ECONOMIQUITY

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India's Lacklustre Approach Towards International Trade is Hurting its Foreign and Economic Interests

Recently, during a round of candid talks with the Chinese, India Commerce & Industry Minister Nirmala Sitharaman sought greater market access and a level playing field for Indian information technology, pharmaceutical and agricultural products in China.

The talks highlighted the difference in the approach of both the countries while advancing their respective trade interests is stark. China seems to understand the linkages of its trade interests with its foreign and domestic economic policy. On the other hand, our lacklustre approach signals that we still consider trade, in particular exports, as a residual activity.

Clusters and agriculture

For instance, it has been reported that the government is preparing a national plan for manufacturing clusters to bring about convergence in the development of industrial areas by the central and state governments. However, one hopes that this policy will be convergent with the Niti Aayog's recommendation to create coastal manufacturing zones which recognises linking our trade strategy to participating actively in fostering value chains.

We desperately need a strategy with clear and certain linkages between trade and foreign as well as domestic policies. Our trade policy must be aligned with national priorities of job creation, enhancing competitiveness and addressing the challenges of the middle income trap. This should be supplemented with regular analysis of our trade agreements, their impact on trade with relevant countries and on our product and market-specific competitiveness.

Strategically important products and markets will need to be prioritised and related reforms in terms of enabling regulatory architecture, ensuring availability of land and infrastructure, capital, skilled labour, will need to mapped and carried out in time bound manner in consultation with relevant stakeholders.

Such understanding of a relationship between trade and domestic policy will bode well for our foreign policy as well. We will be in a position to realistically ascertain our existing and potential strengths and limitations *vis-à-vis* our trade with strategic and priority countries.

Africa strategy

A strategically crafted foreign policy can not only benefit from trade and other domestic policies but can also provide critical inputs for them. For instance, India has been trying to regain its diminishing space as a supporter of developing and least developed countries at the multilateral trading system, which is primarily based on our trade and investment relations with Africa.

An in-depth diagnostic of reasons with a clear action agenda for boosting exports is needed. Without significant trade interests, we might not be in a position to forge a strong partnership with African countries, denying us an opportunity to act assertively in multilateral negotiations.

Therefore, the political establishment will need to realise that trade policy is not just about trade. It should recognise linkages between domestic policy, trade policy and foreign policy, and ensure that the policies reinforce other.

* *Pradeep S. Mehta, Secretary General CUTS; excerpts from an article appeared in The Wire on August 13, 2017*

Articles

Highlights

China's Audacious Infrastructure Plans could put a Major Strain on African Economies

Ricardo Reboredo*

From Africa's point of view, OBOR presents a mixture of challenges and opportunities

First proposed in 2013, One Belt One Road (OBOR) initiative is a massive infrastructural development programme of the Chinese economy as the country seeks to move from a 'newly-industrialised' economy to a 'fully-developed' one. It is the latest in a line of projects that will potentially span 60 countries, and cost an estimated US$5tn, it will mean building new rail networks, roadways, and pipelines across Asia, Europe and Africa. It has been described by Chinese President Xi Jinping as the 'project of the century'.

Though this initiative is certainly ambitious, OBOR's objective is to increase China's economic reach. The old drivers of development such as low wage, low-end export manufacturing proved to be successful for the dramatic growth of the Chinese economy. At the same time, the old drivers of development have led to social and economic problems such as unemployment, increasing income disparity and an over-heated housing market.

From Africa's point of view, OBOR brings in notice couple of big questions about how the initiative will affect projects throughout the continent. East African nations such as Kenya, Tanzania, and Ethiopia are seemingly the focus for China. But related projects have popped up everywhere from Cameroon to Namibia and Nigeria. For many African states, the vital challenge will be how they can leverage the vast sums of money behind OBOR to grow their own economies.

It is also equally important for African economy to be cautious of an infrastructure heavy agenda through OBOR investments because it should not result in a colonial-style situation in which transport links are simply created to shuttle resources out of the host country, without creating opportunities for growth.

Moreover, OBOR may open up African markets to a wide variety of cheap Chinese goods, undercutting the local manufacturers, and obstructing the prospects for large scale industrialisation of their own African economy. There are number of projects lined up in the states throughout Africa that they understandably wish to prioritise. But the big question remains whether OBOR will interfere with these or cause them to drop altogether in favour of Chinese plans. There are many vital questions related to this enormous project, and currently have only few clear answers.

The prospect for unsustainable debt is another serious issue. Projects already underway such as the Standard Gauge Railway and the Addis Adaba-Djibouti Railway have required host countries to take out billions of dollars' worth of loans, largely from Chinese state Banks. Debt accumulation is unlikely to slow, yet there are a number of problems with current borrowing practices. Sub-par domestic revenue generation and falling commodity prices can compromise the ability of governments to service debts. Since 2013, for instance, Kenya's debt-to-GDP ratio has risen from 40 per cent to 53 per cent, far above the government set preference of 45 per cent.

Supporters suggest that the initiative permits new infrastructure and economic aid to be provided to needy economies. Critics claim that it facilitates Chinese economic and strategic domination of the countries along these routes. However, China is leading the effort to create the world's largest platform for economic cooperation, including policy coordination, trade and financing collaboration, and social and cultural cooperation. By both connecting and enhancing the productivity of countries along the Belt, China believes that the benefits of cooperation can be shared and that the circle of friendship will be strengthened and expanded. It seeks to take the interests of all parties into account so as to generate mutual benefits, including environmental management and closer cultural exchanges.

OBOR investments will bring much needed capital to the Africa continent, yet investments must be carefully supervised. Under performing infrastructure projects, slumping commodity prices, and rising debt levels in Africa are a recipe for crisis. The situation will be further complicated by China's own uncertain economic prospects. If the OBOR gamble fails, China could take Africa down with it.

* *PhD Candidate in Geography, Trinity College Dublin; excerpts from an article appeared in Quartz Africa* on September 07, 2017

WTO Reverses Boeing Ruling

The US marked a victory over the EU in 13-year trade dispute after a World Trade Organisation (WTO) reversed a ruling that Boeing received prohibited state aid for its newest aircraft.

The dispute was regarding the EU and the US accusing each other of wrongdoing over subsidies, loans and tax breaks given to the aircraft makers in the form of state aid. The dispute reached a head in 2010 and 2011 when the WTO ruled that both Boeing and Airbus received aid to launch many aircraft repayable on delivery, had collected billions in unlawful assistance.

However, on September 2017 WTO panel overturned this finding which had imposed a three-month deadline to withdraw the tax breaks. *(FT, 05.09.17)*

US to Trigger China Trade Probe

The US Trade Representative Robert Lighthizer formally initiated an investigation into China's trade policies on Intellectual-Property (IP) practices under Section 301 of the 1974 Trade Act.

US President Donald Trump authorised an inquiry through signing an executive memo directing his trade office to examine China's policies and practices which will seek to determine if US' largest trading partner has been engaging in unfair trade practices related to technology transfer, IP and innovation.

Chinese Ministry of Commerce (MoFCOM) would take all appropriate measures if US disregards multilateral rules and hurts bilateral trade.

(BS, 19.08.17)

EU Needs Migrant Labour Reform

A bitter exchange of remarks erupted between France and Poland over French President Emmanuel Macron's drive to reform the EU's labour market rules. Macron proposed reforms to overhaul EU rules on 'posted workers'— the cheap labour from eastern countries sent to more prosperous EU nations without complying with all local labour rules.

He secured the backing of the Czech and Slovak leaders during his visit to Europe to push his reform plans. While he could not win support from Poland's Prime Minister on revising the EU Posted Workers Directive, Macron hit back on Warsaw's refusal describing this act as 'an illustration of new mistake by this Polish government'.

His remarks triggered a furious reaction from Poland accusing him of 'arrogant statements' and advising him 'to mind the business of his own country'. *(FT, 26.08.17)*

India-China Oppose Distorting Subsidies

In a joint proposal to WTO, India and China seeks to end subsidy flexibility given to developed nations which results in a major asymmetry in the rules on agricultural trade and causes distortions in global agricultural trade.

The joint paper stresses on the need to eliminate the most trade-distorting form of farm subsidies known as Aggregate Measurement of Support (AMS) given by developed members as a pre-requisite for consideration of other reforms in domestic support. It also reveals that under this flexibility, the developed countries including US, EU and Canada have been consistently providing subsidies which exceeded even the value of production in some years.

Under the WTO norms, most developing countries have access only to *de minimis*, i.e. cannot provide product-specific support exceeding 10 per cent of the value of production of the agricultural product concerned but developed nations are not constrained by this limit. *(ET, 21.07.17)*

EU Calls for Emergency 'Egg Summit'

The European Commission (EC) has called for an emergency summit to deal with the effects of eggs contamination scare after traces of moderately toxic insecticide fipronil were found in batches of eggs from European poultry farms.

The contamination scare has affected 15 EU countries as well as Switzerland and Hong Kong, the EC said. Amid rising tensions between Belgium, the Netherlands and Germany (the countries at the epicentre of the crisis) over who is at fault — EU Commissioner Vytenis Andriukaitis said pointing out at each other "will bring us nowhere rather we should work together to draw lessons learnt and move forward".

(IE, 11.08.17)

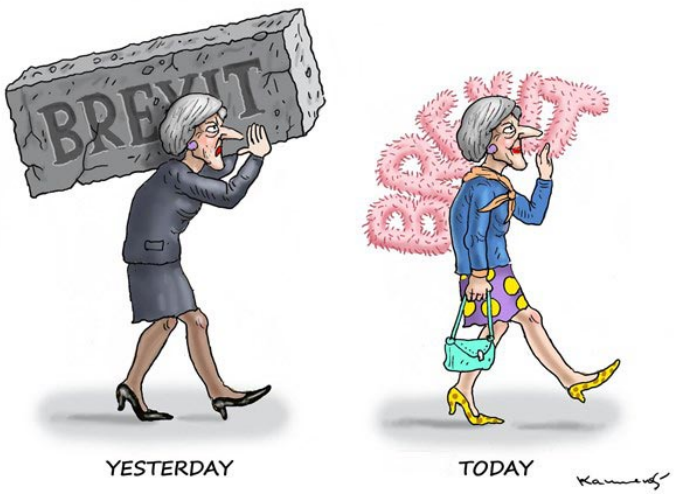
UK Seek a Soft Brexit for Pharma

The UK government emphasised on working closely with the European Medicines Agency (EMA) after Brexit. Jeremy Hunt, Health Secretary and Greg Clark, Secretary for Business said that they want to continue cooperation with the EU over drug regulation after Brexit.

The EMA, based in London, reviews safety of all medicines produced in the EU. Under the current system, a drug goes through a scientific assessment phase, conducted by the EMA. The European Commission then decides whether to authorise the medicine to be used in all member states.

There are concerns that if the UK is forced to develop its own drug approval system divorced from the EU, it will find itself at the back of the queue for new medicines as pharma companies concentrate on securing clearance for their medicines in bigger and more lucrative markets.

(FT, 04.07.17)



EU-Japan Reach Free Trade Deal

The EU and Japan announced a broad agreement on Japan-EU Economic Partnership Agreement (JEEPA) on the eve of G20 summit in Hamburg on July 06, 2017. The Japan-EU agreement, launched in 2013, emphasise on the value of free and open trade at a time when it is been challenged by the protectionist policies of US President Donald Trump.

It would send a message that the liberal world order is still in business and those who reject it risk losing out on trade opportunities.

Though the deal still needs further negotiation and approval before it can take effect, it is aimed to slash European tariffs on Japanese cars and parts, opening new markets for the likes of Toyota and as well as cutting down Japanese tariffs on European food.

(FT, 06.07.17)

World Economy Flies on Multiple Engines

The world economy has too often depended on the US since the global financial crisis. Though Trump's administration has disappointed somewhat in 2017, it is convincing that China, the Eurozone and Japan have come in to take up the slack.

The International Monetary Fund's (IMF) latest forecast signals that global growth was seen unchanged but with upward revisions in the Eurozone, China and Japan. US and the UK observed the downgrade in their forecasts in 2017. But in reality the IMF was too optimistic initially about the ability of Trump's administration to push through a big fiscal stimulus.

Perhaps one of the most cheering parts of the forecast is the continued optimism about world trade. However, IMF warned policy uncertainty in trade is one of the biggest threats to the global economy. *(FT, 25.07.17)*

Trump's Policies' Impact on Global Trade

Donald Trump's trade policy has been uncertain and at the same time rhetoric. The decisions about pulling out of trade agreements and reducing trade deficits with whacking big tariffs were persuading and impressive. Instead of tearing up the NAFTA, the US started negotiations to change it.

Rather than slapping tariffs on China to punish it for trade-distorting actions, the US started an investigation into Chinese abuses of intellectual property rights. But it also confirms that dealing with the US on trade is about damage limitation rather than positive improvements.

Making a splash by signing bilateral deals does not necessarily equal anchoring the world trading system. Still, the overall direction of EU trade policy contrasts sharply with the defensive and destructive attitude taken by the US. *(FT, 07.09.17)*

May's Hopes for Tokyo Dashed

On UK's Prime Minister Theresa May's visit to Tokyo, Japanese officials signalled they would not rush into free-trade talks with UK. The official said the UK side is hungry for new trade agreements to show the benefits of Brexit.

However, UK will put forward an argument that UK-Japan trade deal would be mutually beneficial. May's visit to Tokyo came as more Japanese companies begin discussions on moving their European headquarters from the UK to continental Europe.

Shinzo Abe, her Japanese counterpart will urge May to minimise disruption for Japanese companies in the UK, which are growing more concerned over plans to leave the EU Customs Union and single market.

(FT, 29.08.17)

EU to act against US' Sanctions on Russia

US lawmakers reached an agreement for sweeping new sanctions to be levied against Russia as US seeks to punish Moscow for its reported interference in 2016's presidential election.

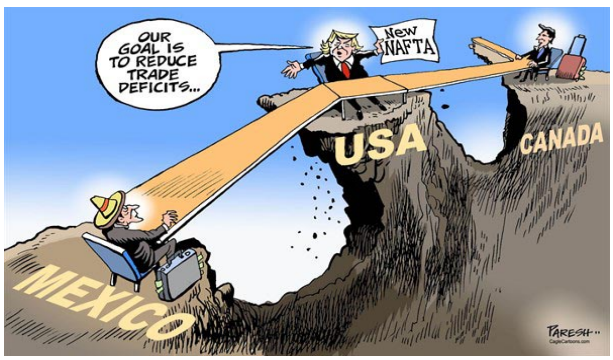
Jean-Claude Juncker, the EC President, called for an urgent review of how EU should stand ready to act if US measures were adopted without EU concerns being taken into account.

The primary focus of EU is to seek 'a public or written reassurance' from the Trump administration that it will not apply the sanctions in a way that targets EU interests. This move reflects deep concern that the measures might hit European energy companies involved in Russia-related projects. *(FT, 24.07.17)*

NAFTA and Future of Canada-Mexico

The US started talks with Canada and Mexico on renegotiating the North American Free Trade Agreement (NAFTA) which has been of value in integrating the North American economy.

The US wants to tighten up the so-called 'rules of origin', which determine how much content imported from non-NAFTA countries may be incorporated into goods. The US regards the current regulations as too lax, allowing Mexico to import components and then sell cars into the US.



From defending "Buy American" procurement provisions, to making it easier to impose antidumping duties on imports, to trying to force up Mexican wage costs by fiat, the US's wish list for NAFTA has to do more harm than good. *(FT, 18.08.17)*

China eats into Indian Server Market

Chinese companies have stormed into the Indian server markets posing a threat to traditional players, such as Dell and HP. The market share of the Original Device Manufacturers (ODM) in the Indian server market has significantly increased from 0.3 per cent in Q1 2016 to 14.5 per cent in Q1 2017.

The ODM market share is projected to grow more with the growth of the public cloud computing market in India. While original equipment manufacturers (OEM) present in India do not cater to the public cloud segment, the focus of the companies like Hewlett-Packard Enterprise (HPE) has shifted towards cloud computing and this will increase competition in the public cloud market segment.

Analysts opine that with the increasing interest and the competition offered by the Chinese ODM companies in cloud computing, the segment is bound to get crowded and competitive.

(BL, 14.08.17)

Global Fish Set to Scale Fresh Highs

Fish has been the largest-traded food commodity, supported by the growth in aquaculture, which has been the fastest-growing food production sector in the past 20 years. International trade in fish has seen sustained demand from several traditional import markets such as US, Japan, France and Spain.

The value of the global fish trade is expected to rise more than US$150bn in 2017, an increase of about seven per cent compared to 2016, said the Food and Agriculture Organisation (FAO).

Such returns have prompted agricultural companies to move into fish production. The global aquaculture market is forecast to rise at four to five per cent a year over the next decade, i.e. fish production is expected to continue to grow, stated the FAO.

(FT, 07.09.17)

Time to Rationalise Vegoil Imports

The global vegetable oil market is gradually and decidedly turning bearish owing to uncertainties such as weather, biodiesel-related investigations, currency dynamics and flow of speculative funds. It is likely to be good for large importers like India with obvious price implications.

Large stocks of soyabean have dampened the upward price move seen in the vegetable oil market under the lead of palm oil in August and early September. Palm oil production prospects for 2017-18 strongly suggest the gradual inventory build-up during the year.

In context of India, the country holds humongous stocks of imported oil and so it becomes necessary to strictly regulate vegetable oil imports. Policy-makers are ensconced in a 'comfort zone' as far as oil seeds and oil is concerned.

(BL, 02.10.17)

France Eyeing Indian Market

France is the ninth largest foreign investor in India with a cumulative investment of US$5.15bn during April 2000-May 2016 which represents 1.75 per cent of total FDI inflow into the country.

A 45-member French delegation visited India to explore new investment opportunities and broaden the scope for bilateral co-operation. French companies are exploring investment opportunities in India in areas of defence, infrastructure, and renewable energy.

The delegation met Prime Minister Narendra Modi in New Delhi and assured of contribution of French expertise and know-how towards the initiatives like smart cities mission, and *Swachh Bharat*. French companies have already created 3,50,000 jobs in this country.

(ET, 28.09.17)

India Starts Dumping Probe of Steel

India has initiated an anti-dumping investigation on imports of straight length bars and rods of alloy steel from China following complaints from the domestic industry. These steel products are used in several sectors, including automobiles, cement, power plants, turbines, ship-building, railways, capital goods, and construction machinery.

The Directorate General of Anti-dumping and Allied Duties (DGAD), under the Commerce Ministry, will determine the existence, degree and effect of alleged dumping and recommend the amount of anti-dumping duty, which if levied would be adequate to remove the injury to the domestic industry.

(ET, 25.09.17)

US Slaps Duties on Bombardier

In response to a trade case filed by the American jet maker Boeing, the US Department of Commerce ruled that Bombardier's CSeries aircraft, a smaller, regional aircraft that entered service in 2016, had received subsidies of 219.63 per cent of the plane's sales price, and would begin collecting duties equivalent to that amount.

This decision is likely to fuel trade tensions between the US and Canada. Bombardier strongly disagreed with the decision and called the magnitude of the duty 'absurd.'

The US International Trade Commission will make a final ruling on the case in early 2018 that could uphold or eliminate duties.

(NYT, 26.09.17)

The Future of OPEC

The Organisation for Petroleum Exporting Countries (OPEC) are facing twin challenges that may threaten the future existence of the organisation. In the short term, the rising production of shale oil from the US, and the recent prolific sub-salt discoveries in Brazil and eastern coast of South America erodes their oil market share.

As a result, the price of crude oil fell to as low as US$26 a barrel in 2016. The long term concern for the OPEC is the worldwide political drive towards promoting electric vehicles in transport, a sector which was hitherto very lucrative for the Big Oil firms.

Rapidly falling battery costs will make electric vehicles as affordable as their petrol or diesel rivals over the next 10 years. The demand for fuel will peak in 2030's and then is expected to fall drastically. *(BL, 31.07.17)*

Economists see Threats to Global Growth

Economists and financial regulators warned, on the sidelines of the 39th Annual Economic Policy Symposium held at Wyoming, US, the possibility that US may fail to pay its debts and this may trigger a global crisis.

The dangers of financial deregulation and protectionism were discussed at length at the symposium, triggered by Brexit and Trump's threats to impose import restrictions.

The most immediate threat is posed by the looming deadline for the Congress to raise the federal 'debt ceiling', allowing US government to borrow more money. Even a temporary break in repayments will snowball in to a global financial crisis.

(NYT, 27.08.17)

China's New Investment Rules

The National Development and Reform Commission (NDRC) of China said that it would provide better guidance to companies to prevent irrational investments overseas under the Belt and Road initiative.

Mergers and acquisitions (M&As) by Chinese companies abroad have been growing at a rapid rate, even as China takes aim to restrict capital outflows. China has been tightening regulations for outbound capital controls and has cracked down on overseas deals it sees as risky.

The ambitious Belt and Road initiative has also come with some security concerns for China, as 10 workers and two teachers were killed by militants in Pakistan.

(Reuters, 18.08.17)

Internet Firms Face a Global Techlash

Heralding a rebalancing of global technological influence away from Silicon valley and US, Chinese technology giants have stolen the limelight in recent years. Though, places from Paris to Seoul have claimed the mantle of the next Silicon Valley, the internet behemoths coming out of China has emerged as true rival in size, scale and value to the Western technology firms.

The tech world's US$400bn plus club needs to make room for Chinese companies like Alibaba, Tencent Holdings and Baidu. The ascendance of Tencent and Alibaba is evident in their scale.

Soon, Tencet will be the only company other than Facebook to have a social network with more than one billion active users. Similarly, Alibaba is valued at US$415bn. *(NYT, 17.08.17)*

China's Latin American Ambitions

The China Merchants Port Holdings, a state-backed company purchased Brazilian port operator TCP Participacoes for near US$1bn, which became the latest inroad into South America for a Chinese government backed group.

Latin America has become an increasingly attractive destination for Chinese infrastructure investments. This is in line with the general trend of increasing trend of Chinese holdings in overseas ports.

Though Chinese regulators have tightened controls on overseas investments by private companies, the acquisition by state groups have been easier to execute. Chinese companies have agreed US$7.9bn in Latin American infrastructure deals in 2017, out of which Brazil has been the primary target with nine of the 10 largest infrastructure deals in the region. *(FT, 13.09.17)*

Europe Wary of Chinese Investments

Europe will push for more stringent vetting process for Chinese and other foreign investments as it seeks a more muscular trade policy to respond to criticism that the EU does not do enough to protect its own companies.

The developments are being watched in Beijing, which is concerned about the mounting political pushback against Chinese investments in sensitive industrial sectors. The European parliament was briefed on the proposed 'European enabling framework' plan, which said it focuses on improving coordination between national authorities when they assess whether takeovers in sensitive industries such as the energy and high-tech sectors raise security concerns.

The plan would give countries the right to seek an opinion from the EC if they felt a takeover raised cross-border or pan – EU concerns. The Commission could also weigh in over foreign takeovers of companies in sensitive EU-funded projects, such as the Galileo Satellite Navigation System.

French President Emmanuel Macron has been in the forefront of those calling for tougher vetting of Chinese acquisitions, after a boom in China's investments in Europe, and takeovers such as that of German robotics manufacturer Kuka. *(FT, 12.09.17)*

Sanctions Changes Russian Food Market

Russia imposed sweeping bans on western food imports in response to the US and EU sanctions on Russia, and this has resulted in a boom in domestic agriculture industry as consumers turned to domestic produce.

Around Russia, farms, green houses and fertiliser factories are thriving and Russian Aquaculture has increased production more than six fold in 2017. The country overtook the US in 2016 in wheat exports for the first time in decades.

In a swift move, about 60 per cent of the country's total meat and fish imports, and 50 per cent of dairy, vegetable and fruits import were banned overnight. The sanctions were triggered by Russia's invasion of Ukraine and annexation of Crimea in 2014. *(FT, 04.09.17)*

'Electric is the Future' for German Cars

With mounting opposition against diesel engines gathering momentum, automobile makers in Germany, one of the biggest consumers of diesel in Europe are preparing to venture into electric vehicles.

This was the loud and clear message of the 67th edition of Frankfurt Motor Show: "Electric is the future". The Volkswagen, Daimler and BMW groups have committed investments in excess of •50bn to develop electric cars. Volkswagen, the world's largest car maker, has declared its intent of becoming the largest electric vehicle maker by 2025.

The company, with brands including Volkswagen, Audi, Skoda, Lamborghini and Porsche, is committing over •20bn for what it calls 'Roadmap E'. Experts are of the opinion that the drive towards electric vehicles is the need of the hour also because car makers in Europe have to meet stringent corporate average fuel economy norms by 2021. *(FT, 16.09.17)*

Indian Economy Faces Downside Risks

A combination of too much debt and too little demand at the global level has hampered sustained expansion of the world economy. China and India, world's fastest growing economies were expected to be engines of global growth.

The report noted that "Growth in the world's two most populous economies — China and India — remains relatively buoyant, but the pace has slowed down and face some serious downside risks".

The report was indicating to the effects of demonetisation and rollout of goods and services tax (GST) regime on the informal sector and reduction in pace of credit creation that affected India's growth prospect.

China's mounting debts was also a cited as a concern. Giving a prescription for makeover of the world economy, the report made a case for ending austerity, clamping down on corporate rent seeking and harnessing finance to support job creation and infrastructure investment. *(BL, 14.09.17)*

Brazil Scandal Fails to Deter Investors

The economic reforms agenda pushed by the government has outweighed the loss of credibility marred by corruption scandals in the Michel Temer administration in Brazil. Markets were bolstered when Temer survived a congressional vote on whether he should face trial over bribery charges.

Temer has won the support of investors with a reform agenda that aimed at reining in Brazil's runaway budget deficit, including sweeping privatisations, changes to outdated fiscal and labour laws and an overhaul of its generous pension system.

Leading indicators of the Brazilian economy suggested a growth rebound. Cardboard box sales, and indicator of retail activity, and shipments of consumer goods for the domestic market were rising. These are optimistic reports for retaining investor sentiments and a boost for investors hoping for economic reforms. *(FT, 16.09.17)*

Trump's Ambitious Tax Reform Agenda

In an effort to convince the public of the need to revamp the US tax system that has remained largely unchanged for three decades, Donald Trump will launch a major push for tax reforms through his speeches.

The US President has shifted focus to fiscal policy in an effort to secure a badly needed first big legislative victory by the end of 2017. The ambitious framework is likely to raise eyebrows on Capitol Hill, where tax reform remains contentious. *(FT, 26.08.17)*

US Incomes Hit High

Household incomes in the US surged for second consecutive year and poverty declined, defying the unrelenting economic decay that hung over the presidential campaign in 2016.

According to Census Bureau, median income rose by an

inflation adjusted 3.2 per cent from 2015-2016 to touch US$59,039. The Census Bureau data suggests that there was a sharp turnaround in post-inflation income growth in the final years of Barack Obama's presidency, and the labour market continued to strengthen.

The figures reveal that poverty rate fell to 12.7 per cent, and the percentage of people without health insurance coverage fell to 8.8 per cent from 9.1 per cent in 2015. The overall economic recovery is on the horizon, although growth has remained relatively tepid. *(FT, 13.09.17)*

OBOR to Lead to Economic Colonialism

The world has seen a shift in power balance in China's favour challenging the US dominant unipolar world ever since the disintegration of Soviet Union.

The One Belt and One Road (OBOR) strategy inspired by the ancient Silk Route caught the imagination of the world for its sheer promise of covering over 60 countries that form almost 30 per cent of world GDP and 60 per cent of the world's population.

India perceives OBOR as a geopolitical architecture aimed at expanding Chinese influence in and around the region. While it is not new that China dominates the global trade market, the narrative gets further accentuated by OBOR's intent to create an infrastructure which would allow physical movement of goods, more specifically Chinese goods, to large parts of Asia and Europe including Russia.

China's expansionist strategy tends to exploit the vulnerabilities of developing countries and has the potential to lead much of the world into a debt trap. *(BL, 07.07.17)*

The Big Mac Index

The Big Mac Index is a survey done by the Economist magazine to gauge how different currencies stack up against the dollar. It is done by measuring the Purchasing Power Parity (PPP) between nations, using the price of a Big Mac Burger as the benchmark.

The latest version of the index shows that 31 countries are currently undervalued against the dollar. Only the Swiss franc, Norwegian Krone and Swedish Krona are overvalued. That said, plenty of currencies have gained back some ground against the dollar in the past six months.

One of the best performing currencies over the past six months has been the Mexican Peso. If the index of burgernomics has any fact content, the dollar may have further to fall.

(IE, 20.07.17)

Britain's Brexit Hangover

Michel Barnier, EU's Chief Negotiator on Brexit said that UK has yet to 'face the facts' on the negative consequences of Brexit as he warned UK that trade talks would not start until it was willing to make concessions on a financial settlement, citizen's rights and Northern Ireland.

Barnier tough speech was aimed at tackling unrealistic expectations about UK's post-brexit relations with Europe, arguing that the consequences of leaving the union had not been fully understood in UK.

EU's demand that UK honour gross financial obligations of up to •100bn are one of the biggest hurdles in first phase of talks. The EC is keen to stress the legal and economic implications of UK full autonomy over its laws and refusing a role for European courts.

(FT, 07.07.17)

Trump Populist Antitrust Rules

The presidential campaign rhetoric of Donald Trump that 'Big is bad', indicating corporate deals and company mergers that gave big business excessive power, have failed to translate into policy. Trump's populist approach may not reshape the US competition policy as once thought.

The Trump administration can at best only be a fading influence on the antitrust policy, experts opine. The Federal courts in the US play a central role in administering antitrust enforcement and jurisdiction and therefore will limit any administration's freedom of action. *(FT, 12.07.17)*

'Big Banks' are Happy in US

Despite Donald Trump's plan hitting roadblocks on healthcare, tax reforms, and infrastructure plan, big banks in the Wall Street are happy. Though the Congress has not repealed the much reviled Dodd-Frank Act, there was an effort to draft a Republican alternative to Dodd-Frank, parts of which have drawn applause from bankers.

Parts of Dodd-Frank that were waiting to be implemented, such as curbs on incentive pay, seem highly unlikely to be implemented. The conditions are very smooth for the banking sector at present. From favourable policy documents to friendly faces at the main government agencies, there is a strong sense among the bankers that a new era. *(FT, 19.08.17)*

Rising Consumer Costs Push up Inflation

A jump in the cost of housing and higher petrol prices helped drive up headline inflation in the US, assuaging some of the fears about the steady stream of poor inflation readings that has clouded the US economy in 2017.

According to Bureau of Labour Statistics, overall inflation measured by the Consumer Price Index rose 1.9 per cent compared to 2016. While the US economy has by many measures returned to full employment, the inflation has been resolutely weak. This became a cause of worry and prompted questions about Federal Reserve's models of job market and higher prices.

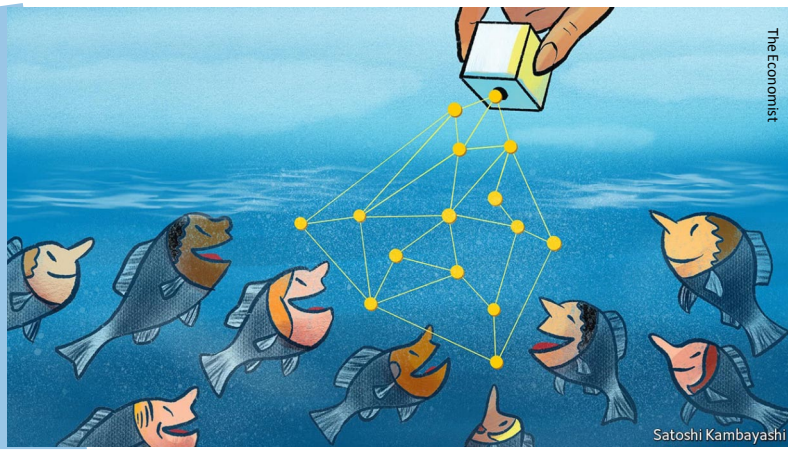
The indices also probably indicate the impact of Hurricane Harvey on increase in inflation, which boosted petrol prices, energy prices, housing costs and potentially impacted the prices of other products including used cars.

(FT, 15.09.17)

www.sbhsovapmarco.files.wordpress.com

Initial Coin Offering Means Investor Caution Obligatory

Regulators signal alarm at an investment craze



ICO is the most latest financial derivative where one can buy an entry in a computer ledger issued by a startup company on the basis of an unregulated prospectus. It is called an 'initial coin offering' or ICO. But though the ledger entry is called a coin, one cannot spend it in any shop.

This may not sound like an attractive bargain for the common naive mind. But ICOs may well be the most popular investment craze since the dotcom boom of 1999-2000; where even noted celebrities have jumped on the bandwagon. The list of active, upcoming and recent ICOs on the website 'ICO alert' covers 31 pages of A4 paper and includes around 600 companies. More than US$2bn has been raised in total so far.

But in most cases, an ICO is just a way of raising capital without all the hassle of meeting regulatory requirements, or the burden of paying interest to a bank. Businesses are able to achieve this feat because investors hope that the coins will rise rapidly in value, as has been the case with bitcoin or ethereum, the best-known digital currencies, which have seen stellar gains in the past year. Nothing makes individuals more willing to take risks than the sight of other people getting rich.

However, there is a serious side to the craze, just as there was with the dotcom boom. The technology that underpins digital currencies—the blockchain—is an important development. Many ICOs are designed to finance applications that will make use of the blockchain—for trading currencies, lending money or searching for jobs. In some cases, the 'coins' can be exchanged for services on the site. In a way, this is like selling air miles in a startup airline; investors can either use the miles for flights or hope they can trade them at a profit. For the business, it is also a way of creating demand for the product they are selling.

This is a secure, decentralised ledger that everyone can inspect but that no single user controls. It seems likely to be adapted for use across the financial system—for example, to record property transactions.

But however, bitcoin is different from ICOs. Its appeal is as a digital currency that can be used in a broad range of transactions. And the supply of bitcoin is designed to be limited, meaning some people regard it as an electronic version of gold.

It is also worth remembering that governments set the rules regarding the nature of legal tender within their borders. They will always have the whip-hand when it comes to issuing currency. If they believe that a digital currency is being used for widespread tax evasion, or is distorting the financial system, they will crack down hard.

As far as business-related ICOs are concerned, a few may succeed. Investors may well be taking the 'lottery ticket' approach, hoping that one big winner will offset a large number of losses. In a sense investors are acting like venture capitalists. But the big shots of Silicon Valley's Venture Capital industry insist on a wide range of rights before they invest their capital, including protection against dilution of their stakes and (sometimes) the right to nominate board members. Investors in ICOs have nothing like that level of protection.

In the circumstances, it is hardly surprising that regulators are getting involved. In America, the Securities and Exchange Commission has ruled that these coins may, in some cases, be securities and thus subject to regulation. A British regulator, the Financial Conduct Authority, warned investors about the risks involved. The Chinese authorities have gone a lot further, declaring that new ICOs are simply illegal.

It is not easy to draw a line between financial innovation and reckless speculation. Perhaps an ICO will finance some breakthrough that boosts economic efficiency. A person working in the tech sector, may be able to spot the occasional grain of wheat among the pile of chaff. Everyone else should assume that ICO stands for "It's Completely Off-limits".

* *Excerpts from an article appeared in the Finance and Economics section of The Economist, on September 16, 2017*

Can the World Thrive on 100% Renewable Energy?

A widely read cover story on the impact of global warming in *New York* magazine predicts temperatures in New York hotter than present-day Bahrain, unprecedented droughts wherever today's food is produced, the release of diseases like bubonic plague hitherto trapped under Siberian ice, and permanent economic collapse. In the face of such apocalyptic predictions, can the world take solace from those who argue that it can move, relatively quickly and painlessly, to 100 per cent renewable energy?

At first glance, the answer to that question looks depressingly obvious. Despite falling costs, wind and solar still produce only 5.5 per cent of the world's electricity. Hydropower is a much more significant source of renewable energy, but its costs are rising, and investment is falling. Looking more broadly at energy demand, including that for domestic heating, transport and industry, the share of wind and solar is a minuscule 1.6 per cent. It seems impossible to eliminate fossil fuels from the energy mix in the foreseeable future.

But all energy transitions, such as that from coal to hydrocarbons in the 20th century, take many decades. Recently, solar photovoltaics (PV) and wind energy have been on a roll as sources of electricity. Although investment dipped slightly in 2016, the International Energy Agency, a global forecaster, said on July 11th that for the first time the amount of renewable capacity commissioned in 2016 almost matched that for other sources of power generation, such as coal and natural gas.

In 2015 Mark Jacobson of Stanford University and others argued that electricity, transport, heating/cooling, and industry in America could be fully powered in 2050-55 by wind, water and solar, without the variability of the weather affecting users. Forswearing the use of natural gas, biofuels, nuclear power and stationary batteries, they said weather modelling, hydrogen storage and flexible demand could ensure stable supply at relatively low cost.

A transition away from fossil fuels is necessary, but it will not be painless

But in June 2017, Christopher Clack, founder of Vibrant Clean Energy, a firm, issued a stinging critique with fellow researchers in the *Proceedings of the National Academy of Sciences*, the journal in which Jacobson et al had published their findings. They argued that a narrow focus on wind, water and solar would make tackling climate change more difficult and expensive than it needed to be, not least because it ignored existing zero-carbon technologies such as nuclear power and bioenergy. They claimed the models wrongly assumed that hydroelectricity output could continue for hours on end at many times the capacity available today, and pointed to the implausibility of replacing the current aviation system with yet-to-be-developed hydrogen-powered planes. In their view, decarbonising 80 per cent of the electricity grid is possible at reasonable cost, provided America improves its high-voltage transmission grid. Beyond that is anyone's guess.

Others take a wider view. Amory Lovins of the Colorado-based Rocky Mountain Institute, a think-tank, shrugs off the 100 per cent renewables dispute as a sideshow. He takes comfort from the fact that it is increasingly common for renewables sustainably to produce half a location's electricity supply. He believes that the share can be scaled up with ease, possibly to 80 per cent. He puts most emphasis on a tripling of energy efficiency, by designing better buildings and factories and using lighter materials, as well as by keeping some natural gas in the mix. He also sees clean-energy batteries in electric vehicles displacing oil demand.

Some sceptics raise concerns about the economic ramifications if renewables' penetration rises substantially. In an article this month, Michael Kelly of Cambridge University focussed on the energy return on investment (EROI) of solar PV and wind turbines, meaning the ratio between the amounts of energy they produce to the amount of energy invested to make them. He claimed that their EROI was substantially lower than those of fossil fuels; using renewables to generate half of the world's electricity would leave less energy free to power other types of economic activity.

Critics note that his analysis is based on studies of PV returns in Spain from more than half a decade ago. Since then solar and wind costs (a proxy for EROI) have plunged, raising their returns. What is more, other studies suggest returns from fossil-fuel-derived energy have fallen, and will decline further as they incur increased costs associated with pollution and climate change. A high share of renewables may be less efficient at powering economic growth than fossil fuels were in their 20th century heyday. But if the climate doomsayers are to be proved wrong, a clean-energy system must be part of the solution.

* *Excerpts from an article appeared in the Finance and Economics section of The Economist, on July 13, 2017*

Action on Climate Change and Coal

A study by the London School of Economics and Politics tracked coal companies through five levels based on 14 questions related to climate change. Only three companies made it to the top level, Anglo American, BHP Billiton and Rio Tinto, and none met all the criteria at that level.

Only two of the 20 largest listed coal companies, Rio Tinto and Brazil's Vale, have long-term targets for reducing their emissions, according to a report by the Transition Pathway Initiative. Only seven out of the 20 largest listed coal mining companies reported emissions from the downstream burning of their coal.

Coal still has a big market, with shares in coal producers returning 38 per cent over the past year, according to the VanEck Vectors Coal ETF. Demand for coal is not likely to peak in China until 2026. *(FT, 11.07.17)*

Climate Change Pushing Asia

Collaborative research from the Asian Development Bank (ADB) and Germany's Potsdam Institute for Climate Impact Research finds that Asian countries will be among the worst affected by climate change. Damage ranging from falling crop yields to bleaching of coral reefs will affect millions of people and add billions of dollars to food import costs.

Mean summertime temperatures in north-west China, Pakistan, Afghanistan and Tajikistan are projected to rise as much as 8C by 2100. Rainfall is forecast to climb by half in many land areas of the Asia-Pacific region, creating new flooding risks.

ADB says it has since 2013 screened its investments for climate change implications, asking questions such as whether new cities, bridges and roads will be able to cope with more severe flooding and other threats.

(FT, 14.07.17)

Plastic Garbage Patch Bigger

A new discovery of a massive amount of plastic floating in the South Pacific is yet another piece of bad news in the fight against ocean plastic pollution.

Captain Charles Moore, Founder of the Algalita Research Foundation, a non-profit group, estimates that plastic garbage in the Pacific Ocean spans an area more than a million square miles.

The Arabian Sea lining Mumbai has a similar story. According to Moore, the plastic is not in large bottles but in small confetti-like pieces, making them nearly impossible to clean up. Notably, 91 per cent of the world's plastic is not even recycled. *(DNA, 27.07.17)*

Tariffs to Put US Solar in Shade

The cost of solar power has been plunging, making it increasingly competitive, but steep new import duties would reverse some of those gains in the US. An investigation, held under the rarely-used Section 201 of the 1974 Trade Act, has been held into whether imports have been harmful.

Suniva has argued that it and other US manufacturers have suffered serious injury because of a surge in imports and it has been supported by Solarworld, a German company with US manufacturing operations, which went into bankruptcy in May.

SunPower, the US solar business majority owned by Total of France, filed a joint brief with the SEIA, arguing that "the real causes of any harm suffered by the domestic industry are self-inflicted" because as demand boomed they were unable to produce enough of the larger 72-cell panels used for utility-scale projects. *(FT, 13.08.17)*

Mars to Invest in Renewable Energy

Chocolate bar company, Mars, has pledged to invest US$1bn over the next few years in renewable energy, such as windfarms, and other programmes as part of a 'call to action' for companies to step up efforts in reducing emissions.

Mars will cut greenhouse gas (GHG) emissions by 27 per cent by 2025 and 67 per cent by 2050, as it invests in windmills to power its operations. Currently, wind farms in Texas and Scotland generate enough power to cover the electricity for Mars operations in the US and UK.

As part of this investment, Mars says it will add wind and solar-powered farms to cover electricity for another nine countries by 2018. *(FT, 07.09.17)*

US Leaves Paris Agreement

UN spokesman Stephane Dujarric notified the press that in August, UN Secretary-General Antonio Guterres received, in his capacity as Depositary of the Paris Agreement, a communication from the Permanent Representative of the US Nikki Haley expressing the intention of the US to exercise its right to withdraw from the Paris Agreement.

Dujarris noted that Secretary General "welcomes any effort to reengage in the Paris Agreement by the US" and that it is crucial for the US to remain a leader on climate and sustainable development. US President

Trump has hinted at re-engagement with the Agreement under different terms but this has largely not been viewed favourably by other world leaders.

(FE, 05.08.17)

EU to Protect Carbon from Brexit

The European Parliament has adopted an amendment to legislation in the EU Emissions Trading System (ETS) in order to protect the carbon market from a 'hard Brexit.'

There is worry that UK companies would move en masse to sell off emissions' licences if Britain exited the EU scheme abruptly and would damage the biggest international emissions trading market. The amendment automatically voids emissions allowances issued in a country that is exiting the ETS.

Launched in 2005, the market works within a cap and trade framework that limits the overall volume of GHGs that can be emitted by power plants, heavy industries and the aviation sector and then allows trading to happen between companies on an open market. The system covers carbon dioxide, nitrous oxide and fluorocarbons. *(FT, 11.09.17)*

WB Urges to Relax Immigration

A World Bank report on the Pacific Island nations identifies climate change as the region's principal challenges and is now requesting Australia and New Zealand to open their borders, relaxing migration rules for people living in low-lying atoll nations.

The alternative to gradual opportunity-led migration may be emergency assistance and displacement with storms becoming more frequent and intense and the highest points of Kiribati, the Marshall Islands, and Tuvalu being located only a few metres above sea level.

Australia has recently relaxed its hard line on immigration from this region, introducing a seasonal workers programme in 2012 and a two year microstate visa for people from Nauru, Kiribati and Tuvalu. The programme has overall been concluded to be beneficial to everyone involved. *(FT, 08.09.17)*

Cloud Seeding Getting Bigger Globally

Gary Walker, CEO of Texas-based aviation company SOAR, carries out an increasingly popular effort to chemically impregnate clouds with silver iodide to increase rainfall.

Although safe in the small amounts used, there are warnings that in very large quantities silver iodide can be toxic. The process was first trialled in the US around World War Two, and is now discreetly used in more than 50 countries, from Mali to India and Puerto Rico.

Cloud seeding makes the cloud formation process more efficient, but cannot bring rain in drought or extreme heat conditions where there are no clouds to begin with. *(DNA, 24.09.17)*

What's at Stake at the G20 Summit

US President Donald Trump's oft-stated view that neither the Paris Agreement nor US' many trade agreements (including the Trans Pacific Partnership) are in the US' favour has found him at odds with most of the G20 in the July meeting of world leaders.

Along with this, Russia and China's move to block an EU plan for sanctions on people smugglers as well as a global overcapacity in steel due to China's centrally mandated manufacturing created tensions in the meeting at Hamburg.

Chancellor Merkel stressed that G20 leaders had to be ready to make their differences 'clear' but also indicated that the meeting was unlikely to solve the many problems creating pressure. The Summit was shadowed with unrest as sit-in protesters were dispersed with water cannons from German police. *(FT, 08.07.17)*

India's Wind Sector Troubled

The auction of 1 GW worth of wind tariff projects by state-run Solar Energy Corporation of India (SECI) happened with India's wind sector transitioning from a feed-in tariff regime to tariff-based competitive auctions.

Rating agency Crisil cautioned in May that under-construction projects, as part of the feed-in tariff regime, may be put up for auction by states to further lower tariffs. Apart from the tariffs for executed power purchase agreements facing a downward tariff pressure from states, the projects are also facing other impediments according to the Wind Independent Power Producers Association.

According to the lobby group, these issues may create a new set of non-performing assets ₹20,000 crore in India's wind sector. *(Mint, 12.09.17)*

Green Investments, a Big Deal

The findings of a study commissioned by HSBC, conducted by East & Partners, a financial market research firm, found that fund managers were increasingly focussed on opportunities as well as threats related to action against global warming.

Green investments were most desirable in Europe, where 97 per cent of respondents planned to increase capital allocations in low-carbon technology or similar assets.

In US, the figure was 85 per cent, followed by Asia at 68 per cent. The Middle East was an outlier from the trend, with only 19 per cent of investors thinking about green investments.

The survey also questioned 507 companies about their green strategy and found a mismatch with just over half of companies saying that they had an environmental strategy in place but only 43 per cent voluntarily disclosed it to investors. *(FT, 13.09.17)*

India Ranks 103rd on WEF

When it comes to the employment gender gap India ranks lowest in the world but in development of skills required for the future its stands on 65 out of 130 countries as surveyed. The list by Geneva-based World Economic Forum (WEF) takes into consideration "the knowledge and skills people possess that enable them to create value in the global economic system" to calculate 'human capital' rank of a country.

WEF said India rank 118 for labour force participation among the key 35-54 year old demographic, suggesting far too many India are engaged in informal employment. The report also measures 130 countries against four key area; Capacity, Deployment, Development and Know – how. According to report, 62 percent of human capital has now been developed globally. *(BL, 13.09.17)*

32 Waterways for Development

The 32 national waterways (NWs) that includes Barak, Mandovi, Zuari, Kosi, Sunderban waterways, Subansiri, Mahanadi, Alappuzha-changanassery canal, Kottayam-Vaikom canal, Kabini, Mapusa, Dabhol creek, Savitri , Mahi, Narmada and Tapi have been considered technically feasible for development of shipping and navigation.

Transport and Shipping Minister Nitin Gadkari said that out of 106 newly-declared NWs, 32 are considered technically feasible so far. Of these 32 NWs the development of seven NWs has been approved.

Gadkari said expansion and modernisation of major ports in the country is an ongoing process to keep the ports abreast with new technologies and also to meet trade requirement.

(DNA, 28.07.17)

Stronger Partnership for Bright Future

The 9th summit of the Brazil, Russia, India, China and South Africa (BRICS) regional grouping was held in Xiamen, China, under the theme of 'Stronger Partnership for Brighter Future'.

The member countries discussed international and regional issues of common concern, and expressed their resolve to build on their achievements already made with a shared vision for future development of BRICS. The Xiamen Declaration adopted by the consensus further stated that BRICS, since 2006, has fostered a spirit of mutual respect and understanding, equality, solidarity, openness, inclusiveness and mutually beneficial cooperation.

The BRICS member countries also signed some important agreements, including Mutual Cooperation Action Agenda on Economic and Trade Cooperation, Action Plan for Innovation Cooperation, Strategic Framework of BRICS Customs Cooperation, Memorandum of Understanding between the BRICS Business Council and the New Development Bank on strategic cooperation. *(DNA, 11.09.17)*

Celebrating Respect for the Aged Day

The event to mark 'Respect for the Aged Day' in Japan drew over 200 people in an exercise meant to increase their body strength and balance. The exercise was more than just symbolic, as the number of people aged 65 and above has risen to record high of 27.7 percent of Japan's population, government figures showed.

Significantly those in this age category who still work has hit a record, highlighting efforts by the public and private sector to keep more elderly in the workforce longer to battle labour shortages.

Japanese government released its estimate as a reminder of challenges posed by years of declining birthrate which is now 1.45 births per women. Japan has been struggling with a declining workforce for decades and its old-age ratio is highest among G-7 counties.

(DNA, 19.09.17)

Asia-Africa Growth Corridor

Shinzo Abe Prime Minister of Japan visited India for an Annual Summit to see the launch of an Asia-Africa Growth Corridor (AAGC), an initiate seen as providing as alternative to the One Belt-One Road (OBOR).

AAGC is an agreement to link between two continents which entails development and cooperation projects, quality infrastructure and institutional connectivity, enhancing capacities and skills and people-to-people partnership.

The vision of AAGC is framed between PM Narendra Modi and Abe whose objective is to balance China's efforts to expand its geographically through OBOR cross continental connectivity initiative. *(ET, 02.09.17)*

Rising Global Imbalances

The International Monetary Fund (IMF) has warned that advanced economies are increasingly responsible for imbalances in global economy; with Germany many having overtaken China as the world's leading saver.

US have maintained its long-term hold on the largest current account deficit. While the mismatch between global saving and spending posed less of threat to the world.

The Trump administration, which has made reducing the US deficit with the world an economic priority, have applied pressure on the IMF to do more to highlight global balances.

IMF said that that the concentration would raise tensions between advanced economies and growing calls within deficit countries for government to respond with protectionist policies.

(FT, 29.07.17)

Investing in Sustainable Heath

In order to attain Sustainable Development Goals (SDGs) an investment should be exercise of US$371bn per year or US$58 per person on health by 2030, published by a medical journal; The Lancet.

SDG estimates the costs of achieving the heath targets in 67 low and middle-income countries that account for 75 per cent of the world's population. "Universal health coverage is ultimately a political choice. It is the responsibility of every country and national government to pursue it" said Dr Tedrous Adhanom Ghebreyesus, Director General, World Health Organisation.

The SDG Health Price Tag models two scenarios: an 'ambitious' scenario in which investment is sufficient to attain health target and a 'progress' scenario, in which countries get two-third or more of the way to the targets. *(TH, 18.07.17)*

Standing Firm on Food Subsidies

A joint paper by India and China has revealed that rich nations, including the US, The EU and Canada, have been consistently giving trade-distorting subsidies to their farmers at levels much higher than the ceiling applied on developing countries

Elimination of such subsidies a list of most heavily and frequently subsided items is drawn for these developed nations over the past two decades. The numbers revealed that subsidies for many items given by the developed world are over 50 per cent of production value, while developing countries are forced to contain it within 10 per cent.

Developed countries have more than 90 per cent of global aggregate measurement support (trade distorting subsidies) entitles amounting to nearly US$160bn which is beyond their *de minimis*. *(BL, 23.07.17)*

Chinese Rail Diplomacy Hits Buffers

China's plan to use high-speed rail technique as a 'golden business card' to spearhead a global tide of infrastructure export has run into trouble, with the value of projects called off exceeding those under way.

The total value of 18 Chinese high speed rail projects is US$143bn. Failures blow China's reputation for engineering expertise and project management. In 2015, Li Keqiang, the premier, lionised high speed rail as a way to showcase China's technology and competitiveness.

Each agreement was scuppered after agreement wear announced by Beijing and recipient government. The reason cited for scrapping the project included allegations by recipients of insufficient transparency and delays by Chinese contractor. *(FT, 18.07.17)*

Global Food Prices High

According to the report released by the FAO of the UN shows that the average global food price increased by 2.3 per cent in July against June primarily driven by a sharp increase in the prices of rice, wheat, sugar, milk and cheese.

Cereal prices have also increased from 14.1 points to 162.2 as per cereal price index. The vegetable oil price index averaged 160.4 point in July down 1.8 from June. The daily Price index averaged 216.6 points in July, up 7.6 points (3.6 per cent) from June and 74.3 points above its value in July 2016.

International prices of butter, cheese and whole milk powder increased. The sugar price index averaged 207.5 points in July, up10.2 points from June, but still 26 per cent below its value a year earlier. July marked the first monthly increase in sugar prices since the beginning of the year. *(BS, 03.08.17)*

Japan Labour Shortage hits Extreme

According to Ministry of Heath, Labour and Welfare, when Japan was in grip of economic boom there was 1.52 open jobs for every applicant since February, 1974. The ratio of open jobs to applicant in Japan still hit a 43-year high but disappointing figures on household spending labour shortages are still not turning into a consumer boom.

Japan's economy still enjoying growth, but rise in inflation towards the Bank of Japan's two per cent objective remains as elusive as ever. The BoJ expects a strict labour market to lead to higher wages and for that wage pressure eventually to turn into high prices. Labour shortages are forcing corporate Japan to adapt but so far they have avoided prices in most cases. *(FT, 30.08.17)*

Hunger is Up Again...

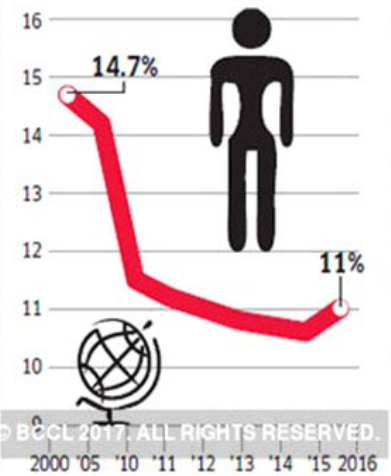
Hunger is on the rise again. According to latest UN figures, some 815 million people were hungry in 2016 — an increase of 38 million from the previous year — affecting around 11 per cent of the world population. In the year 2000, this count was about 900 million. Number of undernourished people (millions), top 10 countries, i.e. India, China, Pakistan, Ethiopia, Bangladesh, Indonesia Tanzania, Uganda Nigeria and Philippines. *(FT, 18.09.17)*

Number of undernourished people (millions), top 10 countries

	2004-06	2014-16
India	234.9	190.7
China	204.3	134.7
Pakistan	35.7	37.6
Ethiopia	30.4	28.6
Bangladesh	23.7	24.4
Indonesia	42.1	20.3
Tanzania	13.5	17.3
Uganda	6.8	15.2
Nigeria	9.2	14.3
Philippines	14.1	13.9

To reduce the margin of error in projections, estimates are presented as three-year averages

Undernourishment in the world, prevalence (%)



The Gap between India's Richer and Poorer States is Widening

Economists are baffled, arguing that the poorer states should be catching up

Countries find it easier to get rich once their neighbours already are. East Asia's growth pattern has for decades been likened to a skein of geese, from Japan at the vanguard to laggards such as Myanmar at the rear. The same pattern can often be seen within big countries. Over the past decade, for example, China's poorer provinces have grown faster than their wealthier peers. India is different. Far from converging, its states are getting ever more unequal.

A recent shake-up in the tax system might even make matters worse. Bar a few Mumbai penthouses and Bangalore start-up offices, all parts of India are relatively poor by global standards. Taken together, its 1.3 billion people make up roughly the third and fourth decile of the world's population, with an income per person (adjusted for purchasing power) of US$6,600. But that average conceals a vast gap.

In Kerala, a southern state, the average resident has an annual income per person of US$9,300, higher than Ukraine, and near the global median. With just US$2,000 or so, an Indian in Bihar, a landlocked state of 120 million people, is closer to a citizen of Mali or Chad, in the bottom decile globally. In some rich parts of the world, income gaps between regions have in recent decades been widening. But India's experience still puzzles economists. Poor regions benefit from technology developed in richer ones—from trains to mobile phones. Workers in poorer places accept lower wages, so firms build new factories there.

Arvind Subramanian, chief economic adviser to India's government, earlier in 2017 wrote that its states' divergence is 'a deep puzzle'. The brief bout of liberalisation in 1991 probably played a part initially, by unevenly distributing the spoils of more rapid overall economic growth. But that burst of inequality should have self-corrected by now.

One theory blames the states' divergence on their isolation even in the Indian domestic market, as a result of lousy infrastructure, red tape and cultural barriers. Moving stuff from state to state can be as tiresome as exporting. Internal migration that would generate catch-up growth is stymied by cultural and linguistic barriers: poor northern states are Hindi-speaking, unlike the richer south. Cuisines differ enough for internal migrants to grumble. It is harder to have access to benefits and state subsidies outside your home state.

Another theory looks at India's development model. Growth has relied more on skill-intensive sectors such as IT than on labour-intensive manufacturing. This may have stymied the forces of convergence seen elsewhere, Mr Subramanian posits. Perhaps, however low their labour costs, the poorer places lack the skills base to poach jobs from richer rivals.

A more likely explanation is that the reasons some states lagged behind in the first place are still largely in place. Bihar's low wage costs make it look attractive on paper as a place to set up a factory. But many firms seem to conclude they do not compensate for its difficulties. Subramanian notes, however, that the forces of convergence are gaining strength. Despite falling behind on income, poorer states have been catching up on human-development measures such as infant mortality and life expectancy. Fertility rates in the northern Hindi belt are fast falling to levels already reached by, for example, Tamil Nadu, a rich southern state. India's 'demographic dividend' is largely an opportunity for its poorer states—if they can create enough jobs to grasp it.

Convergence is obviously desirable in a country where the straggling states are home to some of the world's poorest people. But it might also help avert a political peril: that rich states start wondering if being lumped with far poorer peers is in their interests, and start thinking the unthinkable: secession. In many states regional political parties compete with the national ones that have mostly dominated the federal government and quashed any such talk. The questions over the divergent fortunes of Indian's states are puzzling. They may yet become more serious.

* *Excerpts from an article appeared in the Finance and Economics Section of The Economist, on September 02, 2017*

ReguLetter

The July-September 2017 issue of ReguLetter carries cover story entitled, 'Why is Apple differentiating between India-China?' as its cover story, which states that the latest flavour in the mobile industry is iPhone X. Its manufacturer, Apple, is leaving no stones unturned in ensuring the global success of its flashy new smartphone. It is safe to assume that Apple will devote equal attention to the world's largest telecom markets: China and India. However, the company seems to be differentiating between two peas in a pod, when it comes to regulatory and policy compliance in these two countries.

A special feature by Udai S Mehta and Sidharth Narayan opines that banking the unbanked is crucial to any effort designed to result in shifting from informal to formal mechanisms.

Another article by Diane Coyle states that economists need to provide regulators with tools to deal with market concentration.

This newsletter can be accessed at: www.cuts-ccier.org/reguletter.htm

ReguLetter

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Inside this Issue

Special Articles

Towards effective Competition Regimes in Africa

The African continent is seeing steady growth in adoption of competition legislation since the 2000s. This is in spite of the fact that competition policy was taken out of the Doha Agenda negotiations of the WTO in July 2004. Countries, aided by organisations like CUTS, UNCTAD, World Bank etc., realised the value of having a competition regime for the benefit of its own economy even though it was not a part of the global trade agenda. Consequently, during the past two decades many jurisdictions in Africa have adopted competition laws. The trend continues with more countries joining.

Following a sequential approach, Botswana adopted the National Competition Policy in July 2005 after going through an audit of its economic legislations to see how they prevented competition. It then adopted the Competition Act in 2009. A similar sequence is now being followed in several African countries, such as Ghana, Uganda, Mozambique etc.

However, some of the older countries on the continent have been slow to adopt, such as South Africa, Tanzania, Kenya and Zambia. Many others legislated their competition laws in spite of opposition from business which has been the case in many developing countries trying to introduce one. Many leftist CSOs too opposed on ideological grounds that this will lead to takeovers of local firms by foreign companies and that they would be uncompetitive. However, that never happened. As a result, today 27 African countries have competition laws and 10 more are in the queue.

In terms of competition enforcement the South African Competition Commission (SACC) leads. It has raised more than US$300mn in fines for cartel settlement agreements. Its leniency policy has been particularly successful, having assisted in the uncovering of numerous cartels. SACC has also pursued a number of abuse of dominance cases, market enquiries and dawn raids across numerous industries. After a new competition law in December 2016, the Competition Tribunal has been more active in adjudication of competition cases.

Growth in competition enforcement is happening not only at the country level but also at the regional level. The Common Market for Eastern and Southern Africa (COMESA) has a regional law being implemented across the 20 country common market, while the East African Community Competition Authority seeks to enforce Competition Act, 2006 in consultation with COMESA to avoid duplication and harmonise measures. In West Africa, there is the WAEMU regional law for the eight Francophone countries and another one in ECOWAS across 15 member countries, which includes WAEMU, in different stages.

Thus, it is clear that Africa is moving fast to ensure that a robust competition regime that regulates market failures encourages businesses to become more competitive, increase innovation and widen consumer choice. However challenges such as lack of finance, inadequate capacity, overlapping of roles among regulatory authorities are prevalent. Also, for competition culture to succeed, it is important that governments, private sector, regulators and consumers become aware of benefits from promoting competition measures.

CUTS Centre for Competition, Investment & Economic Regulation
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Joint ACP-UNCTAD Guiding Principles for Investment Policymaking

The Joint African, Caribbean and Pacific Group of States (ACP)-UNCTAD Guiding Principles for Investment Policymaking has been approved by the ACP Committee of Ambassadors in Brussels.

The non-binding Principles were jointly developed by the UNCTAD and the ACP Secretariats after consultation with ACP Members States and regional organisations. The Joint Principles draw on UNCTAD's Core Principles set out in UNCTAD's Investment Policy Framework for Sustainable Development and build on key ACP policy documents, notably the Georgetown Agreement establishing the African, Caribbean and Pacific Group of States, the Declaration of the 8th Summit of ACP Heads of State and Government of the ACP Group of States, the Strategic Framework for ACP Private Sector Development. The Joint ACP-UNCTAD Principles reflect 79 ACP countries' priorities for national and international investment policymaking, and support of existing ACP initiatives.

The non-binding Principles provide guidance for investment policymaking with a view to:

- promoting inclusive economic growth and sustainable development;
- promoting coherence in national and international investment policymaking;
- fostering an open, transparent and conducive global policy environment for investment; and
- aligning investment promotion and facilitation policies with sustainable development goals.

The Joint ACP-UNCTAD Principles come at a time when countries are re-orienting their national and international investment policies in line with today's sustainable development. Recent developments in national and international investment policies will be discussed during the September 12, 2017 session of UNCTAD's Trade and Development Board, Palais des Nations, Geneva as well as during UNCTAD's Annual International Investment Agreements Conference at Palais des Nations, Geneva on October 09-11, 2017.

http://investmentpolicyhub.unctad.org/News/Calendar/Home/550

We want to hear from you…

Please e-mail your comments and suggestions to **citee@cuts.org**

We put a lot of time and effort in taking out this newsletter and it would mean a lot to us if we could know how far this effort is paying off in terms of utility to the readers. Please take a few seconds and suggest ways for improvement on:

- Content
- Number of pages devoted to news stories
- Usefulness as an information base
- Readability (colour, illustrations & layout)

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