Centre for International Economy

GLOBAL REPORT

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WORLD

Employment will take time to regain pre-pandemic levels
High resilience of agricultural commodities to the crisis
Difficulty in addressing the inequity in the distribution of COVID-19 vaccines
The deepening of climate change and mitigation measures

EUROPE

First disbursements of the European recovery plan
Trade defence measures in the EU on the rise
Spanish banks: profitable but not very solvent

SOUTH AND CENTRAL AMERICA

The lowest FDI in the last ten years
Chile seeks to lead green hydrogen production
Chinese automotive company settles in Brazil

NORTH AMERICA

USMCA: Mexico requests consultations to the US over rules of origin
USMCA: second labour lawsuit resolved
US seeks to increase local content in government purchases

ASIA AND OCEANIA

The Chinese economy slows down due to new outbreaks and floods
China intensifies control over the technology sector
Singapore and Vietnam visited by the US Vice President

AFRICA

Africa discusses the creation of a continental payment system
Plans to create a cross-border debt market in West Africa
The South African government promotes import substitution

WORLD

EMPLOYMENT WILL TAKE TIME TO REGAIN PRE-PANDEMIC LEVELS

In the first quarter of 2021, the hours worked in OECD countries were 7% lower than the figure of December 2019, while in the second quarter of 2020 they were 15% below the same period, according to the OECD Employment Outlook 2021. Likewise, the report estimates that in only 7 countries unemployment will have dropped at the end of 2022 if compared to December 2019. Employment contracted not only due to the measures taken by countries to reduce infections but also because companies accelerated processes that were already underway, such as the automation and digitisation of tasks.

HIGH RESILIENCE OF AGRICULTURAL COMMODITIES TO THE CRISIS

Despite the crisis, world consumption of some of the main agricultural commodities maintained its pre-pandemic levels, as for example oilseeds, meats and dairy products, and it even grew, such as the case of cereals, sugar and cotton, based on the Agricultural Outlook report published by the FAO and the OECD.

According to the publication, the demand for agricultural commodities for the next decade will grow at an average annual rate of 1.2%, lower than the 2.2% corresponding to the previous decade. Due to the lower expected economic growth, the increase in consumption will depend on population growth and no longer on the increase in per capita consumption. For its part, agricultural production would grow 1.4% per year, a lower increase than the 1.7% rate of the last decade, and agricultural trade will also grow at a slower pace than that of the previous decade (1.3% vs. 3.0% per year) due to a lower increase in demand from China and other emerging economies, and the expected drop in demand for biofuels.

DIFFICULTY IN ADDRESSING THE INEQUITY IN THE DISTRIBUTION OF COVID-19 VACCINES

The unequal distribution of COVID-19 vaccines internationally is bringing about a marked gap between the survival rates of low-income and high-income countries. This situation was raised in a Joint Declaration signed by the heads of the main multilateral organisations such as the World Bank, IMF, WTO, WHO, UNICEF and vaccine funds such as AVAT (African Vaccine Acquisition Trust), Africa CDC (Africa Centers for Disease Control and Prevention) and Gavi, the Vaccine Alliance. This inequity was also highlighted by the Director of the Pan American Health Organization.

Given this scenario, international organisations propose to deliver more vaccines to African countries, to vaccine distribution funds such as COVAX (Global Access Fund for Covid-19 Vaccines) and AVAT, and to eliminate restrictions on vaccine exports.

Of the many ways to address this inequity, the governments and laboratories have chosen to donate vaccines. Expanding vaccine production in more countries is another alternative, however, and despite Biden Administration's support for the temporary patent exemption, US drug companies are still not providing access. The German laboratories hold the same position.

THE DEEPENING OF CLIMATE CHANGE AND MITIGATION MEASURES

Three months before the 26th Conference of the Parties (COP) of the United Nations Framework Convention on Climate Change (UNFCCC), to be held in Glasgow in early November, the Intergovernmental Panel on Climate Change (IPCC) released the assessment of climate change from the perspective of physics, corresponding to the analysis of Group I to the Sixth Assessment Report.

The report reaffirms that humans have warmed the atmosphere, the oceans and the land; that these changes have generated extreme climate effects such as heat waves, heavy rainfall, droughts and tropical cyclones; that global warming will exceed in this century the target of a maximum increase of 2°C from 1850-1900 temperatures unless there are significant reductions in greenhouse gas emissions.

In particular, for the centre and north of Argentina the study projects an increase in rainfall intensity and frequency; for the south it projects an increase in droughts, while for the mountain zone it projects a higher frequency of droughts and loss of glacier volume.

These conclusions will be the basis for the debates on mitigation and adaptation measures to be discussed at the 26th COP and also for unilateral measures by various countries, such as the European Green Pact (see CEI Global Report, August 2021). The severity of the situation requires taking urgent measures, however, there is concern about the effects that some of these measures may have on international trade.

EUROPE

FIRST DISBURSEMENTS OF THE EUROPEAN RECOVERY PLAN

The European Union began the disbursement of funds corresponding to the "Recovery and Resilience Mechanism", a tool that the bloc authorities had agreed to in order to face the economic crisis caused by the pandemic. According to information provided by the European Commission, the money sent to members will aim to "mitigate the economic and social impact of the coronavirus pandemic and make European economies and societies more sustainable and resilient, and be better prepared for the challenges and the opportunities of environmental and digital transitions”.

During August, nine EU countries accessed the assistance provided for; the most benefitted among them were Italy (25 billion euros), Spain (9 billion euros) and France (5.1 billion euros). In all cases, the amounts correspond to 13% of the total allocated to each member. Starting in this first shipment, the governments that received the funds would have to demonstrate to the EU authorities that they carried out the reforms and investments to which they committed, in order to continue receiving the rest of the funds provided.

To finance the recovery, the EU will issue 80 billion euros in long-term bonds this year, which represents the first EU bond offering in history (see CEI Global Report, July 2021). The first rounds of issuing took place in June and they have been a success so far: 45 billion euros have already been raised and in all cases the demand for bonds was higher than the debt offered.

TRADE DEFENCE MEASURES IN THE EU ON THE RISE

The European Union published a report on the trade defence measures promoted by the bloc in 2020. According to the document, towards the end of last year, 150 EU’s trade defence actions were in force, ten more than at the end of 2019.

The main instrument used by the European authorities has been the application of anti-dumping measures (128), followed by those that seek to counteract the effects of subsidies to foreign companies (19) and safeguard measures (3). The main objective of the aforementioned measures was to avoid competition from products from Chinese companies (99 measures), followed by those from Russia (9), India (7) and the United States (6).

The report highlights the importance of the increase in measures against cross-border subsidies. In particular, it points out that last year, the European defence focused on a new type of measure against cross-border financial subsidies, the objective of which was to counteract the subsidies granted by China to companies of that origin that produce glass fibre in Egypt and export it to the EU.

SPANISH BANKS: PROFITABLE BUT NOT VERY SOLVENT

The European Central Bank (ECB) published a press report with data on the profitability, solvency and delinquency of the European financial system that presents some good and bad news for Spanish banks. During the first three months of the year, Spanish banks managed to go back to pre-pandemic return on equity (ROE) levels and obtained the best ROE in the euro zone with 3.79%, while the EU average reached 1.87%.

However, regarding the rest of the indicators, Spanish banks are still among the least reliable. The information published by the ECB on solvency ranks Spain in last place. Likewise, the Spanish delinquency rate stands at 3.6%, above the euro zone average (2.55%), although far from the top positions, led by Greece with a 26% delinquency rate.

SOUTH AND CENTRAL AMERICA

THE LOWEST FDI IN THE LAST TEN YEARS

In its "Foreign Direct Investment in Latin America and the Caribbean 2021" report, the Economic Commission for Latin America and the Caribbean (ECLAC) stated that during 2020 foreign direct investment (FDI) in the region was reduced in US$ 56.1 billion (–34.7%) reaching the lowest figure in the last ten years. The fall, which is in line with the global average (–35%), was much lower than that recorded by developed countries (–58%) but was well above the average for developing economies (–8%), and deepens the stagnation and decline trend that the region has experienced since 2013.

In absolute terms, South America was the most affected sub-region, with a fall of US$ 45.8 billion and, within this group of countries, the decrease in FDI in Brazil, Peru and Colombia stood out. In turn, FDI reductions in Central America and the Caribbean amounted to US$ 10,434 and US$ 1,822, respectively, with Panama as the most affected country, which presented negative investment flows after several years of growing FDI. Finally, the only countries that experienced FDI growth were the Bahamas, Barbados, Ecuador, Mexico, and Paraguay.

At the sectoral level, investments directed at natural resources and manufacturing were the most affected (–47.9% and –37.8%, respectively), well above the drop in the service sector (–11.0 %).

CHILE SEEKS TO LEAD GREEN HYDROGEN PRODUCTION

The English mining company Anglo American opened the first green hydrogen filling station in Chile. This clean fuel is obtained from the water used in the mining process, which is demineralised and subjected to an electrolysis process using solar energy.

Its use is planned, in principle, for vehicles used in mining, an activity that releases more than 5 million tonnes of CO_2 per year. However, there are plans to extend it to cargo transport, industrial processes and household consumption (through its mixture with natural gas).

According to the projections of the Chilean government, it is expected that the activity in the Andean country could reach the lowest production costs in the world and achieve annual exports similar in value to those currently generated by copper (US$ 30 billion).

CHINESE AUTOMOTIVE COMPANY SETTLES IN BRAZIL

The Chinese automaker Great Wall settled in Brazil to strengthen and accelerate its penetration strategy in the South American market. With this aim, it bought a plant previously used by Mercedes-Benz and began reforms that are estimated to be completed in 2022 and will allow an annual production capacity of 100,000 vehicles.

Given that the Chinese company is the main producer of SUVs and pickups in its country of origin, its production in the region is expected to be oriented towards these two products. This is especially relevant for Argentina, as our country is the main exporter of pickups to Brazil. In fact, in the first seven months of the year, Brazil imported from our country 88% of the total purchases abroad of this type of vehicles (US$ 1.2 billion of the total US$ 1.3 billion).

NORTH AMERICA

USMCA: MEXICO REQUESTS CONSULTATIONS TO THE US OVER RULES OF ORIGIN

On 20 August, the government of Mexico requested the initiation of consultations, under the USMCA general dispute settlement mechanism, on the application and interpretation of the rules of origin in the automotive sector. Canada announced that it will join as a third party in the consultation.

The conflict arises from the differing interpretation on the accumulation of origin a car exported in the region should have to qualify for tariff removal (see CEI Global Report, August 2021). While Mexico and Canada maintain that when an essential part reaches the required percentage of 75%, the component must be considered as 100% originating for the calculation of the regional content of the vehicle, the US maintains that such "rounding up" is not possible and that only the original regional content of the car part should be added in the calculation of the total regional content of the exported car.

The parties have 75 days to resolve the dispute during this stage. In the event of not reaching a mutually satisfactory agreement, the complainant may request the establishment of a panel to decide on the matter.

USMCA: SECOND LABOUR LAWSUIT RESOLVED

The Office of the United States Trade Representative (USTR) announced that it had reached an agreement with the Mexican auto parts company Tridonex, a subsidiary of the American Cardone Industries. This agreement is related to a request for review received at the beginning of June by the Mexican Ministry of Economy, under the USMCA's Rapid Response Labor Mechanism, regarding the application of labour rights in the facilities of said company (see CEI Global Report, July 2021).

After receiving the request for review, the Government of Mexico carried out an internal investigation based on the provisions of the USMCA, after which it was determined that, since the events had taken place before the entry into force of the Treaty, there was no denial of rights for the plant workers in the sense of what the USMCA provides. However, the company reached an agreement with the USTR committing itself to provide severance and retroactive pay to 154 laid-off workers and to ensure neutrality in future union elections.

US SEEKS TO INCREASE LOCAL CONTENT IN GOVERNMENT PURCHASES

In the last week of July, the Biden Administration presented a regulation proposal that seeks to increase the percentage of local content in federal purchases, and which will be subject to public comment for 60 days.

The United States annually spends about US$ 600 billion on public procurement, of which almost half corresponds to manufactured goods. If the proposal is approved, products purchased by the federal government will require a greater proportion of US parts to be considered "made in the USA".

Current standards require that 55% of a product be made in the United States. The government proposes an immediate rise of that percentage to 60%, followed by a gradual increase to reach 75% in 2029. In addition, the project seeks to strengthen national supply chains of critical goods with new price preferences and increase transparency in the "buy American" rules.

It should be remembered that one of the first measures of the current administration was the launch of an initiative to strengthen the use of federal contracting and support American manufacturing, which included the creation of the "Made in America" Office, to monitor exemptions and promote the use of national supply chains (see CEI Global Report, February 2021).

ASIA AND OCEANIA

THE CHINESE ECONOMY SLOWS DOWN DUE TO NEW OUTBREAKS AND FLOODS

According to data from the National Bureau of Statistics of China (BNE), the growth of industrial production and retail sales in that country slowed significantly in July. Industry production grew 6.4% in that month, below the 8.3% in June, while retail sales rose 8.5% year-on-year in July, a figure lower than the 12.1% reached the previous month. Although the economy has returned to its pre-pandemic growth levels, its expansion is losing steam as companies face high raw material costs and input supply bottlenecks.

Likewise, the reappearance of COVID-19 outbreaks in July caused new restrictions and the interruption of industrial production in some regions of the country. In addition, several Chinese provinces faced heavy rains and floods that hampered business operations and slowed the economic recovery.

CHINA INTENSIFIES CONTROL OVER THE TECHNOLOGY SECTOR

The State Administration of Market Regulation of China (SAMR) issued on 17 August a series of preliminary regulations aimed at preventing unfair competition and controlling the use of users' data by technology companies. Specifically, the regulatory entity pointed out that said companies should not use data or algorithms to control internet traffic or influence users' choices; nor use technical means to illegally capture or use the data of other operators in online purchases.

In addition, these companies will be banned from spreading misleading information to damage the reputation of competitors and will have to stop some marketing practices, such as incentives used to attract positive ratings. SAMR opened a space for the participation of public opinion on this issue until 15 September.

SINGAPORE AND VIETNAM VISITED BY US VICE PRESIDENT

US Vice President Kamala Harris ended on 26 August a visit to Southeast Asia that included Singapore and Vietnam, where issues related to regional security, global supply chains, climate change, and the global response to the pandemic were discussed.

In Singapore, agreements were reached to expand cooperation on cyber security, the fight against COVID-19 and future pandemics, and initiatives were launched, including the creation of a high-level dialogue on supply chains. In addition, both countries committed to expanding the Singapore Third Country Training Program (TCTP), with new training on climate change and environmental sustainability, and to promoting the construction of smart and sustainable cities. In this sense, a new Green Buildings Program will be established along with the private sector, for the exchange of best practices and the promotion of sustainable construction standards across ASEAN.

In Vietnam, Harris announced that funds will be provided through the United States Agency for International Development (USAID) to continue the fight against COVID-19, as well as other initiatives to promote clean energy, support Vietnam's transition to a digital economy, drive an inclusive business sector, and strengthen higher education. These initiatives are expected to reach an amount of US$ 100 million.

In addition, the new regional office of the Centers for Disease Control and Prevention of the United States (CDC) was opened in Hanoi, with the presence of the Deputy Prime Minister of Vietnam and the Ministers of Health of ASEAN and Papua New Guinea.

AFRICA

AFRICA DISCUSSES THE CREATION OF A CONTINENTAL PAYMENT SYSTEM

The adoption of a single currency within the framework of the African Continental Free Trade Area (AfCFTA) was the main discussion at the meeting of the Economic Commission for Africa (ECA) held in Senegal on 23 August. Likewise, during that meeting, points of view were exchanged on the potential of FinTech in promoting intra-African trade.

Some of the analysed views on a single currency showed sceptical positions about its benefits and the risks involved. Likewise, the on-going efforts for the gradual creation of a "Continental Payment System" within the emerging framework of digital commercial financing tools were highlighted, in order to improve financial inclusion and accessibility for merchants and consumers. Initiatives such as that of the African Import and Export Bank (AfreximBank) known as the "Pan African Payment and Settlement System" (PAPSS) would appear to be an optimal policy response.

The PAPSS aims to establish a single payment platform using national currencies. In view of the systemic risks of a single currency, a clearing system would be a viable alternative.

PLANS TO CREATE A CROSS-BORDER DEBT MARKET IN WEST AFRICA

A plan by 15 West African countries to link their debt markets is about to become a reality by the end of 2023, as part of a broader push toward integrating their economies and finances. The goal of the initiative is to open individual country debt auctions to investors from across the Economic Community of West African States (ECOWAS).

The regulators and stock exchanges in ECOWAS member countries are working to implement a passport system that would allow stockbrokers to trade in the different markets. The idea is that by giving member countries access to a wider pool of lenders, they could lower their borrowing costs.

A requirement for the plan to be successful is to ensure that countries are on an equal footing in terms of systems and processes. While Nigeria, Ghana, and the eight French-speaking members of ECOWAS have well-developed stock exchanges and regulatory mechanisms, Liberia, Sierra Leone, Guinea, and the Gambia still lag behind. The African Development Bank is providing grants to help these countries improve their market infrastructure.

THE SOUTH AFRICAN GOVERNMENT PROMOTES IMPORT SUBSTITUTION

The South African government and companies are discussing how to increase local content to revive manufacturing production by identifying specific products or sectors in which the country has competitive advantages, which can serve to increase its domestic production.

South Africa's Trade, Industry and Competition Minister asked companies to consider an import substitution target of 20% for non-oil imports, which could drive progressive localisation worth up to US$ 1.4 billion in the next few five years.

According to representatives of Business Unity South Africa (BUSA), a confederation of business organisations, South African companies see the 20% replacement proposal as an "indicative target" rather than a goal to be met. Additionally, they stated that they will only support actions that are compatible with South Africa's international trade commitments and that do not have a "negative impact on trade relations with other countries".

Ministry of Foreign Affairs
International Trade and Worship
Argentina

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