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CEI GLOBAL REPORT

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World Bank expects slight growth in the global economy in 2024

In June, the World Bank (WB) published the latest edition of its "World Economic Outlook 2024" report, in which it forecasts lean global growth, which might stabilise at 2.6% this year –almost half a percentage point below the average recorded between 2010 and 2019– which would mark some stability for the first time in three years, despite growing geopolitical tensions and high interest rates. In that respect, Indermit Gill, Chief Economist and Senior Vice President of the World Bank, said that "four years after the upheavals caused by the pandemic, conflicts, inflation and monetary tightening, it appears that global economic growth is steadying".

The report predicts that growth in the 2024-2025 period will be below the 2010 average in nearly 60% of the countries, comprising more than 80% of the global population. As inflation still remains above central bank targets for major economies, it is anticipated that they will continue to be cautious in easing monetary policy. Accordingly, it is projected that benchmark policy interest rates will continue to be noticeably higher than those prior to the pandemic.

The WB expects developing economies to grow 4% on average over the 2024-2025 period, a little less than in 2023. However, in advanced countries, it may remain stable at 1.5% during 2024, to later rise to 1.7% rise in 2025, as a result of a descent in interest rates, among other factors.

CO_2 emissions reach record value in 2023

The London-based Energy Institute published its annual report "Statistical Review of World Energy" carried out in conjunction with the consultancies KPMG, Kearney and the Heriot Watt University in Britain. The publication reveals that during 2023, global energy consumption increased 2%, which is a figure 0.6% above the average of the last ten years and more than 5% above the level of 2019. While clean energy (renewable and nuclear) accounted for 18% of the overall total, fossil-source energy share fell 0.4% to reach 81.5%. Throughout 2023, the historical record of CO_2 emissions was recorded, as 40 gigatons of CO_2 were reached for the first time, 2% more than in 2022. According to the report, this is mainly because, when it comes to fossil fuels, a dirtier mixture (more coal and oil than gas) has been used than in previous years.

The report indicates that in 2023 oil consumption rebounded strongly, largely derived from China's relaxation of its zero COVID policies. Likewise, although natural gas demand remained stable, crude oil consumption exceeded 100 million barrels per day for the first time and coal demand broke the 2022 record. Renewable energy consumption, meanwhile, grew six times more than global energy consumption and demand for electric energy increased 25% faster than overall energy demand.

Asia-Pacific accounted for 47% of global energy demand. In that region, the economies of China, India, Indonesia, Japan and South Korea stood out by their consumption levels. In terms of energy security, North America, Europe and the Asia-Pacific region consumed 78% of the global energy. In this sense, Europe and Asia-Pacific are net importers of both oil and gas, and North America has become a net exporter of energy in recent years.

Central banks interest in gold as a value reserve on the rise

The “2024 Central Bank Gold Reserves” survey drawn by the World Gold Council was presented. From it, it emerges that in 2023 central banks added 1,037 tonnes of gold –the second highest annual purchase in history– to their coffers after a record 1,082 tonnes in 2022.

The report indicates that central banks continue to consider gold as an asset with which to increase their future reserves. According to the survey, which was conducted between 19 February and 30 April, 2024 with a total of 70 responses, 29% of the central banks surveyed intend to increase their gold holdings in the next twelve months, the highest figure since this survey began in 2018. At the same time, 81% of respondents said that they believe central bank gold reserves in the world will increase over the next 12 months.

This year’s survey highlights a trend observed in previous editions of an increasingly important role for gold in global reserves. While central banks in emerging markets and developing economies show greater optimism about gold’s future share of global reserves (and more marked pessimism about the share of the US dollar), there is a notable shift in central banks in advanced economies towards the same outlook. These seem to be assigning greater value to the financial role of gold than previous years. In this edition, both groups tend to coincide in characterising gold as an “effective portfolio diversifier”, and a good asset due to its “high liquidity” and its “performance during times of crisis”.

According to the survey, planned purchases are driven primarily by central banks’ desire to reach a strategic level of gold holdings and by concerns regarding the global financial market, including increased risks of crises and a rising inflation. The Bank of England remains the most popular storage location: 55% of respondents keep gold there. However, the holding of reserves in national territory increased with respect to last year, and 41% of respondents cited it as the location of their gold, compared to the 35% of the previous year.

EUROPE

According to the EU, China subsidises its electric car exports

The European Commission provisionally concluded that the value chain of electric vehicles produced in China benefits from state subsidies, which may cause economic damage to producers of such vehicles in the bloc. The Commission determined provisional countervailing duties, which vary according to the producer and range between a minimum of 17.4% and a maximum of 37.6%. The EU has four more months to impose the final measures. Once the definitive duties have been established, they would be in force for five years. These duties add to the 10% import tariff paid by these vehicles.

At this stage, a negotiation has started between the authorities of both countries in order to “explore possible ways to resolve the issues identified in a WTO-compatible manner”, as the EU put it. The Ministry of Commerce of China has stated that it expects both parties “to reach a mutually acceptable solution to avoid the escalation of trade frictions adversely affecting China-EU economic and trade relations”. At the same time, China announced that it had initiated an investigation for dumping against EU pork exports.

The situation of the electric car industry and its value chain has determined the countries’ positions. While France –a country exposed to Chinese competition–lobbies for countervailing duties, Germany –whose manufacturers have a close relationship with Chinese producers and which also has plants in

China– criticised the measure and claimed to apply a duty of no more than 5%. The Chinese Ministry highlighted this internal difference by saying that it “hopes that the EU will listen to the voices within the bloc”.

In turn, manufacturers must decide whether to transfer these additional rights to consumers. At the moment, positions among companies are divided. While Tesla announced an increase in the price of its cars, MG and NIO suggested that they could increase prices at the end of the year depending on the final resolution.

EU presents economic policy recommendations for its members

The European Commission presented the “European Semester Spring Package”, which is an instrument that, for the last five years, has been offering coordination on economic policy matters and that reinforces its role as a guide to the economic policies of the Member States. The presentation includes reports on the economic situation of each country and proposes recommendations on fiscal policy, the execution of recovery and resilience plans, and territorial and social cohesion policies.

Regarding competitiveness, recommendations are provided, urging countries to ensure an enabling business environment, improve educational outcomes, facilitate access to finance, create integrated research and innovation ecosystems, and speed up ecological and digital transition.

As for the fiscal policy, the Commission’s objective is to reduce public debt or keep it at cautious levels. This debt started growing with the COVID-19 pandemic outbreak and the energy problems derived from the war between Russia and Ukraine. According to the text, the debt should not be more than 60% of GDP and the fiscal deficit should not be more than 3% of GDP. Of the 12 countries analysed, there are no tax imbalances in France, Spain and Portugal. Greece and Italy stopped having an excessive imbalance; on the hand, Romania continues with excessive imbalances, Slovenia went on to have imbalances while Germany, Cyprus, Hungary, the Netherlands and Sweden continue with non-excessive imbalances.

In relation to employment policies, the guidelines refer to improving job qualifications, contemplating new technologies, artificial intelligence and working on digital platforms.

The “package” assigns a key role to trade and trade policy in strengthening competitiveness, and it states that in order to avoid repeating supply chain disruptions –such as those taking place with the pandemic and the Russia-Ukraine war– it is necessary to diversify the source of critical inputs and not excessively rely on a small number of trade partners.

SOUTH AND CENTRAL AMERICA

Multiple market openings for Argentina and Brazil

Chile’s Agricultural and Livestock Service (SAG, for its acronym in Spanish) restored live horse imports from Argentina. After a detailed evaluation, the SAG concluded that Argentina’s quarantine registration and monitoring system is reliable and allows for the clear identification and detailed monitoring of animals at all stages of the export process. As a result, the SAG’s Division of Livestock Protection ended the temporary suspension it had imposed in 2023. In addition, it recognised Argentina as free of highly pathogenic avian influenza (HPAI), and lifted restrictions on imports of poultry, poultry products and eggs. This decision was made after a sanitary audit carried out in April by Chilean inspectors.

Likewise, health authorities of Mexico confirmed the restoration of exports of poultry meat and other poultry products from Argentina to that country, which were suspended due to the detection of an outbreak of HPAI that occurred in March 2023.

Besides, in another significant advance, Argentina accomplished its first direct export of refrigerated bovine meat to Hungary, which included cuts such as loin, broad beef, narrow beef, quadril tail, quadril top, and quadril heart.

In turn, Brazil also advanced in the opening of various agricultural markets. The health authority of Nigeria approved the imports of live cattle and buffalo for breeding, as well as Brazilian milk and dairy products; the Philippine government authorised the imports of ornamental fish and the Eurasian Economic Union (EAEU) announced the opening of the market for the exports of bovine semen and embryos from Brazil.

In turn, the United States accepted the International Phytosanitary Certificate (CSIV, for its acronym in Portuguese) for the exports of used cooking oil (UCO) of Brazilian origin; the Kingdom of Lesotho approved the imports of fertile eggs, day-old chicks and live poultry, as a result of negotiations initiated in November of the previous year, and Colombia authorised the imports of coconut seeds from Brazil.

Finally, China approved the sanitary and quarantine requirements for the imports of Brazilian pecans, and the Ministry of Development, Industry, Trade and Services (MDIC, for its acronym in Portuguese) of Brazil signed agreements to promote Brazilian coffee in the Chinese coffee chain Luckin Coffee, with a contract for the purchase of approximately 120,000 tonnes of Brazilian coffee, valued at around USD 500 million.

Rise in maritime traffic in the Panama Canal

In June, the Government of Panama announced that as of 22 July 2024, the Panama Canal will allow the passage of 34 ships per day, two more than those currently authorised. This increase is due to rising rainfall in the area that has improved water levels in Gatún and Alhajuela lakes, which are fundamental to the operation of the canal. However, the figure is still below the 36-38 daily boats that were allowed before the drought (see CEI Global Report, December 2023).

The lack of rain last year originated reductions in water levels in the aforementioned lakes, which caused rows of ships waiting to cross the canal. This situation affected the global supply chain and generated economic losses for the Panama Canal Authority. As a long-term solution, the construction of a new reservoir to increase water storage capacity is under consideration, but this would require legal changes and significant investment.

The Panama Canal is a crucial waterway for world trade, as it handles around 5% of global trade.

Modernisation of the Chile-Mexico Free Trade Agreement

The governments of Mexico and Chile have successfully concluded the negotiations for the modernisation of the Free Trade Agreement (FTA) between both nations, after 25 years of validity. In a joint statement, the authorities of both countries announced the completion of the technical negotiations, which have incorporated two new chapters: Gender and Trade, and Micro, Small and Medium-sized Enterprises (MSMEs).

The agreement had a significant impact on the trade exchange between the two countries. Since the entry into force of the FTA 25 years ago, bilateral trade reached USD 3.4 billion in 2023, with an average annual growth of 3.9%, according to the Ministry of Foreign Affairs of Chile.

The Gender and Trade chapter aims at promoting the inclusion of women in foreign trade. In turn, the MSMEs chapter seeks to integrate these companies into global and regional value chains, as well as bilateral trade.

NORTH AMERICA

Electric vehicles: Canada announces consultation on China's unfair practices

The Canadian government announced that in July 2024 it will launch a 30-day consultation on possible policy responses to protect Canada's auto industry workers and its electric vehicle industry from China's unfair trade practices. The action will also protect the country against a possible increase in Chinese imports resulting from trade diversion from markets that have recently announced trade measures on Chinese electric vehicles, including the United States and the European Union.

The consultation will gather information on the causes of the increase in Chinese exports of electric vehicles, including unfair trade practices and labour and environmental standards. It will also request comments on cybersecurity and data security related to the protection of Canadians' privacy and Canada's national security interests.

Policy recommendations may include a surcharge under section 53 of the Customs Tariff, adjustments to the federal Incentives for Zero-Emission Vehicle Program (iZEV), and investment restrictions.

The Canadian automotive sector manufactures more than 1.5 million vehicles per year. It provides about 550,000 direct and indirect jobs; it contributed about USD 13 billion in 2023 to Canada's GDP, and is one of the country's largest export industries. Currently, the only Chinese electric vehicles imported to Canada are Tesla's, manufactured at the US company's Shanghai plant.

Canada sets new fee on streaming services

The Canadian Radio-television and Telecommunications Commission (CRTC) implemented a new tax on online streaming services, by which the large platforms of these services must contribute 5% of their revenues in Canada to the local broadcasting system. This contribution is part of the recently passed Online Streaming Act (OSA), designed to modernise the regulatory framework for Canadian broadcasting.

The new fee will take effect in September and is expected to generate around 200 million Canadian dollars annually (approximately USD 145 million). Both video and music streaming services earning more than 25 million Canadian dollars per year (USD 18 million) will be required to pay this contribution. Other online services such as audiobooks, podcasts, video games and user-generated content networks are excluded. In turn, the companies subject to the levy will have some flexibility to allocate part of their contributions to directly support Canadian television content.

The funding will be distributed to "areas of immediate need" within the Canadian broadcasting system, such as local news stations, radio and television, French-language content, indigenous content, and content created by and for officially recognised minorities, among others.

Trade organisations representing the industry disagreed with the new measure and are considering asking for retaliation. Both the Motion Picture Association (whose members include Disney and Netflix) and the Digital Media Association (which represents the streaming music companies) viewed the new move as part of a discriminatory regulatory approach against US companies. They also argue that

Canada has not taken due account of the contributions that streaming companies are already making to Canada's content industry.

US moves to limit investment in chips and advanced technology in China

The United States Department of the Treasury published a proposal for a regulation to implement the executive order issued by President Biden in August 2023, which entrusted him with the elaboration of a set of controls on US investments in certain sectors critical to national security in countries of concern (see CEI Global Report, September 2023).

The proposed rule includes notification requirements applicable to a wide range of outbound transactions and prohibitions on investment in sensitive sectors in the People's Republic of China or the Hong Kong and Macao Special Administrative Regions.

Specifically, both US citizens and companies and foreign affiliates under their control are prohibited from making investments, acquisitions, or business expansions in China (or in Chinese-owned or Chinese-controlled companies) towards the design, manufacturing, or packaging of certain advanced integrated circuits and supercomputers; quantum information technologies; and certain artificial intelligence systems.

Violations of the rule may result in civil and criminal penalties. In turn, the Treasury is empowered to order the divestment of investments that do not comply with the regulations.

The proposed rule is open for comment until 4 August, after which the Treasury will review and consider the comments before implementing the final regulation.

The intention of the proposed rule is not only to restrict the flow of capital to China in technologies or products that are critical to the next generation of military, intelligence, surveillance or cyber-enabled capabilities, but also to limit the dissemination of certain intangible benefits that accompany these investments and that contribute to the success of companies (knowledge and know-how, including management experience and access to professional networks).

ASIA AND OCEANIA

China initiates investigations against EU pork imports

On 17 June, China initiated an anti-dumping investigation on pork products destined for human consumption from the European Union. After the investigation, which is expected to last one year, and if dumping is proved to have occurred and caused injury to the domestic industry, provisional anti-dumping measures may be adopted.

The Asian country imported fresh, chilled or frozen meat; edible offal and fat of pork origin worth USD 6.3 billion during 2023. In particular, the two main imported products were frozen edible offal and frozen meat cuts (excluding meat and shoulder). Regarding import origins, the European bloc accounted for more than 50% of the Chinese purchases and within its member countries, the main suppliers were Spain (24%), the Netherlands (9%), Denmark (9%) and France (6%). Other relevant origins were Brazil (17%) and the United States (16%). In turn, Argentina had a share lower than 1%.

It should be noted that on 12 June, said bloc announced the provisional conclusion of its investigation into the implementation of anti-subsidy rights of up to 38.1% to electric vehicles manufactured in China (see CEI Global Report, June 2024). However, a few days later, the Chinese Minister of Commerce, Wang Wentao, reported that, after holding talks with the Commissioner of Trade of the European Union, Valdis Dombrovskis, consultations would begin on the EU investigation to re-evaluate the implementation of these tariffs. In effect, even though the tariffs would be introduced from 4 July through the payment of a guarantee, the parties agreed to extend this deadline with a view to such evaluation.

China eliminates tariff concessions to Taiwan

The People's Republic of China announced the suspension of tariff concessions it had granted to some Taiwanese products under its Economic Cooperation Framework Agreement (ECFA) as of 15 June 2024. This measure has an impact on 134 tariff lines, which include chemicals, lithium batteries, racing bikes, television cameras, certain fabrics and various machine tools, among others.

According to the Chinese authorities, the measure is justified by the prior application of unilateral trade restrictions by Taiwan on imports of more than 2,500 Chinese products, which would be discriminatory and contrary to the ECFA. In turn, Taiwan has denied such accusations and expressed dissatisfaction with this measure, which it considers a political pressure move. It should be noted that this occurred a few days after Lai Ching-te took office as President of Taiwan, a politician who had in the past expressed support for Taiwanese independence.

Türkiye imposes temporary restrictions on wheat imports

The Ministry of Agriculture and Forestry of the Republic of Türkiye announced a ban on wheat imports from 21 June to 15 October 2024. However, these timeframes could be adjusted depending on the market situation. This measure is aimed at "preventing producers from being affected by price drops due to the increase in supply during the harvest period, satisfying the provision of raw material required for our exports, and guaranteeing the stability of the market in favour of producers".

Türkiye has a significant share of the global wheat market. During 2023, its imports ranked fourth globally and accounted for 5.5% of the total (worth USD 3.5 billion), originating mainly from Russia (75%) and Ukraine (22%). Likewise, although it is a net importer, it exported 1.2% of the wheat traded globally (USD 734 million) and it is the largest exporter of flour and one of the most important exporters of pasta of that cereal.

International wheat prices increased in May, particularly due to lower crop yields in North America, Europe, and the Black Sea region. However, they fell again in June. This latest drop would resume the downward trend in the price of this cereal, after its peak in 2022 a few months after the outbreak of the conflict between Russia and Ukraine.

AFRICA

The strategic role of critical minerals in Africa

With vast reserves of cobalt, manganese and graphite and presence of copper, nickel and lithium, among other critical minerals, the African continent has the potential to become a node in the development of green industries (see CEI Global Report, May 2024).

UNCTAD Secretary-General Rebecca Grynspan, recently highlighted Africa's key role in the global energy transition. During a meeting held in Addis Ababa, Ethiopia, on the occasion of the 60th anniversary celebrations of the organisation, Grynspan emphasised the importance of the large deposits of critical minerals present in the African territory and the opportunity this represents to achieve inclusive and sustainable development in the region.

The UNCTAD official also referred to the need to embrace a new paradigm in terms of the use of critical minerals from African soil, in which the domestic value addition, regional integration and the role of local communities are priorities.

Likewise, during the recent Africa-South Korea summit, held in Seoul on 4 and 5 June, the parties announced the launch of a Korea-Africa Critical Minerals Dialogue to foster cooperation between both parties, with a view to ensuring stability in the supply of critical minerals and exploring investment opportunities for Korean companies seeking to invest in Africa. It was the first summit between the Asian country and the African continent, represented by a delegation of officials from 48 countries, including 25 heads of state and authorities from regional organisations, such as the African Development Bank and the African Union.

African countries agree to boost intraregional trade

During the last meeting held by the public-private platform Africa Economic Summit in Abuja, Nigeria, in June, the African countries proposed to increase their intraregional trade within the framework of the commitments reached in the Free Trade Agreement that makes up the African Continental Free Trade Area (AfCFTA). The proposed objective is to raise the levels of intraregional trade from its current 14% to 50% by 2030.

According to the President of the Africa Economic Summit, Sam Ohuabunwa, in the face of a challenging context in terms of infrastructure development, business climate and collaboration between the public and private sectors, said objective also seeks to meet the needs of the African continent in terms of food security.

With headquarters in Accra, Ghana, the African Continental Free Trade Area entered into force on 30 May 2019 and currently represents the largest free trade area in the world in terms of the number of participating countries, since it includes the 55 countries that make up the African Union (although not all have ratified it yet) and the eight Regional Economic Communities (RECs) of the continent, representing a population of over 1.3 billion people.

The main goal of the AfCFTA is to create a single continental market. However, this purpose is part of a challenging scenario for continental integration in Africa, which has one of the lowest levels of intraregional trade in the world and still has a weak institutional framework regarding integration. Namely, it has few trade agreements between individual countries and no agreements in force between the different RECs, which also have uneven levels of integration within.

In this context, the main regional players of the continent, such as the African Union and the regional development bank, have shared in various reports their vision of the African Continental Free Trade Area as a broad project of sustainable development, which aims to go beyond the conformation of the free trade area and is framed within the Agenda 2063 adopted by the members of the African Union in 2015.

African banks predict growth in the region for the coming years

In its annual report, the African Export-Import Bank (AFREXIMBANK) highlights the favourable prospects for the African economy in the next years, with an expected average growth of 3.8% by 2024 and 4% by 2025, despite the challenges that these economies will continue to face, such as the increase in their countries' sovereign debts, inflationary pressures, the rise in international prices of commodities and threats to the continent's food security.

The report also refers to the potential of the agreement that creates the African Continental Free Trade Area, while highlighting that the debate related to its impact on climate change in the region has not yet been settled in the continent.

In turn, in a presentation recently held in London, the President of the African Development Bank stressed the essential role that Africa can play in the coming years within the international economic order. He attributed this perspective to its young workforce, the potential in raw materials linked to new renewable energy developments, as well as its abundant biodiversity resources and the renewed drive towards regional integration spreading in the continent.

These statements are based on the latest Economic Outlook 2024 published by the AfDB (see CEI Global Report, June 2024), which also analyses the challenge that the current international financial structure represents for the sustainable economic development and social transformation on the African continent.

CEI GLOBAL REPORT

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