CEI Centre for International Economy

GLOBAL REPORT

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WORLD

DEEP WORLD ECONOMIC RECESSION LOOMING

Due to the crisis caused by the COVID-19 pandemic, the IMF's projections saw a sudden change in trend: having announced in January that the world was going to grow 3.3% in 2020, in its April report the agency predicted a drop in economic activity of approximately the same rate. The most affected countries would be Italy (-9.1%), Spain (-8%), France (-7.2%), Germany (-7%) and the U.S. (-5.9%). In addition, it is estimated that, if the pandemic is brought under control this year and expansionary monetary and fiscal policies are implemented, the world economy would rebound by 5.8% in 2021.

The financial conditions of emerging economies are marked by a combination of external shocks –the global crisis, the fall in oil prices and a growing risk aversion– that has led to a depreciation of their currencies and an outflow of financial capital of more than 100 billion dollars in the first quarter of the year, with an even greater impact as a percentage of GDP than that of the 2008 crisis, according to the *Global Financial Stability Report* of the IMF. This context will also make it difficult to manage the high level of indebtedness in many countries.

In turn, world trade will further deepen its decreasing trend: the WTO estimates a drop of between 13% (optimistic scenario: three-month quarantine) and 32% (pessimistic scenario: one-year quarantine) for 2020.

The impact on commodity markets will be dissimilar: according to the World Bank *Commodity Markets Outlook*, energy prices will fall 40% this year due to the reduced use of transport, while the metal prices would decrease 13% and the price of agricultural raw materials would drop by 1%.

FOOD CRISIS WORSENED BY COVID-19

Last year, the world population with unmet basic food needs or acutely malnourished reached 135 million people in 55 countries, according to the latest *Global Report on Food Crises*. The countries with the largest population in this situation were found in Central-West Africa –Congo, Ethiopia, Sudan and Nigeria–, Middle East and South Asia –Yemen, Afghanistan and Syria– and America –Venezuela and Haiti–.

Prior to the current pandemic, the upward trend in agricultural markets and the locust plague in the Middle East and Central Africa (see CEI Global Report, January and April 2020) already predicted a worsening of conditions for 2020. With COVID-19, the food crisis will undoubtedly worsen even further. According to the *Global Food Security Alert*, these factors, together with restrictions on food exports, will make it necessary to increase humanitarian assistance to these countries. Along this line, the G20 Agriculture Ministers and 23 WTO Members issued statements in April calling to avoid such practices and address the food crisis.

IMF AND WTO WARN ABOUT RESTRICTIVE MEASURES ON EXPORTS

While limitations on imports abounded in the 2008 economic crisis, restrictions on exports predominate in the current crisis, according to a report by the WTO. To date, at least 80 countries have introduced these restrictions on products with excess demand, such as medical supplies and equipment –especially facemasks, ventilators, oxygen masks and pharmaceuticals– and even foodstuffs and toilet paper. According to the WTO, this practice is actually more widespread, since it is estimated that less than half of the countries implementing it have reported it.

Although in principle these restrictions favour domestic supply, it is understood that after some time they discourage the production and operation of global value chains. For this reason, in April, the IMF and the WTO issued a joint statement expressing their concerns about the use of these trade practices. Along the same line, the WTO and the WHO stated that it is crucial to keep the health technology markets open so that the supply of products and inputs is directed to where it is required.

According to the WTO, Germany, the U.S. and Switzerland concentrate 35% of world exports of medical products, while 40% of the exports of products for personal protection originate in China, Germany and the U.S. These figures help to understand the strong criticism received by the implementation of restrictive measures in China, the United States and the EU. After this questioning, the restrictions have been relaxed in China and the U.S.

OIL PRICES CRASH

In April, future oil prices underwent their biggest drop since 1991 and even reached negative values, an unprecedented situation in the sector. More specifically, on 21 April, the price of U.S. West Texas Intermediate (WTI) oil for delivery in May went from trading at 18 dollars a barrel at the beginning of the day to -35.22 dollars at the end of the day. This also affected the price of Brent crude, the benchmark in Europe.

This abrupt decline reflects the difficulties that the global oil industry has been experiencing due to surplus supply and the collapse of demand as a consequence of the coronavirus pandemic. The situation was worsened by the discrepancies between Russia and Saudi Arabia on the reduction in production to try to prop up prices. Finally, after mediation by the Trump government, on 12 April, the OPEC+ countries agreed to reduce global oil production by 10% as of 1 May. Furthermore, the U.S. will buy 75 million barrels of oil to expand the Strategic Petroleum Reserve (SPR).

EUROPE

THE EU DISCUSSES CONDITIONS OF THE EUROPEAN MACRO ASSISTANCE PACKAGE

The European Parliament met during April in order to shape and request the President of the European Commission, Ursula von der Leyen, for a “massive package” for the reconstruction of the European economy. This package will include assistance to companies, more flexible mechanisms for state finances and protection and employment systems for citizens. In addition, the EC proposed to grant loans on favourable terms to cover the immediate financial needs of neighbouring countries of the bloc (Albania, Bosnia and Herzegovina, Georgia, Jordan, Kosovo, Moldova, Montenegro, North Macedonia, Tunisia and Ukraine).

Among the diverse proposals under consideration for the "massive package" is the creation of a Solidarity Fund of at least 50 billion euros to cover public health emergencies, greater powers to act in the case of cross-border health threats and the creation of a European Health Response Mechanism. However, the main point under debate is the implementation of "recovery bonds" guaranteed by the EU budget. The main differences between the members of the bloc lie in the amount of assistance and its form of implementation: having left behind the antagonistic proposals made in March on the issuing of Eurobonds (debt mutualisation) or the use of the ESM mechanism (see CEI Global Report, April 2020), parliamentarians are now discussing whether those funds should be channelled through non-repayable transfers (as promoted by the countries most hit by the crisis) or loans.

In this regard, Paolo Gentiloni, European Commissioner for Economy, stressed to the press that "the time for solidarity in Europe is now or never" and that the assistance package should be available by mid-September. "We cannot wait two years, like it happened between the end of the World War II and the Marshall Plan," he said.

FRANCE RESTRICTS EXPORTS

In April, France expanded its list of drugs that face export restrictions, despite emphatic calls from the EU and the letter sent by the EC to the country on 7 April requesting it to lift the trade ban. Germany, Poland and Slovakia are other countries that had implemented the same type of measures and rolled back their decision at the request of the EC.

EUROPEAN COUNTRIES AGAINST TAX HAVENS?

While in April countries worldwide struggled to safeguard their economic activity with the announcement of large stimulus packages, the European countries have begun to impose limits on one of the main leakage points of the system: tax havens.

Specifically, some countries have excluded companies located in tax havens from the financial assistance that they are beginning to deliver amid the coronavirus. Denmark and Poland were the first to do so (8 and 18 April, respectively). Weeks later, France enacted a similar measure. Italy and the United Kingdom have not implemented this measure so far, but they have expressed their support for the decision.

The countries formalizing the initiative, however, do not share the same list of tax havens. Denmark would only apply the measure to the EU list of "non-cooperative jurisdictions", which includes countries such as Panama and the Cayman Islands, but which excludes European nations such as Ireland, Luxembourg and the Netherlands (see CEI Global Report, March 2020). France would use its anti-fraud law list that, although more extensive, would not include European countries.

UNITED KINGDOM IMPLEMENTS DIGITAL SERVICES TAX

The UK government confirmed that the 2% tax on digital services came into force on 1 April. This tax had been considered for the first time in the 2018 budget, but it was never implemented. This would apply to companies with global revenues exceeding 500 million pounds, more than 25 million of which come from the UK.

In 2019, numerous European countries announced the implementation of a similar tax, but they postponed its collection until 2021, while expecting the OECD to define a general policy on the subject before that date (see CEI Global Report, February 2020). It should be remembered that the U.S. strongly opposes these taxes and the measure could interfere with the negotiations underway between both powers.

BREXIT: TENSION IN THE EU-UK NEGOTIATIONS

The negotiations between the EU and the UK resumed in April, after the pause caused by the coronavirus pandemic, further shortening the time available to reach an agreement. In addition to this, the EU's Chief Negotiator, Michel Barnier, has shown his disappointment to what he interprets as a "selective expansion" of the times and topics of the discussion. Thus, Barnier has pointed out to the press that the negotiation is stalled and that no request for extension is being considered. Among the topics in which no progress has been made is the issue of level-playing field (agreement on environmental or fiscal standards), governance problems of the agreement, cooperation issues in security and police matters, and aspects related to fishing regulation.

SOUTH AND CENTRAL AMERICA

A LOST DECADE OF GROWTH FOR THE REGION?

Growth forecasts for the world economy in general and for the region in particular are bleak. In April, the IMF estimated that between 2015 and 2025 Latin America and the Caribbean could experience a "lost decade" of economic growth. For this year only, the agency forecasts a combined contraction of 5.2%.

In turn, the ECLAC has recalculated its estimates more than once: in March it projected a contraction of 1% to 1.8% for the region, while in April it warned of an average recession of 5.3%, which would increase the number of poor by 30 million. Although it takes into account the heterogeneity of the countries in the region, the organisation highlights the high public and private debt levels as a condition for the effectiveness of the monetary policy and use of fiscal policy.

ARGENTINA PROPOSES NEGOTIATION ALTERNATIVES WITHIN MERCOSUR

On 24 April, a meeting of National Coordinators of the MERCOSUR Common Market Group took place, where work strategies that benefit all the countries of the bloc in the current context of crisis were analysed. Brazil, Uruguay and Paraguay highlighted their intention to accelerate the progress of negotiations with South Korea, Singapore, Canada, Lebanon and Israel, as planned since last year. On the other hand, Argentina pointed out the need to reconsider this agenda in a context in which new policies are suddenly emerging at a global level. For this reason, and with a view to strengthening MERCOSUR, the country proposed solutions for joint progress in external negotiations, but taking into account the need to defend its productive fabric and employment. This does not affect the continuity of MERCOSUR's external agenda, where Argentina's participation is assured. Currently, the four member countries are working on specific alternatives to address this situation.

BRAZIL-U.S. DIALOGUE PROGRESSES

In April, the Foreign Ministers of Brazil and the U.S. continued the dialogue started some weeks ago by the Presidents of both countries in order to reach an agreement on trade and economic cooperation (ATEC). This potential agreement, which already has the support of local businessmen from both countries, would involve areas such as transparency, trade facilitation and trade rules.

PRO BRASIL PLAN ANNOUNCED

The Brazilian government announced an economic and social recovery plan to be implemented in October, and for the next 10 years. Although the details of the programme or its budget are not yet known, government authorities reported that the "Pro Brasil Plan" will work around five areas: infrastructure, productive development, human capital, innovation and technology, and "enabling" activities (such as taxes, institutions and foreign policy, among others).

BOLIVIA ELIMINATES WHEAT TARIFFS FOR TWO YEARS

In order to control the price of bread and ensure food security, the Bolivian government issued Decree No. 4211 to reduce wheat tariffs to 0% for two years. Specifically, this is hard and soft wheat not intended for sowing, whose most-favoured-nation (MFN) tariff was 10%. It should be noted that the main import origins of this cereal are Argentina and the U.S. While our country already had a tariff exemption, the United States was subject to the MFN tariff.

NORTH AMERICA

THE USMCA TO ENTER INTO FORCE ON 1 JULY

U.S. Trade Representative Robert Lighthizer notified Congress on 24 April that the Treaty between the United States, Mexico and Canada (USMCA) will enter into force on 1 July, 2020. In this way, the U.S. became the last country to notify the other parties of the completion of internal procedures to implement the agreement, a necessary step for its entry into force. This new agreement will replace the North American Free Trade Agreement (NAFTA), which has regulated regional trade since 1994.

Some days before, the U.S. Customs and Border Protection Service had published a set of implementation instructions and additional details for compliance with automotive rules of origin under the USMCA, with the aim to give the automotive industry more clarity on the new requirements. In turn, the USTR issued a series of guidelines so that automobile manufacturers that so require it can ask for an extension in the terms to comply with the new rules of origin of the agreement. The alternative staging regime would enable the extension of the transition period: for example, importers of certain passenger vehicles and light trucks will have an additional two years –five years instead of three– to comply with the rules of origin.

CORPORATE PRESSURES FOR THE U.S. TO REDUCE TARIFFS

After announcing the largest economic rescue plan in the country's history in March, on 18 April President Trump signed an Executive Order authorising the Secretary of the Treasury to provide assistance to certain U.S. companies during the COVID-19 pandemic. Thus, importers who are facing financial hardship due to the crisis may defer the payment of duties, taxes and fees for 90 days. However, this action does not include tariffs on goods subject to anti-dumping or countervailing duties, or those affected by the implementation of Sections 201 and 301 of the Trade Act of 1974 or by Section 232 of the Trade Expansion Act of 1962.

Several companies and industrial associations are lobbying for Section 301 tariffs to be reduced as well. Among them, IBM suggested lifting additional tariffs on Chinese products, in response to a request for comments from the USTR. The company maintains that this will increase the availability of medical supplies for those companies that need to implement safe return-to-work policies and would grant them greater liquidity to meet other basic needs.

Similarly, a coalition of 17 business associations requested that some of the benefits of the Generalized System of Preferences (GSP) to Thailand are not suspended –which had been announced in October 2019 and scheduled for revocation on 25 April–, claiming that the higher tariffs would create additional costs for U.S. companies. In turn, these tariffs would hinder U.S. capacity to fight against COVID-19, since the suspension of benefits would reach critical medical supplies and equipment.

MEXICO AND THE EU ADVANCE IN THE MODERNISATION OF THE FTA EU-MX

The Commissioner for Trade of the European Commission, Phil Hogan, informed the Mexican Minister of Economy Graciela Márquez on April 28 that Mexico's proposal for the chapter of public procurement at sub-national level was accepted by the EU Member States. This concludes the negotiations for the modernisation of the trade element of the Economic Association, Political Coordination and Cooperation Agreement between Mexico and the European Union, started in June 2016. The modernised agreement –Free Trade Agreement between Mexico and the European Union (FTA EU-MX)– incorporates new matters such as energy and raw materials, sustainable development, small and medium-sized companies, good regulatory practices, transparency and anti-corruption, among others.

For the agreement to enter into force, it will be necessary to conclude with the legal revision and translation into all EU languages. Subsequently, once signed, it will be submitted to the legislative bodies for consideration.

The EU is Mexico's third largest trading partner and the second largest source of foreign direct investment. In 2019, Mexico-EU trade totalled 75 billion dollars and EU investment in Mexico reached nearly 180 billion dollars.

BOEING CANCELS MERGER WITH EMBRAER

Boeing announced that it has pushed out from acquiring the civil activities of its competitor Embraer, a merger that would have allowed it to control 80% of the capital of the Brazilian group. The operation was due to end on 24 April, but the U.S. company argues that certain terms of the agreement have not been met to date and that it is not considering to continue negotiations. However, both companies will hold their existing agreement to commercialise and support the C-390 military transport aircraft programme.

The merger process has been taking place for two years, having already received the approval of the competent regulatory authorities, with the exception of the European Commission (see CEI Global Report, February 2019). It is suspected, however, that Boeing has actually cancelled the merger due to its fragile financial situation and other operational problems (see CEI Global Report, April 2020).

ASIA AND AFRICA

CHINA AND SOUTH KOREA, VICTIMS OF THE CORONAVIRUS

China and South Korea, two thriving East Asian economies, recorded a sharp drop in activity in the first quarter of the year. China saw a year-on-year fall of 6.8% between January and March, when in the last quarter of 2019 it had grown by a similar rate (6.0%). However, several consulting companies expect this abrupt drop to be reversed during the second quarter of 2020, to end the year with a 2.3% growth.

In turn, South Korea, which suffered one of the greatest coronavirus outbreaks in the region outside of China, decreased 1.4% during the first quarter of the year, dragged down by the sharp fall in activity in the manufacturing and services sector. In response to this situation, the Korean government announced in April a third massive 32 billion dollar relief package aimed at protecting key companies and boosting national infrastructure; added to what was previously injected, the amount of the relief would reach 7% of GDP.

PROJECTIONS OF (LOWER) GROWTH FOR ASIA-PACIFIC

According to estimates by the Asian Development Bank (ADB), the emerging economies of Asia-Pacific will grow 2.2% in 2020, despite the global economic crisis due to the coronavirus pandemic. Although this figure represents a decrease compared to 2019 (5.2%), the agency estimates that these economies will rebound to 6.7% in 2021.

In opinion of the ADB, the fall in global demand will especially impact the most open economies in the region as well as those most dependent on tourism services (Pacific Islands). Thus, the projections differ according to the sub-region analysed: South Asia, driven by growth in India (4.0%) will be the fastest growing subregion (4.1%), followed by Central Asia (2.8%), East Asia (2.0%), Southeast Asia (1.0%) and the Pacific Islands (-0.3%).

…**AND RECESSION FORECASTS FOR AFRICA**

The African Union (AU) published in April a study that reveals that around 20 million people could lose their jobs across Africa as a result of the impact of COVID-19, mainly due to the implosion of the tourist sector and the drop in the price of oil and other commodities produced in the continent. According to these estimates, the African economy will fall between 0.8% and 1.1% in 2020. In turn, the World Bank warned that the recession in African countries will be between -2.1% and -5.1% for 2020. Before the pandemic, the African Development Bank (AfDB) had projected that the continent would grow 3.4% over the year.

Regarding Sub-Saharan Africa, the IMF reported in April that the impact of the crisis will cause a contraction of 1.6% in 2020, with a greater impact in terms of per capita GDP (-4.0%). According to the organisation, these figures will be the lowest recorded since 1970.

AUSTRALIA DEMANDS EXPLANATIONS FOR CHINA'S TRADE THREATS

The Australian government, through its Minister for Trade, Simon Birmingham, requested explanations from the Chinese Ambassador in that country, Jingye Cheng, about the threats of economic coercion made in response to Australia's insistence to accompany the international campaign promoted by the United States to investigate the origins of COVID-19. Tension between the two countries arose after the remarks uttered by Ambassador Cheng to the *Australian Financial Review* where he stated that Chinese consumers may question why consuming Australian wine or meat in this context. It should be noted that China accounts for 26% of total Australian foreign trade and that this country enjoys a trade surplus with the former.

JAPAN ENCOURAGES COMPANIES TO MOVE PRODUCTION FROM CHINA

Japan has allocated 2.2 billion dollars of its rescue package due to the coronavirus crisis to encourage its companies to relocate their production from China. The measure mainly contemplates incentives to those who move their productive activities to Japan, but it also contemplates relocation to other countries. China is Japan's largest trading partner, and imports from this country have fallen dramatically with the crisis and the closure of borders, disrupting the operation of value chains and leaving Japanese manufacturers without the supply of necessary inputs.

CHINA OPENS ITS MARKET TO ARGENTINE PEAS

The Argentine Ministry of Agriculture, Livestock and Fisheries reported that the General Administration of Customs of China authorised eight national establishments to export dried peas to the Asian country. Talks on the entry of this legume to the Chinese market began in 2013, and were led by SENASA and the Chamber of Pulses of the Argentine Republic (CLERA, for its acronym in Spanish).

Ministry of Foreign Affairs
International Trade and Worship
Argentina

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