Centre for International Economy

GLOBAL REPORT

JUNE 2019

WORLD

China-US: trade tensions resurface
Airbus case in the WTO
FDI flows to emerging countries reduced

EUROPE

Brexit: Theresa May resigns
Contrasting with the EU, Germany seeks foreign labour

LATIN AMERICA

APEC countries express support for the WTO
Brazil and China reach agreement on sugar conflict
Digital economy: Chile starts negotiations with New Zealand and Singapore
Ecuador, Colombia and Peru sign multipart agreement with the UK

NORTH AMERICA

United States eliminates tariffs on steel and aluminium products
Trump announces tariffs to restrain illegal immigration
U.S. links car imports to threats to national security

ASIA AND AFRICA

The African Continental Free Trade Area Agreement kicks off
Indian Prime Minister wins historic re-election
5th Meeting of the COSBAN
Brazil evaluates the OBOR initiative
Argentina in SIAL China 2019

WORLD

CHINA-U.S.: TRADE TENSIONS RESURFACE

After a brief period of calm, trade tensions between the U.S. and China regained momentum. With regard to the alleged Chinese unfair practices related to intellectual property and technology transfer, the U.S. finally implemented the increase of the additional tariff –from 10% to 25%– to a set of products as of 10 May. This measure was scheduled for January of this year, but was delayed with the expectation of a solution, which seemed to start in Buenos Aires with the meeting between Presidents Trump and Xi Jinping. The Chinese responsedid not wait: from 1 June, the additional tariffs that did not exceed 10% and that applied for several items were increased to reach 25% in some cases. These measures affect U.S. imports from China for US$ 250 billion and Chinese imports from the U.S. for US$ 110 billion –48% and 71% of that traded in 2017, respectively–.

In addition, the United States decreed the protection of information and communications technology from "foreign adversaries" who may undertake industrial espionage actions or similar. After this, the country decided to add the Chinese telecom equipment company Huawei and its 68 affiliates located out of the U.S. territory to the "Entity List". The sale or transfer of American technology to a company on this list requires a government-issued authorization. The administration only allowed some 90-day temporary transactions so as not to abruptly affect users of this company. It should be noted that this list includes those who are considered to be involved in activities contrary to national security.

As a result of these measures, Huawei no longer has access to the Google software and to ARM and Intel processors. In the long term, U.S. high-tech companies could reduce their exposure to Chinese products and inputs, which would increase costs due to the high interdependence existing in the firms in the sector. Some analysts do not rule out that this measure could be used to put pressure on China regarding its commercial policy, as it happened in 2018 with the Chinese telecommunications company ZTE.

On the other hand, the United States has shown signs of tension reduction in relation to steel and aluminium by easing the measures that affect imports from Mexico and Canada (see North America section). It also reduced the additional tariff to Turkish steel imports from 50% to 25%, and thus evened up the treatment of steel from all the countries subject to this additional tariff. The reason given is that steel imports have declined from that origin while the capacity utilization in the U.S. steel industry has improved.

Trump also launched a proclamation that establishes a 180-day deadline to reach an agreement with the European Union and Japan regarding the import of automobiles and auto parts (see North America section).

AIRBUS CASE IN THE WTO

The case initiated in the WTO by the U.S. against the EU and some of its members for subsidies granted to the Airbus company (DS

316) is still pending. While awaiting the decision of the WTO arbitration panel regarding the amount of retaliation, the Office of the U.S. Trade Representative (USTR) opened a request for comments on the EU products that will be affected and the level of duties to be applied. It should be remembered that the WTO is also analysing the claim made by the EU to the U.S. (DS 353) for subsidies to the Boeing aircraft factory (see CEI Global Report, May 2019).

FDI FLOWS TO EMERGING COUNTRIES REDUCED

In May, the Institute of International Finance (IIF) published a report on "genuine" FDI – which does not include the reinvested utilities in its calculations– in which it warns that during 2018 the flows to emerging and border markets recorded a 20-year low. According to the report, the countries of Latin America –among which Brazil, Colombia and Chile stand out– and the emerging nations of Asia receive the greatest share of these flows in relation to their GDP, while China has the highest share of reinvested earnings.

EUROPE

BREXIT: THERESA MAY RESIGNS

The UK's process of leaving the European Union (EU) reached a new chapter in its intricate story with the announcement of Theresa May's resignation as Conservative Party leader, a position she officially held until 7 June.

The frustrated attempt of the Prime Minister to hold a fourth vote on the Withdrawal Agreement, this time with the commitment to carry out a referendum confirming the resulting document, was her last action aimed at bringing together an increasingly unstable majority. The motion was dismissed for lack of support from Parliament and from her own cabinet, unleashing the announcement of her stepping down from the party's leadership to act as caretaker Prime Minister until her successor is selected.

The statement is framed within the general discontent of the population for the way in which the Brexit has been managed, whose effective definition has been postponed to 31 October 2019. The support for a "no-deal" exit became evident in the European parliamentary elections of 23 May, in which Brexit Party founder Nigel Farage gained a foothold as an emerging player to be taken into account by the main candidates for the Conservative Party succession, among them the former Mayor of London, Boris Johnson.

CONTRASTING WITH THE EU, GERMANY SEEKS FOREIGN LABOUR

During May, Germany approved a modification to its recognized vocational training programme and began discussions in Parliament of a bill to reform its immigration act. Both initiatives respond to the need to attract extra-EU workers to the country, given the industrial sector's complaints about the lack of skilled labour.

The German "dual" vocational training model is considered a success story around the world: participants learn a technical industrial job half the day and during the other half they apply their practical skills in companies. The modification to the scheme contemplates the introduction of a minimum remuneration of € 515 from 1 January 2020, which will increase 6% annually through 2023, to make these programmes more attractive for immigrants and young people in general.

This reform –along with the modifications proposed to the immigration law by Merkel's government– contrasts with the policies of a large part of the EU countries that are increasingly seeking mechanisms to curb immigration. In Germany, young people under 24 find it easy to get a job and few immigrants attend job training programmes, since so far they do not contemplate a payment. Of the total of 1,500,000 immigrants, only 44,000 are enrolled in these training programmes.

LATIN AMERICA

APEC COUNTRIES EXPRESS SUPPORT FOR THE WTO

The Trade Ministers of the member countries in the Asia-Pacific Economic Cooperation (APEC) forum, meeting at Plenary Session in Chile, expressed their support for the implementation of reforms intended to improve the functioning of the WTO. They recognized the importance of the organization in setting transparent and non-discriminatory rules, while stressing the need to improve its functioning. They also stated that they are working on initiatives related to transparency, notifications, trade facilitation and electronic commerce.

BRAZIL AND CHINA REACH AGREEMENT ON SUGAR CONFLICT

Within the framework of an approach in the bilateral relations between Brazil and China – marked by the visit of Brazilian Vice President Hamilton Mourão to the Asian nation in May– the countries reached an agreement so as not to enter into a dispute in the WTO for the Chinese trade policies on sugar.

The previous year, Brazil had initiated consultations within the framework of the WTO Dispute Settlement Understanding, in response to China's application of measures to the import of raw and refined sugar. The South American country particularly questioned the safeguard measure and the administration of its tariff-rate quota. Although the details are not known, the understanding reached would imply China's commitment not to renew the safeguard after May 2020.

DIGITAL ECONOMY: CHILE STARTS NEGOTIATIONS WITH NEW ZEALAND AND SINGAPORE

The Chilean Foreign Minister, together with his trading counterparts from New Zealand and Singapore, announced the beginning of negotiations for the conclusion of the first global agreement on Digital Economy. The main points of the accord will refer to free flow of data, non-discrimination of digital products, artificial intelligence and digital identity. The objective is to turn these three countries into digital hubs through which Information and Communications Technology (ICT) companies can export their goods and services in a simpler and more agile way.

ECUADOR, COLOMBIA AND PERU SIGN MULTIPART AGREEMENT WITH THE UK

On the occasion of the Brexit, Ecuador, Colombia and Peru signed a multipart agreement with the United Kingdom to guarantee the same market access conditions these countries currently enjoy under the agreement with the European Union. This new commitment will enter into force once the UK leaves the EU, and will help protect a trade flow that at present amounts to £ 2.1 billion.

NORTH AMERICA

THE UNITED STATES ELIMINATES TARIFFS ON STEEL AND ALUMINIUM PRODUCTS

On 17 May, the United States announced an agreement with Canada and Mexico to eliminate tariffs on steel and aluminium imports from those countries and lift the retaliatory tariffs imposed on U.S. products. Likewise, the three countries agreed on ending all disputes pending between them in the WTO related to Section 232 of the Trade Expansion Act.

The agreement provides for strict monitoring and a mechanism to avoid sudden and significant changes in the steel and aluminium trade: the United States will be able to re-impose tariffs if surges in the imports of these products took place. On the other hand, any retaliation on the part of Canada and Mexico would be limited to said products.

With this decision, an important obstacle to advancing towards the ratification of the U.S., Mexico and Canada Agreement (USMCA) is eliminated. In fact, on 30 May, the administration of Mexican President López Obrador presented the Treaty for ratification to the Senate of the Republic, while Canada had done so a day before.

TRUMP ANNOUNCES TARIFFS TO RESTRAIN ILLEGAL IMMIGRATION

On 30 May, President Trump announced that, by virtue of the International Emergency Economic Powers Act (IEEPA), he will impose a 5% tariff on all products imported from Mexico to address the migration emergency in the south border. Both countries share 3,200 km of border and, since the end of 2018, waves of migrants –mostly from Central America– have been crossing over Mexico intending to arrive in the United States to seek asylum.

The tariffs would come into force on 10 June and they will be applied progressively, increasing five percentage points per month until they reach 25%. They will only be eliminated in the case Mexico implements measures to stop the flow of undocumented migrants arriving from their country to the U.S. border.

This measure would represent a new obstacle to the ratification of the USMCA, in the opposite direction to that generated by the recent signing of the agreement on the elimination of the tariffs on steel and aluminium products. In turn, it could hinder the current trade flow between both countries, mostly free of tariffs, within the framework of the NAFTA.

The Mexican President expressed in a letter to his American counterpart that "social problems are not solved with taxes or coercive measures", and asked him to seek alternatives to the migration problem. To that aim, he sent a delegation to Washington, headed by Foreign Secretary Marcelo Ebrard. Apparently, an agreement has been reached, though its details have not been officially published yet.

U.S. LINKS CAR IMPORTS TO THREAT TO NATIONAL SECURITY

President Trump issued a proclamation on 17 May that establishes a 180-day deadline for an agreement to be reached with the European Union and Japan, in what he identifies as a threat to the national security regarding the imports of cars and auto parts.

The decision is based on an investigation by the Secretary of Commerce prepared in accordance with Section 232 of the Trade Expansion Act. This report, which concludes that the imports of automobiles and some auto parts pose a national security threat, was delivered to the White House in February, but its content was never made public.

According to the proclamation, the defence and military superiority of the country depend on the competitiveness of the national automotive industry and on the research and development that this sector generates, and both aspects would be negatively affected by excessive imports of cars and auto parts. The proclamation explains that the participation of the American producers in the global auto market decreased from 36% in 1995 to 12% in 2017, and that the cars made in the United States account for only 22% of the cars sold in the country. To put it shortly, production in this industry has been shrinking for several years, while imports have flooded the local market. In addition, it states that the high barriers on automobile imports imposed by the European Union, Japan and other countries would further worsen the situation.

The negotiation process will be directed by the United States Trade Representative Robert Lighthizer and, if an agreement is not reached within 180 days, the President will evaluate the implementation of additional measures.

ASIA AND AFRICA

THE AFRICAN CONTINENTAL FREE TRADE AREA AGREEMENT KICKS OFF

The African Continental Free Trade Area Agreement (AfCFTA) took effect on 30 May for the 24 countries that ratified it. It will be implemented in stages and it is expected to come into operation after the extraordinary summit of the Heads of State of the African Union in Niger on 7 July. However, before this date, some key aspects of the agreement should be solved. The undersigning countries must still submit the lists of concessions that they will apply for goods and services, and they must define the rules of origin, the online non-tariff barrier monitoring mechanism, the digital payments and the creation of the African Trade Observatory.

When the 52 countries that comprise the AfCFTA ratify the agreement, this will become the largest free trade area in terms of number of member countries. Although Nigeria, Africa's major economy, is not part of the agreement, it does in fact succeed in uniting economies of great relative importance such as Egypt, Ethiopia, Kenya or South Africa.

INDIAN PRIME MINISTER WINS HISTORIC REELECTION

The Indian nationalist party, Bharatiya Janata Party (BJP), of Indian Prime Minister, Narendra Modi, achieved a historic victory in the last parliamentary elections in India. The BJP improved its 2014 results, since they obtained 294 of the 542 seats, over the 272 needed to hold the majority in Parliament (Lok Sabha). As a consequence, the BJP reaches a wide difference with its main opposing party, Congress, of the Nehru-Gandhi dynasty, which gained 54 seats.

According to the IMF, next year global growth will stabilize at around 3.5% and India will be the country with the highest growth projection in the world, with 7.3% in 2019, and 7.5% in 2020.

5TH MEETING OF THE COSBAN

After four years, the Vice-Presidents of China, Wang Qishan, and Brazil, Hamilton Mourão, co-chaired the 5th Meeting of the China-Brazil High-Level Coordination and Cooperation Committee (COSBAN) in Beijing. This encounter concluded with the preparation of a new decennial plan that will rule bilateral relations between 2022 and 2031.

Both countries recognized the excessive primary product concentration in the Brazilian exports to China, and decided to reaffirm their commitment to create conditions for diversification and an increase in value-added. On the other hand, they agreed on the importance of promoting inspection and quarantine activities so as to grant access to markets for products from their respective countries: pear and fish from China; and melon, dairy products, heat-processed meat, parts of pork, soy protein for animals, poultry genetic material and bovine blood serum from Brazil.

BRAZIL TAKES STOCK OF THE OBOR INITIATIVE

During his visit to China, Brazilian Vice-President Hamilton Mourão showed, on several occasions, Brazil's interest in articulating the Chinese OBOR (*One Belt, One Road)* initiative with Brazilian investment association projects, and expanding bilateral cooperation in areas such as trade, science, technology and innovation. However, the Brazilian government has not yet formally joined the Asian giant's project.

ARGENTINA IN SIAL CHINA 2019

By mid-May, the 20th edition of the *Salon International de L' Alimentation* (SIAL) took place in Shanghai, China, being the leading food and beverage trade exhibition in Asia and one of the main environments for dissemination of the latest trends in food at world level. On this occasion, Argentina had an outstanding presence in the food and meat sector, with different stands.

The Argentine Beef Promotion Institute (IPCVA, for its acronym in Spanish) coordinated the Argentine Beef Pavilion with the participation of 25 cold storage plants. The swine and poultry sectors also took part. The participating companies expressed great satisfaction for the results of the SIAL, with deals made at clearly higher values than in previous editions of this event. According to data from the IPCVA, during the first four months of 2019, China was the main destination for Argentine beef, with 92,727 tonnes exported.

Ministry of Foreign Affairs and Worship
Argentine Republic

Closing date of this issue: 3 June 2019
