CEI Centre for International Economy

GLOBAL REPORT

AUGUST 2019

WORLD

New flare-up of trade tensions
Ongoing concerns about global growth and trade
The WTO publishes data on trade in services

EUROPE

Boris Johnson, new Prime Minister of the UK
European countries agree on refugee policy
France to set digital services tax
Morocco ratifies fisheries agreement with the EU

SOUTH AND CENTRAL AMERICA

Good prospects for agricultural exports in the region
Mercosur Summit: new agenda
Boosting the Brazilian economy
Migration crisis: Guatemala and the U.S. sign asylum agreement
Argentina resumes shrimp exports to Brazil

NORTH AMERICA

The Fed cuts interest rate for the first time in 11 years
The U.S. helps farmers affected by trade disputes
Mexico publishes the USMCA decree
U.S. Supreme Court clears funds for the wall with Mexico

ASIA AND AFRICA

Advances in the RCEP
India opens up two new markets for Argentina
The AIIB expands its area of influence
Jujuy: Cauchari expansion project with Chinese investments

WORLD

NEW FLARE-UP OF TRADE TENSIONS

After the pause in the escalation of conflict between China and the U.S. achieved last month during the G20 Presidents' Summit, and only a few days before the meeting between the negotiators of both countries in Shanghai, President Donald Trump announced on Twitter that, starting in September, he will start to apply a 10% tariff to imports from China for the equivalent of 300 billion dollars. Trump argued that China did not fulfill its commitment to resume the purchase of U.S. agricultural products made last month, and that it also failed to comply with his request to block exports of fentanyl (a drug from the opioid family) to said country. If this announcement is materialised, the second dialogue to reduce trade tensions will have failed, as did the first truce reached during the G20 summit in December 2018. Meanwhile, China responded to the announcement and dropped the price of the yuan against the dollar to lows unseen since the financial crisis of 2008, under the mark of 7 units per dollar.

In turn, the Chinese Ministry of Commerce announced in July the imposition of tariffs of between 18.1% and 103.1% as a final ruling on the anti-dumping investigation into imports of stainless steel billets and plates, originating in the EU, Japan, South Korea and Indonesia. China –the world's largest steel producer– had already imposed temporary anti-dumping measures on these imports from the EU in March this year. In turn, the European bloc maintains numerous anti-dumping and anti-subsidy measures on steel imports, of which a substantial part applies to China. In its report on trade and investment barriers of 2018 published a month ago, the EU identifies China and Russia as those countries with the largest number of "problematic" trade barriers.

In more general terms, it is worth noting that, according to July's WTO report on trade restrictions imposed by its member countries between mid-October 2018 and mid-May 2019, the value of trade covered by restrictive measures adopted during the analysed period was 339.5 billion dollars –second highest figure ever recorded, after 588.3 billion dollars seen in the previous period–.

ONGOING CONCERNS ABOUT GLOBAL GROWTH AND TRADE

The WTO and the IMF warned in their July reports about the downward trend of global trade and growth, pointing to trade tensions as one of the main reasons for this weak economic performance. In its World Economic Outlook report, the IMF revised its projections down once more, with an estimated dynamism of the world economy of 3.2% for 2019, picking up to 3.5% in 2020. Gita Gopinath, Chief Economist of the agency, highlighted its "self-inflicted" nature, and identified other major factors causing these results, namely the impact of Brexit, disinflationary pressures and climate change.

Finally, it should be noted that in July the ECLAC published its Economic Survey of Latin America and the Caribbean 2019, stating that the region will grow 0.5% in 2019, well below the previous estimate of 0.9%, because it lowered its growth prospects for 15 of the 20 Latin American countries surveyed, particularly Brazil and Mexico. On average, South America is expected to grow 0.2%, Central America 2.9% and the Caribbean 2.1%. Among the reasons given for this, the uncertainty of the international context and the weak performance of investment, exports and consumption in the region can be mentioned.

THE WTO PUBLISHES DATA ON TRADE IN SERVICES

The WTO launched a disaggregated dataset on exports and imports of services for 200 countries that include all members and observers of the agency. The data, published for the first time, covers the 2005-2017 period and incorporates the values of trade in services by sector and by modes of supply, as defined in the General Agreement on Trade in Services (GATS).

EUROPE

BORIS JOHNSON, NEW PRIME MINISTER OF THE UK

On July 22, Boris Johnson was elected leader of the British Conservative Party. Thus, with less than 100,000 votes, he replaced Theresa May as Prime Minister of the United Kingdom until direct elections to the office are held in 2022. Johnson has expressed his willingness to pursue a no-deal Brexit on 31 October. In addition, within the framework of his first official visit to Northern Ireland, the new Prime Minister warned that he could take direct control over the country's legislative affairs –through the option of "direct government"– if the two large local parties (the Democratic Unionist Party and the Sinn Féin republicans) fail to form a coalition government, which is pending since 2017.

In turn, Jeremy Corbyn, leader of the Labour Party, is considering calling a second referendum on Brexit in September or getting Parliament to cast a "vote of no confidence" to Johnson in order to call general elections before 31 October. In this context, Scotland has already started pressing for a new referendum to decide on its independence from the United Kingdom and on its permanence in the EU.

Meanwhile, in July, the UK Office for Budget Responsibility (OBR) published its tax risk report in a non-agreement scenario, which would push the UK into a recession in 2020 (with a recovery planned from 2021) and an increase in the country's debt. In addition, the pound would lose 10% of its value and residential real estate market prices would fall almost 10% between the beginning of 2019 and the end of 2021. It should be noted that since Johnson took office as Prime Minister, the pound has begun to depreciate.

EUROPEAN COUNTRIES AGREE ON REFUGEE POLICY

A group of EU countries agreed on a plan for the equitable reception of refugees. The so-called "solidarity mechanism", proposed by Germany and France, has been approved by 14 countries, in principle, and although no details of the agreement have yet been disclosed, it would entail measures ensuring the safety of refugees in a quick and automatic manner. Despite being one of the countries with the highest reception of immigrants, Italy did not formally participate in the agreement. Since coming to power, the new Italian government coalition has adopted the policy of prohibiting the entry of ships with refugees.

FRANCE TO SET DIGITAL SERVICES TAX

On 11 July, the French National Assembly approved a digital services tax (DST) of 3%. This will apply to multinational technology companies with revenues of at least 25 million euros per year in France and 750 million euros per year globally. This measure mainly focuses on online intermediation and advertising services, leaving out financial and banking services. The French government explained that this measure will be implemented retroactively from January 2019 and on a temporary basis until both the OECD and the G20 agree on a common policy on the subject, so as to overcome EU's failed proposal on a digital advertising tax (DAT).

Meanwhile, the UK government also published in July a draft document in which it analyses imposing a similar tax of 2% as of 1 April 2020. This would apply to companies with global revenues exceeding 500 million pounds, of which more than 25 million should come from the UK. Austria, the Czech Republic, India, Italy, New Zealand and Spain are also considering introducing similar taxes.

In turn, the U.S, government has initiated an investigation under Section 301 of its Trade Act to analyse the French DST. It is argued that the tax is unfairly targeting certain companies in the country –the tax is expected to hit one French company and 29 foreign companies, and generate revenues for 500 million euros per year–.

MOROCCO RATIFIES FISHERIES AGREEMENT WITH THE EU

The Kingdom of Morocco has ratified the sustainable fisheries partnership agreement signed with the EU at the beginning of the year. This treaty includes the waters adjacent to Western Sahara and will allow more than a hundred European vessels, most of them Spanish, to fish in its waters. In return, the agreement guarantees a financial contribution of 153.6 million euros over four years for access to the fishing resource, support for the sector and the fee to shipowners. In this regard, the first joint meeting for the granting of licenses for the entry of community vessels has already been held in Rabat. The European fleet had been forced to leave the Moroccan and Saharawi waters in mid-2018, when the previous agreement expired.

SOUTH AND CENTRAL AMERICA

GOOD PROSPECTS FOR AGRICULTURAL EXPORTS IN THE REGION

The Organization for Economic Cooperation and Development (OECD) and the Food and Agriculture Organization of the United Nations (FAO) highlighted in their Agricultural Outlook 2019-2028 report that an increase in the share of global agricultural exports in Latin America and the Caribbean is expected.

Currently, the region records 23% of world exports of agricultural and fishery products, and could exceed 25% in 2028. The report indicates that the demand for food will come largely from sub-Saharan Africa, India, the Middle East and North Africa – regions with high population growth–. Likewise, the rise in the consumption of products of animal origin is expected to stimulate the demand for agricultural products for animal consumption.

MERCOSUR SUMMIT: NEW AGENDA

In July, the Plenary Session of Foreign Ministers of the 54th Mercosur Summit was held in Santa Fe, Argentina, where the pro tempore presidency of the bloc was handed over from Argentina to Brazil. Among the objectives of the new presidency, there is the reduction of the Common External Tariff. Another objective of the Brazilian presidency is to allow the countries of the bloc to provisionally implement the free trade agreements ratified by their congresses (without the need for the remaining members to do so) and to make the negotiation of future agreements of member countries more flexible, in order to avoid the need for consensus.

During the summit, there was a focus on advancing the process of rapprochement with the Pacific Alliance (formed by Chile, Colombia, Mexico and Peru), as well as on concluding the current negotiations with Canada and South Korea (in 2020) and with EFTA (formed by Switzerland, Iceland, Norway and Liechtenstein) before the end of 2019. Regarding the agreement with South Korea, it is worth noting the preliminary report prepared by the INAI Foundation that points out the great opportunities for Argentina from the expansion and generation of new trade, with a very low level of risk.

On the other hand, the Mercosur members advanced in different aspects of their integration within the bloc. A matter to highlight is the elimination of mobile telephone roaming –an additional payment for the use of data abroad– among their countries. This measure will be implemented once it has been approved by the National Congress of each member country.

BOOSTING THE BRAZILIAN ECONOMY

After four consecutive months of decline, the Brazilian economy has shown signs of improvement. According to the index prepared by the Central Bank of Brazil, May's economic activity grew 0.54% compared to the previous month and 4.40% in year-on-year terms –although it must be taken into account that May 2018 was a particularly difficult month due to the truck strike that affected the country's economy–. Along this same line, in June the number of formal jobs increased 0.13% compared to May and it has been the best result for that month since 2013. Along with this news, the government announced a provisional measure to stimulate its economy that aims to generate additional GDP growth by 0.35 percentage points over the next 12 months. This measure implies an injection of 42,000 million reals between 2019 and 2020 through withdrawals that workers can make from their compensation funds and other social funds (FGTS and PIS / Pasep).

MIGRATION CRISIS: GUATEMALA AND THE U.S. SIGN ASYLUM AGREEMENT

The United States and Guatemala have signed an immigration agreement (similar to "safe third country") in which the Central American country undertakes to grant asylum and other benefits to migrants who, upon entering its territory, seek refugee status from the U.S., until this country grants the legal residence permit. In addition, an agreement has apparently been reached regarding the issuing of work visas for Guatemalans to legally work in the U.S. agricultural sector. Subsequently, these visas would be extended to the construction and service sectors.

At present, the U.S. is engaged in negotiations to reach similar agreements with Honduras and El Salvador, while Mexico opposes its implementation.

ARGENTINA RESUMES SHRIMP EXPORTS TO BRAZIL

Six years after the Brazilian Shrimp Farmers Association achieved a cautionary measure to ban Brazilian imports of Argentine shrimp for alleged sanitary risk, the justice of this country ruled in favour of Argentina and declared the cautionary measure void. As a result, the Brazilian Ministry of Agriculture, Livestock and Supply has already enabled three Argentine establishments from which such imports can be resumed.

NORTH AMERICA

THE FED CUTS INTEREST RATE FOR THE FIRST TIME IN 11 YEARS

On 31 July, the U.S. Federal Reserve (Fed) cut the interest rate for the first time since late 2008. At that time, the policy was used as a stimulus to tackle the latest global financial crisis; today, the objective is to fight the slowdown in growth and the effects of trade tensions. Thus, as a precautionary measure, the Fed lowered the benchmark interest rate by 25 basis points to a range of 2-2.25%. The U.S. President Donald Trump harshly criticised the measure, given that he expected a more aggressive cut that would allow him to face other trading powers such as China and the EU.

THE U.S. HELPS FARMERS AFFECTED BY TRADE DISPUTES

The U.S. government announced in July that it will allocate up to 16 billion dollars in aid to farmers in its country affected by retaliatory tariffs adopted by other countries under the current trade tensions. The U.S. Secretary of Agriculture, Sonny Perdue, said the affected farmers will receive payments directly or will be able to sell their surplus output to the government. The initiative is aimed at producers of soy, sorghum, dairy, fruits, rice and nuts. According to Perdue, it is a short-term solution to help them undergo this period of tensions on the commercial front.

MEXICO PUBLISHES THE USMCA DECREE

On 29 July, the Mexican Foreign Relations Secretariat published the decree that approves the Protocol by which the North American Free Trade Agreement (NAFTA) is replaced by the United States-Mexico-Canada Agreement (USMCA). The publication of the text took place one week after the visit of the U.S. Secretary of State Michael Pompeo to Mexico, where the main issues of the bilateral relationship were discussed. The decree also includes the approval of six parallel agreements between the Government of Mexico and the United States that address topics related to security, terms of commercial use, consultation process and dispute resolution between the two countries. It should be noted that, unlike Mexico, the congresses of the U.S. and Canada have not yet approved the USMCA.

U.S. SUPREME COURT CLEARS FUNDS FOR THE WALL WITH MEXICO

The United States Supreme Court has allowed the government to allocate 2.5 billion dollars of its budget for the construction of part of the wall with the Mexican border. The budget funds at stake had been approved by Congress for the Department of Defense, and their reallocation has become possible by a blocking from the Supreme Court to the decision of a federal judge in California that prevented such redirection of resources to build border barriers in Arizona, California and New Mexico.

At the beginning of the year, Trump declared the national emergency, which caused the partial shutdown of federal agencies for a record period of 36 days, to get Congress to grant the necessary financing for the construction of the wall, one of his core campaign promises. At that time, Congress had approved a budget of 1,375 million dollars for the construction, a much lower figure than the 5,700 originally requested by the U.S. President (see Global Report - CEI, February 2019).

ASIA AND AFRICA

ADVANCES IN THE RCEP

China hosted the 27th round of negotiations of the Regional Comprehensive Economic Partnership (RCEP) on 22-31 July. Some days later, the VIII Ministerial Conference took place in Beijing, in which the advances made in the round of negotiations were ratified, with an emphasis in concluding the deal during 2019 as a priority and for the “collective interest”. This association comprises ten members of the Association of Southeast Asian Nations (ASEAN) and six countries that have agreements with it, namely China, Japan, Republic of Korea, Australia, New Zealand and India.

INDIA OPENS UP TWO NEW MARKETS FOR ARGENTINA

In July, the Argentine Secretary of Agro-industry, Luis Miguel Etchevehere, led a trade mission to India and Bangladesh, which resulted in advances in the negotiations for export of food products, while confirming the opening of the market for lemons and chia in India. Likewise, during the mission, the strengthening of the Mercosur-India treaty was discussed and the opening of a new commercial office in the country was notified of. This will seek to achieve greater diversification of exports and encourage technology transfer.

Argentina is the world's leading exporter of soybean oil and India is its main destination. By 2030, India could become the third largest consumer market in the world after China and the U.S.

THE AIIB EXPANDS ITS AREA OF INFLUENCE

The Asian Infrastructure Investment Bank (AIIB) held its first annual meeting outside Asia in July. The host country chosen was Luxembourg, a founding member of the financial institution. Under the slogan "Cooperation and Connectivity", the meeting put emphasis on the cooperation between Asia and Europe. However, it should be noted that the objective of expansion of this multilateral bank is even more ambitious: the Chilean Chamber of Deputies approved in July the incorporation of this country into the organization.

JUJUY: CAUCHARI EXPANSION PROJECT WITH CHINESE INVESTMENTS

A mission comprising the Governor of Jujuy, the national Undersecretary of Renewable Energies, the Secretary of Energy of Jujuy and the President of Cauchari Solar travelled to China with the objective of reviewing the projects underway in the field of renewable energy. To this end, meetings were held with representatives of Power China International Group and Shanghai Electric Power Construction Co, Ltd. (SEPCC Powerchina) to conclude the agreements for the expansion of the Cauchari photovoltaic plant, the largest renewable energy project in Argentina, financed by Chinese capitals.

Ministry of Foreign Affairs and Worship
Argentine Republic

Closing date of this issue: 2 August 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 the Centre for International Economy (CEI).