CEI Centre for International Economy

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MAY 2021

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WORLD

THE GLOBAL ECONOMY ENTERS RECOVERY PHASE

The world economy would grow 6% in 2021 and 4.4% in 2022, after a fall in 2020 that was estimated at 3.3%, according to last April's IMF's World Economic Outlook. The 2021 projection is 0.8 percentage points higher than that of October 2020 (see CEI Global Report, November 2020) due to the expansive fiscal policy of some developed economies and to the beneficial economic effects of the vaccination. The advanced economies would grow 5.1% in 2021 and 3.6% in 2022, while the developing economies would go up to 6.7% (2021) and 5% (2022).

Only 12 countries grew in 2020: Ethiopia (6.1%), Tajikistan (4.5%), Taiwan (Republic of China) (3.1%), Ivory Coast (2.3%), China (2.3%), Uzbekistan (1.6%), Iran (1.5%), Tanzania (1%), Ghana (0.9%), Senegal (0.8%), Turkmenistan (0.8%), Burkina Faso (0.8%) and Turkey (0.4%).

The Argentine economy is expected to shrink by 10% in 2020 and it would grow 5.8% in 2021 and 2.5% in 2022. The GDP of Argentina's main trade partners would increase in 2021 and 2022: Brazil (3.7% and 2.6%), Chile (6.2% and 3.8%), the countries in the euro zone (4.4% and 3.8%), the United States (6.4% and 3.5%) and China (8.4% and 5.6%).

In turn, global trade in goods and services, measured in volume, decreased 8.5% in 2020 and it is expected to recover its growing trend in 2021 (8.4%) and in 2022 (6.5%).

The report points out risk factors that could either improve or worsen the perspectives. Among the factors to the rise, the following are mentioned: more vaccination with the subsequent consumers' improved mood and the effects of fiscal support; while as factors contributing to the downturn, the report includes the recurrence of the pandemic and persisting damages in the potential for goods supply –problems in the production networks or greater social turmoil.

Regarding commodities, their prices have gone up in the first quarter of 2021; in general terms they have recovered their pre-pandemic levels and are expected to continue on the rise. For instance, those related to energy would go up 36% this year; agricultural commodity prices 13.5%; and metals and minerals, 30.4%. Regarding Argentina's agricultural exports, those derived from oil seeds would go up 29% and grains 13.8%. The future evolution of agricultural products will depend mainly on the Chinese demand, the dollar depreciation and the biofuel production.

ESCALATING DEBATE OVER INTELLECTUAL PROPERTY RIGHTS AND VACCINES

The initiative over the temporary suspension of the intellectual property rights of the vaccines against COVID-19, initiated by India and South Africa at the WTO in October 2020, had strong support on the part of the US government.

Some US senators recommended President Biden to give support at the WTO to the temporary suspension of patents, and after a group of former heads of state and Nobel laureates also suggested this course of action, the United States Trade Representative, Katherine Tai, announced that the United States is going to participate in the negotiations at the WTO, and that it will give support for waiving intellectual property rights, although she stressed that the negotiation will take time.

Besides, the President of the European Commission, Ursula von der Leyen, expressed that the EU is ready to discuss the proposal for a waiver of intellectual property rights, although based on the first reactions by the French and German authorities, it is clear that there is no agreement on this subject within the European bloc.

Meanwhile, India has restricted the exports of vaccines against COVID-19 to supply the increasing domestic demand, which gave rise to restlessness in the countries that counted on said vaccines. India is the second global producer after China and it is the main exporter. This restriction especially affects developing countries in Asia and Africa.

EUROPE

EUROPEAN UNION GDP FALLS 0.4% IN THE FIRST QUARTER

The economy of the European Union fell 0.4% during the first quarter of 2021, compared to the last quarter of 2020, according to EUROSTAT. Portugal is the country in the bloc with the most pronounced fall, with a 3.3% reduction compared to the previous quarter and a 5.4% fall if compared to the first quarter of 2020.

The good news for the EU is that there has been a slight decline in the unemployment rate which stood at 7.3% in March, while in February it had been 7.4%. It is clear that the values previous to the COVID-19 pandemic have not been reached yet, since in March 2020 the unemployment rate stood at 6.4%. Spain, which managed to lower the unemployment rate from 15.5% in February to 15.3% in March, is still the country showing the worst unemployment figures in the bloc.

THE EUROPEAN PARLIAMENT APPROVES POST-BREXIT AGREEMENT

The European Parliament approved with 660 votes in favour, 5 against and 32 abstentions the EU-UK Trade and Cooperation Agreement, signed on 24 December 2020, days before the United Kingdom left the European internal market and customs union (see CEI Global Report, January 2021).

In the resolution issued by the European Parliament, the United Kingdom's exit from the bloc is described as a "historic mistake", but it is celebrated that in this context, the ratification of the agreement lessens the negative effects of the decision taken by the British. Of the topics on which agreements were met, the following can be mentioned: fisheries, consumption, air traffic and energy; however, there is also regret regarding the failure to reach a better solution in the spheres of foreign policy, safety and development, as well as in the Erasmus exchange programme for students.

After adoption by the European Council of the Decision relative to the celebration of the Agreement and its publication in the official gazette, this will be permanently effective on 1 May.

END OF NEGOTIATIONS OF THE NEW EU-OACPS AGREEMENT

After more than two years and a half of negotiations, the representatives of both blocs reached the final text of the new Partnership Agreement between the European Union and the members of the Organisation of African, Caribbean and Pacific States (OACPS, previously known as African, Caribbean and Pacific Group of States (ACP)). This agreement, that follows that reached in Cotonou, Benin, in the year 2000, and which will be in force until November 2021, sets the framework for political, economic and sector-based cooperation between the blocs for the next twenty years.

The OACPS has 79 members, mostly African countries, and along with the countries in the EU they gather 1.5 billion inhabitants. Among the high-priority strategic spheres encompassed in the Agreement are the following: environmental sustainability and climate change, and sustainable and inclusive economic growth and development.

The undersigning of the agreement is expected for the second semester of 2021, although it will previously need approval by the European Parliament. Then, for its entry into force, each of the parties will have to comply with the respective internal procedures.

ITALY ALLOCATES OTHER 40 BILLION EUROS TO MITIGATE THE CRISIS

The Council of Ministers of Italy, headed by Mario Draghi, approved new measures to fight the negative effects of the COVID-19 pandemic. A total of 40 billion euros will add to what was previously granted and which will be allocated as tax exemptions or direct aids to firms.

Besides, Draghi's government updated the macroeconomic outlook for the remaining of the year. The new estimations forecast a 4.5% growth and a fiscal deficit of 11.8% for 2021. It is also expected that public debt ends up accounting for 159.8% of GDP. These outlooks are more pessimistic than those that Giuseppe Conte's government had published in October 2020, when a 6% growth of GDP, a 7% deficit and a debt at around 155.6% of GDP were anticipated.

SOUTH AND CENTRAL AMERICA

27TH IBERO-AMERICAN SUMMIT

Government representatives of the 22 Ibero-American countries took part in the 27th Ibero-American Summit, this year held in a hybrid format. Under the slogan "innovation for sustainable development" and "Ibero America facing the challenge of the coronavirus", measures around health, economic, social and environmental matters were discussed. As a result, several instruments were agreed upon, including three specifically economic-based communiqués.

The first, on initiatives for the post-COVID-19 economic recovery, highlights two proposals from Costa Rica. One of them being the creation of a "Fund to Alleviate COVID-19 Economics", financed with 0.7% of the GDP of high-income economies and channelled through international financial institutions in the form of loans to developing countries. The second communiqué, on external debt relief, proposes the creation of a space for dialogue for the effective, equitable and predictable analysis of debt problems, which includes international financial institutions, multilateral organisations and governments with which the Ibero-American countries have bilateral debts.

Finally, the communiqué on access to external financing, promoted by Argentina, Bolivia, Costa Rica and Spain, exposes the challenges of middle-income countries (i.e. most Ibero-American nations) which face major economic crises, lack the room for manoeuvre of higher income countries and access international aid at very high interest rates. As a result, some of their proposals include reviewing and flexibilising the eligibility criteria and conditions of international financial institutions; considering a facility that takes into account the events derived from systemic crises when setting the debt conditions; promoting a new financial and macroeconomic risk assessment standard that incorporates the particularity of the COVID-19 crisis, to avoid the pro-cyclical effects of credit rating downgrades; and supporting a new round of emergency loans through the multilateral financial institutions.

NEGOTIATIONS AROUND MERCOSUR'S CET CONTINUE

On the occasion of the 12th Extraordinary Meeting of the Common Market Council, the Foreign Ministers and Representatives of the member governments presented coinciding and differing positions on several issues relevant to the bloc, among them, the modification of the common external tariff (CET). The objective of Argentina, which holds the Presidency Pro Pempore, is to reach a consensus on this matter during the first half of the year.

In this regard, our country presented an alternative proposal to the positions in favour of a linear reduction of the common external tariff. Argentina's counterproposal envisages a differentiated and non-linear reduction in tariffs, with greater emphasis on inputs and raw materials, and takes into account a segmentation of the tariff universe into four types of products (agro-industrial, industrial, capital goods, information technology and telecommunications) and a differentiation into five links according to the degree of processing of the products.

The Argentine initiative considers the capacities of the different sectors of the economy which have significant differences in terms of competitiveness.

REFORMS TO THE ARGENTINA-CHILE AUTOMOTIVE AGREEMENT ENTER INTO FORCE

As of 13 April, the new rules of origin in the automotive sector agreed by Argentina and Chile in the sixty-fifth Additional Protocol to the Economic Complementarity Agreement No. 35 would come into force. Under this protocol, the minimum domestic content required for vehicles to enter Chilean territory duty-free is reduced from 60% to 50%.

It is estimated that this modification of the rules of origin will allow an additional shipment of 10,000 vehicles per year (mainly pickups), which translates into an approximate value of US$ 150 million. This will contribute to fulfil the projections of the national automotive industry, which expects to almost double sales abroad during 2021 (144,445 additional vehicles) and end the year with an approximate US$ 3.7 billion surplus.

PARAGUAY, COSTA RICA AND ECUADOR LAUNCH PROJECT TO REVIVE TOURISM

Government Representatives of Paraguay, Costa Rica and Ecuador, with the technical and financial support of the German government, launched the project "Protected Areas – Strategic Spaces for Reactivating the Development of Sustainable Tourism post-COVID-19", seeking to revamp and strengthen the offer of tourism services. The initiative, which will be implemented in the next two years, consists of training and exchange of information and experiences by Costa Rica for the planning and positioning of "safe and resilient" travel destinations in the Protected Wild Areas of Paraguay and Ecuador. It is hoped that adjacent communities will also benefit through the development of parallel activities, such as hospitality and gastronomy.

NORTH AMERICA

THE US INCORPORATES CLIMATE INTO ITS TRADE POLICY

In a video conference organised by the institute of political analysis *Center for American Progress*, the US Trade Representative, Katherine Tai, expressed that trade policy is an essential and strategic tool to address climate change and protect the environment.

She emphasised that climate change mitigation is a global challenge that will require a global solution and that the current rules of globalisation are not prepared to find such an answer. In this context, she added that the US must be a leader in preventing a catastrophic chain reaction on the environment. She also said that her country's environmental protection efforts should not lead to the export of polluting industries to economies with lower environmental standards.

Likewise, she stated that the US will ensure the full implementation and enforcement of the environmental obligations of its trade agreements and will encourage the creation of new and ambitious rules to protect vital resources.

This view of the role of trade policy goes hand in hand with the announcement made by President Joe Biden at the Leaders' Summit on Climate Change regarding the new US goal of reducing emissions between 50% and 52% by 2030, compared to 2005 levels.

USMCA: NEW RULES FOR CROSS-BORDER TRANSPORT

On 8 April, the US International Trade Commission (USITC) published a rule regarding the practices and procedures for investigations into the services of long-distance cross-border transport between the United States and Mexico, which will enter into force on 10 May.

The provision, included in the USMCA Implementation Act, seeks to ensure that Mexican carriers delivering to the US comply with federal laws and with the safety and environmental standards necessary to operate on US highways. Otherwise, an investigation process could be initiated to determine whether the Mexican carrier has caused or threatened material injury to US providers of long-distance cross-border transport services. If the Commission confirms the existence of damage, it will recommend a solution to the President.

This new safeguard measure raises concerns among Mexican carriers, as it would allow US authorities to cancel permits to Mexican companies if they are deemed to have caused harm to carriers in the neighbouring country, that is, if they have taken significant market share away from their US competitors.

US LEGISLATORS SEEK REMOVAL OF TARIFFS

A group of more than 40 lawmakers requested the US Trade Representative to seek an agreement with the EU to remove tariffs affecting sales of wine and distilled beverages to the trade bloc, arguing that the US industry –particularly that of whisky– has suffered significantly and will face an even greater burden when tariff rates double on 1 June.

Both wine and distilled beverages are part of a broader list of products, whose import tariffs were increased by the EU in retaliation for measures taken by the Trump administration against steel and aluminium imports under Section 232 of the Trade Expansion Act of 1962.

Another product affected is motorcycles. In particular, the Harley-Davidson company announced that it will initiate legal actions to reverse a recent decision by the European Commission that revokes a previous permit granted by the Belgian government and requires motorcycles that the company produces in Thailand to pay the same tariffs as those produced in the US. In this way, regardless of their origin, the company's products will have to pay a tariff of 31% to enter the union bloc, which will be increased to 56% from 1 June 2021.

The recent agreement launched between the US, the EU and the UK to temporarily suspend tariffs imposed on Boeing and Airbus cases (see CEI Global Report, April 2021) is considered a good step in view of a resolution of the tariffs and retaliation related to Section 232. However, while the Biden administration is reviewing the measures imposed by Trump, it has not committed to lifting these duties. Should this happen, the EU maintains that it will immediately remove its retaliatory tariffs.

US-JAPAN RELATION RELAUNCHED

On 16 April, US President Joe Biden and Japanese Prime Minister Yoshihide Suga held their first face-to-face meeting in Washington. In the course of the visit, the two leaders agreed on three documents: a joint statement on the US-Japan Global Partnership for a New Era, the US-Japan Competitiveness and Resilience (CoRe) Partnership and the US-Japan Climate Partnership on Ambition, Decarbonization and Clean Energy.

In terms of security and defence, the leaders pledged to ensure a free and open Indo-Pacific, to strengthen the region's security, and to increase cooperation to address the strategic, geopolitical, and economic challenges posed by China.

The environmental agenda will focus on setting and achieving ambitious emission targets for 2030, which support net zero emission commitments by 2050, the development of clean energy technologies, and the support for decarbonisation in developing economies and the Indo-Pacific region.

With regard to economic relations, the CoRe defines as priority areas the cooperation on: (i) competitiveness and innovation, in particular on issues related to digital technologies and biotechnology; (ii) the response in the fight against the effects of COVID-19 and global health; and (iii) climate change mitigation, clean energy and green growth.

Trade is not high on the agenda. There is no mention of the bilateral negotiations or the two agreements –one that liberalises part of the trade in agricultural products and the other that regulates digital trade– signed by the Trump and Abe administrations, which came into force in early 2020. Nor does it indicate whether the partners will begin negotiations for the second and most ambitious phase of the trade deal promised by Donald Trump.

ASIA

CHINESE ECONOMY GROWS 18.3% DURING FIRST QUARTER

The Chinese economy expanded 18.3% year-on-year in the first quarter of 2021, compared to a 6.8% contraction over the same period last year, when the COVID-19 epidemic outbreak forced the closure of the economy. However, controlling the epidemic and resuming activities allowed for three consecutive quarters of growth driven by domestic demand, according to data from China's National Bureau of Statistics.

Meanwhile, the industrial production of the Asian country grew 24.5% year-on-year in the first quarter of 2021. In March, manufacturing production grew by 15.2% year-on-year and the high-tech sector expanded 14.1% in the same period. According to the BNE, the utilisation rate of China's industrial capacity rose 9.9 percentage points in year-on-year terms in the first quarter, to stand at 77.2%, the highest level for the first quarter since 2013.

AUSTRALIA MOVES AWAY FROM "ONE BELT, ONE ROAD" CHINESE INITIATIVE

Australian Foreign Minister Marise Payne announced on 21 April that the federal government had cancelled two agreements in the framework of the "One Belt, One Road" (OBOR) initiative between the

Government of Victoria and China. Victoria, which includes Melbourne, Australia's second-largest city, had joined the OBOR initiative, China's infrastructure finance megaproject, in 2018.

The agreements were cancelled under Australia's Foreign Arrangements Scheme, in force since December 2020. By virtue of this scheme, the federal government has the right to cancel any agreement with a foreign country which it does not consider to be in the national interest. Australia's decision adds to the escalation of trade tensions between the two countries, over the imposition of high tariffs and the ban on the entry of Australian products into China.

CHINA LAUNCHES CAMPAIGN TO BOOST DOMESTIC CONSUMPTION

The expansion of domestic consumption is a priority in the "dual circulation" economic strategy that was announced by President Xi Jinping in 2020, in which the Chinese government aims to achieve less dependence on external markets. In this regard, starting 1 May, China will begin a one-month campaign to promote consumption, which will include e-commerce and a series of promotional activities in the cities of Beijing, Shanghai and Guangzhou, among others. In addition, the city of Haikou on Hainan Island, positioned as a major tourist hub in China, will host an inaugural consumer goods exhibition on 7-10 May, with more than 200,000 visitors expected to attend.

AFRICAN SWINE FEVER STILL WREAKS HAVOC IN ASIA

An African Swine Fever (ASF) mutation continues to affect the Asian pig industry. While global stock of livestock pork heads increased by 15% year-on-year, they are still well below 2018 levels.

Animal protein consumption in China is moving away from pork and is increasing the demand for beef. In 2021, the ASF remains the most important factor affecting the meat sector in China, its production, imports and consumption, two and a half years after its appearance in the Asian country in mid-2018. While China invested heavily in ASF vaccine development, none reached the commercial development stage and numerous test vaccines show mixed results.

The recovery in pork production in China began in the fourth quarter of 2020, but is expected to take several years due to the large loss of heads. Current forecasts suggest that the Asian country's pork production could range from 45 to 55 million tonnes by 2025, probably still below production levels prior to the emergence of the ASF.

AFRICA

ACCORDING TO THE IMF, SUB-SAHARAN AFRICA WILL BE THE LESS GROWING REGION IN 2021

The International Monetary Fund (IMF) estimated that in 2021 Sub-Saharan Africa will grow 3.4%, an increase higher than the 1.9% contraction recorded last year, but lower than the global growth expected for this year (6.0%).

As a consequence, Sub-Saharan Africa is expected to be the region in the world showing the least remarkable growth in 2021, due to considerable uncertainty regarding the progress of the pandemic, especially due to the lack of access to the COVID-19 vaccines and to public policy tools to respond to the economic crisis.

The IMF pointed out that the path towards recovery and overcoming the persistent effects of the crisis will be difficult and that, even though the region is expected to grow, it will be difficult to reverse the backlash left by the pandemic last year. The international body estimates that in 2020 the employment level fell 8.5% and that the number of people in a situation of poverty rose to 32 million in the region.

AVIAN FLU OUTBREAK THREATENS THE SOUTH AFRICAN POULTRY INDUSTRY

The South African Health Agency officially informed the World Organisation for Animal Health (OIE) of a new outbreak of avian influenza in the province of Gauteng. According to what was pointed out by South African Poultry Association (SAPA) there was no risk of product scarcity.

The exports are key for the South African poultry industry, mainly among the Member States of the Southern African Development Community (SADC). Nevertheless, as soon as the outbreak was confirmed, the Ministry of Agricultural Development of Botswana prohibited all trade in poultry with South Africa. Namibia, in turn, introduced a retrospective prohibition of South African poultry products as of 19 March, and Mozambique turned back South African egg shipments in the shared border, which can have a strong impact on both markets, since 70% of the exports of South African eggs (almost 10.7 billion tonnes last year) and 12.800 tonnes of chicken meat are shipped to Mozambique every year.

TUNISIA READY TO PARTICIPATE IN COMESA FREE TRADE AREA

In accordance with what was informed in the official website of the Common Market of Eastern and Southern Africa (COMESA), Tunisia is ready to participate as a full member in COMESA Free Trade Area, a year after notifying about its participation in the trade area in March 2020. Apart from the FTA, COMESA is implementing several programmes aimed at promoting regional integration by means of trade. They include improvement of infrastructure, of industrial competitiveness and of the agricultural sector.

COMESA was founded in 2000 on the basis of trade integration; nevertheless the potential for growth in the region has been stopped, among other reasons, by non-tariff barriers, inadequate infrastructure, high costs to do businesses, limited information regarding the market opportunities available and the limitations of supply.

In the future, COMESA intends to approach some of these limitations by means of the implementation of the instruments of the Digital Free Trade Area (DFTA), the COMESA electronic certificate of origin, and the online COMESA market to increase trade in services.

Tunisia's announcement takes place when its food trade balance showed a US$ 251.7 million deficit during the first three months of 2021, as opposed to the US$ 176.7 million surplus recorded during the same period of the previous year.

The deficit results from the increase in the pace of imports of cereals (31.9%) and the decrease in imports of olive oil (14.3%) and of fish (2.5%), in spite of the rise in exports of citrus fruits (57.9%) and tomatoes (33.6%).

SOUTH AFRICAN CITRUS FRUITS: SHORTAGE OF CONTAINERS

South Africa has high expectations for the citrus fruit season in terms of volume of production, but the industry seems to face the challenge of the lack of refrigerated containers and the high shipping costs. South Africa expects that the exports of citrus fruits will hit another consecutive record in 2021, now even more on the rise (162 million of boxes overall), driven mostly by the late mandarins.

Nevertheless, the Citrus Growers Association of Southern Africa (CGA) stated that meeting the expected demand of the citrus industry of 95,000 refrigerated containers will be a challenge this season. This number goes up to 120,000 when the volume of subtropical fruits is included. The association indicated that there is a very strong demand for general freight movement from China to the US, South America and the EU, with exorbitant freight fees that are charged due to high demand, for which reason the lines are renouncing to allot space in the ships for refrigerated containers.

Ministry of Foreign Affairs
International Trade and Worship
Argentina

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