APRIL 2022

# CEI GLOBAL REPORT

CEI Centre for International Economy

## WORLD



## EUROPE



## SOUTH AND CENTRAL AMERICA



## NORTH AMERICA



## ASIA AND OCEANIA



## AFRICA

## Russia-Ukraine War: stagflation and restructuring of world trade

The war between Russia and Ukraine is affecting the world economy in several ways. In the short term it is already causing an increase in the price of commodities that have these two countries as important exporters –namely, oil, gas, wheat, corn–, which will maintain the high levels of post-pandemic inflation. The decline in the economic activity of the belligerent countries also began, because of the war itself –especially for Ukraine– and because of the economic sanctions –in the case of Russia–.

In the medium term, there will be lower global growth: this is why the OECD projects that the world economy will grow 1.1 percentage points (pp) less the first year since the beginning of the conflict and the countries of the euro area 1.4 pp less. Global inflation, on the other hand, will be 2 pp higher. There will also be a reorganisation of the production and marketing chains that will have to replace the links located in the countries in conflict, greater food insecurity in the most vulnerable sectors of Africa and Asia –which can lead to internal social unrest–, fiscal pressure due to increased defence spending and possible capital outflows from emerging economies. The biggest blow will be noticed in economies with very strong economic and trade links with Russia and Ukraine, such as the countries in the Caucasus, Central Asia and Eastern Europe.

Many countries which import commodities from the conflict zone will need to seek alternative sources of supply, as both countries are important suppliers of certain commodities. For example, Russia is the country of origin of 15% of the world imports of wheat (2019–2020 average, source: Comtrade), 11% of oil and 9% of gas, while Ukraine is where 9% of world wheat and 14% of corn imports come from. The countries which depend on wheat from Russia and Ukraine include Egypt (79% of their imports), Turkey (75%), Vietnam (30%) and South Africa (29%); other nations with the belligerent countries as their main source of imported maize are China (65%), the Netherlands (63%), India (38%) and Spain (35%). Added to this, there are many small and medium sized developing countries in Africa and Asia, with import percentages above 50%.

The African continent will likely suffer the most negative consequences from the increase in food prices caused by the conflict. The reduced supply of cereals from Russia and Ukraine, and the general rise in food prices may jeopardise the continent's food security. This situation is of concern to the African authorities, who have already begun to analyse scenarios in which rising inflation driven by rising food prices could lead to a social crisis in the region (see Africa).

Regarding the energy sector, oil-dependent countries include Hungary (73%), Poland (61%), Germany (29%) and the Netherlands (26%); while the nations that have the countries in conflict as their main suppliers of natural gas comprise Poland (69%), Hungary (64%) and Italy (40%). This could speed up the investment plans in clean energies and energy efficiency improvement (see Europe).

It will also have negative repercussions on the transport between Europe and Asia because of the closing and the increasing insecurity of the airways and land routes that cross both countries. The diversion to maritime transport will bring about freight price increases, additional to those that have been recorded in recent months.

## Invasion of Ukraine modifies EU energy plans

The Russian invasion of Ukraine poses a challenge to the EU's energy plans. The targets of the European Green Deal to reduce the use of fossil fuels in the medium term must now be reformulated and complemented by the new objective of reducing dependence on fuel from Russia in the short term.

Natural gas is the second energy source used in the EU and the bloc imports 90% of the gas it consumes. Russia contributes more than 45% of these imports, although the dependence of some countries is much greater. Likewise, 25% of oil imports and 45% of coal imports also come from the Russian Federation.

The post-invasion EU sanctions against Russia have led to increased tension between the bloc's authorities and Putin's government. Europe's dependence on Russian gas has become a major problem. First, because fuel exports are the main foreign exchange earnings for the Moscow government and a reduction in imports would result in greater difficulty for military advancement. But, mainly, because the European officials fear that, in the face of increased hostilities, Russia may decide to cut off the flow of gas that it sends by pipeline to the European continent.

In this context, the European Commission proposed on 8 March a draft plan called REPowerEU to reduce the EU's demand for Russian gas by two-thirds by the end of 2022. The plan seeks to diversify the supply of gas (natural and LNG), increase the volume of production and import of biomethane and renewable hydrogen and reduce more rapidly the use of fossil fuels.

EU Energy Commissioner Kadri Simson said about the plan that: "Russia's invasion of Ukraine has aggravated the security of supply situation and driven energy prices to unprecedented levels. For the remaining weeks of this winter, Europe has sufficient amounts of gas, but we need to replenish our reserves urgently for next year. The Commission will therefore propose that by 1 October, gas storage in the EU has to be filled up to at least 90% of its capacity" (the stored reserves currently amount to 30% of the total capacity).

## The EU takes action against steel from India and Indonesia

The European Union announced that it will impose higher tariffs on cold-rolled flat stainless steel products imported from India and Indonesia. The measure is an EU response to what it regards as unfair subsidies from these countries (and indirectly from China) on the export of these products.

According to European officials, the source of the problem is the bans imposed by both India and Indonesia on the exports of raw materials which end up becoming a disguised subsidy on the exports of flat steel products. They also consider that China offers Indonesia preferential financing which they describe as a "transnational subsidy".

The EU objects that with the application of these bans and disguised subsidies, the European production of stainless steel laminates is not only adversely affected by unfair competition that prevents it from competing for price, but also stops it from accessing raw materials of Indian and Indonesian origin.

The countervailing tariffs to be applied are 7.5% for India and 21% for Indonesia, in addition to the anti-dumping duties imposed in November last year, which range from 13.9% to 35.3% for India and from 10.2% to 20.2% for Indonesia. In total, steel products from India and Indonesia will see import tariffs of more than 40% to enter the EU.

## European Agreement on the Digital Markets Act

The negotiators of the European Council and Parliament reached a political agreement on the Digital Markets Act. Presented in December 2020 by the European Commission (see CEI Global Report, January 2021), the project sets up a series of rules so that large online platforms cannot abuse their position to the detriment of other companies or their users.

The measure will only affect companies considered “gatekeepers”. That is, only a handful of companies, mostly American, that meet the following requirements: having more than 7.5 billion euros of turnover within the EU or a market value of more than 75 billion euros and at least 45 million end users per month. They must also be active in at least three EU states.

These companies will be demanded, *inter alia*, to guarantee the right of users to unsubscribe easily from their services, not to impose default software on the installation of the operating system, and to inform the European Commission on the purchases they make. Among other prohibitions, they may no longer favour their own products or services on the platform, or reuse their customers’ personal data for the provision of a service that is different from the one for which they were collected.

The rule stipulates high penalties. In case of non-compliance with the regulation, platforms face fines of up to 10% of their turnover worldwide, reaching up to 20% in case of recidivism.

The agreement reached must be formally endorsed by the representatives of the countries in the Council and the Parliament, which is expected to happen in May.

# SOUTH AND CENTRAL AMERICA

## WTO and World Bank examine regional perspectives

Within the framework of a meeting between the World Trade Organization (WTO), the World Bank (WB), and representatives of the countries of Latin America and the Caribbean, the economic consequences affecting the region during the pandemic and the opportunities of international trade to restart its recovery were discussed.

According to the World Bank representative, the promotion of policies that improve productivity and foster trade openness would allow a return to a growth path that generates jobs, reduces poverty and protects the natural resources in the region. On the other hand, protectionism would discourage the investment and innovation needed to accelerate growth. The recommendations include long-term issues such as improving health and education systems and investing in renewable energy and adapting sectors such as agriculture to extreme weather events.

In turn, the authorities of the countries present at the meeting recognised the importance of advancing the digitisation of trade, among other facilitation measures, and reforming regulatory and competition regimes to improve the business climate and thus attract private investment. In addition, they acknowledged WTO and WB initiatives on sustainable development and gender policies and stressed the importance of advancing the discussion on issues such as fisheries subsidies, plastic pollution and WTO reforms.

## Argentina and Mexico renegotiate trade agreements

Argentina and Mexico renegotiated the conditions of the commercial exchange of light vehicles through the signing of the seventh additional protocol to Appendix 1 of its Economic Complementation

Agreement 55 (ACE, for its acronym in Spanish). This new instrument replaces the free trade scheme set to enter into force in March of this year by the previous protocol, and establishes duty-free trade for three years, between 19 March 2022 and 18 March 2025, with annual quotas worth US$ 773 million. Additionally, the parties agreed to negotiate the access conditions that will apply from 19 March 2025 for these vehicles, as well as for other goods in the automotive sector.

On the other hand, within the framework of the ACE 6, both countries set up, in favour of Argentina, a quota of 50,000 tonnes of beans to enter the Mexican market free of tariffs and without need of prior import permit for 3 years. Likewise, the parties committed to resuming the expansion of the ACE 6 in the coming months.

### Colombia and the United Arab Emirates conclude first phase of FTA negotiations

Colombia and the United Arab Emirates concluded a first round of negotiations for the signing of a Free Trade Agreement that will be the first of its kind between a Latin American country and a Gulf region nation. In this first phase, trade facilitation policies, sanitary and phytosanitary measures and customs procedures were agreed upon; and progress was made on technical barriers, trade defence, services, institutional issues and rules of origin. The second phase is expected to be completed in the next three months, in which the remaining topics will be addressed.

Colombia hopes that this agreement will allow it to attract investment in sectors such as agro-industry, renewable energy and tourism. In addition, it considers that it will provide an important opportunity for its agricultural and food exports, considering that the United Arab Emirates currently imports approximately US$ 5 billion worth of food from the world. In turn, Colombian exports to that country amount to US$ 162 million, led mainly by mining products. The non-mining exports include: beef, coffee, flowers, chocolates, sweets and mangoes, among others.

## NORTH AMERICA

### The US eliminates imports tariffs on steel and aluminium from the UK

The US government announced that as of 1 June it will remove tariffs of 25% on UK steel imports and 10% on aluminium purchases from that country. The levies, set in 2018 by Donald Trump's administration, will be replaced by tariff-rate quotas based on historical trade volumes. To qualify for duty-free treatment, steel must be melted and poured in the United Kingdom, although some processing in the EU will be allowed, whereas semi-finished aluminium products must not contain primary aluminium from China, Russia or Belarus.

In turn, the United Kingdom will eliminate retaliatory tariffs on US imports of distilled alcoholic beverages, several agricultural products and other consumer goods.

In addition, in order to combat steel excess capacity and market-distorting trade practices, the agreement states that any UK steel company owned by a Chinese organisation must have a financial statements audit to assess the influence of the Chinese government. In this regard, it should be noted that in 2020, the Chinese company Jingye Group acquired British Steel, the second largest steel company in the United Kingdom.

The Biden administration had already reached similar agreements with the European Union, in October, and with Japan, in early February (see CEI Global Report, November 2021 and March 2022).

## The US and Japan modify beef safeguard

The Office of the U.S. Trade Representative announced that the Japanese government had agreed to raise the beef safeguard trigger level included in the 2019 Japan-U.S. trade agreement (see CEI Global Report, October 2019). The safeguard was designed to be activated when Japanese imports of American beef exceeded a certain annual volume, increasing the tariff.

The US and Japan have now agreed on a three-trigger mechanism, whereby the three limits must be reached for the safeguard to be activated. The triggers are: (i) US beef exports must exceed the volume set out in the original safeguard; (ii) the aggregate volume of Japanese beef imports from the US and the rest of the original members of the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) must exceed the activation volume of the CPTPP beef safeguard; and (iii) US beef exports to Japan must be greater than in the previous year.

The new agreement will enter into force after both the United States and Japan have completed their internal procedures.

## Mexico negotiates FTA with South Korea, and Canada with the United Kingdom

The Mexican Secretary of Economy, Tatiana Clouthier, and the South Korean Minister for Trade, Han-koo Yeo, agreed to resume negotiations for a bilateral Free Trade Agreement (FTA), and hope to begin negotiations in the first half of 2022. According to the joint communiqué, both countries will seek to consolidate a modern FTA that lays the foundation for strengthening cooperation on trade-related issues, including supply chain resilience, environmental sustainability and digital transformation.

In turn, the Minister of International Trade, Export Promotion, Small Business and Economic Development of Canada, Mary Ng, and the Secretary of State for International Trade of the United Kingdom, Anne-Marie Trevelyan, announced that both countries will negotiate a bilateral free trade agreement. Governments hope to reach an ambitious, inclusive and sustainable agreement that advances the climate targets of both countries, strengthens supply chains and helps businesses benefit from digital trade. During the course of the negotiations, the Business Continuity Agreement signed between the two countries will remain in force after the Brexit is effective (see CEI Global Report, April 2021).

It should be noted that in 2021 South Korea was the third source of imports from Mexico and the eighth destination of its exports, while the United Kingdom was the third destination of Canada's sales abroad –both in goods and services– and the ninth source of its goods imports.

# ASIA AND OCEANIA

## China announces growth targets for 2022

Chinese Prime Minister Li Keqiang announced at the annual plenary meeting of the National Assembly that China set its economic growth target for 2022 at 5.5%. In 2021, the Asian country had forecast a 6% GDP growth; however, it reached 8.1%, mainly due to the rebound in exports amid the COVID-19 pandemic.

Li highlighted, among the main pressures during 2022, the drop in demand, disruptions in supply chains, weak growth expectations due to the pandemic and the conflict between Russia and Ukraine. On the other hand, he indicated that China will intensify the proactive fiscal policy and maintain a moderate monetary policy, with a stable exchange rate for the yuan. The fiscal deficit will be around 2.8%, evidencing a reduction from the target of 3.2% in 2021 and of 3.6% in 2020. The Premier also anticipated that inflation would remain at around 3% and 11 million jobs would be created in urban areas, keeping the unemployment rate in those areas at below 5.5%.

## Chinese industrial production grows 7.5% in the first two months of the year

Industrial production in China grew 7.5% during the first two months of the year, according to data of the National Bureau of Statistics (NBS). The figure exceeded analysts' estimates, who expected an expansion of around 4%.

Among the three main categories in which the organisation divides the industrial production data, there stands out the advance of mining, with a 9.8% year-on-year expansion, followed by manufacturing, with 7.3%, and energy production and supply, with 6.8%. Within the manufacturing sector, the NBS highlighted the 14.4% increase in high-tech manufacturing and, in the breakdown by product, the surge in electric vehicle production (150.5%).

On the other hand, the NBS published retail sales data –an indicator of the state of consumption, key to economic recovery– which reached 6.7%, well above the 3% forecast by several analysts.

## China sets energy targets for 2021-2025

The National Development and Reform Commission (CNDR) and the National Energy Administration of China published a document with the Asian country's energy targets for 2021-2025. By the end of that period, China intends to have increased its coal production capacity to more than 4.6 billion tonnes, its crude oil to 200 million tonnes and its natural gas to 230 billion cubic metres.

The document emphasises the need to make efforts to advance the large-scale development of wind and solar power generation, as well as to promote nuclear power in a safe and orderly manner. China will maintain a steady pace of nuclear power projects building, while setting the goal of raising installed nuclear power operating capacity to 70 million kilowatts by 2025. According to the targets, as the country increases energy production, it also seeks to reduce its carbon dioxide emissions per unit of GDP by 18% over a five-year period.

Likewise, the country seeks to gradually increase the share of non-fossil energy consumption by about 20% by 2025, and the proportion of electricity generation by non-fossil energy will reach approximately 39%, according to the goals set.

The announcements are made in a context where Chinese purchases of Russian coal stagnated because importers were unable to raise funds from state-owned banks to carry out the operations, worried about international sanctions after Russia invaded Ukraine. Similarly, the price of coal from other exporters, such as Indonesia, Australia and South Africa, has increased sharply. Russia is the second largest coal supplier to China, following Indonesia, with more than 50 million tonnes of coal, worth US$ 7.4 billion in 2021 (15% of total imports).

An extended period without Russian supplies is a concern for Chinese importers, as the Asian country maintains a ban on Australian coal imports and Indonesia imposed new export limits this year. On the other hand, the increase in freight costs is also a cause for unrest, as the shipment of coal from Indonesia and South Africa is significantly more expensive than from ports on the east coast of Russia.

### The RCEP enters into force in Malaysia

The Regional Comprehensive Economic Partnership (RCEP) entered into force in Malaysia on 18 March. According to a statement by the Ministry of International Trade and Industry (MITI) of that country, Malaysia is expected to record a US$ 200 million increase in export earnings, which would make the RCEP a key tool for post-pandemic economic recovery.

Currently, the RCEP is the largest Free Trade Agreement in the world, comprising almost a third (29.5%) of the world's population, and 29.4% of global GDP. Signed in November 2020, the RCEP brings together the 10 members of ASEAN, in addition to China, Japan, South Korea, Australia and New Zealand.

## AFRICA

### The war in Ukraine threatens food security in Africa

The President of the African Development Bank (AfDB), Dr. Akinwumi Adesina, stated that the war in Ukraine threatens both to cause disturbances because of the lack of food and to fuel political turmoil in Africa. The official pointed out that the price of wheat rose 62% since the beginning of the war, maize 36% and soybean 29%; while the price of fertilisers (critical for food production) rose 300%. In this sense, he stated that this situation, together with the rise in energy prices, could lead to a food crisis in the continent.

The restrictions because of the COVID-19 pandemic and the drought in Eastern Africa seriously damaged the food production in Africa, a situation that is worsened by the continent's strong dependence on the imports of cereal from Russia and Ukraine. Africa depends to a great extent on both countries for the imports of food: countries like Benin, Somalia, Tanzania, Sudan, the Democratic Republic of the Congo and Egypt obtain more than 50% of their imports of wheat from Russia and Ukraine, which also contribute with 90% of the wheat consumed in Eastern Africa. Likewise, the UN Food World Programme, which helps feed scores of millions of people in Africa, purchases more than half of the wheat in Ukraine. The imports of wheat account for around 90% of the trade of US$ 4 billion in Africa with Russia and almost half of the grade of US$ 4.5 billion of the continent with Ukraine.

Food represents around 65% of the basket with which the consumer price indexes are calculated in the African continent, for which reason, their price variation, together with the energy rise, will have serious repercussions on the inflation measures of the countries in the region. In the case of Cameroon, for instance, the government stated that the war of Russia against Ukraine is responsible for the wheat shortage that caused a 40% rise in the price of bread, reason why the African country felt compelled to promote local substitutes like cassava, yam and potatoes, to replace the wheat that is generally imported from the countries under conflict.

The Minister of Trade of Cameroon, Luc Magloire Mbarga Atangana, expressed that war has deprived Cameroon of around 60% of the wheat imported both from Ukraine and Russia, and that the government is highly concerned because the scarcity of this cereal can give rise to a social crisis in the country, for which reason it is seeking alternatives to the imports of wheat. Cameroon produces less than one-fourth part of the 1.6 million tonnes of wheat that it needs each year. Last year, it imported over 850,000 tonnes from Russia and Ukraine.

In order to try to reverse this situation in the entire continent, the AfDB is promoting a plan, which has a US$ 1 billion budget to accelerate wheat production in the region. The bank has been raising funds to help 40 million African farmers to use climate-resilient technologies and thus increase wheat, rice and soybean production, among others, and be able to feed around 200 million African people. The new production methods have already helped increase wheat production in Ethiopia, a country that expects to become self-sufficient in the grain supply within three years.

## The African Development Bank supports the pharmaceutical industry in Western Africa

The Economic Community of West African States (ECOWAS) signed an agreement with the African Development Bank (AfDB) to support the development of the pharmaceutical industry in the region.

AfDB Director General pointed out that the agreement stipulates the provision of a US$ 3.6 million subsidy to support the pharmaceutical industry of Western Africa. The agreement aims at reducing the great dependence on the pharmaceutical products imported from Southeast Asia (approximately 70%), while the local production of vaccines accounts for approximately 1% of the domestic demand.

## The Democratic Republic of the Congo joins the East African Community

After three years of negotiations, the Democratic Republic of the Congo (DRC) has been admitted as new member at the East African Community (EAC). As a consequence, the market of 90 million inhabitants of the DRC joins the present bloc of six nations (South Sudan, Uganda, Rwanda, Burundi, Tanzania and Kenya).

On 29 March, the 19th Extraordinary Summit of Heads of State of the EAC was held, in which Kenya's President, Uhuru Kenyatta, was appointed president of the Summit, and he will be in charge of signing the agreement for the incorporation of the DRC to the EAC next 14 April, almost three years after the formal request for admission had been submitted in June 2019. Later, the DRC will have to deposit the ratification instruments before the Secretary-General of the bloc by 28 September 2022. However, so that the incorporation becomes effective, the Congolese Parliament will have to ratify the agreement.

The DRC is a country that is rich in minerals, and which already has commercial bonds with most of the EAC member states, by means of bilateral agreements and at regional level, through the Southern African Development Community (SADC).

# CEI GLOBAL REPORT



Closing date of this issue: 31 March 2022

Ministry of Foreign Affairs
International Trade and Worship
Argentina