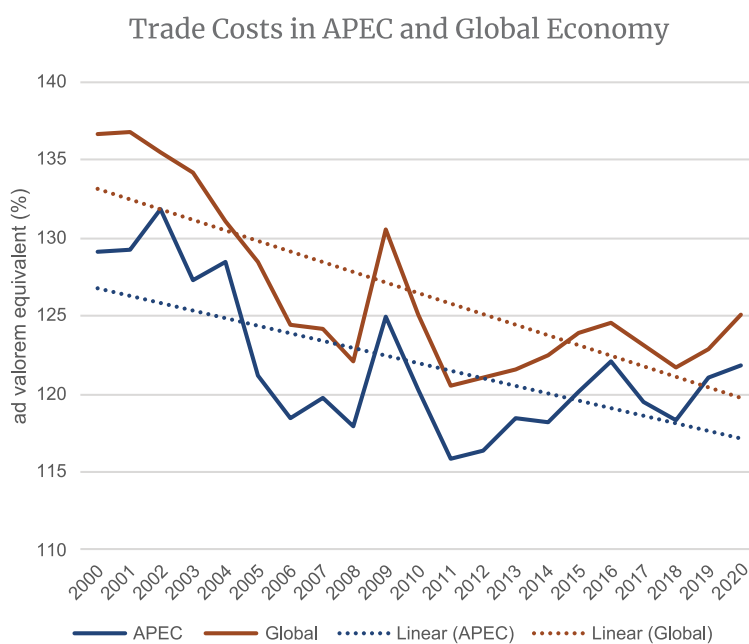


TACKLING TRADE COSTS AND FACILITATING SUPPLY CHAIN NETWORKS

Trade costs are falling but remain high

Trade costs have been on a downward trend between 2000 and 2018, albeit with peaks during periods of crisis. In the APEC region, this trend can partly be credited to their efforts at trade facilitation.

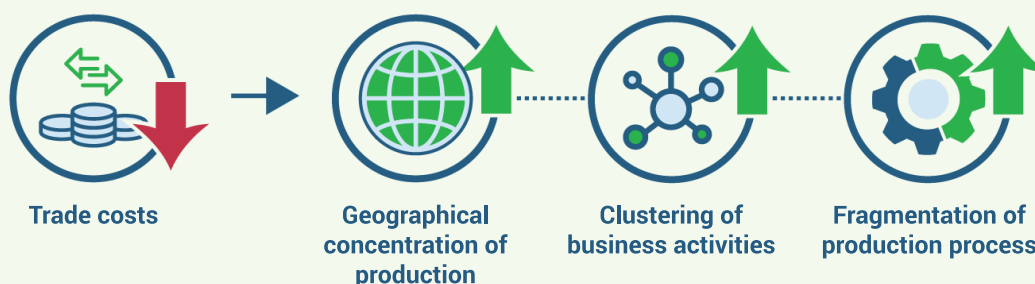
But trade costs increased in 2020 due to supply chain disruptions caused by the COVID-19 pandemic. The APEC region, however, has shown resilience, with trade costs staying lower and increasing at a lower rate than the global average. Trade costs however, remain high.



Fall in trade costs has led to the expansion of trade networks and the emergence of several production hubs

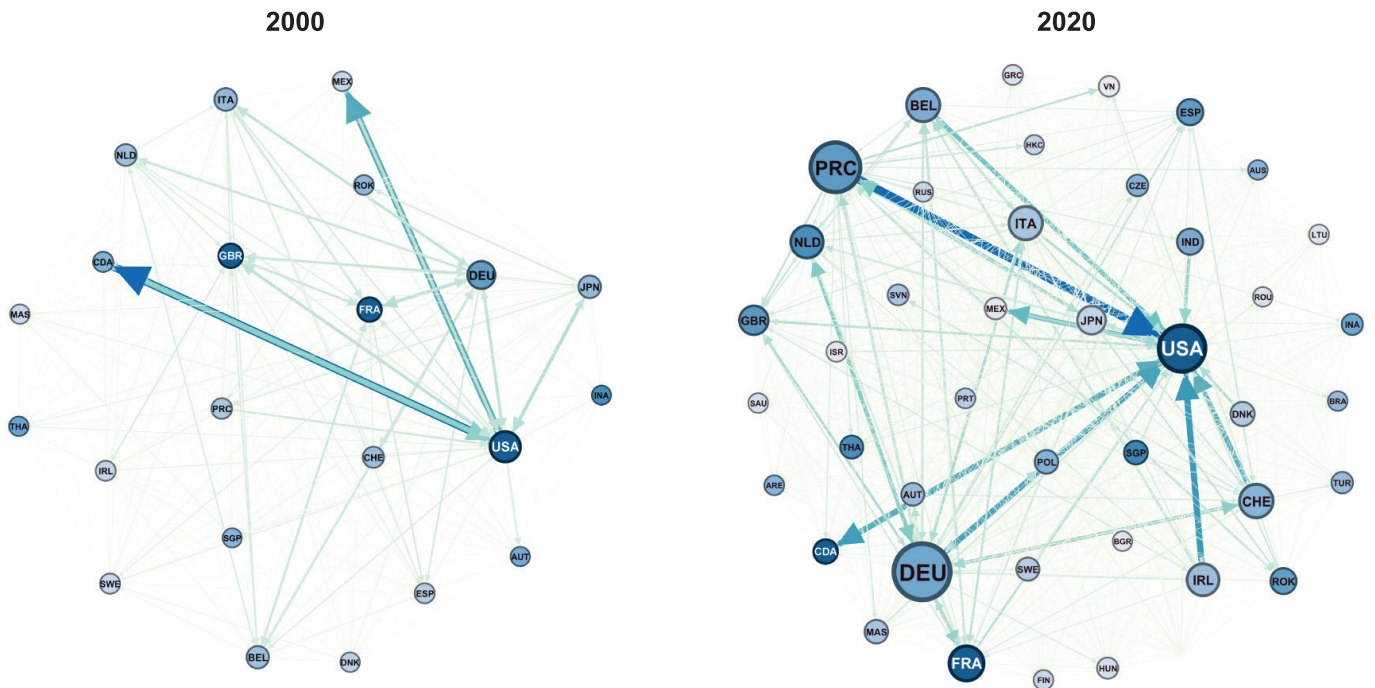
Trade costs for essential goods have fallen substantially in the last decade prior to the pandemic, while the trade networks of selected essential goods—i.e., chemicals, medicines, personal protective equipment (PPE), and medical equipment—expanded significantly from 2000 to 2018.

This was facilitated by the emergence of centralized trade hubs that acted as key suppliers to a wider group of economies. The fall in trade costs has likely led to increased geographical concentration of production, clustering of business activities and fragmentation of the production process, thus enabling the emergence of several production hubs.



For example, between 2000 and 2020, trade in medical supplies increased in value and became more interconnected, with more hubs emerging.

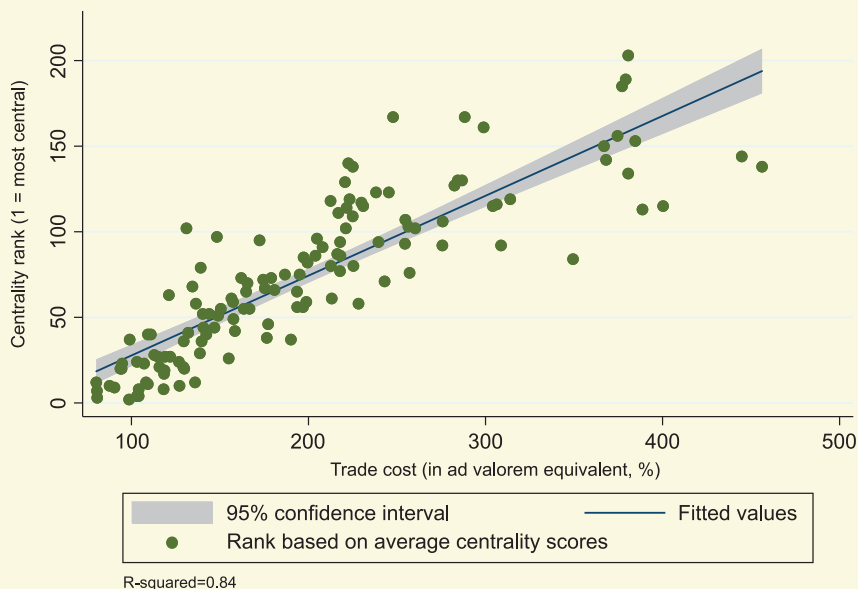
Trade Networks for Medical Supplies



Economies with low trade costs tend to be trade hubs...

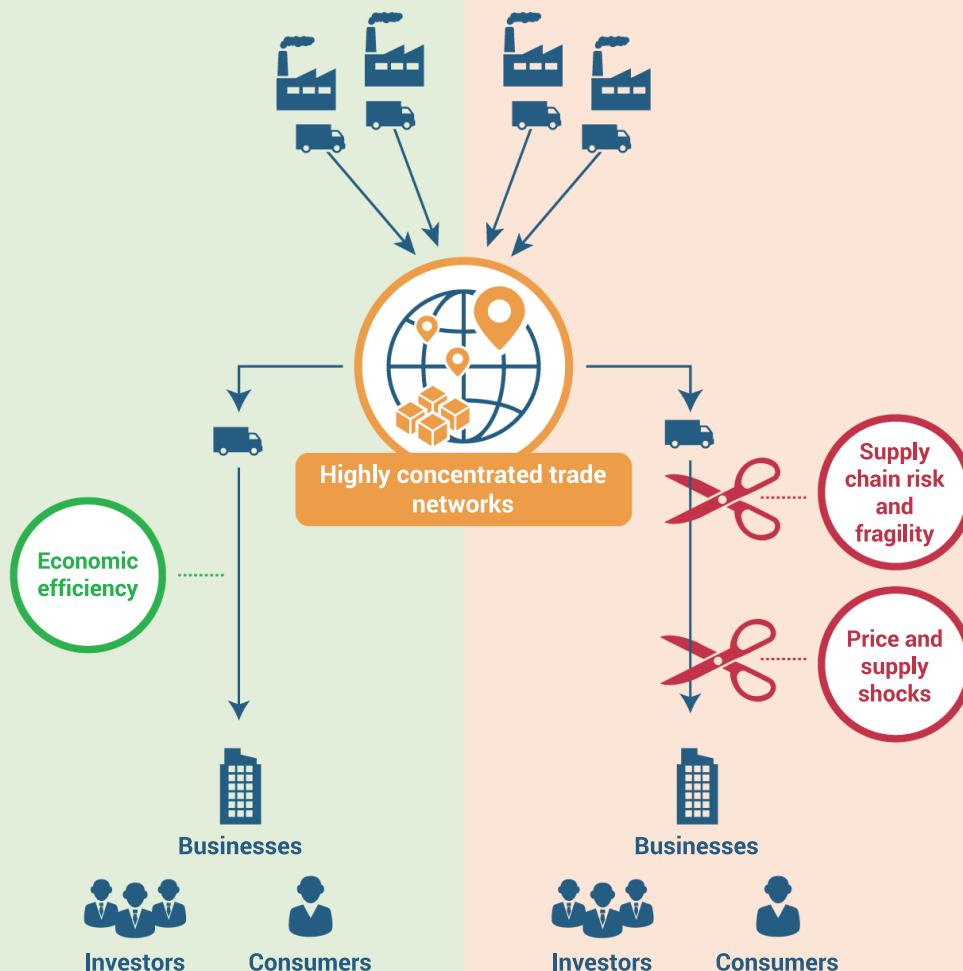
Hub economies play an important role in the trade network because they act as central nodes that facilitate exchange with other economies. There is a strong link between trade costs and the centrality of an economy: economies with low trade costs tend to occupy a hub position.

Trade Costs and Centrality Rank for Medical Supplies, 2020



... which have their upside and downside

Trade networks for some essential goods display a high level of centralization. These trade networks are highly concentrated, which drive economic efficiency, but may also lead to supply chain risk and fragility. This can make economies vulnerable to spillover effects from price and supply shocks, particularly from disruptions originating in hub economies.



What can economies do?

Economies need to take steps to reduce trade costs and improve resiliency of supply chain networks, particularly for essential products that are important for economic recovery and stability.



Invest in trade facilitation reforms and facilities to resolve bottlenecks



Focus efforts in preventing supply chain disruptions to risky and essential products



Strengthen policy coordination and regional cooperation