

# ECONOMIC UPDATE

## GLOBAL & INDIAN

### April 2015

#### Seychelles to become 161st WTO member

On 24 March, the National Assembly of the Republic of Seychelles ratified, unanimously, the WTO Protocol of Accession of the Republic of Seychelles. On 25 March, President James Michel signed the Instrument of Acceptance of the Accession Protocol, confirming its membership terms, at a plenary meeting of the Cabinet of Ministers in Mahé, Victoria, Seychelles. President Michel handed the Instrument to the Director of the WTO Accessions Division, who received it on behalf of WTO Director-General Roberto Azevêdo.

According to WTO rules, Seychelles will become a full-fledged member on 26 April 2015. By depositing the document with Director-General Roberto Azevêdo, Seychelles activated the 30-day countdown to its WTO membership, which will be effective on 26 April 2015.

#### Encouraging signs on acceptance of WTO's Trade Facilitation Agreement

WTO members reported on 24 March on efforts now underway to formally accept the new Trade Facilitation Agreement (TFA), with many affirming their hope of seeing the agreement enter into force by the WTO's 10th Ministerial Conference in Nairobi next December. At a meeting of the WTO's Preparatory Committee on Trade Facilitation (PCTF), representatives from more than a dozen delegations said the domestic ratification process for the TFA was already underway, with some delegations outlining target dates for securing approval.

However, a number of developing country members highlighted the domestic legislative hurdles that will need to be overcome to secure acceptance. Several indicated they were not in a position to ensure ratification by the Nairobi meeting, which will take place on 15-18 December. To date, four WTO members — Hong Kong (China), Singapore, the United States and Mauritius — have secured domestic acceptance of the TFA, which was concluded at the WTO's 2013 Bali Ministerial Conference. Two-thirds of the WTO's 160 members will need to ratify the TFA in order for the agreement to enter into force.

There is no deadline for securing the two-thirds threshold. However, Kenyan foreign minister Amina Mohamed has said she would like WTO members to achieve entry into force of the TFA by the Nairobi meeting. Ambassador

Esteban Conejos of the Philippines, the chairperson of the PCTF, told members he understood a considerable number of additional WTO members have started the ratification process. The challenge, he said, is that the process is domestic in nature and differs from country to country.

Those reporting that domestic acceptance procedures are now underway were Chile, China, Colombia, El Salvador, the European Union, Georgia, Korea, Mexico, Morocco, Nicaragua, Norway, Saudi Arabia and Chinese Taipei. Japan, New Zealand and Switzerland also gave more detailed explanations of their domestic acceptance processes now underway. Several African delegations (Nigeria, South Africa) highlighted the challenges they face in securing acceptance, including the need to make changes in domestic legislation. Colombia also highlighted the long legislative process required domestically to ensure acceptance, which it believed other Latin American countries shared.

Amb. Conejos also informed delegations that 55 notifications have now been received from developing country members outlining their "Category A" commitments — those provisions under Section I of the TFA that they intend to implement upon entry into force of the agreement. In particular, the chairperson said he was especially heartened to see the first notification from a least-developed country (Senegal). "I understand that more notifications are currently being prepared, which is a very welcome development," the chairperson added. The PCTF noted the receipt of ten new Category A notifications since its last meeting. In addition to Senegal, the new notifications are from Botswana, Egypt, FYR Macedonia, Gabon, Jamaica, Macao (China), Montenegro, Nigeria and Pakistan.

#### Euro zone warns Greece no cash till full reform deal

Euro zone finance ministers warned Greece on Friday that its leftist government will get no more aid until it agrees a complete economic reform plan, as Athens lurches closer to bankruptcy.

Greek Finance Minister Yanis Varoufakis faced a harsh morning in which euro zone ministers bemoaned talks they felt "were going nowhere" and one minister said that maybe it was time governments prepared for the plan B of a Greek default. Jeroen Dijsselbloem, the Dutch finance minister

who chaired the meeting in the Latvian capital, slammed the door on Varoufakis' proposal for early cash after partial reforms.

"A comprehensive and detailed list of reforms is needed," Dijsselbloem told a news conference following a meeting in Riga. "A comprehensive deal is necessary before any disbursement can take place ... We are all aware that time is running out."

He also said a remaining 7.2 billion euros in frozen bailout funds would no longer be available after June, and Greece's creditors would not talk about longer term funding and debt relief until Athens concluded a full interim agreement. In a sign of the euro zone's frustration, the discussion on Greece lasted little more than an hour, while ministers declined to go into any detail over issues such as the budget surpluses Athens might target because Greece had no details prepared. Greek Prime Minister Alexis Tsipras said after meeting German Chancellor Angela Merkel in Brussels on Thursday he hoped for an agreement by the end of this month and Merkel on Friday reiterated her call for a deal soon.

### **Lack of trade finance can be a significant trade barrier for developing countries**

Director-General Roberto Azevêdo, in opening the seminar on "Trade Finance in Developing Countries" at the WTO on 26 March 2015, pointed to a recent WTO Secretariat paper that showed trade financing gaps are "the highest in the poorest countries, notably in Africa and Asia". He said that "lack of development in the financial sector can be a significant barrier to trade", and told participants "let's redouble efforts to work together and resolve this problem". This is what he said:

Up to 80% of global trade is supported by some form of financing or credit insurance. Yet in many countries there is a lack of capacity in the financial sector to support trade, and also a lack of access to the international financial system. Therefore the ability of these countries to use simple instruments such as letters of credit is limited.

The impact of these limitations on a country's trading potential can be very, very significant. The aim of this event is therefore to improve our understanding of the challenges in obtaining trade finance at affordable rates, particularly in developing countries — and to consider some potential solutions.

### **Modest trade recovery to continue in 2015 and 2016 following three years of weak expansion**

Growth in the volume of world merchandise trade will pick up only slightly over the next two years, rising from 2.8% in 2014 to 3.3% in 2015 and eventually to 4.0% in 2016, WTO economists announced today (14 April). Director-General

Roberto Azevêdo said that "by withdrawing protectionist measures, improving market access, avoiding policies which distort competition and striving to agree reforms to global trade rules, governments can boost trade and seize the opportunities that it offers for everyone."

World merchandise trade is forecast to grow 3.3% in 2015 in volume terms as output picks up slightly in both developed and developing countries. Trade growth should accelerate to 4.0% in 2016, still below the average of 5.1% since 1990, and well below the pre-crisis average of 6.0%. Trade volume growth has been very slow in recent years, measuring 2.8% in 2014 and averaging 2.4% over the last three years.

Exports of developing countries grew faster than those of developed countries in 2014, 3.3% vs. 2.2%. Meanwhile, imports of developing countries grew more slowly, 2.0% compared with 3.2%. The 50% drop in oil prices since July should boost incomes and imports in energy intensive economies (including developed countries and China) while reducing them in fuel exporters. Numerous downside risks to the forecast exist including geopolitical tensions, divergent monetary policies, exchange rate fluctuations and slower growth in emerging economies.

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Trade expansion will therefore remain well below the annual average of 5.1% posted since 1990. The modest gains in 2014, marked the third consecutive year in which trade grew less than 3%. Trade growth averaged just 2.4% between 2012 and 2014, the slowest rate on record for a three year period when trade was expanding (i.e. excluding years like 1975 and 2009 when world trade actually declined).

### **China Q1 growth dips to six-year low as easing measures fail to find traction**

China's annual economic growth slowed to a six-year low of 7.0 percent in the first quarter as demand stayed weak, meeting analyst forecasts but fanning expectations that authorities will roll out more policy stimulus to avert a sharper slowdown. In the last quarter of 2014, China's economy grew 7.3 percent on an annual basis. On a quarterly basis, economic growth slowed to 1.3 percent between January and March after seasonal adjustments, the National Bureau of Statistics said on Wednesday, compared with growth of 1.5 percent in the previous three months. March factory output rose 5.6 percent from a year earlier, below the 6.9 percent seen in a Reuters poll, its lowest level since the global financial crisis in 2008. Fixed asset investment, a key driver of the economy, grew 13.5 percent in the first quarter from a year earlier, the weakest expansion in the first three

months of a year since 2000.

More bad news came from another major economic pillar, the real estate sector. Despite recent easing measures to boost mortgage borrowing and ease restrictions on housing purchases, property investment rose only 8.5 percent in the first quarter, down from 10.4 percent growth rate seen in the Jan-Feb period, which was a five-year low.

China's stock indexes, which have been on a historic rally since Beijing began easing monetary policy in November, were up slightly after the data release, with the CSI300 index up around 0.4 percent. Employment still holds up due to a faster-expanding services sector, but weaker growth and nagging factory deflation could force more manufacturers to cut jobs, analysts say. "The problem of unemployment may show up if GDP growth continuously stays below 7 percent," said Nie Wen, an economist at Hwabao Trust in Shanghai. Earlier data showed consumer inflation remained tepid in March while factory deflation persisted.

### **WTO and FAO announce enhanced cooperation on trade and food security**

Director-General Roberto Azevêdo met with the Director-General of the UN Food and Agriculture Organization (FAO), José Graziano da Silva, in Geneva on 17 April to step up collaborative efforts on the issue of trade and food security, as well as other issues. Roberto Azevêdo said: "Food security is closely linked to trade and therefore it is an important element of our work at the WTO. I am delighted that we will now be able to enhance our work on this crucial issue which affects so many people, through an even closer partnership with the FAO." As part of this work, the WTO will be taking part in the preparatory work on the FAO's flagship publication, the State of Agricultural Commodity Markets, which this year will focus on trade and food security. The FAO and WTO chiefs discussed how the report could provide evidence and greater clarity on a range of issues related to trade and food security. The FAO will also hold a symposium on food security at the WTO on 5 June.

Considering the important role of open and strengthened food markets in supporting food security objectives, the two directors-general discussed how trade and the multilateral trading system could help in creating a more favourable global environment for food security and sustainable agriculture. "I am deeply engaged in continuing to develop our joint work with WTO as food security and trade can play together a very important role to help fulfill FAO's mandate", said Graziano da Silva. "They also discussed the current state of play in the Doha Round agriculture negotiations and the renewed efforts that the governments are making towards a successful outcome.

### **Most WTO members ready to start defining services component of post-Bali work programme**

The majority of WTO members expressed readiness to start defining the services component of the post-Bali work programme in an informal meeting of the Trade in Services Council on 20 April 2015. Some delegations said that the services negotiations would have to wait until it is clearer what the work programme will contain for agriculture and industrial goods. The purpose of this informal meeting was to hear WTO members' views on how to define the services component of the work programme by 31 July, in light of the decisions taken at the 2013 Bali Ministerial Conference and the General Council on 27 November 2014.

Members welcomed a collective paper by a group of 60 WTO members stating, among other things, their position on what the services component of the work programme should include. This proposal from March 2015 includes a call for developing countries to provide market access in fewer services sectors than those proposed by developed countries and to extend access progressively and on a conditional basis in line with their economic situation.

To narrow the scope of the discussions, a number of members indicated sectors and/or modes of supply where they would like in particular to see new or improved commitments from members. These include express delivery, transport and logistics, telecommunications, computer services, distribution, financial services, construction and energy-related services as well as the temporary movement of contract suppliers and independent professionals (Mode 4, as defined in the General Agreement on Trade in Services, the GATS).

### **WTO and UNEP enhance dialogue on trade and environmental issues**

The event provided an opportunity to take stock of the increasing interconnections between trade and environment since the establishment of the WTO and to look ahead to what needs to be done to ensure these two areas continue to be mutually supportive in the years to come. The event brought together leaders and renowned experts in the field of trade and environment, including the Executive Secretary of the Basel, Rotterdam and Stockholm Conventions and the Secretary-General of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES). DG Azevêdo highlighted the increasing importance of trade-related measures aimed at environmental goals and the role of WTO institutions and activities in ensuring such measures contribute efficiently to sustainable development. Mr Steiner and Mr Azevêdo emphasized the need to redouble efforts at all levels to ensure that trade and environmental policies go hand in hand.