Centre for International Economy

GLOBAL REPORT

NOVEMBER 2021

WORLD

The pandemic and vaccination set the economic recovery pace
Ongoing concern over rising inflation at the global level
The G20 approves a historic world tax reform

EUROPE

Worrying rise in energy prices
Brexit conflicts continue
"France 2030" plan presented

SOUTH AND CENTRAL AMERICA

The Argentine government promotes sustainable mobility bill
Suspension of Brazilian beef exports to China maintained
Chile seeks investors for its lithium industry

NORTH AMERICA

US and the EU agree on elimination of tariffs on steel and aluminium
US reaches agreements over digital service taxes
The US Congress seeks greater control over tariffs
GDP growth decelerates in the US

ASIA AND OCEANIA

Smaller growth in Asia and the Pacific in 2021
China announces measures in the face of the power crisis
China imposes new restrictions on tourist movements

AFRICA

A strong economic recovery is expected for Eastern Africa
Fall of COMESA intra-zone exports
Implementation of Pan-African Payments and Settlement System (PAPSS)

WORLD

THE PANDEMIC AND VACCINATION SET THE ECONOMIC RECOVERY PACE

After a 3.1% fall in world's GDP in 2020, this year production would grow 5.9%, according to the IMF forecast published in its October's World Economic Outlook. Developing countries would grow more than developed ones: 6.4% vs. 5.2%. Regarding Argentina's main trading partners, a 5.2% increase in output is forecast for Brazil; 8% for China; 5% for the eurozone; 6% for the United States and 11% for Chile. Argentina would grow 7.5%.

In addition to traditional macroeconomic factors such as fiscal and monetary stimuli, these growth rates can change according to the advance of vaccination and the emergence of new coronavirus variants. As of September, 58% of the population in developed countries were fully vaccinated, with 36% in developing economies, and 5% in lower-income countries. If these differences remain, there will be a wider gap among the countries' health and economic costs and, therefore, among their recovery rates.

In turn, world trade in goods and services would show a clear recovery: it would grow 9.7% this year and 6.7% in 2022. But areas such as tourism and travel would record a lower growth since they are the most affected by the restrictions.

ONGOING CONCERN OVER RISING INFLATION AT THE GLOBAL LEVEL

The economic recovery brought about an increase in prices worldwide; both developed and developing countries have recorded inflation rates not seen for quite a long time. The growing global demand resulting from the end of the restrictions and the advance of vaccination did not meet a suitable supply, since the productive sector had to face rising costs and issues in global supply chains caused by the pandemic itself.

The increase in fuel prices globally (see Europe, and Asia and Oceania), which along with the so-called "container crisis" caused the increase in freight transport costs (see CEI Global Report, February and October 2021), and the rise in commodity prices can be some of the reasons why, according to IMF projections, the average growth of the general level of prices in developed countries has doubled this year compared to 2019 (the average is estimated at 2.8% for 2021, while in 2019 and 2020 it had been 1.4% and 0.7%, respectively); and that in developing countries it increased from 5.1% (estimated figure for 2019 and 2020) to 5.5% this year.

Some countries are seeing historical records, such as Spain, where prices rose 2% in October and 5.5% year-on-year, the highest rise in 29 years. Similarly, in Brazil a rate of 1.16% was observed in September (the highest monthly variation since 1994), with a 10.25% year-on-year growth.

THE G20 APPROVES A HISTORIC WORLD TAX REFORM

During the recent summit in Rome, the G20 approved an international tax reform that had already been agreed on by the countries' Economy Ministers, and that had been negotiated within the framework of the OECD. The new regulation includes the creation of a global tax of at least 15% to be paid by large multinational companies.

The reform, which is intended to come into force in 2023, has two pillars. One of them is the creation of the aforementioned tax to be paid by multinationals with a turnover of more than US$ 850 million a year. The other sets the rules to determine where large companies must pay taxes, which will not only be where they have their legal residence but where they carry out their commercial activities and obtain benefits.

The agreement, estimated to involve a transfer from US$ 100 billion to US$ 150 billion from large companies to governments, has been strongly criticised by politicians and intellectuals around the world. Among them, the Independent Commission for the Reform of International Corporate Taxation (ICRICT) –which has Joseph Stiglitz, Thomas Piketty and José Antonio Ocampo among its members– published an open letter expressing that the agreement mainly benefits the rich countries.

In the letter, the group of intellectuals stated that: "As priority to the application of the minimum tax is given to the countries where multinational matrixes are established, it is estimated that most of the additional revenues will merely and only benefit a few rich countries" and the group maintains that the tax rate is insufficient: "Proposals for a global effective minimum rate of 21% (or, even better, of 25%, as we uphold) have been rejected, and the lowest common denominator of 15% was chosen instead: a success for Ireland and a failure for the rest of the world".

EUROPE

WORRYING RISE IN ENERGY PRICES

As temperatures drop in the European continent, concerns are increasing about the sharp boost in energy prices. The growing demand caused by the economic recovery was met with a limited supply due to the increase in the international price of natural gas, in addition to the rise in the price of coal, and the low water and wind levels (for seasonal-meteorological reasons) that have reduced the possibility of increasing the electricity supply through alternative sources.

Based on reports by the EU, the wholesale electricity price in the countries of the bloc underwent a year-on-year surge of 200%, which drove, to a lesser extent, the rise in retail prices (9% until August 2021). Due to wholesale price increases, many power supply companies that were unable to pass the higher costs into the rates paid by consumers found it difficult to continue operating.

The economic challenges caused by the rise in energy prices led the European authorities to resume discussions on the risk posed by the high level of dependence of the continent on gas imports from Russia, as well as the viability of the plans to close, in the short term and for environmental reasons, the thermal power plants mainly fed by coal.

Likewise, the European Commission proposed a set of measures that both the EU and the member countries can adopt to minimise the impact of the crisis and avoid negative consequences for the most vulnerable consumers.

BREXIT CONFLICTS CONTINUE

The UK government urged the EU to modify the main points of the protocol regarding Northern Ireland included in the Brexit agreement and expressed its willingness to suspend its application unilaterally, considering it unfeasible.

The agreement by which the United Kingdom left the EU included the aforementioned protocol with the intention of avoiding a hard border between Ireland and Northern Ireland, which in practice meant an additional administrative burden regarding customs procedures for goods traded between Great Britain and Northern Ireland.

The EU, in turn, said it was ready to enter into talks with the UK government to reach a permanent solution. In this sense, the European Commission announced the possibility of taking action to ease customs processes regarding the movement of food, medicines, and animal health controls, among others. However, the authorities of the bloc also let it show that they would take harsh retaliation measures if the United Kingdom failed to comply with the agreements signed, which have been in force for less than a year.

Another front of conflict that remains open in Europe is led by France and the United Kingdom over fishing licenses. The Brexit agreement established that European fishermen will be able to continue operating in certain areas of the United Kingdom as long as they can demonstrate that they were already doing so there before the British exit from the EU. The problem is that both governments cannot agree on the number of licenses to be issued. The French government said that it will retaliate against the British government if it does not issue the licenses for French fishermen that the Macron government has been demanding for nine months, while the British government demanded the immediate withdrawal of these threats.

"FRANCE 2030" PLAN PRESENTED

The French government announced the implementation of the "France 2030" plan, which seeks to reindustrialise the country and make it a world leader in innovation and high technology. This would demand an estimated investment of 30,000 million euros, which will be allocated, among other, to the construction of mini-nuclear reactors, the promotion of non-polluting agriculture, and the transformation of France into a leader in the green hydrogen production.

One of the pillars of the plan is to decarbonise both industry and transport, in line with EU's environmental policy, which is why the French executive branch set out to build the first green plane in the next decade and plans the manufacturing of 2 million electric and hybrid vehicles in the country in 2030.

Likewise, the plan includes other technological bets such as the production of biopharmaceuticals and electronic compounds and semiconductors, and proposes a heavy investment strategy in the cultural industries and in space and underwater exploration.

SOUTH AND CENTRAL AMERICA

THE ARGENTINE GOVERNMENT PROMOTES SUSTAINABLE MOBILITY BILL

The Argentine government presented to the National Congress a Bill on Sustainable Mobility, with a view to contributing to the global fight against climate change and generating an opportunity for the productive development of the automotive complex and of the renewable energies. The law project seeks to promote the use of national production land vehicles, fed with non-conventional power sources and to prohibit the trade of new vehicles with internal combustion engine in the national territory as of 2041.

The project includes a promotion scheme, both for the demand (direct discount on the price of the vehicle and auxiliary equipment, tax base removal on personal property of sustainable vehicles, among others), and for the supply (tax benefits for the installation of productive sustainable mobility projects). Said benefits, of a temporary and decreasing nature, will be of 100% during the first 8 years, 66% from the 9th to the 15th year and 33% from the 16th year until 2040. At the same time, it foresees the creation of a National Agency for Sustainable Mobility, for the promotion of scientific and technological development; and the follow-up of international trends, technological changes and industry regulations.

This law is expected to bring about a significant impact on exports, scientific and technological development, investments, employment (12,500 additional jobs in automotive terminals, 6,000 in auto parts sectors and 2,500 in battery manufacturers) and a reduction in carbon dioxide emissions of 10.7 million tonnes equivalent.

SUSPENSION OF BRAZILIAN BEEF EXPORTS TO CHINA MAINTAINED

In early September, Brazil voluntarily suspended its beef exports to China as part of a sanitary protocol between both countries, given the detection of two cows infected with "mad cow" disease. Since the World Organisation for Animal Health (OIE, for its acronym in French) affirmed that such cases did not pose a risk to human or animal health, Brazilian authorities expected the suspension to last only 15 days.

However, after 50 days of suspension, only one of the shipments was allowed entry, whose authorisation had been previously issued. While it could be a positive sign for the rest of the exports, particularly for the shipments held at customs (estimated at 112,000 tonnes), the Chinese government did not guarantee the normal shipment resumption.

The situation is particularly relevant for Brazilian cattle producers because it is the destination of 56% of their exports. In effect, a drop in livestock prices is already seen, which, added to the increase in the costs of raw materials for their feeding, is generating significant losses for producers. In this regard, the Confederation of Agriculture and Livestock of Brazil (CNA, for its acronym in Portuguese) estimates that if the conflict lasted until the end of the year, the losses could reach US$ 1,200 million.

CHILE SEEKS INVESTORS FOR ITS LITHIUM INDUSTRY

The Chilean Mining Ministry announced a national and international public call for the signing of lithium exploration and production contracts. The measure seeks to satisfy a growing global demand, especially driven by its use in electric batteries, with a broad impact on energy transition policies. Likewise, it responds to Chile's strategic position in this market, taking into account that it is the second country with the world's largest lithium reserves (after Bolivia) and the second largest producer, only surpassed by Australia.

In particular, the call establishes the exploitation of 400,000 tonnes of metallic lithium, divided into five quotas of the same amount. The terms will be seven years, extendable for two more, for the geological exploration, studies and development of the project; and 20 years for production. In return, the state −which considers lithium a product of "national interest"− will receive a royalty for the allocation of the quota and a variable annual payment during the production phase.

NORTH AMERICA

THE US AND THE EU AGREE ON ELIMINATION OF TARIFFS ON STEEL AND ALUMINIUM

Within the framework of the recent G20 summit in Rome, the United States and the European Union announced they have reached an agreement to solve the conflict on the steel and aluminium trade, address the excess of these products' global capacity and their carbon intensity.

In accordance to what was informed, the US will replace the current import tariffs on steel and aluminium products originating in the EU by a tariff rate quota, for which reason, the European products will be able to access US territories free of tariff, although in limited amounts. On the other hand, the EU committed itself to lifting the retaliation tariffs against American products. Likewise, both partners will call off the actions initiated before the WTO Dispute Settlement Body.

It is worth remembering that the tariffs on steel and aluminium imports were imposed by the Trump administration in 2018 under Section 232 of the Trade Expansion Law of 1962. In response, the EU established retaliation tariffs at 25% to certain American products.

On the other hand, the partners agreed on negotiating, for 2024, the first carbon-based arrangement on steel and aluminium, by means of which they will approach the access to its markets of products with high carbon content or subject to dumping, so as to control both the excess of non-market oriented global capacity and the carbon intensity of these industries.

US REACHES AGREEMENTS OVER DIGITAL SERVICE TAXES

The US Department of the Treasury reached an agreement with Austria, France, Italy, Spain and the United Kingdom for the transition from the present Digital Services Taxes to the new multilateral solution decided upon by the OECD/G20 Inclusive Framework.

It is worth remembering that on 8 October, 136 countries reached a historic agreement regarding a two-pillar package for the reform of the international fiscal framework, which will enter into force in 2023 (see World) and which renews and formalises the political commitment made last July (see CEI Global Report, July 2021).

By virtue of the transition agreement, the European countries committed themselves to withdrawing their digital services taxes once Pillar 1 of the Inclusive Framework enters into force, and they will refrain from imposing new unilateral measures. If the taxes paid by the American multinationals affected by the national digital taxes were higher than what they would have had to pay under Pillar 1, the European countries would have to pay to those companies a fiscal credit amounting to the difference between both sums.

In turn, the United States will put an end to the additional rights –currently suspended– over the goods from Austria, France, Italy, Spain and the United Kingdom that had been adopted in the investigations of Section 301 (see CEI Global Report, July 2021). Turkey and India, the other two countries included in the investigations of Section 301, did not join the agreement.

THE US CONGRESS SEEKS GREATER CONTROL OVER TARIFFS

At the beginning of October, a bipartisan group of senators reintroduced the draft bill of the Bicameral Congressional Trade Authority Act (BCTA). This bill, originally presented at the beginning of 2019 (see CEI Global Report, March 2019), seeks to reform the use of national security as a justification for tariff imposition, and provide the Congress with greater oversight regarding trade actions, thus avoiding likely abuses on the part of the executive power.

Nowadays, the American legislation allows the executive power, for specific reasons, to increase tariffs without going through Congress. An example of this are Section 232 of the Trade Expansion Act of 1962 and Section 301 of the Trade Law of 1974. Both laws were invoked by the Trump administration in the series of measures implemented in 2018 regarding the external purchases of steel and aluminium and the Chinese imports, respectively.

If the new project is approved, it would demand the revision and approval by the Congress of any tariff or quota proposed by the President and applied for national security purposes through Section 232.

The Tariff Reform Coalition, integrated by more than 25 enterprise organisations, among them the National Foreign Trade Council, the National Retail Federation, the Corn Refiners Association, the American Chemistry Council and the American Beverage Association, endorsed the recent reintroduction of this bill and urged more senators to support it.

GDP GROWTH DECELERATES IN THE US

The rate of growth of US GDP slowed down in the third quarter of the year. In annual terms, real GDP grew 2% in the third quarter of 2021, while in the two previous quarters it had recorded rates higher than 6%, according to the anticipated estimation published by the Bureau of Economic Analysis of the US Department of Commerce.

This result was mainly due to the reduction in household expenses resulting from the rise in COVID-19 cases with the Delta variant, which stopped the activity in shops, factories and restaurants, and to the reduced governmental aid. From the second to the third quarter, the expense in goods went down (headed by automotive vehicles and their pieces) and the services decelerated (due to reduced expenses in food and accommodation).

Other factors that hindered a greater growth were the bottlenecks in supply chains and the scarce labour supply.

Although the final domestic demand, that is the total amount bought by consumers, companies and the government, was only 0.9% lower than its pre-pandemic trend, the production could not meet this level of demand, for which reason the difference was covered by the reduction of the stock and the increase in trade deficit.

ASIA AND OCEANIA

SMALLER GROWTH IN ASIA AND THE PACIFIC IN 2021

In its latest report of regional perspectives, the IMF cut out the 2021 outlook for economic growth for Asia to 6.5% (1.1 percentage points less than the projection made last April), while for 2022 the outlook was raised to 5.7% (being 5.3% in April).

According to the report, China will grow 8.0% this year and 5.6% in 2022, while India will do so by 9.5% in 2021, for which reason, the Asia-Pacific region will still be the one with the most rapid growth at global level. Nevertheless, the divergence between the advanced economies, the emergent and the developing ones in the region is deepening.

On the other hand, the increase in the prices of the raw materials and the costs of shipment, along with the continuous interruption of the global supply chains, magnify the concerns over inflation. According to the IMF, the central banks should be ready to act swiftly if the recovery strengthens quicker than expected and the expectations for inflation growth remain on the rise.

CHINA ANNOUNCES MEASURES IN THE FACE OF THE POWER CRISIS

With the aim of mitigating the recent carbon scarcity, the State Administration of Coalmine Safety of China announced that it will accelerate the liberation of the capacity of coal production to guarantee proper energy provision and simplify the process of approval for the coal production with the purpose of putting into operation new mines as rapidly as possible.

So far, 153 coalmines have qualified for the list of emergency provision of the Administration, and they are expected to increase their production capacity by 220 million tonnes a year. In agreement with an official communication by the organisation, the mines will yield 55 million additional tonnes of coal in the fourth quarter of this year.

On the other hand, the National Development and Reform Commission (NDRC), the Chinese planning body, has implemented multiple measures to stabilise the energy supply in the proximity of winter, and announced an improved mechanism of prices in the coal-generated energy sector, so as to deepen the reform of market-oriented prices.

CHINA IMPOSES NEW RESTRICTIONS ON TOURIST MOVEMENTS

The Chinese authorities urged all the regions in the country to intensify the monitoring of interprovincial trips and demanded a reduction in those trips since there is an increasing risk that a new COVID-19 outbreak spreads even more, prompted by seasonal factors.

The government banned the travel agencies from organising trips between provinces covering regions considered of greater viral risk, and some travel services implying multiple tourist attractions were also suspended. On the other hand, strict restrictions will be imposed on people intending to visit Beijing if they have made visits to regions where infections have been recorded.

Although China has contained the advance of coronavirus to a great extent, in recent days the cases of local transmission have increased in 11 provinces due to the circulation of tourists within the country. The authorities try to control any sporadic outbreak, with the intention of reaching the Winter Olympic Games in the best conditions. These will be held in Beijing in February 2022.

AFRICA

A STRONG ECONOMIC RECOVERY IS EXPECTED FOR EASTERN AFRICA

In its “East Africa Economic Outlook for 2021”, the African Development Bank anticipates an economic growth for East Africa of 4.1% in 2021, 4.9% in 2022 and 5.6% in 2023, figures that are clearly higher than the 0.4% recorded in 2020.

The report related the deceleration of the growth recorded in 2020 to the COVID-19 containment measures, like lockdowns and curfews, and to the lower external demand for exports of raw materials and the lower inflows of currency derived from tourism. Also, it indicates that the economic recovery of the region will be driven by sustained public expenses in infrastructure, a better performance of the agricultural sector and greater regional economic integration.

Nevertheless, it can be noticed that the contraction in the economic activity, the increased fiscal deficit resulting from high government spending to give response to the pandemic amidst the reduction in government revenue and the currency depreciation after reduced export revenues from basic products gave rise to risky situations for the region regarding tax collection and public debt.

FALL OF COMESA INTRA-ZONE EXPORTS

The intra-zone exports coming from the Common Market for Eastern and Southern Africa (COMESA) fell 11% (from US$ 10.9 billion in 2019 to US$ 9.7 billion in 2020). The reduction was due to the impacts of the pandemic and to pre-existing factors such as the limitations of the exportable supply and the prevalence of non-tariff barriers.

The 37th Meeting of the COMESA Trade and Customs Committee held on 13 October addressed the issues that are affecting trade and the way to make all member States participate in COMESA's Free Trade Area. In addition, discussions were held over the identification and elimination of non-tariff barriers, the implementation of trade facilitation measures, including COMESA's digital FTA, how to advance in service liberalisation and the construction of effective platforms for trade promotion and electronic trade.

Last year, COMESA developed the COVID-19 guidelines and an online platform for the exchange of information over the movement of essential goods and services. Its aim was to guarantee the continuity of safe trade in the entire region. Nevertheless, there is not much use of the platform, for which reason COMESA has made a call to members to drive national business organisations into guaranteeing its full use, not only to tackle the information gaps but also to create links with the market and trade opportunities.

IMPLEMENTATION OF PAN-AFRICAN PAYMENTS AND SETTLEMENT SYSTEM (PAPSS)

The African Export-Import Bank (Afreximbank) and the Secretariat for the African Continental Free Trade Area (AfCFTA) announced the implementation of the Pan-African Payments and Settlement System (PAPSS).

The PAPSS was presented as a revolutionary financial market infrastructure that will enable instant cross-border payments in local currencies between African markets. By simplifying the cross-border transactions and reducing the dependency of third country currencies, the PAPSS is estimated to boost trade within Africa in a significant manner and back up the implementation of the African Continental Free Trade Area (AfCFTA).

The PAPSS will serve as a continental platform for the processing, clearing and settlement of commercial payments within Africa, taking advantage of a multilateral system of net settlement. It is expected that its full implementation saves the continent over US$ 5 billion in transaction costs paid each year.

Ministry of Foreign Affairs
International Trade and Worship
Argentina

Closing date of this issue: 31 October 2021