



► ILO Brief

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COVID-19 and multinational enterprises: Impacts on FDI, trade and decent work in Asia and the Pacific*

Key points

- The COVID-19 crisis has had a strong impact on enterprises based in the Asia and the Pacific region or trading and investing within it. Multinational enterprises and their supply chains have been heavily affected, with millions of workers suffering adverse impacts.
- Foreign direct investment (FDI) into and out of the Asia and the Pacific region was hit hard in 2020. Inward greenfield FDI dropped by 36 per cent in 2020 relative to 2019, which has important implications for the number of jobs created through such investments. The drop was steeper for FDI coming from outside the region than for intraregional FDI. Outward greenfield FDI plunged by 38 per cent.
- International trade with and within the Asia and the Pacific region has also plummeted during the COVID-19 crisis. Trade in goods recovered somewhat in the third quarter of 2020, with year-on-year growth in export values for the region reaching a positive rate of 2 per cent, driven mainly by a strong rebound in China. However, import growth was sluggish, with a negative rate of -6 per cent reported for the third quarter of 2020 relative to the previous year. Moreover, trade in services has remained especially depressed, presenting a year-on-year decline of 26 per cent in the third quarter of 2020.
- The decreases in FDI and trade are indicative of the increased uncertainty and substantial supply chain disruptions faced by enterprises in the region. The crisis has put the spotlight on persisting inequalities and decent work deficits with regard to wages, stability of employment, occupational safety and health, and freedom of association. Vulnerable population groups such as women, young people and migrant workers have been disproportionately affected.
- Policies and initiatives at the international, regional and national level are required to support the transition towards more responsible and resilient supply chains and mitigate the negative crisis impacts on workers. Some examples include the “COVID-19: Action in the Global Garment Industry” coalition, the ASEAN Comprehensive Recovery Framework, and industry-specific tripartite task forces set up at the national level in some countries. Sustainable development chapters and labour provisions in trade and investment agreements can also help to ensure better outcomes for workers, especially in the aftermath of the crisis.
- As highlighted by the ILO Centenary Declaration for the Future of Work (2019), “social dialogue contributes to the overall cohesion of societies and is crucial for a well-functioning and productive economy”. In the context of the COVID-19 crisis, such dialogue is key to designing effective policies for a human-centred, robust and broad-based recovery. Not only governments but also employers’ and workers’ organizations have a key role in the crisis response.

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► Introduction

The COVID-19 crisis has had a strong impact on Asia and the Pacific, affecting enterprises based in the region or trading and investing within it. These enterprises, including large multinational enterprises and micro, small and medium-sized enterprises, had to put in place stringent measures to prevent the spread of the novel coronavirus. Many of them were or are still forced to halt part of their operations as a result of temporary workplace closures mandated by some governments in the region on the one hand, and of supply chain disruptions on the other. In some cases, changing demand patterns have compelled enterprises to shift or repurpose their production processes. In others, enterprises have had to find completely new ways to operate in a challenging and uncertain context. These challenges are also affecting trade and foreign direct investment (FDI) flows, which in turn has adverse impacts on the world of work, thereby contributing to the toll of this crisis on workers and livelihoods, and counteracting poverty reduction efforts.

The purpose of this brief is first of all to provide an overview of the impact that the COVID-19 crisis has so far had on FDI and trade in the Asia and the Pacific region. It then discusses the associated challenges for multinational enterprises and decent work, together with a number of policy options to promote decent work in both the short and the long term.

Multinational enterprises and their supply chains have been heavily impacted

The COVID-19 crisis has led to a general climate of economic uncertainty and lack of investor confidence. This has had negative consequences for trade, to which multinational enterprises (MNEs) generally make a significant contribution. It has also had adverse impacts on FDI, one of the main factors determining how MNEs operate – in particular whether they decide to expand their business in a given country or to relocate their

production (or parts thereof) to another; both decisions can have a considerable impact on jobs.

The Asia and the Pacific region, which accounts for 42 per cent of global gross domestic product (GDP), is an important hub for MNEs. The region is home to 21 of the top 100 non-financial MNEs worldwide, which altogether employ nearly 5.3 million workers (UNCTAD 2020), and the number of Asia-Pacific MNEs on this list has been steadily increasing over the past few years.¹ Even though the region has fared better than others in limiting the health impact of the COVID-19 crisis, the economic impact has been significant. Economic growth had decelerated already before the crisis, from 5.1 per cent in 2018 to 4.4 per cent in 2019, driven to a great extent by a decline in trade and investment, and also by greater macroeconomic uncertainty. The COVID-19 crisis caused the Asia-Pacific regional economy to shrink, as reflected in a negative growth rate of –2.2 per cent in 2020 (ILO 2020a).

While MNEs, thanks to their typically greater financial resources and capacities, tend to cope better with the vicissitudes of business cycles than smaller firms, this does not imply that they – and their workers – have been immune to the adverse impacts of the current crisis. Moreover, any negative impacts on MNEs can have considerable ramifications for their supply chains as well. Some sectors in which MNEs have a strong presence, including accommodation and food services, retail, construction and manufacturing, have seen dramatic losses in economic activity. Other sectors, such as transport and storage, or real estate, business and administrative activities, have fared slightly better, but are nevertheless struggling (ILO 2021a).²

Against this backdrop, governments in Asia and the Pacific have been facing a double challenge: to contain the pandemic while at the same time seeking to reduce its economic and social impacts and to sow the seeds of a sustainable recovery. The nature of the policy responses adopted by individual countries will in large part determine the success and sustainability of the recovery,

¹ See previous editions of the annual *World Investment Report* issued by the United Nations Conference on Trade and Development (UNCTAD). Each edition includes a list of the largest 100 non-financial MNEs worldwide.

² Exceptions are information and communication, and financial and insurance activities, which are sectors that have actually experienced an increase in employment.

and whether inequalities within and across countries in the region increase or decrease in the wake of the crisis.

Structure of the brief

The next two sections provide evidence on the impact of the COVID-19 crisis on, respectively, FDI and trade in Asia

and the Pacific. They are followed by a section dealing with the impact on MNEs and decent work, which highlights how social dialogue can inform the design and implementation of policies to ensure a human-centred recovery. The final section deals more generally with the way forward, stressing the important role of employers' and workers' organizations in the recovery.

► The COVID-19 crisis and foreign direct investment in Asia and the Pacific

FDI inflows into the region had been broadly stable before the crisis

For MNEs, the Asia and the Pacific region is an important destination of international investment. The region has experienced rapid economic growth for many years, and the relatively low labour costs in some of its countries, along with the millions of consumers located in the region as a whole, have made it attractive for investments by such enterprises. Overall, the region accounted for 33 per cent of global FDI inflows in 2019.³ Moreover, while global FDI flows had been on a downward trend in recent years (decreasing from US\$2,042 billion in 2015 to US\$1,540 billion in 2019), FDI into the Asia and the Pacific region had remained broadly stable, hovering between US\$500 billion and US\$550 billion between 2015 and 2019, before the COVID-19 crisis hit the global economy (figure 1).

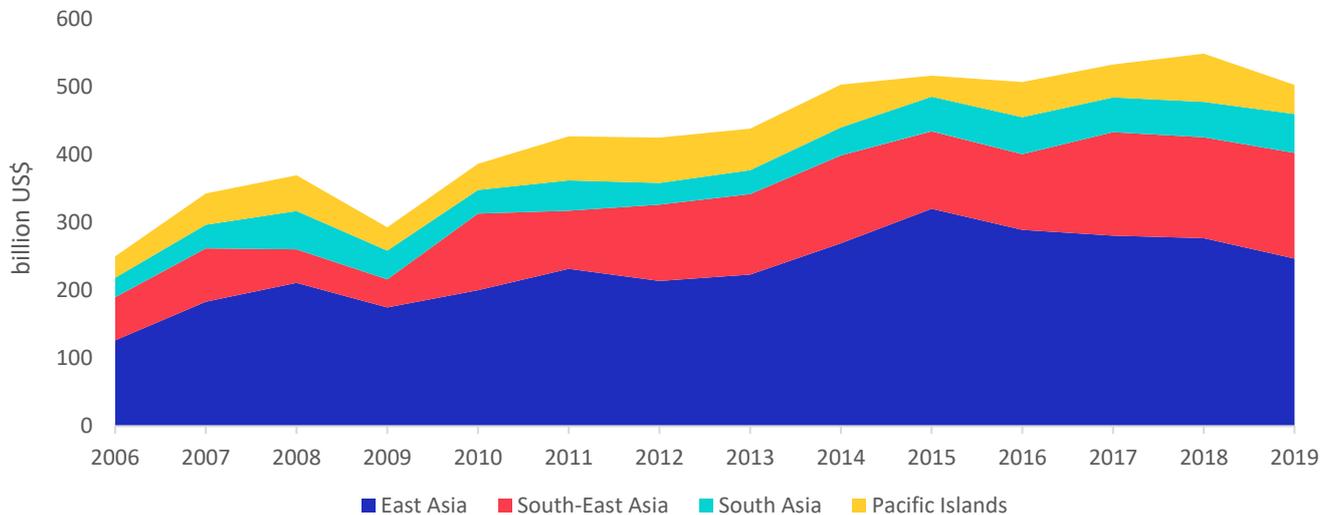
South-East Asia attracted for the first time more than 10 per cent of the world's FDI in 2019, steadily rising from 5.6 per cent in 2015. Among all subregions, East Asia remained by far the largest FDI recipient, receiving 16 per cent of total world inflows, slightly less than in the previous year. South Asia trailed at 3.7 per cent in 2019,

but the share had been growing steadily since 2015. FDI inflows into the Pacific Islands declined from 4.8 per cent in 2018 to 2.8 per cent in 2019.

In terms of individual countries, China and India attracted the highest FDI amounts. In 2019, China alone captured US\$141 billion of FDI, representing 28 per cent of the region's inflows. FDI inflows into China have been on an upward trend over the past two decades, rising from 7.6 per cent of global inward FDI flows in 2005 to 9.2 per cent in 2019, making it the second-largest recipient country for FDI inflows in the world after the United States of America, which attracted 16 per cent of global FDI inflows. India accounted for 10 per cent of the region's inflows and 3.3 per cent of global FDI inflows. Not only large emerging economies, but also trade hubs such as Singapore and Hong Kong (China) have been major FDI recipients in recent years, accounting, respectively, for 18.3 per cent and 13.6 per cent of the region's inward FDI flows, and for 6.0 per cent and 4.4 per cent of global FDI inflows in 2019.

³ The list of countries included in the Asia and the Pacific region and its subregions can be found here: <https://ilostat.ilo.org/resources/concepts-and-definitions/classification-country-groupings/>. Unless noted otherwise, the same country coverage is followed in this brief.

► **Figure 1. Foreign direct investment inflows into the Asia and the Pacific region, 2006–19 (US\$ billion)**



Note: The values for the four subregions have been stacked on one another. The figure also includes intra-regional FDI.
Source: ILO calculations based on UNCTADStat database.⁴

The crisis has severely impacted FDI inflows into the region

Data on greenfield FDI for 2020 suggest that the above-mentioned regional pre-crisis trends were disrupted sharply by the COVID-19 crisis.^{5,6} Overall, inward greenfield FDI dropped by 36 per cent relative to the last pre-crisis year, specifically from US\$254 billion in 2019 to US\$161 billion in 2020 (figure 2). The drop was 40 per cent for extraregional FDI coming into the region, while intraregional FDI fell by 33 per cent. Employment created by inward greenfield FDI within Asia and the Pacific has also declined. According to data and estimates from the fDi Markets platform, the number of jobs directly created through greenfield FDI projects located in the region was

only about half of that in 2019, which corresponds to a reduction of 416,000 jobs.⁷ This illustrates the immense strain that the crisis has put on MNEs and their operations, which has several implications for decent work in such enterprises (as discussed in the penultimate section of this brief).⁸

The value of inward greenfield FDI decreased in all months of 2020, relative to the corresponding months of 2019, except in September (figure 3). The number of jobs directly created through greenfield FDI decreased in all months, without any exception. The decline in jobs has in most months been larger than the decline in investment value, indicating that in 2020 there was on average less investment in labour-intensive sectors than in 2019. The monthly pattern over time suggests that the decline in FDI

⁴ <https://unctad.org/statistics>, accessed in February 2021.

⁵ The data on inward greenfield FDI (capital expenditure, number of jobs) presented in this section are based on data and estimates from the fDi Markets database as of 8 February 2021. For more information about the underlying sources, see <https://www.fdimarkets.com/faqs/>.

⁶ As defined in UNCTAD (2009, 97), “Greenfield FDI relates to investment projects that entail the establishment of new entities and the setting up of offices, buildings, plants and factories from scratch. It is a kind of working capital. The direct investment enterprise established through greenfield FDI can be a branch, an unincorporated enterprise or an incorporated enterprise (that is, a separate unit maintaining its own accounting books).”

⁷ ILO estimates based on the ILOSTAT database indicate that total employment in the region declined by 62 million between 2019 and 2020. The above-mentioned loss of 416,000 jobs corresponds to 0.7 per cent of this decline. However, in calculating it, only jobs directly created through FDI projects were considered: the figure does not include jobs that are indirectly created through local supply chains.

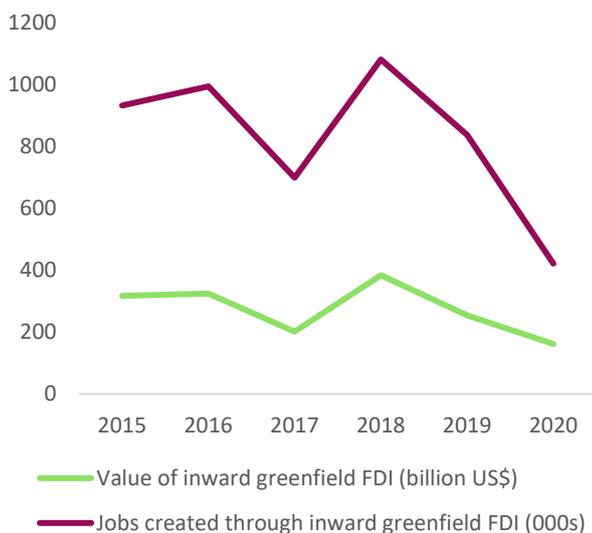
⁸ Jobs directly created through FDI often pay higher wages than jobs in domestic firms, and MNEs offer greater training opportunities to their employees in foreign affiliates (see, for example, Javorcik 2015). However, it is often the case that internationally recruited employees can benefit from these job quality advantages to a greater extent than their locally recruited colleagues. Moreover, any such advantages also hinge on the quality of governance in a country and its labour market institutions (Blanas, Seric and Viegelaun 2019). Jobs in lower tiers of supply chains and in subcontracting for lower tiers continue, in many instances, to be characterized by persistent decent work deficits (ILO 2020b).

became more pronounced in the course of 2020, with investment values reduced by 50 per cent or more in the final quarter of the year.⁹

In terms of subregions, the COVID-19 crisis has had the largest impact on inward greenfield FDI in South Asia, where it dropped by 61 per cent in 2020 relative to 2019 (figure 4). East Asia suffered a high double-digit decline of 38 per cent. Smaller but still significant declines in greenfield FDI were experienced by South-East Asia (23 per cent) and the Pacific Islands (7 per cent). As for jobs directly created through greenfield FDI projects, the largest drop in 2020 occurred in South-East Asia. In this subregion, the total number of such newly created jobs in 2020 was 55 per cent lower than in 2019. All other subregions experienced significant reductions as well.

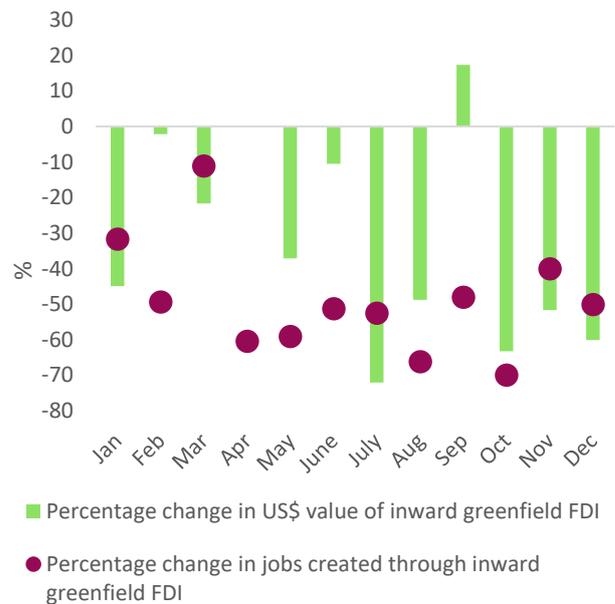
Among the 30 countries in the region with at least some inward greenfield FDI in either 2019 or 2020, all but four saw a decline in 2020 relative to 2019. The most important inward FDI destinations in the region, China and India, both experienced sharp drops of 41 and 27 per cent, respectively, in the value of incoming investments.

► **Figure 2. Greenfield foreign direct investment inflows into the Asia and the Pacific region, 2015–20**



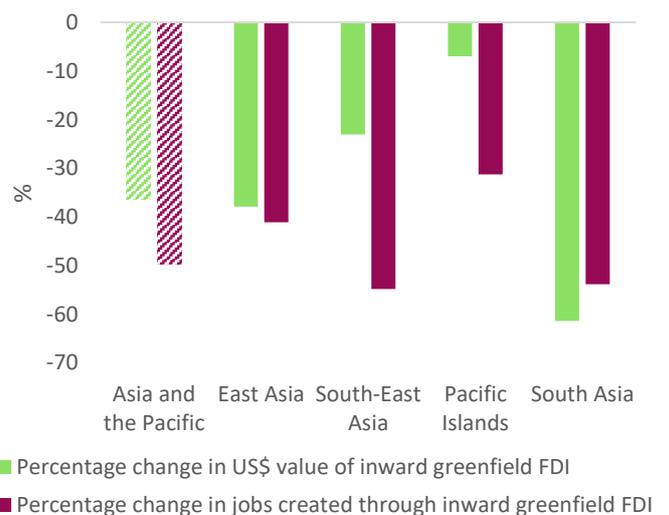
Note: The figure also includes intra-regional FDI.
Source: ILO calculations based on fDi Markets database.

► **Figure 3. Greenfield foreign direct investment inflows into the Asia and the Pacific region, year-on-year percentage change, by month, 2020 (%)**



Note: The figure also includes intra-regional FDI.
Source: ILO calculations based on fDi Markets database.

► **Figure 4. Greenfield foreign direct investment inflows into the Asia and the Pacific region, year-on-year percentage change, by subregion, 2020 (%)**



Note: The figure also includes intra-regional FDI.
Source: ILO calculations based on fDi Markets database.

⁹ The fDi Markets database is updated continuously. Some investment projects that have not yet been reflected in the database are not taken into account in the estimates presented above.

FDI outflows had been increasing before the crisis

In recent decades, some countries in Asia and the Pacific have also become important sources of outward investment, with investors in the region accounting for 40 per cent of the world’s FDI outflows in 2019. Regional outward FDI has grown in recent years, from US\$459 billion in 2015 to US\$523 billion in 2019.

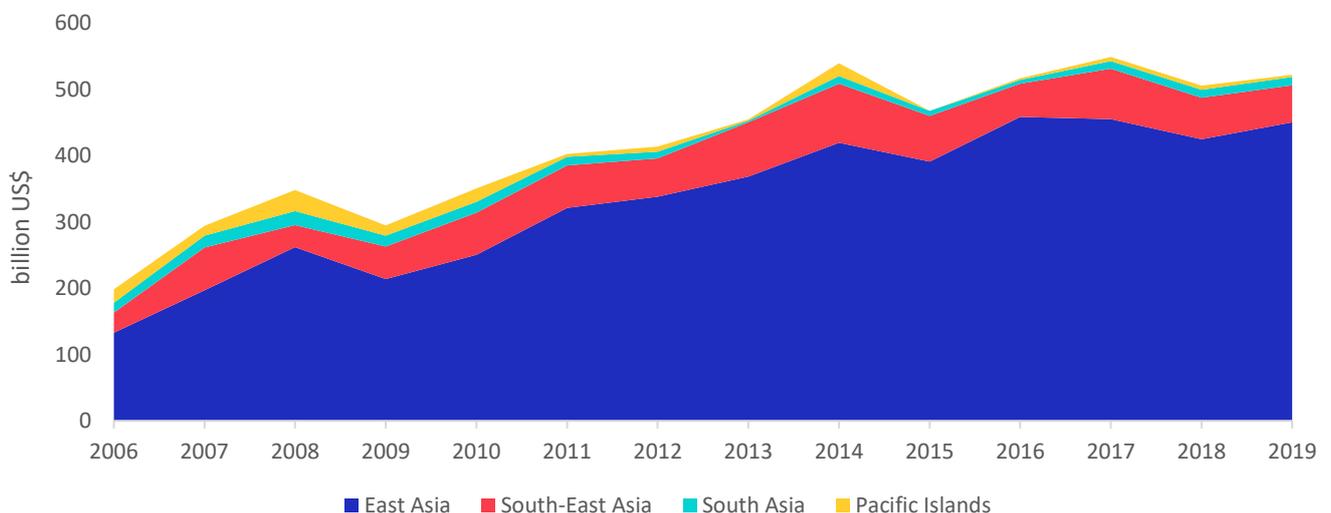
Most of the region’s outward FDI comes from investors in East Asia, which in 2019 accounted for 86.2 per cent of the total regional outflow (figure 5). South-East Asia is the second-largest subregion in terms of outward FDI, being responsible for 10.7 per cent of the regional aggregate. South Asia and the Pacific Islands accounted, respectively, for 2.4 and 0.7 per cent of total outward FDI from the region.

The outward FDI flows from Asia and the Pacific in the period 2015–19 grew by 18 per cent, relative to the period

2010–14. This growth was driven by FDI originating in the East Asian subregion, the value of which rose by 28 per cent, while outward FDI flows from South-East Asia, South Asia and the Pacific Islands declined over the past five years, relative to the previous five-year period.

After many years of spectacular growth, Chinese outward FDI has shrunk recently, from US\$196 billion in 2016 to US\$117 billion in 2019, largely owing to more stringent regulations in China on investing abroad (Chen and Findlay 2020). Nevertheless, China remained the second most important country in the region in terms of outward FDI, with continued investments being made under the Belt and Road Initiative (UNESCAP 2019a). The region’s leading investor country was Japan, which had outward FDI flows of US\$227 billion in 2019. China and Japan together accounted for 26 per cent of the world’s outward FDI flows. Other important contributors to the region’s outward FDI include Hong Kong (China), the Republic of Korea and Singapore, which accounted, respectively, for 11.3, 6.8 and 6.4 per cent of the regional total.

► **Figure 5. Foreign direct investment outflows from the Asia and the Pacific region, 2006–19 (US\$ billion)**



Note: The values for the four subregions have been stacked on one another. The 2015 data point for the Pacific Islands is negative at –US\$9.5 billion, implying that the value of disinvestment by foreign investors was higher than the value of new investments. For ease of representation, this data point was set to zero in the figure. The figure also includes intra-regional FDI.

Source: ILO calculations based on UNCTADStat database.

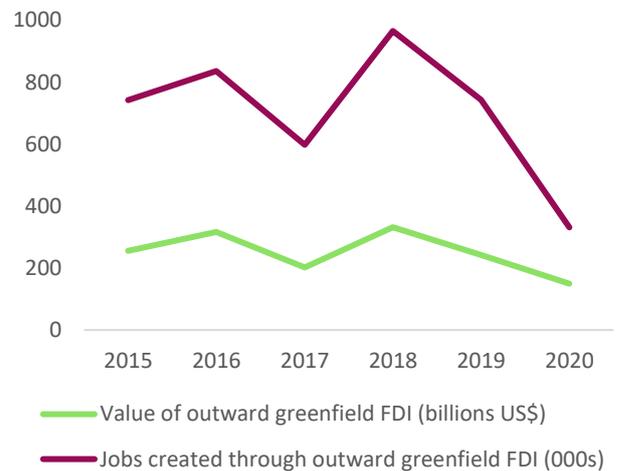
The crisis has also sparked a decline in FDI outflows from the region

Outward FDI has also been heavily impacted by the COVID-19 crisis. Data on outward greenfield FDI from countries in the Asia and the Pacific region indicate a drop of 38 per cent during the pandemic, from US\$243 billion in 2019 to US\$150 billion in 2020 (figure 6).¹⁰ Greenfield FDI flows from Asia-Pacific investors specifically into countries outside the region experienced a slightly larger decrease of 44 per cent. Outward FDI can create jobs both within the region (in the case of intraregional FDI) and outside. According to data and estimates from the fDi Markets platform, the total number of jobs directly created through greenfield FDI projects of Asia-Pacific investors, whether located inside or outside the region, declined by 412,000, which is a decrease of 55 per cent.

Outward greenfield FDI in terms of value dropped in all months of 2020 relative to the corresponding months of the previous year, except for February, May and June (figure 7). The estimated number of jobs directly created through such FDI declined in all months. As with greenfield FDI flowing into the region, outward greenfield FDI is also characterized by a decline in jobs that in most months has been larger than the decline in investment value.

Once again, the decreases were larger in the second half of 2020, with the greatest impact in terms of value observed in July, October and December. Greenfield FDI investments originating in countries in the Pacific Islands and in South-East Asia declined by more than 64 per cent in both cases: the largest declines among all subregions in Asia and the Pacific (figure 8). South Asia and East Asia also experienced large drops in outward greenfield FDI, with negative annual growth rates of 55 and 26 per cent, respectively, in 2020.

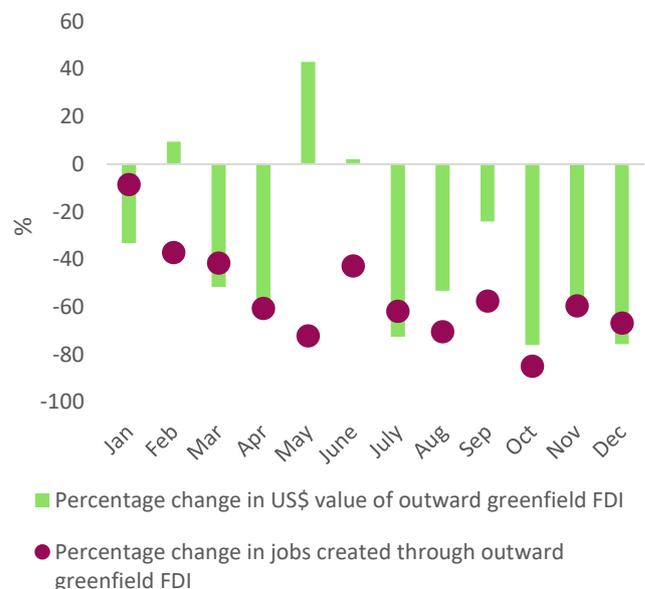
► **Figure 6. Greenfield foreign direct investment outflows from the Asia and the Pacific region, 2015–20**



Note: The figure also includes intra-regional FDI.

Source: ILO calculations based on fDi Markets database.

► **Figure 7. Greenfield foreign direct investment outflows from the Asia and the Pacific region, year-on-year percentage change, by month, 2020 (%)**



Note: The figure also includes intra-regional FDI.

Source: ILO calculations based on fDi Markets database.

¹⁰ The data on outward greenfield FDI (capital expenditure, number of jobs) presented in this section are based on data and estimates from the fDi Markets database as of 8 February 2021. For more information about the underlying sources of information, see <https://www.fdimarkets.com/faqs/>.

► **Figure 8. Greenfield foreign direct investment outflows from the Asia and the Pacific region, year-on-year percentage change, by subregion, 2020 (%)**



Note: The figure also includes intra-regional FDI.
Source: ILO calculations based on fDi Markets database.

► The COVID-19 crisis and trade in Asia and the Pacific

Trade plays a significant role in the region

Accounting for 36 per cent of world merchandise exports and 34 per cent of imports in 2019, the Asia and the Pacific region is one of the major players in global trade. Similarly, the region occupies a prominent role in trade in services, with China, Japan, India and Singapore ranking among the top ten exporters of commercial services worldwide (WTO 2020a). MNEs contribute significantly to these figures. They create trade flows by producing goods and services in production facilities established abroad through FDI (as discussed in the previous section). They also outsource the production of goods and services to enterprises in the region through “arm’s length contracts”.¹¹ These enterprises may in turn procure some of their inputs from other enterprises in the same or different countries, resulting in complex global supply

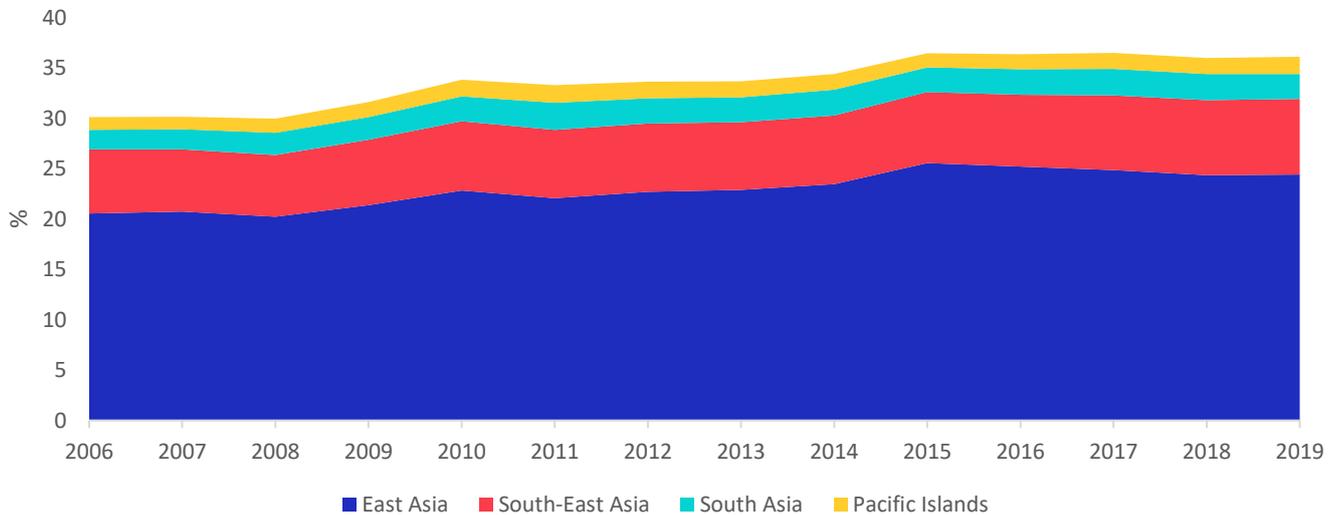
chains. Indeed, many countries in the region are crucial nodes of such chains, particularly in the garment, automotive and electronics sectors.¹² Not only MNEs headquartered outside Asia and the Pacific, but also those from the region are increasingly setting up at least some parts of their supply chains overseas (Tran 2019).

The role played by the region in global trade has steadily gained in prominence over the past decades. While all its subregions have registered increases, there are considerable disparities between them (figure 9). East Asia dominates the trade flows, being responsible for 24 per cent of exports and 22 per cent of imports worldwide (figure 10), with China alone accounting for 13 and 11 per cent, respectively. East Asia’s share in global trade roughly matches its share in global GDP. In contrast, South-East Asia trades more than one would expect from the size of its GDP, while South Asia and the Pacific Islands both trade less.

¹¹ MNEs are estimated to account for 50 to 70 per cent of trade worldwide (Qiang et al. 2020; Cadestin et al. 2018). Arm’s length contracts refer to those concluded between unaffiliated, independent firms.

¹² It is estimated that 69 per cent of the region’s exports are intermediate inputs for production elsewhere (UNESCAP 2020a, 29).

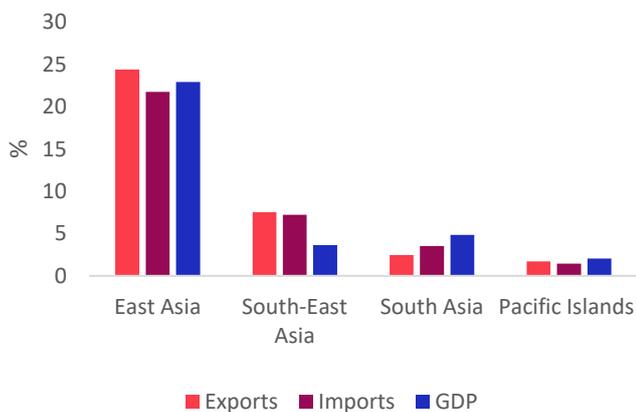
► **Figure 9. Share in world merchandise exports, Asia and the Pacific, 2006–19 (%)**



Note: The values for the four subregions have been stacked on one another.

Source: ILO calculations based on UNCTADStat database.

► **Figure 10. Share in world merchandise exports/imports and global gross domestic product, Asia and the Pacific, by subregion, 2019 (%)**



Source: ILO calculations based on UNCTADStat database and the World Bank’s World Development Indicators.

The European Union (EU) is the leading trading partner of Asia and the Pacific, accounting for 20 per cent of the region’s total exports, followed by the United States at 16 per cent (UNESCAP 2020a, 29).¹³ The bulk of trade between Asia and Europe involves Germany and China, which

export to and import from each other to a similar extent. In contrast, countries such as the United Kingdom of Great Britain and Northern Ireland or the Netherlands import more from China than they export to China (Becker et al. 2018).

Intraregional trade also plays an important role, accounting for 54 per cent of exports and 57 per cent of imports. East Asia leads the way on such trade, with China alone absorbing 22 per cent of exports from the region and providing 24 per cent of its imports in 2018 (UNESCAP 2020a, 29). (See Figure 11 below for the volume of exports from the various Asia–Pacific subregions to the region as a whole.)

A large number of trade agreements have been concluded both within the region and with countries outside. As of March 2021, there were 104 trade agreements in force involving at least one country from the region, the majority of which were concluded between partners within the region (ILO database on labour provisions in trade agreements, forthcoming). In addition to various trade agreements, numerous low-income and least developed countries in the region are at the receiving end of unilateral arrangements with the EU¹⁴ and the United

¹³ The Asia–Pacific grouping used by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) also includes northern and Central Asian countries, in addition to Turkey.

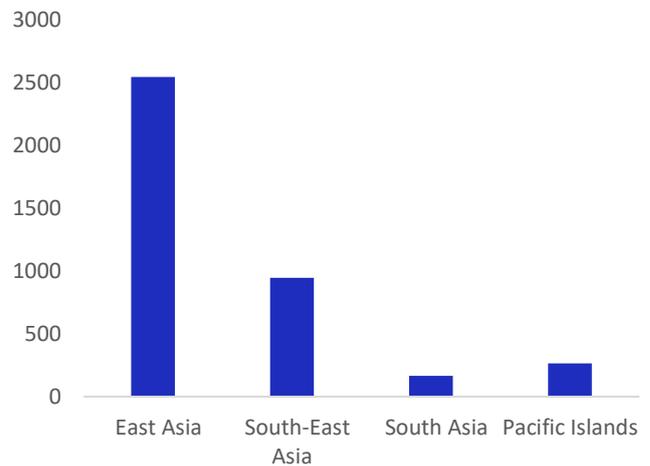
¹⁴ See https://trade.ec.europa.eu/doclib/docs/2019/may/tradoc_157889.pdf for a list of beneficiary countries under the European Union’s Generalised Scheme of Preferences.

States¹⁵ (about 20 countries in each case). These arrangements often contain labour provisions that establish a framework for decent work in terms of labour rights and working conditions, as will be discussed in the next section. Numerous investment agreements, which are often the first step towards a more comprehensive trade agreement, have also been concluded in the region.

Global trade has been in retreat over the past few years, mainly because of increased protectionism and the ensuing uncertainty (as illustrated by the Brexit negotiations and the trade conflict between China and the United States). This situation has affected the Asia and the Pacific region considerably, causing a decline in the growth rates of merchandise trade volumes. Thus, the annual growth rate fell from around 14 per cent in 2006 to less than 1 per cent in 2019 for exports, and from around 9 per cent to a negative rate of -0.6 per cent for imports over the same period (figure 12). Similarly, the region's participation in global supply chains has also slowed down, even to the extent of registering a decline over the past two years (ADB 2021). Trade in services has not been spared either: export growth in commercial services was expected to be sluggish in 2020 even before the pandemic erupted (UNESCAP 2019b, 1). In addition to global uncertainties, regional tensions have taken their toll on trade as well. For example, trade tensions between Japan and the Republic of Korea led to a decline in the exchange of travel and transport services between the two countries (UNESCAP 2019b, 13).

Already before the COVID-19 crisis, these tensions were prompting MNEs to reshape their supply chains in the region. In particular, the recent hostility in trade relations between China and the United States served as an incentive to divert some trade from the former to neighbouring countries in Asia and the Pacific. However, it has also been argued that these countries often lack the capacity to satisfy increased demand (UNESCAP 2019c, 7) and could therefore be unable to absorb increased production. Moreover, political uncertainty linked to trade disputes along with the latest technological advances could encourage MNEs to relocate production to their home country or nearby countries, leading to potential ramifications for trade flows (ADB 2021) and consequently also for workers. The pandemic could accelerate such trends.

► **Figure 11. Exports from the various Asia-Pacific subregions to the Asia-Pacific region, 2019 (US\$ billion)**



Source: ILO calculations based on UNCTADStat database.

► **Figure 12. Annual change in volume of merchandise exports and imports, Asia, 2006-19 (%)**



Note: The definition of the Asia region used by the World Trade Organization (WTO) differs slightly from the ILO's Asia and the Pacific region, as it excludes ten countries from the latter, including the Islamic Republic of Iran, the Democratic People's Republic of Korea and a number of Pacific island States.

Source: ILO calculations based on WTO Data portal.

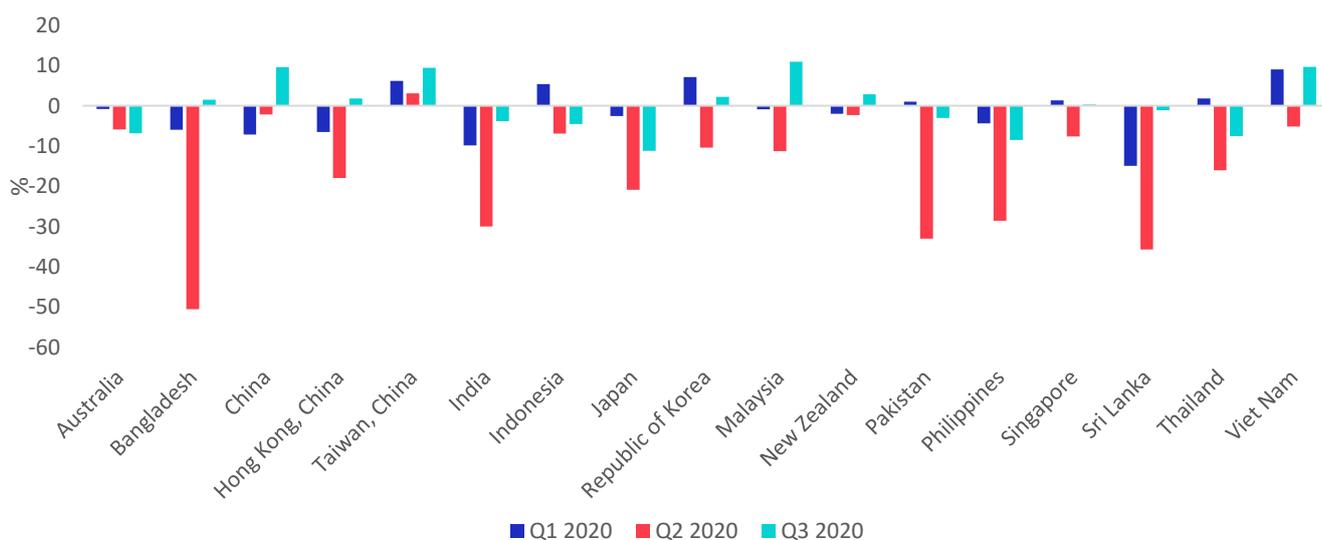
¹⁵ See <https://ustr.gov/issue-areas/preference-programs/generalized-system-preferences-gsp/gsp-program-information> for a list of beneficiary countries under the US Generalized System of Preferences.

The crisis led to a collapse in the region’s trade flows

The COVID-19 crisis, which hit global trade hard, had devastating effects on some countries in the Asia and the Pacific region. Trade data for the first half of 2020 indicate a significant drop in exports and imports of goods for many of these countries (figure 13). One sector that particularly suffered is the garment industry, where workers experienced significant losses in working hours, employment and wage incomes (ILO 2020c). The region was able to rebound to some extent in the third quarter of the year and registered a year-on-year export value growth rate of 2 per cent relative to the same period in the previous year, though this was driven largely by China. There was still a decline in imports relative to the year before, with a negative growth rate of -6 per cent (WTO 2020b). Moreover, significant discrepancies may be observed between countries in the region. A comparison of the export volume growth rates of selected countries shows that while some, including China, Malaysia and Viet Nam, were able to achieve positive growth, many are still struggling to return to the levels seen before the pandemic (figure 13).

Trade in services remained depressed even in the third quarter of 2020, with a year-on-year decline of 28 per cent in the export value and 27 per cent in the import value (figure 14). While all the countries experienced negative growth rates at some point, the magnitude differed across the region. China was able to climb up to a positive rate of 1 per cent in the third quarter, while in Viet Nam the decline reached a negative rate of -81 per cent. A large contributor to the collapse in services trade is the tourism sector, which is fundamental to the economy of many countries in the region. This sector has been hit disproportionately hard by the pandemic as a result of the containment measures that have been introduced (Goretti et al. 2021), especially the travel restrictions (ILO 2020d). The number of international tourist arrivals in the region decreased by 95 per cent in December 2020 relative to the same month in the previous year, with the drop being as high as 99 per cent for the Pacific Islands (UNWTO, n.d.). Numerous jobs in the region depend on tourism, a sector in which the prevalence of informal employment is high. Workers in that sector are therefore particularly vulnerable to the economic and social fallout of the pandemic (ILO 2020d).

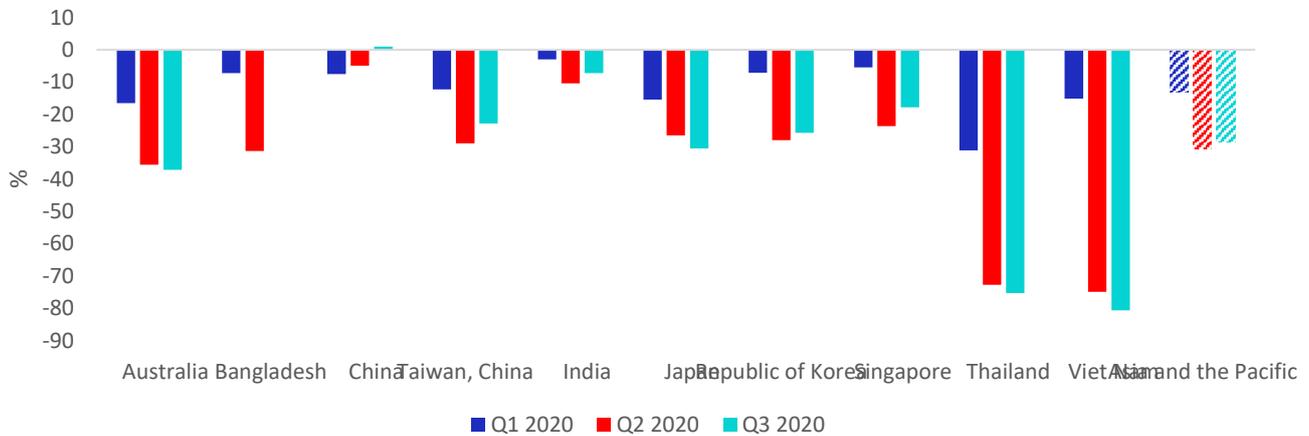
► **Figure 13. Merchandise export volume, year-on-year percentage change, selected countries in the Asia and the Pacific region, first three quarters of 2020 (%)**



Note: The bars show the changes in the first, second and third quarters of 2020 relative to the corresponding quarters of 2019.

Source: ILO calculations based on UNCTADStat database.

► **Figure 14. Services export value, year-on-year percentage change, selected countries in the Asia and the Pacific region, first three quarters of 2020 (%)**



Note: The bars show the changes in the first, second and third quarters of 2020 relative to the corresponding quarters of 2019.

Source: ILO calculations based on UNCTADStat database.

► Challenges and policies for multinational enterprises and decent work

The crisis continues to disrupt the operations of MNEs and their supply chains

In the Asia and the Pacific region, COVID-19-related restrictions remain widespread, with over 90 per cent of workers still living in countries with some form of workplace closure measures in force (ILO 2021a). Many MNEs and their global supply chains (GSCs) suffered and continue to suffer from disruptions in backward and forward linkages as a result of these measures. Although workplace closures now tend to be more geographically targeted or sector-specific than in the first months of the pandemic, which makes large-scale supply chain disruptions unlikely, the risk of some sort of disruption can certainly not be ruled out.

Consumer demand also remains strongly affected by the pandemic and the measures taken to prevent its spread. In February 2021, about 165 million jobs in global supply

chains for manufacturing in the Asia and the Pacific region (one in three of all such jobs) experienced an either medium or high impact from this decline in consumer demand, through job losses, working-hour losses, labour income losses or any other deterioration of working conditions.¹⁶ While this is considerably less than during the first lockdown period in March–April 2020, the number of highly impacted jobs has been on the rise again since October 2020, when a second wave of the pandemic began to affect a number of countries.

Factory closures, falling customer demand and supply chain bottlenecks continue to have “ripple effects” across entire supply chains (ILO 2020c; 2020e; 2020f). Asia and the Pacific is particularly vulnerable to these effects because of the region’s high dependence on investment in global supply chain-intensive industries (UNCTAD 2020, x), its status as “the world’s factory” and the often rather limited degree of supply chain diversification.¹⁷

¹⁶ ILO estimates, April 2021. Estimates are based on data for 16 countries or territories in the region that account for 87 per cent of the total labour force. For methodological details, see ILO (forthcoming).

¹⁷ In East and South-East Asia, supply chains depending on China for input supply were disrupted early on in the crisis. For instance, the electronics sector in Indonesia, Thailand and Viet Nam sources 40 to 60 per cent of parts and components from China, while apparel factories in Cambodia, Myanmar and Viet Nam source more than 55 per cent of their inputs from that country (UNCTAD 2020, 40).

The crisis is putting the spotlight on persisting decent work deficits in the region

Asia and the Pacific plays a prominent role in GSCs, which have contributed to regional economic growth, industrialization, job creation and poverty reduction. This economic growth, however, has come with its own challenges, and the crisis has further exposed the vulnerability of jobs in lower tiers of supply chains, which in many instances remain characterized by decent work deficits (ILO 2020f). Some of these jobs are unable to generate stable incomes that would allow workers to support themselves and their families and to exit poverty permanently.¹⁸ There is also emerging evidence from some countries in the region (Thailand and Viet Nam) that wage disparities between subgroups in the labour market worsened during the second quarter of 2020 as a result of the increasing number of employees – many at the bottom of the wage ladder – who had to work shorter hours for less pay (ILO 2021b).

These setbacks are concerning in particular for women, young workers and migrant workers, who tend to be employed in the lower tiers of GSCs and have been hit especially hard during the crisis. In the second quarter of 2020, working hours and employment in the region declined more for women than for men compared with 2019 (ILO 2020a). Young workers, who are often employed in the sectors most impacted by the crisis, have been disproportionately affected as well, their share in employment loss being 3 to 18 times higher than their share in total employment (ILO and ADB 2020; ILO 2020a).

As for other decent work deficits exacerbated by the crisis, trade unions have reported violations of workers' rights, including violations of international labour standards; non-compliance with labour regulations in relation to layoffs, wages or overtime; and inadequate regard for occupational safety and health requirements introduced to limit the spread of COVID-19 (ILO 2021e).

Decent work deficits in GSCs are usually attributed to a combination of factors, including a lack of legislative

frameworks and enforcement mechanisms in the host country, the inability of enterprises to enforce their codes of conduct in lower tiers of their supply chains, and insufficient capacity among local suppliers to improve working conditions in their production activities (ILO 2016).

Supporting responsible and more resilient supply chains will be key

The disruptions to supply chains caused by the pandemic call for a reassessment of risks and sourcing models (Anukoonwattaka and Mikic 2020). MNEs are considering adapting and optimizing their supply chain configuration with a view to increasing their resilience (ILO 2020f). In this respect, there have been discussions about strengthening regional or even national supply chains in order to decrease dependency on other regions and countries and avert any future risks of supply chain disruptions.¹⁹ Some analysts argue that this trend, which had already started with the adoption of new technologies and the heightening of trade tensions, could accelerate as a direct consequence of the COVID-19 crisis. Although others, in contrast, argue that the effects of the crisis on GSCs will be limited, even a partial relocation of production could have a considerable impact on enterprises and workers in the Asia and the Pacific region, where many economies rely greatly on their participation in GSCs. As a result of reshoring, jobs in some countries may be lost and government revenues may decrease.

When striving for greater supply chain resilience, it is important to ensure that no countries are left behind. The growing demand for digitally enabled services and subsequent redefinition of the nature of service trade may compel developing countries in the region “to adjust their development priorities and focus on acquiring the capacity to effectively engage in a rapidly digitalizing trade environment” (UNESCAP 2020b, 2). This includes the development of skills and infrastructure for a digital economy.

Effective policies therefore need to be adopted to support responsible and more resilient supply chains. Regional initiatives and national institutions play a crucial role in

¹⁸ Annual labour income shares were already stagnating or decreasing in the region already before the crisis, indicating a rise in inequality (ILO 2020a). On the basis of the latest labour force survey data, it is estimated that 70 per cent of the region's workforce were earning their daily wages in the informal economy, often in poor working conditions and without access to adequate social protection.

¹⁹ The bans on exports from some key industries, such as medical supplies, that were imposed during the pandemic also intensified the debate on regionalization of GSCs and reshoring (ILO 2020f).

this regard. First, it is important to create an enabling environment for business development, continuity and innovation by improving small and medium-sized enterprises' access to finance; increasing public investment in infrastructure, technology, education and training; and promoting the formalization of enterprises in line with the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204). Secondly, promoting a culture of compliance, enforcing labour legislation and providing social protection are essential to ensure positive outcomes for workers, particularly those in the lower tiers of supply chains.

Regional trade integration can also contribute to this process. In November 2020, the ASEAN Comprehensive Recovery Framework and its Implementation Plan were adopted at the 37th ASEAN Summit. The Framework outlines measures to foster economic integration in the Association of Southeast Asian Nations (ASEAN) and in the wider region, and to strengthen regional supply chains. It also highlights the relevance of labour laws and policies and social dialogue when it comes to reducing the vulnerabilities of at-risk workers and improving their resilience.²⁰

Another important development at the 37th ASEAN Summit was the signing of the Regional Comprehensive Economic Partnership (RCEP): a free trade agreement between 15 Asia-Pacific countries²¹ that is considered to be a major step towards greater regional integration. Once in force, the RCEP agreement will foster supply chain diversification towards regional trading partners. The agreement, however, does not include provisions on labour rights or the environment.

Trade and investment policies can promote decent work

The ILO Centenary Declaration for the Future of Work, adopted in June 2019, calls for an integrated policy approach with trade policies that “promote decent work

and enhance productivity”. The inclusion of labour provisions in trade agreements is one option for governments seeking to pursue such an integrated approach.

In fact, the scope of many new agreements signed in Asia and the Pacific has become more comprehensive. Currently, a third of the agreements concluded by countries in the region included labour provisions (ILO database on labour provisions in trade agreements, forthcoming).²² Safeguarding labour rights in the new generation of trade agreements, particularly given the impact of the crisis on workers in the region, is an important tool for advancing towards a broad-based recovery.

In this regard, instruments such as the [ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy \(MNE Declaration\)](#), the OECD Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Businesses and Human Rights provide both governments and enterprises with guidance on how to amplify the positive contribution that enterprises can make to sustainable development, and on applying due diligence to prevent and address negative impacts that may arise from their operations, including their supply chains. These expectations of responsible conduct go beyond legal requirements.²³ Reference to the aforementioned three instruments is made in several trade and investment agreements, including the recent EU-Viet Nam Free Trade Agreement, the aim in all such instances being to enhance the contribution of trade and investment to sustainable development in its economic, social and environmental dimensions. Similarly, the EU-China Comprehensive Agreement on Investment (not yet signed) includes a section on investment and sustainable development, which recognizes the contribution of responsible business conduct to enhancing investment's positive role in sustainable growth. That section also refers to the MNE Declaration and the ILO Centenary Declaration for the Future of Work.²⁴

²⁰ The ASEAN Comprehensive Recovery Framework outlines five broad strategies for recovery from the COVID-19 crisis: (1) enhancing health systems; (2) strengthening human security; (3) maximizing the potential of the intra-ASEAN market and broader economic integration; (4) accelerating inclusive digital transformation; and (5) advancing toward a more sustainable and resilient future (ASEAN 2020).

²¹ These 15 countries are: Australia, Brunei Darussalam, Cambodia, China, Indonesia, Japan, Lao People's Democratic Republic, Malaysia, Myanmar, New Zealand, Philippines, Republic of Korea, Singapore, Thailand, Viet Nam.

²² There is also evidence that countries in the region are coordinating on issues such as food security and other essential goods, such as medical and other essential supplies (UNESCAP, 2020b).

²³ See ILO (2017; 2018) for further details.

²⁴ See <https://trade.ec.europa.eu/doclib/press/index.cfm?id=2237>.

In addition, initiatives such as the Responsible Supply Chains in Asia programme – which is aimed at integrating responsible business practices into the operations of MNEs and their supply chains in selected industrial sectors in six Asian countries that are EU trading partners – can help to advance the sustainable development-related objectives of trade policies.²⁵

Social dialogue is key to helping to ensure a human-centred recovery

In order to tackle the economic and social impacts of the COVID-19 crisis, the ILO has proposed a policy framework that is designed to facilitate a sustainable and equitable recovery (ILO 2020g).²⁶ This framework is underpinned by international labour standards, adherence to which fosters a culture of social dialogue and workplace cooperation that is key to protecting jobs and livelihoods.

Although countries in Asia and the Pacific have already put in place an unprecedented series of policies to combat the economic and social effects of the crisis, sustaining these efforts is vital, as the crisis continues to take its toll on enterprises and workers in the region. Dialogue to inform such measures thus needs to be kept up at the regional, national, sectoral and enterprise level.

There are some tripartite task forces in the region, set up before the crisis, which could help to ensure that the recovery measures are based on social dialogue. For example, in Viet Nam, the Vietnam Chamber of Commerce and Industry together with the Vietnam Electronic Industries Association established, in 2017, the Electronics Business Coalition to promote responsible labour practices. The Vietnamese electronics sector expanded rapidly in the years immediately before the COVID-19 crisis. In 2019, computer and electronics manufacturing employed about 754,400 workers, compared with 6,000 in 2005 (ILO 2021c; ILO 2017b). The sector is led by major MNEs from countries such as Japan and the Republic of Korea, whereas local companies are confined to a narrow functional scope, mainly in labour-intensive assembly processes.

The Coalition is made up of MNEs, their suppliers, business associations and other key players with a stake in Viet Nam's electronics sector (including the Government and employers' and workers' organizations), and its purpose is to provide a platform for dialogue between MNEs, local companies and business associations so that they can exchange good workplace practices and take joint action to tackle the challenges faced by the industry, including the impact of the COVID-19 crisis.

In Pakistan, a tripartite task force was launched in 2016 to promote sustainable and responsible business practices in the sports goods manufacturing sector in the city of Sialkot, mainly by introducing new initiatives aimed at increasing productivity and competitiveness in the sector. Since the country's sports goods industry as a whole suffered a 70 per cent decline in the first three months of the pandemic, the task force is instrumental in supporting the sector's recovery (Latif 2020). To mitigate the effects of the crisis, training activities were conducted in 2020 with the assistance of the ILO: on improving productivity and competitiveness, on occupational safety and health, and on fundamental principles and rights at work. The training also highlighted the importance of the MNE Declaration as a framework for promoting sustainable production and its relevance to the export of sports goods from Pakistan (ILO 2020h; ILO 2021d). In December 2020, a tripartite agreement was concluded whereby the Employers' Federation of Pakistan was designated as the national focal point for promoting the MNE Declaration. Accordingly, the Federation will organize "tripartite-plus" dialogues with sectoral and business associations, the social partners and MNEs to identify opportunities and challenges with regard to promoting decent work in the operations of MNEs in Pakistan.²⁷

Similarly, as part of the "COVID-19: Action in the Global Garment Industry" coalition – in which more than 125 stakeholders have come together to mitigate the negative impacts of the crisis and build a stronger garment industry in the long run – tripartite committees have been established to ensure consensus regarding the needs of

²⁵ The Responsible Supply Chains in Asia programme is funded by the EU and jointly implemented by the ILO and the Organisation for Economic Co-operation and Development (OECD). For more information, see: <https://www.ilo.org/asia/projects/rsca/lang--en/index.htm>.

²⁶ The framework comprises four pillars: (1) stimulating the economy and employment; (2) supporting enterprises, jobs and incomes; (3) protecting workers in the workplace; and (4) relying on social dialogue for solutions (ILO, 2020g).

²⁷ The tripartite task forces in Viet Nam and Pakistan were established with the support of technical cooperation projects in those countries to create more and better jobs through socially responsible business practices, funded by the Government of Japan.

the sector in each country.²⁸ Countries that have been prioritized for action in Asia and the Pacific include Bangladesh, Cambodia, India, Indonesia, Myanmar and Pakistan.²⁹

Such dialogue will play a key role in tackling the challenges with which MNEs and their workers have been confronted as a result of the COVID-19 crisis. In this regard, building the capacity of the social partners is essential to enable these to participate more actively in national discussions on suitable framework conditions for job creation, decent work and economic growth and recovery through trade and investment.

► Way forward

Even though there is hope of some rebound in economic activity and labour markets worldwide towards the second half of 2021, ILO projections indicate that the recovery will only be partial, even in the most optimistic scenario (ILO 2021a). Moreover, this recovery will be subject to substantial uncertainties arising from a wide range of political, economic and health-related factors.

Adopting emergency response measures to promote business continuity and the protection of workers – among other things, by ensuring adequately balanced wage adjustments, providing various types of relief, including financial and tax relief for enterprises, and implementing job retention measures – can help enterprises and workers to withstand the effects of the crisis up to a certain point.

Yet while emergency responses are crucial, they must be complemented by policy interventions focusing on a long-term robust and broad-based recovery and covering such crucial areas as trade, wages, employment, skills development, the digital economy and social protection. The policies adopted need to take into account the way in which the crisis has changed patterns in the consumption of goods and services, but they also need to address the future of work more broadly.

International, regional and national initiatives, both public and private, can play an important role in this regard. Aid-for-trade programmes, for example, can continue to contribute to the economic objectives of developing countries (particularly least developed countries, of which 13 out of a total of 47 countries categorized as such are in Asia and the Pacific)³⁰ by helping to expand trade while paying particular attention at the same time to the achievement of social objectives (notably reducing poverty and inequalities) and environmental objectives, as outlined in the 2030 Agenda for Sustainable Development.

At the national and sectoral level, employers' and workers' organizations must continue to be involved in formulating solutions through effective social dialogue and collective bargaining (ILO 2020i). Governments can play a crucial role in fostering a policy environment that is conducive to the effective involvement of the social partners. Dialogue-based policies and initiatives are more likely to ensure both business continuity and the well-being of workers; their particular focus should be on vulnerable groups such as young people, women and migrant workers.

Further ILO resources

The ILO offers a wide range of resources for governments and employers' and workers' organizations on the impact of the COVID-19 crisis on the world of work, including the various editions of the *ILO Monitor: COVID-19 and the World of Work*, an inventory of national policy responses, and thematic and sectoral analyses and guidance. They are available at: www.ilo.org/covid19.

Of particular relevance to company managers and workers, the [ILO Helpdesk for Business](#) provides guidance on how to better align business operations with international labour standards and build good industrial relations. It includes a section on the COVID-19 crisis, which brings together a number of practical ILO resources and tools, webinars and relevant normative guidance.

²⁸ Other tools for promoting labour standards in GSCs and the garment industry include global framework agreements, which are the result of social dialogue, consultation and negotiation between MNEs and global union federations. For example, the H&M Global Framework Agreement has contributed to smooth industrial relations in Bangladesh, Cambodia, Indonesia and Myanmar (IndustriALL 2017).

²⁹ Further information is available from the following website: https://www.ilo.org/global/topics/coronavirus/sectoral/WCMS_742343/lang--en/index.htm.

³⁰ More information on these countries can be found on the website of the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States: <https://www.un.org/ohrlls/content/least-developed-countries>.

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