ASIA-PACIFIC
TRADE AND INVESTMENT TRENDS
2020/2021

Trade in Goods Outlook in Asia and the Pacific

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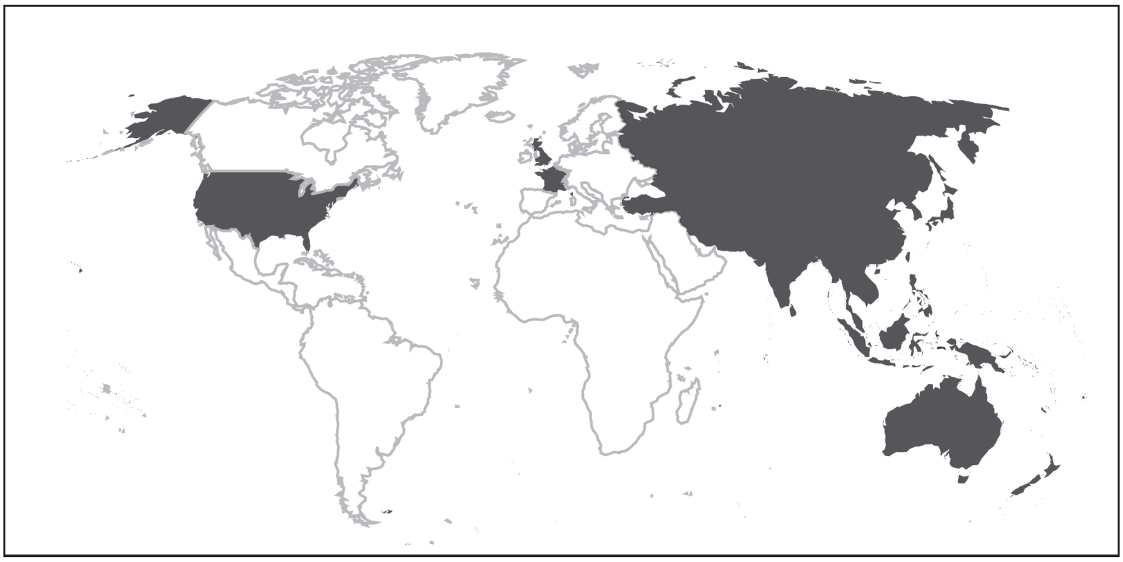
Economic and Social Commission for Asia and the Pacific



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.

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Contents

Highlights

- 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 economics 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

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[1] 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,[2] 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.

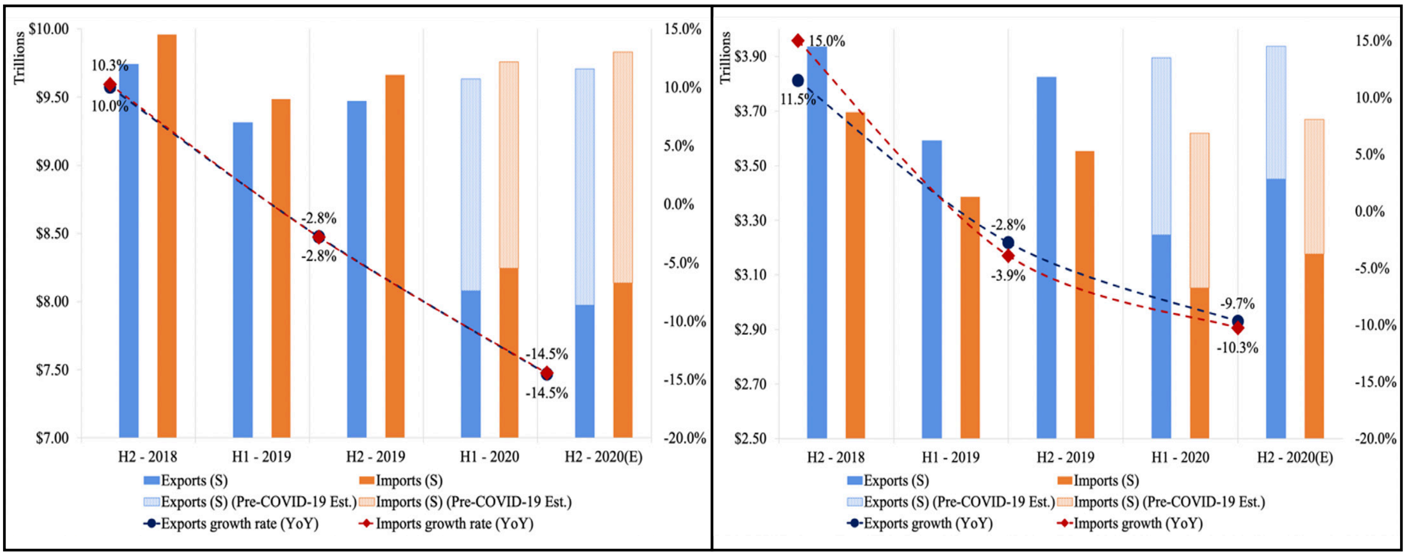
1 Asia and the Pacific GDP growth in 2019 and 2020 was calculated by combining the latest GDP growth data and forecasts – when available from the Asia Development Bank (ADB, 2020) database updated in September 2020 and otherwise from the IMF World Economic Outlook June Update (IMF, 2020c) – with the 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

World

Asia and the Pacific



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