

30th September, 2008



WTO CELL
PLANNING & DEVELOPMENT DEPARTMENT
WEEKLY ECONOMIC DIGEST
22nd - 28th September , 2008

Present government to reduce budgetary deficit: chief executive TDAP

Present regime would succeed in reducing the budgetary deficit by imposing heavy duty on luxury items, unproductive items and big cars, however, previous regime did not care for the imports nor increased the exports to maintain the balance. Our imports climbed to 40 billion dollars while exports were less than 20 billion dollars, said Chief Executive Officer of Trade Development Authority of Pakistan (TDAP), Syed Mohib-ullah Shah. He said that exporters, manufacturers and traders would avail 50 percent more opportunities than preceding years to take part in trade exhibitions, festivals. TDAP had formed nine advisory boards including agro-food, engineering, minerals export, and human resource advisory boards. These boards would keep vigilant eye on the world market with the collaboration of exporters and it would meet quarterly to recommend the exports of Pakistani products where these are required. (Business Recorder, 22nd September, 2008)

Chicago Fed activity index falls

The Chicago Fed said its National Activity Index was minus 1.59 in August versus a revised minus 0.93 in July, originally reported at minus 0.67, and the lowest since September 2001. The measures, which smooth out monthly fluctuations, was minus 1.09 in August against July's minus 0.92, previously reported at minus 0.80. Total industrial production fell 1.1 percent for the month, and manufacturing output was down 1.0 percent, while capacity utilization fell to 76.6 percent. Some 32 indicators improved from July to August while 53 deteriorated. Business Recorder, 23rd September, 2008)

Financial crisis casts cloud over UN poverty meeting

Heads of state, private-sector leaders and development agencies will this week assess the global fight against poverty, where progress is threatened by upheaval in global markets and soaring food prices. The meeting in New York marks the midway point since global leaders first signed on to the Millennium Development Goals (MDGs) in 2000, which aim to halve hunger and poverty by 2015. The goals have been chosen by UN Secretary-General Ban Ki-moon as the keynote theme of this year's annual General Assembly gathering of leaders of the 192 UN member states. Events start on Monday with a look at development needs in Africa, where poverty is still widespread but faster economic growth is opening new investment opportunities. Ban Ki-moon will lead a meeting to gauge overall progress on reaching the goals. This year sees major efforts from the private sector, including private philanthropic foundations, to support the fight against poverty, with billions of dollars in

commitments for malaria, education, health and food projects expected. The World Bank has warned that 100 million people could be pushed deeper into poverty unless there is a global response to tackle the rising cost of food and oil. (Business Recorder, 23rd September, 2008)

Bush 'confident' in quick US bailout

President George W. Bush said he had reassured worried world leaders at the UN General Assembly he was "confident" the US Congress would quickly act to rescue the crisis-hit US economy. Hours before giving his farewell address to the annual gathering, Bush held his first-ever meeting with Pakistan's President Asif Ali Zardari amid growing doubts about the fate of a 700-billion-dollar US economic bailout package. Bush said he had heard from "world leaders wondering whether or not the United States has the right plan to deal with this economic crisis" and assured them his approach was a "robust plan to deal with a serious problem." (Business Recorder, 24th September, 2008)

Financial crisis no cause for protectionism: WTO

The financial crisis should not undermine efforts to open up the global economy, the head of the World Trade Organization (WTO) said. "The current hurricane that has hit the financial markets must not distract the international community from pursuing greater economic integration and openness," Lamy told a public forum at the WTO. The WTO chief said it was important to complete the Doha Round of multilateral trade talks, which began in 2001 and whose stated aim is to open up the world economy and help developing countries export more. Lamy said diplomats were trying to get an outline deal on farming and industrial tariffs and subsidies, after ministers failed to reach a breakthrough in July. That issue remains a problem, with rich countries like the United States unwilling to accept a mechanism that could disrupt trade, and developing nations such as India saying they need to be able to help their subsistence farmers quickly in a crisis. The focus of the Doha Round talks now moves to a series of consultations conducted by New Zealand's WTO ambassador, Crawford Falconer, who will try to narrow gaps in discussions involving small groups of affected countries. (Business Recorder, 25th September, 2008)

EU hits out at China's economic nationalism

Economic nationalism is on the rise in China, the European Union trade commissioner said, as he strongly criticized the restrictions faced by foreign companies investing in the country. Peter Mandelson said investment by European companies in China was falling despite the country's growth. "China needs European investment and the technologies, management skills and capital that it brings," he said. Chinese officials regularly complain that the country faces similar obstacles to investing in the EU. Mr Mandelson will raise the same issues this evening in a speech he will give in the Chinese city of Tianjin that contains unusually blunt criticism of China's approach to foreign investors. European companies often complain of encountering in China "an unspoken economic nationalism that implies that foreign investment is no longer wanted or needed. According to the EU, European investment into China dropped from €6bn (\$8.7bn, £4.7bn) in 2006 to €1.8bn (\$2.6bn, £1.4bn) last year, and China accounted for only 2 per cent of all European foreign direct investment. Mr Mandelson said that since 2003, European companies had invested more in both Russia and India than they had in China. (Financial Times, 26th September, 2008)

WTO warns against protectionist temptation

Calls for protectionism are likely to rise in the wake of the financial crisis, but should be resisted, the director-general of the World Trade Organization has warned. There is huge damage in closing

markets.” Mr Lamy compared the crisis to the crash of 1929, and said that moves towards protectionism during the Great Depression helped to deepen economic problems, and ultimately was one of the factors behind the Second World War. Mr Lamy said the large US trade deficit would intensify calls for the spread of globalization to be halted or turned back. Mr Lamy said that trade was also the answer to the climate change problem. He said a global system of trading in greenhouse gases could help to bring down emissions, and cautioned against countries trying to use trade sanctions to encourage higher environmental standards. Mr Lamy acknowledged that developing countries were worried that some rich nations were trying to use environmental concerns as an excuse for protectionism, by proposing that imports should meet certain high environmental standards. France led calls last year for trade penalties against countries that failed to cut their emissions in line with the Kyoto protocol. This attracted criticism from Brazil, which accused the US of hypocrisy because it imposes tariffs on imports of biofuels, effectively preventing the import of cheap Brazilian ethanol made from sugar cane. (Financial Times, 26th September, 2008)

Bush warns of debt rescue 'urgency'

US President George W. Bush warned lawmakers wary of his 700-billion-dollar debt bailout scheme that "failure to act would have broad consequences" for the battered US economy "Americans are watching to see if Democrats and Republicans, the Congress and the White House, can come together to solve this problem with the urgency it warrants," Bush said in a statement. The Bush administration has demanded lawmakers move quickly on the plan unveiled to address the gravest financial crisis since the Great Depression, warning that the economy could collapse without prompt action. (Business Recorder, 23rd September, 2008)

Search on to find common ground for WTO agriculture talks

A group of 25 countries including India, Brazil, the US, the EU and some African countries, will meet the committee on agriculture (CoA) chairman Crawford Falconer to pick up areas in agriculture which need to be “reactivated” at the World Trade Organization (WTO). While disagreement over special safeguard measures (SSMs) for protecting poor farmers against import surges, an issue which India has been fighting for and that was seen as the main deal-breaker in the Geneva meeting in July this year, there were some less talked-about but more critical issues, like US cotton subsidies, which were not discussed. Speaking to ET, sources pointed out that the African countries were very upset about the US’ unwillingness to discuss the issue of dismantling cotton subsidies at the mini-ministerial meeting in Geneva. There are other issues including the sensitive lists of products which developed countries would be allowed to maintain and the product caps (levels beyond which tariffs cannot rise) for farm products. The CoA chairman has already started consultations with negotiators since September 22 and the process will go on till September 29. WTO members were hoping to give the Doha round of multi-lateral trade talks, which began in November 2001, a big push this July, but talks stumbled on the issue of SSMs. (The Economic Times, 24th September, 2008)

WTO sets up panel in EU high-tech imports dispute

The World Trade Organization set up a panel to examine a dispute over the European Union's tariffs on high-tech goods, a WTO spokeswoman said. The United States, Japan and Taiwan say the EU, officially known at the WTO as the European Communities (EC), is violating a 1996 WTO deal to limit barriers on trade in high-tech goods such as satellite boxes, flat panel computer monitors and digital scanners and printers. "The EC's actions not only impede trade in these products, they also threaten to undermine tariff commitments on information technology products, which are so important to trade and investment in both developing and developed countries," the United States told the WTO's

dispute settlement body. The row centres on the interpretation of the WTO's Information Technology Agreement (ITA), which eliminated duties on a range of high-tech goods from July 1997 to encourage trade. But since 2005 the EU has re-imposed duties on new versions of computer screens, multi-function printers and TV set-top boxes that can access the Internet, classifying those as consumer products rather than simply high-tech goods. Taiwan welcomed the EU's proposal, but said the products in the dispute were covered by the current ITA and so were entitled to duty-free treatment. (Business Recorder, 24th September, 2008)

Swiss diplomat proposed as WTO industry talk's chair

Switzerland's ambassador to the World Trade Organization (WTO), Luzius Wasescha, has been proposed as the new chairman for the WTO's negotiations on industrial goods, trade sources said. Rich and poor countries have clashed in the industrial goods negotiations over the extent to which each should open up their markets for goods such as cars and clothing by cutting tariffs. Developing countries say they need to shield their fledgling industries from the full impact of market opening. But the United States and European Union fear that big developing countries like Brazil, India and China could use special arrangements for poor countries to carve out entire industrial sectors from market opening, depriving rich-country businesses of new export opportunities. The United States also wants to encourage big developing countries to join voluntary agreements to eliminate tariffs in certain sectors, but countries such as China say this goes beyond the agreed scope of the talks. Although Switzerland's Alpine farmers rely on a high degree of protection for agriculture, its high-tech and luxury businesses require open world markets for industrial goods. WTO members have reached an informal consensus on Wasescha's appointment, and next week's meeting will make it official, trade sources said. (Business Recorder, 24th September, 2008)

US lawmakers reach deal on massive financial bailout plan

US lawmakers reached basic agreement on a massive financial bailout plan, lifting world stock markets, sending the dollar up and breathing life into troubled money markets. Senator Christopher Dodd, chairman of the US Senate Banking Committee, said House of Representatives and Senate negotiators had reached "fundamental agreement" on a set of principles guiding a bailout bill. News of an agreement stabilised beleaguered money markets that were frozen by reluctance by banks to lend. "A crisis of confidence without precedent is shaking the global economy," French President Nicolas Sarkozy said in a speech. The crisis reverberated in Amsterdam and Brussels, where Fortis NV, the Belgian-Dutch financial services group, denied a rumour that the Dutch Central Bank had asked a Fortis rival to support the company's liquidity position. China's banking regulator sought to reassure jittery financial markets, denying a report that it had told local banks to stop lending to US banks and stressing that foreign bank operations in China were healthy. (Business Recorder, 26th September, 2008)

World Bank pledges \$1.337 billion support

World Bank President Robert Zoellick has assured President Asif Ali Zardari of the financial institution commitment to Pakistan's development, informing him that 1.337 billion dollars new programmes are in pipeline in the current year. Zoellick said the World Bank-funded programme in the pipeline this year included sectoral investment such as energy, water, infrastructure etc. He also assured of the bank's support for development in Federally Administered Tribal Area (Fata) as well as pro-poor programmes in Pakistan. President Zardari apprised the bank chief of Pakistan's macroeconomic stabilization programme, Benazir Income Support Programme for pro-poor support and mobilisation of resources for industrialization and investment in Pakistan. The political

government, he said, had taken difficult decisions to meet the current economic challenges, saying the programmes would help Pakistan move out of this difficulty in the near-term. Zardari also spoke of "Friends of Pakistan" initiative, stating that it was aimed at mobilising support for Pakistan's development. The President also shared his vision for fast-track development and industrialization in the Fata to provide employment opportunities in that area. (Business Recorder, 26th September, 2008)

Economic Freedom Report 2008: Pakistan ranks 104 out of 141 states

Economic Freedom Report 2008 has ranked Hong Kong number one, followed by Singapore then New Zealand. Pakistan ranked 104 out of 141 countries this year, after ranking 102 (out of 141 countries) in the last year's report. The cornerstones of economic freedom are personal choice, voluntary exchange, freedom to compete and security of private property. Research shows that individuals living in countries with high levels of economic freedom enjoy higher levels of prosperity, greater individual freedoms, and longer life spans. This year's report also contains new research showing the impact of economic freedom on poverty reduction. Countries with high levels of economic freedom are those in which people enjoy high standards of living and personal freedoms. Pakistan scores in key components of economic freedom (from 1 to 10 where a higher value indicates a higher level of economic freedom. (Business Recorder, 26th September, 2008)

FTA with EU must cover 95 pc goods for real benefit to India

Expressing concern that all items of export interest to India, like leather, textiles and garments, may not get covered in FTA being negotiated with the European Union, FICCI has suggested expansion of scope of the pact to cover 95 per cent of merchandise goods. The EU should eliminate tariffs on 95 per cent of the goods under the Free Trade Agreement instead of the 90 per cent being targeted by the India-EU High Level Trade Group, the industry body said. "This 90 per cent coverage will not guarantee any real market access for products of export interest to India in the EU," it said. The proposed FTA could increase India's share in EU's trade provided the latter gives meaningful market access to the products of export interest to India in the EU markets like textiles, apparels, leather products, chemicals and architectural services, besides job opportunities to medical and IT professionals, the Chamber stressed. In 2007, share of India in EU's total goods imports was only 1.9 per cent, while in services it was 1.5 per cent. Bilateral trade currently stands at \$65.26 billion. The two began negotiations for a FTA last year. The Chamber said in the absence of any effective resolution of issues related to non-tariff barriers faced by Indian exporters in the EU, there would not be any meaningful gains for them from the pact. (The Economic Times, 26th September, 2008)

US growth revised down on softer spending

The US economy grew less strongly than previously thought during the second quarter as consumers boosted spending less vigorously and businesses trimmed some investments, a sign confidence was sagging even before financial market turmoil deepened. The Commerce Department said Gross Domestic Product, the measure of total goods and services output within US borders, expanded at a 2.8 percent rate in the April-June second quarter rather than the 3.3 percent rate it estimated a month ago. The GDP data is backward-looking and was paid scant heed by markets amid the drama that gripped financial market participants in the US and globally. While GDP growth was ahead of the first quarter's 0.9 percent rate, economists surveyed by Reuters had forecast the second-quarter pace would be unchanged rather than revised down. There were signs that the turmoil that has engulfed Wall Street was already spreading to consumers and small businesses in the second quarter. Personal spending that fuels two-thirds of national economic activity grew at a revised 1.2 percent rate instead

of 1.7 percent previously estimated, partly because spending for costly durables like cars contracted more sharply. Businesses also appeared to be growing more wary about economic prospects in the second quarter. Spending on equipment and software, typically made when companies are planning production increases, shrank at a 5 percent rate rather than the 3.2 percent rate previously estimated. Companies cut their inventories at an annual rate of \$50.6 billion in the second quarter. (Business Recorder, 27th September, 2008)

Economic growth rate at 28-year low

A measure of future economic growth in the United States fell to a fresh five-year low and its annualized growth rate dove to a 28-year low, indicating the recession will likely drag on regardless of policy actions, a research group said. Last week's figure was 125.0, revised from 125.1. The index was pulled down by higher jobless claims and weaker stock prices and housing data, and was partly offset by stronger money supply growth, said Lakshman Achuthan, managing director at ECRI, in an instant message interview. (Business Recorder, 27th September, 2008)

South Korea and India strike free trade deal

South Korea and India have reached a free trade deal that could boost their \$11 billion annual trade by as much as a third and sharply raise South Korean auto part makers' share one of the world's fastest-growing markets. South Korea has free trade deals in place with Chile and Singapore and is awaiting ratification of a trade deal with the United States that it signed in June last year. South Korea's main exports to India are automotive parts, petroleum products, synthetic resins and mobile phones. (Business Recorder, 27th September, 2008)

'Doha round may take additional three years'

The long-running Doha round of trade talks may take an additional two or three years to be concluded if world leaders fail to reach a breakthrough this year, Brazil's Foreign Minister Celso Amorim warned. "If we can get to an agreement on (trade) modalities this year, the next US administration, whichever it is, will find something already done with the support of several countries - and that would be harder to change," Amorim told in New York, on the sidelines of the United Nation's general assembly. "If we take longer, the round will take an additional two or three years and, in the meantime, people will die of hunger in Africa, African cotton producers will keep facing large US subsidies, and India will not have the (protection) mechanism it wants to create," he added. The latest attempt to revive the Doha round failed in July when the United States and India disagreed over the terms of a safeguard mechanism to allow developing countries to raise tariffs on agricultural imports in response to a surge. (Business Recorder, 27th September, 2008)

Crisis damps US consumer recovery in September

US consumer confidence rose to a seven-month high in September but not as much as previously thought as worries over the growing financial crisis clouded the outlook, a survey showed. It was the highest final reading since 70.8 in February. "The rebound in consumer confidence ended amid heightened concerns about the growing financial crisis, although these concerns arose too late in the month to completely erase the earlier gains." The survey's reading on one-year inflation expectations fell to 4.3 percent - the lowest since 4.3 percent in March - from 4.8 percent in August. In the preliminary report, one-year inflation expectations had come in at 3.6 percent. It was down from 3.2 percent in August but slightly higher than the 2.9 percent recorded in the preliminary report for September. The index of consumer expectations rose to 67.2 in September from 57.9 in August. (Business Recorder, 27th September, 2008)

Rice says US will emerge stronger from crisis

US Secretary of State Condoleezza Rice said the United States would emerge stronger from the financial crisis and there had been no talk of cutting aid programs due to a lack of funds. Criticism of the United States over the financial crisis has predictably come from foes such as Bolivian President Evo Morales, but allies France and Germany have also raised uncomfortable questions over who is to blame and the long-term impact for America's power. French President Nicolas Sarkozy called for those responsible to be punished and German Finance Minister Peer Steinbrueck, blaming the crisis on a blind drive for higher profits, predicted the United States would lose its financial superpower status. "I think this will - the United States will emerge and emerge as strong as ever, probably stronger, because this is a financial crisis that needed to be worked through," said Rice. The US government is seeking a \$700 billion bailout to clean up the financial mess and Rice said the United States was a nation with "enormous resources" that could weather the storm. (Business Recorder, 28th September, 2008)

Ukraine not hit by global financial crisis: Prime Minister

Ukraine's economy and public finances have not been hit by the global financial crisis and are robust enough to withstand any future shocks, Prime Minister Yulia Tymoshenko said. "Let me say clearly - the global financial crisis has not spread to Ukraine," she told. "Everything points to the fact that Ukraine's economy and finances are stable. She cited slowing inflation, a budget surplus in the first nine months of the year and a healthy growth rate as evidence of the Ukrainian economy's resistance to turmoil which has forced many other countries to cut their growth forecasts. "We will continue to defend Ukraine from these negative influences so that next year, from the macroeconomic point of view, there will be stability and we will achieve the forecasts we have set down in our 2009 draft budget." (Business Recorder, 28th September, 2008)

US economy hurting, but no 'lost decade'

America's financial crisis may have dented its international standing, but don't write off the US economy just yet. US Federal Reserve Chairman Ben Bernanke, urging US lawmakers to back a \$700 billion bailout plan, invoked the "lost decade" Japan suffered in the 1990s after its property and stock market bubble burst. German Finance Minister Peer Steinbrueck went further, claiming America would "lose its superpower status in the world financial system" over the credit market meltdown. But economists think the bailout under consideration in the US Congress would limit the damage from the year-long credit crisis to a relatively short recession. "(US authorities) could restore confidence fairly easily. The US Treasury Department request for sweeping authority to take bad debts off the books of financial firms is bogged down in congressional bickering. (Business Recorder, 28th September, 2008)