Asia and Pacific economies ramped up COVID-19 vaccinations in 2021, but remain behind other regions.

The surge in coronavirus disease (COVID-19) cases from the second half of 2021 as more transmissible COVID-19 variants spread underlines the importance of speeding and scaling up vaccination programs in the region. Immunization of a large proportion of the population remains the key policy priority for ending the ongoing health crisis and preventing the emergence of more virulent strains which may threaten the efficacy of existing vaccines. High immunization rate will allow gradual and steady reopening of economies, which will support strong and stable economic recovery. But the gradual reopening of economies and borders were stopped toward the end of 2021 as economies, including those in Asia and the Pacific, prevented the spread of the Omicron variant.

As of 31 December 2021, about 69% of people in Asia and the Pacific were either fully or partially vaccinated. The region was behind North America at 74% and Latin America at 70%, but was ahead of Europe, the Middle East, and Africa (Figure 1.1). Within Asia and the Pacific, the East Asia subregion recorded the highest vaccination rate at more than 86% (Figure 1.2), followed by Australia and New Zealand at 80%, Southeast Asia at 61%, South Asia at 57%, and Central Asia at 48% of their total population fully or partially vaccinated. The Pacific subregion had vaccinated only 14% of its population as of third week of December 2021.

Figure 1.1: COVID-19—Vaccinated People, by Region (% of population)

<table>
<thead>
<tr>
<th>Region</th>
<th>Partially vaccinated</th>
<th>Fully vaccinated</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asia and the Pacific</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middle East</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Africa</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Data are as of the end of December 2021, except for the Pacific, which is as of the third week of December 2021.
Source: ADB calculations using data from Our World in Data and United Nations downloaded from CEIC Data Company.

Figure 1.2: COVID-19—Vaccinated People, by Subregion in Asia and the Pacific (% of population)

<table>
<thead>
<tr>
<th>Subregion</th>
<th>Partially vaccinated</th>
<th>Fully vaccinated</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Southeast Asia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Asia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central Asia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Pacific</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AUS-NZL</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

AUS = Australia, COVID-19 = coronavirus disease, NZL = New Zealand.
Note: Data are as of the end of December 2021, except for the Pacific, which is as of the third week of December 2021.
Source: ADB calculations using data from Our World in Data and United Nations downloaded from CEIC Data Company.
The pace of COVID-19 inoculation had gained speed in the second half of 2021 (Figure 1.3). Thirteen of the top 50 economies with highest daily vaccinations per million people as of 31 December 2021 are in Asia and the Pacific. Nonetheless, some economies such as Bhutan, Kazakhstan, Nauru, Papua New Guinea, and Samoa have continued to lag. Continuous and increasing access to COVID-19 vaccines remains a priority for the region along with better information sharing among economies, use of granular or localized quarantine measures, and increasing the capacity of health-care systems, more so as new COVID-19 variants spread.

**Figure 1.3: COVID-19—Daily Vaccinations per Million People** (latest 7-day rolling average for December 2021)

COVID-19 = coronavirus disease.

Notes: Red bars are Asia and Pacific economies. Data are as of the end of December 2021, except for Tonga, which is as of the third week of December 2021.

Source: Our World in Data downloaded from CEIC Data Company.
While merchandise trade and financial investment flows have improved, trade in services and cross-border movement of people remain sluggish.

The region’s total merchandise trade recovered in the first half of 2021, growing by around 31% compared with the same period in the previous year for selected Asia and Pacific economies (Figure 1.4). The strong recovery in merchandise trade reflects base effects from the trade decline due to strict lockdown measures in the prior year as well as improvement in external demand in the first half of 2021. However, merchandise trade growth slowed in the second half as regional economies imposed enhanced quarantine measures to suppress the rise of new COVID-19 variants and as global supply disruptions intensify. Merchandise trade in the third quarter of 2021 grew by 27.1% from the same quarter of 2020.

Figure 1.4: Merchandise Trade Growth—Selected Asia and Pacific Economies (year-on-year, %)

Foreign direct investment (FDI) in the region continued to rise (Figure 1.5). In the first quarter of 2021, the region’s FDI inflows reported in the Balance of Payments and International Investment Position Statistics and national sources amounted to more than $212 billion, a 60% increase from the same period in 2020. The increase in FDI inflows reflected the high volume of mergers and acquisitions. The region’s reported inward FDI growth was larger than for selected economies in other regions including North America and South America. FDI inflows slightly dipped to $182 billion in the third quarter of 2021, but still outpaced those in the same period of 2020 by 4%. The resilience of FDI inflows to Asia and the Pacific mirrors the region’s attractiveness as an investment destination and its stronger economic growth prospects compared with other regions.

Figure 1.5: Inward Foreign Direct Investment—Selected Asia and Pacific Economies ($ billion)

Nonresident portfolio inflows for selected Asia and Pacific economies continued to improve in the second quarter (Q2) of 2021 after reporting outflows in Q1 2020 (Figure 1.6). Nonresident debt securities or bond flows registered consecutive quarterly inflows from the second quarter of 2020 through the same quarter of 2021. Nonresident portfolio equity flows, likewise,

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1 Data used in this chapter are quarterly FDI inflows from the Balance of Payments and International Investment Position Statistics of International Monetary Fund and national sources accessed through CEIC Data Company, while those in Chapter 3: Cross-Border Investment are bilateral annual FDI inflows from the United Nations Conference on Trade and Development, CEIC Data Company, and other regional organizations. Minor differences in estimates may be due to some methodological differences in data compilation, as well as in economy coverage.
mostly reported inflows with the exception of the third quarter of 2020, when outflows were last recorded. Positive economic growth outlook and commodity price increases sustained nonresident portfolio inflows. Cross-border financial transactions, specifically remittances, also improved in 2021 (Figure 1.7). Remittances in the first 10 months of 2021 grew for most of the selected Asia and Pacific economies. But for some, remittances declined in the same period the year before. Other regions, such as Latin America and the Caribbean, also reported rising remittances. The expected rise in remittances for 2021 might be due to the economic recovery in host economies and the shift from cash to digital transfers as well as from informal to formal channels (Oxford Business Group 2021).

Among the categories of trade in services, cross-border travel continued to fall the most in 2021, reaching $57 billion and $53 billion in the first and second quarters of 2021, both significantly below the pre-pandemic quarterly average value of $221 billion. In contrast, telecommunications, computer, and information trade services continued to rise during the pandemic up to 2021, from quarterly average value of about $67 billion in 2018 to 2019 to about $80 billion in 2020 to 2021.

On the contrary, the region’s trade in services continued to be weak in 2021 (Figure 1.8). Specifically, total trade in services for selected Asia and Pacific economies reached $624 billion in the first quarter of 2021 and $655 billion in the second quarter, both higher than $610 billion recorded in the final quarter of 2020. But these values were way below the pre-pandemic quarterly average value of about $754 billion from 2018 to 2019. Among the categories of trade in services, cross-border travel continued to fall the most in 2021, reaching $57 billion and $53 billion in the first and second quarters of 2021, both significantly below the pre-pandemic quarterly average value of $221 billion. In contrast, telecommunications, computer, and information trade services continued to rise during the pandemic up to 2021, from quarterly average value of about $67 billion in 2018 to 2019 to about $80 billion in 2020 to 2021.

**Figure 1.7: Monthly Remittances Growth—January–October 2021 (year-to-date, %)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia</td>
<td>26.1%</td>
</tr>
<tr>
<td>Fiji</td>
<td>17.8%</td>
</tr>
<tr>
<td>Armenia</td>
<td>15.6%</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>7.2%</td>
</tr>
<tr>
<td>Philippines</td>
<td>5.3%</td>
</tr>
<tr>
<td>Bhutan</td>
<td>5.1%</td>
</tr>
<tr>
<td>Thailand</td>
<td>3.0%</td>
</tr>
<tr>
<td>Samoa</td>
<td>2.7%</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>-13.8%</td>
</tr>
</tbody>
</table>

Note: Data for Bhutan and Kazakhstan cover the period until July and September, respectively.

Source: ADB calculations using data from national sources.

**Figure 1.6: Nonresident Portfolio Inflows—Selected Asia and Pacific Economies ($ billion)**

Note: Asia and the Pacific includes Armenia; Australia; Azerbaijan; Bangladesh; Brunei Darussalam; Cambodia; Georgia; Hong Kong, China; India; Indonesia; Japan; Kazakhstan; the Kyrgyz Republic; the Lao People’s Democratic Republic; Malaysia; Mongolia; Myanmar; New Zealand; Pakistan; the People’s Republic of China; the Philippines; the Republic of Korea; Singapore; Sri Lanka; Taipei, China; Thailand; and Uzbekistan.

Source: ADB calculations using data from CEIC Data Company.

On the contrary, the region’s trade in services continued to be weak in 2021 (Figure 1.8). Specifically, total trade in services for selected Asia and Pacific economies reached $624 billion in the first quarter of 2021 and $655 billion in the second quarter, both higher than $610 billion recorded in the final quarter of 2020. But these values were way below the pre-pandemic quarterly average value of about $754 billion from 2018 to 2019. Among the categories of trade in services, cross-border travel continued to fall the most in 2021, reaching $57 billion and $53 billion in the first and second quarters of 2021, both significantly below the pre-pandemic quarterly average value of $221 billion. In contrast, telecommunications, computer, and information trade services continued to rise during the pandemic up to 2021, from quarterly average value of about $67 billion in 2018 to 2019 to about $80 billion in 2020 to 2021.

Among cross-border activities, tourist arrivals in Asia and the Pacific remained depressed in 2021. According to United Nations World Tourism Organization (UNWTO) November 2021 report, 30 destinations in the region stayed completely closed, 9 were partially closed, and 10 have compulsory testing and quarantine measures as the spread of COVID-19 variants prompted authorities to take a more cautious approach in opening their economies to foreign tourists (UNWTO 2021). Moreover, there was clear divergence in tourist arrivals within the region (Figure 1.9). In the second half of 2021, several destination economies, including Australia; Cambodia; New Zealand; and Taipei, China experienced continued declines in tourist arrivals compared with the first half of 2021; while improvements were seen in Georgia; Hong Kong, China; Japan; the Republic of Korea; and Singapore.
Figure 1.8: Trade in Services for Selected Asia and Pacific Economies ($ billion)

Figure 1.9: International Tourist Arrivals (April 2020 = 100)

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 CEIC Data Company and national sources.

The overall weakness in tourist arrivals due to border closures and quarantine measures concurs with the global decrease in number of flights. Domestic and international flights have declined from pre-pandemic levels since March 2020. However, domestic flights improved in the first half of 2021, particularly in the People’s Republic of China (PRC), but numbers dropped again in the second half of 2021 as authorities implemented new restrictions to
contain new COVID-19 variants. Meanwhile, international flights in the Asia and Pacific region lagged others as of September 2021 as the region remained mostly closed for passenger air travel (IATA 2021).

Delays in vaccine rollout and new virus mutations continued to pose risks to economic recovery and full resumption of cross-border economic activities in Asia and the Pacific.

In 2021, recovery in cross-border transactions were uneven, with merchandise trade, investment, capital flows, and remittances showing continued growth, while trade in services, particularly in non-digital services, and movement of people remained depressed. But as cross-border transactions and movement play a key role in the region’s economic growth, full resumption of cross-border economic activities and synchronous recovery will depend on the speed and scale of COVID-19 inoculation. The longer the pandemic persists, the more chances new variants will emerge which risks the efficacy of existing vaccines and imposition of new containment measures and border closures. Although ramped up across the region and elsewhere, the varying progress of vaccination underlies the uneven pace of economic recovery in Asia and the Pacific (Figure 1.10).

Regional integration of Asia and the Pacific showed steady progress, especially in East Asia in 2019.

Overall, regional cooperation and integration in Asia and the Pacific remained stable and displayed gradual progress in 2019 with a 7% improvement relative to 2006 (Figure 1.11). Regional integration estimates were high in people and social integration, regional value chain, and infrastructure and connectivity. Progress in a new measure for technology and digital connectivity has been important, registering a 2.8% average annual increase for the same period. Innovations in the digital ecosystem contributed to the striking growth of technology and digital connectivity within the region, which features wider internet penetration, increased intraregional patent applications, and more trade in information and communication technology (ICT) goods. The rise of digital platforms is helping pave the way for digital transformation in Asia and the Pacific, which could support post-pandemic recovery efforts (ADB 2021a). Box 1.1 discusses the enhanced index of regional cooperation and integration.

Compared with other regions, Asia and the Pacific was next only to the European Union (EU) in terms of highest overall integration. Looking at indexes of the different dimensions of regional cooperation and integration in 2019, Asia and the Pacific performed equally well with the EU in trade, investment, and value chain participation, and exceeded all other regional groupings for technology and digital connectivity (Figure 1.12).

Asian subregions consistently showed divergent performance in most dimensions (Figure 1.13). East Asia and Southeast Asia maintained the highest levels of integration, while Central Asia showed upside potential. Southeast Asia’s good performance in trade and investment, and people and social integration dimensions has been facilitated by members’ participation in broader integration initiatives in Asia and the Pacific, such as the proposal for the Association of Southeast Asian Nations (ASEAN) to form an economic community. East Asia leads in five of the eight dimensions, with results comparable to Southeast Asia. As expected, digital connectivity across regions appears to be following a similar
As channels of regional cooperation and integration evolve, ADB’s Asia-Pacific Regional Cooperation and Integration Index (ARCII) needs to be reviewed and strengthened. Enhancements to the ARCII framework aim to ensure that the index adequately captures the drivers and mechanisms of regional cooperation and integration as well as improve the availability, quality, and consistency of data.

Two new dimensions, measuring the contributions of digital connectivity and environmental cooperation, were added to the ARCII, along with new indicators to better measure existing dimensions (box figure 1). The index coverage was expanded from a baseline of 158 to 173 economies and from 26 to 41 indicators. The two new dimensions facilitate better understanding of the role in regional cooperation and integration measures in technology, digital connectivity, and for environmental cooperation. Meanwhile, the new indicators in existing dimensions aim to improve the comparability and data coverage of the ARCII.

Estimates for Asian subregions remain consistent between the baseline and enhanced ARCII frameworks after new dimensions and other enhancements were introduced. As illustrated in box figure 2, East Asia and Southeast Asia continue to have the highest scores across dimensions, yet performance gaps remain pronounced in the trade and investment dimension.

Further innovations in the enhanced framework, such as index customization, improve the applicability of ARCII as a measure of regional cooperation and integration. A new feature is the flexibility to customize the index structure, which allows users to tailor the ARCII framework to fit their needs, include new specific indicators (e.g., tourism for the Pacific or health for Southeast Asia), and expand analysis to focus on specific areas. Examples on index customization for Eurasia and the Asia-Pacific Economic Cooperation (APEC) can be extended to other economy groupings. This tailored approach can also improve the accuracy of underlying data—for example, using national data sources in some indicator—and facilitate in-depth analysis on specific dimensions.
**Figure 1.11: Overall ARCII and Dimensional Index—Asia and the Pacific**

![Graph showing the overall ARCII and Dimensional Index—Asia and the Pacific from 2006 to 2019](image)

**ARCII = Asia-Pacific Regional Cooperation and Integration Index.**

**Notes:** Worldwide normalization is used for all estimations, where the indicators are normalized using global maximum and minimum values across all regions. Higher values denote greater regional integration.

**Source:** ADB. Asia Regional Integration Center. Asia-Pacific Regional Cooperation and Integration Index Database. https://aric.adb.org/database/arcii (accessed October 2021).

**Figure 1.12: Dimensional Indexes—Asia and the Pacific versus Other Regions, 2019**

![Graph showing dimensional indexes for Asia and the Pacific versus other regions](image)

**Notes:** Worldwide normalization is used for all estimations, where the indicators are normalized using global maximum and minimum values across all regions. Higher values denote greater regional integration.

**Source:** ADB. Asia Regional Integration Center. Asia-Pacific Regional Cooperation and Integration Index Database. https://aric.adb.org/database/arcii (accessed October 2021).

**Figure 1.13: Dimensional Indexes by Subregions in Asia and the Pacific, 2019**

![Graph showing dimensional indexes by subregions in Asia and the Pacific](image)

**Notes:** Worldwide normalization is used for all estimations, where the indicators are normalized using global maximum and minimum values across all regions. Higher values denote greater regional integration.

**Source:** ADB. Asia Regional Integration Center. Asia-Pacific Regional Cooperation and Integration Index Database. https://aric.adb.org/database/arcii (accessed October 2021).
trend, while people and social integration remains at various levels of development. On environmental cooperation, Asia and the Pacific has remained stable among subregions, with its efforts now close to three-quarters of those in the EU and North America, the top performing regions. Overall, these indicators show willingness for regional cooperation and integration across Asia and the Pacific.

Amid pandemic and economic uncertainties, Asia and the Pacific can take the opportunity to improve trade in digital services and deepen regional cooperation.

Trade in digital services can offer new impetus for cross-border trade, which supports economic recovery, more so as the region has high technology and digital connectivity. Nonetheless, policy support and initiatives are needed to fully harness the benefits of trade in digital services. Deeper regional cooperation in data flow and regulations around data protection, consumer protection, e-signatures, and e-invoices will play a greater role in advancing new approaches to collaboration, enabling post-pandemic recovery, with inclusive, sustainable, and green outcomes. This will also reshape the future of globalization.

Trade in digital services can offer impetus for post-pandemic economic recovery.

Services have become the backbone of the world economy. In 2019, services accounted for about two-thirds of both world gross domestic product (GDP) and FDI and provides majority employment (WTO 2020). The value of international trade in services is forecast to increase from $6.1 trillion in 2019 to $8.0 trillion by 2025, equivalent to one-third of the value of global flows over this period (Oxford Economics and Western Union Business Solutions 2020). WTO (2019) projects that by 2040 the share of services in world trade will grow by 50%. Developments in ICT, and digitalization in particular, have been responsible for the growing importance of trade in services. Digitalization dramatically cut costs and lowers barriers to entry, facilitating a wider range of services to be traded. Given social distancing and travel restrictions during the COVID-19 pandemic, adoption of digital technology was accelerated even more as companies expanded their online presence and consumers adopted new habits especially in the health, education, telecommunication, and audiovisual services sectors (WTO 2020).

This trend is also seen in Asia and the Pacific, where trade in digital services has been expanding more rapidly than trade in other services (Chapter 7: Theme Chapter—Advancing Digital Services Trade in Asia and the Pacific). The region is the second-largest trader of digital services, with this trading segment growing faster than in other parts of the world. In 2020, amid the COVID-19 pandemic, year-on-year growth of trade in digital services in Asia and the Pacific remained resilient (at a 1% increase) while other services (global tourism, travel, and distribution sectors) plummeted 38% (Liberatore, Avendano, and Cho 2021). In recent years, sectors contributing the most to Asia’s growth in digital services trade are other business services and telecommunications, and computer and information services. The value of trade across the region is diverse, and so are the stages of development of the digital services trade sector. East Asia is by far the top trader, with the PRC; Singapore; the Republic of Korea; and Hong Kong, China as top traders not just for East Asia but for Asia and the Pacific as a whole. Similarly, India with its mature and diversified digital services sector dominates digital service exports across the whole of Asia and the Pacific. Some Southeast Asian economies have also been driving expansion in digital services trade by posting rapid growth in digital exports—as in Cambodia, the Lao People’s Democratic Republic (Lao PDR), and the Philippines. Emerging areas of further growth include e-commerce, digital transactions, demand for automation, and the remote delivery of services (Chanda 2021). The theme chapter of this report extends the discussion.

A well-developed digital economy offers great opportunity for developing economies to catch up with developed economies through high-value service exports in areas such as artificial intelligence solutions and

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2 Digital trade encompasses “cross-border, digitally-enabled transactions of goods and services, which involve consumers, firms, and governments as well as cross-border data flows that generate value for the domestic economy” (Chanda 2021). One component of digital trade is trade in digital services.
predictive analytics; as well as skills-specific outsourcing (e.g., engineering and research and development services). This allows for diversification from resources and manufacturing and supports economic resilience as shown during the COVID-19 crisis. Moreover, the bold response of companies and governments to pandemic disruptions further accelerated adoption of digital and other technologies. Under certain conditions, these can increase productivity growth and support broad-based recovery. To tap and/or maximize these benefits, governments need to change domestic policies and collaborate on international policy reforms to further promote cross-border digital service flows (which again is discussed in the theme chapter).

In the post–COVID-19 economic recovery, the mega trade agreements will sustain the region’s momentum in cross-border trade, investment, and regional cooperation.

The Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) mark the importance of trade partnership to facilitate movement of goods and services and to forge closer economic cooperation. While RCEP encourages greater cooperation among the 10 ASEAN economies and its Free Trade Agreement (FTA) partners (Australia–New Zealand, the PRC, Japan, and the Republic of Korea), CPTPP strengthens the economic connectivity among 11 economies (Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Viet Nam) (Figure 1.14).3

Both are comprehensive in nature and cover issues of market access and regulatory coherence. Although the scope of CPTPP is larger since it covers provisions for state-owned enterprises and labor and the environment, RCEP is more accommodative in its ambition because it gives more attention to the development differences of participating members. CPTPP entered into force on 30 December 2018, 4 while RCEP became effective on 1 January 2022 after 60 days of ratification by six ASEAN members and four non-ASEAN economies.5

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**Figure 1.14: Difference between CPTPP and RCEP, 2020**

<table>
<thead>
<tr>
<th>CPTPP</th>
<th>RCEP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>12.8%</strong> of global GDP ($10.8 trillion) and <strong>6.6%</strong> (51.6 million) of the world population</td>
<td><strong>31%</strong> ($26.1 trillion) share to total world GDP</td>
</tr>
<tr>
<td>Canada, Chile, Mexico, Peru</td>
<td>Cambodia, Indonesia, Korea, Republic of Lao PDR, Myanmar, PRC, Philippines, Thailand</td>
</tr>
<tr>
<td>Australia, Brunei Darussalam, Japan, Malaysia, New Zealand, Singapore, Viet Nam</td>
<td><strong>29.7%</strong> (2.3 billion) of the total world population</td>
</tr>
<tr>
<td><strong>15%</strong> of global merchandise trade ($5.2 trillion)</td>
<td><strong>29%</strong> of global merchandise trade ($10 trillion)</td>
</tr>
</tbody>
</table>


1 ASEAN’s FTA with Australia and New Zealand is a single trade agreement, known as ASEAN–Australia–New Zealand FTA.
2 CPTPP entered into force with seven economies on 30 December 2018. It is yet to be ratified by four other negotiating members—Brunei Darussalam, Chile, Peru, and Malaysia.
3 As of 2 November 2021, the six ASEAN economies that have ratified the agreement are Brunei Darussalam, Cambodia, the Lao PDR, Singapore, Thailand, and Viet Nam; while the four non-ASEAN economies are Australia, the PRC, Japan, and New Zealand.
Both trade agreements are termed mega regionals as they account for a substantial part of global GDP and population. As of 2020, RCEP economies accounted for about 31% ($26.1 trillion) of global GDP and around 29.7% (2.3 billion) of the world’s total population. These proportions are larger than CPTPP, which accounts for 12.8% of global GDP ($10.8 trillion) and 6.6% ($51.6 million) of total population. RCEP also is larger in economic size compared with the European Union and the United States–Mexico–Canada Agreement (USMCA, formerly known as North American Free Trade Agreement or NAFTA).³

RCEP and CPTPP plays a prominent role in global trade. In particular, the RCEP economies account for about 29% of global merchandise trade ($10 trillion), higher than the share of CPTPP (15%) and USMCA (15.5%). The share of RCEP economies in global trade has expanded in the last 2 decades, showing its growing significance in global trade (Figure 1.15). There is greater scope to increase the intraregional trade share of RCEP economies as the agreement comes into practice. While the intraregional trade intensity of RCEP economies in past years is greater than one, upside potential remains (Figure 1.16).

The RCEP agreement is expected to promote investment in the region as the participating economies commit to remove some requirements on investors that intend to enter or expand in the RCEP economies (e.g., required percentage of domestic content) (Government of Singapore, Ministry of Trade and Industry. 2021). The value of intra–RCEP investment was $122 billion in 2019, higher than in other regional cooperation blocs other than the EU, where investment between EU economies was $414 billion over the same period (Figure 1.17). The diversity among RCEP members offer scope for complementarity generating opportunities for investment within the region.

The EU and USMCA constitute 5.7% and 6.4%, respectively, of global population and 17.9% and 28%, respectively, of global GDP.

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³ The EU and USMCA constitute 5.7% and 6.4%, respectively, of global population and 17.9% and 28%, respectively, of global GDP.
RCEP and CPTPP are expected to incentivize rebuilding of the supply chains in the region. Moreover, both RCEP and CPTPP dovetail well with the digital transformation agenda of the member economies following the COVID-19 pandemic (discussed in detail in Trade Rules, Regulations, and Regional Cooperation of the theme chapter). COVID-19 highlighted the importance of technology and digital trade. RCEP and CPTPP include commitments for a conducive digital trade environment in the region. They include provisions on cross-border data flows, digitization of trade documentation, use of electronic signature, and others to facilitate cross-border trade.

On the whole, both agreements have potential to make significant contributions to regional and national economies. The estimates are that by 2030, RCEP will increase members’ income by 0.6%, and CPTPP by 0.3%, while RCEP will add $245 billion and CPTPP will add $113 billion to regional income. RCEP is expected to add 2.8 million jobs to regional employment and CPTPP is expected to add 1.5 million. RCEP benefits are estimated to be greater than those of CPTPP—mainly because of RCEP’s larger economic size, the higher degree of its prior integration, and new FTA partnerships, especially in East Asia (Park, Petri, and Plummer 2021).

COVID-19 has highlighted the importance of global and regional cooperation to deal with challenges originating from health emergencies. Soon after the pandemic began, regional cooperation became important to keep global value chains functioning, particularly for essential goods (Table 1.1). The adoption of digital technology for customs reforms went well to address challenges in supply chain connectivity. Even cross-border e-commerce enabled many enterprises to maintain their business continuity. The disruptive effects of COVID-19 on many fronts—trade, logistics, mobility, health, finance, education—have amplified the need for economies to work together to promptly implement recovery initiatives and other measures.

In general, regional cooperation can take many forms across the spectrum, from informal collaboration to joint sectoral projects, to regional organization. In the past, these have worked to manage health emergencies. For example, during the 2003 SARS outbreak, ASEAN members along with Japan, the PRC, and the Republic of Korea decided to work together in areas of international travel, information sharing, and building alert and response capabilities. The regional response was commended by the World Health Organization (2003).

Table 1.1: Subregional Cooperation in Areas of Economic Management and Trade in Response to COVID-19

<table>
<thead>
<tr>
<th>Areas of Collective Action</th>
<th>Subregional/Economy-Led Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Keeping borders open, ensure flow of goods</td>
<td>SASEC Customs Subgroup agreed to interagency and cross-border coordination, instituting special regimes for sensitive/critical goods; ASEAN during its special summit on COVID-19 agreed to preserve supply chain connectivity.</td>
</tr>
<tr>
<td>Sustaining inclusive economic activity</td>
<td>The Pacific Humanitarian Pathway on COVID-19 recognized needs to sustain trade-related economic activities of MSMEs and ensure gender equality; ASEAN established the COVID-19 response fund to procure medical supplies and equipment.</td>
</tr>
<tr>
<td>Fiscal policy and macroeconomic management, strengthening disaster risk management</td>
<td>CAREC High-Level Virtual Panel on Countercyclical Fiscal Measures for Recovery and CAREC Economic and Financial Stability Forum foster coordinated policy solutions at regional and global levels.</td>
</tr>
</tbody>
</table>

ASEAN = Association of Southeast Asian Nations; CAREC = Central Asia Regional Economic Cooperation; COVID-19 = coronavirus disease; MSME = micro, small, and medium-sized enterprise; SASEC = South Asia Subregional Economic Cooperation.

Source: Adapted from Asian Development Bank.
as an effective mode of cooperation against a common threat, leading to control of the spread of the disease. Similarly, during the COVID-19 pandemic, these economies used existing regional mechanisms or set up new ones to share daily updates, undertake risk assessments, exchange best practices, and disseminate knowledge on prevention and control (Fernando, De La Rosa, and Quiano-Castro 2020; and Table 1.2).

The regional cooperation mechanism can thus come up with several commitments and innovative tools and projects to overcome the challenges presented by the pandemic (discussed in detail in Chapter 6: Updates on Subregional Cooperation Initiatives).

Enhancing regional cooperation is essential in post–COVID-19 socioeconomic agendas for an inclusive, resilient, and green recovery.

COVID-19 offers a unique opportunity to rebuild economies through investment in social infrastructure while tackling pressing issues of poverty, inequality, and climate change. Health-care services have been worst hit during the pandemic. Even before, about 22% of the global urban population and 56% of the rural population did not have health-care coverage. There was a need for 10 million health-care workers to ensure people’s health security, including fighting infectious diseases (ILO 2017). The pandemic further highlighted the shortage of medical professionals. An estimated 18 million more health-care workers in low-income and lower-middle-income economies are now required to attain the comprehensive health coverage as stated in the 2030 Agenda for Sustainable Development (United Nations 2020). COVID-19 has pushed millions of people back into poverty, reversing much of the gain attained in the past. During 2010 and 2019, the share of population living in extreme poverty declined from 15% to 8.2%. Given the prolonged nature of the pandemic, extreme poverty rose sharply in 2020, the first increase since 1998. Around 70 million people fell into extreme poverty in 2020, according to UN estimates (United Nations 2020). These numbers are likely to rise further. COVID-19 is far from over as 2021 saw resurgence of the infection in many parts of the world.

Table 1.2: ASEAN, ASEAN+3 Health Cooperation Mechanisms for Epidemic Preparedness, 2003–2020

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<td><strong>Cooperation Mechanisms</strong></td>
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<td>• ASEAN+3 Emerging Infectious Diseases Programme (2004–2008)</td>
<td>• One ASEAN One Response Framework in ASEAN Agreement on Disaster Management and Emergency Response (AADMER)</td>
<td>• ASEAN+3 Senior Officials’ Meeting for Health Development (APT SOMHD) Mechanism Responding to COVID-19</td>
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<td>• ASEAN Highly Pathogenic Avian Influenza (HPAI) Task Force</td>
<td>• Disaster Safety of Health Facilities in the AADMER Work Programme (2010–2015)</td>
<td>• ASEAN Health Ministers and ASEAN+3 Health Ministers in Enhancing Cooperation on COVID-19</td>
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<td>• ASEAN Cooperation on Animal Health</td>
<td>• ASEAN+3 Field Epidemiology Training Network (FETN)</td>
<td>• ASEAN Bio Diaspora Virtual Centre (ABVC) for Big Data Analytics and Visualization</td>
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<td>• ASEAN Work Programme on HIV/AIDS III (2006–2010)</td>
<td>• ASEAN Risk Communication Resource Centre</td>
<td>• ASEAN+3 Partnership Laboratories (APL)</td>
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<td>• ASEAN – Japan Project for Stockpile of Antivirals and PPE against Potential Pandemic Influenza (2006–2013)</td>
<td>• ASEAN Emergency Operations Centre (EOC) Network for public health emergencies</td>
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<td>• Regional Framework for Control and Eradication of HPAI (2006–2008)</td>
<td>• ASEAN Coordinating Council Working Group (ACCCWG) on Public Health Emergencies</td>
<td>• MOU between ASEAN Secretariat and WHO</td>
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<td>• ASEAN Assessment of National Multi-Sectoral Pandemic Preparedness and Response (2007–2010)</td>
<td>• ASEAN Plus Three Field Epidemiology Training Network (ASEAN+3 FETN)</td>
<td>• MOU between ASEAN Secretariat and WHO</td>
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<tr>
<td>• Regional Strategy for Progressive Eradication of HPAI (2008–2010)</td>
<td>• ASEAN Risk Assessment and Risk Communication Centre (ARARC)</td>
<td>• MOU between ASEAN Secretariat and WHO</td>
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<tr>
<td>• ASEAN+3 Partnership Laboratories (APL)</td>
<td>• Public health laboratories network under the ASEAN Health Cluster 2 on Responding to All Hazards and Emerging Threats</td>
<td>• MOU between ASEAN Secretariat and WHO</td>
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<td>• MOU between ASEAN Secretariat and WHO</td>
<td>• Regional Public Health Laboratories Network (RPHLN) through the Global Health Security Agenda platform</td>
<td>• MOU between ASEAN Secretariat and WHO</td>
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ASEAN = Association of Southeast Asian Nations; ASEAN+3 = ASEAN plus Japan, the People’s Republic of China, and the Republic of Korea; MOU = memorandum of understanding; PPE = personal protective equipment; SARS = severe acute respiratory syndrome; WHO = World Health Organization.

Source: Djalan et al. (2020).
Rebuilding global and regional supply chains is a policy priority. Supply and demand shocks, along with temporary trade restrictions and shortages of critical goods exposed vulnerabilities in production strategies. Post-COVID-19, regional cooperation will become a necessity to increase supply chain resilience. A multistakeholder approach involving the governments and businesses will need to be adopted to support information sharing and capacity building to learn from each other’s experiences. Use of digital technology, efforts to solve behind-the-border challenges, and bilateral and regional trade agreements could help bring long-term efficiency gains. In addition, a resilient supply chain will require economies to invest in skills, minimize risks in inventory management, improve transport networks, strengthen trade logistics, and deploy digital means for cross-border paperless trade.

Finally, regional cooperation will have a greater role for a green recovery to ensure sustainable economic development. Before COVID-19, many Asia and Pacific economies had embarked on various climate change mitigating projects, including renewable energy, energy efficiency, and sustainable transport. They even decided to eliminate customs tariffs on environmental goods to promote usage in domestic economies, thus helping to strengthen environmental and climate protection. During 2006 and 2019, Asia and the Pacific witnessed an increase in the share of intraregional trade of environmental goods from 0.014% to 0.020% of total intraregional goods trade, with East Asia leading the way and Southeast Asia not far behind (ADB 2021a).

The pandemic, though applying the break, did not altogether reverse these initiatives. With progress in reopening, economic recovery plans will have to account for further investment in the green economy. The EU, Indonesia, the Republic of Korea, the Philippines, the United Kingdom, and others have announced recovery budgets that incorporates climate-related investments (ADB 2020). The ASEAN Catalytic Green Financing Facility, managed by ASEAN economies and ADB, have committed to support Southeast Asian economies in mobilizing finance for environment-sustainable infrastructure projects, and so contribute to climate-change commitments. Altogether, these efforts have potential to create sustainable jobs while protecting the environment and natural resources. Strong initiatives on climate change mitigating investments have potential to generate as much as $26 trillion of net global economic benefits by 2030, create 65 million new low-carbon jobs, and avoid 700,000 premature deaths from air pollution (The New Climate Economy 2018).

Despite its limitations, globalization will retain its relevance and adapt to the changing environment post-pandemic.

Seamless connectivity and a resilient supply chain will emerge as issues of greater importance. Concurrently, promoting cooperation for inclusive development that benefits people and small businesses will become crucial. The pandemic has already kick-started rapid digitalization. This will bring societal and economic transformation within nations and globally. International cooperation and policy adaptation will play a critical role in leveraging the benefits of digital transformation. Similarly, cooperation among economies will enhance greater resilience by managing vulnerability from climate change, disasters, and future pandemics.
References


