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WORLD

Economic crisis: is the trend reversing?
Agricultural production and food (in) security
Projects on carbon taxes are timidly revived
Trade finance and debt service suspension requests
Review of candidates to WTO Director-General starts

EUROPE

The EU gains consent over historic recovery plan
Uncertainty over a "Deal Brexit"
The United Kingdom prohibits Huawei
The EU and China advance on agreement over geographical indications

SOUTH AND CENTRAL AMERICA

End of a tradition? U.S. candidate might head IDB
IDB and ILO stress benefits of a green economy for Latin America
Brazil expands its duty-free wheat import quota
New exports opportunities for the Argentine beef
Peru initiates WTO complaint against Brazil
Ecuador approves trade agreement with the United Kingdom

NORTH AMERICA

Historical U.S. GDP fall
USMCA premiere their first frictions
"Google tax": U.S. officialises tariffs on French products
Hong Kong New Security Law: Trump formalizes actions

ASIA AND AFRICA

India reinforces its bonds with the EU, the U.S. and the United Kingdom
Growing tensions between China and India
The Chinese economy recovers
The BRICS outline development strategy and finance Brazil

WORLD

ECONOMIC CRISIS: IS THE TREND REVERSING?

Slowly, the global economic recession seems to start subsiding at the rate of the gradual opening of the restrictions to the economic activity. According to the OECD Composing Leading Indicators, in June, the economies of its members recorded a downturn in their economic activity of 2.3%, with respect to June 2019, while in May the downfall had been of 4.2% and in April of 5.7%. However, this lesser decline has not yet been reflected in the unemployment rate. For all the members of the body, said rate rose from 5.5% in March this year to 8.6% in April and 8.5% in May.

AGRICULTURAL PRODUCTION AND FOOD (IN)SECURITY ON THE RISE

The current pandemic, the evolution of the swine fever and the locust plague, among other factors, have increased the uncertainty over agricultural markets. However, in their July report on agriculture, the OECD and the FAO project a growing supply and decreasing prices for the sector. Agriculture would go up 1.2% a year mainly due to output improvements, and Latin America would be the main global food supplier. According to the OECD agricultural policy monitoring and evaluation this is due to the fact that this activity is exempt from the lockdown measures and has received active trade, financial support and government procurement policies.

The growth in the agricultural sector contrasts the increasing food (in)security. According to the annual report elaborated by the FAO and other agencies, around 100 million people (1.3% of the global population) will be added to the 690 million of undernourished (8.9% of world population) due to, among other reasons, difficulties in food distribution and income reductions in the poorest families.

PROJECTS ON CARBON TAXES ARE TIMIDLY REVIVED

The attempts of imposing a border tax on carbon issued by imported products are more than a decade old. Last year, the European Commission included this tax in the European Green Deal with the aim of lessening the risk of “carbon leakage” in the EU. The proposal advanced and it is currently, between July and October, in the period of public consultation. It is expected to be adopted in the second quarter of 2021.

In the U.S., the outlook for this position is a little more uncertain: it appears in the draft version of the Democratic Party Platform and it is part of several projects submitted at Congress by Democrats and Republicans, although so far they are in the stage of debate. These initiatives include a tax on imports and a reimbursement to the exports for the domestic charges paid.

TRADE FINANCE AND DEBT SERVICE SUSPENSION REQUESTS

According to a survey by the International Chamber of Commerce to banks around the world, trade financing will fall this year between 10% and 30%. In view of this, the

WTO and six multilateral and regional development banks have summoned to give financial support to trade transactions and promote new financing lines.

On the other hand, there are already 42 countries that have requested the benefit of the Debt Service Suspension Initiative launched by the G20 in April so that the payment for debt services to bilateral official loans to least developed countries is suspended for this year. The IMF, the World Bank and private banks have also joined. In this line, the World Bank requested the G20 countries to postpone the suspension until late 2021 and consider a debt reduction.

REVIEW OF CANDIDATES TO WTO DIRECTOR-GENERAL STARTS

Between 15 and 17 July, the eight candidates for the post of WTO Director-General presented their proposals to the Plenary session of the General Council. They are Jesús Seade Kuri (Mexico), Ngozi Okonjo-Iweala (Nigeria), Abdel-Hamid Mamdouh (Egypt), Tudor Ulianovschi (Moldova), Yoo Myung-hee (South Korea), Amina C. Mohamed (Kenya), Mohammad Maziad Al-Tuwaijri (Saudi Arabia) and Liam Fox (United Kingdom). In August, the consultations by members will be answered and in September, the last stage of the selection process will be started with each member expressing their preferences privately to the present authorities (presidents of the General Council, the Dispute Settlement Body and the Trade Policy Review Body). This stage of consultations should not last more than two months.

EUROPE

THE EU GAINS CONSENT OVER HISTORIC RECOVERY PLAN

In an act of historic consensus between countries of great economic heterogeneity, on 21 July leaders of the EU reached an agreement on the recovery plan and on the multiannual financial framework 2021-2027 proposed by the European Council last May (see Global Report, June 2020). In general terms, this plan will mobilise 750 billion euros –a figure that is only comparable to the postwar agreements–, at the same time that the bloc's budget for the coming seven years will do so in 1.1 trillion euros.

The European Parliament will now have to complete the legislative texts and after that, the Member States will have to approve the Decision over own resources in relation to their respective constitutional provisions.

UNCERTAINTY OVER A "DEAL BREXIT"

Just a few months before the United Kingdom leaves the EU, the possibility of carrying out a "Deal Brexit" seems uncertain. Thus, after the fifth round of negotiations in July, Michel Barnier, the European negotiator pointed that there are still differences over two crucial aspects: an agreement over fisheries (the EU requests to maintain invariable tariffs and the United Kingdom seeks an agreement similar to that of Norway) and a "level playing field" agreement (setting environmental or fiscal standards). Besides, it was stated that the deadline after which the EU should start ratifying an eventual treaty would be 31 October of this year.

In the face of this situation, the British government and the EU continue with the preparations for a no-deal scenario. Thus, in July, the EU published a series of post Brexit guidelines for companies and citizens, at the same time that the British government resumed the construction of facilities to carry out the pertinent customs controls and continued with its agenda of trade negotiations with India and with the countries of the European Free Trade Association (EFTA).

THE UNITED KINGDOM PROHIBITS HUAWEI

In July, the British government announced its decision to prevent mobile phone suppliers in its country from buying Huawei 5G equipment from 2021 and that its network be totally excluded by 2027. This announcement is in line with the decision by the U.S. Federal Communications Commission to consider Huawei, ZTE and all their subsidiaries threats to national security, at the same time that it contrasts with the position assumed at the beginning of this year by Boris Johnson who was in favour of allowing the presence of the Chinese company in his territory. In the face of this new decision, the U.S. sent their congratulations and China warned that it will take steps to defend the interests of its companies. If blockages to Huawei extend to other countries, the main benefitted companies will be the American Cisco, Juniper Networks and Qualcomm, Ericsson from Sweden and Nokia from Finland.

THE EU AND CHINA ADVANCE ON AGREEMENT OVER GEOGRAPHICAL INDICATIONS

In July, the Council of the European Union adopted a series of Decisions relative to the signing of an Agreement between the EU and China on geographical indications that will become the first relevant bilateral agreement to make it possible, at first, for 100 agrifood geographical indications from each party to receive protection in its counterpart market. Once the agreement is in force, more products will be incorporated. The date for the signing of the instrument is still unknown, and it will later need to have approval by the European Parliament for its entry into force.

SOUTH AND CENTRAL AMERICA

END OF A TRADITION? U.S. CANDIDATE MIGHT HEAD IDB

On 27 July, the Inter-American Development Bank (IDB) formally opened the process for submitting nominations for the election of the next President of the organization to be held in September. For the first time, the U.S. candidate, Mauricio Claver Carone, may gain this position and thus end the tacit agreement establishing that the bank be led by a Latin American representative, in the same way as the presidency of the World Bank is usually reserved for a North American and the head of the IMF for a European representative.

Supported by Brazil, Colombia and Uruguay, among others, Claver Carone would so far be the winning candidate. Before the pandemic outbreak, Costa Rica and Argentina representatives had high chances to fill the position. One option being considered is that, if the voting were postponed until after the U.S. presidential elections in November, these candidates could regain prominence.

IDB AND ILO STRESS BENEFITS OF A GREEN ECONOMY FOR LATIN AMERICA

In the context of the severe economic crisis that the region and the world are going through, the IDB and the International Labour Organization (ILO) published a study stressing the importance of converging towards a "green economy" that, contrary to popular belief, could generate 15 million new jobs. The transition to more sustainable activities would imply the loss of jobs in the industries of oil extraction and animal-origin food production, which would be more than compensated for by those created by agriculture, agri-food, renewable energies, forestry, construction and manufacturing. At the same time, the pressure on biodiversity and carbon dioxide emissions would be reduced.

BRAZIL EXPANDS ITS DUTY-FREE WHEAT IMPORT QUOTA

The Brazilian government authorised a new import quota for 450,000 tonnes of wheat, exempt from payment of the Mercosur Common External Tariff (10%). This quota may be used between July and November this year and only when the quota of 750,000 tonnes implemented the previous year is covered by 85%.

The measure is based on the request of the Brazilian Wheat Industry Association (Abitrigo) amid concerns that Argentina –its main supplier– may not be able to respond to the Brazilian demand. Argentina, however, guarantees it has the necessary exportable supply and warns that an extension of the quota duration beyond November would be detrimental to local producers by reducing export prices. Also, this happens at a time when Argentina's presence in Southeast Asian markets could be affected by Australia's recovery as an exporter, following two campaigns with significant droughts.

NEW EXPORTS OPPORTUNITIES FOR THE ARGENTINE BEEF

Argentina can regain access to the Malaysian market for the exports of chilled and frozen beef and beef offal, 10 years after the closing of the market by changes in its Halal certification regulations. The reason for this news is that the Asian country approved compliance with the International Veterinary Certificate proposed by our country. Imports of these products into Malaysia between 2017 and 2019 amounted to an annual average of 505.4 million dollars and were mostly provided by India and Australia (75% and 16%, respectively). Prior to market closure, Argentina had a 0.3% share (2009-2010 average).

On the other hand, Colombia's National Food and Drug Surveillance Institute (INVIMA) recognised health similarities for bovine and sheep species with Argentina. This results in a more efficient exports process for Argentine meat-packing plants.

PERU INITIATES WTO COMPLAINTS AGAINST BRAZIL

Peru initiated consultations with Brazil before the WTO regarding its measures concerning the imports of polyethylene terephthalate (PET) film products and imported products in general. In the first case, these would be antidumping measures, materialised through the implementation of specific tariffs. In the second case, Peru argues that Brazil would grant less favourable treatment to imported products (in general) *versus* domestic products by applying its tax on industrial products (IPI).

ECUADOR APPROVES TRADE AGREEMENT WITH THE UNITED KINGDOM

The Ecuadorian National Assembly approved a Multiparty Agreement between its country, Colombia and Peru, on the one hand, and the United Kingdom and Northern Ireland on the other. This instrument is directly preceded by the agreement signed between this group of Andean countries and the EU, and broadly replicates their tariff preferences in the face of an imminent realisation of the Brexit. The new agreement is expected to enter into force in 2021.

NORTH AMERICA

HISTORICAL U.S. GDP FALL

U.S. real GDP recorded an unprecedented contraction, –as it decreased at an annual rate of 32.9% in the second quarter of 2020– according to the advance estimate released by the Bureau of Economic Analysis (BEA), while compared with the same period in 2019, the drop was 9.5%. The decline in real GDP resulted from reductions in personal consumption expenditures, exports, investments, and state and local government spending, which were partially offset by an increase in federal government spending.

In the case of the other two partners of the USMCA, Mexico's GDP recorded an 18.9% year-on-year decline in the second quarter of the year and Canada's GDP is estimated to fall by approximately 12% in the same period. In all three cases, the final activity level statistics will be known by the end of August.

USMCA PREMIERE THEIR FIRST FRICTIONS

A few days after the Treaty between Mexico, the United States and Canada (USMCA) entered into force, the Mexican government sent a letter to the U.S. Department of Commerce to prevent the unilateral imposition of tariffs for national security reasons on imports of Mexican origin worth more than 1.3 billion dollars per year.

In mid-May, the U.S. initiated an investigation under Section 232 of its Trade Expansion Act on the imports of electrical transformers and some of their components, of which Mexico is a main supplier, with trade amounting to 38% in 2019, followed by Canada, China, Germany, South Korea and Austria.

On the other hand, a group of 25 enterprise chambers from the three countries in the USMCA filed a complaint to the Mexican government because of the increase of its

Tasa Global –a rate made up of VAT, import tariff and customs procedure duty– which applies to the goods entering the country through a simplified customs clearance procedure, since it would infringe the *de minimis* threshold provisions –this is, the duty exemption threshold for express shipments– in the new trade agreement.

Regarding this matter, in late-June, Mexico issued a series of provisions necessary for the entry into force of the USMCA, which included the "General Rules of Foreign Trade for 2020", in which this *Tasa Global* was modified. Prior to 1 July, this rate comprised three levels: 0% for goods worth less than 50 dollars, 16% for those between 50 and 1.000 dollars, and 20% for those above this value. The new regulation created a new stratification, as a 17% rate is applied to those goods originating in the U.S. or Canada worth between 50 and 117 dollars –the new *de minimis* level that Mexico agreed to under the USMCA–. In turn, shipments worth more than 117 and less than 1,000 dollars will be subject to a 19% rate. Thus, goods in the latter two categories will pay more than before for the increase in taxes paid by imports at the new *Tasa Global*.

"GOOGLE TAX": U.S. OFFICIALISES TARIFFS ON FRENCH PRODUCTS

The Office of the U.S. Trade Representative announced the application of an additional 25% import duty on French handbags, cosmetics and toilet soaps –valued at 1.3 billion dollars– in retaliation for the upcoming implementation of the Digital Services Tax in that country. Trump ended this way the "digital truce" agreed upon in January (see CEI Global Report, February 2020).

The new measure comes as a result of an investigation under Section 301 of the U.S. Trade Act which concluded that the French tax would discriminate against the U.S. tech giants (the so-called "GAFA": Google, Apple, Facebook, and Amazon). It should be noted that this initiative is not exclusive to France: in early June, the United States initiated similar investigations of the EU, Austria, Brazil, Spain, India, Indonesia, Italy, the United Kingdom, the Czech Republic and Turkey.

The announced retaliation will remain on hold for 180 days –the same period of time in which the French tax would begin to apply– while the U.S. government awaits for the OECD to adopt a multilateral solution on the subject. It should be recalled, however, that in mid-June the U.S. suggested halting such talks (see CEI Global Report, July 2020).

HONG KONG NEW SECURITY LAW: TRUMP FORMALIZES ACTIONS

The recent adoption of the new National Security Act on Hong Kong, SAR of China, spurred an international reaction, embodied in the joint declaration by the G7 Foreign Ministers and the High Representative of the EU. It is understood that with this law the Chinese authorities could interfere with the principle of "one country, two systems" set up to resolve the reunification of China (see CEI Global Report, June 2020).

In line with this position, in July, the U.S. President announced the executive order on "Hong Kong Normalization", which suspends or eliminates the country's preferential treatment and includes exports control and regulation, the end of certain agreements, and revokes special treatment for Hong Kong passport holders. On the other hand, the U.S. government also enacted the "Hong Kong Autonomy Act", authorising sanctions on foreign individuals, entities and financial institutions that contribute to China's actions intended to eliminate Hong Kong's autonomy.

ASIA AND AFRICA

INDIA REINFORCES ITS BONDS WITH THE EU, THE U.S. AND THE UNITED KINGDOM

Narendra Modi's government made numerous advances in foreign trade in July. On the one hand, the XV EU-India Summit concluded with a declaration in which the parties undertake to strengthen the strategic relationship launched between them in 2018. The leaders adopted a roadmap for cooperation envisaged until 2025, which includes not only strengthening trade ties but also those on investment, health and human rights, among others.

On the other hand, in July, representatives of India and the U.S. discussed the possibility of reaching a limited agreement that would initially cover between 50 and 100 products and services. Indian concessions would cover agricultural –especially dairy– pharmaceutical and information technology and communications products. In return, India expects Washington to restore the benefits granted to Indian exporters under the Generalized System of Preferences (GSP), eliminated by Trump in June 2019 (see CEI Global Report, July 2019).

Finally, within the framework of the XIV India-UK Joint Economic and Trade Committee (*JETCO*), representatives of both countries also agreed to deepen their growing trade links. In the first instance, they agreed to strengthen the trade partnership launched in 2018, known as *Enhanced Trade Partnership* or *Early Harvest Programme*, and then, eventually, move towards a free trade agreement.

The aim of strengthening the trade partnership between the two countries will be to reduce the existing non-tariff barriers in the areas of food and beverage, health care, data and information technology, chemicals and services. This will also seek to reinforce the potential and regulation of their digital economies and cooperate in the field of health, specifically in the fight against the COVID-19 pandemic.

GROWING TENSIONS BETWEEN CHINA AND INDIA

Following the June border clash between Chinese and Indian troops in the Kashmir region, an area in dispute since 1962, various sectors of the Indian society began a series of hostile calls and actions towards products, imports and investments from China. In this regard, India stopped the clearance of customs for products of Chinese origin and many cross-border logistics operations were affected, to the point that some companies had to suspend services between the two countries.

With regard to Chinese investments, there are actions aimed at suspending investment projects in the automotive sector, in infrastructure and in engineering projects. The use of labelling in online sales, indicating the origin of the product on the market, is also being encouraged in an attempt to identify products from China.

THE CHINESE ECONOMY RECOVERS

In stark contrast to the latest data on U.S. activity (see North America section), China's GDP grew 3.2% year-on-year in the second quarter of 2020. Thus, despite the sharp fall of 6.8% in the first quarter of the year, the January-June period closed with a contraction of only 1.6% y-o-y., according to China's National Bureau of Statistics (NBS). Disaggregated data shows that the recovery was largely driven by industry.

In addition, China's trade exchange recorded a growth of 5.1% year-on-year, with a 4.3% increase in exports –shipments of epidemic prevention supplies and medical equipment grew 23.6% and 46.4% respectively–, and a 6.2% increase in imports. This brought about a slowdown in the decline in trade in the first half of 2020 (-3.2%).

THE BRICS OUTLINE DEVELOPMENT STRATEGY AND FINANCE BRAZIL

In July, the heads of economy and trade of the BRICS (Brazil, Russia, India, China and South Africa) discussed a development strategy for the next five years, with particular interest in trade, digital economy and sustainable growth. They also took the opportunity to reaffirm their interest in safeguarding the multilateral trading system and supporting the WTO reform.

Moreover, in July, the New Development Bank (NDB) of the BRICS group approved a 1 billion dollar Emergency Programme COVID-19 loan to Brazil to combat the economic damage caused by the pandemic. This loan is the fourth to be granted by the Programme and is similar to those for China, India and South Africa, raising NDB's financial support against COVID-19 to 4 billion dollars.

Ministry of Foreign Affairs
International Trade and Worship
Argentina

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