DECEMBER 2022

CEI GLOBAL REPORT

Centre for International Economy

WORLD

The relationship between trade and climate change according to the WTO

Progress at the climate change conference

G20 leaders analyse the various sources of the crisis

EUROPE

German government increases energy subsidies for households and businesses

United Kingdom: a twist in economic policies

Spain’s trade deficit quadruples

SOUTH AND CENTRAL AMERICA

FDI grows in the region, but it still does not exceed pre-pandemic figures

Argentina recovers the Mexican meat market and opens the market for white corn and palay rice

Latin America issues “blue” bonds

NORTH AMERICA

Mexico and the US confronted by the ban on transgenic maize

Mexico starts free trade talks with Türkiye, and Canada with Ecuador

United States reclassifies Russia as a non-market economy

ASIA AND OCEANIA

India eliminates iron ore export tax

Chinese economy recovers

China-ASEAN Summit

AFRICA

Trade tensions in East Africa

Industrialisation in Africa

Initiatives to accelerate Africa’s economic diversification

The relationship between trade and climate change according to the WTO

The WTO devoted its report this year to the relationship between "climate change and international trade". The main message of the document is that "trade is a decisive factor in transforming the world economy and putting the planet on a sustainable path". In other words, according to the WTO, environmental measures should not promote protectionism since international trade could be an ally in the fight against climate change.

The report makes three arguments. The first is that although climate change can have negative impacts on international trade, trade and trade policies are essential elements of any climate change adaptation strategy. For example, while climate change may modify countries' comparative advantages and foreign trade structure (especially in agriculture, tourism and industries dependent on agricultural inputs), trade may facilitate access to goods and services that favour adaptation to climate change (such as climate-resilient seeds or weather forecasting services).

In the second place, while trade generates greenhouse gas (GHG) emissions from production and transport, international trade and trade policies can promote a shift to a low-carbon economy, with access to technologies that contribute to this, and stimulate investment in clean energy. With trade openness, more competitive products are likely to tend to use more productive and environmentally efficient inputs or production processes.

Thirdly, for climate action to have a higher level of ambition there is a need for greater international trade cooperation within the WTO. Multilateral cooperation leads to a more effective environmental policy as WTO rules allow measures to be adopted to protect the environment as long as they are not applied in a way that constitutes a disguised restriction on trade. Regional trade agreements may have rules compatible with those of the WTO. In contrast, the lack of cooperation can lead to carbon leakage and to measures such as border adjustment of carbon emissions.

The report notes that trade and climate change are interconnected and that attempting to mitigate and adapt more effectively to climate change will demand closer international trade cooperation that promotes trade rather than an atomised environment dominated by protectionist policies.

Progress at the climate change conference

With progress in the implementation of the Paris Agreement, the world conference on climate change was held in the Egyptian city of Sharm El-Sheikh. This meeting took place in the context of a geopolitical crisis with consequences for food and energy supply and a series of adverse climatic events, a favourable framework for decision-making.

Thus, in the final decision, called Implementation Plan, the agreement reached on the creation of a fund to finance the economic and non-economic "losses and damages" caused by climate change suffered by the most vulnerable developing countries stands out. The laborious path of defining the details of this fund, especially the sources of financing, is what starts now. To that end, a Committee composed of 24 members, 14 from developing countries and 10 from developed countries was created.

Other topics include concerns about the lack of sufficient funding for developing countries' mitigation plans and the offers by developed countries of funds to assist with adaptation, the emphasis on moving towards a low-carbon energy matrix, reducing coal use and eliminating inefficient fossil fuel subsidies.

While some highlight the historic nature of the agreement reached, other voices point out that it is only a first step.

The annual meeting consists of three simultaneous events: the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 27, in this case), the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA 4) and the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP 17).

G20 leaders analyse the various sources of the crisis

Representatives of the G20 countries met on 15 and 16 November in Bali Island, Indonesia. In the final statement of the meeting, the leaders expressed that the current economic crisis has several dimensions based on non-economic issues. They highlight the economic impact of the COVID-19 pandemic, adverse weather events and the war in Ukraine. Although the document points out that member countries have different positions on these issues, it stresses that these events have increased the fragilities of the current economy, such as lower growth, high inflation, problems with supply chains, greater energy and food insecurity and financial stability at risk.

Faced with this diagnosis, they propose to take countercyclical measures, such as making public investments and promoting private investment, while they suggest strengthening multilateral trade, improving the resilience of supply chains, guaranteeing fiscal sustainability, ensuring price stability, and promoting food and energy security.

They also highlight the importance of multilateral environmental issues, such as caring for the ecosystems and biodiversity, combating climate change, infectious and contagious diseases, and promoting policy measures and the financial support needed for developing countries.

EUROPE

German government increases energy subsidies for households and businesses

The German government decided to increase energy subsidies for homes and businesses. Chancellor Olaf Scholz announced a two-stage plan to be started in December. During that month, the state will fully assume the burden of gas consumed by households and small and medium-sized enterprises (SMEs), which will cost the German tax authorities an estimated 9 billion euros.

Subsequently, the relief for households and SMEs will consist of a subsidised fixed price for those who consume less than 1.5 gigawatts per hour annually. The cost of gas will be 12 euro cents per kilowatt-hour and 9.5 euro cents for heating, while in November gas supply contracts were around 21 euro cents per kilowatt-hour. The subsidised price will start to be applied in the first months of 2023, it will be calculated over 80% of the consumption of the previous year and will be in force until April 2024. Those who consume above that volume will have to pay for the gas at market price.

On the other hand, for large industrial companies, the gas price cap will be introduced in January and will also be in force until April 2024. In this case, the cost will be 7 cents per kilowatt hour and will be calculated with respect to 70% of the company's historic consumption. A total of 25,000 large companies will benefit from this, as well as 2,000 hospitals and all the schools in the country.

There will also be subsidies for electricity consumption, which will be priced at 40 cents per kilowatt per hour for households and SMEs, and of 13 cents for large industrial companies. The full subsidy package will be 200 billion euros, which is expected to be financed by public debt.

Finally, the government will also introduce a monthly public transport pass, which will amount to 49 euros per month and can be used throughout the country. The pass will be valid for taking buses, subways, trams, and trains. The cost of this measure will imply an additional 1.5 billion euros per year for the federal government and a similar figure for the regional governments.

United Kingdom: a twist in economic policies

Prime Minister Rishi Sunak's government has decided to swerve from the economic policies announced by his predecessor, Liz Truss. The new British Finance Minister, Jeremy Hunt, announced a package of measures that includes sharp tax increases and cuts in the expenditure projections proposed by the previous government.

The economic plan announced in Parliament is clearly different from the one that triggered the collapse of the pound sterling and led to the former Prime Minister's resignation (see CEI Global Report, October and November 2022), since, instead of foreseeing tax cuts, it includes strong increases. The British government's objective is to combat inflation, which in October reached its highest value in 41 years, with an 11.1% year-on-year growth rate.

The package presented includes a rise from 25% to 35% of the rate of the exceptional income tax of energy companies (to which a temporary tax of 45% will be added for generators) and an increase in the number of taxpayers who will contribute with the maximum rate of the income tax. Also, some tax exemptions will be frozen until 2028 and electric cars will no longer be exempt from the excise duty on vehicles as of 2025.

As for spending, the new government limited energy subsidies to households and businesses until April and announced that the Defence budget will be equal to 2% of GDP, instead of the 3% promised by the Truss government.

Spain's trade deficit quadruples

The Spanish trade deficit amounted to 53.4 billion euros for the first nine months of the year, just over four times the value recorded in the same period of 2021 (13.3 billion euros). According to a report submitted by the Ministry of Industry, Tourism and Trade, the deficit increase was mainly due to the rise in energy prices.

Both foreign sales and purchases have hit values that constitute historical records. However, while Spanish exports grew 24.7% until September (they amounted to 286.7 billion euros), imports did so by 39.8% (340.1 billion euros) driven by the increase in oil and gas prices.

Spain depends on foreign purchases for its energy supply, and imports in this category represent the main foreign exchange disbursement within total imports. Between January and September, foreign purchases of this type of product increased 127.2%.

FDI grows in the region, but still does not exceed pre-pandemic figures

According to the report of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) "Foreign Direct Investment in Latin America and the Caribbean 2022", total FDI in the world during 2021 climbed to US$ 1.6 trillion and grew 64% and 7% compared to 2020 and 2019, respectively. Of the total, Latin America and the Caribbean received US$ 142.8 billion (9%), a figure that, although 41% higher than that of 2020, was 9% lower than that of 2019. Part of this year-on-year recovery came through sales in service assets and mergers and acquisitions; and through the reinvestment of profits from companies already installed.

The countries in the region that benefitted the most were Brazil (33% of the total), Mexico (23%), Chile (11%), Colombia (7%), Peru (5%) and Argentina (5%); and those that experienced the highest year-on-year growth were Peru and Chile in South America, Guatemala and Panama in Central America, and Guyana in the Caribbean. It should be noted that although the inflow of FDI into the region was below that of 2019, Argentina, Chile, Paraguay and Uruguay improved their performance compared to that year.

At sector level, the most dynamic were services (particularly telecommunications, and electricity, gas and water supply), and the exploitation of natural resources, which grew by 39% and 62%, respectively. Finally, in terms of investment announcements, the most prominent sectors were telecommunications, renewable energies, vehicles and auto parts and technology-intensive industries.

FDI flows came from the European Union mainly (36%) and the United States (34%). In turn, the countries in the region with the greatest investment in the rest of the world were Brazil, Chile and Colombia.

Argentina recovers the Mexican beef market and opens the market for white corn and palay rice

Mexico enabled imports of deboned and matured beef from Argentina after more than eight years of negotiations and twenty since their suspension. To this aim, on 22 July, the National Service of Health, Food Safety and Quality of Mexico (SENASICA, after its name in Spanish) audited Argentine refrigerators and enabled the supply of meat after verifying compliance with the Mexican health requirements. From now onwards, the meat verification scheme will be in its point of origin and the health authorities from both countries need agree on the details that will appear on the health certificate.

Likewise, based on the negotiations initiated in 2014, the aforementioned Health Service confirmed that it would open the Mexican market to the imports of white corn of Argentine origin. So far, our country has only exported yellow corn to that destination.

Finally, after five years of negotiations, SENASICA also authorised the imports of palay rice, originating in and coming from Argentina, a product that Mexico imports from more than a dozen countries (mainly from the United States and Brazil).

Latin America issues “blue” bonds

The International Bank of Ecuador, a private financial institution, placed “blue” bonds for US$ 79 million for the financing of credits that will be granted to companies that carry out a sustainable management of water resources and the value chain of aquaculture, fisheries and sea products, constituting the first private financial initiative of the region in relation to this type of bonds.

In Latin America, the Inter-American Development Bank had already invested in this type of bonds, making a first issue in 2021, and recently launching its third 20-year blue bond with maturity in November 2042.

This tool is seen as an innovative alternative to attracting investment, generating economic growth and more jobs while allowing positive impacts on the environment and pursuing one of the UN’s sustainable development goals: clean water and sanitation.

NORTH AMERICA

Mexico and the US confronted by the ban on transgenic maize

At the end of 2020, Mexico established the progressive elimination of the use of glyphosate and genetically modified maize in Mexico (both locally produced and imported), over a period of three years.

The US Secretary of Agriculture, Tom Vilsack, questioned this measure and announced that the US government could resort to the USMCA dispute settlement mechanism if it fails to reach a resolution favourable to the continuity of US maize exports to Mexico. According to the official, the measure has the potential to substantially hinder trade, harm farmers on both sides of the border and significantly increase costs for Mexican consumers.

The Mexican economy is self-sufficient in white corn (used for meal), but it does not produce enough yellow corn, used as fodder. In this way, it depends on the United States for about 40% of its animal feed and, in the medium term, would not be able to replace these purchases with national production. At the same time, Mexico is the main buyer of American yellow corn (it imported US$ 5 billion in 2021).

Mexican President Andrés López Obrador has remained firm in the decision to prevent the entry of transgenic maize for human consumption, although he does not rule out studying possible alternatives for maize used for animal feed. In this regard, he raised the possibility of an agreement between the US health authorities and the Federal Commission for the Protection against Health Risks (Cofepris), to carry out an analysis of the characteristics of yellow corn and ensure that it does not cause damage to health, even if it is used as fodder.

Mexico starts free trade talks with Türkiye, and Canada with Ecuador

The Mexican Foreign Secretary, Marcelo Ebrard, announced the relaunch of negotiations for a free trade agreement between Mexico and Türkiye, within the framework of a working tour in the Turkish capital, Ankara, with the aim of strengthening the relationship between Mexico and that country in the political, economic, commercial, educational and cultural fields.

Ebrard and the Turkish Foreign Minister Mevlüt Çavuşoğlu highlighted the trade and investment opportunities between the two countries and pledged to further deepen and broaden the bilateral strategic partnership. Officials welcomed the fact that bilateral trade will, for the first time, exceed US$ 2 billion by 2022 and reiterated their commitment to reach the US$ 5 billion trade volume target.

To this end, they agreed to organise the second meeting of the Mexico-Türkiye Economic Commission, to conduct a comprehensive review of the economic relationship and identify the steps to be taken to increase trade and mutual investment, as well as the resumption of negotiations on a free trade agreement.

On the other hand, Mary Ng, Minister of International Trade, Export Promotion, Small Business and Economic Development of Canada, and Julio José Prado, Minister of Production, Foreign Trade, Investment and Fisheries of Ecuador, launched exploratory talks towards a potential free trade agreement between both countries.

Bilateral trade between Canada and Ecuador reached US$ 760 million in 2021. In addition, Canada is the largest foreign investor in Ecuador, with extensive investments in the extractive sector.

The announcement was made at the Pacific Alliance Summit held in late November in Mexico. Both countries are observer members of this alliance and are pursuing their membership, Canada as an associate state and Ecuador as a full member.

United States reclassifies Russia as a non-market economy

According to a communiqué from the US Department of Commerce, Russia no longer qualifies as a market economy for the purposes of the anti-dumping law, due to the deteriorating market conditions resulting from the invasion of Ukraine.

According to the statement, the Russian government's broad participation in the economy has led to distorted prices and costs in the country, which do not accurately reflect whether Russian companies are setting fair prices on imports from the United States. The Department of Commerce's market economy determinations are based on several criteria, including currency convertibility, how wages are determined, the climate for foreign investment, and government control over the means of production and business decisions.

As a result of the decision, in future cases involving imports from Russia, the Department of Commerce will apply an alternative methodology for calculating anti-dumping duties, using prices and costs based on the market of a country with a similar level of economic development producing comparable goods.

ASIA AND OCEANIA

India eliminates iron ore export tax

On 18 November, the government of India announced the elimination of the export tax on low-quality iron ore and on certain intermediate steel products with an iron content of less than 58%. The application of a 50% tax on exports of this mineral, adopted to cope with the increases in the price of iron, was in force since May.

In early November, the Secretary General of the Federation of Indian Mining Industries remarked that India's iron ore exports had collapsed in October due to higher export taxes, and with the expectation that they will fall further due to lower demand from China.

Chinese economy recovers

In October (latest available data) the Chinese industry's value added increased by 5%. According to a press review from the Chinese government on the information collected by the National Bureau of Statistics (NBS), despite the complex international situation and the resurgence of COVID-19 within the country, the Chinese economy continues its recovery.

Mining grew 4% in October, the automotive industry 18.7% and the production of machinery and electrical equipment 16.3%. Likewise, during the first 10 months of the year, investment in fixed assets grew 5.8% year-on-year, while the flow of capital to infrastructure and manufacturing industry rose by 8.7% and 9.7%, respectively.

China-ASEAN Summit

On 11 November, the member states of the Association of Southeast Asian Nations (ASEAN) and the People’s Republic of China met at the 25th ASEAN-China Summit, in Phnom Penh, Kingdom of Cambodia, in the framework of which the Joint Declaration on Strengthening Common and Sustainable Development was adopted. This edition emphasised development and cooperation, advanced the joint construction of the Belt and Road Initiative, promoted the implementation of the Global Development Initiative, the Global Security Initiative, and the construction of an ASEAN-China Comprehensive Strategic Partnership. Areas such as agriculture and food security were also highlighted and 2023 was designated as the “ASEAN-China Year of Cooperation on Agriculture and Food Security”.

In an interview , Shi Zhongjun, Secretary General of the ASEAN-China Centre (ACC), noted that thanks to the prosperous economic and trade cooperation, both sides maintained a stable and continuous development, and became a regional driving centre, despite international uncertainty and the emergence of destabilising factors.

Between January and October, ASEAN remained China’s largest trading partner, with total bilateral trade equivalent to US$ 735 billion, a year-on-year increase of 15.8%, representing 15.2% of the total value of China’s foreign trade.

AFRICA

Trade tensions in East Africa

The Kenyan government made the decision to ban –starting next year– the imports of goods that can be manufactured locally, particularly iron and steel products, which caused reactions from the Ugandan government.

According to remarks by the President of Kenya, William Ruto, his administration is in the last stages of the writing of an industrialisation policy that not only will guarantee that the raw materials available are exploited, but that manufacturers are also protected.

In this regard, other members of the East African Community (EAC) expressed concern about the Kenyan government's decision and noted that a ban on steel and iron imports would run counter to the Common External Tariff (CET), a key instrument of the Customs Union aimed at fostering regional integration.

But trade tensions between the EAC partners extend to other areas as well. Kenya authorised the imports of tens of thousands of tonnes of genetically modified agricultural products, having a negative impact on exports from Uganda, which until then had been the main exporter of maize to Kenya. In addition, legislators in the Rift Valley (Kenya) called for a complete halt to maize imports until the beginning of next year.

Kenya is the only country in the region that accepts the imports and cultivation of genetically modified organisms (GMOs) while Tanzania, Uganda and Burundi have said they are not open to GMOs.

Industrialisation in Africa

The African Development Bank (AfDB) together with the African Union (AU) and the United Nations Industrial Development Organization (UNIDO) published a report on the "Africa Industrialization Index" (AII).

The report provides an assessment of the progress of 52 African countries on 19 key indicators, enabling African governments to compare their own industrial performance and identify best practices more effectively.

Among the conclusions of the document it can be mentioned that the best performing countries are not necessarily those with the largest economies, but those countries that generate high value added per capita in manufactures, with a substantial proportion of manufactured goods destined for export. North Africa remains the most advanced African region in industrial development, followed by Southern Africa, Central Africa, West Africa and East Africa.

The 19 indicators of the index cover manufacturing performance, capital, labour, the business environment, infrastructure and macroeconomic stability. The index also classifies the industrialisation of African countries into three dimensions: performance, direct determinants and indirect determinants. Direct determinants include endowments such as capital and labour and form of implementation to drive industrial development. Indirect determinants include enabling environmental conditions, such as macroeconomic stability, sound institutions and infrastructure.

South Africa maintained a very high ranking during the 2010-2021 period, followed closely by Morocco, which ranked second from 2022. The top six positions during the period are completed by Egypt, Tunisia, Mauritius and Eswatini.

While Africa shows encouraging progress in industrialisation during the 2010-2022 period, the COVID-19 pandemic and Russia's invasion of Ukraine delayed its efforts and evidenced gaps in production systems.

The AfDB noted that the African Continental Free Trade Area could have a positive effect on improving the region's industrial competitiveness. The AfDB has invested US$ 8 billion in the last five years under its "Industrialise Africa High-5" priority; in the pharmaceutical sector alone, the investment intention would reach at least US$ 3 billion by 2030.

Initiatives to accelerate Africa's economic diversification

The African Union (AU) launched a series of initiatives to take advantage of emerging opportunities to promote industrial development as an effective, socially responsible and sustainable means towards the continent's economic transformation.

Many African countries have experienced high growth rates related to the "commodity boom" and also due to strong economic governance. However, there was a moderate response from industrial supply to several years of macroeconomic stability. This is largely attributed to a number of supply-side constraints: lack of required industrial capacities, inadequate entrepreneurship and institutional support, bottlenecks in energy and infrastructure and demand constraints due to the low purchasing power of the vast majority of the population and insufficient demand from the public sector. According to the AU, supply-side constraints are a persistent challenge for African industrial development that requires an emphasis on creating a propitious and coherent policy environment.

Supply-side constraints continue to exist outside the manufacturing sector. A lagging agricultural sector limited industrial production and competitiveness in many countries due to inadequate or irregular supply of raw materials. This, in turn, has limited the growth of industrial production based on agricultural inputs.

In this regard, the AU developed a 10-point initiative related to the diversification needs of African economies, as summarised below: (1) African industrialisation through the development of regional value chains; (2) African fashion industry value chain and pan-African fashion initiative strategy; (3) innovation, ownership and intellectual rights and technology transfer to improve productivity, competitiveness and accelerate industrialisation; (4) African quality policy; “Made in Africa”; (5) standards and guidelines; (6) African women and youth in the “Industrial Development Initiative”; (7) financing of the African industrialisation agenda; (8) template and guidelines of the African Union Model Law on Special Economic Zones; (9) African Union commodity strategy and its plan of action; (10) status of African industrial development and second review of accelerated industrial development for Africa.

CEI GLOBAL REPORT

Closing date of this issue: 30 November 2022

Ministry of Foreign Affairs
International Trade and Worship
Argentina