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CEI GLOBAL REPORT

CEI Centre for International Economy

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WORLD

BRICS group adds six new members

Between 22-24 August, the XV BRICS Summit –a group made up of Brazil, Russia, India, China and South Africa– took place in Johannesburg, the first meeting of leaders to be held in person after the COVID-19 pandemic.

The main measure taken during the meeting by the leaders of the five member countries of the group, representing more than 40% of the world's population, a quarter of global GDP and 19% of world trade, was to push for the first enlargement of the BRICS since 2011, when South Africa joined.

As of 1 January 2024, Argentina, Saudi Arabia, Egypt, the United Arab Emirates, Ethiopia and Iran will be new members of the group, as a result of a decision taken by consensus among the current members, a resolution that also opens the door to future additions, as there are other countries interested in becoming members of the BRICS.

For Argentina, in terms of foreign trade, the current five BRICS members (including Brazil and China, its two main trading partners) account for 30% of its exports, and this share will increase to 34% with the new members. In terms of imports, the countries making up the newly created group account for 47% of what our country buys from the world.

The BRICS group is a mechanism for cooperation and high-level political articulation that operates through presidential and ministerial summits. Although it is not a space for trade integration and participation there does not automatically guarantee greater access to the markets of other countries, its members find there a place to deepen their economic ties.

In this sense, one of the group's main achievements was the creation of the New Development Bank (NDB), which is currently headed by Dilma Rousseff, former President of Brazil. The NDB aims at mobilising resources for infrastructure and sustainable development projects in member countries and other emerging economies, and has an initial subscribed capital of US$ 50 billion (and an authorised capital of US$ 100 billion). So far, the financing of 96 infrastructure projects for US$ 32.8 billion has been approved.

Record subsidies to fossil fuels

Fossil fuel subsidies of US$ 7 trillion were granted in 2022 all around the world, becoming the highest figure in history, according to a report published by the IMF. Within the framework of the recovery from the pandemic and Russia's invasion of Ukraine, fuel prices soared, and so did the subsidies provided by governments to their citizens and businesses.

According to IMF staff calculations, subsidies for oil, coal and natural gas accounted for 7.1% of global GDP last year, more than the average amount governments spent on education (4.3% of GDP). The international organisation argues that it is necessary to abolish this type of subsidies, and that if they did not exist, fuel prices would go up, becoming a signal for the reduction of fuel consumption in the context of the climate crisis that humanity is facing.

The main positive consequences of the elimination of subsidies would be a reduction in carbon dioxide emissions, with a consequent drop in lung disease and cardiovascular disease (which would prevent 1.6 million premature deaths per year), improved government tax revenues, and even better income distribution since, according to the IMF, such subsidies benefit rich households more than the poorest.

The international organisation recognises that the removal of the subsidies it encourages is a difficult task to be put into practice, so it recommends that governments take it within the framework of a set of measures including compensation for the most vulnerable households, reduction of other taxes and investment in education, health and clean energy, which will be able to be carried out with part of the funds previously earmarked for subsidising fossil fuels.

Global private wealth falls

According to the 2023 edition of the "Global Wealth Report" published annually by Credit Suisse group, in 2022 global private wealth (measured in personal holdings of assets such as shares, real estate, etc.) fell in nominal terms by 2.4%, representing the first decline in global household wealth since the 2008 financial crisis.

As it is mentioned in the report, the phenomenon is a consequence of the slowdown in global economic growth, although it is also influenced by the appreciation of the dollar against other currencies. These causes mainly triggered lower prices of financial assets, which performed worse than non-financial ones, especially real estate, whose prices remained stable.

Losses were concentrated in North America and Europe, while Latin America was the only region where wealth grew, thanks to the fact that Latin American currencies appreciated by an average of 6% against the dollar.

In terms of global wealth distribution, the report notes that there was a slight decline in inequality in 2022, although it remains extremely high. Last year, the richest 1% of the world's wealth owned 44.5% of global wealth, slightly lower than in 2021 but higher than those recorded before the pandemic.

Beyond last year's drop, the report delineates an optimistic outlook for the future: global wealth is expected to increase 38% by 2027, thanks to the momentum of emerging markets.

EUROPE

EU lifts restriction on poultry meat imports from Argentina and the US

Since the end of August, Argentina and the United States can again export poultry and game bird meat to the European Union, as published in the bloc's Official Journal. Imports from Argentina had been put on hold at the end of February due to an outbreak of highly pathogenic avian influenza. Argentina implemented a stamping-out policy to control and limit the spread of the disease, the cleaning of affected farms and a surveillance programme to demonstrate the absence of infection. A similar policy was followed by the United States in the three affected states. In both cases, the measures taken are in line with those set out by EU rules. On the basis of the information submitted by Argentina and the US, the EU considered that "there is no risk linked to the entry into the EU" of poultry from Argentina and the US. Argentina thus regained its avian influenza-free status and will be able to resume its exports to a market to which it had doubled its exports in 2022, reaching 7.8 million euros.

EU approves rules for the implementation of border carbon payments

The European Commission adopted rules that will govern the application of the Carbon Border Adjustment Mechanism (CBAM) during the transitional phase starting on 1 October and finishing at the end of 2025. During this period, importing companies must report emissions associated with the imports of cement, iron and steel, aluminium, fertilisers, electricity and hydrogen, but they will not have to pay for it. This phase is a learning and testing process for both companies and the Commission.

The first emissions report will be due on 31 January 2024 and will cover emissions during the fourth quarter of 2023. Only imports in 2026 will be subject to the payment required from importers. Each year, the emissions of the previous year must be reported and the certificates proving the payment must be presented. The price of emission allowances in the European Emissions Trading System will be used to calculate the amount payable per tonne emitted. If the country of origin has already paid for the carbon emissions, the amount will be deducted from the amount payable to enter the EU market

The CBAM, which was approved in April this year, is one of the core measures of the European Green Deal and falls under "Objective 55" on climate change measures (see CEI Global Report, August 2021). The EU uses this measure to prevent the so-called "carbon leakage", i.e. the migration of companies to countries with less stringent climate change policies and increased imports of carbon-intensive products

UK control of food from the EU postponed

The UK government called off the implementation of post-Brexit customs controls on food, animal and plant products from the European Union for the fifth time. The new system is due to start in January 2024, rather than at the end of October this year as planned.

The reason for this postponement is to avoid a rise in food prices at a time when inflation is running at around 7% a year. According to UK government estimates, the costs associated with the new customs controls would add 0.2 percentage points to the food inflation rate over 3 years.

The EU implemented the control on British products in January 2021.

SOUTH AND CENTRAL AMERICA

AI in Latin America and the Caribbean

ECLAC published a study that gives a broad and detailed vision of the current state of situation of Artificial Intelligence (AI) in Latin America and the Caribbean and identifies trends about its future, on the occasion of the presentation of the Latin American Artificial Intelligence Index, the first indicator on the subject that considers the material, social and cultural context of the region.

The following are among the dimensions evaluated for the construction of the index: enabling factors such as infrastructure, research and development, governance (the level of the institutional environment surrounding AI), academic trends and the vision of experts on the social impact, among others.

According to the report, the presence of AI skills has grown in Latin America and the Caribbean in recent years, but at a slower pace than in the rest of the world. At the same time, investment is far from the levels of other regions, which according to ECLAC would indicate the existence of opportunities for regional development.

Likewise, the relative penetration of technological and disruptive skills associated with AI is lower in Latin America (2.16%) than in the rest of the world (3.59%) and scientific collaboration between countries in the region is still scarce, especially when compared to the connections with Europe, the United States or Asia.

The report concludes that AI has immense potential to transform development models in the region in such a manner that they become inclusive and sustainable along time. According to ECLAC, each country in the region shows a specific performance and poses a challenge in particular, for which reason a special file has been drawn for each one. The file on Argentina shows that it occupies the top position in variables related to the public promotion of AI, the governance of the process and the creation of a new institutional framework in the face of the changes imposed by the eruption of this new technological revolution.

The Mining Royalty Law is enacted in Chile

In August, Chile enacted the Mining Royalty Law, an initiative approved by Congress last May after more than four years of processing. The new law establishes a tax scheme for mining operators whose income comes mainly from the sale of copper and whose production exceeds 50,000 metric tonnes of fine copper (TMCF, for its acronym in Spanish) per year. For this group, two rates are established: an *ad valorem* component of 1% of their annual copper sales (in the cases where firms have a negative operating result, this component is not payable) and a variable component with rates of between 8% and 26% depending on the mining operating margin and production costs. For small and medium-sized companies (producing less than 50,000 TMCF), the measure maintains the same tax burden in force.

Additionally, the regulation introduced a maximum potential tax burden, which sets the ceiling that large mining companies will pay in taxes, considering in a joint manner the payment of the specific tax or royalty, the taxes generated by the company's capital movements and the final taxes. For mining companies with a production of more than 50,000 and less than 80,000 TMCF per year, the law sets a maximum figure of 45.5%, while those that exceed 80,000 TMCF per year will have a maximum potential burden of 46.5%.

This new tax structure will begin to apply as of 2024 and the government expects to collect 0.45% of GDP (equivalent to approximately US$ 1.4 billion), US$ 450 million of which will be distributed directly to boost the productive development of the regions and townships throughout the country, for which three specific funds are created.

Popular consultation halts natural resource exploitation in Ecuador

In August, Ecuadorians voted, through two popular consultations, on the alternative of stopping or allowing oil and mining exploitation in the most biodiverse areas of their territory.

In the popular consultation Yasuní, carried out at the national level, the Ecuadorian citizens expressed their agreement with the government keeping the ITT crude oil (Ishpingo, Tiputini and Tambococha areas) indefinitely under the subsoil in the Yasuní area. A total of 58.9% of the electorate voted to stop oil exploitation and carry out a progressive and orderly withdrawal of all activities related to oil extraction, within a term not exceeding one year from the notification of the official results.

Among the arguments in favour of the "yes" option was the preservation of the Yasuní National Park, declared a "Biosphere Reserve" in 1989 by the United Nations Educational, Scientific and Cultural Organization (UNESCO). It is one of the areas with the greatest biodiversity per square meter on the planet, which in its more than one million hectares is home to more than 300 species of amphibians and reptiles, almost 400 types of mammals and 600 species of birds. In addition, it is home to indigenous peoples in voluntary isolation.

Demonstrations in favour of the "no" option indicated that halting production and curbing future activities will have an enormous economic and social impact. According to Petroecuador, the damage to the Ecuadorian State due to the suspension of crude oil extraction will be US$ 1.2 billion a year, a figure that is not shared by environmentalists. Currently, the area has a field of approximately 850 million barrels of oil and produces about 55,000 barrels a day.

According to economic analysts, the result sets a negative legal precedent for future investments in the country and the next government will have to deal with the effects of not being able to count on the resources generated by those deposits, which will produce the revision of Ecuador's debt rating (the fiscal deficit would increase to 3.2% of GDP this year and to 3.4% in 2025 due to slower growth, lower oil revenues and higher spending on interest, wages and social security transfers caused by the measure).

In turn, in Chocó Andino popular consultation, the inhabitants of Quito showed they were in favour of stopping mining activity within the Chocó Andino natural reserve, a large reserve located in the northwest of the capital city. Citizens were asked if artisanal, small-, medium- and large-scale mining should be allowed there. In all cases, with a percentage of more than 68%, the decision to stop mining in the territories that make up the reserve triumphed. At the site, there are currently a dozen copper, gold and silver mining concessions in early stages of exploration, in addition to projects awaiting approval.

NORTH AMERICA

Mexico increases import tariffs on almost 400 products

The Mexican Ministry of Economy announced the implementation of a temporary rise in import tariffs from countries with which Mexico does not have a trade agreement (it should be noted that Mexico has 14 free trade agreements with 50 countries).

According to the Decree published in the Federation Official Gazette, the new tariffs –ranging from 5% to 25%– will be in force from 16 August 2023 to 31 July 2025, and include 392 tariff lines corresponding to inputs and goods from industries considered strategic such as: steel, textile, clothing, footwear, aluminium, tires, plastics, glass and ceramics, among others.

On the other hand, the rule eliminates the tariff reduction scheme provided for the textile and footwear sector and maintains –for the same period of validity of the tariffs– the tariff benefit of the Sector Promotion Programs applicable to various steel products.

According to the statement of the Ministry of Economy, the measure seeks to promote the development of the local industry, support the domestic market and strengthen the integration of national producers in value chains. Plans also include benefitting more than 206,000 micro-, small- and medium-sized enterprises, which generate more than one million jobs. In addition, products from the basic basket, health supplies, consumer goods and those that affect the performance of production chains were excluded.

US limits investment in strategic technologies in China

On 9 August, President Joe Biden signed an Executive Order restricting US investments in -selected technologies and products considered critical to national security to certain countries of concern or entities owned by persons belonging to those countries.

More specifically, the Executive Order authorises the Department of the Treasury to ban or require notification of certain US investments in the People's Republic of China and the Hong Kong and Macau Special Administrative Regions –the only ones included in the list of "countries of concern" so far– in activities related to technologies critical to national security. The sectors considered sensitive are: semiconductors and microelectronics, quantum information technologies and artificial intelligence.

The stated objective of the measure is to prevent China from taking advantage of US investment in these technologies, which are considered fundamental to support the development of its military, intelligence, surveillance and cyber capabilities and that put US national security at risk.

This new measure –which would take effect in 2024– adds to the current tools for export control (the US already bans or restricts the exports to China of many of the technologies and products considered in the Executive Order) and for monitoring of incoming investments.

At the same time, the Department of the Treasury issued an Advance Notice of Proposed Rulemaking (ANPRM), in order to provide transparency and clarity on the intended scope of the measure and to request comments on its development and implementation. At a later stage of the process, a draft regulation will be issued, prior to its entry into force.

Canada moves forward with digital services tax

On 4 August, the government of Canada published a bill to implement a digital services tax, despite US opposition and concerns expressed by Canadian companies. The project –along with other legislative proposals, such as the establishment of a global minimum tax– will be subject to public consultation until 8 September of this year.

The tax would levy a rate of 3% on revenues from online marketplaces, social media platforms, sale and licensing of user data and online ads, from technology companies (whether resident or non-resident in the country) with global revenues of at least 750 million euros (approximately US$ 818 million), and digital services revenue in Canada of over 20 million Canadian dollars (US$ 14.8 million). It is expected to enter into force on 1 January 2024 and apply retroactively to 1 January 2022.

It should be remembered that Canada had announced plans to introduce the digital services tax in the 2021 budget, but they were put on hold for two years under the agreement reached on the reform of the international tax system, known as the OECD/G20 Inclusive Framework (see CEI Global Report, July 2021). This agreement seeks to establish the rules that will determine where large companies must pay tax, which will not only be where they have their tax residence but where they carry out their commercial activities and make profits (Pillar One) and the creation of a global minimum tax that large multinational companies must pay (Pillar Two).

Last July, many of the countries that participate in the OECD/G20 Inclusive Framework agreed to a new one-year impasse on the application of any national tax on digital services until the negotiation of Pillar One is concluded. However, Canada's Minister of Finance, Chrystia Freeland, confirmed that the Canadian Government will not support the extension, in the absence of a firm and binding multilateral agenda for the implementation of the Pillar One. Canada considers that, if it supported the decision, it would be at a disadvantage with respect to countries that have continued to collect revenues under pre-existing taxes on digital services.

ASIA AND OCEANIA

Fall in trade, deflation and slowdown of the Chinese economy

China's foreign trade declined in July as a result of a drop in domestic and foreign demand. The drop in exports (-14.5%) was the third in a row of the year and the worst since February 2020, when restrictions on trade began, as a result of COVID-19. This would respond to the global economic slowdown that deepened in the face of rising interest rates from major central banks in Europe and Asia, owing to rising inflation. As for imports, their year-on-year decline of 12.4% reflects, on the one hand, the fall in commodity prices, and on the other, a context of weak consumption and domestic investment, which was expected to be more dynamic this year.

The economic activity of the Asian country (the second largest economy in the world) is also affected by a slowdown and indebtedness of the real estate sector and a fall in the manufacturing industry. Likewise, consumer prices in July showed a decline, which had not occurred since the beginning of 2021. So far, the Chinese authorities have lowered interest rates and offered tax incentives to companies, among other measures that are still insufficient to revive the economy. The government's expectations for 2023 involve achieving GDP growth of around 5% year-on-year (up from 3% in 2022).

Restrictions on trade in Japanese fishery products

Following the approval of the Japanese Nuclear Regulatory Authority and the United Nations International Atomic Energy Agency (IAEA), Japan began at the end of August its plan to gradually discharge wastewater accumulated at the Fukushima nuclear power plant into the Pacific Ocean. According to the IAEA, the process responds to international safety standards and its impact on the population and the environment is small. Japan requires discharging the water –which has been subjected to a process of treatment after the 2011 nuclear accident– to be able to finish dismantling the plant, a procedure that will take decades.

As a result, China, which like other countries already maintained restrictions on imports of seafood from Fukushima and other nearby prefectures, extended the import ban to all Japanese aquatic products as of 24 August, in order to protect the health of its consumers. China is the largest importer of Japanese seafood, importing more than US$ 500 million worth of these products in 2022, which accounted for approximately 28% of Japan's total seafood exports. If the Hong Kong and Taiwan Special Administrative Regions are considered, that percentage rises to 44%. Although fish and seafood exports represent less than 1% of Japan's foreign sales, the Japanese authorities voiced their concern about these measures and even expressed the possibility of filing a complaint with the WTO.

In contrast, other countries such as South Korea, Australia or members of the European Union approved of the procedure initiated by Japan. The EU, along with Norway and Iceland, removed earlier this month their import restrictions on Japanese food which they had maintained since 2011, as a sign of that support.

AFRICA

FAO urges greater investments in South Sudan

The UN Food and Agriculture Organization (FAO) said that inaction in dealing with the complex food, climate and insecurity crisis of South Sudan will have a strong impact on the loss of lives, livelihoods and the future of millions of people in that country.

FAO together with officials from the International Fund for Agricultural Development (IFAD) and the World Food Programme (WFP) visited communities that are facing the effects of extreme weather events, which, together with the lack of infrastructure, are worsening the country's humanitarian crisis, threatening farms, livelihoods and displacing communities.

The visit took place after it was highlighted in the joint UN report on the "State of food security and nutrition in the world 2023" that in 2022 there were 122 million more people suffering from chronic malnutrition than in 2019. South Sudan has the potential to be the breadbasket of East Africa (it has only 4% of its agricultural land under cultivation), but the climate crisis, poor agricultural infrastructure, instability and economic shocks continue to affect agricultural and livestock productivity and food availability. Investment and enabling policies that improve long-term food security and climate adaptation are urgently needed.

The humanitarian emergency in South Sudan is caused by a combination of conflicts, climate conditions and escalating food and fuel prices. The situation is exacerbated by fighting in Sudan, which has caused more than 190,000 people to flee across the border into South Sudan, putting increased pressure on the already scarce resources. At the same time, 7 out of 10 South Sudanese are between the ages of 18 and 35 and rates of youth unemployment stands at 50%, accentuated by low levels of education, low qualifications and a weak economy.

Ghana: report outlines complexities of its foreign trade

A recent report from the Ghana Statistical Services highlights the complex dynamics of trade across the African continent, and describes the country's trade relationship with the rest of the world.

Ghana's trade flows (exports plus imports) show a strong dependence on European nations, which represent more than a third of its exports (35.9%) and imports (39.2%), followed by those of Asia, which receive 28.5% of the foreign sales and sell 37.2% of the purchases that arrive in the African country.

The country has a negative trade balance with all the continents except Africa and North America. The trade balance is positive with the rest of the African countries at US$ 1.2 billion, while the margin is reduced to US$ 592 million with North America, which marks the importance of regional ties in the country's trade relations.

The report highlights concerns about Ghana's dependence on a limited range of commodities and trading partners, leaving the country exposed to volatile global market currents. The report advocates a strategic shift towards diversification, with the aim of reinforcing trade resilience and creating a stronger economic base capable of withstanding unforeseen shocks.

South Africa is the main destination for exports within the African continent, with sales of US$ 1.9 billion, far from the second destination, Burkina Faso (US$ 277 million). Gold remains a cornerstone of Ghanaian exports and comprises a significant 89.9% of commodities shipped to South Africa.

South Africa is also the main source of imports, with 23.8% of the total value of imports coming from African countries. Egypt closely follows with 14.3%. Among the imported products, fuels and mineral oils predominate, mainly from South Africa, Togo and Nigeria.

Central Africa achieved continent's best economic performance

According to a recent publication by the African Development Bank, Central Africa outperformed the rest of the continent's regions, thanks to favourable raw material prices, in a region that is home to net exporters of crude oil, minerals, and other basic products.

The Economic Outlook for Central Africa 2023 report states that the region's GDP growth was 5.0% in 2022, higher than the 3.4% achieved in 2021, and also than the African average, which was 3.8% in 2022. Likewise, Central Africa had an inflation rate of 6.7% in 2022, lower than that recorded in any other African region (North Africa, 8.2%; South Africa, 12.6%; West Africa, 17% and East Africa, 28.9%).

Similarly, the Central African region recorded the smallest fiscal deficit, which reached 0.6% of GDP, 0.4 percentage points lower than in 2021. The deficit –despite improvements in the prices of the region's main exports– can be explained by an increase in total primary spending due to the budget support measures taken on energy and food prices.

At the intraregional level, Central Africa's performance was driven by the Democratic Republic of Congo, which grew by 8.5%. The services sector was the main component of GDP in 2022, with a share of 42.1%, followed by industry with 41.4% of GDP, while the primary sector accounted for 16.5% of GDP.

CEI GLOBAL REPORT

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