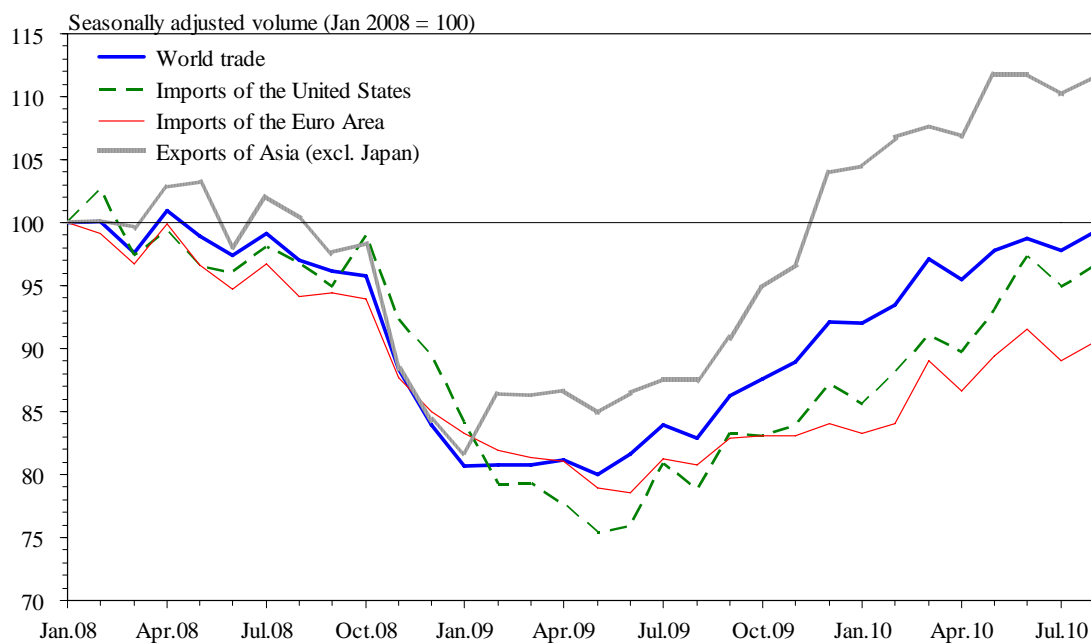


**Box 2.1****Recovery of merchandise trade in Asia in the aftermath of the global financial crisis**

With the Global Financial Crisis in autumn 2008, the economic downturn in the US and Europe in the earlier part of 2008 mutated into a synchronised recession around the world straddling 2008 and 2009. World trade volume plunged alongside the import demand in the US and Europe towards the end of 2008, and languished at low levels in most of 2009. The Asian economies, being the main exporters of many manufactured goods in the world, also saw a steep decline in merchandise trade flows in late 2008, which stayed low in early 2009 (*Chart 1*).

**Chart 1 : World merchandise trade flows converging to pre-crisis peak, led by robust emerging Asia, but US and Europe still lagging behind**



Source: Netherlands Bureau for Economic Policy Analysis  
(<http://www.cpb.nl/eng/research/sector2/data/trademonitor.html>)

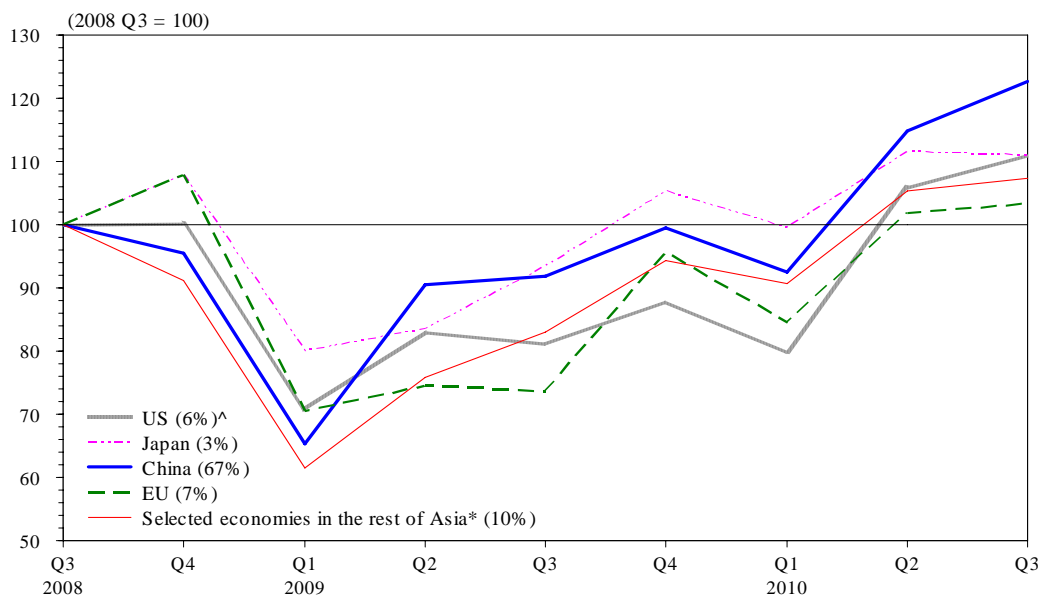
Nevertheless, the Asian economies were the first to recover, in particular the Mainland China economy which resumed faster growth in the second quarter of 2009. The gradual recovery in demand from the US and the euro area towards the end of 2009 was also contributory to the rapid rebound in exports of the Asian economies. However, the economic recovery in the US and Europe was slow, lagging far behind the robust Asian performance. By August 2010, while exports of emerging Asia exceeded the peak in 2008 by a notable margin, import demand from the US, and more visibly the euro area, had yet to resume their pre-crisis levels in 2008.

**Box 2.1 (Cont'd)**

Looking at Hong Kong's exports to selected markets by end-use categories (*Chart 2*) may also shed some light on the profile of import demand of our major markets. Key observations are as follows:

- Under the categories of capital goods and raw materials (*Chart 2a*), Hong Kong's exports to all major markets have surpassed their corresponding pre-crisis levels in 2008. The Mainland China market outperformed the others by a wide margin, while exports to Japan and the rest of Asia were also robust. Given that exports of capital goods and raw materials took up a large share of Hong Kong's exports to these markets, the sharp rebound in Hong Kong's trade flows with the rest of the Asian region was largely driven by the robust industrial production and investment activity in Asia. Exports of capital goods and raw materials to the US and Europe also showed some recovery. Yet the boost to Hong Kong's trade flows from this was relatively marginal in comparison, given the small shares of these end-use categories in Hong Kong's exports to these markets.
- Demand for consumer goods showed a clear divergence between the Asia region and the US and Europe markets (*Chart 2b*). Exports to the Asian markets were more resilient, while those to the US and Europe lagged behind and still fell short of the 2008 level by some notable margin. Given that the US and EU account for over 50% of Hong Kong's total exports of consumer goods, Hong Kong's external trade performance remained subject to a drag from the rather weak consumption demand there.

**Chart 2 : Hong Kong's exports to selected markets**  
**(a) Raw materials and capital goods**

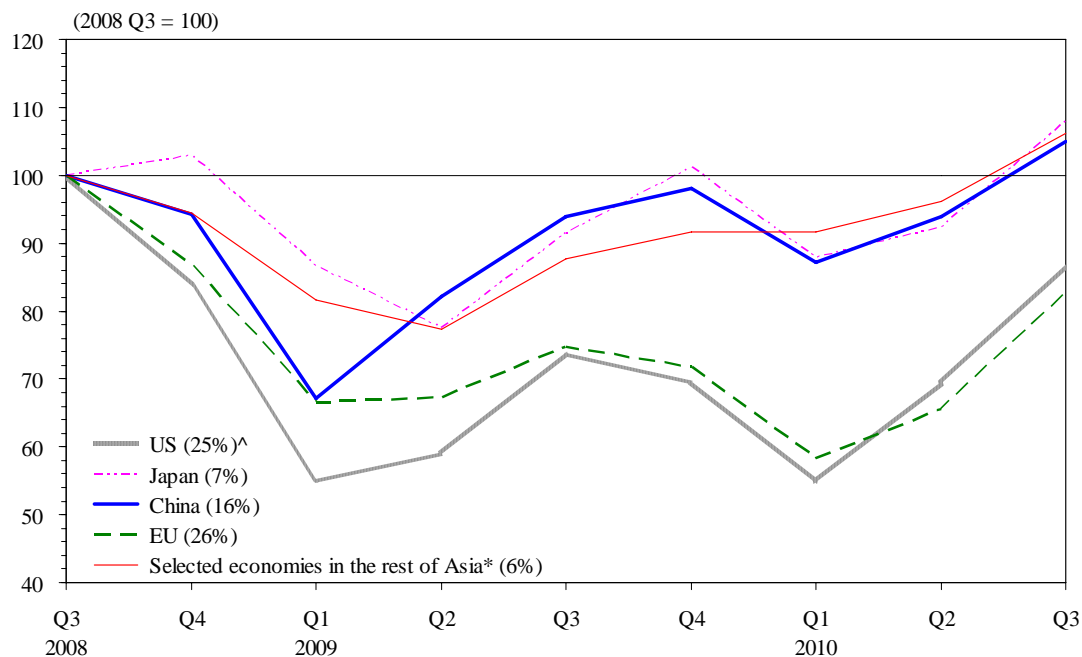


Notes: (^) Percentage in brackets refers to the share accounted by the market concerned in Hong Kong's total exports of raw materials and capital goods in 2009.

(\*) These include Taiwan, Indonesia, Philippines, Korea, Thailand, Malaysia and Singapore.

## Box 2.1 (Cont'd)

## (b) Consumer goods



Notes: (^) Percentage in brackets refers to the share accounted by the market concerned in Hong Kong's total exports of consumer goods in 2009.

(\*) These include Taiwan, Indonesia, Philippines, Korea, Thailand, Malaysia and Singapore.

The above discussion illustrates the divergence between the robust Asian exports and the relatively weak import demand from the US and Europe. The uneven recovery highlights the need for growth rebalancing in the global economy. Advanced economies across regions need to rebuild saving and rely more on export growth, whereas export-dependent Asian economies need to rebalance their growth engine from external sources to domestic demand. While there has been some progress on this front, as can be seen from the rather notable pickup in Hong Kong's exports of consumer goods to Asia, the scale of consumption demand in emerging Asia is still small in comparison to that of the advanced economies, suggesting that this structural process has some way to go and it will take time before Asia can take over from the advanced economies as an engine driving global final demand. Moreover, to the extent that the resurgence in intra-regional trade in Asia is driven by final demand in the advanced economies, there is every reason for cautiousness in the regional export outlook ahead, despite the fact that the volume of world merchandise trade in recent months has already risen back to a level close to the pre-crisis peak.