth and reduced poverty.

From being an average $ 3 billion annual lender, ADB will move towards annual lending of $ 4 billion to India in next few years, the visiting ADB Bank President Takehiko Nakao said.

The Modi-led Government's new initiatives that would be supported by ADB under the enhanced lending would include Make in India, Skill India, Clean India (Swatch Bharat Mission), Smart Cities and Atal Mission for Rejuvenation and Urban Transformation (AMRUT).

ADB to increase annual lending to India to $4 b

"In India, ADB aims at increasing its sovereign and non-sovereign lending from the present $7-9 billion in three years from 2015-17 to $10-12 billion between 2016 and 2018 using ADB's expanded lending capacity", Nakao told a press conference after meeting Finance Minister Arun Jaitley here on 16th June 2015.

ADB's annual lending capacity is expected to increase to as much as $20 billion a year from the current level of $13 billion based on the merger of its Asian Development Fund lending operations with its ordinary capital resources balance sheet. When compared with other Asian countries, India is good place to increase lending using the ADB's increased capacity, Nakao said."India is a good borrower for us and they (India) have never missed a repayment. If India follows the right policies, there are good opportunities for it to grow faster", he said.

In March this year, ADB had forecast India GDP growth at 7.8 per cent in 2015-16. It had projected China's growth at 7.2 per cent this calendar year. The India growth forecast will get updated in July when the ADB releases its new report, Nakao said, while declining to comment on whether the growth rate will be revised upwards or downwards."India is already looking at several good reforms like GST, labour market reforms, removing energy subsidies. If it continues to follow right policies, it has potential to grow faster than China", Nakao said. He also did not see international oil prices climbing up to $100 per barrel levels anytime this year. Asked if he saw any impact of the likely US Federal Reserve rate hike on the Indian economy, Nakao said there could be some "hiccups" or volatility."It (US monetary policy normalisation) will not cause a major problem as people are already expecting it", he said.

Emerging markets like India should take advantage of the sustained low real interest and inflation conditions (around the world) in the coming years. On interest rates in India, Nakao saw some room for policy rates to come down further given that there are no concerns about inflation."The 7.25 percent policy rate is still not excessively low. If inflation rate is lower, of course interest rates can come down further. I don't want to predict monetary policy of India. My view is interest rate should be adjusted to the economic conditions of the country", he said.

G Azevêdo tells members it is "decision time" on the Doha work programme

Director-General Roberto Azevêdo convened a meeting of all WTO members in Geneva on 17 June to report on the current state of play in negotiations on the work programme to advance the remaining issues of the Doha Development Agenda. He reported in detail on the consultations which have been held since the last meeting of all members on 1 June, taking in the G7 meeting in Germany, an informal ministerial meeting in Paris, meetings convened by the Director-General himself on specific issues, and meetings convened by delegations to which he was invited to attend.

"Taking an overview of all of these consultations it is hard to see a way forward. There has been no progress on the gateway issues. We still have no convergence. Of course we shouldn't draw conclusions too early. I don't want to prejudge the outcome — but I think I have the responsibility to be honest and realistic. As things stand I see very little prospect of delivering the substantive, meaningful work programme which we have been aiming towards. That is the reality today. The question is whether we can change this situation by the end of July — and that is up to you.

."Now it is time for the political calls to be made. Let me be clear, our problem is not about the time available. We have a sense of what we can achieve, so now it's about making those tough political calls — just like we did in Bali. So this is the priority over the coming weeks. It's decision time."Members agreed in November 2014 to agree a work programme by July this year as a springboard towards the WTO's 10th Ministerial Conference in Nairobi in December.

World Bank slashes growth forecast for emerging economies

Lower oil prices and looming US interest rate rise lead to downgrades for countries including Nigeria, Angola and Brazil, while India bucks trend

The World Bank has cut its forecasts for growth across emerging economies this year, warning that they face a double whammy from rising US interest rates and lower commodity prices. "Developing countries were an engine of global growth following the financial crisis, but now they face a more difficult economic environment," said the bank's president, Jim Yong Kim, as the anti-poverty body published its twice-yearly Global Economic Prospects document.

Growth in emerging economies is expected to be 4.4% in 2015, down from the 4.8% the World Bank was expecting in December. The World Bank's senior economist, Franziska Ohnsorge, explained that while the crash in the global oil prices since last year has hit government revenues and undermined growth in exporting countries, it has so far not provided the expected boost to oil importers. Some of the largest downgrades are for oil-exporting countries, including Nigeria, Angola and Brazil, with South America's largest economy expected to contract by 1.3% this year. However, the document reserved some praise for India, describing the country as a "shining star" for tackling its economic problems. The World Bank warned that developing countries must also brace themselves for a rise of US interest rates from their record low of 0%-0.25%, a long-planned move that many analysts expect to take place later in 2015.

World trade registers modest growth in first quarter of 2015

The volume of world merchandise trade increased modestly in the first quarter of 2015, with growth in both exports and imports registering slower growth than over the previous six months. According to preliminary estimates issued on 24 June by the WTO and the United Nations Conference on Trade and Development (UNCTAD), world trade as measured by the average of exports and imports grew 0.7 per cent in the first three months of 2015, based on seasonally adjusted data.

World exports increased by 0.4 per cent in the first quarter of this year, down from the 2.1 per cent growth registered in the previous quarter. Imports grew by 0.9 per cent in the same period, down from 1.5 per cent in the previous quarter. Exports from developing and emerging economies rose 1.5 per cent in the first quarter, with all regions except Asia registering growth of 3 per cent or greater. In contrast, exports from developed countries fell by 0.5 per cent in the same period, with US exports decelerating by 4.5 per cent. Developing and emerging economies increased their imports by 0.6 per cent in the first quarter, with South and Central America and the Caribbean registering strong import growth at 6.8 per cent. Developed economies increased their imports by 1.3 per cent, led by stronger import growth in Europe and North America. The quarterly merchandise trade volume indices are published simultaneously by both the WTO and UNCTAD at the WTO Statistics Web Portal and UNCTADStat.

Rupee likely to be hit, exporters to Euro Zone may see margins dipping

Financial markets will be in a state of heightened suspense till the end of the month, when Greece is expected to pay about €1.5 billion or $1.7 billion to the IMF. Earlier this week, Greek Prime Minister Tsipras had proposed a deal to the creditors that included tax increases on wealthy individuals and companies. But with creditors not too impressed with the offer, Tsipras will have to agree to further austerity measures and increases in taxes or let the country default. Over the next week, it will be evident if this drama comes to an end with the exit of Greece from the euro zone or if another deal is cobbled together that lets the country carry on in its current indebted state. So, how will a Greece default, if it happens, impact India?

Impact on rupee: The direct impact of a Grexit will be on the Indian rupee. With global risk aversion rising in the aftermath of the event, the euro is likely to fall. The European currency has already lost 17 per cent against the dollar since March 2014 due to the ongoing quantitative easing of the European Central Bank. It can plunge further in a knee-jerk reaction moving close to its recent low at $1.04 a piece or even below, to $1.00. A weaker euro and a stronger dollar will impact the rupee's value. Bond investors, who are the first to pull money out, will flee from riskier assets such as emerging markets bonds to treasury securities in their home country. This could hurt the rupee.

But the impact on the Indian currency is not likely to be too severe as it has been among the most resilient so far this year. The RBI can let it decline to 65 or 66. But if there is fear of greater fall, the central bank is likely to sell dollars to support the currency. The recent build-up in foreign currency reserves to $354 billion will come in handy in this scenario.

On exports: Grexit will hit the euro in the near term. But over the long term, the euro could emerge stronger with the exit of a country with a debt-to-GDP ratio 175 per cent. Greece will also be better off outside the euro zone, with the freedom to let its currency depreciate. This will not only help Greek companies but will also boost tourism that contributes almost 18 per cent to its GDP.

But Indian exporters are not going to be too happy with the short-term weakness in the euro. Europe accounts for about 17 per cent of Indian exports and exporters who cater to this significant market will see their margins eroding.

Debt denominated in euro: Companies that have raised overseas debt in euros will also get some temporary relief as euro weakness will reduce the outstanding loan obligations. But given that euro denominated external debt is only 2.9 per cent of the total external debt as on December 2014, the impact is not likely to be significant.