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Recent trends and developments in trade and investment in Asia and the Pacific, including the impact of rising protectionism and the coronavirus disease pandemic

Recent trends and developments in trade and investment in Asia and the Pacific

Note by the secretariat

Summary

The present document is based on papers in the forthcoming Asia-Pacific Trade and Investment Trends 2020/2021 series. The coronavirus disease (COVID-19) pandemic has significantly affected global and regional trade performance and accelerated what had already been an underlying trend in 2019, namely a shift towards more restrictive trade and investment policies. In the first half of 2020, trade in goods, trade in commercial services, especially in the travel and tourism sector, and foreign direct investment all suffered significantly. The Asia-Pacific region has generally fared better than the rest of the world, but despite signs of a patchy recovery in the later part of 2020, both trade and investment are expected to register an overall decline for the year. A partial recovery of sectors and regions is expected in 2021, albeit pending several unknowns, including the availability of a COVID-19 treatment and vaccine and unabating policy uncertainty. Regional cooperation, including through regional trade agreements, may help in weathering the unprecedented challenges. Despite a slowdown in the number of new agreements, several significant deals were concluded in 2020 including the Regional Comprehensive Economic Partnership Agreement, which represents almost one third of current global purchasing power. This and similar agreements provide platforms for future cooperation across a number of trade and economic thematic areas including by creating opportunities for trade and investment to more directly support and contribute to sustainable development.

The Committee on Trade and Investment may wish to consider the present document and provide guidance on the future direction of the work of the secretariat in the substantive area of trade and investment.

* Reissued for technical reasons on 25 January 2021.

** ESCAP/CTI/2021/L.1.

I. Introduction

1. The present document is based on papers in the forthcoming Asia-Pacific Trade and Investment Trends 2020/2021 series. The document includes a review of recent trends and prospects in trade and investment in the region, including the implications of the coronavirus disease (COVID-19) pandemic on regional trade and investment. The review also covers the development of trade and investment policies, trade facilitation measures and trade and investment agreements. The document concludes with some key recommendations and issues for consideration by the Committee on Trade and Investment of the Economic and Social Commission for Asia and the Pacific (ESCAP).

II. Recent trends and developments

A. Merchandise trade trends

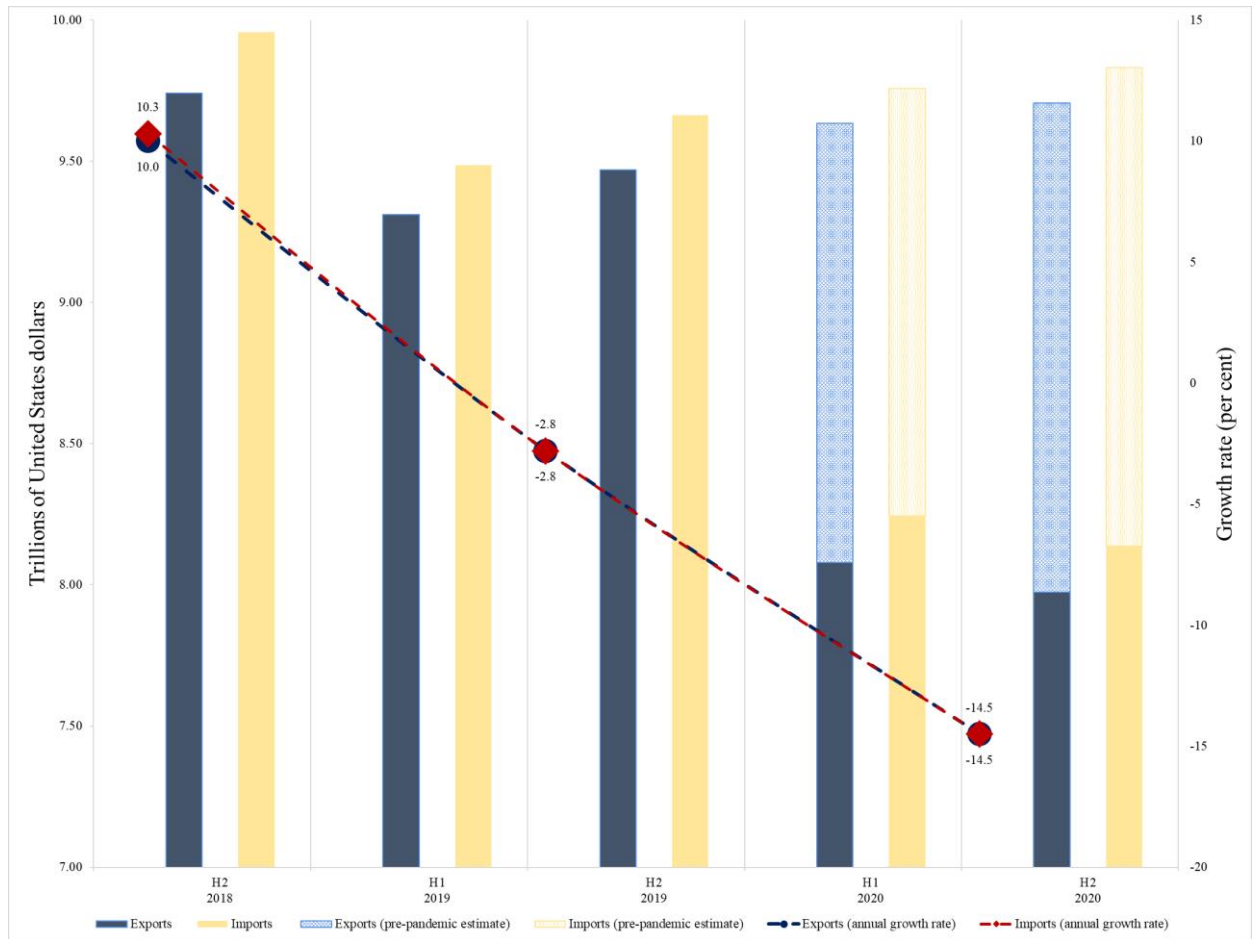
2. Global and regional merchandise trade have faced significant downward pressures throughout 2019 and 2020. The emergence of the COVID-19 pandemic, coupled with increasing trade tensions and an already slowing global economy, has paved the way for the world's worst economic performance since the Great Depression, with global trade dipping concomitantly by 14.5 per cent in 2020.

3. Despite facing a sharp decline in merchandise trade, Asia and the Pacific is expected to outperform the rest of the world in 2020. According to the most recent forecasts, export values are expected to contract by 9.7 per cent and import values by 10.3 per cent (see figure I). As a result, the region's prominence in global merchandise trade is expected to rise to an all-time high in 2020. Indeed, Asia and the Pacific is expected to account for 41.8 per cent of global exports and 38.2 per cent of global imports, up from 39.9 per cent and 36.9 per cent in 2019.

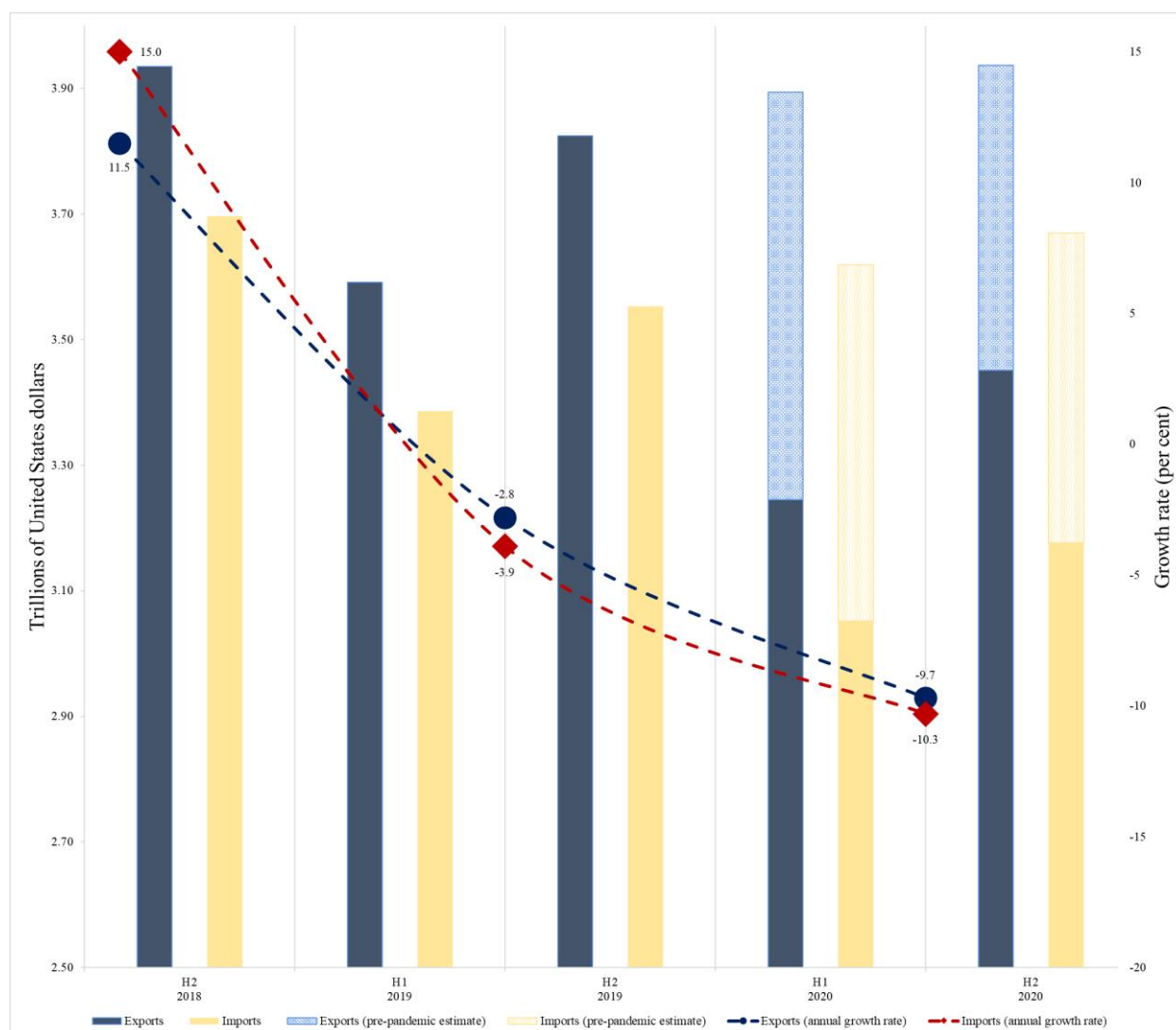
4. In comparing the most recent forecasts for the rest of the year with those made pre-pandemic, ESCAP estimates that Asia and the Pacific will lose \$2.2 trillion in potential trade in 2020. Globally, the loss is expected to rise to \$6.6 trillion.

Figure I
Global and Asia-Pacific merchandise trade performance, 2018–2020

(a) World



(b) Asia and the Pacific



Sources: ESCAP, “Trade in goods outlook”, Asia-Pacific Trade and Investment Trends 2020/2021 (forthcoming); and World Trade Organization (WTO), “WTO lowers trade forecast as tensions unsettle global economy”, press release No. 840, 1 October 2019.

Notes: International merchandise trade estimates for 2020 provided by WTO are the basis for pre-pandemic estimates in figure I (a). The values for H2 2020 are estimates based on trade forecasts for the remainder of the year.

Abbreviations: H1, first half; and H2, second half.

5. However, trade performance in 2020 has been uneven across the region. Excluding China, developing economies have been hit hardest by the current pandemic. Exports and imports in developing economies are expected to decline by 15.8 per cent and 17.1 per cent, compared with 10.1 per cent and 8.8 per cent for developed economies. This disproportionate impact on developing economies is closely linked with their limited fiscal and monetary intervention capacity, their reliance on travel and tourism services and their disadvantages in terms of digital capacity.

6. Of all subregions, South and South-West Asia is likely to experience the worst overall trade contraction for the year, with a projected drop of 21.6 per cent in exports and 21.4 per cent in imports. However, owing to the sharp decline in oil prices, North and Central Asia is expected to have the worst exports performance (24.4 per cent). Meanwhile, despite a better-than-average

exports performance, South-East Asia faces the largest import contraction (22.1 per cent). Projections for the Pacific follow the average regional trends. The best performance is expected to come from East and North-East Asia, with a trade loss estimated at 5.5 per cent, driven by the recovery in China.

7. A sectoral comparison reveals that trade in fuels and mining products has fallen the most as a result of the steep decline in demand for inputs, while agricultural products have performed the best owing to consumers' continued demand for essential products. Manufactured goods have experienced roughly the same decline as total merchandise trade, pressured by a fall in the consumption of non-essential products but boosted by heightened demand for medical products and equipment, pharmaceuticals and digital goods.

8. Intraregional trade remains a significant component of total trade in Asia and the Pacific. According to the most recent comparable trade data available,¹ approximately 54 per cent and 57 per cent of total regional exports and imports were contained within the region. Intraregional trade intensity remains unequal across the subregions. South and South-West Asia (39.3 per cent intraregional trade) and North and Central Asia (43.9 per cent) were relatively less integrated than the Pacific (73.9 per cent) and South-East Asia (68.0 per cent), which reflects subregional trade integration trends as well. Despite diverging levels of intensity, all subregions traded most with East and North-East Asia, particularly with China, than with any other subregion.

9. The economy of China remains a leading driver of trade and investment in the region. In fact, in 2018, China was either the largest or second largest export market for 22 Asia-Pacific economies (inclusive of Macao, China, and Hong Kong, China). As a result, 21.5 per cent of all Asia-Pacific exports that year (excluding China) were destined to China.

10. The regional and global importance of China as a major node in global value chains received particular attention during the early months of the pandemic, when the country's strict lockdown rules halted the production of vital intermediate and final goods. Many Asia-Pacific economies immediately felt the impacts of such a large-scale disruption, in the form of directly suppressed imports as well as diminished exports due to missing components from China. Indeed, ESCAP found that the 12 economies that contributed the most to the first-quarter global fall in imports were among the 15 most integrated with China (in terms of total value-added arriving from China and Hong Kong, China). The region as a whole directly accounted for more than half of the world's total export value loss, with its own export value plunging by 7.6 per cent, compared with the global figure of 6.2 per cent, in the first quarter of 2020.

11. In the second quarter, however, Asia-Pacific economies and global value chains showed impressive resilience. At 11.6 per cent and 16.1 per cent, the contraction in exports and imports in the region was much smaller than the historic 20 per cent fall in global trade for the quarter. China and Hong Kong, China, led the region's slowly improving trade performance as their economies gradually resumed on-site production while most other economies went in the opposite direction. As a result, exports in China and Hong Kong, China, expanded by 0.2 per cent and 2.1 per cent year-on-year, which accounted for almost all the world's total gains. Trade in COVID-19 related products, such as personal protective equipment, medical gear and digital goods, confirms the assertion that trade can help Governments to obtain needed supplies.

¹ Most recent complete data from the United Nations International Trade Statistics Database is for the year 2018.

12. High-frequency economic indicators suggest a partial rebound of merchandise trade in the second half of 2020. Indeed, according to early estimates, a 4.5 per cent year-on-year decline in global merchandise trade is expected in the third quarter, which marks a significant recovery from previous quarters but still leaves international trade far below its pre-pandemic level. The Asia-Pacific region will outperform the world in merchandise trade. The secretariat estimates that regional export value fell by a much lower 0.2 per cent during the third quarter, supported by resilient export performances in China (8.8 per cent) and Viet Nam (10.9 per cent).

13. The secretariat anticipates that trade will rebound moderately in 2021, with trade values in the region projected to grow from a very low 2020 baseline by 9.1 per cent (exports) and 10.1 per cent (imports). However, the rebound is driven more by rebounding prices than by the recovery of trade in real terms. Once price increases are factored out, it is expected that trade will grow by only 5.8 per cent (exports) and 6.2 per cent (imports) in real terms in 2021, which is still not sufficient to pull the region back up to pre-pandemic trade levels. Trade in developing economies is expected to grow faster than in developed ones. Developing countries (excluding China) are expected to experience an expansion of 8.3 per cent in export volume and 11.6 per cent in import volume, dwarfing the estimated 3.3 per cent export increase and the 0.8 per cent import decline in developed Asia-Pacific countries.

14. Nevertheless, as the fallout of the pandemic remains highly unpredictable, the forecasts in the present document are conditioned by unusually high uncertainty. Indeed, the possibility of a new wave of COVID-19 infections still looms on the horizon. If COVID-19 cases resurge, Governments may have to adopt or re-adopt lockdown measures that will significantly deepen the current economic crisis and delay an eventual recovery. On the other hand, if an effective vaccine is rapidly deployed in 2021, increased business and consumer confidence will certainly boost trade.

15. The pandemic has accelerated two structural trends which will affect global and regional trade going forward: the restructuring of global value chains and the digitization of the world economy. Even before the pandemic, global value chains were under pressure to restructure. Before geopolitical tensions accelerated the process, rising wages in China were already providing incentives to partially move production to other competitive locations. Supply chain disruptions during the pandemic may encourage leading firms to shorten global value chains and diversify supply locations. Both strategies will have strong implications for Asia-Pacific economies.

16. Countries that are either geographically close or well-integrated with the three largest markets (the United States of America, the European Union and China) will stand to benefit from the redirected investments related to global value chains. Economies in South-East Asia are expected to harness the most gains by becoming alternative supply nodes for China and other major markets. On the other hand, economies in South and South-West Asia and North and Central Asia may lose foreign direct investment (FDI) as it is reshored to Europe and the United States to be closer to customers in those markets. The fourth industrial revolution, in particular with regard to robotics, is rendering access to cheap labour less essential for global manufacturers, which makes reshoring increasingly viable.

17. Still, the redundancy costs associated with nearshoring and supply diversification, which may be encouraged by protectionist policies, may raise prices for consumers. The burden on consumers together with a permanently depressed post-COVID-19 global demand may become a major downside

pressure on the recovery of the world economy. Furthermore, the squeezing of profit margins associated with global value chain restructuring may push firms and economies to retreat from sustainable trade practices.

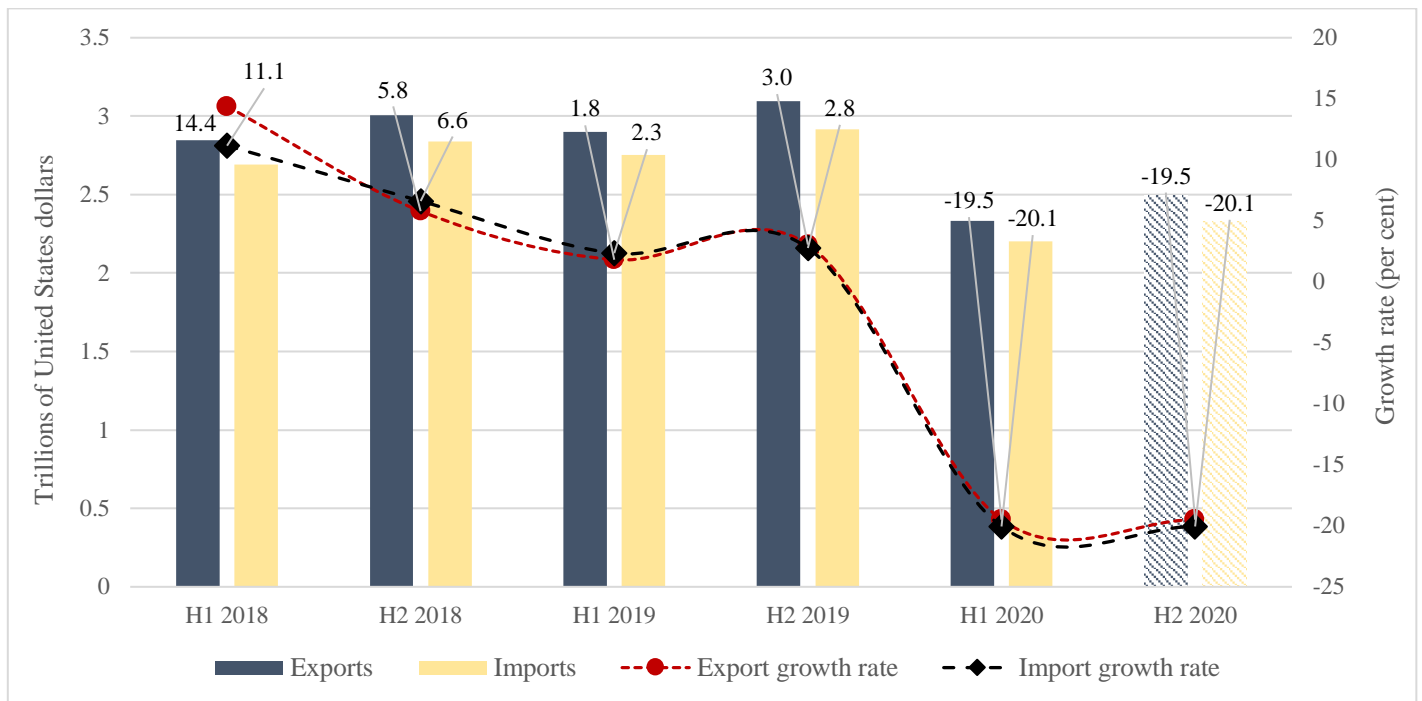
B. Commercial services trade

18. Services have sustained an even more devastating impact from the pandemic than goods. Trade in commercial services has turned from weak growth in 2019 to a sharp contraction in 2020. Globally, commercial services trade only grew marginally, by 2 per cent in 2019. In the first six months of 2020, global exports and imports declined by 19.5 per cent and 20.1 per cent compared to the same period in 2019.

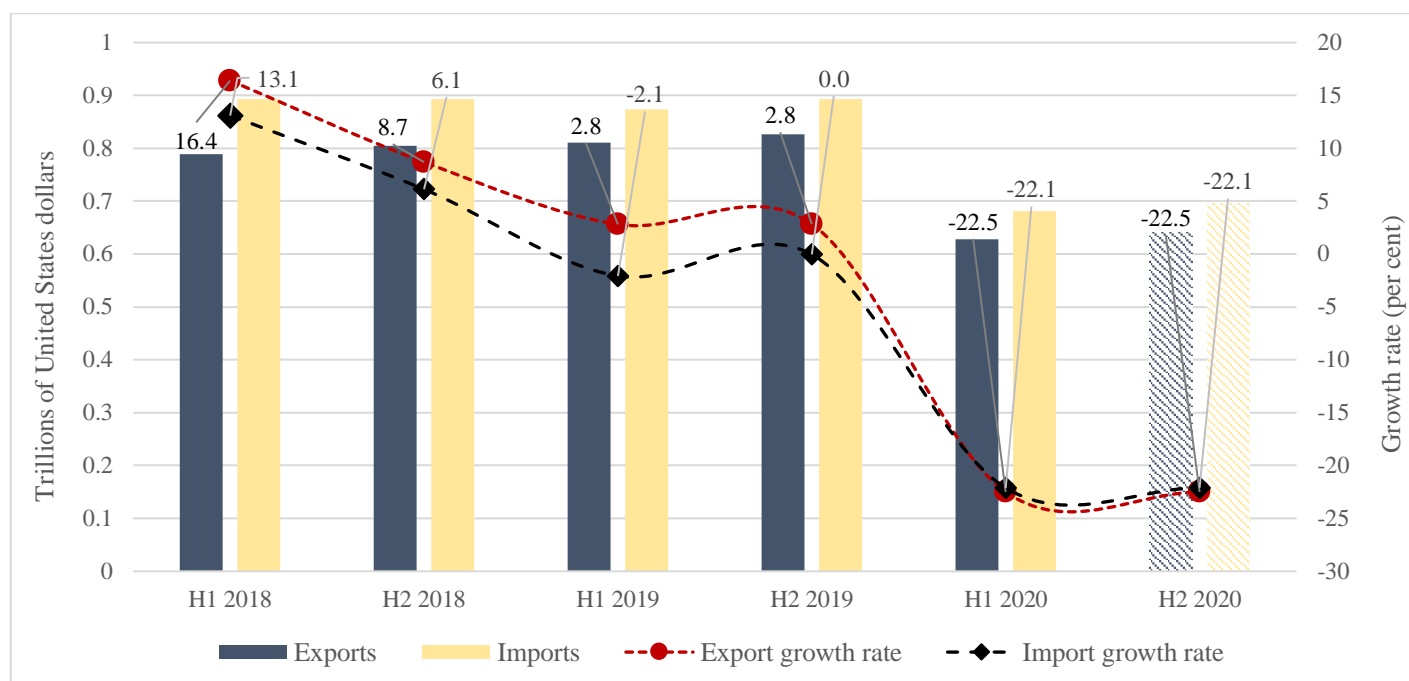
19. Commercial services trade in Asia and the Pacific performed even worse. In 2019, growth was stagnating at 0.3 per cent, but in the first half of 2020, exports and imports declined by 22.5 per cent and 22.1 per cent (see figure II). If this trend continues, the region’s share of global commercial services trade in 2020 will fall to 26.5 per cent for exports and 30.1 per cent for imports, down from 27.8 per cent and 31.5 per cent in 2019.

Figure II
Global and Asia-Pacific commercial services trade performance, 2018–2020

(a) World



(b) Asia and the Pacific



Source: ESCAP, “Trade in commercial services outlook”, Asia-Pacific Trade and Investment Trends 2020/2021 (forthcoming).

Note: The values for H2 2020 are estimates based on trade growth rates from the first half of 2020.

20. A weak recovery has occurred in the second half of the year as many regional economies partially lifted virus-containment measures. According to the latest data from the World Trade Organization (WTO) Services Trade Barometer, global transport services, construction services and the global services Purchasing Managers Index have shown moderate improvements following a sharp fall in the second quarter. Commercial services trade figures in the world and in Asia and the Pacific are likely to remain significantly lower than before the pandemic. Recovery is still fragile given the possibility of further COVID-19 waves which would force Governments to re-adopt lockdown measures, undermining the confidence of consumers and investors. In fact, import growth in China remains 30.1 per cent lower than the same period in 2019. The reduced services demand in China will have strong implications for the exports in travel and tourism services of Asia-Pacific trade partners.

21. The potential for trade recovery is also varied across sectors and economies. In general, travel- and transport-dependent economies face more adverse impacts than others. In contrast, economies exporting information and communications technology (ICT) services and digitally enabled services may gain some opportunities arising from the adoption of digital tools and services accelerated by the COVID-19 pandemic. The services export performance of China in the early months of the third quarter is noteworthy in the region. Indeed, the country’s exports in the first two months of the third quarter grew by 3.6 per cent compared to the same period in 2019.

22. Between January and August 2020, Asia and the Pacific experienced a 78.8 per cent decrease in international tourist arrivals, as more than 60 per cent of regional economies imposed complete border closures at some point during the period. The decline in tourist arrivals amounted to a staggering 96 per cent drop in July and August compared to the same months in 2019. International tourist arrivals in the Asia-Pacific region are expected to drop by 76.3 million in

2020.² The decline in travel services is putting tremendous pressure on many economies in the region. Indeed, before the pandemic, exports of travel services, including tourism-related services, accounted for more than 4 per cent of gross domestic product (GDP) in 19 regional economies and more than 70 per cent of total services exports in 8. It is important to note that a majority of the travel- and tourism-dependent economies are countries with special needs. These economies have suffered devastating impacts despite often having a relatively low number of COVID-19 cases.

23. Transport services, a key sector, accounts for 18.6 per cent and 25.1 per cent of total commercial services exports and imports in the Asia-Pacific region as of 2019. Because of travel restrictions, border closures and demand shocks combined, there were significant declines of trade in all three transport segments, namely maritime, air and inland transport services. Data from the International Civil Aviation Organization (ICAO) show a massive 65.3 per cent drop in international flights (1.3 million) in Asia and the Pacific for the first eight months of 2020, compared to the same period the previous year.³ Maritime transport services also dropped sharply. The sector was affected by supply chain disruptions during the first quarter, and later by the sharp decline of trade in goods, which are mainly transported by sea. However, maritime transport indicators seem to have recovered in the second half of the year, linked to a revival of merchandise trade.

24. The ICT services sector accounted for 10.7 per cent and 5.7 per cent of exports and imports in the Asia-Pacific region in 2019 and have played an important role in supporting the digitization of economic activities during the COVID-19 pandemic. A decrease in trade in ICT services in the region is expected in 2020, driven mostly by demand shocks. On the basis of an International Data Corporation survey of regional economies, Asia-Pacific spending in the services sector is forecast to face a 1.3 per cent year-over-year decline in 2020.⁴ However, COVID-19 has also brought upward pressure on demand in select subsectors of ICT services, in particular computer and Internet services. There was a massive surge in Internet traffic in the region, by 75 per cent and 32 per cent in the first and second quarters of 2020. Services related to social networking and online collaborative platforms are expected to grow between 17.3 per cent and 31.3 per cent across major Asia-Pacific economies. In addition, public cloud services, another segment of the ICT services sector, are expected to display a positive trend through 2020.

25. Regional trade in services is not expected to return to pre-COVID-19 levels during 2021. Travel and tourism services, another key commercial services sector in the Asia-Pacific region, are expected to remain depressed in 2021, with global passenger numbers not expected to return to 2019 levels until 2023.⁵ Trade in transport services, specifically air transport, will also remain below 2019 levels. One likely upward trend in 2021 will be in maritime transport services, if merchandise trade recovers. Similarly optimistic prospects exist for

² World Tourism Organization, *World Tourism Barometer*, vol. 18, Issue 6 (October 2020).

³ ICAO, “Flights among months including passenger and cargo – domestic and international”, Operational Impact on Air Transport database. Available at <https://data.icao.int/coVID-19/operational.htm> (accessed on 1 October 2020).

⁴ International Data Corporation, “IDC expects Asia/Pacific excluding Japan IT spending to decline by -1.3% in 2020 as COVID-19 continues to challenge markets”, 13 May 2020.

⁵ International Air Transport Association, “Industry losses to top \$84 billion in 2020”, press release No. 50, 9 June 2020.

computer services, which have already achieved positive growth globally in 2020 owing to greater demand for digitization.⁶ Nonetheless, the prospect of recovery in 2021 remains fragile. Potential new waves of COVID-19 in major trading partners, and the attendant possibility of reimposing lockdown restrictions, adds uncertainty to any prospects of recovery.

26. Uncertain prospects notwithstanding, the potential of trade recovery varies across services sectors and economies. Depending on their patterns of trade in services, different economies experience different threats and opportunities arising from social distancing measures and restrictions on mobility. In general, travel- and transport-dependent economies face more adverse impacts than others. In contrast, economies involved in exporting ICT services and digitally enabled services may gain access to new opportunities arising from the digital adoption accelerated by COVID-19. These services have tremendous potential to grow if regulatory bottlenecks, in particular with regard to data privacy, security and operational efficiency, are addressed in developing Asia-Pacific economies.

27. In the medium-to-long term, digitization, accelerated by the COVID-19 pandemic, will redefine the nature of trade in services in Asia-Pacific economies. The trend of delivery services through digital means will remain after the pandemic, because the higher efficiency and productivity they can bring has been realized. In that regard, digitally enabled services may substitute for some part of other services. For example, telemedicine and teleconference services may reduce demand for travel, including passenger air transport services. Similarly, the COVID-19 pandemic has precipitated the transition to e-commerce as the new normal. This may require the Governments of developing countries in the region to adjust their development priorities and focus on acquiring the capacity to effectively engage in a rapidly digitizing trade environment.

C. Foreign direct investment

28. Similar to trade, investment flows to the region have become increasingly uncertain as a result of global and regional political economic risks such as increased trade tensions, the retreat from multilateralism and, most recently, the COVID-19 pandemic. Both inward and outward FDI in Asia and the Pacific reached unprecedented levels in 2018, making the region simultaneously the most attractive destination for global FDI inflows and the largest source of global FDI outflows. However, political and economic uncertainties in 2019 caused contractions in the region's share of global inward and outward FDI; its share of global FDI inflows dropped from 45 per cent in 2018 to 35 per cent in 2019, and its share of global FDI outflows dropped from 52 per cent to 41 per cent. Nevertheless, the region remained the largest source of global outflows for the second year running in 2019.⁷

29. While FDI inflows to Asia and the Pacific have continued to decline in 2020, the region has seen a less severe contraction in investment compared with other regions, in large part owing to the resilience of inflows to China. Indeed, FDI inflows to China in the first half of 2020 declined by 4 per cent, to \$76 billion, while inflows to Hong Kong, China, grew by 22 per cent. Investment facilitation measures aimed at retaining announced greenfield investments contributed to stabilizing inflows to China despite the crisis. The Republic of

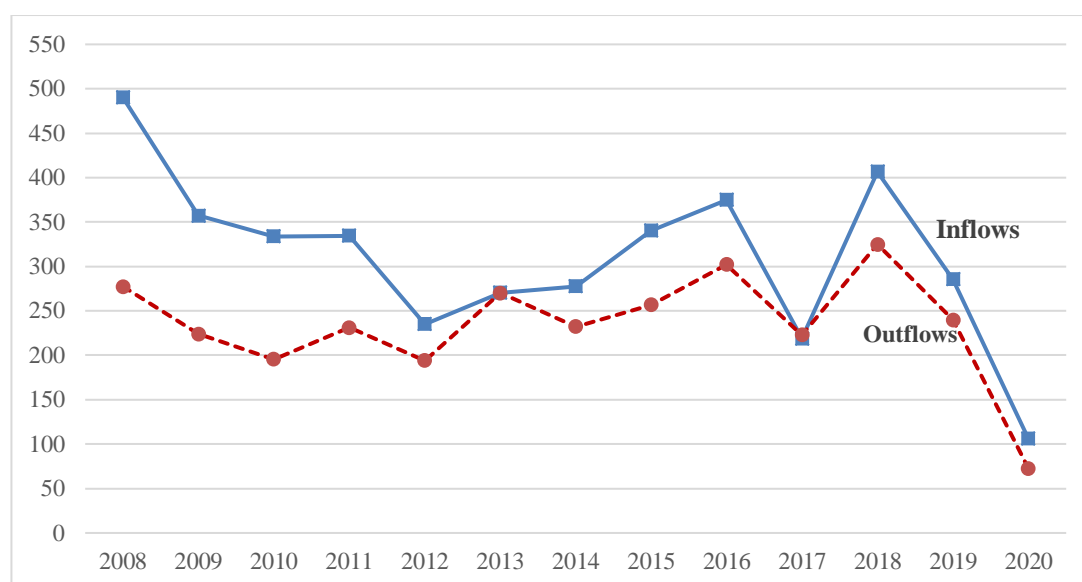
⁶ WTO, "Services trade drops 30% in Q2 as COVID-19 ravages international travel", 23 October 2020.

⁷ ESCAP calculations based on *World Investment Report 2020: International Production Beyond the Pandemic* (United Nations publication, 2020).

Korea, India, Singapore, Indonesia and Viet Nam (in descending order) all experienced significant drops in FDI inflows in the first half of 2020, by 34 per cent, 33 per cent, 28 per cent, 24 per cent and 16 per cent.⁸

30. The value of announced greenfield projects in Asia and the Pacific, which is an indicator of future FDI trends, dropped in 2019 to \$285 billion, its lowest level in four years (see figure III). In 2020, the pandemic has accelerated the downward trend in greenfield FDI inflows to the region. Lockdown measures, including the physical closure of businesses, manufacturing plants and construction sites, were responsible for delayed and cancelled investment projects in 2020. Moreover, as the pandemic continues to unfold, investment is expected to remain below pre-crisis levels in 2021. The outlook beyond 2021 is highly uncertain and dependent on the duration of the crisis and the effectiveness of policy interventions in stimulating investment and navigating the economic effects of the pandemic, as well as geopolitical and ongoing trade tensions. At this stage, FDI recovery rates are challenging to predict because they are dependent on the rate of recovery of FDI within the region and countries outside of the region.

Figure III
Announced greenfield foreign direct investment flows to Asia and the Pacific, 2008–2020
 (Billions of United States dollars)



Source: ESCAP calculations based on data from fDi Intelligence. Available at www.fdimarkets.com (accessed on 25 October 2020).

Note: Values for 2020 cover the period January–August.

31. The pandemic has also severely disrupted greenfield outflows from the region. Between January and August 2020, greenfield outflows totalled \$72 billion, which represents a 48 per cent decline compared to the same period in 2019 and a 67 per cent decline compared to the same period in 2018. The outlook for outward greenfield investment in 2021 and beyond is similar to that for inward greenfield investment: unlikely to recover before 2022 and inextricably tied to the duration of the crisis, the effectiveness of policy responses and several other political and economic risks. Additionally, the rise

⁸ United Nations Conference on Trade and Development (UNCTAD), *Global Investment Trends Monitor*, No. 36 (October 2020).

in protectionist measures, particularly in the sectors of national security and health, that COVID-19 has triggered across the globe will deter the recovery of outward investment for the foreseeable future.

32. Since 2009, intraregional greenfield FDI in Asia and the Pacific has continuously made up a larger portion of total greenfield FDI inflows to the region. Its share of total greenfield FDI inflows to the region grew from 40 per cent in 2009 to 47 per cent in 2019. The growth and emergence of Asia-Pacific member States as outward investors has reinforced the growing importance of intraregional investments in the region. States members of the Association of Southeast Asian Nations (ASEAN) continued to attract the largest share of intraregional greenfield investments, receiving \$51 billion (38 per cent) of all intraregional greenfield investments in the region as a whole. Of those countries, Viet Nam, Indonesia and the Philippines (in descending order) attracted the largest flows of intraregional greenfield investments.

33. The largest recipients of intraregional greenfield inflows in 2019 were Sri Lanka (18 per cent), followed by Viet Nam (16 per cent) and China (11 per cent). Indonesia was the largest source of investments in Sri Lanka, while the Republic of Korea and China were the largest sources of investment in Viet Nam. Nonetheless, intraregional greenfield investments have also slowed in 2020 owing to the pandemic, with announced intraregional greenfield investment values dropping to \$35 billion for the period January–August 2020. Recovery will be slow, and a full recovery is not expected before 2022.

D. Trade policy developments

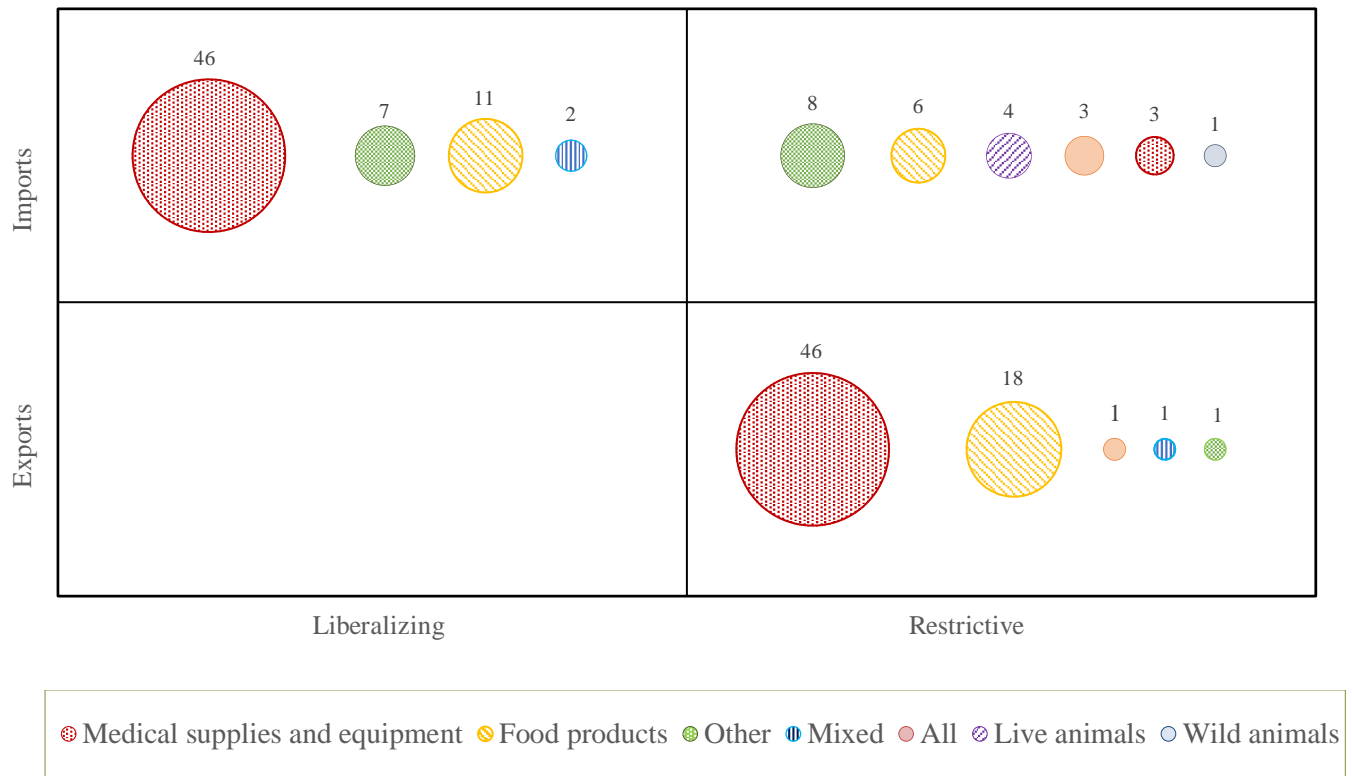
1. Pandemic-response trade measures

34. The most prominent and well-publicized trade policy developments in 2020 have been related to policies adopted in reaction to the COVID-19 pandemic. Figure IV serves to summarize the direction of policy interventions (liberalizing versus restrictive) for merchandise exports and imports in Asia-Pacific economies, grouped by product type. It shows that the COVID-19 pandemic has brought about an unusual trade policy trend. There have been no policies designed to liberalize exports. Instead, there has been a push to restrict exports, albeit for a narrow product range, most notably medical and related products and food products, and sometimes a combination of them (“mixed” in the figure, sometimes jointly referred to as “essential products”). Likewise, efforts to liberalize imports in the same product groups also ran somewhat contrary to typical mercantilist trade measures which are aimed at maximizing exports and minimizing imports.

35. As of October 2020, 158 measures had been implemented in the region, comprising 92 restrictive and 66 liberalizing measures. Approximately two thirds, or 106, of the measures implemented were temporary in nature. Of those, 87 either had expired or were set to expire by the end of 2020, 4 were tentatively set to expire by the end of 2021 and 15 were described as temporary, but with no expiration date specified.

36. The trade-restrictive measures implemented in response to the pandemic appear to have been driven not by commercial objectives but by public policy objectives, such as Sustainable Development Goal 3 (Good health and well-being) and Goal 2 (Zero hunger). Whether economically optimal or not, most COVID-19-related trade-restrictive measures in 2020 have been purportedly implemented with a view to safeguarding against spread of the virus.

Figure IV
Trade-related policies implemented in Asia-Pacific economies in response to the coronavirus disease, by product targeted



Source: ESCAP calculations based on International Trade Centre, “COVID-19 temporary trade measures: temporary trade measures enacted by government authorities in relation to COVID-19 pandemic rapidly spreading across the world”. Available at www.macmap.org/en/covid19 (accessed on 25 October 2020).

37. Digital trade facilitation measures expedite trade in critical goods and also have the bonus of being compatible with physical distancing, reducing the chance of the further spread of COVID-19. Some of the digital trade measures, such as the acceptance of digital copies of documents in lieu of originals were also temporary in nature. However, the COVID-19 pandemic has accelerated the trend towards the digitization of trade procedures, and it is expected that many of the measures implemented will stay in place.

38. With regard to the services sector, according to WTO,⁹ 12 ESCAP member States have implemented a total of 23 COVID-19-related measures affecting trade in services. Of these, 13 were measures targeting the financial services sector, often involving the facilitation of lending or support for the liquidity of financial institutions.

39. While restrictions and border measures affecting in-bound travel have had results similar to those of export restrictions, Governments are trying to alleviate some economic pains by promoting domestic tourism and giving preference to local suppliers. Although the temptation to turn inward is understandable, these measures have created biases that may delay the global economic recovery.

⁹ “COVID-19: measures affecting trade in services”. Available at www.wto.org/english/tratop_e/covid19_e/trade_related_services_measure_e.htm, accessed on 27 October 2020.

2. General trade measures

40. Governments in the region are resorting to tariffs as a trade policy, with the intent of either generating tax revenue or, more likely, supporting domestic industries. Average applied tariff rates in the majority of Asia-Pacific countries increased from an all-time low of 6.1 per cent in 2016 by more than 1.1 percentage points in the subsequent two years. In addition, there seem to be tariff policy uncertainties in most developing economies in the region, in a climate in which most Governments may raise tariffs at any time. This situation has been created by the significant policy space that currently exists in the form of tariff water, defined as the difference between most-favoured nation and bound rates.

41. It is noteworthy that effectively applied rates in many economies remain close to most-favoured nation applied rates, suggesting the presence of further unexplored potential with regard to trade agreements. This proximity between rates also suggests that key import sectors that are threatened continue to be protected by prohibitive tariffs through positive and negative lists. Exceptions to this trend are the Republic of Korea in East and North-East Asia; Bangladesh, India and Turkey in South and South-West Asia; and the majority of the economies of South-East Asia. These economies have significant differences between applied and most-favoured nation rates, which means traders could avail themselves of lucrative opportunities if they were to effectively utilize preferential benefits offered under relevant trade agreements.

42. In addition, economies in Asia and the Pacific have made substantial use of non-tariff measures as trade policy tools. Many non-tariff measures can be important tools to address sustainable development.¹⁰ However, as a rule, they generally increase trade costs. The cumulative number of non-tariff measures of which WTO has been notified by Governments in Asia and the Pacific reached 12,000 in 2019, and the trend is likely to continue in the future. It is therefore imperative that trade costs associated with non-tariff measures, particularly sanitary and phytosanitary measures and technical barriers to trade measures, be reduced through digital trade facilitation, harmonization and other methods of streamlining.

43. Geopolitical tensions contributed to the growing number of non-tariff measures in the past two years. The vast majority of the contingent trade protection measures of which WTO was notified by ESCAP member States in 2019 (nearly 95 per cent) were anti-dumping duties. In 2019, there were 1,911 anti-dumping measures in force worldwide against individual economies, with 1,449 of them aimed at economies in Asia and the Pacific, including 645 at China alone, followed by 137 at the Republic of Korea. The figure has increased slightly from the global total of 1,862 anti-dumping measures in 2018, of which 1,416 were aimed at economies in the region, with 629 and 138 aimed at China and the Republic of Korea. Non-agricultural products exported from Asia-Pacific economies suffered the brunt (approximately 95 per cent) of anti-dumping duties, specifically in the minerals and metals and chemicals sectors.

44. Trade in services is not immune to barriers either, but the nature of barriers affecting trade in services can be different from those affecting trade in goods. One distinguishing feature of trade in services is that it is predominantly affected by “behind the border” measures, which come from domestic regulations not necessarily related to trade policies. The services trade restrictiveness index of the Organization for Economic Cooperation and Development (OECD) provides data on 11 economies in the region up to and

¹⁰ ESCAP, “Trade in goods outlook”, Asia-Pacific Trade and Investment Trends 2019/2020 (Bangkok, 2019).

including 2019. On that basis, the region's services trade restrictiveness (overall scored at 0.36 on the index) is significantly higher than that of the rest of the world (0.24). Overall, then, there is room to reduce regulatory barriers to increase the region's services trade share, which still lags behind the global average.

3. Trade facilitation

45. Continuous progress has been made in Asia-Pacific economies in implementing trade facilitation measures, but there are still gaps, and the level of implementation varies across economies and subregions. The latest data from the United Nations Global Survey on Digital and Sustainable Trade Facilitation reveal that the regional average implementation of the comprehensive set of measures stands at 59.7 per cent.¹¹ Implementation levels vary greatly across countries and subregions; in some advanced economies such as the Republic of Korea, Singapore and New Zealand, implementation rates of over 90 per cent have been achieved, while in several Pacific countries, implementation barely reaches 30 per cent. Implementation levels also vary across groups of measures, with the lowest implementation levels being observed for cross-border trade digitization measures and trade facilitation measures in support of women.

46. The pandemic has demonstrated the urgency of fully implementing the WTO Agreement on Trade Facilitation and leveraging paperless trade, including cross-border paperless trade, which will be necessary to mitigate the crisis. It has also given significant impetus in some countries to the accelerated implementation of paperless trade. Electronic certificates of origin are now accepted in many countries, as are sanitary and phytosanitary certificates, although these facilitation measures have often remained temporary.¹²

47. In that context, the COVID-19 crisis underscores the important role of the Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific.¹³ This Agreement provides a common set of general principles and a dedicated intergovernmental platform for cross-border paperless trade to support Governments in reducing trade costs and increasing regional supply chain resilience. The Agreement also provides opportunities to exchange information on and harmonize paperless trade practices and to develop specific technical and legal protocols needed to achieve safe and secure cross-border paperless trade. Seven member States have either signed, acceded or ratified the Agreement to date. The Governments of Azerbaijan and the Philippines acceded to the treaty in 2019, while the Governments of the Islamic Republic of Iran and Bangladesh ratified it in 2020. The Government of China has also completed its domestic ratification process. An additional 20 member States participate in the Interim Intergovernmental Steering Group on Cross-Border Paperless Trade Facilitation, which is developing a road map and tools to support implementation once the Agreement enters into force.

¹¹ ESCAP, *Digital and Sustainable Trade Facilitation in Asia and the Pacific 2019: Based on the United Nations Global Survey on Digital and Sustainable Trade Facilitation* (Bangkok, 2019). Available at www.unescap.org/sites/default/files/UNTFSSURVEY%20ASIA-PACIFIC%20REPORT%202019%20%28final%29.pdf.

¹² ESCAP, "Seamless trade and transport connectivity in Asia and the Pacific: regional cooperation in the context of the COVID-19 pandemic" (Bangkok, 2020).

¹³ Commission resolution 72/4, annex.

4. Barriers to digital trade

48. Although its importance is clear, trade in digital goods and services continues to be hindered by restrictions. Barriers to digital trade often come from domestic regulations extending to areas beyond trade policies, including data protection, intermediary liabilities, intellectual property rights infringement, filtering or blocking and cybersecurity standards. From 2014 to 2019, on the basis of the OECD digital services trade restrictiveness index scores of the nine Asia-Pacific economies for which data are available, the regional score rose from 0.21 to 0.26. In all nine economies, regulatory barriers related to digital infrastructure and connectivity tend to be most prevalent.

49. Moreover, recent anecdotal evidence suggests that barriers are emerging from uncoordinated and conflicting policy objectives in digital trade policy. For example, physical absence and the difficulty of quantifying assets, activities and types of income make it difficult to develop digital tax policies. Similarly, the absence of information on value creation along digital value chains, for example with regard to social media platforms and online news, makes it particularly challenging to find a revenue-sharing scheme that is optimal for both the platforms, which own distribution channels, and the media firms, which own content. Since 2019, there have been increased restrictions on the usage of various mobile applications perceived as potentially threatening national security in certain countries. In addition, Governments have put in place a ban on certain foreign vendors to prevent them from providing equipment for fifth-generation wireless systems (5G) infrastructure projects. While restrictions may be used to achieve legitimate public policy objectives, including national security objectives, their use for protectionist purposes remain a concern.

50. According to the secretariat's research, burdensome and diverse regulations and the lack of inclusive access to supporting ICT infrastructure have been undermining the digital trade integration of regional economies, in particular those in the middle- and low-income groups. For example, the majority of people in low-income regional economies do not have access to or are unable to use the Internet, let alone high-speed broadband. In fact, only one in five people in least developed countries use the Internet, and more than 70 per cent of people in certain ASEAN economies remain offline. As a result, they are unable to fully participate in the digital economy. The growing importance of digitization in a world characterized by a new normal will put the economies lacking digital readiness in a highly challenging situation.¹⁴

5. Preferential trade agreements

51. The number of newly signed preferential trade agreements in the Asia-Pacific region has notably declined in 2020, mostly owing to the COVID-19 pandemic, which not only disrupted international trade flows but also compromised trade negotiations and global cooperation. Between January 2018 and October 2020, 25 new preferential trade agreements were signed by at least one Asia-Pacific Government. Of those, 11 were signed in 2018, 11 in 2019 and 3 in 2020. Preferential trade agreement negotiations also stalled. Of the 10 outstanding preferential trade agreement initiatives started since January 2019 (6 intraregional and 4 extraregional) negotiations have started for just 3 in 2020.

52. However, the signing of the Regional Comprehensive Economic Partnership Agreement on 15 November 2020 was a major milestone for trade integration in Asia and the Pacific. The Agreement serves to broaden and deepen

¹⁴ UNCTAD, "The COVID-19 crisis: accentuating the need to bridge digital divides" (Geneva, 2020); and International Monetary Fund Blog, "Chart of the week: the digital divide in Asia", 25 September 2018.

the engagement of the 10 ASEAN member States with Australia, China, Japan, New Zealand and the Republic of Korea. Together, these economies account for approximately 30 per cent of the world's GDP and population. The Agreement also serves to update the coverage of existing preferential trade agreements between ASEAN and a non-member of ASEAN and includes chapters with content beyond the scope of traditional trade issues, such as e-commerce, investment and small and medium-sized enterprises.

53. The Asia-Pacific region continues to be the largest contributor to the worldwide accumulation of preferential trade agreements. Of preferential trade agreements with at least one regional party, 183 are in force, 17 are signed and pending ratification and 96 are still under negotiation. The majority of preferential trade agreements go beyond the liberalization of trade in goods, with 54 per cent of all preferential trade agreements in force in the region covering both goods and services. Bilateral preferential trade agreements account for approximately 78 per cent of all preferential trade agreements in force. In terms of geographical coverage, 49 per cent of all Asia-Pacific preferential trade agreements are with extraregional partners, which reinforces the active participation of member States with dialogue partners within and outside the region.

54. Recent trends in new trade agreements suggest a move towards comprehensive agreements that also address digital trade issues. Most new agreements signed in the region cover areas such as investment, labour standards, intellectual property rights and environmental standards. In fact, all 14 agreements signed between 2019 and 2020, except the preferential trade agreements between Indonesia and Mozambique and between the Eurasian Economic Union and Serbia, go beyond liberalizing trade in goods. In addition, trade agreements in the region have increasingly included digital trade issues: 7 of the 14 trade agreements signed between 2019 and 2020 already include specific e-commerce provisions. Moreover, the first bilateral digital trade agreement was signed in 2019 by the Governments of Japan and the United States. So far, two more digital trade agreements have been signed in the region and one more is under negotiation.

E. Investment policy developments

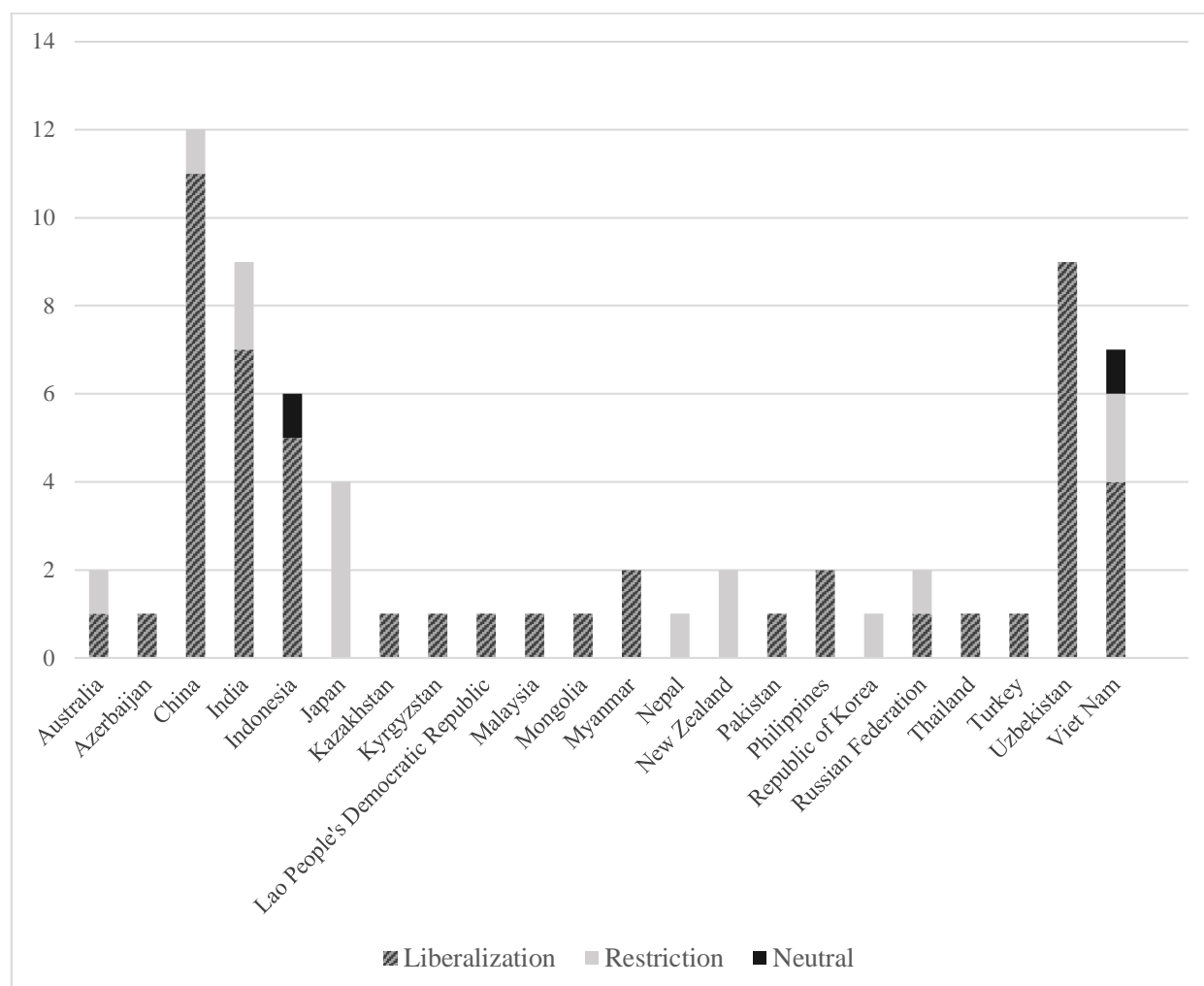
55. With regard to investment policy, 95 measures were implemented globally and 39 regionally in 2019 (adopted by 16 Governments in Asia and the Pacific), compared to 92 globally and 40 regionally in 2018. Between January and October 2020, 64 measures were implemented globally and 30 regionally. Among the investment policy measures implemented by Asia-Pacific Governments in 2019, 32 were aimed at liberalizing, promoting or facilitating investment, 7 measures were aimed at restricting or regulating investment, and 1 was neutral (see figure V). Among those implemented in the region thus far in 2020, 20 have been focused on liberalization, 9 have been focused on restrictions and 1 has been neutral. Compared to 2018, in 2019 there were 5 more measures to promote investment and 4 fewer measures to restrict it. In 2020, however, there have been 12 fewer measures to promote investment than in 2019 and 2 more to restrict it. The number of new neutral policies introduced has remained largely consistent each year (3 in 2018, 1 in 2019 and 1 in 2020).¹⁵

56. In 2020, new restrictive measures have been introduced in Australia, India, Japan, New Zealand and the Russian Federation. These restrictions have all been implemented since the outbreak of and in response to the COVID-19

¹⁵ UNCTAD, "Country navigator", Investment Policy Hub. Available at <https://investmentpolicy.unctad.org/country-navigator> (accessed on 25 October 2020).

crisis and have been focused on intensified screening of FDI and on protecting domestic capacity in the health-care, pharmaceutical and medical device sectors. For instance, the Government of Australia has temporarily tightened its rules on foreign takeovers; the Government of India has implemented screening procedures for FDI from neighbouring countries; the Government of Japan has introduced investment screening measures in the pharmaceutical and medical device sector; the Government of New Zealand has implemented temporary changes to investment screening rules; and the Government of the Russian Federation has introduced screening procedures on temporary foreign acquisitions. Meanwhile, some Governments in the region have implemented specific measures to clarify, promote and target investment in 2020. For instance, the Government of Azerbaijan has extended a tax exemption period for residents of industrial and high-technology parks; the Government of Indonesia issued new requirements for e-commerce companies which, among other things, ease the process of setting up such businesses; and the Government of Viet Nam has introduced investment incentives for small and medium-sized enterprises and expanded the list of sectors and industries that are eligible for the incentives.

Figure V
Number and type of investment policy changes in Asia-Pacific countries, January 2019 to October 2020



Source: ESCAP calculations based on data from the United Nations Conference on Trade and Development Investment Policy Hub. Available at <https://investmentpolicy.unctad.org/> (accessed 25 October 2020).

57. With regard to international investment governance, the conclusion of international investment agreements has been slowing down since 2017 at the global and regional levels. Globally, as of August 2020, the total number of international investment agreements in force reached a 37-year low of 2,662. Moreover, the number of terminated agreements has continuously outpaced the number of newly signed agreements over the past three years, highlighting the continued need for review and revision of the international investment agreement regime to more effectively rebalance the rights and obligations of investors and host countries.

58. In 2018, 59 international investment agreements were signed and/or entered into force globally, 38 of which involved Asia-Pacific countries. In 2019, there were 33 new agreements, including 21 at the regional level. Thus far in 2020, only 9 agreements have been signed and/or entered into force globally and 6 regionally. Asia-Pacific Governments signed the largest number of agreements between January 2019 and October 2020.

59. Regionally, there were 30 bilateral investment treaties signed in 2018 and 13 in 2019, and there have been 3 so far in 2020. Between January 2019 and October 2020, 15 bilateral investment treaties were signed and/or entered into force in the region. Notably, the Governments of Armenia, Japan and Kyrgyzstan were the three most active in concluding these treaties. Meanwhile, 12 treaties were terminated by one or more Governments in the region. The Government of India was the most active in terminating agreements, with 7 treaties terminated between January 2019 and October 2020.

60. Globally, 12 treaties with investment provisions were signed and/or entered into force in 2018 and 11 in 2019, and 5 have been signed and/or entered into force so far in 2020. Regionally, there were 8 treaties with investment provisions that were signed and/or entered into force in 2018 and 2019 and 3 so far in 2020.

III. Recommendations

61. Overall, international trade and FDI are sputtering as engines of development, although less in Asia and the Pacific than at the global level. Both trade and investment flows have been strongly affected by disruptions in supply and demand linked to the ongoing COVID-19 pandemic. These disruptions have come at a time of ongoing trade tensions between the world's two largest economies and a continuing trend towards increased protectionism.

62. Collective action is needed to ensure that trade and investment can help efforts to build back better and achieve sustainable development in the Asia-Pacific region, as envisaged in the 2030 Agenda for Sustainable Development. The signing of the Regional Comprehensive Economic Partnership Agreement on 15 November 2020, after more than eight years of negotiations, is a step in the right direction, and it is hoped that this agreement can enter into force in a timely manner.

63. In addition to covering trade and investment liberalization and facilitation with regard to both goods and services, future agreements may include provisions to increase coordination and minimize disruption in trade and supply chains in times of crisis or pandemics. They may also include chapters dedicated to ensuring that trade and investment more directly contribute to the achievement of the Sustainable Development Goals, such as chapters on strengthening labour rights or protecting the environment. Future agreements and cooperation initiatives in trade and investment should be as inclusive as possible to enable less developed economies, in particular graduating least developed countries, to participate and benefit.

64. Given the accelerated digitization of social and economic activities and the growing importance of digital trade, regional trade cooperation may also focus on the harmonization of rules and regulations related to digital trade and trade digitization. To that end, member States should leverage, to the extent possible, existing standards and international frameworks such as the Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific, which has already been adopted by the Commission.

IV. Issues for consideration by the Committee

65. The Committee may wish to consider the present document and its recommendations and provide guidance on the future direction of the work of the secretariat. It may also wish to discuss how ESCAP may support cooperation among member States in the following areas:

(a) Promoting regional cooperation on trade and investment to build back better and accelerate actions to promote the 2030 Agenda;

(b) Supporting the countries with special needs in the development of trade and investment policy frameworks that will help them to recover from the COVID-19 crisis and prepare for future crises;

(c) Enabling the inclusive and sustainable participation of member States in digital trade and the digital economy, including through technical assistance and the removal of unnecessary regulatory barriers to digital trade and related procedures.
