Asian Impact Webinar | 10 February 2020

Yasuyuki Sawada
Chief Economist and Director General, Economics Research and Regional Cooperation Department

Asian Economic Integration Report 2021
Making Digital Platforms Work for Asia and the Pacific
Theme Chapter: Making Digital Platforms Work for Asia and the Pacific
COVID-19 threatens to reverse decades of progress in open borders for trade, investment, and mobility, but…

Notes: The Oxford COVID-19 Government Response Stringency Index is a composite indicator, with a range of 0 to 100 (most restrictive), that captures policy decisions on (i) school closing, (ii) workplace closing, (iii) cancellation of public events, (iv) restrictions on gathering size, (v) public transport closure, (vi) home confinement orders, (vii) restrictions on internal movement, (viii) international travel controls, and (ix) public information on COVID-19.
Sources: Schmidhuber, Pound, and Qiao (2020).

...digitalization and regional cooperation can help recover and reconnect

- New technology, digitalization, and services trade better links the global economy
  - Digital services helped economies function—e-health, online education, telework, and online meetings

- There is an opportunity for greater global and regional cooperation, a possible basis for robust, resilient, and sustainable economic recovery
  - It can (i) contain/suppress virus spread, (ii) strengthen global and regional supply chains, and (iii) increase reliance to natural hazards and health risks
Progress of Regional Cooperation and Integration amid COVID-19
Asia’s regional integration continues to deepen

Intraregional shares (% of total)

<table>
<thead>
<tr>
<th>Year</th>
<th>Trade</th>
<th>FDI</th>
<th>Equity</th>
<th>Debt</th>
<th>Migration</th>
<th>Tourism</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>53%</td>
<td>48%</td>
<td>12%</td>
<td>8%</td>
<td>43%</td>
<td>74% (2000)</td>
</tr>
<tr>
<td>2019</td>
<td>57%</td>
<td>52%</td>
<td>20%</td>
<td>18%</td>
<td>35%</td>
<td>79% (2018)</td>
</tr>
</tbody>
</table>

Equity = equity asset holdings (stock data). Debt = debt asset holdings (stock data). FDI = foreign direct investment (flows data). Migration is based on outbound data. Tourism is based on arrivals data.

Note: Where 2019 data are not available, the latest year for available data is indicated in parentheses.

Sources: ADB calculations using data from Association of Southeast Asian Nations Secretariat; International Monetary Fund; Organisation for Economic Co-operation and Development; United Nations Conference on Trade and Development; United Nations Department of Economic and Social Affairs; Population Division; United Nations World Tourism Organization; World Bank; and national sources.
Overall ARCII—Increase in most Asia subregions

- Regional integration in Asia increased for most subregions in 2018, driven mostly by infrastructure and connectivity, and movement of people
- Subregional results across dimensions remain wide-ranging

Asia shows positive spatial autocorrelation of regional integration

Economies with low ARCII scores seem to be near one another, as do those with high ARCII scores

Spatial distribution of ARCII, 2018
RCEP can further deepen regional integration

**Regional Trade Groupings Involving ASEAN+3**

- **ASEAN**
  - PRC (People’s Republic of China)
  - Republic of Korea
  - Cambodia
  - Indonesia
  - Lao PDR
  - Myanmar
  - Philippines
  - Thailand

- **Plus Three Countries**
  - Australia
  - Japan
  - New Zealand
  - Brunei Darussalam
  - Malaysia
  - Singapore
  - Viet Nam

- **CPTPP**
  - Canada
  - Chile
  - Peru
  - Mexico

- **RCEP**

---

**Potential Benefits of Regional Trade Agreements—Real Income Increases in 2030 ($ billion)**

- **Americas**
  - CPTPP: 49
  - RCEP: 2

- **Asia**
  - CPTPP: 84
  - RCEP: 165

- **Rest of World**
  - CPTPP: 14
  - RCEP: 19

---

Note: Estimates include income effects to non-members of CPTPP and RCEP. Asia is based on ADB’s definition. Americas and rest of the world are based on Petri and Plummer (2020). Source: Petri and Plummer (2020).
Trade, Supply Chain, Investment for Post COVID-19
Trade plummeted during the pandemic but is rebounding fast

Real exports (% change, year on year)

- World
- Asia
- Asia ex-PRC

Real imports (% change, year on year)

- World
- Asia
- Asia ex-PRC

Global Weekly Trade Indicators (Z scores)

- Baltic Exchange Dry Index
- Dow Jones Global Shipping USD Index
- Bloomberg World Packaging and Containers Index
- MSCI World Containers and Packaging Index

Weekly Number of Port Calls, by Region (thousands)

- Asia
- Europe
- North America
- Africa
- LatAm
- Middle East
- Others

Real exports and imports—Asia refers to the weighted average of the People’s Republic of China; Hong Kong, China; India; Indonesia; Japan; the Republic of Korea; Malaysia; Pakistan; the Philippines; Singapore; Taipei, China; Thailand; and Viet Nam. Source: CPB Netherlands Bureau for Economic Policy Analysis. Global weekly trade indicators—Source: Bloomberg and CEIC. Weekly number of port calls—Data are from the weekly port call dashboard, a collaborative initiative between the UN Statistical Division, the Environmental Change Institute at the University of Oxford within the context of the AIS Task Teamwork program. It aims to monitor weekly port calls from around 1,200 ports based on AIS datasets available at the UN Global Platform. Source: UN Comtrade AIS Port Database.
Post-COVID-19 trade and supply chains: New trade landscape

Globalization momentum revisited:
- Globalization will continue to progress, yet in a different shape

Reconfiguring supply chains to increase resilience:
- Regionalization and reshoring
- Diversification
- Some duplication to minimize risks

Emphasis on nontariff measures and digitalization to:
- Reduce behind-the-border bottlenecks
- Improve trade logistics and efficiency
- Promote digital trade in goods and services
Estimated impact of supply chain reshoring on trade

World trade in goods and services ($ trillion)

Notes: Based on assumption of 50% substitution rate, which means that 50% of reshored capacity is replaced by domestic production. Reshoring rate (10% and 20%) refers to the share of imported intermediate goods for further processing for exports and outsourced production that the main exporter will cut-off. IMF World Economic Outlook October 2020 forecasts were used to estimate world trade in goods and services for 2020 and 2021 and average trade growth in 2010-2021 for the baseline 2022-2025 period.

Sources: ADB calculations using data from ADB, Multi-Regional Input-Output Tables based on methodology by Wang, Wei, and Zhu (2014); International Monetary Fund. World Economic Outlook April 2019 and October 2020 Databases; and World Bank. World Development Indicators.
FDI flows are estimated to have contracted in 2020, but M&A results show signs of recovery in Q2 and Q3.

Global Inward FDI: Greenfield and M&A—1st 3 Quarters ($ billion)

Global Inward Investment by Destination Region ($ billion)

<table>
<thead>
<tr>
<th>Region</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>5.9</td>
<td>5.7</td>
<td>3.0</td>
<td>1.4</td>
<td>5.0</td>
<td>0.6</td>
</tr>
<tr>
<td>Asia</td>
<td>40.5</td>
<td>38.5</td>
<td>18.1</td>
<td>29.6</td>
<td>58.4</td>
<td>42.8</td>
</tr>
<tr>
<td>EU-28</td>
<td>31.9</td>
<td>35.7</td>
<td>23.1</td>
<td>97.5</td>
<td>138.0</td>
<td>90.4</td>
</tr>
<tr>
<td>Latin America</td>
<td>15.7</td>
<td>8.3</td>
<td>7.1</td>
<td>6.7</td>
<td>8.9</td>
<td>2.8</td>
</tr>
<tr>
<td>Middle East</td>
<td>11.1</td>
<td>1.8</td>
<td>10.3</td>
<td>5.3</td>
<td>9.4</td>
<td>11.7</td>
</tr>
<tr>
<td>North America</td>
<td>16.2</td>
<td>22.5</td>
<td>10.7</td>
<td>54.5</td>
<td>129.4</td>
<td>20.4</td>
</tr>
<tr>
<td>Others</td>
<td>5.4</td>
<td>2.8</td>
<td>3.2</td>
<td>13.9</td>
<td>12.1</td>
<td>27.9</td>
</tr>
<tr>
<td>Total</td>
<td>126.8</td>
<td>115.3</td>
<td>75.5</td>
<td>208.9</td>
<td>361.1</td>
<td>196.6</td>
</tr>
</tbody>
</table>

EU = European Union, FDI = foreign direct investment, GF = greenfield, M&A = merger and acquisition, ROW = rest of the world.

Sources: ADB calculations using data from Bureau van Dijk. Zephyr M&A Database; and Financial Times. fDi Markets (both accessed November 2020).
Nontariff measures are on the rise while barriers to trade facilitation remain.

The number of nontariff measures imposed on Asia has been rising over the years, with the most significant increases observed in recent years. This trend is evident from the chart, which shows a cumulatively increasing trend from 2000 to 2020.

The chart also highlights the different types of nontariff measures, including sanitary and phytosanitary rules, technical barriers to trade, tariff-rate quotas, antidumping measures, quantitative restrictions, special safeguards, and other nontariff measures.

The trade facilitation implementation by measure in 2019 is shown in a separate diagram, which indicates the percentage of countries that have implemented various aspects of trade facilitation. The areas covered include transparency, formalities, institutional arrangements, cooperation, paperless trade, cross-border paperless trade, transit facilitation, trade facilitation in SME policy framework, trade facilitation and agriculture trade, and women in trade facilitation.

The chart is sourced from The Third Global Survey on Trade Facilitation and Paperless Trade Implementation (2019).
Embracing the evolution of digital trade is crucial

B2B companies have shifted their go-to-market models during COVID-19 (% of respondents)

<table>
<thead>
<tr>
<th></th>
<th>Before COVID-19</th>
<th>During COVID-19</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-person/field sales team</td>
<td>55</td>
<td>21</td>
</tr>
<tr>
<td>Inside sales team</td>
<td>46</td>
<td>40</td>
</tr>
<tr>
<td>Online support</td>
<td>52</td>
<td>62</td>
</tr>
<tr>
<td>E-commerce</td>
<td>46</td>
<td>51</td>
</tr>
</tbody>
</table>

Based on April 2020 survey of 3,600 B2B decision makers worldwide. Questions:
• In what ways was your company’s product or service sold before COVID-19?
• Now today, in what ways is your company’s product or service sold during COVID-19?


Unlocking the potential of digital trade

- Enhance affordability of and access to ICT
- Improve logistics and delivery infrastructure
- Intensify regional efforts to modernize and harmonize regulations
- Broaden the e-payment availability and options
- Institute legal, regulatory, and institutional reforms
FDI’s role in post-COVID recovery could be deterred by increasing restrictions and sluggish domestic reforms

**Investment policy measures reinforcing restrictions or regulations in Asia and the Pacific**

Jan 2011–Dec 2020 (number of measures)

**Investment Facilitation Index by region–2019**

Note: Number of investment policy measures by country since 1st January 2011. Policy measures include entry and establishment (ownership and control, access to land, approval and admission), treatment and operation (non-discrimination, expropriation, capital transfer, dispute settlement), and promotion and facilitation (investment incentives, special economic zones) measures.

Source: UNCTAD Investment Policy Hub.

Note: The indicator reflects state of implementation of measures to improve domestic investor-related systems in 6 areas: transparency and predictability, e-governance, cooperation and inter-agency coordination, application process, outward investment, focal point and review.

Provisions in Asia’s investment agreements could foster foreign investment flows

Gravity Model

FDI variables
- **Cumulated**
- **Average**

BIT variable
- By existence of BIT
- By provision
- By BIT family

BIT provisions and Asian FDI flows

**Gravity Model**

BY TIME PERIOD
- 2003-2009
- 2009-2014
- 2015-2019

BY SECTOR
- Primary
- Manufacturing
- Services

BY QUARTILE
- Investment value

As COVID-19 could trigger investor-State disputes, introducing better provisions in future investment agreements is key

- **National treatment**
  - Maintain flexibility for vital economic sectors

- **Most Favored Nation**
  - Exclude vital areas/sectors to meet public policy needs

- **Expropriation**
  - Set out criteria for legitimate regulation taken in exceptional circumstances.

- **Non-economic standards**
  - Raise investors obligations and introduce CSR clauses

- **Free transfer of investment-related funds**
  - Make explicit covered payments and include exceptions in case of crisis

- **Access to Arbitration**
  - More State control over ISDS, transparency and impartiality of arbitrators, use of domestic courts

Sources: Based on UNCTAD (2020), Chaisse (2020) and ADB International Investment Agreement database.
Key Messages

- Asia is expected to maintain strong trade recovery post pandemic
- Yet reconfiguration of global supply chain will pose challenges
- Emphasis on nontariff measures and digitalization can reduce behind-the-border bottlenecks, improve trade logistics and efficiency, and promote digital trade in goods and services
- RCEP can help the region’s pandemic response by building trade and economic resilience
- FDI is estimated to have declined significantly in 2020
- Asia should improve the investment climate and leverage investment treaties to attract investment
- In order to seize the potential of digital transformation, the region needs to address varying e-readiness and narrow digital divide