CEI Centre for International Economy

GLOBAL REPORT

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WORLD

ECONOMIC ACTIVITY PROJECTIONS FOR THE WORLD AND THE REGION

Global growth slowed down during the second half of 2018, according to IMF April's *World Economic Outlook*. The report also estimates that the world's economic growth, which was 3.6% for 2018, will shrink to 3.3% in 2019 and improve to 3.6% in 2020. In some of the main economies –China, the EU, Japan– this deceleration reflected the loss of confidence, the need for regulatory changes and the uncertainty of the financial markets. With respect to the emerging markets, the economic activity was affected by trade tensions, the fall in demand and the risk aversion of investors.

With regard to Latin America and the Caribbean, the different growth projections are equally cautious, although dissimilar. Published in April, the World Bank's half-year report estimates this region will be the most affected by the fluctuations in the economic cycle, because of its political and institutional instability and its dependence on the price of commodities and international liquidity. Likewise, the report publishes the results of the economic activity in 2018 and its projections for the current year. In 2018, the region recorded a lower-than-expected result (0.7%) on average, due largely to the financial hardship in Argentina, the weak recovery in Brazil, the low growth in Mexico and the economic crisis in Venezuela. For 2019, the World Bank expects the region's GDP to grow 0.9% and that of South America, 0.4% (1.8% excluding Venezuela), standing below Central America (3.4%), the Caribbean (3.2%) and Mexico (1.7%). According to the World Bank, the challenges behind these projections will be the price of commodities with a downward trend (copper and food) and the possibility that China continues to slow down its growth, as well as other financial factors such as the sharp fall in capital inflows into the region and the fiscal and public debt issues.

In turn, the 2019 Latin American and Caribbean Macroeconomic Report published by the IDB shows more optimistic figures: it expects the region to grow 2.0% in 2019 and 2.5% in 2020. If Venezuela is excluded, however, the expansion of the region is estimated at 2.3% for the current year and 2.7% for the next.

PARALLEL TRADE TENSIONS IN THE WTO

The latest reports from the WTO Dispute Settlement Body (DSB) could have implications for many other cases, including those related to U.S. measures against steel and aluminium imports.

One of them is about a dispute between Russia and Ukraine (DS 512). Based on the complaint, Russia had restricted the transit of Ukrainian exports to other Central Asian countries. While the panel report did not object to Russia's use of the "national security" argument (referred to in Article XXI of the GATT), it has set an unprecedented interpretation for its use as it considers that the DSB can analyse whether the reasons given for restricting trade objectively correspond to those in Article XXI of the GATT.

The second case concerns the European Union complaint against the United States for subsidies to the Boeing aircraft factory. The case (DS 353) started in 2005 and, after going through several instances, ended in April 2019 with an Appellate Body Report in which it considers that the subsidies granted to Boeing were not allowed by the rules of the WTO and that the United States had not applied the modifications recommended by the DSB in the first and second instance. From now on, the EU can request authorization to take retaliation measures against the United States for the damages caused. To do this, it must call for the restart of the arbitration which began in October 2012 and was suspended one month later by decision of both parties. Meanwhile, the EU opened a public consultation on a preliminary list of products.

At the same time, the case initiated by the United States against the EU and other members for subsidies granted to the Airbus company is soon to be resolved (DS 316). After having been demonstrated that the EU measures were incompatible with the WTO rules, it is now being analysed if the modifications implemented by the European bloc conform to these norms.

EUROPE

THE EUROPEAN PARLIAMENT APPROVES NEW INVESTMENT PROGRAMME

On April 18, the European Parliament partially approved the InvestEU programme. This will centralize under its orbit the European Fund for Strategic Investments (EFSI) and thirteen financial instruments for investment and employment promotion. The initiative provides for total investments of € 698 billion over the next ten years, and will be part of the European Commission's policy on investment, structural reforms and fiscal responsibility.

The formation of funds available during the 2021-2027 period will also have a guarantee clause in the EU budget of € 40.8 billion, destined to four priority areas: sustainable infrastructure; research, innovation and digitalization; small and medium-sized enterprises; and investment in the social sector and resource formation.

The new members of Parliament, to be elected during May, will be responsible for defining the pending issues to set the programme's final structure, among which it is worth mentioning: the modality under which third countries to the initiative will take part and the budget percentage allocated for climate change objectives.

THE EU ADVANCES ON CAPITAL MARKET INTEGRATION

In April, the European Parliament agreed on the implementation of 11 proposals aimed at creating the legal basis for the European capital markets union (CMU), one of the main political priorities of the Commission. According to remarks by the European Commission Vice-President, Valdis Dombrovskis, these proposals will contribute to economic growth and job creation in the bloc.

The CMU intends to deepen and integrate the capital markets of the 28 member states.

In particular, it seeks to provide new sources of funding for businesses and citizens, promote the development of long-term projects, contribute to the stability of the financial system and facilitate cross-border investment and access to greater foreign direct investment (FDI) flows into the union.

The main proposals focus on the creation of instruments to fund long-term projects (such as collective investment funds and covered bonds), to facilitate the access of the small and medium-sized enterprises to the financial market, and to include new requirements for information and control in order to advance the sustainable development agenda that seeks to connect finance with the needs of the real economy.

LATIN AMERICA

MERCOSUR AND SINGAPORE START TRADE NEGOTIATIONS

On April 22, the first round of negotiations between Mercosur and Singapore began with the objective of strengthening the trade relationship with one of the entrance doors to the Southeast Asian market. It is the first trade negotiation of the Latin American bloc with a member country of the Association of Southeast Asian Nations (ASEAN). At the same time, a new Argentine logistics hub began to operate in Singapore, which will provide exporters with access to the region.

BRAZIL WALKS AWAY FROM ALADI'S RECIPROCAL PAYMENTS AND CREDITS AGREEMENT

On April 15, the Central Bank of Brazil withdrew from the Reciprocal Payments and Credits Agreement (CCR, for its acronym in Portuguese), signed by the central banks of the Latin-American Integration Association (Aladi) member countries, with the exception of Cuba. Many reasons were given for this decision, namely the fact that the Agreement has been falling into disuse and the problems of governance and payment by member countries, such as Venezuela.

This Agreement allows the central banks of the member countries to make and balance out between themselves the payments related to trade in goods (originating) and services (provided by residents) between their countries. Thus, every four months, banks should only pay the global balance generated by bilateral exchanges. It should also be taken into account that Argentina has its own compensation system with Brazil and Uruguay called Local Currency Payment System (SML, for its acronym in Spanish).

WHEAT EFFECT: BRAZIL TO IMPROVE ACCESS FOR ARGENTINE PRODUCTS

The Brazilian Minister of Foreign Affairs, Ernesto Araújo, has committed with his Argentine counterpart Jorge Faurie and with President Mauricio Macri to improve access conditions for some Argentine products which face difficulties entering the Brazilian market, such as olive oil, malt, grapes and musts. This concession would be a sort of compensation for the economic damage Argentina would suffer if Brazil implemented the tariff-rate quota for the import of 750,000 annual tonnes of U.S. wheat with an intra-quota tariff of 0% (*see Global Report, April 2019*).

BRAZIL PREPARES PENSION REFORM

The project to modify the current pension system in Brazil received the approval of the Committee on Constitution and Justice of the Chamber of Deputies. This project introduces a minimum retirement age (62 years for women and 65 for men) and increases from 15 to 20 years the mandatory shortest period of contributions needed to receive the minimum benefit and 40 years to get the maximum payment. After ten years, the system would be replaced by a private regime of individual capitalization.

The government estimates that the reform would reduce public spending by US$ 310 billion over the next ten years. This is a main objective for Brazil given that spending on retirement costs is currently the highest in the state (12% of GDP).

IMF WARNS ABOUT BRAZIL'S GROSS DEBT

In spite of having projected an improvement in the economic activity of Brazil for 2019 (2.1% for 2019 compared to 1.1% in 2018), the International Monetary Fund (IMF) also warned that Brazil's gross debt will continue to increase in the next five years. In its Fiscal Monitor report, the organization stated that during 2018 the gross debt accounted for 87.9% of GDP, that it would be 90.4% this year and that by 2024 it would reach almost 100%, which is very high compared to the average for emerging economies (53.4%). In turn, it would not be until 2022 that the primary balance would run a surplus.

NORTH AMERICA

OFFICIAL DETERMINATIONS OF THE ECONOMIC IMPACT OF THE USMCA

The United States International Trade Commission (USITC) published a report evaluating the likely repercussions of the new Agreement between the United States, Mexico and Canada (USMCA).

The report estimates that if the USMCA were fully implemented, a positive impact on real GDP and employment in the United States would be seen: real GDP would increase US$ 68.2 billion (0.35%) and employment would climb by 175,700 job positions (0.12%). The manufacturing industry would experience the greatest percentage gains in terms of production, exports, salaries and employment, while in absolute terms, the service sector would record the most important gains in production and employment. Likewise, the agreement would also have a positive effect on trade in this country, both with USMCA partners and with the rest of the world. In particular, the exports to Canada and Mexico would go up by 5.9% and 6.7%, while imports would increase by 4.8% and 3.8%, respectively.

The elements in the agreement to have greater effect on the American economy would be the provisions on digital trade (ban to forced server localization and the restrictions on data flows) and the new rules of origin applicable to the automobile sector. With respect to the latter, auto part manufacturing and employment are expected to go up in this country, though at the expense of a slight rise in prices and a retraction in vehicle consumption. Finally, the USMCA would reduce the scope of the investor-state dispute settlement (ISDS), likely to lead to a displacement of U.S. investments in Mexico to its country of origin.

On the other hand, the Office of the United States Trade Representative (USTR) published an analysis of the estimated impact the USMCA will have on investment, auto part purchases and employment in the American automotive sector. The report, based mostly on information provided by automakers, estimates that during a five-year period, the USMCA will promote US$ 34 billion in new investments in the automotive industry, US$ 23 billion in annual purchases of auto parts made in the United States, and 76,000 new employments in the automotive sector.

MEXICO APPROVES LABOUR REFORM

On April 29, the Mexican Senate endorsed without changes the labour reform bill that had been passed several days before by the Chamber of Deputies. This fact, added to the publication of the report on the potential impact of the USMCA on the American economy, would pave the way for the treatment of the Agreement by the U.S. Congress, while both aspects were considered key requisites for its treatment (*see Global Report CEI, April 2019*). Nevertheless, some congressmen are still doubtful about the enforceability of USMCA labour and environmental provisions.

The reform seeks to standardize the labour provisions between the member countries of the agreement. Thus, it attempts to guarantee, among other aspects, trade union independence, the right to freedom of assembly of the working class and the creation of a new institution to solve the controversies between employees and employers.

UNITED STATES WITHDRAWS FROM UN ARMS TRADE TREATY

During a speech at the annual convention of the National Rifle Association, President Trump announced the decision to withdraw from the United Nations Arms Trade Treaty (ATT). Signed by 130 States and ratified by 83, it took effect in December 2014 in order to establish norms that regulate the international trade of conventional arms and ammunition. Its objective is to prevent and eliminate illicit arms trafficking so as to contribute to the promotion of peace, security and stability in regional and international spheres.

According to a report by the Stockholm International Peace Research Institute (SIPRI), U.S. military expenditure in 2018 grew 4.6% year-on-year and reached US$ 649 billion. This figure accounts for almost 36.0% of military expenditures in the world.

SUPPORT FOR THE ARGENTINE ACCESSION TO THE OECD

The *Center for Strategic and International Studies* (CSIS) of the United States published a report giving support to Argentina's accession to the Organisation for Economic Co-operation and Development (OECD) and urging member countries at said forum to move forward in the consensus needed by the country to obtain the invitation to begin the formal process for OECD membership.

The study produces a series of recommendations in six key areas. It highlights the reforms that have been made by the national government since 2016, particularly in areas related to competition, corporate governance, regulatory policies, labour market policies, anticorruption and financial markets.

Although in the last three years many key pieces of legislation have been approved, the comprehensive process has just started and will demand further adaptations, both in the public and in the private sector, so as to adopt the OECD best practices.

ASIA

SECOND OBOR FORUM

On April 26, the Second Belt and Road Forum for International Cooperation was inaugurated in Beijing. Under the watchful eye of leaders from 40 countries and international organizations, President Xi Jinping said that the initiative enables the creation of a new platform to boost trade and investment between China and the countries participating in the initiative. The only Latin American president who took part in the event, Sebastián Piñera, said that “Chile is ready to become a true gateway for Asia into the Latin American world”. In addition, during this Forum, Peru signed the bilateral Memorandum of Understanding that turns it into the 19th country of Latin America and the Caribbean to be part of the initiative. Argentine Foreign Minister Jorge Faurie, who also participated on the occasion, highlighted the importance of creating infrastructure to promote economic development.

ARGENTINA SEEKS TO INCREASE AGRICULTURAL EXPORTS TO CHINA

During the last week of April, Argentina and China reached several commitments on agricultural trade. In the first place, the Secretariat of Agribusiness signed a sanitary protocol on pork with the Chinese Customs Office that would allow Argentina to enter the world’s largest pork consumption market. It should be noted that an “African swine fever” outbreak in this country and other parts of Asia is threatening to reduce local production and significantly increase the price of this type of meat. In line with this objective, a Memorandum of Understanding on safety in foreign trade of food (bovine, poultry and swine) was also signed in order to speed-up and facilitate the authorization of export establishments.

The Secretary of Government for Agro-industry, Luis Etchevehere, also took advantage of the official mission to speak at the Second OBOR Forum, where he pointed out the advances in the agro-industrial cooperation agenda and the upcoming challenges in the Argentina-China relationship. During 2018, Argentine exports to China reached US$ 4.2 billion, and the main products exported were soybean (31.2%), frozen boneless beef (20.5%) and shrimps and prawns (4.8%).

CHINESE SOYBEAN DEMAND ON THE RISE

According to forecasts of the United States Department of Agriculture (USDA), the Chinese demand for soybeans and soy products will continue to increase in the 2019-2020 period, given that the outbreak of African swine fever (ASF) reinforces the demand for chicken, beef and aquaculture proteins. This results from consumer fears about health, price considerations and the desire to diversify the diet.

The USDA forecasts that China's soybean imports for the 2019-2020 period will reach 91.5 million tonnes, a 4.0% rise from the estimated 88 million tonnes in the 2018-2019 period, but lower than imports of the 2017-2018 periods of 94.1 million tonnes. "China's domestic oilseed production will remain stagnant in the 2019-2020 trade campaign, while domestic demand for oilseeds will continue to grow steadily, despite the impact of ASF", the USDA said. Therefore, China will still depend on imports of oilseeds from Brazil, the United States, Argentina and Canada.

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