OCTOBER 2023

CEI GLOBAL REPORT

CEI Centre for International Economy

WORLD

The WTO promotes “reglobalisation”

The IMF proposes taking advantage of the tax potential of developing countries

G20 Summit in India

EUROPE

The EU seeks to secure the supply of critical raw materials

Countries express concern about EU deforestation regulation

Ukraine’s claim in the WTO against European trade restrictions

SOUTH AND CENTRAL AMERICA

Brazil achieves the opening of the Israeli poultry market

Drilling works begin on the Palermo Aike deposit

Challenges and solutions to the climate crisis in Latin America

NORTH AMERICA

US and India announce resolution of their outstanding trade dispute

Argentina intensifies its difference with the US over oil country tubular goods

US sanctions more Chinese companies for forced labour

ASIA AND OCEANIA

India manages its rice exports in a context of rising prices

Dispute between New Zealand and Canada resolved

New Zealand joins Agreement on Fisheries Subsidies

AFRICA

The African Development Bank advocates for a fair global financial architecture

Sanctions deepen the economic crisis in Niger after the coup

Rwanda signs nuclear power generation agreement

WORLD

The WTO promotes “reglobalisation”

In the 2023 edition of its report on world trade, the World Trade Organization (WTO) analysed the incipient signs of trade fragmentation that began to emerge in the world economy in the light of historical experience, and reaffirmed its defence of free trade as a solution to the main problems that the economy is facing at the global level.

According to the agency, the COVID-19 pandemic and the war in Ukraine posed a scenario in which globalisation began to be perceived as a risk for national economies. The document acknowledges that empirical evidence shows that we cannot yet speak of a process of “deglobalisation”, since international trade continues to grow and is renewed with the expansion of services and digital commerce. However, it points out that signs of fragmentation in the world trade are being observed as a result of geopolitical tensions that could be symptomatic of a change of era.

According to the WTO Secretariat calculations, since the outbreak of the war in Ukraine, trade has grown more within blocs of countries with political affinities than between such blocs. Likewise, the body states that the impact of the trade war between China and the US, which started in 2018 under the presidency of Donald Trump, has begun to be felt. Even though in 2022 bilateral trade between the two powers reached a record figure, there is a change in its composition owing to the trade restriction policies that have been imposed, with significant drops in some products such as semiconductors. Finally, another element that can be considered as an indication of an emerging fragmentation of world trade is, according to the WTO, the growing number of trade-related concerns received by the organisation, which between 2015 and 2022 increased nine-fold.

Faced with this scenario of fragmentation, the WTO proposes “reglobalisation” as a virtuous way out, that is, greater integration that reaches more people and more economies. It thus resumes one of the premises that promoted the fight against restrictive measures on international trade in the aftermath of the Second World War: the idea that free trade is linked to lower possibility of conflict between countries.

The reasoning used in the report to defend “reglobalisation” is that the emergence of national security risks that has been faced by national states since the pandemic and the war in Ukraine will not be resolved with more protectionism but with greater openness, because it facilitates the diversification of trade partners and reduces dependence on restrictive measures from other countries. As the WTO states it: “paradoxically, the answer to the challenges posed by globalisation is more globalisation”.

The IMF proposes taking advantage of the tax potential of developing countries

In an article published on the IMF’s website, the agency officials propose increasing the tax burden on emerging and low-income countries to finance their development goals and climate transition. According to a study carried out by the authors, the leaders of these countries can achieve up to 9% of GDP with a better design of tax policy and public institutions.

The fiscal pressure in half of the emerging economies and two-thirds of low-income countries was less than 15% of GDP in 2020, which, according to the authors, places them below the maximum they can raise depending on their economic structure and would give them considerable room to increase their tax pressure and raise their collection.

In the case of low-income countries, the study concludes that, on average, they can increase the fiscal pressure by up to 6.7 percentage points (p.p.) of GDP, while from the improvement in the quality of their public institutions they could obtain an additional 2.3 p.p. In turn, emerging economies could increase tax collection by 5 p.p. and obtain between 2 and 3 p.p. more if they improved the quality of their institutions.

To meet the stated objective, the authors offer a series of proposals. They recommend improving the design and management of basic internal taxes, and point out as an example that VAT revenues could double in low-income countries if exceptions were limited and compliance improved, taking advantage of the adoption of digital technologies for their collection.

They also advocate for improving the institutions that manage the tax system, which must employ professionals who can forecast and analyse the impact of tax policies on the economy, as well as formulate and apply taxes. According to the IMF, improving state capacity increases the quality of tax policy design and, in turn, its acceptance by the citizens.

G20 Summit in India

On 8 and 9 September, the 18th Summit of G20 Heads of State and Government took place in the city of New Delhi. Before the meeting, difficulties were foreseen in reaching a final declaration by consensus due to the differences between the countries regarding the war in Ukraine and the absence of the presidents of Russia, Vladimir Putin, and China, Xi Jinping. However, the Prime Minister of India, Narendra Modi, was able to announce the adoption of the Leaders' Declaration, which was reached by consensus of the representatives of all countries and in which a call was made to respect "the principles of international law, including territorial integrity and sovereignty, international humanitarian law and the multilateral system".

The statement includes a number of finance-related matters, including a commitment to reform and strengthen multilateral development banks and stricter regulation of cryptocurrencies. Likewise, in the document, the G20 countries expressed their support for the implementation of the Black Sea initiative to guarantee the flow of grains, food and fertilisers from Ukraine and Russia, which had been suspended by Moscow in July.

At the closing ceremony, the Indian Prime Minister handed over the presidency of the Group to the President of Brazil, Luiz Inácio Lula da Silva, who will take over the forum from December. In this way, the Brazilian presidency will organise the next summit, scheduled for November 2024, under the motto "Building a just world and a sustainable planet". In 2025 the meeting will be in South Africa and in 2026 in the United States.

EUROPE

The EU seeks to secure the supply of critical raw materials

The European Parliament approved its version of the Regulation on the provision of critical raw materials or essential minerals, crucial for various technologies present in electric cars, solar panels and smartphones. The standard includes materials such as lithium, palladium, tungsten, bauxite, cobalt, magnesium and rare earths.

China is the main global and EU supplier of this type of raw materials and its industrial policy and the war between Russia and Ukraine highlighted the geopolitical importance of having a supply of these materials. Therefore, the European authorities are promoting a policy of import diversification, so that no country supplies more than 65% of the annual consumption of each product, as is the case of China with gallium, magnesium, bismuth and rare earths, of the United States with beryllium, of Chile with lithium, of South Africa with iridium and of Kazakhstan with phosphorus. Another objective is that at least 10% of the consumption of these raw materials be covered by its own extractive capacity and 40% by the European processing capacity.

The next stage in the legislative process is to achieve a common version with the European Commission and the EU Council, which is expected to be reached before the end of the year. At the same time, the EU and the United States are negotiating a bilateral agreement, supported by Parliament, to strengthen the supply chains of these critical materials.

Countries express concern about EU deforestation regulation

A group of 17 developing countries signed a letter addressed to the authorities of the European Union expressing their concern about the approval of the European Regulation on deforestation. This rule came into force on 29 June (see CEI Global Report, June 2023), although the central measures will come into effect by the end of 2024.

The representatives of the signatory countries express their concern about the reasons why the European regulation does not consider the different circumstances and capacities of the countries and the existing certification mechanisms. Measures such as due diligence and traceability will have a greater impact on small producers, since they will be unable to afford the costs involved in these processes. The signatories urge the EU to correct negative impacts through implementation guidelines that value local sustainable practices. This letter reiterates concepts from a first joint letter dated July 2022.

The 17 signatory countries are Argentina, Brazil, Bolivia, Colombia, Dominican Republic, Ecuador, Ghana, Guatemala, Honduras, Indonesia, Ivory Coast, Malaysia, Mexico, Nigeria, Paraguay, Peru and Thailand.

Ukraine’s claim in the WTO against European trade restrictions

Ukraine initiated the formal complaint against Slovakia, Hungary and Poland for the ban they applied to the imports of certain Ukrainian agricultural products. On 21 September, it submitted a request for consultations with each of the three countries to the WTO Dispute Settlement Body (DSB), the first step in the WTO complaint process.

In May 2022, the EU facilitated Ukraine’s entry of its products into its territory in order to speed up their exports to third markets due to the difficulty in using the Black Sea as an exit route caused by the war with Russia. However, some Eastern European countries banned the entry of Ukrainian merchandise because the increase in supply may have affected the price of several products. As countries in the EU cannot unilaterally adopt trade restrictions, the European Commission reached an agreement to restrict access to wheat, corn, rapeseed and sunflower seeds from 2 May of this year until 15 September (see CEI Global Report, May 2023). The Commission decided not to impose new restrictions and, in return, Ukraine committed itself to adopting measures to prevent an increase in exports to neighbouring EU countries.

However, on 16 September, Slovakia, Hungary and Poland applied unilateral quantitative restrictions: Slovakia to the same four products that faced the transitional measures, Hungary to 25 products, and Poland to the four original products plus two additional ones. The Ukrainian complaint in the WTO is made against these measures.

SOUTH AND CENTRAL AMERICA

Brazil achieves the opening of the Israeli poultry market

In September, Brazil and Israel concluded negotiations for the opening of the Israeli market to Brazilian avian meat. Thus, Brazil became the first country in the world authorised to export chicken meat to that country. The Ministry of Agriculture and Livestock of Brazil reported that its officials travelled to Israel in order to develop a detailed training plan on the requirements to achieve exports, held meetings with local health authorities and visited establishments dedicated to the production of kosher chicken, in order to collect information on the production process.

Israel is one of the largest per capita consumers of poultry meat in the world and has a high demand for cuts such as breast and *shawarma* (thin slices which are consumed roasted). In turn, Brazil is the largest exporter of chicken meat in the world. According to data from the Brazilian Animal Protein Association (ABPA), Brazilian avian meat exports totalled 2.6 billion tonnes in the first half of 2023, 8.5% more than in the same period of 2022. Cumulative revenues from the sale of chicken in the first half of this year reached US$ 5.2 billion, 9.3% more than over the same period of the previous year.

Drilling works begin on the Palermo Aike deposit

YPF and the private oil company CGC began works to drill the first exploration well in the Palermo Aike unconventional field, in the south of Santa Cruz, the second largest formation in Argentina, following Vaca Muerta and the third in Latin America. It is estimated that its resources would represent up to a third in terms of barrels of oil and trillion cubic feet (TCF) of gas of the Neuquén deposit capacity.

Due to its geological conditions, Palermo Aike is the site with the greatest similarities to Vaca Muerta given its spatial extension, the depth of the target (3,000 and 3,500 m), its marine origin and its hydrocarbon potential. In 10 years, Vaca Muerta reached 1,300 wells and contributes approximately 45% of the hydrocarbons produced in Argentina.

Palermo Aike is located within the Austral Basin and has an extension of more than 12,600 square kilometres. The Austral Basin is located in the southernmost tip of South America and covers part of the Argentine provinces of Santa Cruz and Tierra del Fuego, the Strait of Magellan and the south-western region of Chile. Within the Argentine territory of the Cuenca Austral, resources are estimated at 113 TCF.

The objective of the drilling is to test the productivity of the bedrock and then continue with tasks to develop the well commercially and make it economically profitable. It is expected that tasks will be complete in early February 2024 and that the first results are observed in March.

Given the volume to be researched, this exploratory project is a strategic opportunity to expand the frontier of unconventional resources to other geographical areas of Argentina, extrapolating the learning curve developed by YPF in Vaca Muerta over the last decade.

Challenges and solutions to the climate crisis in Latin America

The Development Bank of Latin America and the Caribbean (CAF) presented the Economy and Development Report (RED) 2023 on: "Global Challenges, Regional Solutions: Latin America and the Caribbean facing the climate and biodiversity crisis", which brings together the most recent research on climate change on the planet and in the region, from physical issues to economic prospects. It also analyses the challenges, opportunities for action in the face of climate change and the protection of ecosystems and biodiversity in Latin America and the Caribbean.

Global warming has immediate consequences on the economy of Latin America and the Caribbean. The main effects in the region include the drought that affected agricultural production in Argentina, the unprecedented heat wave in Brazil, and the lack of water reserves for human consumption in Uruguay. Similarly, the Caribbean economy is being affected by the out-of-control storms that hit its beaches and cities.

The report describes a situation that places Latin America at a crossroads despite the fact that it has only generated 11% of the carbon accumulated in the atmosphere, while 45% of historical CO_2 emissions come from developed countries and 24% from developing countries in Asia and the Pacific (a region that includes high-emitting countries in the last 50 years, such as China and India).

The most frequent extreme weather events in Latin America and the Caribbean are the floods and tropical cyclones and these, along with droughts, are increasingly affecting crops and populations each year, with their consequences on national production. In addition, 60% of Latin American cities had heat waves between 2011 and 2020, and 28% of which were extreme. The number of extreme weather events in Latin America and the Caribbean went from 28 per year during the 1980-1999 period to 53 per year in the 2000-2021 period. The affected population increased from 4.5 to 7.2 million people per year in the same periods.

The RED presents a menu of public policy proposals: sustainable agriculture practices; investments in adaptation infrastructure, policies for disaster risk management, policies to regenerate and protect ecosystems, and promotion of renewable energy sources, among others. For these measures to grow, it is necessary to rethink climate financing. For example, carbon credit markets are a tool to finance the conservation and regeneration of the region's high-potential ecosystems.

The report details the need to coordinate state policies and investments in the short, medium and long term. In that sense, the CAF has committed itself to increasing green financing to 40% of its approvals by 2026.

NORTH AMERICA

US and India announce resolution of their outstanding trade dispute

The United States and India announced the termination of their last pending WTO dispute (DS 430), concerning India's ban on the import of US poultry due to concerns over avian influenza, which had been pending for more than a decade.

As part of the arrangement, India will reduce tariffs on certain US products, including frozen turkey and duck, and fresh, frozen, dehydrated, or processed blueberries (blue and red). US Secretary of Agriculture Tom Vilsack welcomed the agreement and said it would create new market opportunities for US producers and exporters in the world's most populated nation.

This agreement adds to the one reached in June, when both countries resolved to end six pending WTO disputes and reduce import tariffs on certain products (see CEI Global Report, July 2023).

The announcement followed a meeting between President Joseph Biden and Indian Prime Minister Narendra Modi in New Delhi in the framework of the G20 Leaders' Summit (see World), where the two officials also agreed on cooperation on several economic fronts, including semiconductor supply chains, emerging technologies, and the digital economy.

Argentina intensifies its difference with the US over oil country tubular goods

Argentina requested the establishment of a WTO panel in its dispute with the United States over the anti-dumping duties applied by Washington to Oil Country Tubular Goods (OCTG) claiming that the previous consultations held between the two countries had failed to resolve the issue.

It should be remembered that the US International Trade Commission determined in November 2022 that its domestic industry suffers significant damage from the import of tubular products for the oil industry from Argentina, Mexico, and Russia. The final resolution set an anti-dumping margin of 78.3% for OCTG products from Argentina (see CEI Global Report, June 2023).

In its request, Argentina argued that the US anti-dumping measure and certain provisions of US law relating to anti-dumping investigations are presumably inconsistent with the obligations assumed in the General Agreement on Tariffs and Trade 1994 (GATT) and the WTO Anti-Dumping Agreement and appear to nullify or impair the benefits obtained by Argentina directly or indirectly under the aforementioned agreements (see DS 617).

In turn, the US stated that the anti-dumping duties that were imposed on the OCTGs from Argentina were fully consistent with WTO rules, so it could not accept the setting of the panel. While the US can block this first request, it cannot block a second.

US sanctions more Chinese companies

The US Department of Homeland Security announced the inclusion of three Chinese companies on the Uyghur Forced Labor Prevention Act (UFLPA) Entity List for the alleged use of forced labour from the Uyghur Muslim minority and other ethnic and religious minorities in the Xinjiang region of China.

As of 27 September, the goods produced by Xinjiang Zhongtai Group Co. Ltd. –one of China's largest PVC producers–, Xinjiang Tianshan Wool Textile Co. Ltd. and Xinjiang Tianmian Foundation Textile Co. Ltd. –both companies in the textile sector– will have restricted access into the United States. With this announcement, the total number of entities in the Entity List amounts to 27 companies.

It is worth remembering that the Law on the Prevention of Forced Labor of Uyghurs, enacted by President Biden in December 2021, prohibits the import into the United States of goods extracted from or manufactured in whole or in part in the Xinjiang region or produced by entities identified in the UFLPA Entity List, unless the United States Commissioner of Customs and Border Protection (CPB) determines, through clear and convincing evidence, that the goods were not produced with forced labour.

According to the statistics published by the CPB, since June 2022 –the date on which the law began to be applied (see CEI Global Report, July 2022)– more than 5,300 shipments valued at US$ 1.8 billion were reviewed. A total to 43.5% of the shipments were rejected, 38.0% were approved, and the remaining 18.5% are still under review.

ASIA AND OCEANIA

India manages its rice exports in a context of rising prices

During July, India banned its exports of non-basmati white rice, due to the need to ensure the internal availability of this food and avoid the increase in its price. As a result of the measure, which adds to the reduced supply from countries such as Thailand and Pakistan, caused by climate issues, the price of this cereal reached its highest level in the last 15 years in August.

The United Nations Food and Agriculture Organization (FAO) said that the uncertainty generated by the measures adopted by the Asian country led the different actors in the supply chain of the cereal to accumulate reserves or renegotiate contracts, further limiting trade. It should be noted that India is the world's main rice exporter: it provides 40% of the global supply, of which non-basmati white rice constitutes 25%. During 2022, exports of the latter amounted to approximately 6 million tonnes, worth close to US$ 2.1 billion.

In this regard, the FAO also warned about the impact on food security for a significant proportion of the world's population for which rice is their staple food, especially in Asia and Africa; as well as about its effects on inflation in many countries, particularly in the poorest. Although during the months of August and September India authorised the exports of 213,000 tonnes of non-basmati rice to Bhutan, the United Arab Emirates, Singapore, and Mauritius following the request of their corresponding governments, this action was challenged by several WTO members, such as the United States, Canada, Australia, and Japan, before the WTO Committee on Agriculture.

Dispute between New Zealand and Canada resolved

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) panel, created under the agreement's dispute settlement mechanism, ruled in favour of New Zealand in a dispute brought by this country against Canada in May 2022. Regarding this difference, the first one initiated within the framework of the agreement, the New Zealand authorities claim that the implementation of their tariff-rate quotas for dairy products does not honour the commitments made and had presumably caused revenue losses in the last three years estimated at NZ$ 120 million (US$ 70 million).

The panel's ruling confirmed that New Zealand exporters could not fully use the 16 tariff-rate quotas currently in force to access the Canadian dairy market. The utilisation rates of 13 of the 16 tariff-rate quotas may be less than or equal to 10%; of which 9 did not record any imports. Likewise, it stressed that Canada is not fulfilling several of its commitments under the CPTPP.

It should be remembered that Canada has already faced two dispute resolution processes on this issue with the US, within the framework of the United States-Mexico-Canada Agreement (see CEI Global Report, January 2023).

New Zealand joins Agreement on Fisheries Subsidies

After depositing its acceptance instrument with the WTO, New Zealand became the first country in Oceania to adopt the Agreement on Fisheries Subsidies. This agreement, drawn up at the Twelfth WTO Ministerial Conference, held in June 2022, prohibits subsidies for illegal, unreported and unregulated fishing, fishing for overexploited stocks and fishing in unregulated high seas areas. New Zealand joins other neighbouring countries that adhered to the agreement such as China, Hong Kong (China), Japan and Singapore, but the approval of two-thirds of WTO members is still required for its entry into force (40% of that requirement has been met so far).

The agreement distinguishes the needs of developing and least developed countries and establishes a financing fund to assist them in fulfilling the obligations that need to be implemented.

AFRICA

The African Development Bank advocates for a fair global financial architecture

The African Development Bank (AfDB) pointed out that the global financial architecture limits Africa's development and recommends initiatives to make it fairer. At the 78th United Nations General Assembly, Akinwumi Adesina, president of the institution, stressed that the current conditions of the international financial system do not offer the resources necessary for Africa to achieve its growth and development priorities, nor do they provide financing on the scale necessary for the continent to adapt to climate change. Africa contributes only 3% of global emissions and suffers disproportionately from climate change (it loses between US$ 7 billion and US$ 15 billion a year for this cause and this figure is expected to increase to US$ 50 billion by 2030).

Other limitations pointed out by the AfDB were that the international financial architecture prevents the successful restructuring of debts, making them complex, prolonged and expensive; and that emergency resources are distorted in favour of the richer countries that need them the least. For example, of the US$ 650 billion in Special Drawing Rights (SDRs) issued by the IMF, Africa received only US$ 33 billion (4.5%).

The president of the AfDB proposed some initiatives to make the global financial architecture fairer and improve financing for development: 1) simplify the global climate financial architecture, better coordinate it and strengthen the capacity of countries to access climate funds, with the suggestion that loans contain contingency clauses that release countries from their payments when they face climate crises; 2) urge multilateral development banks to change their business models to deliver greater volumes of available financing; 3) capitalise on multilateral development banks; and 4) channel a portion of IMF SDRs from donor countries to multilateral development banks.

The African Development Bank and the Inter-American Development Bank (IDB) developed a model that allows SDRs to be leveraged by a multiple of three to four, while preserving their quality as reserve assets. Five donor countries are needed to form a group and help channel SDRs to Africa through the AfDB. IMF Managing Director Kristalina Georgieva said her institution supported the model. A US$ 25 billion SDR redirection would create US$ 100 billion in additional financing for the continent.

Sanctions deepen the economic crisis in Niger after the coup

Niger, one of the world's poorest nations, is going through a deep economic crisis as a result of the sanctions imposed by West African countries aimed at forcing a return to democracy after last July's coup. Food and medicine are scarce in the country, prices are skyrocketing and power outages are becoming more frequent after Nigeria cut off its electricity supply. Earlier this month, the UN noted that 7,300 tonnes of food aid destined for Niger were stuck in transit due to border closures.

The ECOWAS (Economic Community of West African States) regional bloc banned trade with Niger after rebel soldiers overthrew democratic President Mohamed Bazoum. Negotiations to restore civilian rule have yet to bear fruit: the junta is demanding a three-year transition and ECOWAS is calling for Bazoum's immediate return.

The price of imported rice, a staple food in the country, has increased by 25% since the coup. According to the Association of Exporters and Importers of Niger, there is no shortage at the moment, but reserves are expected to last until December. Medicines are also becoming increasingly scarce, with stocks falling between 30% and 55%. ECOWAS also froze Niger's state assets in the regional central bank and the assets of the state and state-owned enterprises in commercial banks.

Rwanda signs nuclear power generation agreement

The government of Rwanda signed a nuclear power generation deal with the Canadian-German company Dual Fluid. The first step of the accord will be the construction of a nuclear reactor, which will be operational in 2026. The project is expected to contribute up to 300 MW to the African country's grid.

The agreement aims to expand Rwanda's power generation mix. The African country agreed to provide the infrastructure for the project, while Dual Fluid is responsible for the technical implementation of the partnership. The new reactors will be used to produce electricity, hydrogen and synthetic fuels at lower costs than fossil fuels. Rwanda is increasingly establishing strategic cooperation partnerships with companies involved in the design and development of small modular nuclear reactor technologies.

The country faces the daunting task of closing a 30% electricity access gap from its current rate of 70% if it is to reach its universal access targets by the end of 2024. Estimates show that around 44% of Rwanda's energy sources are renewable. Currently, the country's total installed capacity amounts to 332.6 MW from different power plants: 51% comes from thermal sources, followed by water sources (43.9%) and solar sources (4.2%).

CEI GLOBAL REPORT

Closing date of this issue 30 September 2023

Ministry of Foreign Affairs
International Trade and Worship
Argentina