Centre for International Economy

GLOBAL REPORT

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WORLD

MORE PESSIMISM REGARDING THE EVOLUTION OF GLOBAL ECONOMY

The latest macroeconomic projections by the main international bodies show that a recession deeper than that anticipated just some months ago is now expected. According to the IMF, the world economy would fall 4.9% this year, while it had projected a 3.0% downturn in April; the OECD, in turn, estimates a recession of between 6.0% and 7.6% (optimistic and pessimistic scenarios).

At country level, according to the IMF, the developed economies would fall 8.0% in 2020 –particularly, Spain, Italy and France being the most hit with 12.5% reductions each, the United Kingdom with 10.2% and the U.S with 8.0%. In turn, the activity of developing economies would be reduced 3.0% on average, though the most impacted countries would broadly surpass this average (Mexico -10.5%, Argentina -9.9%, Brazil -9.1%, Russia -6.6%, India -4.5%). The activity in China would be the least affected: it could even reach a 1.0% growth according to the IMF.

Besides, the collapse of the global economy is already being reflected in international trade. In the first quarter of 2020 the traded volume suffered a 3% contraction, and an 18% y-o-y reduction is estimated for the second quarter, according to the WTO. Likewise, in accordance with the OECD, this year trade would shrink between 9% and 11%, and according to the IMF -11%. Both projections are similar to the 13% fall anticipated by the WTO in its less pessimistic scenario (see Global Report, May 2020).

Foreign direct investment (FDI) will neither be alien to this context and it will be collapsing at the same rate as the crisis. According to UNCTAD, global FDI flows will shrink 40% this year to go back to 2005 levels. Besides, Latin America is expected to be the most affected region (-50%), followed by the developing countries in Asia (-30%/-45%), Africa (-25%/-40%), Europe (-30%/-45%) and North America (-20%/-35%). The recovery would only be seen in 2022. Even though the health crisis appears as the main cause of the slowdown in investment projects, the United Nations points out that the uncertainty is stressed by trade and geopolitical tensions.

GOOD PERFORMANCE OF WORLD AGRIBUSINESS SECTOR

The problems derived from the COVID-19 pandemic are affecting the global agrifood and fisheries sectors through different fronts, among them, the complications in the harvesting, processing and commercialisation of crops due to difficulties in the logistics and operations of the means of transport. Nevertheless, according to the FAO, the sector is showing a higher relative adaptive capacity.

In its report on global food markets, FAO highlights that trade in these products was less affected than that in industrial goods thanks to, among other factors, the fact that their demand is relatively inelastic to changes in income. Thus, it projects for the agricultural year 2020/2021 a higher global trade in sugar, rice, maize, wheat and pork; stable trade for oilseeds and poultry meat and a shrinkage in trade only for bovine meat.

G20 TRADE MEASURES: MOST OF THEM RESPOND TO THE PANDEMIC

Unlike other crises, the present pandemic is not limiting imports, but it is rather characterised by facilitating the access of goods to tackle the COVID-19 outbreak and avoid their shortage, in the case of the producer countries, by means of barriers to exports. This is reflected in the WTO Report on measures taken by the G20 economies during the October 2019 - May 2020 period: of the 154 trade measures adopted, 93 are connected to COVID-19, 65 are for trade facilitation and 28 are of a restrictive nature, mainly barriers to exports. In general, the latter involve face protection and gloves, and to a lesser extent sanitisers, pharmaceutical products, test kits and ventilators.

CHINA LEAVES THE CASE AGAINST THE EU IN TERMS OF MARKET ECONOMY TREATMENT

The WTO suspended the case that China had started against the EU regarding the methodology for the calculation of the dumping margin, in line with what had been requested a year ago by said country to the Panel of the Dispute Settlement Body. In December 2016, China started cases against the EU (DS 516) and the U.S. (DS 515) because they did not acknowledge its market economy status. This lack of acknowledgement implies the possibility of not using Chinese prices to determine the dumping margin, thus fixing a greater antidumping duty. With the interruption of the case against the EU, the case against the U.S is neither expected to advance. In this line, India rejected the Chinese request for said status to be recognised.

AN ARRAY OF CANDIDATES FOR WTO DIRECTOR-GENERAL

The period to submit the nominations of the candidates seeking to succeed Roberto Azevêdo as WTO Director-General started on 8 June as he will leave office on 31 August. To date, there are five candidates, four from developing countries (Jesús Seade from Mexico, Ngozi Okonjo-Iweala from Nigeria, Abdel-Hamid Mamdouh from Egypt and Tudor Ulianovschi from Moldova) and one from a developed country (Yoo Myung-hee from South Korea). It is worth emphasising that the candidates from Mexico and Egypt have ample experience in the WTO and trade negotiations.

EUROPE

OECD TAX ON DIGITAL SERVICES AT RISK

The U.S. Treasury Secretary, Steve Mnuchin, announced in June the suspension, while the COVID-19 pandemic lasts, of the country's participation in OECD negotiations on digital services tax. This position was regretted by the Member countries of the body, especially since they are probably "the only ones in the world to have benefited immensely from the coronavirus crisis" in words of the French Finance Minister Bruno Le Maire.

During 2019, the U.S. did not accept the different initiatives from European countries to tax digital services arguing these measures would be discrimminatory against the companies from its country (see Global Report, February 2020). In order to find a multilateral solution to this issue, the OECD was working to reach an agreement in 2020. With Trump's government decision, the body warned that the issue could derive in a new trade war since these taxes would be imposed unilaterally or, in the case of the members of the European bloc, by means of a common EU policy.

In particular, the U.S. withdrawal from the OECD negotiations made France and the United Kingdom accept a reduction in the projected reach of their digital services taxes if the U.S. revises its position. On the other hand, shortly after the announcement, the U.S. initiated investigations under section 301 of its Trade Law against the EU and several countries (Brazil, India, Turkey, among others) that are considering implementing this kind of tax.

UNITED KINGDOM REACTIVATES AGENDA OF FOREIGN NEGOTIATIONS

The negotiations to obtain a post-Brexit agreement between the United Kingdom and the EU seem to have unlocked last June. Johnson and Macron, who met on the occasion of the celebration of the 80th anniversary in London of Charles De Gaulle's call to resistance, might have agreed on resuming efforts to unravel negotiations with Brussels, whose most decisive point was reached when the British Prime Minister appeared inflexible to the requirement of adjustment to the European regulations. In addition, during the same days, the EU categorically rejected once more the possibility of granting a six-month period of grace to impose the corresponding tariffs after the Brexit.

During the same month, the United Kingdom overtly expressed its intention to gain access to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), accelerate conversations for agreements with Japan and New Zealand, and conclude talks for a trade agreement with Australia.

EU SPEEDS UP INSTRUMENTS FOR GREEN FINANCE

The European Parliament approved the first rules of classification to identify the sustainable investments and thus advance in the objective of a neutral Europe in climate matters. The legislation sets six environmental objectives and makes it possible to label the economic activities as environmentally sustainable if they meet at least one of the objectives, without significantly harming any of the others. This progress is made after a previous commitment reached last December among negotiators, which had to contemplate the implicancies of this legislation for the investments in gas and nuclear energy. The agreement reached reflects that this new regulation will allow countries to continue employing nuclear energy until their emissions are equivalent to their absorption capacity.

NEW OBJECTIONS TO MERCOSUR-EU AGREEMENT

The agreement between the European bloc and the Mercosur closed in 2019 awaits for the formal approval procedures on the part of both blocs for its entry into force. In this time interval, the Austrian Parliament and Wallonia (Belgium) have already pronounced themselves against the agreement, arguing the low adherence to environmental criteria that Brazil would have shown during the Amazon Rainforest fires. Last June, the House of Representatives of the Netherlands also rejected the agreement by simple majority in a context of strong opposition of the agricultural sector of the country.

SOUTH AND CENTRAL AMERICA

BRAZIL APPROVES WAGE AND WORKING HOUR REDUCTION

The Brazilian Senate has approved a labour bill that allows the suspension of contracts for up to two months and the reduction of the working day, by 25%, 50% or 70%, for up to 90 days, with proportional cuts in wages. In both cases, the state will grant an emergency benefit to compensate the workers. Once authorised by the Brazilian President, the measure will be in force throughout the current health crisis (estimated to last until the end of 2020).

ARGENTINA EXPORTS LEMONS TO CHINA FOR THE FIRST TIME

After almost 20 years of negotiations, which ended with the signing of a protocol in December 2019 and the fulfilment of the health requirements requested by China, Argentina exported fresh lemons to the Asian country for the first time. The first shipment amounted to 24 tonnes and it is estimated that the total shipments for this year will account for 130 tonnes. At the same time, and as a preventive measure, the shipments of lemons to the EU were suspended until 15 July after the detection of "black spot", a disease that affects the fruit quality.

Lemons are one of the regional products with the greatest potential for Argentina, which currently ranks sixth as a world exporter (2017-2019 average).

CHINESE IMPORTERS SUSPEND PURCHASES OF CHILEAN SALMON

After the Chinese health authorities detected COVID-19 in a Beijing market where imported salmon is sold, and the population was recommended not to consume it, the importers decided to suspend all purchases of said product. Thus, even without an official statement declaring a restriction on salmon imports, exporters, including those of Chilean origin, had to divert their shipments to other countries, such as the U.S. or Brazil. Although China represents the fifth destination for Chilean salmon, there could be changes in its international price, given that Norway (main producer) has also been affected by the measure.

BRAZIL AND MEXICO AGREE ON SCHEDULE FOR FREE TRADE IN HEAVY VEHICLES

Brazil and Mexico negotiated the seventh protocol additional to appendix II of the Economic Complementation Agreement 55 (ACE 55) and thereby agreed, as of July 2020, the entry into force of free trade for auto parts of heavy vehicles and a progressive reduction in import duties for that vehicle category until free trade is reached in July 2023. The tariff elimination schedule includes a 20% initial preference margin, which will increase yearly to 40%, 70% and 100%. With the ratification of this agreement, which is still political in nature, the last category of the automotive realm which still has tariffs between Brazil and Mexico will be exempted.

Likewise, both countries agreed to extend from 24 to 30 months the period that automotive companies have to export models launched between April 2018 and December 2019 with a regional content index lower than that established in the agreement.

MERCOSUR-EFTA AGREEMENT: STUDIES ANTICIPATE LOW ENVIRONMENTAL AND AGRICULTURAL IMPACT

The Swiss State Secretariat for Economic Affairs (SECO) and Agroscope (agricultural research centre of that country) published two studies on the MERCOSUR-EFTA Agreement that conclude that the environmental risk and the impact on Swiss agricultural production and domestic prices derived from the implementation of the agreement would be low. In particular, by 2040 air pollution would be 0.2% higher in Switzerland and would remain almost constant in the Mercosur countries, whose deforestation would also increase 0.1% in the worst case scenario.

THE MERCOSUR COUNTRIES HOLD THEIR 56TH SUMMIT

On the occasion of its 56th summit, the Presidents and Foreign Affairs Ministers of the Mercosur member states gathered to exchange ideas and commit actions on the basis of the work carried out in the previous technical meetings. In trade matters, the official statement highlights the commitment to strengthen bilateral and intra-regional trade and reciprocal investment, talks on sugar and automotive matters, the conclusion of the pending tasks for the signing of the trade agreements with the EU and EFTA, the will to continue with the ongoing trade agreement negotiations (with Canada, South Korea, Singapore and Lebanon) and the deepening of the agreements with India and Israel, among other aspects.

Likewise, the member country representatives urged the search for mechanisms that allow for the articulation of policies in order to reactivate their economies and respond to the different social demands of their citizens, as well as postponing the decision-making on the common external tariff until the end of the year.

NORTH AMERICA

THE U.S. REVIEWS LEGAL RESPONSIBILITY FOR DIGITAL CONTENT

On 28 May, President Donald Trump signed an executive order authorising a review of the law which protects online platforms from responsibility for the content published on their sites. The White House initiative seeks the modification of section 230 of the Communications Decency Act, which considers that corporations such as Facebook, Twitter and Google are not content publishers and are, therefore, exempt from legal responsibility for their users' publications.

The government proposes that regulatory entities, such as the Federal Trade Commission or the Federal Communications Commission, may sanction technology companies for the criteria they use to moderate content. Furthermore, it would allow any user to take legal action if they consider that the reasons why their account has been suspended or their message deleted or moderated are discriminatory or not based on "good faith".

According to a report by the Congressional Research Service (CRS), if the modification were implemented, it could affect the country's international commitments, since both the USMCA and the U.S.-Japan Digital Trade Agreement contain provisions similar to those in section 230.

USMCA ENTERS INTO FORCE WITH FIRST FRICTIONS

In view of the entry into force of the USMCA on 1 July, the partner countries have worked against time to pass certain regulations and laws implied in the agreement. On the one hand, in early June the member countries concluded the technical negotiation on the Uniform Regulations regarding the interpretation, implementation and administration of the chapters on Rules and Procedures of Origin, Textiles and Clothing, and Customs Administration and Trade Facilitation. On the other hand, in Mexico processes have been sped up to attain the legislative approval of several reforms required under the treaty, including the new laws on Industrial Innovation Protection, Quality Infrastructure and General Import and Export Tariffs, and the reforms to the Federal Criminal Code, and to the Federal Laws of Copyright and Plant Varieties.

In turn, the first frictions within the framework of the new agreement are already surfacing. Mexico's Undersecretary for Foreign Trade, Luz María de la Mora, stated that her government intends to use the USMCA article on treaties with "non-market" economies (art. 32.10), so that the U.S. provides detailed information on its trade negotiations with China. It should be remembered that this article establishes that each country must inform the other bloc members of its intentions to initiate a trade agreement with a "non-market" nation and that, if an agreement of this type occurs, the other parties could terminate the USMCA and replace it with a bilateral one. In turn, the U.S. is evaluating initiating formal consultations with Mexico, under the USMCA dispute settlement system, due to the lack of approval of U.S. biotech products in the Latin American country.

THE U.S. CONSIDERS REIMPOSING TARIFFS ON CANADIAN ALUMINIUM

The U.S. is weighing reimposing tariffs on Canadian aluminium over concerns about increased imports of this input. This measure would strain ties and even incite Canadian retaliation, just as the USMCA is about to take effect.

In May 2019, the three USMCA countries had reached an agreement to prevent the United States from imposing 25% import tariffs on steel products and 10% on aluminium products on Mexico and Canada (see CEI Global Report, June 2019). However, this agreement does allow the United States to restore the duties in a context of increased metal imports, after carrying out the pertaining consultations among the relevant governments.

The purchases of Canadian crude aluminium by the U.S. increased 46% y-o-y in the first quarter of the year and brought about mixed reactions in the industry. While two of the primary aluminium producers in the U.S. are requesting the tariff increase, other industry representatives hold that the surge in imports is consistent with historical trends and that a higher tariff would be counterproductive for the sector.

ASIA AND AFRICA

MOUNTING TENSIONS BETWEEN CHINA AND AUSTRALIA

Trade tensions between Australia and China have risen exponentially in recent months resulting in conflicts that go beyond the economic sphere (see CEI Global Report, June 2020). In June, amid a series of cyber-attacks attributed to China's Ministry of State Security, Australia announced an investment of 1.35 billion Australian dollars (930 million U.S. dollars) that will be paid over the next decade to strengthen the intelligence agencies' activities. Conversely, authorities in Beijing claim that it is Australia who is waging an espionage offensive in its territory and encouraging the various episodes of xenophobia occurring since the coronavirus spread.

This conflict exposes Australia's vulnerability to its main trading partner and threatens to cause an economic divorce between the two countries. There are at least three aspects that the Australian authorities should analyse if they want to materialise it. The first would be to boost the ecotourism and education sectors as an exportable offer within the ASEAN economies; the second would be to negotiate new free trade agreements with other regional partners (Taiwan); the third, to develop the Australian industrial sector in order to reduce its dependence on Chinese exports of raw materials and agricultural products.

ONCE AGAIN, SOUTH KOREA TAKES JAPAN TO THE WTO

On 18 June, South Korea requested the WTO to establish a panel to resolve its trade dispute over Japan's restrictive export measures. Although the South Korean capital had already submitted this request to the WTO in September 2019, two months later it decided to suspend it in an attempt to resolve the dispute bilaterally, in a simpler and faster way. However, due to the lack of progress through this route, the WTO re-emerges as the best available option to resolve the conflict (see CEI Global Report, September and October 2019).

A NEW "NEW DEAL" TO TACKLE THE ECONOMIC RECESSION IN SOUTH KOREA

In its latest monetary policy report, the Bank of Korea estimated that the country's GDP growth will be nil in 2020. The latest OECD forecast is even more pessimistic: it estimates a downturn of 1.2% and of up to -2.5% in the event of a new COVID-19 outbreak. Whatever the final number, this decline in economic activity will be the sharpest since the 1998 Asian crisis, albeit less severe than that currently faced by other developed economies (see World section).

The OECD points out that this relatively lower drop in economic activity due to the pandemic is explained by the support measures that the South Korean government has rapidly implemented. In fact, with these new projections in hand, South Korea has insisted on the implementation of a *Korean New Deal* aimed at creating jobs, boosting consumption and promoting investment. Thus, in June, the country announced the implementation of a third supplementary budget worth 29 billion dollars, still pending approval by the National Assembly. This would form part of a spending plan of up to 62 billion dollars projected until 2025. The *Korean New Deal* would be structured around two pillars, a *Green New Deal* and a *Digital New Deal*, very much in line with the objectives set by the European Commission before the current pandemic outbreak.

SUB-SAHARAN AFRICA TO LOSE 10 YEARS OF GROWTH DUE TO COVID-19

The revised projections by the IMF in June indicate that real GDP will contract 3.2% in the sub-Saharan region in 2020, nearly doubling the contraction envisaged only last April. Thus, the crisis due to the COVID-19 pandemic will mean the loss of almost 10 years of economic progress, and GDP would be at 2010 levels. The World Bank's estimates are similar (-2.8% in 2020) and foresee that Nigeria and South Africa –the largest economies in the region– will reduce their growth even above this average (-3.2% and -7.1%, respectively).

VIETNAM RATIFIES FREE TRADE AND INVESTMENT AGREEMENTS WITH THE EU

On 8 June, Vietnam's National Assembly ratified the Free Trade Agreement and the Investment Protection Agreement with the EU (EVFTA and EVIPA, respectively). As the remaining legislative steps are already completed, the agreements are expected to enter into force in July or August. These agreements also contribute to strengthening ties between the EU and Southeast Asia and increasing cooperation of this bloc with the ASEAN countries.

Ministry of Foreign Affairs
International Trade and Worship
Argentina

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