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Trade and Development in Asia: A Post COVID-19 Economic Assessment

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Abstract

In recent decades, the Asian region has enjoyed the benefits of an increasingly neo-liberalist trade policy agenda. However, as more protectionist trade policies gain momentum and a global pandemic still having an impact of the region, many ponder what the future might look like. Will international trade continue to be a key driving force for progress and economic development? To address this question, our research examines the current economic, trade, and geopolitical factors of Asia to ascertain whether the current policy settings are right and potentially what countries can do to harness the enormous potential that lies within the region. Our analysis shows that while Covid-19 and the ongoing war in the Ukraine has undoubtedly had an impact, the reliance of local communities and the desire by Governments to try and retain, where possible, an open and forward thinking view towards international trade and development means that an optimistic view of future remains. However, such optimism has been tempered by inflationary concerns and the uncertainty that still exists around how far and how fast interest rates will rise in the United States, the flow on effects of which will have a bearing on the economic performance of Asia.

Keywords: International trade, economic development, Covid-19, China, US

1. Introduction

International trade has always been an important driver of economic growth and poverty alleviation in Asia (Heshmati et al., 2019; Kim and Wood, 2020; Wood and Wu, 2020; Du et al., 2021; Wood et al., 2021; Wu et al., 2021a; Wu et al., 2021b; Wu et al., 2022). International trade has also allowed Asian economies to exploit economies of scale by specializing in productive activities in which they have a comparative advantage. Furthermore, trade has also helped boost investment and productivity by allowing for the faster spread of technology, including through links formed when participating in GVCs—trade in intermediate inputs. In addition to this has been a climate in which tariff levels have continued to fall and remain a relatively low barrier overall in the region. However, despite these changes, new measures of nontariff barriers remains relatively high in many Asian emerging markets and developing economies (Wood, 2017; Wood et al., 2017a; Wood et al., 2017b; Wood et al., 2020). Unlike tariffs, these non-tariff measures include policies that introduce new potential barriers such as new health and safety standards or licensing requirements that has restricted not only trade but also payments, or the exchange of foreign currencies.

In addition to these issues, has been the profound impact that the Covid-19 pandemic has had on trade and economic development in the region since early 2020 (Atkinson et al., 2022; Wood et al., 2022; Wu and Wood, 2022). Despite the impact, GDP forecasted to fall across the Asia-Pacific region in 2021/22 (see Table 1), it remains among the fastest growing areas in the world (IMF, 2021). However, despite its robust performance, concern has been growing divergence between Asian advanced economies and emerging market and developing economies, which can be explained by differences in trade policy provisions and the levels of vaccination coverage that exist.

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Table 1: GDP Constant Prices (Percentage change 2020 – 2027)

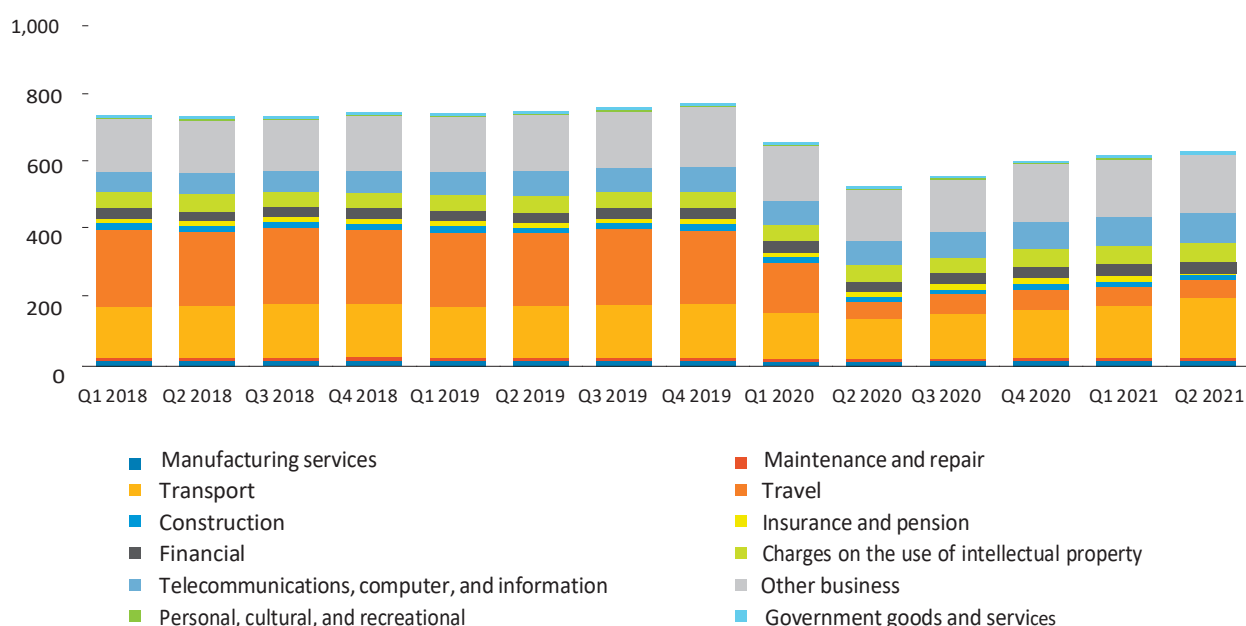
Country	2020	2021	2022*	2023*	2024*	2025*	2026*	2027*
Brunei Darussalam	1.113	-0.676	5.83	2.601	2.129	2.08	2.091	2.112
Cambodia	-3.13	2.151	5.098	5.889	6.1	6.346	6.504	6.5
Indonesia	-2.065	3.691	5.409	6.001	5.764	5.41	5.271	5.177
Lao P.D.R.	-0.435	2.061	3.2	3.5	3.75	3.95	4.15	4.3
Malaysia	-5.647	3.133	5.606	5.501	4.886	4.435	4.443	3.943
Myanmar	3.189	-17.938	1.614	3.006	3.051	2.934	2.982	3.298
Philippines	-9.573	5.598	6.451	6.286	6.544	6.471	6.487	6.503
Thailand	-6.195	1.566	3.334	4.294	3.823	3.349	3.23	3.057
Vietnam	2.944	2.576	6.047	7.246	7.043	6.945	6.836	6.729

Note: * Forecast data

Source: International Monetary Fund, World Economic Outlook Database, April 2022

The service sector has grown significantly in Asia in recent times (Kim and Wood 2020). However, the Covid-19 pandemic has also significantly affected the level of trade in services across the region. As Figure 1 shows, the region experienced a very sharp decline in the second quarter of 2020. At the forefront of this was the overall weakness in tourist arrivals due to border closures and quarantine measures concurs that were implemented, as well as the global decrease in number of flights (See Figure 2 (ADB, 2022)). The service sector has become an increasingly important sector for the region, so declines of this magnitude are widely felt across the region.

Figure 1: Trade in Services for Selected Asia and Pacific Economies (\$ billion)

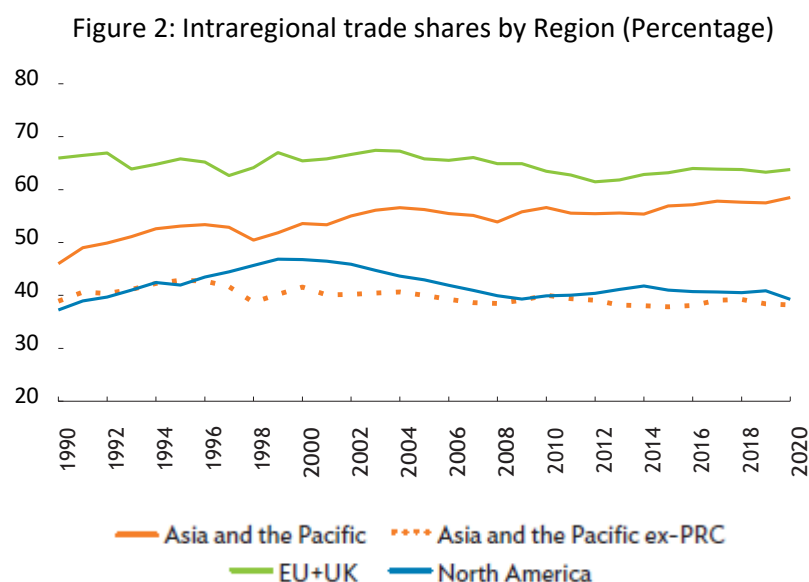


Note: Q = quarter.

Notes: Trade in services is computed as trade in services credits plus debits. Asia and Pacific economies include Armenia; Australia; Cambodia; Fiji; Georgia; Hong Kong; China; India; Indonesia; Japan; Kazakhstan; Malaysia; Nepal; New Zealand; Pakistan; the People's Republic of China; the Philippines; the Republic of Korea; Singapore; Taipei, China; and Thailand.

Source: ADB calculations using data from International Monetary Fund. Balance of Payments and International Investment Position Statistics. <https://data.imf.org/BOP>

Interestingly, trade across the region has seen some small positive increases, with Asia’s intraregional trade share increasing from 57.5% in 2019 to 58.5% in 2020, the highest result since 1990 (see Figure 2). In other results, this figure remains higher than that for North America (39.3%), although still lower than the European Union and the United Kingdom combined (EU+UK)(63.8%) (ADB, 2022). According to the ADB (2022), the respective countries linkages with China can explain much of the region’s increase in intra-regional trade during the Covid-19 pandemic, with China being the first nation to remove many of the restrictions that were implemented in the immediate aftermath of the pandemic first emerging.



Note: EU = European Union (27 members), PRC = People’s Republic of China, UK = United Kingdom.
Notes: Values are expressed as percentage of the region’s total merchandise trade (sum of exports and imports). North America covers Canada, Mexico, and the United States.
Source: ADB calculations using data from International Monetary Fund. Direction of Trade Statistics. <https://data.imf.org/dot>

Another concern coming off the back of the Covid-19 pandemic, and then more recently with the war in the Ukraine, has been inflation. Over the past couple of years, headline inflation is on the rise across the region, fueled by shifting global demand, rising food and fuel prices, and supply chain disruptions (IMF, 2021). Meanwhile, core inflation has risen, albeit to a lesser extent. The pass-through of prices from producer to consumer prices has been limited, coming in line with general inflationary expectations. Supporting this has been relatively flat growth in export prices, which suggests that profit margins have eroded slightly in tradeable sectors, with little clear evidence of Asia exporting inflation elsewhere (IMF, 2021).

Table 2: Inflation Rate – South East Asia (Percentage Change)

	2017	2018	2019	2020	2021	2022*	2023*
<i>Developing Asia</i>	2.6	2.7	3.3	3.2	2.5	3.7	3.1
<i>Southeast Asia</i>	2.9	2.8	2.6	1.5	2	3.7	3.1
Brunei Darussalam	-1.3	1	-0.4	1.9	1.7	1.6	1
Cambodia	2.9	2.5	1.9	2.9	2.9	4.7	2.2
Indonesia	3.8	3.2	3.8	2	1.6	3.6	3
Lao People’s Dem. Rep.	0.8	2	3.3	5.1	3.7	5.8	5
Malaysia	3.8	1	0.7	-1.1	2.5	3	2.5
Myanmar	4	5.9	8.6	5.7	3.6	8	8.5

Philippines	2.9	5.2	2.4	2.4	3.9	4.2	3.5
Singapore	0.6	0.4	0.6	-0.2	2.3	3	2.3
Thailand	0.7	1.1	0.7	-0.8	1.2	3.3	2.2
Timor-Leste	0.6	2.4	1	0.5	3.8	2.6	2.7
Vietnam	3.5	3.5	2.8	3.2	1.8	3.8	4

Note: * Forecast data

Source: Asia Development Bank, April 2022

With inflationary pressures still very much at the forefront of many Government's minds at present, the future economic outcomes over the next two to three years is still very much uncertain. It is therefore imperative that governments understand the economic environments in which they are operating and appreciate the role that international trade can play in driving economic development opportunities. In order to articulate a possible course of action, the remained of the chapter is outlined as follows. Firstly, an assessment of the relevant developmental, economics, and trade literature is conducted to provide some context to the overall current environment in the region. This is followed by some discussion around some of the current policy settings that are in place and offer some insight into what needs to be done in the future. Finally, some concluding remarks are drawn and some areas of future study outlined.

2. Literature Review

2.1 Infrastructure Development

The development of critical infrastructure has played a pivotal role in driving economic growth across the Asian region (Ismail and Mahyideen, 2015). Infrastructure development contributes directly to a nation's growth by creating production facilities, stimulating economic activities, and providing employment opportunities. Meanwhile, it also indirectly impacts the country's economy by reducing trade costs and facilitating trade (Sahooa and Dash, 2012). The trade-facilitating effect of infrastructure is worth emphasizing, given that trade has been a key driving force behind Asia's spectacular economic performance, particularly in East Asia in recent decades (Brook and Go, 2012). As documented by Brooks (2010), Asia's trade expansion has been spurred by the development of supporting infrastructure, as evidenced by the rapid increase in port capacity and airfreight shipments in the developing Asian region over the past years. As of 2021, nearly two-thirds of container traffic took place at Asian container ports, making the region the global maritime logistics hub (UNCTAD, 2021).

Broadly speaking, trade-related infrastructure can be distinguished between hard and soft infrastructure; each playing its respective role in facilitating trade and promoting economic growth. More specifically, hard infrastructure refers to physical infrastructure, including transport systems like roads, ports, highways, and information and communications technology (ICT). In contrast, soft infrastructure is intangible infrastructure that is related to border and transport efficiency as well as the business and regulatory environment of trade (Portugal-Perez and Wilson, 2012). In the context of Asia, a comprehensive study conducted by Ismail and Mahyideen (2013)⁴ found that improvement in hard infrastructure, such as transport and port facilities, telephone lines and internet security leads to an increase in trade flows. Furthermore, several indicators of soft infrastructure, such as documents and the number of days needed to complete the import and export procedure, were confirmed to

⁴ Based on dataset of PRC; Hong Kong, China; India; Indonesia; Republic of Korea; Malaysia; Philippines; Singapore; Thailand; and Vietnam from 1971 to 2013.

impact trade negatively. Brooks and Stone (2010) found that by lowering trade costs by 25% led to not only improvements in transportation capabilities within the Asia-Pacific Economic Cooperation (APEC) region but also increases in welfare and GDP performance. In particular, rises in welfare as proxied by an equivalent variation in income, range from US\$1.2 billion in the Philippines to US\$12.4 billion in China. In terms of percentage gains in GDP, the leading 5 economies for lowering relevant trade costs are Vietnam, Malaysia, the Philippines, Singapore, and Thailand, with all experiencing more than a 1% estimated increase in GDP. A study with a focus on central Asia by Karymshakov and Sulaimanova (2021) corroborated the positive impact of both the quality and quantity of infrastructure has on trade flows in Kazakhstan, Kyrgyzstan, and Tajikistan. Moreover, research by Rehman et al. (2020), which focused on selected South Asian countries, including Bangladesh, Bhutan, Nepal, India, Pakistan, and Sri Lanka, found that the quality and availability of infrastructure promotes exports and decreases trade deficit in the long-run.

Despite rapid infrastructural improvements across the Asia and Pacific region over time, the current level of infrastructural capability in the transport, power, telecommunications, and water supply and sanitation sectors remains far from adequate (Zhongming et al., 2017). A recent Asia Development Bank (ADB) report estimated that some \$26 trillion USD in investments is needed across the 2016 to 2030 period, of which, \$14.7 trillion is needed for power, \$8.6 trillion for transport, \$2.3 trillion for telecommunications, and \$800 billion for water and sanitation improvements are required. Developments in these areas will not only help to provide important sources of economic growth but also help to mitigate poverty and tackle climate change. In regard to the infrastructure investment needs, lies the challenge of public financing, which requires further reforms for sustainable investment planning (Rillo and Ali, 2017).

2.2 Foreign Direct Investment

The remarkable growth of a number of East Asian economies over the past half-century has become known as the East Asian miracle (Wang et al., 2022; Zhang et al., 2022). Such impressive economic achievements are believed to be driven by the national government's pursuit of outward-oriented policies, manifested as the country's embrace of highly open international trade and heavy reliance on foreign investment at the early phase of industrialization (Wood, 2017).

Foreign investment can be broadly categorized as foreign portfolio investment (FPI) and foreign direct investment (FDI) based on the degree of managerial control possessed by the investor over the assets. More specifically, FPI involves foreign purchases of financial assets issued by the companies, while FDI involves the undertaking of a significant stake in fixed productive assets by foreign investors (Ahlquist, 2006). Due to the distinctive differences that exist between FPI and FDI, their economic impacts are also quite different. FPI, sometimes also referred to as "hot money", is deemed more speculative and can be quick to flee the host countries during times of financial uncertainty, thereby exacerbating the currency value and financial risks of the host countries (Tan et al., 2020). In contrast, FDI involves an investor's lasting interest in an enterprise in another country; hence, it is often a type of more stable and long-term investment flow.

The benefits of FDI are well documented in the existing literature. FDI is considered to be a major conduit that facilitates capital formation, technology transfer, and skill and knowledge spillover between developed and developing countries (Ozturk, 2007). Saggi (2002) theorized three potential channels of FDI-led international technology transfer: First, the demonstration effects argument suggests local firms may adopt more superior technologies following multinational firms through imitation or reverse engineering. Second, the labor turnover argument postulates that workers previously worked in multinational firms may transfer skills and knowledge to local firms by switching

employment or starting their own companies. Third, the vertical linkage argument proposes technology spillover to local firms by multinational firms in their upstream supply chain.

Along this line of literature, Lee and Tan (2006) investigated the marginal effect of technology transfer through FDI on the economic growth of selected ASEAN economies (Singapore, Malaysia, Thailand and Indonesia). Their findings confirmed the positive impact that technology transfers have on output growth and uncovered evidence of positive relationship between FDI inflows and the levels of technology transfers in the region. Petri (2012) discovered that unlike the types of FDI which occurs in other more developed regions, intra-Asian FDI flows were dominated by flows from high technology economies to medium technology economies. This dynamic has in turn enabled the less advanced economies to climb up the technology ladder and in doing so contribute to Asia's technological progress and industrial development.

FDI can also spur economic growth through its interplay with exports. Tiwari and Mutascu (2011) examined the impact of FDI and exports on a broader set of Asian economies. Using a panel data of 23 developing Asian countries covering the period of 1986-2008, with the authors finding that both FDI and exports enhance the growth process. However, when they considered nonlinearities associated with exports and FDI in affecting economic growth, there exists a U-shaped relationship between FDI and growth of the studied countries, and therefore their results lend support to the adoption of export-led growth path at the initial stage of development, augmented by FDI attracting policies in the later period. Likewise, Zhang (2001) found FDI tends to boost host economic growth focusing on 11 developing economies in East Asia and Latin America covering the period up to 1997, but such growth-enhancing effect of FDI depends on country-specific characteristics. In fact, some FDI-related studies noted that for the host country to effectively reap the benefits of FDI, it should get ready adequate absorptive capacities, through strengthening the macroeconomic and institutional environment within the country (Girma, 2005; Alguacil and Cuadros, 2011). This provides plausible explanations for the mixed findings on the FDI-led growth hypothesis across the relevant empirical studies.

2.3 Trade Policy and Export Performance

International product fragmentation, the cross-border dispersion of component production/assembly within vertically integrated production processes, has become an important feature of the structural interdependence of the world economy (Athukorala, 2005; Athukorala and Yamashita, 2006; Jongwanich, 2010). An aspect of global trade and business flows that is certainly prevalent in Asia. As a result of the rapid advances in production technology and technological innovations that have occurred in the transportation and communication sectors, companies have been able to 'unbundle' the stages of production so that different tasks can be performed in different places. Such advances have proved to be a key driver of export performance across the Asian region.

Within the region, East Asia stands out as the top spot of manufacturing outsourcing from developed nations, owing to the region's abundant labor resources, cheap labor costs, improving infrastructure, low transportation costs, and export-oriented development strategies (Athukorala, 2011). The emergence of international production networks in East Asia can be traced back to the signing of the 1985 Plaza Accord, which led to an appreciation in the value of Japanese Yen and a rise in the cost of production in Japan. This consequently drove Japanese multinational enterprises (MNEs) to relocate their production bases to other developing countries within the region, such as Malaysia, Singapore, and Thailand. During the post-Asian financial crisis period, lowering asset prices in East Asia further attracted MNEs from the US and Europe to construct production bases in the region, which then kick started another wave of industrialization in some Asian countries (Cheewatrakoolpong et al, 2013).

Hence, through welcoming FDI and the relocation of supply chains from MNEs operating in industrialized nations, the East Asian region and particularly China has gained significant domination in the areas of manufacturing and machinery exports (mostly that of parts and components), earning itself the name “Factory of the World” (Kimura and Obashi, 2016). To date, processing trade remains a pillar of China’s export performance. According to the PRC’s General Administration of Customs, from Jan-Oct 2022, *Processing and Assembling Trade with Foreign-Supplied Materials* (US\$69.748 billion) and *Processing Trade with Imported Materials* (US\$609.1724 billion) constituted roughly 23% of China’s total exports (US\$2.992trillion). Besides China, the ASEAN region has also achieved high levels of export performance by playing a strong role across the global supply chain as a supplier of intermediate products. As pointed out by Chen and Intal (2017), the export value as share of GDP has surpassed 30% by most nations, including: Malaysia since the 1970s, Thailand since the early 1990s, and Vietnam and Cambodia since 2000s, with continuous growth anticipated in the future. Moreover, Padilla et al (2017) found a high participation in product fragmentation by ASEAN members, in which the vertical structure represented 43% of its gross exports. Interestingly, a more recent study of ASEAN’s participation in global value chains showed that during the 2000-2017 period, foreign value-added contributions to ASEAN has declined, whereas the portion of foreign value-added contributions from within the ASEAN region and other emerging economies has risen, signifying a localization and regionalization trend among the ASEAN member’s production outputs (Zhong and Su, 2021). With the strengthening of regional trade integration, culminating in the formation of the Regional Comprehensive Economic Partnership (RCEP) which includes the ASEAN block and 5 other Asia Pacific countries (China, Japan, South Korea, Australia and New Zealand), East Asia is likely to maintain, if not strengthen, its role as a global manufacturing and export powerhouse.

2.4 Covid-19 impact on Trade and Economic Development in Asia

The Covid-19 pandemic has caused unprecedented disturbance to the global economy. It poses unique challenges to Asian economies due to the region’s critical position within the world trading system and supply chains. Its rich heterogeneity, in terms of developmental stage, poverty level, and political system across the region has further added to these challenges.

Despite strong GDP growth of 5.2% expected for developing Asia in 2022, the pace of the recovery varies substantially across the region (Asian Development Outlook 2022). China, where the Covid-19 cases were first reported, faces a bumpy road ahead as it attempts to kick start its Covid-19 recovery. In early 2020, China was the first country in the world to launch quarantine and lockdown measures in an attempt to contain the spread of Covid-19 disease. Such lockdown measures were then followed by other countries around the world when the Covid-19 became a global pandemic. In China, its efforts to restrict the spread of the virus meant that its production and foreign trade capabilities fell, leading to a 13.5% fall in industrial value-added and a 15.9% fall in exports between January and February 2020 period (Liu and Hu, 2020). However, in the second half of 2020 through to 2021, China’s foreign trade experienced a strong rebound with a year-on-year growth rate of exports of 154.7% in February 2021 with respect to its earlier February 2020 figure, and 51.3% when related to its February 2019 levels (Fang et al., 2022). In light of the V-shaped recovery, China was the only major economy to report positive economic growth in 2020, with a 2.3% year-on-year expansion in real GDP. However, in 2022, as most countries began to lift or relax their Covid-19 restrictions, China continued to keep a tight grip on its border controls. The logistical bottlenecks and depressed tourism levels contributed to slower growth in trade in services of the country. Moreover, the deteriorating global environment following Russia’s invasion of Ukraine further impeded China’s trade performance (China Economic Update, 2022).

Within the Asian region, South Asia was particularly vulnerable to pandemic-induced poverty. In 2020, 21 percent of the world's poor lived in South Asia, second to that of 64 percent in sub-Saharan Africa (Kharas and Dooley, 2021). The region has been stricken with poor health infrastructure, uneven socio-economic conditions, inadequate social safety net, limited access to water and sanitation and inadequate living space arrangements (Rasul, 2020). The pandemic has exposed the region to the risks of deepening poverty as well as rising unemployment and food insecurity, which may reinforce existing inequalities and social instabilities, thereby creating a significant and long-lasting effect in the region (Rasul et al., 2021). In particular, the collapse of Sri Lankan economy has raised much concern about social and economic frailties in the area. Part of the reasons of the country's crisis was its elevated level of fiscal deficits, unsustainable public debt, and disproportionately high dependence on tourism as its main source of foreign revenue, which was ravaged by the pandemic. As such, the crisis experienced in Sri Lanka has provided many important lessons to its South Asian neighbors and underlines how important it is for a country to have strong political leadership and governance, public financial resilience, inclusive development, and appropriate food security measures.

3. Policy Discussion

The ASEAN region, being highly dependent on trade and tourism for increasing its economic growth and development prospects, has been one of the hardest hit regions by the pandemic. By the end of the first semester of 2020, trade and FDI inflows in ASEAN had fallen by 12.4% and 32.9%, respectively, compared to the previous year. The average real GDP of ASEAN 10 recorded a negative growth rate of -3.4% in 2020 (Wood et al., 2020). In response to the pandemic shock, the ASEAN Secretariat (2020) issued a 'Comprehensive Recovery Framework' (CRF) that outlines the consolidated recovery strategies embodying five dimensions: enhancing health systems, strengthening human security, maximizing the potential of the intra-ASEAN market and broader economic integration, accelerating inclusive digital transformation, and advancing towards a more sustainable and resilient future. More than two years into the pandemic, ASEAN is showing positive signs of recovery. Output growth in Southeast Asia rose to 2.9% in 2021 and is projected to grow further in 2022, increasing to 4.9% (Asian Development Outlook 2022). Amid the rising geopolitical upheavals in the post-Covid-19 world, the ASEAN region continues to be outward-looking with an emphasis on intra-regional trade. Further, the region stands as a battleground in the US-China rivalry. The inclusiveness of ASEAN in the China-involving RCEP agreement and the US-led Indo-Pacific Economic Framework (IPEF) initiative is evidence of ASEAN's central role in the US-China rivalry (Kim, 2022). It is anticipated that the region's future trade and economic outlook will be greatly impacted by the opportunities and challenges that arisen from the US-China geo-economic competition. From a policy perspective, the US-China trade war looms large on the horizon. What can country's in the region do to make the most of this challenging situation? This section outlines some potential areas of policy development as well as highlight measures that have already been adopted by Governments in the region.

Given the adverse impact of that the Covid-19 pandemic has had on cross-border trade and supply chains (Atkinson et al., 2022), restoring trade connectivity shapes as being a key area of policy development that will help the ASEAN region overcome the impact of the pandemic. At the heart of this are developments in digital connectivity, with cross-border trade being an area where there is a large number and variety of parties involved in an international trade transaction. Moreover, the trade process is highly fragmented, often paper-based, slow, and cumbersome. Therefore, governments in the region need to work together to harmonize and digitize trade documents so that the trade process is able to operate on seamless digital platform that is not only more efficient but also increasingly secure (MAS, 2020). Furthermore, improvements in this area are particularly relevant for Asia where its production networks and trade integration have acted as key catalysts for economic growth and development in the region in recent years. Establishing a stronger digital platform will help to ensure

that trade remains a key economic driver in the post Covid-19 era. Furthermore, it is imperative for the ASEAN economy manages the opportunities that a digitalized economy presents along with relevant security and ethical concerns.

Moving forward, a number of key policy priorities are proposed. First, in light of the progress made under the Ha Noi plan, the next critical step is to ensure that the implementation of commitment to ensure supply chain connectivity, particularly of essential goods, is implemented effectively. Secondly, as the region moves beyond Covid-19, it is important that the trade sector is given its due space within the wider economic development framework. This would allow the manufacturing sector of the regional economy to receive both the right kind of stimulus so that it can resume normal production after the supply shock, but also sellers to have better market access, which would in turn restore business and consumer confidence and grow household purchasing power. In addition to this, on-going initiatives, such as the general review of the ASEAN Trade in Goods Agreement (ATIGA), provide an opportunity to address existing bottlenecks, such as improving the constraints that exist with some non-tariff measures, while also building on the current level of ambition that exists to drive economic change and new trade policy initiatives. As part of the new trade policy agenda, for the time is also right for Governments in Asia to work together to implement new trade facilitation measures. More focus should also be given to trade in services, which has become an increasingly important component of the regional economy in recent times as well as work with industry to find the right kind of balance that promotes foreign investment opportunities, while also protecting more vulnerable sectors of the economy, which are still weak following the pandemic. Improvements in these areas can also help the region capitalise on the opportunities that may stem from any global supply chain restructuring that takes place. Thirdly, as the region emerges from the COVID-19 pandemic and the depths of the war in Ukraine, there is also a strong need for greater multilateral cooperation, which can lead to reform of the global trading system and the shaping of the global and regional trade agenda. Trade policy in this space must be built upon the premise of transparent, non-discriminatory trade rules that work to protect the most vulnerable in society. It is in the region's interest to play an active role in driving a successful reform agenda through the WTO, so that the institution continues to remain not only relevant but an important means of resolving trade disputes. Finally, the Asian region must work with the private sector and other stakeholders, to ensure that supply chains remain stable and connected, while also providing a platform that allows new business models to flourish. Improvements in these areas will form a critical component of the social and economic developments that take place in the post-pandemic recovery.

4. Concluding Remarks

This study has sought to examine the current economic, trade, and geopolitical factors of Asia in an effort to better understand not only the challenges but also the opportunities that exist in the region. With a war in Ukraine and countries dealing with the aftermath of the Covid-19 pandemic, our study highlights the important role that international trade will play in driving economic and social prosperity in Asia.

Using the relevant extant literature as a guide, we focus on infrastructure development, FDI, trade policy, and the effect of Covid-19 pandemic to understand recent trends in trade and economic development in Asia. We found that both hard and soft infrastructure is crucial to facilitate trade and stimulate growth of Asian countries. Given the current lack of infrastructure in developing Asia, the building and upgrading of infrastructure can be a way to further unleash the growth potential of the region. The positive impact of FDI on growth is less certain and less consistent across studies. However, there is a growing consensus that having sound economic fundamentals and institutions can help the host country to realize the economic gains of FDI. Last but not least, the Covid-19 pandemic has temporarily halted the trend of product fragmentation and caused a breakdown in global supply

chains, which has been a key driver underlying the trade performance of Asia. This has exposed the vulnerability of the current global trade and supply chain system. As the region gradually recovers from the Covid-19 shock, governments must take a proactive approach to ensure that they are more resilient in the face of similar events in the future. As such, we highlight a number of key policy initiatives that governments should implement in order for the region to thrive. At the heart of this, is digitalization and the way in which technology can stimulate not only strong efficiency gains but also a more robust trade and global supply chain mechanism, something that is very much needed in times of uncertainty and crisis.

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