

CEI Centre for
International
Economy

GLOBAL REPORT

SEPTEMBER 2020



WORLD

Recession figures

COVID-19 vaccines: debate over price and distribution begins

First Digital Economy Partnership Agreement is signed

Trade tensions revive



EUROPE

EU signs partial free trade agreement with the U.S.

Post-Brexit agreement adrift

Abrupt fall in activity of the German “economic engine”

COVID effect: the EU advances in the suspension of budget rules



SOUTH AND CENTRAL AMERICA

Chile and Ecuador sign Free Trade Agreement

The U.S. cooperates in Colombian development plan

Uruguay to export medicinal cannabis and industrial hemp

CARICOM announces agri-food plan



NORTH AMERICA

Revived front of conflict between the U.S. and Canada

No changes in Airbus dispute

The U.S. toughens sanctions against Huawei



ASIA AND AFRICA

Indonesia reaches upper-middle income country status

Uneven activity projections for ASEAN countries

China-ASEAN: increased links in the high technology sector

China launches anti-dumping investigation on Australian wine

WORLD

RECESSION FIGURES

GDP downturn at global level reflects the magnitude of the recession derived from the COVID-19 pandemic and the measures to fight it. According to data published by the OECD, the most pronounced shrinkage among developed countries during the second quarter of 2020 were those of the United Kingdom (–21.7% with respect to the second quarter of 2019), France (–19.0%) and Italy (–17.3%), while the lowest were those of the United States (–9.5%), Japan (–10.0%) and Germany (–11.7%).

On the other hand, trade in goods is estimated to have fallen 18% during the first quarter of 2020, according to WTO projections based on the trajectory of a set of indicators that constitute the Goods Trade Barometer. This decline is mostly related to the restrictions to cross-border mobility of individuals and transport services, which at the same time affect trade costs by means of the increase in their several components (transport, transaction costs, and trade policy and regulatory measures).

COVID-19 VACCINES: DEBATE OVER PRICE AND DISTRIBUTION BEGINS

In late August, 33 vaccines against COVID-19 are being tested all over the world, eight of which are in the last phase of clinical trials in humans. That is the reason why the debate over their price, production and distribution is in full swing.

In the case of the vaccine that is being developed by Oxford University and AstraZeneca laboratory, Argentina and Mexico will be production centres for Latin

America and the Caribbean, except for Brazil that has a separate agreement. This vaccine will be sold to the countries in the region at a price between three and four dollars per dose, although it will be free and of universal access for the population. If the trials are approved, it is estimated that it would be ready for distribution by the end of the first quarter of 2021. These points are also object of debate in countries like the United States, India and those of the European Union, among others.

So as to avoid that competition by public demand puts up the prices of the different vaccines, global cooperation on the part of the governments is needed for their production and distribution. Furthermore, flexible mechanisms are required for the application of intellectual property rights, in order to promote the development of the drug, at the same time that access of the population to the drug is enabled under special circumstances in which public health should be protected, being this an aspect contemplated in the WTO Declaration on the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement and public health.

FIRST DIGITAL ECONOMY PARTNERSHIP AGREEMENT IS SIGNED

On 11 June, Chile, New Zealand and Singapore signed the first Digital Economy Partnership Agreement (DEPA), aimed at setting rules for its development.

The agreement, which is open to the adherence of other countries and will enter into force 90 days after its ratification by two countries, has standards on trade facilitation

and digital trade, and stipulates not imposing customs duties on electronic transmissions, offering non-discriminatory treatment to digital products, guaranteeing data protection, cooperation in cybersecurity, digital identity, digital inclusion and dispute settlement. It could serve as a model for standards related to digital trade, both in the regional and the multilateral spheres.

TRADE TENSIONS REVIVE

China continues purchasing products from the U.S. though at an amount slightly less

than 50% of that agreed in Phase One, at the same time that non-trade aspects, such as the situation of Hong Kong and the pandemic, still affect the bilateral relation.

On the other hand, the U.S. imposed an additional 10% tariff on Canadian aluminium. As a response, Canada seeks to impose countermeasures to products imported from the U.S. (see North America section in this news commentary).

EUROPE

EU SIGNS PARTIAL FREE TRADE AGREEMENT WITH THE U.S.

On 21 August, the U.S. Trade Representative, Robert Lighthizer, and Phil Hogan, EU Trade Commissioner, issued a striking joint statement in which they announced they had reached a partial free trade agreement.

Although this only includes a small package of tariff reductions, it is expected to be a kick-start for a more general deal. This first agreement will enable access of fresh and frozen lobsters from the U.S. to the European market with zero tariff (in 2017, they accounted for US\$ 111 million in trade) and will allow the EU to get a 50% tariff reduction for a set of goods (cigarettes, beef, crystal glass, among others) that represent an average exported value of US\$ 160 million a year. This commitment will be based on tariff reductions under the principle of most favoured nation and will be retroactive to August 2020.

It is worth mentioning that in such a manner, trade relationships between both parties could be possibly improved. In fact, President Trump has several times threatened to impose tariffs on the imports of European automobiles if the EU does not open its lobster market. The U.S. faces difficulties in exporting this product due to its trade conflict with China, and has lost competitiveness against the exports from Canada, which already has an agreement with the EU.

In more general terms, it is worth remembering that the trade tensions between them increased in 2017 when the U.S. implemented import tariffs on steel and aluminium originated in several countries, which included those of the EU. Besides, these hostilities were strengthened by an extended Airbus-Boeing dispute and the EU's intention to tax digital services, thus levying U.S. companies (see Global Report, March 2020 and February 2020, respectively).

POST-BREXIT AGREEMENT ADRIFT

The round of negotiations held in August to reach a post-Brexit agreement between the United Kingdom and the EU did not yield any positive result, in spite of the fact that they seemed to have resumed a drive last June. The harshest aspects are still those related to an agreement on fisheries and the adequacy to EU standards in regulatory and environmental matters. The next round of negotiations will be held in London next September.

In parallel, the government of the United Kingdom has already closed a process of consultations for the elaboration of a text that would replicate, in general terms, the standards of carbon emission set forth by the EU for cars and commercial vehicles.

ABRUPT FALL IN ACTIVITY OF THE GERMAN “ECONOMIC ENGINE”

GDP in Germany –the greatest European economy– shrank 9.7% in the second quarter of the year with respect to the January-March period and 11.3% year-on-year. According to the Federal Statistical Office (Destatis), this collapse is not only larger than during the 2008 crisis, but it is also the greatest recorded since 1970.

This slump in the economic activity was accompanied by a dramatic fall in the exports and imports of goods and services (–20.3% and –16.0%, respectively, compared to the first quarter), in household consumption expenditure (–10.9%) and in gross fixed capital formation in machinery and equipment (–19.6%). Government spending had, in turn, a moderate stabilising effect since it increased 1.5% during the same quarter.

COVID EFFECT: THE EU ADVANCES IN THE SUSPENSION OF BUDGET RULES

Regarding the economic consequences of the COVID-19 pandemic, the countries of the European bloc would not have to comply with the Stability and Growth Pact that imposes a limit of 3% for public deficit and of 60% of debt in relation to GDP until 2022. The decision was announced by Valdis Dombrovskis, Vice-President of the European Commission, and it is expected to become effective by mid-October, that is, when EU countries must submit their national budgets.

SOUTH AND CENTRAL AMERICA

CHILE AND ECUADOR SIGN FREE TRADE AGREEMENT

The governments of Chile and Ecuador signed a Free Trade Agreement aimed at strengthening market opening, so far regulated by the Economic Complementation Agreement (ACE) No. 65. The coverage of the new agreement reaches 100% of the goods in

the case of Chile and 99.3% in the case of Ecuador, with a maximum tariff reduction period of 4 and 9 years, respectively. All in all, the deal provides opportunities for Chilean agricultural and agribusiness exports (such as poultry, pork and beef; cheese, seeds and vegetable oils) and for some industrial products, as well as benefiting Ecuadorian exports of soybeans, sugar, pasta,

corn, panela, animal food, and poultry and pork.

At the same time, the agreement incorporates new disciplines such as trade in services (the ACE 65 only included provisions on air and sea transport services), e-commerce, telecommunications, labour affairs, environmental issues, public procurement, regional and global value chains, gender, MSMEs, and transparency and anti-corruption matters.

This instrument will enter into force 90 days after both countries notify the LAIA (Latin American Integration Association) of their compliance with the requirements laid down in their legislation for this purpose.

THE U.S. COOPERATES IN COLOMBIAN DEVELOPMENT PLAN

Colombian President, Iván Duque, the U.S. National Security Advisor, and the Executive Director of the U.S. International Development Finance Corporation (DFC) announced cooperation efforts between the two nations to drive an economic growth plan for Colombia. Although the “Colombia growth initiative” still lacks specific objectives, it will focus on various short, medium and long-term issues, such as security, democracy, rural development, infrastructure and education.

In particular, the different U.S. public agencies will cooperate with the Colombian government to identify opportunities for investment, sustainable development and growth. At the same time, the DFC would invest in rural development and, specifically, in the search for alternative opportunities for farmers.

In the context of the announcement, Iván Duque said that he will support U.S.

candidate Mauricio Claver-Carone in the upcoming elections for the Presidency of the Inter-American Development Bank (IDB), which are expected to take place in September.

URUGUAY TO EXPORT MEDICINAL CANNABIS AND INDUSTRIAL HEMP

Uruguayan President Luis Lacalle Pou signed two decrees to speed up the exports of medicinal cannabis and industrial hemp. This would enable the shipment of stocks that have had purchase commitments overseas since 2018, but which lacked the relevant authorisation from the government.

The Deputy Secretary of the Presidency, Rodrigo Ferrés, stated that the executive power intends to promote this industry and consolidate it as a country brand. In this context, it is estimated that this product exports will reach 50-60 tonnes by the end of 2020.

CARICOM ANNOUNCES AGRI-FOOD PLAN

The Caribbean Community (Caricom) will implement an Agri-Food Plan to combat the food insecurity problem of the countries of the region. The “25 in 5” Plan has the purpose of replacing 25% of the current food imports (US\$ 5 billion) over the next five years.

To achieve this objective, efforts will be made to modernise agricultural information and production systems, and to develop value chains, alongside the creation of youth programmes. This will require support from the private sector, international donor partners and multilateral agencies, regarding financing, institutional strengthening and public policy design.

NORTH AMERICA

REVIVED FRONT OF CONFLICT BETWEEN THE U.S. AND CANADA

On 6 August, Donald Trump signed a Presidential Proclamation by which, as of 16 August, he re-imposes a 10% ad valorem tariff on imports of non-alloyed unwrought aluminium from Canada, under Section 232 of the Trade Expansion Act of 1962

Purchases of aluminium from Canada had been exempt from these tariffs following an agreement between the parties in May 2019 (see CEI Global Report, July 2020). However, the Department of Commerce determined that the Canadian imports of non-alloyed unwrought aluminium had increased substantially during the June 2019-May 2020 period (87% year-on-year –note that the comparison is set between a duty-free period and a period with duties–) providing the basis for re-imposing tariffs.

In response, as of 16 September, Canada plans to impose a 10% tariff on imports of aluminium and aluminium-containing products from the U.S., equivalent to purchases of approximately US\$ 2.8 billion.

NO CHANGES IN AIRBUS DISPUTE

The Office of the U.S. Trade Representative (USTR) announced in mid-August the decision not to increase tariffs or the quantity of products affected in the framework of the retaliation measures imposed on the EU for subsidies to Airbus. It should be recalled that a proposal to impose additional duties of up to 100% on a new list of products from France, Germany, Spain and the United Kingdom, with an annual trade

value of approximately US\$ 3.1 billion, had circulated two months ago

Consequently, tariffs of 15% on imports of aircraft from the European bloc and of 25% on external purchases of a number of products such as wine, cheese and whiskey remain unchanged (see CEI Global Report, March 2020). However, small changes were made to the list of products affected: two products from the United Kingdom and Greece were removed, while nine products originating in France and Germany were incorporated for an equivalent amount of trade.

Washington's decision came in spite of the EU's announcement in July of amendments to the loans granted by Spain and France for the construction of Airbus' A350 aircraft and despite orders from the European Commissioner for Trade for the U.S. to withdraw tariffs as unjustified. In the meantime, the EU is still awaiting a decision in the parallel case in the WTO for unjustified tax breaks that would have benefited U.S. company Boeing.

THE U.S. TOUGHENS SANCTIONS AGAINST HUAWEI

The U.S. Department of Commerce further restricted Huawei's access to the country's technology, such as microprocessors and software, by adding 38 company affiliates in 21 countries around the world to the list of entities that may pose a threat to national security.

On 17 August, Commerce banned non-U.S. companies from selling goods produced with U.S. technology to Huawei. This decision adds

to the sanctions imposed in 2019 –which blocked Huawei’s access to U.S. components and technology– and in May this year –which prevent suppliers around the globe from using U.S. technology to produce components for Huawei (see CEI Global Report, [June 2019](#) and [June 2020](#), respectively). The Trump administration has also excluded Huawei from 5G wireless networks in the United States.

In practice, the new measure would mean that major chip producers in Europe and Asia can only sell their products to Huawei under a special licence granted by the United States. This decision would be a major blow to the Chinese company, as U.S. technology is a comprehensive part of multiple stages of the semiconductor supply chain, including design, manufacturing, and testing.

ASIA AND AFRICA

INDONESIA REACHES UPPER-MIDDLE INCOME COUNTRY STATUS

According to the World Bank’s latest classification, Indonesia became an upper-middle income country, which constitutes an improvement from its previous status (lower-middle income country), and is now part of a group of countries that includes China, Brazil, South Africa, Turkey, Malaysia and Thailand. The classification, updated annually on 1 July, is based on the per capita Gross National Income (GNI). Indonesia, Southeast Asia’s largest economy, and a member of the Association of Southeast Asian Nations (ASEAN) recorded an increase in its per capita GNI from US\$ 3.8 in 2018 to US\$ 4.0 in 2019, exceeding the income threshold for upper-middle income. The new status can help strengthen the confidence of investors and trading partners in the country’s economy.

UNEVEN ACTIVITY PROJECTIONS FOR ASEAN COUNTRIES

According to the [ASEAN Economic Integration Brief](#), since the pandemic outbreak, the bloc’s member states have recorded a sharp drop in economic activity,

job losses and business closures, especially in the most affected sectors, such as tourism, aviation, and manufacturing. However, the economic behaviour of each member differed throughout the pandemic.

According to the report, Indonesia would record one of the lowest contractions in GDP in 2020 (-1.0%) and a 5.3% growth is projected for 2021. On the other hand, Vietnam, a country that has managed to contain the spread of COVID-19, expects a 4.1% growth in 2020. Brunei Darussalam and Myanmar, two countries with a relatively small number of cases, would grow 1.4% and 1.8% this year, respectively. For all the other ASEAN countries, more marked contractions are likely to occur: Singapore (-6.0%), Thailand (-6.5%), Cambodia (-5.5%), Malaysia (-4.0%), Philippines (-3.8%), while in Laos (-0.5%) the drop would be lesser.

CHINA-ASEAN: INCREASED LINKS IN THE HIGH TECHNOLOGY SECTOR

Since the creation of the China-ASEAN Free Trade Area (CAFTA) in 2010, trade in goods and services has grown rapidly as a result of the deep integration of industrial and value chains. In terms of trade, in the January-July

2020 period, the ASEAN remained China's first trading partner, with bilateral flows growing by 6.6% year-on-year, accounting for 14.6% of China's total foreign trade, according to data from the General Administration of Customs of the People's Republic of China (GACC).

In addition to trade, cooperation in the high-tech industry also stands out. In recent years, the China-ASEAN Information Harbour Co Ltd –an IT company based in Guangxi, China– was dedicated to information and digital industrial cooperation. In this context, three underwater international communications cables, twelve international terrestrial optical cables and thirteen key communications nodes were built for the connection. It should be noted that the high-tech sector is one of the leading sectors responsible for the growth of activity in China: while industrial production grew 4.8% year-on-year in July, production in the high-tech and equipment manufacturing sectors increased by 9.8% and 13.0%, respectively.

On the other hand, at the end of July, China's BeiDou satellite navigation system was officially completed for commissioning, which is an alternative to U.S. GPS. China also began providing navigation services to some

ASEAN countries and plans to promote the economic and social development of its members, especially in the fields of modern agriculture, digitisation and smart ports.

CHINA LAUNCHES ANTI-DUMPING INVESTIGATION ON AUSTRALIAN WINE

China initiated an anti-dumping investigation into imports of Australian wines, at the request of the Alcoholic Beverage Association of China. According to the country's Ministry of Commerce (MOFCOM), the investigation will focus on 2019 imports and the possible damage caused to the Chinese wine industry in 2015-2019. Australia is the leading exporter of wines to China, with a market share of 37%. France ranks second (27%), followed by Chile (13%).

China-Australia relations tightened after Canberra requested in April an international investigation into the origin of the COVID-19 pandemic. Following this initiative, China suspended imports of meat from four large Australian suppliers and imposed tariffs of 80.5% on Australian barley (see CEI Global Report, June 2020).



Ministry of Foreign Affairs
International Trade and Worship
Argentina

Closing date of this issue: 1 September 2020

The opinion expressed in this publication does not necessarily reflect the views of the Ministry of Foreign Affairs, International Trade and Worship of Argentina.

Hyperlinks to other websites are merely informative and do not imply responsibility for or approval of their content on the part of the Centre for International Economy.