Clearing the Runway for Intra-Asia Trade

Summary of insights: Product Segments

Intra-Asia trade in four key segments – retail, industrial manufacturing and automotive, high-tech, and healthcare – is set to accelerate by 2030

This market summary provides an overview of some of the main insights on intra-Asia trade for four product segments as part of a larger study commissioned by UPS and developed by AlphaBeta entitled: "Clearing the Runway for Intra-Asia Trade: Key insights for unleashing the potential for intra-Asia trade by 2030." The 12 markets (i.e., "Asia-12") covered in this report include Australia, China, Hong Kong, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam. The purpose of this research is to offer key critical insights on the rise of intra-Asia trade and prospects for future growth through 2030, in the context of Asia's continuing economic growth and against the backdrop of increasing volatility in global trade relationships today. The findings from this research showcase the potential for intra-Asia trade to continue its rapid growth over the coming decade, and support governments and businesses in identifying key enablers for this opportunity and steps to capture the potential. This summary is without prejudice to the status of or sovereignty over any territory or boundary. In cases where China is referred, it predominantly refers to mainland China. For the full set of insights, including data sources and methodology, please refer to the full report at: https://about.ups.com/sg/en/home.html

Top insights on intra-Asia trade by segment

1. **Retail – Set for take off:** Trade in this segment could more than double in value by 2030, thanks to the rise of e-commerce and a larger Internet population within the region. China will continue to play a key role in shaping retail trade, while Australia's and the Philippines' retail trade could grow significantly.

2. **Industrial manufacturing and automotive (IM&A) – A favourable environment for greater trade:** Trade could more than double in value by 2030, supported by trade deals and greater economic integration across 12 key Asian markets (the "Asia-12"). China is likely to remain at the heart of this trade, while Australia's, the Philippines', and Indonesia's IM&A trade could grow rapidly.

3. **High-tech – Strong long-term growth prospects:** Continued digitalisation and supportive trade policies across the Asia-12 will accelerate growth in this segment, which is the largest by value in Asia today. China will remain crucial in terms of overall value in 2030 while ASEAN markets such as Thailand, Philippines, and Indonesia will experience growth in this trade segment.

4. **Healthcare – Resilient growth in the coming decade:** A supportive trade environment and strong demand prospects could treble trade growth in this segment by 2030. The Philippines could see rapid growth, leveraging its position as a new manufacturing hub, while China's healthcare trade will remain stable and resilient.

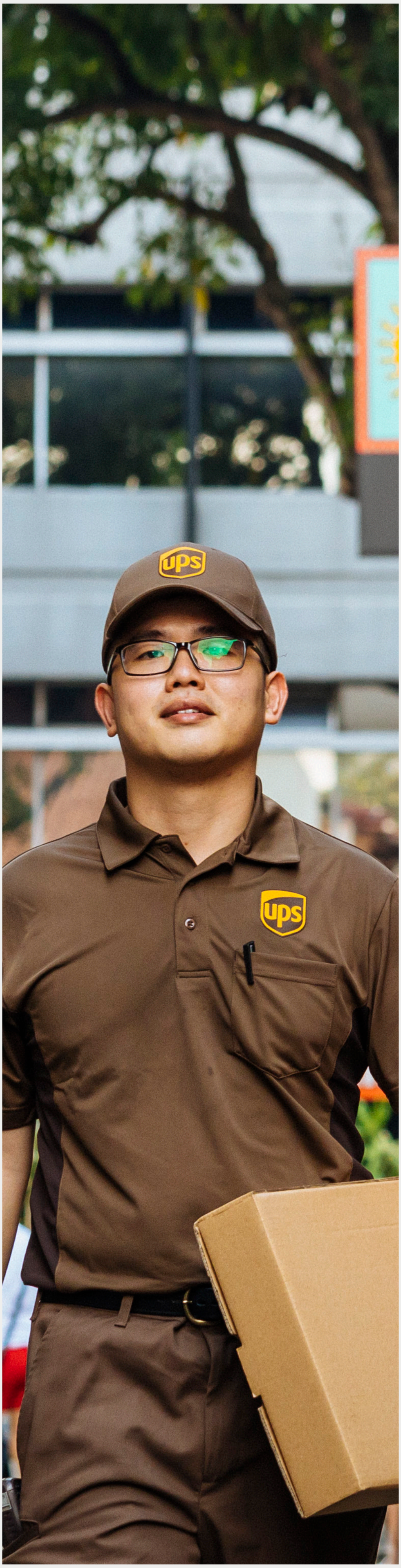
Top takeaways for businesses trading in these segments

1. **Plan for both opportunities and headwinds by diversifying supply chains.** Businesses should diversify their trade portfolios by incorporating high-value and high-growth trade routes as well as hedging against headwinds by investing in resilient routes.

2. **Digitalise comprehensively.** Trade is rapidly moving online, technologies to improve production and supply chain productivity are becoming a comparative advantage, and paperless trade is becoming a reality.

3. **Leverage ambitious trade deals and advocate for trade-supportive policies.** Businesses should understand how best to utilise provisions in new trade agreements to their advantage, including tariff reductions, customs process improvements, and support for micro-, small-, and medium-sized enterprises (MSMEs). Businesses can also collaborate together through trade associations and/or chambers of commerce with governments and multilaterals to advocate for further trade facilitation in their segments.

4. **Partner with and integrate MSMEs into regional supply chains.** Larger businesses should provide a platform for MSMEs to participate further in trade to unlock mutual benefits by providing finance, consolidating supply chains, promoting e-commerce, and creating tools to help navigate customs and shipping requirements.



Intra-Asia trade is driven by four key product segments

Trade within Asia is critical to global flows, and 12 markets (the "Asia-12") are critical to trade in Asia.[i] As Asian markets become the global epicentre for new consumer demand, building off a sustained period of economic growth and improvements in standards of living, trade lanes within Asia are gaining importance. Already, two-thirds of Asia's contribution to global trade is attributable to intra-Asia trade. The Asia-12 account for 88% of intra-Asia trade today, with China alone accounting for 30%, and emerging hubs such as Vietnam gaining prominence.

Four key product segments account for the lion's share of this trade today. These are – (1) retail; (2) industrial manufacturing and automotive (IM&A); (3) high-tech; and (4) healthcare.[ii] These segments accounted for 75% of intra-Asia trade in 2020 (Exhibit 1); being generally of higher value and traded via air freight. The high-tech segment drove the biggest increase thanks to accelerated digitalisation, increasing by 4.4% annually between 2011 and 2020. During the pandemic, this segment proved to be resilient, growing by 5.2% from 2019 to 2020 while trade in other segments declined.

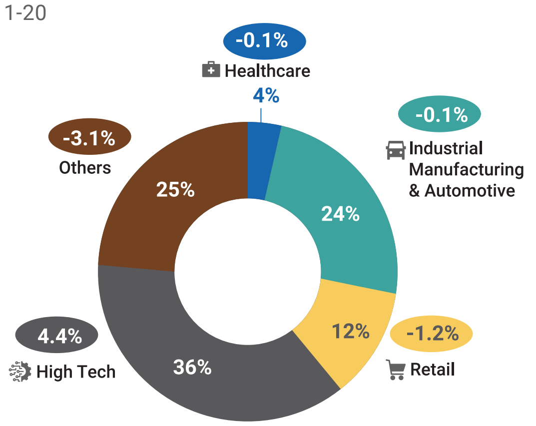
The opportunity for trade within the Asia-12 to expand in these segments by 2030 is immense. Trade could potentially double in value from USD6.4 trillion in 2020 to USD13.5 trillion in 2030, building off a range of strong economic growth fundamentals, including a growing and vibrant middle-class, rapid urbanisation, ambitious trade deals, economic specialisation, widespread digitalisation, and favourable investment in supply chain infrastructure and innovation. However, a range of barriers to trade that remain today could potentially intensify by 2030, including tariffs, lack of harmonised standards, and complex customs administration. These trends are expected to be fuelled by geopolitical disputes, supply chain shifts, uneven investment in infrastructure across the region, and poor engagement of micro-, small- and medium-sized enterprises. If these barriers remain unaddressed, trade growth could be suppressed to USD6.9 trillion by 2030. A summary of these scenarios is presented in Exhibit 2. This document contains a summary of insights for each of the four segments covered. For more information on the drivers behind these insights, and the methodology used in estimating future trade, please refer to the full report.

Exhibit 1

Four product segments accounted for 75% of intra-Asia trade in 2020

Share of intra-Asia trade in 2020, by product segment.

Percentage share of total value; Bubble: CAGR in value, 2011-20

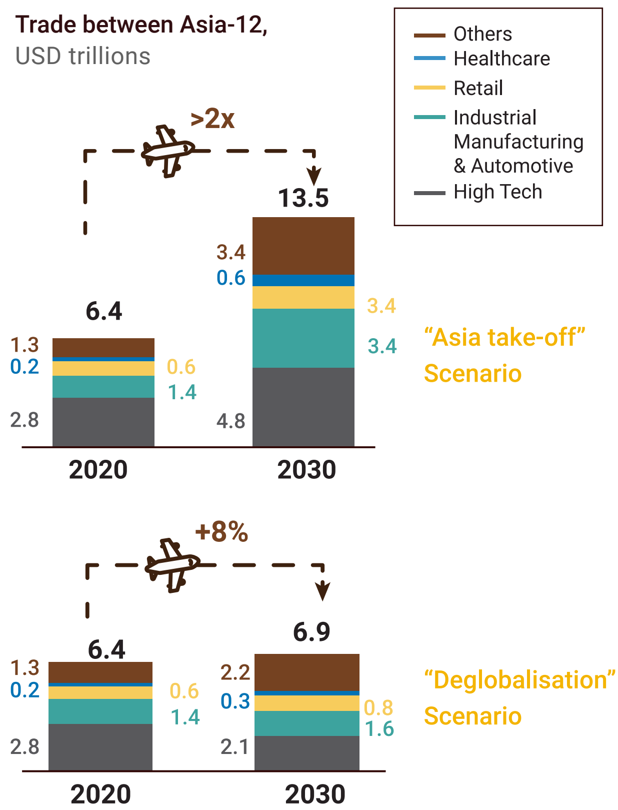


SOURCE: ITC, AlphaBeta analysis

Exhibit 2

Trade among the Asia-12 could double or stagnate by 2030

Trade between Asia-12,
USD trillions



Note: The methodology for these estimates can be found in the Appendix of the main report.
SOURCE: ITC, AlphaBeta analysis

i. These 12 markets include Australia, China, Hong Kong, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam.

ii. *Retail*: Apparel, consumer goods, jewelry and cosmetics manufacturing; *Industrial Manufacturing and Automotive (IM&A)*: Tier 1–5 parts manufacturing, business-to-business (B2B) e-commerce, industrial machinery and assembly, and industrial components; *High-tech*: Smart devices, work-from-home gadgets, semiconductors and constituting components; *Healthcare*: Medical devices, optical devices, and pharma/biopharma products (such as vaccines and pharmaceutical chemicals). For a full list of Harmonised System (HS) commodity codes included under each segment, please refer to the Appendix of the full report.

Retail segment: Set for take-off

Trade in the retail products segment in Asia stagnated prior to the pandemic due to the impact of offsetting trends. Growth in trade of retail goods within the Asia-12 was flat between 2011 and 2019 – despite the e-commerce boom, economic growth remained uneven post the Great Recession at the turn of the previous decade as incomes across the economies stagnated. The segment then fell by 9.5% in 2020 due to the COVID-19 crisis. While e-commerce companies saw record growth during the pandemic, many brick-and-mortar retailers saw sharp drop-offs in exports as restrictions on business interaction and labour limited the movement of goods, compounded by slower processing of imports that prevented retail purchases from reaching consumers on time.[1]

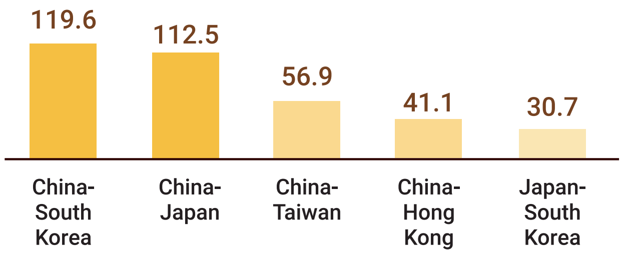
However, the past decade has also laid the foundations for growth in this segment to soar, which will be buoyed by favourable economic growth across Asia in the coming decade. As more businesses and social interactions move online and consumer electronics and e-commerce become more the norm, consumer/producer cross-market access will only strengthen in key trade lanes. For instance, trade between ASEAN and China increased by 10.6% annually between 2011 and 2020, reflecting the impact of e-commerce on retail, despite declines in other markets. Nearly 700 million people in Asia Pacific will join the Internet population by 2025.[2] Additionally, a survey of Internet users in Indonesia, Thailand, the Philippines, and Singapore revealed that at least 80% make some form of retail purchases online.[3] Trade deals such as the Regional Comprehensive Economic Cooperation (RCEP) also include provisions to promote e-commerce trade by enabling paperless trading, incorporating measures for consumer protection, and supporting cross-border transactions.[4] National e-commerce growth plans, including that of Thailand's, could further provide a strong boost to MSMEs, which can leverage e-commerce to reduce the cost of expansion and access more markets.[5] The data presented in Exhibit 2 shows that retail trade could nearly triple, building off these trends.

There are a number of high-value, high-growth, and resilient trade routes in the retail segment. Exhibit 3 covers the top five trade routes in each of these areas. China constitutes four of the top five trade lanes by value, while Australia's, the Philippines', and Thailand's retail trade could grow significantly. Retail trade is "sensitive", i.e., may decline in the "Deglobalisation" scenario, but there remain resilient trade routes that could still grow despite headwinds, particularly between China, Japan, and Korea.

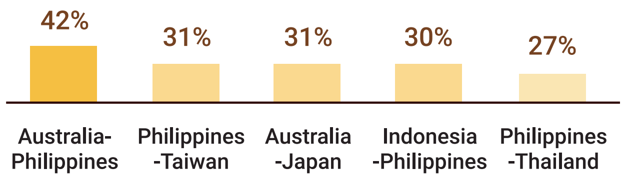
Exhibit 3

Retail segment: Summary of high-value, high-growth and resilient trade routes in 2030

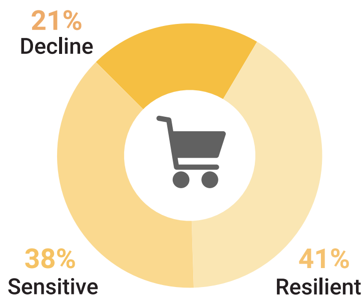
Top 5 projected trade routes in 2030 by value[1],
USD bn



Top 5 projected trade routes in 2030 by growth[1],
Annual growth rate 2020-30



Share of intra-Asia-12 by degree of resilience[2],
Percentage of segment trade value in 2020



Top 5 resilient trade routes by value	
	1. China – Japan
	2. China – Korea
	3. Japan – Korea
	4. China – Taiwan
	5. China – Thailand

1. In "Asia take-off" or optimistic growth scenario.
2. Figures represent a share of trade value in 2020 that is forecasted to be under either the resilient, sensitive, or decline category in 2030. Resilient trade refers to trade routes that may expect positive growth in either "Asia take-off"/optimistic growth or "Deglobalisation"/pessimistic growth scenarios, while sensitive trade refers to trade routes that may see positive growth only in the "Asia take-off" scenario. Declining trade refers to trade routes that may see slight contractions in either scenario.

Note: The methodology for these estimates can be found in the Appendix of the main report.
SOURCE: ITC; AlphaBeta analysis

IM&A segment: A favourable environment for greater trade

Trade in the IM&A segment saw steady growth in the past decade but was also stymied by the pandemic. IM&A is the second-largest segment for intra-Asia trade and is a pillar of growth for many Asia-12 economies, such as Vietnam, Malaysia, and Thailand. Trade of IM&A goods within the Asia-12 grew by 0.6% annually between 2011 and 2019 but dipped by 7% in 2020 due to social distancing restrictions on workplaces, factories, and migrant labour.

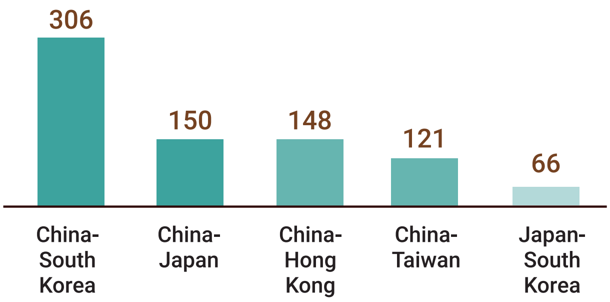
The Asia-12 markets will look to consolidate their manufacturing growth in the coming decade, leveraging favourable trends in regional integration and buoyed by supportive policies. Further economic integration between ASEAN members as well as ambitious trade deals like RCEP and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) are expected to alleviate many critical barriers to further trade in this segment. This includes barriers in the form of tariffs as in Malaysia and Indonesia, certifications as in the Philippines, and licensing fees as in Vietnam. Continued investment by governments in their manufacturing capabilities could also boost IM&A trade. For example, the Vietnam government's New National Industrial Policy, launched in 2020, seeks to leverage foreign investment, transformative technologies, and tax incentives to establish Vietnam as the go-to manufacturing hub in Asia.[6] The Philippines' commitment to enhancing electric vehicle production capabilities and its deeper economic integration with Australia will drive automotive trade in the near term. Products and supply chains are also likely to become more cost-effective. As of 2021, an estimated 60% of all manufacturing supply chain players have invested in technologies that could yield significant productivity improvements.[7] The data presented in Exhibit 2 shows that IM&A trade within the Asia-12 could more than double by 2030 as a result of this favourable environment.

There are a number of high-value, high-growth, and resilient trade routes in the IM&A segment. Exhibit 4 covers the top five trade routes in each of these areas. China will continue to play a key role in the manufacturing supply chain and should continue to be at the forefront of businesses' trade strategies. It is expected to account for the top four trade routes in terms of projected value by 2030, as well as four of the top five most resilient trade routes. In addition, trade routes between Australia and Indonesia as well as Australia and the Philippines offer firms strong growth potential in the coming decade.

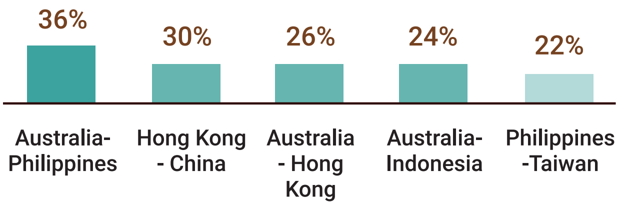
Exhibit 4

IM&A segment: Summary of high-value, high-growth and resilent trade routes in 2030

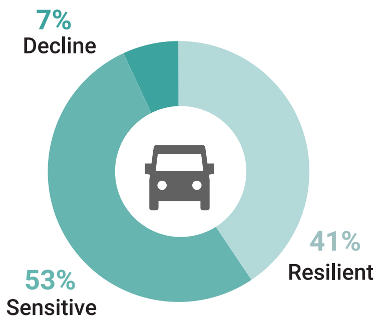
Top 5 projected trade routes in 2030 by value[1],
USD bn



Top 5 projected trade routes in 2030 by growth[1],
Annual growth rate 2020-30



Share of intra-Asia-12 by degree of resilience[2],
Percentage of segment trade value in 2020



Top 5 resilient trade routes by value

1. China – Korea
2. China – Taiwan
3. China – Vietnam
4. Japan – Korea
5. China – Indonesia

1. In "Asia take-off" or optimistic growth scenario.
2. Figures represent a share of trade value in 2020 that is forecasted to be under either the resilient, sensitive, or decline category in 2030. Resilient trade refers to trade routes that may expect positive growth in either "Asia take-off"/optimistic growth or "Deglobalisation"/pessimistic growth scenarios, while sensitive trade refers to trade routes that may see positive growth only in the "Asia take-off" scenario. Declining trade refers to trade routes that may see slight contractions in either scenario.

Note: The methodology for these estimates can be found in the Appendix of the main report.

SOURCE: ITC; AlphaBeta analysis

High-tech segment: Strong long-term growth prospects

Trade in the high-tech goods segment in Asia experienced rapid and resilient growth in the past decade. The high-tech segment accounts for the largest share of intra-Asia trade – 36% in 2020 – and trade within this segment in the Asia-12 grew by 4.4% annually between 2011 and 2020. It is a key growth engine for many Asia-12 economies, including Singapore, Vietnam, Taiwan, Malaysia, and the Philippines. It is also the only segment that experienced growth during the pandemic, at 5.2% in 2019-20. This is mainly explained by the acceleration of digital adoption by both businesses and consumers during COVID-19.

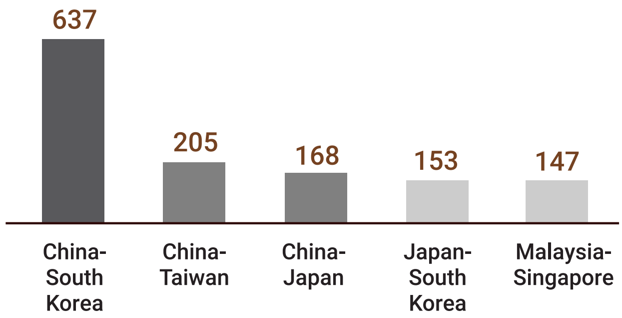
Continued digitalisation and supportive trade policies will encourage further growth in the high-tech segment across the Asia-12. Digitalisation will accelerate across the region as behavioural changes spurred by the pandemic become permanent and promote the widespread use of digital technologies.[8] Consequently, demand for manufacturing and consumer technology products will increase, supported by e-commerce, buoying trade in this segment. For instance, automation technologies are now commonplace across the entire manufacturing process in electronics,[9] where sales of robots surpassed those in the automotive industry in 2021.[10] High-tech goods are also expected to receive a boost from ambitious regional trade deals. The RCEP is expected to eliminate tariffs on imports of display screen manufacturing equipment in South Korea by the tenth year of the agreement, instead of tariff levels between 3-8% at present.[11]

High-value, high-growth, and resilient trade routes can be found within the high-tech segment. Exhibit 5 covers the top five trade routes in each area. China is expected to continue shaping trade flows of high-tech goods and could account for the three largest trade routes in terms of value. Australia, on the other hand, accounts for four of the top five fast growing trade lanes. The high-tech segment appears to be most susceptible to headwinds, with 43% of its value today expected to decline across both scenarios by 2030 and only 28% remaining resilient. High-tech trade could therefore concentrate in specific trade routes, such as China-ASEAN where trade could grow in value in a Deglobalisation scenario despite segment value falling. At the same time, ASEAN markets may slowly move toward intra-ASEAN trade for electronics production, boosting the sector's trade value by 2030.[12] A driver of these sensitivities could be the impact of geopolitical disputes, which have in the past resulted in sharp contraction of trade, including in the early years following the Senkaku/Diaoyu Islands dispute (2012-14) between China and Japan. Investments in semiconductor manufacturing are frequently impacted by geopolitical tensions, including in the ongoing tensions between the US and China, which have led to Japan and South Korea reshoring parts of their semiconductor value chain.[13]

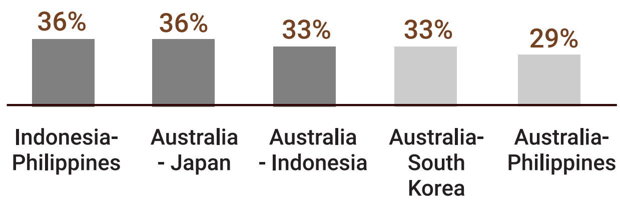
Exhibit 5

High-tech segment: Summary of high-value, high-growth and resilent trade routes in 2030

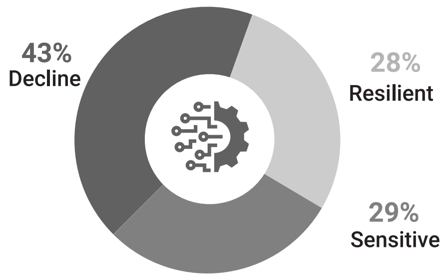
Top 5 projected trade routes in 2030 by value[1],
USD bn



Top 5 projected trade routes in 2030 by growth[1],
Annual growth rate 2020-30



Share of intra-Asia-12 by degree of resilience[2],
Percentage of segment trade value in 2020



Top 5 resilient trade routes by value	
	1. China – Korea
	2. China – Japan
	3. Malaysia – Singapore
	4. Korea – Taiwan
	5. Japan – Korea

1. In "Asia take-off" or optimistic growth scenario.
2. Figures represent a share of trade value in 2020 that is forecasted to be under either the resilient, sensitive, or decline category in 2030. Resilient trade refers to trade routes that may expect positive growth in either "Asia take-off"/optimistic growth or "Deglobalisation"/pessimistic growth scenarios, while sensitive trade refers to trade routes that may see positive growth only in the "Asia take-off" scenario. Declining trade refers to trade routes that may see slight contractions in either scenario.

Note: The methodology for these estimates can be found in the Appendix of the main report.

SOURCE: ITC; AlphaBeta analysis

Healthcare segment: Resilient growth in the coming decade

Trade in the healthcare product segment grew steadily in the past decade before being undercut by the pandemic. Trade within the Asia-12 grew by 0.8% annually between 2011 and 2019. The pandemic caused a sharp decline of 10% in trade value in 2020, with restrictions on exports imposed by governments as well as a slowdown in production.[14] This is despite demand for vaccines and medicines related to COVID-19 surging during the same year. The majority of the drop in value was attributed to organic chemicals, the largest healthcare product in terms of value. Factory closures and trade restrictions meant demand for organic chemicals slumped, leading to this sub-segment falling by 16% over the same period.[15]

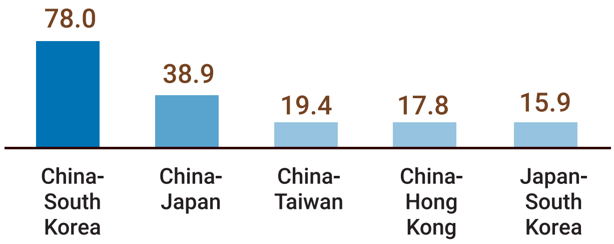
A supportive trade environment and strong demand prospects could accelerate healthcare segment trade post-pandemic. Shifting demographics toward an ageing population and a health-conscious consumer base could create long-term demand for medical goods within the Asia-12 markets.[16] Continued investment in medical device manufacturing capabilities will enable economies to capture this opportunity. The Philippines is positioning itself as a regional medical device hub, with a growing presence of foreign medical device manufacturing companies enabling the economy to move up the value chain of production.[17] In addition, healthcare businesses are also leveraging digital tools that enable them to effectively respond to changes in demand to support stable export revenues. For example, China-based healthcare device manufactures are utilising the e-commerce platform Alibaba to directly connect with buyers in Asia and globally, providing manufacturing details digitally such as trade capacity and quality management processes, earning trust and facilitating export growth.[18] Data presented in Exhibit 2 illustrates how trade of healthcare goods within the Asia-12 could treble by 2030, supported by these trends.

There are multiple trade routes that offer a source of high-value, high-growth, and resilient growth within the healthcare segment. Exhibit 6 details the top five trade routes in each of these areas. China is expected to play a critical role in shaping trade flows of healthcare goods within the region and could account for the top four trade routes in terms of value and four of the top five resilient trade routes. At the same time, the Philippines is expected to take a greater role in healthcare trade and could experience rapid growth in trade with Hong Kong and Australia in particular.

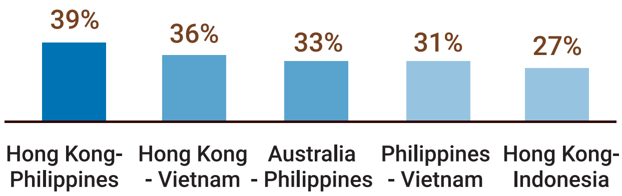
Exhibit 6

Healthcare segment: Summary of high-value, high-growth and resilent trade routes in 2030

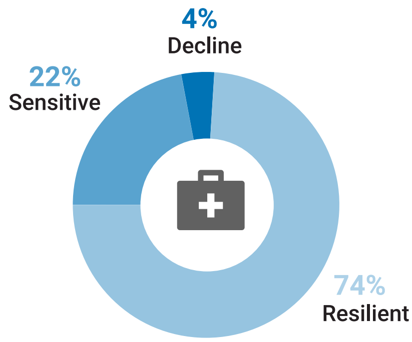
Top 5 projected trade routes in 2030 by value[1],
USD bn



Top 5 projected trade routes in 2030 by growth[1],
Annual growth rate 2020-30



Share of intra-Asia-12 by degree of resilience[2],
Percentage of segment trade value in 2020



Top 5 resilient trade routes by value	
	1. China – Korea
	2. China – Japan
	3. China – Taiwan
	4. Japan – Korea
	5. China – Thailand

1. In "Asia take-off" or optimistic growth scenario.
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Note: The methodology for these estimates can be found in the Appendix of the main report.

SOURCE: ITC; AlphaBeta analysis

Endnotes

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