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WTO CELL  
PLANNING & DEVELOPMENT DEPARTMENT  
**WEEKLY ECONOMIC DIGEST**  
29<sup>th</sup> - 05<sup>th</sup> OCTOBER , 2008

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**EU-India summit to broach trade, terror and financial troubles**

Global warming, terrorism and the world financial crisis are set to dominate the annual summit between the European Union and India in the French city of Marseille. Indian Prime Minister Manmohan Singh will push his credentials as leader of the world's largest democracy and one of its fastest growing economies in talks with French President Nicolas Sarkozy and European Commission President Jose Manuel Barroso. The EU is India's largest commercial partner-ahead of China-with annual bilateral trade totalling around 60 billion euros (88 billion dollars). India and the EU have had a strategic partnership agreement since 2004 and talks on a free trade accord began last year, but progress has been slow. The EU lawmakers also called on Delhi to scrap the death penalty and for more EU-India intelligence co-operation in order to better tackle terrorism. (Business Recorder, 29<sup>th</sup> September, 2008)

**Food inflation swells to 34 percent**

Inflation is getting bigger and uglier by the minute as the Consumer Price Index (CPI) inflation soared to peak level of 25.3 percent during August 2008, as compared to 6.5 percent in the same period last year. While food inflation year-on-year (YoY) basis is also soaring persistently high and depicting increased trend during August by breaching all previous record to an historical level of 34.1 percent, as compared to 8.6 percent in the same period last year. The central bank has issued Inflation Monitor for August, in which the State Bank of Pakistan (SBP) said that both food and non-food groups of CPI contributed to this upsurge in headline inflation. The CPI food inflation (MoM) was recorded at 2.6 percent compared to 2.4 percent in August 2007. The CPI, food and non-food inflation stood at 24.3 percent, 33.8 percent and 17.3 percent, respectively. This rising trend was mainly led by the increase in the prices of some key food commodities such as coriander seed powder (130 percent), pulse masoor (130 percent), rice Irri (121 percent), wheat (76 percent), and maida (68 percent). The inflation (YoY) in this sub-group was recorded at 40.5 percent during August 2008 compared to (-) 3.0 percent in August 2007. The WPI food group inflation (YoY) was recorded at 33.5 percent in August 2008 compared to 11.5 percent a year earlier. The WPI non-food inflation (YoY) reached 37.4 percent during August 2008 compared to 5.6 percent in August 2007. (Business Recorder, 30<sup>th</sup> September, 2008)

### **Economic development and terrorism: Pakistan, US discuss advancing cooperation**

Pakistan and the United States discussed advancing co-operation in wide-ranging fields including economic development, counter terrorism, education, energy, and agriculture as Foreign Minister Shah Mahmood Qureshi and Deputy Secretary of State John Negroponte co-chaired the strategic partnership dialogue. The US side included Richard Boucher, Assistant Secretary of State for South Asia, Donald Camp, Principal Deputy Assistant Secretary for South Asian Affairs, Ruben Jeffrey, Under-secretary of State for economic, energy and agricultural affairs and senior State Department counterterrorism adviser. (Business Recorder, 30<sup>th</sup> September, 2008)

### **Bilateral trade & poverty: Pakistan and India need to be flexible in tackling South Asian issues**

Pakistan and India have a leading role in regional grouping and the two countries can ensure a good future to masses if they show flexibility, which will immediately result in augmenting bilateral trade to the tune of 10 billion dollars, said Dr Murtaza Mughal, President of Pakistan Economy Watch (Pew). "Both the countries are major players in South Asian Association for Regional Cooperation (Saarc) and their positive role can help provide relief to 500 million poor living in South Asia", Dr Mughal added. "Political differences, corruption, lack of proper infrastructure etc are also stumbling blocks," he said, adding that agriculture insurance was a very positive step that could change the fate of Pakistan if executed properly. (Business Recorder, 01<sup>st</sup> October, 2008)

### **US has responsibility to world to fix economy: British Prime Minister**

The United States has a responsibility to the world and not just itself to sort out its teetering economy, British Prime Minister Gordon Brown said. But Brown, disappointed that US lawmakers have rejected a 700-billion-dollar Wall Street bailout plan, said it was not yet time to apportion blame for the global crisis. "What people want to know is, on top of these problems, can we get under control, these problems in the financial system." He said, I believe that the Americans have come to realize that they have a responsibility to the rest of the world as well as to themselves. "In Britain, we will do whatever is necessary; however it is necessary to sort out the problems in the system." He added: "There will be a time for sorting out the blame and clearly what happened in America has got to be analyzed for its effect on Britain but this is the time to roll up our sleeves and sort out the system." (Business Recorder, 1<sup>st</sup> October, 2008)

### **JICA Merges With Part Of JBIC To Form Comprehensive Aid Body**

The Japan International Cooperation Agency (JICA) merged with the low-interest yen loan operations of the Japan Bank for International Cooperation (JBIC), forming the world's largest agency for the provision of bilateral development aid. JICA, which had been in charge of some grants-in-aid and technical cooperation alone, has taken charge of grants-in-aid operations that had been directly administered by the Foreign Ministry. As a result, JICA is implementing projects worth about \$10.28 billion through a network of about 100 overseas offices staffed with some 1,600 persons. JICA President Sadako Ogata told reporters her agency will work on the principle of 'three S': speeding up and scaling up its programs through better coordination, and spreading out its activities to a wider range of beneficiaries, including through grassroots activities...Ogata added the agency will become a 'one-stop' platform for developing countries in need of help. ...Ogata said JICA is tasked with achieving quick results to enhance the public's understanding and persuade it of the importance of ODA. (World Bank, 02<sup>nd</sup> October, 2008)

### **ADB Economic Working Paper: EU reviewing rules of origin to facilitate LDCs**

The European Union (EU) is currently reviewing its rules of origin as many of the Least Developed Countries (LDCs) have been unable to comply with the double jump or double transformation rule,

while Pakistan has seen its market access erode as a result of a successful challenge to its special GSP access to the EU market under the special arrangements to combat drug production and trafficking in the WTO. This was disclosed in Asian Development Bank (ADB) Economics Working Paper "Extra-EU Imports of Clothing and EU Preferential Trade Policies in the Post-Quota Era", which was prepared by two International experts William E. James and Juan Paolo Hernando. India and Viet Nam have performed well despite having less beneficial market access than other non-Asian suppliers under ACP/EBA or FTA/CU preferences. The EU is currently reviewing its rules of origin, as many of the LDCs have been unable to comply with the double jump or double transformation rule. Some Asian countries are also exploring more formal reciprocal preference agreements with the EU in order to "lock-in" market access, including India, which is engaged in free trade negotiations and ASEAN as a group. Pakistan has seen its market access erode as a result of a successful challenge to its special GSP access to the EU market under the special arrangements to combat drug production and trafficking in the WTO. The EU market is roughly twice as large as the US market for clothing (using a broad definition) if one includes intra-EU trade, reaching \$42 billion in 2006. However, the relevant indicator of size for non-member suppliers is extra-EU imports. Exchange rate movements and the expansion to 27 members in 2007 reinforced the trend toward extra-EU clothing imports exceeding US imports in dollar value. Working paper revealed that the EU market for extra-EU clothing imports has expanded since the full implementation of the Agreement on Textiles and Clothing (ATC) on 31 December 2004. The extra-EU market expanded further to \$79.6 billion in 2006 compared with \$83.0 billion for the US (World Trade Organization 2007). Asian competitive and least developed country (LDC) suppliers have availed of the opportunities the EU market has offered since quotas were eliminated, despite some initial difficulties experienced in 2005 by a majority of the Asian countries. Future growth opportunities appear to be good, although the complex system of EU preferences and rules of origin may complicate efforts of Asian suppliers to remain competitive. (Business Recorder, 4<sup>th</sup> October, 2008)

### **Pakistan safe for foreign investors: Pakistan HC to Malaysia**

'Pakistan is still a safe country to do business and Malaysians are urged to invest in Pakistan.' Pakistan High Commission General Tahir Mahmud Qazi (Retd) said that the High Commissioner has assured Malaysian business community and the public in general that no foreign company has quit the country and in fact some international companies were investing in Pakistan at present. Qazi urged Malaysian investors to invest in Pakistan's power and energy and oil and gas sectors, as they possessed huge potential. (Business Recorder, 4<sup>th</sup> October, 2008)

### **US inflation pressures lowest since May 2002**

US inflation pressures fell in September to a more than six-year low indicating policy makers should focus on economic growth, a research group said. The Economic Cycle Research Institute's US Future Inflation Gauge (USFIG), designed to anticipate cyclical swings in the rate of inflation, slipped to 103.7 in September from 107.3 in August, revised from 109.3. The reading was the lowest since May 2002, when the index stood at 102.1. "With the USFIG diving to a new 76-month low, underlying inflationary pressures are clearly in rapid retreat," said Lakshman Achuthan, managing director at ECRI, in an instant message interview. The USFIG annualized growth rate, which smooths out monthly fluctuations, fell in September to minus 17.8 percent from minus 13.9 percent in August, revised down from negative 11.0 percent. (Business Recorder, 4<sup>th</sup> October, 2008)

### **Brown creates economic council**

British Prime Minister Gordon Brown established a National Economic Council to co-ordinate economic policies across government and help people cope with the fallout from the financial crisis. The National Economic Council will work to help people and businesses to deal with the current economic uncertainties. The government also established a regional economic council and appointed a network of British business leaders to support the government overseas. (Business Recorder, 4<sup>th</sup> October, 2008)

### **McCain, Obama decry rising US job losses**

White House hopefuls Barack Obama and John McCain voiced concern at the latest US employment data, and clashed again over the best way to stop the rot. "Today, Americans woke up to the sad news that 159,000 jobs were lost last month alone, making September the ninth straight month of job loss," Democrat Obama said in a statement. "With three-quarters of a million jobs lost this year, and millions of families struggling to pay the bills and stay in their homes, this country can't afford Senator McCain's plan to give America four more years of the same policies that have devastated our middle-class and our economy for the last eight. The Illinois senator said he would put forward a rescue plan for the middle-classes to Congress to "provide tax relief, save one million jobs, and save our local communities from harmful budget cuts and painful tax increases." The struggling US economy lost 159,000 jobs in September as the weight of the housing collapse and credit crunch hit a broad swath of industries, government data showed Friday. Our nation cannot afford Senator Obama's higher taxes," McCain added (Business Recorder, 4<sup>th</sup> October, 2008)

### **US food prices up in third quarter: AFBF**

Americans are paying more at the supermarket with the cost of 16 basic grocery items up by 4 percent in three months, led by potatoes, cheese and apples, the largest US farm group said. An informal, 32-state survey of prices conducted by the American Farm Bureau Federation found its grocery basket of basics such as milk, bread, cooking oil and ground chuck cost \$48.68 in August, up 4 percent or \$2.01, from May. In the past 12 months, said AFBF, the cost of its food basket jumped about 10.5 percent. "We continue to see increases in several staple food items due primarily to the long-term effects of high energy prices in the food sector," said Jim Sartwelle, a Farm Bureau economist. Food prices rose for 11 of the 16 items. (Business Recorder, 4<sup>th</sup> October, 2008)

### **Car sale posts 57 percent decline in first two months**

The auto assemblers all over the world are going through a tough time as the car sale has declined in almost all countries in the first two months of FY09, mainly due to change in auto finance policies by the suppliers of funds, analysts said. In Pakistan, the local car sale plunged by 57 per cent on yearly basis to 13, 316 units in first two months of FY09. On stand-alone basis, the decline in car sale is 51 per cent and 60 per cent in July 08 and August 08, respectively, as compare to the same months of corresponding year. The declining trend in car sale was started in FY08, where passenger car sale remained 9 per cent less than FY07. The decline in car sale is attributable to the rising car prices in the wake of soaring input costs and taxes, Kamran Rehmani, an analyst at First Capital Equities said. Moreover, the declining car financing (due to stringent policies of the banks and rising interest rate) equally throttle cars sale's growth, he added. More interestingly, this is not the domestic phenomenon only as more or less for the same reasons (as mentioned above for local car assembler), auto assemblers in all over the world are going through a tough time. This phenomenon is mainly attributable to change in auto finance policies by the suppliers of funds. As pre-emptive measures

amid at mortgage crisis, auto financiers have become more fastidious or reluctant of disbursing auto loans along with demanding higher mark-up due to raising concern over recovery. Moreover, recent hike in discount rates by central banks of almost all countries has also worsened the auto sale patterns. The situation is less vulnerable for oil rich countries. (Business Recorder, 05<sup>th</sup> October2008)

### **German bank announces collapse of \$48 billion rescue**

(October 05 2008): German bank Hypo Real Estate (HRE) announced that a planned 35 billion euro (48 billion dollar) rescue had collapsed after the banking consortium involved pulled out of the deal. The rescue bid was the biggest in German history and came after HRE was sucked into the global financial turmoil through its exposure to bad debt. HRE said in a statement that a consortium of German banks lined up for the rescue had "refused to provide liquidity lines" and that it was seeking new measures. The real-estate lender said it was in the process of "determining the consequences" of the consortium's withdrawal on various divisions and that it would seek other solutions. Earlier in the day, the Welt am Sonntag newspaper had said in a report to appear on Sunday that the bailout plan would have to be renegotiated because the bank's cash needs had been underestimated. The biggest German Bank, Deutsche Bank, had reportedly evaluated that HRE would need 20 billion euros in fresh capital by the end of next week. Deutsche Bank warned in addition that "by the end of the year, there will be a shortfall of up to 50 billion euros and even of 70 to 100 billion by the end of 2009," the newspaper said. Deutsche Bank issued the warning late Friday during a telephone conference with representatives of the German banking and insurance sector, the report said. (Business Recorder, 05<sup>th</sup> October2008)

### **Wheat price at historic high of Rs 2,800 per 100kg**

Price of wheat grain surged to historic high of Rs 2,800 per 100kg sack due to supply of the commodity to the flourmills being disrupted during the Eid holidays, traders said. The government's decision of fixing the minimum wheat support price at Rs 2,375 per 100kg is also cited to be one of the other reasons behind the rise in the wheat grain price, traders said. In a reaction to the government's move and grain supply shortage, traders said that wheat price first surged to Rs 2,750 per 100kg sack last week and now it further climbed to a new peak of Rs 2,800 per 100kg in the local market. The government is not providing full quota of wheat grain to the flourmills, which was fixed at 2,000 bags of 100 kg to flourmills per week. The inter-provincial ban on wheat movement is also believed to have brought about the commodity shortfall in Karachi, ultimately giving rise to its price, they said. Although, this year the country has harvested 22 million tons of wheat crop, its massive hoarding and unabated smuggling into Afghanistan has created acute shortage in the local market, compelling the government to import wheat grain to meet the country's demand, they said. They said that wheat grain shortage is growing despite its imports. Flourmills are heavily relying on the open market to acquire the commodity even on high rates to meet the demand. (Business Recorder, 05<sup>th</sup> October2008)