ECONOMIC UPDATE

GLOBAL & INDIA
May 2016

Developing economies are catching up ever more slowly

FOR residents of many developing economies, a sharp slowdown in global growth means dreams deferred. For most of the 20th century the gap between incomes in the rich and the developing worlds grew relentlessly. That changed in the 2000s, when the share of less-developed economies catching up to American income levels rose sharply, peaking at more than 80% prior to the crisis. Yet as the World Bank notes in a new report, faltering growth rates mean the gap between the rich and the rest is closing ever more slowly. At the pace of growth enjoyed a decade ago, emerging markets would have reached current American living standards in just over a generation. At more recent growth rates, high incomes will be decades longer in arriving.

Japan May industrial output falls 2.3 pct on-month, below expectations for 0.1 pct fall

Japan's industrial output fell 2.3 percent in May, in a sign companies could be worried that export demand is weakening. The fall was more than a median estimate for a 0.1 percent decrease in a Reuter's poll of economists. Manufacturers surveyed by the Ministry of Economy, Trade and Industry expect output to rise 1.7 percent in June and increase 1.3 percent in July, data showed.

US international trade deficit at $60.6B in May vs. $57.5B expected

The U.S. advance goods trade deficit totaled a wider-than-expected $60.59 billion in May. The trade gap had been expected to come in at around $57.5 billion, nearly in line with the $57.53 billion reported a month earlier. A new Commerce Department report covering May 2016 showed that International Trade saw a level of -$60.6 billion. Bloomberg was projecting a report at -$59.3 billion, with an Econoday range of -$55 billion to -$60.7 billion. It turns out that exports were soft in May and imports rose. Interestingly enough, this is after a period where some of the extreme U.S. dollar strength had abated. April's International Trade reading was -$57.5 billion.

Exports were down by 0.2%, after a decline in exports of cars and auto-related products and from weaker exports of capital goods. Imports were up by 1.6%, which threw the trade deficit out of balance versus trends and expectations. Imports of consumer goods were said to be strong, which might point to stronger business and consumer confidence.

Warning sign: China sets currency at 5-year low

China's leaders continue to worry about the country's economy. The rest of the world should too.

On 25th May, China's central bank weakened its currency. It set the reference rate for the Yuan at the lowest level in five years. The actual cut was small: only about 0.3%. It didn't send world markets into a downward spiral like in August, when China devalued its currency by nearly 2%, or in early January, when it cut by about 0.5%.

Nevertheless, it's a warning sign. The reference rate is the level that the People's Bank of China sets each day, although the Yuan is allowed to trade in a range around that price."Whether China stress reemerges is a key unknown," wrote the economics team at Deutsche Bank Research Wednesday. China's Communist Party still claims the country is growing 6.5% to 7% a year. Capital Economics, among other independent forecasters, believes the real number is 4.2%.

Some believe China's latest currency move was to get ahead of a Federal Reserve interest rate hike, which will probably make the U.S. dollar even stronger. Others point to a slew of ho-hum economic data from China. The bottom line is: the chiefs of the world's No. 2 economy are still on edge. There appears to a power struggle going on between China's top leaders on what to do next. Does the Chinese economy need more stimulus spending or not? It's a big question at a time when the world is also wondering what the Fed will do.

Wall Street and the press have followed the Fed's every breath with papparazzi-like intensity. There's about a 50-50 chance the Fed will hike interest rates in June or July. But for all the scrutiny over the Fed, it would be a mistake to ignore the equally mixed signals coming from policymakers in Beijing.

State investment jumped in early 2016, helping to ease global concerns of a "hard landing." At one point, global investors got so giddy about Beijing coming to the rescue that global commodity prices rallied. But there are signs Beijing is tapering off."I think China's leaders are bewildered. There seems to be a power struggle going on there," says economist Ed Yardeni, president of Yardeni Research.

President Xi Jinping sounds like he's ready to halt stimulus spending. His latest statements in China's state press sound a lot more concerned with pushing through reforms, especially in the bloated state sector. In contrast, China's other key leader -- Premier Li Keqiang -- appeared focused on maintaining growth near 7% in his remarks in at the National People's Congress in March.

On top of the slowdown, China faces two bigger problems: debt is piling up, and the country is trying to make the very tricky transition from an economy that makes a lot of cheap stuff to one that relies more on its own middle and upper classes buying the goods and services it produces. This is new territory for China. President Xi and other leaders are clearly experimenting. The result has been a year of yo-yo economic policies. What comes next -- and how that impacts the rest of the world -- isn't clear.

DG Azevêdo urges WTO members to 'step up' negotiating work

At a meeting of the WTO General Council today (12 May), Director-General Roberto Azevêdo called on members to step up their interactions in order to advance WTO negotiations. He repeated his call for members to move from reflection to action and placed on the formal record of the General Council the detailed report that he gave to members in an informal meeting earlier in the week.“We had a good exchange at the Heads of Delegation meeting on Monday. I made a full report to members, covering my recent consultations and my thoughts on the potential steps that we need to take if we are to move forward. Many of you took the floor and I think we had a useful discussion. With that in mind, I don't intend to repeat my statement today. Instead, I will simply ask that my statement from that meeting is added to the record of today's General Council. Some of the negotiating group chairs have also circulated reports. I would suggest that other members who made statements on Monday also add their statements to the record of today's meeting.“The chairs will be continuing their work, and some will be holding open-ended meetings and further consultations in the coming days and weeks. I encourage you to remain engaged in these activities — and to keep talking to each other. As I said on Monday, I think it is important now that we step up our interactions, across the full range of formats. In all cases it is important that we move from reflection to action. I look forward to these conversations evolving in the coming weeks.”

Goods Council agrees on 2016 chairs for subsidiary bodies

The Goods Council, on 11 May, approved a list of new chairs to the 13 subsidiary bodies that report to the Council. The Goods Council is responsible for the operation of 12 committees and one working party which deal with trade in goods. These chairs will take office when they have been formally elected by the committee or working party concerned:

Market Access Committee: Ms Hanna Olsen BODSBERG (Norway)

Agriculture Committee: Mr Garth EHRHARDT (Canada)

Sanitary and Phytosanitary Measures Committee: Ms Marcela OTERO (Chile)

Technical Barriers to Trade Committee: Ms Esther PEH (Singapore)

Trade-Related Investment Measures (TRIMs) Committee: Ms Marine WILLEMETZ (Switzerland)

Anti-dumping Practices Committee: Mr Peira SHANNON (Australia)

Customs Valuation Committee: Dr Yasser KORANI (Egypt)

Rules of Origin Committee: Mr Chih-Tung CHANG (Chinese Taipei)

Import Licensing Committee: Mr Tapio PYYSALO (Finland)

Subsidies and Countervailing Measures Committee: Mr Jin-dong KIM (Korea)

Committee on Safeguards: Mr Yugsong CHEN (China)

Working Group on State Trading Enterprises: Ms Yeili RANGEL PEÑARANDA (Colombia)

Information Technology Agreement (ITA): Ms Zsofia TVARUSKO (Hungary)

Members agreed to the appointment of Australian ambassador Hamish McCormick as the new Goods Council chair at their last meeting on 15 April. Amb. McCormick chaired the 11 May Goods Council meeting.

WTO issues 2016 Annual Report

The WTO has published its 2016 Annual Report covering the organization's activities in 2015 and early 2016. The Report begins with a message from Director-General Roberto Azevêdo, who looks back at a memorable year for the WTO marked by the organization's 20-year anniversary and the successful conclusion of the WTO's Tenth Ministerial Conference in Nairobi. The opening section of the Report provides a brief overview of the past year, focusing on the WTO's major areas of activity. The second part provides more in-depth accounts of the WTO's work, covering trade negotiations, implementation of WTO agreements, trade monitoring, dispute settlement, support for developing countries and outreach activity.

The Report includes a special focus on the major events of 2015: the 20th anniversary of the WTO; the Nairobi Ministerial Conference; the Fifth Global Review of Aid for Trade; the 2015 Public Forum; and the WTO's Open Day.

The Report is available as a printed publication and a PDF. An app of the report will soon be made available for viewing on tablets and smartphones. This will be available for download from the App Store, Google Play and Amazon.

Business leaders call for WTO to address pressing business issues

Business leaders meeting today (30 May 2016) at the WTO headquarters outlined how the organization could address the current needs of the business community. In addition to the current negotiating agenda, they urged the WTO to look at a wide range of issues such as electronic commerce, rules to better facilitate services and investment flows, support for micro, small and medium-sized enterprises, action to provide trade finance, and many others.

The Trade Dialogues event brought together over 60 business leaders to discuss the challenges and opportunities they face in conducting trade operations and to discuss how the WTO can help in dealing with them. The attendees were from small and large enterprises, from developed and developing countries, and from a variety of sectors. The event was held at the request of the International Chamber of Commerce (ICC) and the B20 group of leading independent business associations from G20 economies, and facilitated by the WTO. The businesses that participated in the event are listed below.

This high-level event for the business community is the first of its kind to be held at the WTO. It is part of a series of 'Trade dialogues' that will provide a range of stakeholders with the possibility to discuss their concerns on trade-related matters. Participants were welcomed by WTO Director-General Roberto Azevêdo. This opening session was followed by break-out sessions where participants engaged in a focused dialogue in small groups. These sessions were chaired by four 'discussion leaders':

Sunil Mittal, Founder and Chairman of Bharti enterprises, and First Vice Chairman of the ICC

Frank Ning, Chairman of Sinochem and Chair of the B20 trade and investment taskforce Carole Kariuki, CEO of KEPSA, the Kenya Private Sector Alliance, and Kati Suominen, Founder and CEO of TradeUp.

The participants then reconvened and shared their conclusions in a direct exchange with the Director-General and the chairman of the WTO General Council, Ambassador Harald Neple. At a working lunch, the views of other important stakeholders, such as consumers, represented by Consumers International, and labour, represented by the International Trade Union Confederation, were also heard. At the final session, the discussion leaders and other participants shared the outcome of their deliberations with the WTO membership through a dialogue with ambassadors and permanent representatives.

Lack of trade finance a major obstacle for SMEs

Speaking at the WTO today (31 May 2016), Director-General Roberto Azevêdo highlighted the need to address existing gaps in the provision of trade finance, especially for small and medium-sized enterprises (SMEs).The Director-General said:

“Access to trade finance continues to be an issue for many traders across the globe — in developing and developed countries alike, with smaller businesses facing the greatest hurdles. Globally over half of trade finance requests by SMEs are rejected. For multinationals it's just 7%. This is a very striking contrast, and it is of particular concern as SMEs are a leading driver of trade and employment.

“This is clearly a major issue for the business community, so I am pleased that trade finance remains high on the agenda at the WTO. It is time to move from reflection to action on this front.”

Sri Lanka ratifies Trade Facilitation Agreement

Sri Lanka has become the latest WTO member to ratify the new Trade Facilitation Agreement (TFA). Sri Lanka's ambassador to the WTO, R.D. Susiri Kumararatne, presented his country's instrument of acceptance to Director-General Roberto Azevêdo on 31 May. Concluded at the WTO's 2013 Bali Ministerial Conference, the TFA contains provisions for expediting the movement, release and clearance of goods, including goods in transit. It also sets out measures for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues. It further contains provisions for technical assistance and capacity building in this area.

The TFA will enter into force once two-thirds of the WTO membership has formally accepted the Agreement. With the acceptance by Sri Lanka, the number of TFA ratifications now stands at 81. Thus, the WTO has received three-quarters of the ratifications needed to bring the TFA into force.

On 31 July 2014 Sri Lanka submitted its Category A notification to the WTO indicating which provisions of the TFA it intends to implement upon entry into force of the agreement.

In addition to Sri Lanka, the following WTO members have also accepted the TFA: Hong Kong China, Singapore, the United States, Mauritius, Malaysia, Japan, Australia, Botswana, Trinidad and Tobago, the Republic of Korea, Nicaragua, Niger, Belize, Switzerland, Chinese Taipei, China, Liechtenstein, Lao PDR, New Zealand, Togo, Thailand, the European Union (on behalf of its 28 member states), the former Yugoslav Republic of Macedonia, Pakistan, Panama, Guyana, Côte d'Ivoire, Grenada, Saint Lucia, Kenya, Myanmar, Norway, Viet Nam, Brunei, Ukraine, Zambia, Lesotho, Georgia, Seychelles, Jamaica, Mali, Cambodia, Paraguay, Turkey, Brazil, Macao China, the United Arab Emirates, Samoa, India and the Russian Federation, Montenegro, Albania and Kazakhstan.

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.

A Trade Facilitation Agreement Facility (TFAF) was also created at the request of developing and least-developed country 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. Further information on TFAF is available at www.TFAFacility.org.

Implementation of the WTO Trade Facilitation Agreement (TFA) has the potential to increase global merchandise exports by up to $1 trillion per annum, according to the WTO's flagship World Trade Report released on 26 October 2015. Significantly, the Report also found that developing countries will benefit significantly from the TFA, capturing more than half of the available gains.