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WORLD

PARTIAL TRUCE BETWEEN THE UNITED STATES AND CHINA

The U.S. president Donald Trump and Chinese vice premier Liu He announced in October a partial truce to the trade conflict that is dominating the bilateral relations of both countries. Although the details of the agreement have not yet been made public, it would consist of two phases to be implemented separately.

The main points of the agreement would state that the U.S. would overrule the tariff increase from 25% to 30% that was going to take place as of 15 October for Chinese products for a value of US\$ 250 billion. In return, China would agree to buy between US\$ 40 billion and US\$ 50 billion of agricultural goods a year –according to Trump, the Chinese agricultural imports from the U.S. would be increased by over US\$ 20 billion. China would also commit to adjusting sanitary regulations and biotechnology, to opening its financial service market to U.S. companies, and strengthening transparency in its currency market interventions.

As it has been expressed so far, the agreement does not mention if China will modify the subsidies it grants to its companies, which are the main reason why the conflict with the U.S started a little over two years ago.

WTO: SOUTH KOREA WILL STOP USING THE SPECIAL AND DIFFERENTIAL TREATMENT

The South Korean Minister of Economy and Finance, Hong Nam-ki, announced on Friday 25 October that this country will stop making

use of the Special and Differential Treatment (SDT) reserved for developing countries in future WTO negotiations. Thus, South Korea joins other WTO members, like Singapore, Brazil and Taiwan province of China, which have decided not to invoke the SDT in the multilateral spheres. In addition, in the face of the protests of the Korean associations of agriculturists, Hong Nam-ki stressed that the country will keep the right to hold separate negotiations for sensitive products, including rice.

The South Korean government took the decision after the U.S. signed a memorandum at the end of July warning that it would cease to treat as developing country, and as a consequence, give a preferential treatment, to any member that, according to the U.S. Office of Trade Representative (USTR), is incorrectly categorized. Several OECD or G20 members, like China and India are among the countries objected by the U.S.

South Korea –which is nowadays the twelfth greater economy in the world in GDP terms, declared itself a developing country in 1995, year of creation of the WTO. This status enabled the government to grant agricultural subsidies and keep high tariffs on imports of some agricultural products, like rice, whose rate is over 500%.

IS THE WORLD ECONOMY RECOVERING?

According to the IMF *World Economic Outlook* of October, the global economy will experience a 3.4% rise in 2020, slightly over the 3% estimated for the current year. The scenario for the emerging countries will differ from that anticipated for the most

advanced economies: while the former will increase 4.6% in 2020, after growing 3.9% this year, the latter will do so at 1.7%, which is similar to what is expected for 2019.

Despite the outlook for growth for the world as a whole, the report highlights the role of deceleration of the economies of the U.S. and China, as a result of the worsening of the trade tensions between both countries, which affects businesses confidence and their investment decisions.

TRADE IN SERVICES ON THE RISE

The WTO 2019 World Trade Report published in October states that trade in services grew

at a year-on-year 5.4% rate average between 2005 and 2017, above the 4.6% annual rise experienced by trade in goods during the same period. In particular, distribution and financial services are the items with the greatest trade volume -near 20% of the total, each-. On the other hand, the developing countries increased their participation in this type of trade at around 10 percentage points –from 14% to 25% in exports of services and from 23% to 34% in imports. However, half of that participation corresponds to five countries: China, Singapore, South Korea, Hong Kong SAR of China and India.

EUROPE

NEW EXTENSION FOR BREXIT

Well after the deadline of 31 October, the United Kingdom has not accomplished its exit from the EU yet and has called for anticipated elections on the coming 12 December. In turn, the European bloc has authorized an extension in the terms of the negotiations of the exit agreement until 31 January 2020 when it could be anticipated whether Johnson will obtain the support of the British Parliament to accomplish the Brexit before said date. This permission is referred to as “flection”.

In October, Boris Johnson managed to achieve a new exit agreement with the European partners, where the safeguard over a physical border between Northern Ireland and the Republic of Ireland was eliminated and the commitment to provisionally

implement a customs union was incorporated. The British Parliament, however, granted partial support to the new agreement, while it requested lengthening the term further than 31 October to proceed with the discussion of its specific aspects.

In the face of this scenario, Johnson paused the discussion regarding the agreement in the last days of October and until the Parliament succeeds in approving a snap election. Since the Conservative Party would have an advantage in the surveys, Johnson's objective to advance the elections would be to carry out a Brexit with greater political legitimacy in coming months.

EU PUTS OFF DECISION OVER ADHERENCE OF ALBANIA AND NORTH MACEDONIA

The summit of the European Council of 17 and 18 of October did not obtain the unanimous consensus of its members needed to start the process of accession of Albania and the Republic of North Macedonia to the bloc. Although most of the member countries did in fact support the initiative, Denmark, France and the Netherlands opposed it. The members of the European Parliament and the representatives of the European Economic and Social Committee (EESC) showed their deception at the news, while they understand that this represents a big strategic mistake for the EU, both in political and economic terms.

The Balkan countries started conversations to access the EU in the European Council of Thessaloniki in 2003. While most of them accessed in the following years, Albania and North Macedonia sought to obtain the EU approval in 2019. In particular, it was expected that the decision taken last

February regarding the conflict between Greece and North Macedonia, concerning the name of the latter, implied sufficient progress to allow its admission to the bloc. Now it is expected that the subject of the enlargement of the EU is dealt with again in Zagreb in May 2020.

GERMANY FACES AN ECONOMIC RECESSION

The Central Bank of Germany (Bundesbank) announced in October that the economic activity of the country had decreased in the third quarter of 2019 with respect to the previous period. Considering that said warning had already been made in preceding periods, it is understood that the country would be facing a technical recession. According to the organization, the main reason behind the deceleration is the cooling of the export-oriented industry. Due to the fact that no signs of recovery have been observed, the Bundesbank expects the recession to expand to other economic sectors in the future.

SOUTH AND CENTRAL AMERICA

BRAZIL SANCTIONS PENSION REFORM

After several debates and modifications, the Brazilian Senate sanctioned the constitutional amendment establishing the reform to the pension system. With said reform, the State seeks to save US\$ 217.5 billion in ten years and turn back the country's fiscal deficit.

The reform, which will apply to the new workers in the private sector and the federal public sector, has among its main aspects to incorporate a minimum retirement age,

which is not in force to date (65 years for men and 62 for women) and modify the aliquot according to the contributors' incomes (from 7.5% to 22%). The minimum length of time of contributions is another relevant aspect of the reform: in order to access to the 60% of pension payment, public officials must work at least 25 years and private workers not less than 20 and 15, for men and women respectively. To access to 100% of the retirement payment, a minimum of 40 and 35 years of contributions for men and women, respectively, will be needed, both in the private and public sector. Other

special regimes, such as professors, rural workers and federal security members, will have their own minimum ages and lengths of contributions.

The amendment also sets forth rules of transition for those who are already active in the labour market.

AUTOMOTIVE AGREEMENT BETWEEN ARGENTINA AND PARAGUAY

Argentina and Paraguay signed an Agreement on the Common Automotive Policy by means of an additional protocol to the Agreement of Economic Complementation No. 13 (ACE 13) in force since 1989.

The new agreement, which consolidates the current trade and builds the foundations for a future agreement at Mecosur level, establishes the immediate lowering of duties for the trade in vehicles and autoparts, with the exception of some diesel vehicles of cylinder capacity higher than 2.500 cm³, that will have a schedule of gradual tariff reduction until 2022 (25% this year and 25% annually, as of 1 January 2020).

The regional content requirement for Argentina will be 50%. In the case of Paraguay, it will have to comply with 50% only for vehicles and will have a preferential regional content index (RCI) for autoparts, although subject to exports quotas. During 2019 and 2020, the RCI will be of 40% and the respective quotas of US\$35 million and US\$37 million; between 2021 and 2025, the quotas will be of US\$45 million (modifiable as of 2023) and RCIs will go up from 41% to 47%. Finally, in 2026 free trade will be reached, with an RCI that will have to be

agreed upon before 1 January 2023. In addition, Paraguay will be able to preserve its current regime of imports of used cars only with its subsequent revision and adjustment to a future Mercosur automotive regime, as well as to environmental and safety standards.

Finally, the agreement sets forth the creation of an Automotive Committee, aimed at administering the agreement and assessing its future modifications.

BRAZIL AND CHINA DEEPEN THEIR BILATERAL RELATION

As a result of the visit Brazilian president Jair Bolsonaro paid to his Chinese counterpart Xi Jinping, the leaders signed eight new documents in matters of politics, economics and trade, agriculture, energy, education and science and technology. A customs agreement for trade facilitation and two sanitary protocols for the Brazilian exports of thermoprocessed bovine meat and raw cotton to China are included.

On the other hand, the Brazilian Agricultural Research Corporation (Embrapa) and the Chinese Academy of Sciences signed a memorandum of understanding for the creation of joint laboratories for research on sustainable agriculture, and improvement and development of soybean.

CHILE: TENSIONS AND NEW SOCIAL AGENDA

After the disturbances and massive protests of the Chilean citizens claiming economic and social improvements, President Sebastián Piñera made changes to his cabinet in strategic ministries like Finance, Economy and Labour, and set forth for Congress approval a series of economic measures.

“The New Social Agenda” anticipates the urgent treatment of social projects and proposes a set of reforms that enlarge the benefits for the most vulnerable citizens and suppose a greater economic effort of the population with the highest incomes. Among the first group of measures can be highlighted: the creation of a guaranteed minimum income for workers, the increase in the Basic Solidarity Pension and in the Solidarity Pension Contribution (old age pension and disability annuities of several kinds), the instrumentation of an insurance for families with high expenses in health-related matters and the reduction in

electricity fares as well as the price of medicines. The second group of measures contemplates an increase in the tax contribution of the higher-income citizens and regions in the country, and the reduction of salaries, positions and the limitation of the mandates of some of the members of Parliament and of the public administration.

Piñera also announced the creation of an Ombudsman office for the victims of crime, and a plan of reconstruction of public infrastructure to remedy the damage caused during protests. If disturbances continue, it cannot be ruled out that new announces will be made in coming weeks.

NORTH AMERICA

MEXICO AND CANADA PLAN TO COLLECT TAXES ON DIGITAL SERVICES

The Mexican and the Canadian governments are considering to tax major suppliers of digital services, thus becoming part of an increasing list of countries that apply this type of tax (see Global Report, August 2019).

The Mexican Secretariat of Finance and Public Credit proposed in its Economic Package 2020 to adapt the existing legal framework to make VAT collection in intangible service imports more efficient and guarantee the tax neutrality between domestic and foreign suppliers. The tax will be applicable to those services of final consumption for people (for example, broadcasting –audio or video streaming– on-line gaming services or distance learning services). Besides, additional administrative measures were proposed for the digital

services of intermediation between third parties that are suppliers of goods and services, and those who demand them (like the intermediation of transport or temporary accommodation services), oriented towards caring for the low tax compliance and contributing to promoting the sector's formalization (see Global Report, October 2019).

Similarly, Canadian Prime Minister, Justin Trudeau, in his election platform considered the possibility of applying a tax to digital services, similar to that recently passed in France, to guarantee that the multinational technological giants pay taxes on the income that they generate in Canada. Thus, a 3% tax would be applied over the incomes of the companies derived from targeted advertising and digital intermediation services, as of 1 April, 2020. The tax would be applied only to the companies with global incomes of at

least US\$ 1 billion and incomes in Canada of over US\$ 43.8 million.

Both governments guarantee that these initiatives do not affect the efforts led by the OECD to develop an international fiscal framework that replaces the taxes on digital services.

THE UNITED STATES OBTAINS AUTHORIZATION TO APPLY COUNTERMEASURES IN THE AIRBUS DISPUTE

The WTO Dispute Settlement Body (DSB) authorized the United States to impose countermeasures against the European Union regarding the subsidies granted to the Airbus company. The retaliatory measure can be up to US\$ 7.5 billion. The United States expressed their preference in favour of eliminating the EU subsidies inconsistent with the WTO standards. In turn, the EU criticised the report by the arbitrator due to

inconsistencies in the calculation and criteria used.

NEW INTEREST RATE REDUCTION BY THE FED

On 30 October and for the third time in a year, the Federal Reserve System of the United States (Fed) lowered its benchmark interest rate to place it within the 1.50%-1.75% range.

As it happened in the previous reductions of July and September, the Federal Open Market Committee (FOMC) highlighted as one of the main reasons the deceleration of global growth, influenced by the trade tensions underway, and the stagnation of inflation in the United States. President Trump showed his concern again for the news and remarked that the rate should be lower than that of Germany or Japan, which are countries with an interest rate close to 0%.

ASIA AND AFRICA

CHINA WILL NOT FORCE TECHNOLOGY TRANSFER IN FOREIGN INVESTMENT

The vice-minister of trade of China, Wang Shouwen, declared in October at a press conference in Beijing that the new Foreign Investment Law that will come into effect on 1 January 2020 will not force the foreign investors to transfer technologies and will eliminate all the restrictions on foreign investment that are not included in the so-called "negative list", which are those banning or restricting access of investments to certain industries. This piece of news is contextualized in the middle of conversations

with the United States to implement "Phase 1" of the agreement that would end with the trade tensions with said country (see World).

ISRAEL TO CONTROL FDI

In October, the diplomatic security cabinet of Prime Minister Benjamin Netanyahu approved the establishment of a committee to revise aspects of national security of foreign investments. This committee, which will start working in 2020, will address, among other aspects, the Chinese investments in the territory, an issue over

which the U.S. has particularly expressed their concern.

RUSSIA, CHINA AND INDIA DEVELOP AN ALTERNATIVE TO THE SWIFT SYSTEM

Russia, China and India are developing a system of joint payments alternative to the international system for bank transferances, SWIFT. Thus, the System for Transference of Financial Messages (SPFS) already in force in Russia, will relate with its Chinese analogue, the Cross-Border Interbank Payments System (CIPS). India, which does not have a similar system of payments, is under a process of creation of an *ad hoc* platform that enables it to relate to the SPFS.

The countries of the Eurasian Economic Union are also currently working on technical options to connect to the SPFS. In October, Russia also signed an agreement with Turkey to make mutual payments in national currencies, a measure that also contributes to improve the connection between banks and Turkish companies to the SPFS.

FIRST RUSSIA-AFRICA SUMMIT

President Vladimir Putin received representatives of the 54 African nations within the framework of what became the first Russia-Africa Summit in the city of Sochi (Russia) aimed at strengthening political, economic and military ties.

In economic matters, President Putin suggested that the trade between both parts should be expanded within a four- to five-year period, and stressed that state support will be given to the companies seeking to expand their influence in the African

continent, a region considered a growing centre of global economy. According to Minister of Industry and Trade, Denis Manturov, Russia is considering the creation of industrial areas in Mozambique and Namibia to promote exports to Africa. Mozambique is on the east coast of Africa and gives access to the markets in South Africa, as well as the potential of exports to the Middle East, India and Southeast Asia. Namibia is on the west coast of Africa and also shares a border with South Africa, with an additional potential of exports to Europe.

At present, Russia retains its leadership in the sale of armaments to the continent, since it is a supplier to over 30 African countries as a result of an agreement of military technical cooperation.



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