CEI Centre for International Economy

GLOBAL REPORT

JULY 2021

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WORLD

130 COUNTRIES AGREE ON GLOBAL TAX REFORM

After the ministers of finance of the G7 countries assented last month to apply a minimum global tax of 15% to the large multinational enterprises, 130 countries agreed on promoting a tax reform that will change the international tax rules known so far.

This group of countries, which all together account for over 90% of global GDP, agreed within an OECD and G20 initiative that the large multinational enterprises must pay taxes in those countries where they operate and earn profits. In particular, the measure seeks to avoid that the large companies of the digital economy pay taxes only in the countries where they have a physical presence. On the contrary, they will have to pay taxes in all the countries where their platforms generate profits. Also, in line with what was approved by the G7 representatives, the proposal includes a minimum tax rate of 15% for this type of enterprises.

The agreement anticipates that discussions at the technical level will continue until October, when the final agreement is expected to be approved, and proposes the year 2023 as the probable date of its effective implementation.

THE IMO APPROVES MARITIME TRANSPORT CARBON EMISSION REDUCTION TARGETS

One of the key results of the 76th session of the Marine Environment Protection Committee, held from 10 to 17 June, within the framework of the IMO, was the reduction targets. In this meeting, it was agreed that the carbon intensity indicator (CII) will be reduced by 11% in 2026 with respect to 2019 emissions. In 2026, the performance of the measure will be assessed and the annual measures to meet the 40% reduction target for the year 2030 will be defined regarding what was emitted in 2008. Said objective had been set in 2018 at the IMO Initial Strategy regarding the reduction of greenhouse gas emissions from ships.

The adoption of this measure considered the results of a set of impact assessment studies over the costs of transport and trade made by prestigious institutions –like UNCTAD– which showed a greater negative impact for the shipments originated in developing countries. Although they do not have a binding character, the results of these studies were an instrument used in the negotiation by developing countries, in which Argentina had an active participation. These countries opposed the proposals made by some developed countries to increase the reduction target above that set at the initial strategy.

In that respect, following the requests made by a group of developing countries, it was approved that an impact assessment of the progress of this measure is made (ex-post evaluation) as well as an exercise of improvement of these assessments.

UNEQUAL IMPACT OF GLOBAL RECESSION ON FDI

Global foreign direct investment (FDI) was reduced 35% in 2020. The greatest reduction took place in developed countries (58%), while in developing countries it decreased only 8%. As a consequence, two thirds of FDI was received by developing countries, according to UNCTAD's World Investment Report. However, there were differences between them: in Latin America, FDI flows fell 45% and in Africa, 16%, while in Asia they grew 4%. The country with the greatest inflow of FDI was the United States (US$ 156 billion), followed by China (US$ 149 billion) and Hong Kong, SAR of China (US$ 119 billion). On the other hand, China was the main source of FDI flows (US$ 133 billion), followed by Luxembourg (US$ 127 billion) and Japan (US$ 116 billion). Among Latin American countries, FDI to Brazil fell 62%, to Argentina, 38%, to Chile, 33% and to Mexico, 15%.

According to the Report, FDI this year is expected to recover only between 10% and 15% due to the uncertainty related to access to the vaccines, the virus mutations and the delays in opening many sectors of the economy. While flows to developed countries would grow 15% and to Asia, 8%, no recovery of these is expected either in Latin America or in Africa.

THE G7 AND AN AGENDA FOCUSED ON THE IMPORTANCE OF DEVELOPMENT

The G7 leaders agreed on a global agenda with the aim of facing the pandemic more successfully, boosting the G7 and developing countries' economies, supporting a green revolution and reforming the multilateral trading system.

So that at least 60% of the global population is vaccinated by 2022, they committed to sharing scientific knowledge and assuring access to vaccines by means of voluntary licencing, not-for-profit production, technology transfer based on mutual agreement, avoiding the application of restrictions to exports, the provision of aid for local distribution and the reinforcement of the financial aid for vaccine supply via the COVAX platform. Although these measures disagree with the positions that propose a temporary exemption of the patents that protect the production of anti COVID-19 vaccines, the G7 countries accept to debate the issue at the WTO.

With respect to trade, the G7 leaders expressed they are committed to a "free and fair trade" –which were Trump's administration's words–, which is "based on rules", –a concept not expressed by Trump's government–. Thus they criticise the unfair practices such as forced technology transfer, intellectual property theft and harmful industrial subsidies, attributed to China.

With relation to climate change, they mentioned the risk of carbon leakage and that they will work to "align" the trade practices with the commitments of the Paris Agreement. Also, they argued that it is important to fix the carbon price in order to reduce the emission levels and accelerate the "decarbonisation" of the economies. All this can be understood as support to the cross-border trade measures of environmental nature that the European Union is revising for a prompt application.

An outstanding point refers to the collaboration with the developing countries to finance infrastructure improvements, a topic that was highlighted by the United States. The projects will have to meet demanding environmental, social and labour standards, and priority will be given to aspects such as the impact of climate change, the health systems, the digital solutions, clean and green growth, gender equality and education. The participation of private equity and of multilateral development banks will be sought.

EUROPE

MORE TRANSPARENCY DEMANDED FROM LARGE MULTINATIONAL ENTERPRISES

After considering the possibility of establishing a global minimum tax of 15% to the large multinational enterprises, and that said proposal be supported by 130 countries (see World), the EU agreed to demand information from large corporations regarding their performance in each of the countries in the bloc where they operate, as well as in all the tax havens where they have some presence. This measure seeks to control tax evasion in multinational firms with a turnover over 750 million euros.

The European parliamentarians have in this way been taking advantage of the initiatives of the government of Biden and of the G7 to apply a measure introduced five years ago by the European Commission. According to the agreement that was signed on 1 June at the European Parliament, in the future, the large corporations will have to inform the number of employees, their turnover, profits and the taxes paid in each of the member countries and in the tax havens where they do business.

THE EU TO INVESTIGATE FACEBOOK ABOUT ANTICOMPETITIVE CONDUCT

The European Commission initiated a formal investigation into the company Facebook regarding a possible violation to the community competition rules. In particular, it is accused of using the data it collects to compete unfairly with other companies.

The European authorities want to find out if the US firm uses the commercial data provided by other companies when they promote their services in the social network to profit in markets where they are competitors, such as the case of Facebook Marketplace.

A similar situation had previously come up between the EU authorities and the companies Google and Amazon, which appear as exchange platforms but at the same time have an active participation offering online products (see Global Report, December 2020).

BOND ISSUANCE FOR THE EUROPEAN RECOVERY PLAN

The European Commission announced that this year it is going to issue long term bonds for about 80 billion euros to finance the economic recovery after the damage caused by the COVID-19 pandemic.

The first of the issuances was effective on 15 June, when 20 billion euros were collected by means of a ten-year bond, which will be due on 4 July 2031. It represents the greatest issuance of institutional bonds in Europe and the amount raised will be sent to the countries in the bloc within the NextGenerationEU plan.

SPAIN TO RECEIVE 69.5 BILLION EUROS FOR ITS RECOVERY PLAN

The European Commission approved the national plan of economic recovery of the COVID-19 pandemic proposed by Spain, which will suppose a 69.5 billion euro disbursement in subsidies corresponding to the Recovery and Resilience Facility considered within the NextGenerationEU programme. This mechanism has a budget for the set of the EU of 672.5 billion euros intended for investments and reforms in all the bloc.

The Spanish plan allocates 40% of the budget to measures supporting the EU climate objectives and 28% to measures intended for the digital transition. It devotes 6.1 billion euros to invest in clean technologies and renewable energies, as well as 7.8 billion euros for power efficiency in public and private buildings.

Now the European Council must adopt the proposal of the Commission and as of that moment it will be possible to disburse the first 9 billion euros for Spain (13% of the total amount allotted). Later, the Commission will continue authorising payments as long as the objectives of the programme are met and progress in the execution and the reforms can be verified.

SOUTH AND CENTRAL AMERICA

EXPORTS GROW DRIVEN BY COMMODITY PRICES

The Inter-American Development Bank (IDB) estimated that the exports from Latin America and the Caribbean grew 8.9% during the first quarter of 2021, in year-on-year terms. The sub region with the best performance was South America, which grew 14.4% and within this, Chile and the countries of the MERCOSUR stand out.

This result is explained mainly by the increase in the prices of several basic products that, in many cases, were near their historical maximum. Such is the case of iron (its price had a year-on-year growth of 93.6% during the first four months), soybean (60.0%), copper (57.9%), petrol (41.7%), sugar (27.0%) and coffee (11.9%).

In spite of the increase in value, the volume of exports contracted 2.2% during the first quarter. Nevertheless, some countries showed an increase in their export quantities, namely Uruguay (20.5%), El Salvador (6.8%), Paraguay (3.2%), Brazil (2.4%) and Argentina (2.1%).

Regarding export destinations, the year-on-year growth of shipments to China stands out (19.8%), followed by intraregional trade (11.7%), that destined for the European Union (5.7%) and finally for the United States (3%).

In turn, the Food and Agriculture Organization of the United Nations (FAO) estimated that in May the rise in food prices was also very important. Its price index showed a year-on-year rise of 39.7% (which places it at 2011 levels), mainly driven by cereals, oils and sugar.

THE BRAZILIAN ECONOMY GIVES POSITIVE SIGNALS

As the restrictions against COVID-19 are made more flexible in several regions of the country, the Brazilian economy shows recovery signals. On the one hand, both the May and the accumulated fiscal revenues grew (69.8% and 21.1%, respectively, year-on-year) to reach record values for those periods since 1995, when the data started to be calculated with the current criteria. Likewise, in May, the budget deficit and the public debt –which currently accounts for 84.5% of GDP– were reduced.

On the other hand, GDP in the first quarter grew 1.2% and the financial market adjusted its projections for 2021 and 2022 to the rise, at a value of 5.05% and 2.11%, respectively.

ARGENTINA ELIMINATES EXPORT DUTIES ON SERVICES AND ON GOODS FROM REGIONAL ECONOMIES

The Federal Administration of Public Reserves (AFIP, for its acronym in Spanish) decided to put into effect the reduction to zero tariff for the exports of services of those companies reached by the Regime for Promotion of Knowledge Economy (Law 27506), that had so far been of 5%. The objective is to promote this type of economic activities that apply information knowledge and digitalisation to obtain goods, provide services and/or improvements to processes.

On the other hand, the export duties on several agro-industrial and industrial products of regional economies with a potential in matter of investment, production and exports were also eliminated. The products reached are: prepared or conserved peanuts, potatoes, quinoa and rice for sowing; essential oils, fruit juices, popcorn maize, live honey bees, casein, lactalbumin, eggs, wool tops and several spices, among others.

ECUADOR RETURNS TO ICSID

After more than ten years of having withdrawn from the International Convention on the Settlement of Investment Disputes (ICSID) between States and Nationals of Other States of the World Bank Group during

Correa's presidency, Ecuador seeks to resort again to said arbitration body for the settlement of disputes relative to investments. In this sense, the Ecuadorian Ambassador in the United States undersigned said Agreement again, which will enter into force after its ratification.

NORTH AMERICA

BOEING-AIRBUS CONFLICT: THE US REACHES AGREEMENT WITH THE EU AND THE UK

On 15 June, the United States and the European Union announced a cooperation framework to approach the historical disputes on the subsidies granted to the Airbus and Boeing companies. The understanding seeks to address the possible disagreements between the parties and includes the shared intention that any financing for the production or the development of large civil aircraft is carried out on market terms. In addition, the US and the EU will collaborate to tackle the non-market practices of third countries, in clear reference to China, which can harm their respective aviation industries.

Also, the agreement suspends for five years the retaliatory tariffs implemented by both parties within the framework of the conflict. It should be remembered that the dispute, the longest in the history of the WTO, began in 2004, when the US presented a case against the EU, arguing that the bloc illegally subsidised Airbus. On the other hand, the EU filed a complaint against the US in May 2005 for its illegal support to Boeing. After several decisions by the WTO's Appellate Body, both the US and the EU imposed punitive tariffs to the exports of the other part. As a result, the companies of the EU and the US have had to pay more than US$ 3.3 billion in duties.

Some days later, a similar understanding was reached between the US and the UK.

THE USTR CONCLUDES INVESTIGATIONS ON DIGITAL SERVICES TAXES

The US Trade Representative, Katherine Tai, announced the conclusion of the investigations of Section 301 on Digital Services Taxes (DST) adopted by Austria, India, Italy, Spain, Turkey and the United Kingdom. The final decision is to impose additional import tariffs of 25% to certain goods from those countries (for a total value of over US$ 2 billion). However, it was decided that the implementation of the tariffs be suspended for a maximum of 180 days to provide some extra time for the completion of the multilateral negotiations in course in the OECD and the G20 (see World).

It should be remembered that in June 2020, the USTR had initiated investigations on the taxes adopted or under consideration in 10 countries (Austria, Brazil, the Czech Republic, the European Union, India, Indonesia, Italy, Spain, Turkey and the United Kingdom), but it continued investigating only six of them, since the other four jurisdictions did not apply the DST initially announced (see Global Report - CEI, April 2021).

USMCA: ONGOING DISPUTES ON LABOUR AND ENERGY MATTERS

The United States Trade Representative, Katherine Tai, and the United States Secretary of Labor, Marty Walsh, announced that the US had requested Mexico to review whether the workers at the Tridonex auto part plant in Matamoros, Tamaulipas State, were being denied the rights of free association and collective bargaining.

This is the second time the US has requested action under the Rapid Response Mechanism of the United States-Mexico-Canada Agreement (USMCA). A similar request was made last month due to labour disputes at a General Motors facility in Silao, Guanajuato (see CEI Global Report - June 2021).

On the other hand, the Minister of Small Businesses, Export Promotion and International Trade of Canada reported that her country had requested the establishment of a dispute settlement panel under Chapter 31 of the USMCA with respect to the safeguard tariffs imposed by the US on solar products from Canada.

The Canadian government maintains that the measure, in force since February 2018, does not comply with the provisions on trade remedies and customs duties of the trade agreement and that its country should have been exempted from its application. The recent request comes after failed bilateral consultations (see CEI Global Report - February 2021).

BIDEN TO STRENGTHEN US SUPPLY CHAINS

In late February 2021, President Biden requested a report to assess the vulnerabilities and support the resilience of the supply chains critical for the US. The assessment covered four key products: semiconductor manufacturing and advanced packaging; large capacity batteries; critical minerals and materials; and pharmaceuticals and active pharmaceutical ingredients (APIs).

Based on this analysis, actions were announced to strengthen US supply chains, including expanding the manufacture of vaccines and other essential supplies; identifying improvements to implement in chip and semiconductor supply chain management practices; investing in the expansion of the largest rare earth element mining and processing company outside of China; and carrying out different actions to address cyber vulnerabilities of US supply chains and critical infrastructure.

Among other initiatives, the Biden government reported the creation of a working group, led by the Trade Representative, to propose unilateral and multilateral enforcement actions against unfair foreign trade practices that have eroded the critical supply chains.

ASIA AND OCEANIA

CHINA PASSES ANTI-FOREIGN SANCTIONS LAW

On 10 June, the Chinese government passed a law against foreign sanctions, the latest in a series of actions aimed at establishing a legal framework to counteract the sanctions imposed by third countries and considered arbitrary and unilateral by China.

Among the measures of foreign governments that the law will sanction are import prohibitions and export controls directed at Chinese entities and sectors, sanctions imposed on the basis of alleged violations against the human rights of the Uyghur population, in the Xinjiang Autonomous region, as well as a series of financial and technology transfer restrictions applied on grounds of foreign policy and national security.

The law targets those entities and individuals who seriously interfere in the internal affairs of China, and specifies the different types of countermeasures, which include: refusing and invalidating visas, banning entry into China, deportation; seizing movable, immovable and other types of property in China; prohibiting transactions with national organisations or individuals; and “other necessary measures”.

PROGRESS ON THE FTA BETWEEN AUSTRALIA AND THE UNITED KINGDOM

On 15 June, the governments of Australia and the United Kingdom announced the completion of an Agreement in Principle (AIP), which sets out the terms on which a Free Trade Agreement (FTA) between both countries will be concluded.

As reported by the Australian government, the AIP contains agreements that will benefit Australian farmers and workers in the wine, rice, beef, sheepmeat, sugar and dairy sectors, among others. Tariffs on Australian wine and rice will be eliminated when the FTA enters into force, whereas tariffs on beef and sheepmeat will be eliminated after ten years (until then, quotas will be applied), those on sugar will be removed eight years after the entry into force, and those on dairy products, after five years. On the other hand, some of the products of British origin that will be benefitted with a lower tariff in the FTA will be automobiles, whiskey, biscuits, and ceramic products.

The agreement is opposed by British farmers, who fear that the concessions agreed would seriously damage the sector; they are also concerned about the health, environmental and animal welfare standards in force in Australia, including the use of hormones by some meat producers in that country.

The AIP is not limited to trade in goods, but includes regulations corresponding to trade in services, intellectual property, migration movements, government purchases, and other aspects of the bilateral relationship.

AUSTRALIA CHALLENGES CHINA AT THE WTO OVER WINE TARIFFS

The Australian government announced that it will request consultations with the World Trade Organization (WTO) over China's imposition of countervailing duties on Australian wine exports.

Australian Trade Minister Dan Tehan noted that the Chinese measure had a heavy impact on the Australian wine industry with a dramatic drop in shipments. Australian wine exports to the Chinese market reached US$ 1.1 billion in 2020, however, according to estimates, they would fall to approximately US$ 20 million in 2021. The applied tariffs vary between 116% and 220%, and entered into force on 28 March, for a period of five years, formalising the measures that had been in force since the end of 2020.

It is the second time in six months that Australia has turned to the WTO. Last December, it launched a formal appeal seeking a review of China's decision to impose high tariffs on Australian barley imports.

GROWING DEMAND FOR INDIAN PRODUCTS IN CHINA

China surpassed the United Arab Emirates as India's main export destination in fiscal year 20-21 (April-March), and ranked second among the top destinations for foreign sales of that country, only behind the United States. According to data published by the Indian Ministry of Commerce and Industry, exports to China reached US$ 21 billion, which represented an increase of 28% compared to the previous fiscal year, while exports to the United Arab Emirates stood at US$ 17 billion, which meant a drop of 42%. Chinese demand was mainly driven by imports of Indian iron ore.

However, India's exports to China would have to grow at a quick and steady pace for many years to correct the huge trade imbalance between the two countries. Including Hong Kong (China SAR), India's trade deficit with China was US$ 49 billion (fiscal year 20-21).

Likewise, according to the latest official monthly information, total exports from India to the world grew 67% year-on-year (US$ 32 billion) in May. With this strong growth in foreign sales, the merchandise trade deficit recorded in May was the lowest in the last eight months (US$ 6 billion).

AFRICA

WESTERN AFRICA TO POSTPONE THE LAUNCH OF ITS SINGLE CURRENCY FOR 2027

The Economic Community of West African States (ECOWAS), made up of 15 African nations, announced that it will not launch the single currency "ECO" until 2027. The trading bloc had planned to begin circulating the common currency this year, but postponed it due to the challenges posed by COVID-19. Due to the impact of the pandemic, the Heads of State of the ECOWAS countries decided to suspend the implementation of the convergence pact in 2020-2021, and proposed a new roadmap and a new transition period that will span from 2022 to 2026, leaving the launch of the ECO for 2027.

The concept of a new single currency was first raised in ECOWAS in 2003, however its introduction was delayed several times before this year: in 2005, 2010 and 2014. ECOWAS faced numerous challenges in launching the ECO, with several of the bloc members in a difficult economic situation, as well as political instability, as in the case of Mali.

THE AFCFTA AND THE OPPORTUNITIES FOR THE AUTOMOTIVE INDUSTRY IN THE CONTINENT

The agreement of the African Continental Free Trade Area (AfCFTA) could be a catalyst to help the continent to unblock the opportunities in the automotive sector. Wamkele Mene, Secretary General of the AfCFTA, indicated that the launching of the agreement is probably the greatest achievement of the continent since colonial times and emphasised that it would take much longer to industrialise Africa without the AfCFTA.

The conclusion of the agreement and the rules of origin corresponding to the automotive industry will contribute to develop the sector in the region. At the present time, only 1.3% of the global automotive production takes place in Africa. The continent accounts for 17% of the global population and has 42 vehicles every 1,000 inhabitants, when the world-wide average is of 182.

The AfCFTA establishes, for the first time, an integrated market of 1.3 billion people at the continental level, with harmonised rules for trade and investment, which will allow the industrial development and the establishment of regional value chains across the African continent.

AGREEMENT WITH CHINA COULD BOOST CITRUS PRODUCTION IN SOUTH AFRICA

The signing of the revised citrus protocol between South Africa and China will assure US$ 22.8 million in new income through exports and will create 800 jobs in the sector, according to estimations of the Citrus Growers' Association of South Africa (CGASA).

It is expected that the local production of lemons grows by 175.000 tonnes for 2024 and that China becomes a new critical market for South Africa. At present, Argentina and Chile dominate the exports of lemons to China. Nevertheless, according to the expectations of producers in the African country, once the revised protocol enters into force, it is hoped that South Africa will surpass the sales of both countries, reaching an estimated 25,000 tonnes of lemons exported to China by 2024.

The South African citrus industry exports to China have been growing in recent years, with shipments of grapefruit, orange and soft citruses reaching 130,000 tonnes in 2020; and the total exports of citruses to the world also recorded a significant increase last year, with a record of 146 million of boxes exported.

SOUTH AFRICA: REQUEST TO STOP NEW INCREASES IN POULTY TARIFFS

Associations of South African importers and exporters presented a reclamation before the Ministry of Trade, Industry and Competition of that country so that it halts additional reviews of the import tariffs on poultry since, according to these associations, last year's increases distorted the market, and further increases could affect the food security of the lower-income population.

Last year, tariffs increased from 37% to 62% for frozen, boned chicken cuts and from 12% to 42% for frozen, boneless chicken cuts. Also, the new poultry tariff structure of the Department of Trade, Industry and Competition allows for tariff rises through specific tariffs, which could further increase the tariffs applied.

On the other hand, the government instructed the International Trade Administration Commission, the organisation in charge of the trade defence measures and the control of imports and exports, to review the entire poultry tariff structure. South Africa only imports 20% of the poultry that is consumed countrywide, a great proportion of which is mechanically deboned meat, which cannot be produced in large amounts in the country.

Ministry of Foreign Affairs
International Trade and Worship
Argentina

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