ASIA-PACIFIC
TRADE AND INVESTMENT TRENDS
2019/2020

Trade in Goods Outlook

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Disclaimer

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TRADE IN GOODS OUTLOOK

Highlights:

- Merchandise trade in Asia and the Pacific faced strong headwinds during 2018-2019. Some of the most prominent downside risks and uncertainties are the worldwide economic growth slowdown and the adverse impacts of the United States-China trade war. These have had an adverse effect on global trade, particularly in the case of economies that are closely integrated with China through Global Value Chains (GVCs). In 2018, ESCAP estimated that the tariff war-related toll on gross domestic product (GDP) could reach as much as $400 billion worldwide and $117 billion in Asia-Pacific region. Given the current developments, these estimates are not only materializing, but could even increase further as the trade war escalates.

- For the first time in the post-2009 crisis period, the Asia-Pacific region registered a dip in both trade volume and value in 2019. Total export volume fell by 2.5%, while import volume did so by 3.5%. In addition, an overall lower price level pushed trade value down further to record 3.6% and 4.8% contractions of exports and imports, respectively.

- Looking ahead to 2020, because China and the United States have reached an interim agreement that rolls back some of the tariffs and cancels new ones, there is potential for a modest improvement in the region's trade performance. In fact, compared with 2019, exports and imports volume might pick up by 1.5% and 1.4%, respectively. However, country-level forecasts vary widely between a decrease by 2% and an increase by 6.4% for exports.

- While it is difficult to fully reverse the trade war's negative impacts, the before year-end bilateral deal between the world's two largest economies and a deepening integration within Asia-Pacific might boost investor and consumer confidence enough to allow trade to grow modestly. However, it remains highly uncertain whether the trade tensions between China and the United States can be resolved in the near future. Furthermore, the recent decision by India to postpone its participation in signing the Regional Comprehensive Economic Partnership (RCEP) Agreement suggests that not all countries assess the value of accelerating regional integration equally.

- The degree to which the trade war affects GVCs is a key in determining longer-term prospects of trade. While other Asia-Pacific economies face risks for their indirect exports to China, new opportunities from the trade war may also arise. Nevertheless, the extent to which these opportunities can be seized largely depends on the enabling conditions of these countries in attracting redirected GVC-related FDIs from China.

- Prolonged trade tensions tend to divert trade and investment from China to some East Asian and ASEAN countries, where business can operate outside tariff-reach, at least for now. However, as the United States becomes increasingly protectionist, other developed economies may encourage their own multinational enterprises (MNEs) to sidestep tariffs by reshoring parts of their manufacturing process. This process would likely lead to further increased investment in automation and other technological advances at home as high-labour-cost economies strive to reduce costs of operations.

- Despite the potential realignment of trade routes, China will most likely remain the most important GVC hub in Asia. China has overseen rapid improvements in service capabilities, workforce skills, digital infrastructure and efficiency in trade facilitation. Investments as well as operations in China remain necessary to accessing the largest and fastest growing market in the most cost-effective and timely manner. The MNEs serving final demands in China and developed markets, may have to duplicate investment in more than one jurisdiction. This naturally results in higher costs and lower investment returns in GVC operations.

- Ultimately, extended trade tensions lead to increased inefficiencies. Consumers eventually have to pay higher prices, and slow trade growth could become a long-term trend.

1. TRADE PERFORMANCE BY ASIA AND THE PACIFIC, 2018 AND 2019

In 2018 and 2019, trade performance in Asia and the Pacific followed the global trend in trade, slowing down from the second-half of 2018 onward.[1] As a result, the region maintained its global share in trade at 37% and 35% of total exports and imports, respectively. However, exports did not maintain a double-digit growth, increasing by 9% in 2018, down from 11% in the previous year. Despite hanging on to double-digit growth, imports also recorded a considerable slowdown, dropping from 16% to 12% growth in 2018 (figure 1).[2]

In 2019, the trade situation in the Asia-Pacific region and the world has yet to improve. So far, trade in all regions except for North America[3] contracted in the first six months of the year. In fact, Asia and the Pacific registered a 2.2% year-on-year decline in merchandise exports during this period. In particular, exports by developed Asia-Pacific region economies fell by 4.8%, while developing economies did so by 1.4%. [4] However, if China's exports are not taken into account, exports by developing Asia-Pacific economies actually dropped by 2.5%. This pattern partly reflects strong spill-over effects from the United States-China trade war in the remainder of the region. Overall, five Asia-Pacific economies – the Republic of Korea, Indonesia, Hong Kong, China, Japan and Singapore, in that order – registered the largest export contractions during 2019.

A major factor in the trade contraction in the region is tepid global demand, which has depressed industrial production and capital investment both within and outside Asia and the Pacific. Among other factors, increasing uncertainties from the prolonged United States-China trade tensions are behind this trend. As a result, ESCAP anticipates trade volume in the region will contract during 2019, with exports dropping by 2.2% and imports decreasing by 4%. Moreover, due to the sluggish growth of global demand, commodity prices, especially for raw materials, have been suffering downward pressure (IMF, 2019a). Thus, trade value is expected to plunge further, with exports and imports contracting 3.2% and 4.5%, respectively.

Developing economies have thus far outperformed developed economies. ESCAP anticipates that the export value of developed economies will drop as much as 6.9% in 2019 – mostly due to export contraction in Japan and the Republic of Korea – compared with a 2.6% decline in developing Asia-Pacific economies. Despite being a direct target of the trade war, China is still expected to outperform other developing countries. If that country's export expansion is not taken into account, exports by developing Asia and the Pacific countries are expected to shrink by 3.5%.

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[1] For details about trends and developments of world trade during the 2016-2018 period, see WTO (2019a).

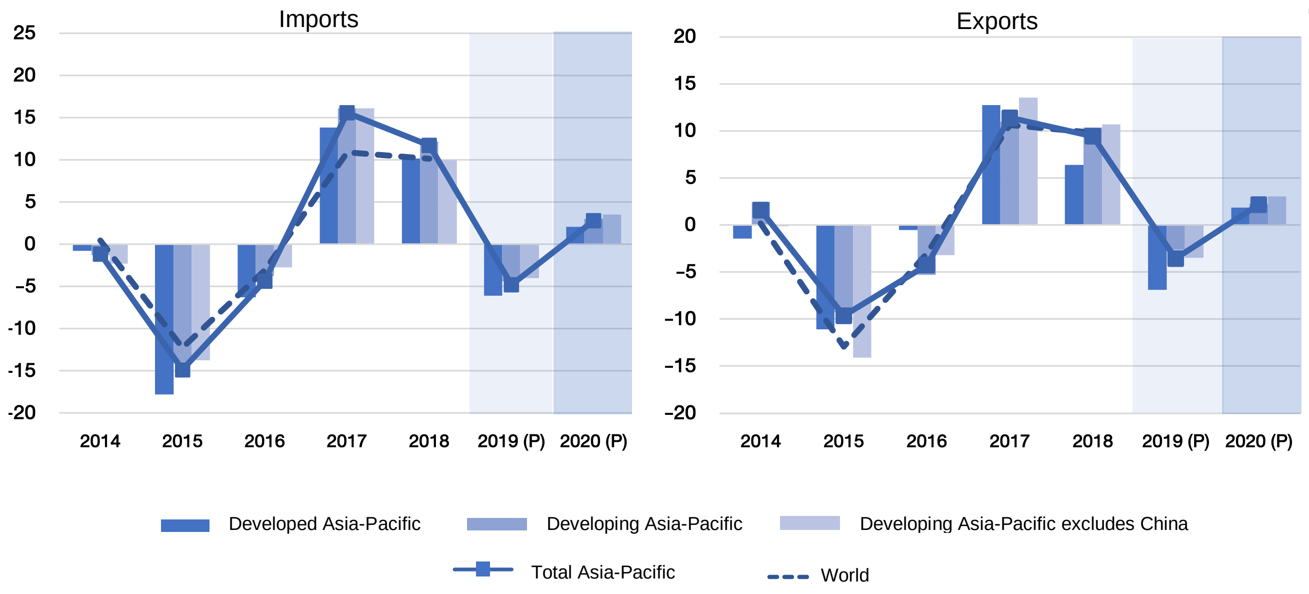
[2] The Asia-Pacific region's trade performance in 2018 was mostly driven by its 15 largest economies, which accounted for 97% and 95% of regional exports and imports, respectively. Refer to the supplementary note for more details on regional structure and patterns of trade.

[3] North America recorded stagnant imports and a slight export decline.

[4] Developed Asia-Pacific includes Australia, Japan, New Zealand and the Republic of Korea.

Figure 1. Trade growth in Asia and the Pacific, 2014-2019

(Annual percentage change)



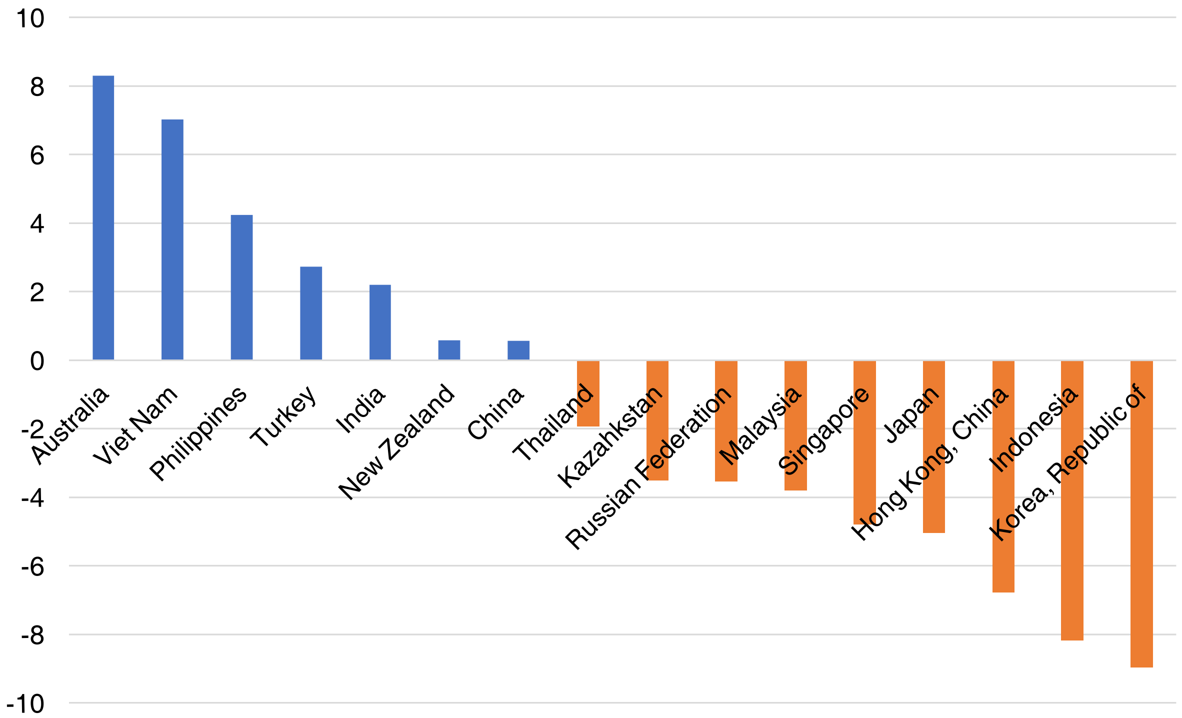
Source: ESCAP calculations, based on country data from the World Trade Organization Statistics Database and the Economist Intelligence Unit (EIU) database (accessed 5 November 2019).
Note: (P) stands for predicted value.

However, not all countries in the region experienced the same trade deterioration trend (figure 2). In fact, Australia, Viet Nam, and the Philippines were among the economies that recorded the largest export increases during the January-July period in 2019. This trend corroborates ESCAP's prediction that some countries might attract investment and gain access to new export opportunities as a result of the United States-China trade war.[5] For example, Viet Nam's surge in exports to the United States in the labour-intensive electronics sector as well as Bangladesh's export growth in textiles are indicative of this trend (Harding, 2019).[6]

[5] Based on Anukoonwattaka and Lobo (2019) and Anukoonwattaka, Lobo and Romão (forthcoming).
[6] Greenfield investment from China into the rest of developing Asia and the Pacific increased by 198% in 2018 (ADB, 2019). While that growth rate may be partly accounted for by the Belt and Road Initiative (BRI), redirected investment to countries outside of tariff reach could be another explanation.

Figure 2. Export growth, by country, January-July 2019

(Annual percentage change)



Source: ESCAP calculations, based on country data from the World Trade Organization Statistics Database, (accessed 5 November 2019).

2. RISKS AND UNCERTAINTIES

Looking at the World Trade Organization's (WTO) Goods Trade Barometer, all of its sub-indicators have moved below their two-year trend, suggesting that global merchandise trade is most likely to slow down further in upcoming months. Specifically, indicators on export orders, production and sales of automotive products, electronic components and agricultural raw materials, as well as air freight and container shipping have all experienced negative developments in 2019 (WTO, 2019b).

Increased protectionism remains the most important risk to global trade in 2019. However, intraregional developments such as the emergence of the Republic of Korea-Japan trade tensions, protests in Hong Kong, China, and the potential exit of India from RCEP[7] which may cause a decision to depart RCEP by Japan, have all contributed to increasing uncertainty in the region.

[7] "(...)The present form of the RCEP Agreement does not fully reflect the basic spirit and the agreed guiding principles of the RCEP. It also does not address satisfactorily India's outstanding issues and concerns. In such a situation, it is not possible for India to join RCEP Agreement (…)." (speech made by India's Prime Minister at the third RCEP summit in Bangkok, 2019.

(a) Increased protectionism in global trade

Substantial new trade restrictions have brought higher uncertainty to the global trade environment. Between mid-October 2018 and mid-May 2019, total trade flows affected by trade restrictions reached “a historically high level” (WTO, 2019c). According to WTO, about $340 billion of global trade flows – 44% more than the seven-year average – were affected by newly introduced import-restrictive measures during this period. Of that, 59.2% were Chinese imports to the United States that were affected by the China-United States trade war. New trade-restrictive measures mainly affected machinery and mechanical appliances (19.1%), electrical machinery and parts thereof (15.6%), precious metals (10.7%), prefabricated buildings and certain types of furniture (8.1%). Import-wise, the new measures include tariff increases, import bans, special safeguards and import taxes. With regard to exports, most measures were duties, bans and stricter customs procedures. Currently, several additional trade-restrictive measures are under consultation for potential implementation in late 2019 or 2020. Henceforth, as these trade restrictions come into force, more and more trade flows are going to become covered by them in the coming months.

In addition, increasing use of non-tariff measures (NTMs) is a worrying signal for the global trade environment. While NTMs may be used for achieving legitimate non-trade objectives, these are usually more complex and more difficult to monitor than tariffs. As such, they are sometimes used by Governments with a protectionist intent, rendering them non-tariff barriers (NTBs). The global number of new or updated sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT) measures initiated and reported to the WTO in 2018 reached 3,466, which was a 16% increase from 2017. In Asia and the Pacific, 1,360 measures were initiated in 2018, a 15% increase compared with the previous year (ESCAP, 2019a).[8] An increase in technical measures is to be expected as countries seek to address certain sustainable development goals, such as SDG 3 on ensuring healthy lives.[9] However, it is worrying that countries increasingly use non-technical NTMs, such as import and export bans, government procurement restrictions, export licences, quotas, prohibitions and other quantitative export restrictions in trade disputes.[10]