

Current Events of International Importance Part 1

CSE (Preliminary) Examination , 2016

Source: The material for this topic has been collected from 'The Economic Times' , Delhi edition, The Financial Times and Business Standard , e-papers, from December 2015 onwards.

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1. Greece Economic Crisis

- Greece owes over 3000 billion Euros to the International Monetary Fund (IMF) and various members of the European Union (EU) (19 member countries) , particularly France, Germany, Norway, Sweden, Denmark.

Crisis has been developing since 2008.

In 2010 Greece was unable to pay even the interest instalments. Interest payments have been waived till 2020.

In 2015, the creditor consortium imposed very severe financial reforms on Greece that included 20% increase in VAT, a large cut in pensions, and social benefits

1.1 Greece Economic Crisis continued

- On 5th July, 2015, a Referendum was held in Greece on whether to accept and impose or to reject the financial restrictions proposed by EU. Rejection involved exiting the EU by Greece.
- Over 61% voted against the proposed financial reforms and wanted the Government to exit EU.
- The Government decided to continue as a member of EU, but it strengthened its hands to make a counter proposal for financial reforms.

1.2 Germany Rules Out Debt Relief for Greece

- **Berlin:** German chancellor **Angela Merkel** ruled out a debt relief for Greece, after meeting IMF chief **Christine Lagarde** and leaders of other global economic organisations because “In our opinion, it is not legally possible in the euro zone” A debt relief for Greece had been repeatedly rejected by Germany.
- The Washington-based IMF has not decided to join the third **bailout worth up to 86 billion euros** (about \$97.9 billion) to Greece. It is waiting for review results of Greece's reform progress.
- The IMF may threaten to pull out of Greece's bailout as a tactic to force European lenders to write down Greek debts.

2. The Chinese Stock Market Crises

- From 15th June, 2015, for three continuous weeks, the Shanghai Stock Exchange Index fell and \$ 3.4 trillion were lost . It reached a tipping point on 7th July, 2015 after the Greece Referendum results were known.
- This has been called **the bursting of the Chinese Bubble**.
- **The** functioning of the China Stock Exchange is not transparent. The reasons for the earlier rise in the stocks were unknown to the world.
- The Government was able to control the downslide only in second week of July, 2015.

2.1 China Posts Slowest Growth in 25 Years, in 2015

- For the first time in 25 years, China's economy grew at its slowest pace at 6.9% in 2015, sparking global concerns.
- The growth rate, released by China's the National Bureau of Statistics, moderated it to 6.8% for the fourth quarter which is the lowest quarterly rate since the global financial crisis in 2009. For 2015 the rate is 6.9%.

As per the new data, China's Gross Domestic Product (GDP) reached 67.67 trillion yuan (about \$10.3 trillion) in 2015.

The service sector accounted for 50.5%. For the first time Service Sector has exceeded 50% and overtaken the manufacturing sector in China

2.2 In financial world, China's vast holdings of other countries' money, is called a life preserver:
A year-and-a-half ago, China held as much as \$4 trillion in foreign exchange reserves.

The country's reserves have shrunk by nearly a fifth since summer 2014, and more than a third of the shrinkage has been in the last three months.

By the end of January, 2016, the reserves stood at \$3.23 trillion.

CHINA'S EXODUS OF CAPITAL

As the economy stumbles, individuals and companies are pulling money out of the country en masse, leaving the government scrambling to limit the outflows

How Bad Is It?

Over the last year-and-a-half, individuals and companies have moved about \$1 trillion out of China, as investors have begun to lose faith in the economy and sought better returns elsewhere. Those outflows have been partly offset by money coming in from the trade surplus.

How the Money Is Getting Out

There are various methods, legal and otherwise, to move capital out of China:

Finding "Smurfs"

Chinese citizens who want to send more than \$50,000 – the allowable limit – out of the country can arrange for relatives or friends to exchange money for them



Buying Life Insurance

By purchasing a policy denominated in American dollars, and paying for it in Chinese renminbi, individuals can take money out of the country

Underinvoicing Exports

A firm that exports goods declares only a fraction of its value to the authorities. An overseas buyer wires money to China for that fraction, and puts the rest of the money into the exporter's overseas bank account.

What Is the Problem?

The outflows are forcing the government to dip into its reserves to shore up the currency

FOREX RESERVES

(\$ billion)

China 3,230

Japan 1,248

Russia 371.6

S Korea 367.3

Brazil 357.5

India 351.5

Euro Area 333.9

Mexico 177.6

Germany 159.5

UK 135.2

Social Policy change in China

- The “one-child policy“, instituted in the late 1970s, has been discontinued. The policy led to sex-selective abortions or infanticide targeting girls.
- Rural families were already allowed two children if the first was a girl, while ethnic minorities were allowed an extra offspring, leading some to dub it a “one-and-a-half child“ policy .
- Limited reforms in 2013, to cope with an ageing population and shrinking workforce. These included allowing couples to have two children if either of them was an only child.
- The change, which was announced in October by the ruling Communist Party , takes effect from January 1,2016.

3. Venezuela's consumer inflation from 275% in 2015 to 720% in 2016

The International Monetary Fund recently projected the rate given above. Venezuela's economy is based on export of oil. Oil prices collapsed to a decade low in 2015.

Impact of Inflation

- (a) reduces value of money and purchasing power of people.
- (b) Country ceases to attract Foreign Direct Investment (FDI)
- (c) Its debt burden is magnified.
- (c) Production, Sales and salaries freeze.
- (d) Aspirations of people is hit, as they try to survive.
- (e) Causes redistribution of income from savers to borrowers.

3.1 Countries with highest and lowest inflation rates in February 2016 compared with India's inflation rates.

Highest inflation	Lowest inflation
1. Ukraine 49.9%	1. Afghanistan minus - 1.94%
2. South Sudan 41.1%	2. Zimbabwe - 1.61%
3. Yemen 30%	3. El Salvador - 1.61%
4. Malawi 20%	4. Switzerland - 1.08%
5. Sudan 19.8%	5. Thailand - 0.86 %
6. Argentina 16.8%	

INDIA 's retail inflation rose the fastest in the last 15 months from 5.41% in November 2014 to 5.61%. In December 2015, largely due to food prices.

RBI's December 2015 Inflation Expectations Survey of Households show high expectations among consumers. These had hit a bottom in December 2008.

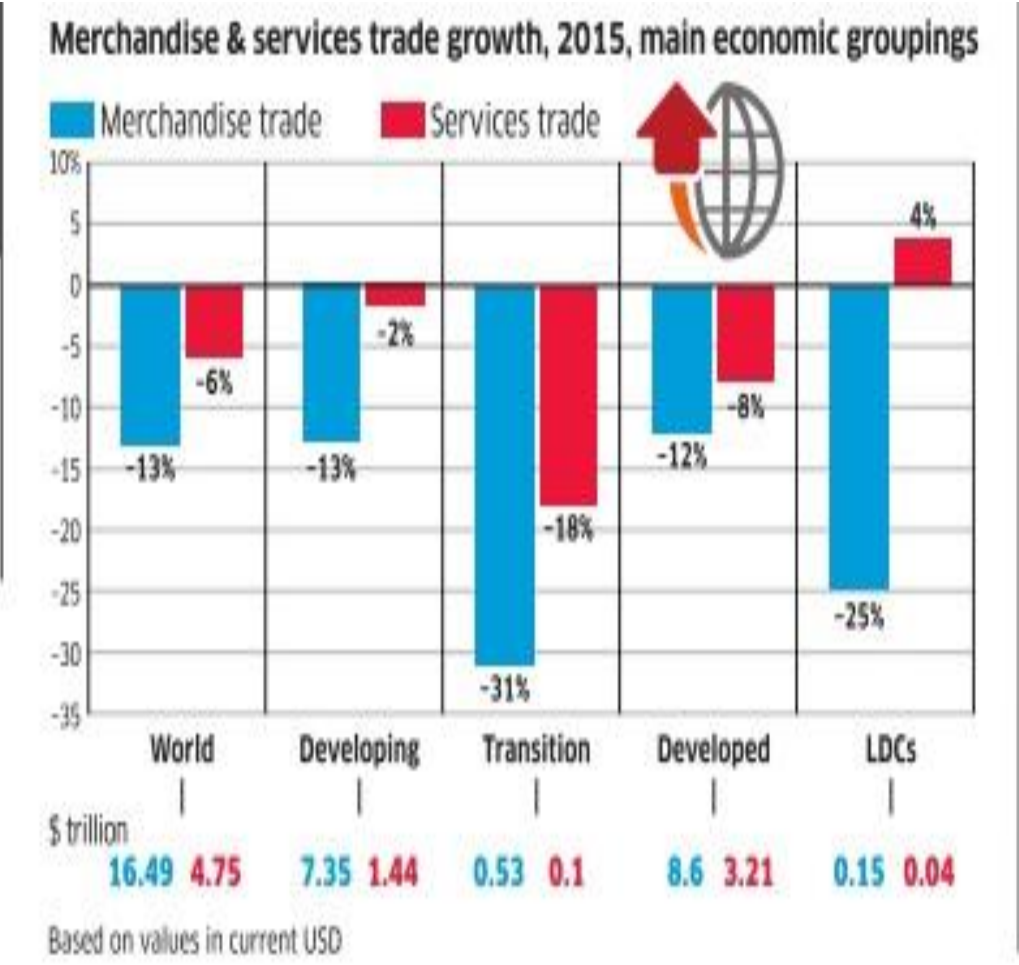
In the past forty years the Wholesale Price Index and Consumer Price Index have risen steadily .

3.2 World Economic Forum's Global Competitiveness Survey, April, 2016 views **gross government debt as a percentage of GDP**. Lower debt to GDP ratio is better for the economy. 17 countries with highest government borrowing GDP ratio:

1. Japan : 243.2%, and has negative interest rates
2. Greece: 173.8%, has over €320 billion loan
3. Lebanon: 139.7%
4. Jamaica: 138.9%
5. Italy 132.5%
6. Portugal 128.8%
7. Ireland 122.8%
8. Cyprus 112.0%
9. Bhutan 110.7%
10. USA 104.5%
11. Singapore 103.8%
12. Belgium 99.8%
13. Cape Verde 95%
14. Spain 93.9%
15. France 93.9%
16. Barbados 92%
17. Iceland 90%

4. In 2015 World Trade and export plummeted by 13% in 2015

- Measured in current US dollars, global merchandise export plummeted by 13% in 2015, according to UNCTAD WTO estimates.
- Services exports declined by 6%.
- A significant part of the drop in the global exchange of goods and services due to **exchange rate fluctuations**, and the **depreciation of currencies** against the US dollar



It All Slows Down

EU is entering industrial slowdown, based on the data released by Eurostat

0.8%

Drop in industrial production in February

1.2%

Drop in energy production

1.1%

Fall in manufacturing production



Biggest producers were

- Lithuania
- Slovakia
- Malta

MOST AFFECTED COUNTRIES

Ireland

10.5%

Greece

4.4%

Croatia

1.6%

Worst performing sectors

- Cosmetics and cleaning products
- Food
- Fuel
- Beer
- Cigarettes
- Medication



CURURAJ

4.2 . World in 2015 was hugely turbulent

1. ISIS continued to cause devastation in the Middle East. An international legal framework under UN auspices has been started : “Comprehensive Convention on International Terrorism” .
2. Tensions between Russia and Ukraine in the Crimea remained
3. Terrorist attacks shook Europe
4. Greece's debt crisis, which threatened to break up the euro zone, reached boiling point.
5. All that geopolitical and economic turmoil pushed the world's central banks, into safe haven assets, notably gold. They bought 483 tonnes of gold for \$19 billion.
This was the second highest amount in a single year, after the end of the Gold Standard. Russia bought 206 tonnes, and China 104 tonnes.

4.3 Saudi Arabia has warned the US that it would be forced to sell up to \$750 billion in treasury securities and other assets if Congress passes a bill that would allow the Saudi government to be held responsible in US courts for any role in the September 11, 2001, attacks.

Top 15 countries/groups by size of holdings of US securities

(in dollar billion, as of Feb 2016)



CBC: Caribbean Banking Centres include Bonaire, St Eustatius and Saba; Bahamas; Bermuda; Cayman Islands; Curacao; Sint Maarten; and Panama *Oil exporters include Ecuador, Venezuela, Indonesia, Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates, Algeria, Gabon, Libya and Nigeria

Source: Department of the Treasury/Federal Reserve Board; NYT

5. Caribbean Banking Centres as Tax Havens and OPEC members

- 1. Bonaire,
- 2. St. Eustatius and Saba
- 3. Bahamas
- 4. Bermuda
- 5. Cayman Islands
- 6. Curacao
- 7. Saint Marten
- 8. Panama

Oil Exporting Countries

1. Ecuador
2. Venezuela
3. Indonesia
4. Bahrain
5. Iran
6. Iraq
7. Kuwait
8. Oman
9. Qatar
10. Saudi Arabia
11. United Arab Emirates
12. Algeria
13. Gabon
14. Libya
15. Nigeria

5.1 Panama Papers : the trove of more than 11 million pages of legal documents leaked from Mossack Fonseca's law firm in Panama

IMPACT: 1. **Political: a blow to political establishments**

(a) **Iceland** PM Sigmundur Gunnlaugsson resigned.

(b) **United Kingdom** PM David Cameron, had to make public his tax returns.

(c) **Argentina's** new President Mauricio Macri, has become unpopular soon after election.

The continuing **Global financial crisis** and **alarming** surge in **wealth inequality**, will make governments remove the difference between tax evasion and tax avoidance.

The Papers list the 'rich and famous' around the world, who use the system to protect capital and minimize taxation.

Governments have already been accused of favouring the tax evading rich.

5.2 **Economic Impact:** It is not just tax evasion that is illegal, but now tax avoidance will be made illegal in many countries.

- a) USA to bring in a new rule for banks to identify owners of shell companies, to plug a major loophole in its banking system that enables secretive financial manoeuvres .
- b) Germany is reviewing morally questionable tax avoidance schemes that benefit the wealthiest.
- c) As with money laundering, focus to be on more international sharing of data and more stringent reporting.

Panama Papers April, 2016

- Following the Panama Papers leak, India is seeking to restart talks with the Central American country on a Tax Information Exchange Agreement (TIEA) that can help uncover information on wealth hidden away from public scrutiny .
- Talks with Panama on such an agreement aimed at information exchange on tax offenders , have been stalled since 2013.

Source ET (Delhi)
09.04.2016

Voyage To Panama

INDIA SEEKING TO RESTART NEGOTIATIONS ON TAX INFORMATION EXCHANGE AGREEMENT WITH PANAMA

Renewed Effort
Talks with Panama on TIEA had stalled in 2013

Government reaching out again to start stalled dialogue
TIEA to facilitate active exchange of information

Bilateral Agreement Crucial
Panama yet to comply with OECD transparency guidelines
It is yet to sign multi-lateral convention on exchange of tax info

Information can only be obtained through bilateral agreements

Tax Havens Being Tapped
New Delhi looking into Panama paper trails
It will use TIEAs with other tax havens having Panama linkage
India has TIEAs with tax havens such as British Virgin Islands, Cayman Islands, Isle of Man, St Kitts & Nevis and San Marino

Tax havens

- Switzerland remained the leading offshore booking centre in 2014, with \$2.7 trillion in wealth from abroad, according to a BCG report.
- Switzerland was followed by the Channel Islands and Dublin (\$1.6 trillion),
- and the Caribbean and Panama (\$1.3 trillion).
- But the report noted that fast-developing Asia-Pacific centres Singapore and Hong Kong were expected to gain prominence in the coming days unless the old-world destinations, mainly Switzerland, reinvented themselves..

Top destinations for offshore wealth bookings

Total wealth booked in financial centres, 2014

	Wealth booked (\$ trillion)	Offshore share of wealth booked in centre (%)	Origin of largest share of offshore wealth in centre
Switzerland	2.7	52	Western Europe (36%)
Channel Islands & Dublin	1.6	87	Western Europe (41%)
Caribbean & Panama	1.3	93	North America (35%)
UK	1.3	12	Middle East & Africa (41%)
Singapore	1.1	59	Asia-Pacific (78%)
US	0.8	2	Latin America (44%)
Luxembourg	0.6	86	Western Europe (61%)
Hong Kong	0.5	21	Asia Pacific (79%)



Offshore wealth is defined as private financial wealth booked in a country where the depositor/household is not resident

Source: BCG Global Wealth Market-Sizing Database, 2015

- The signing and ratification of a tax information exchange agreement with the **Maldives**, which is expected to help curb tax evasion and avoidance.
- To amend the convention between India and **Slovenia** for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion.

6. WTO Nairobi meet 18.12.2015

- The Developed countries led by USA, pressed for going out of the Doha framework, and take up new issues for inclusion in the Agenda.
- India, China and others, wanted the Doha framework to be implemented before new issues could be included.
- India , China , Brazil were being forced to take on higher commitment than other countries.
- India's demand for Special Safeguard Measures (SSM) to check in surge of imports, was not accepted. This has been linked to reduction in import duty without any time limit.

6.1 WTO, Nairobi: what was the disagreement about ?

- Doha, capital of Qatar, hosted the WTO talks in 2001. Doha framework included a few main issues, that were adopted as basis for further talks, till all listed issues were settled.
- In Nairobi, in December 2015, attempt was made by developed countries, to include new issues in the WTO, without meeting the commitment of the Doha framework.
- A deep divide emerged between the developed and developing countries, on many issues, including farm subsidies.
- No commitment was given by rich countries to check subsidies.

6.2 WTO, Nairobi meet in December, 2015

FAULTLINES IN THE DRAFT

PROPOSAL | Export competition for farm products



IMPACT | India will have to remove export subsidy on sugar, phase out marketing & transport support and assistance via state-owned enterprises such as Nafed, Trifed. US gets away with sweeter deal on export credit, food aid

PROPOSAL | Fate of Doha Round remains uncertain



IMPACT: India, China, among others may not get a better deal for agricultural exports as rich countries' subsidies stay; no major gains for professionals as services negotiations put on backburner

PROPOSAL | Inclusion of new issues



IMPACT | May result in negotiations on issues such as environment, currency, energy, investment, competition policy. India says many issues such as environment, labour don't belong to WTO

PROPOSAL | Special safeguards deferred



IMPACT | Little protection for India from import surge for apples, dairy and poultry products, where it is levying maximum possible duty

PROPOSAL | New category of "small and vulnerable economies" among developing countries

IMPACT | India, China, Brazil may have to open up more

TOP CONCERNS

PROPOSAL | Export competition for farm produce

IMPACT | India will have to drop export subsidy on sugar. US gets away with sweeter deal on export credit, food aid

SCENARIO | Fate of Doha Round uncertain

IMPACT | India may not get better deal for agri exports, rich countries' subsidies stay

6.3 WTO related dumping matter

- The Department of Electronics and Information Technology has asked the Ministry of Environment & Forests (MoEF) and the Director General of Foreign Trade (DGFT), not to support the import of second hand consumer products, because it **contributes to electronic waste being dumped in India.**
- DEIT has cleared importing of components and refurbishing them locally for exports, because that would generate employment and contribute to foreign exchange earnings.

Hitting a Hurdle

- **Apple** sells refurbished certified phones through carriers and retail partners like BestBuy, Walmart in US
- **Pre-owned** certified iPhones go through rigorous quality checks and get new IMEI nos, before being sold at discounts

• **Apple** sold about **2 million** iPhones in India in 2015

• **India** iPhone sales rose **76%** vs **18%** in Greater China, in Oct-Dec quarter 2015

The infographic features a woman with red hair looking at her smartphone. The background is filled with various icons representing technology and communication, such as a laptop, a house, an envelope, and a social media symbol.

7. Arctic Council members

- 1. Canada – 40% of total mass
- 2. The Kingdom of Denmark
- 3. Finland
- 4. Iceland
- 5. Norway
- 6. Russian Federation
- 7. Sweden
- 8. United States of America

PRC List modified

- Prior referral Category (PRC) for grant of visa by India includes:
Pakistan,
Afghanistan,
Yemen,
Somalia
- IRAN has been removed from this list in December, 2015 and China in June 2016