

CEI Centre for
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GLOBAL REPORT

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WORLD

GLOBAL TRADE TENSIONS: A MONTH OF CALM

In the month of December, no new trade measures were recorded, but progress was made in the cases brought before the World Trade Organization (WTO) Dispute Settlement Body, namely, the approval of Panels for the cases India and Switzerland initiated against the steel and aluminium measures adopted by the United States, and for the case this country initiated against the retaliatory measures adopted by Russia. The next step is to choose the three members that will make up each Panel and that will analyse the legality of the measures claimed.

In parallel, WTO statistics on trade restrictions were unveiled. Between October 2017 and October 2018, the WTO member countries applied 137 new trade-restrictive measures, which equates to an average of 11 measures per month. Compared to the previous period, an increase in protectionism can be seen, both concerning the number of measures (11 vs. 9) and trade coverage involved (7 times more), as it includes the two main players in global trade.

COP24 APPROVES GUIDELINES TO IMPLEMENT THE PARIS AGREEMENT

The approval of the so-called “Katowice Climate Package” is the main outcome of the 24th Conference of the Parties (COP24) of the United Nations Framework Convention on Climate Change held in Katowice, Poland.

The package presents a set of guidelines to implement the 2015 Paris Agreement. For example, it establishes the way in which countries will provide information on the actions taken in matters of mitigation and adaptation, as well as on how developed countries will provide financial support to developing countries. The package also includes guidelines on how to assess progress on technology development and transfer. Within the framework of the Conference and regarding financing, the World Bank announced it will contribute 200 billion dollars in the 2021-2025 period for projects related to climate change. Also, it should be noted there was lack of consensus on how to operationalize the market mechanisms – emission permits– included in the Paris Agreement, an issue expected to be resolved at the COP25 in 2019.

LATIN AMERICAN ECONOMIES ON THE RISE

The economies of Latin America and the Caribbean are expected to grow by 1.2% in 2018 and 1.7% in 2019, according to the latest ECLAC's report. This will occur in a context of greater global uncertainty, which will impact on the growth and volatility of the international financial markets. In addition, the decrease in external financing flows that strongly affected the region during 2018 will continue throughout 2019. Likewise, the report highlights the consolidation of the fiscal adjustment process, evidenced by the reduction of the primary deficit in the Latin American economies as a whole.

EUROPE

THE ECB MODIFIES ITS STIMULUS PROGRAMME

In December, the European Central Bank (ECB) ended the expanded asset purchase programme (APP), part of the economic stimulus package implemented in 2015 to tackle the consequences of the latest international financial crisis and the various sovereign debt problems of its member countries.

The bond purchase policy –which was already reduced from 80 to 15 billion euros from 2016 to the last quarter of 2018– made it possible to fight the deflationary trend in the euro area. Now, the ECB recalibrates its strategy: while ending this stimulus programme, it tries to keep the interest rate at historical lows until at least mid-2019.

The ECB decision is in line with the announcements of the U.S. Federal Reserve (*see section United States*), the Bank of England and the Bank of Japan, and responds to the latest official statistics of the euro area that record an annual inflation of 1.9% and GDP growth of 1.9% in the third quarter of 2018 (year-on-year). The results of the Brexit and the budgetary conflicts in Italy and France will probably show if there are concrete possibilities to continue reducing the stimulus package.

BREXIT: CONTINGENCY MEASURES ACTIVATED

In the event of a possible Brexit on March 29, 2019, the European Commission unilaterally established 14 contingency measures of a temporary nature and limited reach for strategic economic sectors, such as air and

land transport, customs and financial services. These measures do not include Gibraltar and will be in effect between 9 and 12 months after the English withdrawal. In turn, in order to reduce its immigration flows, the United Kingdom has begun consultations with business chambers to set a minimum wage rate of 33,000 euros per year for migrant workers.

ITALY REACHES DEAL WITH THE EU OVER ITS 2019 BUDGET

Among protests from the opposition, the Italian Senate managed to approve its budget for 2019, concerted with the European Commission. The outstanding point in the agreement refers to the amount of fiscal deficit: in 2018 it amounted to 1.8% of GDP with estimates of 2.4% for 2019; the percentage agreed upon with the European authorities ended up at 2.04%.

The new fiscal programme foresees cuts in key items (such as spending on infrastructure) and postpones increases in social programmes (unemployment benefits and pensions) until April 1, 2019. It also includes a reduction in “privilege” pensions: 15% in those between 100,000 and 130,000 euros per year and 40% in those exceeding 500,000 euros per year.

EU-JAPAN EPA APPROVED

On December 12, the European Parliament approved the Economic Partnership Agreement (EPA) between the EU and Japan, giving way to what is considered the world’s most important trade agreement.

With negotiations starting in 2013, the EPA will finally enter into force in February 2019. The main elements of the agreement refer to the elimination of customs duties for 97% of the products exported from the EU to Japan, which will benefit agricultural and industrial markets where the bloc is competitive. The Japanese, on the other hand, will have free access to the European market of their automotive industry, but only at the end of a transition period of up to 7 years. The EPA also includes a special reference to Intellectual Property Rights, as it

contemplates a “reciprocal adequacy” in relation to information protection, and incorporates a chapter on sustainable development making explicit reference to the Paris Agreement on climate. In press statements, the trade commissioner Cecilia Malmström pledged that the EU would work with Japan to meet the Paris criteria and make transport cleaner. In parallel to the EPA, a “Strategic Complementarity Agreement” was also signed to strengthen ties in the areas of foreign defence and human rights, among others.

LATIN AMERICA

MERCOSUR CALIBRATES INTEGRATION AND TRADE STRATEGIES

On December 18, the 53rd Summit of Heads of State of the Common Market of the South (Mercosur) and Associated States was held, where Argentina handed over the pro tempore presidency to Uruguay. The objectives of the new presidency include opening markets not only to countries or regions with consolidated markets and a high per capita GDP, but also to the regions of Africa, Asia and Central America. In this regard, within the framework of this summit, the foreign ministers of the bloc signed a Memorandum of Economic and Trade Cooperation with the Eurasian Economic Union (EEU), the economic bloc consisting of Russia, Armenia, Belarus, Kazakhstan and Kyrgyzstan.

The inauguration of Jair Bolsonaro as president of Brazil also seems to be accelerating the dialogue within Mercosur to rethink its modernization. One of the key issues would be the possibility to speed up

foreign negotiations with the intent of reaching trade agreements with third parties faster through the flexibilization of rules of the bloc in this regard.

EXPECTATIONS FOR BOLSONARO'S BRAZIL

On January 1, Jair Bolsonaro took over the presidency of Brazil and with that his Economy minister, Paulo Guedes, made the first announcements. In particular, he communicated the objective of reforming the pension system (which currently generates many privileges to the legislative and judicial powers), of initiating a privatization process and of simplifying and reducing taxes. These reforms would give continuity to the spending control policy initiated during Temer's term and would enable the reduction of the fiscal deficit.

In turn, the Institute for Applied Economic Research (IPEA, for its acronym in Portuguese) published its study on the economic situation of Brazil with a summary of its economic performance during 2018, along with projections of the main economic

variables for 2019. According to the report, the GDP is expected to grow 2.7% next year, with rises in all its components, in most cases higher than the 2018 growth rates, with the exception of exports and imports. Besides, a slight inflationary pressure and an increase in the reference interest rate (Selic) is estimated for the end of 2019.

BRAZIL AND ARGENTINA WORK ON TRADE FACILITATION

Within the framework of the Mercosur Presidential Summit, Brazil and Argentina signed a declaration on regulatory convergence and trade facilitation. This declaration included proposals from the Inter-American Development Bank (IDB) for the improvement of existing bilateral initiatives, and for the launching of new ones in matters of regulatory convergence, simplification of standards, procedures and documents, and reduction of trade costs and timeframes. The main sectors of interest for its application are: auto parts, wheat flour and coffee.

NARROWING TRADE SURPLUS BETWEEN BRAZIL AND ARGENTINA

With a year-on-year increase in exports and imports of 10% and 20% respectively, the trade balance of Brazil with the rest of the world for 2018 resulted in a 58.6 billion dollar surplus. With respect to Argentina, it also ran a surplus, at 3.9 billion dollars. However, this surplus was 52% lower than that obtained in 2017 (8.2 billion dollars), accounted for by an increase in imports (17%) and a drop in exports (15%).

Among the sectors in which this trend is observed, the automotive sector stands out. There, the slight increase in imports of vehicles from Argentina, together with the reduction of exports to that destination, has made it possible to improve the deviation coefficient (*flex*). Thus, the gap between the existing *de facto* and the reference coefficients (at 1.5, as established by EPA 14) is starting to narrow down.

BRAZIL TO INITIATE CONSULTATIONS OVER SUGAR AT THE WTO

Brazil will initiate consultations before the WTO Dispute Settlement Body for India's intervention in the sugar market –its second consultation in 2018, after that submitted against China in October. State aid would include: minimum prices for cane producers (applied by the country since 1960), subsidies for sugar transport and subsidies conditioned on export performance.

According to the Brazilian authorities, the aid granted by India would be generating distortions in the international market, which is already in a severe context of falling prices and a consequent decrease in the production of the rest of the large producers: Brazil, China and Thailand. For these reasons, Brazil estimates losses amounting to 1.3 billion dollars for its country and 3.0 billion dollars for the world as a whole. Likewise, although it is the main global producer of this commodity so far, it is expected to be soon displaced by India.

UNITED STATES

GOVERNMENT PARTIAL SHUTDOWN

The partial shutdown of the U.S. Government, which started on Saturday 22 December, is still pending and waiting for the Republican and Democrat leaders to agree on the Federal Government Budget at Congress.

Said shutdown was the aftermath of president Donald Trump's demand to obtain funds to finance the border wall with Mexico, aimed at hindering access of illegal immigrants into the country and meeting one of the core proposals of his political campaign. Trump demands 5 billion dollars from Congress for the building of the wall, while the opposition will only accept to allocate 1.3 billion dollars for border security, subject to restrictions that hinder the barrier construction. Several sectors of the Administration had to call off their activities since the corresponding budget funds were not available to them. This Government shutdown is partial, since three fourths of the Administration has funds available until September 2019. Nine ministries, including national parks, monuments and museums are affected, as well as a total of 800,000 of the 2.1 million federal public servants, 48% of whom have been given a leave without pay and the remaining are still in their working positions, though they are not receiving their salaries.

The conflict has caused sharp market falls short before Christmas, for which reason the democrats accused the leader of "plunging the country into chaos" due to his attacks to the Federal Reserve (Fed), the recent

resignation of general James Mattis as secretary of defence and, currently, the Administration shutdown.

The Government partial shutdowns are not an unusual tool in Washington's budget negotiations. It is already the third shutdown faced by Trump's Administration this year, though the previous had not lasted longer than 3 days. It is worth remembering that the most recent long shutdown took place under Obama's Administration in 2013 and it lasted 17 days.

THE FED INCREASES ITS INTEREST RATE AGAIN

At its December 2018 meeting, the Federal Reserve increased the monetary policy reference rate by 0.25 percentage points – from 2.25% to 2.50%–, in line with the market expectations. It also stated that it is likely that interest rates go up by 0.5 percentage points throughout 2019, representing a deceleration with respect to the last rate of increases. In its declaration, the Fed supports its actions based on the fact that the American economy is strong enough to justify at least one or two more rate hikes. The main reason to continue with said policy is the outlook of future inflationary pressures originated by the current low unemployment rate.

THE UNITED STATES TO INVEST IN VACA MUERTA-SAN NICOLÁS GAS PIPELINE

Within the framework of the G20 summit, the United States announced the investment of 350 million dollars in the development of

the Vaca Muerta-San Nicolás gas pipeline. The investment will be made through the Overseas Private Investment Corporation (OPIC), and its construction will be in charge of Tecpetrol (the Techint Group) and Transportadora Gas del Sur (TGS). These works will accompany the growing development of the region and will make it possible to expand gas transportation across Argentina, thus reducing the need for imports.

The gas pipeline accompanies other projects financed by the OPIC, which altogether amount to an 813 million dollar investment in infrastructure and renewable energy sectors. The OPIC is a U.S. Government agency that helps American companies to invest in emerging markets.

CHINA

PROGRESS IN THE TRADE OPENNESS POLICY

As part of its openness policy, starting January 1, 2019, China announced the implementation of a third round of tariff cuts for import products. In particular, it will reduce import tariffs to 706 products (among them sunflower and canola), it will exempt the payment of export duties to other 94 additional products, it will eliminate the “Most Favoured Nation” (MFN) tariff for 298 technology products and tariffs to the imports of products originating in Hong Kong, and Macau SARs.

This new set of measures was announced after holding the Central Economic Work Conference (CEWC) in Beijing, from 19 to 21 December, 2018.

CHINESE FOREIGN TRADE ON THE RISE

Chinese foreign trade grew 11% year-on-year between January and November, 2018, moving the equivalent to a little more than 4 trillion dollars. According to the General Administration of Customs (GACC), China’s exports increased by 8%, while its imports

grew by nearly 15%, giving rise to a 21% trade surplus compared to the same period in the previous year. Likewise, the trade statistics already mentioned showed a market diversification. Particularly, trade with the European Union (8.7%), with the countries of the Association of South East Asian Nations (12.9%) and with Japan (6.1%) went on the rise, as well as that with the United States (7.2%). Trade with the countries involved in the Belt and Road Initiative (known as One Belt, One Road (OBOR) recorded a faster growth than the median, with a 14.4% year-on-year rise.

ECONOMIC POLICY GUIDELINES FOR 2019

Within the framework of the latest Central Economic Work Conference (CEWC) held in Beijing last December, and in accordance with some practice inherited after decades of government planning, China set the guidelines of its economic policy for 2019. The final approval of these guidelines will take place next March during the National Assembly.

The following are among the main objectives mentioned: to preserve an expansive fiscal policy and a “prudent” monetary policy. In addition, new technologies will be sought to be adopted and new industrial clusters consolidated. With relation to market openness, new mechanisms will be searched to protect the rights of foreign companies in China, especially in matters of intellectual property rights. With respect to foreign trade, greater effort will be made to revitalize foreign trade, and steps will be taken to advance in the trade facilitation agenda.

CHINA AND THE BATTLE FOR 5G

Meng Wanzhou, Huawei financial director, was arrested in Vancouver on December 1, as a result of an investigation carried out by the United States in the face of a likely

violation on the part of the company of the sanctions imposed against Iran. Meng’s arrest takes place at a time that is sensitive to the trade relations between the United States and China, following the 90-day tariff truce agreed upon by both countries after the U.S. president, Donald Trump, and his Chinese counterpart, Xi Jinping, met within the framework of the G20 in Buenos Aires.

Huawei is one of the world’s largest suppliers of telecommunications equipment and services: it recently overtook Apple and became the second worldwide manufacturer of smart phones following Samsung. Some western governments have shown their concern regarding the likelihood that Huawei allows the Chinese authorities to access its users’ data, a fact that has been strongly denied by the company.



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