

PECC GM 2022 “Asia Pacific Economy beyond Thailand APEC 2022”
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Session 1: The Disruption affecting APEC Connectivity during 2016-2022

The Resilience of the International Production Networks under COVID-19 and Geopolitical Tension

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1. Challenges for APEC Connectivity

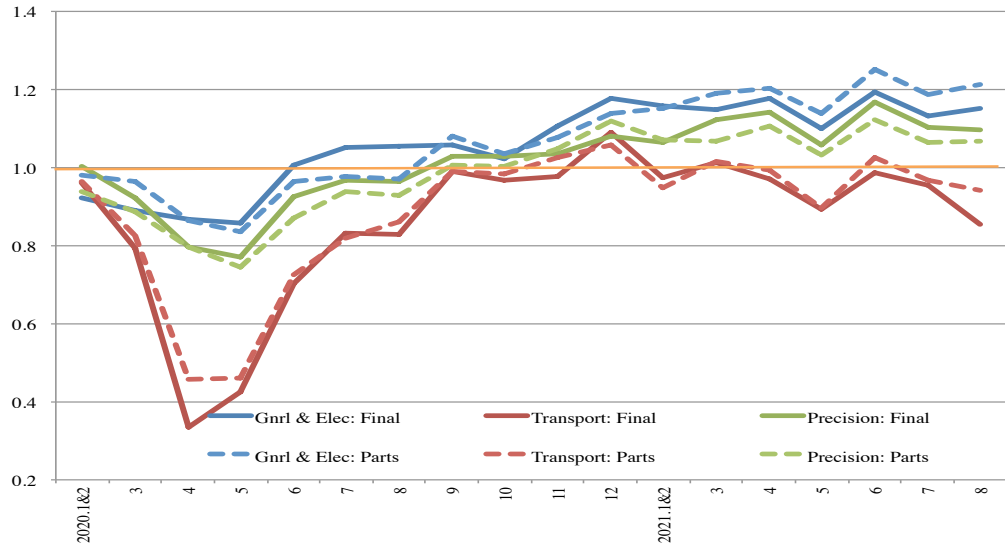
- The APEC region has led the world in aggressively utilizing globalization forces with connectivity for economic development.
- Now it faces two immediate challenges.
 - COVID-19
 - Geopolitical tension
- In the long-run perspective, two elements will become important.
 - Digital technology
 - Environmental concern

2. IPNs survive COVID-19

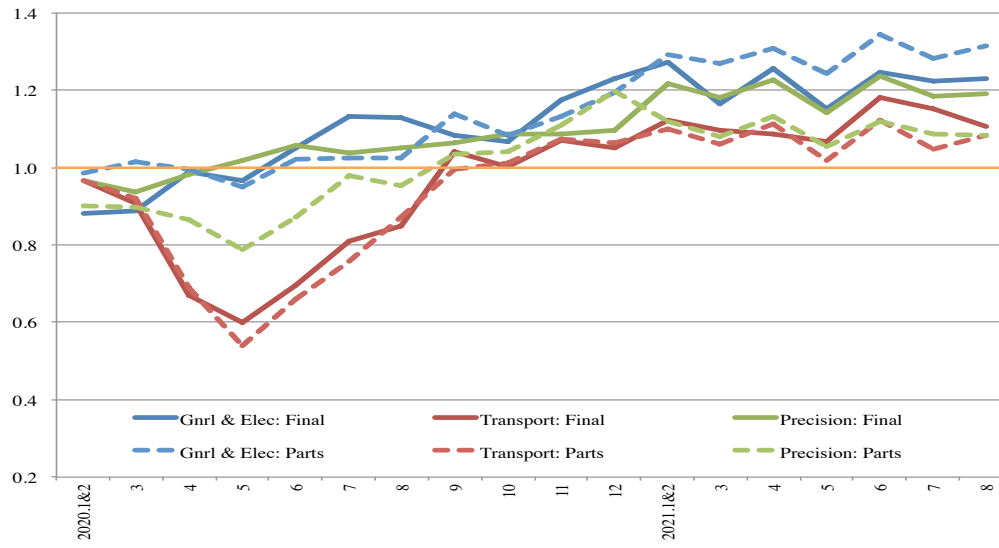
- GVCs in goods, particularly in the APEC region, came back.
 - Homework
 - Medicine, semiconductors, transportation sector...
 - Food, energy
- International production networks (IPNs) as a core of GVCs in East Asia were robust and resilient.
 - Positive demand shocks added momentum for quick recovery.
- ICT services trade (digitalized and digitalizing services) expanded with positive demand shocks.
- The APEC region can still believe in connectivity as a key concept in development strategies.
 - Arguments related to supply chain resilience are often in the context of geopolitical tension.

Comparison of major machinery international production networks amid COVID-19: machinery exports to the world (each month of 2019 = 1)

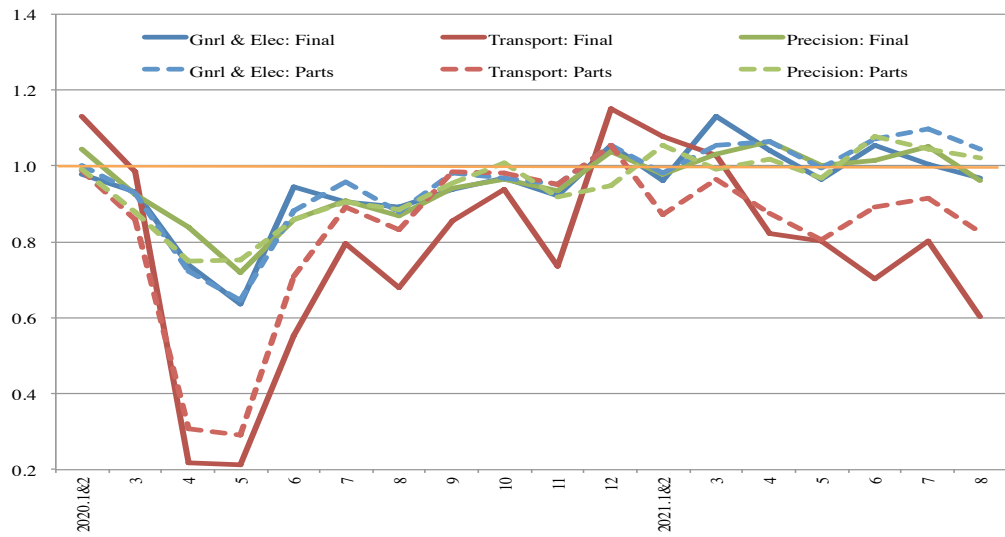
(a) World



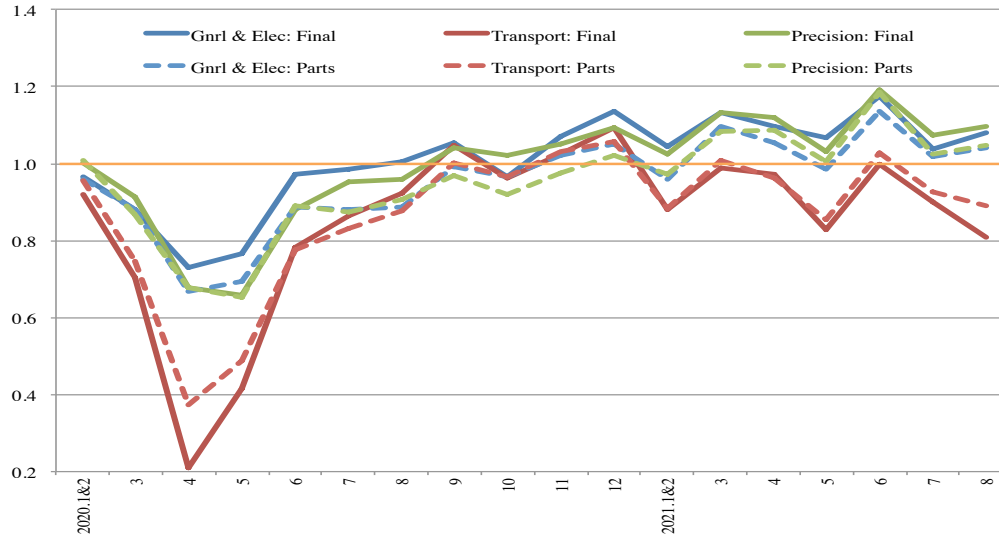
(b) East Asia



(c) North America



(d) Europe



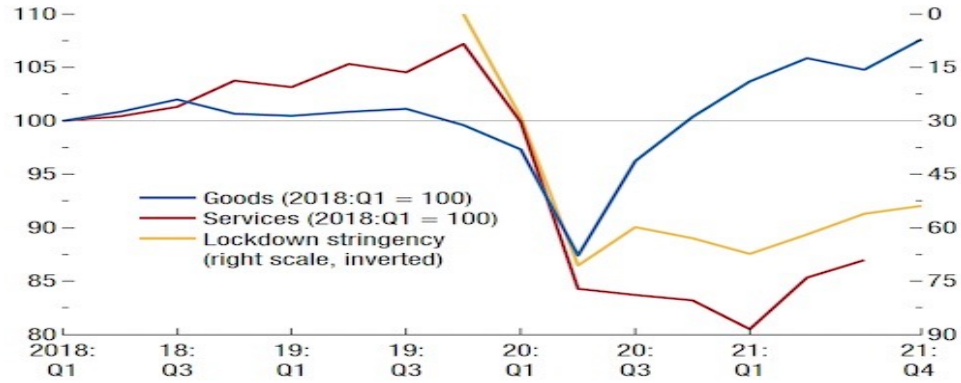
The trough of exports was shallower, and the recovery was quicker in East Asia.

The dominance of Factory Asia was strengthened.

Source: Ando and Hayakawa (2021).

Figure 4.1. Global Import Volume and Lockdown Stringency (Index)

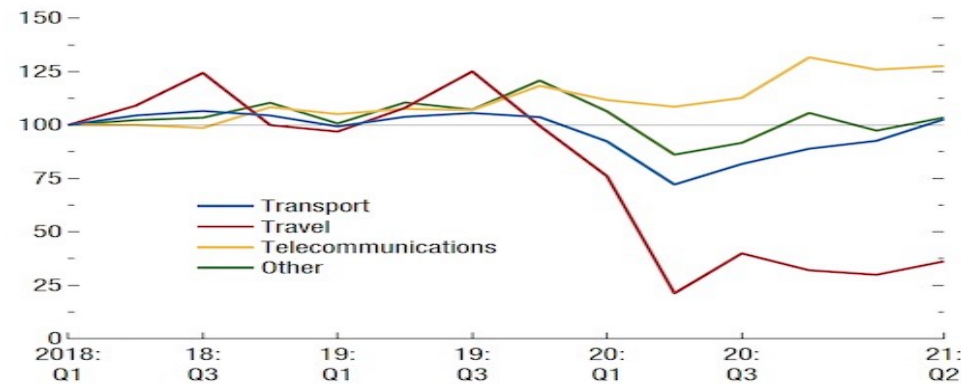
Goods trade recovered rapidly, although services trade remains sluggish.



Sources: CPB World Trade Monitor; Hale and others (2021); and IMF staff calculations.
 Note: The lockdown stringency index is the world import-weighted average of the Oxford COVID-19 Government Response Stringency Index.

Figure 4.3. Imports of Commercial Services by Main Sectors (Index, 2018:Q1 = 100)

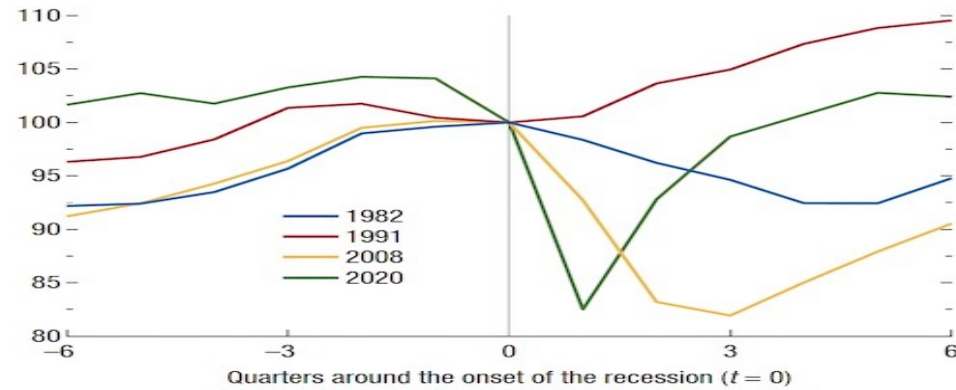
The decline in services trade has mainly been due to that in travel services.



Sources: World Trade Organization; and IMF staff calculations.
 Note: "Telecommunications" comprises telecommunications, computer, and information services. "Other" comprises commercial, goods-related, construction, financial, insurance and pension, intellectual property, other business, personal, cultural, and recreational services.

Figure 4.2. Trade Patterns around Global Recessions: Goods and Services Import Volume (Index)

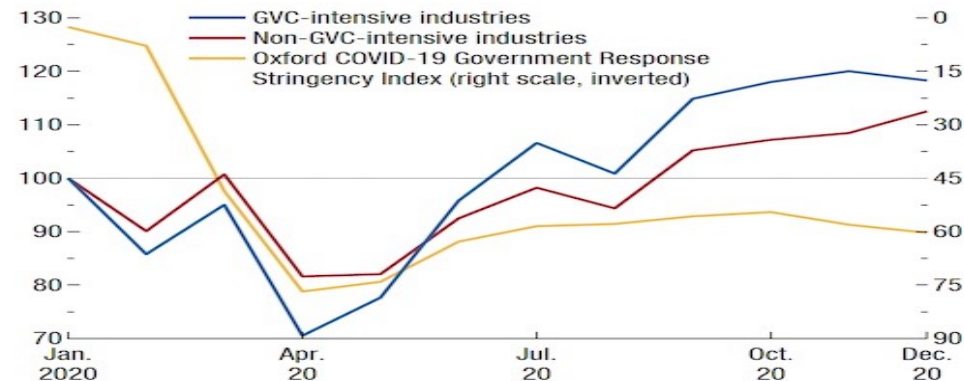
The recovery in goods trade was more rapid than in previous recessions.



Sources: Kose, Sugawara, and Terrones (2020); and IMF staff calculations.
 Note: The goods and services import volume index is normalized to 100 at the onset of the recession ($t = 0$).

Figure 4.4. Volatility of Trade in GVC-Intensive Industries versus Non-GVC-Intensive Industries Early in the Pandemic (Index)

Trade in GVC-intensive industries was relatively more volatile than trade in non-GVC intensive industries.



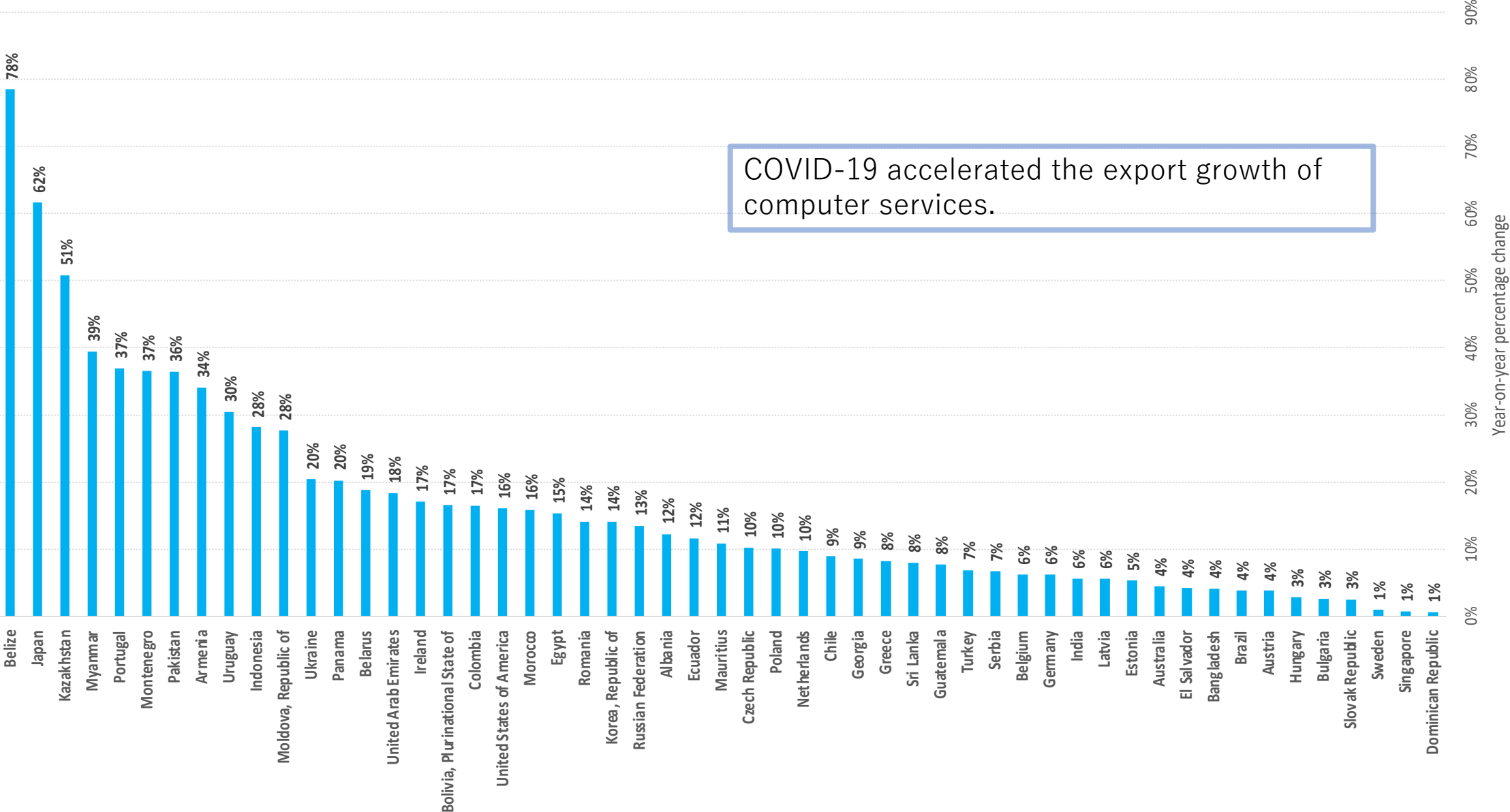
Sources: Hale and others (2021); Trade Data Monitor; and IMF staff calculations.
 Note: GVC = global value chain.

COVID-19 generated (i) negative supply shocks, (ii) negative demand shocks, and (iii) positive demand shocks.

Trade in goods recovered quickly.

Source: IMF (2022).

Exports of computer services, selected economies, 2020 (year-on-year percentage change)



Source: WTO (2021).

3. How to go with geopolitical tension?

- Confrontation between superpowers has expended its scope from trade issues to technological competition, democracy, and human rights.
- In G7 economies, the separation of geopolitical debates and economic reality becomes salient (Lamy and Köhler-Suzuki 2022).
 - E.g., the US-China/Japan-China trade in 2021, practice in export control, ASEAN economies
- While "defensive decoupling" to avoid supply interruption has proceeded with the private sector initiative in the past decade, the scope of "offensive decoupling" for economic statecraft seems to be limited so far.
 - Unless the confrontation is escalated up to the extreme, the decoupling of supply chains is likely to be partial (semiconductors, high-tech products, rare earth-related).

What to do?

- In G7 countries, trade/investment controls should be defined as clearly as possible, and the implementation must be efficient.
- It is important for the APEC economies to retain the “rest” of the economy under the rules-based trading regime to keep the vigorous economies.
 - E.g., WTO reform, mega-FTAs
- Even the third economies may need to take care of some spillovers due to geopolitical tension.
 - E.g., extra-territoriality of export control by the US, legalization of import control over human right-related goods, risk of cyberattacks

References

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- World Trade Organization (WTO). (2021) *World Trade Statistical Review 2021*, Geneva: WTO.