ASIA-PACIFIC TRADE AND INVESTMENT TRENDS 2021/2022

Trade in Commercial Services Outlook in Asia and the Pacific

ESCAP 75

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Highlights

- Trade in commercial services is set for a fragile recovery in 2021, after a considerable fall in 2020: Global exports and imports values are forecast to increase by just 2.7% and 1.2%, respectively, in 2021, compared to 9.6% and 0.9%, respectively, in Asia and the Pacific. The stronger export growth of Asia and the Pacific will boost the region's prominence in global services exports from 23.8% in 2020 to 25.4% in 2021, while its import share will decline slightly from 30.2% to 30.1%.

- Unlike merchandise trade, global and regional services trade remain well below pre-pandemic levels; global services trade in 2021 is estimated to be 18.0% (US$ 180 billion), lower than before the pandemic (2019), while the region has seen a 19.6% (US$55 billion) loss.

- As the outbreak of new COVID-19 sub-variants continued, travel services were hit the hardest. In the first quarter of 2021, global travel trade was 60% down compared with 2019, despite recovering from its lowest point in 2020 (Q2). This is especially relevant for countries in South-East and East Asia, whose economic recovery was interrupted by new lockdown restrictions.

- In contrast, non-travel services have tended to be on a recovery track. Transport and other business services have followed the recovery in global and regional goods trade, having experienced sustained growth after the initial slump in Q2 2020. A positive outlook for merchandise trade growth promises to keep boosting transport services trade. Accelerated by the pandemic, digitalization has boosted demand for ICT and financial services. Both sectors have enjoyed positive performances, globally and regionally.

- Going into 2022, global and regional services trade are expected to continue recovering slowly and heterogeneously across sectors. While transport, other business services and ICT are anticipated to flourish, travel services will experience a weak recovery as border crossing remains more difficult than in pre-pandemic times. The possibility of new lockdowns and border restrictions, slower than expected vaccination rollouts in 2022 and maritime shipping disruptions remain important downside risks in the shorter-term.

- Beyond 2022, the acceleration of digitalization is expected to be one of the pandemic's most enduring legacies. Indeed, as digitalization of the regional and global economies intensify, it can be expected to redefine the nature of services trade in the medium to longer-term.

1. Trade performance in 2021

Fragile and uneven recovery

Trade in commercial services is set for a fragile recovery in 2021 after a considerable decline in 2020. Indeed, Indeed, global export and import values are forecast to increase by just 2.7% and 1.2%, respectively, in 2021, after declining 19.5% and 19.7% in 2020.(figure 1A) In Asia and the Pacific, exports will pick up quite strongly, rebounding by 9.6% from the very low base in the previous year. Import-wise, the regional recovery remains weak with import growth of a mere 0.9%, despite the previous year's 24.3% and 22.6% contraction in exports and imports, respectively (figure 1B). Overall, the positive export performance of Asia and the Pacific is expected to boost the region's prominence in global services exports from 23.8% in 2020 to 25.4% in 2021, while its import share will decline slightly from 30.2% to 30.1%.

Owing to COVID-19 sub-variant outbreaks that have weakened trade performance during the second half of 2021, the region may see its actual trade growth to be lower than the above prediction. According to the latest WTO (2021a) services trade barometer, services trade growth will continue to recuperate throughout the second half of the year, but at a slower pace than initially anticipated. This is especially relevant for countries in East and South-East Asia, whose economic recovery was interrupted by new lockdown restrictions affecting important export sectors such as travel and tourism.

As a result, unlike merchandise trade, global and regional services trade are expected to remain well below pre-pandemic levels; global services trade in 2021 is estimated to be 18.0% (US$ 180 billion) lower than in 2019, while the region has seen a 19.6% (US$55 billion) loss.

The resurgence of COVID-19 outbreaks, uneven inoculation, and the limited fiscal capacity of developing economies to continue providing economic stimulus have impacted services trade performance unevenly across sectors and economies.

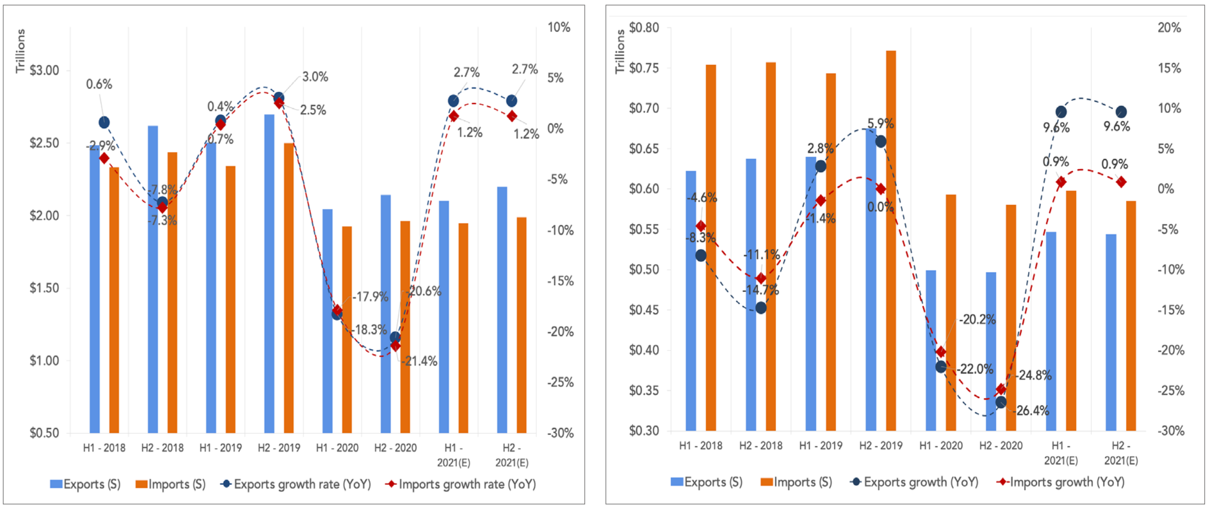
Figure 1. Global and Asia-Pacific commercial services trade performance, 2018-2021

(A.) World

(B.) Asia and the Pacific

(US$ trillion/% growth rate)

(US$ trillion/% growth rate)



Source: *ESCAP calculation, based on WTO and OECD data (accessed October 2021).*
Note: *'H1-2021 (E)' exports and imports growth rates are estimated based on existing quarterly and monthly data from the WTO database, when available, and otherwise from OECD. Q1 and Q2 data cover 53.3% and 44.3% of total Asia-Pacific services trade, respectively. Globally, coverage for Q1 and Q2 is set at 46.1% and 44.7% of total services trade. 'H2-2021 (E)' year-on-year growth rate is assumed to be the same as 'H1-2021 (E)' and trade values are calculated accordingly. In the label (S) stands for 'Semester' and (YoY) for 'Year-on-Year'.*

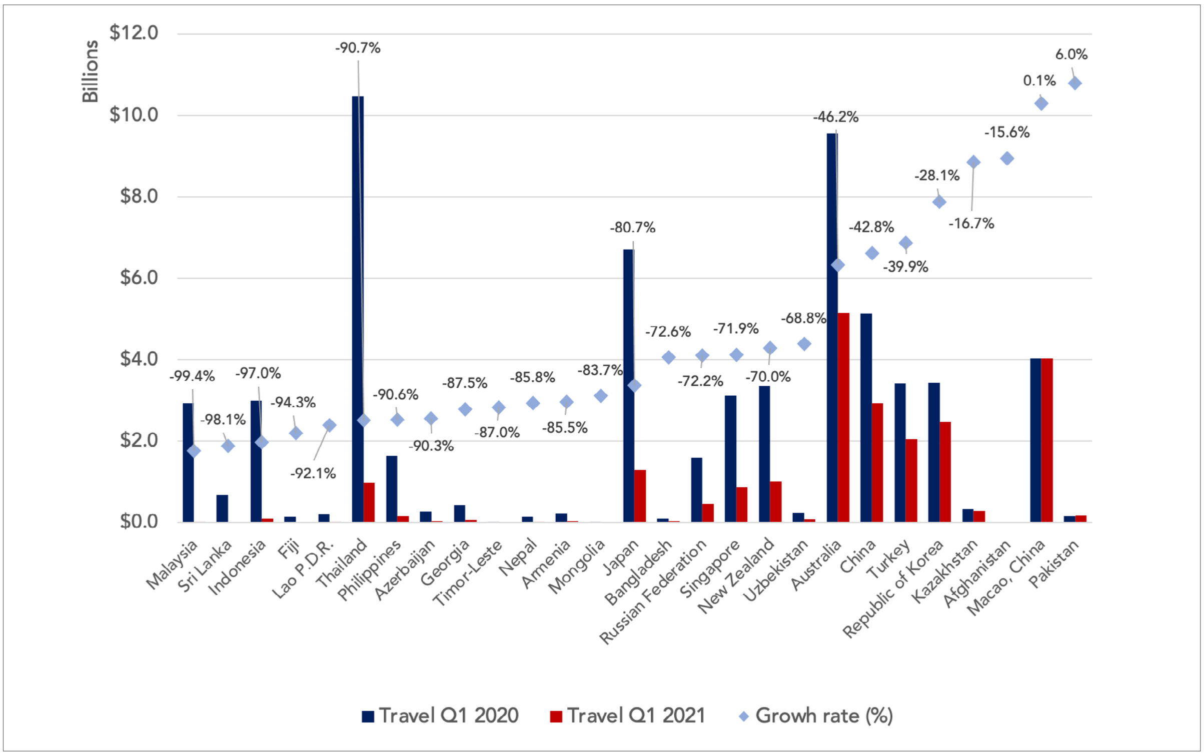
Travel services up, but depressed

Marked by travel restrictions and border closures, travel services have been hit the hardest during COVID-19.[1] Globally, travel exports and imports were down 63.0% and 60.7% year-on-year, respectively, during the first quarter of 2021. In Asia and the Pacific, travel services exports and imports declined by 63.8% and 59.5%, respectively, during the same period, despite rising by more than 30% from its lowest point in 2020 (Q2). This decline has hit some countries particularly hard; Azerbaijan, Fiji, Indonesia, the Lao People's Democratic Republic, Malaysia, the Philippines, Sri Lanka and Thailand lost more than 90% of their travel exports year-on-year, while Armenia, Georgia, Japan, Mongolia, Nepal and Timor-Leste lost more than 80% (figure 2). According to UNCTAD (2021a), during the first five of months of 2021, the region registered the largest declines in international arrivals globally, while the sector has been losing steam since its temporary high in Q3 of 2020.

[1] The World Tourism Organization estimates international tourism's overall negative impact on global GDP to be more than US$4 trillion during 2020 and 2021 (UNWTO, 2021a).

For the second half of 2021, the region is expected to continue registering the largest drop in international arrivals globally. This is due to the fact that most of its destinations remain effectively closed to non-essential travel – a situation further complicated by the Delta-variant outbreaks that have forced countries to impose new restrictions –, while demand for international travel remains weak. Despite recent efforts to launch tourism ahead of the holiday season, the reopening of international travel are still sluggish and selective.[2] Hence, overall trends in the travel sector remain depressed despite some year-end upbeat results.

Figure 2. Travel services exports Q1-2020 v Q1-2021 – selected economies



Source: *Authors, based on WTO data (accessed October, 2021).*
Note: *Growth (%) is for the first quarter of 2021 compared to the same period in 2020.*

Digitalization boosted demand for ICT and financial service

On the contrary, the shift to remote working and increased digitalization during COVID-19 has considerably boosted ICT and financial services trade. On the one hand, globally, ICT exports and imports grew 12.3% and 3.2%, respectively, year-on-year

[2] Refer to box 1 for a detailed discussion on this topic.

in the first quarter of 2021, while in Asia and the Pacific this growth was stronger at 21.0% and 4.8%, respectively. The strong regional performance was mostly supported by China (37.0% export growth and 28.2% import growth), which has consistently expanded its prominence in the sector. Other highly digitized regional economies such as Australia, Japan and Singapore also performed positively.

On the other hand, in the first quarter of 2021, financial services exports and imports grew 11.0% and 3.0% year on year globally, and 8.2% and 1.8% regionally, respectively. Singapore led the region's financial services trade expansion, while China and the Republic of Korea also recorded positive gains.

In contrast, Japan – the third-largest financial powerhouse of the region – experienced a double dip in exports and imports during the same period. Ultimately, as the global economy gradually moves back to the workplace and previous gains are solidified, both ICT trade and financial services are expected to register moderate growth for the second half of 2021 (WTO, 2021).

The global merchandise trade recovery has benefited transport and other business services

Merchandise trade-related services such as transport and other business services have followed the global goods trade recovery, having experienced sustained growth after the initial slump in Q2 2020. Particularly in Asia and the Pacific, where the merchandise trade recovery has been the strongest, transport services exports were up 19.5% in the first quarter of 2021, while other business services grew 6.4%. Globally, these sectors' exports grew 2.1% and 3.7%, respectively. This contrasts with the region's 0.3% transport and 9.3% other business services' imports contraction as well as with the world's 1.7% and 9.2% decline, respectively, in imports in the same sectors.

Due to a heightened demand for goods, transport and other business services are expected to continue expanding during the second half of 2021. However, significant increases in oil prices combined with inflated containership rates have contributed to higher logistic services costs and pressured these sectors downwards. Indeed, in August 2021, the cost of sending a container from Asia to Europe increased tenfold compared to that of May 2020, and 547% compared to the five-year seasonal average (ESCAP, 2021a; Longley and others, 2021; Wang and Curran, 2021). Air cargo prices between East Asia and North America in the same month were up by 162% compared with 2019 (Brett, 2021). While some structural factors have contributed to a limited supply capacity in the transport and logistics sectors even before the pandemic, the current transport crunch has been fuelled by COVID-19 related disruptions such as the closures of ports and logistics hubs, labour shortages due to lockdown measures etc. (ESCAP, 2021a; Miller, 2021).

2. Outlook

2.1. Short-term outlook

Going into 2022, global and regional services trade are expected to continue recovering slowly and heterogeneously across sectors. While transport, other business services and ICT are anticipated to flourish in the near future, travel services are yet to make a full recovery. In the light of uncertainty with respect to COVID-19, the possibility of new lockdowns and border restrictions, slower than expected vaccination rollouts in 2022 and maritime shipping disruptions might threaten services trade recovery in the short-term.

Travel and tourism lags in recovery

Travel services trade is slowly picking up as countries reopen to tourism. However, the sector's growth will remain fragile and uneven during 2022. Current estimates point to international tourist arrivals in main Asia-Pacific to recover to pre-pandemic levels – the earliest – in 2023.[3] However, it is forecasted that a six-month delay in vaccine roll-out would delay tourism's recovery by a full year (Helble and Cho, 2021). According to another survey conducted by the UNWTO (2021b), expert-perception points to the recovery of international tourism in Asia and the Pacific to pre-COVID19 levels only in 2024 or later. Indeed, the region's recovery is expected to lag behind that of the rest of the world owing to persistent travel restrictions in the region, particularly in China – the largest exporter of travel services in the world. All in all, tourism faces an uphill battle towards recovery (box 1).

Box 1. Fight for flights: Tourism's uphill battle to recovery

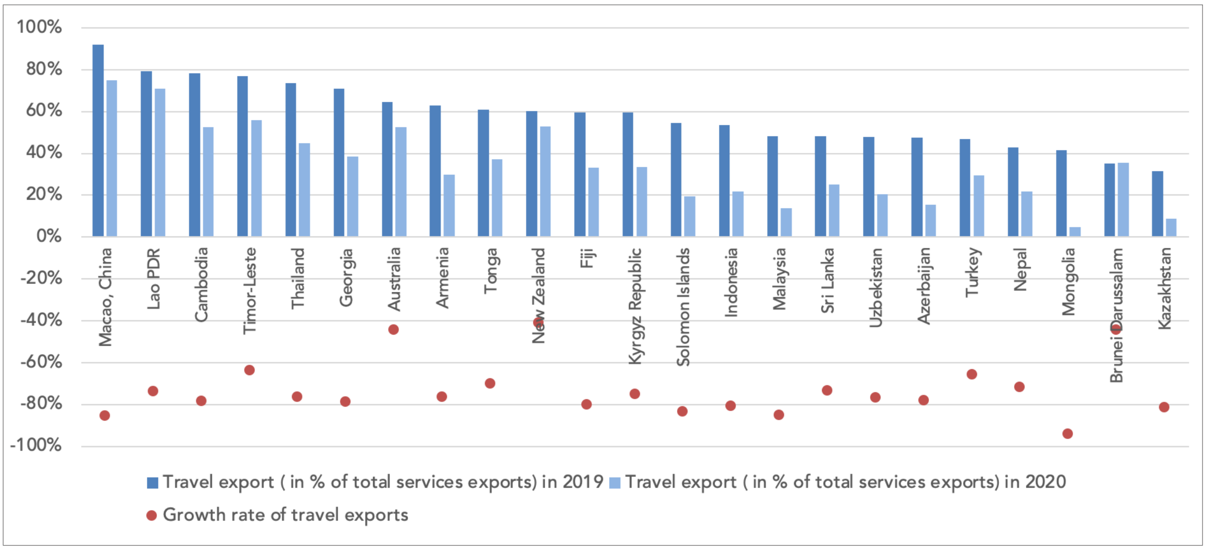
Multiple waves of lockdowns and cross-border travel restrictions have hit travel exports unprecedently:* In 2020, regional travel exports contracted 62.4% year-on-year to levels last seen in 2006. As the region's largest services exporting sector in

[3] Asia-Pacific economies included are: Australia; Azerbaijan; Cambodia; China; Georgia; Hong Kong, China; India; Indonesia; Japan; Kazakhstan; the Lao People's Democratic Republic; New Zealand; Republic of Korea; Singapore; Sri Lanka; Thailand; and Viet Nam.

* Based on the WTO travel services database starting in:1980.

2019 – and a key source of livelihood for low-skilled labour, especially among female and youth workers – this drop has had severe economic and social consequences across the region. For 23 out of 44 Asia-Pacific economies with available data, travel services accounted for more than 30% of their total services exports in 2019 (Figure Box 1). This reliance is especially steep for developing countries such the Lao People's Democratic Republic (79%), Cambodia (78%), Timor-Leste (77%), Thailand (74%), Georgia (71%), Armenia (63%), Tonga (63%), Fiji (60%), Kyrgyz Republic (58%), Solomon Islands (54%) and Indonesia (53%).

Figure Box 1. Travel exports services reliance and decline – selected economies

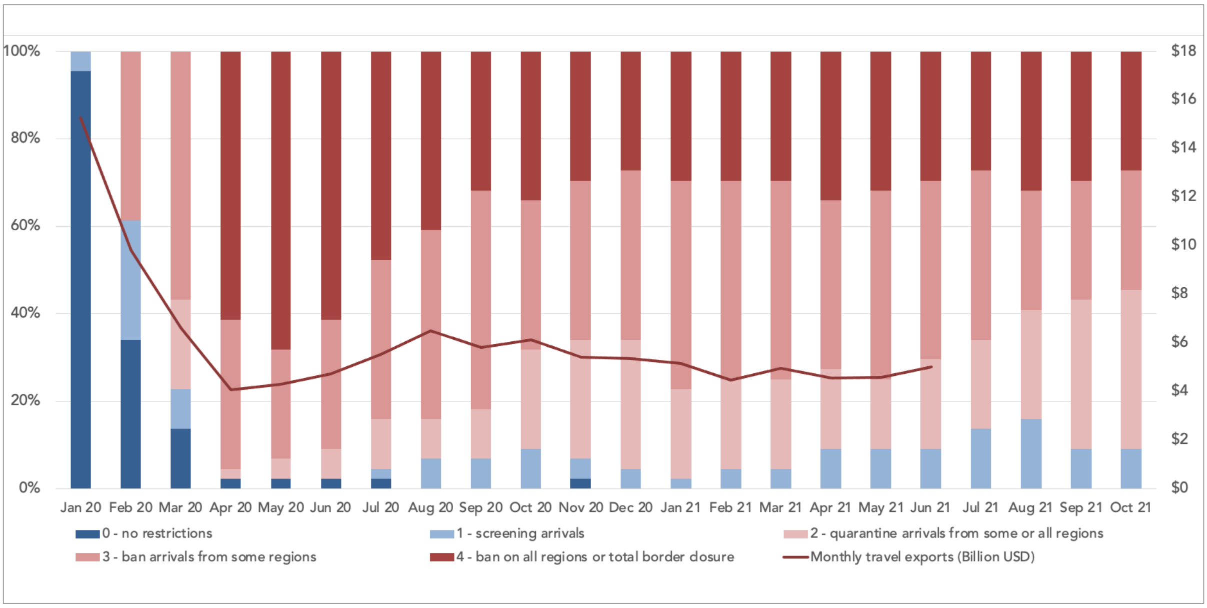


Source: *ESCAP calculation, based on WTO data (accessed October, 2021).*
Note: *Only economies with a travel share of services exports exceeding 30% were selected.*

International travel restrictions imposed to curb the spread of COVID-19 are largely behind the plunge in travel exports (Figure Box 2). Travel restrictions were heightened during the initial outbreak of the pandemic (from April to June 2020), when 62% of ESCAP countries ordered total border closures. Since then, travel restrictions have eased and stabilized. As of late October 2021, 27% of countries were under full border closure, 27% were banning arrivals from some regions, 36% required quarantine on arrivals from some regions, 9% required only screening on arrival, and no country had its borders fully open. Following the emergence of new highly transmissible strains, the slow vaccine rollout and rising infections globally, these restrictions are expected to remain in place for the rest of the year and perhaps beyond.

Figure Box 2. Asia-Pacific countries' travel restrictions for foreigners, by restriction type, from January 2020 to October 2021

(Percentage/billions of US$)



Source: ESCAP calculation, based on Oxford COVID-19 Government Response Tracker data (accessed October 2021)

Indeed, tourism is facing an uphill battle with several threats potentially barricading its road to recovery.

The uneven vaccine roll-out is one of the main downside threats to the industry. While many developed economies are already vaccinating the general public, low-and-middle-income economies relying on the United Nations' COVID-19 Vaccines Global Access (COVAX) initiative may have to wait until 2022 or 2023 to do so (ADB, 2021). Naturally, this means that least-vaccinated countries will struggle to attract foreign tourists and thus revive what often is their largest source of services exports. Furthermore, by providing fertile ground for the virus to mutate, the uneven vaccine roll-out could prolong the global pandemic and defeat current vaccination efforts.

On the other hand, the discrimination against certain vaccines internationally will decelerate the recovery of cross-border travel by restricting international travel destinations. This is the case for people immunized with Chinese-made Sinopharm or Russian-made Sputnik V, who will not be able to travel to Europe since these vaccines have yet to be recognized by the European Medical Agency (EMA) (McGregor, 2021).

Another important factor affecting international tourism recovery is China's "zero-tolerance" policy towards COVID-19 and its hard stance on international travel. As of October 2021, the Government of China had already announced that it would keep its borders effectively closed for most of 2022, making returning Chinese citizens face a long and expensive quarantine and discouraging international travel altogether. Furthermore, China's relaxation of quarantine rules with Hong Kong, China highlights that Government's priority in re-establishing domestic – over international – links. As the unrivalled global engine of international tourism, this is extremely bad news for tourism-dependent economies. China's absence from international tourism will be especially crippling for the many Asia-Pacific economies that rely on China as their main source of incoming tourists.

Last, pandemic-induced changes in consumer demand, notably, the increased adoption of remote working, are expected to have a long-lasting impact on travel services in general and on business travel in particular. As with previous crises, business travel usually takes longer to recover. However, unlike in previous crises, coordinated transition by companies to online meetings, the acceleration of digitalization, and the increasing pressure to decarbonize business activities mean that business travel might not recover to pre-pandemic levels at all. As business travellers usually account for a large portion of travel services expenditures – according to Bernstein, in 2019, approximately 25% – lagging business travel will permanently hurt the sector's overall viability and force it to adapt to a more leisure travel-dominated industry (The Economist, 2021).

While some of these trends are outside government control, proactive policy-making can effectively stimulate tourism's full recovery. Domestically, local authorities and business should accelerate the adoption of effective contact tracing and reduced face-to-face measures to minimize the risks created by incoming tourists. This includes the deployment of new contact-tracing and monitoring technologies, enhanced health-safety protocols, and building workers' digital and public-health skills (UNWTO, 2021c).

Internationally, more cooperation is needed to facilitate the mutual recognition of vaccines, enhance contact-tracing and health-data sharing as well as gradually open cross-border travel via the implementation of travel bubbles and corridors (ADB, 2020; Helble and Cho, 2021). So far, in Asia and the Pacific, China and Japan have been developing immunity passports for their citizens, but have not yet secured any international recognition. Malaysia and Singapore have launched a common immunity passport to support their existing cross-border travel protocols (McGregor and Barrett, 2021; Siripala, 2021). In comparison, the European Union has granted digital

COVID vaccination certificates that exempt holders from testing or quarantining in any of 27 member States since July 2021 (Sugiura, 2021).

Regional economies have also gradually established travel bubbles and 'green' corridors with low-risk countries that have sufficiently vaccinated populations and low cases incidence. As of November 2021, Singapore maintained quarantine-free travel lanes with 11 countries, Bali and the Riau Islands, in Indonesia, had the same with 19 countries, the Republic of Korea established a travel bubble with Saipan, while Thailand implemented the "No Quarantine" Sandbox scheme, which uses Phuket and Samui as 'quarantine islands' for fully vaccinated tourists (Goel and Pitrelli, 2021; Yim, 2021). Ahead of the holiday season, many countries have also tried to relax international travel restrictions in an effort to revive the sector. For example, Thailand has opened its borders further to vaccinated tourists from more than 60 countries, including the United States, China, Singapore, Japan, India and most of Europe, while Fiji will also welcome vaccinated travellers from multiple countries from 1 December 2021 (Thanthong-Knight and others, 2021). Cambodia, Viet Nam and Malaysia have also announced pilot plans to allow foreign visitors to visit some popular destinations, such as Phu Quoc (Viet Nam), Langkawi (Malaysia), and Sihanoukville and Koh Rong (Cambodia), without quarantine requirements during the holiday season (Wallace, 2021).

However, the once-suspended Australia-New Zealand travel bubble and the cancelled Hong Kong-Singapore travel scheme show the fragility of travel agreements under the threat of massive outbreaks as well as Governments taking different approaches to COVID-19 – e.g., "zero-tolerance" compared to "living with COVID-19" (Menon, 2021; Ting, 2021).

Ultimately, while the relaxation of some entry restrictions is welcome sign for travel services, there is not much hope that this will be reflected in a pungent recovery since many origin countries are still enforcing "zero-tolerance" policies. All in all, this highlights more effort is needed, domestically and internationally, if travel is to recover close to its pre-pandemic level. Indeed, in addition to speeding up vaccine roll-outs, governments should seek to improve intergovernmental coordination in order to remove vaccine discriminations and to ease border crossing procedures, including through digitalization and harmonization of regulations (ESCAP, 2021).

While international travel might not recover anytime soon, tourism providers are looking at domestic travel as a lifeline of last resort. Destinations with large existing domestic markets, such as China and Japan – whose domestic share of visitors is as high as 90% – are thus in a better position to stabilize their tourism sector (Outbox Consulting, 2021).

Transport and other goods services – cautious optimism

In tandem with merchandise trade, transport and other goods services are expected to experience moderate growth in 2022. This performance will solidify post-pandemic gains and reflect the normalization of growth after the sharp rebound in 2021 – especially export-wise. While sustained demand from North America and Europe as well as heightened e-commerce activity are expected to keep pushing up the demand for transport services and other business services, recurring COVID-19 outbreaks and the resolution of disruptions in maritime and air cargo will determine these sectors' overall performance in 2022.

Indeed, as explored above, transport services globally experienced disruptions that sent air cargo and maritime shipping prices soaring in the second half of 2021. As of October 2021, the Drewry's World Container Index – a composite indicator gauging shipping prices in main routes – remained 276% higher than in 2020, and was projected to increase further in 2022 (Drewry, 2021). Accordingly, with demand for the sector projected to continue increasing, the industry's performance will heavily depend on the outcome of the pandemic's impact on the supply-side. Especially in key transport hubs, such as China, Hong Kong, China and Singapore, new lockdown restrictions could significantly limit global shipping capacity and add further pressure to an already maxed-out network. New barriers to international travel could also become a threat to global shipping capacity, since approximately half of all goods transported by air are carried in commercial passenger airliners (Eurocontrol, 2021).

ICT and other business services continue to rise due to the digital transformation of traditional sectors

Services delivered online have experienced heightened demand during the pandemic, mostly due to the shift to working remotely and increased digitalisation. Both trends will continue to materialize well into 2022, with the ICT sector expected to continue leading this expansion. The pandemic-induced shift in consumer habits – a mix of economic, phycological and regulatory effects – will display similar results for insurance, pensions and financial services. Many countries, such as Singapore, are already riding the waves of these changes as policymakers see digitalisation as a necessary tool for future cross-border trade, and move towards building an innovative digital trade ecosystem with influence far beyond their shores.

2.2. Long-term outlook

As discussed in ESCAP (2020), the acceleration of digitalization is expected to be one of the pandemic's most enduring legacies. With efficiency and network-related gains from digitalization of trade, this trend is expected to intensify and continue redefining the nature of services trade in the medium to longer term. In this context, travel, transport and financial services are among the sectors displaying the most significant advances in digital delivery during COVID-19 (box 2).

Box 2. Digitalisation of traditional services

Tourism services

As one of the most impacted industries, tourism providers have faced unprecedent challenges to adapt to new consumer demands and expectations during COVID-19. While digitalization in the sector was already well underway, COVID-19 has strengthen the impetus to improve customers' digital experiences and offer a wider range of services on-line (AWS, 2021). Indeed, some estimates say COVID-19 has accelerated the sector's digital transition by about five years compared to what was previously predicted (Cutajar, 2021).

Naturally, as health and safety became a top priority for travellers, one of the biggest trends during the pandemic has been the creation of contactless experiences (Baker, Blumenthal and Glick, 2021). As a recent OECD (2021) study has found, self-serviced check-in and check-out, digital submission of health and travel documents, heightened online orders for food services, digital menus, and widespread contactless payment methods are among some of the new digitally-enabled strategies adopted to reduce face-to-face interaction.

After the pandemic, most of these changes are expected to endure (OECD, 2021). For tourism suppliers, digitalization is a unique opportunity to reduce costs by reducing reliance on physical presence, while increasing efficiency, helping to harness consumer data, consolidate service patterns, increase overall health and safety standards, and connect with consumers individually – before and after the experience. For consumers, tourism's digitalization will pave the way for a smoother and safer travelling experience: Digitally enabled services allow consumers to gather more information independently, access and connect to multiple providers and safely pay for services abroad using international payment gateways.

Two important challenges to support tourism's long-term digital transition will be financing and workforce capacity, particularly among micro and small tourism providers. Accordingly, government support is needed to facilitate funding towards improving digitalization. This is especially important to avoid widening the existing digital divide and not leave smaller players at a disadvantage. On the other hand, with the rapid adoption of new digital technologies, new digital skills will be increasingly required. Targeted initiatives to build digital capacity will thus be required to make sure that the existing workforce can accommodate the usage of more and new digital technologies. This is also extremely important to avoid reinforcing existing inequalities between younger and older generations when it comes to digital dexterity.

Transport services

One prominent example in transport services has been the digitalization of maritime ports, which has helped reduce the industry's administrative burden, limit face-to-face contact and speed up the processing of containers. Indeed, as UNCTAD (2020) reported, Governments and port authorities have made notable efforts to deploy technological solutions that have permitted vital information sharing during the pandemic. At the international level, cooperation has also increased with the average implementation rate of paperless trade and cross-border paperless trade shooting up by 6 and 4 percentage points, respectively (UNFT Survey, 2021). Other innovations such as the utilization of data to pinpoint vessels' exact arrival times, AI to predict potential delays and more efficient routing as well as the use of robots to automate tasks such as packing, inspection or delivery of containers to shore have proved to be extremely useful in maintaining business continuity and enduring the pandemic (ST Engineering Antycip, 2021).

Financial services

Financial services in particular have experienced some of the fastest digitalisation processes during COVID-19. Naturally, as individuals and businesses have moved indoors, the need to use digital modes of payment and access financial products online has surged. With the explosion of e-commerce, digital payments have experienced a significant rise during COVID-19 – experts put the share of cashless (digital) payments at between two to five years ahead of previous predictions (The Economist, 2020). Moreover, a recent McKinsey (2021) survey highlights the fact that 88% of consumers in developing Asia-Pacific are now reporting to be active mobile banking users, compared with 55% in 2017. While this trend was already ongoing, it has been clearly boosted by the pandemic and the imposition of lockdowns, the survey suggests.

Digitally-enabled services trade is expected to grow further. Within the Asia-Pacific region alone, e-commerce sales are forecast to double by 2025, reaching

US$ 2 trillion. Associated services such as financial, transport and ICT are all set to gain from this expansion. Furthermore, according to a global survey conducted by Bain (2021), 95% of consumers say they plan to use mobile banking post-pandemic, while the Boston Consulting Group (2020) says that one in four consumers plan to stop using physical bank branches altogether. Together, these are all clear signs of the financial ecosystem's rapidly evolving digitalization trajectory.

In addition to enhancing the way services are traded in existing sectors, digitalization will create new domains for services trade. For example, the emergence of telesurgery and telemedicine eliminate the need for in-person dislocation, and allow for the faster deployment of specialized knowledge to remote or inaccessible areas. Another example is the sudden surge in demand for online solutions that can replace in-person meetings, conferences and other business travel. All in all, as digitalization continues to transform the nature of services, their provision is expected to increasingly lean towards mode 1 (cross-border provision of services). While this will disrupt existing industries, the increasing tradability of services will certainly be a positive force for growth post-COVID.

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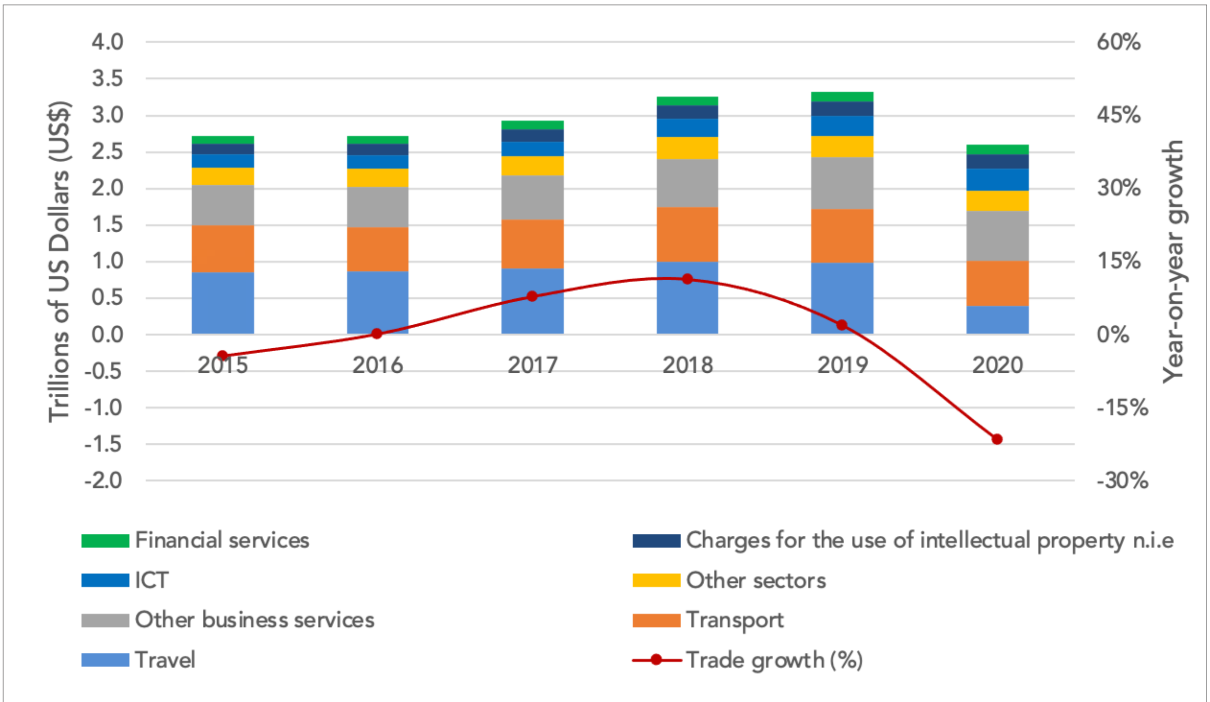
Supplementary note

A. Structure and patterns of trade in Asia and the Pacific (2020)

Due to the significant reliance on travel services, the COVID-19 pandemic has hit the Asia-Pacific region's services sector hard. Export and import services in Asia and the Pacific declined by 21.2% and 22.1% in 2020, respectively. Since regional imports declined more than exports in 2020, the region's service trade balance improved, to register the lowest trade deficit since 2011 at US$ 113.4 billion. Nonetheless, the region remains a net importer of commercial services.

The Asia-Pacific's global share in services trade dropped slightly: from 27.6% of global exports in 2019 to 26.7% in 2020, and from 31.4% of global imports in 2019 to 31.3% in 2020. The region remained second only to Europe in terms of global service trade, which accounted for 49.5% of global services trade compared with 28.9% for Asia and the Pacific, followed by North America (14.9%), Africa and the Middle East (3.9%) and Latin America and the Caribbean (2.7%).

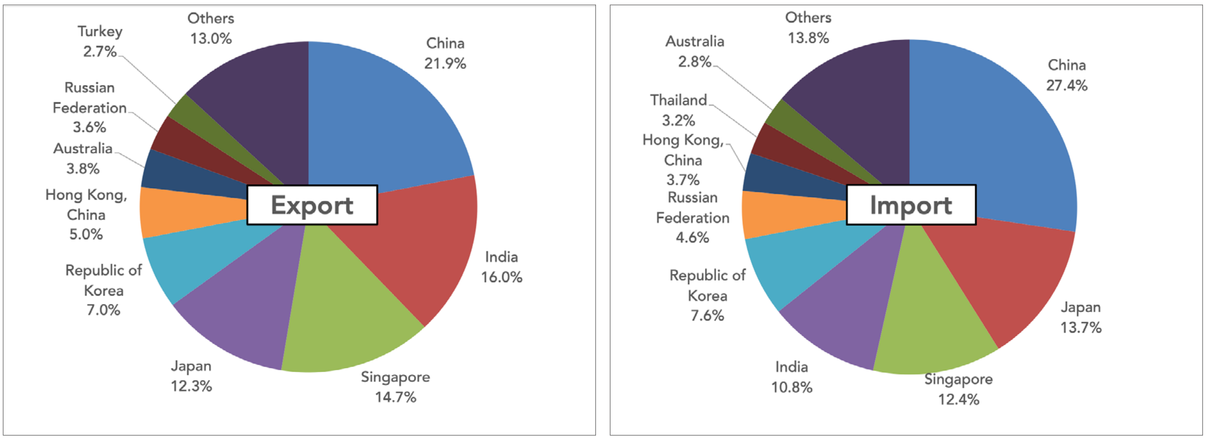
Figure A1. Trade value by services sector and trade growth



Source: ESCAP calculation, based on WTO data (accessed October 2021).

Looking at the country level, the region's trade in services remain concentrated in a few large economies (figure A2). China (25%), Singapore (14%), India (13%), Japan (13%), Republic of Korea (7%), Hong Kong; China (4%), the Russian Federation (4%), Australia (3%), Thailand (3%) and Turkey (2%) are the top 10 economies in terms of contribution to total regional services trade, accounting for 86% and 87% of the Asia-Pacific's region exports and imports, respectively.

Figure A2. Country share of Asia-Pacific trade in commercial services, 2020

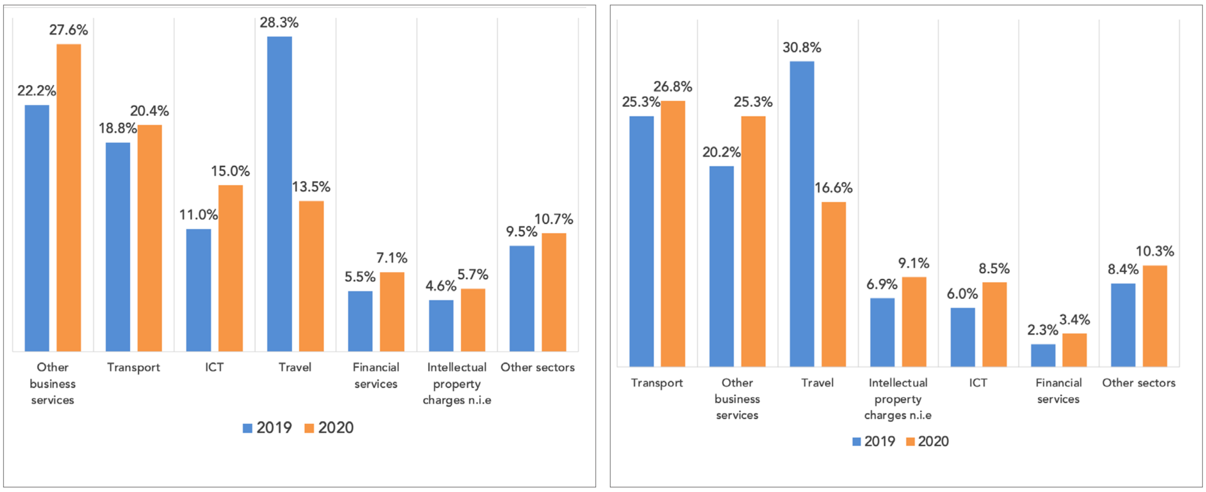


Source: *ESCAP calculation, based on WTO data (accessed October, 2021).*

Sector-wise, travel services suffered the most due to lockdown measures and border closures that halted the movement of people around the world. The sector experienced a 62.4% export contraction and its contribution to total regional services exports plunged by more than half to 13.5% in 2020 (figure A3, panel A). On the contrary, regional exports in ICT services and financial services actually rose by 6.9% and 3.1%, respectively, boosting both sectors' overall share in regional services exports to 15% and 7.1%, respectively. Other business services also increased its prominence in total services exports after posting only a 1.8% export decline. The sector is now the largest in Asia and the Pacific, representing 27.6% of all services exports. Finally, the transport industry reinforced its central role in regional services trade, having contracted less than services trade in the region (14.7% year-on-year decline). As a result, its global share of exports also increased to 20.4%. Asia and the Pacific services imports followed a similar pattern. Travel was the hardest hit sector (57.9% year-on-year decline) with its share of total imports dropping by almost half to 16.6% (figure A3, panel B).

Figure A3. Asia and the Pacific trade in commercial services sectoral shares

(A.) Exports (B.) Imports



Source: ESCAP calculation, based on WTO data (accessed October, 2021).

Due to the global impact of COVID-19, despite a significant regional trade decline, the Asia and the Pacific global share in services trade dropped only slightly from 27.6% of global exports in 2019 to 26.7% in 2020, and from 31.4% of global imports in 2019 to 31.3% in 2020. The region is second only to Europe in terms of global service trade, which accounted for 49.5% compared with 28.9% for Asia and the Pacific. North America (14.9%), Africa and the Middle East (3.9%) and Latin America and the Caribbean (2.7%) follow. The region's relatively more significant decline in its global share of services exports was mostly driven by the negative performance of the travel industry, which is a key export in the region.

B.Services trade restrictiveness in Asia-Pacific (2020)

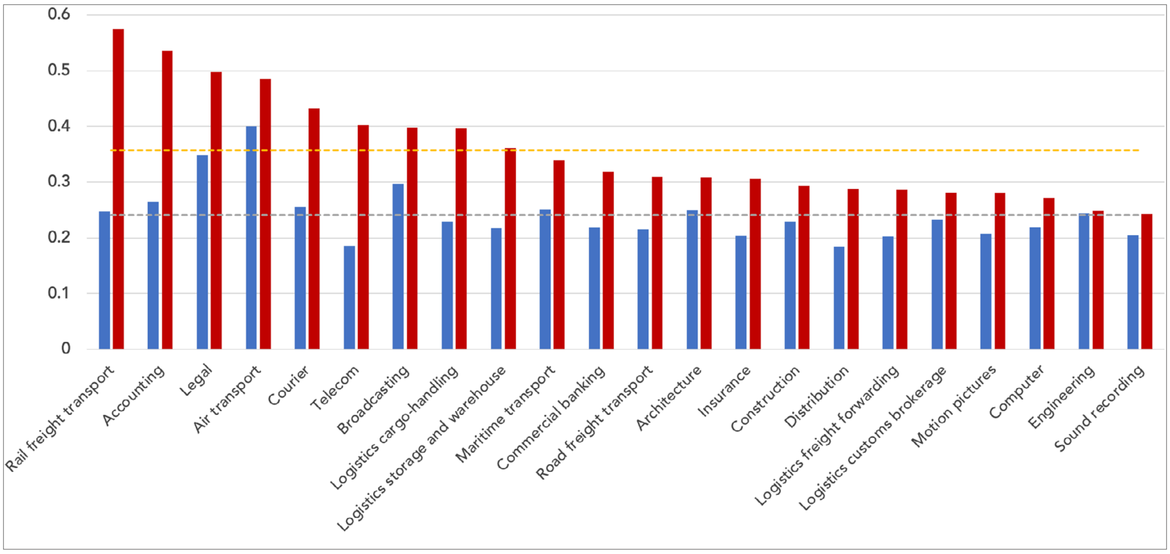
Barriers to trade in services are different from those affecting goods. One distinguishing feature is the "behind the border" nature of service barriers, which often arise from domestic regulations rather than from trade policies. The OECD Services Trade Restrictiveness Index (STRI) evaluates data for 48 economies (12 of which are in the Asia-Pacific region) [4] up to 2020 across five categories: (1) barriers to competition; (2) regulatory transparency and administrative requirements; (3) restrictions on foreign ownership and other market entry conditions; (4) restrictions on the movement of people; and (5) other discriminatory measures and international standards. The STRI index ranges from 0 to 1, where 1 is most restrictive and 0 is least.

[4] OECD-DSTRI 2021 has data for 12 Asia-Pacific countries: Australia, China, Indonesia, India, Japan, Kazakhstan, Republic of Korea, Malaysia, New Zealand, Russian Federation, Thailand and Turkey.

On that basis, the Asia-Pacific region's STRI is significantly higher (0.36 overall score) than the rest of the world (0.24). In Asia and the Pacific, rail freight transport, accounting, legal, air transport and courier are the most restrictive service sectors. In contrast, the least restrictive sectors in the region are sound recording and engineering, while courier services show the largest decline in restrictiveness since 2019 (11.6% STRI score decrease), followed by sound recording (5.6%) and insurance (5.2%).

In fact, the region recorded higher restrictiveness in services trade across all sectors in 2020 (figure B1). In particular, rail freight transportation demonstrates the biggest difference in STRI between the Asia-Pacific region and the rest of the world, followed by the accounting and telecom sectors. Encouragingly, there was an increase in measures aimed at easing cross-border trade barriers related to customs clearance and recognition of electronic authentication methods in trade (OECD, 2021b).

Figure B1. Services trade restrictiveness index, Asia-Pacific region and globally, 2020

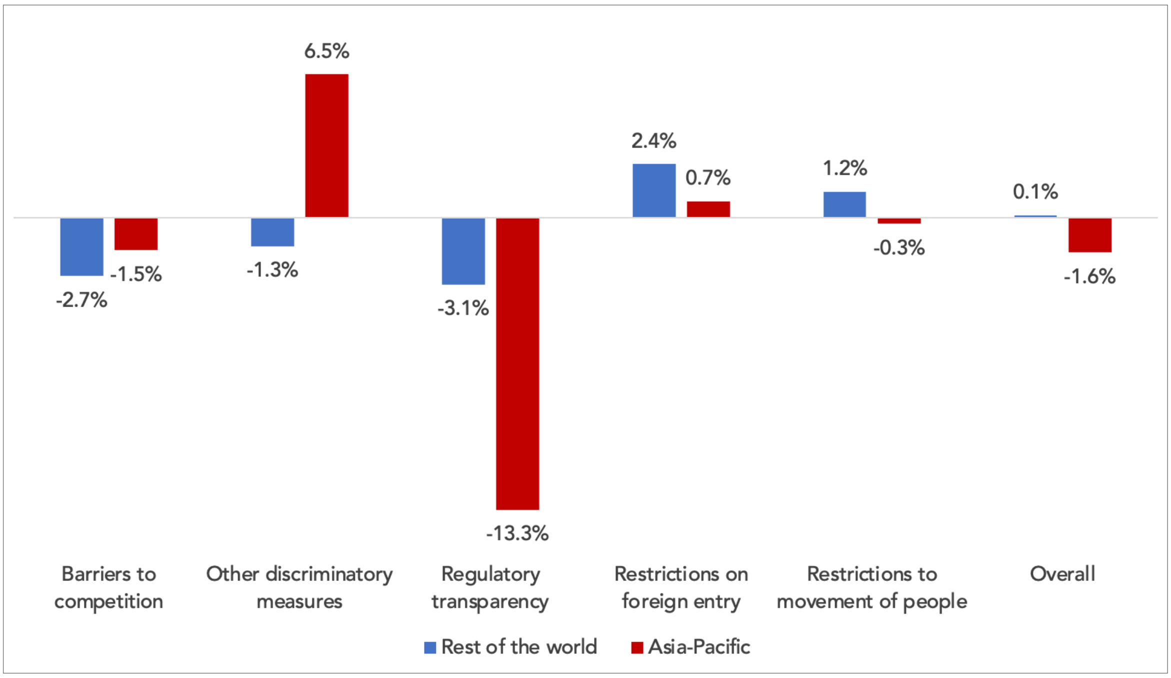


Source: ESCAP calculation, based on OECD Services Trade Restrictiveness Index database (accessed October 2021).

Although digital transformation has been accelerated and is seen as the necessary path to post-pandemic recovery, the surrounding policy environment is not always supportive. Notably, regulations were tightened for computer services, commercial banking and broadcasting services in 2020 compared to 2019. These services, especially computer services, financial and banking services are fundamental for digitally enabled transactions in goods as well as services.

Encouragingly, since 2015, the overall STRI score in Asia and the Pacific has decreased by 1.6%, while for economies outside the region, the score increased by 0.1%. The decrease in restrictiveness in Asia and the Pacific has mainly been driven by improved regulatory transparency (13.3% decrease compared to 2015) and lower barriers to entry (1.5%). On the contrary, other discriminatory measures have been tightened during the same period (6.5% increase) (figure B2). The rest of the world has seen its services trade regulatory environment become more restrictive due to stronger restrictions on foreign entry (2.4%) and on the movement people (1.2%) since 2015.

Figure B2. STRI change across sectors between 2015 and 2020, in the Asia-Pacific region and the rest of the world.



Source: *ESCAP calculation, based on OECD Services Trade Restrictiveness Index dataset (accessed October 2021).*

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