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GLOBAL RECESSION/PROTECTIONISM: KEY FEATURES, (FUTURE) TRENDS AND IMPACTS TO INDONESIAN TRADE & INVESTMENT

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Context/Outline of Presentation

- The twin phenomena of global pandemic of Covid-19 and 2020 global recession
 - *Covid-19 as the trigger for 2020 global recession*
 - *Current state of affairs: 25+ (developed and developing) countries are in recession now*
 - *Projected worst scenario of global economic growth: a global depression?*
- Implication of such twin phenomena to existing practices of global protectionism
 - *How global recession exacerbate global protectionism: trade tensions/trade wars, domestic-oriented economic activities, particularly in trade and investment, growing political-economic populism ideas*
 - *Protectionist responses to the twin phenomena: slowing pace of trade negotiations, changing attitudes towards globalization, incipient evidence of protection*
 - *Projection/simulation of protectionist backlash and consequences: macro-economic effects and impacts on competitiveness*
- Indonesian current situation and state of play
 - *Winter is (finally) coming, so is recession...*
 - *What and how recession means to trade, investment and business in general*
 - *How the coming recession intertwined with Covid-19? Will it make the other worse (vice versa)? How to mitigate?*

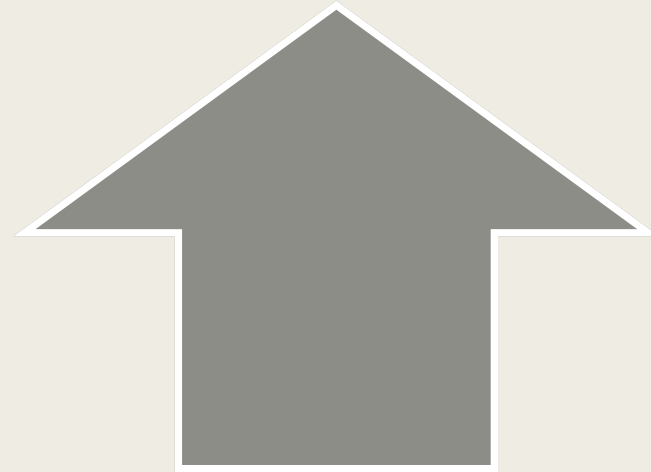
The Twin Phenomena



Global
(Economic)
Recession



Global
Pandemic
of Covid-19



Covid-19: Global Map (as of today, Sept 23rd 2020 6:23 WIB – John Hopkins Coronavirus Resource Center)

- Global Cases: 31,453,048
- Global Deaths: 967,347
- Global Recovered: 21,583,667

| Cases by Country/Region/Sovereignty |
|-------------------------------------|
| 6,890,014 US |
| 5,562,663 India |
| 4,558,040 Brazil |
| 1,111,157 Russia |
| 777,537 Colombia |
| 768,895 Peru |
| 700,580 Mexico |
| 682,267 Spain |
| 663,282 South Africa |
| 640,147 Argentina |
| 506,982 France |
| 448,523 Chile |
| 429,193 Iran |
| 406,054 United Kingdom |
| 352,178 Bangladesh |

| Cases by Country/Region/Sovereignty |
|-------------------------------------|
| 330,798 Saudi Arabia |
| 327,580 Iraq |
| 306,886 Pakistan |
| 306,302 Turkey |
| 300,897 Italy |
| 291,789 Philippines |
| 277,412 Germany |
| 252,923 Indonesia |
| 193,374 Israel |
| 185,890 Ukraine |
| 148,411 Canada |
| 130,986 Bolivia |
| 127,643 Ecuador |
| 123,917 Qatar |
| 114,648 Romania |

| |
|------------------------------|
| 200,654 deaths US |
| 137,272 deaths Brazil |
| 88,935 deaths India |
| 73,697 deaths Mexico |
| 41,951 deaths United Kingdom |
| 35,738 deaths Italy |
| 31,424 deaths France |
| 31,369 deaths Peru |
| 30,904 deaths Spain |
| 24,656 deaths Iran |
| 24,397 deaths Colombia |

| |
|----------------------------|
| 19,575 deaths Russia |
| 16,118 deaths South Africa |
| 13,482 deaths Argentina |
| 12,321 deaths Chile |
| 11,126 deaths Ecuador |
| 9,950 deaths Belgium |
| 9,837 deaths Indonesia |
| 9,405 deaths Germany |
| 9,283 deaths Canada |
| 8,682 deaths Iraq |
| 7,654 deaths Bolivia |

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|--------------------------------|
| 4,497,867 recovered India |
| 3,993,432 recovered Brazil |
| 2,646,959 recovered US |
| 914,923 recovered Russia |
| 640,900 recovered Colombia |
| 607,837 recovered Peru |
| 596,317 recovered Mexico |
| 592,904 recovered South Africa |
| 508,563 recovered Argentina |
| 423,176 recovered Chile |
| 363,737 recovered Iran |
| 312,684 recovered |

| |
|--------------------------------|
| 312,684 recovered Saudi Arabia |
| 293,159 recovered Pakistan |
| 269,696 recovered Turkey |
| 261,757 recovered Iraq |
| 260,790 recovered Bangladesh |
| 244,693 recovered Germany |
| 230,643 recovered Philippines |
| 219,670 recovered Italy |
| 184,298 recovered Indonesia |
| 150,376 recovered Spain |
| 140,751 recovered Israel |

Covid-19 Economic Recession: How Deep Is It? (WEF & IMF 2020)

- The COVID-19 recession has come on the tail of unprecedented lockdown measures that halted the entire in-person “non-essential” economy.
 - *What started as a massive supply-side shock quickly morphed into a demand shortfall, owing to the rapid increase in unemployment, high levels of uncertainty about recovery prospects, online-only shopping, and an increase in personal saving.*
- The historically deep COVID-19 recession appears to have turned the corner in most countries.
 - *Most economies will not return to their previous performance peaks until late 2022.*
 - *Much will depend not only on the evolution of the pandemic and effective therapeutic and vaccine deployment, but also on the monetary, fiscal, trade, and regulatory policies that are pursued.*
- COVID-19 has caused a recession from which global economies are only expected to recover by late 2022, if a vaccine is available.
- Many countries have been deeply affected by the economic scars of this crisis.
 - *Severe labor market dislocations are a major concern.*
 - *In some countries, more jobs were lost in March and April than were created since the end of the global financial crisis.*
 - *School closings also impacted people’s—in particular women’s—ability to participate in the labor market.*
 - *Though fortunately some jobs have since been regained, the employed share of the working-age population stands much lower than in early 2020.*
 - *Moreover, the full extent of the impact on the labor market is likely much higher as many employed people are facing reduced hours.*

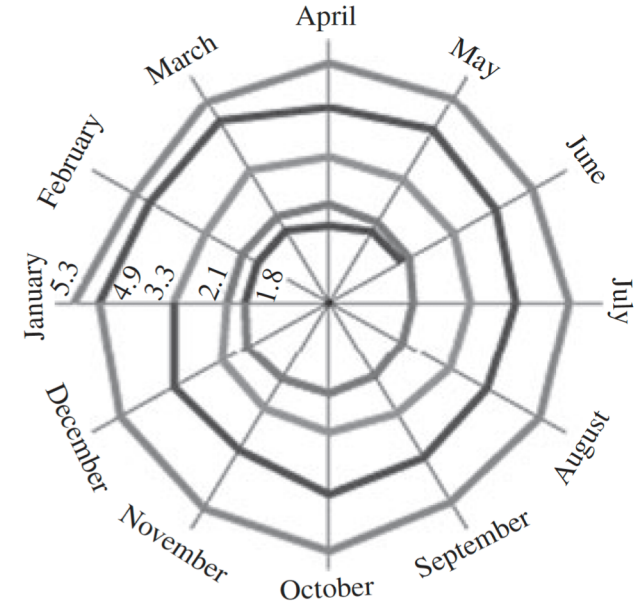
Global Protectionism: How Covid-19 Put Pressure on It?

- *The COVID-19 global pandemic has triggered the global recession which was predicted as early as of 2018 following series of protectionist and anti-globalization measures such as typically exemplified in the so-called “Brexit and Trump Effects” plus their derivative effects in several others (such as in Latin American return to economic nationalism as well as economic populism approach, in the WTO impasses on Doha Development Agenda and Its Adjudication Mechanism/Dispute Settlement System especially in its appellate body, in other more general trends of bilateral and regional Free Trade Agreements which serve more as a “stumbling blocks” of rather than “stepping stones” towards trade multilateralism under WTO)*
 - *It then exacerbates global protectionism in terms particularly of imposing pressures (but also opportunities?) on countries to take and justify their protectionist measures and policies in the name of national economic interests and/or strategic industries*
- *Trade tensions and/or trade wars are of immediate consequences of such pressures*
 - *Leading example: US and China (see my observation/projection in Arfani, Majalah Strategi 2018)*
- *Other medium and long terms consequences are: domestic-oriented economic activities, particularly in trade and investment, and growing political-economic populism and nationalistic ideas*
 - *In trade and investment, countries would focus first on domestic economic recovery, i.e. by practicing for example “demand-side” economic models (e.g. social safety net and more economic incentives for domestic players, bailout and bankruptcy schemes, domestic-driven/oriented Covid-19 vaccine, etc.)*

Protectionist Responses to the Twins: Historical Contexts (Bussiere et al, 2020)

- The outburst of protectionism that followed the 1929 market crash contributed to the propagation of the crisis and to a marked worsening of the Great Depression (Kindleberger, 1986).
 - *Between 1929 and 1933, world trade followed a downward spiral and ultimately contracted by 66 per cent (see next Figure).*
- The protectionist policies implemented at the time of the Great Depression took a variety of forms.
 - *The most cited example of such measures is perhaps the sharp increase in tariffs on US imports introduced by the Smoot–Hawley Act on 17 June 1930, but many other non-tariff measures were introduced, including quotas, ‘competitive’ exchange rate devaluations, export subsidies and other indirect measures (Eichengreen and Irwin, 2009).*
- Hence, the possibility that a similar event will materialise in the aftermath of the current crisis should not be ruled out.

The Downward Trade Spiral during the Great Depression



Source: League of Nations', *World Economic Survey, 1932–33*, and *The Economist*.

Protectionist Responses to the Twins: Projected Features/Trends #1 (The Slowing Pace of Trade Negotiations) (Bussiere et al, 2020)

- The Doha Round of WTO trade negotiations that aims at liberalising agriculture and services and to boost trade and development of poor countries has been the longest ever round of multilateral trade negotiations.
 - *Having begun in 2001, it was initially scheduled to be completed by 1 January 2005.*
 - *Burdened by a jungle of loopholes and exemptions codified during year-long negotiations, it was indefinitely suspended in July 2006; negotiations resumed thereafter but were again halted in July 2008, when India and the United States failed to agree about the extent to which poor countries should be allowed to be shielded from competition.*
 - *To date, it remains unclear whether the parties will move towards the concessions necessary to strike an agreement.*
- The number of disputes brought to the WTO since 1995 has been often cited as an indirect indication of protectionist pressures.
 - *However, one important caveat with this measure is that it can be interpreted in two ways: an increase could reveal higher protectionist pressures, but also increased confidence in the legal support provided by the WTO.*
 - *It is noticeable that in the two years following the establishment of the WTO, the number of cases per year increased markedly, which could be interpreted as a learning pha*
- Another indirect measure of the support for free trade is provided by the proliferation of regional trade arrangements (RTAs) over time, with about 421 RTAs notified to the GATT=WTO up to December 2008 and 230 in force.
 - *Yet, it is difficult to assess whether the increasing popularity of RTAs represents a sign of support for free trade or rather indicates lack of willingness to increase commitment in the framework of the multilateral trading system.*
 - *While promoting free trade, such agreements do so at regional or bilateral level rather than at global level and can therefore be seen either as an alternative path towards free global trade or as a stumbling block (see, e.g. Limao, 2007, and Karacavaoli and Limao, 2008, for recent discussions).*

Protectionist Responses to the Twins: Projected Features/Trends #2 (Changing Attitudes towards Globalization) (Bussiere et al, 2020)

■ Perception on Globalization in Developed Countries

- *A 2007 poll found that in the United States the majority of the population (60 per cent of respondents) considered that globalisation, 'especially the increasing connections of their country's economy with others around the world' was mostly 'good'.*
 - This figure was, however, 20 percentage points lower than in 2002 (World Public Opinion, 2007).
- *In the European Union, the perception of globalisation has also deteriorated over time and varies considerably across countries.*
 - It is lower, in particular, among some of the countries that have joined the Union since 2004.
 - Taking the EU27 as a whole, opinion is almost evenly split between supporters and opponents of globalisation.

■ Beyond these perception survey results, broad political and societal concerns about the impact of free trade can be an important source of protectionist pressure.

- *These concerns arise from the fact that globalisation is perceived to contribute to widening wage inequalities in developed countries.*
- *One indication of concern about free trade relates to official programmes providing personalised support (income support and job retraining) to workers who lose their jobs as a result of trade liberalisation, which have been adopted by a number of countries.*
 - Such programmes have a long tradition in the United States: e.g. Trade Adjustment Assistance (TAA) programmes which were first introduced in 1962 at the start of the Kennedy Round of discussions on trade liberalisation.
 - Expenditure under this kind of programme has increased steadily over recent years and was budgeted at around USD 650 million in the fiscal year 2007, compared with around USD 100 million in the early 1990s.
 - In 2006, the EU established a broadly similar programme, the European Globalisation Adjustment Fund (EGF), which will provide funds of up to €500 million per year over the period 2007

Protectionist Responses to the Twins: Projected Features/Trends #3 (Incipient Evidence of Increased Protection) (Bussiere et al, 2020)

- Since the intensification of the crisis in September 2008, a non-negligible number of protectionist measures have been announced or implemented worldwide.
 - *While it is difficult to provide an exhaustive list, the Global Trade Alert –an initiative of a network of five independent research institutes across the world– monitors and publicly reports many state measures that have been taken during the current global downturn and are judged likely to affect foreign commerce.*
 - *Despite the repeated no-protectionism pledges, according to the Global Trade Alert, in the 14 months from November 2008 to December 2009, 390 trade-damaging state measures were announced or implemented by G20 members, plus several more by non-G20 members.*
 - *Over the same period of time, the G20 passed only 56 measures that benefited importers.*
- While the increase in measured protection still remains arguably limited and of low economic impact, in an economic environment that risks deteriorating further, the most crucial danger is that countries start retaliating against each other, leading to a spiral of ever more threatening restrictions and tensions (such as the one shown in the contemporary US-China trade tensions/wars)
- A source of additional pressure for more protection may arise from financial markets.
 - *In response to the financial crisis, many governments are taking initiatives to stabilise the domestic economy by imposing capital controls as well as inward-oriented measures on banks and other financial services firms, such as requiring them to curb foreign lending and boost domestic credit.*
 - *Such domestic-oriented finance measures fragment the international financial system while also disrupting trade and direct investment abroad.*

Possible Impacts/Scenario to Indonesian Economic Situation

