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CEI GLOBAL REPORT

CEI Centre for International Economy

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WORLD

The IMF proposes a stronger fight against inflation

According to an article published by the IMF, the measures that are currently being taken by the central banks of the world's major economies to contain the high levels of inflation (caused by supply constraints related to the pandemic and the Russian invasion of Ukraine) could be insufficient.

Central banks around the world have decided to combat inflation and raised interest rates (see Asia and Oceania section) with the aim that higher borrowing costs could contain demand from households and businesses, thereby controlling price increases.

However, there is a possibility that these contractionary measures will fall short and that high levels of inflation will consolidate. If that happens, the central banks will have to apply more dynamic measures to cool the economy and unemployment is likely to rise, which can undermine the public support that the restrictive monetary policy has at the present time, according to the IMF.

The article states that the priority will have to be the recovery of price stability, a necessary condition for a sustained economic growth. Therefore, the agency's officials suggest that it is better to act sooner rather than later and warn that if high inflation is consolidated, the costs to be paid in the future will be much higher than the losses in activity and employment levels that a tightening of monetary conditions may cause in the short term.

Lower food prices moderate food insecurity

The FAO Food Price Index fell for the fifth consecutive month in August (although its value is 8% higher than that of the same month last year). The resumption of exports from Ukrainian Black Sea ports has helped to curb the rise in cereal and vegetable oil prices. In the case of some of the main products exported by Argentina, during August there were slight increases in international prices for soybean oil and maize, but those for wheat, beef and dairy products decreased.

Food prices were very high worldwide, as a result of the harmful effects of the pandemic on transport and the functioning of supply chains, coupled with the war in Ukraine this year. In many countries, food prices reached double-digit increases in the span of a month during 2022 (World Bank).

These factors increased food insecurity during the pandemic, the post-pandemic year and so far in 2022, as noted in the recent joint annual report of FAO, WFP, IFAD, UNICEF and WHO. According to the study, between 702 and 828 million people around the world were affected by hunger in 2021. The fall in food prices is a necessary condition for food insecurity to be moderated.

Current account imbalances widen globally

According to an IMF report, the current account balances of the world's top 30 economies began to grow in 2020 as a result of the pandemic and, subsequently, due to the war between Russia and Ukraine, which meant a change in trend with respect to what had been happening up to that moment.

First, the pandemic caused an increase in imports from developed countries with current account deficits –such as the United States– of goods exported by developing countries with a surplus –such as China–. Then, the rise in commodity prices, which went up as a result of the war, brought about an increase in the balance of deficit and surplus countries.

The main countries with current account deficits are the United States (US$ 822 billion deficit in 2021), the United Kingdom (US$ 82 billion), India (US$ 38 billion) and Brazil (US$ 28 billion). While the countries with the largest surpluses are China (US$ 317 billion), Germany (US$ 314 billion), Japan (US$ 142 billion) and Russia (US$ 122 billion).

According to the report, this increase in current account balances is not necessarily negative; however, the situation could fuel trade tensions through the application of protectionist measures by deficit countries and increase the risk of disruptive capital movements.

According to agency officials, there is no one-size-fits-all recipe for countries to reduce their balances, yet they recommend that those nations with current account deficits that reflect persistent fiscal imbalances face structural reforms to improve their competitiveness, while economies with large positive balances should take steps to encourage investment and discourage private savings.

EUROPE

The IMF calls for shifting energy price increases to consumers

The sharp pre-war increases in the cost of energy, which were exacerbated by the Russian invasion of Ukraine, prompted European governments to take a number of measures to protect the incomes of their inhabitants. Throughout the continent, subsidies, maximum prices, tax reductions and discounts on utility tariffs were applied, among other measures aimed at alleviating the energy cost of both households and businesses.

To mention only some of the measures implemented by the governments of the region, it can be recalled that Germany reduced taxes on fuels and provided subsidies for home heating; that Spain reduced VAT on electricity from 10% to 5%, froze the price of the gas bottle and granted a bonus of 20 cents per litre of fuel; and that France limited the increase in electricity to 4% and froze the price of gas for individuals.

The decision of the European countries to prevent people's income and companies' economic viability from being decimated by the increases in energy prices prompted a response from the IMF, which at the beginning of August spoke out against the implementation of this type of policy and urged European governments to transfer the increases in fuel prices and electricity generation to consumers.

According to an article published by the agency, the measures implemented in Europe lower incentives so that both households and businesses save energy and lessen fossil fuel consumption, while raising global demand and energy prices. It also argues that, while prices remain high, the chances for European countries to bear the tax burden that such policies represent will be reduced.

For these reasons, the IMF recommends replacing universal price restraint policies with specific ones such as transfers to low-income households, which would mean a lower tax burden for countries while avoiding distortions in energy demand and prices.

As for measures to subsidise energy expenditure of companies, the agency believes that they should be limited exclusively to situations in which sharp increases in the short term lead to closures of companies that would be economically viable without this change in energy prices. However, according to the IMF, the real possibility that high prices will remain beyond the short term means that aid to firms is not advisable.

Russia closes Nord Stream pipeline

The conflict between the European Union and Russia since the invasion of Ukraine added another milestone on 31 August, when the Gazprom company announced the closure of the Nord Stream gas pipeline, a route linking Russia and Germany across the Baltic Sea through which 40% of Russian gas sent to Europe was transported.

The company had initially announced that the cut would last only four days, while maintenance work on the pipeline was carried out. However, Gazprom later confirmed that the gas flow cut would be indefinite and justified this decision by the detection of technical faults in the equipment that could only be solved by the Siemens company in Canada, a country that included Gazprom in its list of sanctioned companies.

The confirmation of the cut was made after the G7 agreed to the setting of maximum prices for Russian oil in the search to reduce Russia's capacity to finance the war with Ukraine, and after the President of the European Commission, Ursula von der Leyen, expressed her support to extending the price caps to natural gas.

The government of Germany, which has been hit hardest by the Kremlin's move, noted that the country is prepared to secure gas supplies (the German storage level is close to 85% of its total capacity), while the President of the European Council, Charles Michel, said that Russia's "use of gas as a weapon" will not change the EU's determination to accelerate its "path towards energy independence."

Drought hits the European economy

According to the report "Drought in Europe", published by the European Commission, the danger or warning of drought affects 64% of the European territory, a situation that, in addition to increasing the possibility of forest fires, affects agricultural production, river transport and energy generation within the continent.

Some crops such as maize, soybean and sunflower are suffering the consequences of the lack of rainfall, and current crop yields in Europe are expected to fall by 16%, 15% and 12%, respectively, from the average of the last five years.

Likewise, the level recorded by some of the main European rivers is very low, which affects the river transport of goods, and could endanger some supply chains. In addition, the effect of the drought on the rivers is also affecting electricity generation, since the lower flows reduced the hydroelectric power production by 20% and have forced some nuclear power plants to reduce their output due to the difficulties in obtaining sufficient cooling.

SOUTH AND CENTRAL AMERICA

ECLAC estimates that the region will grow 2.7% this year

In its report "Economic Survey of Latin America and the Caribbean 2022: trends and challenges of investing for a sustainable and inclusive recovery", the Economic Commission for Latin America and the Caribbean (ECLAC) highlighted that the international outlook remains complex and that it is characterised by low dynamism in terms of growth, an increase in geopolitical conflicts, high volatility in financial markets and very high commodity prices (especially affected by the war between Russia and Ukraine).

The agency estimates that this year's world economic growth and trade volume rates would be 3.1% and 3%, respectively (both lower than the projections for 2022 before the start of the war); and that commodity prices would be 21% above those of 2021. Among them, the increase in energy products stands out, which would be 55%.

In this global context, the region also presents widespread low economic growth, with the worsening factor that it has little scope to carry out macroeconomic policies that can reverse this situation. The scenario is complemented by strong inflationary pressures, low job creation, falls in foreign investment and difficulties in accessing financing. As a result, a growth rate of 2.7% is expected for 2022, similar to pre-pandemic values but below the global average and that of emerging and developing countries (3.5%). In particular, the projections for South America are 2.6% (3.5% for Argentina), 2.5% for Central America and Mexico and 4.7% for the Caribbean.

It is also estimated that the public deficit will be reduced as a percentage of GDP in the region and that inflation, which averaged 8.4% until June, will remain high as long as the conflict between Russia and Ukraine continues. Finally, with respect to the external sector, the year-on-year growth of exports and imports of goods in the region would be 22% and 23% respectively; while in the case of services it would be 25% and 21%.

South Africa lifts anti-dumping measure on chicken imports from Brazil

South Africa has suspended the application of an anti-dumping measure affecting Brazilian exports of frozen chicken since December 2021. Thus, shipments from Brazil will no longer pay an additional fee to the current tariff that ranged from 6% to 265%. At the moment, the suspension is for 12 months, although the Brazilian authorities stated that their dialogue with the investigated companies and with their South African counterparts is permanent and that they are expecting the suspension to become definitive.

Frozen chicken was the main product exported by Brazil to South Africa during 2021 and accounted for 17% of the total shipments to that country, which amounted to more than US$ 1 billion. Likewise, Brazil was the main supplier of this product to the African country, with a share of 63% of the total South African imports.

NORTH AMERICA

US enacts historic industrial policy law

On 9 August, the President of the United States signed the Creating helpful incentives to produce semiconductors for America (CHIPS) and Science Act of 2022 to promote the domestic manufacture of semiconductor chips. The initiative received bipartisan support and is the result of a merger of two projects presented separately in the legislative chambers.

The law provides for a total investment of US$ 280 billion over the next five years and is divided into two large sections; the first related to incentives for semiconductor production and the second with a budget increase for research and innovation activities.

In this way, the US seeks to strengthen its leadership in semiconductors, provide strategic autonomy to the industry and counteract China's competition, since currently only 12% of the chips produced globally are manufactured in the United States (compared to the 37% in the 1990s), while 75% of production takes place in Southeast Asia. The United States also lacks the capacity to produce the most advanced chips on a large scale.

Among the main measures is the creation of the "CHIPS for America" fund, which allocates US$ 52.7 billion to finance research, development and manufacture of semiconductors in the US, and to development programmes and workforce training. It includes a 25% tax relief of capital expenditures for the construction of semiconductor production facilities and the equipment and tools necessary for their manufacture.

An aspect to highlight is that beneficiaries must commit not to expand chip manufacturing capacity in China, North Korea, Iran, Russia and any other country that the Department of Commerce identifies as being involved in actions that harm US national security or foreign policy. The restrictions would apply for the ten years following receipt of financial aid, thereby ensuring that semiconductor manufacturers centre their investments in the United States.

In this regard, the China Semiconductor Industry Association (CSIA) expressed in a statement that the provision is discriminatory and trade-distorting and would go against both the principles agreed at the World Semiconductor Council and multilateral rules. This view was supported by Shu Jueting, spokesman of the Chinese Ministry of Commerce.

As for research and innovation activities, the law authorises the largest five-year investment in public R&D in US history (the budget increases from US$ 87.4 billion to nearly US$ 170 billion), in order to regain global leadership in key technologies. In addition to promoting innovation and advanced development, the initiative seeks to create new regional technology centres, combat the absorption or theft of US research products abroad, and reduce supply chain vulnerability in critical areas.

Concern about tax benefits for electric cars in the US

On 15 August, Joe Biden signed the Inflation Reduction Act, through which he seeks to reduce the costs of health care and energy for citizens, improve energy security and combat climate change, and implement a minimum tax on large corporations.

The measures to counter climate change include a loan for the purchase of electric vehicles, which could amount to US$ 7,500 for new cars and US$ 4,000 for used cars, provided that the vehicle has been assembled in North America and meets certain requirements related to critical minerals and battery components used to manufacture the cars in question.

For an electric vehicle to qualify for a US$ 3,750 tax credit, the critical minerals of the vehicle's battery must be i) extracted or processed in any country with which the US has a free trade agreement in place, or ii) recycled in North America, in a percentage greater than or equal to that applicable. This percentage will be 40% for vehicles put into service before 1 January 2024 and will increase 10 percentage points per year until reaching 80% from 2027.

Similarly, another tax credit of US$ 3,750 can be obtained if the percentage of the value of the components contained in the battery manufactured or assembled in North America is equal to or greater than 50% for vehicles put into service before 2024. This percentage will gradually increase to 100% from 2029 onwards.

Likewise, a vehicle will not be considered a "clean vehicle" for the purposes of the tax credit if any of the critical minerals are extracted, processed or recycled by foreign entities of concern (including terrorist or sanctioned organisations, or those considered harmful to the national security or foreign policy of the United States, for example, those entities dependent on the governments of China, Russia, North Korea and Iran), or if any of the components of the battery are produced by any of these entities.

The measure has already raised concerns in several electric vehicle producing countries, including the European Union and South Korea, which consider that both the local content and assembly requirements in the measure would discriminate against cars produced outside North America and would violate multilateral trade rules. For example, Korean-manufactured cars would no longer be eligible for credit, due to the fact that South Korean battery manufacturers import from China more than 80% of the materials needed to produce electric vehicle batteries.

USMCA: Canada challenges US for measures on timber imports

The Minister of International Trade, Export Promotion, Small Business and Economic Development of Canada, Mary Ng, stated that her country would challenge, in accordance with Chapter 10 (Trade Remedies) of the Canada-United States-Mexico Agreement (USMCA), the final results of the third administrative review of the United States Department of Commerce on anti-dumping and countervailing duty orders on softwood timber from Canada.

While the review, which concluded in August, resulted in a decrease in the duties applied to Canadian exporters (from 17.6% to 8.6%), Canada considers that the only fair result would be for the United States to meet its obligations under the USMCA and to cease applying unjustified duties to all Canadian softwood products.

The softwood timber conflict between Canada and the United States has become one of the longest trade disputes between the two nations, with several conflicts under both USMCA and World Trade Organization rules.

ASIA AND OCEANIA

Inflation affects economic recovery in Oceania

The Reserve Bank of New Zealand recently raised interest rates in response to fears of inflationary pressure and an uncertain global economic environment. The regulator considered the increase appropriate to maintain price stability in said country.

The rise in interest rates had an immediate effect on the housing market, with falls in sales and house prices. There was also a decline in private consumption and this is not expected to reverse as long as New Zealand households face rising mortgages and the overall cost of living.

A similar situation is experienced in Australia. The country's skyrocketing interest rate increases are affecting heavily indebted households and threatening a fall in property prices on a scale not seen in the past 40 years. Savings and stimuli related to the pandemic contributed to raising housing prices across the country by 25% in 2021 alone and by more than 30% since the beginning of the pandemic. That picture changed in July of this year, when domestic housing prices began to plummet. A similar outlook is expected for 2023.

South Korea and China deepen their economic cooperation at a key moment

On 27 August, in the framework of the 17th Meeting on Economic Cooperation between South Korea and China, He Lifeng, Head of the National Development and Reform Commission (CNDR), and Choo Kyung-ho, Minister of Finance of South Korea, signed a Memorandum of Understanding (MOU) to boost cooperation in supply chains by creating a new high-level consultative body. Likewise, the parties signed another MOU, with the aim of bringing strategic cooperation to a new level, and responding jointly to global uncertainties through exchanges and cooperation between their central and local governments, as well as their companies. According to the MOU, starting this year, both countries will hold an important annual economic cooperation event in which public and private entities will participate. In addition, in a third MOU, they undertook to revitalise their joint projects in third countries.

The agreements come at a time when South Korea is seeking to maintain a strong economic partnership with China, its biggest trading partner, amid continuing disruptions in global supply chains. The country is heavily dependent on Chinese supplies of raw materials and various industrial goods. However, Seoul would participate in a preliminary meeting of an alliance on semiconductors, called "Chip 4", led by the United States, which would also include Japan and Taiwan. The meeting will take place in late August or early September, and according to analysts, it is a geopolitical initiative of the United States against China.

Increased coal production fails to prevent energy crisis in China

In January-July 2022, coal production in China was 12% higher than the previous year. According to data from the National Bureau of Statistics (NBS), in July the daily production of coal increased 16% compared to the same month of the previous year after the government's call to miners to ensure a sufficient supply during the high demand season. Thus, the country produced more than 372 million tonnes of coal in July, equal to 12 million tonnes per day, slightly less than that produced in June.

The government held several meetings in which it reiterated its determination to avoid electric rationing during the summer, when the demand for air conditioning equipment increases. Coal miners were asked to increase production and comply with forward contracts with utility companies.

However, the most scorching heat wave that affected the country in six decades caused an energy crisis that hit several regions. In mid-August, the government of Sichuan, a province in south west China, ordered most factories to stop production, in an attempt to ensure sufficient electricity supply for household consumption. Nineteen of the twenty-one cities in the province were affected and most of the approximately 16,500 companies operating there were hit by the measures.

The scarcity of energy points to the fragility of China's energy system and its vulnerability to extreme weather events caused by climate change, as an increasingly prosperous part of the population raises the demand for air conditioning equipment to cope with increasingly extreme temperatures.

AFRICA

African countries plan to generate nuclear energy

At least seven African countries (Egypt, Kenya, Uganda, Tanzania, Morocco, Nigeria and Rwanda) are at various stages (start-up, supplier search and mapping of appropriate sites) for the construction of nuclear energy plants. 2030 is expected to be the year in which South Africa ceases to be the only country in the region with an active nuclear power plant.

Egypt is currently the only country that has begun the construction of a nuclear power plant. The project, which has a budget of US$ 25 billion and is developed by the Russian state energy corporation Rosatom, will have a total installed capacity of 4.8 gigawatts (GW) and will have four 1,200 megawatt reactors when complete.

Kenya is also approaching the nuclear development stage, after identifying two coastal sites (Kilifi and Kwale) to install the country's first nuclear power generator.

In turn, Uganda is considering three sites, on the Kyoga, Kagera and Aswa rivers, for the construction of two 1,000 megawatt reactors by 2031, in line with the agreements reached by the country's Ministry of Energy with Russian and Chinese investors. In that regard, Russia will help Uganda to build the first East African nuclear power plant. In May, the International Atomic Energy Agency (IAEA) gave Uganda the green light to begin building and producing nuclear power.

After a failed start, Nigeria's Nuclear Regulatory Agency called for bids for the construction of a 4-gigawatt nuclear power plant in March 2022, which would have four reactors and would be able to produce the equivalent of one-third of the country's total installed capacity. In 2016, Nigeria sealed an US$ 80 billion plan for four nuclear power plants with Rosatom, but this agreement has yet to materialise.

Following the discovery of uranium deposits four years ago, Tanzania is seeking the help of Rosatom and its subsidiary company *"Uranium One"*, which is licensed to extract uranium from the Mkuju river within the Selous game reserve, to build a research reactor and subsequently establish a commercial nuclear plant.

Finally, in June, Morocco advanced in its nuclear energy plans after the publication of a report that provides considerations for nuclear development in order to guarantee the country's electricity needs in the future. The report follows a nearly seven-year feasibility study for the construction of a nuclear reactor. Morocco is highly dependent on energy imports, as the country imports up to 90% of the energy it consumes.

Debt relief for 17 African countries

At the follow-up meeting to the commitments reached at the last Forum for China-Africa Cooperation (FOCAC), China's Foreign Minister promised debt relief for some of the poorest countries on the African continent. The Chinese government undertook not to demand repayment of loans granted (mainly by the Ministry of Commerce and the Export-Import Bank of China) to 17 African countries.

China is a creditor of 12% of Africa's external debt, and since 2000 it has announced multiple rounds of debt forgiveness of interest-free loans to African countries, and cancelled at least US$ 3.4 billion until 2019. Despite this fact, between 2000 and 2020, Africa's combined public and private external debt increased fivefold and, according to the African Development Bank, the continent's average debt-to-GDP ratio grew from more than 50% before the pandemic to 70% this year.

Japan and the African Development Bank announce private sector support fund

The Government of Japan and the African Development Bank (AfDB) announced the creation of a US$ 5 billion financial cooperation fund under the fifth phase of the "Enhanced Private Sector Assistance for Africa 2023-2025" (EPSA) initiative. The announcement was made at the 8th Tokyo International Conference on African Development (TICAD-8) held in late August in Tunis.

Given the importance of food security, Japan and the African Development Bank will add agriculture and nutrition as priority areas under EPSA, which will cover: electricity, connectivity, health, agriculture and nutrition as priority areas.

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Ministry of Foreign Affairs
International Trade and Worship
Argentina