Box 3.1

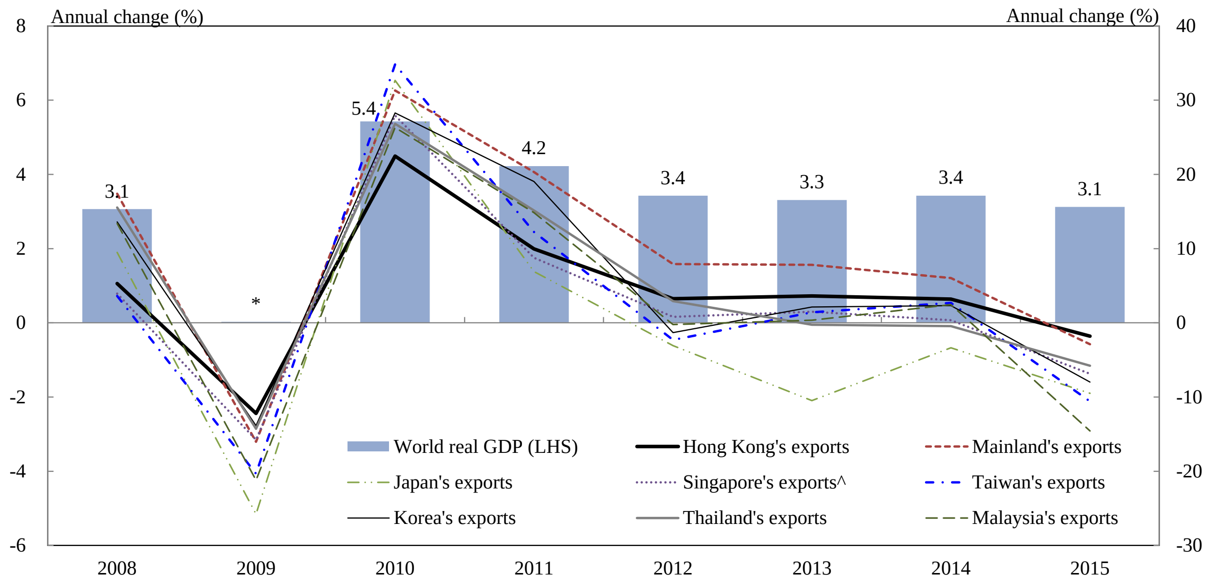
The cyclical and secular forces behind Hong Kong's merchandise export performance

The performance of Hong Kong's merchandise exports was lacklustre in the recent past, in tandem with those of many other export-dependent economies in Asia. While cyclical factors such as flagging global demand and heightened financial volatility could be the key determinants, the persistently subdued global trade performance in the recent years in contrast with the buoyancy in the period before the 2008 Global Financial Crisis may suggest the influence of secular or structural factors. This box article reviews the major cyclical and structural developments in the external trading environment.

For 2015 as a whole, Hong Kong's merchandise exports relapsed to shrink by 1.8% in value terms, following the 3.2% growth in 2014, representing the first annual decline since 2009. In volume terms, merchandise exports fell by 1.7% in 2015, after the 1.5% growth in 2014. The key drag stemmed from cyclical factors including the sluggish external demand amid slower global economic growth and more volatile financial conditions, and to a lesser extent the strength of the US dollar. Yet, some secular structural forces seemed also to have been at play.

Latest estimates from the IMF suggest that global economic growth slowed to 3.1% in 2015 from 3.4% in 2014, marking the slowest growth since the Global Financial Crisis. The resultant blow to Asia's exports from the weak global demand, in particular from the advanced economies, was rather severe. As illustrated in ***Chart 1***, exports of many major Asian economies took a turn and worsened in 2015, registering declines ranging from 3% to 15% in US dollar terms. Indeed, many of them suffered the worst setback in export performance since 2009. By such comparison, Hong Kong's export performance, with merchandise exports falling by 1.8% in US dollar terms, still fared relatively better than many major Asian economies in 2015.

Chart 1 : Merchandise export growth in US dollar terms and world economic growth



Notes: (*) Less than 0.05%.
(^) Singapore exports denote non-oil domestic exports.

Sources: National statistics offices; IMF World Economic Outlook, October 2015; and Census and Statistics Department.

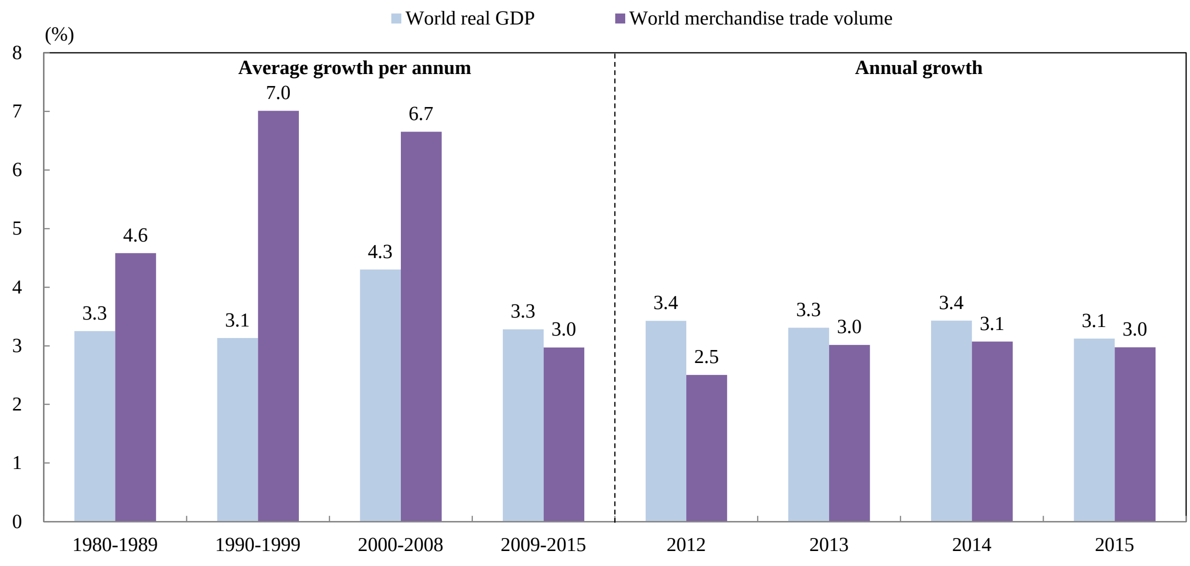
Box 3.1 (Cont'd)

Taking a longer-term perspective at the macro-level, the expansion pace of global merchandise trade volume slowed notably in the period after the Global Financial Crisis, as compared to the past decades. Specifically, world trade volume growth averaged about 3% per annum during 2009-15. This was visibly slower than the average growth of around 7% per annum in both the period before the crisis, i.e. 2000-08, and the 1990s, and also that of about 5% per annum during the 1980s (***Chart 2***). A comparison between the world trade growth and economic growth reveals that structural factors could be at play.

Firstly, the slowdown in global economic growth, with average growth rates moderating from 4.3% per annum during 2000-08 to 3.3% per annum during 2009-15, could partly be under structural influences, and would in turn weigh on global trade growth. While recent growth rates of the global economy were similar to the averages recorded for the 1980s and 1990s, recent research by international institutions such as the IMF suggested that global potential growth had declined, reflecting the legacies of Global Financial Crisis as well as demographic and idiosyncratic structural issues pertaining to various major economies. For example, the US Federal Reserve forecast the US economy to grow by 2% per annum in the long run, which would be slower than the average of 2.8% per annum in the 20-year period before the crisis, i.e. 1989-2008. Besides, major emerging market economies are also expected to expand at a slower pace.

Secondly, the global trade elasticity with respect to output, which measures the responsiveness of trade volume growth with respect to real GDP growth, declined successively in the past decades. Broadly speaking, based on the world economic data of the IMF, global trade growth was around 1.4 times of the world economic growth on average in the 1980s, and such ratio increased drastically to about 2.2 times in the 1990s. On entering the millennium, it fell to 1.5 during 2000-08, and declined further to only around one in the post-crisis period, i.e. 2009-15. This suggests that some other structural factors may be in force aside from the Global Financial Crisis, including shifts in trade pattern over time.

Chart 2 : World economic growth and world merchandise trade volume growth



Sources: IMF World Economic Outlook Update, January 2016, and World Economic Outlook, October 2015.

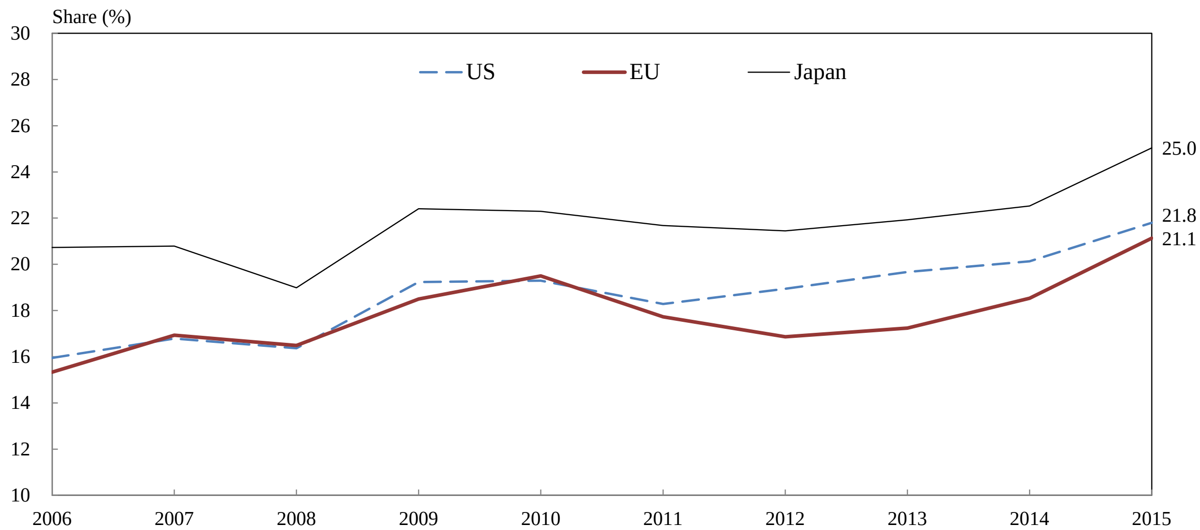
Box 3.1 (Cont'd)

Such a "stylised fact" has stimulated a growing body of discussions and debates in the trade literature. One widely-quoted reason to the higher global trade elasticity in the past is related to the proliferation of the global value chains (GVC) in the 1990s, when production lines were fragmented internationally and, in particular, trading in parts and components surged in the Asian region. The accession of the Mainland to the World Trade Organisation in 2001 gave a further boost. These developments increased the global trade elasticity, which subsequently fell off as the GVC process matured and other one-off boosts diminished.

Another factor may be related to the structural changes within some emerging market economies, especially those in Asia. Many Asian economies, as they turned more mature, would gradually climb up the value chains of trade, focusing more on trade in services and higher-end products. Moreover, the rebalancing of growth towards consumption and services in some of these economies would imply slower trade growth due to slowdown in investment, a component of GDP that some economists considered as more trade-intensive.

Fortunately, the shares of the Mainland and Hong Kong in merchandise imports of the US, EU and Japan continued to climb up, reaching record highs in 2015 (***Chart 3***). In 2015, more than one-fifth of the imports of the US, EU and Japan were sourced from the Mainland and Hong Kong combined (at 21.8%, 21.1% and 25.0% respectively). This indicated that despite the challenging external trading environment, exports of the Mainland and Hong Kong still somewhat outperformed, in relative terms, the other exporting economies.

Chart 3 : Share of imports from the Mainland and Hong Kong in overall import values



Sources: National statistics offices.

In sum, the recent slackening in Hong Kong's export performance was a region-wide phenomenon, mainly dragged by cyclical forces of the sluggish global economic growth and the ensuing setback in external demand. However, some secular developments which may become more influential over the longer term also warrant attention. Slower global trade growth, underpinned by weaker long-term world potential GDP growth and changing trade patterns, could shape a "new normal" in the global trading environment. Yet, Hong Kong's overall economic performance in future will critically depend on our ability to tap new markets, leverage on the opening up and rebalancing of the Mainland economy, explore innovations, and climb up the value chains. The Government will continue to step up efforts to enhance the competitiveness and productivity of our economy