

**Box 3.1****Overview of regional trade development in recent years**

The trade performance of Asian economies has been volatile in recent years, with a period of notable growth during 2017-18 eventually derailed by US-Mainland trade tensions and the COVID-19 pandemic. The situation largely resembled the trend of global trade<sup>(1)</sup> over the period. This box article provides a brief overview of the export performance of selected Asian economies in recent years.

Exports of Asian economies expanded rapidly in 2017 and the first half of 2018. For instance, exports of the Mainland grew strongly by 12.5% year-on-year in the first half of 2018<sup>(2)</sup>, after an already appreciable increase of 7.9% in 2017. Exports of many other economies in the region showed a similar trend. Yet, signs of weakness emerged in the latter part of 2018 and evolved into a broad-based and significant slowdown in regional trade in 2019 amid softening global economic growth and the escalation of US-Mainland trade tensions. Directly impacted by the tariffs imposed by the US, growth of exports of the Mainland moderated notably to a meagre 0.5% in 2019 (*Table 1*). As the Mainland serves a vital role in the global supply chains, the slowdown in the Mainland's exports inevitably disrupted some of the production and export activities in the region, piling further pressures on the exports of some Asian economies. For instance, exports of Korea, Indonesia and Singapore turned to visible falls of 10.4%, 6.8% and 5.2% respectively in 2019. Vietnam was a visible exception, experiencing sustained notable export growth during this troubled period.

**Table 1: Exports of selected Asian economies**  
(year-on-year rate of change in US dollar terms, %)

Exports of	2017	2018	2019	2020	2019				2020			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
The Mainland	7.9	9.9	0.5	3.6	1.4	-1.0	-0.3	2.0	-13.6	-0.2	8.4	16.7
Japan	8.5	5.7	-4.4	-9.2	-5.7	-6.2	-1.3	-4.4	-4.4	-23.7	-12.0	3.3
Korea	15.8	5.4	-10.4	-5.4	-8.5	-8.7	-12.3	-11.8	-1.9	-20.3	-3.4	4.2
Taiwan	13.0	5.9	-1.5	4.9	-4.2	-2.7	-0.9	1.8	3.7	-2.4	6.0	11.7
Singapore	10.4	10.4	-5.2	-4.2	-2.7	-6.7	-7.8	-3.5	1.7	-14.5	-2.1	-1.7
India	12.8	8.8	-0.1	-14.8	6.7	-1.4	-3.9	-1.9	-12.7	-36.6	-5.3	-4.3
Indonesia	16.3	6.6	-6.8	-2.6	-6.7	-9.3	-7.5	-4.0	1.2	-12.5	-6.5	6.7
Malaysia	14.6	14.4	-3.4	-2.8	-3.6	-4.3	-2.6	-3.1	-2.5	-18.5	3.5	6.6
Philippines	19.7	0.9	2.3	-10.1	-2.0	2.9	2.2	6.2	-5.1	-29.2	-6.5	0.8
Thailand	9.9	6.9	-2.6	-6.0	-1.9	-3.8	-0.5	-4.4	1.0	-15.2	-7.8	-2.0
Vietnam	21.8	13.3	8.4	7.0	5.2	9.1	10.5	8.5	7.8	-6.9	10.7	15.0

Sources : CEIC and internal estimation.

(1) According to World Trade Organization's data, the value of global merchandise exports rose notably by 10.6% and 9.8% in US dollar terms in 2017 and 2018 respectively, before falling by 2.8% in 2019 and plummeting by 14.0% year-on-year in the first half of 2020.

(2) All growth rates quoted refer to value figures on a year-on-year basis and measured in US dollar terms.

**Box 3.1 (Cont'd)**

Entering 2020, the COVID-19 outbreak dealt an unprecedented blow to the global economy. Regional trading activities were seriously disrupted as a result, though the degree of disruptions varied across economies. The Mainland's exports fell visibly by 13.6% year-on-year in the first quarter of 2020, as the epidemic brought along large-scale lockdowns with most production activities halted. Nonetheless, industrial activities resumed swiftly in the Mainland thanks to the early containment of the epidemic there. Consequently, exports of the Mainland bounced back to growth since the second quarter and gathered further steam in the rest of the year, achieving a growth of 3.6% for 2020 as a whole.

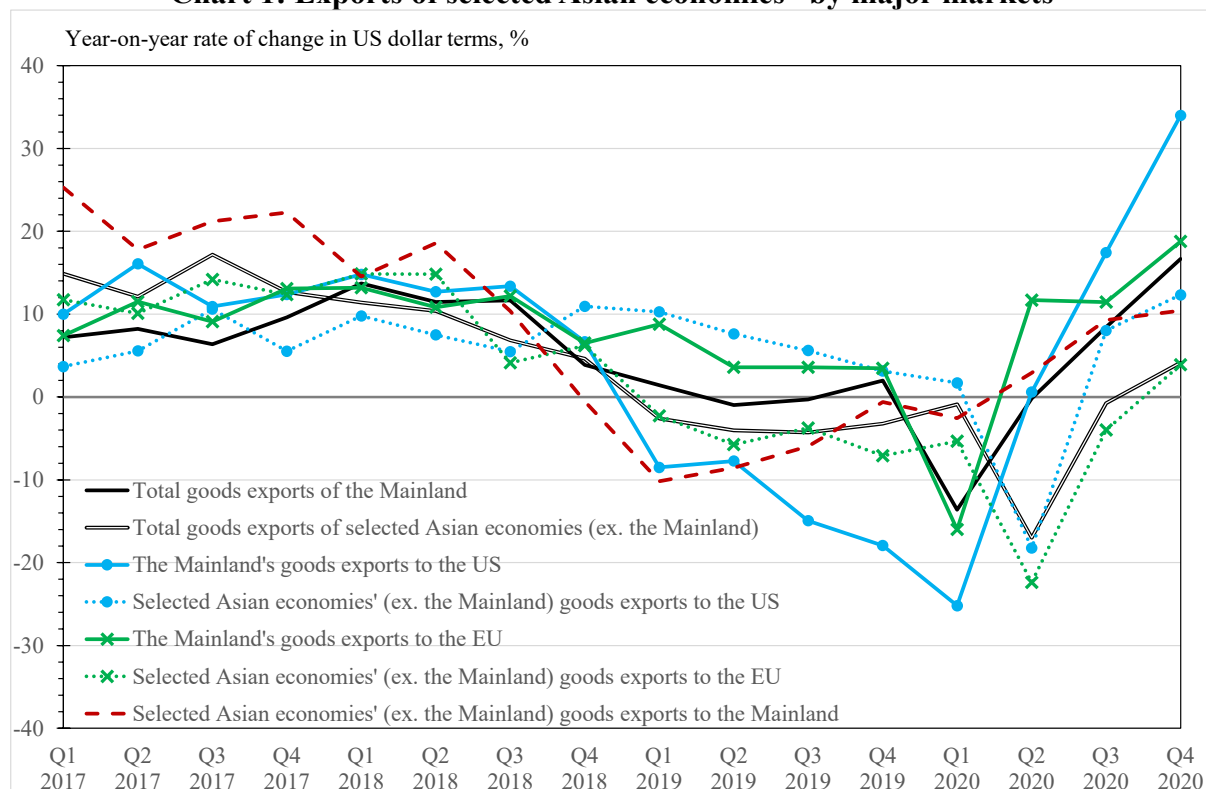
Meanwhile, exports of many other economies in the region remained lacklustre during most of 2020. Indeed, signs of slackening were already seen in some economies in the first quarter, understandably due to the knock-on effect from disruptions of production activities in the Mainland. As COVID-19 turned into a pandemic in mid-March 2020, production and trading activities in the Asian economies were seriously disrupted in the second quarter. At the same time, global demand plummeted as many advanced economies fell into deep recessions. As such, most of the economies in the region saw notable drops in exports in the second quarter. With the global economy recovering gradually in the second half of the year, export performance of Asian economies showed improvement of varying degrees in tandem, but most of them still registered decreases in exports for 2020 as a whole.

An analysis of Asian economies' exports by major markets may offer some insights into how US-Mainland trade tensions and the COVID-19 pandemic affected regional trade flows during 2019-2020 (*Chart 1*). As mentioned earlier, trade tensions between the US and the Mainland cast pressures on export performance of some Asian economies in 2019. Total exports of selected Asian economies (excluding the Mainland) registered year-on-year contractions throughout 2019. Yet, while their exports to the Mainland were particularly weak, those to the US recorded robust growth. This seemed to suggest that some trade diversion might have taken place. On the Mainland side, its exports to the US took a hit as a result of tariffs, but those to the EU continued to grow and even outperformed other Asian economies' exports to the same destination. This conceivably reflected the Mainland exporters' efforts to diversify their markets in the face of the escalated US-Mainland trade tensions.

The pattern of regional trade flows saw a sharp change in 2020 amid the COVID-19 pandemic. Exports of selected Asian economies (excluding the Mainland) to the Mainland have resumed growth on a year-on-year basis since the second quarter, while those to the US and the EU nosedived in the second quarter before showing some recovery in the latter part of the year. This is partly because the Mainland economy reopened much earlier than others. As such, regional production chains involving the Mainland revived more quickly, leading to an increase in relevant trade flows. Besides, the Mainland economy has staged a V-shaped rebound since the second quarter of 2020, resulting in a faster recovery of import demand than other economies.

## Box 3.1 (Cont'd)

Chart 1: Exports of selected Asian economies\* by major markets



Note : (\*) Selected Asian economies include the Mainland, Japan, Korea, Taiwan, Singapore, India, Indonesia, Malaysia, Philippines, Thailand and Vietnam.

Sources : CEIC and internal estimation.

Looking ahead, the World Trade Organization forecast global merchandise trade to return to a growth of 7.2% in 2021, though the pace of recovery is subject to uncertainties, especially the development of the COVID-19 pandemic. As long as the global economy can gradually regain momentum, regional trading activities will likely continue to revive, especially in view of the recent efforts to strengthen economic and trade linkages within the region. In particular, the Regional Comprehensive Economic Partnership (RCEP) was signed on 15 November 2020 by 15 economies, including the Mainland, Japan, Korea, Australia, New Zealand as well as the ASEAN member states. The RCEP is the largest free trade agreement to date covering around 30% of global GDP (see **Box 3.2** for detailed discussion on the RCEP). With the Mainland pressing ahead with the “dual circulation” development strategy, its significance as an export destination for other Asian economies should increase further. The Government will strive to be among the first batch of economies joining the RCEP, and continue to safeguard an open and free trade regime to uphold Hong Kong’s status as a major regional trading hub.