

**CEI** Centre for  
International  
Economy

---

**GLOBAL REPORT**

---

APRIL 2019



## WORLD

*Global trade loses momentum*

*2018: record year of international patents*

*Argentine rice exports to Japan*



## EUROPE

*Brexit on hold*

*OBOR initiative reaches Italy*

*New regulations for FDI in the EU*

*The EU sanctions Google*

*Italy adopts new conditional transfer and the “100 quota”*



## LATIN AMERICA

*Automotive agreement between Mexico and Mercosur broadens*

*Brazilian industrialists present foreign trade proposals*

*South America launches “Prosur”*

*Argentina and Peru initiate trade negotiations*



## UNITED STATES

*USMCA ratification delayed*

*2019 Report on Foreign Trade Barriers*

*Economic ties with Brazil strengthened*

*Tenaris seeks to expand in the U.S.*



## CHINA

*China adopts new Foreign Investment Law*

*Sharp fall of foreign trade in February*

*China announces rare earth mining quotas*

*Argentine honey makes its way into the Chinese market*

# WORLD

---

## GLOBAL TRADE LOSES MOMENTUM

The World Trade Organization (WTO) has revised downward the world trade projections for 2019 and 2020. The agency explained that this was a result of the trade tensions that prevailed in 2018 and the consequent increase in global uncertainty. According to the organization, global trade growth will be at 3.0% in 2018, and not 3.9%, as forecast last September. On the other hand, it is estimated that next year's growth will be even lower –at 2.6%– and in 2020 it could reach 3.0% again.

## 2018: RECORD YEAR OF INTERNATIONAL PATENTS

In March, the World Intellectual Property Organization (WIPO) reported that the number of international patent applications had reached a record number during 2018. According to the agency's statements, for the first time Asia submitted the most applications –largely due to filings by China

(21% of the total), the Republic of Korea (7%) and India (0.8%)–, consolidating the tendency for innovations to gradually move from the West to the East. Nonetheless, the United States remained in the first place in the number of patents (22%), just above what was registered in China.

## ARGENTINE RICE EXPORTS TO JAPAN

For the first time in decades, Argentina has exported rice to Japan. Although the latter imports very low quantities in relation to its consumption and has an import tariff ranging between 500% and 600%, the negotiations in the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) allowed the Asian country to open a tariff-rate quota of almost 700,000 tonnes with a 0% intra-quota tariff. This year, the latent opportunity was seized by an Argentine company to place 72 tonnes of organic rice, with the prospect of increasing the quantities in the future.

# EUROPE

---

## BREXIT ON HOLD

In recent days, the separation process of the United Kingdom from the European Union (EU) has taken on its highest level of uncertainty since the 2016 referendum. After a third rejection of the Withdrawal Agreement on 29 March, the United Kingdom has been facing a complex scenario of

negotiations to avoid an abrupt departure (Hard Brexit) on 12 April.

In this sense, Prime Minister Theresa May has made a request for an extension to 30 June to the European Council (EC). Now the institution should evaluate the period extension and submit it to the members' approval at the next emergency summit scheduled for 10 April.

The new delay request from the United Kingdom is intended to continue seeking a consensus solution with Jeremy Corbyn, Labour Party leader, with a view to achieving the approval of the exit plan before 23 May. On said date, the election of representatives for the European Parliament will be held and, if an agreement is not reached between the political leaders of the United Kingdom, it should present its candidates to Parliament.

### **OBOR INITIATIVE REACHES ITALY**

On March 23, within the framework of President Xi Jinping's state visit to Italy, the leaders of both countries signed a memorandum of understanding and bilateral agreements to incorporate Italy into the *One Belt, One Road* (OBOR) initiative. Thus, it became the first country of the Group of 7 (G7) to participate in a programme that seeks to strengthen transport networks and enhance cooperation in ports, logistics and maritime transport, among other aspects. Greece, Portugal, Croatia, Latvia and Bulgaria are other of the less industrialized European nations that have already signed memoranda with China.

Following his stay in Italy, Xi Jinping made a state visit to France and the Principality of Monaco to advance in bilateral relations and enable the signing of contracts between Chinese and French companies, which include the sale of 300 Airbus to China Aviation Supplies Holding Company. Likewise, Paris was host to a meeting between Xi Jinping, Emmanuel Macron, Angela Merkel and the President of the European Commission, Jean-Claude Juncker, where the possibility of greater "reciprocity" in trade relations between the EU and China was

discussed. A sensitive point for these relations to prosper is China's advance in strategic infrastructure investments. In this sense, some days before, the European Commission had made public a revision of its relation with the Asian country and a strategic study in this regard.

### **NEW REGULATIONS FOR FDI IN THE EU**

In March, the EU Council approved a new framework for the control of FDI coming into the EU. It will enter into force next April and will establish a mechanism of cooperation between the member states and the Commission for the analysis of investments, while allowing the Commission to issue rulings when an investment poses a threat to security or public order of more than one member state, or when it interferes with the strategic interests of the EU.

### **THE EU SANCTIONS GOOGLE**

The European Commission sanctioned Google Inc. with a € 1.49 billion fine –1.29% of the turnover in 2018– for abuse of its dominant position in the advertising intermediation services of its *AdSense* tool. The conducts sanctioned included exclusivity clauses in the contracts with the websites that hosted its advertising, thus preventing other intermediaries such as Microsoft or Yahoo from placing their adverts. In turn, in the research process, it was detected that the exclusive advertising placement modality had been gradually changed. It had been replaced by location clauses, in which Google reserved the most visible and frequented areas in the search results of the websites, and by clauses that requested the express authorization of the company in order to change how the rival adverts were displayed,

controlling their impact on potential consumers.

### **ITALY ADOPTS NEW CONDITIONAL TRANSFER AND THE “100 QUOTA”**

In March, the Decree-Law No. 4 of 28 January, 2019 entered into force in Italy, establishing the granting of a conditional cash transfer known as “citizenship income” (*Reddito di cittadinanza* or RdC) and a retirement age reduction programme known as “Quota 100”.

The RdC is intended for all applicants who prove ten years of residence in the country, two of them consecutive years, regardless of their nationality. The benefit is equivalent to a transfer of up to € 780 for people who are unemployed or who declare income below

that value, currently representing around 5 million people. The transfer amount is in line with the estimates of absolute poverty and replaces the *Reddito di Inclusione* existing so far, while tightening the compensation conditions (in several public service jobs or professional training courses or studies). The “Quota 100”, in turn, provides for a reduction in the retirement age to 62, with 38 years of contributions.

The RdC is particularly relevant as it becomes one of the most important minimum income programmes in Europe in monetary terms. The “Quota 100” has already led to reconsiderations by the Organization for Economic Co-operation and Development (OECD). According to the Italian government, both provisions aim to revive the labour market and fight poverty and inequality.

## **LATIN AMERICA**

---

### **AUTOMOTIVE AGREEMENT BETWEEN MEXICO AND MERCOSUR EXPANDS**

Brazil and Mexico have liberalized the trade in light vehicles and auto parts since 19 March, as foreseen in the Fifth Additional Protocol to Appendix II of Economic Complementation Agreement No. 55 (ACE 55). For the rest of the vehicles –cars and buses–, it would become effective as of 2020. Likewise, a Regional Content Index (ICR) of 40% for vehicles has come into effect; the previous ICR had been 35%. However, these countries agreed that they would work on redefining this formula.

On the other hand, Argentina and Mexico have signed a Sixth Additional Protocol to Appendix I of the ACE 55 in which they postpone the free trade of light vehicles –

which also had to become effective on 19 March– until the year 2022. Meanwhile, they agreed to new reciprocal quotas with a zero tariff incremented annually in relation to the last in force dated March 2019 of US\$ 637 million (US\$ 701 million, US\$ 736 million and US\$ 773 million quotas for the three-year extension period) and to maintain the ICR at 35%.

### **BRAZILIAN INDUSTRIALISTS PRESENT FOREIGN TRADE PROPOSALS**

The Brazilian National Confederation of Industry (CNI, for its acronym in Portuguese) presented the International Agenda of Industry 2019 with 110 public policy proposals to strengthen foreign trade, which include facilitating trade and simplifying burdensome bureaucracy, and increasing

Brazil's participation in the BRICS New Development Bank. In terms of negotiations, it proposes to make different trade agreements, and reach deals on double taxation, social security, cooperation and facilitation in investment matters with a wide range of countries.

### **SOUTH AMERICA LAUNCHES "PROSUR"**

After most of the member states of the Union of South American Nations (Unasur) announced their departure from the bloc, representatives from Argentina, Brazil, Colombia, Ecuador, Guyana, Paraguay and Peru met in Chile to create the Forum for the Progress of South America (Prosur). This is projected as a space for dialogue and cooperation in various areas, such as

infrastructure, energy, health and defence, among others. The structure of Prosur is expected to be flexible, with an agile decision-making mechanism.

### **ARGENTINA AND PERU INITIATE TRADE NEGOTIATIONS**

In March, Argentina and Peru started the first round of negotiations for the expansion and strengthening of the Economic Complementarity Agreement No. 58 (ACE 58) in force between the Andean country and Mercosur. The objective is to deepen the regulatory framework to facilitate trade and expand the coverage of the agreement in different trade disciplines, especially in services, investments and SMEs.

## **UNITED STATES**

---

### **USMCA RATIFICATION DELAYED**

The Office of the U.S. Trade Representative (USTR) published the *"Trade Policy Agenda"* of 2019 that marks as one of the priorities in the foreign trade programme the signing of the Treaty between the United States, Mexico and Canada (USMCA). More precisely, the goal of Trump's government is to achieve legislative approval before May or June of this year. Moreover, if Mexico and Canada ratified the agreement as rapidly, it would come into effect in 2020. If the process were extended, the ratification would be threatened by the elections scheduled for October in Canada and for November in the U.S.

However, it is not clear when Congress will consider the USMCA. On the one hand, the

Trade Promotion Authority (TPA) requires prior presentation of an analysis by the U.S. International Trade Commission (USITC) on the possible economic impact of the agreement, which is expected to be available only on 20 April, since its completion had to be postponed due to the recent partial government shutdown. The Trump Administration also shows concerns that these terms cannot be met due to delays in the approval of labour reforms in Mexico. These are necessary for the ratification of the agreement and, although they were expected on 1 January 2019, the Mexican authorities assured they would be ready for approval in April. In turn, the three countries have yet to solve the disputes over steel and aluminium tariffs imposed by the U.S. Mexico and Canada have demanded that this matter

be solved before the ratification of the USMCA.

## **2019 REPORT ON FOREIGN TRADE BARRIERS**

In March, the USTR published its 2019 National Trade Estimate Report on Foreign Trade Barriers, which addresses the restrictions faced by U.S. exports of goods and services, and investment. It covers 65 countries, customs territories and regional associations, and includes the partners of the U.S. free trade agreements and the 50 largest export markets for U.S. products. These countries account for over 95% of the country's trade in goods and services.

The report has traditionally classified the barriers to foreign trade into 11 categories, spanning import policies, technical barriers to trade, sanitary and phytosanitary measures, subsidies, restrictions on government procurement, protection of intellectual property rights, barriers to trade in services, digital trade issues, barriers to investment and competition policies. Its 2019 edition included the retaliatory steps taken by several countries (Canada, the EU, India, Mexico, Russia and Turkey) in response to the tariffs imposed on aluminium and steel by the U.S., as well as those implemented by China in the context of escalating trade tensions between both countries.

## **TENARIS SEEKS TO EXPAND IN THE U.S.**

Tenaris, a subsidiary of the Argentine Techint Group, reported the signing of a definitive agreement for US\$ 1.21 billion to acquire 100% of the shares of the Russian company PAO TMK, a steel-pipe manufacturer in the U.S. Tenaris is a world leader in the production of seamless steel tubes for the oil

industry and, if the operation is completed – which still depends on the approval of the corresponding competent authorities–, it would improve its position in the U.S. market by expanding its offering and reach.

## **ECONOMIC TIES WITH BRAZIL STRENGTHENED**

The governments of Brazil and the United States undertook different commitments during the Brazilian President's visit to the North American country. One of the most important would be Brazil's intention not to invoke the special and differential treatment (special provisions regime for the benefit of developing countries) in future negotiations within the framework of the WTO. In turn, the United States would provide support for the entry of the South American country into the OECD and would make efforts to designate it as major non-NATO ally, a category in which other countries, such as Argentina, are already included.

On the other hand, both countries signed three instruments. One of them is the Technological Safeguards Agreement that would allow the U.S., among other countries, to make use of Brazil's Alcântara Launch Center to send its satellites into orbit. According to estimates from the Brazilian National Confederation of Industry (CNI), this would inject 1.5 billion reais into the Brazilian economy and allow the country to start exporting services related to that industry. The remaining instruments are a memorandum of understanding between the Brazilian Space Agency (AEB, for its acronym in Portuguese) and NASA, and a letter of intent between the U.S. Agency for International Development (USAID) and the Brazilian Ministry of Environment.

During said visit, Bolsonaro also committed to making use of a tariff-rate quota for the import of 750,000 annual tonnes of wheat, with an intra-quota tariff of 0%, consolidated in its entry into the WTO. This would allow the admission of U.S. wheat into Brazil and would mean a departure from its historical position of not importing from countries that subsidize wheat production. In 1996, Brazil had begun negotiations to remove this tariff-rate quota, although these were never concluded. After the announcements, the

Argentine government began talks with the Mercosur authorities to analyse the impact that this measure could have on trade with Brazil, taking into account that this is the second most important item in the bilateral exchange.

Within the same framework, Bolsonaro agreed to allow the access of U.S. pork, while the United States promised to send its health authorities to Brazil to try to resume the exports of fresh beef to the U.S., suspended in 2017.

## CHINA

---

### CHINA ADOPTS NEW FOREIGN INVESTMENT LAW

On 15 March, the National People's Congress of the People's Republic of China (the NPC, as the Chinese legislative body) approved a new Foreign Investment Law, which will enter into force on 1 January 2020 and replace the three existing laws that regulate the joint venture enterprises and the Wholly Foreign Owned Enterprises or WFOE. The new legislation seeks to stop the government from exerting pressure on technology transfer and guarantee the same treatment for the products and services of foreign companies, compared to local ones, in public procurement activities.

In general terms, the law is intended to settle the reclamations that both the EU and the U.S. have made in that respect –the FDI access conditions to China and the state support given by this country to its enterprises investing abroad– and it is approved within a context of likely end to the

global trade tensions and almost in parallel to the fact that the EU approves a new framework to FDI control in the region (*see Europe section*). Nevertheless, both the EU and the U.S. chambers of commerce pointed out that the text of the Chinese regulation was approved without respecting the usual period of consultation, and they consider its language to be too vague, thus likely to suffer discretionary application.

According to the Ministry of Commerce of the People's Republic of China (MOFCOM), FDI in Mainland China has increased 3.0% year-on-year in the first two months of the year, while the sectors that were most favoured by the inflow of investments have been high-tech industries and manufactures, which showed a 48.4% and 9.3% year-on-year growth, respectively.

### SHARP FALL OF FOREIGN TRADE IN FEBRUARY



According to the General Administration of Customs of the People's Republic of China (GACC), foreign trade in goods fell by 13.8% year-on-year in February, as a result of a 20.7% reduction in exports and a 5.2% contraction in imports. The latter add concern to the slowdown in growth, which contracted to 6.6% in 2018, its lowest level in the last 28 years.

Data from the first two months of the year have been influenced by the Lunar New Year and spring break, which took place in advance this year, in relation to 2018, making Chinese exporters accelerate their January shipments. Thus, if the January-February period is analysed, foreign trade had an overtly lower reduction (-3.9%), in agreement with exports (-4.6%) and imports (-3.1%). In the disaggregated by partner, the 9.9% fall in exports to the U.S. stands out, while imports from said origin contracted 32.2% during the same period.

#### **CHINA ANNOUNCES RARE EARTH MINING QUOTAS**

China announced the first stage of quotas for the production of tungsten and “rare earth elements” (strategic minerals used in high-tech products) for 2019. In line with the recent implementation of environmental measures to mitigate the impact of the activity, China set a 60,000 tonne production quota, half of what had been set for 2018. This reduction could have an impact on the international market of these minerals since China is one of their main global suppliers.

#### **ARGENTINE HONEY MAKES ITS WAY INTO THE CHINESE MARKET**

In March, authorities from China and Argentina signed the sanitary protocol for the access of Argentine honey into the Asian country, thus facilitating openness of a market that has a high demand of the product. Argentina is the second world exporter, particularly following China, and it is the third producer. In 2018, our country exported more than 70,000 tonnes, at a US\$ 175 million value, mainly to the U.S. (54%), Germany (20.1%), and Japan (6.3%).



Ministry of Foreign Affairs and Worship  
**Argentine Republic**

**Closing date of this issue: 5 April, 2019**

---

The opinion expressed in this publication does not necessarily reflect the views of the Ministry of Foreign Affairs and Worship of Argentina.

Hyperlinks to other websites are merely informative and do not imply responsibility for or approval of their content on the part of CEI.