Centre for International Economy

GLOBAL REPORT

JANUARY 2022

WORLD

Inequality going up across the world
The highest global debt in history
The WTO discusses trade and environment

EUROPE

Ongoing discussions on EU energy policy
United Kingdom signs FTA with Australia
Spain ends the year with the highest inflation in 30 years

SOUTH AND CENTRAL AMERICA

MERCOSUR deepens relationships with Dominican Republic and Indonesia
Economic challenges for the new Chilean President
The IDB warns of delays in human capital investment in Latin America

NORTH AMERICA

Canada and the US clash over digital services tax
Tensions in the USMCA due to electric vehicle subsidies
USMCA: Canada files case against US over softwood lumber

ASIA AND OCEANIA

Omicron variant: renewed uncertainty in Asia
Chinese cotton industry reacts to US law
Taiwan and the US announce plan to strengthen supply chains

AFRICA

The African Development Bank to finance agribusiness in Nigeria
Uganda to ban imports of agricultural products from Kenya
Outlook for the automotive aftermarket in Africa

WORLD

INEQUALITY GOING UP ACROSS THE WORLD

Inequality continues to grow in the world. According to the World Inequality Report 2022, published by the Paris-based World Inequality Lab, the pandemic widened the growing inequality and increased the profits of billionaires around the world.

The share of world wealth in the hands of the richest 0.01% has grown from 7% to 11% since 1995, with a growth curve that accelerated during the COVID-19 pandemic. In turn, the largest increase in billionaires' share of total wealth was recorded in 2020. Currently, the poorest half of the population has 2% of the world's total wealth, while the richest 10% owns 76%.

Regarding income inequality, the report indicates that in 2021 the richest 10% of the world population received 52% of the total income, while the poorest 50% received only 8.5%. The least unequal region is Europe, where the richest 10% get 36% of the income, and the most unequal is the Middle East and North Africa, where the richest get 58%. In turn, in Latin America the richest 10% takes 55% of total income.

A revealing fact that is included in the report is that during the last 40 years the countries have gotten richer, but their governments have become poorer. In the central countries, the wealth of the public sector is negative or close to zero, that is, all the wealth is in private hands, a trend that has been reinforced during the pandemic, since in order to face the ravages caused by the virus, the governments borrowed up to 20% of their GDP, mainly from the private sector.

THE HIGHEST GLOBAL DEBT IN HISTORY

The level of global debt is at its highest levels in history. According to an article published by IMF officials on the agency's website, 2020 recorded the largest increase in debt – public and private– since World War II.

Based on the latest update of the IMF database, during 2020 the debt increased 28 percentage points and reached 256% of world GDP. Of the total, public debt accounted for more than half of the increase and is close to 100% of world GDP, thus setting a historical record. This increase was particularly significant in rich countries, where public debt reached 124% of GDP in 2020.

Developing economies did not have the same tools to combat the COVID-19 pandemic, as they faced limited access to funds and higher interest rates. Emerging countries (excluding China) account for only US$1 trillion of the US$28 trillion total debt increase in 2020. However, in many of these countries, public debt reached high coefficients due to the drop in nominal GDP triggered by the damage caused by the pandemic.

THE WTO DISCUSSES TRADE AND ENVIRONMENT

The green agenda continues to gain ground in the WTO. On 15 December, the co-sponsors of three initiatives related to the environment met within the framework of the international trade regulating body. Participants in the “Structured Discussions on Trade and Environmental Sustainability”, “Informal Dialogue on Plastics Pollution and Environmentally Sustainable Plastics Trade” and “Fossil Fuel Subsidy Reform” agreed with what Director-General Okonjo-Iweala described as “a historic moment for the WTO.”

Currently, 71 countries are participating in the “Structured Discussions”, which began in November 2020 and is aimed at “analysing possible results of environmental sustainability in the various areas covered by the WTO”, among other objectives. In turn, sixty-seven countries participate in the “Informal Dialogue on Plastics”, which also began in November 2020 and has the goal of “addressing the increased environmental, health and economic cost of pollution caused by plastics and use trade as an instrument to promote environmentally sustainable plastics trade”. Finally, 45 members signed the “Ministerial Statement on fossil fuel subsidies” issued in December 2021, in which they denounce the use of fossil fuel subsidies and point out that they “place renewable energies at a disadvantage”.

The meeting is especially important because some developed economies, particularly the European Union, are trying to ensure that many of the environmental policies that they implement within their territories are adopted by the rest of the countries of the world. In this regard, EU Trade Commissioner Valdis Dombrovskis said: “Global trade rules need to be shaped to help provide a global response (...) This is why these joint statements on climate and environment issues matter.”

EUROPE

ONGOING DISCUSSIONS ON EU ENERGY POLICY

Energy prices continue to rise in Europe, along with the disputes over the direction that the EU’s energy policy should take. Electricity is hitting record values on the continent, pushed by the price of natural gas, which ends the year with a 600% increase, compared to January 2021, and which also caused coal to surge.

These increases unleashed a series of discussions in the European bloc. Within the EU there are countries such as Spain, France, Italy, Greece and Romania that promote the implementation of joint initiatives to anticipate and protect consumers from high price volatility. They propose to create strategic natural gas reserves at the community level and demand greater coordination of energy policy within the bloc.

However, another set of countries led by Germany, which includes the Netherlands, Austria, Finland and Denmark, opposes the changes, arguing that high prices are part of the economic recovery and that this will come to an end when temperatures begin to rise on the continent.

This debate adds to the discussions led by France and Germany around the energy sources that the EU should consider beneficial in the fight against climate change (see CEI Global Report, December 2021). In this regard, a Solomonic decision is anticipated by the European Commission, since, according to a project that has circulated among the media, it is expected that the electricity from nuclear power plants be considered green until 2045–in line with France's interests and against the German position–; with the same happening with the generation of electricity from natural gas, at least until 2030, a measure that responds to the interests of Germany.

UNITED KINGDOM SIGNS FTA WITH AUSTRALIA

On 17 December, a free trade agreement between the United Kingdom and Australia was signed (see CEI Global Report, July 2021). It is the first of the post-Brexit agreements that was negotiated from scratch, without transferring the commercial terms that the United Kingdom had as part of the EU. It is estimated that it will enter into force in 2022, once it is approved in the parliaments of both countries.

Many voices in the UK were raised to protest the terms of the deal. British union leaders questioned that it does not have the means to enforce labour rights or protect migrant workers.

The issue of animal welfare and the standards required on imported food was also raised. British farmers have denounced their Australian counterparts for using farming methods they consider to be environmentally negative and currently banned in the UK.

Also, British meat producers were critical of the possibility that the supply of less expensive Australian meat could damage local production. However, the British government defended itself arguing that the agreement contemplates transition periods of up to 15 years. Currently, Australian meat exports to the United Kingdom are low. In 2019, less than 3,000 tonnes of Australian beef was exported to the UK market.

SPAIN ENDS THE YEAR WITH THE HIGHEST INFLATION IN 30 YEARS

The Spanish Institute of Statistics (INE) published the Advance Indicator of the Consumer Price Index (CPI), whose inter-annual variation rate for the month of December was 6.7%, the highest monthly measurement since March 1992. In its press release, the INE highlights the rise in the price of electricity and, to a lesser extent, the increase in food prices as the main factors of the high figure reached.

This outlook confirms the trend that was increasingly seen throughout the year in the European continent and the world. It should be remembered that the last measurement carried out at the continental level by Eurostat had registered an inflation of 4.9% for the month of November (see CEI Global Report, December 2021), the highest monthly value since 1997.

SOUTH AND CENTRAL AMERICA

MERCOSUR DEEPENS RELATIONSHIPS WITH DOMINICAN REPUBLIC AND INDONESIA

Within the framework of the 59th Ordinary Meeting of the Council of the Common Market, the members of MERCOSUR signed a memorandum to strengthen relationships with Dominican Republic, as a first step towards a future trade agreement and broader cooperation. Likewise, a Working Group was created to prepare an action plan to implement various mechanisms and initiatives to promote trade, investment and production chains.

On the other hand, the members of the bloc announced the start of negotiations with Indonesia to reach a trade agreement. Indonesia currently has a population of more than 250 million people and its trade with MERCOSUR amounts to almost US$ 5 billion. Regarding particularly Argentina, it is the tenth export destination and represents 2.4% of our total sales to the world.

ECONOMIC CHALLENGES FOR THE NEW CHILEAN PRESIDENT

The current Chilean deputy, Gabriel Boric, newly elected president of Chile, will take office on 11 March 2022. Although there are still no clear definitions about the economic measures he will take, his campaign speech was based on the need to create a new development model with focus on renewable energies, taxes on large fortunes and mining, and the promotion of science and technology. Boric defends the idea of greater state intervention in the economy, but with "fiscal responsibility".

The current economic scenario, on which the new government will have to work, includes a twelve-month accumulated inflation rate of 6.7%, which exceeds the Central Bank's inflation targets (2%-4%) and constitutes the highest rate since 2008, an unemployment rate of 7.5% and poverty reaching 10.8% of the population.

In turn, the projections of the Central Bank of Chile for 2022 indicate that inflation will rise to 7% in the first half of the year and then begin to decline, that consumption and investment will fall and that GDP growth will stand at between 1.5% and 2.5%.

THE IDB WARNS OF DELAYS IN HUMAN CAPITAL INVESTMENT IN LATIN AMERICA

In a report on the future of labour in Latin America and the Caribbean, the Inter-American Development Bank (IDB) warned that the region lags behind other regions in terms of human resources with technological skills. In particular, according to the 2021 Global Competitiveness and Talent Index, the greatest gaps in the region relate to knowledge of technologies such as artificial intelligence and the internet of things. Chile, Costa Rica, Uruguay and Argentina are the best positioned countries, while Nicaragua, Honduras and Venezuela are the laggards in the region.

In this respect, the organisation points out the importance of not only guaranteeing access to education and technologies, but also of transforming and adapting the public and private educational offer to the needs imposed by the labour market today.

NORTH AMERICA

CANADA AND THE US CLASH OVER DIGITAL SERVICES TAX

On 14 December, the Canadian government published a bill to implement a digital services tax (DST). The DST, originally proposed in the 2021 Federal Budget, will be imposed as of 1 January 2024, provided the fiscal agreement reached in the OECD fails to enter into force (see CEI Global Report, November 2021).

In that case, the DST would be applied retroactively to all revenues obtained after 1 January 2022. The 3% rate would affect certain revenues earned by large companies of specific digital services that depend on the participation, data and content contributions of Canadian users, as well as on specific Canadian user data sales or licences.

The news triggered the immediate reaction of the United States government, which expressed concern about the announcement, since Canada would thus be failing to comply with what was agreed in the OECD, which includes the suspension of any tax on digital services between 8 October 2021 and the entry into force of Pillar 1 of the OECD/G20 Inclusive Framework. The US Trade Representative argued that if Canada moves forward with the tax, her government will need to examine all options, even within the framework of its trade agreements and domestic laws.

TENSIONS IN THE USMCA DUE TO ELECTRIC VEHICLE SUBSIDIES

The tax credits proposed for electric cars in the Build Back Better bill, approved by the US House of Representatives in November, continue to generate tensions between USMCA partners.

The budget bill would provide up to US$ 12,500 in tax credit for electric vehicles, including US$ 4,500 if a vehicle is assembled in US plants with unionised workers and US$ 500 if it has at least 50% domestic content and battery cells built in the US. Starting in 2027, credits would only be available for vehicles assembled in the US.

Both Canada and Mexico expressed their concerns, since the initiative would discriminate against its US automakers and would be incompatible with Unites States' USMCA obligations and with the WTO agreements. Both countries are considering taking action, which includes starting a dispute resolution process under the USMCA and implementing retaliation measures on US exports if the tax credits are finally approved by the US Senate.

The concern is shared by other important trading partners of the US, such as the EU, which also spoke out against the tax incentive.

USMCA: CANADA FILES CASE AGAINST US OVER SOFTWOOD LUMBER

On 21 December, the Minister of International Trade, Export Promotion, Small Business and Economic Development of Canada, Mary Ng, announced that her country will challenge the final results of the second administrative reviews by the US Department of Commerce on antidumping and countervailing duty orders on softwood lumber from Canada.

Based on the results of the second reviews, the United States nearly doubled the tariff rate applicable to most Canadian softwood lumber producers, going from an average rate of 8.99% to 17.9%. According to the Canadian government, these tariffs are unjustified and damage Canadian businesses and workers, as well as American consumers and constructors, by increasing the costs of supplies and housing.

The softwood lumber conflict has become one of the longest lasting between the two nations and involves several legal actions by Canada, both before the WTO and within the framework of the North American Free Trade Agreement (NAFTA) and its successor, the Canada - United States - Mexico Agreement (USMCA).

ASIA AND OCEANIA

OMICRON VARIANT: RENEWED UNCERTAINTY IN ASIA

The Asian Development Bank (ADB) revised slightly down the economic growth outlook for Asia's developing countries, after new coronavirus outbreaks led to slower growth in the third quarter of 2021. Likewise, the arrival of the omicron variant is causing renewed uncertainty on the continent.

According to the latest estimates presented in the supplement of the Asian Development Outlook 2021, a growth of 7% is expected in 2021, and of 5.3% in 2022, unlike last September's forecasts of a rise of 7.1% and 5.4%, respectively.

The projections have been revised slightly down for all sub-regions in 2021, except for Central Asia. The economy of this region is expected to grow 4.7% in 2021 and the forecast for 2022 was raised to 4.4% from 4.2% in September.

Regarding India, the largest economy in South Asia, a growth of 9.7% is expected in fiscal year 2021, which ends on 31 March 2022, with a reduction of 0.3 percentage points, due to supply chain issues that are affecting the industry.

CHINESE COTTON INDUSTRY REACTS TO US LAW

The United States recently enacted the "Uyghur Forced Labour Prevention Act", which classifies all production from China's Xinjiang Uyghur Autonomous Region as the product of forced labour and bans imports coming from this region.

In a statement, China National Textile and Apparel Council (CNTAC) condemned the Act, noting that the United States' unilateral move to block commodities produced in Xinjiang, sets a dangerous precedent in the field of international economic and trade rules.

Likewise, the institution said that there is no forced labour in the region, and that Xinjiang cotton plays an important role in the international supply chain, accounting for almost 20% of world cotton production in 2021, with a yield of 5.1 billion tonnes.

Similarly, China Cotton Association (CCA) and China Business Confederation (CEC) also expressed their opposition to the law. According to the CEC, China's cotton and textile industry is working on labour protection, and cotton farmers and textile industry employees have improved their income and quality of life, while the mechanisation of large-scale cotton production in Xinjiang increased the productivity of the sector.

TAIWAN AND THE US ANNOUNCE PLAN TO STRENGTHEN SUPPLY CHAINS

The United States and Taiwan announced on 6 December their plans to reach a new Trade and Investment in Technology (TTIC)

Framework with the aim of developing trade programmes and exploring ways to strengthen crucial supply chains. The United States does not officially recognise Taiwan as a sovereign nation, but maintains unofficial relations with Taipei through the American Institute in Taiwan (AIT).

According to the press release by the US government –with the support of the AIT and the Taipei Economic and Cultural Representative Office (TECRO)–, the Secretary of Commerce, Gina Raimondo, and the Taiwanese Minister of Economic Affairs, Mei-hua Wang, had an introductory conversation, during which Raimondo expressed the continued interest of the United States in working together with Taiwan on issues of common trade interest, particularly in the semiconductor supply chain area. They also planned to instruct designated representatives to plan and convene the first meeting of the TTIC in the coming months.

AFRICA

THE AFRICAN DEVELOPMENT BANK TO FINANCE AGRIBUSINESS IN NIGERIA

The African Development Bank (AfDB) provided a US$ 210 million loan to Nigeria to co-finance the "Special Agro-Industrial Processing Zone Programme", aimed at strengthening the Nigerian agricultural sector by promoting the industrialisation of the sector's products and the development of strategic agricultural activities.

The AfDB funding for this programme represents one of the bank's most ambitious operations in terms of scale and scope to date. It consists of a US$ 160 million loan that is complemented by another from the Africa Growing Together Fund for US$ 50 million.

The project will support Nigeria's efforts to increase agricultural productivity, promote investment and create wealth and jobs. Its first phase will be executed with co-financing from other partners for an amount of US$ 538 million.

The Special Agroindustrial Processing Zones Programme is expected to bring economic infrastructure to rural areas with high agricultural potential and stop migration from the countryside to the city. The project areas represent 19% of Nigeria's total land mass and the financing will benefit more than 50 million people.

The Bank plans to establish these zones in 18 African countries, including Nigeria. The zones are designed to concentrate the production, processing, storage, transportation and marketing of basic products, such as cotton or corn, to increase productivity and competitiveness and reduce logistic costs.

UGANDA TOBAN THE IMPORTS OF AGRICULTURAL PRODUCTS FROM KENYA

Uganda decided to ban the import of some fresh and processed agricultural products from Kenya in response to the continued ban on some Ugandan agricultural product exports to the Kenyan market.

The Ugandan cabinet has instructed the Ministry of Agriculture to identify and list products from Kenya that will “shortly” be banned by the Ugandan government. The most important agricultural exports to Uganda from Kenya are palm oil, sorghum, vegetables and pulses.

Kenya and Uganda have long had trade fights, but the latest hostilities between the two East African Community states began to brew in December 2019, when Kenya stopped importing milk from Uganda. In July 2020, Kenya went ahead with a sugar ban, contrary to an earlier agreement to increase Ugandan sugar exports to Kenya.

Also, the Ugandan poultry industry has demanded that the government take action on Kenya’s ban on poultry product imports from Uganda for almost a year. Kenya stopped all imports of chicken, meat and eggs on the grounds that it needed to help its “producers recover from disruptions to their businesses caused by COVID-19”.

Observers believe the current trade dispute could have long-term implications for imports and exports across the East African region, and that the restrictions run counter to the Customs Union Protocol established by the East African Community single market.

OUTLOOK FOR THE AUTOMOTIVE AFTERMARKET IN AFRICA

The African Union noted that only 16% of all products made in Africa are traded on the continent. With the introduction of the African Continental Free Trade Agreement (AfCFTA), the region provides opportunities for the free movement of goods and people. At present, there are approximately 60 million vehicles in operation on the African continent, with the size of the auto parts market estimated at more than US$ 34 billion.

The African spare parts market faces many challenges: counterfeit or second-hand parts; low supply of local manufacture; poor mechanical maintenance services; fragmented and undeveloped distribution network that makes logistics difficult; volatile trade barriers affecting imports.

Despite all these challenges, several opportunities exist, as the demand for affordable, quality parts and maintenance services is steadily increasing through rapid urbanisation and an emerging middle class. Furthermore, other ongoing trends such as e-commerce, connectivity, electrification and digitisation could become a paradigm shift for the development of the auto aftermarket in Africa.

Ministry of Foreign Affairs
International Trade and Worship
Argentina

Closing date of this issue: 31 December 2021