Centre for International Economy

GLOBAL REPORT

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WORLD

UNCERTAINTY ABOUT THE MAGNITUDE OF THE GLOBAL RECESSION

Amid the COVID-19 pandemic expansion, characterized by a constant change in the countries' sanitary situation and the measures to address it, the estimates on the economic impact of the crisis are only approximate. In this regard, the OECD forecasts that for each month of lockdown, the economic growth of its members will drop by 2 percentage points.

To have an idea of the magnitude of the recession expected for 2020, *The Economist Intelligence Unit* (EIU) forecasts a global recession of 2.3%, which contrasts sharply with the 2.2% growth predicted before the outbreak of the disease. Of the G20 countries, only China, India and Indonesia would have a positive, though low, growth rate. Regarding the remaining countries, the EIU estimates the largest falls would occur in Argentina, Germany and Italy with GDP drops of 7%. According to the report, the rapid expansion and depth of the crisis are explained by a combination of supply factors (less production and interrelation of global value chains), demand factors (less income and consumption) and financial factors (capital outflow from developing countries).

G20 AND INTERNATIONAL ORGANIZATIONS AGREE ON A CALL TO ACTION

On 26 March, a special virtual meeting of the G20 leaders was held to address the coronavirus crisis. In the economic aspects of the Declaration, the leaders expressed their commitment to minimizing economic and social damage through the adoption of expansive fiscal and monetary policies that would involve a flow of five trillion dollars.

The leaders also agreed to set up cooperation with multilateral economic and trade agencies to support developing and emerging countries. On trade issues, they pledged to ensure trade in goods needed to treat the disease, avoid unnecessary interference in trade, and keep markets open. As in the 2008 global crisis, trade ministers undertook to notify the WTO of any trade measures taken.

In turn, IMF Director Kristalina Georgieva announced that access to emergency financial services and aid to countries with currency shortages will be broadened. In addition, she proposed a coordinated global fiscal stimulus and an expansive monetary policy, especially in emerging countries, which have recorded a historical capital outflow of more than 40 billion dollars. Georgieva also requested flexibility in the compliance with financial system regulations. In conjunction with the World Bank, the IMF proposed that official bilateral creditors offer a debt relief for the poorest countries. This was accepted by the G20 at its Meeting of Finance Ministers and Central Bank Governors.

In turn, the World Bank will grant new lines of credit and redirect other lines previously granted. To address the economic and social issues, the agency will disburse up to 160 billion dollars in projects over the next 15 months. In addition, the OECD Secretary-General Angel Gurría raised the need for a global Marshall plan.

Likewise, the WTO, the WHO and the FAO issued a joint statement demanding governments not to restrict trade in food, especially with unjustified sanitary measures and export restrictions. Besides, the 12th WTO Ministerial Conference, scheduled to be held in June this year in Kazakhstan, was suspended.

PROGRESS ON THE PHASE ONE OF THE CHINA-US AGREEMENT

Phase one of the China-U.S. Agreement is advancing despite the international crisis, particularly in the agricultural sector. China has accepted the regionalization of production in the U.S., by which, in the event of sanitary problems in one area, the unaffected areas of the country will be allowed to sell products. The Asian country also agreed to the use of certain hormones in beef production. With regard to bilateral tariffs, the changes announced in December (see CEI Global Report, January 2020) are already in effect.

In turn, while it is not participating in the agreement, the U.S. Department of Commerce extended until 15 May the license to the telecom company Huawei to continue operating with U.S. suppliers. At the same time, it announced the public consultation on the need for future extensions.

EUROPE

THE EU DISCUSSES STIMULUS POLICIES AMID COVID-19

In a context of renewed massive border controls and closures due to the coronavirus, the European Commission requested the countries of the bloc to facilitate free trade in goods, particularly health equipment and food. In addition, on 2 April it announced the creation of an instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE). It is a 100 billion euro solidarity fund that seeks to complement national efforts to protect employment.

Regarding monetary policy, leaders from nine European countries (Belgium, France, Greece, Ireland, Italy, Luxembourg, Portugal, Slovenia and Spain) issued a document in mid-March calling for the creation of a "common debt instrument" to raise funds to support the recovery from the COVID-19 crisis. This letter, which was sent right before the European summit at the end of March, brought about a strong debate among the countries of the bloc.

France, Italy and Spain, among other countries, proposed the issuance of "coronabonds" –equivalent to what was formerly referred to as "Eurobonds"– in order to mutualize the bloc's debt and deal as such with the current crisis. This proposal encountered strong opposition from Germany and the Netherlands, which instead proposed to use the European Stability Mechanism (ESM) to finance countries seeking financial assistance –that is, to make use of a mechanism that provides financing to countries individually and under conditions. The substantive debate between the two proposals once again puts the EU's founding project under question, while it proposes mechanisms for exiting the crisis jointly or individually.

Meanwhile, the European Central Bank has launched a bond-buying programme worth 750 billion euros. The creation of the "Pandemic Emergency Purchase Programme", which will be in force for the whole year 2020, seems to represent an unprecedented step in terms of monetary integration, by injecting money into European capital markets.

BOOST TO THE EU-AFRICA GREEN ALLIANCE

In early March, the EU presented a roadmap for what seeks to be the new relationship with Africa, proposing a climate alliance to promote sustainable investment in the African continent and get it involved with the objectives of the European Green Deal, one of the centrepieces of the European Commission's new administration run by Ursula von der Leyen (see CEI Global Report, January 2020). Specifically, the roadmap focuses on five areas –green transition, digitalisation, economic growth, peace and governance, and immigration and mobility– and is published at a time of increasing advance of China and the U.S. onto the continent (see CEI Global Report, March 2020).

EU GIVES GREEN LIGHT FOR AGREEMENT WITH VIETNAM

The European Council approved the free trade agreement signed between the EU and Vietnam in June 2019. With this, the European bloc has cleared the path for its implementation, which will happen when the Vietnamese National Assembly proceeds with its corresponding ratification. This is expected to take place by mid-2020.

SOUTH AND CENTRAL AMERICA

IMPACT OF COVID-19 ON THE REGION

The first economic impact of the coronavirus crisis in the Latin American countries has been a fall in stock markets and devaluation of currencies, in a context in which the world attempts to find shelter in strong currencies and safe assets. However, the greatest risk aversion of investors is only one of the five channels through which the region's economies will be affected, according to the Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC).

The first channel will be the effect of the decline in activity in the region's main trading partners, as is the case of China for the economies of Peru, Brazil and Chile (the drop in exports of the region to that destination is estimated at 10.7%). The second will be the fall in demand for tourism services, which will most significantly affect the Caribbean countries. The third would involve the interruption of global value chains, which would have a greater impact on countries such as Mexico and Brazil, particularly affecting their automotive, household appliance, electronics and pharmaceutical industries. Finally, the fourth will be the fall in commodity prices, which will mainly harm raw material exporters in South America.

Based on this diagnosis, it is estimated that the economic activity in Latin America and the Caribbean, projected to grow 1.3% during 2020, will instead contract between 1% and 1.8%, and exports would shrink between 4.6% and 10.7%. Likewise, unemployment could increase by 10 percentage points, poverty could rise from 30% to 35% of the population and the number of people living in extreme poverty could increase from 11% to 15%. The most affected countries would be the oil and mineral exporters and those with agricultural sectors that sell to China.

FIRST REDUCTIONS TO TRADE BARRIERS DUE TO THE HEALTH CRISIS

In the face of the health emergency, Ecuador decided to reduce to 0% the import tariff of several items corresponding to necessary health inputs and products, which in some cases amounted to 30%. At the same time, the country banned the exports of other products to prevent shortages.

In turn, Argentina temporarily suspended two anti-dumping measures. On the one hand, the specific duties on imports of solutions containing sodium chloride or dextrose from Brazil and Mexico imposed since November 2019; on the other, the ad valorem duties of 59% to imports of hypodermic syringes from China, in force since August 2017.

MERCOSUR AND SICA COUNTRIES STRENGTHEN TIES AMID BORDER CLOSURES

In order to address the COVID-19 pandemic crisis, Mercosur approved an additional 16 million dollar contribution to the plurinational project "Research, Education and Biotechnologies applied to Health". These resources will be financed through the Mercosur Structural Convergence Fund (FOCEM, for its acronym in Spanish). The first item of 5.8 million dollars will be aimed at strengthening the capacity of diagnosis of the virus through the development of serodiagnostic techniques a, the purchase of equipment, supplies, operator protection materials and rapid detection kits.

The Central American Integration System countries (SICA, for its acronym in Spanish) have also strengthened their ties in response to the global health crisis. Thus, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama presented a Regional Contingency Plan which includes measures concerning health, risk management, trade, finance, security, justice, migration, strategic communication and international cooperation management. Trade measures include ensuring the freedom of transit of goods, especially critical products such as food, beverages, medical supplies or medicines (these will be listed by the countries in order to coordinate relevant tariff reductions to help ensure their supply). In addition, teams will be formed for the design of communication protocols, contingency plans and IT platforms to support foreign trade, and financing mechanisms will be established for the development of regional logistics corridors.

THE CUBAN PHARMACEUTICAL INDUSTRY GAINS GLOBAL RELEVANCE

After standing out for sending highly qualified health staff to countries severely hit by the pandemic, Cuba also gained relevance for its pharmaceutical industry. The Cuban company Biocubafarma holds the patent for one of the 30 medicines that are being used to combat COVID-19, interferon alfa 2B (IFNrec). Developed both on the Central American island and in Chinese territory (in charge of the Chinese-Cuban company Changchun Heber Biological Technology), this drug is likely to be one of the most demanded globally for its effectiveness in the treatment of the virus.

NORTH AMERICA

U.S. ANNOUNCES THE BIGGEST STIMULUS PLAN IN ITS HISTORY

On 27 March, President Trump approved a $2.2 trillion stimulus plan to cushion the consequences of the COVID-19 crisis. This is the largest economic relief plan in the country's history that even doubles the one approved during the 2008 recession.

The project includes direct payments to families, funds for states and local governments and loans for SMEs and industries affected by the crisis. Lower-income families will receive a one-time payment that, in the case of a family of four, will amount to 3,400 dollars. The unemployment insurance will also be improved and expanded: the benefit currently offered by the states will be supplemented by 600 dollars per week for four additional months; in addition, self-employed workers may benefit from the scheme on an exceptional basis. The stimulus plan also includes an additional 150 billion dollars for the health system and a similar amount for supporting to states and local governments.

Regarding help for distressed SMEs and industries, the project foresees 350 billion dollars for soft loans for small industries –that may not have to be repaid if employees are kept on payroll–, and 500 billion dollars for large companies through Fed loan guarantees, which in some cases will also be non-refundable (see *Is Boeing in crisis?*). Following the experience of the mega-rescues of the 2008 recession, this stimulus plan has put more conditions on companies that benefit from the aid, as they will not be able to lay off more than 10% of their workers, must forgo repurchases of their own shares for the duration of the credit and limit the bonuses to their executives.

In addition to the plan, the Internal Revenue Service (IRS) postponed the tax payment period to 90-days and waived interest and fines, and the Fed lowered the benchmark interest rate by 0.5 percentage points and injected liquidity into the banking system. In addition, other, more modest stimulus packages were created, such as a law providing 8.3 billion dollars in emergency funding for federal agencies and an additional aid package to families.

CANADA AND MEXICO GRANT FISCAL AID AMID COVID-19

Throughout March, Canada announced a battery of fiscal stimulus measures to deal with the economic effects of the pandemic, worth approximately 96 billion dollars, including: funds for vaccine research and health measures, support for households – through payments to workers without sick leave or unemployment insurance, an increase in existing tax credits and childcare benefits– and measures to help the most affected companies, including the payment of direct aid and tax exemptions.

Also, since early March, the Bank of Canada lowered its benchmark interest rate three times, going from 1.75% to 0.25% in less than a month, due to both the pandemic and the fall in the price of oil –as Canada is a major global producer–.

In turn, Mexican President Manuel López Obrador initially ruled out the possibility of granting tax rebates to companies. The Mexican government has so far focused on measures to provide the Ministry of Health with material resources and medical equipment to address the effects of contagion, anticipated pension payments to retirees, accelerated budget expenditure items and created a "Fund for emergency prevention and care", which would exceed 7.5 billion dollars. However, there is speculation that a more ambitious stimulus package could be announced in the coming days.

The Bank of Mexico, like its counterparts in Canada and the U.S., reduced its monetary policy rate on two occasions, by 25 basic points each, to 6.5%.

IS BOEING IN CRISIS?

As large companies in the aerospace industry experience a liquidity crisis due to the suspension of flights amid the coronavirus, on 12 March, the Washington Senate confirmed the withdrawal of tax exemptions that have benefited Boeing for years, in an attempt to avoid the imminent tariffs that the EU could impose on that company if it obtains the approval of the WTO (see CEI Global Report, March 2020).

This bill, which was submitted to the Governor of the state of Washington for signature, would even have Boeing's approval. Apparently, the main objective of the government and of the company would be to avoid a new front of trade tensions with the EU, even though this would mean sacrificing about 40% of tax savings for Washington's main private employer.

In the meantime, the U.S. manufacturer is reportedly negotiating a new aid package with the Trump administration. Indeed, Trump's newly launched stimulus plan devotes one of its points to "businesses critical to maintaining national security", a subsection that could be tailor-made for the aerospace manufacturer. Trump has publicly mentioned that this aid could be delivered through the purchase of the company's shares.

Prior to the coronavirus outbreak, Boeing had already been undergoing economic difficulties due to the security concerns over its 737 MAX. The aerospace giant had requested a 60 billion dollar rescue and, at the same time, had announced its merger plans with Embraer (see CEI Global Report, February 2019).

CANADA APPROVES THE USMCA

On 13 March, Canada's House of Commons and Senate passed Bill C-4 that will make the necessary changes to Canada's laws to ratify the trade agreement with the U.S. and Mexico (USMCA). The session took place just before both chambers went on recess for five weeks due to the coronavirus pandemic. In a bid to prevent this from affecting the implementation of the agreement, on that same day, Canada's Governor-General, Julie Payette, granted the Royal Consent to the bill and the ratification of the Treaty was finally reported on 3 April.

As stipulated in the agreement, the USMCA will enter into force three months after the last trading partner notifies the completion of its internal approval procedures. Since Canada and Mexico ended with such processes this week, it only remains the U.S. notification.

While the governments of the three countries expect the agreement to be in effect by 1 June, in an attempt to counteract the effects of the coronavirus, representatives of the automotive industry have stated that for this same reason it would be important to postpone its entry into force.

ASIA AND AFRICA

SHARP FALL IN CHINA'S ACTIVITY AND FOREIGN TRADE

The measures implemented by the Chinese government to contain the spread of COVID-19 on its territory have already impacted on the country's main indicators of activity and foreign trade.

In the first two months of 2020, industrial production, retail and fixed asset investment in China recorded double-digit declines (-13.5%, -20.5% and -24.5%, respectively), the National Bureau of Statistics (BNE) reported. For its part, the General Administration of Customs of China (AGA) reported that foreign trade in goods fell 11% in the first two months of 2020 –exports fell 17.2% year-on-year, while imports decreased 4%–. Thus, during the period there was a trade deficit of 7.1 billion dollars, while in the same period of 2019 the trade surplus had reached 41.5 billion dollars.

According to INDEC data, our exports to the Asian country fell 16% in the first two months of the year, particularly due to the large decrease in February (36% YoY) while purchases have been reduced 10% so far in 2020.

CHINA PREPARES ECONOMY-BOOSTING MEASURES

The Chinese government is working on a package of measures to ensure the production and exports of key products in the global industrial chain. Regarding investment, the administration noted that efforts will be intensified to reduce the "negative list" that imposes restrictions on foreign direct investment and to broaden the range of industries that will receive tax benefits. Likewise, the government will implement support policies for SMEs and seek to facilitate the financing of enterprises.

To secure overseas orders, the Asian country will support companies to hold negotiations and exhibitions online, and will consider alternative plans to reschedule China's Import and Export Fair. The Chinese government also announced in March that it will increase China's international air cargo capacity with the aim of stabilizing the supply chain. It will provide support for international freight routes and invigorate cooperation between aviation and logistics companies. Plans to develop a logistics information sharing platform are also underway. In addition, the collection of port tariffs to importers and exporters has reportedly been suspended until 30 June.

LOCUST EPIDEMIC WORSENS FOOD CRISIS IN AFRICA

The World Food Programme warned in March about the locust plague that strikes countries in the East African region –mainly Ethiopia, Kenya, Somalia and Tanzania– and threatens their agricultural production. This epidemic is seen as the world's most dangerous migratory plague and the current outbreak, as one of the most serious in recent decades. The Food and Agriculture Organization (FAO) issued the same warning last month.

TFTA RATIFICATION DELAYED

The Southern African Development Community (SADC) Executive Secretariat called on member countries to urgently ratify the Tripartite Free Trade Area (TFTA) to facilitate the regional integration process. The only SADC member countries that have ratified the TFTA are Namibia, South Africa and Botswana. Signatories to the agreement also include Angola, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eswatini, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Tanzania, Uganda, Zambia and Zimbabwe.

The delay in ratification of the TFTA seems to begin to contrast what is happening with the African Continental Free Trade Area (AfCFTA). This agreement, involving the continent's largest economies such as Nigeria and South Africa, entered into force in May 2019 and only a few members have yet to ratify it (CEI Global Report, June 2019).

FIRST UGANDA-EU BUSINESS FORUM

The first business forum between Uganda and the EU was held in the African country on 9 and 10 March. The forum aims to assess the main obstacles to the sustainable development of investments in Uganda, as well as to propose measures to improve the business climate in Uganda and strengthen trade ties between the two parties, mainly in agriculture and tourism.

Ministry of Foreign Affairs
International Trade and Worship
Argentina

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