ECONOMIC UPDATE

GLOBAL & INDIAN
April 2015

WTO members move close to deal on ITA expansion

Negotiators from 54 WTO members edged close to agreement on Saturday 18 July on an accord which would expand the Information Technology Agreement (ITA) and eliminate tariffs on an additional list of roughly 200 products valued at about $1 trillion in annual trade. The products covered by the extension include new generation semi-conductors, GPS navigation equipment and medical equipment, including magnetic resonance imaging products and ultra-sonic scanning apparatus.The list of products and the draft declaration which spells out how the Agreement would be implemented have been sent to capitals for review. Members have until Friday at noon Geneva time to give final approval.

"This is a big deal," said WTO Director-General Roberto Azevêdo. "The trade covered in this agreement is comparable to annual global trade in iron, steel, textiles and clothing combined. By taking this step, WTO members will help to provide a jump-start to the global economy and underline the WTO's role as the central global forum for trade negotiations."

While not all WTO members participated in these negotiations, all will benefit from the outcome because the participants will scrap duties on imports of these products regardless of which WTO member has produced them. Applying duties in a uniform and non-discriminatory manner across the WTO membership is known as the most favoured nation principle.

When the product list and draft declaration are approved, WTO negotiators will spend several months hammering out the technical details and the timetable for tariff elimination. The objective would be for all elements to be completed in time for Ministers of those members who are involved in this initiative to conclude the ITA expansion agreement at the 10th Ministerial Conference in Nairobi in December. It would be the first tariff-cutting agreement in the WTO for 18 years.

The Information Technology Agreement was finalized in 1997 and covers 80 WTO members. Efforts to expand the coverage of this agreement were launched in 2012.

EU Ambassador to the WTO Angelos Pangratis told a meeting of the WTO's General Council that the two Asian nations — both large producers of IT products — have joined other leading traders of high-tech goods in accepting the deal, which will see tariffs removed on products such as new-generation semi-conductors, GPS navigation systems, tools for manufacturing printed circuits, telecommunications satellites, and touch screens.Fifty-four WTO members took part in the negotiations to expand product coverage of the WTO's 1996 Information Technology Agreement (ITA). Nearly all the participants have now confirmed their acceptance of the product coverage list, which was finalized on 24 July."Eliminating tariffs on trade of this magnitude will have a huge impact," declared WTO Director-General Roberto Azevêdo. "It will support lower prices — including in many other sectors that use IT products as inputs. It will create jobs and it will help to boost GDP growth around the world."Ambassador Pangratis said he would present to WTO members the outcome of the negotiations, which includes a declaration setting out a road map for finalising the overall negotiations in time for the WTO's 10th Ministerial Conference in Nairobi in December. He also provided members with the list of 201 high-tech goods that will eventually have their tariffs reduced to zero.Under the declaration, participants have agreed to reduce tariffs on the covered goods in four equal annual reductions of customs duties, beginning on 1 July 2016 and concluding on 1 July 2019. Extended staging of reductions for some sensitive products may be necessary in limited circumstances.

Russia's slump pushes 3 million into poverty

After years of getting richer, millions of Russians are now sliding back into poverty.The number of Russians living on less than 9,662 rubles ($169) a month -- the official poverty line -- surged to nearly 23 million at the end of March, according to official data.That's three million more than last year, when the combination of Western sanctions and tumbling oil prices triggered a sharp recession.Deputy Prime Minister Olga Golodets told Russian TV last week that the situation was becoming "critical."A collapse in the value of the ruble sent inflation soaring -- prices rose by an annual rate of 16% in the first quarter of 2015.That in turn means Russian pay checks buy a lot less than they did a year ago. The annual fall in real wages was 14% in May and 7% in June.

The shock comes after years of growth fueled by Russia's booming oil industry. During 15 years of Vladimir Putin's leadership, Russia saw its official poverty rate drop steadily to 11% in 2014.That trend has been reversed -- 16% of Russians are now officially poor. And with no end in sight to the crisis in Ukraine, the misery is unlikely to ease soon. Western sanctions over Russia's annexation of Crimea, and its support for separatist rebels in eastern Ukraine, were extended until 2016 last month. The fall in living standards has forced Russians to slash spending -- retail sales dropped 9.4% in June, after sliding every month this year. Overall, the Russian economy shrank by 2.2% in the first quarter. The IMF expects it to contract by 3.8% this year, and by more than 1% in 2016.Russian banks and companies have been cut off from European funding, and Russian arms exports are banned in the west. Travel bans and asset freezes have been imposed against dozens of Russian officials as well as some companies.

Trade with the European Union -- Russia's biggest partner -- fell by more than a third in the first two months of 2015. Prime Minister Dmitry Medvedev estimates sanctions will cost Russia $106 billion through 2015.Russia has retaliated by banning Western food imports, but the move backfired, driving prices up nearly 21% in June

Japan Exports up by 9.5 percent in June

Japan's exports rebounded in June, fueled by strengthening overseas demand, but imports remained subdued due to the effect of lower commodity prices, Exports accelerated 9.5 percent on year in June, the fastest pace in five months and following a 2.4 percent increase in the May. The reading, however, came in a tad below a 10 percent increase expected by economists in a Reuters poll. Imports, meanwhile, slipped 2.9 percent last month, better than expectations for a 4.0 percent annual decrease and following a 8.7 percent fall in May.

The trade balance came to a deficit of 69.0 billion yen ($556.54 million), missing expectations for a 5.4 billion yen surplus. Economists pinned the export recovery on a resurgence in demand from the U.S. Exports to the world's largest economy rose almost 18 percent on year in June.

"Japan's export environment depends on U.S. economy growth. U.S. growth was weak in the first quarter, but it is now rebounding," said Takuji Aida, the chief economist for Japan at Société Générale."As such, we expect the export recovery to continue into the second half of the year. This will support Japan's GDP growth and operating profits of the manufacturing sector," he said. While imports remained weak reflecting the slump in oil prices, Aida says domestic demand in the economy is beginning to recover."All in all, the recovery in Japan's trade balance is very gradual," he said.

WTO members raise record number of trade concerns on food safety, animal and plant health

The WTO committee dealing with food safety, animal and plant health, formally known as the Committee on Sanitary and Phytosanitary (SPS) Measures, heard a record number of specific trade concerns when it met on 15–16 July 2015.One of the key functions of the SPS Committee is to provide a forum for WTO members to discuss their food safety, animal and plant health measures in order to ensure that these measures do not unnecessarily restrict international trade. A total of eight new trade concerns were raised at the meeting and 16 measures previously discussed were back on the agenda, making it the highest number of specific trade concerns raised in the Committee's history.

European Union — approval of biotech products

Several members raised concerns about the European Union's proposed amendment of its approval procedure for genetically modified food and feed, also known as biotech products. The United States said that the amendment would allow EU member states to restrict or ban the use of such products with no justified reasons. Argentina, Paraguay, Uruguay, Brazil and Canada raised similar concerns, stating that the proposed revision would create unnecessary barriers to international trade. The EU has previously notified the proposed regulatory amendment to the WTO's Committee on Technical Barriers to Trade (see G/TBT/N/EU/284). Several members noted that such a measure should also be notified to the SPS Committee.

In response, the EU said that the proposal does not introduce any restriction or ban on biotech products, but would only provide the possibility for EU member states to opt out of the EU decision of authorisation if they wish, for overriding reasons of public interest. The EU also stressed that the proposal does not relate to the protection of the life or health of humans, animals or plants as covered by the SPS Agreement, and thus does not need to be notified to the SPS Committee.

China — proposed amendments of GMO approval procedure

The Committee discussed China's proposed regulatory change related to biotech products. China recently notified the WTO about the proposed amendments of its safety assessment of agricultural genetically modified organisms (GMOs) (see G/SPS/N/CHN/881). Paraguay and the United States welcomed China's notification, but noted the negative impact such a regulatory procedure could have on international trade. According to the United States, the delays and lack of transparency in China's current biotech approval process remain a serious trade concern for exporters, and the proposed amendment could further prolong and complicate the approval process. In response, China said that the draft revision aims to enhance the safety assessment of agricultural GMOs, and invited WTO members to comment on the proposed revision.

Costa Rica — import ban on avocados

Mexico and Guatemala raised concerns about Costa Rica's measure to temporarily suspend import certificates for avocados, due to the presence of avocado sunblotch viroid — a disease affecting avocado trees - in various avocado-producing countries. Costa Rica has suspended import certificates for avocados from certain exporters. The measure was notified to the WTO in May 2015 (See G/SPS/N/CRI/160 and G/SPS/N/CRI/160/Add.1). Mexico and Guatemala said that Costa Rica's measure halts trade and is not justified by scientific evidence. The concern was supported by the United States and South Africa. In response, Costa Rica noted that the measure aims to protect the country from being affected by sunblotch disease, and referred to its notification G/SPS/N/CRI/162. It also noted that it would maintain close dialogue with its trading partners to resolve the trade concerns.

A session on risk communication was held on 15 July, where policy practitioners shared their experience on communicating public health risks to stakeholders and trading partners. Participants also saw a new short film by the Standards and Trade Development Facility showing how governments can make goods flow more quickly across borders while preventing the spread of pests or diseases and ensuring that food is safe for consumers.

Greece isn't the only country tightening its belt

Austerity in the U.K. is continuing despite its continued economic growth, with Chancellor of the Exchequer George Osborne seeking budget cuts between 25 and 40 percent to some government departments.

One way of partly addressing the U.K.'s budget deficit, which is still one of the largest among its peers in the world's advanced economies, could be to embark on a sale of government property assets. The pace of deficit reduction is slightly slower than hoped for, with borrowing (once the ownership of stakes in U.K. banks is excluded) of £9.4 billion ($14.7 billion) in June - £800 million lower than the same time last year, according to figures released on Tuesday. This represents an 8 percent annual decline, while the independent Office for Budgetary Responsibility forecasts borrowing to come in 22 percent lower over the course of the year.

Bank of England Governor Mark Carney seemed cautious about the U.K.'s prospects in a speech on Tuesday night, citing the weak euro zone recovery and a stronger pound as the main headwinds facing the economy. Economists are divided on whether further cuts are the answer, and there has been some harsh criticism of Osborne's austerity focus."Britain's financial sector was hit hard in the recession and, together with lower oil and gas output, our ability to generate tax revenues has been seriously constrained. Therefore, we have to continue to focus on other means to tackle the deficit - including cutting current government spending," David Kern, chief economist at the British Chambers of Commerce, said in a statement.

"The government must also put more emphasis on policies that will boost economic growth, most obviously infrastructure investment and supporting exports."Consumers are likely to feel the pinch over the next few years, with measures including squeezes on welfare payments and increases in household taxes, according to the Ernst & Young ITEM Club."The Chancellor has effectively passed the prime responsibility for supporting low-income working people over to employers and this poses a clear risk to hours and employment," Peter Spencer, chief economic advisor to the EY ITEM Club, said in a statement.

.