



Managing the COVID-19 Impact on Trade in CAREC Countries

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COVID-19 weighed heavily on economic systems globally...

Loss Estimates (Excluding Policy Measures): Deviation from non-COVID-19 baseline

Economy/Region	GDP		Employment		Trade	
	\$ million	% of baseline	million	% of baseline	\$ million	% of GDP
World	9,082,289.3	10.6	242.1	9.2	2,622,851	2.9
Developing Asia	1,986,128.1	8.6	166.2	10.7	1,155,085	4.3
Central Asia	51,301.2	14.1	3.0	10.1	4,962	0.8
East Asia	1,236,835.8	7.6	98.8	14.2	598,321	3.5
Southeast Asia	329,175.6	11.1	18.4	6.7	344,434	9.7
South Asia	364,270.5	10.4	45.9	8.2	147,987	4.3
The Pacific	4,545.0	13.2	0.2	6.5	250	0.3
United States	2,461,800.4	12.0	13.5	15.6	41,674	0.2
European Union + UK	2,556,643.0	13.6	25.1	17.0	756,333	3.4
CAREC	1,118,598	7.8	99.8	14.0	496,467	3.3

Note: Based on 6-month containment scenario—which anticipates economy-specific declines in tourist arrivals, domestic consumption, investment, and production, and increase in trade costs—it takes about 6 months for economies to get their domestic outbreaks under control and to start normalizing economic activities.

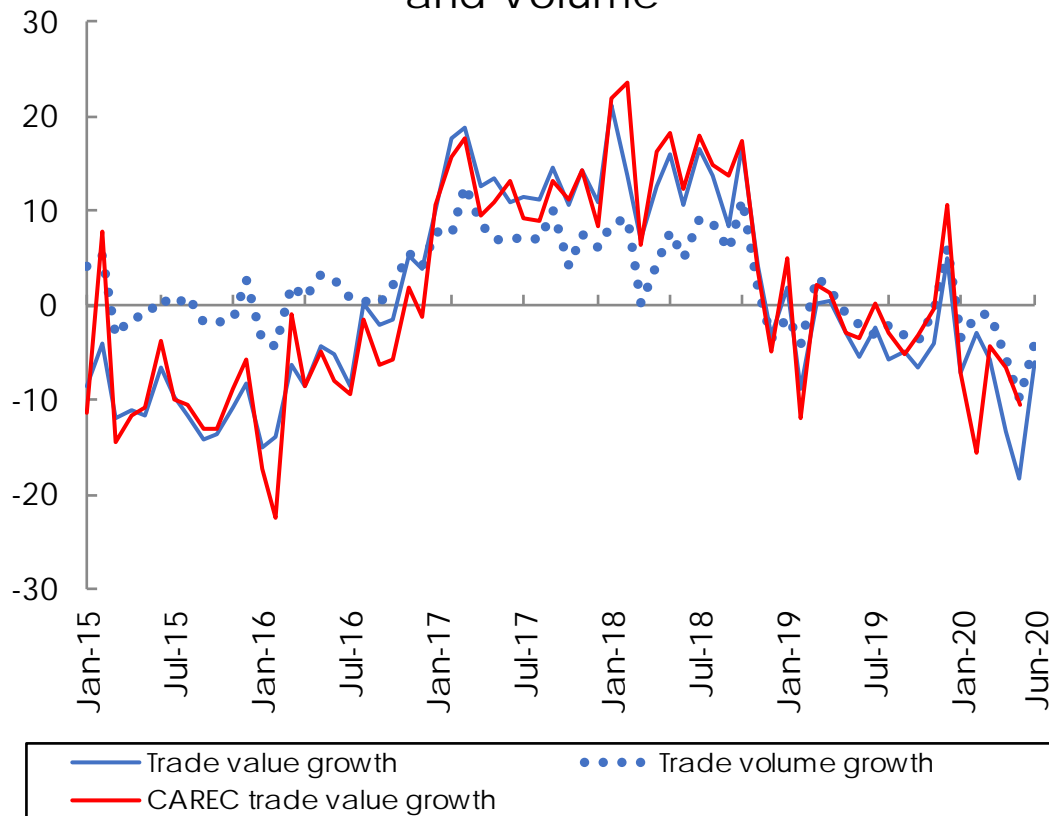
Source: ADB staff estimates.





...it also disrupted trade flows in Asia

Emerging Asia's Monthly Trade by Value and Volume



- Emerging Asia's trade dropped sharply in May 2020 by 18% in value (year-on-year change) and 6% in volume (year-on-year change).
- Still better than the UNCTAD projection that global trade will fall by 27% in Q2.
- Nevertheless, the weaker-than-anticipated global recovery bodes ill for the prospect of trade growth in the near future.

y-o-y = year-on-year.

Notes: Emerging Asia includes Hong Kong, China; India; Indonesia; Malaysia; Pakistan; the People's Republic of China; the Philippines; the Republic of Korea; Singapore; Taipei, China; Thailand; and Viet Nam. Trade volume up to April 2020.

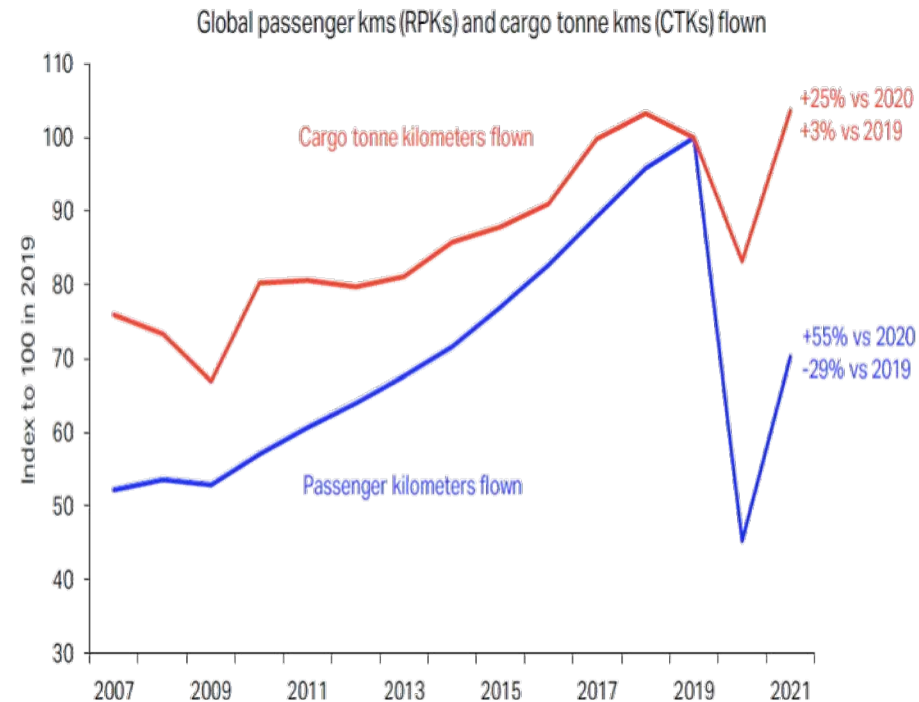
Sources: ADB calculations using data from CEIC; and CPB Netherlands Bureau for Economic Policy Analysis. World Trade Monitor. <https://www.cpb.nl/en/data> (accessed 3 September 2020).

COVID-19 stalled maritime and air transport...

Maritime transport

- Represents about 80% of global trade by volume and 70% by value
- Cancellations and delays; difficulty in changing/repatriating crew members
- Overcapacity in early stage of pandemic and lower transport prices combined with lower oil price
- Slowly adjusting to new normal at lower level, less cancellations and delays.

Air transport





...and created many obstacles to trade

- **Challenges caused by pandemic**— Supply chain disruptions, trade restrictions, travel bans, financing shortage
- **Impacts** — Rising protectionist measures, business continuity affected, labor shortages and unemployment from lockdowns
- **Vulnerabilities revealed** — Gaps in automation of documents clearance, inadequate coordination at subregional level, emergency protocols
- **Efforts to overcome the challenges** — “green lane” for essential goods, WCO harmonized list of essential supplies, sharing COVID-19 related trade measures, support for trade finance



Building resilience in trade and supply chains is critical

- Reconfiguration of supply chains to increase resilience:
 - Regionalization of supply chains
 - More diversification of supply chains
 - Duplication necessary to minimize risk
- Increased use of digital tools and real-time data:
 - Enhance processes and performance
- E-commerce:
 - The shift to online shopping: post COVID-19 B2C e-commerce will likely remain high
 - More B2C and less B2B of final products



Digitally-enabled services will keep the world economy afloat

- Nearly all services can now be electronically delivered and traded cross-border providing opportunities for firms & services providers
- Despite shutdown and travel bans, digital services have grown rapidly
 - Health Services
 - Online Education
 - Telework
 - Online Meeting Services
 - Entertainment and Recreational Streaming Services



Unhampered data flow is important for digital trade in services

- Increased use of the Internet, e-commerce and digital platforms has gone hand in hand with an accompanying surge in underlying data flows
- ½ of global trade in services depends on access to cross-border data flows.
- Cross-border data flows grew by 45 times between 2005 and 2015
- raised world GDP by 10% over what it would have been in a world without cross-border flows.
- From 2005 to 2017, the amount of cross-border bandwidth in use grew 148 times larger.

▶ McKinsey Global Institute, <https://www.mckinsey.com/mgi/overview/in-the-news/the-ascendancy-of-international-data-flows>

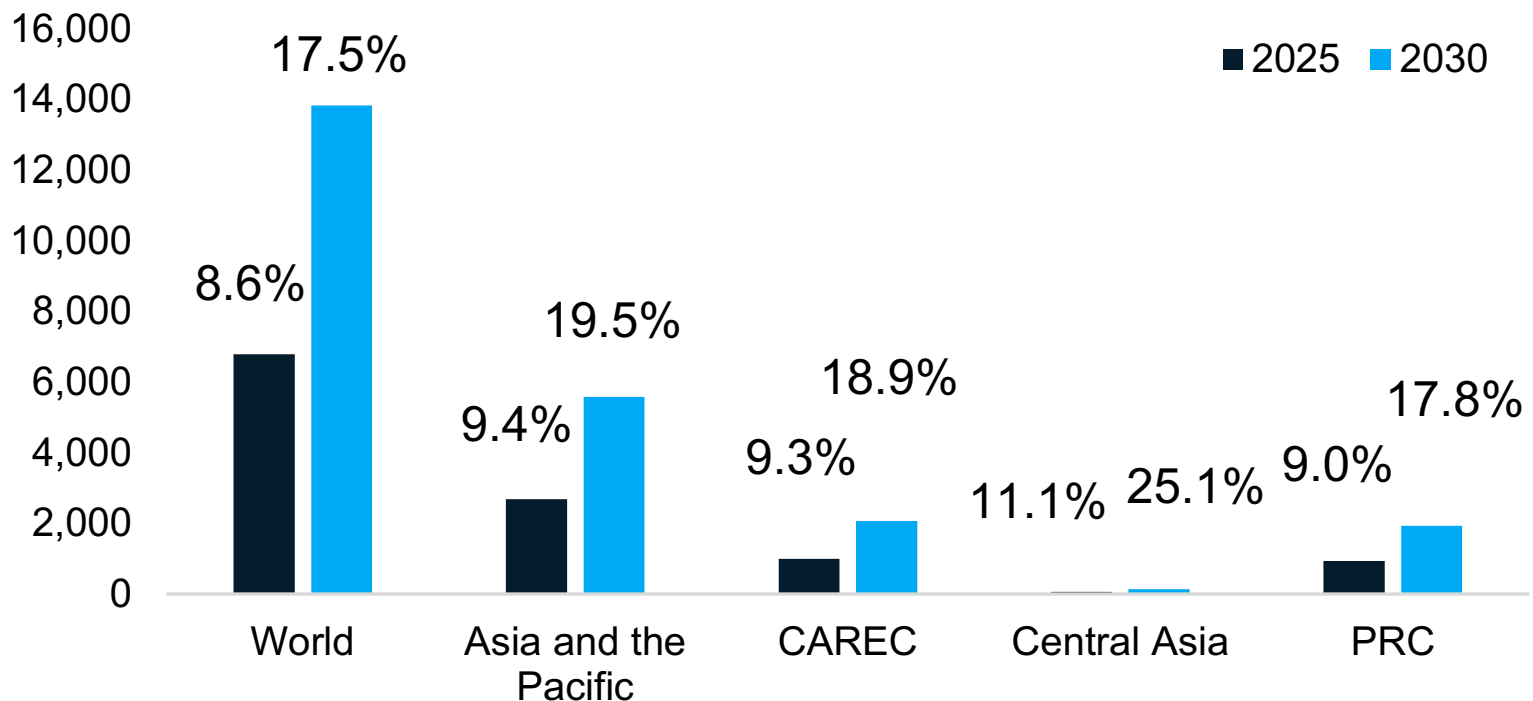


There are large gaps in digital readiness that need to be addressed

- Expensive, poor access, and unreliable ICT infrastructure
- Weak competitiveness of domestic enterprises in the digital space
- Weak ecosystem to support innovation-driven entrepreneurship
- Poor quality of education and learning with little access to connectivity, devices, and learning environment
- Deficient digital identification and weak KYC systems
- Little government support, heavy or opaque restrictions, with huge implementation deficits
- Limited digital payment options
- BEPS from digital economy and little digital taxation

Potential digital transformation dividends large

GDP gains from same year baseline, Billion USD





How to seize the benefits of digital economy

- **Access to ICT:** Enhance affordability of and access to ICT
- **Payment options:** Broaden the e-payment availability and options
- **Connectivity Infrastructure:** Improve logistics and delivery infrastructure
- **Education and Training:** Improve digital skills and competence, the use of ICT devices and learning environment, and enhance digital teaching platforms
- **Taxation:** Develop digital tax policies and options; strengthen international cooperation for better taxation
- **Regulation:**
 - Protect consumers against cyber-crimes and fraud
 - Prevent illegal activities (e.g., money laundering)
 - Enhance cyber security to prevent cyber attacks
 - Protect personal data and privacy