

The impact of Trade Tensions on Asia and the Pacific

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Highlights

- Tariff increases by the United States in 2018 have focused mainly but not solely on China.
- Although the trade war has been so far essentially bilateral, it has made the international trade environment less predictable and created significant risks and uncertainties.
- The current trade war is having detrimental impacts globally. Global GDP could fall by nearly \$150 billion with tariffs already implemented.
- In the Asia-Pacific region, the adverse impacts on China could drive the regional GDP down by \$43 billion. The adverse impacts could more than double in the worst-case scenario considered.
- While escalating trade war can put almost 9 million people out of work in the region, regional integration can add 12.5 million new jobs.
- Asia and the Pacific can weather the escalating trade war, if negotiation and implementation of regional trade integration initiatives are accelerated.
- As trade tensions and regional integration lead to resource reallocation, both within and across borders, complementary policies will, more than ever, become necessary. These should include policies to simplify and digitalize trade and improve the business environment, but also social protection, labour and education policies to support people negatively affected by changing trade patterns.

Introduction

The relatively dynamic global trade recovery that began in late 2016 is now threatened by trade tensions between the United States and other economies, particularly China. Increasing protectionism does not sit well with the universally accepted 2030 Agenda for Sustainable Development, in which trade is an important means of implementation and one of the 17 goals is to promote global partnership. The possible escalation of trade conflicts, as economies retaliate over each other's protectionist measures, has become

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Anthonin Levelu and Jianyuan Fu, graduate interns at TPFS, supported the preparation of the note. This note is based on Chapter 4 of the Asia-Pacific Trade and Investment Report (APTIR) 2018. Authors are grateful to Mia Mikic and other experts who had commented on the analysis during the preparation of APTIR 2018, which is available in full at: <https://www.unescap.org/publications/APTIR2018>.

a serious impediment to foreign trade and investment as engines of sustainable development, both in Asia and the Pacific, and globally.

The impacts of trade wars depend largely on their scale and scope as well as the policy uncertainties they generate. While the direct impacts of trade wars are largely limited to those economies involved, there is the possibility of spillover effects for third parties. Some spillover effects could be positive for some economies. For example, some economies may see market opportunities because of the redirection of trade and investment. Some economies may see terms of trade improvements if the loss of demand due to trade wars decreases the global price level of their imports more than their exports. However, economies are most likely to see negative spillover effects on their trade because of the loss of global demand. The adverse impacts will be even more disastrous if trade wars extend their scope – for example, from bilateral tit-for-tat actions to global protectionism, from goods to services, etc. In addition to direct trade effects, trade wars have additional detrimental effects on aggregate demand as they increase uncertainties. In particular, consumers may delay spending and businesses may defer their investments while they are waiting for a more predictable policy environment.

Against this backdrop, this study reviews the current tensions and their implication for the Asia-Pacific region. This note consists of three sections. Section A describes the current state of trade tensions. Section B then presents a computable general equilibrium (CGE) analysis of the potential economic, social and environmental impacts of different trade war and regional integration scenarios, followed by conclusions in section C.

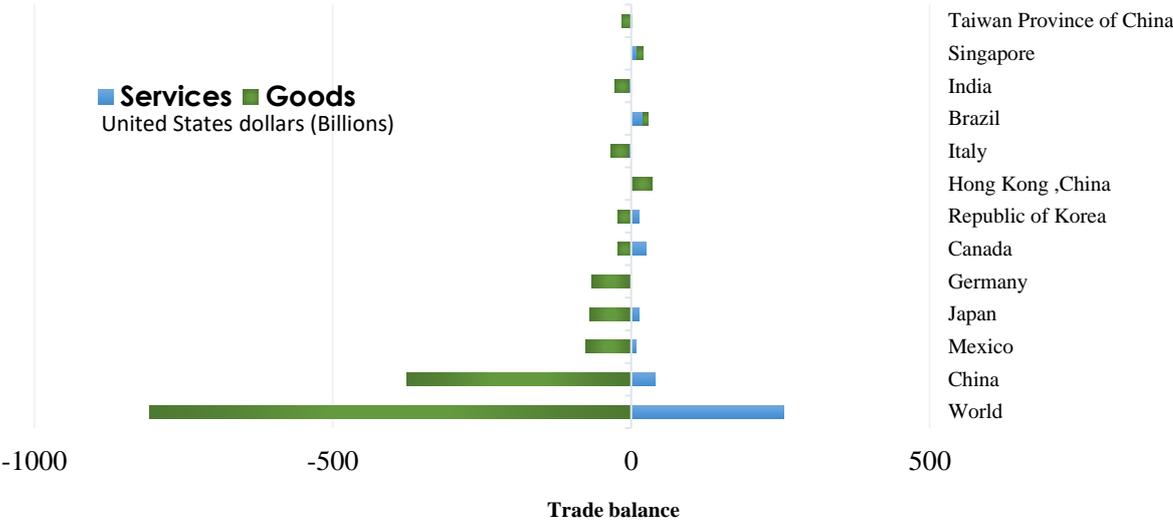
A. TRADE TENSIONS BETWEEN THE UNITED STATES AND CHINA: WHAT HAS HAPPENED SO FAR?

The growing scepticism towards globalization is increasingly reflected in the policy agendas of developed economies. The trend started with “Brexit” in the United Kingdom, political campaigns in other major European economies such as Germany and France, and – more importantly – the trade policy and actions of the new administration in the United States. An important indication is the United States Trade Representative (USTR) trade policy agenda for 2017 that sets out the principles that will drive policy actions by the United States administration. The agenda explicitly focuses on reducing trade deficits, renegotiating existing agreements and tackling perceived unfair practices (USTR, 2017). The United States, which is attempting to reduce merchandise trade deficits with targeted economies, has a services-trade surplus, but a large deficit of trade in goods (figure 1). In addition to China, in 2017 the other major trading partners of the United States with large merchandise-trade surpluses were Germany, Mexico, the Republic of Korea and Japan. Some of these economies have been alleged to have used unfair trade practices in certain sectors, and the United States has consequently imposed trade remedy measures, arguably as a negotiating tactic (Economist, 2018a; Kravchenko and Mikic, 2018).

In 2018, the United States invoked a series of unilateral tariffs on a targeted list of imported goods as trade remedy procedures. The first official action began in early 2018 with the global safeguard measures (Section 201 of the Trade Act of 1974) on solar panels and washing machines which imposed 20% and 30% tariffs, respectively, in the first year with the tariffs scheduled to be reduced by a half within four years. Although these safeguard measures affect essentially all economies exporting to the United States, China is among the largest exporters to the United States.

In March 2018, tariffs on steel at 25% and aluminium at 10% – which affect all economies – came into force following an investigation into the national security concerns of such imports (Section 232 of the Trade Expansion Act of 1962). The steel and aluminium measures as well as measures on solar panels and washing machines have affected other economies in addition to China. Although the steel and aluminium measures were seen as targeting China’s excess capacity, only 6% of the imports by the United States came from China in 2017 following the previous imposition by the United States of anti-dumping and countervailing duties on imports from China. The measures then affected other major exporters of steel and aluminium to the United States, including Canada, the European Union and Mexico. Those economies accounted for about 50% of the imports by the United States in 2017.

Figure 1: Merchandise and services trade balances of the United States with major trading partners, 2017



Sources: ESCAP compilation based on data from the United States Department of Commerce; and Bureau of Economic Analysis “U.S. International Trade in Goods and services”, August 2018. Available at <https://www.bea.gov/news/2018/us-international-trade-goods-and-services-august-2018>.

Similarly, to the action on steel and aluminium, the United States announced its national security investigation of the automotive sector in May 2018. The investigation is ongoing, and is expected to reach completion by early 2019. Tariffs on imported automobiles and auto parts will be increased to 25% if the investigation concludes that automotive sector imports impair national security. The potential tariffs on automobiles would cover imports of car and trucks valued at more than \$200 billion, not including auto parts. Any auto tariffs would affect the major exporters of automobiles to the United States such as Canada, the European Union, Japan, Mexico and the Republic of Korea. Despite the fact that the plan to impose tariffs has temporarily been put on hold, the looming tariffs on car imports have given the United States some leverage to negotiate bilateral trade agreements with those car exporting economies (see, for example, King, 2018, and Stearns, 2018).

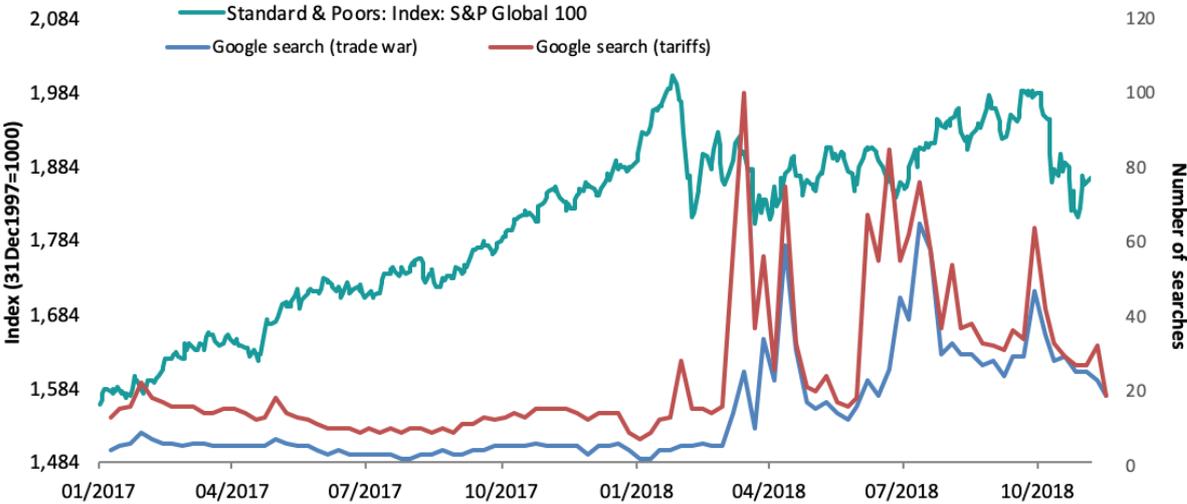
During the second half of 2018, trade tensions between the United States and China escalated. The United States imposed 25% tariffs on imports of goods from China specifically under the unfair trade practices related to technology transfer, intellectual property and innovation (Section 301 of the Trade Act of 1974). Major products affected by the tariff implementation thus far include: computers, telephones and machinery, computer parts, electrical machinery, furniture, and car parts. The current implementation of 25% tariffs on imports from China covers about half of the Chinese exports entering the United States¹. In response to the tariff increased by the United States, many of economies affected have begun implementing retaliatory actions, while also turning to WTO for dispute resolutions. For example, China and the Republic of Korea have filed a WTO Dispute case against solar panel tariffs imposed by the United States. The aluminium and steel tariffs have prompted retaliation from several economies including Canada, China, the European Union, India, Mexico and Turkey. In the case of retaliation by China, as of November 2018, China has implemented a “tit-for-tat” strategy by imposing tariffs ranging from 5% to 25% on \$100 billion out of \$130 billion worth of merchandise imports from the United States. According to China’s trade statistics, its retaliatory lists covered about two thirds of its imports from the United States in 2017. The goods mainly affected by retaliatory actions of trade partners were initially agricultural products, especially soybeans, pork, fruits and nuts. Intermediate and capital equipment were included in the list of tariff retaliation after trade tensions have escalated in the second half of 2018.

¹ The first round of tariff imposition took effect in July 2018, covering \$50 billion of imports from China in 2017. The second round covering \$200 billion of imports from China became effective in September. The United States has also threatened to include all imports from China. The President of the United States announced in September 2018 that the remaining \$267 billion of merchandise imports from China may also be included in the next tariff round

Retaliatory tariffs by Canada, the European Union and Mexico mainly target steel and aluminium, as well as symbolic American products such as whisky, motorcycles and pork. Tariffs by India focus on almonds, chemicals, aluminium and steel, and apples, while Turkey directs its higher tariffs at coal, nuts, paper, and plastics (Economist, 2018a). Notably not all notified retaliatory tariffs have been implemented thus far².

The “tit-for-tat” protectionist actions have created concerns worldwide. Uncertainty arising from policy changes can have a sizeable negative impact on global investment and economic activity. Firms may defer their investments because of the growing uncertainty over prospective trade and investment policies in their investment destinations and global markets. Similarly, households may increase precautionary savings and postpone consumption. An indication of the decreasing confidence was the flurry in Google searches for terms “trade war” and “tariff” in 2018, as noted in Kravchenko and Mikic (2018). After April 2018, the search for the term “trade war” increased five-fold (figure 2).

Figure 2: Growing concern over trade wars



Source: ESCAP compilation based on data from Google trends (<https://trends.google.com/trends/?geo=US>) and CEIC.

Another indication of decreasing confidence shown in figure 2 is the higher volatility in the global stock markets seen during 2018. The volatility in stock markets, in response to the growing concern over the protectionist actions as well as deterioration of the global trade and investment environment, could amplify the negative effects on consumption and investment. The agreement by the United States and China on the side-lines of the G20 summit on 1 December 2018 to temporarily delay any further bilateral tariff increases to negotiate a solution to their trade dispute was welcome news in that context.

B. THE POTENTIAL IMPACTS OF TRADE TENSIONS AND REGIONAL INTEGRATION

In order to gain more comprehensive insights on the potential impacts of trade tensions on the Asia-Pacific region, a computable general equilibrium (CGE) model is used to evaluate the economic, social, and environmental impacts of: (1) tariffs and retaliatory tariffs already notified or implemented at the time of preparing this report; (2) implementation of further tariff threats; (3) a potential decline in investment rate of return and a reduction in global consumer confidence as the trade wars and associated policy uncertainties persist. In addition, the CGE model is used to evaluate the impacts of implementation of RCEP, CPTPP and the European Union-Japan Free Trade Agreement (FTA), and how their

² As of December 2018, not all retaliatory measures notified to WTO have been implemented. For example, the retaliatory tariffs notified to WTO by India (see WTO notification G/L/1239, G/SG/N/12/IND/1), have not yet been implemented as per India Customs notification No. 77/2018 dated 1 November 2018, which postponed the implementation of retaliatory tariffs to 17 December 2018.

implementation could help mitigate the impacts from worsening trade conflicts. The economic impacts of the policy changes are captured through: (a) changes in GDP and trade levels; (b) the social impact through changes in levels of inequality and employment; and (c) the environmental impact through changes in CO₂ emissions.

The baseline year for the analysis is 2017 and the results are generated using an extended comparative static GTAP model to capture the effect of real wages on labour supply and examine employment outcomes. The model estimates the total economic impacts from a specific set of policy changes. The economic losses or benefits estimated may not happen instantaneously. It may take some time for them to materialize, with the ultimate outcome influenced in practice by other policies and mitigation measures that affected economies may put in place.³ The policy changes are modelled as follows:

Scenario 1 – Current tariff hikes by the United States and retaliations that have either already occurred or been notified to WTO in 2018 (“implemented tariffs”). In this scenario, Canada, China, the European Union, India, Indonesia, Japan, Mexico, the Republic of Korea, Turkey and the United States raise their tariffs as per their official notifications to WTO. The additional tariff rates range from 10% to 140%.

Scenario 2 – All tariffs implemented up to date (from scenario 1) as well as all threatened tariffs (“threatened tariffs”). The threatened tariffs are those mentioned in the economies’ official communiques, news, etc. but not yet notified to WTO or implemented. These include potential tariffs on cars and car parts (as a consequence of the United States Section 232 Auto Investigation – discussed earlier), as well as further escalating retaliatory tariffs between China and the United States.

Scenario 3 – In addition to all implemented and threatened tariffs, a 5% negative shock to expected rate of return on investment in economies experiencing declines in GDP, and a further worldwide 0.5% demand shock (“doomsday scenario”). The 0.5% demand shock is in line with modelling conducted by the World Bank (2018)⁴. Furthermore, following Malcolm (1998)⁵, investment risk increased uniformly to the extent of a 5% lower expected rate of return on investment in China, the United States, Canada and Mexico – economies that see their GDP decline under scenarios 1 and 2.

Scenario 4 – Baseline Regional Trade Agreements (RTAs): RCEP, CPTPP, European Union-Japan (“regional integration”). This scenario simulates the removal of all tariffs within upcoming/potential trade agreements in the region, i.e. RCEP, CPTPP and European Union-Japan FTA.

Scenario 5 – Doomsday scenario + RTAs (“doomsday with integration”). The “doomsday” scenario is combined with the “regional integration” scenario.

As a result of the implemented tariffs so far (scenario 1, “implemented tariffs”), global GDP is estimated to fall by 0.16%, or nearly \$150 billion. This is just \$10 billion short of the total official development assistance (ODA) given by the developed economies in 2016. In Asia and the Pacific alone, the decline is 0.12% of GDP, or \$43 billion. Notably, in absolute and relative terms, the United States experiences the largest decline, with an estimated decline of 0.65% of GDP, at more than \$120 billion. The United States stands to lose the most because it has engaged in trade conflicts not only with China, but also with other significant trade partners, most of whom have retaliated. The largest sectors to experience a decline in the United States in relative terms are oil seeds, plant fibres, construction, manufacturing, and mining of metal ores, uranium, gems and others. These sectors decline by an estimated 15%, 6.1%, 6.0%, 3.5% and 3.0%, respectively. In absolute terms, the declines in construction, other services, retail trade, motor vehicles and parts, and recreation services are expected to fall by \$84 billion, \$28 billion, \$26 billion, \$12 billion, and \$8 billion, respectively. In Asia and the Pacific, the biggest loser is China, with a 0.48% loss of GDP under scenario 1, at \$60 billion. Chinese sectors of electronic equipment, lumber, construction, fabricated metal products and other services are estimated to fall by 4.8%, 3.1%, 0.8%, 0.7% and 0.7%, respectively. In absolute terms, electronic equipment, construction, other services, lumber and non-metallic minerals fall by an estimated \$78 billion, \$24 billion, \$14 billion, \$12 billion and \$8 billion,

³ For further details, see Annex B, Chapter 4 in APTIR 2018 (<https://www.unescap.org/publications/APTIR2018>)

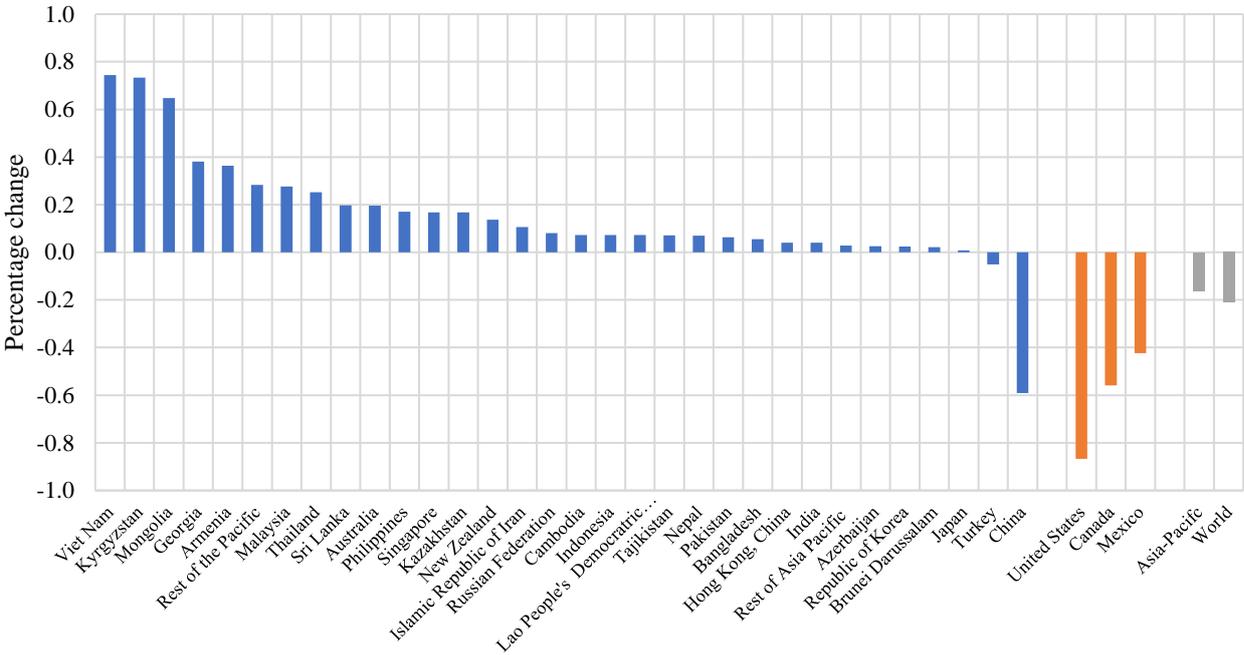
⁴ World Bank (2018).

⁵ Malcolm (1998).

respectively. If all the tariff hikes threatened but not yet undertaken in 2018 are indeed implemented (scenario 2), global GDP losses reach \$214 billion.

If we take into account the higher risks faced by investors and the loss of consumer confidence associated with an uncertain policy environment (scenario 3), global GDP losses rise to nearly \$400 billion. Asia-Pacific GDP losses rise from \$59 billion under scenario 2 to \$117 billion under scenario 3. Most of these losses are accounted for by economic losses in China and the United States, as in scenario 1 – see figure 3. Indeed, all other economies in the Asia-Pacific region see a rise in GDP, with the exception of Turkey, which records a slight decline. Viet Nam, Kyrgyzstan and Mongolia are all expected to benefit from the trade war to the tune of more than 0.5% of their respective GDPs. Importantly and somewhat paradoxically, these GDP gains come as net exports actually decrease in all economies except the United States, China, Mexico and Canada.

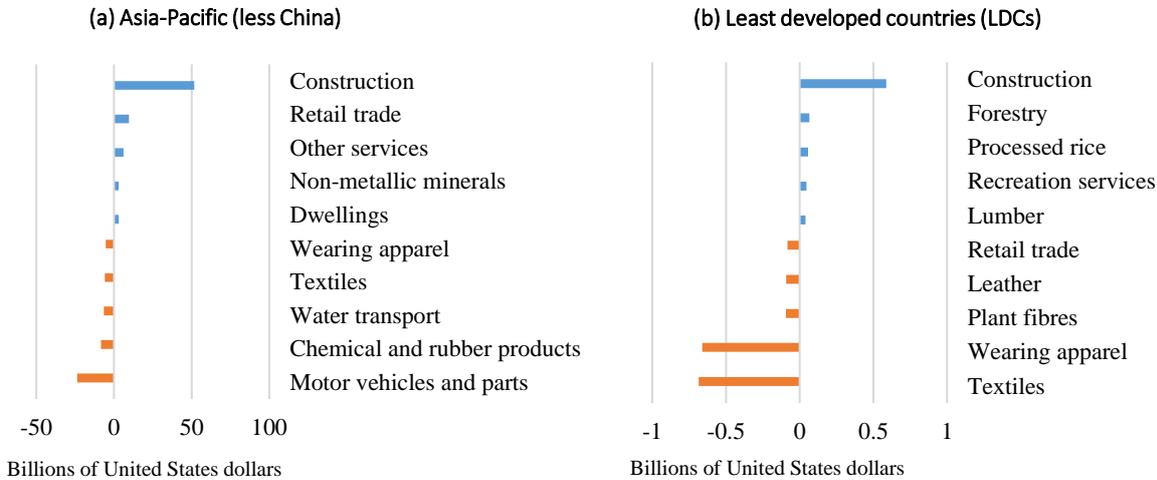
Figure 3: Change to GDP if threatened tariffs are implemented (Scenario 2)



Source: ESCAP calculations

To demonstrate the effects of trade disruptions, for example, Viet Nam’s exports to the European Union, Japan, China and the Republic of Korea experience the most significant declines. However, Viet Nam’s exports to the United States grow, with lumber, electrical machinery and electronic equipment, and textiles all expected to show significant increases. Imports to Viet Nam increase overall, most notably from China and, to a lesser degree, the United States, particularly by the electrical machinery and equipment sectors (from China) and plant fibres and electrical machinery (from the United States). The impact of trade tensions at the sectoral level vary widely at the regional level. Figure 4.a shows the top 5 growing and top 5 declining sectors in the region, excluding China, when both “implemented” and “threatened” tariffs are applied (scenario 2). Figure 4.14.b shows the same, but only for Asia-Pacific least developed economies (LDCs). Construction is expected to be the big winner in LDCs and the Asia-Pacific region whereas potential motor-vehicle tariffs are expected to affect the automotive and parts sectors the most in the region as a whole. Since LDCs are not large automotive or parts producers, sectors experiencing the most declines there are textiles, wearing apparel and plant fibres. Although the sectoral declines observed in LDCs are small, it may be noted that the sectors concerned are labour-intensive sectors characterised by a particularly high proportion of female workers.

Figure 4: Sectors most affected by implemented and threatened tariffs (Scenario 2)



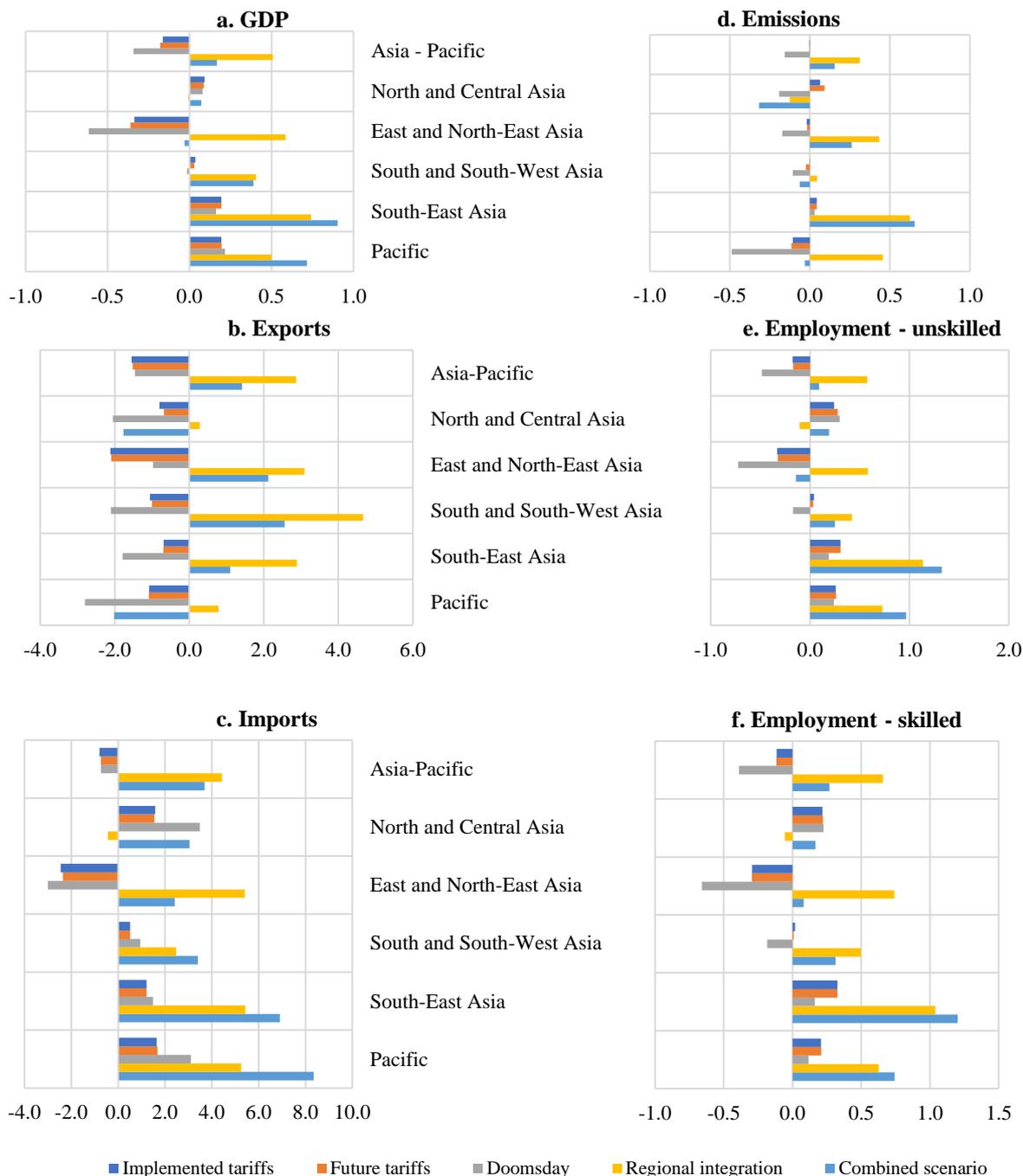
(Change in billions of United States dollars)

Source: ESCAP calculations

Figure 5.a summarizes the impact of all of the scenarios on GDP in subregions as well as Asia and the Pacific as a whole. While the overall effect on the Asia-Pacific region becomes progressively worse with severity of the trade frictions, the negative impact is primarily driven by East and North-East Asia which, in turn, is driven by the estimated results for China. All other subregions are actually better off in aggregate in scenarios 1 (“implemented tariffs”) and 2 (“threatened tariffs”); only the South and South-West Asia subregion experiences a slight decline in GDP under the third scenario (“doomsday”).

As already noted, the results themselves are not directly trade-driven – most economies experience declining real trade balances under scenarios 1, 2 and 3, leading to a real net exports decrease. The increase in GDP and, subsequently, welfare is manifested through three mechanisms, although they vary in significance among the individual economies.

Figure 5: Simulated results of trade tensions, regional integration and combined scenario



(Percentage change from baseline)⁶

Source: ESCAP calculations

First, there are “allocative gains” where governments collect more consumer, producer and import tax revenues. Next, there are “endowment gains” where higher economic activities lead to higher income, both for skilled and unskilled labour. Most significantly, this is all enhanced through improvements in terms of trade. As producers in the United States and China experience oversupply (due to blocked markets), this leads to declines in the prices of their exports to third markets. As such, prices for most imported products fall, benefitting both consumers and intermediate producers in third economies. In addition, exporters in economies not blocked by increasing tariffs experience increases in their export prices, as they fill in the gaps opened by the exclusion of China and the United States in respective markets.

⁶ Baseline figures are based on the GTAP 7 database, updated to 2017 based on IMF forecasts. See annex B for baseline figures.

Significantly, regional integration (scenario 4) promises a substantial boost to regional GDP and, even when combined with the “doomsday” trade war scenario, more than offsets regional GDP losses. This, however, is only true at the regional and subregional levels, with some economies in the region still experiencing negative GDP growth, most significantly China. As expected, regional integration boosts exports and imports in all scenarios to a great extent. Regional exports and imports increase by 2.9% (1.3% in combination with the doomsday trade war scenario), and 4.4% (3.8% in combination with the doomsday trade war scenario), respectively. Significantly, in Asia and the Pacific as a whole as well as in most subregions, trade gains from implementation of the mega RTAs are enough to offset negative effects on trade from even the worst trade war scenario considered (scenario 5). Notably, under the regional integration scenario, the North and Central Asia subregion actually experiences a small decline, as its economies are not part of any regionalization efforts considered under the scenario. This highlights the need to accord priority to integration efforts in order to ensure that trade is not diverted by forthcoming mega trade agreements. Emerging RTAs between the Eurasian Economic Union (EAEU) and a number of economies in East and South-East Asia are welcome in this regard.

Turning to impacts on the environment, the effects of the first two scenarios (implemented and threatened tariffs) are CO₂ neutral in the region. Due to declining trade levels and a significant economic contraction in China, the effects of the doomsday scenario (3) are actually positive, meaning that CO₂ levels will decline. In contrast, regional integration is expected to boost emissions as regional trade increases, even if the trade conflicts with the United States worsen (“doomsday with integration” scenario). As such, higher economic activity with no emission mitigation policies will inevitably lead to higher emissions; thus, complementary environmental policies will remain essential in channelling trade into sustainable development.

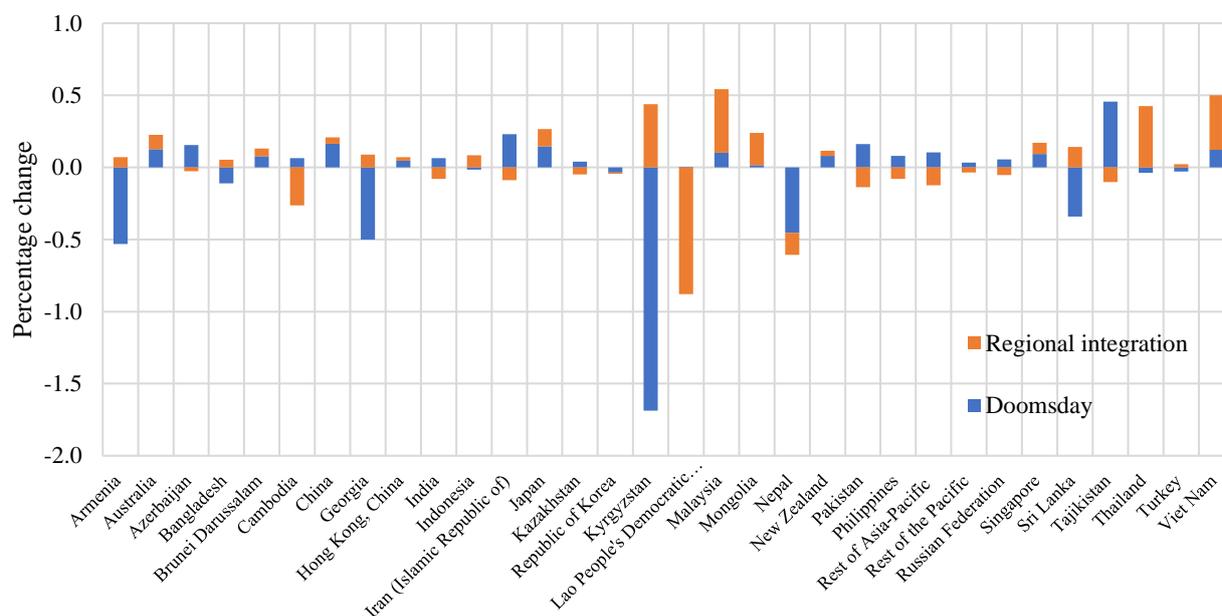
In terms of social impacts, both skilled and unskilled employment changes largely follow the overall pattern of economic activity described by GDP at subregional levels. A net loss of at least 2.7 million jobs can be expected in the Asia-Pacific region if threatened tariffs are implemented (scenario 2). If the continued trade conflicts impact investor and consumer confidence significantly, as modelled in scenario 3, net job losses rise to 8.9 million in the region. Regional job losses are primarily driven by losses in China, but other economies also experience total job losses, including Turkey and Bangladesh. Thirteen economies experience net job losses under the worst-case scenario. Sectors where unemployment rises in China include, in particular, the electrical equipment sector. Under scenarios 2 and 3, the sector, and consequently employment, in economies other than China that experiences the most precipitous decline is motor vehicles and parts, whereas construction (including building of houses, factories, offices and roads) experiences the most gains. The current tariff war (scenario 1) seems to affect disproportionately more unskilled workers, as the rate of job losses for unskilled workers is 66% higher than that for skilled workers under scenario 1. However, as the trade conflicts deepen under scenarios 2 and 3, the rate of job losses among skilled and unskilled workers narrows to 23%. It is notable that regional integration can add as many as 12.5 million jobs in the region, and when combined with the worst trade war scenario considered, overall, region adds more than 3.5 million jobs.

While net job losses are unsubstantial, millions of workers can expect their jobs to be displaced as global value chains are reshaped and economies restructured under the impact of the trade conflicts; as well as of regional integration. On average for the region as a whole, the overall effect of the doomsday and regional integration scenarios on inequality are largely insignificant, bringing about only a 0.01% increase in both cases⁷. The effect on inequality for most economies in the Asia-Pacific region is confined to a +/- 0.5% change band (figure 6). At the individual economy level, however, the effect is more pronounced in some economies that are more susceptible to production redistribution in the sectors affected, both by trade frictions and the trade integration effect. For example, electrical machinery and equipment – a sector that employs comparatively more skilled labour – experiences a significant decline in Kyrgyzstan under the doomsday scenario, while the retail trade sector (low-skill intensive) experiences gains, ultimately reducing inequality. At the same time, under the regional integration scenario the Lao People’s Democratic Republic experiences a surge in the construction sector (low-skill intensive), and marginal declines in a number of sectors employing high-skill labour. As such, integration efforts – as noted in the

⁷ Unweighted, excluding Kyrgyzstan as an outlier.

APTIR 2017 (ESCAP, 2017b, chapter 6) – must also be accompanied by social policies to ensure inequality does not widen due to significant changes in affected sectors.

Figure 6: Effect of trade tensions and regional integration on inequality



Source: ESCAP calculations.

Overall, the results show that Asia and the Pacific can weather the escalating trade war if the negotiation and implementation of regional trade integration initiatives are accelerated. The United States, a key party to trade frictions, stands to lose the most from these frictions – even if its trade deficit falls by an estimated 42%. At the same time, even with the implementation of RCEP and other RTAs considered, China will still stand to lose more than \$100 billion of its GDP and the region will see net export losses of over \$170 billion. As noted in the APTIR 2017 (ESCAP, 2017b), trade facilitation is one area that can bring significant gains. Annual figures suggest that for the Asia-Pacific region an additional 4.2% could potentially be added to the regional GDP by 2030 through trade facilitation and digitalization of trade procedures. Furthermore, the environmental impact analysis highlights the need for mitigation by complementary environmental policies.

C. CONCLUSION

Heightened trade tensions between the two largest economies in the world could have important implications for economies in the Asia-Pacific region. By reviewing policy developments globally and in the region, the trend of increasing restrictions is evident across the board from the rapid increase of restrictions on trade in goods, a persistently high restrictiveness on trade in services, and increasing reservations over investment. In addition, trade tensions also affect the dynamic of regional integration. On the one hand, the tensions are prompting the integration within Asia-Pacific economies as China and other economies appear to speed up their implementation of RTAs. On the other hand, Asia-Pacific economies are enhancing trade integration with economies outside the region as a means of diversifying their trade partners and balancing the dominance of the United States and China in the trade architecture of the region.

Although the United States-China trade war has an adverse impact on the world economy, the direct exposure of the Asia-Pacific region, except China, to the current tariff wars are generally limited. The indirect impacts from the tariff wars could, however, be much more significant. The conflict has already had ripple effects through backward and forward linkages in GVCs. For the immediate term, global trade flows are set to slow, as the United States-China tensions disrupt existing supply chains and dampen investor confidence. In the medium term, trade frictions between the world's two largest economies may

significantly affect the configuration and expansion of GVCs, which have been the major driver for the economic success of many economies in the region during the past three decades.

The CGE analysis presented above confirms that the overall economic impact of the trade tensions on the region is negative, although moderate in aggregate terms. Tariff increases already implemented only reduce regional GDP by 0.12%, or about \$40 billion. However, if the trade tensions worsen and investor confidence falls as envisaged in some of the scenarios, the adverse impacts could reach nearly \$400 billion at the global level, and exceed \$115 billion in Asia and the Pacific. In all cases, most of the regional GDP decline is driven by the adverse impacts on China, although net exports also fall in almost all other Asia-Pacific economies.

At the aggregate level, there is still a potentially serious downside in GVC redirection induced by trade tensions. Given that the location optimization in GVCs was driven by cost efficiency, any distortion affecting relocation decisions of multinational enterprises could create inefficiency-related losses both at the regional and global levels. In addition, the relocation of production will not be completed overnight, and short-term pains may be expected at the firm level in many economies as GVC maps are redrawn. Even if net job losses in the Asia-Pacific region from increasing trade tensions are moderate, millions of workers may be forced to move to different sectors as the trade architecture is transformed. Finally, effects of trade tensions on the environment and CO₂ emissions could also be negative, e.g. if assembly activities were to move from China to economies with lower environmental standards. As such, emission mitigation strategies as well as income re-distribution strategies for people negatively affected by trade frictions must be placed high on the policymakers' agenda. Overall, it is important to recognize how difficult it is to accurately estimate the impact of current trade tensions on sustainable development. Besides limitations inherent to the data and models, the policy changes associated with the trade tensions have been relatively unpredictable and constantly evolving. This policy uncertainty is probably what is most damaging for the region as a whole. In this context, a key finding of the analysis presented in this report is that deepening market integration in the region is an effective strategy for minimizing the adverse consequences of current and future trade tensions. Taking the Asia-Pacific region as a whole, positive trade impacts from regional integration could more than offset the negative effects from potentially worsening externally driven trade tensions. Asia-Pacific economies may therefore strive to complete negotiations of existing regional trade agreements as soon as possible. They may also consider proactive engagement in other potentially complementary trade-related regional cooperation and integration initiatives, such as the Framework Agreement on Facilitation of Cross-Border Paperless Trade in Asia and the Pacific⁸ and the Belt and Road Initiative, among others. Finally, they may work together on the pending WTO reform towards a universal, rule-based, open, non-discriminatory and equitable multilateral trading system, as already envisaged in SDG target 17.10 of the 2030 Agenda for Sustainable Development.

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