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CEI GLOBAL REPORT

CEI Centre for International Economy

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The global macroeconomy is paying the price of war

The armed conflict between Russia and Ukraine is lowering global growth and fuelling inflation around the world. According to the OECD, the estimated world growth for this year will be 3% and for 2023, it is expected to be 2.2% (instead of the 2.8% that the organisation had projected before the war). The high interest rates with which the central banks of developed economies are trying to curb the increasing levels of inflation predict the possibility that these will end up having a negative impact on the level of activity globally, a situation that adds to the restrictions that the Chinese government continues applying with its "Zero-COVID" policy and the problems facing its real estate sector (see Asia and Oceania Section).

In the case of Russia, a GDP drop of 5.5% is expected for this year and 4.5% for next year. While in Germany, the product would fall 0.7% in 2023 (before the war, a 1.7% growth was projected) and France would hardly grow 0.6% (instead of 1.4%).

In turn, the hiking inflation due to the rise in the price of energy and grains –moderated thanks to the initiative to export Ukrainian grains through the Black Sea– spread everywhere to other sectors of the economy. In the eurozone countries, inflation would be 8.1% this year and 6.2% next year. According to the OECD, the monetary tightening carried out by the main central banks suggests that inflation in the world's main economies will peak in the current quarter, and then decrease in the fourth quarter of the year and throughout 2023. Even so, inflation next year will remain in almost all parts of the world well above the goals projected by the central banks.

These projections could be worse if the reduction in the supply of Russian gas deepens, leading in Europe, in particular, to an increase in the price of gas –already tripled in the last twelve months– and of coal. Although gas storage levels within the European Union are at almost 90% of capacity, the demand for the European winter may not be met, especially if it is a cold winter.

The report warns about the need to reduce energy demand voluntarily because the shortage could push up the global prices, and to demand from companies the rationalisation of gas use. According to the OECD, these shocks could reduce the growth of European economies by more than 1.2 p.p. in 2023 and increase inflation by more than 1.5 p.p. This would push many European countries into a recession in 2023 and would mean an increase in global inflation of more than 0.5 p.p. in 2023, with a growth reduction of just under 0.5 p.p.

Joint initiative helps stabilise global grain markets

The "Black Sea Grain" initiative has allowed Ukraine's grain production to be exported again through Black Sea ports, after their use was suspended as a result of the war between Russia and Ukraine. This initiative was the result of a joint action by Russia, Ukraine, Turkey and the United Nations. The agreement was reached on 22 July (CEI Global Report, August 2022).

Between 1 August and mid-September, almost 3 million tonnes of grain left Ukrainian ports: 51% maize, 25% wheat and 11% sunflower products, among others. Out of that, 25% was destined for low-income countries (Egypt, Iran, India, Sudan, among others), 25% to middle-income countries (Turkey, China and Bulgaria) and the rest (50%) to high-income countries (Spain, the Netherlands, Italy). The restart of exports would have helped reduce the international prices of grain.

In turn, the European Commission is considering making permanent the "solidarity routes" set up in May to collaborate with Ukraine's agricultural exports. This complements the shipments made through the Black Sea and involves trucks, railcars, adapted terminals and customs equipment. Although European farmers expressed their concern that the increase in the supply of Ukrainian grains could harm them, the EU Agricultural Commissioner, Janusz Wojciechowski, considered that there is no such risk.

EUROPE

Germany revisits its position on nuclear power and coal

The drastic reduction of gas of Russian origin imported by Germany, which occurred on 31 August when the Gazprom company announced the closure of the Nord Stream gas pipeline (see CEI Global Report, September 2022), led to a strong discussion between the political forces of the European country about how to deal with the energy deficit and replace fuel from Russia. Subsequently, the scenario became even more complicated due to the detection of four leaks in the Nord Stream 1 and 2 gas pipelines– which would have been caused by sabotage– and which have narrowed the possibility of recovering the flow of Russian gas that used to reach Germany.

Before the war between Russia and Ukraine, Germany had planned to close the last three nuclear power plants on its territory by the end of this year. However, the energy consequences of the conflict led the government to make the decision that two plants should remain in reserve until April 2023, in order to keep open the possibility of resorting to them if needed.

It is a particularly frail condition because while Friedrich Merz, leader of the German opposition party, CDU, argued that in the current context closing the nuclear power plants is absurd, the government coalition includes the Green Party among its members, being a political force with a strong relationship with the German anti-nuclear movement.

At the same time, Olaf Scholz's government has made the decision to prolong and increase the operation of coal-fired power plants. On the one hand, it has enabled these plants to operate until 31 March 2024 (as long as the energy emergency continues) and, on the other, it has allowed them to reach an additional 1.9 GW production.

The British government backtracks with the tax cut on highest incomes

The United Kingdom Prime Minister, Liz Truss, reversed one of the most controversial points of the tax reform that she had announced on 23 September, after a process of strong depreciation of the pound sterling and the British government debt bonds began, which could only be stopped with the purchase of long-term bonds by the Bank of England.

Days before the fall of the pound, the Conservative government had announced the biggest tax cut in fifty years, whose fiscal cost was estimated at 45 billion pounds. The measure included the abolition of the top rate of income tax (45%) for the highest income bracket (greater than 150 billion pounds), who would pay a rate of 40%.

The tax cut for the wealthiest was criticised by both the opposition and members of the Conservative Party. Likewise, the IMF issued a statement in which, among other considerations, it stated that: "we do not recommend large and untargeted fiscal packages at this juncture" and "the nature of the UK measures will likely increase inequality".

Finally, after these criticisms and given the possibility that the proposed measures were rejected in parliament –even by some ruling party legislators– the Minister of Economy, Kwasi Kwarteng, said that the criticisms had been heard by the government and that the announced reduction in income tax for taxpayers with the highest incomes would be eliminated. However, he made it clear that the government will go ahead with other tax cuts for workers and with the energy subsidies for households and businesses included in the package originally announced.

The Spanish government promotes a "solidarity tax"

The Spanish government introduced a package of measures that should be discussed in Congress so that large personal assets and large companies increase their contribution to the treasury. The pronounced set of measures includes the creation of a "solidarity tax" that people with net assets of more than 3 million euros will have to face. The rate will be 1.7% for assets of between 3 and 5 million euros; 2.1% for assets between 5 million and 10 million; and 3.5% for assets greater than 10 million euros.

The tax will be temporary and, in principle, will be applied in 2023 and 2024, although it will include a review clause to assess whether it is necessary to extend it after the end of its term of validity. According to the calculations of the Spanish Ministry of Finance, a total of 23,000 taxpayers will be affected (0.1% of the whole) and the collection is estimated to reach 1.5 billion euros.

Additionally, the initiative of the Spanish executive power includes tax reductions for self-employed workers and those with lower incomes, as well as an increase in corporate tax for larger companies and reductions for SMEs.

SOUTH AND CENTRAL AMERICA

Argentina files a claim against Peru before the WTO

Argentina filed a claim within the framework of the WTO dispute settlement system in response to antidumping and countervailing duties imposed by Peru on imports of biodiesel from Argentina, one of the main products that our country exports to the world.

In the document submitted to the WTO, the Argentine authorities stated that there are six antidumping and countervailing duty measures that would be incompatible with Peru's obligations under the WTO Agreements, and that nullify or impair the benefits for Argentina that result from said Agreements.

The claim states that, among other procedural and substantive aspects, the Peruvian investigating authorities miscalculated the benefit obtained by the Argentine exporters, which led to the imposition of countervailing duties above those necessary to offset the alleged subsidy. Likewise, it is pointed out that other factors that could cause damage to the local industry were not taken into account, so this was attributed to the imports of Argentine biodiesel. On the other hand, within the framework of the reviews made due to change of circumstances and end of period, Argentina questions that the investigating authorities failed to make a determination of the continuation of the alleged benefit granted to the Argentine industry and the absence of correspondence between the normal value and the hypothetical export price to establish the probability of dumping.

Bolivia inaugurates nuclear medicine centre with Argentine technology

The president of Bolivia, Luis Arce, inaugurated, in the city of Santa Cruz de la Sierra, a nuclear radiotherapy centre that has the necessary equipment for the early diagnosis of oncologic, cardiac and neurological diseases and in which radiant therapies and chemotherapy for cancer treatment will be applied.

The centre was built and equipped by the Argentine company INVAP within the framework of a contract signed with the Bolivian Nuclear Energy Agency (ABEN after its acronym in Spanish). The agreement between the two institutions provides for the construction of three centres. The first had already been inaugurated in February this year in the city of El Alto, and the last one will be located in the city of La Paz, and it is expected to start operating in the first quarter of 2023.

Apart from said construction works, the contract includes the total design, the provision of equipment for the three aforementioned centres, human resource training, advisorship of local professionals and the necessary consultancy for their management.

Tax reform proposal in Colombia

The new Colombian president, Gustavo Petro, promotes a progressive tax reform that aims at reducing the benefits for higher income taxpayers and alleviating the tax burden suffered by the most vulnerable.

The proposal by the executive branch, which must be discussed in the Congress of Colombia, is aimed at allowing lower-income workers and pensioners to stop paying income tax. Likewise, the exemption limit is modified to increase the tax pressure on the taxpayers with the highest incomes.

At the same time, it introduces a permanent wealth tax that goes from 0.5% to 1%, which only 2.4% of the richest people in the country will have to pay, while VAT will also be eliminated from the products of the basic basket. Finally, other remarkable points of the proposed reform are the implementation of “healthy” taxes –levied on sugary drinks and ultra-processed foods– and the project to penalise tax evaders with effective prison sentences.

NORTH AMERICA

The USTR to continue applying tariffs on Chinese products

The USTR, in charge of US trade relationships, announced that Section 301 tariffs on China’s actions, policies, and practices related to technology transfer, intellectual property, and innovation will be kept while the review required by the US legislation continues.

It is worth remembering that between July and August 2018, the administration of former President Donald Trump had established two tranches of tariff rises on Chinese products, accounting for imports by US$ 50 billion. Subsequent actions raised the figure to US$ 370 billion.

In May 2022, the USTR started the legal process to review these measures, and notified the representatives of US industries benefitting from the tariff actions of their likely termination and the opportunity to request an extension. Since multiple extension requests were received (from 358 companies and 76 business associations), the measures did not expire on the expected date (four years after the time they were enacted) and the USTR will continue reviewing them.

On the other hand, the tariffs are opposed by a number of legislators, as well as many business associations. In addition to the process initiated by the USTR, President Biden has been reconsidering the measures implemented in the Trump era, since some members of his cabinet believe that the elimination of some of these tariffs could help reduce inflation, although various analysts have expressed that the effects could be modest.

The US imposes trade defence measures against Argentine products

At the end of March 2022, the US company Delano Growers Grape Products filed a petition with the US Department of Commerce and the US International Trade Commission to impose anti-dumping and countervailing duties on the white grape must that Argentina exports to its country, considering that Argentine companies sell at prices lower than the cost of the product and receive subsidies. In May, the US Department of Commerce granted that request.

On 30 August, this organisation announced an affirmative preliminary determination in the countervailing duty investigation for white grape juice concentrate (must) from Argentina. The preliminary fee imposed will vary between 3.71% and 7.16% depending on the company. The final ruling would be known in early 2023.

On the other hand, it is estimated that the preliminary ruling regarding the antidumping investigation will be available in October.

It should be noted that the US is the main destination for Argentine must exports, with a participation nearing 41% of the total exported. Other important destinations are Saudi Arabia, Japan, South Africa and Canada. In 2021, Argentina exported 100,283 tonnes of concentrated must at a value of US$ 116.6 million. Fundamentally, research on subsidies potentially jeopardizes exports to the US of the wine industry in general.

Besides, on 26 September, the Department of Commerce announced its final affirmative determinations in the antidumping duty investigations of oil country tubular goods (OCTG) from Argentina, Mexico, and Russia; and countervailing duty investigations of OCTG from Russia and South Korea.

In the case of Argentine products, antidumping duties of 78.30% were imposed, for Mexican companies the antidumping duties will be 44.93% and for Russia they will vary between 12.53% and 184.21%, depending on the company affected. Countervailing duties on products from South Korea will vary between 0.25% and 1.23% and for Russian OCTG they will be between 1.30% and 1.59%, according to the company.

Mexico announces industrial policy plan

The Secretariat of Economy of Mexico presented the strategy "Towards an industrial policy", whose main objectives are to promote sustainable and inclusive economic development, foster competitiveness and productive capacity in the industry, establish a vision for the "new Mexican MSMEs" and strengthen and boost the domestic market.

The strategy is composed of four transversal axes: i) innovation and technological-scientific trends; ii) training human capital for the new trends; iii) promotion of regional content, and iv) sustainable and durable industries.

The first one will focus on increasing the production of zero-emission vehicles, expanding 5G technology, boosting the use of robotics and improving the patent system. With respect to human capital training, the efforts will focus on STEM careers and the digitalisation of the industry. The third axis will promote the increase of national content in several industries and a greater participation in the global production chains, MSMEs training and the relaunch of the "*Hecho en México*" brand. Finally, the fifth axis will seek to make 50% of the automobile production with zero emissions by 2030, to have greater innovation in ecological industries, to promote a rise in the production of sustainable foods and the development of biopharmaceuticals.

The strategy focuses on five sectors considered strategic due to their current and future economic relevance, their growth rate and their importance for the labour market: the agri-food sector; the electric-electronic sector; that of electro-mobility; medical and pharmaceutical services and that of the creative industries.

It is worth noting that the initiative does not specify the type of tax incentives that will be implemented to achieve the objectives pursued. These instruments might still be under discussion, according to the words of Deputy Minister of Finance, Gabriel Yorio.

ASIA AND OCEANIA

The armed conflict in Ukraine and the climate objectives in Asia

In Asia, as in the rest of the world, during the war between Russia and Ukraine, most countries began to prioritise energy security over their climate goals. For countries like South Korea or Japan, this means promoting further nuclear energy participation. For the enormous energy demands China and India have, this implies increasing their dependence on carbon in the short term.

The war in Ukraine is having a strong impact on China, the main greenhouse gas emitter in the world, which, yet, aims at reaching zero emissions by 2060. Since the invasion, China has not only imported more fossil fuels from Russia, but it has also increased its own carbon production.

In the same way, India, which according to analysts will be the country with the largest rise in energy demand in the coming years, seeks to increase carbon production to reduce dependence on expensive imports and it continues buying Russian oil despite sanction requests.

On the other hand, Sri Lanka is an extreme example of the situation faced by the poor nations of the region. The enormous debts make it impossible to finance energy purchases, forcing to ration fuel for key sectors where the country anticipates shortages for the next year. Sri Lanka has set itself the goal of obtaining 70% of all its energy from renewable energy by 2030, and aspires to achieve zero emissions by 2050. According to some experts, these goals are not realistic, given that under current circumstances they are unattainable.

World Bank: new growth outlook for the region

According to a report by the World Bank, growth in most of the developing countries in East Asia and the Pacific was driven by the recovery of domestic demand, eased by the relaxation of restrictions related to COVID-19, and the rise in exports. However, China, which accounts for 86% of the production in the region, continues to apply restrictive measures under its "Zero-COVID" policy, affecting production and consumption.

According to the October 2022 economic update, the World Bank forecasts just a 2.8% growth in Chinese GDP for this year; a marked decrease in relation to the 5% forecasts of April, and lower than those of the rest of the Asia-Pacific region, which is given a 5.3% (more than double of the 2.6% of 2021).

In some regions of China, the strict measures and closures imposed by the "Zero-COVID" policy and the real estate market crisis, in addition to other factors such as youth unemployment, the debilitation of the yuan, the energy emergency due to the summer droughts and the subsequent floods, have made it impossible to meet the 5.5% growth target set by the government during the National Popular Assembly in March 2022.

Additionally, industrial profits plummeted 2.1% in the first eight months of the year. From January to August, 25 of the 41 main industrial sectors had their benefits decreased, and the manufacturing sector reported a 13.4% decline. However, according to the World Bank report, China's economy will expand by 4.5% in 2023.

In contrast to the Chinese case, the World Bank forecasts a growth in Vietnam's GDP of 7.2% this year, (in April, it was estimated at 5.3%), which makes it an important driver of growth in the Asia-Pacific region. In 2023, a growth rate of 6.7% is expected. Vietnam has a mounting role in the global supply chain, partly due to the US decision to discourage investments in China. According to some media, Apple would manufacture the Apple Watch and the MacBook in Vietnam for the first time; Samsung will do the same with microchip components and the US semiconductor designer Synopsys would expand its operations in the Asian country.

Apart from Vietnam, other countries where the projections for growth surpass the average of the region are the Philippines (6.5%), Malaysia (6.4%) and Indonesia (5.1%).

Apple moves manufacturing of iPhone 14 to India

The American company Apple will start producing its brand new iPhone 14 in India, less than a month after its launch, in an attempt by the company to diversify its supply chains outside China.

Apple, which manufactures most of its cell phones in Chinese territory, has begun to relocate part of its production outside that country as the geopolitical tension between Washington and Beijing increases. The firm is already producing other iPhone models in India and has started to divert more and more its supply chain in that direction.

India is the second smart phone market in the world following China, but sales of iPhones have had problems capturing a large share of the market compared to cheaper smart phone models offered by other companies. The announcement made by Apple could likely be a push for the "Made in India" campaign promoted by Prime Minister Narendra Modi since he took office in 2014.

AFRICA

Africa loses chances for growth due to climate change

According to the African Development Bank (AfDB), Africa is losing possibilities for economic growth due to the effects of climate change. This body stated that the continent has been disproportionately affected by the consequences of climate change, which have exacerbated droughts, floods and cyclones across the continent in recent years.

The African nations received around US$ 18 billion in climate funding between 2016 and 2019 (only 5.5% of the global climate funding), but they need to obtain financing to combat climate change by almost US$ 1.3 trillion for the 2020-2030 period. In 2009, the most developed countries promised to allocate US$ 100 billion in climate financing to the developing world, but this promise was only partially fulfilled and will expire in 2025.

The African countries are asking for a strong expansion of financing to face climate challenges and reject the abrupt abandonment of fossil fuels. In this sense, a statement was issued in which they expressed the need for a review of multilateral development banks and international financial institutions regarding funding for climate change. They propose the creation of a sustainable sovereign debt centre to reduce the capital cost for the developing states and support the debt swaps by nature

Use of fertilisers on the rise in the region

The use of fertilisers is gaining momentum in Africa amid concerns about food security. According to what was pointed out by FAO, approximately 346 million people on the African continent are negatively affected by the food crisis, which has led the debate on fertilisers take a central position, even when environmental activists call for precaution in that respect. Only 6% of the cultivated land in Africa is irrigated, and the average consumption of fertilisers in Sub-Saharan Africa is estimated at 17 kg/ha, while the average consumption of fertilisers in the world is 135 kg/ha.

At the last summit of the "Alliance for a Green Revolution in Africa" (AGRA) the President of Zimbabwe urged the rest of the African countries to increase the use of fertilisers and irrigation to guarantee food security. According to the experience in said country, these elements made it possible that the wheat production increased fivefold.

In turn, Tanzania launched a programme that, in three years' time, will make it possible for up to 360,000 hectares to have artificial irrigation, and it will include the construction of a fertiliser production plant that would benefit 65% of its population, that devotes itself to agriculture.

In the case of Rwanda, the construction of three new plants will help cover the deficit in the use of fertilisers, a measure that is complemented by the increase in the budget allocations for agriculture (from an average of US$ 125 million per year to US$ 404 million, destined to investigation, irrigation, seed multiplication and training).

These initiatives take place within the framework of an increase in food imports on the African continent, which have tripled since 2008. According to the African Development Bank, food imports from the continent will go up to US$ 110 billion over the next three years, if no transformations take place in the sector. Experts of the agricultural sector express that this trend must be reversed, as it translates into a loss of job positions and livelihoods for the citizens in the continent.

Growth projections in the demand for air services in Africa

The aircraft company Boeing, estimates that the intra-regional and national air networks on the African continent will grow at an annual rate of 6.1%, boosting the demand for 1,010 new aircraft until 2040, valued at US$ 176,000 million.

The data published in the *"Boeing 2022 Commercial Market Outlook"* predicts a general growth in African air traffic of 5.2% for this year, the third highest among the different regions of the world. African air traffic is recovering at an accelerated pace in 2022, which has allowed African airlines to reach 80% of their pre-pandemic levels.

According to Boeing, the continent's annual economic growth (higher than the world average), combined with a growing urbanisation and an increasing middle-class, will continue to drive traffic demand on a wide scale. It is expected that initiatives such as the African Continental Free Trade Area (AfCTA) and the Single African Air Transport Market (SAATM) will stimulate more trade and intraregional connectivity.

The SAATM is an emblematic project of the "Agenda 2063 of the African Union" to create a unified market on the continent. Experts in aviation have stated that this initiative will generate better connectivity throughout the continent and will collaborate with the sustainable development of the aviation industry and tourism, which will represent a great contribution to economic growth, job creation and integration in Africa.

CEI GLOBAL REPORT

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