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CEI GLOBAL REPORT

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WORLD

Forecasts of global economy not very optimistic

IMF warns about the risks of crypto assets

Mass layoffs at large tech companies

EUROPE

France debates raising retirement age

Croatia to adopt the euro

Ambitious European energy project

SOUTH AND CENTRAL AMERICA

CELAC members hold the 7th Summit of Heads of State

Terms of trade fall in 2022 but trade in the region grows

Argentine software company expands to the United States and Europe

NORTH AMERICA

US: friction continues over tax relief for electric cars

USMCA: ruling against the US for interpretation of rules of origin for automobiles

GDP growth in the US was 2.1% in 2022

ASIA AND OCEANIA

Agreement between India and Australia enters into force

China becomes second global exporter of automobiles

Chinese company to extract oil in Afghanistan

Saudi Arabia seeks to trade in currencies other than the US dollar

AFRICA

Agreement to strengthen the value chain of batteries for electric vehicles

Morocco signs fertiliser agreement with India

Algeria and Italy sign agreement to build gas pipeline

Nigeria inaugurates its first deepwater port

Forecasts of global economy not very optimistic

The International Monetary Fund (IMF) and the World Bank (WB) updated their world economic forecasts for the first time in the year. Both organisations agree that in 2023 there will be a slowdown in global economic growth, as a result of the contractive measures taken by central banks to combat inflation – mainly in developed countries– and of the burden that the war in Ukraine still represents.

The world is expected to grow below the annual average of the last 20 years, and it is even mentioned that there is a possibility that, if some adverse event took place such as inflation higher than expected and consequent increases in interest rates, a resurgence of the pandemic or greater geopolitical tensions, the world could be heading towards another global recession.

Regarding inflation, the IMF mentions that the contractive monetary policy began to take effect and that it is curbing the demand and price increases. Most of the countries in the region (84%) are expected to have inflation lower than that in 2022 and to see the prices of hydrocarbons and other raw materials fall.

The IMF and the WB respectively forecast that global GDP will grow this year by 2.9% and 1.7%; that in Latin America and the Caribbean it will be 1.8% and 1.3%; and in the case of Argentina, both organisations agree that growth will be 2.0% in 2023.

IMF warns about the risks of crypto assets

In an article published on the agency' website, IMF officials warn about the systemic risk that the use of crypto assets could pose in the future and about the difficulties it currently represents. In this sense, in order to avoid the negative consequences that the use of this type of instrument can have in the world economy, the organisation suggests that international standards accompanying stricter financial regulation and supervision are developed.

The security of crypto assets has been called into question in recent months after two specific events that go beyond the usual inconveniences and the boom and bust cycles of this type of financial assets. The collapse of one of the main platforms (FTX) and Bitcoin's loss of two-thirds of its value since its peak at the end of 2021 raised the interest that the institutions regulating financial markets have in this type of digital products around the world.

The article acknowledges that crypto assets currently do not represent a risk for the global financial system but they do represent a risk for some developing countries, especially those where a "cryptoisation" is taking place, with these assets replacing the local currency. The latter prevents the national authorities from applying exchange restrictions or capital controls, promotes the loss of monetary sovereignty and endangers financial stability.

The IMF does not recommend generalised bans but rather targetted ones (banning some crypto derivatives or restricting the advertising of crypto assets), and suggests that providers of related services have to be duly registered and possess the corresponding licence. At the same time, it recognises that due to the specific characteristics of this type of asset, apart from the necessary national regulations, in the future it will be necessary to develop international standards to lay the foundations for global regulation and supervision.

Mass layoffs at large tech companies

The year 2023 started with a series of announcements of mass layoffs at some of the world's largest technology companies, which add to similar events taking place at the end of 2022.

The announcements were first made on 5 January this year, when Amazon anticipated that it was planning to lay off 18,000 workers. Then Microsoft did the same with its project to eliminate 10,000 jobs and, days later, it was Google that announced it would lay off 12,000 employees worldwide. Thus, this trend is consolidated and it had started at the end of last year with Meta (Facebook) and Twitter's – among other large technology companies– initiatives to reduce personnel.

In general, analysts and executives of the aforementioned companies agree that these movements are a consequence of the reverse process that occurred after the outbreak of the COVID-19 pandemic and which produced changes in the consumption habits of the world population making companies hire staff according to overly optimistic projections of business expansion for each of them.

The end of the restrictions to circulation that was gradually put into practice around the world found companies with scarce turnover and with more staff than necessary to cover the level of demand of the new normality, for which reason almost all large technology companies have opted for downsizing.

EUROPE

France debates raising retirement age

The French government presented a bill to modify the pension system, which includes among its most controversial reforms the future increase in the minimum age to retire from 62 to 64 years. According to the proposal, the increase would be gradual (three months per year) until reaching age 64 in 2030.

The French Executive Power's presentation was given by the Prime Minister, Élisabeth Borne, who expressed that the objective of the reform was to achieve a balance in the pension system, in such a way that the contributions of active workers can finance retirement.

The proposed reform has the support of the IMF, which published an article on its website highlighting the increase in fiscal deficit and public debt experienced by France in recent years, while it highlights the progress made by Emmanuel Macron's government to achieve fiscal balance and bring the minimum retirement age closer to the EU average.

However, as expected, the proposed modifications are rejected by the population in general and the unions in particular. On 19 and 31 January, the eight main central French trade unions carried out days of protest that included strikes and demonstrations exceededing one million people in the streets across the country. Likewise, it is expected that the legislative project is not easily approved in parliament since the rejection of the opposition parties adds to that of some pro-government deputies.

Croatia to adopt the euro

Starting 1 January, Croatia began to use the euro as legal currency, replacing the kuna. As a consequence, the Balkan country has become the 20th member of the European Union to use the common currency, eight years after Lithuania did the same, in January 2015.

Croatia, which joined the EU in 2013, is one of the bloc's poorest partners, and its authorities expect that the adoption of the euro will bring stability to its economy, thanks to the elimination of the risk of devaluation, the reduction of transaction costs and interest rates.

As of the first day of the year, the Balkan country has become part of the Schengen area, which will allow its more than four million citizens to move freely throughout the EU territory, strengthening tourism, one of the most relevant sectors of its economy.

Ambitious European energy project

The governments of Spain, Portugal and France reached an agreement, which Germany later joined, for the construction of a gas pipeline that will connect the four countries and will serve to transport green hydrogen.

The project, named H2Med, is expected to have been completed by 2030 and to have a 2.5 billion-euro cost, 50% financed with contributions from the countries involved and the other 50% with EU funds.

The works will include a pipeline that will cross the Mediterranean Sea and link Barcelona with Marseille, with a total distance of 455 km. The goal is for the corridor to be able to transport two million tonnes of green hydrogen per year from Spain, which would account for 10% of the total energy consumed by the EU.

The war in Ukraine and the resulting energy crisis continue promoting or, at least, accelerating projects with which European leaders hope to simultaneously end their dependence on hydrocarbons from Russia and strengthen the transition towards the use of clean energy, like the green hydrogen.

SOUTH AND CENTRAL AMERICA

CELAC members hold the 7th Summit of Heads of State

High-level representatives of the countries that constitute the Community of Latin American and Caribbean States (CELAC) met in Buenos Aires to hold the 7th Summit of Heads of State. With the reincorporation of Brazil, CELAC member countries addressed numerous issues, in health, environmental, disaster risk management, science and technology, migration and education, among others.

Regarding the issues related to the economy and integration, the countries highlighted their concern about the region's debt levels and the need for financial institutions and multilateral development banks to improve the conditions of access to credit. Likewise, they committed to coordinating a meeting of Ministers of Economy and Finance during the first semester of 2023 to design, with the technical support of the Economic Commission for Latin America and the Caribbean (ECLAC), a common agenda that can ease responses to the current global economic crisis.

In its world role as main net food exporter region, they agreed on joint work with the international community in the implementation of concrete actions to support agricultural and rural development and to promote sustainable food production methods; as well as in the pursuit of a "fairer, more transparent, equitable and predictable" international trading system for agricultural products.

Terms of trade fall in 2022 but trade in the region grows

In its report "International Trade Outlook for Latin America and the Caribbean", ECLAC estimated that during 2022 the region's exports and imports grew 20% and 24% year-on-year, respectively. In both cases, the increase in the amounts traded was 6%. However, according to the agency's estimates, the growth in import prices exceeded that of exports (18% *vs.* 14%), so the terms of trade fell 4%, with a US$ 60 billion loss for the countries in the region. Although the effects are uneven depending on the export and import basket of each country, on average, the increase in energy costs and imported fertilisers could not be offset by the rise in the prices of exported food and reinforced the fall in the prices of the minerals sold by the region.

Intra-zone trade increased more than total exports, the same as in 2021, thus reversing a downward trend that was being recorded since 2010. At least until the first half of 2022, the Central American Common Market (CACM) and Mercosur would be the blocs with the highest intra-zone trade (27.7% and 11.9%, respectively); followed by the Caribbean Community (Caricom; with 8%), the Andean Community of Nations (6.4%) and the Pacific Alliance (2.9%). In this regard, the report highlights the importance of deepening this exchange, especially through agreements between subregional groups, since it is very relevant for trade in manufactures and for the exports of micro, small and medium-sized enterprises; while facilitating productive and exports diversification.

Argentine software company expands to the United States and Europe

The Argentine company Globant acquired the digital strategy design company Vertic, which has offices in New York and Copenhagen and a portfolio of relevant clients, such as Eli Lilly, Biogen, Roche, Hyland, Microsoft and GE Healthcare. With this acquisition, the Argentine company hopes to consolidate its digital marketing network, expand its offer to sectors such as health and life sciences, and gain access to companies located in northern European countries.

Globant is one of the country's thirteen unicorns (companies with a stock market valuation of more than US$ 1 billion) and one of the main exporters of software and computer services in Argentina, a sector that is part of knowledge-based services (KBS). Argentine exports of KBS are currently the most dynamic in terms of services: as of the third quarter of 2022, they have totalled US$ 6.0 billion, accounting for 58.4% of the total services exported and hitting a record level for the period.

NORTH AMERICA

US: friction continues over tax relief for electric cars

The Inflation Reduction Act, enacted by the United States Congress in August 2022, includes a wide variety of tax incentives and measures aimed at developing the clean technology industry and the renewable energy area. In the particular case of electric vehicles, tax credits of up to US$ 7.500 are provided for new cars, which include requirements that link the amount of the subsidy to the origin of the content of critical minerals and other battery components.

These requirements have generated adverse reactions from many US trading partners, among them Japan, the EU and South Korea, who consider them discriminatory and contrary to multilateral trading rules (see CEI Global Report, September and November 2022). Argentina, as producer and exporter of lithium –a critical material for electric car batteries– would also be negatively affected by this regulation.

In particular, the law stipulates that in order to qualify for a portion of the electric vehicle credit, the final assembly of the vehicle must occur in North America and 40% of the value of the critical minerals in the vehicle's battery must be mined or processed in the United States or in a country with which it has a free trade agreement (FTA). The content requirement will be increasing over time to reach 100% in 2027.

On 29 December, 2022, the US Department of the Treasury published its preliminary interpretation of these content requirements and announced the launch of the final regulation proposal for March 2023. In accordance with the document, the term "free trade agreement" is not defined in the Inflation Reduction Act or in any other statute, so it is necessary to specify the criteria to be adopted in order to identify the FTAs for the purposes of the requirements for critical minerals.

This gave rise to great expectations among US trading partners, who considered that the preliminary guidelines opened up the possibility of incorporating other existing trade agreements, other than "traditional" FTAs[1], for purposes of subsidy eligibility. However, according to subsequent statements by Secretary of the Treasury Janet Yellen, the countries concerned will probably have to negotiate a new agreement related to trade in critical minerals and other minerals in order to access to the tax credit.

On the other hand, the publication of the Department of the Treasury, which could make the content requirements of the law more flexible, gave rise to adverse reactions in other sectors. In particular, Democratic Senator Joe Manchin, Chairman of the US Senate Energy and Natural Resources Committee, criticised the Treasury interpretation as inconsistent with the intent of the law, which seeks to move energy and manufacturing supply chains within the US to protect national security and reduce reliance on foreign adversaries. In addition, he introduced a bill that would direct the US Department of the Treasury to apply tax credits for new electric vehicles in accordance with the original letter of the law, and would require compliance with battery component requirements as of 1 January 2023.

USMCA: ruling against the US for interpretation of rules of origin for automobiles

On 11 January, the dispute settlement panel of the United States-Mexico-Canada Agreement (USMCA) presented the final report on the dispute over the rules of origin of the automotive sector. The panel concluded that the US government's interpretation of the motor vehicle agreement's rules of origin was inconsistent with its obligations under the agreement.

The discrepancy between the countries arose from the interpretation regarding the cumulation of origin so that a product exported in the region can be benefitted from the elimination of tariffs (see CEI Global Report September 2021 and February 2022). The panel determined that –as Canada and Mexico maintained– the USMCA allows vehicle manufacturers to consider the essential parts of a finished vehicle (engine, transmission, bodywork, etc.) as original, once that, separately, said auto parts have complied with the minimum percentage of regional content (75%). On the other hand, the US government proposed a much stricter interpretation, in which it only allowed the addition of the original regional content of the auto part, without "rounding", in the calculation of the total regional content of the exported auto.

While the governments of Canada and Mexico welcomed the ruling, the Office of the US Trade Representative (USTR) Spokesperson Adam Hodge said the panel's interpretation of the agreement was disappointing and that it could lead to less North American content in cars, less investment across the region, and fewer American jobs.

[1] The US has an FTA in force with 21 countries: Australia, Bahrain, Canada, Chile, Colombia, South Korea, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Israel, Jordan, Mexico, Morocco, Nicaragua, Oman, Panama, Peru and Singapore.

GDP growth in the US was 2.1% in 2022

The economy in the United States grew 2.1% in 2022, after hitting a 5.9% growth rate in 2021, according to the advance estimate on Gross Domestic Product published by the Bureau of Economic Analysis (BEA).

Real GDP growth primarily reflected increases in consumer spending, exports, private investment in inventories, and non-residential fixed investment, which were partly offset by declines in residential fixed investment and federal government spending. Imports (which are subtracted from the GDP calculation) have increased.

According to the report, in the fourth quarter of 2022, US GDP rose 0.7% from the previous quarter, accounting for an annual rate of 2.9% and reflecting a slowdown from the 3.2% annual growth rate hit in the third quarter of 2022.

Analysts expect the economy to continue slowing down, as a consequence of the Federal Reserve's aggressive series of rate hikes, aimed at cooling spending and fighting the highest inflation in decades. Throughout 2022, the Fed raised its reference rate seven times, placing it in the 4.25%-4.50% range in December (on 1 February 2023, it put it up again by 0.25 points). Inflation, in turn, closed 2022 with a 6.5% year-on-year rate. Although it is still far from the 2% target, the sixth consecutive year-on-year drop was recorded in December, bringing about inflation to its lowest recorded since October 2021

ASIA AND OCEANIA

Agreement between India and Australia enters into force

The India-Australia Economic Cooperation Trade Agreement (ECTA) entered into force on 29 December 2022. Over the next five years, the India-Australia ECTA is expected to boost trade and investment opportunities between the two countries, and bring bilateral trade to US$ 50 billion from the current US$ 31 billion.

Under the agreement, Australia grants preferential access to its market in all its tariff positions. This will be done immediately to 98.3% of the positions and in a gradual manner, over a 5-year period, to the remaining 1.7%. India, in turn, grants preferential access to more than 70% of its tariff positions. It does so immediately in 40.3% of the cases and the remaining 30%, gradually over a period of three, five, seven and ten years. This set also includes 125 tariff positions where tariffs will be reduced rather than eliminated.

For imports from Australia, India offers concessions mainly on raw materials and intermediate products, either in the form of tariff reduction or elimination. Only for some agricultural products, such as oranges, mandarins, almonds, pears, and cotton, among others, are tariff-rate quotas used.

Likewise, India kept many sensitive products in the exclusion category without granting any concessions (milk and other dairy products, chickpeas, walnuts, pistachios, wheat, rice, bajra, apples, sunflower seed oil, sugar, oil cakes, gold, silver, platinum, jewellry, iron ore, and most medical devices).

China becomes second global exporter of automobiles

In 2022, China's car exports increased by more than 54% year-on-year, a growth with which it surpassed Germany in number of units and which places it second on the list of countries that export the most vehicles.

The Chinese Association of Automobile Manufacturers stated that the country exported 3.1 million vehicles last year, 500,000 units more than those Germany had sold abroad. First in the ranking was Japan, which managed to export 3.2 million vehicles, a figure lower than the 3.8 million units it had exported in 2021.

If this negative trend for Japan is sustained (companies such as Toyota announced the reduction of their production volumes by 2023), China could be first this year. Citic Securities' outlook anticipates that China will export up to 5.5 million vehicles in 2030, 2.5 million of which will be electric. The Asian country is taking the lead in electric vehicle sales around the world. So far, the company of Chinese origin BYD has surpassed TESLA, it became the largest manufacturer of electric vehicles in the second quarter of 2022 and is currently exporting to countries such as Norway, Singapore, Brazil and India.

Chinese company to extract oil in Afghanistan

On January 5, the Chinese company Xinjiang Central Asia Petroleum and Gas (CAPEIC) and the Afghan government signed an agreement that will allow CAPEIC to extract oil in a 4,500 square km area located in the Amu Daria river basin, in northern Afghanistan.

Under the terms of the agreement, which was signed by the Chinese ambassador in Kabul, the company must build a refinery in Afghanistan (which will be the country's first) and the Afghan government will receive a 15% royalty on oil obtained for 25 years.

The deal to extract oil is the first major deal signed with a foreign company since the Taliban took control of Afghanistan in 2021, and it includes a US$ 540 million investment by CAPEIC.

Saudi Arabia seeks to trade in currencies other than the US dollar

Saudi Arabia wants payments for its foreign trade operations to be made in currencies other than the US dollar, Saudi Finance Minister Mohammed Al-Jadaan has said, meaning that a partial change in the use of the American currency may be imminent.

This comes a month after Chinese President, Xi Jinping, stated that Beijing is ready to make energy purchases in yuan instead of dollars in the trade operations with Gulf Cooperation Council (GCC) member countries. The Chinese President stressed the need for change within the framework of the Sino-Arab summit organised by Saudi Arabia in mid-December 2022.

The Saudi government's readiness for talks on the issue may indicate that the world's biggest oil exporter is open to a diversification that goes beyond the US dollar after decades of pricing crude exports in that currency.

If Saudi Arabia chose to use other currencies, including its own, in order to move forward with specific trade partners, then it would join India, Iran, Türkiye, China and Russia in following a growing trend of hedging against the use of the US dollar in trade as a way to avoid the monitoring and use of the dollar as a currency's trade weapon by Washington.

Agreement to strengthen electric vehicle battery value chains

The Democratic Republic of Congo (DRC), Zambia, and the United States signed a Memorandum of Understanding to strengthen electric vehicle battery value chains. The agreement provides for the United States to support the joint development between the two African countries of a supply chain for these types of batteries.

The accord, signed during the US-Africa Leaders Summit, supports the goal of the Democratic Republic of the Congo and Zambia to build a productive supply chain, from the mine to the assembly line, while committing to respect international standards to prevent, detect and take legal actions to combat corruption throughout the process.

The DRC produces more than 70% of the world's cobalt, and Zambia is the sixth largest global producer of copper and the second largest producer of cobalt in Africa, crucial resources for the energy transition the world needs.

Morocco signs fertiliser agreement with India

Morocco, one of the world's top fertiliser producers, signed an agreement with India after China suspended exports of ammonium phosphate, a key component for making essential fertilisers for Indian farmers.

During the visit of the Indian Minister of Health, Chemicals and Fertilisers to Morocco, the main Moroccan phosphate producer, the OCP Group, announced the signing of an agreement with India to supply with 1.7 million metric tonness of phosphate-based fertiliserfor the next 12 months.

Through its agreement with Morocco, India secures a long-term supply of rock phosphate, which is a raw material needed to make diammonium phosphate and nitrogen, phosphorus and potassium. Shipments are expected to boost yields and incomes for Indian farmers

Algeria and Italy sign agreement to build gas pipeline

The Algerian state hydrocarbons company Sonatrach and the Italian group ENI signed two energy agreements within the framework of the Italian Prime Minister's visit to Algeria on the occasion of the 20th anniversary of the Treaty of Friendship, Good Neighborliness and Cooperation between the two countries.

The most important outcome of the documents signed is the future construction of a gas pipeline that, according to Algerian authorities, will not only serve to export gas but will also be able to transport hydrogen, ammonia and electricity.

The works will connect the Algerian port of Koudiet Draouche with the island of Sardinia through a 284-kilometre underwater pipeline, which will then be connected to another going from the island to mainland, to arrive in the Tuscany region, where it will join with the national network. It will be the second gas pipeline linking both countries since there has been one that crosses Tunisia since 1983.

The importance of Algeria as a hydrocarbon supplier for European countries has increased notably since the outbreak of the war between Russia and Ukraine (see CEI Global Report, January 2023), as the African country is considered one of the main alternative sources with which some European countries count to replace the Russian fuel. Algeria is currently Italy's main gas supplier and the construction of this new gas pipeline would allow it to export fuels to other countries in Europe through the European gas pipeline network and make Italy a "hub" for Algerian gas.

Nigeria inaugurates its first deepwater port

Nigerian President Muhammadu Buhari inaugurated the Lekki port, the country's first deep-water seaport, on 23 January. The facilities, located near Lagos –the most populous city in Nigeria– cost more than US$ 1 billion and was financed mainly by Chinese capital.

The port is expected to favour Nigeria's foreign trade by improving efficiency and reducing costs. The main Nigerian export product is crude oil and the draft of the new port will enable the arrival of oil tankers of up to 160,000 tons, which will mean that the capacity of the ships currently arriving at the main ports of the country will be multiplied by four.

CEI GLOBAL REPORT

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