CEI Centre for International Economy

GLOBAL REPORT

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WORLD

Global economy recovers
Less protectionism and more trade facilitation
Impact of the pandemic on tourism

EUROPE

Proposal of new European carbon border tax
Brexit: United Kingdom wants to renegotiate the Northern Ireland Protocol
Google fined again by French government
Optimistic outlooks for the European economy

SOUTH AND CENTRAL AMERICA

The Pacific Alliance concludes negotiations of an FTA with Singapore
Uruguay announces start of negotiations outside MERCOSUR
Bolivia stimulates manufacturing and imports of electric vehicles
Bolivia, Honduras, Nicaragua, Peru agricultural producers to receive FAO funds

NORTH AMERICA

US: legislators propose new carbon border tax
The IMF suggests the US should eliminate Trump era's tariffs
USMCA: conflict in the automotive industry about interpretation of rules or origin
USMCA: first remediation plan under the rapid response labour mechanism

ASIA AND OCEANIA

The Asian economies and the "zero-COVID" approach
China reacts to the "Uyghur Forced Labor Prevention Act"
China adopts measures to stabilise basic product prices
Meeting of APEC Economic Leaders

AFRICA

Problems for the South African economy
New IDA meeting takes place in Ivory Coast
Inflation and hunger in Nigeria on the rise

WORLD

GLOBAL ECONOMY RECOVERS

The global economy would grow 6% this year and 4.9% in 2022, after last year's 3.2% reduction, according to updates of the IMF's World Economic Outlook. The report states that advanced economies would have a 5.6% growth and the emerging and developing ones would grow 6.3%.

With respect to the April projections (see CEI Global Report, May 2021), the developed world would grow 0.5 percentage points (p.p.) more and the developing world 0.4 p.p. less. The difference is due to a greater reach of the vaccination against COVID-19 in developed countries, easing a further reopening of the economic activities and increased consumption resulting from boosting consumers' confidence, and to the expansive fiscal policy, particularly that of the United States. These projections could be corrected downwards if the pace of the vaccination gets slower and a new outbreak of the disease comes up because of new variants of the SARS-COV-2 virus.

The rise in inflation is a worrisome issue as indicated by the IMF, with projections of 2.4% in advanced countries and 5.4% in emerging economies, in both cases corrected upwards with respect to the April projections. This derives from the greater demand of goods that has not been successfully met yet, a rise in the price of food and petrol and a lax monetary policy.

In turn, trade in goods and services would grow 9.7% this year (8.9% in developed countries and 11.1% in the developing world), after having recorded 8.3% in 2020 (-9.2% in the developed countries and -6.7% in developing).

LESS PROTECTIONISM AND MORE TRADE FACILITATION

Has the pandemic given rise to protectionism? According to the WTO, the evidence so far says no. From the beginning of the pandemic and until May 2021, 65% of the 348 trade measures related to COVID-19 aimed at facilitating trade in goods. Out of these, 60% correspond to the reduction and elimination of import tariffs on goods like personal protection equipment, medicines, active principles, oxygen and equipment, according to the WTO-Wide Trade Monitoring Report published by said body. Regarding the trade-restrictive measures, 84% were export restrictions, employed as a means to guarantee the domestic supply. With an improved response to the pandemic, several of these measures were left aside: 21% of facilitation measures and 54% of restrictive measures.

Most of the measures of the technical type sought trade facilitation by means of the use of electronic certificates instead of paper certificates, or by means of remote inspections and extension of certificates' terms of validity. Among the restrictive measures, limitations to the imports or the transport of products of animal origin in the areas most affected by the pandemic were notified.

With respect to trade in services, most of the measures implemented facilitated the exchange, such as the flexibilities for the access of travellers on business trips and of essential personnel using means of transport. Although with an indirect effect on trade, the governments also granted several measures of economic aid to the sectors affected by the crisis, in special services such as trade, transport, tourism and education.

Flexibility measures regarding intellectual property rights were also applied (access to information on patents and facilitation of compliance with administrative formalities).

IMPACT OF THE PANDEMIC ON TOURISM

While global trade in services fell 9% during the first quarter of 2021 with respect to the same period last year, the item travel services had a 62% reduction. Although some progress was registered in the proportion of the vaccinated population, the outbreak of new variants of the virus and the application of travelling restrictions would be affecting the recovery of these services, according to the WTO report of July.

In that respect, UNCTAD estimated the likely impact of COVID-19 on tourism, by means of a general equilibrium simulation model. In this work, the direct effects on activities such as accommodation, food, travelling and recreation were taken into account, plus the indirect ones on the rest of the sectors that are goods and service suppliers of the former.

According to this analysis, if revenues from tourism were reduced to one third (moderate scenario), global GDP would suffer a 1.5% reduction; while if the reduction reached two thirds (intermediate scenario), the product reduction would be 2.8%. In the case of Argentina, GDP fall would be 1% in the moderate scenario or else 2% in the intermediate.

EUROPE

PROPOSAL OF NEW EUROPEAN CARBON BORDER TAX

In July, the European Commission presented a set of legislative proposals related to environmental care aimed at adapting the European regulation to the goals set in matters of reduction of greenhouse gas emissions.

Among the proposals mentioned are the modification to the EU emission allowance trading system, to the land use and forestry Regulation, and other regulations and guidelines that will modify the activity of companies operating within the European Union and those exporting products to the bloc.

The so-called "carbon border adjustment mechanism" (CBAM) will affect the two latter since it aims at complementing the restrictions to the interior of the EU so as to avoid the "carbon leakage" or the possibility that the intensive production of carbon in products later consumed in the EU is transferred abroad. This mechanism seeks to equal the carbon price of European products to those imported.

At first, this operation will be demanded to importers of cement, iron and steel, aluminium, fertilisers and electricity, since these sectors have been identified as of high risk for carbon leakage by the European Union's authorities. If these proposals were approved, the mechanism is expected to be fully operative in 2026, when importers will have to start paying for the emissions made outside the EU contained in the products that access the bloc.

The measures proposed by the EU will have clear consequences on international trade and over the multilateral negotiations related to climate change.

When all the proposed measures take effect, the impact on international trade will be multiple. In the first place, less contaminating fuels will be supplied for air and maritime transport in the EU, which are estimated to be more expensive, thus increasing the cost of doing business with the EU regarding the fuel charged there.

In the second place, the shipping companies transporting goods from or towards the EU will have to purchase negotiable carbon emission permits of the European Union emissions trading system (EU ETS) for half of the emissions of the trip between the European harbour and the non-European harbour, which will increase the shipping cost.

In the third place, after the entry into force of this regulation, EU importers will have to buy carbon certificates corresponding to the carbon price "that would have been paid if the goods had been produced in accordance with the carbon tariff standards of the EU". In that sense, the rule anticipates that it is likely that importers can deduct what was paid for the same item in the country of origin, in case there is some mechanism there similar to that proposed by the EU.

With respect to the consequences on the multilateral negotiations, in agreement with the position recently sustained by the EU at the G7 Summit and at the meetings of the International Maritime Organization (see CEI Global Report, July 2021), the future agreements to be negotiated would have as a "floor" the EU measures and the 55% emission reduction goals for 2030 regarding the 1990 emissions.

These measures advanced in spite of the criticism made by several countries and organisations (see CEI Global Report, June 2021), which were renewed after the presentation of the package of proposed regulations by the European Commission. At the same time, similar schemes have been set forth at the United States Congress (see North America).

BREXIT: THE UNITED KINGDOM WANTS TO RENEGOTIATE THE NORTHERN IRELAND PROTOCOL

The government of Boris Johnson made a new proposal to the British Parliament to reformulate the Protocol on Ireland and Northern Ireland decided upon with the EU in October 2019, thanks to which the presence of a physical border between Ireland and Northern Ireland was avoided, and the integrity of the single goods market of the block preserved. The British authorities consider that the Protocol is untenable for its companies, many of which have ceased having commercial activities with Northern Ireland due to the administrative burden that was established after its entry into force on 1 February 2020.

The difficulties that have arisen during business operations between Northern Ireland and the rest of the United Kingdom only started to be felt this year, since during 2020 there was a transition period that preserved the free circulation of goods and services; however, as of 1 January 2021, the trade in goods from Great Britain to Northern Ireland has been subject to customs and phytosanitary controls.

The European Union's response did not wait long. Maroš Šefčovič, Vice-President of the European Commission, responded hours after the British proposal was made. He indicated that those responsible for said proposal, Boris Johnson and his negotiator, David Frost, were the ones who had signed the protocol in 2019 and that the EU did not consider the possibility of a renegotiation in this case.

GOOGLE FINED AGAIN BY FRENCH GOVERNMENT

The French Competition Authority imposed a 500 million euro fine to the American company Google for not having complied with the obligation (imposed in April 2020) to negotiate in good faith with news editors and agencies regarding the payment for the publication of their contents. This sanction adds to the one already applied in the month of June for having abused of its dominating position in the internet publicity.

The new fine is the highest applied by the body and it was decided upon due to the severity of Google's fault. Likewise, the French authority stated that, in case of not reaching an agreement with news editors and agencies, Google is likely to receive fines of up to 900,000 additional euros per day.

OPTIMISTIC OUTLOOKS FOR THE EUROPEAN ECONOMY

On 7 July, the European Commission revealed its new economic outlooks for the bloc. The authorities expect the EU's GDP to grow 4.8% this year and 4.5% next year. These figures are even higher than those published in May and which were already promising (see CEI Global Report, June 2021).

The EU countries with the best growth perspectives for 2021 are Romania (7.4%), Ireland (7.2%), Hungary (6.3%) and Spain (6.2%); while those that will grow the least, according to the authorities in the EU, are Germany (3.6%), The Netherlands (3.3%), Denmark (3.0%) and Finland (2.7%). Inflation, in turn, is expected to reach 2.2% this year and 1.6% next year.

SOUTH AND CENTRAL AMERICA

THE PACIFIC ALLIANCE CONCLUDES NEGOTIATIONS OF AN FTA WITH SINGAPORE

The member countries of the Pacific Alliance (Chile, Colombia, Mexico and Peru) concluded the negotiations started in 2017 for a Free Trade Agreement with Singapore. The next step will be its undersigning, which is expected to take place during the Summit of the Alliance to be held in December 2021 in Colombia.

This agreement, that is based on the already existing bilateral and plurilateral links and complements them, turns the Asian country into the first Associate State to said Alliance, deepening the trade relations. It is worth noting that in 2019, bilateral trade in goods between Singapore and the Pacific Alliance accounted for 33.2% of the total of the transactions of this Asian country with Latin America.

The countries of the Latin American bloc expect the agreement to make it possible to increase investments, promote their exports of services, drive the regional production chains and promote Singapore as a productive and exports platform for the region. The reach of the agreement includes perspectives of collaboration in matters of technology, digital economy, harbour and logistics administration, urban infrastructure and solutions, energy and food commerce.

URUGUAY ANNOUNCES START OF NEGOTIATIONS OUTSIDE MERCOSUR

On the day of the meeting of the Council of the Common Market (CCM), where Argentina's presidency pro tempore was concluded, Uruguay published a communication where it announced that, although it vindicates its capacity as full member of MERCOSUR, it will initiate conversations with third countries for the negotiation of trade agreements outside the bloc.

In that respect, President Alberto Fernandez asserted: "We believe that the way is to comply with the Asunción Treaty: negotiating together with third countries or blocs and respecting the figure of consensus as the basis in decision making throughout our integration process".

BOLIVIA STIMULATES MANUFACTURING AND IMPORTS OF ELECTRIC VEHICLES

With the objective of contributing to environment improvement and savings and energy efficiency, the Bolivian government established fiscal and financial incentives to increase the use of electric or hybrid vehicles and agricultural machinery. Along with that, it set forth that the National Electricity Corporation (ENDE, for its acronym in Spanish) will have to install systems to recharge electric vehicles, in a maximum term of 90 days from the technical implementation of the regulation.

Among the concrete measures, the following can be mentioned: exemption from payment of import tariffs on goods accessing the industrial free trade areas, and which are used for the manufacturing and/or assembly of electric or hybrid automotive vehicles or agricultural machinery; and the reduction in the import quotas of controllers, telematic systems and electric engines. Likewise, in favour of the acquisition of electric and hybrid automotive vehicles and agricultural machinery, import tariff rates and aliquots of the Tax on Specific Consumptions (ICE, for its name in Spanish) were reduced for five years and the issuance of credits to that aim was regulated.

BOLIVIA, HONDURAS, NICARAGUA, PERU AGRICULTURAL PRODUCERS TO RECEIVE FAO FUNDS

The Food and Agriculture Organization of the United Nations (FAO) confirmed that Bolivia, Honduras, Nicaragua and Peru will benefit with US$ 6.5 million through its COVID-19 Response and Recovery Programme. These funds, supplied by the Canadian government, will be aimed at projects to provide aid to the small producers affected by the pandemic, with a special emphasis on women, young people and the indigenous communities, where the greatest increase in poverty and hunger has been observed.

These projects, that will have an impact on 48,000 people, will be focused on food and nutritional security, on growing resilience and the refurbishing and sustainable transformation of their food systems. Also, they will imply both monetary transfer and cooperative work between the local institutions and organisations, FAO and the Canadian Cooperation Society for International Development, of cooperatives and mutual societies.

NORTH AMERICA

US: LEGISLATORS PROPOSE NEW CARBON BORDER TAX

Two democrat congressmen proposed the implementation of a border tax on the imports of contaminating products as of 2024. This tool would seek to eliminate any competitive advantage for the most contaminating countries and avoid that the US companies that emit big amounts of carbon move to countries with more flexible environmental standards.

In agreement with the proposal, the imports rate will be based on the cost incurred by the US companies to comply with the laws and regulations that limit greenhouse gas emissions. Initially, it will include goods that are intensive in carbon and are exposed to trade competition, such as aluminium, cement, iron and steel, natural gas, petroleum and coal. The list of taxed products could be enlarged as the United States improves its methods of calculation of carbon intensity of the different products. It is estimated that between US$ 5 billion and US$ 16 billion will be collected annually.

The proposal comes shortly after the European Union proposed its own tax on border on the carbon of different imports (see Europe).

THE IMF SUGGESTS THE US SHOULD ELIMINATE TRUMP ERA'S TARIFFS

In its annual report on the US economy, the International Monetary Fund (IMF) praised the country's economic recovery, impelled by the diverse stimulus measures taken by Biden's government, and anticipated a 7% growth rate for 2021. However, it advised the US government that it should put an end on the tariffs imposed by the Donald Trump administration.

Many of the trade distortions introduced by the previous government are still in force; among them, the import tariffs on steel and aluminium, washing machines and solar panels as well as the measures resulting from the trade war with China. According to the report, the elimination of the obstacles to free trade would contribute to meet the objectives of the new administration, which has emphasised the need of a "worker-centred" agenda that guarantees that global trade benefits US citizens as labourers and wage earners, and not only as consumers.

The IMF also criticised that the "Buy American" requirements have been reinforced, and that retaliations against countries accused of manipulating currencies are still imposed. Finally, the report emphasises the need to approach the prolonged distortions to trade and global investments, among them agricultural subsidies.

USMCA: CONFLICT IN THE AUTOMOTIVE INDUSTRY ABOUT THE INTERPRETATION OF RULES OF ORIGIN

A year after the entry into fore of the USMCA, a conflict has come up among its members regarding the calculation methodology of the rules of origin established in the agreement for the trade of automobiles and its parts through the regional borders.

While in NAFTA, the threshold of regional content to be able to apply zero tariffs was 62.5%, at the USMCA it was agreed that said percentage would gradually be increased to reach 75%. The discrepancy between the countries arises regarding the interpretation of the accumulation of origin to obtain the benefit of tariff elimination for a product exported in the region.

The governments of Mexico and Canada sustain that the methodology to be followed is the one that considers 100% originating from the region those autoparts that comply with the basic rule of origin in any of the three countries (75% in the new agreement) and that are afterwards exported within the region for the final assembly of a car, such as was the case in NAFTA. On the contrary, the United States sustains that only the initial regional content of said autopart must be added to the sum that is needed to meet the total regional content of the exported automobile, which makes it harder to reach the duty-free threshold for the whole vehicle.

Both Mexico and Canada consider the requirement of the Biden administration an attempt to renegotiate a key aspect of the Free Trade Agreement and, if no agreement is reached, they could file a formal complaint against the US within the framework of the USMCA.

USMCA: FIRST REMEDIATION PLAN UNDER THE RAPID RESPONSE LABOUR MECHANISM

Mexico and the United States have reached an agreement so that workers of the General Motors facilities in Silao, Guanajuato have the possibility to vote to legitimise their collective bargaining agreement in free and democratic conditions.

The announcement results from the request of revision under the Rapid Response Labour Mechanism that the United States sent to Mexico in May 2021, due to concerns arisen regarding the denegation of the rights of free association and collective bargaining to the workers in those facilities (see CEI Global Report, June 2021).

As part of what was agreed upon, Mexico commits itself to guaranteeing a new electoral process at the plant facilities on 20 August 2021 at the most. Impartial foreign observers from the International Labour Organization will attend, as well as observers from a Mexican autonomous body. In addition, the presence of federal inspectors of the Secretariat of Labour and Social Welfare (STPS, for its acronym in Spanish) at the facilities of the automotive plant will have to be guaranteed as to prevent any intimidation or coercion, and the country undertakes to investigate and, if necessary, to sanction any violation of the law related to said vote.

ASIA AND OCEANIA

THE ASIAN ECONOMIES AND THE "ZERO-COVID" APPROACH

A recent report by The Economist Intelligence Unit called "Asia's transition away from 'zero COVID'", indicates that the "zero COVID" approach, that is put into practice in different parts of Asia, has generated economic and health benefits, but will become untenable as the global economy reopens.

Regarding the report, a group of the main Asian economies, that include Australia, China, Hong Kong SAR, Macau SAR, New

Zealand, Singapore, Taiwan and Vietnam, with different political systems and levels of economic development, endorse policies destined to eliminate COVID-19, instead of coexisting with the virus. The "zero-COVID" approach includes the application of strict blockade measures when cases arise, fast tracking of contacts, border controls and quarantine periods at the facilities specified.

Maintaining the number of cases at minimum levels allowed the Asian economies not to have to return to the strict restrictions, impelling confidence in consumers and providing certainty to companies. The domestic cost in tourism, wherever possible, was increased, which helped cushion the loss in incomes from international arrivals; and the factories remained open, which made it possible to satisfy the global demand.

Likewise, it can be remarked that the Asian city-states, like Hong Kong SAR, Macau SAR and Singapore, could have their business and tourism centres damaged if border controls are not freed. The Economist Intelligence Unit expects that the non-COVID regions maintain strict border controls during 2021, and that they are relaxed only at the beginning of 2022, when a massive vaccination scheme is achieved. Likewise, China is expected to be among the most cautious countries at the time of the reopening.

CHINA REACTS TO THE "UYGHUR FORCED LABOR PREVENTION ACT"

The Senate of the United States unanimously passed the bill of "The Uyghur Forced Labor Prevention Act", whose objective is to ban the imports of products elaborated by the forced labour that is supposedly used in the north-western region of China. The new legislation demands directing importers to the "effective tracking of the supply chain" and other actions that must be taken into account. It also instructs the United States Customs and Border Protection office and other agencies to elaborate plans aimed at preventing such imports and identifying the facilities, companies or people involved in forced or involuntary labour. The bill must be passed by the House of Representatives before its enactment.

The Ministry of Commerce of the People's Republic of China (MOFCOM) announced in an official communication that "the actions of the United States seriously damage the security and stability of global industrial and supply chains".

CHINA ADOPTS MEASURES TO STABILISE BASIC PRODUCT PRICES

China announced that it will take steps to stop the rise in commodity prices and fight monopoly and speculation, so as to guarantee stable prices and the supply of raw materials in the market. The Department of Price of the National Development and Reform Commission (NDRC), the Chinese planning commission, stated that it will work with different departments to provide further liberalisation for copper, aluminium and zinc of the national reserves to promote the supply into the market and alleviate the pressure over the companies' production and operations. Following, changes in the price of raw materials will be monitored, the regulation of the futures market will be strengthened and measures against speculation will be taken.

On 5 July, the NDRC and the National Food and Strategic Reserves Administration carried out the first liberalisation of the national reserves, with a public auction of 100,000 metric tonnes of copper, aluminium and zinc. Over 200 companies for processing and manufacturing non-ferrous metals participated, and the prices of the transactions were between 3% and 9% lower than the market prices of the day.

MEETING OF APEC ECONOMIC LEADERS

On 16 July, the 27th Asia-Pacific Economic Cooperation (APEC) Economic Leaders' meeting was held, presided by New Zealand, through a video streaming. The topic centred around the search for collective actions to deal with the COVID-19 pandemic and its economic impacts.

Under the slogan "Overcoming COVID-19 and accelerating economic recovery", the final document of the present edition gathers the coordinated commitment of the APEC leaders to double the efforts to expand the manufacturing and provision of vaccines, in the understanding that the extensive immunisation against COVID-19 constitutes a global public good.

Likewise, the member countries expressed that they will foster the voluntary transfer of technology for the production of the vaccines in terms mutually agreed upon, and that they will pave the way to restart, in a sound manner, trans-border trips, the strengthening of connectivity and stable supply chains for companies and individuals.

On the other hand, the document highlights the willingness to make true the Putrajaya Vision towards 2040. Under the new Vision, launched at the end of 2020 and which replaces the Bogor Goals of 1994, the APEC economies have committed to the goal of strong, balanced, safe, sustainable and inclusive growth by means of trade and investment, innovation and digitalisation of the economy.

AFRICA

PROBLEMS FOR THE SOUTH AFRICAN ECONOMY

The South African economy is not going through its best times; after years of timid growth, it is suffering the consequences of the successive waves of COVID-19 on the economic activity, together with the losses originated by the protests that took place as a result of the imprisonment of former President Jacob Zuma.

The violent outbreaks taking place in the provinces of Gauteng (site of Johannesburg and Pretoria) and in KwaZulu-Natal (Zuma's province of birth) resulted in over 300 deaths, over 1,000 people detained and important material damage due to multiple acts of vandalism. Also, the greatest refinery of South

Africa, which supplies the local market with more than one third of the fuel, closed its Kwazulu-Natal plant due to the riots that took place in said region.

The government trusts that the 25,000 soldiers sent to the zones of conflict can restore the order, but the underlying problems are not solved yet/are far from being solved.

NEW IDA MEETING TAKES PLACE IN IVORY COAST

Last 15 July, in Abiyán, Ivory Coast, a summit of African Chiefs of State was held within the framework of the meeting of the International Development Association (IDA), a platform dependent on the World Bank whose objective is to fight extreme poverty in the poorest countries.

The IDA is financed through periodic collections from donors, contributions of the World Bank and financing obtained from the capital markets. On this opportunity, at least US$ 100 billion are expected to be mobilised by the end of this year, which would represent the highest amount collected in the history of the IDA.

In the joint declaration approved at the meeting, the chiefs of state highlighted the importance of economic growth, job creation and a broader access to the vaccines against COVID-19 for those countries in Africa that can recover from the negative effects the pandemic had on their economies, particularly on the rise in extreme poverty.

Likewise, in said declaration, the African heads of state stressed the fact that, in order to fight the crisis, many countries have launched stimulus packages at a large scale and have used monetary and fiscal instruments not available for most of the countries in the continent. Besides, the budget needed by the region in the next five years to address the pandemic, climate change and the economic modernisation is estimated at US$ 285 billion.

INFLATION AND HUNGER IN NIGERIA ON THE RISE

The Food and Agriculture Organization of the United Nations (FAO) and the World Food Programme (WFP) have warned in a new report that the economic consequences of the COVID-19 pandemic and the climate crisis are increasing the levels of food insecurity in those places where this problem was already severe. Nigeria is one of the countries mentioned by these organisations.

Since the outbreak of the pandemic, food prices have increased in Nigeria more than inflation, whose level has been on the rise since mid-2020. To the increase in the international price of the commodities adds the insecurity originating from the violent events taking place in the northeast of the country which has made many agricultural producers abandon their activities, probably worsening the food crisis at the same time.

Nigeria’s GDP fell 1.8% in 2020 and, in a country where the unemployment rate has been going up exponentially since 2015, the World Bank estimated that in 2020 the number of poor people rose by 7 million. Likewise, the World Bank calculated that approximately 18% of the Nigerian households have at least one adult who has not eaten anything for a whole day, when at the beginning of the pandemic this figure was 6%.

Ministry of Foreign Affairs
International Trade and Worship
Argentina

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