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CEI GLOBAL REPORT

CEI Centre for International Economy

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UNCTAD: world trade 2024 early data

The first estimates that account for the evolution of international trade in 2024, corresponding to the first quarter, show slight growth with respect to the last three months of 2023, both in goods (1.0%) and services (1.5%), in accordance with a report published by UNCTAD.

According to the agency, the increase in trade in goods in the first three months of 2024 is mainly due to the rise in exports from China (9%), India (7%) and the US (3%). Meanwhile, sales abroad from South and Central America grew 2%, those from Europe stagnated and those from Africa fell 5%.

The following are some of the trends highlighted by UNCTAD as key in 2024: the increase in trade in electric vehicles, solar panels, batteries and semiconductors; the growth in maritime shipping costs (see CEI Global Report February 2024); and the negative impact of trade-restrictive measures and industrial policies in many countries.

With regard to the latter point, the report notes that geopolitical tensions, the energy transition and technological advances have led to an increase in government interventions in the economy, among which the role of the US Inflation Reduction Act, the Made in China 2025 initiative and the European Union's Net-Zero Industry Act stand out.

UNCTAD anticipates that some of the main effects of these policies on international trade will be a greater concentration of strategic product supply, an increase in the fragmentation of global trade among the main blocs, higher commercial costs and an increasing level of uncertainty at global level.

IMF: sovereign debt crisis avoided

In an article published on its website, the International Monetary Fund (IMF) states that the world economy has been able to avoid a sovereign debt crisis thanks to a series of multilaterally agreed mechanisms, to which a new approach of the agency in the matter was added.

For the IMF, the key to preventing countries' over-indebtedness problems from reaching critical instances is to achieve rapid restructurings that limit the harm caused on debtors. In that sense, the fact that debt restructurings recorded this year (like in Ghana, Sri Lanka) have been achieved in half the time of other similar ones from previous years (those in Chad, Zambia, Suriname) accounts for the progress made and the risks dodged.

Three main factors may have contributed to making debt restructurings faster and more effective according to the IMF. Namely, the functioning of the G20 Common Framework for Debt Treatments agreed at the end of 2020; the establishment –at the beginning of 2023– of the Global Sovereign Debt Roundtable by the IMF, the World Bank and the G20; and the reforms approved by the agency in April this year (tools to speed up the relations between the IMF and debtor countries).

The article also acknowledges that despite the aforementioned advances, the current combination of over-indebtedness situations and high interest rates, together with the enormous financing needs of emerging and low-income countries, require multiplying efforts for debtor countries, creditors and the international community alike.

Sharp drop in the price of batteries used in electric cars

According to an article published by Bloomberg, the price of lithium iron phosphate (LFP) batteries– used mainly in the production of electric cars– fell 51% during the last year in China (the world's leading producer).

In a context of growth of the global electric car market to the detriment of those with traditional engines (see CEI Global Report, June 2024), the decrease in the price of this essential input for the automotive industry made it possible for about 60% of the electric cars sold in the Chinese market to already have a price that is lower than their counterparts that run on an internal combustion engine.

In accordance with Bloomberg, the main reasons for this drop in prices have been the reduction in the cost of battery raw materials and an oversupply caused by the growth of production capacity in China, which has outpaced demand.

This scenario could modify projections made in the past, which anticipated that high battery costs would continue to be an obstacle for countries to meet emission reduction and internal combustion engine production goals, although it is still too early to assume that the current situation in the Chinese market can be replicated in the short term in other regions of the planet due to the restrictions that have been imposed by various governments on products originating in the Asian country (see CEI Global Report, June and July 2024).

EUROPE

Citrus fruits: South Africa insists at the WTO against EU measures

At the meeting held on 26 July in Geneva, the Dispute Settlement Body (DSB) of the World Trade Organization (WTO) accepted South Africa's request to establish two dispute settlement panels to review the measures imposed by the EU regarding the imports of South African citrus fruits.

According to the WTO webpage, the measures challenged by South Africa refer to the import restrictions imposed by the EU to control the spread of the *Thaumatotibia leucotreta* (false apple moth) insect and the *P. citricarpa* (citrus black spot) fungus.

The measures, which consist of phytosanitary requirements relating to cold treatment for citrus fruits imports, were described by the Department of Trade, Industry and Competition of South Africa as discriminatory, lacking scientific support and unnecessary, since the African country has an efficient pest control system (see CEI Global Report, April 2023). According to the South African government, its application affects the source of employment of more than 10,000 labourers who work in citrus production. This is the first time in history that South Africa attends the creation of panels within the sphere of the DSB.

This case affects a sector that is the second largest exporter of citrus fruits in the world and that directs a third of its external sales to the EU. This makes the profitability of the sector depend on how it performs in the European market, according to the Citrus Growers Association of Southern Africa.

For the case under discussion, South Africa had already requested the establishment of panels at the meeting held by the Dispute Settlement Body in June of this year. On that occasion, the EU had expressed that it was not ready to agree to it. In accordance with WTO regulations, several countries – including Argentina– reserved their rights to participate as third parties in the proceedings of one or both panels.

EU-Singapore Digital Trade Agreement

The European Union concluded the negotiation with Singapore of a digital trade agreement –the first agreement of its kind signed by the bloc–, which completes the bilateral Free Trade Agreement (FTA) of 2019. The purpose of the Agreement is to establish binding rules that build consumer confidence, ensure predictability and legal security for businesses and other users.

This is expected to facilitate digital trade and ensure that the cross-border flow of data does not present unjustified obstacles. The agreement regulates issues such as electronic signature, consumer data protection, the safeguarding of computer source code, the curbing of unsolicited electronic commercial messages, internet access and paperless trading.

This commitment covers more than half of the EU's trade in services, which is performed digitally. The bloc's trade in services with Singapore amounts to €43 billion, 55% of which correspond to digital services.

EU-India FTA negotiation remains stagnant

After eight negotiating rounds, the European Union and India's positions on the Free Trade Agreement continue to show significant differences in most key issues, according to the report of the bloc. Negotiations include cutting-edge issues such as trade and sustainable development, digital trade, and sustainable food systems. On environmental issues, the carbon border adjustment mechanism (CBAM) was discussed in parallel to the negotiations, an aspect in which India claims to the EU that the European CBAM should not cancel the benefits of the future agreement.

The EU has an offensive position on access to the Indian market for electric vehicles, agricultural products, alcoholic beverages and information and communication products. These are sectors in which India is defensive, with strong pressure from the production sectors especially the automotive industry and the agricultural sector. There are also competing interests in trade in services: India seeks liberalisation in the transfer of professionals to the EU and in the provision of cross-border services –namely, call centres–, the EU seeks to liberalise the establishment of accounting and legal service providers, supermarkets and banks in India.

In addition to a FTA, the parties also negotiate an Investment Protection Agreement and a Geographical Indications Agreement, aspects in which both parties hold defensive positions in the WTO discussions.

The negotiations, which started in 2007 and were suspended in 2013, were resumed in July 2022 with a commitment to give them prompt treatment. The next round will take place in September.

It is important to bear in mind that the EU is India's largest trading partner (12.2% of total trade in goods), while India is the ninth counterpart of the EU (2.2% of total merchandise trade).

SOUTH AND CENTRAL AMERICA

Multiple market openings for Argentina and Brazil

Uruguay issued Decree 175/24, which eliminates the Global Tariff Rate (TGA, for its acronym in Spanish) of 16% applied since 2007 to the tyres imported from Argentina, which represents a reopening of said country's market for Argentine producers.

Argentina has also revalidated its equivalence system for exporting fishery products to South Korea, after a satisfactory audit carried out by the Korean health service under the control of the National Service for Agri-food Health and Quality (SENASA, for its acronym in Spanish). Currently, approximately 300 Argentine fishing facilities are authorised to export to South Korea and, during 2024, SENASA has so far certified 27,600 tonnes of fish exports to said destination.

In turn, the Brazilian government obtained different market openings for its producers. In the case of Costa Rica, for the purpose of exporting live horses; in the case of Gabon, to export cattle and buffalo for breeding; in the case of Mexico, to export poultry genetic material; and of Chile, to export edible offal of poultry, ruminants and pigs.

Likewise, Cuba authorised the imports of eggs and egg products, extractive fish and its derivatives, gelatine and collagen, and farmed fish and its derivatives of Brazilian origin; Australia, the imports of shrimp; and Canada, that of chewable pet products of avian, goat and sheep origin from Brazil.

Chile and United Arab Emirates sign Comprehensive Economic Partnership Agreement

The Comprehensive Economic Partnership Agreement between Chile and the United Arab Emirates (UAE) was signed, facilitating access to the Emirati market for Chilean products through the reduction and elimination of tariffs on approximately 97% of exportable products, including copper, cellulose, food, fruits, and wines.

The agreement becomes important for Chile as it is the first of its kind with a Middle Eastern country. The liberalisation of access to both markets seeks to generate a significant impact on bilateral trade and facilitate the negotiation of a future investment arrangement. In addition, it is expected that, in three years' time, 86 additional products will have zero tariff in the UAE, which would lead to a liberalisation of 98.1% of the products exported by Chile to that market.

Bolivia and Brazil strengthen bilateral relations

The Plurinational State of Bolivia and the Federative Republic of Brazil undersigned bilateral instruments in the following areas: agriculture, energy, mining, health, safety and immigration aspects.

One of those instruments was the third addendum to the memorandum of understanding on energy between the Ministry of Mines and Energy of the Federative Republic of Brazil and the Ministry of Hydrocarbons and Energy of Bolivia, which seeks to manage projects and investments in the exploration, exploitation and transport of hydrocarbons both inside and outside the territories of the parties.

Another case is that of the cooperation agreement for the commercialisation of fertilisers and sodium chloride, signed between the Minister of Agriculture of Brazil and the Minister of Hydrocarbons and Energy of Bolivia. This will allow cooperation to promote the commercialisation of fertilisers and the promotion of the sale of sodium chloride produced by the Bolivian State to the Brazilian market under conditions of mutual benefit for the parties.

In 2023, the trade flow between Brazil and Bolivia totalled USD 3.3 billion, with a USD 278 million surplus for Brazil. Bolivia was the 35th main destination of exports and the 30th country of origin of Brazilian imports. Brazil was the main destination of Bolivian exports and the 2nd country of origin of its imports. The main products exported by Brazil to Bolivia were those of the iron and steel sector (iron and steel, bars, angles and profiles, 6.1% of the total), and passenger cars (3.8%). The main products imported by Brazil from Bolivia were natural gas (86.0%) and manure or chemical fertilisers (4.8%).

NORTH AMERICA

USMCA: concern in the automotive sector over rules of origin and Chinese investments

The Office of the United States Trade Representative (USTR) released the second report over the operation of the US-Mexico-Canada Agreement (USMCA) with respect to trade in automotive goods.

The document, which is published twice a year, concludes that in the four years since the entry into force of the USMCA, the Agreement has had a positive economic impact on the North American automotive industry, although with some challenges in its implementation, in particular with regard to the rules of origin (Appendix of Chapter 4 of the Agreement). Automakers have pointed out that additional flexibilities may be needed, in particular due to the limitations of the incipient domestic electric vehicle and battery manufacturing. At the same time, other stakeholders have expressed a need for further information and transparency around the rules of origin and how they are applied.

Moreover, the report reflects the concern of various producer and worker associations due to the growing interest of several Chinese companies, such as BYD, MG and Great Wall Motors, in setting up manufacturing plants in Mexico. Stakeholders argue that these investments could be aimed at evading Section 301 and Section 232 tariffs on Chinese imports (see CEI Global Report, June 2024). While there have not been exports of Mexican-assembled Chinese vehicles to the US market so far, it is feared that the situation could change. For this reason, stakeholders urge the government to work closely with Canada and Mexico to carefully examine these investments and determine whether automotive content entering the North American supply chain is connected to Chinese companies that have government support.

Finally, in the same report, the USTR referred to the ruling of the USMCA Dispute Settlement Panel regarding the interpretation of the build-up in the rules of origin for the automotive industry (see CEI Global Report, February 2023). The US government continues to stick to its own interpretation, that is, that the requirement for core parts is separate and distinct from the calculation of the regional value added of the vehicle as a whole, despite the adverse verdict, which would enable Mexico and Canada to retaliate. The USTR states that the resolution should benefit all parties to the Agreement and its common goal of improving production and employment in North America. In that sense, it argues that the data presented during the dispute settlement procedure suggest that the Mexican and Canadian interpretation could result in between 10% and 20% less North American content per vehicle than the US interpretation, undermining a key purpose of the USMCA.

US and Mexico agree on new rules for tariffs on aluminium and steel

On 10 July, the United States and Mexico announced new measures to prevent third countries from circumventing the tariffs on steel and aluminium of Section 232 of the Trade Expansion Act of 1962 –which applies to imports that could put at risk the United States' national security– and entering North American supply chains.

According to the new rules of origin, imports of steel and steel products from Mexico will be subject to a 25% tariff, unless they have been melted and poured in one of the three member countries of the USMCA. With regard to imports of aluminium and its derivatives from Mexico, if the primary country of smelt, secondary country of smelt, or country of most recent cast of aluminium is China, Russia, Belarus or Iran, imports will be taxed with a 10% duty (country of smelt and country of most recent cast requirement).

To comply with these standards, the Mexican government will require more information on the country of origin of steel and aluminium products that it buys from abroad, and those who import products from Mexico to the US market will have to submit a certificate of analysis to the Customs and Border Protection Service stating the country of origin of the metals.

The measure seeks to prevent the entry of Chinese steel and aluminium into the US through the southern border and has the support of various industrial groups and members of the US Congress. It should be noted that Mexican exports were exempt from the payment of Section 232 tariffs since May 2019 (see CEI Global Report, June 2019). In turn, China will face tariffs of 25% on steel and aluminium imports from August of this year, given the measures imposed under Section 301 of the Foreign Trade Act of 1974 (see CEI Global Report, June 2024).

Modernised FTA between Canada and Ukraine enters into force

On 1 July, an updated version of the Canada-Ukraine Free Trade Agreement (CUFTA) entered into force.

The new agreement seeks to strengthen trade and economic cooperation between both countries. It preserves the terms of the market access of goods reached in the original 2017 agreement and adds new language in areas such as investment, trade in services, temporary entry of businesspeople, telecommunications, digital trade, labour and the environment. In addition, it introduces a chapter dedicated to trade and Indigenous Peoples, the first of its kind in the history of both countries.

In general, the text of the document is based on the rules of the USMCA and those of the Transpacific Partnership Agreement, to which Ukraine plans to adhere.

Highlights include expanding the scope of services liberalisation; a new chapter on investment – modernising the investor protection framework and replacing the 1994 Canada-Ukraine Agreement for the Promotion and Protection of Foreign Investment; and a new regime of cross-origin accumulation with the common partners of Free Trade Agreements (members of the European Free Trade Association and the EU, Israel, and the United Kingdom).

Bilateral trade in goods between both countries reached USD 515 million in 2023. Canada's exports to Ukraine amounted to USD 388 million and concentrated on military vehicles and parts; arms and ammunition; and machinery, mechanical, electrical and electronic appliances or equipment. Imports from Ukraine totalled USD 128 million. The main products were sunflower seeds and oils; natural uranium; and electrical machinery and equipment. In turn, in 2022, the stock of Canadian direct investment in Ukraine amounted to USD 83 million.

ASIA AND OCEANIA

WTO introduces China trade policy review

Within the framework of the ninth review of China's trade policies, the World Trade Organization stated that there is a "general lack of transparency" in relation to the implementation of that country's industrial support policies in the 2019-2020 and 2021-2022 periods. In particular, the agency refers to "government investment funds", which use public resources to make capital investments in sectors and activities considered relevant and which play a fundamental role in the industrial policy of the Asian country.

In this regard, the WTO Secretariat stated that the information sent by China is not sufficient to have a clear overview of the aid programmes, especially with respect to the financial support of certain sectors: aluminium, electric vehicles, glass, shipbuilding, semiconductors and steel. With respect to the funds granted by the Chinese government, this body pointed out that the Chinese authorities have not provided information on their total endowment.

The Chairperson of the Trade Policy Review Body highlighted the fact that the Members raised their concerns, within the framework of this review, in relation to Chinese subsidies that “distort global markets” and “promote overcapacity”. Added to this, concerns have come up as to economic coercion practices, and practices of import substitution of high-tech supplies in favour of domestic producers, among others.

In turn, the Chinese Government asserted its compliance with the rules of international trade but objected that the aforementioned funds operate in accordance with market principles. It also expressed its willingness to open a dialogue forum regarding its subsidies to the industry, although it pointed out that the talks “should be clearly defined to avoid widespread discussions”.

China announces new regulations on rare earths

China announced that as of the first day of October of this year all the chemical elements that make up the so-called “rare earths” will be fully controlled by the State with the aim of improving the quality of products and promoting research, development and application of new technologies, materials and equipment. In that sense, the government will implement a traceability system to control its extraction, use and exports. Likewise, this measure includes imposing fines on those who carry out illegal activities of mining, smelting, extraction, distribution, export and import of rare earths; or in the event that any company fails to present the operational information of its businesses to the national traceability system.

This step follows other related measures, such as the ban on exports of gallium and germanium, –two strategic chemical elements for the manufacture of chips– for reasons of security and national interests; or the restriction on the exports of technology for the manufacture of rare earths. China currently produces about 60% of the world’s rare earths and about 90% of the refined earths. This group of chemicals is critical to the technology industry, from battery manufacturing to turbines.

Iraq resumes WTO accession negotiations after 16 years

The Working Party on the Accession of Iraq met for the third time and, after a 16-year hiatus (the second meeting had been held in 2008), formally resumed the country’ WTO accession process. This constitutes, according to WTO’s Deputy Director-General, Xiangchen Zhang, a fact of great relevance to the region and would contribute to integration efforts in support of peace and security.

In turn, the Iraqi government highlighted the important economic and legislative reforms performed in pursuit of what represents a significant step to improve the national economic strategy and the integration into the global economy. The government also highlighted its willingness to carry out the necessary changes to improve trade policies, promote the business environment and create favourable conditions for foreign investment. So far, in addition to the documents on legislative reforms, it submitted its market access offers on goods and services that must be bilaterally negotiated with the rest of the members. As part of the subsequent steps, members shall submit their specific requests which Iraq shall respond to, and the WTO Secretariat shall revise Iraq’s foreign trade regime. Based on these progresses, the next meeting is expected to take place during the first quarter of 2025.

African and US authorities meet within the framework of AGOA

The 21st Annual African Growth and Opportunity Act (AGOA) Forum, convened by the United States government, took place in Washington from 24 to 26 July. It brought together numerous trade ministers from sub-Saharan African countries.

The AGOA was enacted in 2000 by the Bill Clinton administration and subsequently renewed in 2015 for a period of 10 years. Its main objectives are the expansion and deepening of the relationship between the United States and sub-Saharan Africa in terms of trade and investment, as well as the promotion of economic growth and regional integration of the countries that make up said region and their incorporation into the global economy.

To pursue such objectives, the legislation grants eligible sub-Saharan African countries duty-free access to the US market for about 1,800 products, in addition to the more than 5,000 products that benefit from the Generalized System of Preferences (GSP).

This year's meeting was held in a particular context, marked by the electoral climate in the United States and the regulation expiring in 2025. According to the Office of the US Trade Representative, the Forum's work included the presence of trade ministers from 32 eligible African countries, as well as representatives from the region's civil society, the private sector and economic and labour organisations. During the Forum and the previous days, various working meetings were held between authorities, representatives of the US congress and experts on trade issues.

No confirmation is predicted regarding the extension of the validity of this law for the current year, despite the concerns raised among the eligible countries. The Minister of Trade, Industry and Competition of South Africa, Parks Tau, expressed special concern when he highlighted that there has been "no firm commitment" on the part of the United States in the renewal of the AGOA during this year, while he warned about the important role of said legislation in the creation of local employment linked to the export sector of his country, as South Africa is one of the main trading partners of the United States in the region.

Tau also referred to the importance of seeking complementarities between AGOA and the African Continental Free Trade Area (see CEI Global Report, February and June 2024), given the fundamental role that both schemes play in the integration of African economies.

Among its provisions, the AGOA establishes the obligation for the US government to hold the Forum annually, alternating between a country of sub-Saharan Africa and the US. It should be noted that the meeting held in 2023 had taken place in the Republic of South Africa.

Morocco could become Africa's largest vehicle producer by 2024

A recently published report on the automotive sector in Africa anticipates that by the end of 2024, the Kingdom of Morocco will have become the main vehicle producer on the continent, ahead of South Africa, whose continental leadership in the sector had remained for several years.

According to the report, this phenomenon can be accounted for by some factors, among them, the fact that the main sector investors have a preference for Morocco, based on reasons of proximity to the EU, the existence of trade agreements and the efficiency of its logistics infrastructure. In turn, it attributes the loss of South African position to certain difficulties in the logistics environment, linked to labour issues and transport risks, among others.

This would explain not only the predictions for the current year, but also that Morocco is expected to become the largest car producer on the African continent in the medium term. For this last estimate, the report considers the increase in imports in the automotive sector initiated by South Africa in recent times. This contrasts with the growing level of foreign investment received by the Moroccan automotive industry to increase its local production, mainly of electric vehicles, which has become a sector of special interest for Chinese investors. The report also refers to other factors that could affect South Africa's long-term position, linked to environmental and geopolitical issues, in addition to those already mentioned.

Mali enters into nuclear power agreements

The government of the Republic of Mali signed three memorandums of understanding with Russian energy company Rosatom in July. Said signing took place as part of a visit to the Republic of Mali by representatives of the Russian company.

According to media sources, these agreements are aimed at strengthening cooperation between the two countries and positioning Mali as a key player in the West African energy sector.

The first instrument undersigned between representatives of the company and the Minister of Energy and Water of Mali seeks to strengthen the development of the Malian nuclear infrastructure. The second aims at raising awareness of the peaceful use of nuclear energy, and the third –signed by the Minister of Higher Education and Scientific Research of Mali– aims at developing local capabilities in the management of nuclear infrastructure.
The Russian company announced that the visit is part of the intention to maintain joint cooperation actions between the parties, with a view to the implementation of new projects in matters of energy development.

CEI GLOBAL REPORT

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