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CEI Centre for International Economy

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WORLD

The UN proposes an international financial architecture reform

The UN Secretary General published a document which states that the international financial system has failed to cushion the impact of the crises currently affecting the developing countries (the pandemic, the war in Ukraine and the climate crisis) and emphasises the need to expand the long-term financing of these countries to reach at least US$ 500 billion per year.

The agency says that sovereign debt around the world has reached critical levels, so it is necessary that developing countries can extend the payment terms of their current debts and reduce the interest rates they are facing, in order to have resources to invest in the so-called Sustainable Development Goals (SDG).

More than half of the world's poorest countries are over-indebted or at high risk of being over-indebted. According to the UN, an additional 175 million people in those countries will fall into extreme poverty by 2030. While developed economies are financed at rates of 1%, least developed economies are financed at interest rates of 5% to 8%. According to the report, most countries that faced debt crises in past years could have avoided them if they had had continued financing at rates similar to those paid by rich countries.

To address this situation, the UN proposes a three-part action plan that, according to the agency, must be promoted immediately: 1) tackle the problem of over-indebtedness of developing countries, allowing them to expand payment terms (to more than 30 years), and reduce loan interest rates; 2) multiply access to long-term financing with low interest, through the capitalisation of national development banks and, especially, of multilateral development banks (MDBs); and 3) increase the financing possibilities of developing countries in trouble, either by including, in the loans to those countries, clauses that foresee disasters or pandemics, or by issuing special drawing rights (SDRs) in times of crisis.

The organisation proposes a change of criteria for defining debt sustainability from a market-based approach that considers the expected or validated interest rates in credit markets and financial agencies, and which penalises countries with credit access problems, to a creditworthiness approach that follows the MDBs credit assessment mechanisms, with lower rates, greater flexibility and minimal conditionalities.

The UN stresses the importance of the MDBs in responding to crises, with below-market lending for developing countries (similar to developed countries rates) to finance long-term productive investments (with 30-50 year loans and significant grace periods) that boost economic growth, create employment, improve productivity, expand savings capacity and thereby lower country risk and improve debt sustainability.

It also calls on developed countries that have not used SDRs to distribute them urgently and with minimum conditionalities among countries that need them and suggests that the IMF promotes a series of tools that facilitate currency swap access, providing emergency liquidity to developing countries.

Finally, it raises the need for the UN, the IMF and the MDBs to work jointly to implement these measures at the country level, on a case-by-case basis.

The war in Ukraine, one year on

The anniversary of Russia's invasion of Ukraine has been fertile ground for trade, economic and geopolitical analyses.

i. The WTO warned that the open trading system reduced the economic costs of war

Despite the war's negative effects on trade and growth, last year's economic performance was better than expected. For example, in July 2022 the IMF had predicted that global GDP would grow 3.2% in 2022 and that trade in goods and services would go up by 4.1%, and in January 2023, GDP was estimated to have grown 3.4% and trade 5.4%.

According to a recent report by the WTO, this improved trade performance can be attributed to sustained consumption, the reduction in sea freight prices, the fact that companies quickly adapted to the new conditions and, in particular according to the agency, to the functioning of the multilateral open trade system.

The WTO argues that the rules-based trading system limited the use of protectionist measures on both the import and export sides, which enabled the countries dependent on certain commodities from Russia and Ukraine to switch to other suppliers in the short term, and the restraint in the imposition of export restrictions by supplier countries.

ii. Interdependence is good for the economy, but it does not guarantee peace

The WTO conducted a simulation of trade policy scenarios showing that the division of the world into two blocs of countries –for and against Russia– with some neutral developing countries, would bring about a fall in GDP in all blocs, while the deepening of multilateralism would have the opposite effect. In both cases, the least developed countries would suffer the greatest impact.

However, from a geopolitical perspective, the war cast doubt on the idea that greater trade interdependence reduces the likelihood of armed conflict because of its high economic cost. According to Javier Solana, NATO's former Secretary General, Putin used interdependence for coercive purposes, so he concluded that, for interdependence to be constructive, responsible political leaders are needed.

iii. Economic sanctions were not as effective as expected

Right at the beginning of the war, many Western countries, especially European, applied successive economic sanctions to Russia (see section Europe): mainly restrictions on access to bank accounts abroad, prohibition on the use of airspace and ports, exclusion of some banks from the SWIFT system of international financial transfers, restrictions on travel, prohibition on trade in iron and steel, restrictions on trade in goods that can be used for war, import ban on coal, oil, wool and cement, and ceiling on the sale price of Russian oil.

The effectiveness of these sanctions is under debate: several voices argue that these measures have not served to stop the war, while others say that they have limited the financing of armament purchase.

That is why the G7 leaders declared that they will strengthen the application of sanctions with the creation of an *Enforcement Coordination Mechanism*. They also decided to take action against countries that help Russia with war material.

According to simulations carried out by the OECD, the effect of banning the import of Russian oil on oil buyers would be limited by increased production from other suppliers, such as Norway and Mexico. In turn, Russia would place the surplus in China, Türkiye, India and in countries with less development with discounts of up to US$ 30/barrel. According to the organisation, for sanctions to have a real impact on the Russian economy, trade restrictions must encompass a wider range of products.

EUROPE

The EU and the UK reach a new agreement on Northern Ireland

European Commission President Ursula von der Leyen and British Prime Minister Rishi Sunak have closed a new agreement on Northern Ireland, which resolves the main source of tensions arising from the implementation of the Brexit.

The newly devised "Windsor Framework" establishes the reduction of customs controls within the United Kingdom, and sets two routes for the trade of goods between the Island of Great Britain and Northern Ireland. Products coming from the United Kingdom and intended to remain in Northern Ireland will not be examined, while those destined for the Republic of Ireland will have to undergo checks.

Until Brexit, the exchange of goods between the Republic of Ireland and Northern Ireland was carried out without restrictions since both parties belonged to the European common market. The situation changed with the UK exit from the EU, at which point customs controls had to be implemented. However, there was a generalised rejection to placing the border checks between the two Irelands, since it may threaten the peace agreements that put an end to the armed conflict in the region in 1998.

The solution found, moving the customs controls to the sea separating Ireland from Great Britain, generated great discontent among the British supporters of the Brexit, who saw how a border was installed within their own country (see CEI Global Report, November 2021), which brought about political instability in Northern Ireland. The agreement reached in Windsor, which creates alternative means of control according to the destination of the goods, resolves this conflict, since it avoids a land border and limits the maritime border exclusively to goods that are destined for the EU.

IAG purchases Air Europa for 500 million euros

The International Airlines Group (IAG) holding, owner of Iberia and British Airways –among other airlines–, reached an agreement to acquire 80% of the shares of Spanish airline Air Europa that were not yet in its possession, after it had acquired 20% of the company's shares in August last year.

For the sale to be completed, a series of approvals from Spanish and European organisations are still pending, which is estimated to take about 18 months. The sale process began in 2019 and, when it is concluded, the IAG will end up paying 500 million euros for the total shares of the Spanish company, half of what the parties had agreed in the initial agreement.

The financial situation of the company was not very sound in 2019 and was seriously deteriorated with the onset of the COVID-19 pandemic, which led to losses of more than 420 million euros in 2020 and more than 300 million euros in 2021 for the company. Currently, the airline's total debt amounts to nearly 1 billion euros, and its main creditor is the Spanish State.

Air Europa has more than 50 aircraft, making over 250 daily flights to more than 60 destinations in Spain, Europe, America, Africa and the Middle East, with a total of 13 million passengers transported in 2022. When the acquisition process is complete, IAG will maintain the brand, but the company's operations will be managed by Iberia.

Tenth sanction package against Russia

On the first anniversary of the invasion of Ukraine, the EU adopted the tenth package of sanctions on Russia, which includes citizens and entities from other countries that, according to the EU, support the invasion, and which expands the range of prohibitions and restrictions arranged to limit Russian economic and military capacity.

Among the many measures published by the European authorities is the addition of 120 new persons or entities on the list of those that already had restrictions on free movement in the EU territory and immobilisation of their assets. Among those added are Russian politicians and military officials, but also Iranian citizens involved in the manufacture of drones for the invading army.

Also, this new package provides for the increase in the quantity of products with restrictions to exports to Russia. In order to prevent the development of that country's military capabilities, and in coordination with Ukraine and the EU partners, the sale of electronic components that can be used in the manufacture of drones, missiles and helicopters is banned; as well as rare earths and thermal cameras with military applications; vehicles that had not yet been prohibited; construction products; aviation turbojets, among others.

With these new restrictions, the EU covers almost half of its exports to Russia. In turn, there are new restrictions on imports from that country (bitumen, asphalt, synthetic rubber, carbon black), which together with those already existing amount to 58% of bilateral imports from the EU in 2021.

SOUTH AND CENTRAL AMERICA

Reopening of export markets for Argentine grape juice and fishery products

The Argentine Government agreed with the US Department of Commerce the suspension of the investigation for subsidies that fell on Argentine exports of white grape juice concentrate (see CEI Global Report, October 2022) and limited its access through the application of countervailing duties, a solution that is complemented by another agreement initiated by the private sector, to suspend a parallel investigation due to dumping.

Within these negotiations, Argentina also reached an agreement to give predictability to its exports according to which the US granted the country an export quota of 40,000 tonnes of white grape juice concentrate per year. During 2022, the United States was the main destination for Argentine exports of that product, which amounted to US$ 40.7 million and represented 33.4% of the total shipped to the world.

On the other hand, the Argentine authorities negotiated with the General Customs Administration of the People's Republic of China the lifting of the suspension that fell on 31 Argentine fishing establishments with cases related to COVID-19. Likewise, the Asian authority exempted our country from the need to submit fortnightly reports on the status of COVID-19 cases in qualified fishing establishments.

Latin America and the Caribbean grew by just under 4% during 2022

The Economic Commission for Latin America and the Caribbean (ECLAC) estimated that during 2022 the year-on-year growth of the economic activity in the region was 3.7%, after having amounted to 6.7% in 2021. Among the countries with the most outstanding growth are Colombia (8.0%), Uruguay (5.4%) and Argentina (4.9%). By contrast, the only countries whose GDP fell compared to 2021 were Haiti (-2.0%) and Paraguay (-0.3%). At subregion level, the best-performing countries were, on average, those in the Caribbean, with Barbados (10.0%) and Saint Lucia (9.5%) among the most prominent.

In turn, the IMF calculated that the region's growth for 2022 was 3.9% and projected that for 2023 and 2024 it will decelerate by around 1.8% and 2.1%, respectively. Some of the determinants of this decline in activity are: the increase in interest rates, the fall in international commodity prices, the slowdown in job creation and domestic consumption, and the lower rate of growth in the United States and the Eurozone (important trading partners in the region). Regarding South America, in particular, activity increases for the coming years are estimated at 1.5% and 1.9%, respectively.

NORTH AMERICA

US: first available funds from the CHIPS Act

The U.S. Department of Commerce launched the first package of subsidies to revitalise the U.S. semiconductor industry corresponding to the CHIPS Act, passed in August 2022 (see CEI Global Report, September 2022).

At this stage, the government opened a first term for companies in the sector to apply for access to funds to build, expand or modernise their plants. The goal is not to subsidise projects as a whole, but to provide financing to companies that are already producing semiconductors (such as the Korean Samsung or the Taiwanese TSMC) so that they can build new facilities in the United States.

Under the CHIPS Act, the Department of Commerce has a US$ 50 billion budget, including different types of grants: direct financing, federal loans and loan guarantees, of which US$ 39 billion will be used to finance the construction and expansion of production units and the remaining US$ 11 billion to finance research and development of new chip technologies.

The Biden administration's goal is to regain leadership in semiconductor manufacturing. Currently, more than 90% of the most advanced chips used in the US are produced in Taiwan, posing a serious problem for the US economy in the event of China's occupation of the island. The economic and political confrontation with the Asian country along with the memory of the pandemic (when disruptions in the chip supply chain posed challenges to the automotive industry with the consequent rise in the price of cars) were among the reasons for the government to bring semiconductor supply chains back to the US.

US reaches record-high trade deficit in 2022

According to information published by the Department of Commerce, the US trade deficit reached US$ 948.0 billion in 2022, 12.2% higher than that of 2021, which represents 3.7% of its GDP and is the highest value of the historical series.

Exports of goods and services went up by 17.7%, compared to 2021 and reached US$ 3.01 billion, an increase that was largely due to the rise in the sales of hydrocarbons (crude oil, gasoline and natural gas were the highest-growing products in absolute terms).

In turn, imports rose by 16.3% and reached US$ 3.96 trillion. In this case, hydrocarbon purchases were also the fastest growing, but were accompanied by other increases in capital and consumer goods.

The largest trade surplus of the US is with the countries of South and Central America (US$ 76.2 billion), a positive balance that grew by US$ 22.4 billion in 2022; while the main deficit is maintained with China (US$ 382.9 billion), with an increase of said negative balance of US$ 29.4 billion in 2022.

Mexico to nationalise lithium

Mexican President Andrés Manuel López Obrador signed a decree to nationalise lithium and grant the country's mineral reserves to the Ministry of Energy. The measure continues the path initiated by the Mining Law reform of April 2022, in which lithium is declared to be of public utility and can only be exploited by the state through Litio para México (LitioMX) public company.

According to the government, Mexican lithium reserves would be in the tenth place among the largest in the world. These are concentrated in the north of the country, in Sonora state, and the decree protects 234,000 hectares located in the municipalities of Arivechi, Divisadero, Granados, Huásabas, Nácori Chico, Sahuaripa and Bacadéhuachi.

In the latter town, the Mexican President gave a speech in which he likened the signing of the decree with the oil expropriation carried out by President Lázaro Cárdenas in 1938 and said: "What we are doing now, save for the obvious differences and at another time, is to nationalise lithium so that it cannot be exploited by foreigners, neither from Russia, nor from China, nor from the United States. Oil and lithium belong to the nation, they belong to the people of Mexico, to you, to all those who live in this region of Sonora, to all the Mexicans.

ASIA AND OCEANIA

Positive forecasts for Asian economies

According to the latest report published by the IMF on the economies of Asia-Pacific, the economic challenges faced by these countries last year have begun to disappear. Global financial conditions have eased, food and oil prices have fallen and China's economy is recovering.

This evolution is helping to improve the outlook across the region, with growth accelerating to 4.7% this year from 3.8% in 2022. This will make it the most dynamic region in the world, with promising activity within a slowing global economy.

The region's emerging and developing economies, which will grow 5.3% this year, are driving this momentum. These countries are moving forward as supply chain disruptions from the pandemic fade and the service sector grows. China and India alone are expected to contribute more than half of global growth this year, while the rest of Asia will contribute an additional quarter. Cambodia, Indonesia, Malaysia, the Philippines, Thailand and Vietnam have returned to their sound pre-pandemic growth.

The most significant revision since IMF's latest forecast in October was for China, where a sudden reopening paved the way for a faster-than-expected pickup in activity. China has strong trade and tourism ties with the region, so this is positive news for Asia. For every percentage point of higher growth in China, production in the rest of Asia increases by about 0.3%.

Vietnam to advance in the halal food market

During Vietnamese Prime Minister's last visit to Brunei Darussalam, cooperation was agreed between the two countries in several key sectors, one of which was halal food production. This was done in line with Vietnam's objectives to prioritise the production and export of halal food to the two largest Muslim markets in the ASEAN region: Malaysia and Indonesia.

The global halal food market was valued at more than US$ 2 trillion in 2022 (IMARC Group report) and it is a rapidly growing market as Southeast Asian wages and consumer purchasing power rise.

A large percentage of the world's 1.9 billion Muslims live in Asian countries. Specifically, 860 million Muslims live in the Southeast Asia - South Asia - South Pacific region. This area also has the largest number of halal food consumers (market valued at US$ 470.0 billion). The future prospects are for the market to continue to grow as the region is expected to have 1.5 billion people or 53% of all Muslims by 2050.

Vietnamese companies meet only a fraction of the demand of the Organization of Islamic Cooperation (OIC) member countries. According to the Vietnam Halal Center, the country has the potential to produce halal products worth up to US$ 34 billion for OIC countries.

Currently, Vietnam's halal exports are mainly agricultural products and raw materials, which only represent a small proportion of Vietnam's total exports to Islamic markets. However, the number of companies obtaining halal certification has been increasing in recent years. Around 60% of Vietnam's provinces and cities were producing halal certified products for export in 2021.

The Philippines ratifies RCEP trade agreement

The Philippine Senate ratified the "Regional Comprehensive Economic Partnership" (RCEP), and became the latest country to do so, in addition to Myanmar, governed by the military, whose ratification instrument has been rejected by several members on human rights grounds.

Initially signed in November 2020 by leaders from 15 Asia-Pacific countries, including the 10-member Association of Southeast Asian Nations (ASEAN), the RCEP covers nearly a third of the world's population and a similar proportion of its gross domestic product. In addition to ASEAN members, the agreement includes Australia, China, Japan, New Zealand and South Korea.

The RCEP will eliminate up to 90% of import tariffs among its signatories within 20 years of its entry into force. It will also set common rules for e-commerce and intellectual property. According to the Philippine Department of Commerce and Industry, RCEP members represent around 50% of Philippine exports and about 68% of its imports.

Ratification of the pact by the Philippines was delayed due to last year's elections and strong opposition from some farmers' groups, who fear the RCEP will open the door to a wave of imported products harming local production.

Iran requests China's support to join BRICS

During the Iranian President's latest visit to China, the Persian Gulf country thanked China for its role in Iran's accession to the Shanghai Cooperation Organization (SCO) and said it expects Beijing's endorsement for membership in the BRICS Group (Brazil, Russia, India, China and South Africa).

The visit served as an opportunity to give new momentum to the implementation of the 25-year bilateral agreement on comprehensive cooperation between the two countries. China is Iran's largest trading partner. Since the beginning of the Iranian fiscal year (March 2022), that country's trade with China reached US$ 25.3 billion, and exceeded trade with the United Arab Emirates (US$ 19.8 billion) and Türkiye (US$ 11.7 billion).

Iran recently stated that it will link its energy supply chains to the electricity grids of SCO members, while it is the main transit hub of the International North-South Transport Corridor (INSTC) linking trade from Europe, Russia, Türkiye, the Caucasus and Central Asia through the markets of East Africa, the Middle East and South Asia.

AFRICA

Debate on Africa's energy future, one year into the war

Against a backdrop of skyrocketing food and energy prices and dwindling financing for global economic cooperation, African countries are in a debate about how to position themselves in the face of the significant changes that have taken place one year into the Ukraine war.

The conflict between Russia and Ukraine is leaving a widespread and complex impact in energy matters globally and, in particular, in African economies that are still trying to reverse the effects of the COVID-19 pandemic with scarce financial resources to cushion the impact of the energy crisis.

Inflation reached double digits in 40% of African countries; coupled with the fact that seven African countries are in a situation of over-indebtedness since January 2023, and 14 more are at high risk of being over-indebted, making them unable to implement significant countermeasures.

According to the latest edition of the IMF's World Economic Outlook, African households spend more than 50% of their total consumption on food and energy, so they especially felt the impact of high global energy prices, along with their indirect effects on transport and consumer goods costs.

Some African countries understand that the global energy crisis can boost "green investment" development projects (natural gas and liquefied natural gas) for export –mainly to Europe–. While this may mean more investments in the energy sector on the continent, there are voices that argue that the benefit would not necessarily result in access to energy for Africans themselves. Instead, this could further perpetuate the commodity-based economies, and thus delaying the continent's industrialisation goals.

Food insecurity: current situation and initiatives to fight it

African heads of state and government meeting at the 36th African Union summit in Ethiopia's capital, Addis Ababa, endorsed the results of the recent "Dakar 2 Summit on Feed Africa: Food Sovereignty and Resilience", organised in January in the city of Dakar by the African Development Bank (AfDB) Group and the government of Senegal, and called for global support for the immediate implementation of the agreements reached.

At the January summit, a call was made to take decisive action to ensure the food security of Africans. The requests included supporting farmers, especially small farmers (most of whom are women) and considering agriculture as a business, in which support to the private sector must be promoted.

In less than a month, the Dakar summit appeal translated into concrete commitments totalling US$ 36.0 billion in investments to boost agriculture on the continent. The African Development Bank will allocate US$ 10 billion in financing, the Islamic Development Bank committed US$ 7 billion, the United States Agency for International Development will contribute US$ 5 billion, the EU US$ 4 billion, the International Fund for Agricultural Development US$ 3 billion, the Arab Bank for Economic Development in Africa US$ 2 billion and the West African Development Bank US$ 1 billion.

In the Summit's final declaration, the organisation noted that despite having 65% of the world's arable land unused, one third of the world's 828 million hungry people live in Africa. The African Union emphasised that the continent can produce enough food to feed itself and the rest of the world, so it agreed with the African Development Bank's position on the need to achieve food sovereignty through scale provision of technology to the continent's farmers, and the overall increase in investments in African food and agricultural systems.

Food accounts for about 42% of African household consumption, reaching 60% in countries affected by conflict and insecurity. In contrast, according to the United Nations, in France and the United States, food accounts for 13% and 6% of household consumption, respectively.

According to the African Development Bank, African countries spend more than US$ 75 billion to import more than 100 million metric tonnes of cereals a year. In 2020, 15 African countries imported more than 50% of their wheat products from Russia or Ukraine. Six of these countries (Eritrea, Egypt, Benin, Sudan, Djibouti and Tanzania) imported more than 70% of their wheat from the region. The AfDB noted that Russia's invasion of Ukraine caused a shortage of about 30 million tonnes of grain on the continent, along with a sharp increase in cost.

In the World Economic Situation and Prospects 2023 report, the UN shows that Africa already had the highest prevalence of food insecurity worldwide in 2020 with 26% (severe food insecurity) and 60% (moderate or severe food insecurity) according to the categorisation carried out by FAO. Disruptions in the supply chain of primary agricultural inputs, including fertiliser imports from Russia, Ukraine and Belarus, further threatened Africa's food security. The World Food Programme (WFP) reported that global fertiliser prices had increased by 199% since May 2020, and fertiliser prices more than doubled in Kenya, Uganda and Tanzania in 2022.

According to the World Bank, Africa's food production is already hampered by low fertiliser use, with an average fertiliser application rate of 22 kilograms per hectare, compared to a global average that is seven times higher (146 kilograms per hectare). Fertiliser exports from Africa's major suppliers, namely Ukraine, Russia and Belarus, which remain suspended, are expected to affect Africa's food production and deepen food security throughout 2023.

In addition, the World Bank notes that other fertiliser producers are banning exports of these critical inputs to protect their own farmers, leaving African farmers without many options.

CEI GLOBAL REPORT

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Ministry of Foreign Affairs
International Trade and Worship
Argentina