Centre for International Economy

GLOBAL REPORT

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WORLD

OUTLOOK OVER THE SEVERITY OF THE CRISIS LESSENS…

The global economy would fall 4.5% this year according to the last macroeconomic report by the OECD, instead of the 6% projected in June. China would not have a 3.7% recession, but a lower growth (1.8% vs 6.1% in 2019); the United States would fall 3.8% instead of 7.3%. But other countries show a worse outlook: India and Mexico would decrease 10.2% (6.5 percentage points more and 2.7 p.p. more, respectively); while Argentina would record an 11.2% reduction (2.9 p.p. more).

This results from the high degree of uncertainty over the evolution of the economies, as a consequence of the progress of the pandemic, the measures taken by each country and consumers' and companies' confidence. The improvement of the perspectives is related to a relaxation of the lockdown measures and a gradual reopening of the economic activities. However, the OECD sustains that these perspectives can be reversed depending on how the pandemic evolves.

…NEVERTHELESS, IT WILL BE FELT WITH PARTICULAR STRENGTH IN LATIN AMERICA

The economy in the region would fall 9% on average during 2020, approximately 2.7 million companies would close –mostly SMEs– and 8.5 million jobs would be lost, according to an OECD report. As a consequence, poverty would grow 4 percentage points (28 million people), reaching a total of 230 million people, accounting for 37.3% of the population. Likewise, exports would decrease 23%, 11% as a result of a price reduction and 12% as a result of lower volumes. This would be accounted for both by the fall in the price of basic products, petrol and metalliferous minerals, and by the lower level of activity of important export destinations, such as China and the United States.

TRADE CONTINUES FALLING

In the second quarter of 2020, global trade in goods fell 21% in value and 14% in volume year-on-year, according to a WTO report. The reduction exceeds the 10% drop in volume that occurred as a result of the 2008 economic crisis. This can be accounted for by the dual character of the current crisis, since it originates in demand and supply problems, both derived from the pandemic and the restrictions to transport and production.

At the regional level, the greatest reductions in exports –measured in value– were recorded by North America (−24.5%) and Europe (−21.8%), at the same as in imports (−19.3% and −14.5%, respectively). The exports from South and Central America shrank 5.3% and the imports 13.7%, in both cases measured in volume. In turn, the trade in services fell 24% in June and 22% in July, according to estimates based on preliminary statistics of the main participants in this market.

RULING IN FAVOUR OF CHINA IN ITS DISPUTE WITH THE U.S.

After a two-and-a-half-year process, the WTO Dispute Settlement Body (DSB) issued a report in which the import tariffs imposed by the U.S. to some products coming from China in 2018 and 2019 were considered excessive and contrary to the multilateral trading system rules (see CEI Global Report, June and August 2019).

The case (543DS) consisted of a complaint from China because the additional tariffs imposed by the U.S. did not meet the most-favoured-nation treatment –the tariff was only for Chinese products– (GATT, Article I) and exceeded the bound tariffs in the schedules of concessions (GATT, Article II). The U.S. justified the measure stating that it was necessary to protect public ethics (Art. XXa) because China was acting as a "thief country".

The report of the WTO DSB Panel dated 15 September considers that the measure is inconsistent with GATT Articles I and II. In relation to the fact that it was necessary to protect public moral, the report stresses that it was not demonstrated that imposing additional tariffs on certain products was necessary to protect public ethics. As a consequence, it is recommended that the U.S. adjust its measures to the GATT standards. The report concludes with a not usual section of Final considerations where the parties are encouraged to find a mutually satisfactory solution.

For the USTR, this report confirms that the WTO is "inadequate to stop the harmful technological practices". At the same time, it highlights that it does not affect the "Phase I" bilateral agreement.

In parallel, since mid-September, over 3,500 U.S. companies have filed their complaints against the additional tariffs over products from China. The cases were initiated at the Court of International Trade, a body that deals with cases referred to tariffs and customs practices. The demands criticise the trade war and its effects on the U.S. economy.

CANDIDATES TO WTO DIRECTOR GENERAL SHORTLISTED

After the first round of consultations among the WTO members, the list of eight candidates was reduced to five. The candidates of Mexico, Egypt and Moldova have quit the selection process. Ngozi Okonjo-Iweala (Nigeria), Yoo Myung-hee (Korea), Amine C. Mohamed (Kenya), Mohammad Maziad Al-Tuwaijri (Saudi Arabia) and Liam Fox (United Kingdom) continue in the race. The following round of consultations, which is underway, will shorten the list to two candidates.

EUROPE

FRANCE OBJECTS TO EU-MERCOSUR AGREEMENT

President Emmanuel Macron reiterated that France is among the European countries that condition the feasibility of the EU-Mercosur agreement to the fulfillment of certain environmental measures (see CEI Global Report, July 2020).

The French government demands guarantees that the entry into force of the agreement will not accelerate deforestation of the Amazon and that the Paris Agreement on climate change will be respected. In that sense, a report elaborated by a group of experts warns of the negative impact that the agreement signed in June 2019 would have on the environment, for which reason

France conditioned its support to a set of environmental goals that the Mercosur countries would have to meet and which are not included in the agreement signed. Said demands comprise greater commitment in the fight against climate change and deforestation by Mercosur authorities, as well as compliance with the European environmental and health standards on products imported by the EU coming from the South American bloc.

THE EU AND CHINA SIGN AGREEMENT ON GEOGRAPHICAL INDICATIONS

On 14 September, 2020, the EU and China signed the agreement on Geographical Indications (GI) they had been negotiating (see CEI Global Report, August 2020). The agreement has a total of 550 GI (275 each part) and it is expected to enter into force by the end of 2020. The scope of application will be extended within four years to include other 175 denominations of GI of both parties.

The Chinese market presents a high growth potential for European food and beverages, with a middle class on the rise that appreciates authentic, iconic and quality European products. Cava, Champagne, Feta Cheese, Irish whiskey, Münchener Bier, Ouzo, Polska Wódka, Porto, Prosciutto di Parma and Manchego cheese are among the GI from the EU that are protected in China. The list of Chinese products includes the following: Pixan Dou Ban (Pixan bean paste), Anji Bai Cha (white Anji tea), Panjin Da My (Panjin rice) and Anqiu Da Jiang (Anqiu ginger).

Cooperation between the EU and China in matters of geographical indications started in 2006 and gave rise to the registry and protection of ten GI denominations in 2012, laying the foundations to the present cooperation.

CHINA BECOMES THE MAIN EU TRADE PARTNER

The latest foreign trade press report of the Statistical Office of the European Union reflects that, during the first seven months of 2020, China displaced the United States as the EU's main trade partner.

This result was due to an increase in the imports originating in China (4.9%), along with a slight fall in exports (−1.8%), while trade with the U.S. recorded a considerable drop both in imports (−11.7%) and in exports (−9.9%).

THE UNITED KINGDOM SIGNS FTA WITH JAPAN

The Free Trade Agreement undersigned with Japan is the main large trade agreement signed by the United Kingdom after deciding to exit the European Union. The name of the accord is UK-Japan Comprehensive Economic Partnership Agreement and was signed by the British International Trade Secretary, Liz Truss, and the Japanese Foreign Relations Minister, Motegi Toshimitsu.

The freedom to negotiate free trade agreements around the world had been acknoledged by Boris Johnson as one of Brexit's virtues. According to what was reported by the UK authorities, the agreement rose to 99% the percentage of British exports that will access Japan duty free. For the agreement to enter into force, it has to be approved by the Japanese Parliament, which is expected to take place at the beginning of next year.

SOUTH AND CENTRAL AMERICA

NEW IDB PRESIDENCY: THE END OF A TRADITION AND NEW CHALLENGES

Starting on 1 October, and for five years, the Inter-American Development Bank (IDB) will be chaired by U.S. lawyer Mauricio J. Claver-Carone, who, before taking office, was serving as Deputy Assistant to the President of the United States and Director for Western Hemisphere Affairs at the National Security Council of that country. It will be the first time that this position is held by a non-Latin American representative (see CEI Global Report, August 2020).

Claver-Carone stated he expects to restore the presence of the United States in the bank so as to prevent this from being a lost decade for the region. To this aim, he announced that he would seek to increase the bank's capitalisation, mobilise more private sector resources and promote coordination with other international financial institutions, such as the International Monetary Fund (IMF), to assist each country more efficiently. His immediate objectives are to assist the small countries of the Caribbean and Central America, with economies highly dependent on tourism, limited fiscal capacity, and high vulnerability to natural disasters.

The tasks carried out by the IDB will be highly relevant to help the countries remedy the regressive effects of this crisis, which stands as one of the deepest the region has ever experienced. At the same time, it will help address prior structural problems, identified by said body in its report: "The Inequality Crisis: Latin America and the Caribbean at the Crossroads", which include: high informality, inequality and low productivity.

ARGENTINA INTRODUCES REGULATIONS FOR ELECTRONIC COMMERCE

Through Resolution 270/2020 of the Secretariat of Domestic Trade, Argentina introduced into its national legislation Mercosur's regulations for electronic commerce. With it, the country will seek to guarantee consumer access to clear, sufficient and reliable information about the provider, the product or service, and the transaction carried out.

With regard to suppliers, available data must include the following: commercial and company name, physical and electronic address and tax identification number. Products or services must specify their basic features, possible risks, price, taxes, payment methods, manufacturer's name and whether or not they are subject to prior authorisation regimes. Likewise, the conditions or restrictions of the offer and guarantee must be clearly stated, and a customer service email must be included.

CHILE LEADS INNOVATION RANKING IN THE REGION

The World Intellectual Property Organization (WIPO) published its new edition of the World Innovation Index. This index collects information from 131 countries based on more than 80 indicators distributed in seven pillars related to institutions, human capital and research, infrastructure, market sophistication, business sophistication, knowledge and technology outputs and creative outputs.

Regarding South and Central America, Chile leads the ranking (in the 54th position), with the greatest strengths in the areas of knowledge and technological development, creative outputs (including intangible assets) and human capital. It is followed in importance by Costa Rica (56), Brazil (62) and Colombia (68). In turn, Argentina ranks 80th.

Globally, the first place is for Switzerland, which also leads the ranking of high-income countries. As for those of upper-middle income, lower-middle income and lower-income, the best positioned countries were China (14 globally), Vietnam (42) and Tanzania (88), respectively.

ECUADOR AGREES ON A NEW LOAN WITH THE IMF

The government of Ecuador and the IMF reached an agreement under the Extended Fund Facility (EFF) modality, which would imply a disbursement of US$ 6.5 billion by said body. The objective will be to protect people's life and restore macroeconomic stability, through the expansion of social assistance programmes, the sustainability of public finances and the strengthening of national institutions.

NORTH AMERICA

THE U.S. SUSPENDS TARIFF INCREASE ON CANADIAN ALUMINIUM

After consultations with the Canadian government, the Office of the United States Trade Representative (USTR) resolved to reverse with the collection of a 10% tariff on non-alloyed unwrought aluminium materials imported from Canada, established on 16 August (see CEI Global Report, September 2020), expecting for trade between the two countries to balance out in the coming months.

The decision, which came out a day before Canada implemented retaliatory measures, will be retroactive to 1 September. However, the U.S. government reserved the right to re-impose the tariffs in the event that aluminium imports from Canada exceeded 105% of the expected volume (which varies between 70,000 and 83,000 tonnes) for any of the last four months of 2020.

In turn, the Canadian government announced that it will not impose countermeasures as long as the U.S. does not reintroduce the tariffs.

THE U.S. ANNOUNCES RESTRICTIONS ON STEEL IMPORTS FROM MEXICO AND BRAZIL

The government of Donald Trump announced that it would control steel imports from Brazil and Mexico due to the difficult conditions faced by the local market amid the pandemic.

To this end, the government will reduce the 2020 remaining quota for semi-finished steel products imported from Brazil from 350,000 to 60,000 metric tonnes, although it will maintain existing quotas for other steel products. It should be recalled that, in May 2018, Donald Trump had granted Brazil tariff exemptions on steel products under Section 232 of the Trade Expansion Act of 1962, which allowed duty-free imports within certain previously set limits.

In turn, Mexico committed to establishing an export surveillance regime for standard and mechanical tubes and semi-finished steel products until 1 June, 2021, while the United States would maintain the duty-free most-favoured-nation (MFN) treatment, for the Mexican imports of these products. Both countries will hold consultations in December 2020 to assess the trade flow of the above products.

CANADA WALKS OUT OF FREE TRADE TALKS WITH CHINA

Canadian Foreign Minister Francois-Philippe Champagne announced that his government would not continue free trade talks with China, in the context of increased tensions between the two countries. This marks a major policy shift towards its second trading partner and puts Canada more in line with the stance taken by the U.S., Australia and some EU members.

Talks to reach a strategic partnership agreement had begun in late 2016 and contained a wide set of topics, including agriculture, energy, infrastructure, counter-terrorism and military exercises, as well as measures to expand trade between both countries.

ASIA AND AFRICA

CHINA'S ECONOMIC RECOVERY CONTRASTS WITH INDIA'S CONTRACTION

According to data updated in September by the Asian Development Bank (ADB), China's GDP contracted 1.6% in the first half of 2020, reverting the 6,3% growth recorded over the same period of 2019. The decrease was due to a 6.8% reduction in the first quarter amid the COVID-19 emergency, followed by a 3.2% recovery in the second quarter, as epidemic control measures proved to be largely effective.

Acceleration in GDP growth is expected for the second half of the year, mainly as a result of increased investment in infrastructure. The ADB forecasts that activity in China will grow 1.8% in 2020, to rebound to 7.7% in 2021.

In turn, India's GDP decreased 23.9% in the first quarter of 2020, as a result of one of the strictest lockdowns worldwide. The contraction was widespread and most segments of the economy recorded double digit falls. Employment and incomes were significantly reduced, while some of the sectors most affected were trade, transport and the manufacturing and hospitality industries.

From April, the COVID-19 outbreak expanded and spread rapidly from cities to rural areas. According to revised ADB data, India's economy is expected to contract 9% in 2020, although it forecasts a significant recovery in 2021 with 8% GDP growth, as mobility and business activities resume more extensively.

CHINA ANNOUNCES PLAN TO ESTABLISH THREE FREE TRADE ZONES

The State Council of China published a master plan for the creation of three new free trade zones (FTZ) in Beijing, Hunan and Anhui, with the aim of accelerating the creation of a new development pattern through higher openness. The plan outlined distinctive tasks for each area, focusing on new fields and formats such as trade in services, advanced manufacturing industries, scientific and technological innovation, and digital economy.

In this regard, the Beijing FTZ will focus on building an innovation centre for the expansion of trade in services and digital economy. In addition, it will contribute to the coordinated development of the Beijing-Tianjin-Hebei region and it seeks to explore the possibility of the construction of an international terminal for the information and digital commerce industry in the Beijing area. Hunan's new FTZ will focus on manufacturing high-end equipment and promoting the coordinated development of the services sector in Hunan, Guangdong, Hong Kong and Macau, and it includes the creation of an area for economic and trade cooperation between China and Africa. Finally, the pilot FTZ in Anhui Province will promote the integration of scientific and technological innovation and the development of the real economy, and will stimulate the integrated development of the Yangtze River Delta.

Previously, China had established 18 pilot FTZs in areas such as Shanghai, Guangdong, Liaoning, Hainan and Shandong, among others.

SERVICES SECTOR BECOMES THE NEW ENGINE OF CHINA'S ECONOMY

The rapidly development of the services sector has turned it into the new engine of the Chinese economy, according to a report by the Association of Trade in Services, presented in the framework of the 2020 China International Fair for Trade in Services (CIFTIS), recently held in Beijing. China bets on trade in services to stabilise the foreign sector and foster growth, amid weak global demand.

The services sector accounted for 53.9% of China's GDP in 2019 and its contribution to overall economic growth was 59.4%. Trade in services reached 5.42 trillion yuan (about US$ 775.6 billion), representing an increase of 2.8% year-on-year, ranking second globally for the sixth consecutive year.

In recent years, China intensified its efforts to increase foreign access to its local services markets. In 2019, it eliminated foreign ownership limits in the main areas of the financial industry and, with the entry into force of the new foreign investment law on 1 January, it encourages global companies to expand their business in the Asian country. On the other hand, China launched pilot projects for the innovative development of trade in services in 15 provincial-level regions, including the island province of Hainan and the city of Shanghai.

FTA WITH THE EU BOOSTS VIETNAM'S AGRICULTURAL EXPORTS

After the EU-Vietnam Free Trade Agreement (EVFTA) entered into force in August, the Vietnamese customs authorities disclosed that EU-Vietnam trade had reached US$ 3.78 billion in that month only. Compared to the average of the first seven months of the year, the value of exports to the EU in August was around US$ 600 million higher, thanks to the positive effects of the EVFTA, positioning the EU as the third destination for Vietnamese exports in the cumulative January-August 2020.

According to Vietnam's Ministry of Industry and Trade, the EVFTA creates a great opportunity for exports by helping to diversify export destinations and products to the European market, mainly those most relevant to the country, such as agriculture, fish, furniture, textiles, footwear and electronics.

In fisheries products alone, last month exports to the EU grew by 10% compared to

July 2020, with a share of the European market of around 18%. The main product exported was shrimp, benefitting from the new tariff regime, which allowed it to grow by 20% compared to July.

TRADE TENSIONS BETWEEN GHANA AND NIGERIA WORSEN AMID PANDEMIC

Nigerian traders accused Ghanaian authorities of discrimination after many were forced to close their shops amid the COVID-19 pandemic, in what constitutes a trade war that stated last year between Ghanaian natives and foreign business owners for the control of local retail trade.

The Ghana Investment Promotion Centre (GIPC) points out that the country's laws prohibit foreigners from exploiting retail businesses unless they make a US$ 1 million investment, which is being promoted by the Ghana Union of Traders Association (GUTA).

In turn, the Nigerian authorities state that the requirement established by the GIPC does not apply to foreigners who are nationals of countries belonging to the Economic Community of West African States (ECOWAS).

Tension between the two countries had also intensified after the deportation of 700 Nigerian traders from Accra (Ghana's capital) and Nigeria's decision to close its borders with that country to "protect local industries" from smuggled products from Ghana. This decision impacted on the business climate of both countries, mainly on Nigeria's pending ratification of the African Continental Free Trade Agreement (AfCFTA).

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International Trade and Worship
Argentina

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