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CEI GLOBAL REPORT

CEI Centre for International Economy

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Trade in inputs recovers

Exports of production inputs grew 21% in the last quarter of 2021, which shows an improvement in the trade development of value chains, severely affected during the pandemic, according to a report by the WTO. China is the country with the highest figures in inputs exports and imports, followed by the United States and Germany. The three countries account for the third part of the global trade in inputs.

At sector level, the sales of parts and accessories, except for the transport sector, grew 31% and the supplies for the food industry rose 21%, while the parts and accessories for the automotive industry only grew 2%, a slight recovery for an industry that was severely hit during the pandemic.

On the other hand, there is greater interregional trade in supplies among the Asian countries (29% of the overall figure) and among European countries (24% of the overall figure). South and Central America was the region with the highest rise in its intraregional trade (39%) taking place in the last quarter of 2021, although this accounts for only 1% of the world overall. The region is the origin of 3% of the global exports of supplies, and purchases 3% of the global sales.

Will there be a likely agreement between the EU and the US on trade measures to face climate change?

Both the Biden Administration and the members of the US Congress have expressed their position in favour of the trade policy becoming part of the measures to tackle climate change, according to declarations made by the General Counsel for the Office of the US Trade Representative (USTR), Greta Peisch, and of US senators. Peisch stressed that the trade policy had been “underutilised” to reduce greenhouse gas emissions. The official, who is negotiating an agreement with the EU to promote the sustainable production of steel and aluminium, considered that a sound design of these measures can facilitate cooperation in the process of decarbonisation and sanctions on contaminating products.

With respect to the Carbon Border Adjustment Mechanism (CBAM), whose treatment in the European Parliament has been progressing, Democratic and Republican senators have given a favourable opinion and expressed that it would help limit access to the products originating in the countries with the lowest environmental standards, as is the case of China. Although the measure can pose some disadvantages, such as the rise in production costs, Peisch considered that variants in the mechanism that are more adaptable to the legal context of the US could be analysed and that a dialogue with the EU could be initiated to review the compatibility between the mechanisms that each country adopts.

Russia considers withdrawing from the WTO and other international organisations

As a derivation of the sanctions applied to it because of the war with Ukraine, the Russian government is evaluating its likely withdrawal from international bodies like the World Trade Organisation and the World Health Organisation, according to declarations by the spokesperson of the Russian Parliament. It is worth remembering that Russia accessed the WTO in 2012 after 19 years of negotiations.

The Russian political leadership evaluates that, in the present situation, withdrawing from the WTO would not mean losing commercial benefits since the economic sanctions that have been imposed to Russia due to its invasion of Ukraine violate all its rights as a member of the international organisation.

European countries levy the unexpected income resulting from the war

The Russian invasion to Ukraine altered the situation of the energy market at global level. Europe was particularly affected; the families and companies in the region experienced a strong increase in their energy expenses as a result of the rise in prices resulting from the war, which made them modify the portion of their budgets that they must allot to that item. Nevertheless, not all the countries in the continent were negatively affected by this situation. The boom in prices favoured a group of companies that have made extraordinary gains.

This situation led the European countries to consider the possibility of balancing the economic effects of the war in such a manner that those that most suffered its consequences are compensated with part of the unexpected incomes perceived by the companies that have benefitted from the armed conflict. The United Kingdom, Italy and Hungary were the first countries in the region to take concrete actions to mitigate the extreme effects of the war over consumers.

The United Kingdom introduced a 25% tax on the earnings of the oil and gas companies, which can suffer deductions if the companies decided to reinvest their profits. The new tax, with which approximately US$ 6.3 billion are expected to be levied, will allow Johnson's government to offer direct subsidies to the electricity bills of the lowest-income houses, as well as reductions.

Italy, in turn, had imposed a 10% rate over the benefits of the electricity companies in March, and increased it to 25% in May, at the same time that it approved a package of US$ 15 billion in aid for the Italian companies and consumers that were affected by the rise in energy costs.

Finally, Hungary will apply an extraordinary tax (this year and the next one) to the companies of eight selected sectors of activity among which, apart from the energy companies, banks stand out. With what is collected, estimated to amount to US$ 2.2 billion, the government plans to bear the costs of the subsidies to the energy expenses in households, as well as increase the military expenditure.

Sanctions on Russia continue (as well as Kremlin's retaliation)

The European Union (EU)'s heads of state agreed on the sixth package of sanctions on Russia as a response to its invasion of Ukraine, which includes the immediate ban on imports of Russian petroleum via waterway. The decision affects two-thirds of the petrol imported by the EU from that origin, with the only exclusion of the fuel that reaches the European continent via pipelines, which enabled Hungry to accept this new package of sanctions since it receives the Russian fuel through that way and refuses to stop doing so. The EU's goal is, nevertheless, even more ambitious since it is expected that by the end of this year part of that petroleum ceases to be imported as well, which would increase the reduction in Russian petroleum purchases to 90%.

In addition, this set of measures also includes the enlargement of the list of sanctioned Russian people and the ban on some Russian TV corporations to broadcast in EU's territory. It is estimated that the set of sanctions of the sixth package will represent a loss in exports nearing US$ 85 billion for Russia (equal to 17% of its exports in 2021).

On the other hand, the Russian company Gazprom informed of the interruption of the gas supply to Finland and the Netherlands because these countries refused to make their payments in roubles, as the Russian government demanded. As a consequence, two new countries join Poland and Bulgaria, which also suffered the same ruling taken by the Kremlin.

The suspension to the Nordic country took place two days after it had submitted its application to access NATO. Although the country imports practically all its gas from Russia, this fuel accounts for only a small portion of its total energy consumption. Regarding the Netherlands, the Russian gas only accounts for 15% of the total imports of said product.

The EU introduces its long-term energy plan

The European Commission presented the REPowerEU plan, a set of measures with which it aims at replacing its dependence on the Russian fuel and facing global warming. These objectives are expected to be reached through three axes of action: energy savings, diversification of its supply and the promotion of renewable energies. In order to finance the plan, the bloc plans to invest US$ 225 billion until 2027.

With respect to the energy savings, the EU proposed in this new plan to increase from 9% to 13% the efficiency target that it had already set, and published guidelines that include changes in behaviour in the short term to reduce the gas and oil demand by 5%. Likewise, it proposes its members to perform communication campaigns aimed at households and industries, and to make use of fiscal measures to promote energy savings.

Regarding the diversification of suppliers, the EU analyses to implement joint purchase mechanisms and considers the possibility of promoting a legislation that forces its members to diversify the gas supply.

Finally, with relation to renewable energies, it aims at lifting the Union's goal in such a manner that by 2030 it can account for 45% of the overall energy consumed in the bloc, while the previous goal had stood at 40%. In order to meet said objective, a set of specific measures are proposed to enlarge the capacity of solar panels, heat bombs, the production of renewable hydrogen and biomethane.

SOUTH AND CENTRAL AMERICA

Brazil and China deepen trade relationships

The Vice President of Brazil, Hamilton Mourao, and the Chinese Vice President Wang Qishan, headed the 6th Meeting of the Sino-Brazilian High Level Commission for Consultation and Cooperation (COSBAN, for its acronym in Portuguese), a space that had been created in 2004 to promote bilateral relationships. On this occasion, the officials restated their willingness to expand and diversify trade and bilateral investments and announced the 2022-2026 Executive Plan and the 2022-2031 Strategic Plan as a framework to the political, economic-trade and science and technology relationships.

At the meeting, three phytosanitary protocols were signed, enabling access of new Brazilian products to the Asian country (cottonseed meal, thermo-processed beef and melon); and one for the shipment of pears from China to Brazil. Additionally, the end of negotiations for the future signature of the sanitary protocols for the Brazilian exports of maize and peanuts to China and the end of inspections to the Brazilian facilities of exports of soy protein flour and concentrate, poultry and eggs, and foetal bovine serum was announced. At the same time, inspections to Chinese facilities that are exporters of animal viscera were concluded.

Finally, the authorities of both countries expressed their intention that protocols for the shipment of soy protein concentrate and bran, citrus pulp and foetal bovine serum from Brazil to China will be signed in the next meeting to be held in June. In that sense, it is also expected that by the end of 2022, the negotiations for the Brazilian exports of sesame, sorghum and grapes are concluded, and that the negotiations for the shipment of fish flour, poultry and pork from Brazil and of apples from China are given a priority.

Countries of the Andean Community of Nations strengthen their commitment to digital transformation

The country members of the Andean Community of Nations (CAN, after its acronym in Spanish), Bolivia, Colombia, Ecuador and Peru, met to commemorate the 53rd Anniversary of the creation of the organisation and set what steps to take. In particular, the CAN will seek objectives related to digitalisation in the region, including the start-up of the second stage of its Environmental Technological Platform and the establishment of a Regional Centre for Phytosanitary Intelligence.

At the meeting, special emphasis was made on the recent approval of the Road Map of the Andean Digital Agenda which will work on the improvement of the digital capabilities in several areas. On the one hand, it seeks to promote the digital transformation of the state services and proceedings, as well as the safe exchange of data between the country members. Additionally, it includes actions to improve the digital capabilities and specialise the human capital, and to promote the adoption of the new technologies among the small and medium-sized enterprises. To that aim, it also anticipates the generation of an agile and flexible regulatory framework that promotes the innovation and development of start-ups and of high impact initiatives on the Andean countries in matters of artificial intelligence, blockchain, internet of things and data science.

Ecuador receives financing of the EU for the exports of foods

The government of Ecuador and the European Union launched the project "CREA" (after the acronym in Spanish of: Towards the Reactivation of Agribusiness Ecuador) for the strengthening of value chains and the exports of some Ecuadorian products. The initiative will be given funding, apart from training and technical assistance coming from the European bloc. Its goal is that Ecuadorian farmers, especially micro- small- and medium-sized producers, succeed in improving their competitiveness and innovation at the same time that they meet the European sustainability standards. The products included in the programme are: avocado, banana, coffee, cocoa, guayusa tea, soursop, plantain and quinoa.

NORTH AMERICA

US considers removing market economy status from Russia

In light of recent developments in the Russian economy, largely related to its invasion of Ukraine, the US International Trade Administration initiated a new review to determine whether Russia remains a market economy for the purposes of the US antidumping duty law.

The six factors to be considered are: currency convertibility; free wage negotiation; degree of freedom to make investments; state control over the means of production and the allocation of resources; and any other factor that the administering authority deems appropriate.

This review, which takes place amid a proceeding of change of circumstances in relation to an anti-dumping and anti-subsidy investigation case on imports of urea ammonium nitrate solutions (a fertiliser) from Russia, could lead to higher anti-dumping and countervailing duties on imports from that country.

These potential higher tariffs would add to those implemented by the rule providing for the suspension of normal permanent trade relations with Russia and Belarus, adopted at the beginning of April. This law allows the US to charge tariffs on Russian imports in excess of the Most Favoured Nation (MFN) applied to the other countries (more specifically, Russia would pay the tariffs established by the 1930 Smoot-Hawley Act) and, in addition, paves the way for President Biden to increase tariffs above that value.

It should be noted that several reports –including one by the US Congressional Research Service– argue that tariffs imposed on Russia will not rise much with the new tariff rates, as the US mainly imports natural resources from Russia, with relatively low "non-MFN" tariffs, while the higher tariffs affect agricultural and manufactured goods.

USMCA: US vs. Canada over dairy tariff rate quotas

The US Trade Representative, Katherine Tai, announced that her country requested consultations with Canada under the US-Mexico-Canada Agreement (USMCA) to address Canada's dairy tariff rate quota (TRQ) policy. This is the second time that the US has turned to the USMCA dispute settlement mechanism in relation to this trade measure (see CEI Global Report, February 2022).

In May 2022, the Canadian government made changes to its dairy TRQ allocation policies, intending to implement the findings of the first USMCA panel on this issue. However, the US rejected the amendments, arguing that they still fail to comply with the trade deal obligations.

Specifically, the US government states that the new Canadian tariff rate quota allocation measures deny access to several eligible applicants, such as food service operators and retailers, as they establish that only companies processing dairy products and their derivatives and distributors will be able to apply for and receive allowances. In addition, Canada requires applicants to be active during the 12 months of the reporting period, which could exclude new applicants who would otherwise be eligible. Finally, the United States also contests the fact that Canada does not fully allocate its dairy quotas annually, but does so for shorter periods of time.

In turn, Canada's Minister of International Trade, Export Promotion, Small Business and Economic Development, Mary Ng, stated that Canada has fulfilled its obligations under the USMCA to ensure that the tariff rate quota system is in compliance with its obligations and that her government will maintain its position of administering the quotas in a manner that supports its dairy supply management system.

If the dispute is not resolved at the consultation stage, the US could request the establishment of a panel under the USMCA.

The US is not the only country to speak out against Canada's dairy TRQ allocation system: this month New Zealand also requested the initiation of consultations for these measures under the CPTPP dispute settlement system.

Mexico and the United Kingdom start negotiations for a Free Trade Agreement

The Secretary of Economy of Mexico, Tatiana Clouthier, and the Secretary of International Trade of the United Kingdom, Anne-Marie Trevelyan, agreed on the formal start of negotiations to reach a new Free Trade Agreement (FTA), as established in the Mexico-United Kingdom Trade Continuity Agreement signed at the end of 2020, once Brexit became effective.

According to statements by the officials, the treaty will seek to strengthen bilateral trade in areas of mutual interest, such as agricultural goods and services, modernise rules related to investment and intellectual property and include provisions on issues related to SMEs, gender and innovation, among others. It should be noted that, for Mexico, the United Kingdom represented its 16th global trading partner in 2020 and its 5th major investor.

At the same time, Mexico seeks to conclude the FTA negotiations with Ecuador in the first half of 2022 – currently it has a partial scope agreement with access to certain goods– and expects to sign a treaty with South Korea to try to remove the high tariffs that Mexican agricultural products face in that nation.

ASIA AND OCEANIA

Asian countries to ban commodity exports

The global rise in food prices has led many governments to consider restricting their exports in order to ensure their countries' food security and curb rising inflation. In Asia, India, Malaysia and Indonesia took the first steps in that direction.

India's Directorate General for Foreign Trade (DGFT) announced the restriction of wheat and sugar (raw, refined and white) exports, from 14 May to 1 June, respectively. India is the second largest wheat producer worldwide, with a 13.5% share of global production (however, most of it is destined for domestic consumption), and it is the world's biggest sugar producer and second largest exporter following Brazil.

The increase in wheat prices, combined with that of other foodstuffs and fuels, raised India's annual inflation rate to 7.8% in April 2022, its highest level since May 2014.

Malaysia will restrict from 1 June the exports of whole chickens until production and prices stabilise. It will also grant more authorisations to slaughterhouses overseas to boost chicken supply, remove import permits for poultry and simplify the process for claiming subsidies by breeders.

The move raised concerns in Singapore, which is heavily dependent on the supply of imported food. In 2021, about a third of Singapore's chicken supply was imported from Malaysia. Chicken is the most consumed meat in Singapore, with a per capita consumption of 36 kg in 2020, according to data from the local Food Agency. Thailand, Japan and Hong Kong are other export markets for poultry meat of Malaysia.

In turn, Indonesia banned palm oil exports for three weeks, in order to secure local supplies and control price increases in the country. The Indonesian government, the world's largest palm oil producer, announced that it will continue to closely monitor the market to ensure that the output is produced at an affordable price, and to safeguard the well-being of 17 million people working in the sector.

Twelve Asian countries launch the IPEF initiative alongside the United States

On 23 May, in the city of Tokyo, the President of the United States launched the Indo-Pacific Economic Framework (IPEF), along with officials of twelve Asian countries. It is an agreement between the United States, Australia, Brunei, India, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand and Vietnam (later joined by Fiji), which seeks to set up high-level commitments that deepen economic ties in the region.

These countries as a whole account for 40% of global GDP and comprise 60% of the world's population. The region is expected to be the largest contributor to global growth over the next 30 years.

The agreement aims to create common standards on trade and investment and build up shared crisis response mechanisms. The four pillars of action of the framework include trade collaboration, supply chain stability, development of clean energy and appropriate infrastructure, and cooperation in tax and anti-corruption matters. The countries may only adhere to some of the pillars as they are not forced to accept the agreement comprehensively.

The trade pillar covers a wide range of issues, such as the digital economy –including the processing of cross-border data flows, data localisation, online privacy and the use of artificial intelligence–, trade facilitation, transparency and good regulatory practices, the establishment of sound labour and environmental standards and corporate responsibility provisions.

The second pillar will seek commitments to anticipate and prevent supply chain disruptions in order to create stronger economies and protect them against rising prices. The remaining pillars will aim at concrete targets to address the climate crisis, decarbonisation and new measures to combat methane emissions, and pursue commitments to effective tax regimes against money laundering and bribery, in line with existing multilateral obligations.

Voices critical of the agreement argue that the IPEF signatory countries would gain little. For example, Asian countries will have to negotiate the acceptance of environmental, social and labour standards accepted by the United States. Otherwise, they would run the risk of being denied access to increased investment in American infrastructure and technologies. On the other hand, the framework does not provide for increased market access through tariff reductions or the lifting of other trade barriers.

Industrial production falls in China

In a context marked by severe restrictions due to new outbreaks of COVID-19, China's industrial production fell 2.9% year-on-year in April (the month-on-month drop was 7.1%), based on the National Bureau of Statistics (NBS). According to the agency, the decline in activity is explained by insufficient demand, obstacles in industrial and supply chains, and rising production costs. The collapse of the automotive sector also stands out, whose production shrank 43.5% year-on-year.

The Chinese government responded to this decline in industrial activity with a package of 33 measures aimed at stabilising the economy, which include accelerating tax spending and reducing taxes, among which there stands out a 50% tax reduction on the purchase of some cars.

Pakistan restricts its imports

In a context of high economic fragility and political instability, the government of Pakistan announced the ban on the imports of more than 800 goods which, according to official estimates, will mean foreign exchange savings of nearly US$ 300 million per month for the country. The measure affects a wide range of products including automobiles, mobile phones and other products considered luxury goods. The measure also reaches all types of fish, meat and fruit.

Pakistan's economy is in structural deficit. The deficit is explained by two major groups of goods: energy, which accounts for 22% of total imports, and food, which amounts to 13%. Faced with the rise in prices in these sectors in recent months, Pakistan's foreign exchange balance deteriorated significantly. The deficit of the trade balance for the first ten months of the fiscal year which began in July 2021 increased by 37% year-on-year.

As a member of the World Trade Organisation (WTO), it is expected that in the coming days, the country will explain whether these measures fall within the policies envisaged to preserve the external financial position and ensure an adequate level of reserves.

Africa's economic recovery at risk

In its latest report, "Africa's Economic Outlook 2022," the African Development Bank (AfDB) noted that Africa's GDP recovered strongly in 2021 (it grew 6.9% after a 1.6% contraction in 2020) and that rising oil prices and global demand have helped improve the continent's macroeconomic bases. However, it also mentions that growth could slow down to 4.1% in 2022 and behave similarly in 2023, due to the continuing effects of the pandemic and the inflationary pressures caused by the war between Russia and Ukraine (both countries are major grain suppliers in the region).

The report makes it clear that the pandemic and the war between Russia and Ukraine could have negative effects in the region for several years. About 30 million people across Africa were pushed into extreme poverty in 2021 and about 22 million jobs were lost in the same year due to the pandemic. The trend is expected to continue during the second half of this year and the next. Economic shocks from the Russian-Ukrainian war could bring an additional 1.8 million people in the African continent into extreme poverty by 2022, and that number could increase by an additional 2.1 million in 2023.

The African Development Bank Group has responded to the possibility of an imminent food crisis with the creation of a US$1.5 billion fund to support food production within the continent. AfDB's President Dr. Akinwumi Adesina noted that international efforts, including those of the African Development Bank Group, the G20 Common Debt Framework and Special Drawing Rights issued by the International Monetary Fund, continue to support the continent's recovery.

World Bank's support for the development of Morocco's "blue economy"

The World Bank approved a US$ 350 million loan to support the Moroccan government in launching its "Blue economy" programme for the sustainable development of coastal and marine areas. The programme aims to improve job creation and economic growth, as well as enhancing the sustainability of natural resources and food security, which has increased in importance due to the impact of the war in Ukraine.

Surrounded by the Mediterranean Sea and the Atlantic Ocean, Morocco's potential to develop its blue economy is strong. Given the richness of its marine and coastal resources, the Moroccan coast offers opportunity for job creation and recovery from the pandemic. Its coastal areas already contribute more than 50% of GDP and employment in the country, and have untapped potential in sectors of activity such as aquaculture, seaweed cultivation and renewable marine energy.

E-commerce platform launched for the continent

The Economic Commission for Africa (ECA), together with the African Export-Import Bank (Afreximbank) launched the "Africa Trade Exchange" (ATEX) platform, a business-to-business (B2B) and business-to-government (B2G) e-commerce platform. ATEX will allow the joint procurement of basic products to ensure that countries have access to scarce supplies in a transparent manner.

In the medium term, ATEX is expected to respond to the shortage of agriculture and inputs resulting from the Russia-Ukraine conflict. The platform is aimed at accelerating food sovereignty through the revitalisation of African agricultural production by connecting the demand for key agricultural products and inputs with the major suppliers inside the continent and, where necessary, outside the continent.

In the long term, ATEX aims to meet a business need by providing a comprehensive marketplace to facilitate the purchase and sale of locally manufactured products within the continent under the rules of the African Continental Free Trade Area (AfCFTA). The digital commerce under AfCFTA facilitated by ATEX will enable African companies to integrate regional suppliers into their own supply chains, leveraging the strengths of regional value chains, and the reduced barriers to trade that exist within the continent.

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