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CEI GLOBAL REPORT

CEI Centre for International Economy

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WORLD

The world facing a fragile economic recovery

According to a recent report published by the OECD, the world would gradually regain the growth path existing previous to the war between Russia and Ukraine thanks to increased consumer and business confidence, falling energy and food prices, and the reopening of the Chinese economy following a new wave of COVID-19.

However, as the agency puts it, several factors are hindering economic recovery. In the first place, the uncertain progress of the war between Russia and Ukraine. In the second place, the high inflation, which, in spite of the fact that its levels would be reduced thanks to the normalisation of supply chains, that is likely to occur in a slow fashion due to the growth in services prices, wage pressures and a high profit margin in some sectors. According to OECD estimates, inflation in euro zone countries would drop from 8.4% in 2022 to 6.2% this year; in the United States, from 6.3% to 3.7%; and in Brazil from 9.3% to 5.4%.

In the third place, high inflation will cause monetary policy around the world to remain restrictive this year and for an important part of 2024. This has already affected the price of financial assets and caused a negative effect on a number of banks, particularly in the United States. Rising interest rates are also having a negative effect on the debt service of emerging and lower-development economies (see CEI Global Report, February 2023).

Finally, despite the fact that the level of gas reserves has improved in Europe, the supply of this fuel for the region is likely to be reduced in 2023 due to the fact that hydrocarbons coming from Russia will not be available at this time and the economic recovery in China will increase competition for the demand for liquefied natural gas.

The macroeconomic impact of commodity prices

The IMF presented to the G20 an analysis of the macroeconomic consequences of the commodity price hikes experienced in recent years. According to the Fund, the rising cost of living originates increasing food and energy insecurity, which can lead to social turmoil that can in turn affect inflation and growth.

Like in the OECD study (see above), the report highlights that attacking inflation with a restrictive monetary policy has the unintended effect of disfavouring indebted countries that are facing an increase in interest rates. In addition, the IMF criticises the tax reductions to the commodities whose prices went up, as they are generalised measures that do not focus on the most vulnerable and do not provide the price signals to make the necessary adjustments in energy and food consumption.

Just like various analyses of international macroeconomics stated over the past year, the report argues that current geopolitical problems may result in a fragmentation of the world economy. Therefore, the IMF emphasizes that multilateralism is the best strategy to address these international problems, and plurilateralism is the alternative.

The World Bank and the possibility of a lost decade

According to the World Bank, a series of indicators show a reduction in global long-term economic growth prospects (by 2030): deceleration of productivity, lower investment growth, lower increase in the workforce, decline in human capital (caused by the pandemic that led to the closure of schools and lower levels of learning), international trade growing less than the product. Factors such as the financial crisis, natural disasters in several countries, the COVID-19 pandemic and the war in Ukraine have shown that they have consequences both in the current situation and in the long term.

A lower potential growth makes it harder to meet the development goals, such as reducing poverty, making the necessary investments to fight climate change, increasing job creation, and devoting resources to tackle external debt. For the World Bank we are on the verge of a lost decade, but according to the agency this scenario can be avoided.

The following would be included among the measures considered a priority by the agency: addressing structural reforms to encourage investment, reducing trade costs to stimulate growth, aligning monetary and fiscal policies to sustain investor confidence and improving education and digital skills to make services the engine of growth, among others.

EUROPE

The EU wants to avoid companies' flight

The European Union has decided to relax its rules for subsidising the manufacture of a number of key products to advance its environmental goals. Stemming from a decision of the European Commission, the countries of the bloc are authorised to match the subsidies that non-EU countries offer to their companies, to avoid relocations.

The measure, which was published on 9 March and will be in effect until 31 December 2025, is primarily a response to the aid packages to the US industry launched by the Biden administration in August 2022 (see CEI Global Report, September 2022) and was unveiled shortly after it emerged that the company Volkswagen is considering taking to the United States a battery plant originally projected for Eastern Europe due to a US$ 10 billion aid it would receive in that country.

With the new rule, the EU allows its member countries to use EU aid to match possible offers from countries such as the United States and thus prevent the exit from the region of companies producing batteries, solar panels, wind turbines or heat pumps, among other products that are considered central to the transition to a less polluting economy.

Subsidies should be limited to the existence of a real risk that investments migrate outside the EU and they are expected to be destined to the least developed areas of the bloc, to projects involving at least three member countries. In addition, the aid will not be intended to promote investment transfers within the bloc, that is to say, it should not be used to increase competition to attract investment among EU countries.

Credit Suisse: crisis and sale of the second Swiss bank

The Credit Suisse bank, founded in 1856, was acquired by UBS, its main competitor, for US$ 3.2 billion. The transaction was supported by the Swiss National Bank (SNB), which tried to put an end to the crisis that threatened the country's financial system and could have spread to the rest of the world.

The downfall of the Swiss bank started in 2021, when the bank suffered a series of losses due to its relations with financial institutions that collapsed and caused losses for more than US$ 1.8 billion. In 2022, the situation further deteriorated and Credit Suisse reported losses close to US$ 8.0 billion.

With this background, on 14 March the bank acknowledged that its financial reports of recent years contained "material weaknesses" resulting from the lack of internal controls of the company and, subsequently, a director of the Saudi National Bank, the main shareholder of Credit Suisse, expressed that he ruled out the possibility of contributing more capital in the Swiss entity. On 15 March, the shares of Credit Suisse fell by 30% and reached their historic low.

At first, the Swiss National Bank decided to back up Credit Suisse with a US$ 54 billion offer in financial support, but the shares continued to fall, which led to the subsequent announcement of the purchase of the entity by Switzerland's largest bank, UBS. The SNB will ease the transaction by providing US$ 110 billion in liquidity for the takeover to take place. According to the declarations of the Vice-President of the SNB, Martin Schlegel, without the purchase of the bank by UBS, "very likely a financial crisis in Switzerland and worldwide would have happened."

The United Kingdom joins CPTPP

After 21 months of negotiations, the British government announced the incorporation of the United Kingdom into the Trans-Pacific Partnership (CPTPP). This accession makes the UK the first European country to become a member and the first to join the original group formed in 2018.

Until the inclusion of the United Kingdom, the CPTPP was integrated by Australia, Brunei, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and Canada, countries that had sealed the initial agreement in 2018 and incorporated much of the provisions of the Trans-Pacific Partnership (TPP), from which the United States withdrew during Donald Trump's administration.

The British government presented the incorporation as a sample of Brexit's benefits, which allows them to negotiate international agreements without depending on the rest of the EU countries, and said that in the long term, it will offer the United Kingdom profits of around US$ 2.2 billion, thanks to the fact that more than 99% of the exports of goods from the United Kingdom to CPTPP member countries will be able to access without tariffs and to the advantages in terms of services, investment, public procurement and temporary entry of business people. From now on, the British parliament and the 11 member countries will have to ratify the agreement reached, according to the procedures established in each of them.

SOUTH AND CENTRAL AMERICA

Results of the 28th Ibero-American Summit

In March, the 28th Ibero-American Summit of Heads of State and Government was held in the Dominican Republic, focusing on the environment, food security and digital rights. Commitments included the adoption of a number of special communiqués with proposals in the economic and sustainable energy fields and the adoption of four instruments. Among them, the "Ibero-American Environmental Charter" can be mentioned, which contemplates a common approach to environmental challenges, such as climate change, biodiversity loss, pollution, soil degradation and water scarcity. Likewise, the "Critical Route to Achieve Inclusive and Sustainable Food Security in Ibero-America" was presented, which, with the aim of mitigating hunger in the region and guaranteeing the human right to adequate food, offers proposals such as trade facilitation, the development of agrifood chains and the consolidation of family agriculture.

In the context of the Summit, ECLAC introduced a working document by which it identified opportunities for growth and sustainable development associated with the diversification of exports towards more knowledge-intensive sectors, which have the highest demand and employment growth rates. According to the organisation, the areas with great potential for the region would be: the energy transition and related industries (green hydrogen –among other renewable energies–, lithium and electromobility); the circular economy and the bioeconomy; the pharmaceutical and medical devices industries; and the export of modern services and sustainable tourism, among others. These sectors, in turn, could function as a means to strengthen regional integration and multilateralism.

Brazil and Uruguay strengthen their territorial integration

The governments of Uruguay and Brazil agreed on the creation of a working group to carry out a series of infrastructure works that will allow them to advance in their physical integration and expand the transit routes between both countries. Specifically, the airport of Rivera, located in Uruguay, will be declared binational; progress will be made in the dredging of the Brazil-Uruguay Waterway; a new international bridge over the Yaguarón River will be built; and the reform project of the Baron de Mahuá road junction between Río Branco and Yaguarón will be resumed.

As for the Waterway, made up of the Merín and Los Patos lagoons, it will connect the Uruguayan terminal of Tacuarí with different Brazilian ports through the San Gonzalo canal. This will make it possible to reduce the logistic costs in bilateral trade and the use of lands with productive potential that are currently not taken advantage of due to high logistic costs.

Green Climate Fund supports climate action in Bolivia

The Green Climate Fund (GCF) approved its first project in Bolivia to provide aid to the country, jointly with the FAO, with the aim of strengthening the adaptation capacities of its rural communities to the effects of climate change, improving the management of micro-basins and agro-systems, and modernising irrigation systems. The budget will be allocated to the 65 municipalities that make up the Valles region, one of the most vulnerable in the country in terms of water resources and agricultural soil yields, which are aggravated by unsustainable agricultural practices. This project, called RECAM-Valles, expands the initiative already in force in the Bolivian government called Mi Riego and will be co-financed by the Ministry of Environment and Water and the Federation of Municipalities.

The positive impact of the project is estimated to reach more than one million people, almost all belonging to indigenous communities, and include a gender plan, since about half of the national agricultural production systems are run by women.

NORTH AMERICA

The trade war results in lower imports and higher prices in the US

According to a report published by the US International Trade Commission (USITC), the additional tariffs imposed by the US in 2018 on imports of steel and aluminium products and certain products from China reduced US imports of these goods and increased both domestic production and prices.

On the basis of a partial equilibrium model, the report analyses the effect of tariffs imposed under section 232 of the Trade Expansion Act of 1962 and section 301 of the Trade Act of 1974, active as of 15 March 2022, on imports, production and prices. The model used isolates the effect of these tariffs from other factors that also influenced trade, production and prices of the affected products between 2018 and 2021 (including the response of trading partners to these measures, the COVID-19 pandemic, supply chain disruptions, rising energy prices and the Russian invasion of Ukraine).

The USITC concludes that, on average, from 2018 to 2021, US importers bore almost the entire cost of these tariffs as the prices of imported products rose at the same rate as import taxes while the price received by exporters practically remained unchanged.

More specifically, additional 25% tariffs on imports of steel products brought about a 24% reduction in imports of these products, on average, over the 2018-2021 period. In turn, their price in the US climbed 2.4% and their production increased 1.9%. As for the aluminium products affected, the additional tariffs of 10% reduced imports by 31%, while the price went up by 1.6% and production grew by 3.6%.

In addition, because of higher prices, US industries that use steel and aluminium products as inputs were forced to switch suppliers or rely largely on domestic inputs, while reducing their production. However, the magnitude of these effects varied significantly across industries. On average, prices rose 0.2% and production fell 0.6%.

Regarding the effect of the higher tariffs of section 301, the report found that imports of Chinese products fell 13%, on average, during 2018-2021, while the value of US production increased 0.4% and the price of those goods produced in the US increased 0.2%.

However, these effects were not equal across sectors. For example, computer equipment imports fell 5% in 2021, their prices grew 0.8% and the value of US production rose 1.2%. On the other hand, in the case of semiconductors, imports fell 72.3%, their price increased 4.1% and the value of US production increased 6.4%.

USMCA: US initiates technical consultations with Mexico on agricultural biotechnology

The Office of the United States Trade Representative (USTR) formally requested the Mexican Ministry of Economy to initiate technical consultations to address the Decree that regulates genetically modified corn, published on 13 February in the Official Gazette of the Federation, as well as the Mexican government's rejection of certain biotechnological products, including corn, rapeseed, cotton and soybean (see CEI Global Report, December 2022).

This process is based on USMCA's Chapter 9 on Sanitary and Phytosanitary Measures, which sets the possibility of initiating a technical dialogue to exchange information on the measure in question. The request is not contentious, but it is a preliminary stage to cooperatively seek a solution.

The US argues that Mexico's biotechnology policies threaten to disrupt billions of dollars in agricultural trade and are not sustained by a science-based approach that meets the commitments of the USMCA.

According to the Mexican government, the objective of the Decree is to ensure that the tortilla be made with native corn, which protects the biodiversity of the more than 64 varieties of corn in the country, 59 of which are endemic. Mexico will seek to demonstrate with supporting data and evidence that there has been no impact on trade and that the Decree is consistent with the USMCA.

According to media reports, the Canadian government may have requested a similar consultation process. Even though Canada is not a major exporter of corn, it is a top rapeseed exporter.

US and Japan sign agreement on critical minerals for batteries

US Trade Representative Katherine Tai and Japanese Ambassador to the United States Tomita Koji signed an agreement on trade in critical minerals –mainly, lithium, nickel, cobalt, manganese and graphite– essential for the production of electric car batteries.

Building on the 2019 US-Japan Trade Agreement (see CEI Global Report, October 2019), the new pact includes a commitment not to impose export duties on these minerals, seeks to promote fair competition and market-oriented conditions for trade in critical minerals, establish solid labour and environmental standards, and expand cooperation to ensure safe, sustainable and equitable supply chains.

This agreement enables Japan to qualify as a partner of a free trade agreement with the US for the purposes of the Inflation Reduction Act, in particular as regards the critical mineral content required for eligibility for electric vehicle tax credits. That is, the electric vehicles using materials collected or processed in Japan will now be eligible for subsidies.

This can be inferred from the Notice of Proposed Regulation published on 31 March by the Treasury Department. It should be recalled that the Inflation Reduction Act stipulates that 40% of critical minerals for electric vehicle batteries must be mined or processed in countries that have free trade agreements with the US. The Treasury regulation explicitly expands the concept of a free trade agreement to include not only regular or comprehensive deals (i.e. covering substantially all trade in goods and services between the parties), but also new partial agreements, such as the agreement focused on critical minerals reached with Japan, or the one being negotiated with the European Union.

Some US lawmakers have questioned the legitimacy of the deal with Japan, as it was reached without congressional approval. The USTR said that even though legislators were consulted, negotiations were conducted under the authority of the agency to reach agreements in specific sectors without the need for congressional consent.

ASIA AND OCEANIA

ASEAN wants to reduce dependence on foreign currencies

At the official meeting of the Finance Ministers and Central Bank Governors of the Association of Southeast Asian Nations (ASEAN) held in late March in Indonesia, discussions centred on how to reduce the dependence on the US dollar, euro, yen and pound sterling in the financial transactions of member countries and on the importance of making settlements in local currencies.

The leaders at the meeting discussed efforts to reduce reliance on major international currencies through the local currency transaction scheme (LCT), an extension of the previous local currency settlement scheme (LCS), whose implementation among ASEAN members has already started.

Indonesian President Joko Widodo urged regional administrations to start using credit cards issued by local banks and gradually stop using foreign payment systems, arguing that Indonesia needed to protect itself from possible restrictions imposed for geopolitical reasons, citing as an example sanctions targeting Russia's financial sector by the US, EU and their allies over the conflict in Ukraine.

Of the ASEAN nations, only Singapore has imposed sanctions on Russia, so there is some alarm among member countries about the possibility of being affected by US-led financial sector sanctions.

Singapore and Vietnam agree to improve economic cooperation

In the framework of the visit of the Prime Minister of Vietnam to Singapore, both countries signed several memoranda of understanding to improve economic cooperation in key sectors of their economies. They agreed to deepen agricultural trade cooperation through trade contacts and facilitate investments by Singaporean companies in Vietnam's agricultural and logistics sectors. The agreement also seeks to improve cooperation in liquefied natural gas, renewable energy and electricity projects.

Singapore was Vietnam's largest foreign investor for the third consecutive year with more than 3,600 projects worth US$ 70 billion at the end of 2022. Last year, Singapore's investment flow into Vietnam was US$ 6.5 billion, accounting for 23% of total foreign direct investment in that country.

In the green and digital economy sector, Vietnam and Singapore agreed to provide a framework to advance issues such as connectivity, digital innovation, sustainability and infrastructure. Singapore aims to offer its expertise to assist in Vietnam's digital transformation, particularly in priority areas such as e-commerce and finance.

In terms of green economy, Singapore will help Vietnam in its energy transition, with a view to achieving zero emissions by 2030. The two countries are looking to develop an electricity grid that connects them, which could become a model for electricity trade and cooperation in ASEAN. Vietnam's 3,260 km coastline has great potential to produce solar and wind power that can then be exported to Singapore. The World Bank forecasts that Vietnam's offshore wind potential could reach 500 GW by 2030.

In the field of maritime and port cooperation, Singapore and Vietnam will seek to improve the relationship on port digitisation, maritime staff training, green shipping initiatives and port control inspections. Vietnam presents ample opportunities for port operations and infrastructure modernisation; it is estimated that the country will need about US$ 13 billion in investments to develop a modern port system.

The Vietnamese government presented a master plan for the development of the country's seaports over the next 10 years. Under the plan, the government has set as a target for ports to handle between 1.1 and 1.4 billion tonnes of cargo; a large increase from the current capacity of 500 million tonnes.

Saudi Arabia and Iran rebuild ties with the mediation of China

Saudi Arabia and Iran, whose relations had been suspended since 2016, agreed to restore ties after talks held in China between the two countries.

China has important energy interests in the Persian Gulf region, as well as in the development of transport and logistics within the framework of the "International North-South Transport Corridor" (INSTC), which divides Iran from north to south and is an alternative multimodal route to EU markets.

China, which recently received Iran's President Ebrahim Raisi, is also a major buyer of Saudi oil. President Xi Jinping visited Riyadh in December to attend meetings with Persian Gulf nations crucial to China's power supply.

For Iran, the INSTC network is vital for connecting the markets of South Asia, Central Asia and Europe with Russia, India and China. Iran may possibly become a Gulf regional transit hub serving all of these markets.

AFRICA

South Africa faces EU measures on citrus

The Citrus Growers Association of South Africa requested the Minister of Trade and Industry of the country to urgently initiate actions within the framework of the World Trade Organization (WTO) for the restrictive measures imposed by the European Union on the imports of oranges.

The European measure is justified by the presence of an insect found in Sub-Saharan Africa known as the false codling moth that the EU considers potentially dangerous for its citrus producers. Although South African producers state that they have implemented measures to prevent the parasite from attacking the citrus fruits, the EU insists South Africa must cool and store its oranges for 20 days before exporting them.

South African producers follow strict measures to prevent insect larvae from spreading. These measures are considered highly effective according to international standards. However, the additional cooling and storage measure, which is not ideal for oranges, will add more than US$ 56 million in costs to be able to export to the EU. The Citrus Growers Association of South Africa said these measures are not in line with WTO rules.

South Africa produces some of the best oranges in the world and exports about 160 million boxes a year. The sector employs more than 140,000 people and has great potential to expand its reach beyond what it sells to the EU (67 million boxes in 2022).

Food, a key factor in Africa and China relations

China increased its imports of food products such as avocados, cashew nuts, sesame seeds and peppers from Africa. In the first two months of this year, Shanghai's ports received more than 40,000 tonnes of African agricultural products valued at more than US$ 100 million, according to Shanghai customs.

By early March, a total of 1,845 tonnes of African sesame had been imported through Shanghai's Waigaoqiao port, 4.3 times more than in the same period last year, according to official data. Africa produces around 65% of the world's sesame. South Africa, the second largest exporter of apples to China, following New Zealand, exported 17,200 tonnes of fresh apples to China last year, 40% more than in 2021.

A growing number of African products are in high demand in China as part of Beijing's broader strategy to implement President Xi Jinping's pledge to increase imports from Africa. During the 2021 Forum on China-Africa Cooperation (FOCAC), the Asian country promised to open "green lanes" for African agricultural products, speed up inspection and quarantine, and reduce tariffs so that imports can reach US$ 300 billion by 2025.

China's Foreign Ministry said last year that since the 2018 FOCAC summit in Beijing, China had given market access to 25 types of food and agricultural products from 14 African countries. Kenya and Tanzania are now exporting peanuts to China, and South Africa is selling more fruits. In addition, Beijing reduced import tariffs to zero on 98% of the products it buys from more than a dozen countries across the continent, including Uganda, Tanzania, Burundi, Ethiopia, Niger, Benin, Burkina Faso, Guinea-Bissau, Lesotho, Malawi, Sao Tome and Principe, and Zambia.

Egypt becomes a member of the New BRICS Development Bank

In a step that may mark its future entry in the BRICS group, Egypt has become a member of the New Development Bank (NDB), which is chaired by former Brazilian President Dilma Rousseff.

NBD approved Egypt's accession in December 2021, while in September 2021 it had made a similar decision with the UAE, Uruguay and Bangladesh. With the exception of Uruguay, all these countries became members of the bank this month after going through the necessary analyses. The objective of the NDB is to finance infrastructure and sustainable development projects in BRICS states and other developing countries.

The bank received an international "AA+" credit rating from Fitch Ratings and S&P Global Ratings, allowing it to effectively attract long-term financing in local and international capital markets. Since its foundation, the NDB has approved more than 90 projects totalling US$ 32 billion in support to areas such as transportation, water, clean energy, digital and social infrastructure, as well as urban construction.

UNCTAD report on energy access in Africa

A UNCTAD report on energy access in Sub-Saharan Africa notes that in recent years such access remains low, with more than 50% of the region's population lacking electricity. This low connection has implications for health, education, poverty reduction and sustainable development.

Lack of access to clean cooking fuels and technology is a major concern, especially for women and girls, who are disproportionately affected by household air pollution. The report warns that unless greater efforts are made, the region's population that lacks access to clean fuels could increase from 923 million people in 2020 to more than 1.1 billion people in 2030.

According to UNCTAD, access to electricity in Sub-Saharan Africa is the lowest of all the regions of the world, due partly to the lack of distribution networks; and where networks exist, they are outdated, unstable and have no connections to customers. In addition, lack of generation capacity, poor transmission and distribution to users, high connection costs, unpredictable revenue flows and high tariffs deter consumers from adopting modern energy services.

Exploiting Africa's large reserves of renewable energy sources could contribute to increasing electricity generation capacity in the region, and would help in the transition to low-carbon or zero-emission energy sources. Africa could also produce some 50 million tonnes of low-carbon biogas from agricultural waste, animal manure and urban solid waste through domestic-scale biodigesters.

The report calls for the pooling of regional resources and national networks to unlock the potential of a regional energy market in Africa. This market could provide regular and reliable power and reduce the cost of electricity for consumers. Countries could strengthen the reliability of their energy supplies and improve access to electricity by sharing renewable energy production capacity across borders, as energy surplus nations could trade energy with those experiencing deficits.

According to the agency, shifting subsidies for fossil fuel production and electricity generation to clean energy access could help generate cleaner fuels. Countries should also explore various financing options to leverage renewable energy resources.

CEI GLOBAL REPORT

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