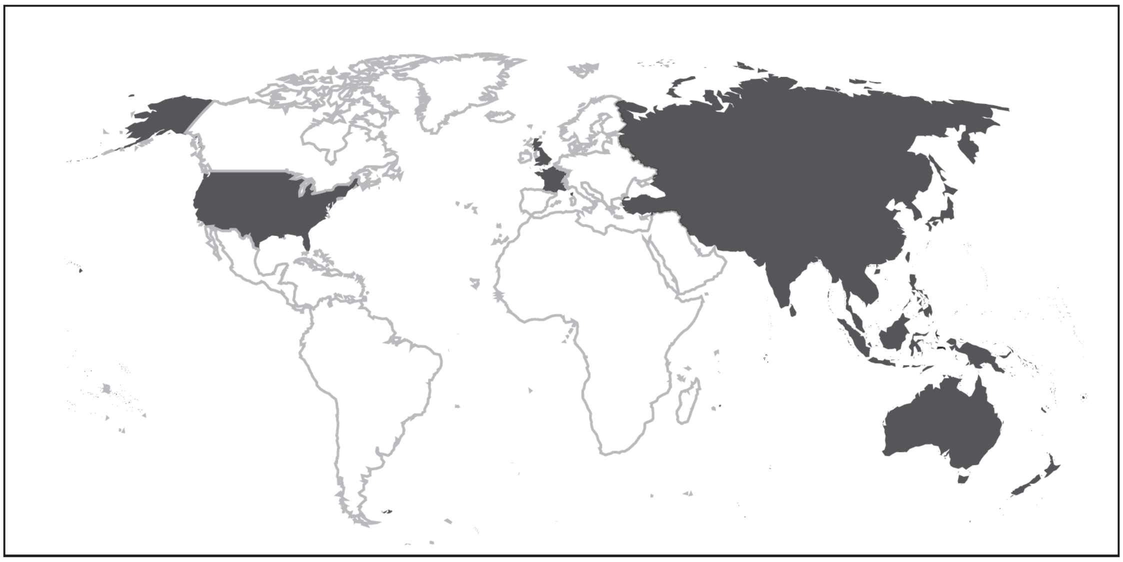
ASIA-PACIFIC TRADE AND INVESTMENT TRENDS 2020/2021

Trade in Commercial Services Outlook in Asia and the Pacific

UNITED NATIONS
ESCAP
Economic and Social Commission for Asia and the Pacific



The shaded areas of the map indicate ESCAP members and associate members.*

The Economic and Social Commission for Asia and the Pacific (ESCAP) serves as the United Nations' regional hub promoting cooperation among countries to achieve inclusive and sustainable development. The largest regional intergovernmental platform with 53 Member States and 9 Associate Members, ESCAP has emerged as a strong regional think-tank offering countries sound analytical products that shed insight into the evolving economic, social and environmental dynamics of the region. The Commission's strategic focus is to deliver on the 2030 Agenda for Sustainable Development, which it does by reinforcing and deepening regional cooperation and integration to advance connectivity, financial cooperation and market integration. ESCAP's research and analysis coupled with its policy advisory services, capacity building and technical assistance to governments aims to support countries' sustainable and inclusive development ambitions.

* The designations employed and the presentation of material on this map do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

ACKNOWLEDGEMENTS:

This Brief was prepared by Witada Anukoonwattaka, Economic Affairs Officer; and Richard Sean Lobo, research consultant, Trade Policy and Facilitation Section (TPFS, Trade, Investment and Innovation Division (TIID) of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). Giacomo Fersini, ESCAP intern, provided research assistance. The Brief was developed under the supervision of Mia Mikic, Director, TIID; and Yann Duval, Chief, Trade Policy and Facilitation Section (TPFS), TIID. Cover design and editorial layout were carried out by Yaoling Liu, communications consultant, TIID.

Contents

Highlights

- The COVID-19 pandemic has had a devastating impact on trade in commercial services, turning it from weak growth in 2019 to a sharp contraction in 2020. Globally, commercial services trade value grew by only 2% in 2019. In the first six months of 2020, global exports and imports declined by 19.5% and 20.1%, respectively, compared to the same period in 2019. Commercial services trade in Asia and the Pacific performed even worse, moving from a 0.3% growth in 2019 to export and import declines of more than 22% in the first half of 2020. If this trend continues, the region's shares in global commercial services trade will also edge down to 26.5% (exports) and 30.1% (imports) in 2020, from 27.8% and 31.5% a year earlier.
- Adverse impacts of the pandemic are uneven across services and economies. Travel and transport dependent economies tend to face more negative impacts than other countries. International tourist arrivals during the first eight months of 2020 decreased by 78.8% compared to the same period of 2019. These are linked to a massive 65.3% decline in international flights during the first eight months of 2020. In contrast, economies exporting information and communications technology (ICT) services as well as digitally enabled services have seen some new opportunities during the COVID-19 pandemic.
- Despite the overall decline of trade in services because of depressed economic activities, selected ICT services grew in 2020. Indicators of online activities in Asia-Pacific economies show that social networking and online collaborative platforms, in particular, are expected to grow between 17.3% and 31.3% across major Asia-Pacific economies, while public cloud services are also expected to display a positive trend in 2020. E-commerce services were also growing rapidly, with orders up 70% for the first five months of 2020.
- Trade in services, except travel services, recovered during the second half of 2020 when many regional economies partially lifted the virus-containment measures, supporting a rebound in economic activity. Global transport services and the global services Purchasing Managers' Index have shown moderate improvements since the second quarter of 2020. Although trade in commercial services is not expected to fully return to pre-COVID-19 levels in 2021, a partial recovery of demand for commercial services – in particular transport services – is anticipated. Maritime transport services will benefit from the positive growth in merchandise trade volume. Additionally, air transport services and travel services will grow in 2021 from a very low base in the previous year. However, the partial recovery of demand will not generate significant upward pressures on prices except in selected sectors that may experience supply shortages because of business shutdowns during the pandemic. The recovery of cross-border travel services will be limited because of high restrictions on cross-border travels.

- In the medium to long term, Asia-Pacific economies will see digitalisation, accelerated by the COVID-19 pandemic, redefine the nature of services trade. The trend of delivering services through digital means will stay after the pandemic, as the higher efficiency and productivity gains they can bring have been proven. Digitally-enabled services may substitute for some part of other services. For example, telemedicine and teleconference services, by reducing the need for person-to-person contact, may reduce demand for travel, including passenger air transport services. Similarly, COVID-19 pandemic related change in consumer behaviour has fast-forwarded e-commerce as a new normal. This may require developing countries in the region to adjust their development priorities and focus on acquiring the capacity to effectively engage in a rapidly digitalizing trade environment, especially hard and soft trade infrastructure.
- However, trade in digital services continues to be hindered by domestic regulations that are beyond the scope of trade policies, such as data protection, intermediary liabilities, filtering or blocking, and cybersecurity standards, among others. Also, since 2019, there have been increased restrictions on the usage of various mobile applications, perceived as potentially stifling national security, in certain countries. These recently emerged barriers appear to show uncoordinated and conflicting policy objectives in digital trade policy areas.

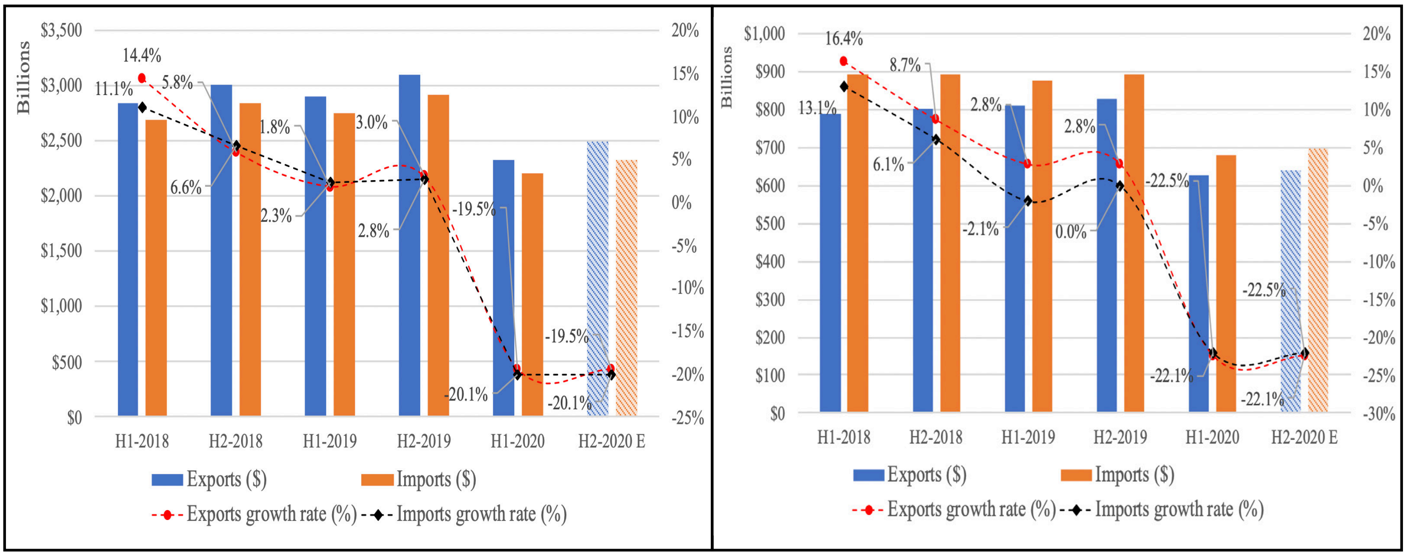
1. Trade performance in 2020

After posting a mild 2% and 0.3% services trade expansion in 2019,[1] global and regional commercial services trade plummeted in 2020. Globally, exports and imports declined by 19.5% and 20.1%, respectively, during the first half of the year (figure 1). In Asia and the Pacific, these drops were even steeper: exports and imports decreased by 22.5% and 22.1%, respectively, in the same period. Should there be no improvement in the second half of 2020, the decline in Asia and the Pacific commercial services trade would amount to an enormous US$759 billion year-on-year reduction. In addition, it would bring the region's share in global commercial services down to 26.5% (exports) and 30.1% (imports) from 27.8% and 31.5%, respectively, in the previous period.

Figure 1. Global and Asia-Pacific commercial services trade performance, 2018-2020

(a) World (US$ billion/% growth rate)

(b) Asia and the Pacific (US$ billion/% growth rate)



Source: ESCAP calculation, based on WTO data (accessed October, 2020).
Note: 'H2-2020 E' values are estimates based on trade growth rates from the first half of 2020. Available data for the world in H1 2020 covers 98.4% of exports and 97.7% of imports. For Asia and the Pacific these figures are both 99.4%.

The drastic trade declines in 2020 are mainly due to the COVID-19 pandemic, which has disrupted trade in services more than in goods, through both demand and supply shocks. First, a substantial global merchandise trade contraction reduced

1 Following an economic and merchandise trade slowdown as well as rising trade tensions (ESCAP, 2019).

the demand for services as an input for manufacturing industries in 2020 (so-called manufacturing services).[2] These are considered to be indirect demand shocks passed through the servicification channel linked to GVCs. Second, a considerable drop in domestic consumption and imports of non-essential services, such as tourism services in particular, has caused significant economic damage within the region and beyond. These are direct demand shocks affecting services value chains[3] and demand for services for final consumption. Third, delivery of the majority of services still requires some degree of physical proximity between (often multiple) suppliers and consumers. Accordingly, physical distancing practices and border closures have hit services trade hard. Services trade via Mode 2 (consumption abroad, e.g., tourism and travel services, and education), transport services as well as Mode 4 (movement of natural persons, e.g., in professional services such as nursing services) have been particularly affected. In addition, services trade via Mode 3 (commercial presence) have also been adversely affected by the closure, downsizing and delaying of foreign investment in service sectors. These are supply shocks emerging from social distancing and lockdown measures.

2. COVID-19 pandemic and services trade trends: A closer look

The first half of 2020 was particularly severe for commercial services trade. Indeed, globally, commercial service exports and imports contracted by 7.4% and 3.8% during the first quarter of the year, respectively. However, due to COVID-19's initial surge in China, many regional economies were forced to impose travel restrictions and lockdown measures earlier than the rest of the world. As a result, Asia and the Pacific registered a more accentuated fall of 13.2% in exports and 10.9% in imports in that quarter, corresponding to a US$101 billion loss in trade value compared with Q1 in