

***Implications of Covid-19 for Trade:
Conflict and Cooperation in the Asia-Pacific***

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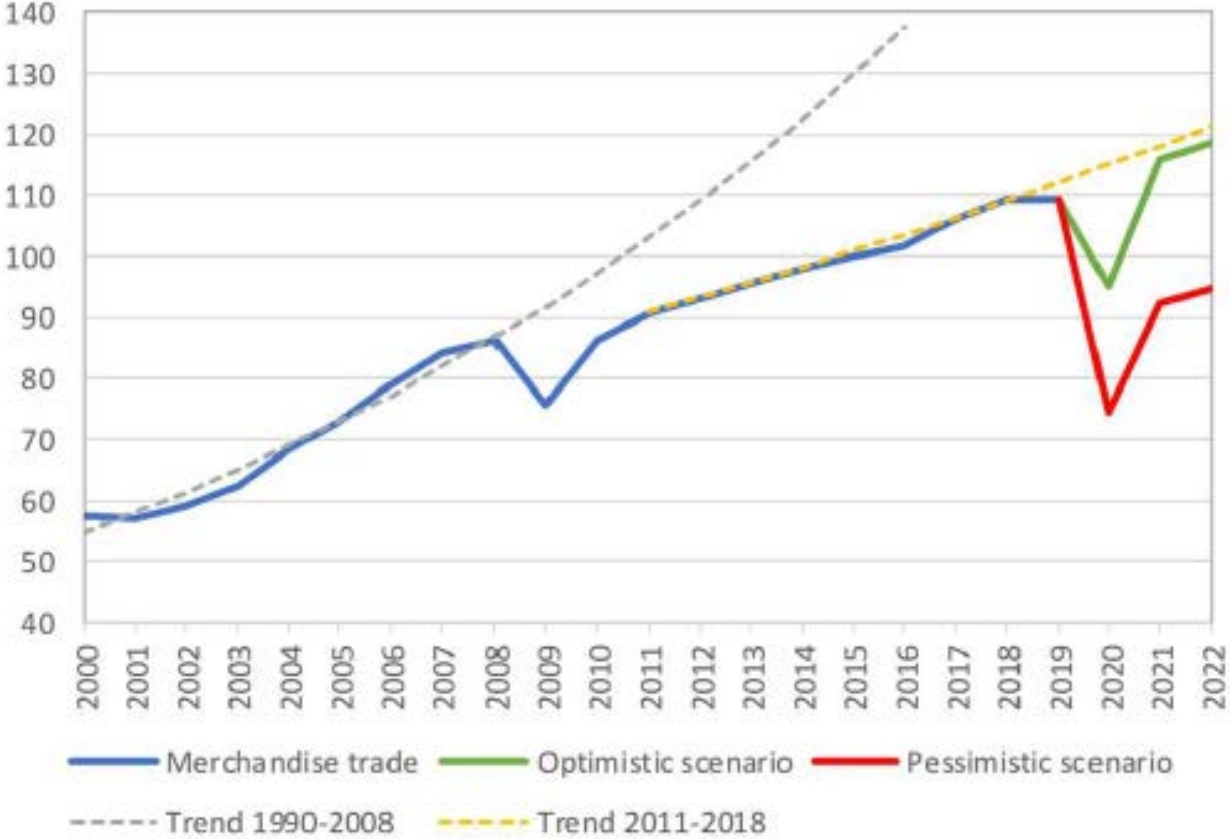
Panel:

Covid-19: Long-run economic and political consequences

Covid-19 Shock to Trade: Short-Term

- Covid-19 has created a major shock to trade:
 - WTO this month forecasts a decrease of 13-32%
 - It expects a rebound next year, but uncertain
 - Biggest drops will be in sectors with complex value chains
 - Trade in services will be heavily affected due to restrictions on transport and travel
 - Digital trade will continue to grow but small relative to other service-sector shocks
- Future paths in the short-run are also highly uncertain.

World Trade Growth Forecasts by WTO: April 2020 (WTO Secretariat)



But trade was already on the ropes....

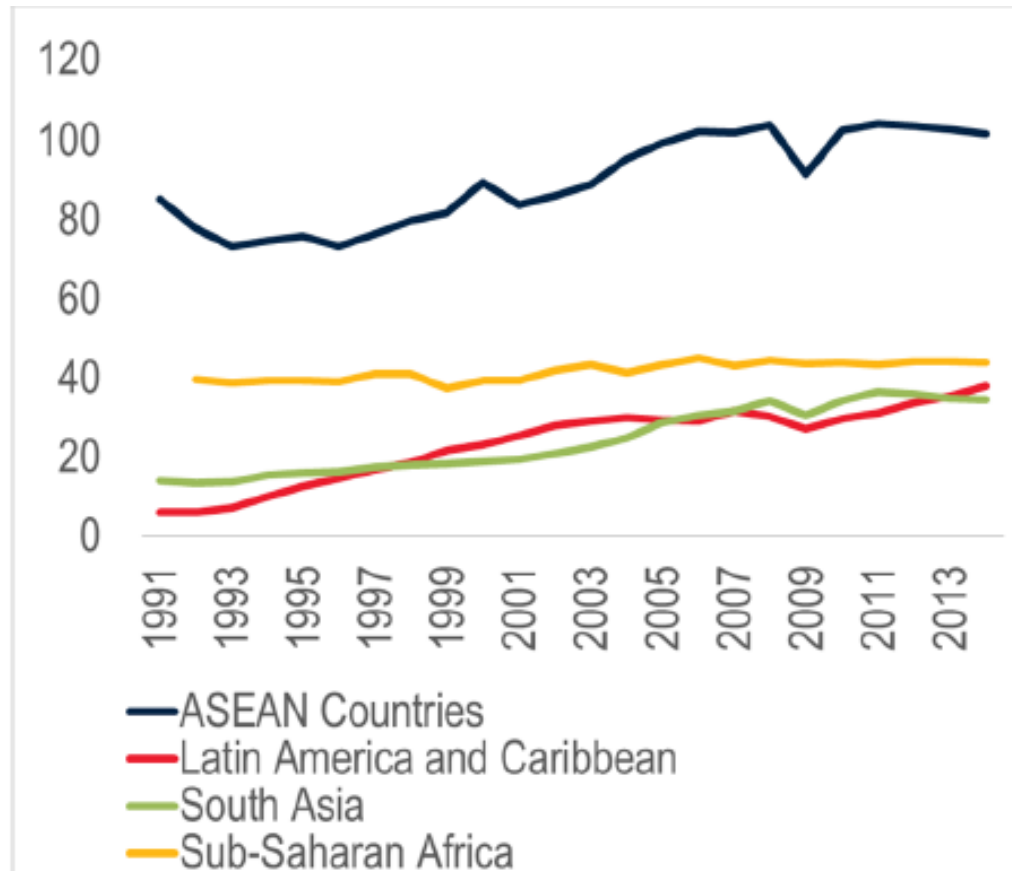
- Note, however, that trade already fell in 2019 due to trade tensions, including the US-China trade war
- It is also true that regional production chains had slowed down and started to mature.
- China has been a key link in global supply chains, but even before the the US-China trade war firms were moving out due to higher wages.
- Phase 1 stabilized US-China relations, but Covid-19 bickering has led to more pessimism.
- Recent survey suggests that more US firms will be moving out of China post-Covid.



Problem for Asia

- Impasse at the WTO poses a special problem for Asia, which depends more on the global marketplace than other regions
- No major success at multilateral level since mid-1990s
- Trump administration has many problems with the WTO and is essentially blocking the dispute settlement mechanism
- It is true that some countries in the region (e.g., Vietnam) have benefitted to some degree due to the US-China trade war, but on the whole all have been negatively affected by the uncertainty and rise in protectionism globally
- Phase 1 of the US-China agreement gave some hope for stability; but recent Covid-19-related posturing and Phase 2 problems have created fears of long-term disruptions

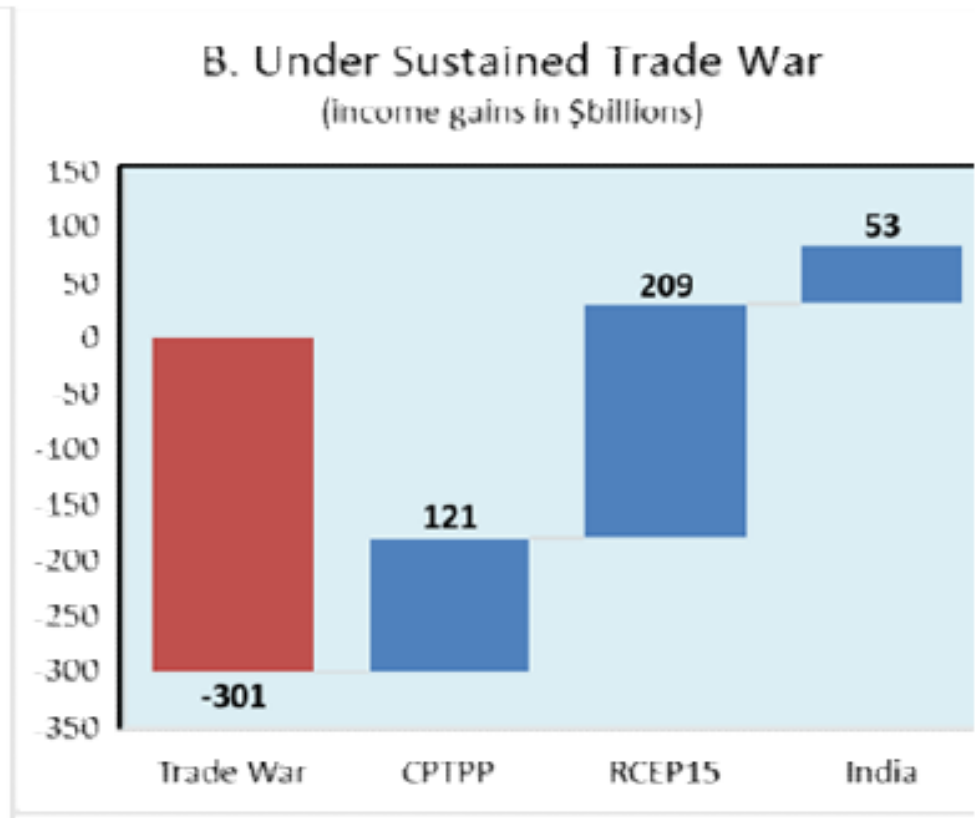
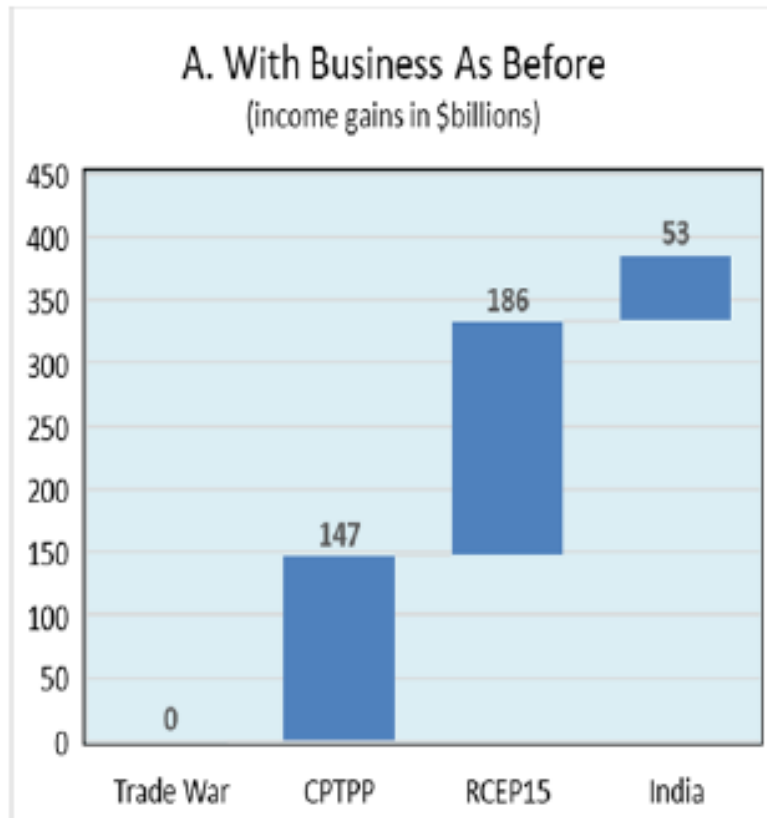
Asia is more open: Trade Shares in GDP by Developing Country Region



Asian Response

- To offset these problems, Asia has turned to its own regional integration programs, in particular the CPTPP and, this year, RCEP
- They will begin to set new rules for commerce in the 21st century, with strong positive strategic implications
- Our estimates suggest that this cooperation will more than compensate for the trade war
- China will be the big loser economically, but will gain strategically in the case of RCEP
- The US will lose economically and its strategic influence will continue to fall

Conflict and Cooperation: US-China Trade War and Asian Megaregionalism



Conclusions

- Covid-19 will have a strong negative effect on trade in the short-term
- It will expedite changes already in motion in terms of supply chains with longer-term implications
- The case for closer cooperation is made stronger by Covid-19 but that doesn't mean it will bring countries together, and certainly isn't doing so in the key US-China context
- There is a real chance that this conflict will have permanent effects. «Economic distancing» could be a result
- In any event, post-Covid strengthening rules with respect to export controls and beggar-thy-neighbor policies will need to be a priority, but perhaps complicated to solve
- It will take leadership to get there.