Centre for International Economy

GLOBAL REPORT

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WORLD

TENSE CALM IN TRADE RELATIONS

On January 30 and 31, top officials from China and the United States met in Washington, D.C. to discuss bilateral trade and economic relations. According to the U.S. government, the meeting was highly beneficial though no agreement was reached, except for the Chinese decision to resume soybean purchases to the United States. The next meeting would take place by mid-February in China. If no understanding is reached by March 1, the United States would raise tariffs to a group of Chinese products from the current 10% to 25%. This series of meetings is part of the 90-day process of negotiation decided upon between both countries in Buenos Aires, after the G20 summit.

At the same time, the World Trade Organization (WTO) "judicial" course is underway: on January 28, the Dispute Settlement Body (DSB) approved the establishment of the Panels for the case of China against the United States for the measures regarding protection of intellectual property and technology transfer (DS 543), and for the case of the United States regarding the countermeasures that Turkey applies on its exports (DS 561).

GROWTH OF GLOBAL ECONOMIC ACTIVITY LOSES MOMENTUM

According to the last data published in the Global Economic Prospects of the World Bank, and, in line with the warnings issued during 2018, growth of the economic activity at world level has started to lose momentum. While in 2017 the growth rate was of 3.1%, in 2018 it decreased to 3%, and a further reduction is projected until 2021, when it is expected to reach 2.8%. During 2018, the United States maintained its growing tendency resulting from an expansive fiscal policy, but the effects of this policy are expected to lose strength.

The International Monetary Fund (IMF) January's World Economic Outlook forecasts similar trends and emphasizes the negative impact on developing countries, which would also be affected by the inflationary aftermath of the currency depreciation.

UNEVEN ATTENDANCE AT DAVOS FORUM AND WTO MINISTERIAL MEETING

The annual meeting of the World Economic Forum, known as the Davos Forum, took place in Switzerland in late January, in parallel with a new Informal WTO Ministerial Gathering. The Presidents of the United States, China and Russia failed to attend the Forum, but representatives of China and Russia took part in the Ministerial meeting.

At the Forum, discussions focused on climate change, Brexit and global economy. In turn, the group of officials from 32 Members of the WTO reaffirmed the need to restore a fully-functioning Appellate Body and to reform the functioning of the agency. In addition, a group of member countries – including Argentina and Brazil– approved a declaration setting out their intention to launch negotiations on electronic commerce.

INDIA: AGRICULTURAL CRISIS AND CONVERGENCE TO WTO RULES

The farming sector of India is in crisis: in an inflationary context, agricultural product prices have recorded falls for six months, bringing about losses in real income for farmers and an increase in their indebtedness. Due to the importance of the sector for the Indian economy –more than 60% of the population is dedicated to farming activities– the government announced new support measures to be implemented soon. The measures include a possible transfer scheme to ensure a minimum income for producers, interest-free financing, loans without collateral and incentives to diversify or increase the value added in their activities.

This new stimulus package for agriculture would also help India to adapt to the WTO rules. According to the agency, the programme, which would provide direct income support for farmers (but decoupled from specific production decisions), is a permitted subsidy (a "green box" measure). In contrast, the system of public procurement at minimum prices currently in force could be exceeding the maximum amount allowed by the multilateral rules, as expressed by some members of the organization.

CPTPP ALREADY IN FORCE IN SEVEN COUNTRIES

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) came into effect in Vietnam on January 14. Thus, seven countries have already implemented the agreement which officially entered into force on December 30, with the previous ratifications of Australia, Canada, Japan, Mexico, New Zealand and Singapore. It is expected that the four remaining signing countries –Brunei, Chile, Malaysia and Peru– soon proceed to ratify it.

EUROPE

CONTINGENCY MEASURES GAIN STRENGTH IN THE FACE OF NO-DEAL BREXIT

On January 15, the British Parliament rejected the EU withdrawal agreement and on January 29, it approved an amendment to the instrument, which requests replacing the safeguard clause to avoid a "hard" border between Northern Ireland and the Republic of Ireland by an alternative mechanism, while seeking legal guarantees for a precise and effective withdrawal of the United Kingdom from the customs union. The amendment approval marks the opening of a new negotiation phase of the exit agreement –at least on the part of Great Britain–, in a context of reluctance to the introduction of modifications by the 27 European partners.

A potential no-deal withdrawal would imply abrupt changes in trade tariffs and increases in operating costs, a scenario that, according to projections by the Bank of England, would cause GDP to shrink by up to 8% and the unemployment rate to rise from its current level –4.1%– to a maximum of 7.5%. In turn, manufacturing companies could undergo alterations in their supply chains –Airbus and Sony are already considering relocating their production units to Singapore and the Netherlands.

BIODIESEL: AGREEMENT BETWEEN EU AND ARGENTINE PRODUCERS

On January 30 and within the framework of a long trade dispute, the European Biodiesel Board (EBB) announced that the European Commission (EC) Trade Defence Committee (TDC) had approved by a large majority an agreement that regulates Argentine biodiesel exports to the European market. This results from the investigation on subsidies initated by the EC a year ago, at the request of the EBB and 11 additional companies.

The Cámara Argentina de Combustibles (CARBIO, for its abbreviation in Spanish) and the companies accused of receiving subsidies signed an agreement with the EC by which they are allowed to export duty-free up to around 1.2 million tons of biodiesel, but setting a minimum price. They also agreed that the total of these exports could not exceed 37% of the annual volume in one quarter.

The EBB will monitor the implementation of the agreement, and the EU authorities will have the power to withdraw from it and apply the general ad valorem tariff of 30% to Argentine biodiesel exports in case the minimum price condition is not respected.

ECONOMIC PARTNERSHIP AGREEMENT BETWEEN THE EU AND JAPAN ENTERS INTO FORCE

February 1 marks the entry into force of the Economic Partnership Agreement between the EU and Japan, a deal achieved after five years of negotiations. In this regard, Federica Mogherini, head of foreign policy of the European Union, welcomed the implementation of the agreement that constitutes “the largest free trade area in history” since it comprises 30% of the global GDP and 40% of world trade.

THE EU IMPOSES SAFEGUARD ON STEEL IMPORTS

Based on a threat of serious injury in the face of increased steel imports to the EU, a definitive safeguard measure came into force from February 2 to July 2021, establishing a tariff-rate quota for the import of 26 categories of steel products, with an additional duty above the quota of 25%.

This is an extension to the provisional safeguard measure imposed in July 2018, but now the main exporters will have their specific quota, based on their historical exports. Likewise, it foresees a 5% annual increase of each tariff-rate quota. Norway, Iceland, Liechtenstein, South Africa and the developing countries with exports to the EU of up to 3%, such as Argentina, will be exempt.

LATIN AMERICA

CHILE APPROVES NEW GENERATION AGREEMENT WITH ARGENTINA

In January, the Chilean Congress approved the Additional Protocol No. 61 that complements the MERCOSUR-Chile Economic Complementation Agreement No. 35 (ACE 35) and the Agreement to Avoid Double Taxation between Argentina and Chile. In Argentina, the Protocol was approved on December 19, 2018 and its entry into force –to take place 90 days after the Ministries of Foreign Affairs of both countries notify they have completed the required formal procedures– will contribute to consolidate the economic bonds between both nations and to strengthen ties with the remaining countries of the Pacific Alliance.

The Protocol does not modify the tariff aspects already established in the ACE 35 and modernizes the disciplines related to sanitary and phytosanitary measures, technical barriers to trade and trade in services and investment. It also includes new disciplines in matters of electronic commerce, telecommunications, public procurement and trade facilitation, among others.

BOLSONARO BEGINS HIS TERM WITH A TRADE SURPLUS

During 2018, Brazil's foreign trade grew by 13.7%, resulting in a US$ 58.3 billion surplus. Thus, the trade balance reached the second best result since 1989. However, exports grew less than imports (9.6% and 19.7%, respectively). Those destined for Argentina, its main trade partner, decreased 15.5% as a result of the drop in vehicle demand. However, this effect could be counteracted by the increase in exports to other destinations, such as China, the EU and the United States (32.2%, 20.0% and 6.6%, respectively).

With these results at hand, Bolsonaro reaffirmed his campaign promises at the World Economic Forum (*see World section*) and stated that the main objectives of his government will aim towards commercial opening and the strengthening of foreign relations. This process would be accompanied by the incorporation of the international best practices promoted by the Organization for Economic Cooperation and Development (OECD).

BRAZILIAN AUTOMOTIVE SECTOR EXPANDS IN SPITE OF FALL IN EXPORTS

The production and sale of vehicles in Brazil showed promising results during 2018: the indicators grew 6.7% and 14.6%, respectively. However, exports fell by 17.9%, affected by the fall in demand for automobiles from Argentina, its main destination.

BRAZIL GIVES GREEN LIGHT TO EMBRAER-BOEING MERGER

Brazilian President Jair Bolsonaro said in January he will not oppose Embraer's merger with U.S. giant Boeing. However, the merger is not yet a fact: the company's board of directors must ratify the agreement, to be later submitted to the endorsement of its shareholders and the regulatory authorities of Brazil and the United States.

Embraer, a producer of civil, military and business jets, is one of the most important companies in Brazil and the third worldwide in this field. Although it was privatized in 1994, the Brazilian state retained the right of veto over strategic issues, which is why Bolsonaro's declaration is of crucial importance.

The agreement provides for Boeing to absorb Embraer's civil activities and thus control 80% of the capital (US$ 4.2 billion). Likewise, both firms would form another group for the commercialization of an Embraer airplane, in which case the Brazilian company would control the majority of the capital (51%). Although negotiated under Michel Temer's administration, this agreement could represent the first example of application of the agenda of Minister of Economy Paulo Guedes, based on measures of privatization and opening to foreign capital.

UNITED STATES

TEMPORARY AGREEMENT TO REOPEN THE GOVERNMENT

On Friday, January 25, Republicans and Democrats reached an agreement for the reopening of the government, after the 36-day record partial shutdown of federal agencies. This block was due to a budget paralysis caused by disagreement regarding the financing of the wall between the United States and Mexico, one of U.S. president's campaign promises.

The agreement, announced by President Trump, will run to February 15, 2019, until which negotiations will continue within the framework of a bipartite committee –constituted by members of the Senate and the House of Representatives–, intended to evaluate the aspects of border security, migration and budgetary issues necessary to build the wall.

According to statements by high officials, Trump does not rule out the possibility of a new government shutdown or, even so, of declaring a state of emergency, in case talks within Congress fail.

EXECUTIVE BRANCH SEEKS GREATER FREEDOM TO IMPOSE TARIFFS ON TRADE

Within the framework of the "America First" policy, White House Trade Advisor Peter Navarro urged Congress to approve the "Reciprocal Trade Law" that would grant President Trump greater discretion to impose tariffs on imports, in demerit of the commitments undertaken before the WTO –particularly, the principle of most favoured nation (MFN)– and of the bilateral free trade agreements in force.

The bill would establish that the president could increase tariffs –product by product– on U.S. imports from markets with higher tariffs or non-tariff barriers. While the bill would require that changes be notified to Congress before they become effective, representatives would be excluded from the approval process.

At present, the U.S. legal framework allows the Executive Branch to increase tariffs without congressional approval for specific reasons. Examples are section 232 of the Trade Expansion Act of 1962 and section 301 of the Trade Act of 1974, invoked by the current administration concerning the measures implemented in 2018 on steel and aluminum imports, and on Chinese imports, respectively.

CHINA

ECONOMIC AND TRADE GROWTH EXCEED CHINESE GOVERNMENT OBJECTIVES

According to the National Bureau of Statistics, the Chinese economy grew 6.6% in 2018, slightly surpassing official expectations (6.5%), but it failed to overcome the growth recorded in the previous year (6.8%). GDP totaled the equivalent of US$ 13.3 billion, 76.2% of which was driven by consumption (18.6% more than in 2018), confirming that China is advancing towards the reconversion objectives of its economic model. In turn, the industrial production reflected growth at 6.2% –amounting to almost a third of GDP– and the employment rate remained stable, while the urban unemployment rate stood at 4.9% in December. Foreign Direct Investment (FDI) inflows also showed satisfactory results. With the implementation of measures to remove restrictions on foreign funds in strategic areas such as shipbuilding, aircraft manufacturing and alternative fuel vehicle production, incoming flows rose 3% in 2018 and were mainly aimed at the manufacturing and high-technology sectors. A largest growth was seen in the outgoing FDI (4.2%), and the countries in the One Belt, One Road (OBOR) initiative accounted for 13% of the total overseas FDI.

In turn, China's foreign trade expanded by 9.7% from the previous year, reaching a record high of US$ 4.51 billion, according to data from the General Administration of Customs (GACC). However, the global trade surplus contracted 18.3% due to the higher relative growth of imports. It should be noted that, even in the current context of trade tensions, China increased its trade surplus with the United States by 17.2% in 2018 and reduced it with the European Union (EU) and with the bloc of countries comprising the Association of Southeast Asian Nations (ASEAN) by 7.6% and 5.4%, respectively.

FIRST EXPORT OF ARGENTINE CHERRIES TO CHINA

On January 7, officials of Argentina and of the General Administration of Customs of China certified compliance with the phytosanitary protocol for the export of fresh cherries to China, completing the last requirement necessary for said procedure. As a result, Argentina sent the first shipment of cherries to the Asian country –1,300 kg of the "Sweet Heart" variety were air shipped, and 160 additional tons were sent from the Chilean port of Valparaíso–.

CHINA LAUNCHES NEW GUIDELINES FOR THE TREATMENT OF RARE EARTH

In early January, the Ministry of Industry and Information Technology (MIIT) of China issued new guidelines for the extraction of Rare Earth Elements (REE), a group of 17 metals used in high-tech sectors and of which China is responsible for more than 90% of the global supply. In 2015, the MIIT had already published a five-year plan for REE, which established ambitious production targets and market quotas.

According to the new guidelines, China will intensify efforts to eliminate illegal mining, recycling and smuggling of REE, along with the implementation of a traceability system and the promotion of the development of new techniques and technologies to reduce the environmental liabilities of the extraction process.

China’s interest in these minerals –which it has recognized as a strategic resource since 2011– is related to its share in the global trade in clean energy, where a wide range of products, from solar panels to electric vehicles, require significant quantities of REE.

Ministry of Foreign Affairs and Worship
Argentine Republic

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