

# Meanwhile, Across the Pacific

A Publication of BMO Capital Markets Economic Research · Douglas Porter, CFA, Chief Economist, BMO Financial Group

No country has escaped the coronavirus' clutches as it makes its way around the world... again. Every economy has recovered, in varying degrees, but **health officials, governments and central banks are still struggling to bring the virus under control and to minimize permanent damage to the economy.** So, **other also-important areas** that require attention, such as **trade, have been relegated to the side burner.**

Take the **U.S.** for instance. The incoming Biden Administration is already under pressure to soften its stance with China, with the Business Roundtable calling on the president-elect to start "*unwinding the tariffs*", while the Chamber of Commerce added that both the U.S. and China should "find the political space to pull back tariffs that are currently in place." But Joe Biden cannot do anything because he is not the president— yet. Besides, the Republicans have not acknowledged the 2-week-old election loss so the transitioning hasn't even begun.

**Britain** managed to hammer out a trade deal with **Japan** this summer and now, talks with **Canada** are in the "*advanced stage*", with hopes for a deal before year-end. While this is good news, Britain has yet to arrive at a trade arrangement with the **EU** after it officially leaves on December 31. The EU is the destination for half of U.K.'s exports, and half of the U.K.'s imports come from the EU.

Then there's **fiscal support.** While the **U.K. Treasury** has the BoE's back, it's not the case elsewhere. The **U.S. Treasury** has refused to extend the Fed's emergency credit facilities. And in the EU, while there is broader support, it is a bit more complicated. As a number of European countries are shut down again for a month, threatening the economic recovery, **Hungary and Poland are blocking the passage of the €1.8 trln EU 7-year budget and Recovery Fund.** The countries are protesting the use of the "*rule of law*" clause, which specifies that funding is conditional on a country's respect for the rule of law.

Nero is certainly fiddling away. Meantime, in the midst of this mess, 12 Asian countries, including China, managed to sign the **Regional Comprehensive Economic Partnership.** Also known as the RCEP, it is a free trade agreement that involves 30% of the global population, and will cut up to 90% of tariffs on imports between all of these countries in the next two decades.

At least something has been accomplished.

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