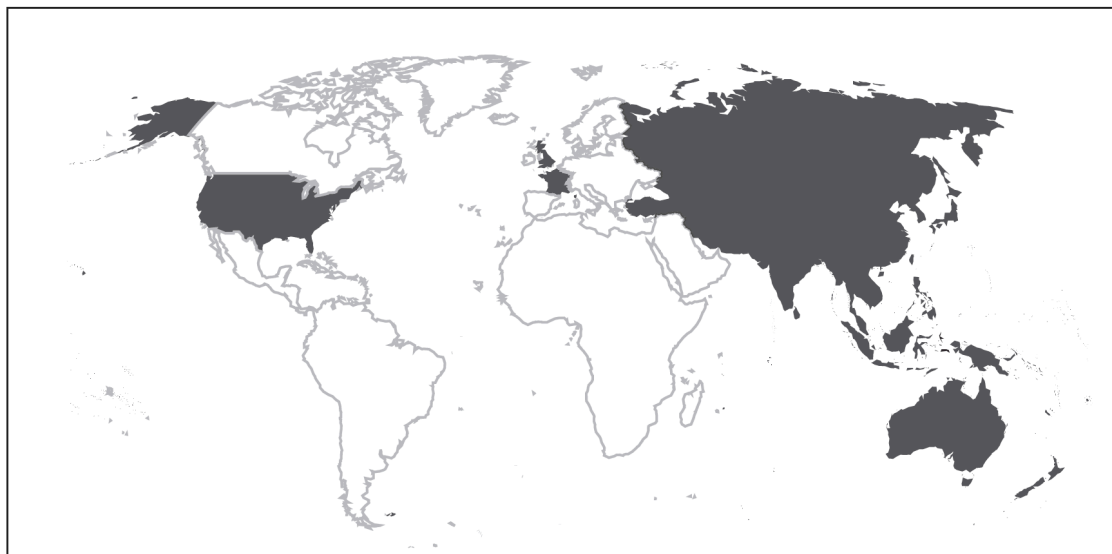


# ASIA-PACIFIC TRADE AND INVESTMENT TRENDS

## 2020/2021

*Trade in Goods Outlook in Asia and the Pacific*





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## ACKNOWLEDGEMENTS:

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## Highlights

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- Global and regional merchandise trade have faced significant downward pressure throughout 2019 and 2020. The emergence of the COVID-19 pandemic, coupled with increasing trade tensions and an already slowing global economy, have paved the way for the world's worst economic performance since the Great Depression, with global international trade value estimated by ESCAP to dip by 14.5% in 2020.
- Despite facing a sharp decline in merchandise trade, Asia and the Pacific is expected to perform better than the rest of the world during 2020, with the most recent forecasts pointing to a lower export and import value contraction of 9.7% and 10.3%, respectively. As a result, the region's prominence in global merchandise trade is expected to rise to an all-time high in 2020; 41.8% of the world's exports and 38.2% of global imports are expected to come to or from Asia and the Pacific. This will be up from 39.9% and 36.9% in 2019.
- However, trade performances will be uneven across the region. Excluding China, developing economies will be hit the hardest by the current pandemic: their exports and imports are expected to decline 15.8% and 17.1%, compared with 10.1% and 8.8.% for developed ones, respectively. The poorer trade performance of developing economies is closely linked with their weak ability to implement fiscal and monetary measures, their reliance on travel and tourism services, as well as their limited digital-trade readiness.
- Of the Asia-Pacific region's subregions, South and South-West Asia will post the worst overall trade contraction (21.6% and 21.4% fall in exports and imports, respectively). However, due to a sharp fall in oil prices, North and Central Asia will post the worst export performance (a 24.4.% decline). On the other hand, despite a better-than-average export performance, South-East Asia will face the largest import contractions (a fall of 22.1%). The Pacific will follow wider-regional trends with its exports and imports contracting 7% and 9.5%, respectively, while East and North-East Asia (mostly due to China's trade recovery) will perform the best with a trade decline estimated at 5.5%.
- Looking at the available half-year statistics for sector-wise trade performances, trade in fuels and mining products have fallen the most, while agricultural products have performed the best. This is a result of the continued need of consumers for essential products and the steep decline in input demand. Manufactured goods have experienced roughly the same decline as total merchandise trade, pressured by a fall in final consumption of non-essential products, but boosted by heightened demand for medical equipment, pharmaceuticals, PPE as well as digital goods.

- Comparing pre-pandemic trade forecasts with the most recent estimates for the rest of the year, ESCAP estimates that Asia and the Pacific will forego US\$2.2 trillion in potential trade during 2020. Globally, this loss is expected to be US\$6.6 trillion.
- In 2021, merchandise trade volumes are expected to rebound: globally by 7.2%, and in Asia and the Pacific by 5.8% and 6.2% in terms of real exports and imports, respectively. This means that despite growing optimism based on the expected roll-out of COVID-19 vaccines and the continued policy efforts to support recovery, trade is still expected to remain below pre-pandemic levels in 2021.
- In fact, in the near-term, the path towards full trade recovery remains highly uncertain. Indeed, macroeconomic conditions remain unfavourable for many Asia-Pacific economies; high unemployment rates, deflation, indebtedness and geopolitical tensions are among the structural factors hindering the recovery of countries. For small economies, the path towards full economic recovery may also be challenged by the potential permanent damage done to the travel and tourism industries, which are their major sources of income and employment. These downside pressures signal a potential sluggish recovery in 2021.
- Over the medium-to-longer term, two main trends will affect trade – GVC restructuring and the digitalization of the global economy. While GVC restructuring induced by the pandemic and increasingly stringent protectionist policies may create downward pressure on the global economy via increased costs and inefficiencies, the latter will open new opportunities. However, as countries' digital-trade readiness varies widely the digital revolution will have an uneven impact, with a risk that developing economies with limited information technology infrastructure as well as human resources with digital literacy will fall further behind.
- These trends are likely to cause significant structural shifts, both across and within economies. To address these challenges, complementary policies will be necessary on social protection and education as well as in other areas covering new issues such as data protection and privacy, cybersecurity, e-commerce and other electronic transaction tax. This will be vital to allowing Asia-Pacific economies to fully capture the benefits from inclusive and sustainable digital-trade growth. In that regard, future trade agreements and cooperation initiatives should be as comprehensive as possible and should address digital trade-specific challenges, with a focus on harmonization and reducing regulatory barriers. Furthermore, developing economies, particularly in graduating least developed countries, should proactively participate in related paperless trade initiatives and frameworks, in order to fully benefit from the digitalization of trade and the economy.

# 1. Trade performance in 2020

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Global and regional merchandise trade have faced significant downward pressures throughout 2020. According to the International Monetary Fund (IMF), the emergence of the COVID-19 pandemic and increasing trade tensions have hit the world economy hard, while paving the way for the world's worst economic and international trade performances since the 'Great Depression' (IMF, 2020b). Indeed, after a sluggish 2.9% GDP growth in 2019, the IMF now estimates that the world economy will contract 4.9% throughout 2020 (IMF, 2020c). Concomitantly, ESCAP estimates that global trade values are expected to fall by 14.5% in 2020 (figure 1).

In Asia and the Pacific, the region's GDP<sup>1</sup> is expected to follow the global economic downturn, contracting by 1.9% in 2020 after growing 4.0% in 2019. As a result, despite outperforming the rest of the world, regional trade is expected to face a sharp decline throughout the year, with regional exports and imports nominally falling 9.7% and 10.3%, respectively, and 6.1% and 3.9% in real terms, respectively. Due to the region's better-than-average performance, the prominence of Asia and the Pacific in global merchandise trade is expected to rise to an all-time high in 2020; 41.8% of the world's exports and 38.2% of global imports are expected to come to or from the Asia-Pacific region, up from a 39.9% and 36.9% share of global exports and imports in 2019, respectively.

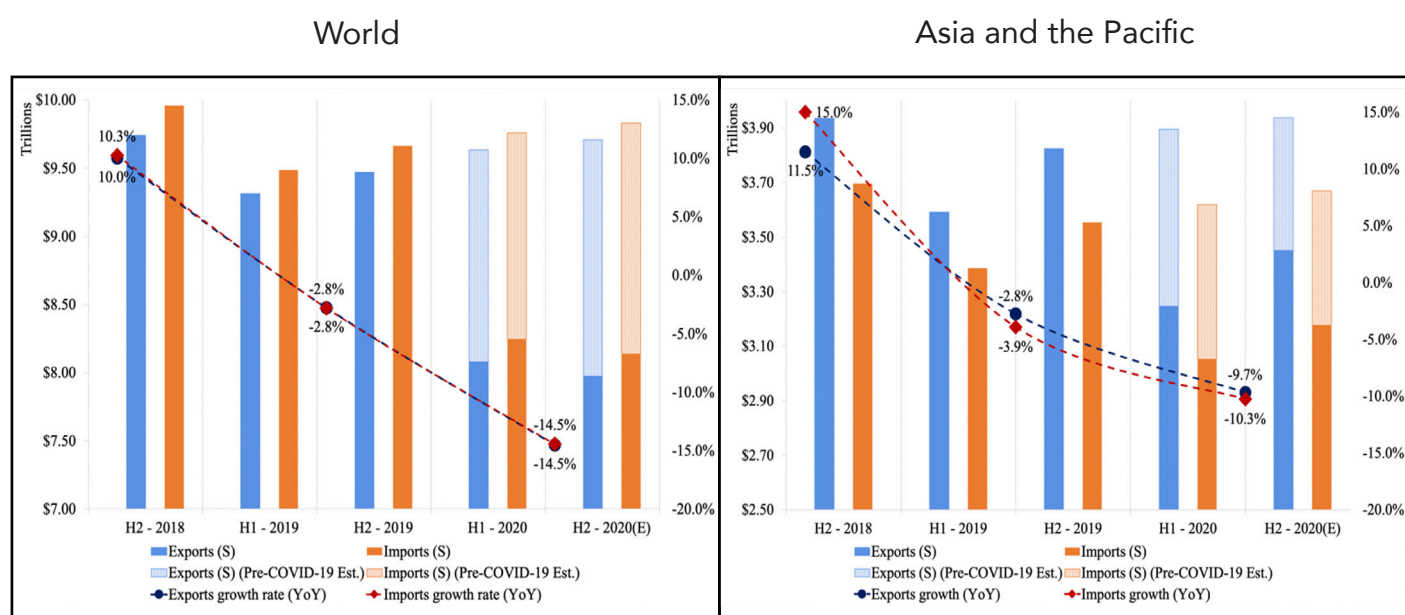
Comparing the pre-COVID-19 pandemic forecasts for merchandise trade in 2020 with the latest available estimations for the year,<sup>2</sup> ESCAP estimates that Asia and the Pacific has lost US\$2.2 trillion in potential trade this year. Globally, this toll amounts to a staggering US\$6.6 trillion in foregone trade.

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1 Asia and the Pacific GDP growth in 2019 and 2020 was calculated by combining the latest GDP growth data and forecasts – when available from the Asia Development Bank (ADB, 2020) database updated in September 2020 and otherwise from the IMF World Economic Outlook June Update (IMF, 2020c) – with the World Bank GDP (at constant prices) data. Of the 59 ESCAP members the following 18 economies were not included due to the lack of data: American Samoa, Bhutan, Cook Island, People's Democratic Republic of Korea, French Polynesia, Guam, Islamic Republic of Iran, Macao China, Marshall Islands, Federated States of Micronesia, New Caledonia, New Zealand, Niue, Northern Marianas Island, Palau, Tonga and Turkmenistan. Together, these economies account for a marginal share of the region's total GDP; therefore, including them would not produce significant changes in the final estimations.

2 In 2019, the WTO forecast 1.5% and 1.3% merchandise export and import growth, respectively, for global merchandise trade in 2020 (WTO, 2020a). In turn, ESCAP (2019) was predicting a stronger 2.2% and 2.8% export and import expansion for Asia-Pacific, respectively, for the current year. Thus, in order to calculate the impact of the COVID-19 pandemic on international trade, those forecasts have been considered here against the latest trade values available (H1-2020) and forecasts (H2-2020) in order to estimate foregone exports and imports globally and regionally.

Figure 1. Nominal global and Asia-Pacific region merchandise trade performance



Source: ESCAP calculation, based on quarterly trade data available from the WTO database (accessed October, 2020) and annual data from the Economist Intelligence Unit (accessed October, 2020).

Note: (S) stands for semi-annual, YoY stands for year-on-year. Pre-COVID-19 Est. are based on WTO (2019) and ESCAP (2019) estimates for international merchandise trade in 2020, as explained in footnote 2. (E) stands for estimate, since it reflects ESCAP forecasts for 2020.

Trade performance across the region has been uneven in 2020. For the second time in the past decade only, trade in developed economies is expected to outperform that of developing economies. Indeed, Australia, Japan, the Republic of Korea and New Zealand together with China have driven most of the region's relatively resilient trade performance in 2020. In fact, excluding China, export and import volumes in developing Asia-Pacific are forecasted to drop 8.1% and 12.5% in real terms (15.8% and 17.1% nominally), while developed economies in the region are expected to withstand a much lower 6.1% and 1.0% fall (or 10.1% and 8.8% nominally), respectively. In turn, by the end of the year, China is expected to record a stagnant performance in terms of its export and import values (0.8% and 0.2% fall, respectively), while registering a real 3.2% export contraction and a 7.1% import expansion. Box 1 reviews some of the defining factors that have driven these diverging trends.

### *Box 1. Trade performance and COVID-19: What drives trade resilience?*

Understanding trade resilience under the COVID-19 pandemic is a key policy exercise for rebuilding stronger and better prepared economies for future crises. Hence, based on this analysis, three main factors were identified as underpinning the region's diverging trade performances: (1) fiscal and monetary measures; (2) economic reliance on travel and tourism services; and (3) digital capacity and readiness.

First, government interventions have played an unprecedented role during the COVID-19 pandemic. Regional upper-middle and high-income economies such as China, Japan and Republic of Korea, among many others (IMF, 2020a), have launched expansionary fiscal and monetary policies in order to prop up their domestic economies. However, Governments in low-income developing nations are under much tighter fiscal and borrowing constraints, being unable to support their economies via macroeconomic interventions (The Economist, 2020a). Moreover, automatic stabilizers that help to smooth out economic fluctuations are all but absent for large parts of the population in developing economies who work in the informal sectors (UNCTAD, 2020c). As a result, demand in high-income economies has held-up significantly better than in their counterparts, which explains why imports have fallen by less than half in developed economies compared with developing ones.

Second, well-diversified economies have proved to be the most resilient against COVID-19. More specifically, economies that are highly reliant on tourism and travel services, as well as on remittances, suffered the most as tight border controls and movement restrictions paralyzed goods and people (ESCAP, 2020). The tourism industry alone is forecasted to lose between US\$0.9 trillion and US\$1.2 trillion in revenue (a 60% to 80% fall, relative to 2019). This loss is expected to hit small Asia-Pacific developing economies the most, as one-third of them rely on tourism for more than 4% and up to 75% of their GDP. Accordingly, developing economies are expected to face an uneven heavy impact on their economies with a direct translation on their import performances this year and beyond (ESCAP, 2020).

Third, a strong digital capacity is a vital element in responding to COVID-19 since it allows countries to resume economic activities faster and to tap the full benefits of an accelerated digital transition. However, developing economies have a much lower share of jobs that can be performed remotely, while their Internet penetration is often significantly lower (OECD, 2020), indicating a growing digital divide. As a result, economies that are ill-prepared to deal with a more digitalized economy are expected to experience deeper and more prolonged recessions following the pandemic. On the other hand, as businesses have been forced to work remotely and consumers have been pushed to buy online, demand for digital-related goods and services has increased exponentially. Accordingly, economies such as Japan, the Republic of Korea and China – which are dominant in supplying technological goods regionally – have benefited from a resilient export demand and performance throughout 2020.

Looking at trade growth across subregions, South and South-West Asia will be the worst performing subregion of all, with its export and import values forecast to dip 21.6% and 21.4%, respectively, during 2020. The subregions' performance was mostly affected by export contraction in Turkey (26.6%) and the Islamic Republic of Iran (42.2%) as well as by large import dips in India (23.6%), Turkey (19.6%) and Bangladesh (21.3%).

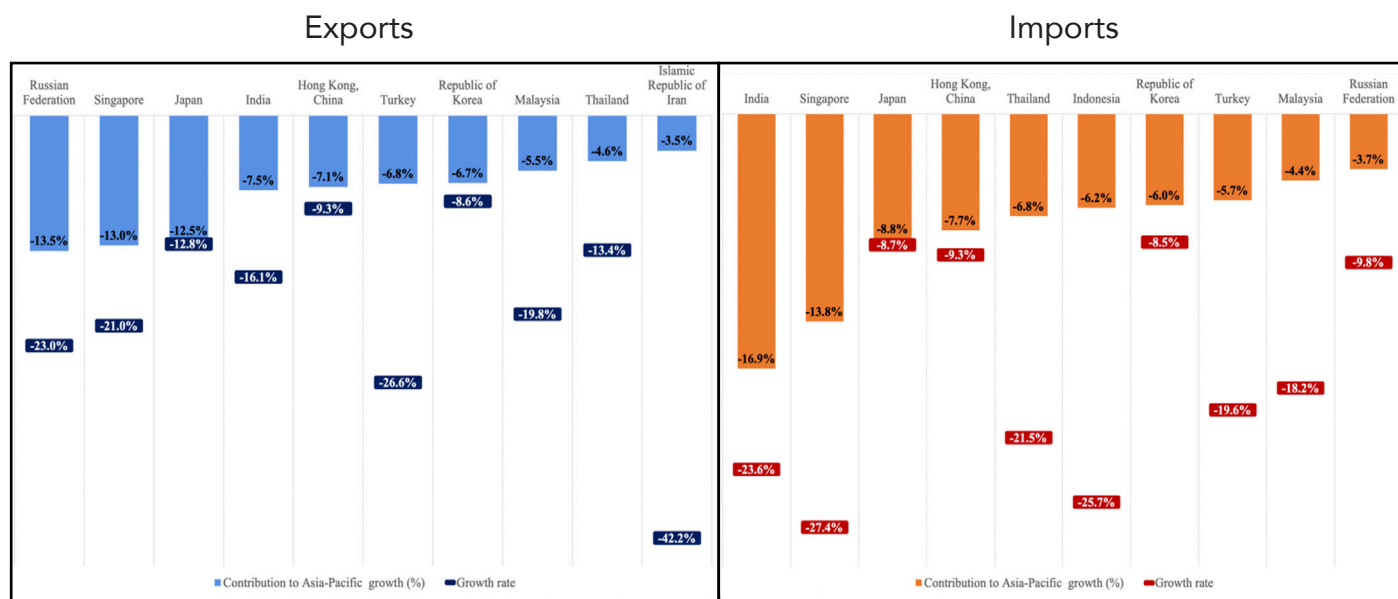
However, despite a better import performance ("only" a 12.1% fall), North and Central Asia is set to register the sharpest export contraction (24.4%) due to an incisive fall in crude oil prices. This trend was mostly shaped by the performance of the subregion's largest economy – the Russian Federation – for which export and import values are expected to fall 23.0% and 9.8%, respectively.

South-East Asia's export decrease will be less dramatic than that of other regions (17%), with the export performance of Indonesia (12.7% export fall), Thailand (13.4%) and Viet Nam (13.9%) countering Singapore (20.9%), the Philippines (20.5%) and Malaysia (19.8%). On the other hand, the subregion's import contraction (22.1%) will be the largest of all the subregions. Singapore led the subregion's poor imports performance (28.3%) – reflecting its role of a major transportation hub amidst a merchandise trade slowdown – followed by Indonesia (24.3%) and the Philippines (23.6%).

The Pacific subregion will follow wider regional trends mostly driven by the 21.1% and 13.6% export and import declines, respectively of Australia. Moreover, East and North-East Asia will be the best performing subregion (5.5% trade fall) mostly supported by China's robust trade performance. Figure 2 highlights the top contributors to Asia and the Pacific export and import falls. Among them, the Russian Federation, Singapore, Japan, the Republic of Korea and Hong Kong, China, accounted for more than half of the region's export value decline. Likewise, India, Singapore, Japan, the Republic of Korea, Hong Kong, China did the same in terms of Asia and the Pacific import contraction.

Across different sectors, based on observed half-year trends, trade in fuels and mining products has fallen the most, while agricultural goods have been more resilient (WTO, 2020a). Naturally, these patterns reflect the continuing need among consumers for essential products such as food as well as the steep decline in the demand for inputs following the global production downfall. In addition, a recent disagreement among the members of the Organization of Petroleum Exporting Countries (OPEC) has pushed demand and supply in opposite directions, squeezing oil prices to 20-year lows. This has left oil-dependent nations in Asia-Pacific (especially the Islamic Republic of Iran, the Russian Federation and Indonesia) in a fragile position in

Figure 2. Ten largest contributors to merchandise trade decline in Asia-Pacific region economies, 2020



Source: ESCAP compilation, based on EIU data (accessed October, 2020).

Note: The top 10 economies that have contributed the most to Asia and the Pacific export and import declines were selected.

facing the COVID-19 pandemic. On the other hand, manufactured products have experienced approximately the same decline as the total merchandise trade, as a result of a fall in consumer demand for many non-essential products, but boosted by heightened demand for medical equipment, pharmaceuticals, personal protective equipment (PPE) as well as digital-related goods such as computers, integrated circuits and smartphones.

ESCAP anticipates a slight recovery of international trade during the second half of the year. From July to December 2020, merchandise trade value in the region may pick up by 5.2% compared with the previous six months. However, the overall trade trend in 2020 still tends to be significantly lower than the pre-pandemic level. Furthermore, as the pandemic's fallout remains very difficult to predict, and as the possibility of a second- (and third-) wave looms, the recovery of the global economy by the end of the year remains highly uncertain – and unlikely. Box 2 explores how domestic spending and trade have contributed to changes in economic output in selected regional economies during 2020.

### Box 2. A downfall in perspective – domestic spending, trade balance and GDP

A country's overall economic performance (i.e., its GDP growth) can be decomposed into two main components – domestic spending and net trade contribution. The first component reflects an economy's aggregate demand for goods and services, regardless of where they were produced. The second component adjusts the country's GDP to its corresponding international trade position; if a country exports more than it imports, meaning that the country is a net seller of goods to the world, it will have a positive net trade contribution.\*

The box 2 figure shows that lower domestic spending dominated the region's economic downfall. In fact, the Asia-Pacific region's aggregate GDP contraction\*\* (1.9%) can be directly attributed to the decline in domestic spending in the region, since imports and exports with the rest of the world fell by approximately the same amount: the region's merchandise trade surplus is expected to decline by only 1.6%. Furthermore, despite the region's services trade deficit being cut in half during 2020, its already small size (US\$193.1 million in 2019) means that this will produce only mild impacts on the region's economic growth (0.2%).

More specifically, Australia (- 4.9%), Japan (- 4.9%) and Hong Kong, China (- 4.8%) registered the heaviest domestic spending losses. However, while most Asia-Pacific economies faced a simultaneous domestic and foreign demand contraction – reflected in their negative net trade and domestic spending contributions – the GDP losses of India, Singapore, the Philippines and Indonesia were entirely attributable to declines in domestic spending. Indeed, these economies actually experienced a trade balance improvement. Only three Asian economies experienced positive domestic spending growth – Viet Nam (2.1%), China (1.0%) and Kazakhstan (0.6%). However, while China and Viet Nam posted GDP growth, Kazakhstan's foreign demand deterioration – mostly from the Russian Federation – completely offset the country's positive services and domestic performance.

\* There are two ways of reading the box 2 figure and both are relevant to a deeper understanding of the current shock. Looking at the classic macroeconomic definition of GDP growth rate,

$$\Delta GDP(\%) = \frac{\Delta \text{Domestic Spending} + \Delta(X - M)}{GDP^{2019}} \quad (1)$$

It shows that a country's total production can change due either to a drop in domestic spending (public and private consumption and investment), or in relative foreign consumption  $\Delta(X-M)$ . The term relative herein refers to the fact that we are looking at a country's total net trading position – i.e., exports deducted from imports. In the case of large negative shocks like COVID-19 causing both exports and imports to fall, relative foreign demand increases as long as imports fall faster than exports. Rearranging the terms in (1):

$$\frac{\Delta \text{Domestic Spending}}{GDP^{2019}} = \Delta GDP(\%) - \frac{\Delta(X - M)}{GDP^{2019}} \quad (2)$$

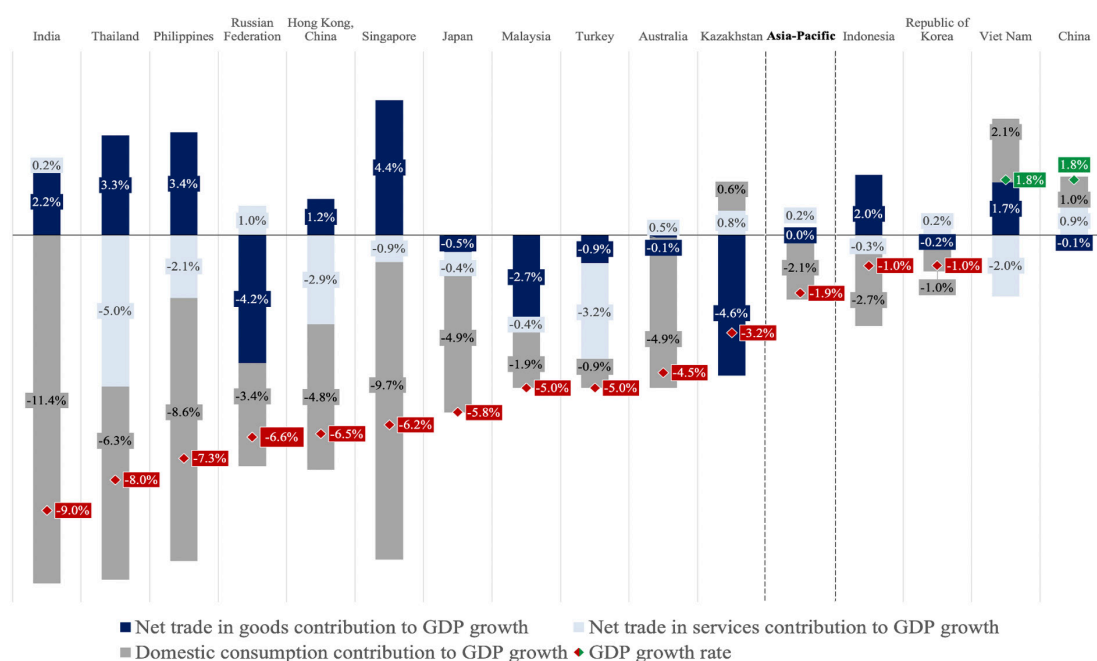
This equation can be read accordingly: A fall in domestic spending can either be absorbed via a lower domestic production (GDP) or via lower consumption of goods and services abroad.

\*\* In this context, Asia-Pacific is considered as the cumulative of all the economies selected in the box 2 figure.

Further examining the role of goods and services trade, it is possible to identify the fact that the former has played a much more significant role than the latter. Naturally, this is linked to the prominence of merchandise trade in the region, which, in terms of total value traded, amounts to four times the size of services trade. In particular, the Russian Federation (- 4.2% net goods trade contribution), Malaysia (-2.7%) and Kazakhstan (- 4.6%) suffered the most with the global drop in demand for goods, especially intermediate goods. On the contrary, India (2.2% net goods trade contribution), Thailand (3.3%), the Philippines (3.4%), Singapore (4.4%), Indonesia (2.0%) and Viet Nam (1.6%) saw their relative trading position help smooth out domestic spending dips.

Economies like Thailand (-5.0% net services trade contribution), Turkey (-3.2%), Hong Kong, China (-2.9%), the Philippines (-2.1%) and Viet Nam (-2.0%), faced severe economic consequences from a foreign services demand decline during 2020. Indeed, Thailand – the largest exporter of travel services in the region – followed by the Philippines and Viet Nam, suffered the most from the collapse of international tourism in the region. On the other hand, Turkey, Viet Nam and Hong Kong, China – all important trading and transport hubs – reflected the global merchandise trade downfall via lower transport services trade.

**Box 2 figure. GDP 2020 growth decomposition into domestic spending and net trade in goods and services contributions – selected economies**

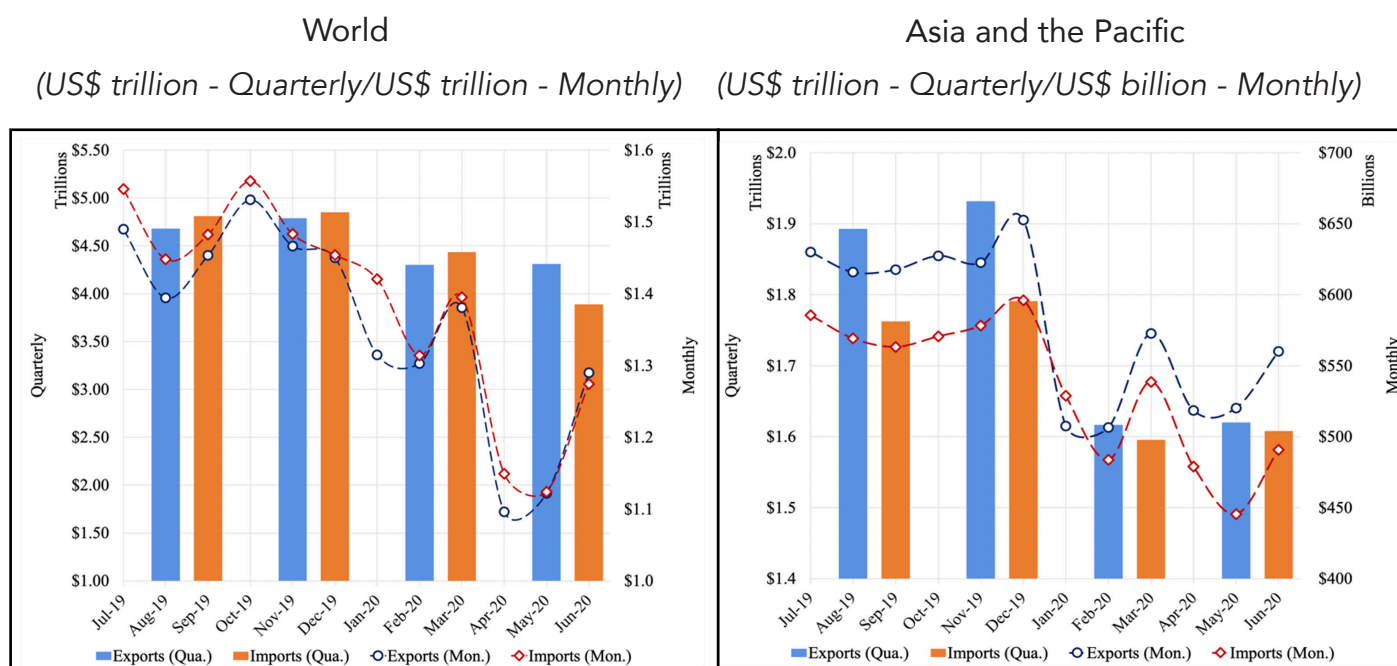


Source: ESCAP calculation, using data from EIU, World Bank, IMF and ADB (accessed October, 2020).  
 Note: Net trade is the difference between exports and imports – in other words, the trade balance. 'Net trade contribution to GDP growth' is the share of 2020 trade balance changes to 2019 GDP. 'Domestic consumption contribution to GDP growth' was computed as the difference between the GDP growth rate forecast and the 'Net trade contribution to GDP growth' according to equations (1) and (2). All Asia-Pacific economies with available data for all metrics were selected.

## 2. The COVID-19 pandemic and trade in Asia-Pacific region: A closer look

The rise of the COVID-19 pandemic has brought the world economy to a halt. In two different phases – first in China and later globally – stay-at-home orders imposed to curb the spread of the disease drastically hurt private consumption and investment. Furthermore, border closures and a restricted flow of goods, services and people severely disrupted economies' supply-side capacity and with-it global value chains (GVCs) (UNCTAD, 2020c). Accordingly, merchandise trade flows in 2020 reacted concomitantly, dipping twice during the first two quarters of the year – first in January/February and later in April/May (figure 3). However, while the initial shock of the pandemic was mostly an Asia-Pacific driven phenomenon, the later dip affected both regional and global flows.

Figure 3. Merchandise trade: Quarterly and monthly performance



Source: ESCAP calculation, based on WTO quarterly and monthly data (accessed October, 2020).

Note: (Qua.) stands for quarterly data; (Mon.) stands for monthly data. Available quarterly and monthly data for the World encompasses an estimated 95% and 92%, respectively, of global trade. For Asia and the Pacific these figures are around 98% and 96% of total regional trade, respectively.

### 2.1. First quarter: COVID-19's first hit

During the first quarter of 2020, the Asia-Pacific region was one of the main contributors to the global exports and imports collapse. From January to March,

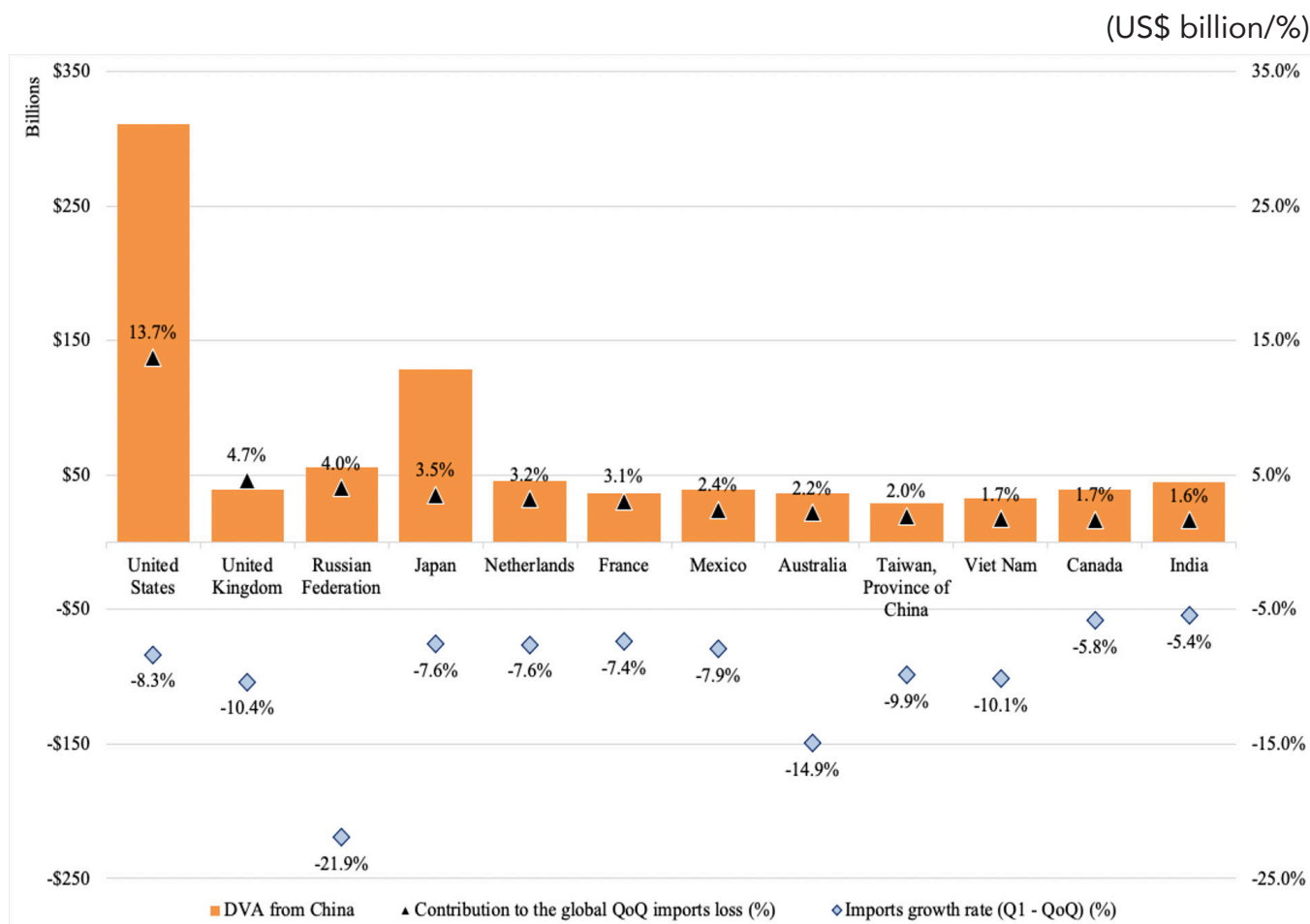
the region contributed directly to more than half of the world's total exports' value decline, plunging by 7.6% compared to 6.2% globally. Moreover, despite the region's better-than-average imports performance – a 3.4% fall compared to a 5.3% global dip – the world's generalized drop in imported merchandise can be closely connected to supply-chain disruptions in the region. Indeed, both directly – via lower exports and imports – and indirectly – via supply-chain disruptions – the pandemic's early economic impacts were strongly felt throughout the region and shaped trends across the globe.

Behind the region's deteriorating first-quarter trade performance was China's early fight against the COVID-19 pandemic. Indeed, as China's strict lockdown measures halted the country's manufactured goods production – especially in January and February – exports from this economy as well as from neighbouring Hong Kong, China fell by a staggering 13.4% and 10.3% year on year, respectively. Together, China and Hong Kong, China were responsible for 30% of global quarterly export losses. As a result, foreign economies which are highly integrated through GVCs with China – the largest production node in the world – immediately felt the impacts of such a large-scale disruption, both via lower imports due to direct suppressed exports from China, and via diminished exports to third parties due to missing components from China. While the pandemic's spread to Europe and North America from early to mid-March can help to explain some of the import downfall reported herein, high-frequency data analysis suggests that significant import declines were registered through January and February. That is when China's supply-chain disruptions were the main downside driver in global trade.

ESCAP found that the 12 economies contributing the most to the global imports' downfall – excluding China and Hong Kong, China – were among the 15 most integrated with these two economies (in terms of total value-added arriving from China and Hong Kong, China). These economies, listed by contribution to the global quarter-over-quarter import losses, were the United States, the United Kingdom, the Russian Federation, Japan, Netherlands, France, Mexico, Australia, Taiwan Province of China, Viet Nam, Canada and India (figure 4).<sup>3</sup>

<sup>3</sup> A quarter-over-quarter analysis is used exceptionally in order to isolate the COVID-19 short-term impacts. However, for Viet Nam and Taiwan Province of China, yearly growth rates (provided elsewhere in this report) give a better picture of these economies' performance. This is due to the fact that both economies follow China's yearly Chinese New Year export downturn. Despite illustrating China's supply-chain influence on foreign economies' goods imports, this is a structural rather than episodic feature not attributable to the virus. On the contrary, in the case of the Russian Federation a quarterly analysis is deemed more illustrative of the impact of COVID-19, since the country's year-on-year performance incorporates strong imports growth verified during 2019 (explored above). All other nations did not display sizeable differences.

Figure 4. Imports decline in the first quarter (2020) and supply-chain integration with China and Hong Kong, China – highest contributors



Source: China's forward integration figures were extracted from the ESCAP-FEALAC database on GVCs linkages (accessed October 2020). World import statistics were sourced from the WTO database. Note: DVA stands for Domestic Value-Added; QoQ stands for quarter over quarter. The top 12 contributors to the world's quarter-over-quarter imports' plunge were selected.

One of the most prominent examples of this export squeeze occurred in the vital PPE and medical equipment industries. According to Bown (2020), in the early months of 2020, following the emergence of the pandemic, demand for these types of goods surged exponentially. China – the largest supplier of medical equipment and PPE, accounting for some 50% of the world's total exports – was also under pressures to divert from exports to meet growing domestic demand (Bown, 2020; WTO, 2020a). As a result, prices of PPE and medical gear ballooned in the first quarter of the year, leaving many developing economies struggling to purchase essential medical supplies.

On the other hand, China's vital role in providing intermediate goods to GVCs produced sizeable impacts in January and February, when supply-chain disruptions

ensued. In particular, the automobile industry – with 80% of global car production involving at least some components manufactured in China – suffered from a severe trade contraction in the earliest months of the year; this is a clear example of supply-chain contagion. Indeed, as the pandemic evolved into a country-wide lockdown, Hyundai factories in the Republic of Korea and Nissan in Japan were shortly afterwards forced to a halt due to missing components coming from China (Shepherd, 2020). Ultimately, as consumer demand in China picked up and supply-chain disruptions were resolved, trade in the sector was able to recover. However, gains in this industry were short-lived as the pandemic’s global spread once again turned on it (Han and Jung, 2020).

While China’s exports dropped drastically in the first quarter of 2020, the country’s imports performed relatively well. Imports in China fell only moderately (2.9%) due to a combination of several factors – the relatively robust demand in China, the pandemic’s lagged effects on import orders<sup>4</sup> and a heightened demand for essential products (medical equipment, apparel, food and basic consumer products) (UNCTAD, 2020b). Moreover, as consumers were forced to stay at home, the rise of e-commerce in China as an alternative for brick-and-mortar retail helped to maintain some of the country’s imports, with major retailers registering record growth (Ji and Zhang, 2020).

China is the largest regional market for other Asia-Pacific economies, absorbing approximately one-fifth of the rest of the region’s exports. As a result, even a moderate slowdown in China, together with falling oil prices – especially important for the Russian Federation and the Islamic Republic of Iran (UNCTAD, 2020b) – and a simultaneous trade slowdown in other GVC hubs, significantly affected export volumes of other nations. In particular, the Russian Federation (5.2% export fall), India (12.9%), the Islamic Republic of Iran (47.4%), Japan (2.6%) and Australia (6.4%) accounted for the largest share of the region’s exports decline, together representing more than 15% of global losses. Some notable exceptions to these trends include the trade growth registered in Viet Nam (7.7% export and 3.5% import growth) and Taiwan Province of China (2.9% and 2.4%, respectively). These economies’ positive year-on-year trade performances starkly contrast with the overall regional and global trends. Furthermore, the Republic of Korea – which is highly integrated with China and the rest of the region through GVCs – has also held up relatively well. Trade in the Republic of Korea contracted marginally by 1.8% and 1.4% in terms of export and import values, respectively. These economies’ first quarter robust trade performances

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4 As Zhou Hao explains (Wong, 2020), this pandemic’s initial impacts resembled a supply-side shock whereby exports fluctuate faster than imports due to supply-chain disruptions’ lagged effects, while exports immediately plummet after production stops, imports reflect purchases that occurred before and, many times, well in advance of the shock.

– when COVID-19 was largely confined to China – reflect their ability to harness gains as alternative GVC supply nodes to China. Such an ability has become particularly rewarding since United States-China trade tensions accelerated in 2018/19 (ESCAP, 2019).

## 2.2. Second quarter: From local outbreak to global pandemic

In the second quarter of 2020, the world registered record-breaking 20.1% and 20.7% contractions of merchandise export and import values, respectively. This severe downfall came as a result of the ‘Great Lockdown’, which at its peak in early April encompassed more than half of the world’s population (Sandford, 2020). As a result, economies experienced a wide-spread drop in both business and consumer confidence (UNCTAD, 2020c) as well as extreme downward pressure on domestic demand and supply capacity utilization.

Nevertheless, Asia and the Pacific performed relatively better than the rest of the world. The region’s exports and imports fell by 11.6% and 16.1%, respectively, in the second quarter.<sup>5</sup>

However, the region’s lower trade contraction was mostly supported by China and Hong Kong, China, which were able to gradually reopen on-site production, just as most nations went in the opposite direction. China and Hong Kong, China, registered almost all of the world’s exports gains during the second quarter of the year, growing 0.2% and 2.1% year-on-year, respectively. Exports of PPE and medical gear as well as digital-related products were particularly important for these economies’ speedy trade recoveries. In contrast, many other major trading economies in the region suffered substantial export contractions – Japan (23.7% export dip), the Russian Federation (32.2%), India (36.7%), the Republic of Korea (20.3%), Turkey (26.0%) and Malaysia (17.6%). Together these economies accounted for 15% of global losses and covered more than 80% of the regional exports dip.

Despite a better-than-average Asia and the Pacific import performance (16.1%), the region’s import drop was significantly more accentuated than its export fall because of two concurring trends. First, while China’s second quarter exports recovery supported

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<sup>5</sup> The rest of the world suffered the most from the onset of the pandemic during April to June 2020. In particular, European economies such as Germany (25.1% year-on-year export decline), France (35.7%), Italy (29.1%), the Netherlands (17.6%) and Spain (29.5%) as well as the United States (29.8%) and its main trading partners – Mexico (37.5%) and Canada (33.4%) – accounted for 50% of the global exports losses. Globally, imports broadly followed export declining patterns, with Europe and North America once again being responsible for some 50% of the global import decline.

many of the heavy export losses suffered elsewhere, the economy's weak domestic private consumption – mirrored by weak retail sales – (Bradsher, 2020) resulted in a 14.1% import contraction that weighed in on the overall regional average. Second, all other regional economies for which second quarter data are available saw significant import falls during this period. India's imports fell 53.5% and accounted for more than a quarter of the region's total imports losses. Next, South-East Asian economies were also responsible for a quarter of the region's losses, with most economies' imports dipping by around 20% year-on-year, except for the Philippines (- 45.0%) and Viet Nam (10%). Last, East Asian economies like Japan (14.1%) and Republic of Korea (15.8%) also logged heavy import losses despite slightly outperforming the rest of the region.

Sector-wise, the second quarter of 2020 saw the aggravation of trends in previous quarters, with global trade of agricultural products dipping 5% year-on-year, fuel and mining products declining by 38% and manufactured goods by 19%.<sup>6</sup> More specifically, within manufactured goods, pharmaceuticals (10% growth), textiles inclusive of PPE<sup>7</sup> (9%), and digital products, such as computers and integrated circuits (5%), posted a positive performance throughout the quarter. On the contrary, trade in non-essential goods such as automotive products (a more than 50% export fall), travel goods and handbags (40%), footwear and clothing (30%) as well as overall intermediate products (15%), drove manufactured exports' large contraction (WTO, 2020a).

### 2.3. Third and fourth quarters: A fragile recovery

Early readings from the third quarter of 2020 point to a 4.5% to 6% year on year fall in global merchandise trade value compared to the same period in 2019 (UNCTAD, 2020a; WTO, 2020b). While this is an increase by 11.6% from trade value in the previous quarter, it is still leaving international trade far below its pre-pandemic trade level. This strengthening trend in trade – felt from June onwards – reflects the partial normalization of economic activity around the world as many countries eased lockdown rules. However, growth was largely uneven across regions. More specifically, the Asia-Pacific region appears to be the best-performing region of all, registering all of the world's trade expansions during this period.

Looking at available data for important regional economies, ESCAP estimates that Asia and the Pacific registered a 0.2% export value contraction in the third quarter

<sup>6</sup> Sectoral trade data are not available at the regional and country levels. However, sectoral trade trends in Asia-Pacific region generally follow the global trade trends.

<sup>7</sup> PPE exports alone grew by 92% during the second quarter (WTO, 2020a).

of 2020. The continued resilience of export growth in China (8.8%) and Viet Nam (10.9%) supported this regional performance, with Turkey (0.7%) being the only other nation registering an export rise. China and Viet Nam alone managed to offset the negative export contributions of Japan (11.6%), the Russian Federation (19%), Australia (10.6%), India (6.1%), Singapore (4.6%), the Republic of Korea (3.2%) and Thailand (5.1%) – ordered by registered export value drops. In addition, Hong Kong, China (0.2%), Malaysia (0.8%) and Pakistan (1.2%) performed relatively well, while the Philippines (8.7%) and Indonesia (6.8%) registered much larger exports declines.

Economic and trade performances during the last quarter of 2020 are facing an unusually large amount of uncertainty. Indeed, rapid outbreaks in Europe and the United States – which absorb 36% of Asia-Pacific's exports – as well as in some parts of South-East Asia, Australia and Japan are forcing many countries back into lockdown. Thus, the economic and trade situation are rapidly evolving, and available indicators are less representative of what the future might hold.

Nevertheless, looking at key indicators (WTO, 2020c), merchandise trade in the fourth quarter of 2020 is expected to accelerate slightly. First, the seasonally adjusted Container Throughput Index of September 2020 – a proxy for the volume of goods, which follows trade performance closely – recorded its all-time high after declining for about a year from mid-2019 to mid-2020 (ISL, 2020). This peak – albeit still provisional – highlights the world economy's strong rebound over the third-quarter of the year, while providing a positive signal for the remainder of the year. Furthermore, Chinese ports saw the largest rise in shipping container traffic. The trend emphasizes the prominence of East and North East Asia in the global economic and trade recovery.

Second, the Purchasing Managers Index (PMI) (Trading Economics, 2020) – a composite index measuring manufacturing activity (usually leading export performance by a few weeks) – experienced a marked improvement in October 2020, when only Japan, Malaysia, Indonesia and Hong Kong, China continued to post contractionary figures. All other economies for which data are available indicated an expansionary cycle, with Sri Lanka and India registering exceptionally positive statistics. This gives a hint that exports are likely to continue growing across the region as economies rebound from significant contractions in previous quarters.

Third, however, preliminary air freight data for the first half of October (released weekly) – which usually leads trade performance by as much as two to three months (currently significantly less due to high instability) (WTO, 2020a) – provide a glimpse of what might become yet another trend change. Indeed, according to the WorldACD (2020), air freight data for the first half of October is signalled a stagnation of

merchandise trade globally, already reflecting COVID-19's second wave, which has gained strength in many countries since early November.

## 3. Outlook

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As the World Bank (2020) puts it, "COVID-19 is the most adverse peacetime shock to the global economy in a century." Accordingly, the current pandemic has had major consequences for international merchandise trade flows in the short term, hurting consumers and businesses alike, while reinforcing longer-term trends. This section considers the short-term prospects for recovery in 2021 and the longer-term trend for the region in the light of the pandemic and other continued pressures.

### 3.1. In the shorter term – 2021

In 2021, global and regional merchandise trade is expected to rebound; the WTO (2020a) estimates that global trade volume will increase 7.2% year-on-year, while for Asia and the Pacific, the latest ESCAP estimates point to an overall expansion of 5.8% and 6.2% in export and import volumes, respectively. Accordingly, trade will most likely remain below pre-pandemic levels, despite a considerable recovery from this year's downturn.

In fact, export values in Asia and the Pacific are projected to grow 9.1%, boosted by a 5.8% increase in the volume of exports as well as by a price level recovery of 3.3%. Likewise, imports in the region will bounce back by a larger 10.1%, benefiting from a healthy 6.2% volume growth and a 4.0% price increase. In particular, and mirroring the pandemic's uneven impacts across the region, developing economies are expected to recover more vigorously than developed ones, but more because of base effects. Export and import value in each of these conglomerates is expected to climb 9.7% and 11.6% as well as 7.0% and 5.0%, respectively. These divergences are even starker if China is excluded from consideration, with the rest of developing Asia-Pacific's export and import values growing by 11.4% and 14.1%, respectively (table 1).

Table 1. Merchandise export and import growth for selected Asia-Pacific economies, 2019/2021

	Exports									Imports								
	2019			2020(a)			2021(a)			2019 (a)			2020(a)			2021(a)		
	Value	Price	Volume	Value	Price	Volume	Value	Price	Volume	Value	Price	Volume	Value	Price	Volume	Value	Price	Volume
Australia	5.2	5.6	-0.3	-7.5	-7.4	-0.1	6.2	2.0	4.1	-5.6	-3.8	-1.9	-8.6	-9.0	0.4	8.1	4.2	3.7
Bangladesh	0.2	2.6	-2.3	-21.3	4.1	-24.4	19.2	4.7	13.8	-2.3	-0.3	-2.0	-21.3	1.1	-22.2	17.8	1.7	15.8
China	-0.8	-1.5	0.7	-0.8	2.5	-3.2	7.6	3.3	4.1	-2.4	-2.4	0.0	-0.2	-6.8	7.1	8.0	3.3	4.6
Hong Kong, China	-3.6	1.2	-4.8	-9.3	-3.2	-6.3	7.3	3.2	4.0	-6.1	1.3	-7.3	-9.3	-3.5	-6.0	8.6	1.9	6.6
India	-0.2	-2.7	2.5	-16.1	-8.5	-8.3	10.3	1.5	8.7	-5.8	-2.7	-3.1	-23.6	-8.5	-16.5	17.3	1.5	15.6
Indonesia	-6.8	-2.2	-4.7	-13.1	-8.0	-5.5	6.8	5.0	1.7	-8.8	-5.3	-3.7	-25.7	-9.5	-17.9	15.4	4.6	10.4
Iran (Islamic Rep. of)	-36.4	-9.3	-29.9	-42.2	-22.8	-25.1	20.6	17.5	2.6	-14.0	38.9	-38.1	-23.4	7.1	-28.5	1.9	1.7	0.2
Japan	-5.2	-2.5	-2.7	-12.8	-3.7	-9.5	8.2	4.0	4.0	-4.3	-4.1	-0.2	-8.7	-5.4	-3.5	3.2	8.0	-4.5
Kazakhstan	-3.4	-7.0	3.9	-30.0	-18.7	-13.9	28.5	6.3	20.9	13.0	5.7	6.9	-23.6	-5.3	-19.3	19.1	4.9	13.5
Malaysia	-4.1	-0.8	-3.3	-19.8	-5.5	-15.2	11.7	5.9	5.4	-6.0	-3.1	-3.0	-18.2	-2.2	-16.3	11.4	4.0	7.1
New Zealand	-0.7	-2.5	1.9	-3.4	-2.0	-1.5	5.4	1.6	3.7	-3.0	-3.7	0.8	-14.3	-6.3	-8.5	7.9	2.2	5.6
Pakistan	-0.2	-12.4	13.8	-10.4	-0.7	-9.7	14.0	2.8	10.9	-18.1	-15.6	-2.9	-7.8	-12.4	5.2	6.9	3.7	3.1
Philippines	2.7	-0.5	3.2	-20.5	-1.2	-19.5	15.8	-6.8	24.3	-3.0	-2.2	-0.8	-24.1	-4.5	-20.5	24.3	1.9	21.9
Republic of Korea	-10.3	-8.8	-1.7	-8.6	-4.1	-4.7	6.1	4.0	2.1	-6.0	-4.8	-1.3	-8.5	-10.9	2.7	6.0	4.3	1.6
Russian Federation	-5.4	-9.2	4.2	-23.0	-18.5	-5.5	19.6	3.7	15.3	2.3	4.7	-2.3	-9.8	2.4	-11.9	19.4	1.5	17.6
Singapore	-4.3	-1.4	-2.9	-21.0	-14.9	-7.2	14.2	4.0	9.8	-3.8	-1.0	-2.9	-27.4	-11.7	-17.8	22.8	3.1	19.1
Sri Lanka	0.4	-3.5	4.1	-20.9	-2.8	-18.6	11.6	1.1	10.4	-10.3	-4.2	-6.4	-9.9	-8.1	-2.0	8.3	-0.5	8.8
Thailand	-3.3	2.1	-5.3	-13.4	-2.3	-11.4	9.7	6.1	3.4	-5.5	1.8	-7.2	-21.5	-5.7	-16.7	13.4	2.6	10.5
Turkey	1.9	-4.3	6.5	-26.6	-8.0	-20.3	22.0	4.2	17.1	-9.4	-4.2	-5.5	-19.6	-3.7	-16.5	25.4	4.7	19.8
Viet Nam	8.4	-4.6	13.6	-7.1	-3.5	-3.7	6.5	0.7	5.7	6.8	-4.6	11.9	-9.1	-1.9	-7.4	9.6	2.6	6.9
<i>Asia-Pacific(b)</i>	<i>-3.0</i>	<i>-2.6</i>	<i>-0.4</i>	<i>-9.7</i>	<i>-3.6</i>	<i>-6.1</i>	<i>9.1</i>	<i>3.3</i>	<i>5.8</i>	<i>-3.9</i>	<i>-2.5</i>	<i>-1.4</i>	<i>-10.3</i>	<i>-6.4</i>	<i>-3.9</i>	<i>10.1</i>	<i>4.0</i>	<i>6.2</i>
<i>Developed Asia-Pacific(b)</i>	<i>-5.4</i>	<i>-3.5</i>	<i>-1.9</i>	<i>-10.1</i>	<i>-4.1</i>	<i>-6.1</i>	<i>7.0</i>	<i>3.7</i>	<i>3.3</i>	<i>-5.0</i>	<i>-4.3</i>	<i>-0.8</i>	<i>-8.8</i>	<i>-7.8</i>	<i>-1.0</i>	<i>5.0</i>	<i>5.8</i>	<i>-0.8</i>
<i>Developing Asia-Pacific(b)</i>	<i>-2.3</i>	<i>-2.4</i>	<i>0.0</i>	<i>-9.6</i>	<i>-3.4</i>	<i>-6.2</i>	<i>9.7</i>	<i>3.1</i>	<i>6.6</i>	<i>-3.6</i>	<i>-1.9</i>	<i>-1.7</i>	<i>-10.7</i>	<i>-5.9</i>	<i>-4.8</i>	<i>11.6</i>	<i>3.1</i>	<i>8.5</i>
<i>Developing Asia-Pacific excluding China(b)</i>	<i>-3.4</i>	<i>-3.0</i>	<i>-0.5</i>	<i>-15.8</i>	<i>-7.7</i>	<i>-8.1</i>	<i>11.4</i>	<i>3.2</i>	<i>8.3</i>	<i>-4.3</i>	<i>-1.6</i>	<i>-2.7</i>	<i>-17.1</i>	<i>-4.5</i>	<i>-12.5</i>	<i>14.1</i>	<i>2.6</i>	<i>11.6</i>

Source: ESCAP, based on data from the EIU (accessed October 2020).

Note: (a) = projections; (b) = trade-weighted, time-varying average growth rate. Volume growth rates are estimated based on constant prices (in 2010 terms).

Looking at volume statistics for 2021, developing economies are expected to see an even sharper rise both in exports and in imports than in developed economies, since prices are projected to increase less for the former than for the latter. Indeed, excluding the increase in the overall price level, developing countries (excluding China) are projected to post an expansion of 8.3% and 11.6% in export and import volumes, respectively, dwarfing the 3.3% export volume increase and the 0.8% import volume decline experienced in developed Asia-Pacific. In particular, Japan's heavy 4.5% import contraction and the Republic of Korea's sluggish 2.1% export volume growth will drag developed economies' joint performance downwards.

Nevertheless, as the fallout of the pandemic remains highly unpredictable, the forecasts presented herein are under unusually high level of uncertainty. Indeed, on the downside, the possibility of large second and third COVID-19 waves could force countries to reimpose lockdown measures, which would significantly deepen the current economic crisis and delay an eventual recovery. The WTO (2020b) October forecasts predict a two to three percentage point decline in global GDP as a result of a second wave of the virus, with the impact on global trade growth reaching up to a negative four percentage points. On the upside, the rapid deployment of an effective vaccine in 2021 could considerably raise business and consumer confidence and allow the global economy to benefit from increased productivity due to the rise in digital innovation and technology. This 'optimistic' scenario would raise global GDP growth by one to two percentage points and boost trade growth by up to three percentage points (WTO, 2020a).

### 3.2. In the longer-term: GVC restructuring and the digitalization of the economy

It remains highly uncertain whether trade and economic activities will return to their pre-pandemic levels post-2021. In fact, it is anticipated that while trade may resume its pre-pandemic growth trend, it will not return to pre-pandemic levels in the near future.<sup>8</sup> On the one hand, macroeconomic conditions remain unfavourable for many Asia-Pacific economies, with high unemployment, deflation and public indebtedness among the structural factors hindering the recovery (Huang and Saxena, 2020). Moreover, geopolitical tensions – a major downside to economic performance – are unlikely to dissipate as the global economy's structural shifts are expected to continue. On the other hand, economies that are heavily reliant on travel- and tourism-related industries – prominent in small developing Asia and the Pacific countries – will experience slower recovery than others.<sup>9</sup> Indeed, despite growing optimism surrounding the effectiveness and deployment of COVID-19 vaccines, it remains highly uncertain whether global demand for these industries will fully recover during the next few years. Nevertheless, COVID-19 has accelerated two main trends that will be dominating global and regional trade in the medium to longer term, i.e., GVC restructuring and the digitalization of the economy.

International trade integrated via GVCs has grown to prominence over the past two decades. By integrating supply chains of various countries with different competitive advantages, the world reaped efficiency gains from specialization and just-in-time inventories that helped lower production costs. However, a rise in protectionism that culminated in the United States-China trade war (box 3) and other trade tensions, increasing wages in China as well as mounting concerns over the resilience of GVCs to exogenous shocks, such as COVID-19, have reshaped businesses' incentives towards shortening and diversifying GVCs. Indeed, while the long process of decoupling from China had arguably already started, trade tensions between the United States and China as well as supply shortages of imported goods – particularly medical essentials and PPE – during the early months of the pandemic, significantly accelerated the long-standing debate over globalization as well as excessive reliance of countries on China (Bermingham, 2020).

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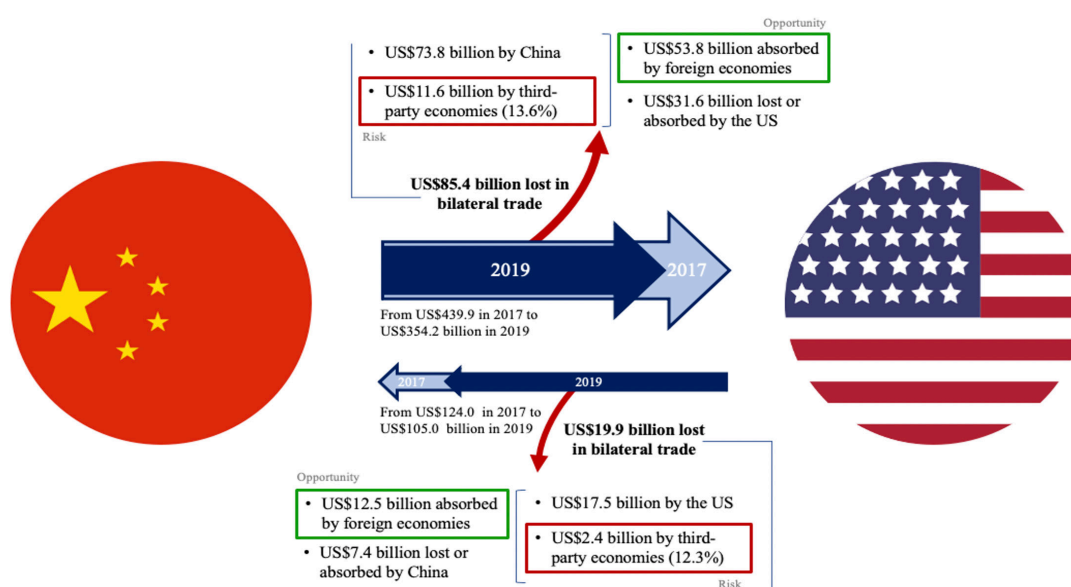
8 For a more optimistic 'V-shaped' recovery – where trade would quickly return to its pre-pandemic levels – growth would need to overshoot its long-term average before resuming the trend in order to compensate for losses suffered during the pandemic. As the outlook for 2021 and beyond highlights, this is unlikely to happen as countries' recovery will be, at best, along the previously verified long-term growth trend.

9 For more details, see ESCAP (2020): Trade in Services Outlook in Asia and the Pacific 2020/2021.

### Box 3. United States-China trade war and decoupling: Who are the winners and losers?

The United States-China trade war has significantly accelerated the already ongoing decoupling process between the world's two largest economies. More importantly, it has depressed global output, while creating a plethora of impacts on third-party economies. The trade war is estimated to have decreased trade between the United States and China by 18.7% (US\$105.3 billion) from US\$563.9 billion in 2017 to US\$458.6 billion in 2019 (at 2017 prices). However, while US\$39.0 billion (37% of foregone United States-China exports) were effectively lost in terms of international trade – with foreign economies losing US\$5.2 billion – US\$66.3 billion (63%) is estimated to have been absorbed abroad (box 3 figure). Thus, while opportunities availing the rest of Asia-Pacific region may be larger than overall risks, not all countries will benefit equally.

Box 3 figure. United States and China bilateral relationship, 2017-2019



Source: Anukoonwattaka et al. (forthcoming).

Note: The foreign value-added export share is shown in parentheses.

Indeed, economies that are highly reliant on China's domestic demand are expected to record losses from the trade war. These are the cases of Mongolia and Hong Kong, China. On the contrary, economies that are well-connected to the United States will harness the most benefits from United States trade redirected away from China. In particular, Canada and Mexico – already major suppliers to the United States market – will be attracting the largest slice of redirected trade, as businesses' will be aiming to shorten their GVCs. Furthermore, it is anticipated that Germany and the Republic of Korea will follow, as these are high-tech industrialized economies, essential in industries such as transport equipment, machinery and electronic equipment.

Nevertheless, regardless of the trade war's overall positive contribution to trade of countries, adequate policies to ease associated transitioning costs will be needed. Indeed, there are both risks and opportunities with every GVC restructuring, of which Governments should be well aware in order to reap the full benefits from the United States-China decoupling.

*Source: Based on Anukoonwattaka, et al. (forthcoming). Please refer to this publication for further details.*

A restructuring towards shorter and more diversified GVCs implies that production hubs will have to geographically gravitate closer towards the world's three largest markets – the United States, the European Union and China (Anukoonwattaka and Mikic, 2020). These markets offer large consumer bases that absorb a sizable part of goods produced globally. Accordingly, as businesses will be looking to duplicate or relocate existing GVCs, countries that are near and well-integrated with either of these three large markets, that have a relatively competitive labour market, and solid transport and digital infrastructures will stand to benefit the most from this move. In Asia and the Pacific, South-East Asia is expected to be in the best position to harness gains from becoming an alternative supply node to the United States and China. Countries like Viet Nam, Thailand and Malaysia are already well-integrated with both economies, while having solid fundamentals and competitive labor markets. On the other hand, smaller economies in North and Central Asia as well as South and South-West Asia are seen to be in the most fragile positions since they are geographically distant from relevant markets and, in many cases, ill-equipped to welcome digitalized and servitized GVCs. To address these challenges, more active participation and implementation of regional integration initiatives, such as the Regional Comprehensive Economic Partnership (RCEP) that was signed on 15 November 2020, could be vital to strengthening value-chain integration with high-potential regional markets.

Such a GVCs landscape would also likely come at a significantly higher cost. Indeed, duplicated supply-chains will squeeze businesses profits via higher redundancy costs, lower specialization and scale benefits. Accordingly, this trend is expected to slow down the implementation of often costly sustainable trade practices as well as to shift GVCs away from cheap labour and towards higher-productivity solutions in the new 'closer to home' production hubs. Furthermore, as higher production costs will eventually be passed down to the final consumer, GVC shortening and diversification will add considerable downward pressure on an already crippled global demand. Indeed, GVC restructuring is anticipated to be among the most important challenges to the post-COVID-19 recovery path.

Another trend that is reshaping international trade is the rapid digitalization of economies. Despite not being a new phenomenon (the Internet, for example, has been around since the late 1980s), COVID-19 has significantly accelerated the global economy's digital transformation, while the deployment of next generation wireless network technologies will further strengthen it. Over the past few months, the world has seen a seismic shift in the way businesses operate, and individuals work and consume or get educated: e-commerce sales have skyrocketed, while the use of cloud service and remote work tools has proliferated (Ji and Zhang, 2020). Accordingly, as *The Economist* (2020b) explains, not so much through the introduction of new technologies, but rather through the full utilization of already existing ones, the world is expected to see a boost in productivity contribute to long-term growth. Some countries are expected to benefit from it more than others.

Indeed, despite ultimately benefitting all economies via (arguably) higher productivity and reduced costs, the rise of the digital economy is expected to further the rift between developed and developing economies. On the one hand, a higher demand for digital-related products will directly translate into higher exports in economies that are prominent in the production of these types of goods. As the IMF has pointed out (Zhang, 2020), the Asia-Pacific region is a leader in the production and use of industrial robots and advanced machinery. However, this prominence is highly concentrated in advanced economies, including China, meaning that gains will be unevenly distributed across the region. On the other hand, some GVCs are tending to produce goods closer to consumers in advanced economies outside the region; therefore, cheap labour is expected to become less relevant to competitive advantage as automation and 3-D printing will be performing tasks previously done by low-skilled (and cheap) labour. Indeed, developing Asia-Pacific economies – particularly least developed countries – that are highly reliant on extremely cheap labour to attract businesses and FDI from abroad are facing pressing needs to build their digital capacity and digital-trade integration. Doing so will require not only investing in hard ICT infrastructure but also addressing significant gaps in human capital and tackling regulatory barriers to cross-border flows of data and digital trade.

The two trends highlighted in this section are likely to cause significant structural shifts, both across and within economies. To address these challenges, complementary policies on social protection and education will be necessary as well as in other areas covering new issues such as data protection and privacy, cybersecurity, e-commerce taxes; such policies will be vital to allowing Asia-Pacific economies to fully capture the benefits from inclusive and sustainable digital growth (ESCAP, 2017). As economies become increasingly digital, it will also become ever harder to disentangle goods from services. This means that focusing on goods trade liberalization alone will not

suffice.<sup>10</sup> In that regard, future trade agreements and cooperation initiatives should be as comprehensive as possible in addressing digital trade-specific challenges, with a focus on harmonization and reducing regulatory barriers. Furthermore, developing economies, and in particular graduating least developed countries, should proactively participate in related paperless trade initiatives and frameworks in order to fully benefit from trade and the economy's digitalization. This includes participation in the Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific, the newest United Nations trade and development treaty that will enter into force on 20 February 2021.<sup>11</sup>

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10 For more details see ESCAP (2020): Trade in Services Outlook in Asia and the Pacific 2020/2021.

11 The Framework Agreement is the most recent United Nations treaty on trade and development, adopted by ESCAP in 2016. It provides a dedicated multilateral intergovernmental platform for testing and development of cross-border paperless trade solutions, based on existing international standards as well as emerging bilateral and subregional initiatives. Available at <https://www.unescap.org/resources/framework-agreement-facilitation-cross-border-paperless-trade-asia-and-pacific>.

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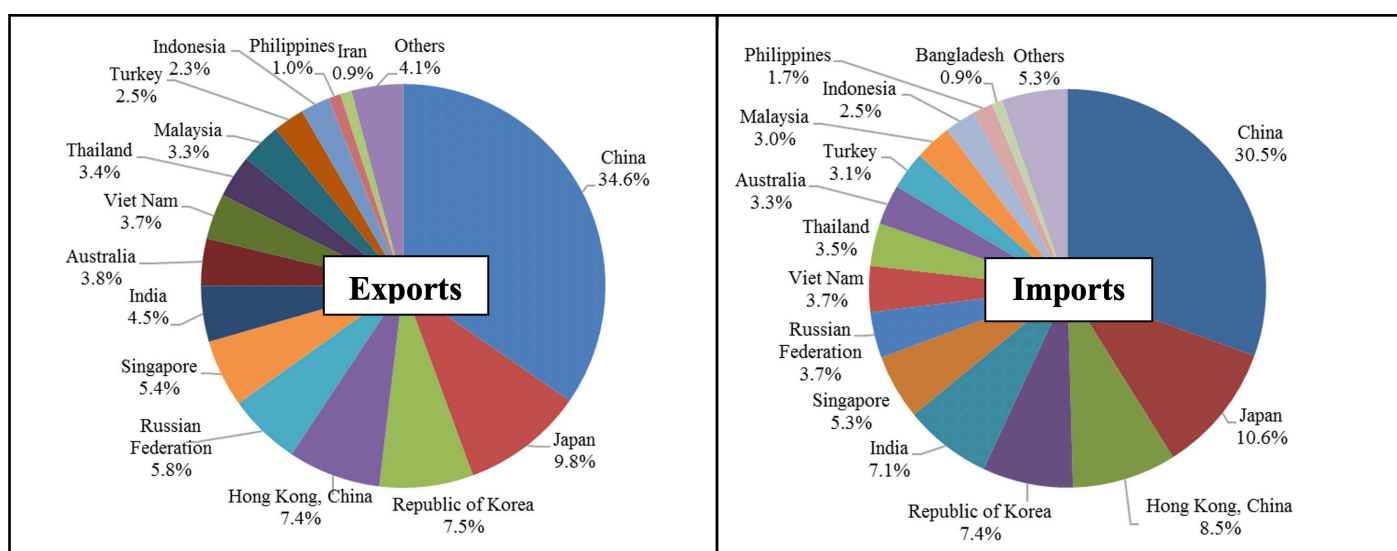
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## Supplementary note

### Structure and patterns of trade in Asia and the Pacific (2019)

In 2019, a few countries dominated Asia and the Pacific's trade performance. Indeed, its 15 largest trading economies accounted for 95% of total regional trade in 2019. Moreover, China, Japan, the Republic of Korea and Hong Kong, China (by share of total trade) – all East and North-East Asian (ENEA) economies – contributed to more than 55% of it (figure A.1.). Last, ASEAN economies (Singapore, Thailand, Malaysia and Viet Nam, in particular) as well as sub-regional hubs like India, the Russian Federation and Australia were also important trading nations.

*Figure A.1. Asia-Pacific's major exporters and importers in 2019  
(Percentage of regional trade)*



Source: ESCAP calculations, based on country data from the WTO statistics database (accessed 9 October 2020)

In 2018 – the latest year for which data are available – intraregional trade accounted for 54.2% and 57.1% of total exports and imports in the region, respectively (table A.1). Intraregional trade intensity remains unequal across subregions, with South and South-West Asia (39.3% of intraregional trade) and North and Central Asia (43.9%) being relatively less integrated than the Pacific (73.9%) and South-East Asia (68.0%), which are the two most integrated regions of all. Despite diverging levels of intraregional trade intensity, all subregions traded the most with East and North-East Asia – particularly with China – than with any other subregion.

China, in particular, continued to represent a crucial market for the remaining regional economies. That country alone was responsible for absorbing 21.5% of all Asia-Pacific region (excluding China) exports, while sourcing 24.1% of its imports in 2018. In fact, 22 Asia-Pacific economies (inclusive of Macao, China and Hong Kong, China) reported China as their the largest or second largest export market in the same period. Outside Asia and the Pacific, the European Union accounted for 19.6% and 14% of regional exports and imports, respectively, while the United States accounted for 16.4% and 8.3%, respectively.

*Table A.1. Trade partners of Asia and the Pacific, 2018  
(Percentage of total trade)*

Trade partner	Asia-Pacific (excluding China)			Asia-Pacific		
	Exports (to)	Imports (from)	Trade (with)	Exports (to)	Imports (from)	Trade (with)
<b>Intra-Asia-Pacific</b>	<b>59.7</b>	<b>59.5</b>	<b>59.6</b>	<b>54.2</b>	<b>57.1</b>	<b>55.6</b>
<b>China</b>	21.5	24.1	22.9	13.6	17.3	<b>15.4</b>
<b>Other Asia-Pacific</b>	38.2	35.4	36.7	40.6	39.8	<b>40.2</b>
<b>European Union 25</b>	19.1	13.6	16.2	19.6	14.0	<b>16.9</b>
<b>United States</b>	12.7	8.1	10.3	16.4	8.3	<b>12.4</b>
<b>Rest of the world</b>	<b>8.5</b>	<b>18.8</b>	<b>13.9</b>	<b>9.8</b>	<b>20.7</b>	<b>15.1</b>

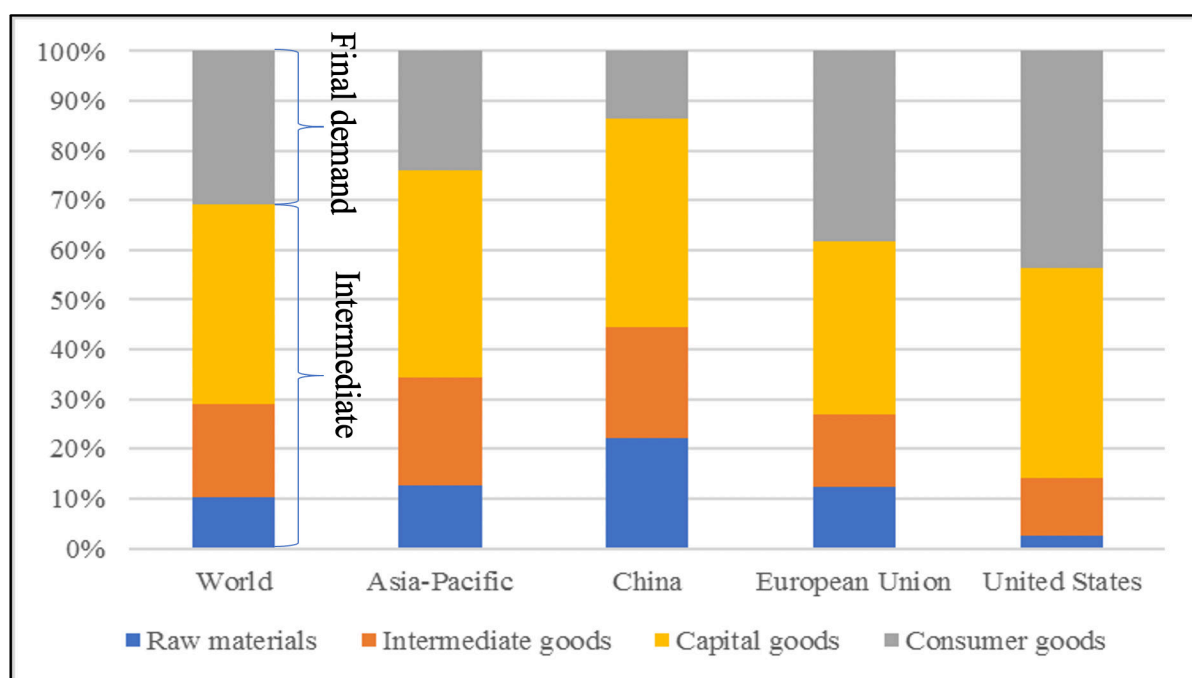
Source: ESCAP calculations, using United Nations Comtrade data from the World Bank WITS database (accessed October, 2020).

Note: Calculations are based on 2018 trade statistics, due to their better data coverage.

Commercial exchanges between countries integrated in GVCs has become a key element for regional trade. Currently, about 69% of Asia-Pacific region exports are used as inputs in production processes elsewhere. The most important are machinery and equipment (i.e., capital goods), followed by intermediate goods and raw materials (figure A.2). The remaining 31% of exports represent foreign final demand – i.e., consumer goods. Intraregional trade follows a rather similar distribution, with 76% of exports being used as inputs in the production of other goods. In China this pattern is even more accentuated, with this figure rising to 86%. Contrastingly, Asia and the Pacific region exports going to the European Union and the United States are primarily consumer goods. This type of goods represents about 38% and 44% of all regional exports arriving in these two markets, respectively. This pattern reflects the Asia-Pacific region's deep economic integration through regional value chains. However, it also highlights that, despite its rapid growth, final demand comes more from the United States and European Union than intraregional markets.

Region-wide, transport and machinery equipment (including parts and components) are the most important sectors, representing 43.4% of regional exports, immediately followed by other manufactured products at 25.3%, such as footwear, furniture and textiles.

*Figure A.2. Asia-Pacific exports by end use – important destinations  
(Percentage of Asia-Pacific exports to respective destinations)*



Source: ESCAP calculations using mirror techniques, based on country data from the WTO Statistics Database (accessed 16 October 2020).

Note: Calculations are based on 2018 trade statistics, due to better data coverage.

East and North-East Asia hosts most major Asia-Pacific exporters in terms of total traded volume. In turn, these economies largely rely on manufactured products. Conversely, most of the developing economies belonging to North and Central Asia as well as the Pacific rely strongly on exports of agricultural products and fuel (table A.2). South and South-West Asian economies, instead, depend primarily on agricultural commodities as well as labour-intensive manufacturing industries such as footwear and garments.

Table A.2. What are the Asia-Pacific economies exporting?  
(Percentage of total exports)

	Agriculture	Fuel	Ore and metals	Chemicals	Transport and machinery	Other Manufactures	Misc.
<b>Asia-Pacific</b>	6.2	10.9	3.9	8.1	43.4	25.3	2.3
<b>East North-East Asia</b>							
China	2.5	1.2	1.3	6.6	53.7	33.8	0.9
DPR Korea	5.8	4.6	13.0	12.2	15.7	43.1	5.6
Hong Kong, China	2.1	0.6	5.2	3.6	38.6	32.0	18.0
Japan	1.6	1.5	2.7	11.1	61.8	19.1	2.2
Macao, China	8.0	0.3	6.0	6.9	21.0	53.5	4.2
Mongolia	5.6	43.4	39.4	0.0	0.2	1.1	10.3
Republic of Korea	2.0	6.7	2.2	13.3	58.7	16.1	1.0
<b>South-East Asia</b>							
Brunei Darussalam	0.2	93.2	0.4	4.1	0.9	0.9	0.4
Cambodia	8.6	0.0	1.5	0.4	5.3	83.8	0.3
Indonesia	23.6	23.8	6.9	5.7	14.1	24.0	2.1
Lao PDR	20.7	24.9	20.1	4.1	13.5	9.4	7.2
Malaysia	7.9	16.6	2.4	5.5	53.8	12.6	1.1
Myanmar	15.0	22.1	12.9	0.6	1.3	41.7	6.4
Philippines	8.4	1.7	5.1	1.9	69.4	11.0	2.5
Singapore	3.8	19.5	1.0	20.3	41.2	10.3	3.9
Thailand	16.1	3.0	1.7	9.9	49.0	18.2	2.0
Timor-Leste	32.4	59.7	2.5	0.3	3.7	1.1	0.3
Viet Nam	9.4	1.3	1.1	1.9	46.5	36.1	3.7
<b>South South-West Asia</b>							
Afghanistan	71.3	7.5	6.6	0.2	1.3	5.6	7.5
Bangladesh	2.7	0.1	0.3	0.5	0.6	95.6	0.2
Bhutan	5.2	9.0	8.1	8.2	3.8	65.7	0.1
India	10.6	10.1	4.7	17.5	16.3	39.8	1.0
Iran (Islamic Rep. of)	3.5	69.3	4.7	9.0	0.4	5.7	7.3
Maldives	74.9	18.9	1.7	0.1	3.0	1.1	0.4
Nepal	26.7	0.0	2.5	5.1	1.1	63.7	0.8
Pakistan	21.3	1.6	3.4	4.2	1.0	67.6	0.9
Sri Lanka	21.8	0.4	1.2	1.9	11.0	63.2	0.5
Turkey	9.1	4.0	4.2	6.1	33.0	40.9	2.7
<b>North and Central Asia</b>							
Armenia	18.0	1.3	44.0	1.6	1.5	24.6	9.0
Azerbaijan	3.5	91.9	0.8	1.0	0.4	1.1	1.3
Georgia	28.4	4.5	20.7	10.1	5.2	27.4	3.6
Kazakhstan	7.0	59.2	18.3	4.7	1.0	8.8	1.0
Kyrgyz Republic	12.7	3.8	20.1	1.5	5.3	12.0	44.6
Russian Federation	8.7	60.1	7.4	5.5	3.3	11.1	3.9
Tajikistan	8.9	2.2	49.9	0.4	0.3	22.2	16.1
Turkmenistan	2.0	91.3	0.8	1.4	0.7	3.1	0.7
Uzbekistan	16.1	19.9	10.9	8.4	1.4	17.3	26.0
<b>Pacific</b>							
Australia	14.5	35.3	32.7	2.8	2.7	3.5	8.5
Cook Islands	54.6	0.0	0.2	0.2	42.1	2.4	0.4
Fiji	72.3	0.0	1.2	2.1	2.1	13.1	9.2
French Polynesia	21.2	0.1	0.6	1.6	6.6	64.4	5.6
Kiribati	98.3	0.0	0.1	0.2	0.9	0.3	0.2
Micronesia (F.S.)	97.1	0.1	0.1	0.2	1.1	0.8	0.6
Nauru	6.2	0.0	43.5	2.6	20.1	21.0	6.6
New Caledonia	0.6	0.0	41.9	3.0	1.8	51.6	1.1
New Zealand	73.7	2.3	3.1	6.1	5.6	6.8	2.4
Palau	62.5	2.4	1.8	0.2	30.4	1.4	1.3
Papua New Guinea	21.5	44.0	13.8	0.1	0.4	0.3	19.8
Solomon Islands	89.8	0.2	8.5	0.0	0.2	1.0	0.3
Tonga	71.0	0.0	1.4	2.0	17.2	4.9	3.5
Vanuatu	82.1	0.0	0.7	0.4	15.8	0.8	0.1

Source: ESCAP calculations using mirror techniques. The raw data is based on United Nations Comtrade data from the World Bank WITS database (accessed October 2020).

Note: Calculations are based on 2018 trade statistics, due to their better data coverage. The table only shows economies for which data were available. The dark-blue to light-blue gradient represents the varying degrees of sectoral contribution to each country's total exports. Darker shades highlight higher levels of contribution, whereas lighter shades are the opposite.

*The Asia-Pacific Trade and Investment Trends are prepared by the Trade, Investment and Innovation Division, United Nations Economic and Social Commission for Asia and the Pacific. They provide annual updates and forecasts of trends and developments in: (a) intra- and inter-regional trade in goods and services; (b) foreign direct investment; (c) trade policy and facilitation measures, including relevant regional trade integration initiatives; as means of implementation of Sustainable Development Goals. It is freely available on the ESCAP website: <https://www.unescap.org/our-work/trade-investment-innovation>.*