CEI Centre for International Economy

GLOBAL REPORT

JANUARY 2021

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WORLD

THE OECD PREDICTS A HOPEFUL FUTURE

In spite of the new upsurge of COVID-19 and of the reiterated lockdown measures, advances in vaccination and therapeutic measures make it possible to project a global growth of 4.2 % for 2021 and of 3.7% for 2022, after the 4.2% decrease in 2020, according to the December OECD Economic Outlook.

The global trade projections (in volume) shows a similar trend; a 10.3% reduction in 2020 followed by a 3.9% recovery in 2021 and of 4.4% in 2022. If the vaccination were successful, global GDP would grow 5% in 2021 and 5.5% in 2022; however, if the vaccination did not have the expected results, consumers' lower confidence would take global GDP to 2.2% in 2021 and in 2022.

On the other hand, the volume of trade in goods rose 11.6% during the third quarter if compared to the previous quarter, but it was 5.6% lower than the same period of the year before, according to a WTO report. This variation is coincidental with the application of less strict lockdown measures and expansive monetary and fiscal policies. Taking the first three quarters, global trade fell 8.2%.

THE WTO ROUNDS OFF A YEAR WITH ORGANISATIONAL AND DECISION-MAKING DEFICITS

The COVID-19 and the lack of consensus have made the WTO conclude a year with key issues unresolved. The first is the choice of who will take the seat of Director General: even though the consensus considered the candidate proposed by Nigeria as the favourite, the United States objected to this, taking this subject to an *impasse*. The second is the appointment of Members in the Appellate Body to make it operative again, though this was opposed by the United States claiming a deep reform before advancing towards the coverage of the vacancies. The third relates to whether the temporary suspension of obligations related to intellectual property rights is authorised so as to favour access to the medical supplies necessary to face the COVID-19 pandemic (see CEI Global Report, December 2020); consensus over the Council on Trade-Related Aspects of Intellectual Property Rights (TRIPS) or the General Council was not achieved. Fourth is the prohibition of fisheries subsidies that affect the sustainability of the resource, like the subsidies to illegal fishing and the fishing of overexploited populations; although there were advances in the negotiations, no agreement was reached.

Given the role of the United States at the WTO and its key actions in several conflicting issues, although no precise definition of president-elect Joe Biden is known yet, a trade policy that is more respectful of multilateral standards is expected after certain statements made by him and the likely Trade Representative.

Besides, the date of the 12th Ministerial Conference, which was going to be held in June 2020, but was postponed due to pandemic-related restrictions, must be decided.

PROPOSAL FOR A MORE FLEXIBLE WTO DISPUTE SETTLEMENT SYSTEM

The WTO Dispute Settlement System faces the restrictions of mobility derived from the COVID-19 pandemic and it does not have an operative Appellate Body either. It is for that reason that a group of 16 countries submitted a document to adopt flexible arrangements in the procedures, the hearings and the participation of the cases during the pandemic, taking advantage of the technological mechanisms available and the legal windows of the corresponding WTO standard.

That is why they propose to implement online sessions or a combination of online and onsite sessions, enable the remote presentation of evidence, take into account the different technological capabilities of the parties, and consider the necessary procedures to protect the confidentiality and safety of the information transmitted.

EUROPE

THE EU AND THE UK REACH POST-BREXIT AGREEMENT

Almost 11 months after the transition period following the United Kingdom's walkout from the EU, and in the face of an imminent exit of the United Kingdom from said market and the European customs union, the Agreement on Trade and Cooperation between the European Union and the United Kingdom, was signed on 24 December, guaranteeing that the parties are exempt from tariffs and quotas for all the goods that meet the proper rules of origin.

The instrument decided upon includes trade in goods and services and regulates different aspects of the bilateral relation such as investment, competition, state aid, fiscal transparency, air and road transportation, energy, fisheries, data protection and coordination of social security.

The text anticipates that the agreement comes into force provisionally on 1 January 2021, awaiting its approval by the European and British Parliaments. This will make it possible to guarantee the continuity of bilateral trade, though it will not prevent the companies from having to comply with the new customs and fiscal obligations. It is neither ruled out that inconveniences in meeting set standards may come up, for which reason the text anticipates mechanisms of mutual surveillance and likely retaliations in case any of the parties show non-compliance with what was agreed upon.

THE UNITED KINGDOM SIGNS MULTIPLE TRADE AGREEMENTS

Within days of each other, Liz Truss, UK Secretary of State for International Trade, visited Singapore and Vietnam to conclude the negotiations of the free trade agreements. The signing of the agreement with Singapore and the closing of negotiations with Vietnam guarantee, for the United Kingdom, the continuity of the trade relations in the terms which it used to have when it was part of the European Union. Both initiatives add to the agreement signed with Japan (see CEI Global Report, October 2020) and account for the importance the

United Kingdom gives to the Asian continent within its trade strategy after Brexit.

In turn, the United Kingdom and Mexico undersigned the Continuity Agreement on 15 December, which preserves the flow of free trade between both countries. The undersigning of this instrument will make it possible to maintain the preferences in matters of market access and trade disciplines, currently in force under the Free Trade Agreement between Mexico and the European Union. The agreement will be in force for three years after its entry into force –for which reason approval by the Mexican Senate is needed. During said period, negotiations to undersign a broader, more modern and comprehensive free trade agreement will be carried out.

Another continuity agreement obtained by the Johnson government is that of Turkey. Although the parliaments of each country did not have time to ratify it in December, the agreement started to be effective as of 1 January 2021 and it is expected to be expanded in the future.

Also, the United Kingdom and Kenya signed an Economic Partnership Agreement. This agreement, that is open to the adherence of the rest of the member countries of the Economic Community of West African States, will guarantee that all the companies operating in Kenya, included the British, will continue benefitting from duty free access to the United Kingdom market.

Finally, it is worth mentioning the agreement reached with Switzerland to guarantee the free mobility of service suppliers. This completes the important activity carried out by the United Kingdom to avoid losing markets after its exit from the European Union. Mutual access and the stay of professional service providers such as engineers and consultants, among others, is ruled in this agreement that provisionally entered into force on 1 January 2021 and will have an initial duration of two years.

SALARY REDUCTION IN ALL EUROPEAN COUNTRIES DUE TO THE PANDEMIC

The International Labour Organization (ILO) published a global report that describes the effects of the COVID-19 pandemic on salaries during the first semester of 2020. After four years of uninterrupted growth of real wages, a fall in the total wage bill in all European countries can be appreciated. The countries with the worst results are Portugal, Spain, Ireland and France, with reductions of over 10% in their wage bills (due to falls in employment and in the number of hours worked). Similarly, in this report, it is stated that the crisis affected women particularly – who in all cases have experienced greater losses than men– and, especially those workers with the lowest incomes.

THE EU UNBLOCKS BUDGET AND POST-PANDEMIC RECOVERY PLAN

The Heads of State of the EU have managed to unblock the community budget and the recovery plan to face the economic difficulties derived from the COVID-19 pandemic. In the last meeting of the European Council, a proposal by the German presidency was approved, offering guarantees to Hungary and Poland that the prerogative to condition reception of the European funds to respecting the rule of law cannot be used arbitrarily and that it will include the intervention of the EU Court of

Justice (see CEI Global Report, December 2020). Thus, with the conformity of the Polish and Hungarians, the European authorities expect the new budget to enter into force on 1 January 2021 and actions hastened to get the funds to arrive in the countries of the bloc as soon as possible.

THE EC PROPOSES NEW DIGITAL SERVICES ACT AND DIGITAL MARKETS ACT

The EU takes a new step towards the regulation of the large technology companies with two brand-new proposals by the European Commission: the Digital Services Act and the Digital Markets Act. They are aimed at defending the rights of European users of digital services and limiting access of the large companies that provide those services within the countries in the bloc.

If the European Parliament and member States approve the proposals by the Commission, the European authorities will be able to determine new obligations to avoid abuse by the companies; promote transparency measures, including those relative to online publicity and the algorithms applied to recommend contents to users; prohibit clearly disloyal practices such as preventing users from uninstalling pre-installed software or applications; demand from large platforms that third party software works properly and interacts with their own services; and impose fines of up to 10% of the global business volume of the companies, so as to guarantee the efficiency of the new regulation.

SOUTH AND CENTRAL AMERICA

PROJECTIONS FOR SOUTH AMERICA IMPROVE

The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) projected that the region –the most affected, among the emerging nations, by the pandemic– would end 2020 with a contraction of 9.2% in activity, 13% in exports and 2%, on average, in terms of trade (with a much greater deterioration for hydrocarbon exporting countries). In the specific case of South America, the agency improved its projections and the drop in activity would be 7.7% (as opposed to the 9.1% previously estimated).

As for 2021, ECLAC anticipates that the entire region will grow 3.7% on average (the same as for South America), although pre-pandemic activity levels will be reached only by 2024. However, the organisation warned that the recovery of these economies would be conditioned by the dynamics of vaccine production and distribution, the ability to continue with expansionary monetary and fiscal policies, a scenario of not worsening global financial conditions, and an increase in commodity prices. As for the latter, projections by the International Monetary Fund (IMF) estimate an average increase of 9% in commodity prices by 2021 (4% in agri-food products, 3% in base metals and 16% in energy products).

MERCOSUR ADVANCES IN E-COMMERCE AND SERVICES

The 57th Ordinary Meeting of the Mercosur Council and the 57th Summit of Presidents held in December reviewed the results obtained during the Uruguayan pro-tempore presidency and marked the handover of the presidency to Argentina, which will run until 30 June 2021.

Among the topics addressed at both meetings, the State parties highlighted the signing of the Agreement on Electronic Commerce, which will facilitate and enhance a form of trade in goods and services that has been growing strongly especially in the context of the pandemic. The legal framework includes, among others, aspects related to the transfer of information, protection of online personal and consumer data, non-imposition of tariffs on electronic transmissions and location of computer installations. They also launched the eighth "Round of Negotiations of Specific Commitments on Services", with a view to updating the Montevideo Protocol on Trade in Services, incorporating into the regulations of the bloc the aspects already negotiated with other countries.

SICA LAUNCHES AGRICULTURAL MARKET MONITORING PLATFORM

The Central American Integration System (SICA, for its acronym in Spanish) countries – Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama and the Dominican Republic– implemented a Regional Agricultural Market Intelligence and Monitoring System (SIMMAGRO, for its acronym in Spanish).

Developed with the support of the Food and Agriculture Organization of the United Nations (FAO), this digital platform seeks to provide information on the region's 40 commodities (grains, fruits and vegetables), with the aim of maintaining the smoothness of the food trade, ensuring its supply, detecting market opportunities and energizing the economies of the bloc. Specifically, it includes data on prices (daily, weekly and monthly), foreign trade per partner, in value and volume (monthly and yearly) and production statistics, including harvested area and yield.

THE CAF PROVIDES FINANCIAL SUPPORT TO THE REGION

The Development Bank of Latin America (CAF) will grant loans for US$ 2.2 billion to finance economic development and revival projects in the region. Among the countries that will receive funds is Argentina (US$ 544 million), which will allocate them to boost connectivity in hard-to-reach areas, generate digital inclusion and educational transformation in Santa Fe, and develop infrastructure. Costa Rica, in turn, will receive capital (US$ 500 million) for the pandemic emergency support programme; Ecuador (US$ 462 million) for the development of logistics infrastructure and support for autonomous governments; Peru (US$ 724 million) to mitigate the impact of the crisis and improve road infrastructure.

Finally, the CAF will also provide funds of up to US$ 1.2 billion to utility companies which provide electricity, gas and water services and have liquidity needs generated during the pandemic.

NORTH AMERICA

TRUMP APPROVES SECOND STIMULUS PACKAGE

Outgoing President Donald Trump signed on 27 December a US$ 900 billion stimulus plan for the U.S. economy. The package includes, among other, a direct payment of US$ 600 for adults and children, an extension of the unemployment benefit of US$ 300 per week for 11 weeks and the allocation of US$ 325 billion to business assistance (85% of this amount is for paying wages), as well as food stamps, renters' aid and testing and vaccination items.

The stimulus plan had been approved by Congress after months of negotiations, but the President was refusing to sign the bill because he considered that certain expenses included were superfluous and intended to raise the amount of the one-time payment for adults from $600 to $2,000. Trump's resistance was about to cause a government shutdown, since the support package is part of a larger legislation, which additionally includes US$ 1.4 trillion for regular expenses of the federal government.

SWITZERLAND AND VIETNAM, CURRENCY MANIPULATORS ACCORDING TO THE U.S.

In December, the U.S. Treasury Department published its semi-annual Report on the macroeconomic and foreign exchange policies of its major trading partners. In the report, the Treasury reviewed and assessed the policies of 20 U.S. trading partners during the June 2019-June 2020 period and concluded that Switzerland and Vietnam are currency manipulators.

To be designated as manipulator, a country must have a trade surplus of at least US$20 billion with the U.S., a foreign exchange market intervention through foreign currency purchases of more than 2% of GDP, and a current account surplus that also exceeds that percentage.

According to the report, bilateral negotiations will begin with Switzerland and Vietnam to "eliminate the unfair trade advantages resulting from their actions" and, if the talks failed, the next step could involve sanctions.

In addition, Taiwan, Thailand and India were added to the monitoring list, joining China, Japan, South Korea, Germany, Italy, Singapore and Malaysia, which had already been listed in the previous edition of the report, while Ireland was removed from it.

THE U.S. REQUESTS CONSULTATIONS WITH CANADA FOR DAIRY PRODUCTS

The U.S. Trade Representative, Robert Lighthizer, notified to the Canadian Minister of Small Business, Export Promotion and International Trade, Mary Ng, that his government would discuss certain measures taken by Canada that would be contrary to the provisions of the USMCA and would harm U.S. dairy producers.

Under the trade treaty, Canada has the right to maintain 14 tariff quotas for dairy products. What the U.S. objects to is Canada's allocation of these quotas, as it had reserved a percentage of each quota exclusively for processing companies. This action would undermine the capacity of U.S. producers by limiting their access to the quantities within the USMCA's negotiated quotas.

If these concerns were not resolved through consultations, the U.S. might request the establishment of a dispute settlement panel within the USMCA to discuss the issue.

USMCA: LABOUR PANEL FINDS REFORMS IN MEXICO INSUFFICIENT

The Independent Mexico Labour Experts Board (IMLEB) reported, in its first preliminary report, that many of Mexico's labour obligations under the USMCA had not yet been implemented.

The report highlights the progress made in the midst of the coronavirus pandemic. However, it stresses that many of the agreed changes, especially in terms of trade union democracy, freedom of association and collective bargaining, had not been fulfilled. As a consequence, most unionised workers cannot yet democratically elect their leaders, nor ratify their collective bargaining agreements.

The report provides recommendations on how to help strengthen workers' rights, end violence and promote transparency. It also recommends advancing labour reform compliance in those states with priority economic sectors for the USMCA and strengthening the labour inspection programme.

THE U.S. INCLUDES NEARLY 60 CHINESE COMPANIES ON ITS ENTITY LIST

The U.S. Department of Commerce announced the addition of 77 entities to its Entity List, with the stated objective of protecting the country's national security. The companies affected include Semiconductor Manufacturing International Corporation (SMIC) –China's largest chip producer– and 58 other companies from China.

SMIC is critical to Chinese plans to build a globally competitive semiconductor industry and stop depending on U.S. technology. Washington, for its part, sees China's predominance and ambition to dominate the spheres of technology as a possible geopolitical threat.

According to the communiqué, the action stems from the existing evidence of activities between SMIC and the Chinese industrial-military complex. Due to this measure, U.S. companies have to apply for a licence before exporting their products to SMIC. Foreign companies exporting components to SMIC may also face restrictions, depending on the percentage of U.S. technology in those parts.

Other entities affected include those "that allow human rights abuses, that supported militarisation and unlawful maritime claims in the South China Sea, that acquired U.S.-origin items in support of the People's Liberation Army programmes, and that participated in U.S. trade secret theft".

ASIA

CHINA AND THE EU CONCLUDE INVESTMENT AGREEMENT NEGOTIATIONS

On 30 December, Chinese President Xi Jinping and EU leaders Charles Michel, President of the European Council, and Ursula von der Leyen, President of the European Commission, concluded the negotiations on the Comprehensive Agreement on Investment (CAI), after nearly eight years.

This agreement will improve European companies' access to the Chinese market. In turn, the CAI sets obligations for Chinese state-owned enterprises, prohibits forced technology transfer and increases transparency in the granting of subsidies, as well as including environmental commitments, such as the implementation of the Paris Agreement.

China also undertook to implement the conventions of the International Labour Organization and to advance the ratification of the agency's fundamental conventions, including forced labour. The EU will carry out an additional task in accordance with its rules and legal procedures to ratify the Agreement.

CHINA ENCOURAGES FOREIGN INVESTMENT PARTICIPATION IN NEW INDUSTRIES

The National Development and Reform Commission (NDRC) and the Chinese Ministry of Commerce (MOFCOM) issued the 2020 Catalogue which adds more sectors plausible of receiving foreign investment. It will enter into force on 27 January 2021.

The catalogue, which includes 1,235 items, of which 127 are new and 88 incorporate revisions, is intended to encourage the participation of foreign investment in China's industrial and supply chains, as well as in the central and western regions of the country. The new items added, at the national level, include ventilators, ECMO devices (extracorporeal membrane oxygenation), online education services and 5G mobile telecommunication technologies. Foreign investment entering the catalogued industries will benefit from preferential fiscal and land-use policies.

INDUSTRIAL PRODUCTION AND RETAIL UNDERPIN CHINA'S GROWTH

China's industrial production completed eight consecutive months of expansion in November, while factory activities continued to recover, according to the National Bureau of Statistics (NBS). Thus, industrial production grew 7.0% year-on-year in November, slightly exceeding the value recorded in October (6.9%). Growth in the high-tech equipment and manufacturing sectors (11.4% and 10.8% respectively) stands out.

Retail sales of consumer goods increased 5% year-on-year in November, 0.7 percentage points more than in October. Consumption in rural areas rose by 5.6%, while urban areas showed a 4.9% increase. However, in the January-November period, retail sales accumulated a year-on-year decline of 4.8%. According to the NBS, as the economy continues to recover, consumption will remain the main driver of economic growth.

TENSIONS GROW: CHINA BANS IMPORTS OF AUSTRALIAN COAL

Since the beginning of 2020, China has implemented import restrictions, tariffs, and anti-dumping investigations against a variety of Australian products, including beef, barley, and wine. These measures occurred in the context of rising trade tensions between the two countries (see CEI Global Report, May and June 2020).

In December, China urged its state-owned energy companies to suspend coal imports with the aim of controlling the price of this input and diversifying suppliers, with Mongolia, Indonesia and Russia in mind.

The Australian government reported that it expects explanations from the Chinese government and warned that the measure goes against WTO rules and violates the free trade agreement between the two countries in force since 2015.

A NEW FREE ZONE CREATED IN THE XINJIAN REGION, CHINA

Tacheng Prefecture, located in the Uygur Autonomous Region of Xinjiang in northwest China, will be the basis for the establishment of a new free zone for the promotion of trade, the development of infrastructure projects, the creation of cross-border industrial parks, as well as the enhancement of the financial sector. Tacheng is an important land route for China's foreign trade with Central Asia and Europe.

AFRICA

AFRICA'S STRONG DEPENDENCE ON INFORMAL TRADE

The African Export and Import Bank (Afreximbank) published its annual report on trade on the African continent. The report analyses trade and economic development in Africa during 2019 and conducts a comprehensive study on informal cross-border trade (ICBT), the first attempt to measure in detail the size and composition of informal trade on the continent, as well as its relevance in job and income generation.

The report indicates that ICBT served as a source of income for approximately 43% of the African population. In the South African Development Community (SADC), women accounted for 70% of ICBT; while in West Africa agricultural and food products accounted for 30%. In addition, in order for intra-African trade to move towards a formal economy, there is a need to remove technical and non-tariff barriers to trade, increase access to finance, and create digital payment systems to mitigate risks.

The report also highlights that the share of exports from Africa to the Asian continent grew 30.7% in 2019, whereas exports to the European Union decreased by 24.6%. China and India were the main drivers of growth in trade relations between Africa and Asia; both countries accounted for 27% of the total exports of the African continent. On the other hand, the report notes that South Africa is the economy with the largest share of intraregional trade (23.1%), followed by the Democratic Republic of the Congo (10.4%) and Nigeria (7%).

SOUTH AFRICAN WINEMAKERS EXPECT TO INCREASE UK SALES

The South African wine industry expects to export 71.5 million litres of tariff-free wine to the United Kingdom this year thanks to the agreement that entered into force on 1 January 2021 between the UK and the Southern African Customs Union (SACU) countries. The quota set out in the agreement for the imports of South African wine into the British market is 75.1 million litres (30% bulk wine and 70% in bottles).

EGYPT IMPLEMENTS ARAB-AFRICAN TRADE BRIDGE PROGRAMME

Egypt’s Ministry of Trade and Industry announced that it began implementing the Arab-Africa Trade Bridges (AATB) programme, launched by the International Islamic Trade Finance Corporation (ITFC).

The programme, which aims to improve the capacity of Egyptian exporters and encourage exports to new markets in Africa, will last until September 2021 and will be implemented by the Export Development Authority (EDA) in cooperation with the ITFC, export councils and the Federation of Egyptian Industries.

The programme is targeted at stimulating some export sectors, including those of construction materials, chemical, medical and pharmaceutical industries, engineering, printing, packaging, paper products and furniture industries. Egyptian exports are presumed to be directed to African countries such as Kenya, Uganda, Tanzania, Ethiopia and Rwanda in the east; Senegal, Ivory Coast, Nigeria, Ghana, Cameroon and Guinea in the west, as well as South Africa, Angola, Zambia and Zimbabwe in the south.

Ministry of Foreign Affairs
International Trade and Worship
Argentina

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