



GLOBAL REPORT

OCTOBER 2021



WORLD

Alongside growth, inflation reappears
The cost of international transport continues to rise
World trade recovery
First UN Summit on Food Systems



EUROPE

France maintains its rejection of the Mercosur-EU agreement
Growing EU agri-food foreign trade
European funds for the global fight against the pandemic
Consequences of Brexit: fuel shortages in the United Kingdom



SOUTH AND CENTRAL AMERICA

Peru joins the CPTPP
Brazil eases imports of the automotive sector
CELAC approves health self-sufficiency plan



NORTH AMERICA

The US maintains countervailing duties on Argentine biodiesel
US-EU: first meeting of the trade and technology council
The US urges the G7 to approve new global tax rules
Mexico-US: reactivation of the high-level economic dialogue



ASIA AND OCEANIA

China presents its 14th Five-Year Plan
Power shortage affects Chinese production
China officially requests to join the CPTPP
Japanese foreign trade recovers



AFRICA

Africa's trade with China at record levels
AfCFTA's secretariat signs agreement with the UK
Estimates of the impact of Nigeria's admission to the AfCFTA

WORLD

ALONGSIDE GROWTH, INFLATION REAPPEARS

After a 3.4% drop in global GDP in 2020, the OECD projects 5.7% growth for 2021 and 4.5% for 2022. The greatest recoveries would occur in the countries with the deepest recessions. Among developed countries, Spain would grow 6.8% after falling 10.8% in 2020, the United Kingdom 6.7% (-9.8% in 2020), and the United States 6% (-3.4%). Among developing countries, Mexico would grow 6.3% (-8.3% in 2020), India 9.7% (-7.3%) and Brazil 5.2% (-4.4%).

Economic growth was accompanied by an increase in inflation in all the G20 countries, with the exception of Japan and China. For this year, the average retail inflation for the G20 would be 3.7%; 3.6% in the United States, 3.1% in Canada, 2.9% in Germany; among developing countries it would be 7.2% in Brazil, 5.9% in India and 5.4% in Mexico. The increase would be between 2 and 3 percentage points compared to the 2020 rate.

The rise in prices has multiple causes: the increase in the price of commodities, the rise in the price of energy, the higher demand after the reopening of economic activities, the increase in the cost of maritime freight for containers and restrictions on the supply side arising from the pandemic crisis. The role of these factors is such that a third of the inflation of the G20 is explained by the rise in the price of basic products and the increase in

the cost of freight. The expansive fiscal policy would not have influenced price dynamics.

For the presidents of the main central banks, this price increase is temporary and is due to factors that will not be repeated. Therefore, the adoption of contractionary measures in the monetary policy of developed countries is not expected in the short term.

THE COST OF INTERNATIONAL TRANSPORT CONTINUES TO RISE

The cost of container shipping has grown four times on average during the last twelve months. The increase is explained by an excess of demand: the reopening of economic activities led to a higher demand that could not be met by the supply that is facing numerous restrictions, such as the shortage of containers, slow return of containers to Asia (see CEI Global Report, February 2021), ships used at full capacity, congestion in ports, longer intervals for the change of crew due to hygiene measures to combat the pandemic, among others. In addition, these costs are not expected to decrease in the short term since excess demand will continue while supply is adjusting at a slower pace and there are no alternatives to maritime transport.

WORLD TRADE RECOVERY

The volume of world merchandise trade would grow 10.8% this year instead of the 8% forecast in May, and an increase of 4.7% is expected in 2022, according to the World

Trade Organization's (WTO) trade perspectives. The high level of recovery is due to the low values of 2020, a year marked by the pandemic and trade restrictions.

As stated by the WTO, at the regional level there will be deep disparities in terms of results. East Asian exports are expected to grow 14.4% this year; those of Europe 9.7% and those of South America 7.2%. On the other hand, South American imports would increase 19.9%; those of North America, 12.6%; those of Africa 11.3% and those of South Asia 10.7%.

In relation to trade in services, according to a set of partial indicators that make up the WTO's Services Trade Barometer, this would be recovering the growth path but at a slower pace than that of goods because the pandemic it still strongly affecting travel and tourism.

FIRST UN SUMMIT ON FOOD SYSTEMS

EUROPE

FRANCE MAINTAINS ITS REJECTION OF THE MERCOSUR-EU AGREEMENT

The French government ratified its opposition to the Mercosur-EU agreement, considering it incompatible with the climate and biodiversity agenda carried out by the country.

As part of his presentation at the opening of the Congress of the International Union for Conservation of Nature (IUCN), which took

place in Marseille, the French President, Emmanuel Macron, expressed that his country will not change its position and he will maintain the rejection of the agreement with Mercosur when he has to assume the rotating presidency of the EU, at the beginning of next year.

Food systems are struggling to end hunger, provide nutritious food for healthy diets, and ensure food safety. Against this background, the UN held the first summit on food systems, in which courses of action were analysed to cooperate in achieving the Sustainable Development Goals.

In this context, it was suggested that food systems must be nurturing so that people can enjoy good health and well-being, be produced in harmony with nature, and ensure that recovery is inclusive, transformative and equitable. The UN Secretary General stated that in order to meet these objectives, it is essential, among other conditions, to have open, non-discriminatory, transparent and rules-based trade. On the other hand, governments and NGOs presented commitments to adopt measures and provide funds to improve food systems. It was agreed that there will be a follow-up meeting on the subject every two years.

Opposition to the agreement is sustained by French agricultural producers and other countries such as Austria or Romania (see CEI Global Report, December 2020), as well as by

environmental groups who fear that its entry into force will allow the access of products from Mercosur countries that do not comply with European health and environmental standards.

GROWING EU AGRI-FOOD FOREIGN TRADE

The year 2020 was not a good one for the EU economy, which registered falls of 6% in its GDP, of 9% in its exports and of 12% in its imports. However, agri-food had an acceptable performance in the context of the crisis caused by the pandemic.

According to a report published by the European Commission, last year EU exports of agri-food grew 1.4% while imports did so by 0.5%. With these figures, the European bloc maintains its position as the world's leading agri-food exporter (followed by the United States and Brazil) and ranks third among the main importers, after the United States and China.

The products that contributed the most to the increase in agri-food exports of the bloc were pork and wheat, while the increase in imports was mainly determined by more purchases of oilseeds, palm oil, fruits and soybeans. The main partner in the EU agri-food trade was the United Kingdom, which demanded 23% of the EU exports and contributed 13% of the bloc's agri-food imports.

EUROPEAN FUNDS FOR THE GLOBAL FIGHT AGAINST THE PANDEMIC

Since the beginning of the pandemic, the EU has disbursed 34 billion euros in aid to more

than 130 non-EU countries to fight COVID-19. These grants are part of the "Team Europe" package that was launched on 8 April 2020. Initially, the financial support committed was approximately 20 billion euros, which was later expanded to 46 billion, and consists of resources from the EU, its Member States, the European Investment Bank and the European Bank for Reconstruction and Development.

According to the community authorities, the objective of the aid package is: 1) to provide an emergency response and meet immediate humanitarian needs; 2) strengthen health, water supply, sanitation and nutrition systems, and 3) mitigate the social and economic consequences of the pandemic. The countries that have received the most funds have been the EU's neighbours from Eastern Europe and North Africa (10.3 billion euros) and those of Sub-Saharan Africa (6.7 billion euros), while those of Latin America and the Caribbean received 1.5 billion euros.

CONSEQUENCES OF BREXIT: FUEL SHORTAGES IN THE UNITED KINGDOM

In many cities in the UK, service stations began to limit the amount of fuel they can load to each customer. The long lines formed by motorists are the consequence of the shortage of truckers available to transport fuel to the points of sale. Although there is no single cause, it is estimated that the lack of drivers is largely due to the Brexit, because after it became effective, truckers from EU countries were required to obtain a visa to work in the United Kingdom.

British government officials have explained that the excess demand that was generated by the first petrol stations running out of fuel has caused much of the problem; however, they have already taken action on the matter and announced their intention to grant 5000 temporary visas to foreign truckers. Likewise,

the Ministry of Defence announced that it plans to train drivers and ordered military personnel to begin transporting fuel to petrol stations to regularise the situation.

SOUTH AND CENTRAL AMERICA

PERU JOINS THE CPTPP

On 19 September, the Comprehensive and Progressive Treaty of Trans-Pacific Partnership (CPTPP) came into force for Peru, after more than three years since its signing. This treaty commercially links Peru with Mexico, Japan, Canada, Singapore, Australia, New Zealand, Vietnam, Brunei, Chile and Malaysia, although the latter three have not yet completed their approval process. With this, Peru will be able to enter its products immediately and free of tariffs to New Zealand and Vietnam, and once they ratify it, to Brunei and Malaysia. It should be remembered that, with the rest of the countries of the bloc, Peru already had free trade agreements.

The CPTPP not only includes provisions on market access but also regulations related to electronic commerce, investment, development, SMEs, the environment and the labour market, among other issues. Likewise, the agreement seeks to promote trade in services and has more agile certification processes.

BRAZIL EASES IMPORTS OF THE AUTOMOTIVE SECTOR

Brazil eliminated import licenses for automobiles and auto parts that enter the country subject to tariff quotas provided for in trade agreements. Instead, it will opt for post-import controls to streamline trade and reduce regulatory costs.

The countries that will benefit from the measure are Argentina, Uruguay and Paraguay, with whom Brazil signed the Economic Complementation Agreements in automotive matters No. 14, No. 74 and No. 2, respectively.

CELAC APPROVES HEALTH SELF-SUFFICIENCY PLAN

The member countries of the Community of Latin American and Caribbean States (CELAC, for its acronym in Spanish) approved the guidelines and proposals for a health self-sufficiency plan for Latin America and the Caribbean, prepared by the Economic Commission for Latin America and the Caribbean (ECLAC). Its objective is to develop,

expand and strengthen regional production of vaccines and medicines to reduce external dependence and prevent the region from lagging behind in access to health.

The plan offers a diagnosis of the capacities and challenges of the countries of the region in health, economic, social, productive and institutional matters. Among the most relevant points, it stands out that, although in the larger countries there are high-quality research centres, in general, the region is characterised by scarce funding for research and technological development. This is combined with weak industrial policies and the absence of a technological business base, which have not allowed the development of a scale market for medicines.

From there, the plan indicates that short, medium and long-term measures should be implemented in relation to the strengthening of the mechanisms for the international joint purchase of vaccines and essential medicines, of the convergence mechanisms and regulatory recognition and of the systems of primary health care for universal access to vaccines and their equitable distribution. Additionally, it suggests using public drug procurement mechanisms for the development of regional markets, creating consortia for the development and production of vaccines, implementing a regional platform for clinical trials, and taking advantage of regulatory flexibilities to access intellectual property.

NORTH AMERICA

THE US MAINTAINS COUNTERVAILING DUTIES ON ARGENTINE BIODIESEL

The United States Court of International Trade ruled against the lawsuit of the Argentine government and an exporting company regarding the results of the review due to changed circumstances of the definitive countervailing duties imposed on biodiesel imports from Argentina. The court found that the Commerce Department's May 2020 decision was reasonably determined and supported by substantial evidence.

It should be remembered that in January 2018 the US Department of Commerce established anti-dumping and countervailing duties on

Argentine biodiesel imports, which caused the virtual closure of the US market for this product. In November 2018, Argentina requested changed circumstances review, based on the modifications to the export tax regime. In July 2019, the Commerce Department issued a preliminary decision that maintained the anti-dumping measure but virtually eliminated the countervailing duties. However, in May 2020, the final determination upheld the original decision (see CEI Global Report, June 2020), which is why our country appealed to the International Trade Court.

After hearing the ruling, the Argentine government announced that it will appeal the

decision and that it reserves the right to resort to the WTO dispute settlement system in order to defend the rights of its exporters.

US-EU: FIRST MEETING OF THE TRADE AND TECHNOLOGY COUNCIL

On Wednesday, 29 September, the first meeting of the Trade and Technology Council (TTC) was held. The TTC, created within the framework of the transatlantic forum launched in June by US and EU top officials, consists of ten working groups and aims at coordinating both parties on key trade, economic and technological matters at world level, as well as the deepening of trade and investment.

The first meeting, held in Pittsburgh, Pennsylvania (USA), was about to be postponed due to the announcement – unexpected for the EU – of the Indo-Pacific Defense Alliance (AUKUS) between the United States, the United Kingdom and Australia. Sessions focused on four key areas: global trade challenges, artificial intelligence, semiconductors, and data governance and technology platforms.

The parties agreed to maintain the supervision of foreign investments to address national security risks, as well as to strengthen effective controls over exports. In turn, they reaffirmed their commitment to establish a partnership for the rebalancing of global semiconductor supply chains.

Regarding global trade challenges, they expressed their intention to work closely together to address non-market and trade

distorting policies and practices, as well as to work to maintain competitive transatlantic trade, avoiding unnecessary barriers to trade in new technologies.

THE US URGES THE G7 TO APPROVE NEW GLOBAL TAX RULES

The US Secretary of the Treasury, Janet Yellen, underlined in a virtual meeting of the G7 the importance of a quick approval of the new international fiscal rules, among them the global minimum tax on multinational companies. She also highlighted the progress on the matter in the US Congress, where the Senate Finance Committee is studying a minimum tax rate higher than the 16.5% aliquot approved by the Ways and Means Committee of the House of Representatives.

The new global tax scheme was first agreed upon by the members of the G7 and then by the G20, and 130 countries of the 139 that are part of the OECD Inclusive Framework have joined (see Global Report, July 2021). Although the objective is to reach a final agreement in October, some countries have not yet expressed their support, including several EU members such as Ireland, Hungary or Estonia.

MEXICO-US: REACTIVATION OF THE HIGH-LEVEL ECONOMIC DIALOGUE

The presidents of Mexico and the US relaunched the High Level Economic Dialogue between both countries. This mechanism, created in 2013, seeks to advance the strategic economic, social and commercial priorities to promote regional economic

growth, job creation, investment and the reduction of inequality and poverty.

At the meeting, held in early September in Washington, the parties agreed to promote economic, social and sustainable development in southern Mexico, address the structural causes of emigration in the north of Central America, promote trade and encourage investment in productive projects that promote regional development.

Likewise, a Bilateral Working Group on Supply Chains was created to identify areas of complementarity in new and existing chains,

increase competitiveness and reduce vulnerabilities in critical sectors.

Finally, the leaders agreed to work to mitigate cyber threats to supply chains in a coordinated manner and to improve the flow of data between the two countries; in addition, it was agreed to provide vulnerable populations with training in the skills necessary for them to be competitive in the 21st century economy.

ASIA AND OCEANIA

CHINA PRESENTS ITS 14TH FIVE-YEAR PLAN

On 22 September, in the framework of a meeting of the State Council of China chaired by Prime Minister Li Keqiang, the 14th Five-Year Plan (2021-2025) was adopted, which proposes to stimulate domestic demand, economic transformation and sustainability of growth. The plan aims at the development of a new infrastructure supported by information networks and technological innovation.

Likewise, at said meeting, a 15-year plan (2021-2035) was also launched on the development of intellectual property rights (IPRs). It calls for stricter IPR protection, and aims for the competitiveness of Chinese IPRs to be among the best in the world by 2035. The guideline outlines a series of key tasks, including the creation of an IPR protection

system and the establishment of a market mechanism to encourage innovation.

POWER SHORTAGE AFFECTS CHINESE PRODUCTION

China is facing an energy crisis that affects the industrial sector in various regions of the country and which forced production to stop in a large number of factories. Scarce coal supplies, tightening emissions standards, and a strong industry demand pushed coal prices to record highs and led to widespread restrictions on its use. In this regard, since mid-September, rationing of energy use during peak hours has been implemented in various parts of northeast China. The state electricity company, State Grid Corporation of China, announced that it is taking measures to guarantee basic electricity supply and prevent future power outages.

In turn, the US company Goldman Sachs estimated that 44% of Chinese industrial activity was affected by problems in the electricity supply, and predicted that this situation could cause a decrease of one percentage point in growth of Chinese GDP in the third quarter of the year, and a fall of two percentage points in the last quarter of 2021, so the growth forecasts for the Asian country for this year would fall from 8.2% to 7.8%.

CHINA OFFICIALLY REQUESTS TO JOIN THE CPTPP

On 16 September, the Chinese Minister of Commerce requested officially the accession of his country to the Comprehensive and Progressive Agreement of the Trans-Pacific Partnership (CPTPP), which requires the consensus of the eleven member countries to accept a new membership. The CPTPP came into effect at the end of 2018, it is an updated version of the Trans-Pacific Partnership (TPP) signed in February in 2016.

Currently, China faces diplomatic and trade frictions with Australia, one of the CPTPP members. This year, the Chinese government indefinitely suspended all activity within the framework of the “China-Australia Strategic Economic Dialogue” and imposed high tariffs and limitations on imports of products of Australian origin, such as barley, wine and meat, which meant million-dollar losses for Australia (see CEI Global Report, June 2021).

On the other hand, on 1 January, China expects to formalize its membership of the

Regional Comprehensive Economic Partnership (RCEP), the trade agreement that includes the 10 economies of the Association of Southeast Asian Nations (ASEAN), plus Australia, China, South Korea, Japan and New Zealand.

JAPANESE FOREIGN TRADE RECOVERS

Japan’s exports increased 26.2% in August compared to the same month of the previous year, according to data published by the Ministry of Finance of that country, which marks the sixth consecutive month of growth of double digits in foreign sales. The strong demand for chip-making equipment offset the slowdown in Japanese auto exports to the United States and the European Union.

By destination, shipments to China, Japan’s largest trading partner, increased 12.6% year-on-year in August, led by chemicals and semiconductor parts, while exports to the United States grew 22.8%, thanks to strong demand for power generating machines, which offset the decrease in car shipments mentioned. Exports to the rest of the Asian countries increased 26.1%, while those destined for the European Union grew 29.9%.

In turn, Japanese imports increased by 44.7% in August compared to the same month of the previous year, due to a higher demand for fuel and medical products. This increase generated a trade deficit close to US\$ 6 billion, the largest monthly deficit recorded since December 2012.

AFRICA

AFRICA'S TRADE WITH CHINA AT RECORD LEVELS

According to data from the Chinese Ministry of Commerce, the trade exchange of the Asian country with the African continent increased 40.5% year-on-year in the first seven months of 2021 and reached a record value of US\$ 139.1 billion. In the same period, total exports of African products to China increased 46.3%, while exports of agricultural products such as rubber, cotton and coffee doubled compared to the first seven months of 2020.

Over the past 20 years, Africa's trade with China has multiplied by 20. This situation is partly a consequence of the financial incentives and entry conditions offered to different African countries by China. According to a report by The Economist, 33 of the poorest countries in Africa export 97% of their production to the Asian country without tariffs or customs duties. Notably, bilateral trade is still largely focused on China's imports of natural resources. However, in recent years the share of manufactured products from the continent's most diversified economies, such as South Africa, has increased.

AFCFTA'S SECRETARIAT SIGNS AGREEMENT WITH THE UK

The secretariat of the African Continental Free Trade Agreement (AfCFTA) and the government of the United Kingdom signed a Memorandum of Understanding to formalise

their commitment to cooperation for the facilitation of trade in the continent.

The signed memorandum establishes the framework for promoting future business and investment opportunities on the African continent; supporting the implementation of the AfCFTA agreement in all African nations; and strengthening trade links between the UK and African countries.

The AfCFTA is the most ambitious economic initiative of the African Union; the Economic Commission for Africa (UNECA) estimates that the AfCFTA has the potential to boost intra-African trade by more than 50%.

ESTIMATIONS OF THE IMPACT OF NIGERIA'S ADMISSION TO THE AFCFTA

Nigeria joined the AfCFTA on 7 July, 2019, and became the 34th member of the trading bloc.

NAFTA advocates hope that the AfCFTA will boost intra-African trade. According to a 2020 survey of 1,804 Nigerian manufacturing companies, 6 out of 10 entrepreneurs expect the AfCFTA to lead to lower material and labour costs, increase production capacity, expand market and lower prices. In general, small and medium-sized businesses in Nigeria are optimistic about the opportunities created by AfCFTA, although they fear growing foreign competition and dumping of substandard products.

Before the AfCFTA, 38% of Nigeria's exports were concentrated in the mining and petrochemical industries. According to an exercise carried out recently, the successful implementation of the AfCFTA would imply a 6.3% increase in exports of agricultural products and a 1.3% increase in exports of food and beverages. However, the simulations would suggest that the benefits of belonging to the continental trade agreement for Nigeria would be less than those that could be obtained by other countries that have greater commercial ties with their neighbours. The study even foresees a slight drop in exports from the following sectors: mining; wood and paper; petrochemicals; metal products; and other articles of manufacture.



Ministry of Foreign Affairs
International Trade and Worship
Argentina

Closing date of this issue: 30th September 2021

The opinion expressed in this publication does not necessarily reflect the views of the Ministry of Foreign Affairs, International Trade and Worship of Argentina.

Hyperlinks to other websites are merely informative and do not imply responsibility for or approval of their content on the part of the CEI.