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CEI Centre for International Economy

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WORLD

The UN proposes changes to the international financial architecture

The debate over the soaring global public debt burden is at the top of the agenda of international organisations (see CEI Global Report, March 2023). In July, the Global Crisis Response Group (created in 2022 by UN Secretary-General António Guterres), together with the UN's regional offices, published a document addressing the issue and suggesting the need for action to change the current international financial architecture.

In the first place, the report notes that since the beginning of the century, global public debt has increased fivefold, while global GDP has tripled in the same period. However, beyond describing this generalised growth in the weight of debt in the global economy, the document stresses that the burden of indebtedness was not similar for all.

Developing countries had to face the "cascading crises" that occurred in recent years (COVID-19, the war in Ukraine, the climate emergency) with fewer –and more costly– options to access financing. At the same time, developing countries were exposed to cost increases due to capital movements towards developed countries and internal devaluation processes.

The document points out that developing countries have to spend more and more public resources on interest payments on their debt, which amount to more than 1.5% of GDP and 6.9% of their fiscal revenues; that there has been an increase in spending that in some cases exceeds the amount of resources they invest in health or education; and that this is due to the high borrowing costs they have to face. The report also mentions that African countries, for example, have to pay eight times more interest than Germany to obtain international financing.

In order to overcome this state of affairs, which is smothering developing countries, the Global Crisis Response Group proposes a roadmap that includes: 1) increasing the participation of developing countries in the bodies that control the international financial architecture, 2) creating mechanisms for the renegotiation and suspension of debt services, 3) using the IMF's emergency tools to increase liquidity in times of crisis, and 4) increasing and improving the long-term financing conditions that multilateral bodies offer to developing countries.

Overall fall in real wages

The latest edition of the OECD Employment Outlook shows that current average unemployment in OECD member countries is at 4.8%, the lowest level since the early 1970s, and this strength in employment rates is expected to continue in 2023 and 2024.

However, the high inflation still persisting in most countries continues to negatively affect real wages. Workers' earnings rose nominally by 5.8% year-on-year in the first quarter of the year, but in 30 of the 34 members with available data they were outpaced by price increases, which was reflected in a fall in real wages, on average, of 3.8% (with some notable declines such as in Italy (-7.3%), Sweden (-8.4%) or Hungary (15.6%)).

As the IMF had recently said when referring to inflation in European countries (see CEI Global Report, July 2023), the OECD also points out that this reduction in workers' incomes is taking place in a context of rising corporate profits. For this reason, according to the organisation, the conditions are in place for the losses in workers' purchasing power to be recovered without necessarily generating inflationary pressures or affecting labour demand.

The report also devotes a section to the impact of artificial intelligence (AI) on the labour market. It states that 27% of the jobs are at high risk of being replaced by AI, especially low- and medium-skilled jobs, including those in construction, agriculture, fishing and forestry.

The OECD, like the IMF, points to the need for international co-operation to ensure that AI has a positive impact on the labour market and so as to avoid the emergence of regulatory gaps leading to undesirable outcomes in the global economy.

EUROPE

Russia terminates Ukraine's grain export deal

The Russian government decided to terminate the agreement that included Ukraine (see CEI Global Report, August 2022) and that facilitated both countries' grain exports using Black Sea ports. The July 2022 commitment, which involved Türkiye and the UN, was intended to allow Ukraine to export its grain stored because of the war and to make Russia gain unimpeded access to grain and fertiliser markets, with the aim of stabilising international prices and reducing the threat to food security.

Several analyses, including those conducted by institutions such as the US Department of Agriculture (USDA) and the International Food Policy Research Institute (IFPRI), concluded that the agreement was meeting the goals set. Under the initiative and during the year it was in force, 32 million tonnes of grains were exported, mainly maize (about 50%) and wheat (about 25%). According to what the UN informed, the main destinations were China, Spain, Türkiye, Italy, the Netherlands and Egypt.

Russia's decision has been criticised by various international policy actors because of the harm that the measure could cause especially to poorer consumers living in net food-importing countries, due to food shortages and rising inflation as a result of higher grain prices. WTO Director-General Ngozi Okonjo-Iweala and UN Secretary-General António Guterres, as well as officials from countries in Africa and Asia, spoke along these lines.

In the event that Black Sea ports are closed, there is more likelihood that Ukraine will make greater use of European "solidarity" corridors. Until now, Eastern European countries have criticised the diversion of grain through their territories because of the effects that an increased supply of Ukrainian grain was having on the income of local farmers. For this reason, the EU temporarily authorised Bulgaria, Slovakia, Hungary, Poland and Romania to ban the sale of grain from Ukraine on their territories (see CEI Global Report, May 2023). Although the authorisation was due to end in September, following the decision taken by the Russian authorities, these countries requested a postponement.

European Green Deal: new measures approved

The European Green Deal continues adding measures with potentially distorting effects on international trade. On 25 July the European Council approved an initiative that regulates the fuel to be used by maritime transport, encouraging the adoption of renewable fuels of non-biological origin. The regulation requires an 80% reduction in greenhouse gas emission intensity by 2050 and that by 2030 ships at berth use only port-supplied electricity. Revenues generated from fines for non-compliance will be used to fund decarbonisation projects in the sector.

The rule will apply to the energy used on voyages between European ports and to half of the energy used on a voyage between an EU port and a non-EU port. In order to avoid circumventions of the rule, ports close to the EU where cargo is transshipped will not be considered as non-EU ports. Full implementation of the rules will start on 1 January 2025.

The explanation given by authorities of the EU for defending this regulation is that large-scale production of the most sustainable fuels needs a roadmap of certainty, something that can be promoted by a rule demanding its use, the same argument used by the EU in the negotiations on the same issue in the International Maritime Organization. At the same time, the bloc's twin regulation on aviation fuels is also in the final stages of approval. Both measures will add to the effects of the inclusion of maritime transport in the European Union Emissions Trading System (EU ETS), approved at the end of April 2023.

As long as the alternative fuels demanded by the EU are more costly than those currently in use, that their production is concentrated in the European countries, which in turn have more funds to modify their port infrastructure to the new type of fuel, maritime freight rates will increase further for Southern Hemisphere countries' voyages. This will reduce the relative competitiveness of the exports from southern countries *vis-à-vis* EU production, an effect equivalent to that of a unilateral increase in EU import tariffs.

SOUTH AND CENTRAL AMERICA

Latin America and the Caribbean: strong FDI growth in 2022

The Economic Commission for Latin America and the Caribbean (ECLAC), in its annual report "Foreign Direct Investment in Latin America and the Caribbean (2023)" announced that in 2022, there was an inflow of US$ 224.6 billion in foreign direct investment (FDI) in the region, which represents a 55.2% growth compared to 2021. FDI flows surpassed US$ 200 billion after 9 years and accounted for 4% of regional GDP. In contrast, FDI in the world fell by 12% in 2022 (reaching US$ 1,294,738 million).

Within Latin America and the Caribbean, the countries that stood out for the highest inflow of FDI in 2022 were: Brazil (US$ 91.5 billion, it received 41% of the regional total and was the fifth destination of global FDI); followed by Mexico (US$ 38.9 billion, 17% of the regional total); Chile (US$ 20.9 billion, 9% of the regional total); Colombia (US$ 16.9 billion, 8% of the regional total); Argentina (US$ 15.4 billion, 7% of the regional total) and Peru (US$ 10.8 billion, 5% of the regional total). Costa Rica, in turn, was the main recipient of FDI in Central America (US$ 3.7 billion; 1.6% of the regional total) and Guyana in the Caribbean (US$ 4.4 billion, 2% of the regional total).

At sector level, within the region, 54% of FDI went to the services sector, 30% to the manufacturing sector and 17% to the natural resources sector. Investment in financial services; electricity, gas and water; information and communications; and transport-related services accounted for the largest share. The renewed interest in investing in natural resource exploitation was mainly linked to the energy sector.

The United States (38% of the total) and the European Union (17%, excluding the Netherlands and Luxembourg) were the main investors in the region, while FDI coming from countries in the region rose from 9% to 14% of the total.

Moreover, in 2022, the amount invested abroad by Latin American transnational corporations reached historic levels: US$ 74.7 billion.

At the same time, future investment prospects also improved: the amount of FDI project announcements in Latin America and the Caribbean grew by 93% in 2022, totalling close to US$ 100 billion (after declines in 2020 and 2021). Both globally and in the region, the energy sector played a key role in FDI project announcements. For the first time since 2010, the hydrocarbon sector (coal, oil and gas) led the announcements (24% of the total), followed by the automotive and auto parts sector (13%) and renewable energy (11%).

Brazil: equal pay law

On 4 July 2023, the "Equal Pay Law" was published in Brazil's Official Gazette, which establishes remuneration criteria to avoid discrimination on grounds of sex, race, ethnicity, origin or age in the performance of work of equal value or in the exercise of the same function.

The text establishes a rise in the fine payment from one to ten times the value of the new salary owed by the employer to the discriminated worker and doubles the fine in the event of a repeat offence. Likewise, it determines that in case of discrimination, apart from the fines provided for, workers retain their right to sue for compensation for moral damage.

Additionally, the law anticipates the following measures to guarantee equal salary pay: the establishment of wage transparency mechanisms; the increase in anti-discrimination monitoring and remuneration criteria; the creation of specific channels for reporting cases of wage discrimination; the promotion of diversity and inclusion programmes in the workplace; and the promotion of training and education for women for their insertion, permanence and promotion in the labour market, on an equal footing with men.

The new regulation obliges companies with 100 or more employees to publish half-yearly pay transparency reports (while complying with personal data protection). The reports will contain data and information, published anonymously, allowing objective comparison between wages, pay criteria and the proportion of women and men in management and leadership positions, as well as statistical information on other possible inequalities arising from race, ethnicity, nationality and age. If inequality in salaries or remuneration criteria is identified, private companies shall create action plans to mitigate such inequality, with targets and deadlines ensuring the involvement of workers' representatives in the workplace.

In case of non-compliance with the provisions, an administrative fine will be applied for up to 3% of the employer's payroll, limited to one hundred minimum wages, without prejudice to other sanctions. The Federal Executive Power will make available, in a unified manner, on a publicly accessible digital platform, the information provided by companies and periodically updated indicators on the labour market and income by gender, including indicators of violence against women, vacancies in public childcare facilities, access to technical and higher education and health services, as well as other public data that could direct the development of public policies.

Finally, the norm establishes that the Executive Power will establish an inspection protocol against wage discrimination and remuneration criteria between men and women.

NORTH AMERICA

USMCA: rules of origin boost US automotive production

The United States International Trade Commission (USITC) released a report on the economic impact on that country of the rules of origin for automotive trade of the United States-Mexico-Canada Agreement (USMCA). It should be recalled that these rules of origin established new regional content requirements, criteria regarding remuneration for employment, and rules related to steel and aluminium purchases for the automotive industry and which generated a conflict between the USMCA partners due to the US interpretation on the calculation of the regional content value (see CEI Global Report, February 2022).

The study indicates that, between July 2020 and December 2022, the new rules of origin reduced US imports of motor vehicle parts (engines and transmissions) originating outside North America. In addition, the low use of tariff preferences brought about a reduction in light vehicle imports from Canada and Mexico, but the number of imported light vehicles was increased.

In turn, US production, income, and capital expenditures related to the production of light vehicles and auto parts, as well as employment and wages in the sector, improved. However, these economic effects had an insignificant impact on GDP and aggregate employment.

The report also indicates that the new rules of origin increased the cost of producing light vehicles in the US. According to the study, there are few signs of change in the overall competitiveness of the US automotive industry following the entry into force of the USMCA in July 2020. Despite the estimated positive impact of the rules of origin, production halts due to the COVID-19 pandemic and semiconductor chip shortages have likely been the main factors contributing to the decline in vehicle and parts production in the United States in 2020 and 2021.

The study clarifies that since many of the rules of origin have not yet been fully implemented, due to the phasing in of the requirements, the full impact is unlikely to be evident until full implementation of the agreement, in 2027, or later.

US GDP accelerates its growth in the second quarter of the year

US real GDP increased at an annual rate of 2.4% in the second quarter of 2023, according to the advance estimate published by the US Bureau of Economic Analysis (BEA). In the first quarter of the year, real GDP increased by 2.0% in annualised terms. Compared to the first three months of the year, growth was 0.6%, and 2.6% compared to the second quarter of 2022.

Growth was driven by higher consumer spending and business investment, partly offset by declining exports. Imports, which subtract from the calculation of GDP, decreased.

The data is known after the Federal Reserve raised interest rates again to their highest level in 22 years, at a range of 5.25%-5.5%, despite the moderation of inflation, which has been slowing down after the maximum reached a year ago (in June 2023 an annual inflation rate of 3% was recorded, the lowest since March 2021). The Federal Reserve's goal is to return to a 2% price increase rate.

Mexico becomes US's first trading partner

Mexico overtook Canada and became the first US trading partner in the first quarter of 2023. However, this new position in the ranking is mainly due to the steep decline in trade between the United States and China, rather than an increase in cross-border trade with the United States, according to a recent report from the Federal Reserve Bank of Dallas.

Total bilateral trade between Mexico and the US was US$ 260 billion during the first four months of this year, with US imports from Mexico amounting to more than US$ 150 billion and US exports to Mexico exceeding US$ 105 billion. This bilateral exchange represented 15.4% of all the goods exported and imported by the US; followed in order of importance by Canada with 15.2% and China with 12.0%.

According to the document, China began to gain participation in trade with the United States after joining the WTO in 2001. In 2014, the Asian country surpassed Canada as the US economy's main trading partner. The dynamic began to change in 2018 when then-President Donald Trump imposed tariffs on Chinese imports (affecting almost two-thirds of sales from China to the US), and deepened with supply chain disruptions and high transport costs as a result of the COVID-19 pandemic.

The growing importance of Mexico is also reflected in the exchange of industrial goods: in mid-2022 Mexico became the US's first manufacturing trading partner. The transport sector stands out, with approximately 24.5% of the total bilateral trade in manufacturing in the last 20 years, followed by that of computer equipment (22.4%), electrical equipment, appliances and their components (8.5%) and machinery, excluding electricity (7.7%).

ASIA AND OCEANIA

China imposes export restrictions on sensitive materials

The Ministry of Commerce and the General Administration of Customs of China announced that as of 1 August new controls will be implemented on exports of gallium and germanium and several of their derivatives, to "protect national security and interests". Thus, exporters will have to submit the request to the Ministry of Commerce, through the provincial Department of Commerce, which will decide whether or not to approve the export. Said metal and metalloid, respectively, are used for the production of semiconductors and for the manufacture of military equipment. Gallium is used in communication system chips, fibre optic networks and aircraft sensors; and germanium, in night vision goggles. It should be noted that China supplied 98% and 60%, respectively, of the 2022 global supply of such inputs. Their production is concentrated because these metals are not usually found in a pure state in nature, so they are obtained though expensive, technical, and pollutant methods.

This measure was announced shortly after major microprocessor manufacturers, such as the United States, Japan and the Netherlands, adopted additional export control measures for semiconductor manufacturing components. In this context, Japan and the European Union signed a memorandum of understanding with the aim of ensuring their supply of semiconductors and prioritising the exchange of information for the prevention of chip shortages, as well as addressing subsidies to companies producing such products in order to avoid oversupply.

India and France announce joint long-term goals

In the context of Indian Prime Minister Narendra Modi's visit to France, and the 25th-year celebration of the signing of the Strategic Partnership Agreement, both governments presented a roadmap "Horizon 2047", as a guide for their bilateral relations in the coming years. This instrument, of varied thematic scope, contemplates joint objectives in matters of defence and sovereignty, sustainable development, space exploration, the fight against terrorism, nuclear energy, climate change, education, health, promotion of tourism and mobility of qualified personnel, among others. It also aims to facilitate trade between the two markets and increase bilateral investments.

Regarding climate change, countries intend to work, among other initiatives, on the creation of the Indo-Pacific Triangular Cooperation (IPTDC) Fund, aimed at facilitating the scaling up of green and low-carbon technologies in Indo-Pacific countries, including nuclear power. This will be accompanied by support for emerging companies in the region and the development of climate-oriented innovations linked to the Sustainable Development Goals and the commitments made in the Climate Change Agreement. In line with this, joint work in satellite issues includes both exploration activities and cooperation in the field of water resources management and marine resources and air quality monitoring.

As for science and technology, the development of advanced digital technology is sought, especially in the areas of supercomputing, artificial intelligence and quantum technologies, among others; taking into account the joint work they have been carrying out since 2019 in the field of digital technology and cybersecurity. Along these lines, an India-France Joint Strategic Committee will be created for joint research, and R&D cooperation will be strengthened. Cooperation spreads even to the academic and university areas, with the promotion of student exchanges and the facilitation of visas for students and researchers; and to the field of health, medicine and the pharmaceutical sector. Special attention will be paid to areas such as digital health, artificial intelligence for health care, medical waste treatment technology, and the exchange and training of specialists, among others.

United Arab Emirates and Costa Rica negotiate an Economic Partnership Agreement

United Arab Emirates and Costa Rica concluded the first round of negotiations of a Comprehensive Economic Partnership Agreement (CEPA) on trade in goods and services and investment. The issues negotiated in this first instance were, in addition to the institutional and legal framework, customs procedures, trade facilitation, and small and medium-sized enterprises.

Costa Rica is a strategic partner of the United Arab Emirates in Central America. Non-oil exports from the UAE to Costa Rica during 2022 amounted to US$ 58.7 million and grew 19% in year-on-year terms. The Arab country's main investments in Costa Rica are in the sectors of information and communication technology, tourism, retail, advertising, real estate, renewable energy, air transport and logistics.

This Agreement is part of the UAE's strategy to double the size of its economy, its non-oil exports and the value of its foreign trade by 2031 and become an attractive and influential economic hub. So far, it has signed other CEPAs with India, Israel and Indonesia and ratified the fourth one with Türkiye in May 2023. The next countries with which it would start negotiations would be Thailand and Malaysia.

AFRICA

East Africa suffers climate impact and Black Sea agreement suspension

East African economies are facing a further increase in food prices and higher prospects for future inflation as a result of the adverse weather conditions affecting the region and which are aggravated by the suspension of the cereal export agreement between Russia and Ukraine (see Europe Section).

The data of the United Nations Food and Agriculture Organization (FAO) contained in the report "Crop Prospects and Food Situation" anticipate that cereal production in East Africa will decrease this year by

4% and that the cereal deficit will have to be covered with imports, mainly wheat, corn, rice and barley, whose global supply chain has been interrupted by the fall of the Black Sea grain export agreement between Russia and Ukraine.

FAO notes that uncertain prospects for shipping links and conflict-induced damage to transport and storage infrastructure continue to constrain Ukraine's grain exports, with total cereal exports forecast to be around 10% below the last five years' average in 2023/2024. At the commodity level, Ukraine's corn and wheat exports are forecast at 23 million and 10 million tonnes, respectively; the lowest levels in the past eight years.

The consequences for the region and the continent of the suspension of the "Black Sea Grains Initiative" adds to this. Despite the fact that Ukrainian grains were mainly exported to European countries, the World Food Program sent 725,000 tonnes of cereal from Ukraine as part of its humanitarian programmes to several countries in the region, including Somalia, Ethiopia, and Kenya. Without the agreement, it is expected that African countries in general and those in this region in particular will have to pay higher prices and get new suppliers since 44% of the wheat consumed in the continent comes from Russia and Ukraine.

In this regard, and within the framework of the Russia-Africa summit held at the end of July in St. Petersburg, Russian President Vladimir Putin expressed that he is willing to send between 25,000 and 50,000 tonnes of cereal free of charge to Burkina Faso, Zimbabwe, Mali, Somalia, the Central African Republic and Eritrea in the coming months, which would mean relief for that set of countries but would not prevent price increases or the need to find new suppliers for the rest of the continent.

Nigeria continues to be Africa's largest economy

Nigeria maintained its position as the largest economy on the African continent in 2022 for the fifth consecutive year, with a nominal GDP of US$ 477.4 billion. The "giant of Africa", as it is often called, accounted for 17.4% of the African economy.

According to data published by the World Bank, the Nigerian economy, which grew 8.3% in 2022, has topped this list since 2018, when it surpassed South Africa. Egypt was second with a GDP of US$ 476.7 billion and South Africa was third with US$ 405.9 billion. The continent's top three economies account for almost half of Africa's GDP (49.5%).

Among the fastest growing economies, Angola topped the list with a GDP going from US$ 65.7 billion in 2021 to US$ 106.7 billion in 2022. According to the African Development Bank, growth was driven by high oil prices, which averaged US$ 100.7 per barrel in 2022. On the other hand, Zimbabwe recorded the largest contraction, with its nominal GDP falling from US$ 28.4 billion to US$ 20.7 billion.

Ugandan dairy sector records losses due to Kenyan blockade

Ugandan dairy companies had to suspend their workers because of the reduction in their production (by approximately 75%) due to the fact that the main destination market for their products, Kenya, was rejecting applications for import permits since March. This situation forced Uganda to look for alternative markets for its dairy exports (a milk export agreement to Algeria had allegedly failed, while the opening of the Senegalese market was expected).

Kenya argues that restrictions on the import of Ugandan dairy products were taken to block the entry of smuggled milk from that country. Meanwhile, the price of milk in Uganda fell from US$ 0.41 per litre in February to US$ 0.11 today, leaving huge losses for its producers. The average cost of producing a litre of milk in Uganda is estimated at US$ 0.18.

According to the Dairy Development Authority, the sector regulator in Uganda, the country's raw milk production has increased from 200 million litres in 2000 to 3.2 billion litres today and the trade war with its main partner is affecting the profitability of the sector.

Humphrey Nzeyi, President of the Uganda Private Sector Foundation, said the Kenyan government's *ad hoc* decision to block Ugandan milk runs counter to the East African Community Market and tilts the playing field in Kenya's favour. On the other hand, Kenya is accused of the fact that the signing of the Economic Partnership Agreement between the East African Community (EAC) and the European Union will allow access of EU milk powder to that country to the detriment of regional products.

CEI GLOBAL REPORT

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Argentina