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Lessons from the COVID-19 Pandemic: A Renewed Agenda for the Free Trade Area of the Asia-Pacific (FTAAP)

By Carlos Kuriyama

KEY MESSAGES

- The COVID-19 pandemic is accelerating structural changes in the global economy. The magnitude of the trade disruptions has been unprecedented, and governments need to improve resilience and get ready to face similar situations in the future.
- Actions need to be taken at the domestic level. However, this is not enough, and international collaboration is needed as well. Any regional integration process involving free trade agreements and customs unions, among others, would be critical to the pursuit of solutions to the various challenges arising from the changes. APEC has the opportunity to tackle these issues, and influence the global trade agenda.
- The six critical challenges affecting trade are: (1) disruption in accessing essential goods; (2) disruption of trade in services; (3) difficulties in supply chain logistics; (4) digital transformation; (5) transparency; and (6) regulatory bottlenecks affecting trade in essential goods.
- As an incubator of ideas, APEC could refresh the Free Trade Area of the Asia-Pacific (FTAAP) work programme in the context of the COVID-19 pandemic, with initiatives to address these challenges. Specifically, APEC could incorporate new topics related to trade in goods, services, trade facilitation, digital issues, and standards and conformance, among others, into the FTAAP work programme.
- APEC should also consider establishing other work streams in the FTAAP work programme to respond to the structural changes and emerging trends.

The COVID-19 pandemic has increased disruptions globally and accelerated structural changes in the global economy. For example, amid lockdowns and social distancing measures, work patterns have shifted, and the digital economy has expanded significantly. Given that this is likely not the last pandemic that humankind will be faced with, governments would need to be prepared to react properly to minimise disruptions when the next pandemic emerges.

Trade has faced unprecedented levels of disruption as well. Among the many lessons to be gleaned from the pandemic is that it is not enough for governments to take decisive actions at the domestic level. International collaboration has to be part of the solution as well. Any regional integration process involving free trade agreements (FTAs) and customs unions, among others, has the tools to help overcome pandemic-related challenges.

In this scenario, APEC's role as an incubator of ideas presents important opportunities under the work programme of the Free Trade Area of the Asia-Pacific (FTAAP). This is an opportunity for APEC to start discussions in areas where more work is needed to improve resilience.

This policy brief will explore some of the most pressing challenges affecting trade since the start of the pandemic and provide policy recommendations to overcome them. Also, this brief will suggest new topics that APEC economies should consider during the discussions of the FTAAP work programme, particularly those that have risen in relevance in recent years.

Challenge 1: Disruption in Accessing Essential Goods

When the pandemic started, many non-tariff measures, particularly export restrictions and prohibitions related to essential goods such as medical goods, personal protective equipment and food products, were implemented to ensure local

availability. However, such export-restricting measures could also potentially increase international prices while reducing prices in the domestic market, discouraging local firms from increasing production.

Approximately two years into the pandemic, the good news is that many export restrictions and prohibitions are no longer in place. At the same time, governments have kept a number of trade facilitating measures, and reduced or eliminated import tariffs for a number of essential goods (Tables 1 and 2). The bad news is that some trade-restricting measures are still in place, disrupting trade in essential goods.

Challenge 2: Disruption of Trade in Services

The services sectors have borne the brunt of the pandemic. Lockdowns, social distancing measures and restrictions to cross-border movement of people caused significant disruptions in the sector.

Table 1. No. of non-tariff measures in response to the COVID-19 pandemic

	In force	No longer in force	Total accumulated
Facilitating trade	19 (+1)	10 (+1)	29 (+2)
Restricting trade	6 (-6)	22 (+11)	28 (+5)
Total	25 (-5)	32 (+12)	57 (+7)

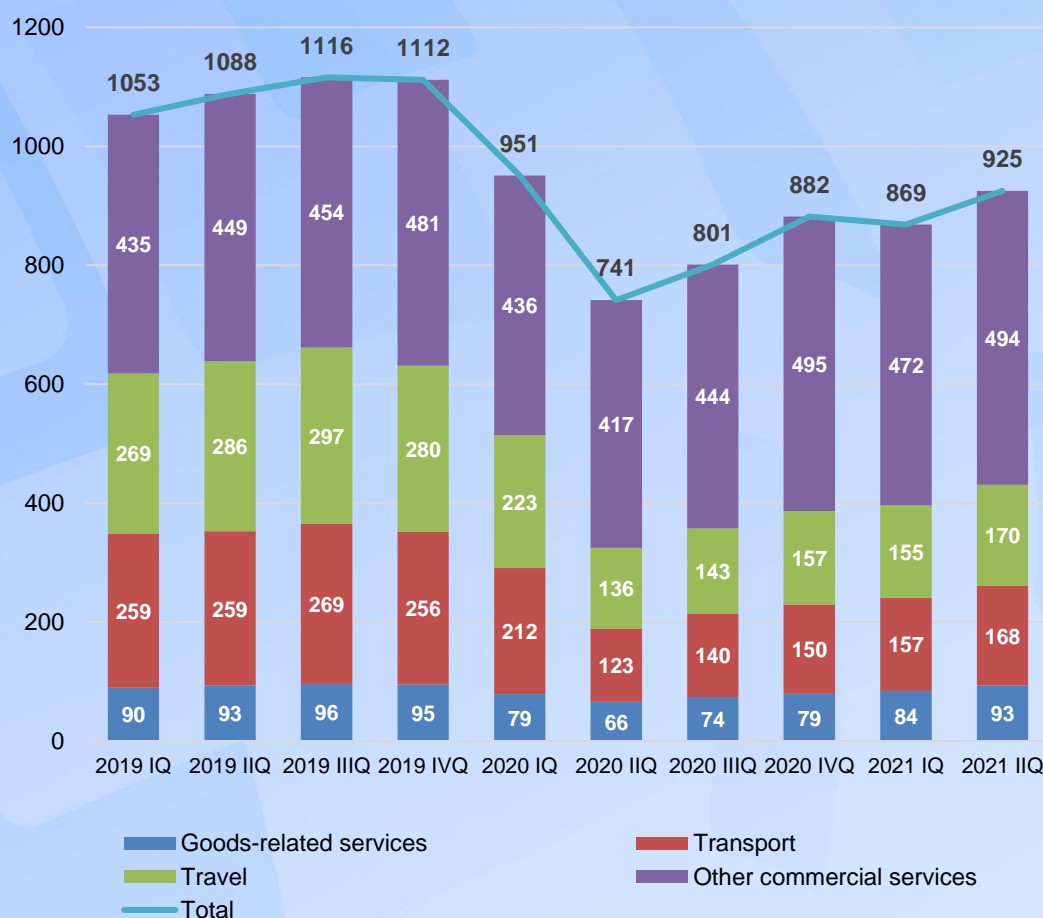
Note: As of 7 March 2022; change from 8 September 2020 in parenthesis.
Source: World Trade Organization (WTO); APEC Policy Support Unit (PSU) calculations.

Table 2. No. of measures lowering import tariffs in response to the COVID-19 pandemic

	As of 8 Sep 2020	As of 7 Mar 2022	Difference
In force	10	20	+10
No longer in force	5	7	+2
Total	15	27	+12

Source: WTO; APEC PSU calculations.

Figure 1. Trade in services by APEC member economies (USD billion)



Source: WTO; APEC PSU calculations.

The impact was felt immediately upon the World Health Organization announcing COVID-19 as a pandemic in March 2020.

APEC's trade in services during the second quarter of 2020 was USD 741 billion, a year-on-year reduction of 31.9 percent (Figure 1). This fall continued through the rest of 2020; the accumulated trade in services in the APEC region amounted to USD 3.3 trillion, which was USD 994 billion less than in 2019, a 22.8 percent decline.

Most of this decline is explained by two sectors, travel and transport services. Also affected are other commercial services relying on the movement of people across borders, for example, international education and highly qualified workers providing installation, maintenance and repair of sophisticated equipment. While trade in services started to recover by the end of 2020, it had still not reached pre-pandemic levels by mid-2021.

Challenge 3: Difficulties in Supply Chain Logistics

As demand plummeted during the pandemic, shipping companies cut cargo capacity to prevent a fall in shipment prices. As demand began to recover, these prices have been on an upward trend, but it has not been possible to restore cargo capacity at the same pace.

The shortage of containers and bulk capacity is explained by lockdowns and social distancing measures delaying work in important ports, causing congestion. At the same time, shipping companies are facing shortages of merchant seafarers due to complex rules on health protocols and shifts.

Data show that the freight market rate for a 40-foot-long container went up from USD 1,343.50 when the pandemic was announced in the second week

of March 2020 to USD 9,789.43 in the week of 25 February 2022, an increase of 628.6 percent (Figure 2).

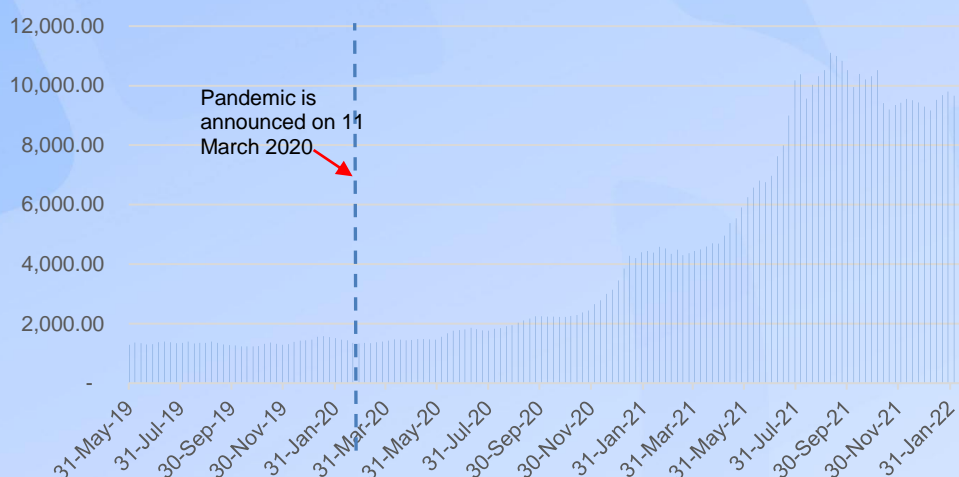
Similarly, the global average delay in vessel arrivals increased from 4.75 days in March 2020 to 7.11 days in February 2022 (Figure 3). While 70.3 percent of the vessels met their schedules in March

2020, only 34.4 percent of the vessels arrived on time in February 2022.¹

Challenge 4: Digital Transformation

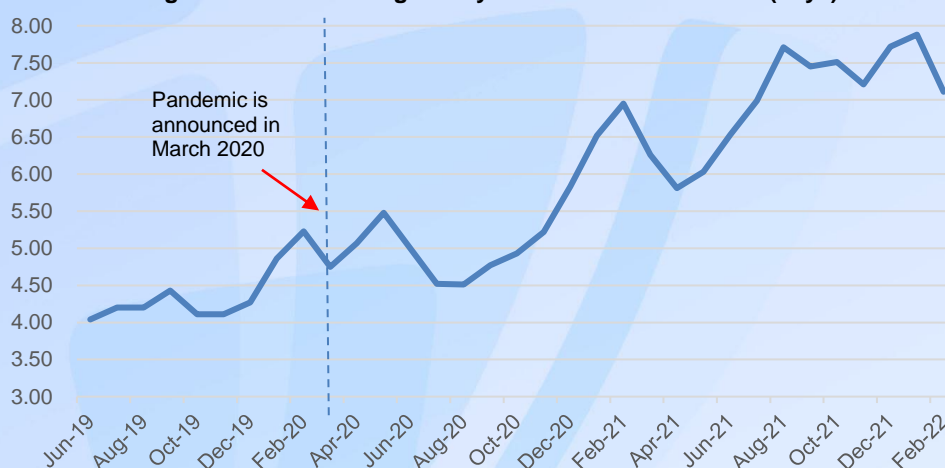
The pandemic has accelerated new trends, including the embrace of digital tools by businesses to adjust to the problems caused by the pandemic.

Figure 2. Weekly Freightos Baltic Global Container Index (USD)



Source: "Freightos: Global Freight Prices Soaring due to Container Shortages," Knoema, 31 August 2021, <https://knoema.com/infographics/slsatcf/freightos-global-freight-prices-soaring-due-to-container-shortages#:~:text=Alternative%20Data%20%2B&text=FBX%20stands%20for%20Freightos%20Baltic,equivalent%20units%22%20or%20FEUs>

Figure 3. Global average delays for late vessel arrivals (days)



Source: "Maritime Shipping: On-time Rate & Delays by Sea Intelligence," MacroMicro, accessed 10 April 2022, <https://en.macromicro.me/collections/4356/freight/35384/sea-intelligence-global-liner-report>

¹ "Maritime Shipping: On-time Rate & Delays by Sea Intelligence," MacroMicro, accessed 10 April 2022,

<https://en.macromicro.me/collections/4356/freight/35384/sea-intelligence-global-liner-report>

Figure 4. No. of cross-border data restrictions in force



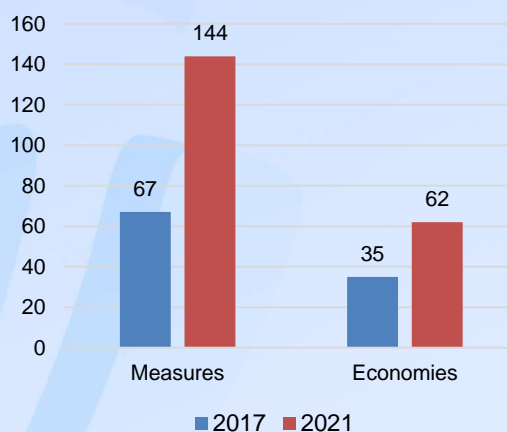
Source: European Centre for International Political Economy (ECIPE), in "Digital Trade Estimates Project: DTE Database," accessed 10 April 2022, <https://ecipe.org/dte/>

Global e-commerce experienced a boost, from USD 3.4 billion to USD 4.3 billion between 2019 and 2020, and is expected to reach USD 5.4 billion in 2022.² E-commerce represented 13.6 percent of global retail sales before the pandemic, and will reach more than 20 percent of these sales by the end of 2022.³

However, trade rules to facilitate digital trade have not evolved at the same pace. In fact, some new measures implemented by a number of governments hinder the expansion of the digital economy.

There has been an increase in the implementation of cross-border data restrictions (such as data localisation measures) around the world. The Digital Trade Estimates from the European Centre for International Political Economy (ECIPE) have identified 103 cross-border data restrictions in force in 2019 (Figure 4). Similarly, the Information Technology & Innovation Foundation has found 144 data localisation measures in force, more than double the number in 2017 (Figure 5). These restrictions are a problem as they mean additional costs for businesses.

Figure 5. No. of data localisation measures in force and implementing economies



Source: N. Cory and L. Dascoli, "How Barriers to Cross-Border Data Flows Are Spreading Globally, What They Cost, and How to Address Them" (Information Technology & Innovation Foundation, 2021), <https://itif.org/publications/2021/07/19/how-barriers-cross-border-data-flows-are-spreading-globally-what-they-cost>

² US Department of Commerce, "eCommerce Sales & Size Forecast," accessed 10 April 2022, <https://www.trade.gov/e-commerce-sales-size-forecast>

³ US Department of Commerce, "Impact of COVID-19 Pandemic on eCommerce," accessed 10 April 2022, <https://www.trade.gov/impact-covid-pandemic-e-commerce>

Challenge 5: Transparency

With the pandemic, new regulations have been enacted and existing regulations have been amended more often than usual. The problem is that this information is not reaching exporters, importers, firms and consumers quickly. Many consignments have been stopped at customs for longer than expected, and this is very critical for essential and perishable products.

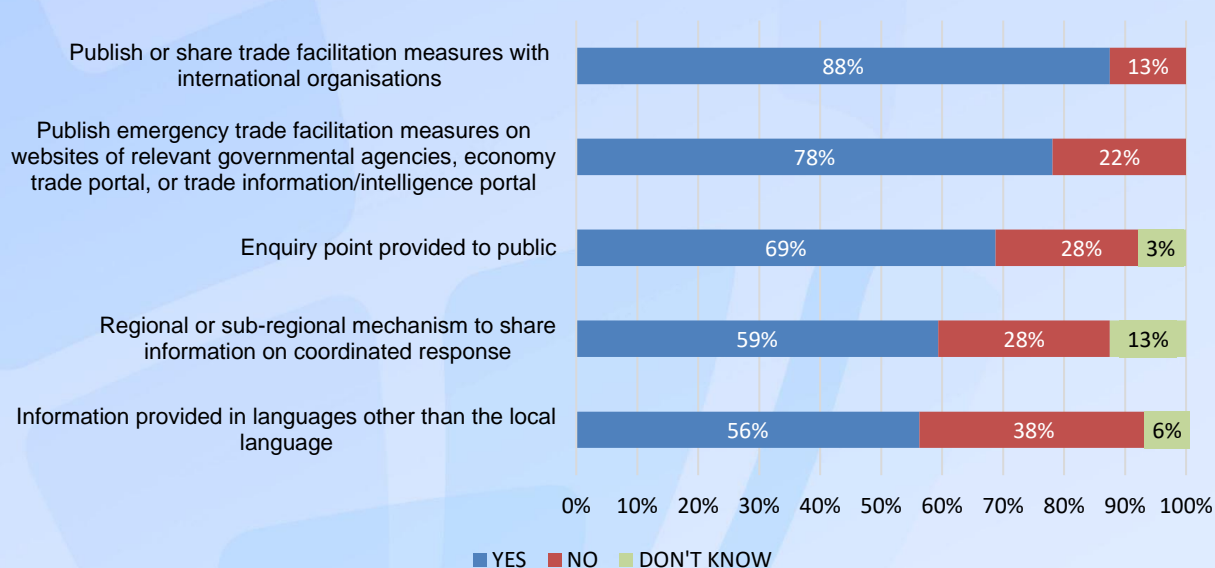
A survey in the Asia-Pacific region published by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) in 2021 shows only 13 percent of economies not publishing or sharing trade facilitation measures with international organisations (Figure 6). However, 22 percent of the economies did not publish emergency trade facilitation measures on relevant government websites. The transparency problem is exacerbated by 38 percent of the economies not publishing the information in any of the official World Trade Organization (WTO) languages.

Challenge 6: Regulatory Bottlenecks Affecting Trade of Essential Goods

Regulatory issues along global value chains have affected the trade of essential goods, in particular medical products.⁴ The main problems are as follows:

- **Lack of proportionality and compatibility of measures.** Many of the measures implemented during the pandemic were not proportional to the risk involved. In addition, there have been bottlenecks in obtaining regulatory approvals to commercialise some essential goods.
- **Complexity of intellectual property rights.** Products like vaccines, antivirals and immunomodulators require several components, many of which are patented, which means several licenses have to be obtained. This could affect the capacity to ramp up production in a timely manner.

Figure 6. Implementation of transparency measures in times of crisis and the COVID-19 pandemic (% of economies in the Asia-Pacific region)



Source: United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), "Trade Facilitation in Times of Crisis and Pandemic: Practices and Lessons from the Asia-Pacific Region" (ESCAP, 2021), https://www.unescap.org/sites/default/d8files/knowledge-products/Regional%20report-Trade%20facilitation%20in%20times%20of%20crisis%20and%20pandemic_0.pdf

⁴ These regulatory issues were discussed in a previous APEC Policy Support Unit (PSU) policy brief. See C. Kuriyama, "Promoting Trade in Vaccines and Related Supplies and Equipment" (Singapore: APEC, May 2021), <https://www.apec.org/docs/default->

[source/publications/2021/5/promoting-trade-in-vaccines-and-related-supplies-and-equipment/221_psu_promoting-trade-in-vaccines-and-related-supplies-and-equipment.pdf?sfvrsn=ef393933_1](https://www.apec.org/publications/2021/5/promoting-trade-in-vaccines-and-related-supplies-and-equipment/221_psu_promoting-trade-in-vaccines-and-related-supplies-and-equipment.pdf?sfvrsn=ef393933_1)

- **Good manufacturing practice.** This is a requirement that laboratories need to meet in order to produce vaccines and therapeutics. Divergence in protocols among economies on good manufacturing practice could complicate plans to ramp up production of COVID-19 vaccines and therapeutics.
- **Lack of proper inter-institutional coordination.** Coordination problems among regulatory authorities and border agencies could lead to delays in the release of essential goods.

Recommendations: Revising FTAAP Work Programmes in the Context of the Pandemic

Since the endorsement of the Lima Declaration on the FTAAP in November 2016, APEC fora and sub-fora have been working with the aim of achieving progress toward the eventual realisation of the FTAAP.

The initiatives have included capacity-building activities to narrow the gap among members in terms of trade negotiation capacity. There have also been efforts to learn best practices from other economies and discuss ways to overcome existing challenges. Trade policy dialogues to get a better understanding of trade disciplines with limited or absent WTO rules have also been held. In addition, the various fora have organised miscellaneous activities on trade and investment issues to advance regional economic integration.

The disruptions caused by the COVID-19 pandemic require proper attention, not just because it seriously affected trade and investment, but also because it is likely that COVID-19 will not be the last pandemic. It is imperative to learn from the current pandemic and be ready to take proper actions to minimise the negative impact of any future pandemic. In this sense, regional economic integration initiatives play an important role in overcoming the trade-related challenges brought about by the pandemic, by incorporating relevant topics in their work programmes.

As said earlier, many of the responses to these challenges require actions at the domestic level, but at the same time, international collaboration is needed. In fact, these types of actions can be reinforced by taking them into account in regional integration arrangements.

Within APEC, the FTAAP work programme, through relevant committees and sub-fora, could incorporate a number of new topics into their agenda to improve resilience in the region:

- **Trade in goods.** Discussions on the definition of 'essential goods', and commitments to ensure the availability of commercial purchases of essential goods, are needed. Initiatives could include commitments to avoid the implementation of export restrictions and prohibitions affecting essential goods, as well as exempting these goods from import tariffs on a permanent basis. As a reference, one initiative that has taken into account many of these recommendations is the Declaration on Trade in Essential Goods for Combating the COVID-19 Pandemic adopted by New Zealand and Singapore on 15 April 2020. A particular feature of this declaration is that both parties commit to ensuring unhindered trade flow and transit of a comprehensive list of essential goods.⁵
- **Trade in services.** Discussions to establish international commitments to keep airports, ports, customs and border facilities operational should be initiated. In addition, it is imperative to create schemes to facilitate cross-border movement of business people and those working in essential activities. The harmonisation of criteria to allow travel (for example, recognition of vaccine certificates, PCR tests and health passes) is critical to facilitating the flow of people across borders.
- **Trade facilitation and border management.** To tackle supply chain logistics, it is important to discuss initiatives to facilitate cross-border movement of maritime seafarers so that companies could get their crew to their vessels. Accelerating the implementation of the WTO Trade Facilitation Agreement (TFA) to expedite shipments and the release of goods should also be discussed. Governments should be encouraged to go beyond what is established in the TFA and to reflect that in any trade agreement. The use of technology and paperless procedures should also be advanced. Border cooperation and technical assistance have to be enhanced for the implementation of all these measures.
- **Digital issues.** To facilitate the digital transformation and allow the expansion of the digital economy, it is important to agree on modern trade rules to foster the digital economy.

⁵ Ministry of Foreign Affairs (Singapore), "Declaration on Trade in Essential Goods for Combating the COVID-19 Pandemic," 15 April 2020, <https://www.mfa.gov.sg/-/media/Files/MFA/Edited--->

FINAL-TEXT-Declaration-on-Trade-in-Essential-Goods.ashx?la=en&hash=783B0A7600BD3C90CA2CD014A95C25F4957D5CEA

Rules on data privacy, data localisation, cross-border data flows, and electronic commerce (consumer protection, electronic payments and electronic signatures, among others) need to be discussed at international fora like APEC and other regional economic integration arrangements.

- **Transparency.** The role of international organisations and regional economic integration schemes is very important to addressing transparency problems. There should be discussions on adding more teeth to transparency provisions, in particular to address emergency situations like those related to the pandemic. For instance, binding arrangements should consider the possibility of implementing appropriate sanctions against governments for not duly reporting new regulations or changes to existing regulations.

- **Standards and conformance.** More work on risk assessment is needed to ensure that the proportionality of a measure matches the risk involved. Discussions on addressing harmonisation, mutual recognition and equivalence issues are needed to facilitate regulatory approvals for essential goods. The discussions should also focus on measures to increase the production of medical goods, including expediting inspections and approving factories and facilitating partnerships and technology transfer.⁶
- **Intellectual property.** It is advisable for governments to support multilateral discussions on a temporary waiver of certain obligations in the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) in response to COVID-19, with the intention of accessing vaccines and medicines in a timely and affordable manner and to scale up production of essential medical products.

Table 3. Mapping of topics negotiated in CPTPP and RCEP vis-à-vis topics at APEC CBNI events between 2017 and 2022

Topic	CPTPP chapters	RCEP chapters	APEC CBNI events (2017–2022)
Trade in Goods	X	X	XXXX
Rules of Origin	X	X	
Customs Administration and Trade Facilitation	X	X	XXX
Trade Remedies	X	X	X
Sanitary and Phytosanitary Measures	X	X	
Technical Barriers to Trade	X	X	X
Investment	X	X	XXX
Trade in Services	X	X	X
Financial Services	X	X	
Movement of Natural Persons/Business People	X	X	
Telecommunications	X	X	
Electronic Commerce	X	X	XXXX
Government Procurement	X	X	
Competition Policy	X	X	XXXX
State-Owned Enterprises and Designated Monopolies	X		
Intellectual Property	X	X	X
Labour	X		
Environment	X		
Cooperation and Capacity Building	X	X	
Competitiveness and Business Facilitation	X		
Development	X		XXX
Small and Medium-Sized Enterprises	X	X	XX
Regulatory Coherence	X		
Transparency and Anti-Corruption	X		XX
Dispute Settlement	X	X	

APEC CBNI=APEC Capacity-Building Needs Initiative; CPTPP=Comprehensive and Progressive Agreement of the Trans-Pacific Partnership; RCEP=Regional Comprehensive Economic Partnership

Note: Each 'X' represents an instance of the topic being part of a CBNI event as of 5 April 2022.

Source: Ministry of Foreign Affairs and Trade, New Zealand; ASEAN Secretariat; APEC Secretariat's Project Database and Meeting Document Database.

⁶ WTO, Indicative List of Trade-related Bottlenecks and Trade-facilitating Measures on Critical Products to Combat COVID-19" (Information Note, WTO, 8 October 2021), 4,

https://www.wto.org/english/tratop_e/covid19_e/bottlenecks_up_date_oct21_e.pdf

While revising FTAAP work programmes, APEC economies should also consider the possibility of establishing other work streams as the global economy is undergoing structural changes and new trends are emerging. Some of these areas could be identified by comparing the differences between the chapter structure of recent mega-FTAs and the areas covered in the APEC Capacity-Building Needs Initiative (CBNI) (see Table 3).

While there are some discussion gaps in traditional areas (such as rules of origin and sanitary and phytosanitary measures), most of the gaps are in areas that have gained prominence in the last decade, such as the sectoral services sectors (for example, the financial and telecommunications sectors), movement of natural persons/business people, government procurement, state-owned enterprises, labour, environment and regulatory coherence, among others.

Work streams could be added to address areas where there is rising interest, but limited or absent rules at the multilateral level. For example, the APEC Committee on Trade and Investment has organised trade policy dialogues on specific topics as a first step to gaining a better understanding of those topics. The topics have spanned inclusion (such as gender), small and medium enterprises, indigenous cooperation, development, and economic cooperation.⁷

Final Remarks

The COVID-19 pandemic has accelerated structural changes in the economy, bringing new challenges to trade. In its role as an incubator of ideas, APEC is in a position to influence the global trade agenda.

In fact, APEC's history shows its usefulness in developing principles and guidelines that are later incorporated in binding regional economic integration arrangements. The APEC Non-binding Investment Principles, the APEC Principles for Cross-Border Trade in Services, the APEC Model Measures for Regional Trade Agreements (RTAs)/FTAs and the APEC Best Practices for RTAs/FTAs are some of the APEC initiatives that have resonated, as they have been incorporated later on into new free trade agreements and bilateral investment treaties.

⁷ APEC, "APEC Committee on Trade and Investment: 2020 Annual Report to Ministers" (Singapore: APEC, 2020), 14, https://www.apec.org/docs/default-source/publications/2020/11/2020-cti-annual-report-to-ministers/2020-cti-annual-report-to-ministers.pdf?sfvrsn=cca6baaa_1;

In the same way, as an incubator of ideas, APEC could make a positive contribution to regional economic integration and the global trade agenda by leading the development of ideas, taking into account the new trends and lessons from the COVID-19 pandemic. This policy brief shows that APEC could help economies to be more resilient, by developing work in a number of areas and encouraging governments to implement a series of measures. Possible avenues include incorporating relevant topics in the FTAAP work programme and working on initiatives, including capacity-building activities, in areas of growing interest.

Carlos Kuriyama is a Senior Analyst at the APEC Policy Support Unit.

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Address: 35 Heng Mui Keng Terrace, Singapore 119616

Website: www.apec.org/About-Us/Policy-Support-Unit

E-mail: psugroup@apec.org

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