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CEI GLOBAL REPORT

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The role of industrial policy in global trade imbalances

China's trade surplus and its share of global exports have considerably increased since the pandemic. In contrast, the United States, with the world's largest trade deficit, is currently showing a larger trade imbalance than the one it had before 2020.

Reports considering the Chinese government's industrial and trade policy the source of these imbalances can usually be seen. However, according to an article published on the website of the International Monetary Fund (IMF), this view would be "at best, incomplete", and the true origin of this pattern of behaviour would be internal macroeconomic variables of the aforementioned countries.

According to the Fund officials responsible for the review, the factors that mainly determine the trade balances of both countries are the weakening of domestic demand in China and the persistent drop in savings recorded in the United States as a result of high public and private spending. In turn, although Chinese government subsidies might have a positive effect on China's exports, they would not be decisive for the imbalances in said country or for those in the United States.

To support this argument, the article points out that subsidies in China are directed to sectors such as software, semiconductors, and green technology, but that the trade surplus of that country's industry is not concentrated in these sectors and the shares of each of them have remained virtually unchanged over time.

The review also mentions that even electric vehicle subsidies would not be decisive for the Chinese trade balance. Although these attracted general attention and contributed to the dizzying increase in exports of the sector and to China becoming the leading manufacturer and exporter of electric vehicles worldwide (see CEI Global Report, February 2023), foreign shipments of this type of product only represent 1% of total foreign sales of Chinese goods.

Finally, to uphold that China's industrial policies would have a limited effect on aggregate external balances, the article argues that many developed countries, including the United States, are increasingly applying industrial policies (see CEI Global Report, May 2024), without this representing a significant improvement in their trade balance.

Large banks support nuclear energy use

Between 22 and 29 September, the 16th edition of Climate Week NYC was held. This annual event brings together representatives of governments, companies and institutions from around the world to discuss issues related to the energy transition and the fulfilment of global climate goals.

Regarding the event on this occasion, which had as its main motto the phrase "It's time," one of the topics discussed was the relationship between finance and the energy transition. In this context, 14 of the world's leading financial institutions, such as Abu Dhabi Commercial Bank, BNP Paribas, Citigroup and Goldman Sachs, gave strong support to nuclear energy production, which they recognise as one of the keys to meeting the climate objectives that most countries in the world have set for themselves.

In this sense, the representatives of these banks committed to support the target that more than 20 countries set themselves within the framework of COP28, to triple the world's nuclear energy capacity by 2050, as a central tool to achieve climate neutrality by that date.

The impact of artificial intelligence on the financial sector

In the field of international organisations, it has become ordinary to analyse the effects of artificial intelligence (AI) on the world economy (CEI Global Report, February and May 2024). In this regard, the Director of the IMF's Monetary and Capital Markets Department in Shanghai, Tobias Adrian, referred to the consequences of the use of AI for the financial sector, within the framework of a meeting of industry leaders held in China in September.

The first aspect pointed out by Adrian was that the financial sector is where the impact of AI is already relevant. It is used to improve productivity by automating tasks and speeding up their execution. It also plays an important role in digital trade and allows investors to process large amounts of data to improve their analyses. While the use of data processing tools was common practice in the industry, AI introduced the possibility of including in automated analyses –in addition to numerical data– documents such as bond issuance contracts or the text included in corporate balances.

The IMF official then referred to the opportunities and risks that AI poses for global financial stability. Some of the benefits include improved market transparency and reduced volatility at critical periods. On the other hand, the risks comprise, apart from the greater possibility of cyber-attacks or market manipulation, the chance that in the event of a crisis agents guide their behaviour by algorithms that lead everyone to react in the same way at the same time, likely multiplying volatility. It also mentions the likelihood for AI to promote the rise of the prominence of less regulated institutions in the sector and appeals to improving regulations so that this does not become a risk to global financial stability.

EUROPE

EU postpones entry into force of European deforestation law

The European Commission (EC) decided to propose the postponement of the entry into force of the Regulation on deforestation for 12 months (see CEI Global Report, June 2024), so that most of the provisions of the regulation will apply as of 30 December 2025, while for SMEs and micro enterprises they will begin to rule on 30 June 2026. Instead, the setting of a high or low risk level to countries –the so-called "benchmarking"– will be performed no later than 30 June 2025. This proposal will be forwarded to the European Parliament and the European Council for approval.

The postponement request came from EU members and other countries, operators and traders. The most controversial issue was the implementation of the due diligence mechanism, which implies that European operators must submit documentation demonstrating that the product being imported or exported is "free of deforestation". As stated by the EC, the general complaint refers to the need to have more time and more clarification for this system to apply to all products and all countries.

To support the implementation of the regulation, guidance documentation was prepared to help interpret the most debatable issues, such as due diligence, agricultural use, placing on the market and third-party certification. In turn, a strategic framework for cooperation with other countries in order to reduce deforestation, which includes aspects such as financing, was presented.

In turn, a website providing more information and more transparency was developed as a response to criticism received by the EU that the regulations and their application were unclear.

The WTO, especially the Committee on Agriculture and the Committee on Trade and Environment, was the sphere where complaints against the Regulation where reiterated. In all cases, the European bloc's response was that there was no change or postponement. Criticism also came from countries of the bloc, namely Germany, Italy, Poland and France.

EU competitiveness report presented

The European Commission requested the preparation of the report “The future of European competitiveness”, which was coordinated by Mario Draghi, former Prime Minister of Italy and former President of the European Central Bank.

The document presents a negative diagnosis for the European bloc: trade is growing at a slower pace, European companies face greater competition to access Asian markets, dependence on other countries for security and critical inputs can become vulnerable points, and Russia is no longer a source of cheap energy. In addition, the working population is declining, so immigrant labour is needed. According to the report, the European model of a thriving, equal society, with freedom, peace and democracy requires changes to improve competitiveness and growth.

Draghi analyses three challenges for sustainable growth. The first is to bridge the innovation and skills development divide that separates the EU from the United States and China, especially in the most advanced technologies. The problem is not research per se, but that it is translated into new products and the creation of new companies that choose Europe as a place to grow. To this end, he proposes better coordination of research and development programmes, a regulatory framework that does not restrict innovation, favours the establishment of companies, provides financing for disruptive innovations and start-ups, and promotes job training and academic excellence.

The second challenge is to match the decarbonisation of the economy with improved competitiveness. Europe leads clean technologies and the development of low-carbon fuels, but the Chinese industry has cost advantages, based on economies of scale and huge subsidies and supports from the State. The bloc has to solve this trade-off between greater efficiency derived from the use of Chinese products to accelerate decarbonisation and the threat to European clean energy-based industrial sectors.

The third challenge is to reduce European reliance on critical mineral sourcing, especially from China. According to the report, in order to gain autonomy, the European bloc will have to sign preferential trade agreements and make direct investments in countries having natural resources, in order to accumulate reserves and forge industrial partnerships that will allow it to shield supply chains with a set of key technologies.

According to the document, this policy requires investments totalling 5 percentage points of GDP in 2023, which equates to € 800 billion, which is a level last seen in the 1970s. This investment requires participation from both the public and private sectors. In turn, it proposes that for its achievement, EU governance must be strengthened by removing obstacles, harmonising standards, coordinating policies and improving the evaluation of regulations before and after their adoption.

SOUTH AND CENTRAL AMERICA

Colombia imposes countervailing duties on US milk powder

The Colombian government decided to impose provisional countervailing duties on the importation of milk powder from the United States. The Resolution establishes that for a period of four months, a 4.86% ad valorem tax will be applied, which will be settled on the FOB import price of the product.

The decision is based on the fact that, in a preliminary stage the authority found evidence regarding the following aspects: subsidies for milk production, increase in imports and prices, and adverse effects on the domestic industry.

Given that 62.2% of the milk powder imported by Colombia in 2023 came from the United States, Colombian authorities estimated that the subsidy granted by that country has caused damage to its producers. In 2023, the total amount of these subsidies was USD 1.2 billion, according to data presented by the Colombian government.

As the Ministry of Commerce, Industry and Tourism informed, the investigation carried out by its officials guaranteed the participation of the US government, the interested exporting and importing companies and the local dairy industry. It was also carried out in accordance with local regulations and the provisions of the World Trade Organization (WTO), and took into account the mechanisms contained in the Trade Promotion Agreement between Colombia and the United States.

Guatemala is excluded from the Canadian Generalized System of Preferences

Canada announced that it had decided to remove Guatemala from the Generalized System of Preferences (GSP), as of 1 January 2025. This measure responds to the fact that the trade benefits offered by Canada's GSP are extinguished once countries reach the upper middle-income threshold for two consecutive years, according to the World Bank's criteria, or when their exchanges with the rest of the world account for more than one per cent of world trade.

The GSP benefits developing nations and covers up to 80% of tariff headings, excluding clothing and textiles. Guatemala has been classified by the World Bank as an upper-middle-income economy: in 2022, per capita income in Guatemala was USD 5,340, and in 2023 it reached USD 5,580, so in both cases it exceeded the limit of USD 4,516 set by the system. This means that, as of January 2025, some of its products will no longer have reduced tariffs or preferential tax treatment.

Faced with this situation, the Guatemalan Ministries of Economy and Foreign Affairs and their Canadian counterparts started conversations to delve into the possibility of extending GSP benefits for certain products from Guatemala. The likelihood of resuming Free Trade Agreement (FTA) negotiations between the two countries, which began in 2001, will also be discussed.

The Guatemalan Association of Exporters warned that this decision could jeopardise the sales of products such as vegetables, ornamental plants, food, glassware and beverages, among others.

Brazil amends tariffs to favour strategic sectors

The Brazilian Foreign Trade Chamber (CAMEX, for its name in Portuguese), a coordinating body of the Brazilian government, decided to reduce tariffs on 25 products that are not produced locally or that pose a risk of shortages, among other reasons. This measure affects products used in the healthcare and food sectors. A total of 588 applications to import tariff-free were also approved, mainly auto parts that are not produced in Brazil, associated with investment projects within the electromobility support programme Mover.

In the same way, the rise in the tariff rate quota for the imports of wheat was approved. This will be in force until 31 December to avoid a possible shortage given that around 95% of the import quota of said cereal has already been consumed in the current year.

As for the chemical sector, the temporary increase in the import tariff of products grouped in 29 lines of the Common Nomenclature of Mercosur (NCM, for its name in Spanish) was approved. The criterion adopted considered an increase in imports of more than 30% compared to the average of recent years.

The 29 products had tariffs ranging from 7.2% to 12.6% and which will go from 12.6% to 20.0% for a period of 12 months.

For every assessment, the technical studies and economic impact estimates were taken into account Transitory lists, such as those in the chemical sector, will begin to receive monthly monitoring and may be re-evaluated at any time, CAMEX informed.

NORTH AMERICA

US: first port strike in 50 years

Workers at the US East Coast and Gulf Coast ports went on strike to demand improvements in their labour agreement. The International Longshoremen's Association (ILA), which represents more than 85,000 workers, demanded a 77% wage increase over six years, arguing that workers deserve a share of the benefits foreign-owned container carriers made during the pandemic. In addition, the ILA opposes further automation and calls for protection against the introduction of certain technologies in port terminals.

While negotiations began in May, the union was unable to reach an agreement with terminal operators and ocean carriers, represented by the US Maritime Alliance, Ltd (USMX), prior to the strike. Until August, the employers' offer included a wage increase close to 32%, similar to the one obtained by the workers on the West Coast. At the end of September the offer increased, but it was not enough to unlock the conflict.

The 14 major ports on the East and Gulf Coasts –which handle about half of the goods transported by containers in the US– were affected by the strike that stretched from New York to Houston and lasted three days. After that period, the parties reached an agreement and the strike was lifted. The parties agreed on a salary increase of 61.5% and the extension of the multi-year contract until 15 January 2025, when they will meet again to negotiate.

As a result of the protest, at least 54 container vessels remained anchored in roadstead awaiting the resolution of the conflict. Projected economic losses, based on logistical disruptions in the recent past, indicate that each week without activity involves between USD 540 million and USD 5 billion of losses per day and at least an additional 3 weeks for the resuming of normal activity.

US modifies *de minimis* exemptions

The US government announced its plans to stop granting *de minimis* exemptions on imports of items subject to the tariffs of Sections 201 or 301 of the Trade Act of 1974, or Section 232 of the Trade Expansion Act of 1962. This seeks to address abuse of the *de minimis* exemption and strengthen efforts to detect and block shipments that violate US laws.

In recent years, the number of shipments entering the United States through the *de minimis* exemption has increased significantly. According to a study by NBER, in 2023 there were 1 billion shipments for USD 54.5 billion, compared to 411 million shipments in 2018, for USD 29.2 billion. The *de minimis* imports currently account for 7.2% of US consumer goods imports and 19.2% of e-commerce sales.

Under current customs practices, import shipments worth USD 800 or less are exempt from customs duties and less information is required than for other imports.

Most of the shipments that enter the United States under this exemption come from different e-commerce platforms founded in China, including Shein and Temu, which would be responsible for approximately half of all the *de minimis* shipments to the US from China. In addition to the tariff exemption and faster customs processing, these platforms ship directly from manufacturers to customers, which allows them to save on the cost of storing products in the country of destination.

According to the Biden Administration, the growing volume of *de minimis* shipments makes it extremely difficult to detect and block illegal or unsafe shipments, as well as those seeking to circumvent US trade enforcement measures.

Therefore, it will publish a Notice of Proposed Rulemaking that will exclude from the *de minimis* exemption all shipments containing products covered by the additional tariffs imposed to counter unfair trade practices, for threats to domestic industries or for reasons of national security. It will also propose to strengthen the information collection requirements and demand the presentation of electronic Certificates of Compliance at the time of entry into the country of all the *de minimis* shipments.

Finally, the White House has warned that comprehensive legislative reforms are needed to fully address the issue, so it called on Congress to pass legislation this year to comprehensively reform the *de minimis* exemption.

US seeks to protect "connected vehicles" from foreign threats

The US Department of Commerce's Bureau of Industry and Security (BIS) issued a Notice of Proposed Rulemaking that seeks to prohibit the sale or import of connected vehicles that use certain pieces of hardware and software from China (including Hong Kong (SAR, China)) or Russia, as well as the sale or import of these components separately. According to government authorities, its goal is to protect the national security and the safety and privacy of US citizens.

The proposal focuses on hardware and software integrated into the vehicle connectivity system (VCS) and software integrated into the automated driving systems (ADSs). These systems are the ones that enable the external connectivity of cars (telematics control units and Bluetooth, cellular, satellite and Wi-Fi modules) and the autonomous driving capabilities in connected vehicles. Malicious entry into these systems could allow access to and collection of sensitive data, as well as remote manipulation of cars on US routes.

It also seeks to prevent manufacturers with a nexus with China or Russia from selling connected vehicles that incorporate VCS hardware or software or ADSs software in the United States, even if the vehicle were American-made.

The rule would apply to all road vehicles (cars, lorries and buses), but not to those that do not usually circulate on public roads, such as agricultural or mining vehicles.

Software bans may go into effect for 2027 model year vehicles, while, in the case of hardware, it might be effective for 2030 model year cars. The proposal is open for public comment until the end of October.

This measure adds to the recently implemented increase in import tariffs for Chinese electric vehicles (see CEI Global Report, June 2024).

A spokesperson for the Ministry of Foreign Affairs of the People's Republic of China criticised the US national security justification and stressed that China opposes the generalisation by the US of the concept of national security and discriminatory practices against Chinese companies and products.

People's Bank of China announces stimulus to the economy

In order to stimulate the economy, the People's Bank of China announced various monetary policy measures. Among them, it established a reduction in the deposit reserve ratio (to the lowest level since 2018), which would enable injecting long-term liquidity to the financial market worth more than USD 140 billion. Additionally, it reduced benchmark market interest rates by 0.2 percentage points (from 1.7% to 1.5%) and the rate on existing mortgage loans (and will guide commercial banks to do the same). In line with this, it contracted the minimum down payment ratio for second home mortgage loans from the current 25% to 15% and increased funds for home refinancing. The Chinese authorities estimate that 50 million households might benefit from a reduction in interest payments amounting to USD 21 billion, which could promote the expansion of consumption and investment.

On the other hand, they also provided tools to support the development of the stock market, through a swap programme of USD 70 billion, for securities, funds and insurance companies to obtain liquidity using their assets (including bonds and shares) as collateral. The funds obtained should then be used to invest in the stock market. In addition, it will create a special line for banks to grant loans to listed companies and their main shareholders for the repurchase of shares and the increase of their participation.

These measures will probably boost an economy affected by a crisis in the real estate sector, high local government indebtedness, weak consumption and lack of investor confidence, and thereby achieve the growth target of 5% by 2024. In that sense, the announcements were well received by the stock markets that reacted upwards. The Shanghai and Hong Kong (SAR, China) Stock Connect grew more than 4% and the yield on Chinese 10-year bonds rose 3 basis points to 2.06%.

UAE signs Economic Partnership Agreements with Australia and New Zealand

The United Arab Emirates (UAE) concluded the negotiations of two Comprehensive Economic Partnership Agreements (CEPA) with New Zealand and Australia and has completed six negotiations so far this year (if adding those with the Philippines, Kenya, Chile and Ukraine). For both ocean countries, the UAE is their main trading partner in the Middle East and a gateway to a market of 58 million consumers.

In the case of New Zealand, the agreement will eliminate duties on 98.5% of New Zealand's exports of goods to the Emirates once it enters into force, a percentage that will rise to 99% within 3 years. These exports totalled USD 532 million in 2023 (1.3% of their total external sales), of which about 65% corresponded to dairy products. The agreement also includes commitments in terms of services, in which professional, educational, audio-visual, video games, engineering and environmental services are the most benefited. New Zealand exports of services to the UAE were approximately USD 30 million with travel services standing out.

Other topics included in the agreement are: intellectual property, sustainable development, labour, sustainable agriculture, climate and indigenous trade. Additionally, an investment facilitation chapter and a Bilateral Investment Treaty were negotiated.

In turn, the deal with Australia, which is expected to take effect later this year, cuts tariffs on nearly 99% of Australian product imports. Australian exports of goods amounted to USD 3.1 billion in 2023 and the government expects them to increase by approximately USD 460 million a year as a result of the

CEPA. The main products shipped were: aluminium oxide, turnip or rapeseed, crude petroleum oils and lentils. Likewise, this agreement provides greater security to service providers and facilitates the temporary work of Australian professionals in the Emirates.

India and Pakistan reduce restrictions on their rice exports

In September, both India and Pakistan removed restrictions on rice exports, introduced during 2023 to guarantee domestic supply, in the face of rising international rice prices (see CEI Global Report, October 2023). In the case of India, it eliminated the minimum export price of USD 1,200 per tonne which had been imposed on basmati rice, as well as the ban on exports of non-basmati rice, and it reduced its export duties on parboiled rice from 20% to 10%. Pakistan, in turn, withdrew its minimum prices, both on the basmati type (USD 1,300 per tonne) and on the rest of the rice varieties (USD 550 per tonne). As a result of these measures, world rice prices are reinforcing their downward trend, benefitting many countries –especially in Asia and Africa– dependent on rice imports. It should be noted that India and Pakistan were the world's first and fourth largest exporters of rice during 2023 respectively (with approximate shares of 30% and 8%) and that they are the only basmati rice producing countries in the world.

AFRICA

Summit of Forum on China-Africa Cooperation held in Beijing

On 4 and 6 September, the 2024 Summit of the Forum on China-Africa Cooperation (FOCAC) was held in Beijing, preceded by the 9th China-Africa Ministerial Conference which had taken place in the same city on 3 September.

The meeting reinforced more than 70 years of cooperation between China and Africa (channelled since 2000 through FOCAC), which led the Asian country to become the main trading partner of the African continent over the last fifteen years.

At the opening ceremony, Chinese President Xi Jinping proposed to bring the bilateral relationship with the African countries that make up FOCAC to the level of a strategic alliance. At the same time, he invited the African continent to advance cooperatively on the path of "modernisation" and announced the decision to unilaterally reduce all tariff lines to zero for the entry of products from Least Developed Countries (LDCs) with which China maintains diplomatic relations, including 33 African countries.

Likewise, China proposed to carry out strategic partnerships in 10 sectors of common interest, which comprise trade, industrial development, connectivity, health, agriculture and green economy, among others. To this end, the government of Beijing announced financial assistance for Africa for 360 billion Yuan for the next three years (equivalent to USD 50 billion), a figure that will be distributed between credit lines, direct financial aid in various forms and investments by Chinese companies in African countries.

In turn, the Forum on China-Africa Cooperation (FOCAC 2025-2027) contains 11 chapters covering a broad agenda of international economic and political issues. Its comprehensiveness, together with the announcements of tariff reductions and financial support, has aroused deep interest among international journalists and analysts regarding China and Africa relationship strategy.

Geopolitical issues such as international disputes for political and trade leadership between the United States and China, as well as China's strategic interest in natural resources, critical minerals and land available in Africa, the growing flow of Chinese investments to the African continent, especially in the manufacturing and infrastructure sectors, or the Chinese interest in spreading the use of its currency globally have been the main aspects considered by the international press and academic community after the FOCAC Summit .

A factor repeatedly analysed in recent days has also been the issue of the debt contracted by African countries and the risk of Africa's growing dependence on China in this regard.

The impact of rising temperatures on the African economy

In its report on the State of the Climate in Africa 2023, presented by the World Meteorological Organization (WMO) in Abidjan, Côte d'Ivoire, at the beginning of September this year, the organisation warned of the risks to health and food security caused by the temperature increase on the African continent over the past year.

According to the report, African countries lose an average of between 2% and 5% of their GDP in responding to the climate extremes affecting them, ranging from extreme heat waves and droughts to heavy floods and cyclones, among other weather phenomena. The report also estimates that for sub-Saharan Africa, the cost of adaptation will range from USD 30 billion to USD 50 billion each year over the next decade, or between 2% and 3% of the region's GDP.

Such investment should be centrally aimed at the development of hydrometeorological infrastructure and early warning systems, although the report also highlights the need to promote investments in regarding energy transition and the green economy on the African continent.

According to the WMO Secretary-General, the Argentine Celeste Saulo, this outlook of extreme weather conditions has continued into 2024. Thus, some areas of southern Africa have been affected by what was described as the worst mid-season drought in the last 100 years in the region, which led to the declaration of emergency in Botswana, Lesotho, Namibia, Malawi, Zambia and Zimbabwe in August, which affected health and food security due to its impact on agriculture and livestock, among other factors.

The WMO is the United Nations agency that deals with the state and behaviour of the Earth's atmosphere, its interaction with the land and oceans, the weather and climate, and the effects on the waters and water cycles. Its mandate covers the areas of meteorology (weather and climate), operational hydrology and related geophysical sciences. .

Egypt: effects of falling vessel circulation through Suez Canal

In a graduation ceremony at the Egyptian Police Academy, President Abdel Fattah Al-Sisi announced that Egypt lost between 50% and 60% of its revenue from the Suez Canal in the last eight months, yielding a figure of around USD 6 billion. He expressed that this was due to the growing armed conflicts in the region, because of which the main shipping companies divert river traffic away from the traditional Red Sea route.

It should be noted that the revenues derived from the Suez Canal are one of Egypt's main sources of foreign currency. The protracted conflict situation in the Red Sea area (see CEI, Global Report February 2024) thus threatens to cause significant damage to the Egyptian economy, which is trying to recover from a severe economic and energy crisis that forced the government to a deep cabinet reshuffle in July.

CEI GLOBAL REPORT

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