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# CEI GLOBAL REPORT

CEI Centre for International Economy

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# WORLD

## Gradual recovery of global economic growth

Even though the global economy shows signs of a gradual recovery in growth, a decline in inflation and an improvement in the functioning of value chains after the control of COVID-19 –particularly in China–, there are still several forces probably offsetting this positive outlook, according to the IMF's recent World Economic Outlook. This is the case of a certain vulnerability of banks to rising interest rates, as a result of the restrictive monetary policy in developed countries; the high levels of public debt in developing countries that limit fiscal policy; a lower growth in China, with its impact on world exports and the price of commodities; and the prolongation of the war between Russia and Ukraine, which fuels geopolitical tensions and increases the risk of fragmentation in the world.

Stemming from this global view, the IMF's base outlook is that the world economy would grow 2.8% this year –below the 3.4% recorded in 2022– and 3.0% next year; advanced economies would go up 1.3% this year and 1.4% in 2024; and developing economies would do so by 3.9% in 2023 and 4.2% in 2024, driven by China –5.2% and 4.5%– and India –5.9% and 6.3%–.

For the IMF, the smaller global demand would be reflected in lesser growth of global trade in goods and services: from the 5.1% increase during 2022, it would go down to 2.4% in 2023 and up to 3.5% in 2024.

In turn, the inflation rate would decrease in all regions: in the euro zone it would drop from 8.4% last year to 5.3% this year and 2.9% next year; in the United States, from 8.0% in 2022, to 4.5% in 2023 and 2.3% in 2024; while in the advanced Asian countries it was 3.8% last year and it is projected to be 3.3% this year and 2.4% the coming year. The drop would occur even in countries with high inflation rates dating back before the increase in food and energy prices derived from the pandemic and the war between Russia and Ukraine. Such is the case of Venezuela –400% in 2023 and 200% in 2024–, Argentina –98.6% and 60.1%–, Türkiye –50.6% and 35.2%–, and Iran –42.5% and 30.0%–.

## Prices of commodities in downtrend

Commodity prices fell 32.0% on average during the second half of 2022, from their all-time high in June of that year, representing the steepest drop since the start of the COVID-19 pandemic, according to the World Bank index. Factors like a smaller level of activity, a mild winter and the redirection of exports of Russia and Ukraine partly corrected the increase that had taken place in the first half of last year after the start of the war between both countries. The outlook is for the descent to continue but prices would still be in levels higher than the average of 2021. For example, the price of energy rose 60.0% in 2022 and this year it would be reduced by 26.0%; that of agricultural products increased 13.0% last year and would fall 7.0% in 2023. The widespread increase in food prices, although lower than last year's, would make the population with food insecurity double that of 2020 this year.

# EUROPE

## Political agreement in the EU for access of Ukrainian agricultural products

The authorities of Hungary, Poland, Bulgaria and Slovakia banned (at different times in April) the imports of Ukrainian cereals and other agricultural products. This was in response to the consequences caused by a policy promoted by the EU in May 2022, which facilitated the conditions of entry into the European bloc of some agricultural products from Ukraine.

The aim of the 2022 measure was to speed up the transit of Ukrainian goods to third countries, but EU farmers in territories neighbouring Ukraine reported that Ukrainian products, cheaper than those coming from the bloc, had accumulated in Eastern Europe and caused sharp falls in prices in their local markets.

Hungary's Minister of Agriculture stated that the price of wheat grown in that country was 350 euros per tonne, while Ukrainian wheat was sold at 160 euros, and that imports from that country since the EU facilitated its entry had reached 2.5 million tonnes, when only 50,000 tonnes were previously imported per year.

In March, the Prime Ministers of Bulgaria, Slovakia, Hungary, Poland and Romania asked the EU for a solution to this conflict, to which the EU authorities responded by offering a 56 million euro compensation for Bulgarian, Polish and Romanian farmers, which was considered insufficient by the affected countries. Moreover, this aid did not include Hungarians or Slovaks.

In the face of the prohibition, initially driven by Poland, the spokesperson for Economic Affairs of the European Commission (EC) –the body with exclusive competition over the EU trade policy– expressed that the unilateral actions were "unacceptable". Nevertheless, after the rest of Ukraine's neighbours joined the measure, the EU decided to increase by 100 million euros the compensations and reached a political agreement with the five affected countries that will allow them to temporarily restrict the entrance of some Ukrainian agricultural products (wheat, maize, rapeseed and sunflower seeds), although they are committed to guaranteeing their transit to third countries.

## Germany abandons nuclear energy

The last three nuclear reactors that used to be active in Germany were permanently shut down on 15 April, adding to another 13 reactors that were closed there in the last 20 years. As a consequence, this completes a decision that puts an end to more than 60 years of production of this type of energy, giving rise to many controversies in German domestic politics and differentiating itself from the position taken by other EU country members (see CEI Global Report, December 2021).

The nuclear blackout was initially impelled in 2000 by the Social-Democratic Chancellor Gerhard Schröder (who had the Green Party as his ally) and it was accelerated in 2011 when, after the Fukushima disaster, the government led by Angela Merkel decided to close down all German nuclear plants by 2022.

Nevertheless, the last power stations did not close last year since the present Chancellor, Olaf Scholz, decided to keep them open due to the energy supply problems caused by the war in

Ukraine (see CEI Global Report, October 2022). Until a few days ago, nuclear energy still covered between 3% and 7% of the country's demand for electricity.

The definitive shutdown caused a strong rejection within the opposition parties, but also in the governing coalition. The Secretary General of the FDP party, a government partner, said that it was a "strategic error", and the opponents of the CDU and CSU considered the closing day "a black day for Germany".

### Nine European countries are committed to wind energy

In a summit of Chiefs of State that was held in the city of Ostende, Belgium, nine European countries were committed to developing the "largest green power plant in the world" in the North Sea. Germany, Denmark, the Netherlands, Belgium, France, Ireland, Norway, Luxembourg and the United Kingdom agreed to push forward the project they hope will provide energy to the entire region and contribute to guaranteeing European energy sovereignty, an objective that has gained particular interest after Russia's invasion of Ukraine and its consequences for the continent.

Belgium will construct an artificial island 45 kilometres off Ostende. This will become an electric centre to which different European Wind Farms will be able to connect, allowing them to work in a network and altogether generate 120 gigawatts (GW) of energy in 2030 (in 2022, the wind farms of the nine participating countries only produced 30 GW) and 300 GW in 2050 (equivalent to the consumption of 300 million households). According to the declaration subsequent to the summit, the production of green hydrogen on a great scale will add to the offshore wind energy.

Likewise, the nine countries expressed that they will coordinate joint actions to guarantee the security of their energy supply networks, an aspect that gained special relevance after the sabotage suffered in September 2022 on the Nord Stream gas pipelines, which transported gas from Russia to Germany through the Baltic Sea.

## SOUTH AND CENTRAL AMERICA

### Alliance of Latin American and Caribbean countries against inflation

Within the framework of the meeting of the Community of Latin American and Caribbean States (CELAC) on 5 April 2023, the Presidents of Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Cuba, Honduras, Mexico, Saint Vincent and the Grenadines and Venezuela agreed on measures to improve the conditions of exchange of commodities and intermediate goods, in a joint effort to reduce inflation. Likewise, the rulers expressed the importance of other objectives such as the contribution to food security and nutrition, especially of the most vulnerable populations. With this aim, they agreed to establish a technical working group, including government representatives from the different countries, to identify possible measures for trade facilitation, logistical improvements and harmonisation of sanitary and phytosanitary measures and develop an action plan accordingly. Finally, the leaders also hope to be able to generate technology transfers –in particular in agriculture–, increase cooperation in capacity-building and promote measures to facilitate access to international credit.

Inflation in the region has been largely affected by the war between Russia and Ukraine, especially in terms of food, energy and fertilisers, and aggravated by other events such as unfavourable weather phenomena. After an average peak of 10% in mid-2022, the inflation rate of major economies slowed to 7% in March 2023 thanks to a decline in commodity prices. However, the IMF warns that there is still stagnation in core inflation levels (excluding food and energy) and that factors such as high domestic demand and rapid wage growth could contribute to inflation remaining high. With this, it estimates that the average inflation in Latin America and the Caribbean will be 11.8% in 2023 and 7.7% next year.

## Chile and Hong Kong (SAR, China) broaden services agreement

On 6 April, the update of the free trade agreement between Chile and Hong Kong (SAR, China), signed in January 2022, entered into force, which substantially modernises and expands the chapter on trade in services. In particular, Hong Kong improved its commitments to Chile in the following services: health (medical, dental, midwife, nursing, physiotherapeutic, and paramedical), design, radio and television, commission agents, higher and adult education, sports and leisure, spa, transportation (maritime passenger services, road and agency freight), accommodation, IT and related, photographic, translation and interpretation, wholesale, storage and warehouse, and container and depot, among others.

This modernisation, which Chile intends to continue pursuing with other countries, contributes to its strategy of opening up to Asia Pacific markets for exports, especially of its SMEs. In this sense, Hong Kong is a very attractive market due to its proximity to mainland China, its population of more than 7 million inhabitants, the level of receptive tourism and its high purchasing power. During 2022, Chilean exports of services to that country amounted to US$ 9.4 million (with a year-on-year growth of 40%), borne by 37 companies. The main services exported were: international carrier, commercial consultancy and commercial administration and commission agents.

## Paraguay and Taiwan (China) sign mutual recognition agreement on organic production

Following the signing of a letter of intent in June 2019, High Officials of the Agency for Hygienic Quality of Plants and Seeds (SENAVE) of Paraguay and its counterpart in Taiwan (Province of China) signed a Memorandum of Understanding for the mutual recognition of their systems of production and control of organic agriculture. With this, organic products will be able to enter the other market without being subject to new controls, thus reducing procedures, costs and time. This will contribute to the development of trade in differentiated agricultural products and deepen bilateral economic relations in conjunction with the achievement of sustainable development goals.

In the last three years Paraguay exported 23 different types of organic products to several markets, worth more than US$ 225 million. In line with this, preliminary estimates indicate that, with this measure, shipments of organics to Taiwan could amount to US$ 100 million in the coming years. Among the Paraguayan products that will benefit are: sugar, sesame, yerba mate, medicinal herbs and chia seed.

# NORTH AMERICA

## Critical minerals: Indonesia and Philippines seek agreement with the US

The governments of Indonesia and the Philippines announced that they will seek to reach trade agreements on critical minerals with the US, as the one signed last month between the US government and Japan (see CEI Global Report, April 2023). Like the EU plans, these governments intend to qualify, through these partial agreements, as partners in a free trade agreement with the United States for the purposes of the Inflation Reduction Act (IRA).

It should be noted that the IRA requires, as a condition of eligibility for electric vehicle tax credit, that a certain amount of the battery components be produced or assembled in North America or in a country with which the United States has free trade. If these "partial" agreements are signed, electric vehicles using materials that have been collected or processed in Indonesia or the Philippines will be eligible for the subsidies.

Both Indonesia and the Philippines, alongside Russia, are among the world's leading exporters of nickel, one of the critical minerals essential for the production of electric car batteries, as well as for other renewable energy technologies.

According to a report from the Peterson Institute of International Economics, the United States could struggle to source nickel unless it negotiates additional pacts with major global producers. That is because the countries with which the US has existing free trade agreements –the only ones currently eligible for IRA tax credits– account for just 9.3% of global nickel production, while the US share of global production is just 0.5%.

## US growth moderates and interest rate increases continue

US real GDP grew 1.1% in annualised terms during the first quarter of 2023, according to the latest Bureau of Economic Analysis (BEA) figures. The growth rate was 0.3% with respect to the October-December 2022 period and 1.6% with respect to the first quarter of that year.

In this way, a slowdown of US growth rate is observed, after its 2.6% increase in GDP in the last quarter of 2022 and 3.2% during the third quarter of that year. The figure also fell short of analysts' expectations, who had projected a 2% growth in the first three months of the year.

The result is owed to an increase in consumer spending on goods and services –particularly motor vehicles and auto parts, health services, food and accommodation–, followed by exports and public spending. These increases more than offset the drop in private investment in inventories and residential fixed investment. In turn, imports, which are subtracted from the GDP calculation, increased.

The slowdown in the economy is consistent with the increase in interest rates with which the Federal Reserve (Fed) seeks to bring inflation under control, as well as with political turmoil worldwide. On 3 May, the Fed increased the benchmark rate by 0.25% again, bringing it from 5% to 5.25%, the highest in more than 15 years.

## US and Canada sign agreement on fisheries subsidies at the WTO

On 11 April, the United States formally accepted the Agreement on Fisheries Subsidies, becoming the fourth WTO member to do so. In early May, Canada also deposited its instrument of acceptance. The other members that have already signed the Agreement are Switzerland, Singapore and the Seychelles Islands.

The Agreement on Fisheries Subsidies was adopted by consensus at the 12th WTO Ministerial Conference in June 2022 (see CEI Global Report, July 2022) and requires the acceptance of two thirds of the members of the multilateral body to enter into force. It lays down new rules to curb harmful subsidies that contribute to the depletion of global fish stocks. New disciplines include a ban on subsidies to vessels or operators engaged in illegal, unreported and unregulated (IUU) fishing, fishing targeting overexploited stocks, and fishing in the unregulated high seas.

At that meeting, the members pledged to continue negotiations on pending issues and make recommendations for the next Ministerial Conference. In that regard, according to recent declarations of the Deputy United States Trade Representative, María L. Pagán, the US efforts are focused on achieving additional and ambitious disciplines on subsidies that contribute to overcapacity and overfishing, as well as on achieving greater transparency regarding the use of forced labour on fishing vessels.

# ASIA AND OCEANIA

## Japan-Korea's preferential treatment restored

Japan will reinstate South Korea to the list of "preferential trading partners" following a similar measure by the Korean government on Japanese trade status.

South Korea's preferential status, barring a few exempt items, was revoked in 2019 for the purchase of a wide variety of products and technologies that could have been diverted for military use, according to Japan's Ministry of Economy, Trade and Industry. The status will be restored once Japan completes public opinion procedures on the review of the export control ordinance and obtains Cabinet approval.

South Korea's Ministry of Trade, Industry and Energy welcomed Japan's decision and said it plans to further strengthen cooperation with its Japanese counterpart on various export control issues. The two countries exchanged views on the status of export control systems and confirmed their effectiveness through a political dialogue earlier this month. Previously, Japan had expressed concern about the Korean system so it now needs to confirm whether it is effective in preventing exported goods from flowing into North Korea and other countries.

In April 2023, Japan eased export controls on three key semiconductor-manufacturing materials destined for South Korea, in response to Korea's withdrawal of its complaint at the World Trade Organization over export controls. South Korea also restored Japan to the list of countries entitled to preferential treatment, after its suppression more than three years ago, allowing strategic items to be exported to Japan with a shorter review period. Bilateral ties had reached their lowest point in decades after South Korea's Supreme Court ordered two Japanese companies in 2018 to compensate Korean plaintiffs for alleged forced labour during Japanese colonial rule of the Korean peninsula between 1910 and 1945, eventually leading to the mutual removal from the respective "white lists."

## UAE and Cambodia conclude Comprehensive Economic Partnership Agreement

United Arab Emirates and Cambodia concluded the negotiations of the "Comprehensive Economic Partnership Agreement" (CEPA). The CEPA is based on the growing economic relations between the two countries that, in 2022, registered a non-oil trade of more than US$ 401 million, representing a year-on-year growth of 31%, 146% more than in 2019. In terms of investments, bilateral FDI reached US$ 3.8 million at the end of 2020.

The tariff preferences derived from the agreement will provide new opportunities for Cambodia's key exports, including grains, fruits, meats, processed foods, clothing, footwear and leather goods. The UAE will benefit from new export opportunities in machinery, oils and lubricants, automobiles and auto parts, as well as investment opportunities in logistics and infrastructure, travel and tourism projects and renewable energy.

The UAE's new foreign trade agenda is a central component of its growth strategy, which aims to double the size of the economy from US$ 381 billion to US$ 762 billion by 2030. The UAE has already signed CEPAs with India, Israel, Indonesia and Türkiye, and has agreed to start negotiations with Vietnam in the coming weeks.

## India's trade deficit with China and Russia deepens

Between April 2022 and January 2023, India's highest trade deficit was with China, US$ 71.6 billion, followed by Russia, US$ 34.8 billion. Of the US$ 37.3 billion of imports from Russia, two-thirds of the value of imported goods were crude oil.

In fiscal year 2022, Russia was India's 25$^{th}$ trading partner, while it now ranks second. The situation changed radically after the US and the European Union imposed sanctions on Russia following its invasion of Ukraine.

In the case of China, according to provisional data from the Ministry of Commerce, India's exports to China fell about 28% to US$ 15.3 billion between April 2022 and January 2023, while imports increased 4.16%, reaching US$ 98.5 billion in the last fiscal year. The trade gap widened to a record US$ 83.2 billion, up from $ 72.9 billion in 2021-22.

## ASEAN consolidates core elements of food security for the region

Within the framework of the "ASEAN Conference on Strengthening Food Security Integration", the member countries plus Timor-Leste agreed to create rapid response mechanisms in times of crisis and strengthen a food and agricultural system that is sustainable in the long term, given the context of the current conflict in Ukraine, which led to the disruption of the global food supply chain and a 30% increase in the price of food.

ASEAN is not immune to this situation and faces an average food inflation of 15% in 2023. Exacerbated by environmental issues, climate change and the difficult recovery from the COVID-19 pandemic, the food crisis continues to haunt not only ASEAN as a region, but also globally.

At the conference, collaboration between ASEAN countries and the Economic Research Institute for ASEAN and East Asia (ERIA) was agreed in order to strengthen regional food security. This will be crystallised through the "ASEAN Leaders' Declaration on Strengthening Food Security and Nutrition in Times of Crisis" to be adopted at the 43rd ASEAN Summit, to be held in September.

The Conference agreed that a rapid response in times of crisis should be given in a way that facilitates trade, ensures seamless logistics and supply chain, and also expedites the delivery of food and agricultural products from the initial to the final stages. To strengthen long-term food security, ASEAN will need a solid agriculture and food development, by promoting digitisation, innovative financing, climate resilience and smallholder farmer training.

# AFRICA

## Nigeria increases import duties on rice and wheat

The Nigerian government revised upwards the Import Adjustment Tax (IAT) on rice and wheat. It should be noted that ECOWAS member countries have the power to modify the import tariffs on agricultural products within the price range agreed on at the time of implementation of the Common External Tariff of the Economic Community of West African States (ECOWAS CET 2022-2026).

The revision raised the import tariff on packaged rice, either in bulk or in retail packages, from 50% to 60%. Similarly, the import of wheat or meslin flour now has a tariff rate of 70% versus the 50% ones before adjustment. This measure is taken by Nigeria to protect the local milling industry. Any new import transaction entered into on or after 1 May 2023 shall be subject to the new import tariff regime.

The decision is made in the framework of the implementation of ECOWAS CET 2022-2026 "Supplementary Protection Measures" and the revised excise duty rate on alcoholic beverages, cigarettes and tobacco products, as well as the introduction of excise duties on single-use plastics (SUPs).

The revised rate of excise duty on alcoholic beverages and tobacco products will take effect starting 1 June 2023, and will be revised upwards in accordance with the new scheme before 1 June 2024. The excise duty on single-use plastics will come into effect on the same date.

## Fighting in Sudan will affect supply chains and disrupt regional trade

The economic importance of Khartoum (Sudan's capital) to its neighbours is being felt and, as armed conflict continues, the Northeast African region as a whole is preparing for the costs it will have on supply chains and regional trade.

Located between the Suez Canal and Bab el Mandeb, next to a busy shipping lane in the Red Sea, and on the border with North Africa, the Sahel and Central Africa, Sudan's security and stability are important for the region's business and trade.

Sudan also plays a key role in preventing the infiltration of terrorist merchants or illegal weapons heading to Libya and connects important transport routes for aviation and oil. Likewise, Sudan's airspace is among the continent's largest aviation territories, making it a useful route when travelling to or from Europe, but airlines are now avoiding areas of violence, taking longer routes or suspending scheduled flights.

Some African countries and companies have expressed concern about the impact of the war in Sudan on supply chains and trade. Sudan is one of the largest importers of Ugandan coffee, as well as a major importer of its tea, spices, vehicles, animals, vegetable fats and other agricultural products. In this sense, the conflict threatens to destabilise not only Sudan but much of the region's economy.

## South Africa would reach record of oilseed exports

South Africa is reaching the limit of local oilseed crushing capacity as its soybean plantations continue to increase, projecting a record of 800,000 tonnes of oilseed (soybean and sunflower) exports.

Over the past 20 years, South Africa has seen an increase in oilseed plantations with nearly nine-fold expansion in the soybean area. This growth trend in soybean plantations is expected to continue in the 2023-24 trade year with an area and total oilseed production reaching a historically high level of 1.8 million hectares and almost 3.6 million tonnes, respectively.

In the past, trade in South Africa's oilseeds was generally limited, with most production going to local crushing and trade destined to oils and flours. However, with the increase in local oilseed production, which exceeds crushing capacity, South Africa has become a net exporter of oilseeds.

Most soybeans and sunflower seeds produced in South Africa are crushed to produce edible oil for human consumption and protein flour for its inclusion in animal feed rations. South Africa would have a record 1.7 million tonnes of locally produced oilseed meal available in 2022-23 and 2023-24 after crushing 2.5 million seeds, in line with increased local production.

South Africa faces significant challenges to investment in new capacity for its oilseed processing sector due to continued and unprecedented power outages, high utility costs, inflation and rising interest rates.

# CEI GLOBAL REPORT



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