CEI Centre for International Economy

GLOBAL REPORT

APRIL 2021

WORLD

Health protectionism upheld due to COVID-19
World leaders promote a treaty against future pandemics
Global economic activity recovers
Blockade in the Suez Canal deepens maritime transport crisis

EUROPE

Switzerland ratifies free trade agreement with Indonesia
Switzerland publishes foreign policy strategy with China
Brexit: EU-US agreement on tariff quotas
The EU renews interest in the EAC amid the advance of the UK and the US

SOUTH AND CENTRAL AMERICA

30 years of Mercosur: debate continues over the common external tariff
Argentine automotive industry, the least affected in America
Chile advances in sustainable water management
The CAN will implement a customs facilitation project

NORTH AMERICA

The US publishes its 2021 trade agenda
Digital services tax: no changes in Biden's Administration?
Boeing-Airbus: the US agrees to reciprocal suspension of tariffs
Canada seeks to join the Digital Economy Partnership Agreement
Ratification of the Canada-United Kingdom treaty

ASIA

China and Thailand ratify the RCEP
Japan promotes measures to boost its agricultural exports
Iran and China sign a 25-year cooperation agreement
China launches ambitious manufacturing plan

AFRICA

Economic outlook for Africa: recovery with more poverty
South Africa seeks to boost its agricultural industry
Kenya prohibits maize imports from its main partners

WORLD

HEALTH PROTECTIONISM UPHELD DUE TO COVID-19

The distribution of vaccines against COVID-19 is witnessing strong health protectionism. At the beginning of the pandemic, countries that lacked medicines and medical supplies proceeded to facilitate their imports, while producing countries restricted their exports. With the advance in the development of vaccines, the countries began to debate other types of commercial or trade-related measures. One of these is the temporary waiver from compliance with the rules on intellectual property, requested before the WTO by South Africa and India in October 2020. Although this proposal has not prospered so far, several developing countries have adhered to it (see CEI Global Report, March 2021) and also members of the European Parliament and the US Congress have supported it, introducing the issue on President Biden's agenda.

In March, there also were discussions over the vaccine export restriction policy that the EU applies to the laboratories with which it signed a commitment (consisting of the right to buy a certain amount of vaccines in exchange for financing part of the development costs). This restriction, which was implemented as of late-January, was extended until June of the current year.

While the European Commission considers this measure to be compatible with WTO rules, the agency's Director-General, Ngozi Okonjo-Iweala, stated that, out of the requirements which these restrictions must comply with –transparency, proportionality and temporality– the third is not being fulfilled.

WORLD LEADERS PROMOTE A TREATY AGAINST FUTURE PANDEMICS

In March, leaders of the World Health Organization (WHO) and twenty-five countries supported the proposal presented by the EU before the United Nations General Assembly in December of 2020 to begin to discuss the bases for the creation of a more robust international health architecture that protects the future generations. The consensus is univocal: the world must prepare for future epidemiological challenges.

Among the leaders who backed the initiative are British Prime Minister Boris Johnson and the Presidents of Chile, Sebastián Piñera; Costa Rica, Carlos Alvarado Quesada; South Africa, Cyril Ramaphosa, and South Korea, Moon Jae-in.

GLOBAL ECONOMIC ACTIVITY RECOVERS

The global economy is showing signs of recovery owing to the measures applied to tackle the pandemic, and, in particular, to the fiscal stimulus implemented in the US. According to the OECD March Economic Outlook report, the global economy would grow by 5.6% in 2021 and 4% in 2022, whereas the decline in 2020 would have stood at 3.4%. Growth in the current year would occur in all G20 countries, including India (12.6%) and China (7.8%). The Argentine economy would grow by 4.6%, that of Brazil, 3.7%; the US, 6.5% and the eurozone, 3.9%.

On the other hand, the WTO projected that the international trade, measured in volume, will grow 8% this year and 4% in 2022, after having fallen 5.3% in 2020.

BLOCKADE IN THE SUEZ CANAL DEEPENS MARITIME TRANSPORT CRISIS

The Suez Canal remained obstructed for a week in March because a container ship ran aground in the canal, blocking traffic flow on a route through which 10% and 12% of world trade (and 30% of global container traffic) passes. This brought about a strong economic and commercial impact and prompted warnings of an event that could be repeated in the future and that forces to think of organisational alternatives of maritime transport.

As a result, there were major economic costs. First, there was a hike in the price of goods affected by this sudden supply shortage, as is the case of oil. In addition, the redistribution of empty containers towards China was delayed, since they remained blocked in different destinations due to the COVID-19 outbreak (see CEI Global Report, February 2021) and there was a financial burden derived from the delay of the merchandise to arrive at its destination. The cost of rerouting the ships towards alternative routes was of US$ 26,000 in fuel per day and more ships and containers were required to maintain the trade flow with routes that take longer.

EUROPE

SWITZERLAND RATIFIES FREE TRADE AGREEMENT WITH INDONESIA

Switzerland submitted the free trade agreement with Indonesia to a referendum, which received 51.7% approval and was subsequently ratified in March. Signed in 2018 and approved by the Swiss Parliament in 2019, the agreement had to be referred to the people due to the debate aroused by the concessions to be granted to palm oil from Indonesia, the world's largest producer. The last vote of this type took place in 1972 on the occasion of the agreement with the European Community.

The agreement provides for the phasing out of tariffs for almost all major exports from Switzerland to Indonesia, while the European country will eliminate import duties on Indonesian industrial products but maintaining certain exceptions for agricultural products, in particular to protect its sunflower oil and canola production.

In the case of palm oil, Swiss tariffs will be reduced by between 20% and 40%, with a volume limited to 12,500 tonnes per year. The reason why Swiss citizens reject the imports of this product is that the industry is associated with deforestation and habitat degradation (especially that of orangutans) and the exploitation of local labour. The agreement specifies that palm oil may benefit from tariff concessions if it is produced sustainably.

With a population of 271 million, Indonesia is expected to be among the four largest economies in the world by 2050.

SWITZERLAND PUBLISHES FOREIGN POLICY STRATEGY WITH CHINA

The Swiss Federal Council published its foreign policy strategy with China for the first time in March 2021. It sets out the objectives for the 2021-2024 period and seeks to bring coherence to the multiple economic links between the two countries –including a free trade agreement and a strategic cooperation agreement. As reported, Switzerland does not intend to intervene in the geopolitical aspects between China and the US, but seeks its own interests. The thematic areas of interest mentioned include pursuing balanced trade, achieving environmental sustainability standards in projects and promoting rules on digital issues aligned with international standards.

BREXIT: EU-US AGREEMENT ON TARIFF QUOTAS

The USTR announced the conclusion of negotiations with the EU on the adjustments of the bloc's tariff rate quotas (TRQ) at the WTO following the Brexit. Reached after two years of negotiations, the agreement determines how quotas will be shared between the EU27 and the United Kingdom and includes products such as beef, poultry, rice, dairy, fruits, vegetables and wines. The accord preserves the original volumes of the bloc's TRQs and will be signed and implemented once formal approval procedures by the EU are completed.

It should be noted that the European bloc maintains similar negotiations with 21 other countries, including Australia, Argentina and Indonesia.

THE EU RENEWS INTEREST IN THE EAC AMID THE ADVANCE OF THE UK AND THE US

The EU announced its interest in reviving trade talks with the East African Community (EAC), which have been stalled for a long time. This renewed interest follows Kenya's progress in its negotiations with the UK and the US and will enable it to be set up as a gateway to the region.

In this regard, the President of the European Council, Charles Michel, met with Kenyan President Uhuru Kenyatta to express EU's willingness to recover trade negotiations. Both pledged to pursue an increasing and improved economic integration in the future, and to ensure that Kenya and the EAC countries have more access to the EU single market.

SOUTH AND CENTRAL AMERICA

30 YEARS OF MERCOSUR: DEBATE CONTINUES OVER THE COMMON EXTERNAL TARIFF

The Presidents of member countries –Argentina, Brazil, Paraguay and Uruguay– and of associate counties –Bolivia and Chile– met via video conference in March to commemorate the 30th anniversary of the signing of the Treaty of Asunción that gave rise to Mercosur.

Among the aspects discussed, Argentina, the country holding the pro tempore presidency, presented the Mercosur Citizenship Statute (ECM, for its acronym in Spanish), which encompasses rights and benefits for the inhabitants of the bloc in matters as diverse as people's movement, work and social security, among others.

Regarding economic and commercial issues, the Presidents highlighted the importance of the bloc's cooperation for the economic development of the region and the generation of employment and support for local entrepreneurs to achieve higher quality production and lower costs. For his part, the President of Argentina, Alberto Fernández, stressed the need to "improve" the Common External Tariff (CET), an issue that will be addressed in the meeting of the regional *ad hoc* group on 22 April. The Argentine President urged his counterparts to correct the inconsistencies of the CET in order to add greater stimulus to aggregate value and thus preserve the balance between the agribusiness and industrial sectors.

In this context, one of Mercosur's biggest challenges is the ratification of the agreement with the EU, which took 20 years of negotiations. In this regard, new restrictions by the European bloc were announced, although at the beginning of the year Portugal showed its willingness to move forward with the agreement (see CEI Global Report, October 2020). On this occasion, the EU Ombudsman expressed support for the criticism by five NGOs regarding the European Commission's delay to publish the environmental impact report of this agreement.

ARGENTINE AUTOMOTIVE INDUSTRY, THE LEAST AFFECTED IN AMERICA

The International Organization of Motor Vehicle Manufacturers (OICA, for its acronym in French) released the 2020 vehicle production figures, evidencing the worst crisis the industry has ever faced with a year-on-year drop of 15.8%. Although production had already declined in 2019, the closures of many plants and the problems in the supply chains as a result of the pandemic led this industry, which is key to the world economy, to a result even worse than that of the financial crisis of 2009, when production fell 12.7%.

At the regional level, the most affected continent was Africa (-35.3%), although its weight in global production is very small (0.9%), followed by America, which accounts for 20.2% of the market and whose overall fall was 22.1%. Among the main producers in the region, Argentina was the least affected, with a reduction in production of 18.3%; followed by the US (−19%) and Mexico (−20.8%). Conversely, the most affected producers were Colombia (−34.8%), Brazil (−31.6%) and Canada (−28.2%).

In turn, Europe and Asia and Oceania, which as a whole represent 78.9% of the global output, produced 21.6% and 10.2% fewer vehicles than in 2019, respectively. China was the country that cushioned the decline in Asia, given that its production only fell 2.0% and accounts for 32.5% of the global aggregate supply.

CHILE ADVANCES IN SUSTAINABLE WATER MANAGEMENT

The Corporation for the Promotion of Production of the Chilean government and Chile Foundation promoted the Blue Certificate, a clean production agreement implemented within the framework of the Latin American programme "*El Agua nos Une*" (Water brings us together) and the commitments made by Chile in the United Nations Framework Convention on Climate Change. Adherence to the certificate will be voluntary and, in exchange, expenses incurred in obtaining it may be deducted from income taxes.

Through this instrument, companies undertake to apply the International Standard on Water Footprint Assessment (ISO 14046), which makes it possible to identify direct and indirect water consumption (involved in the supply chain) and assess the effects of production on human health and the ecosystems.

THE CAN WILL IMPLEMENT A CUSTOMS FACILITATION PROJECT

Bolivia, Colombia, Ecuador and Peru, member countries of the Andean Community of Nations (CAN), approved the implementation of the "Community Interoperability Project" (INTERCOM) for the exchange of customs and foreign trade data among them. The purpose of this project is to reduce costs and time in foreign trade operations, while avoiding face-to-face procedures, of particular importance in times of COVID-19. The CAN is in the process of obtaining financing from the Development Bank of Latin America (CAF) to cover the expenses necessary for its implementation.

NORTH AMERICA

THE US PUBLISHES ITS 2021 TRADE AGENDA

The USTR released the 2021 Trade Agenda in March, listing Biden Administration's trade policy priorities. One of the main goals will be to restore US global leadership and repair priority partnerships and alliances for the country. In addition, the government will work towards implementing the necessary reforms in the WTO and will seek the strict application of trade rules by its partners, (presumably in reference to the USMCA), including labour and environmental regulations.

Regarding China's coercive and unfair economic trade practices, the President is committed to using all available tools to address measures that harm American workers and businesses. This includes both ensuring that China meets its existing trade obligations, as well as addressing global market distortions created by industrial overcapacity.

Regarding climate change, the document specifies that the US will seek to reduce greenhouse gas emissions and achieve net-zero global emissions by 2050 or earlier, foster innovation and the production of climate-related technology, and promote resilient renewable energy supply chains.

DIGITAL SERVICES TAX: NO CHANGES IN BIDEN'S ADMINISTRATION?

After becoming the new US Trade Representative in March, Katherine Tai released the findings of the section 301 Digital Services Tax investigations. Tai stated that US policy on the matter will seek to conform to what is agreed internationally based on OECD studies. However, until such consensus is reached, she confirmed that the ongoing investigations under section 301 of its commercial law will continue. With this pronouncement, Tai would appear to continue Trump's policy on the matter.

Thus, on the one hand, in March the USTR began the process of public notification and comments on potential trade actions in the cases of Austria, Spain, India, Italy, the United Kingdom and Turkey. It should be remembered that in January of this year, the USTR had determined that the taxes adopted by these countries discriminated against US companies, were inconsistent with international tax principles and represented a burden for the country's digital companies (see CEI Global Report, February 2021). On the other hand, the USTR terminated the investigations corresponding to Brazil, the Czech Republic, the European Union and Indonesia, since these countries had not implemented the tax.

BOEING-AIRBUS: US AGREES TO RECIPROCAL SUSPENSION OF TARIFFS

The United States agreed with the EU and the United Kingdom to the mutual suspension of retaliatory tariffs imposed in the framework of disputes held in the WTO over large civil aircraft. In October 2019, the multilateral body had authorised the US to impose tariffs on imports from the EU worth up to US$ 7.5 billion in retaliation for aid granted to Airbus. Similarly, a year later, the EU was allowed to impose countermeasures on US products for the subsidies provided to Boeing, worth up to US$ 4 billion.

The agreed suspension will cover all affected products for a four-month period. In that time, the three partners will try to reach a negotiated and lasting solution to the disputes, which includes disciplines on future support in the sector, as well as measures for the supervision and application of the aid. In turn, they will seek to address the treatment of trade distorting practices and challenges posed by new players in the sector, particularly the non-market economies.

CANADA SEEKS TO JOIN THE DIGITAL ECONOMY PARTNERSHIP AGREEMENT

Canada's Minister of Small Business, Export Promotion and International Trade, Mary Ng, announced her country's interest in joining the Digital Economy Partnership Agreement (DEPA), signed between Chile, New Zealand and Singapore in June 2020 (see CEI Global Report, September 2020). Canada already held the first exploratory talks with the members of the agreement in February, and will now initiate public consultations with all the interested parties.

RATIFICATION OF THE CANADA-UNITED KINGDOM TREATY

Following the royal assent of the bill to implement the Agreement on Trade Continuity with the United Kingdom, Canada announced the ratification of the agreement, which will enter into force on 1 April 2021. The Agreement will ensure that exporters and companies from both countries have continuous preferential access to the counterpart's market, similar to what they had under the framework of the Comprehensive Economic and Trade Agreement between Canada and the EU (CETA). As this continuity treaty is an interim measure, the two parties hope to enter into future negotiations on an ambitious and high-level new free trade agreement that better reflects the bilateral relationship and trade priorities.

ASIA

CHINA AND THAILAND RATIFY THE RCEP

China ratified the Regional Comprehensive Economic Partnership (RCEP) agreement in March. Together with Thailand, they are the first countries to do so and the remaining members –13 countries in the Asia-Pacific region– are expected to follow suit during 2021. The entry into force of the agreement will occur when it is ratified by at least seven other signatory countries, five from ASEAN and another two from outside the bloc. Thus, the RCEP, which promises to be the largest free trade agreement in the world, would presumably enter into force in January 2022.

As reported at a press conference by China's Vice Minister of Commerce Wang Shouwen, the RCEP will eliminate tariffs on almost 30% of China's exports to other member countries of the agreement.

JAPAN PROMOTES MEASURES TO BOOST ITS AGRICULTURAL EXPORTS

The government of Prime Minister Suga of Japan introduced a bill to revise the regulation on Special Measures to Facilitate Investment in Agricultural Corporations. The project aims to expand the range of investments that can be made by special agricultural funds or limited liability companies. So far these can only invest in the agricultural sector, but the revision would allow them to do so in the fishing, forestry and food processing sectors.

With this change in legislation, the Japanese government has the target to expand its agricultural exports from US$ 8.5 billion (2020) to US$ 18.5 billion (2025) and US$ 46.1 billion (2030). The review is expected to play an important role in helping to promote exports given the large investments needed in infrastructure systems, overseas marketing and advertising, and human resource development.

The promotion of agricultural exports became an important element of the country's economic growth strategy. Indeed, Japan is also negotiating with other countries the elimination or reduction of trade barriers and regulations on these products.

IRAN AND CHINA SIGN A 25-YEAR COOPERATION AGREEMENT

China and Iran signed a 25-year trade cooperation agreement in Tehran in March and agreed to Iran's participation in the One Belt, One Road (OBOR) initiative. The agreement was made within the framework of the comprehensive strategic alliance that both countries have in force since 2016 and establishes a roadmap for reciprocal investments in the fields of transport, ports, energy and services. According to the press, the agreement calls for Chinese investments for around US$ 400 billion in the Iranian energy and infrastructure sectors. In return, Tehran would guarantee Beijing a stable supply of oil and gas. China also pledged to send COVID-19 vaccines to Iran as a priority.

Both countries also took the opportunity to challenge the unilateral sanctions imposed by the US. In particular, the agreement aims to counter US sanctions on Iran. China is this country's main trading partner and was one of its largest oil buyers before the Trump Administration abandoned the multilateral nuclear deal in 2018 and imposed sanctions on the country, including prohibiting any other country from buying oil from Iran.

CHINA LAUNCHES AMBITIOUS MANUFACTURING PLAN

On March 11, the closing session of the National People's Congress (PNA) of China annual session took place. This year, the government adopted the outline of the 14th Five-Year Plan (2021-2025) and the long-term objectives (2035). The main goals include the urban unemployment rate target of 5.5%, an increase in spending on research and development of more than 7% and a reduction in energy consumption and carbon dioxide emissions per unit of GDP, of 13.5% and 18%, respectively.

The five-year scheme includes a comprehensive plan for the production of advanced manufacturing and consists of eight priority areas including: rare earths and special materials, robotics, aircraft engines, new energy vehicles and smart cars, high-end medical equipment and innovative medicine such as vaccines, agricultural machinery, major equipment used in shipbuilding, aviation and high-speed rail and industrial applications of China's *Beidou* global navigation satellite system.

With this ambitious plan, China seeks to achieve a high-tech transformation in the aforementioned sectors, strengthen the country's position in global supply chains, further reduce its dependence on foreign technologies, and improve its competitiveness.

AFRICA

ECONOMIC OUTLOOK FOR AFRICA: RECOVERY WITH MORE POVERTY

The African Development Bank (AfDB) noted in its annual report "African Economic Outlook 2021" that it expects the African continent to recover from its worst recession in half a century and achieve growth of 3.4% in 2021. The report points out that the COVID-19 pandemic had a massive toll in Africa, hitting economies dependent on tourism and oil exporters more heavily, as well as deepening the already large economic inequality.

The projected recovery across the continent for 2021 does not eliminate the threat of increased poverty. Indeed, an estimated 39 million Africans could fall into extreme poverty this year. The report finds that populations with lower levels of education, few assets and informal jobs are the most affected and must be protected.

SOUTH AFRICA SEEKS TO BOOST ITS AGRICULTURAL INDUSTRY

In an effort to boost and protect agricultural production, the South African government is implementing various aid measures. In March, the authorities created a US$ 340 million agribusiness fund to reduce entry barriers and finance black farmers.

This aid is contextualised in a more general government strategy to revive certain key sectors of the economy through master plans. In particular, the Poultry Master Plan, which was implemented in November 2019, is reaping its fruits. In an assessment carried out in March, it was reported that an investment of US$ 58 million was achieved in the sector (a 5% increase in production) and the creation of almost 1,000 jobs, which is enabling the gradual recovery of the local production and the supply of the main supermarket chains.

It should be noted that during 2020 tariffs were implemented on the imports of poultry products that caused a rise in their prices. In March, the South African Poultry Association (SAPA) additionally requested the application of anti-dumping duties on poultry products from Brazil and four European countries.

KENYA PROHIBITS MAIZE IMPORTS FROM ITS MAIN PARTNERS

In early March, the Kenyan government banned maize imports from Uganda and Tanzania. This resulted from investigations by Kenya's Agriculture and Food Authority, which found that the levels of aflatoxins in the shipments exceeded safe health limits. Aflatoxins are poisonous substances produced by certain types of fungi that can contaminate food crops and pose a serious threat to the health of humans and livestock. The WHO further reports that aflatoxins cause the annual destruction of approximately 25% of the world's food crops.

The governments of Tanzania and Uganda pointed out that the Kenyan decision violates the trade provisions of the East African Community (EAC), which establish tolerance standards for aflatoxins in maize. However, the systems implemented by each EAC country for screening tests follow their own security standards and protocols.

For both Tanzania and Uganda, the Kenyan market is a key export destination, as it offers better prices than the domestic ones, so any trade disruption means huge losses for the producers. Kenya, in turn, relies on maize from both African partners to meet its annual demand (95% of total imports). Argentina also exports maize to Kenya (US$ 300,000 in 2019), so there is a possibility that these will increase due to the closure of the aforementioned markets.

Ministry of Foreign Affairs
International Trade and Worship
Argentina

Closing date of this issue: 31 March 2021