Centre for International Economy

GLOBAL REPORT

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WORLD

HAND IN HAND WITH DEVELOPING ECONOMIES, COUNTRIES WOULD GROW IN 2021

The latest growth estimates by the IMF record a slight improvement compared to those reported in October, due to an international scenario that contemplates the gradual distribution of vaccines and therapies against COVID-19 and the implementation of expansive fiscal policies, particularly in developed countries. The organisation estimates that the world economy fell 3.5% in 2020 and that, out of the 30 main economies, only three had a positive growth rate: Egypt (3.6%), China (2.3%), and Turkey (1.2%). In turn, the agency estimates that world product would grow 5.5% in 2021 and 4.2% in 2022. All the economies would return to the growth path, although developing countries would do so at a higher rate: 6.3% vs. 4.3% for the developed nations in 2021; and 5% vs. 3,1% in 2022. If these projections are met, 12 out of the 30 economies included would have recovered the level of output prior to the crisis by 2022.

This evolution is also reflected in world trade in goods and services: the fall in 2020 was 9.6%, while it would grow again in 2021 (8.1%) and in 2022 (6.3%). It would also be evident in the price of *commodities*, especially that of oil, which, after falling 32.7% in 2020, would grow 21.2% this year. On the other hand, the price of the rest of the *commodities* rose 6.7% in 2020 and would increase 12.8% in 2021.

Additionally, the World Bank stated in January that this crisis would affect long-term productivity growth, particularly in developing economies, due to the reduction in investment, the shorter effective school time, and the loss of skills resulting from prolonged unemployment.

DECREASE IN WORLD FDI

Global Foreign Direct Investment (FDI) fell 42% in 2020, reaching a level 30% lower than that reached during the 2008-2009 crisis, as reported in January by the UNCTAD. At the country level, FDI grew in India (13%) and China (4%), but fell in the EU (71%), Brazil (50%), the U.S. (49%), Argentina (47%) and the ASEAN countries (31%). Thus, developing countries concentrated 72% of FDI. The recovery of these flows would only occur in 2022 provided a greater control of the pandemic is achieved.

STRONG RISE IN THE PRICE OF MARITIME TRANSPORT

A shortage of containers caused the price of their freight between Asia and Europe to rise four-fold between November and January. This is damaging the trade of lower value products and delaying the provision of inputs and the operation of supply chains. The problem originated last year when containers were stranded due to falling trade as a result of the COVID-19 recession. The subsequent recovery in trade found shipping companies without containers, so their prices began to increase.

NO PROGRESS IN THE DEBATE ON THE IMPLEMENTATION OF INTELLECTUAL PROPERTY RIGHTS AMID PANDEMIC

The informal January meeting of the WTO Council on Trade-Related Aspects of Intellectual Property Rights (TRIPS) failed to reach consensus to advance the India and South Africa proposal that has been under discussion since October last year on the transitory exception of the application of intellectual property rights in response to COVID-19 (see CEI Global Report, November 2020). Australia, Canada, Chile and Mexico raised questions in writing and India, South Africa and eight other developing countries (such as Bolivia, Kenya, Pakistan and Venezuela) provided different answers.

EUROPE

EU-MERCOSUR: PORTUGAL SEEKS TO ACTIVATE THE AGREEMENT DURING ITS ROTATING PRESIDENCY

On 1 January, Portugal took over the rotating presidency of the European Union. The new authorities raised the need to set the course for the EU during the COVID-19 pandemic and proposed a series of priorities that show continuity with those that the European Commission have been upholding, such as promoting a sustainable recovery and accelerating a fair and inclusive digital transition.

In this framework, Portuguese President António Costa presented before the European Parliament the programme he plans to carry out in the six months of his presidency and strongly supported the agreement with Mercosur. In this regard, he pointed out: “I understand the debate on Mercosur, but it is not primarily economic. We all know that it is the most important trade agreement the EU can conclude. But above all it is an agreement for the geopolitics of Europe”.

Along the same lines, the Portuguese Foreign Minister, Augusto Santos Silva, said at a press conference that “it is the responsibility of the rotating presidency to try to conclude the process” and added that “as long as the environment is not a real reason, but a pretext (...), we cannot accept it. When environmental or deforestation issues are real, we must address them and we can solve them”. This last comment refers to the pronouncements of the leaders of several European countries, such as France or Austria (see CEI Global Report, October 2020 and December 2020), in opposition to the agreement mentioned for not complying with the environmental policies supported by the EU.

THE EU WILL EXTEND SUBSIDIES TO COMPANIES DURING 2021

The European Commission plans to extend during 2021 the flexibility that the partners had to grant state aid to companies with financial problems. In a draft that is for consideration by the members, the European authorities even raised the need for the amounts of aid to be increased depending on the damage caused by the pandemic.

This unprecedented policy on state aid had been implemented on 19 March 2020. The relief measures that are now being extended until the end of the year include direct subsidies (for a maximum amount of 800,000 euros per company), and state guarantees and subsidised loans.

French Finance Minister Bruno Le Maire spoke on the matter and confirmed that both French companies and workers will continue to receive aid during 2021. The government will keep on paying part of the salaries of private workers and it is even considering granting subsidies to cover rental expenses. Likewise, the Minister reported that they will grant aid of up to 200,000 euros for winemakers and that they will give an additional year to all companies (regardless of size or activity sector) to repay loans granted by the state.

POST-BREXIT PROBLEMS

Shortly after the end of 2020, the United Kingdom and the EU reached a trade relations agreement for the post-Brexit (see CEI Global Report, January 2021). However, with 2021 just started, it already shows that it fails to solve all the problems.

In terms of trade in goods, the difficulties that are looming –beyond unprecedented situations experienced by truckers crossing the English Channel, extra expenses for companies trading between the island and the mainland, or the lack of customs agents observed at the beginning of this year– relate to the imposition of new rules of origin and other aspects of the bilateral relationship, namely: approval of medicines, authorisation for the operation of foreign airlines, problems in logistics, financial services, immigration and fishing. In many cases, the parties will have to adjust the way in which the aspects agreed will be applied; in others the negotiations will have to continue and it is hoped that they can be resolved with additional agreements.

During January, representatives of the steel industry in the United Kingdom warned that in the coming months their exports to the EU will pay a 25% tariff, as the recently agreed quotas will be quickly exceeded. It should be remembered that exports from Great Britain to Northern Ireland will use part of these quotas.

EU PRESSURE TO TAX CARBON EMISSIONS

A year from now, all ships that call at European ports will likely have to pay for their CO_2 emissions, which will put even greater pressure on the rising shipping costs (see World). The draft Directive of the European Parliament establishes that vessels of any nationality must purchase negotiable emission permits from the European system (EU ETS). After the Commission's proposal has been approved, the draft is subject to public consultation until 5 February, and the final text is expected to be approved in the second quarter of this year and implemented since the beginning of 2022.

This measure has received criticism for its unilateral nature, especially considering that the negotiation on emissions in the International Maritime Organization (IMO) is advanced. The EU has replied that this measure would only come into force if the negotiation at the IMO stalls. This unilateral pressure is similar to that carried out by the EU with air transport emissions in early 2012, resulting in the approval of an international standard in 2016.

SOUTH AND CENTRAL AMERICA

ECLAC BETS ON GREATER INTRA-REGIONAL EXCHANGE FOR RECOVERY

The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) estimated that during 2020 the region's exports and imports fell 13% and 20%, respectively, in value. Estimates for Mercosur would be similar, whereas for Argentina the fall would be more pronounced (–14% and −25%).

The most affected exports were intra-regional (-24%), which are mostly made up of manufactured goods, while agricultural and mineral and metal exports to China grew (2%). This, added to the contraction in imports of intermediate goods, had likely damaged the productive capacities of the industrial sector and deepened the reprimarisation of the region's export basket.

These trends would remain in 2021, although intra-regional trade would improve. ECLAC also projects a global reconfiguration of production chains around three geographic axes (North America, Europe and East and Southeast Asia) with little certainty as to the role that the region would play. The countries that seem best positioned for these changes are Mexico, Costa Rica and the Dominican Republic, due to their integration with the U.S. In this regard, the organisation stressed the need to improve intra-regional integration, to produce at more efficient scales and to diversify exports and strengthen strategic industries, such as pharmaceuticals and medical supplies.

AUTOMOTIVE INDUSTRY RESTRUCTURING

After seven decades of being established in Brazil and under a current scenario of financial losses, the American automaker Ford announced the end of its production operations in this country. The closure of its last plants, in Camaçari (Bahia), Taubate (Sao Paulo) and Horizonte (Ceara), where the Ecosport, Ka and Troller vehicle models, as well as engines, are currently produced, would mean the loss of 5,000 direct jobs and 74,000 when including the indirect ones. It should be remembered that in 2019 the automaker had already closed one of its plants located in Sao Bernardo do Campo (Sao Paulo) (see CEI Global Report, March 2019).

Despite this announcement, the firm assured that Brazil will keep operating the regional administrative headquarters in Sao Paulo and also its product development centre in Bahia, the test track in Tatui and the consumer assistance services. At the same time, it will also continue its productive activity at its Pacheco plant in Argentina, where it recently announced new investments; and in Uruguay, where it will begin to assemble a utility vehicle, with a view to developing its strategy aimed at larger, more expensive and more profitable vehicles.

Another important industry announcement for the region was the confirmation of the merger between the European groups FCA (Fiat Chrysler Automobiles) and PSA (Peugeot SA). The new Stellantis conglomerate includes 14 brands (Abarth, Alfa Romeo, Chrysler, Citroën, Dodge, DS, Fiat, Jeep, Lancia, Maserati, Opel, Peugeot, Ram and Vauxhall) which altogether ranked fourth globally in sales and third in turnover (after Toyota and Volkswagen) during 2019.

Stellantis' executives seek to reduce operating costs without closing plants or eliminating jobs, a relevant fact for Argentina, which has PSA and FCA production plants. Taking the 2019 values as a reference, the aforementioned firms, as a whole, ranked second in sales (of both domestic and imported vehicles) in our country and fourth in production (12.8%).

ARGENTINA AGREES TO MARKET OPENINGS AND TRADE FACILITATION

After several years of negotiations, Argentina will be able to export breeding cattle to Chile. Likewise, due to the fact that the neighbouring country recognised the equivalence between the control system of the National Agrifood Health and Quality Service (Senasa) and that of the Chilean Agricultural and Livestock Service (SAG), the authorisation of the export establishments will only depend on Senasa, which will bring about greater speed and lower costs for exports.

On the other hand, our country agreed with Costa Rica to use the Electronic Phytosanitary Certificate (e-Phyto) for the commercial exchange of products and by-products of plant origin. This tool, which corresponds to an initiative of the International Plant Protection Convention (CIPF), has already been used by Argentina with Chile, the United States and Sri Lanka, making our country a world leader in its use. Likewise, its implementation with Paraguay, Peru, Colombia, Mexico and the EU is expected soon.

DISPUTES BETWEEN PANAMA AND COSTA RICA BEFORE THE WTO

Costa Rica submitted a request for consultations before the Dispute Settlement Body of the WTO regarding the restrictions or prohibitions imposed by Panama on Costa Rican exports. The affected products are strawberries, dairy products, meat and derivatives, pigs, poultry and turkey; food for fish, pineapples, plantains and bananas. In the case of products of animal origin, the Panamanian government has decided not to extend the licences to meat-packing plants, without prior notice and contrary to its practices with other countries. In the case of fruits, they alleged the presumed detection of various pests and changes in sanitary requirements.

NORTH AMERICA

DIGITAL SERVICES TAXES: THE U.S. DELAYS RETALIATION

Throughout the first half of January, USTR published several reports with the results of investigations of Section 301 of the Trade Act of 1974 on taxes on digital services of Italy, India, Turkey, Austria, Spain and the United Kingdom. In turn, the Office updated the status of the investigations on taxes that are being studied or developed in Brazil, the Czech Republic, Indonesia and the EU.

In the case of the first six countries, the reports conclude that these taxes discriminate against U.S. companies, are inconsistent with current international principles on taxation, and restrict U.S. trade. However, USTR decided for now not to take any specific action in relation to these findings.

On the other hand, the agency suspended the application of tariffs on French products worth US$ 1.3 billion, which were due to enter into force on 6 January, in retaliation for the implementation of these same taxes in France (see CEI Global Report, August 2020)

It should also be recalled that talks between the OECD member countries to reach a global agreement on digital services taxes have been stalled for several months, although the situation is expected to change with the arrival of the new U.S. administration (see CEI Global Report, July 2020).

THE U.S. BANS IMPORTS OF CHINESE PRODUCTS MADE WITH FORCED LABOUR

Among the latest measures taken by Trump's administration, the U.S. government banned imports of various products made in China's western Xinjiang region, claiming that these items are produced with forced labour by the Muslim minority Uyghur.

Announced by Mark Morgan, Acting Commissioner of Customs and Border Protection (CBP), the measure applies to the entire region and not to specific companies, as had been done previously. Among the items reached are cotton and tomato, as well as their by-products, even when these are manufactured in third countries.

BIDEN'S FIRST MEASURES

On his first day as U.S. President, Joe Biden signed 17 executive orders, memorandums and proclamations, several of which reverse Trump administration policies. Among the measures implemented are some linked to the response to the pandemic and efforts to boost economic recovery, as well as others aimed at dismantling anti-immigration policies and restoring federal efforts to promote diversity. Also noteworthy is the country's reincorporation to the Paris Climate Agreement and the World Health Organization.

On the other hand, and as promised in the campaign, Biden issued an executive order on the implementation of "Buy American" federal policies, to guarantee that the country's manufacturers, workers and suppliers are the main beneficiaries of purchases made by the United States government. The measure seeks to increase the amount of materials or components produced in the U.S. that a project or product needs in order to be considered of national manufacture, and to facilitate the access of SMEs to procurement opportunities. In addition, it establishes an office to monitor exceptions, which would only be allowed in very limited circumstances.

It is estimated that Canadian companies will be the main losers with this measure. It should be remembered that the USMCA does not include specific provisions on government procurement between the U.S. and Canada, but is based on the terms of the WTO Government Procurement Agreement, to which both countries are signatories.

CONFLICTS IN THE USMCA DUE TO THE ENERGY POLICY OF ITS MEMBERS

In January, Canada requested consultations with the U.S. on the safeguard applied to solar energy imports since February 2018, as a first step in the USMCA dispute resolution process. The Canadian government maintains that the measure violates the provisions on trade remedies and customs duties in the agreement and that its country should have been exempted from its application.

The safeguard measure consists of an additional 30% tariff on the import of crystalline silicon photovoltaic products, from any origin, until 2022, and contemplates a reduction of the tariff of 5 percentage points each year. In turn, in October 2020, the White House issued a proclamation by which the fourth-year tariffs would be 18% instead of 15%. The complaint comes after USTR decided to initiate consultations on Canada's TRQs on dairy products (see CEI Global Report, January 2021).

On the other hand, as reported to the press, the U.S. government expressed its concerns about the Mexican energy policy, which could conflict with the obligations and commitments assumed in the USMCA. Specifically, Trump's administration argues that Mexico's energy sector regulators may have favoured Mexican state-owned companies over private U.S. companies.

ASIA

IN THE YEAR OF THE PANDEMIC, CHINA'S GDP AND FOREIGN TRADE GREW

China's GDP increased 2.3% in 2020 and became one of the few economies in the world to grow during the COVID-19 pandemic (see World). After the sharp drop of 6.8% in the first quarter, the Chinese economy gradually recovered with year-on-year increases of 3.2%, 4.9%, and 6.5% in the second, third and fourth quarters of 2020 respectively, as factories resumed their activities. For their part, exports increased 4%, while imports showed a 0.7% decrease, according to the General Administration of Customs (GACC).

Likewise, it is worth mentioning the evolution of retail sales of consumer goods: although these fell 3.9%, the online consumer channel (electronic commerce) increased 10.9%. Thus, China consolidated itself as the world's largest e-commerce retail market for eight consecutive years, and these sales accounted for 24.9% of the country's total retail sales volume.

CHINA WILL PROMOTE NEW FREE TRADE AGREEMENTS

Spokespeople for the Ministry of Commerce of China (MOFCOM) stated that the country will promote the signing of high-level free trade agreements, including the one negotiated jointly between the country, Japan and the Republic Korea, the one negotiated with the Cooperation Council for the Arab States of the Gulf, and others at the individual level with Norway and Israel. They also reiterated that the possibility of adhering to the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP) is not ruled out. The objective, in all cases, would be to promote the "double circulation strategy", which contemplates the substitution of imports and the expansion of domestic demand.

In 2020, China made significant progress in promoting multilateral trade with the signing of the Regional Comprehensive Economic Partnership (RCEP) agreement and the conclusion of negotiations for the China-EU investment treaty (see CEI Global Report, January 2021).

Regarding the RCEP, it will enter into force after ratification by six economies of the Association of Southeast Asian Nations (ASEAN) and three non-member countries, which is estimated to take place at the end of 2021. According to statements by the Head of the MOFCOM, China's foreign trade volume with its RCEP partners would increase from 27% to 35%.

INDIA CONSIDERS RAISING IMPORT TARIFFS

India's Finance Ministry is planning to raise import tariffs by 5-10% for more than 50 products, including smartphones, electronic components and household appliances. The move is part of Prime Minister Narendra Modi's "self-reliant India". With this, the country estimates to obtain additional revenues of US$ 2.7 billion to US$ 2.8 billion, in order to prop up revenues in the midst of the crisis caused by the pandemic.

PORT OF QINDAO PROMISES BENEFITS FOR THE RCEP

The port of Qingdao in East China's Shandong province opened new shipping routes to Malaysia and Vietnam, both member countries of the RCEP. The China-Malaysia route is expected to constitute an efficient and low-cost maritime logistics channel, while the China-Vietnam route is expected to be used for cold chain logistics.

Qingdao is one of China's main ports for the import of crude oil, iron ore, coal and rubber. But since 2020, it has focused on the trade of consumer goods, especially with other members of the RCEP, promoting cross-border e-commerce, cold chain logistics, and customs warehousing.

On the other hand, the construction of the new RCEP-Qingdao Innovation Pilot Zone for Economic and Trade Cooperation will serve as a platform to expand economic and trade cooperation with the member countries of the agreement, facilitating trade and investment opportunities. The pilot zone covers an area of 34.2 km, and will host a financial services centre, a cruise base port, an industrial cluster with a focus on new materials, artificial intelligence, healthcare and an exhibition centre.

AFRICA

THE AFCFTA GOES INTO OPERATION

On 1 January 2021, the operational phase of the African Continental Free Trade Agreement (AfCFTA) began. It had entered into force in May 2019 and it was expected that the start of trade under the rules of the agreement would become effective as of July 2020. However, the COVID-19 pandemic prolonged the times (see CEI Global Report, June 2019 and June 2020). Although the full implementation of the agreement will take years, the AfCFTA is expected to significantly reduce tariff and non-tariff barriers and increase intra-African trade, which currently represents between 16% and 18% of the continent's total trade.

Among the challenges facing the great African free trade agreement –that brings together 54 countries of the continent and plans to become a Continental Common Market– are those of ensuring that the Regional Economic Communities (RECs) of the African Union do not interfere with the opening objectives of the agreement, as well as those of solving the problem of informal trade, which represents a large part of the continent's economic activity (see CEI Global Report, January 2021).

THE IMF RENEWS SUPPORT FOR CEMAC

The IMF issued a statement in January warning of the impact of the economic shock caused by the pandemic and the price of oil on the fiscal and external balances of the countries of the Central African Economic and Monetary Community (CEMAC). These countries –Gabon, Cameroon, Central African Republic, Chad, Republic of the Congo and Equatorial Guinea– are expected to see a 3% recession.

The organisation anticipates the continuation of the programmes implemented with Congo, the Central African Republic and Equatorial Guinea, along with the granting of some additional emergency assistance for the region and the approval of three new programmes for Cameroon, Chad and Gabon during 2021.

SOUTH AFRICA WOULD BENEFIT FROM BREXIT

After Brexit, the United Kingdom announced in January the deregulation of imports of some basic products, including citrus. This represents an opportunity for the South African citrus sector, as one of its main export destinations opens up. Presumably, South Africa will now face no quota restrictions and will no longer need to provide phytosanitary certificates like those previously required by the EU. However, further details are still awaiting in this regard.

Preferential trade between the United Kingdom and South Africa is protected by the Economic Partnership Agreement between the United Kingdom and the Southern Africa and Mozambique Customs Union (SACU + M). This agreement, which was signed in October 2019, also includes provisions that specifically protect a number of value chains that cross the EU.

NEW LINKS BETWEEN THE GERMAN AND AFRICAN AUTOMOTIVE INDUSTRIES

The German Association of the Automotive Industry (VDA) established links with the African Association of Automobile Manufacturers (AAAM), as part of the project *PartnerAfrica* of the German Federal Ministry of Economic Cooperation and Development. This VDA-AAAM link establishes cooperation between local and regional structures to help the automotive industry improve access to hard-to-reach markets. For VDA, cooperation with Africa focuses on expanding sustainability strategies beyond products and production of alternative energy sources, increasing the volume of trade and investment, and improving market access for manufacturers and suppliers. Africa has great potential as a market and production site for the German automotive industry. In 2019, 62,000 vehicles were exported from Germany to the African continent, of which 49% were destined for South Africa.

Ministry of Foreign Affairs
International Trade and Worship
Argentina

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