DP WORLD

TRADE IN TRANSITION

REGIONAL REPORT: ASIA-PACIFIC

WRITTEN BY The Economist INTELLIGENCE UNIT

About this research

Trade in Transition is a global research programme led by The Economist Intelligence Unit, sponsored by DP World, which presents private-sector sentiment on international trade. In this year's report, we specifically explore the impact of covid-19 on companies' trade operations and the resulting shift in approach to international trade by private-sector firms.

The research is based on two global surveys of senior executives involved in their firm's day-to-day international trade decisions and transactions. The first survey of 3,000 respondents was conducted between January and March 2020 and the second survey of 800 respondents was conducted between October and November 2020. Both surveys captured perspectives of executives across six regions (North America, South America, Europe, Middle East, Africa and Asia-Pacific). The survey findings were supplemented with in-depth interviews with trade experts and senior executives across regions and sectors.

This report focuses on the key findings from the Asia-Pacific.

We would like to thank the following experts for their time and insight:

Steven Beck, head of trade finance, Asian Development Bank

Deborah Elms, executive director, Asia Trade Centre

Victor Fung, group chairman, Li & Fung Group

Sachit Jain, managing director, Vardhman Special Steels

Shinta Widjaja Kamdani, chief executive officer, Sintesa Group

Robert Koopman, chief economist and director of the economic research and statistics division, World Trade Organisation

Marc Mealy, senior vice-president policy, US-ASEAN Business Council

Tamara Oyarce, national trade policy and research manager, Export Council of Australia

Ajay Sharma, regional head of global trade and receivables finance for Asia-Pacific, HSBC

This report was written by Jessica Brown and edited by Chris Clague.

Executive summary

The covid-19 pandemic has left deep economic scars, yet confidence is returning in the Asia-Pacific region. The impact of the pandemic has been uneven. China, which has seen trade growth resume strongly, will be the key driver of growth. A decade-long trend of rising intra-regional trade has helped insulate the region somewhat from the slowdown in global demand. Asia is an important producer of goods for the global economy, but it has emerged as a key consumer, too.

Many businesses in Asia-Pacific were already reconfiguring their supply chains prior to 2020, driven in part by the US-China trade war. The pandemic has rapidly accelerated this process, but while firms are diversifying their supply chains, they are not leaving China.

Headwinds remain. An existing trade finance gap ballooned during the pandemic. Many SMEs are now unable to access the working capital needed to keep supply chains moving.

KEY FINDINGS

- **Diminished expectations.** At the beginning of the pandemic, 27% of Asia-Pacific executives thought their international sales revenue would increase by more than 30% in 2020. Post-pandemic, only 3% realised that projection in the first half of the year.

- **Intra-regional trade expands.** Three-quarters (76%) of Asia-Pacific firms earn most of their revenue from international trade within the region.

- **Firms are reconfiguring their supply chains.** In March, 32% of Asian executives said they were considering shortening their supply chain. By November, 89% were in the process of reconfiguring the most important parts of their supply chains in response to pandemic-related disruptions.

A MOOD OF CAUTIOUS OPTIMISM

In early 2020, with a new trade deal signalling a potential détente in the two-year trade spat between China and the US, a mood of cautious optimism settled over the Asia-Pacific region. A few months later that optimism was shattered by the covid-19 pandemic, the effects of which are still ricocheting around the global economy. It seems surprising, then, that just one short year later—and with the pandemic still raging in many parts of the world—signs are that this same confidence is once again returning.

The pandemic has undoubtedly left deep scars on many economies in the Asia-Pacific, but "Asia is the brightest spot on the global economic map," says Victor Fung, chairman of the Fung Group, a Hong Kong-based supply chain and retail conglomerate. The Economist Intelligence Unit data, which shows the region rebounding faster than the global average, substantiates this view.

Trade transactions fell sharply across the region in April, says Ajay Sharma, regional head of global trade and receivables finance for Asia-Pacific at HSBC. But in June, volumes "popped right back up as China came back on". China, Taiwan and Vietnam, which have all managed to contain the virus relatively well, are bright spots: all recorded strong year-on-year growth in the third quarter, even as many other economies languished in recession.[1]

The pandemic has had an undeniable impact on Asia-Pacific firms. In the first quarter of 2020, before the global scale of the crisis had become clear, 27% of Asia-based executives surveyed thought their international sales would expand by more than 30% in 2020. The pandemic dashed these expectations. In October-November only 3% said their international sales revenue had grown by more than 30% in the first half of 2020, compared with the first half of 2019.

While many firms have seen their trade volumes fall, others have seen them hold up well. Around one-fifth of Asia-Pacific firms (22%) saw sales revenue remain flat in the first half of 2020 (compared with the first half of 2019), while 24% saw international sales revenue increase by more than 10%.

Rapidly shifting consumer spending patterns have provided ballast to some industries. Fast Retailing, the Japanese owner of clothing and homewares brands like Uniqlo, expects to post a record profit in the coming year as consumers continue to spend more time at home.[2] Sachit Jain, managing director of Vardhman Special Steels, a mid-size Indian producer of alloy steel, says the September quarter was the firm's best ever, driven by pent-up demand and a growing consumer preference for private vehicles over public transport.

For every story of durability, however, there is one of pain: 16% of Asia-Pacific firms surveyed said their first-half revenue was down by more than 10% versus 2019. And somewhat surprisingly, given Asia's relatively positive outlook, executives in the region are more likely to think global trade will take more than five years to recover to 2019 levels than their international counterparts: 13% in Asia compared to 7% in North America, 6% in Africa, 5% in Europe, 4% in South America and just 2% in the Middle East.

INTRA-ASIA TRADE IS DRIVING THE RECOVERY

This relative pessimism may lie in the fact that Western consumer demand has traditionally fuelled Asian trade. This is changing, however. Three-quarters (76%) of Asia-Pacific firms earn most of their international revenue within the region. The next important region for them in terms of international revenue is North America, which lagged well behind at 13%.

"The trend of rising intra-regional trade has been happening for more than a decade," says Steven Beck, head of trade finance at the Asian Development Bank. "Historically, global investment flows into Asia were primarily geared towards investing, production and then export to the global economy," agrees Marc Mealy, senior vice-president policy at the US-ASEAN Business Council. But, he says, "That value proposition has

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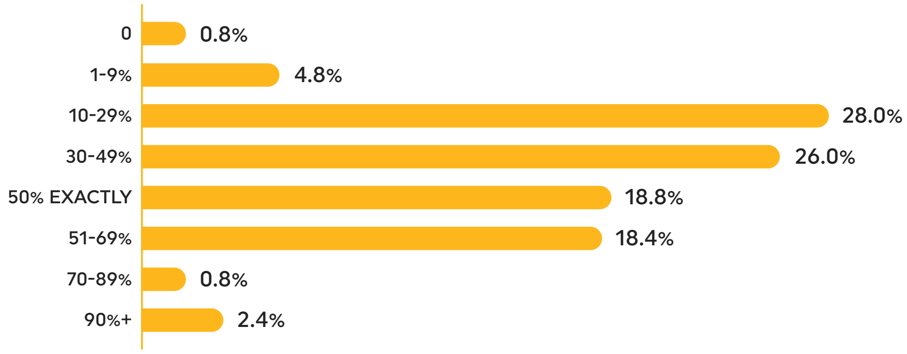
[1] *Global Trade Update*. UNCTAD. October 2020. Available online at https://unctad.org/system/files/official-document/ditcinf2020d4_en.pdf

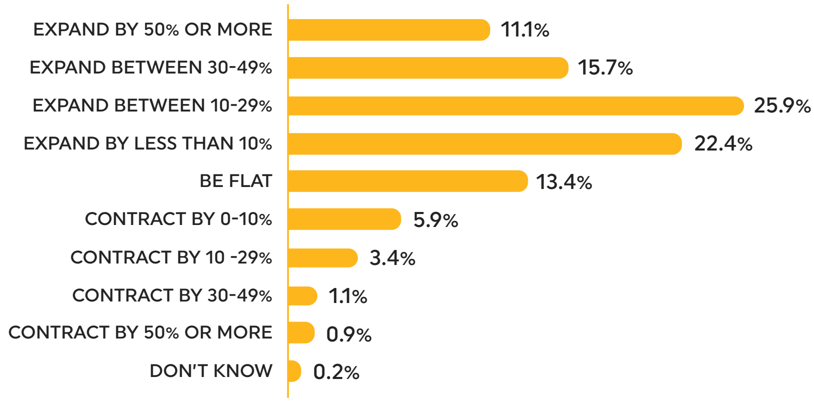
[2] *Uniqlo and Muji expect record profits as pandemic boosts Asia online sales*. Financial Times. 15 October 2020. Available online at https://www.ft.com/content/74acac7c-f78c-4f5a-84be-06dbb5edca27

FIGURE 1

In the first half of 2020, what percentage of your company-wide revenue came from international sales?



In 2020 how do you think your firm's international sales revenues will change?



Source: The Economist Intelligence Unit survey, October - November 2020 and January - March 2020

evolved. The desire to feed into regional supply chains is driving some investment flows. It's early, but there is a movement around intra-Asia trade being a new dynamic."

The Asia-Pacific region's comparatively rapid recovery is partly due to the success that many of its major economies have had in managing the pandemic. But this is not the whole story – or even the central part of it. Many Asia-Pacific countries are deeply integrated with the global economy, making them vulnerable to trade fluctuations.[3] The resurgence of Western demand will still be a critical driver of Asia's recovery, but "that's probably a second half [of 2021] story", says Mr Sharma.

But Asia's consumer-driven rebound will be just as significant – if not more so.[4] In March 2020, 71% of Asian executives surveyed said economic growth and rising incomes were the most important drivers of trade growth.

This seems to have buffered the impact of the pandemic on Asian firms. In the October-November survey, for example, 33% of Asian executives said they had experienced reduced demand for their products because of the pandemic, lower than the global average of 40%. This suggests local demand held up relatively well, given than three in four Asian firms earn most of their international revenue within the region.

"Asia is the only region building both consumption and production," says Mr Fung. Robert Koopman, chief economist and director of the economic research and statistics division at the World Trade Organisation, agrees. "While there's already been strong integration of Asian supply chains, we'll see even more integration and domestic growth in Asia start to drive trade growth." This trend, which was already in train before the

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[3] *From Containment to Recovery: Economic Update for East Asia and the Pacific, October 2020.* The World Bank. October 2020. Available online at https://www.worldbank.org/en/region/eap/publication/east-asia-pacific-economic-update

[4] *Asia: Trade briefing. Global Trade Review.* 2 November 2020. Available online at https://www.gtreview.com/supplements/gtr-asia-2020/asia-trade-brie%EF%AC%81ng/

FIGURE 2

How long do you think it will take for the world's trade flows to recover to the same level as the first half of 2019?

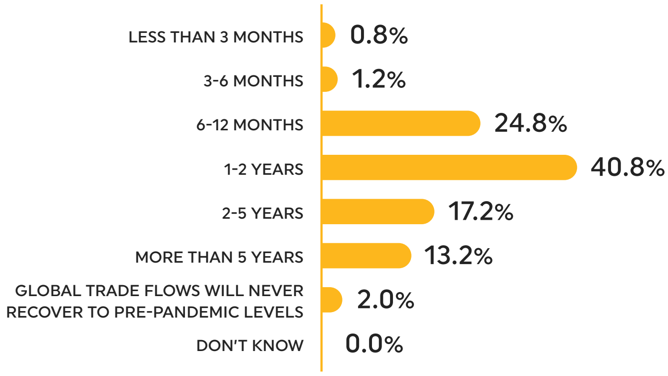
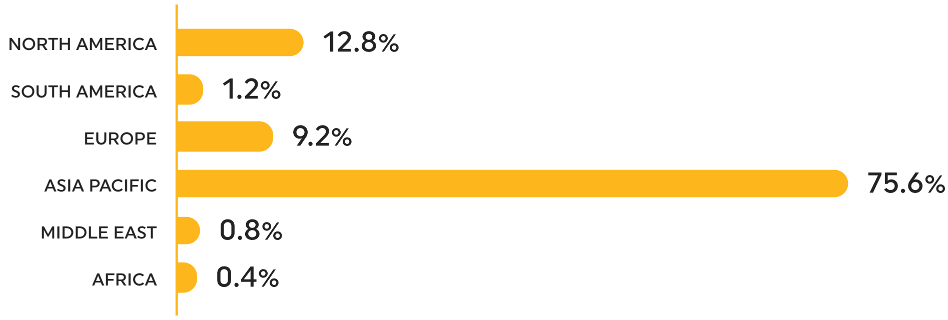


FIGURE 3

In which region outside of the country where your company's primary operations are based does your company earn the most revenue?



Source: EIU survey October-November 2020

pandemic, is now buffeting the region against the global slowdown. "This duality," says Mr Mealy, "makes these economies more resilient – and that resilience is a factor for growth."

A ROLLING SERIES OF SHOCKS

"Asia has fared better than many regions," says Mr Beck, but "there have been periods when difficulties in logistics and transport have stemmed the flow of goods when workers have been unable to get to fields and factories and many other challenges." China's lockdown in the first part of the year heavily impacted the supply of many raw materials, with knock-on effects for other manufacturing countries such as Vietnam.[5]

Firms experienced a series of economic shocks in succession during the pandemic, explains Tamara Oyarce, national trade policy and research manager at the Export Council of Australia. "The first shock was in demand. Then it was a supply shock. Then the logistics challenge emerged very strongly."

Supply disruptions interrupted many firms' just-in-time processes, Ms Oyarce says, and almost 40% of executives reported that this was the most disruptive of the three shocks. One in three said falling demand had the most significant impact on their revenue, a figure borne out in trade transaction patterns. While transaction volumes remained relatively robust, the average transaction size fell 10-15% during the pandemic, says Mr Sharma, suggesting firms are ordering smaller quantities.

Logistics shocks have been particularly damaging for firms trading perishable goods, says Ms Oyarce, with many forced to default

[5] *COVID-19 and the Effects on Supply Chains in Vietnam.* Vietnam Briefing. 10 April 2020. Available online at https://www.vietnam-briefing.com/news/covid-19-effects-supply-chains-vietnam.html/

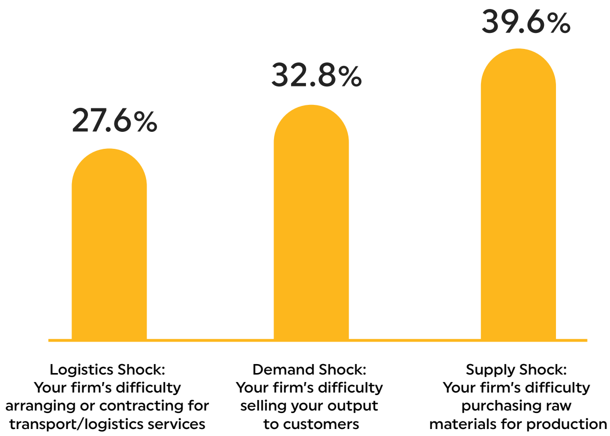
on contracts after not being able to access timely and affordable freight. A little over one quarter (28%) said logistics shocks had the most significant impact of the three shocks on their revenue. Increased costs were a shared experience. "Some businesses reported an increase of 100-200% on costs of trade," Ms Oyarce says. Ten percent of Asian firms saw the costs of their international purchases of inputs increase by more than 30%.

The impact of the three shocks varied across industries too, says Shinta Widjaja Kamdani, chief executive officer of Indonesia's Sintesa Group, a conglomerate with interests spanning property, consumer goods, healthcare and energy.

Demand shocks driven by lockdowns and social-distancing requirements significantly disrupted Sintesa Group's property assets. Its industrial businesses experienced supply shocks caused by lockdowns in several European supplier countries, as well as volatility in exchange rates that led to increased input and production costs and falling demand due to weak economic conditions. Yet its consumer products business, while experiencing minor disruptions due to limited supplies of raw materials, saw demand for staple goods such as food, and Sintesa Health, which produces vitamin-mineral supplements, perform well.

This is in line with the experiences of executives globally: 47% of retail firms surveyed said demand shocks had the biggest impact on their business during the pandemic, while 43% of healthcare and pharmaceutical firms said supply shocks had the biggest impact. Energy and natural resources executives said they experienced the effects of supply, demand and logistics shocks relatively evenly.

FIGURE 4
Which of the three shocks had the greatest negative impact on your firm's international revenues in the first half of 2020?



Source: EIU survey October-November 2020

THE REGION HAS MOSTLY AVOIDED PROTECTIONISM

Some Asia-Pacific governments, in keeping with global trends, announced protectionist measures early in the crisis that were directly related to the pandemic. China, Taiwan, India and several ASEAN countries introduced export controls on medical products such as masks.[6] Vietnam, Myanmar, Thailand and Cambodia all briefly introduced temporary export restrictions on some staple foods.[7] Others were opportunistic: Governments that already "had the intention of pursuing protectionism used the pandemic as an excuse," says Deborah Elms, executive director of the Asia Trade Centre.

However, fears that the pandemic would trigger widespread and ongoing protectionism have largely not borne out. Restrictive measures were "transparent, temporary and targeted, and aimed at specific sectors", Mr Koopman says.

Many governments realised they needed to have better stockpiles of essential items but saw trade as the most efficient way to build them, explains Mr Koopman. "It was remarkable to see countries in Asia maintain a strong commitment to trade," agrees Mr Mealy. Several relaxed import duties and taxes on essential items; some such as Vietnam and Thailand created 'green lanes' for vital pandemic-related goods.[8] China won praise for its trade facilitation measures, which included expediting customs clearance of agricultural products to ensure food supply chains remained functional through the crisis.[9]

[6] *Pandemic (COVID19) Policy, Regional Cooperation and the Emerging Global Production Network.* Asian Economic Journal. 9 June 2020. Available online at https://onlinelibrary.wiley.com/doi/10.1111/asej.12198

[7] *Why export restrictions should not be a response to COVID-19: Learning lessons from experience with rice in Asia and the Pacific.* Food and Agriculture Organization of the United Nations. 1 June 2020. Available online at http://www.fao.org/3/ca9362en/CA9362EN.pdf

[8] *Best practices in trade facilitation in response to pandemic – South-East Asia. UNESCAP Expert Group Meeting on Trade Facilitation in Times of Crisis and Epidemic.* 29 July 2020. Available online at https://www.unescap.org/sites/default/files/Jonathan-SEA.pdf

[9] *Case Study: China's Trade Facilitation responses to the COVID-19 Pandemic.* UNCTAD Transport and Trade Facilitation Newsletter, Special COVID-19 Edition. 22 May 2020. Available online at unctad.org/news/case-study-chinas-trade-facilitation-responses-covid-19-pandemic

If anything, trade may have regained some of its lost prestige during the pandemic. "Trade has played a crucial role in mitigating supply shortages that arose because of the crisis," Mr Koopman says. A more sophisticated understanding emerged among governments during the crisis that there are better approaches than simply boosting domestic capacity, he believes. And for smaller economies without the ability to produce essential goods, trade has been a lifeline. "They're not going to start creating covid-19 vaccines in the Lao PDR any time soon," quips Ms Elms.

DURABILITY AND AGILITY: RECONFIGURING SUPPLY CHAINS

Covid-19 is just one of three dynamics reshaping Asia-Pacific supply chains, says Mr Mealy. The increasing cost of manufacturing in China and the tariff war meant that many global firms, and even many Chinese firms, had already begun to relocate parts of their supply chain.

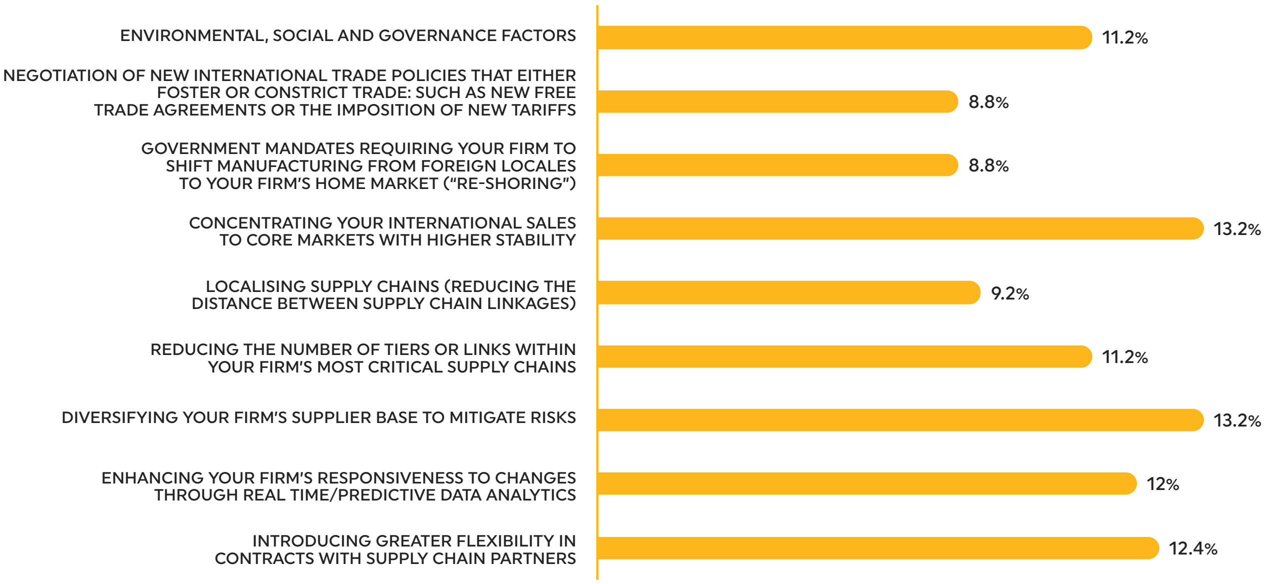
The pandemic has rapidly accelerated this process. In March, 32% of Asian executives said they were considering shortening their supply chains. By November, this had increased dramatically: 89% were in the process of reconfiguring the most critical parts of their supply chains. Of those, many are looking to either introduce flexible supply chain contracts (12%), diversify their supplier base (13%) or localise supply chains (9%).

Yet this represents a reorganisation, rather than a retrenchment of globalisation, says Mr Koopman. Government-led campaigns to drive domestic production such as "Made in China 2025" and "Buy Malaysia" had been growing in popularity among policymakers before the pandemic, but reshoring does not appear to be the most—or even a particularly significant—trend driving supply chain shifts in the region: Only 9% of Asian respondents and 6% of global survey respondents picked it as the most critical factor determining how their company will trade in the next five years. "There was a discussion about nearshoring, and whether businesses need to produce closer to the United States to serve that market. We don't see that happening," says Mr Sharma.

CHINA: NOT AN EITHER / OR PROPOSITION

Diversification has meant just that. Firms are moving into new markets, but "they don't see themselves as necessarily moving production out of China", says Mr Sharma. The rest of the

FIGURE 5
Which of the following factors do you believe will be most important in determining how your company will be conducting international trade transactions from 2020 - 2025?



Source: EIU survey October-November 2020 region is already benefiting from the trend: Vietnam has liberalised trade and become an increasingly important part of regional manufacturing supply chains.[10] Diversification is still a balancing act, Mr Fung believes. Businesses don't want to leave China, but don't want to be entirely dependent on it either. And while supply chain resilience has become a buzzword during the crisis, agility—"the ability to shift when there's a need"—is just as important, according to Mr Fung.

South-East Asian governments were aware of, and actively trying to benefit from, this trend well before the pandemic. Malaysia, Indonesia and the Philippines are among the countries that have created "dedicated government units to cater to companies looking to adjust their supply chain outside of China", says Mr Mealy. "They want to hold your hand to convince you to relocate a particular operation or sourcing to their market. They're looking to benefit."

Yet China continues to be important because so many firms see it as a reliable link in their supply chains. "You need infrastructure that's stable," says Mr Sharma. During the crisis, "China was up and running the quickest, and their logistics worked." Just over one-fifth (21%) of surveyed Asia-Pacific executives said that the quality or availability of logistics infrastructure in alternative locations is the most significant barrier to reconfiguring supply chains, suggesting that China's scale and reliability continue to drive decision making.

Firms may develop separate supply chains to serve the China and US markets if the trade conflict intensifies, says Mr Mealy: "I think that kind of play will become more of a reality, particularly for American firms." Dual supply chains are still a work in progress, says Mr Sharma, but firms are actively considering them. Yet while this type of "decoupling" may be practical for large multinationals, it is prohibitive for small and medium enterprises, says Ms Elms. "SMEs cannot manage differing standards and different rules," she says.

Geopolitical tensions may drive other kinds of shifts in supply chains too, a fact that has become quickly apparent in Australia where a rapid escalation in tension with China has led many firms to rethink their trading strategies. "We are advising our exporters that whether they have thought about it before or not, it's time to consider diversification," says Ms Oyarce. "The reality is now sinking into the trade community that the relationship is not going back to what it was." Firms are now more aware of the risks associated with trading with China and are increasingly willing to adjust their strategy, she says. The deep freeze may lead to improved trade ties with other markets. "Some Australian businesses have been over-reliant on China," she says. Now, they may be more willing to trade with economies such as Indonesia and Vietnam.

RECONFIGURING IS HARD TO DO

While many firms want to reconfigure their supply chains away from China, they face practical obstacles. Reconfiguring supply chains is an expensive business: Four out of five Asia-Pacific firms in the process of doing it say they allocated between 10% and 50% of their first-half revenues to fund the operation.

"We suggest businesses first map their supply chain," says Ms Oyarce. "As we surveyed and interviewed our members, we found that many companies haven't done this before. They were not clear about the risk exposure they had in different parts of the supply chain." The Australian Export Council is now advising members to consider their just-in-time supply systems. "Rethinking how much stock is warehoused, whether that supply can be moved back to Australia or even whether to reconsider parts of the manufacturing process," is important she says. But this "will have a cost implication, and we know that exporters often operate on a thin margin".

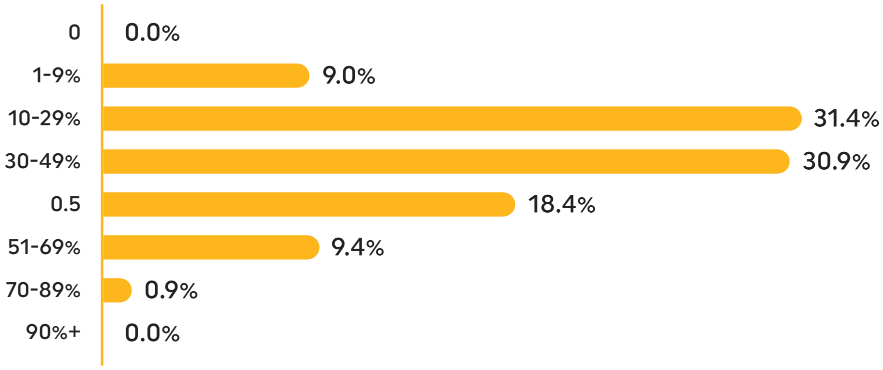
Firms have used the crisis as an opportunity to adopt new business practices that go beyond supply chain reorganisations too. "Our group is highly engaged in the international market," says Ms Kamdani. "We have helped more than 50 global companies expand their international market and extend their distribution channels across Indonesia."

"Trade is our strength. However, as covid-19 began to disrupt supply chains and the

[10] *Is Vietnam Eating into China's Share of Manufacturing? Carnegie Endowment for International Peace.* 18 June 2020. Available online at https://carnegieendowment.org/2020/06/18/is-vietnam-eating-into-china-s-share-of-manufacturing-pub-82094

FIGURE 6

What percentage of your company's revenues in the first half of 2020 have been re-allocated to reconfiguring your supply chain(s)?



Source: EIU survey October-November 2020

movement of goods, it has affected our operations," Ms Kamdani says. "To recover, we are convening teams to innovate proactively. We shifted our mindset from 'conventional' mode to 'startup' mode, rewarding ideas." Mr Jain similarly asked employees to identify and brainstorm solutions to business problems during the lockdown. He spoke by phone with 80% of his workforce to hear their concerns and ideas.

A CATALYST FOR DIGITALISATION

The rapid adoption of digital technology that was already underway has underpinned Asia's relative resilience during the crisis, helping to mitigate the effects of the pandemic on trade. Digitisation will drive trade growth long after the crisis ends, too.[11] Firms were increasingly using digital platforms to trade and service their customers before the pandemic, says Mr Mealy, but covid-19 "has been the catalyst for an even faster pace". Companies are actively moving away from linear supply chain models to digital production networks that enable businesses to be always connected with their suppliers, providing end-to-end traceability and reducing costs.[12]

The switch to e-commerce during the pandemic has been swift and dramatic. Many firms joined communication and payment platforms such as WeChat and AliPay for the first time, says Ms Oyarce. Some are now reconsidering whether they need brick and mortar presence at all, she says. "A lot of exporters have done things that they had never thought about before," such as virtual wine tasting.

Around 10 million Indonesians took up online shopping between March and September 2020, said Ms Kamdani. "The goods being traded via e-commerce channels are also expanding from FMCG, fashion and electronic goods to daily groceries." In response, Sintesa Group is working to develop new digital business models. "We have partnered with one of the biggest e-commerce players in Indonesia as their fulfilment and distribution partners to deliver goods via traditional small roadside grocery stalls," Ms Kamdani says.

Firms' adoption of technologies that power e-commerce systems accelerated during the pandemic, with 43% selecting cloud computing, 36% the Internet of Things (IoT) and 35% big data and analytics as the new technology their company relied on most during the crisis. Fewer than 2% said they did not use any of these technologies or other technologies such as blockchain or machine learning in response to the pandemic. Data analytics and customer relations management software have been crucial tools as customers have rapidly gone online, Ms Kamdani says.

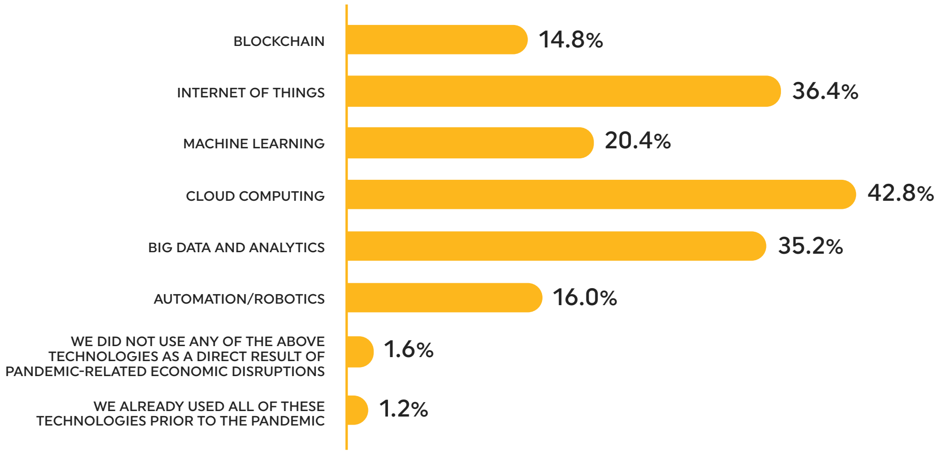
Other technologies have quickly become more important too. Some exporters—particularly those in the agriculture sector or trading high-value products—had already begun to adopt distributed ledger technologies such as

[11] *Leveraging digital trade to fight the consequences of COVID-19.* OECD Policy Responses to Coronavirus (COVID-19). 7 July 2020. Available online at https://www.oecd.org/coronavirus/policy-responses/leveraging-digital-trade-to-fight-the-consequences-of-covid-19-f712f404/

[12] *Resilient Supply Chains For Post-COVID Asia.* The ASEAN Post. 31 October 2020. Available online at https://theaseanpost.com/article/resilient-supply-chains-post-covid-asia

FIGURE 7

In the first half of 2020, which of these technologies has your company relied on the most in direct response to pandemic (and that your business was not using before)?



Source: EIU survey October-November 2020

blockchain to provide faster, more detailed and independently verifiable information about the origin of their goods before the pandemic. Around one in six Asian executives surveyed nominated blockchain as the key new technology they had relied on most in direct response to the pandemic.

TRADE AGREEMENTS WILL SCAFFOLD THE RECOVERY

A new generation of digital trade agreements has enabled the rapid adoption of technology in response to the pandemic. Singapore is a leader, signing digital economy agreements with Australia, New Zealand and Chile, and launching negotiations with South Korea. These align uniform digital rules and standards, facilitate interoperability between digital systems and enable the flow of data across borders.[13]

The Regional Comprehensive Economic Partnership (RCEP), a wide-ranging trade pact between 15 Asia-Pacific countries signed in November 2020, is significant because of its digital economy provisions too, says Mr Mealy. RCEP "establishes a baseline commitment for e-commerce," which should better align the digital economies of Asia's least developed economies with their better-developed neighbours. "RCEP will accelerate the growth of intra-regional trade in Asia, primarily between East Asian countries and ASEAN," agrees Ms Kamdani.

Yet the analogue world will continue to be important. Older-style agreements will be influential in the post-covid world, says Mr Mealy, with companies increasingly using preferential trade agreements (PTAs) as a tool to gain duty-free access to third-country markets.

Vietnam, for example, "is already a great way to hedge" against the US-China tariff conflict, he says. But now, because of the EU-Vietnam Free Trade Agreement, basing operations there allows firms to export to Europe duty-free, too. "That's a nice bonus." Firms that produce many of their components in China will often finish the product in Vietnam to gain duty-free access to the US market via the US-Vietnam Bilateral Trade Agreement, agrees Mr Fung.

PTAs might also provide a handy workaround if trade tensions in the region continue. Indonesia, which offers duty-free access to Australia, could be a beneficiary of the emerging trade conflict between China and Australia, Mr Mealy says, as firms—even some Chinese ones—see value in setting up operations there to access the Australian market. "My sense is, as these trade agreements become more of a reality for global companies and regional players, it'll be one more variable that influences how they think about evolving supply chains."

Yet the pandemic and its aftermath have inspired some soul-searching among free

[13] *What are Digital Economy Agreements (DEAs)? Ministry of Trade and Industry Singapore.* Last Updated on 10 February 2021. Available online at https://www.mti.gov.sg/Improving-Trade/Digital-Economy-Agreements

trade agreement devotees. Australia's experience suggests that FTAs are not necessarily a guarantee against political interference, cautions Ms Oyarce. The China-Australia FTA (ChAFTA) marked its fifth anniversary in 2020, just as trade relations between the two countries reached their lowest point in decades. We are now seeing a "weaponisation of trade, which hasn't been the case before", Ms Oyarce says. Many businesses are thinking about geopolitical risk for the first time, which also "might be something that an SME exporter hasn't even thought of before". Ms Elms explains that the experience of the pandemic has led the trade community to think more carefully about how exemptions in FTAs function. "You can imagine that some governments may say the pandemic is a security threat and use the national security exemption [which allows national governments to breach their trade obligations for purposes of national security] to stop goods and services coming in," she says.

A NEW HOPE?

Despite the risks, there are signs of hope. Some Asia-Pacific countries had already begun to pursue innovative and cooperative strategies in response to the trade war before the pandemic, says Ms Elms. Mr Mealy points to the emergence of Japan, Australia, Singapore and to some degree China as a new group of Asian trade leaders.

"Long term, trade growth has been about 1.4 times GDP growth," says Mr Koopman. "I think we'll see a return towards that level in two years or so. I expect to see trade continuing to be a positive source of growth." But, he cautions, "If people expect to return to the heydays of the 1990s and early 2000s – that's a mistake."

"There is a degree of optimism about the outlook for trade recovery [in Asia-Pacific], particularly relative to other regions," says Mr Mealy, noting that many multinationals see Asia-Pacific as the critical growth region in a post-covid world. Executives mostly agree: 26% believe that world trade flows will take 3 to 12 months to recover to 2019 levels, 41% think it will take one to two years, and 30.4% think it will take more than two years.

This spread perhaps reflects the region's uneven prospects for recovery. Emerging markets will fare quite differently to developed economies such as Singapore, South Korea and Japan, Ms Oyarce says. Governments will face domestic pressure to generate jobs, says Ms Elms, which will significantly dampen their ability to pursue outward-oriented growth strategies in many markets.

Mr Fung is bullish nevertheless: "The fastest growth area is going to be in ASEAN in the next few years," he says. China, too, "is due for a robust rebound". Mr Sharma agrees that "China's consumption will continue to be important for Asia." Yet while Mr Fung is confident middle-class consumers around the region will survive the crisis and continue to drive growth, he is "worried about the bottom of the pyramid. We need to rescue the tail immediately".

For several years now, Asia-Pacific firms have been increasingly weighing the dividends they gain from international trade with the risks, Mr Koopman says. After the pandemic, this calculation has shifted even further. "Now, all of a sudden policy uncertainty, or just economic uncertainty, is entering into their calculations," he says. "But this does not mean a retreat of globalisation. Companies are diversifying, but they are not reshoring."

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