# ECONOMIC UPDATE

## GLOBAL & INDIAN

### March 2015

**China Lowers Economic Growth Forecast to About 7%**

China lowered its economic growth forecast to about 7% this year at the opening of the country's biggest political event of the year, ushering in what leaders have dubbed a “new normal” of slower growth in the world's second-largest economy. Premier Li Keqiang's speech on the economy opened the National People's Congress, China's annual legislative session. Last year's goal was “about 7.5%” though when actual growth came in at 7.4%—the slowest in more than two decades—officials disputed that it represented a miss. The economic mood is downshifting on almost every front in China, which means that as demand grows for better schools and pensions and cleaner skies, the government is in less and less of a position to provide. The 7% target was widely expected amid sluggish domestic demand and a slow recovery in the global economy. In recent weeks, Beijing has unveiled increasingly dramatic moves to spur bank lending in a bid to rekindle economic momentum. But such moves could set back its efforts to shift away from excessive reliance on exports, a bloated property market and government spending. What strategy Chinese leaders pick matters on a global level. A plan that emphasizes short-term growth could give a boost to a world economy suffering from Europe's malaise and an unsteady recovery in the U.S., but it could also raise questions about China's long-term role as a global economic growth engine.

**Information about quantitative restrictions**

The WTO has created a new webpage dedicated to the issue of quantitative restrictions, measures imposed by governments limiting the quantity or value of goods that can be traded. Such measures may take different forms (quotas, prohibitions, voluntary export restraints, etc.) and must be notified to the WTO under a new procedure. The new webpage provides background information on quantitative restrictions, which are generally prohibited under WTO rules except in defined circumstances. Through this page, Members have direct access to all necessary information on the notification procedure, explanatory documents and the notification form. The notifications are publicly available through the WTO's Quantitative Restrictions Database, which can be accessed via the website..The website also provides links to the activities of the WTO's Committee on Market Access which examines the quantitative restriction notifications made by members, as well as all disputes where provisions relating to quantitative restrictions (Articles XI and XIII of the General Agreement on Tariffs and Trade) are cited in the complaint.

**Indonesia files dispute against the US over anti-dumping duties on paper products**

Indonesia notified the WTO Secretariat on 13 March 2015 of a request for consultations with the United States regarding anti-dumping (AD) and countervailing measures applied by the United States on coated paper imported from Indonesia. According to Indonesia the US's imposition of these measures appears to be inconsistent with several provisions of WTO law, namely the AD Agreement, the Subsidies and Countervailing (SCM) Agreement and the GATT 1994.

**Greek and German leaders meet amid cash shortage fears**

Greek Prime Minister Alexis Tsipras is due to meet German Chancellor Angela Merkel amid mounting concern that Athens is running out of money. The two countries have been at odds over Greece's efforts to renegotiate the terms of its international bailout. Mr Tsipras had warned Mrs Merkel it could not meet imminent debt payments without new aid. But Mrs Merkel said there would be no new money without reforms. Spain's Economy Minister, Luis de Guindos, backed Germany's position, saying on Sunday that Greece must implement promised economic reforms."There will not be any disbursement before there is a real test that the reforms have been approved and implemented."According to the FT, Greece's precarious financial position was underlined in a letter sent by Mr Tsipras to Mrs Merkel on 15 March. In the letter, he writes that Greece faced a short term cash flow-crisis and may have to choose between paying pensions and wages and meeting debt obligations. Mr Tsipras seems clear which option he would choose, writing that to add to Greece's social crisis was "a prospect that I will not countenance". At last week's EU summit, Greece promised to meet creditors' demands to present an economic reform package within days to unlock the cash it needs to avoid leaving the euro.

**Federal Reserve opens door to June interest rate rise**

The Federal Reserve has released its highly anticipated statement on how soon it plans to tighten monetary policy. It put a June interest rate rise on the table though allowed enough flexibility to move later. The decision ends the US central bank's pledge to be patient in normalising monetary policy. In its statement, following a two-day meeting the Fed's policy-setting committee repeated its view that job market conditions had improved so giving its strongest hint yet that it was nearing its first rate hike since 2006.The bank said it would move, "when it has seen further improvement in the labor market and is reasonably confident that inflation will move back to its two percent objective over the medium-term."The bank had to weigh up if the American economy can hold up against collapsing oil prices and a soaring dollar. Wall Street pared losses and the euro rose 1.069 against the dollar after the announcement.

**OECD warns storm clouds gathering for global economy**

Think tank says easy money is building up fresh financial stability risks and urges governments to do more to shore up recovery The OECD says there are tailwinds helping global growth but warns low borrowing costs and low inflation mean storm clouds may be gathering. Abnormally low inflation and interest rates are building up new risks for the global economy, a leading think tank warned on Wednesday, as it called on governments to play a greater role in shoring up the recovery.

The Organisation for Economic Cooperation and Development says in its latest economic health check that low oil prices and loose monetary policy are boosting growth in the world's big economies, but that the near-term pace of expansion remains modest. The Paris-based organisation reiterated a forecast made last month that the UK economy will grow 2.6% this year, matching last year's pace but slower than the 2.7% it had been forecasting at its November outlook. The 2016 forecast is for 2.5% GDP growth..That puts the UK ahead of euro zone neighbours France and Germany, but behind the US, which the OECD sees growing 3.1% this year..

Lower oil prices and widespread monetary easing have brought the world economy to a turning point, with the potential for the acceleration of growth that has been needed in many countries," said OECD chief economist Catherine Mann."There is no room for complacency, however, as excessive reliance on monetary policy alone is building up financial risks, while not yet reviving business investment. A more balanced policy approach is needed, making full use of fiscal and structural reforms, as well as monetary policy, to ensure sustainable growth and public finances over the longer term."

**Support for China-led development bank grows despite US opposition**

Support for a Chinese-led development bank is growing despite US opposition, with Australia indicating that it could join the UK and New Zealand as a founding member. Analysts predicted that others would follow Britain's surprise decision to put its weight behind the new $50bn institution, despite the US making its irritation clear in an unusual public rebuke."Now the US's closest ally has been emboldened to do this, there's very little reason for others not to, because the rubicon has been crossed. If you're looking at South Korea and Australia, it's a bit of a no-brainer," said Stephen Spratt, a research fellow at the UK-based Institute of Development Studies.

The Asia Infrastructure Investment Bank (AIIB) , which is designed to provide funds to the Asia-Pacific region, is viewed with suspicion in Washington, where it is seen as a rival to the World Bank and a possible instrument of Chinese soft power in the region. One US official told the Financial Times: "We are wary about a trend toward constant accommodation of China, which is not the best way to engage a rising power."

But a spokesman for the British prime minister brushed aside US criticism, saying: "There will be times when we take a different approach … We think that it's in the UK's national interest."

Australia's finance minister said the UK and New Zealand decisions reflected improvements in the governance structure China was proposing. "This is something that will obviously be taken into account by the government over the next few weeks as we continue our dialogue with those people behind the bank," said Joe Hockey, the treasurer.

The US has reportedly lobbied Australia, South Korea and others to steer clear of the new institution. But 28 countries are planning to participate, with Indonesia also among those joining early enthusiasts such as India, Pakistan and Singapore. The deadline to become a founding member is the end of this month. A Chinese foreign ministry spokesman, Hong Lei, said Beijing welcomed the UK decision, adding that the AIIB would complement existing development banks.

Zhao Changhui, a senior economist with the Export-Import Bank of China, said China had proposed the AIIB because it understood the importance of infrastructure in light of its own development; it had a huge surplus while many countries in the region lacked the funds they needed for infrastructure; and it knew that restoring the health of the global economy would require large scale cross-border trade and investment. But he added: “The founding of AIIB is a challenge to the US's economical and political dominance. It's also a challenge to the establishments controlled by the US, such as the World Bank.”

Some have suggested that AIIB is designed to compete with the US- and Japan-dominated Asia Development Bank (ADB). “China has tonnes of dollars in reserves and this seems like a good use,” said Stephany Griffith-Jones, an expert on development banks at Columbia University in New York. “There's an estimated $1tn of need in infrastructure and sustainable development [in emerging and developing countries]. In a way, the more, the better … If countries are not happy [with the AIIB], they can still go to the World Bank or ADB.”

Among the unmet needs are an estimated 1.4 billion people without access to electricity, the billion without clean drinking water and 2.6 billion without access to sanitation. Griffith-Jones added that British involvement would also allow the UK to help shape the institution – but given that China is providing most of the cash, it is unclear how much influence other countries will wield. She suggested that in terms of governance it might have been better if China were not providing quite so much of the funding.

Beijing is also a major player in the New Development Bank being set up by the Brics nations – Brazil, Russia, India, China and South Africa – and is providing $40bn for the new Silk Road Fund to improve connectivity across Asia.

The president of the World Bank, Jim Yong Kim, told a news conference: “From the perspective simply of the need for more infrastructure spending, there's no doubt that from our perspective, we welcome the entry of the Asian Infrastructure Investment Bank.”

The White House National Security Council said the US agreed there was a pressing need to enhance infrastructure investment, but had concerns about whether the AIIB would meet “the high standards, particularly related to governance, and environmental and social safeguards” of the World Bank and regional development banks. Spratt said: “People have been criticising the World Bank on exactly the same issues for decades and through all of that flak there's been significant learning. “The new multilateral organisations do have a lot to learn from the World Bank and regional development banks on the environmental and social side – but [the existing institutions] probably have quite a lot to learn from places like China in terms of how to deal with rapid infrastructure building and so on.”

**Britain to regulate Bitcoin**

Britain took a significant step towards becoming a global bitcoin hub on Wednesday as the government announced it would regulate digital currencies for the first time by applying anti-money laundering rules to exchanges. Already the center of the $5-trillion-a-day market for traditional currencies, the UK is fast emerging as a center for digital currencies too, cementing its place as European's financial technology, or "FinTech", capital.

In a report published alongside finance minister George Osborne's annual budget statement, Britain's Treasury said the new regulation would support innovation and prevent criminal use of digital currencies. The proposals will be consulted on early in the next parliament. Tom Robinson, co-founder of Elliptic, the world's first bitcoin insurance vault in London, and a board member of the UK Digital Currency Association, said the new regulation effectively served as a "stamp of approval" from the government.

"It provides enough oversight to provide legitimacy without stifling innovation," he said. "I think it is a good balance between on the one hand the U.S. and specifically New York, which I think have gone too far, and what a lot of countries are doing which is just completely ignoring it."The potential for digital currencies to be used for illicit financial transactions has led many to steer well clear of them. They were dubbed the "Wild West" of finance by U.S. regulators last year, since they are not backed by a central bank or government like conventional money.