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CEI Centre for International Economy

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WORLD

Paris hosts a meeting to discuss the world financial architecture

On 22-23 June, the French government held the "Summit for a new global financial pact", which was attended by some 40 heads of state and representatives of international organisations, including Brazilian President Luiz Inácio Lula da Silva, Chinese Premier Li Qiang, US Treasury Secretary Janet Yellen and UN Secretary General António Guterres.

Attendees who arrived in Paris for the summit discussed the possibility of reformulating the international financial architecture that emerged from the Bretton Woods agreements in 1944, so as to adapt it to the challenges of today's economy. The working groups that were constituted during the two-day meeting discussed issues such as short-term financing for countries in difficulty; private sector development in low-income countries; and "green" infrastructure investment promotion for the energy transition in developing countries.

At the summit, French President Emmanuel Macron said that "no country should have to choose between reducing poverty and protecting the planet", and therefore proposed "international financing" for states with fewer resources, to be guaranteed through taxes on the activities most benefitted from globalisation, such as financial transactions, plane tickets and, especially, maritime transport. In this sense, he proposed the application of a global tax on carbon emissions from maritime trade, which could contribute US$ 20 billion per year.

One of the main topics of discussion at the summit was the need for a thorough reform of the International Monetary Fund (IMF) and the World Bank (WB), whose top officials were present. IMF Managing Director Kristalina Georgieva announced that the 2021 target of re-channelling the US$ 100 billion of Special Drawing Rights to the most vulnerable countries had been met, and WB President Ajay Banga reported that, among other measures to favour the most vulnerable countries, the bank would implement a clause allowing debtor countries to suspend their international obligations to the WB in the event of a crisis or catastrophe.

However, further to these proposals, participants argued for deeper changes to the international financial system, as can be inferred from the speech by UN Secretary-General António Guterres at the summit: "The situation is untenable." ... "It is clear that the international financial architecture has failed in its mission to provide a global safety net for developing countries."... "I ask all of us today not to leave Paris without understanding that the bold stream of the political ambition that is required must secure transformation and not reforms. I ask those of us that are heads of state and government to recognise that the world cannot continue to exist in the shadows of an old imperial order that does not see, feel or hear countries and worse do not see, feel or hear people."

The IMF warns about the risks of artificial intelligence for the world economy

The potential for artificial intelligence (AI) to substantially change the future of employment and the global economy is a widely-discussed issue in recent times. The IMF has joined the debate through its First Deputy Managing Director, Gita Gopinath, who addressed the issue in a speech commemorating the 300th anniversary of Adam Smith's birth at the University of Glasgow.

According to the official, AI could increase the productivity of the global economy by relieving humans of certain tasks, but it could affect employment differently from previous waves of automation, when machines only replaced some routine and repetitive jobs.

This time, the introduction of AI might possibly reduce the hierarchical structures of companies, eliminate jobs in middle and upper management levels and increase the number of workers in junior positions, which could put downward pressure on wages in higher-paying jobs. Alternatively, it is even feasible for AI to replace human labour without creating new jobs, for which reason it would not be guaranteed that its introduction could have a positive outcome for the economy as a whole.

Given this scenario, what the IMF is proposing is the need for a new public policy approach and international coordination in terms of regulation. According to Gopinath, the capacity of AI to imitate human thought should encourage countries to foster multilateral cooperation for the development of international standards and policies that can ensure that the changes taking place are beneficial for humanity. In this sense, she considers the new EU legislation (EU Artificial Intelligence Act) a good start, as it bans the systems that may pose a high risk to humanity and requires them to be regulated and under human supervision.

In addition, the fund's official considers it necessary for governments to develop social safety networks that can address the needs of people who are expelled from the labour market, tax systems that discourage indiscriminate labour substitution, and that the necessary reforms are carried out in the national education systems.

EUROPE

IMF: half of the European inflation is due to increased corporate profits

According to a recent report by the IMF, the main cause of the inflation growth recorded in Europe since the beginning of 2022 is the increase in corporate profits, which explain 45% of the price variation, followed in importance by the cost of imported products (they account for 40%), and the wage increases (accounting for 25%), while other variables, such as taxes, were deflationary. The report notes that companies' profits increased in real terms, but workers' real wages declined.

This diagnosis coincides with another made by UNCTAD (see CEI Global Report, June 2023) which did neither consider the upward trend in the cost of imports (derived from the rising energy prices following the war in Ukraine) as the main cause of the increase in prices on the continent in 2022 (the inflation rate in the EU went from 2.9% in 2021 to 9.3% in 2022).

Until recently, the role of corporate profits in raising inflation had not been as important as what the IMF now considers, which is the reason why many of the tools used to combat rising prices were not adequate. An example of this is an interview conducted in February with a member of the Executive Board of the European Central Bank, in which he acknowledges the increase in the corporate profit margin, but argues that the correct answer to curb inflation must be a contractive monetary policy and that the increase in Chinese competition would put a limit on the business decision to put up prices. The emphasis on monetary policy was also suggested by the IMF staff in their periodic review of the macroeconomic situation of the EU. For UNCTAD, on the other hand, if the cause of the growth in inflation is the increase in business profits, a policy that promotes competition must be used instead of a contractive monetary policy as the main response.

European Union Council approves EU-New Zealand Free Trade Agreement

The European Council authorised the European Commission to sign a free trade agreement with New Zealand after 12 rounds of negotiations that began in June 2018.

The agreement anticipates that tariffs on bilateral trade will be eliminated, although some New Zealand agricultural and fisheries products will only have improved access to the EU market. This market will have free access in pork, wines, chocolates and confectionery products, and in some sensitive products such as meat, dairy and ethanol. EU will limit New Zealand's exports with tariff-rate quotas with low or zero in-quota tariffs. The treatment of TRQs is varied: some increase the quantity, some reduce the in-quota tariff and some combine both changes. In turn, the entry prices, which apply to fruits, will be maintained but the *ad valorem* component will be eliminated. It also establishes that no export duties will be applied to bilateral trade.

As a novel aspect, it is the first agreement negotiated by the EU to incorporate the new approach to trade and sustainable development adopted in October 2022. In the respective chapter, it prevents both parties from modifying their environmental and labour standards and from reducing their level of compliance in order to promote trade and investment. It also sets out commitments to implement the Paris Agreement and use market mechanisms to achieve a low-carbon economy, eliminate tariffs on environmental goods and services and, for the first time, provides for the possibility of trade sanctions for violations of labour and climate change commitments. It also includes rules regarding policies that seek to develop sustainable food systems, and cooperation on implementing animal welfare standards.

According to the simulations carried out by New Zealand, once the implementation schedules of the rules of the agreement are completed, EU exports to New Zealand would be between 10% and 16% higher, while New Zealand sales to the EU would increase between 12% and 23%.

SOUTH AND CENTRAL AMERICA

Lithium Triangle: news in Argentina, Bolivia and Chile

Argentina

During the month of June, in the Cauchari-Olaroz salt flat, the third project dedicated to lithium production in Argentina and the second in the province of Jujuy began operating. It is estimated that, by the first quarter of 2024, it will reach 40,000 tonnes of lithium carbonate. As a consequence, the production capacity in Argentina will be doubled.

Currently, Argentina produces about 37,500 tonnes of lithium per year, the result of operations in the Hombre Muerto salt flat, in the province of Catamarca, and in the Olaroz salt flat, which operates in Jujuy. This last project inaugurated a new stage that will allow it to add 25,000 tonnes of lithium carbonate to the 12,500 tonnes it is now producing.

In 2022, Argentine exports of the lithium complex reached US$ 696 million. The main export destinations were China, Japan, the Republic of Korea, the United States, Germany and France. In the first five months of 2023, they accumulate an 82% year-on-year growth.

Likewise, Argentina signed with the European Union a Memorandum of Understanding on a Strategic Partnership on Sustainable Raw Materials Value Chains, which implies the intention of both parties to intensify cooperation in the field of raw material value chains that support both digital transition and to clean energy, with an eye on the importance that the development of Argentine lithium will have and its strategic importance for the EU.

Bolivia

Yacimientos de Litio Bolivianos Corporación (YLB) reported that during the month of June the actions of quantification of the reserves of the salt flats of Coipasa (Oruro) and Pastos Grandes (Potosí) were completed. The preliminary results of the studies carried out revealed the existence of about 22 million tonnes of lithium reserves in both locations, a figure higher than that existing in the Uyuni salt flat (Potosí), of 21 million tonnes. In this way, Bolivia consolidates its status as the world's first reserve of this mineral.

In its "Mineral Commodity Summaries" (2023) report, the US Geological Survey had estimated that the world's major lithium reserves measured in million tonnes (t/a) are in: Bolivia (21), Argentina (20), Chile (11), Australia (7.9), China (6.8), Germany (3.2). Based on these new studies, the region increments its weight as a relevant player in global in lithium production.

Additionally, the Chinese firm CATL (Contemporary Amperex Technology Co. Limited) pledged with the Bolivian government to build two direct lithium extraction plants in the Uyuni and Copaisa salt flats.

Chile

The United States Senate approved during the month of June the fiscal agreement with Chile, signed by both countries in 2010. It seeks to eliminate double taxation of companies and reduce tax barriers to investment. The agreement aims at encouraging cross-border investment and facilitating US investments, especially in the lithium sector, where Chile is positioned as one of the world's leading producers. The treaty now returns to Chile for congressional approval.

Ecuador negotiates new trade agreements

During the first half of the year, Ecuador negotiated and signed agreements with new trading partners. In March, it signed the Trade Association Agreement with Costa Rica, which allows the duty-free entry of 97% of Ecuador's products and more than 90% of Costa Rican ones. Dairy, banana, pineapple and other fruits were excluded from the treaty. For its entry into force, it needs to be approved by the legislative powers of each country.

Likewise, during May, the Free Trade Agreement between Ecuador and China was signed (see CEI Global Report, June 2023), Ecuador's first trade agreement with an Asian country, which will enter into force once the internal legal formalities in both countries are concluded. This is a first phase agreement, focused on goods. It will allow access to the current Ecuadorian exportable supply (preferential access for 99.6% of current exports, such as shrimp, bananas, cocoa, among other products) and the potential one (such as frozen meats, fruits, juices, wines, among others) in better conditions (in baskets of immediate relief or in less than 10 years) to a market of 1.4 billion consumers.

To protect sensitive productive sectors of the South American nation, about 800 products were excluded from the agreement, such as textiles, footwear, ceramics, white goods, metalworking, plastics, wood and furniture. China is the number one trading destination for Ecuador's non-oil exports.

Finally, Ecuador has negotiations in course with South Korea and Mexico.

NORTH AMERICA

USMCA: US initiates formal dispute over Mexican biotechnology policies

The United States government requested the initiation of dispute settlement consultations with Mexico on its agricultural biotechnology policies, under Chapter 31 of the US, Mexico and Canada Agreement (USMCA).

This new step comes three months after the US started technical consultations with Mexico under the Sanitary and Phytosanitary Measures chapter of the USMCA and reiterates its concerns about refusals to authorise the import and sale of certain biotechnology products, as well as about Mexican policies towards genetically modified corn. It should be remembered that in February Mexican President Andrés Manuel López Obrador issued a decree prohibiting GM corn for the production of flour and establishes the gradual substitution of GM corn used for animal feed and human consumption.

According to the Office of the U.S. Trade Representative (USTR), Mexico's biotechnology policies are not based on scientific evidence and threaten to disrupt US exports to the detriment of agricultural producers, which in turn could exacerbate food security challenges. Both the provisions of the decree and the rejection of biotechnological events would be incompatible with several provisions of the USMCA, including the chapter on Sanitary and Phytosanitary Measures and the chapter on National Treatment and Market Access for Goods.

The Mexican government stated that the measure seeks to preserve biodiversity in the country, it is consistent with its obligations under the trade agreement and will not significantly affect US exports. Mexico imports from the US yellow corn –used to feed livestock–, while producing most of the white corn, used to make tortillas.

In turn, Canada announced that it will participate as a third party in the dispute, as it shares the concerns raised by the US. Even though Canada is not a large corn exporter, Mexico is one of the main markets for Canadian rapeseed.

In turn, Mexico imposed a 50% tariff on white corn imports, which will be in force until the end of the year. White corn was among the basic foods that were exempted from tariffs in early 2023, in a government attempt to control inflation. According to the authorities, the decision did not have a significant impact on market price decrease, so it was considered appropriate to remove it.

US and India resolve key trade issues

The United States Trade Representative, Katherine Tai, announced that the United States and the Republic of India had agreed to end six pending trade disputes at the World Trade Organization. These are three differences initiated by India and three others initiated by the US.

The understanding was signed during the official state visit of the Prime Minister of the Republic of India, Narendra Modi, and agreements and initiatives were also reached in technological and space matters (including semiconductors, critical minerals and telecommunications) and defence cooperation.

It highlights the decision to suspend the two disputes related to the US steel and aluminium measures imposed in 2018 over national security issues –under Section 232 of the 1962 Trade Expansion Act– and to the retaliatory measures implemented by India (DS547 and DS585, respectively).

India further guaranteed the elimination, within 90 days, of the retaliatory tariffs it had imposed on certain US products (chickpeas, lentils, almonds, nuts, apples, boric acid, and diagnostic reagents) and will return to the most-favoured-nation rate. In turn, the tariffs on Indian steel and aluminium imposed by the US will not be modified, but the Biden administration pledged to continue approving exclusion requests for steel and aluminium imports from India, as long as market conditions remain similar in the future.

It should be remembered that the Biden administration maintained much of the additional tariffs on steel and aluminium from numerous countries imposed by the Trump government, while striking deals with some of its trading partners, including the EU, Japan and the members of the USMCA. The US measures were also challenged by several WTO members. Several of the trade disputes were resolved bilaterally, while in four of the cases the WTO panels ruled against the US (CEI Global Report, January 2023). The last litigation that remained underway –in addition to that of India– was the one initiated by Russia, which requested to suspend the dispute in mid-June.

US seeks alternatives to stop international deforestation

The US State Department submitted two reports to President Biden on how to stop international deforestation: "Combatting International Deforestation Associated with Agricultural Production" and "Reducing International Deforestation through US Government International Programming, Assistance, Financing, Investment, Trade, and Trade Promotion."

In both reports trade policy is identified as a key tool for tackling deforestation. It is highlighted that trade agreements could include commitments to ensure high levels of environmental protection in each partner country, as well as to allocate more resources for environmental cooperation mechanisms, training and technical assistance. In addition, they can provide opportunities for voluntary action by the private sector. However, the report warns that such trade tools need to be carefully devised, as they could create unjustified barriers to trade.

The first report analyses forest conversion for commodity production –considered one of the main direct drivers of global deforestation– and assesses the feasibility of limiting or eliminating specific products grown on land deforested illegally (on any date) or legally after 31 December 2020 from agricultural supply chains. To this aim, it looks into three approaches: one that prioritises the fight against illegal deforestation, another that focuses on all deforestation (illegal or not) and a combined approach.

This report finds that an approach focused on illegal deforestation could be largely applied through import bans or restrictions on goods manufactured on land cleared for agricultural production through illegal deforestation. However, it explains that the three approaches face similar challenges, including the definition of due diligence requirements and their compliance; the complexity and difficulty of achieving traceability of commodities to a specific terrain; and the possible diversion of products to less regulated markets.

In this way, the US joins the European Union (see CEI Global Report, December 2021), a pioneer bloc in the implementation of trade policies related to deforestation at the international level.

ASIA AND OCEANIA

Pakistan and the IMF reach agreement

On 29 June, a day before the expiration of the Extended Facilities Program, the authorities of Pakistan and the IMF reached an agreement to unlock US$ 3 billion (last tranche of the package agreed in 2019) that the Asian country will receive to face an economic situation characterised by low growth and high levels of inflation, and which had to endure historic floods last year. While the agreement was reached among the international body's technical cadres, it is expected to be approved by the IMF's board on 12 July.

The news of the last-minute understanding was well received by the local financial market. The stock market registered the largest increase in the last 14 months on 3 July and the Pakistani rupee experienced a 3.7% recovery against the dollar. The authorities also expect that once the agreement is ratified, some countries such as the United Arab Emirates, Saudi Arabia and China, and regional credit agencies, which condition the granting of new loans on the approval of the IMF, will release essential funds for the functioning of the Pakistani economy.

The willingness of the Fund's technicians to reach an agreement was conditioned by a series of measures taken by the Pakistani government including the creation and increase of some taxes, the elimination of import barriers and the free-floating of the rupee against the dollar. Some of the modifications in the budget approved for the fiscal year 2023-2024 were: the cut in public spending on public employee pensions, the application of taxes to the purchase and sale of properties, the increase in the tax rate for workers with higher salaries, and the fuel tax.

The Philippines ratifies RCEP

Following its signature in November 2020, the Regional Comprehensive Economic Partnership (RCEP) Agreement entered into force for the Philippines, the last of the group of countries that had not yet ratified it. The RCEP is the world's largest free trade agreement, as it includes the ten member states of the Association of Southeast Asian Nations (Myanmar, Brunei, Cambodia, Indonesia, Laos, Malaysia, Singapore, Philippines, Thailand and Vietnam) and five countries in Asia and Oceania with which ASEAN already had existing free trade agreements (Australia, China, South Korea, Japan and New Zealand). The treaty was signed at the ASEAN Summit on 15 November 2020.

The agreement provides for better access for the Philippines into the rest of the partners' markets, it includes tariff reductions and exemptions and simplified trade rules, and an important benefit from the economic and technical cooperation established in RCEP. The Philippine Institute for Development Studies points out that the treaty would have the potential to increase Philippine GDP by 2.02% and the Ministry of Commerce and Industry points out that it will increase the participation in global value chains of micro, small and medium-sized enterprises. In addition, progress in trade integration and facilitation is expected to be attractive to investors from other countries such as the United States or the European Union who see the Philippines as a production hub with great potential in the region.

AFRICA

South African citrus fruits producers affected by EU health rules

The Citrus Growers Association of South Africa (CGA) noted that the European Union's new pest control rules (see CEI Global Report, April 2023) will affect South Africa's orange exports to the bloc by 20% this year.

The measures imposed by the EU in June require improved cold treatment for citrus fruits exports due to concerns about the fake apple moth, a pest commonly found in sub-Saharan Africa, and the citrus black spot.

The new EU rules require that, to avoid a series of pests attacking production, all South African oranges destined for Europe be pre-cooled to less than 2 degrees Celsius for 20 days before shipment, which would require an investment of US$ 75 million in new technology and cold storage capacity by South African producers. Facing this scenario, the CGA requested that the South African government discuss the new pest regulations at a joint meeting of African Union and EU agriculture ministers to be held in Rome on 30 June.

The South African industry noted that its current risk management system ensures that 99.9% of the oranges entering the EU are pest-free. Reducing orange exports to the EU market would result in a loss of US$ 27 million for producers, who already lost US$ 11 million when the restrictions were introduced in the middle of the 2022 export season.

Kenya and the EU sign Economic Partnership Agreement

Kenya and the EU signed an "Economic Partnership Agreement" (EPA) that will provide the African country access to the European market for all its exports without tariffs or quotas. Most of these are agricultural products such as tea, coffee, fruits, vegetables and flowers. The EU is Kenya's first export destination and second largest trading partner, with a total of 3.3 billion euros of trade in 2022, a 27% increase compared to 2018.

In return, Kenya will gradually open up its markets although it will exclude a range of sensitive products. Imports of European products such as chemicals and machinery will see their tariffs reduced progressively over 25 years.

The provisions on agriculture will aim at sustainable agricultural development, and will promote food and nutrition security, rural development, including the sustainable use and management of natural and cultural resources, and the creation of income and employment in Kenya's agricultural sector.

This is the first trade deal between the EU and an African country since 2016, and takes place as China remains investing in numerous infrastructure projects across the continent. The agreement signed in Nairobi partly materialises the trade talks between the EU and the East African Community (EAC), started almost a decade ago.

In 2014, the EU and the EAC –then comprised of Kenya, Rwanda, Uganda, Burundi and Tanzania– closed negotiations for an economic partnership agreement, but only Nairobi ratified it. The agreement remains open to other members of the East African Community, which now also includes the Democratic Republic of the Congo and South Sudan.

The African Union receives support from India and the US for membership in the G20

The United States and India gave their support for the African Union to become a G20 member. The Indian Prime Minister sent a letter to all G20 member nations to propose that the African Union be a full member at the upcoming G20 Summit in Delhi under India's presidency. If crystallised, this move would be of great importance for Africa, particularly in terms of strengthening its voice on the international stage, since to date South Africa is the only country on the continent that is a member of the group.

The proposal recognises Africa's growing economic potential, its abundant natural resources and the growing influence of its member countries. By becoming part of the G20, the African Union would gain a platform to voice its concerns, defend its interests and contribute to shaping global economic policies.

India has been actively supporting Africa's quest for economic and political empowerment, reflecting its commitment to elevating Africa's position in global decision-making forums. India recognises Africa's potential as an economic power and seeks to facilitate its integration into the global economy, foster South-South cooperation and promote a more inclusive global governance framework.

CEI GLOBAL REPORT

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