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CEI Centre for International Economy

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Mercosur-EU agreement negotiations conclude

Within the framework of the 65th Summit of Heads of State of Mercosur that took place in Montevideo, the members of the South American bloc and the European Commission announced the conclusion of the negotiations of the Association Agreement between the two regions.

Negotiations to reach this commitment, which took more than 20 years, have included seven rounds since 2023. Throughout said time, the agreements reached in 2019 were reviewed and adjusted (see CEI Global Report, July 2019). These covered issues such as Market Access, Rules of Origin, Sanitary and Phytosanitary Measures, Technical Barriers to Trade, Public Procurement, Intellectual Property and Transparency, among others.

Regarding trade matters, the text includes the elimination by Europeans of tariffs for 92% of goods exported by Mercosur, while the South American bloc will bring the tariff of 91% of goods imported from the EU to zero.

The next steps until the signing will be the final legal review of both blocs, translation into the official languages of the parties and, in the case of the EU, submission to the Council and the European Parliament.

Principle of agreement for high-impact merger in the automotive industry

The Japanese companies Honda, Nissan and Mitsubishi announced a joint plan with the aim of merging. In a first agreement, Honda and Nissan committed to work together to integrate their operations, while Mitsubishi agreed to explore the possibility of participating or getting involved in the merger of the other two automakers.

The new company, which is expected to see the light of day in mid-2026, could become the world's third-largest automaker. Its market value would exceed USD 50 billion, it would be able to manufacture 8 million vehicles a year and would be led by Honda, though maintaining the brands of each manufacturer.

In August, the three companies had announced a commitment to share components for the manufacture of electric vehicles, including batteries. They also agreed to jointly investigate the software needed to offer the possibility of autonomous driving in the units produced. This new commitment points in the same direction: to reduce costs and optimise production. The integration, in addition, might add to savings in operating expenses, the strengthening of the supply chain and the promotion of innovation.

It is expected that the new agreement will begin to be implemented in mid-2025, that it can be approved by the shareholders' meetings of the companies in April 2026, and that the creation of the new company to be finished in August 2026, when it would begin to be listed on the Tokyo Stock Exchange.

Record: 2024 might have ended with the highest trade value in history

According to a report published by UNCTAD, which includes estimates for the last two quarters of 2024, world trade might have reached USD 33 trillion that year, which represents a USD 1 trillion grow compared to 2023 and the historical maximum of the annual series. In percentage terms, the rise might have reached 3.3%, driven mainly by services, whose trade is likely to have increased 7%, while in the case of goods the year-on-year variation is thought to have been 2%.

For 2025, the outlook for world trade is uncertain because, according to the report, it is not possible to predict the behaviour of the US dollar or determine likely changes in the macroeconomic policy of the United States. In particular, developments in US trade policy are expected, which would increase tariffs with a likely impact on some global value chains.

According to UNCTAD, the trade measures that the new administration could adopt in the US would mainly affect economies with large trade surpluses with that country, including China, the EU, Mexico, Vietnam, Canada, Japan, South Korea and India.

EUROPE

Large British companies do not lose sales to the EU after Brexit

Brexit negatively affected UK trade with the EU less than expected, according to a report from the Centre for Economic Performance at the London School of Economics. The United Kingdom's exit from the European Union, which occurred in January 2021 with the entry into force of the Trade and Cooperation Agreement (TCA), caused a decrease in bilateral trade, but this was not homogeneous for all companies.

The fall in British exports to the EU was concentrated in small companies, which sold on average 30% less; medium-sized companies, 15% less; whereas large companies did not show any variation. Despite the higher costs of trading with the continent, the latter have shown greater resilience to regulatory change. It should be clarified that the TCA ensures that trade between the parties remains tariff-free, so the impact is due to compliance with regulatory and bureaucratic issues.

European criticisms of the Mercosur-EU agreement intensify

After conclusion of the negotiations of the Mercosur-EU Agreement (see Global), European criticism of the agreement reappeared with greater force, particularly from the agricultural sector. In this context, the president of the European Commission, Ursula von der Leyen, made statements in which she stated that in the European bloc all criticisms were heard and concerns were taken into account, in particular from farmers' and consumers' associations and environmental NGOs.

Thus, she said that it is the agreement that has most protected their geographical indications, that Mercosur farmers must comply with the same rigorous standards as their European counterparts, and that there will be strict controls to verify compliance. Also, that there will be a reserve of 1 billion euros allocated to the support of community farmers in case they have a negative impact. In relation to environmental issues, she highlighted the joint commitments related to the Paris Agreement and the European regulation on deforestation, whose entry into force was extended in December 2024.

As a continuation of the protests of February 2024 (see CEI Global Report, February 2024), the Spanish and French farmers once again showed their discomfort against an agricultural policy that, according to them, would not take into account their interests and that would allow the entry into the European market of food at low prices and with a lower requirement in health and animal welfare standards.

Reforms to the Common Agricultural Policy advance

In line with the amendments to the Common Agricultural Policy (CAP) agreed upon in February and March 2024 (see CEI Global Report, February 2024), the European Commission has proposed new amendments to the CAP. These changes aim to improve the position of farmers in supply chains, boost producer organisations, support generational renewal in the rural sector, preserve small businesses and improve working conditions.

It also proposes new cross-border enforcement rules against unfair business practices. The proposal was based on concerns expressed by farmers' associations and ministries of agriculture in the countries of the bloc.

All this is part of the so-called "simplification package" that aims at improving the competitiveness of the sector by reducing its administrative burden. This is one way in which the EU seeks to strengthen the farming sector against competition from non-EU producers. It is proposed to make compliance with environmental conditionalities more flexible, among which the requirement for permanent pastures, a minimum soil coverage, crop rotation and diversification, and the maintenance of un-worked areas to preserve biodiversity stand out. Reducing inspector visits would also decrease the administrative cost thanks to the use of satellite imagery.

Likewise, the changes to the Deforestation Regulations that require that the internal and external marketing of certain agricultural products must meet strict requirements if they come from deforested areas after December 2020 are also part of this review. To address concerns about the impact of this measure, it postponed the entry into force until December 2025 (see CEI Global Report, October 2024).

SOUTH AND CENTRAL AMERICA

Panama formalises its entry as an associated state to Mercosur

Panama substantiated its entry into Mercosur as associated country, a step formalised after the signing of the corresponding agreements during the 65th Summit of Presidents of the bloc. The Panamanian President was present at the event, which was also attended by the presidents of the States Parties.

Within the framework of this summit, Panama signed several key documents, including the Economic Complementation Agreement between the States Parties of Mercosur, the Act of Accession to the "Ushuaia Protocol on Democratic Commitment in Mercosur, the Republic of Bolivia and the Republic of Chile", and the Act of Accession to the Presidential Declaration on Democratic Commitment in Mercosur.

The economies of Panama and the members of the South American bloc could complement each other: while Mercosur is an important global player in agricultural and industrial products, Panama has great experience in the service sector, especially in logistics.

With the signing of these agreements, the Central American country joins the list of states associated with Mercosur, which includes Chile, Colombia, Ecuador, Guyana, Peru and Suriname. The invitation for Panama to join the bloc was made by the leaders of the member nations during the Summit held in July 2024 in Asunción, Paraguay.

Argentina and Chile's new agreements with China

Argentina announced in its official bulletin the entry into force of the agreement with the People's Republic of China that seeks to eliminate the double taxation of income and wealth taxes, in addition to preventing tax evasion and avoidance. The commitment also includes a protocol with a non-discrimination clause that facilitates the deduction of certain expenses in a total and unrestricted manner. Among the most relevant aspects, the reduced withholding rates for dividend payments, interest, royalties derived from technological exchanges and the sale of shares stand out.

The agreement also establishes additional benefits for payments made to entities owned or controlled by the Chinese Government, such as the Development Banking Corporation of China, the Export-Import Bank of China, and the Industrial and Commercial Bank of China. The protocol specifies which institutions are included in these benefits and gives states the ability to add more entities to the list by mutual agreement.

In turn, Chile intensified its trade relationship with China by signing new commercial protocols that seek to improve exports of products such as fresh fruits and meats. These agreements aim to optimise transfer times and improve the quality of products, especially fruit.

The agreements include a protocol for the shipment of fresh fruits through third countries, which facilitates the transfer and maintains the quality of the fruit for Chinese consumers. In addition, another protocol has been signed that expands possible Chilean exports to include refrigerated meats and some frozen by-products, which seeks to increase the supply of proteins in the Chinese market, a key sector for both countries in their trade relationship.

Argentina and Brazil expand their presence in international agricultural markets

Argentina received authorisation to export sheep and goat meat to Morocco. The National Food Safety Office (ONSSA) of the African country established that all imported meat must be accompanied by a health certificate issued by the competent authorities of Argentina, a copy of which can be downloaded from the website of the African organisation, as well as a halal slaughter certificate issued by the Islamic organization authorised in the country of origin. With this, Argentina expands its offer of meat products to Morocco, which already included beef.

On the other hand, the conditions for the export of fresh garlic to Mexico were optimised, thanks to an agreement between Senasa (Argentina) and the Mexican National Service of Health, Safety and Agri-Food Quality (Senasica). This update eliminates the need for treatments such as methyl bromide or aluminium phosphide fumigation. The simplification reduces costs and strengthens the competitiveness of Argentine garlic against other exporters in the Mexican market.

Brazil, in turn, achieved important advances in international trade with new sanitary approvals to export various agricultural and animal products. Canada authorised the export of feathers of Brazilian birds, used in the textile industry and as thermal and acoustic insulation. In addition, Japan allowed the export of live ornamental crabs without the need for an animal health certificate, while the Philippines approved the import of frozen pork mesentery and dewlap for use in processed foods.

Likewise, the Eurasian Economic Union (EEU) –made up of Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia– enabled the export of bananas and nuts, while Saudi Arabia gave the green light to yerba mate and macadamia nuts. Thailand approved the entry of fishmeal and oil, products with high protein and energy value, with various industrial uses. In addition, Egypt authorised a new health certificate for beef and buffalo products.

NORTH AMERICA

The US intensifies controls over the Chinese semiconductors industry

The US Department of Commerce’s Bureau of Industry and Security (BIS) announced in early December the implementation of new controls on semiconductor exports to China, as well as on semiconductor manufacturing equipment, arguing national security risks.

The new package of rules is intended to hamper China’s ability to acquire and produce the technology needed for its military modernisation. To this end, it seeks to reduce China’s potential to develop advanced node semiconductors that can be used in next generation weapon systems, artificial intelligence, and advanced computing.

The battery of measures includes new controls on certain semiconductor manufacturing equipment and software tools for developing or producing semiconductors, as well as on the high bandwidth memory chips (HBM) used in generative artificial intelligence systems. Likewise, 140 companies were added to the Entity List, including tool producers, semiconductor factories and Chinese investment companies that participate in the military modernisation of the Government of that country.

The announcement underscores the US "small yard, high fence" strategy, which seeks to impose severe restrictions on a small number of Chinese technologies and business activities with significant military and national security potential, while sustaining normal trade with China in other areas.

In response, the Chinese government banned exports of gallium, germanium, antimony, and other critical minerals, while imposing greater controls on graphite sales (see Asia and Oceania section).

On the other hand, the United States Trade Representative, Katherine Tai, announced the initiation of an investigation into China's actions, policies and practices in relation to the dominance of the semiconductor industry. The investigation will be carried out under Section 301 of the Trade Act of 1974, designed to address unfair foreign practices affecting US trade.

The US government argues that China seeks to dominate the local and global semiconductor markets, through the use of anti-competitive and non-market measures, such as subsidies and the establishment of market share targets, to increase Chinese participation in the industry and achieve self-sufficiency. The Biden administration argues that these Chinese policies and practices could have detrimental effects on the US economy, and undermine the competitiveness of US industry and workers, critical supply chains, and the country's economic security.

The research will focus on the manufacture in China of "legacy chips" (older-generation semiconductors), used as inputs in numerous industries considered critical, such as defence, automotive, medical devices, aerospace, telecommunications, power generation, and the power grid.

The investigation will also assess whether China's acts, policies, and practices on the production of silicon carbide substrates (or other wafers used as inputs in semiconductor manufacturing) contribute to any unreasonable burden, discrimination, or restrictions on US trade.

US increases import tariffs on Chinese goods

The Office of the United States Trade Representative (USTR) announced tariff increases for imports of tungsten, wafers for use in electronics, and polysilicon from China.

Import tariffs for wafers and polysilicon will increase to 50%, while those for tungsten –which is part of the US list of critical minerals– will increase to 25%. The new tariff rates will take effect on 1 January, 2025.

These modifications are part of the regulatory review of tariff measures implemented by the Trump administration in 2018 under Section 301 of the Trade Act of 1974. The research focused on the actions, policies and practices of the People's Republic of China related to technology transfer, intellectual property and innovation.

These new tariff increases are in addition to what was announced in May, where it was decided to maintain the tariffs established in 2018 on hundreds of Chinese products and to increase import taxes on electric vehicles, syringes, needles and medical gloves (100%); semiconductors, solar cells and masks (50%); and steel and aluminium products, batteries for electric cars and certain critical minerals (25%) (see CEI Global Report, June 2024). With these latest amendments, the statutory review concludes.

USMCA: ruling against Mexico on dispute regarding genetically modified corn

On 20 December, the panel constituted under Chapter 31 (Dispute Resolution) of the Treaty between Mexico, the United States and Canada (T-MEC) distributed its final report on the case "Mexico – Measures related to genetically modified corn" (MEX-USA-2023- 31-01).

It should be remembered that, once the consultation stage was completed (see CEI Global Report, July 2023), in August 2023 the US Government had requested the establishment of a panel due to a measure decreed by former Mexican President Andrés Manuel López Obrador that bans transgenic maize for the production of flour for dough and tortillas, and establishes the gradual substitution of transgenic maize used in animal feed and human consumption.

As part of its findings, the panel found that the measures imposed by Mexico are inconsistent with various provisions of the USMCA. The ruling emphasises that, although Mexico sought to protect biodiversity and public health, the measure was not based on scientific principles or international standards required by the trade treaty, since no risk assessments were carried out that took into account international standards, and risk management was not documented nor the other parties were allowed to comment on the measures. In addition, the measures were not based on relevant scientific principles and were more trade-restrictive than necessary.

The United States authorities welcomed the ruling and assured that it endorses the Government's concerns about Mexico's biotechnology policies and their detrimental impact on US agricultural exports.

Mexico has 45 days to comply with the final determination of the panel. Failure to do so could result in trade sanctions. The Mexican Government has replied that, despite not sharing the ruling, since it considers that the measures questioned are aligned with the principles of protection of public health and the rights of indigenous peoples, it will respect the panel's decision.

According to the US Department of Agriculture, Mexico is the main export destination for US corn, with sales close to USD 5.4 billion in 2023 (equivalent to 41% of the total exported). US corn exports are primarily yellow corn –used for forage– while Mexico produces mostly white corn.

ASIA AND OCEANIA

China bans exports of critical minerals to the US

Following the extension of restrictions on the sale of US technology to China (see North America section), and a limitation on Chinese global antimony exports in the previous months, the Ministry of Commerce of the Asian country announced the suspension of exports of certain critical dual-use minerals (those that can be used for both civil and military applications) to the United States. The list of products includes gallium and germanium (used for the manufacture of semiconductors and in the case of the latter also, in infrared technology); fibre optic cables and solar cells; antimony (used in bullets and armaments); and other so-called superhard materials.

Additionally, China established a strict review process that involves identifying the final destination of graphite exports –used in batteries and fuel cells– and in the aerospace and defence sectors.

The measure, which increases tensions in global supply chains, would seek to safeguard national security and development interests and comply with China's international obligations, such as non-proliferation. This is in addition to those already adopted by the Chinese Government in the last two years (see CEI Global Report, August 2024). It should also be noted that the Asian country produces almost all of the global supply of these minerals and represents the origin of 54% of the germanium used by the United States and 21% of the gallium. Still, as many chemical factories in the US have closed in recent decades, the country already purchases semi-finished materials from other sources, such as Japan, so the impact would not be so high, although previous restrictions have led to an increase in prices of such minerals.

Finally, in line with the state measures, Chinese entrepreneurs representing the semiconductor and automobile manufacturing sectors also expressed themselves asking Chinese companies to buy more chips in the country or in countries other than the United States.

Growth prospects for Asia

The Asian Development Bank forecasts an average growth of 4.9% in 2024 and 4.8% during 2025 for its members, due to strong domestic demand and export performance. This stable growth would be subject to the magnitude and speed of implementation of trade, fiscal and immigration policy measures that the incoming US government may establish. Such policies could reduce growth and boost estimated inflation, although the Bank's initial expectation is that its implementation will be gradual and its effects in Asia will be seen as of 2026.

The subregions that might show the highest growth during 2025 are South Asia (6.3%) and the Caucasus and Central Asia (5.3%). Individually, the countries with the highest growth would be India (7%), Vietnam (6.6%), the Philippines (6.2%), Kazakhstan (5.1%) and Indonesia (5%). In the case of China, while export growth, led by AI-related goods, remains strong, private consumption weakened and the real estate sector slowed down. With this, the Bank estimates that its growth would be of 4.8% by 2024 and of 4.5% by 2025, slightly below the regional average, and at the same level estimated by the International Monetary Fund in its October Global Economic Outlook.

Regarding inflation, the regional projections were adjusted downwards due to the fall in the prices of commodities and expectations of a reduction in oil prices, and would amount on average to 2.7% and 2.6% during 2024 and 2025, respectively. For China, weakness in domestic demand made the inflation projection even lower: 0.3% by 2024 and 0.9% by 2025.

Thailand concludes Free Trade Agreement Negotiations with EFTA

After having negotiated between the years 2005-2006 and after relaunching the negotiations in 2022, Thailand finally agreed on the terms of a free trade agreement with the European Free Trade Association (EFTA), made up of Switzerland, Norway, Iceland and Liechtenstein.

The commitment includes 15 areas and is the first of its kind with a European bloc that sets modern standards and addresses issues related to sustainable development. The signing of the treaty will take place during the Global Economic Forum in January 2025, and is expected to allow Thailand to expand export opportunities and attract foreign investment, as well as pave the way for future treaties with other partners such as the European Union.

During 2023, Thailand's exports to the European bloc amounted to USD 4.4 billion (1.5% of its total shipments) and its imports to USD 5.5 billion (1.9% of the total).

Angola strengthens its economic ties with the US

Between 2 and 4 December, the outgoing President of the United States, Joe Biden, made an official visit to the African country. This is the first visit by a US President to Angola and the first to sub-Saharan Africa since 2015, when Barack Obama had visited Kenya and Ethiopia.

During the meeting held by Biden with his Angolan counterpart, President João Lourenço, both Presidents reviewed the trade and investment opportunities derived from the bilateral link, while the US President stressed the importance of the investment of more than USD 3 billion committed by the United States in Angola to finance infrastructure projects, especially those linked to the Lobito Corridor.

Lobito is a corridor railway project that crosses Angola, the Democratic Republic of the Congo and Zambia, with the aim of connecting these nations with the Atlantic Ocean, thus ensuring access to the sea for the region's products (mainly critical minerals and agricultural products). It is a corridor established at the beginning of the 20th century, whose operation was reduced by the damage caused during the Angolan civil war (1970s), until its recovery in 2015.

Currently, the concession of the corridor is in charge of multinational capitals, with the support of the European Union and the United States Government. Some analysts consider that this route is an alternative to the Chinese presence in the region, which is manifested, among others, by the Belt and Road initiative.

In this regard, White House officials described the investments in the Lobito Corridor as "strategic", while noting that it is not only an issue linked to access to critical minerals, but also to a comprehensive transformation of the region, through improvements in educational conditions, connectivity, among others, and a platform for access to international trade for all its products.

Cameroon to host 14th WTO Ministerial Conference

The World Trade Organization (WTO) announced officially that the holding of its 14th Ministerial Conference will take place between 26 and 29 March, 2026 in Cameroon.

The Cameroonian Ambassador to the WTO, Salomon Eheth, thanked for the confidence placed in Cameroon to host the next ministerial conference and noted that, with this responsibility, his country hopes not only to contribute to the development of the multilateral trading system but also to demonstrate its potential and that of Africa in general as an investment destination.

The WTO's ministerial conferences are the most important decision-making body of that multilateral body. They represent all WTO Members (countries or customs unions) and usually occur every two years. The last was held between 26 February and 1 March 2024 in Abu Dhabi, United Arab Emirates.

It will be the second time that this meeting is held on the African continent, since the 10th Conference Ministerial had taken place in 2015 in the city of Nairobi, Kenya.

Customs in Africa: the potential of artificial intelligence

Between 2 and 3 December, the Trade Development Forum took place in Rwanda. Under the slogan "unlocking Africa's trade potential through digital innovation", the meeting jointly organised by the Government of Rwanda and Trade Mark Africa –an NGO linked to aid for trade– addressed, among other issues, how technology can boost business, connect markets and strengthen trade. Issues such as the role of digital commerce in reducing or eliminating barriers to product entry and the benefits that this entails, especially for small and medium-sized enterprises, were also discussed.

In this context, the application of artificial intelligence for the streamlining of customs procedures in Africa was addressed, an issue of particular interest within the African Continental Free Trade Area (AfCFTA), in which the streamlining and increase of intraregional trade currently constitutes one of the main challenges (see CEI Global Report, November 2024). In this sense, the possibilities offered by artificial intelligence for the unification of technologies applied by national customs systems were highlighted as strategic.

CEI GLOBAL REPORT

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