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CEI Centre for International Economy

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WORLD

Lost decade for global economy?

The United Nations (UN) and the World Bank (WB) estimated that the world economy will grow 2.4% in 2024, a valuethat is lower than that recorded in 2023 (2.6% - 2.7%), and half the average of the decade prior to the COVID-19 pandemic. The IMF, in turn, is less pessimistic and projects the same growth for this year as for 2023 (3.1%).

According to the World Economic Situation and Prospects 2024 report published by the UN Department of Economic and Social Affairs, the projected slowdown is based, among other reasons, on the high level of indebtedness, the risks of geopolitical crises and climate impacts that are increasingly threatening global economic performance.

For Latin America and the Caribbean, the UN estimates project a 1.6% growth, which would also represent a deceleration scenario, if taking into account that in 2023 the region had presumably grown 2.2%. Meanwhile, the IMF –in its recently published World Economic Outlook Update– estimates a similar deceleration, with 1.9% for this year, contrasting with the 2.5% that, according to the body, had presumably recorded in 2023. For Argentina, the UN's outlook is also negative since it states that during 2024 the economic crisis would continue with high inflation values; while the IMF changed its last October forecast in which it projected a 2.8% positive variation for Argentina in 2024 due to a fall of the GDP in the same order of magnitude (-2.8%).

In turn, the December edition of the WB's Global Economic Prospects states that a slowdown in the economy this year could mean that, by the end of 2024, the world will have experienced the five years with the lowest global GDP growth in the last three decades.

In this sense, Indermit Gill, Chief Economist and Senior Vice President of the World Bank Group expressed the need to change the negative dynamics of the global economy: "Without a major course correction, the 2020s will go down in history as a decade of wasted opportunities", he stated.

Global trade disruptions increase sea freight costs

The Red Sea tensions continue (see CEI Global Report, January 2024). After more than 30 assaults on commercial ships, the US and UK –supported by Australia, Bahrain, Canada and the Netherlands– attacked Houthi rebel positions in Yemen. US officials also called on their Chinese counterparts to intercede with the Iranian government to end attacks in the area.

The extension of the conflict is already having an impact on international trade. In this regard, UNCTAD, the UN's Conference on Trade and Development, published a press report estimating that trade through the Suez Canal has fallen by 42% in the last two months.

In the paper, UNCTAD expresses its concern about the state of affairs in the maritime transport of goods, as the situation at the Red Sea adds to the problems in the Panama Canal (see CEI Global Report, December 2023) and to the political tensions affecting trade in the Black Sea (see CEI Global Report August 2023). The combination of these disruptions can lead to prolonged interruptions in container shipping, a situation that, as the COVID-19 pandemic proved, poses a threat to global supply chains and higher costs for businesses and consumers.

According to the agency, the combination of these factors caused shipping prices to rise and insurance premiums to skyrocket. Specifically, the last week of December saw the largest weekly average freight rate increase in history. Container freight rates from Shanghai increased 122% since the beginning of December. Between Shanghai and Europe, costs tripled, while those from China to the United States rose 162% (even though they do not pass through the Suez Canal).

IMF: artificial intelligence could increase global inequality

The consequences that the use of artificial intelligence (AI) will have on the international labour market are a major topic of discussion in international organisations. Particularly, the IMF has published extensively on this issue (see CEI Global Report, July 2023). In January 2024, IMF officials published the report *"Gen-AI: Artificial Intelligence and the Future of Work"*, and its Managing Director, Kristalina Georgieva, wrote an article in which she addresses the heterogeneity of the effects that AI will have on the different regions of the planet.

Georgieva acknowledges that the revolution brought about by the rise of AI can have positive results on productivity, growth and incomes globally, but she warns that it could eliminate jobs and increase inequality around the world. In that sense, one of the aspects that distinguishes AI from past automation in the labour market is that in the past, workers performing routine tasks were replaced, while the current irruption of AI presupposes the potential elimination of high-skilled jobs.

In that sense, the IMF argues that AI implies higher risks for developed countries, where it can affect up to 60% of the jobs, while in developing countries this value would drop to 40%. However, while the risks are greater for the former, so are the potential benefits. As it is mentioned in the article, the difference lies in the fact that developing countries often lack the digital infrastructure and skilled workforce needed to exploit the advantages offered by AI.

In addition to a likely rising inequality between countries, there is the potential for a growing divergence in income and wealth within countries. Even in developing nations, workers who are able to take advantage of AI will be able to obtain higher salaries, further differentiating them from the rest. The IMF Managing Director argues that, in most cases, AI is likely to worsen overall inequality.

EUROPE

Wave of protests from European farmers

The growing discontent among European farmers has sparked a series of protests across the continent, taking different forms and, in some cases, including roadblocks and the siege of cities.

Producers claim to have been negatively affected by adverse weather events –droughts and fires– and by rising costs, particularly energy, fertilisers and agrochemicals, as a result of the war between Russia and Ukraine. Likewise, they believe that the imports of lower-priced primary goods should be limited, and are therefore calling for a halt to negotiations on free trade agreements (e.g. EU-Mercosur) and that unilateral preferences (e.g. for Ukrainian products) should be limited as well. In particular, in Germany, there are protests against the reduction of diesel subsidies; in France, Belgium and Poland, against environmental regulations; and in France, Belgium and Lithuania, against low incomes.

In more general terms, farmers are protesting against the changes that have been made to the Common Agricultural Policy (CAP), which began in 1962 with the application of subsidies and import barriers to maintain prices, but which gradually reduced the amount of funds allocated to the sector and increased the conditions for receiving subsidies, with requirements for competitiveness and care for the environment.

These mobilisations and pressures from leaders of countries with a strong presence of agricultural producers led the European Commission to recognise some of the problems faced by the sector, such as competition from third countries, the excessive internal regulation, climate change and biodiversity loss standards, and the reduction of the population in rural areas.

Within this framework, the EU decided to apply a safeguard on imports from Ukraine of sensitive products such as poultry meat, eggs and sugar, which will again be subject to tariffs if purchases exceed the average level of 2022 and 2023. Likewise, regarding domestic regulations, it also started work on a proposal to ease the administrative burden. On environmental measures, it relaxed a requirement for receiving subsidies: instead of requiring producers to leave 4% of their arable land uncultivated, they can now choose to plant 7% of their surfaces with nitrogen fixing crops, such as lentils and beans. With regard to the EU-Mercosur agreement, the Commission said that negotiations are continuing, a position supported by Germany and rejected by France and Ireland.

EU withdraws WTO complaint against China

The EU has asked the WTO Dispute Settlement Body (DSB) to suspend the proceedings of the Panel following the bloc's complaint against China over its trade restrictions against Lithuania.

The dispute between China and Lithuania began in late 2021, when the Taiwanese government changed the name of its office in Vilnius to "Taiwan Representation" (instead of the usual Taipei), as part of a rapprochement between both governments.

China considered this situation a grievance and, in retaliation, imposed various administrative measures hindering trade with Lithuania. In addition to products of Lithuanian origin, the barriers also apply to EU products containing Lithuanian parts and to the granting of visas.

In response, the EU initiated the case in the DSB at the end of January 2022. In January 2023, the Panel was established and in January 2024, the EU decided to suspend the case, as a complaining party, under the rules of the dispute settlement system. The reasons were not communicated by the European Commission but according to press reports, it was due to the need to collect more evidence.

In parallel to the development of this case, the creation of the Anti-Coercion Instrument, in force since December 2023, which enables the bloc to respond to economic coercion measures applied against a member state, was discussed within the EU. The measures include restrictions on access to the EU for goods, services, direct investment and financial markets, among others.

SOUTH AND CENTRAL AMERICA

Launch of the "New Industry Brazil" Plan

Brazil's National Council for Industrial Development (CNDI for its acronym in Portuguese) delivered to President Luiz Inácio Lula da Silva the document "Nova Indústria Brasil" (NIB), which introduces the main actions that are part of the industrialisation policy to be implemented by the federal government until 2033. The NIB seeks to stimulate productive and technological development, increase the competitiveness of the Brazilian industry, direct investment and promote better employment. To this end, the government will allocate 300 billion *reais* (US$ 60 billion) to finance the industrial policy until

2026. The document is organised into six missions in which the CNDI combines priorities, actions and objectives

Some of the objectives of the NIB are: to increase the share of national production from 42% to 70% of national needs for medicines, vaccines, equipment and medical devices; to rise by 25 percentage points the share of Brazilian production in the sustainable public transport industry chain; to make 90% of the total of Brazilian industrial companies (23.5% at present) become digital and triple the share of national production in the new technological segments; to promote a 30% reduction in carbon emissions from the industry; and to achieve autonomy in the production of 50% of the critical technologies to strengthen sovereignty (the priority will be given to actions aimed at the development of nuclear energy, communication and detection systems, propulsion systems and autonomous and remotely controlled vehicles).

The NIB will have goals for each of the six missions that guide efforts towards 2033. These targets are suggested in the Action Plan 2024-2026 and will be submitted to the CNDI for evaluation in the next 90 days. To achieve each goal, there are priority areas for investments and a set of actions and proposals involving efforts by all CNDI member ministries and the Brazilian productive sector.

Argentina succeeds in opening up the market for almonds from Brazil

As a result of efforts by the Argentinean authorities, the Brazilian Ministry of Agriculture and Livestock (Mapa, for its acronym in Portuguese) defined the phytosanitary requirements for the imports of almonds from our country, which implies the opening of the Brazilian market for Argentinean exporters of this product. The regulation was published in the Official Journal of the Union in January and came into force on 1 February 2024.

The new guidelines demand that the shelled and unshelled almond fruits be accompanied by a Phytosanitary Certificate issued by the National Organisation for Phytosanitary Protection (ONPF, for its acronym in Spanish) of Argentina. The document must indicate that the product has been inspected and is free from *Amylois transitella*, *Ampoyelois ceratoniae* and *Cydia pomonella*.

Consignments shall be subject to inspection at the point of entry, as well as to the collection of samples for phytosanitary analysis in official or Mapa accredited laboratories. The costs of shipment of the inspected material shall be borne by the interested party.

Between January and November 2023, Brazil imported 4,255 tonnes of almonds worth US$ 18 million, from the United States (85%) and Chile (13%). Argentina, in turn, exported very small volumes of almonds in 2023. This opening represents an opportunity for the producing provinces of our country (Mendoza, San Juan, Córdoba, La Rioja, Salta, Río Negro and Neuquén).

Chile announces first digital submarine connection South America-Asia-Oceania

The Chilean government announced the signing of an agreement with the US company Google to deploy a submarine fibre optic cable that will link Valparaiso in Chile with Sydney in Australia. The cable, called “Humboldt”, will be 14,800 kilometres long and will be the first to link South America with Asia and Oceania.

One of the advantages of the project is that it will provide safer, faster and more stable internet connections between countries in the southern hemisphere. Construction works of the submarine cable will be started in 2025, it will have an initial budget of US$ 55 million and it is expected to be completed in the last quarter of 2026.

NORTH AMERICA

Canada and the United Kingdom suspend trade negotiations

After eight rounds of negotiations, the governments of Canada and the United Kingdom decided to suspend the talks they had been holding since 2022 to reach a bilateral trade agreement, due to the lack of progress on market access for certain agricultural products.

One of the main points of friction was the British refusal to relax the import ban on hormone-treated beef, which prevents Canadian farmers from selling to British consumers.

It is worth remembering that after the Brexit, both countries reached a provisional Trade Continuity Agreement that maintains preferential access between them –equivalent to the one they had under the Canada-EU Comprehensive Economic and Trade Agreement (CETA)–, until negotiators reach a longer-term bilateral trade agreement.

However, trade in some specific products may be affected by the loss of trade preferences as a result of the interruption of the negotiations. Such is the case of British cheese sales to Canada, which will have to start paying tariffs since, according to a letter attached to the Trade Continuity Agreement, cheese originating in the United Kingdom would continue to be eligible for import into Canada within the tariff quota allocated to the EU only until December 2023.

The British automotive industry could also be damaged by the deadlock in the talks, given that after 1 April, EU parts for UK-made products such as cars will no longer count as domestic for the purposes of trade with Canada, which could lead to additional import duties unless the rules of origin clause of the Interim Agreement is extended. As a result, automobiles –UK's main export to Canada– could face higher import tariffs.

US halts authorisation of LNG export permits

The US government announced a temporary pause in pending decisions regarding Liquefied Natural Gas (LNG) exports until the Department of Energy (USDOE) can update the analyses on which those authorisations are based. During this period, the administration will evaluate the impact of LNG exports on energy costs, US energy security and climate change.

The United States is the world's leading exporter of LNG. According to the government, the announcement will not affect the country's ability to continue supplying LNG to its allies in the short term. However, thirteen projects, with a capacity of 12 billion cubic feet, will be affected by the measure as they are currently awaiting authorisation from the DOE.

Even though the measure was welcomed by environmental groups, it also raised concerns among both producer associations and major LNG-buying countries in Europe (which absorbs 60% of US LNG exports and is seeking to reduce its dependence on Russian gas exports) and Asia (which is seeking to replace coal in power generation).

In this sense, in Japan, the world's second largest buyer of LNG, it is feared that the suspension may delay the start-up of new LNG facilities in the United States and affect contracts signed by Japanese companies with projects that are awaiting approval, according to statements by its Minister of Economy, Trade and Industry, Ken Saito.

US GDP grows more than expected

In the final quarter of 2023, US real GDP increased 0.8% from the previous quarter, equivalent to an annual rate of 3.3%, according to the advance estimate from the Bureau of Economic Analysis (BEA). The year-on-year rate of change stood at 3.1%. However, the pace of growth decelerated compared to the third quarter, when an annualised 4.9% increase had been recorded.

Thus, growth for the year as a whole stood at 2.5%, representing an acceleration compared to what was seen in 2022 (1.9%) and exceeding experts' forecasts. The strong performance of the US economy was mainly due to robust consumption and public spending. Non-residential fixed investment and exports also increased.

The increase in private consumption was evidenced in both higher spending on services (led by health care spending) and goods (led by leisure-related goods and motor vehicles).

In turn, the general price level recorded an annual increase of 3.4% in December 2023 driven mainly by housing prices, according to the Bureau of Labor Statistics. This value was slightly higher than the 3.1% annual increase observed in November.

In the face of this scenario of solid economic activity, with falling unemployment and job creation on the rise, but with inflation levels still higher than expected, the Federal Reserve decided to preserve the interest rate range between 5.25% and 5.5%.

ASIA AND OCEANIA

China extends and broadens tariff reductions

The Chinese government reduced import tariffs and extended some existing reductions for a total of 1,010 products, effective as of 1 January, 2024. This practice has been carried out by the Beijing government since 2016 and benefits all those nations that do not have any preferential agreement with the Asian country.

Among the relevant products for Argentine exports whose tariffs will be reduced to 0% are: sweet maize (from a 13% tariff), lithium carbonate (5%), unground coriander seeds (15%), infant milk formulas for medicinal use (15%) and veneer sheets, plywood and other wood sawn lengthwise.

In turn, among those products that will maintain the previous reduction, the following stand out: dairy products, such as whey, cheese –except fresh ones–, milk protein and sweet caramel (*dulce de leche*), which will pay tariffs between 2% and 8%; fishery products such as shrimp, crab and frozen fish (between 2% and 5%); fresh and dried fruits such as blueberries and pecans (15%); flaxseeds and sunflower seeds (9%); among others (orange juice, charcoal, wood wool, malt extract, stuffed pasta, alfalfa bales and pet food).

China is Argentina's second largest trading partner. During 2023, Argentina's exports of goods to China amounted to US$ 5.2 billion (7.9% of total exports to the world). Of these shipments, 88% corresponded to primary products and manufactured goods of agricultural origin. Among them were: frozen beef, soy beans and soybean oil, barley and grain sorghum, and frozen shrimp. Among the relevant non-agricultural products, it is worth mentioning lithium carbonate, which ranked fourth and accounted for 6.8% of shipments.

Good trade prospects for India and the ASEAN countries

Global trade estimates by the Boston Consulting Group (BCG) show that the Association of Southeast Asian Nations (ASEAN) countries (Indonesia, the Philippines, Malaysia, Singapore, Thailand, Vietnam, Brunei Darussalam, Cambodia, Laos and Myanmar) would be among the biggest trade winners in the next decade. Their trade, which amounted to US$ 3.8 trillion in 2022, would increase by US$ 1.2 trillion, thanks to their young population, diversified economy, competitiveness and neutrality in growing geopolitical conflicts.

The BCG also points out that the region is seen as an alternative destination for multinational companies, which, given the increase in trade and investment barriers imposed by the US government against China, could reduce their presence in said country.

In turn, India also stands, according to the BCG report, as an alternative to China, thanks to its size and low labour costs and its potential in industries such as chemicals, consumer electronics and pharmaceuticals. India's trade is projected to grow at an average annual rate of 6.3% over the next ten years, mostly as a result of increased trade with the United States, the European Union and China.

China becomes the world's largest car exporter

The Chinese automotive sector has been gaining competitiveness in recent decades to become the world's leading producer, with values that are close to three times those of its nearest competitor, the US. In 2023, the Asian giant also managed to become the world's leading car exporter.

In 2022, the number of Chinese cars exported had surpassed those sold by Germany (see CEI Global Report, February 2023), becoming the world's second largest exporter, second only to Japan, which it overtook in 2023.

According to the China Association of Automobile Manufacturers (CAAM), the country exported 4.91 million vehicles last year, a 57.9% rise and more than three million units with respect to 2022. Meanwhile, the Japan Automobile Manufacturers Association (JAMA) reported that 4.42 million Japanese-made vehicles will be sold abroad in 2023.

AFRICA

Impact of the Red Sea crisis on African economies

Attacks by Houthi rebels in the Red Sea (see World article) have led to the diversion of numerous ships around the Cape of Good Hope, resulting in a proliferation of supply chain disruptions and higher transport costs for African economies. The immediate impact for countries in the region will be felt in Egypt, which relies heavily on Suez Canal revenues. A prolonged decline in traffic and revenues from the canal could affect its economy and stability.

Similarly, other African countries, already facing difficult economic challenges, would be affected by the effect on global supply chains and reduced availability of goods. Grains and fertilisers from Ukraine and Eastern Europe make up a significant portion of East Africa's total food imports, and the Houthi attacks put them at risk. Longer transit times will increase food prices and reduce the supply of goods.

However, the negative consequences of Houthi attacks are not limited to trade aspects since they could also have environmental and security repercussions across the continent. Attacks on oil tankers or accidents due to navigational errors carry the risk of oil spills that can devastate marine ecosystems and the livelihoods of coastal communities. The high risk of pollution of the western Indian Ocean by oil and other hazardous substances has already raised concerns about the adequacy of the contingency plans of countries in the region. At the same time, more ships calling at African ports, many of which are already congested, could lead to further delays and accidents.

Three years after the ratification of the African Continental Free Trade Agreement

Three years after the ratification of the African Continental Free Trade Agreement (AfCFTA), which aims at achieving the elimination of customs duties and moving all African countries towards a common market, some progress can be noted though many issues are still pending.

The report "World Economic Outlook: Friends of the Africa Continental Free Trade Area", published by the World Economic Forum, points out that in 2023 Africa spent US$ 50 billion to import food from foreign countries, compared to 2021 when more than US$ 68 billion was spent. This reduction is an incentive to commit to the target of allocating 10% of its budget to agriculture agreed in the "Maputo Declaration", when currently most countries are allocating between 2% and 3%.

Trade cooperation has been mentioned in the AfCFTA agreement as a step towards the creation of a common market, although the pace of implementation in this sense has not been satisfactory. So far, only 8 out of 55 countries (including Cameroon, Egypt, Ghana, Tanzania, Rwanda and Tunisia) have signed the preliminary trade cooperation agreement known as the "AfCFTA Guided Trade Initiative".

Africa has also continued to experience conflicts between AfCFTA member states, leading to diplomatic tensions and even border closures between countries. Some of the conflicts were between Kenya-Uganda, Rwanda-Burundi, Rwanda-Congo, Mali-Economic Community of West African States (ECOWAS), Burkina Faso-ECOWAS and recently the conflict between Somalia and Ethiopia. These disagreements delay the efforts and objectives of the AfCFTA and create an image that this agreement has not been considered or given the required value among member states.

CEI GLOBAL REPORT

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