ECONOMIC UPDATE

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Majority of participants have now implemented ITA expansion commitments

A large majority of participants in the newly-expanded Information Technology Agreement (ITA) have now implemented their tariff commitments under the deal, with full implementation on track for the near future, delegations were told on 1 November. Reporting on behalf of the ITA Expansion group to the WTO's ITA Committee, Canada said it was pleased to note that 18 of the 24 participants in the expanded ITA have now submitted modified tariff schedules and that others were on track to do so. In summary, implementation of the agreement is well advanced, with participants on track to secure full implementation in the near future.

The agreement received a major boost on 26 October 2016 when China submitted its ITA expansion commitments to WTO Director-General Roberto Azevêdo for inclusion in its WTO schedule of concessions. China's commitments were ratified by the country's Standing Committee of the National People's Congress on 3 September 2016, and China started implementing its first tariff cuts on covered goods from 15 September 2016.

Canada said it was also pleased to report that Macao, China, has initiated the process to join the expanded ITA and that it was currently working on its draft schedule. Other WTO members have expressed an interest in joining the expanded ITA in the near future, Canada said. The expansion of the ITA, agreed at the Nairobi Ministerial Conference in December 2015, eliminates tariffs on products valued at over $1.3 trillion in annual trade. These are in addition to the products covered under the original ITA concluded in December 1996, which accounted for an estimated $1.6 trillion in global trade in 2013.

The expanded ITA was concluded by 24 participants representing 53 WTO members, but the benefits are being extended to all 164 WTO members, meaning they will all enjoy duty-free access to the markets of the members eliminating tariffs on these products.

The new deal provides for the elimination of import tariffs and other duties and charges on an additional 201 new-generation information and communication technology products either immediately or progressively over three years. By 2019, it is estimated that 95.4 per cent of participants' import duties on these products will be fully eliminated, with tariffs remaining on a small range of products to be completely removed by 2021 or 2023 at the latest.

USA Monetary Growth

CFS Divisia M4 release highlights a meaningful acceleration of growth in monetary and financial aggregates. A steady advance of CFS monetary data since the beginning of the year suggests either the economy is springing back to life, inflation is moving higher, or some combination of the two.CFS Divisia M4 - the broadest and most important measure of money - grew by 5.8% in October 2016 on a year-over-year basis versus 5.4% in September and 4.0% at the beginning of the year. Importantly, growth in the narrow aggregate CFS Divisia M2 advanced by a stunning 7.9% on a year-over-year basis in October. Regulatory and global macro cross currents are reshaping the financial system. The impact of these broad changes readily explains the divergence between the broad and narrow aggregates.

Proposal for e-commerce discussions draws interest

China and Pakistan's proposed approach to e-commerce discussions drew interest at the 17 November meeting of the WTO Goods Council. Over 20 members took the floor, with many emphasizing the importance of delivering an outcome for next year's Ministerial Conference.

China, introducing the proposal, said that discussions should focus on the promotion and facilitation of cross-border trade in goods enabled by the Internet. It said discussions could also include services directly supporting this, such as payment and logistic services. Discussions should not lead to new market access commitments, China said, adding that the needs of developing countries should be reflected in any outcomes. Priority should be given to "easy issues", with a focus on realizing "pragmatic progress" at the 11th Ministerial Conference (MC11) to be held in December 2017, China said.

Pakistan meanwhile said it was ready to engage with other WTO members to continue work on e-commerce.

China and Pakistan's proposal was well received by delegations and provoked comments from 22 members. Several affirmed the importance of working towards delivering outcomes at MC11. There was also support for incorporating the needs and concerns of developing country members in the deliberations. Some members emphasized the importance of maintaining discussions on other aspects of e-commerce, such as online trade in services as well as commitments for consumer protection, data privacy, and intellectual property rights. Several delegations said there is a need to make permanent the moratorium on customs duties on electronic transmissions instead of continuing with the current practice of renewing the moratorium every two years. Some said that taxation issues contained in China and Pakistan's proposal were outside the scope of the WTO.

A number of delegations said negotiations should continue in line with the Work Programme on E-Commerce approved in 1998, which calls on members to examine in mandated WTO bodies the trade-related e-commerce issues relating to goods, services, intellectual property and the needs of developing countries. China said that their proposal intends that discussions, at the present stage, should be based on the existing mandate.

At their 10th Ministerial Conference in Nairobi last December, trade ministers agreed to continue work under the WTO's existing Work Programme on Electronic Commerce. They also instructed the General Council to hold periodic reviews, based on the discussions in the Goods Council and other WTO bodies, in its sessions of July and December 2016 and July 2017 and to report back to the next Ministerial Conference.

To advance the e-commerce discussions, China said a seminar on e-commerce and trade in goods should be organized under the auspices of the Council for Trade in Goods. Several members supported holding a joint informal meeting of the mandated WTO bodies

OECD Economic Outlook

The projections in this Economic Outlook offer the prospect that fiscal initiatives could catalyse private economic activity and push the global economy to the modestly higher growth rate of around 3½ per cent by 2018. Durable exit from the low-growth trap depends on policy choices beyond those of the monetary authorities – that is, of fiscal and structural, including trade policies – as well as on concerted and effective implementation. Collective fiscal action undertaken by all countries, including a more expansionary stance than planned in many countries in Europe, would support domestic and global growth even for those economies, who by virtue of specific circumstances, need to consolidate their fiscal positions or pursue a more neutral stance.

Trump and the Stock Market

The decline in the American stock market, on news of a narrowing in the poll gap between Hillary Clinton and Donald Trump. A combination of Mr. Trump's adverse policy proposals on trade, foreign policy and the Federal Reserve, and uncertainty about how much of this agenda would get through Congress, would hit equities hard were he to be elected.

But what about the dollar? The picture is far from clear. Over the last 24 hours, America's currency has lost ground against the Swiss franc, euro, yen and sterling but gained against emerging market currencies like the Mexican peso and Brazilian real. That makes some sense. A Trump victory would make international investors less confident about the direction of American economic policy. This in turn might lead to the Fed being less willing to tighten rates in December, another reason for the dollar to weaken.

On the other hand, Mr Trump's trade policies—tearing up NAFTA and threatening tariffs—would, if implemented have an adverse impact on many emerging markets. That is why the Mexican peso has been the most sensitive currency to his opinion poll rating. His other hints about downplaying America's military alliances in Asia, and its role in NATO, would also hit EM currencies. Furthermore, one Trump policy—encouraging, or forcing, foreign multinationals to repatriate their overseas earnings—might eventually lead to dollar strength.

It is the "exorbitant privilege" of America that it is the global reserve currency and can benefit from a flight to safety, even when (as during the 2008 subprime crisis), it is the place that has caused the shock. Americans who had invested overseas might bring their money home. So the trade-weighted dollar might not be too badly hit by a Trump win .But if the dollar falls back against developed world currencies, those nations won't be happy as that will, in effect, be a tightening of their own monetary policy. That might cause the ECB and Bank of Japan to indulge in a further round of monetary easing. The prospect of that merry-go-round continuing may explain why gold is up more than 20% this year.

Global Economy: Low Growth Trap

For the last five years the global economy has been in a low-growth trap, with growth disappointingly low and stuck at around 3 per cent per year. Persistent growth shortfalls have weighed on future output expectations and thereby reduced current spending and potential output gains. Around the world, private investment has been weak, public investment has slowed, and global trade growth has collapsed, all of which have limited the improvements in employment, labour productivity and wages needed to support sustainable gains in living standards. Overall, a slowdown in structural policy ambition and policy incoherence have slowed business dynamism, trapped resources in unproductive firms, weakened financial institutions and undermined productivity growth. In the face of these limited prospects, the OECD has argued in previous Economic Outlooks that fiscal, monetary and structural policies need to be deployed comprehensively and collectively for economies to grow sufficiently to make good on promises to their citizens. The projections in this Economic Outlook offer the prospect that fiscal initiatives could catalyse private economic activity and push the global economy to the modestly higher growth rate of around 3½ per cent by 2018. Durable exit from the low-growth trap depends on policy choices beyond those of the monetary authorities – that is, of fiscal and structural, including trade policies – as well as on concerted and effective implementation. Collective fiscal action undertaken by all countries, including a more expansionary stance than planned in many countries in Europe, would support domestic and global growth even for those economies, who by virtue of specific circumstances, need to consolidate their fiscal positions or pursue a more neutral stance. Some might argue that there is no space for such fiscal initiatives, given the heavy public debt burden in many economies. In fact, following five years of intense fiscal consolidation, debt-to-GDP ratios in most advanced countries have flattened. It is past time to focus on expanding the denominator – GDP growth. This Economic Outlook argues that the current conjuncture of extraordinarily accommodative monetary policy with very low interest rates opens a window of opportunity to deploy fiscal initiatives. Fiscal space has been created by lower interest payments on rolled-over debt, which also increases gauges of market access and of debt sustainability. On average, OECD economies could deploy deficit- financed fiscal initiatives for three to four years, while still leaving debt-to-GDP ratios unchanged in the long term. A front-loaded effort could allow deficit finance to taper sooner and put the debt-to-GDP ratio sustainably on a downward path. The key is to deploy the right kind of fiscal initiatives that support demand in the short run and supply in the long run and address not just growth challenges but also inequality concerns. These include soft investments in education and R&D along with hard investment in public infrastructures. Such fiscal initiatives would improve outcomes for demand and supply potential even more for economies suffering from long-term unemployment, when undertaken collectively, and when fiscal initiatives are complemented by country-specific structural policies put together in a coherent package.