CEI Centre for International Economy

GLOBAL REPORT

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WORLD

CHINA-U.S. AGREEMENT AFFECTED BY CORONAVIRUS?

Voices of scepticism over the effective fulfilment of the commitments to expand Chinese purchases to the U.S., specified in phase one of the Agreement that entered into force on 14 February, have found in the coronavirus a new element that supports their hypothesis. These voices come from the executive branch, Congress and the private sector of the United States.

The Secretary of Agriculture and the U.S. Trade Representative reported that they expect full compliance with the agreement, without commenting on the recessive effects of the disease on the Chinese economy and its trade. The only reference to the subject was made by the Treasury Secretary, who only estimated a delay in the start of negotiations for phase two of the Agreement.

China has made formal advances in regulatory matters to facilitate the imports of agricultural products from the United States, and in the formation of bilateral organizations for evaluation and dispute resolution. However, it is speculated that it may resort to article 7.6.2 of the Agreement that invites the parties to a bilateral consultation in the event that “a natural disaster or other unforeseen event outside the control of the Parties delays the fulfilment of their obligations”.

WTO REFORM: U.S. FORMALLY CRITICISES THE ORGANIZATION

In February, the Office of the U.S. Trade Representative (USTR) distributed a Report detailing its criticism of the functioning of the Appellate Body (AB) of the WTO’s Dispute Settlement Body. The basis of the criticism is that the AB may not have adequately applied the rules of the Agreements that make up the Multilateral Trading System and that the United States has been particularly affected in this regard. The Report is not proactive, but seeks to provide a detailed basis for the various arguments of the Trump government against the continuity of the Body as it functions today.

It should be remembered that on 10 December the AB ceased to operate due to the U.S. refusal to provide consensus for the appointment of its new members. Meanwhile, several countries continue searching for alternatives to unlock this impasse.

EXPECTATION OF LOWER GLOBAL GROWTH DUE TO CORONAVIRUS

The coronavirus is likely to have recessive effects on the world economy, although the greatest impact would be on the Chinese economy and those of East Asia. According to projections of the OECD, in an optimistic scenario with a controlled disease, China would reduce its growth by 0.8 percentage points (4.9%) in 2020, while the world economy would grow 0.5 percentage points less (2.4%). If the disease is controlled by the end of the year, the economies would recover their growth pace in 2021.

These recessive effects would occur even without the disease becoming a global pandemic. According to the economist J. Frankel, the mere prospect of infection is enough to reduce tourism, shopping and work attendance. That is why the probability of a scenario of lower world growth increases.

EUROPE

THE EUROPEAN COMMISSION LAUNCHES STRATEGY FOR THE DIGITAL FUTURE

The European Commission, chaired by Ursula von der Leyen, presented its strategy on data and artificial intelligence, seeking to adapt the EU to the digital future, but ensuring that it "reflects the best of Europe: open, fair, diverse, democratic". In other words, the objective is for the EU to acquire technological sovereignty that differs from the type of action carried out in this field by the U.S. and China.

The President of the Commission stated that the proposal is designed to attract public and private investment worth more than 20.0 billion euros a year over the next decade, plus 6.0 billion euros for the creation of data intelligence infrastructure. The proposal will be submitted to public consultation during the following 12 weeks.

SPAIN APPROVES AND POSTPONES FOR A YEAR THE COLLECTION OF THE GOOGLE RATE

In February, the Spanish Council of Ministers approved the creation of the digital services tax, known as the "Google Rate". This levy will place a 3% tax on revenues of large tech firms obtained from certain digital activities outside the current tax framework, which would allow the government to raise 968 million euros per year. At the same time, the Spanish administration has also approved the creation of the "Tobin Rate" of 0.2% for financial transactions, applicable to companies with a market capitalization of more than 1.0 billion euros. An additional 850 million euros is expected to be collected with this second tax.

As it had been decided in France and agreed upon with other European countries in January, Spain will postpone the collection of the rate on digital services until 2021, as it is expected that the OECD will define a general policy on the subject before that date. It should be remembered that the U.S. strongly opposes these taxes and has already issued several warnings in case they are implemented (see CEI Global Report, February 2020). In turn, the Asociación Española de la Economía Digital has also opposed the collection of this tax, arguing that Spanish companies using the taxed digital services would lose competitiveness.

WORRYING FALL IN ITALIAN INDUSTRIAL ACTIVITY

The latest data on Italian industrial activity show signs of concern about this country's economic future. According to Italy's National Statistics Institute (ISTAT), the industrial production reportedly fell 1.3% in 2019. This sector had been growing since 2014 and had only recorded a smaller drop in 2013.

THE EU UPDATES LIST OF TAX HAVENS

The EU Finance Ministers have updated the list of countries and territories which are non-cooperative in tax matters. Thus, the Cayman Islands, Palau, Seychelles and Panama have been added to the list of tax havens, which includes a total of 12 destinations. By contrast, over half of the countries comprising the list in 2019 have now been delisted, as they began to comply with the tax good governance standards, based on the criteria of tax transparency, fair taxation and real economic activity. These countries are: Armenia, Antigua and Barbuda, Bahamas, Bermuda, Belize, British Virgin Islands, Cape Verde, Cook Islands, Marshall Islands, Montenegro, Saint Kitts and Nevis, and Vietnam.

The first list of tax havens in the EU was drawn up in December 2017 and the next update will take place in October 2020.

SOUTH AND CENTRAL AMERICA

PARAGUAY AND BRAZIL SIGN FREE TRADE AGREEMENT FOR AUTOMOBILES

After concluding the negotiations during the 55th Summit of Presidents of Mercosur in December 2019, on 11 February, the authorities of Brazil and Paraguay finally signed their automotive agreement. With this, Paraguay undertakes its second commitment concerning the automotive sector in the last five months –the previous one was with Argentina, last October– and reaffirms its interest in increasing its auto parts exports. Produced under a *maquila* scheme, these exports generate the highest revenues for the state using this production model. For more details on the agreements with Argentina and with Brazil, see CEI Global Report, November 2019 and January 2020, respectively.

BRAZIL ALLOWED TO RESUME FRESH BEEF EXPORTS TO THE U.S.

Brazil and the U.S. agreed to reopen the trade in fresh beef starting on 21 February, 2020. This was made possible after a new sanitary inspection of the Brazilian meat processing plants, which managed to meet the requirements of the U.S. Food Safety and Inspection Service. This reopening occurs two and a half years after the “carne fraca” scandal, when the Brazilian Federal Police discovered fraud and adulterations in export meats.

ARGENTINA AND BRAZIL REDUCE AGRICULTURAL TRADE BARRIERS

The governments of Brazil and Argentina have agreed to reduce barriers to trade in agricultural products and to strengthen the exchange of information in this sector. Specifically, Argentina approved the international models of sanitary certification for the imports of frog meat and pig semen from Brazil and promised to send a team to audit the Brazilian beef meat processing plants. In turn, Brazil accepted the Argentine certification model to import beef cattle for breeding from that origin and will audit the Argentine facilities for beef, dairy and fish.

PERU DIVERSIFIES EXPORTS AND WINS NEW MARKETS

The Ministry of Foreign Trade and Tourism of Peru reported that during 2019 exports of non-traditional and higher added value products increased (4.1%), even in a context in which total exports decreased by a similar amount (4.2%). The non-traditional products –whose exports now account for 30% of Peru's sales to the world, 2 percentage points more than in 2018– include some fruits, woods and papers, certain fishery products, textiles, chemicals, metal-mechanics and iron and steel industries. Likewise, Peru became the world's leading exporter of blueberries and asparagus, displacing Chile and Mexico, respectively, in the ranking.

NORTH AMERICA

U.S. MODIFIES LIST OF DEVELOPING AND LEAST-DEVELOPED COUNTRIES

In February, the Office of the U.S. Trade Representative (USTR) updated the list of countries designated as "developing" or "least-developed" under the Countervailing Rights Act. The new list of members was determined based on Gross National Income per capita, participation in world trade, and countries' membership or application to join the OECD, EU and G20.

Thus, for since they overcome the minimum thresholds of these indicators or they belong to any of the aforementioned groups, the counties below would be considered developed and would no longer receive special treatment for the purposes of countervailing measures: Albania, Argentina, Armenia, Brazil, Bulgaria, China, Colombia, Costa Rica, Georgia, Hong Kong-SAR China, India, Indonesia, Kazakhstan, Kyrgyzstan, Malaysia, Moldova, Montenegro, North Macedonia, Romania, Singapore, South Africa, South Korea, Thailand, Ukraine and Vietnam.

AIRBUS-BOEING: U.S. INCREASES IMPORT TARIFFS ON EUROPEAN AIRCRAFT

Exports of European aircraft will be subject to an additional 15% tariff –compared to the 10% in effect since October 2019– to enter the U.S. market. The measure will be implemented on 18 March and responds to a WTO-authorized retaliation action for up to 7.5 billion dollars for the subsidies granted by the EU to Airbus (see CEI Global Report, November 2019). On the other hand, the list of agricultural and non-agricultural products subject to a 25% tariff surcharge only had minor modifications.

Airbus expects that the U.S. reverses its decision once the EU is authorized to impose tariffs on Boeing in the parallel case pending in the WTO for unjustified tax breaks. This is expected to occur between May and June of this year.

MEXICO, THE NEW LARGEST U.S. TRADING PARTNER

The latest official data on trade in U.S. goods and services revealed that in 2019 Mexico became the main trading partner of the country, overtaking Canada and China in the ranking. Mexican exports to the U.S. grew 3.5% and its total trade amounted to 614.5 billion dollars, thus exceeding the exchange recorded with Canada and China (612.4

billion dollars and 558.9 billion dollars, respectively). Note that, although relations with the Asian country last year had been weakened by trade tensions, trade with Mexico was also affected by the country's fragile macroeconomic context and by the renegotiation of the NAFTA, currently USMCA.

The automotive industry played a leading role in this outcome. Vehicle exports to the U.S. increased 8.1% in 2019 and positioned Mexico in second place as a vehicle supplier, displacing Canada (which decreased 1%). With exports worth 38.1 billion dollars, it could even surpass Japan in the short term, which currently ranks first (with 39.9 billion dollars). The U.S. is the world's largest vehicle importer, with a 22.8% share.

TRUMP STRENGTHENS ALLIANCE WITH MODI

On his first visit to India, U.S. President Donald Trump and his counterpart Narendra Modi agreed to strengthen the bilateral relationship and establish a Strategic Partnership between the two nations.

A relevant aspect of this association is defence and security cooperation. As mentioned in the joint statement, the energy, civil aircraft, defence and higher education sectors have contributed in the last four or five years to the movement of 70.0 billion dollars between both countries. In this regard, thanks to this latest visit, the presidents agreed to the sale of U.S. military equipment to India for 3.0 billion dollars.

In trade matters, both heads of state promised to sign a "first phase" of a bilateral agreement in the current year. It remains to be seen whether the "America First" and "Make in India" policies promoted by both leaders will enable points of consensus to reach the agreement.

U.S. INITIATES DISCUSSIONS WITH KENYA ON "MODEL" TRADE AGREEMENT

After the visit of Kenyan President Uhuru Kenyatta to the U.S. in February, the heads of both countries announced that talks will begin with the aim to reach a bilateral trade agreement. This commitment, expected to be achieved in the coming months, would be the first that the U.S. would enter into with a sub-Saharan nation and could become a model to replicate in other countries in the region.

In effect, the Trump administration would be seeking to strike agreements with different African countries to replace the African Growth and Opportunity Act (AGOA) that expires in 2025 and offers improved access to the U.S. market for products from 39 countries in sub-Saharan Africa.

This "model" agreement could lead to conflicts between Kenya and the other members of the East African Community (EAC), as the statute of this customs union requires its members to negotiate trade agreements together. Along the same lines, several African governments have already expressed their preference for a multilateral agreement with the region, bearing in mind that the African Continental Free Trade Agreement (AfCFTA) has already entered into force.

ASIA AND AFRICA

CORONAVIRUS CONTINUES TO AFFECT THE CHINESE AND WORLD ECONOMY

After the World Health Organization (WHO) declared a global emergency for the coronavirus COVID-19, the Chinese government extended the Lunar New Year holiday until 10 February. The Asian nation also imposed restrictions on the movement of people throughout the country, the closure of borders, the suspension of flights and the consequent interruption of supply chains. According to *Bloomberg Economics*, this will lead to a significant slowdown in the level of activity in China (see World).

The reduction in Chinese demand has already brought about a fall in prices in the Chicago international grain market (see CEI Global Report, February 2020). In addition, the prices of commodities such as copper, nickel, aluminium and zinc also recorded sharp drops. Likewise, some Chinese companies delayed or cancelled purchases of other goods, including liquefied natural gas and copper. This represents a direct risk for countries such as Saudi Arabia and Russia in the case of oil, and Chile, Peru, Brazil and Argentina for shipments of other basic products. Besides, it puts the purchase commitments recently undertaken in “phase one” of the China-US agreement on alert.

It should be noted that China is the main destination for meat shipments from Argentina, and, in this context, the prices of all types of meat also decreased: the FAO meat price index reversed an 11-month upward trend as it fell 4% in January. Under this scenario, the Argentine Beef Consortium (ABC) indicated that the volume exported to China in January fell 19.1% compared to last December, going from 89,000 to 72,000 tonnes exported. The coronavirus is undoubtedly one of the incidence factors.

CHINA OPENS ITS MARKET TO PATAGONIAN SHEEP MEAT

After the approval of the sanitary protocol and other technical requirements, China confirmed in February the definitive opening of its market for the import of sheep meat and by-products from Argentine Patagonia. The first facility to qualify belongs to the Montecarlo S.A. meat processing plant, located in the province of Santa Cruz.

STRONG CONTRACTION OF ECONOMIC ACTIVITY IN JAPAN

In the last quarter of 2019, the Japanese economy contracted 6.3% year-on-year, the largest decline recorded in almost six years. Analysts affirm that the economic activity could undergo a further contraction in the first quarter of 2020 due to the impact of the coronavirus. This would mainly affect tourism, exports, domestic consumption, and the Tokyo Olympics due to begin in July.

RCEP COUNTRIES EXPECT INDIA’S RETURN TO THE AGREEMENT

Following the leaders’ summit in Bangkok in November, representatives from the Regional Comprehensive Economic Association (RCEP) countries met again in Bali, Indonesia. On this occasion, they announced the intention to sign the agreement in November 2020 and reiterated –via statements to the press– the hope that India will participate in it.

It should be remembered that last November Modi's government announced its withdrawal from the RCEP (see CEI Global Report, December 2019), which led Japan to also question its own participation. The Minister of Commerce and Industry of India Piyush Goyal stated that his country would consider returning to the agreement if the other participating nations strengthened the provisions against circumvention of rules of origin and granted greater transparency on non-tariff barrier matters.

AFRICAN COUNTRIES IN EMERGENCY DUE TO LOCUST INFESTATION

The largest desert locust invasion in the last 25 years threatens the agricultural production in some countries in the East African region –mainly in Ethiopia, Kenya, Somalia and Tanzania– and puts the region's food security at risk. In the face of this devastating scenario, and its imminent expansion into Pakistan and China, the FAO officially announced a 76 million dollar aid program to control the plague.

AFRICAN DEVELOPMENT BANK FINANCES FERTILIZER PURCHASE

The African Development Bank (AfDB) sponsored the 11th annual Argus Africa Fertilizer conference in February. The objective of the event was to provide support to the fertilizer value chain, through discussions on financing mechanisms and options that enable its use in the region, and promote the formation of public-private alliances among the actors that manage to improve the efficiency in fertilizer use and distribution.

These objectives are in line with the African Fertilizer Financing Mechanism (AFFM). This was established in the Abuja Declaration of the African Union in 2006 by which member countries of the African Union commit to improve the agricultural productivity by providing financing to boost the use of fertilizers until reaching the goal of 50 kg of nutrients per hectare.

This news is of particular interest for the Argentine exportable supply of fertilizers and agrochemicals, as it opens the possibility to access a market like Africa that has a dynamic demand and financing mechanisms for the import of this type of input.

Ministry of Foreign Affairs
International Trade and Worship
Argentina

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