

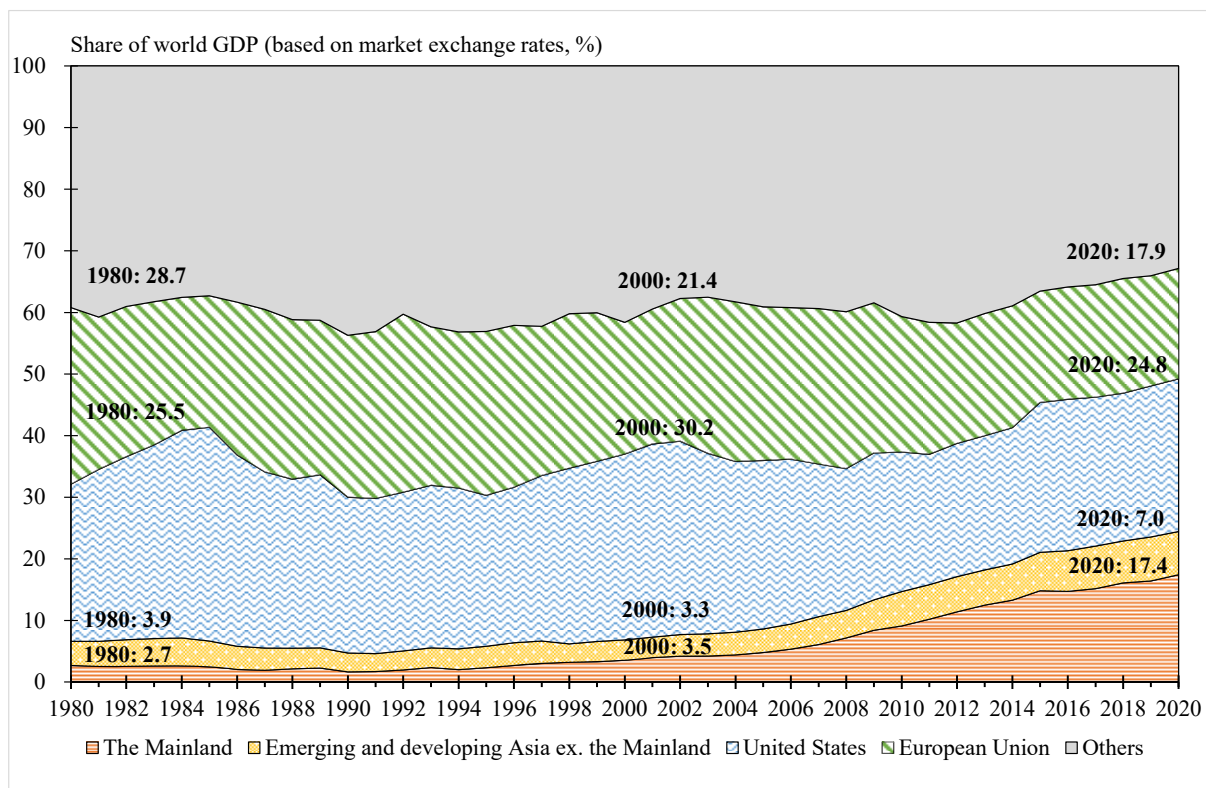
Box 2.2

Eastward shift of global economic gravity

It is widely recognised that global economic gravity has been shifting to the East, reflected via attributes such as GDP, trade and investment. This box article charts the rising importance of emerging and developing Asian⁽¹⁾ economies, especially the Mainland, over the past four decades.

Since the 1980s, the global economic landscape has indisputably shifted, with emerging and developing Asia constituting an increasing share of world GDP (*Chart 1*). The region was able to sustain significant economic growth by embracing globalisation, inducing tighter regional cooperation and improving productivity, notably through investing in innovation and technology. Reforms were also undertaken across the region to shape a more business-friendly environment. In the Mainland, domestic reforms together with a steady rise in domestic demand and deeper integration with the world trading system resulted in notable economic growth and lifted its share of world GDP, based on market exchange rates, from 2.7% in 1980 to 17.4% in 2020. In other emerging and developing Asian economies, structural policy reforms to attract capital flows and foster closer regional economic co-operation were implemented to simulate growth. In synergy with the Mainland’s vast and growing market, these economies’ combined share of world GDP rose from 3.9% to 7.0% over the same period. Meanwhile, advanced economies such as the United States and the European Union had relatively moderate growth amid a different development stage and saw declines in their share of world GDP.

Chart 1: Selected economies’ shares of world GDP



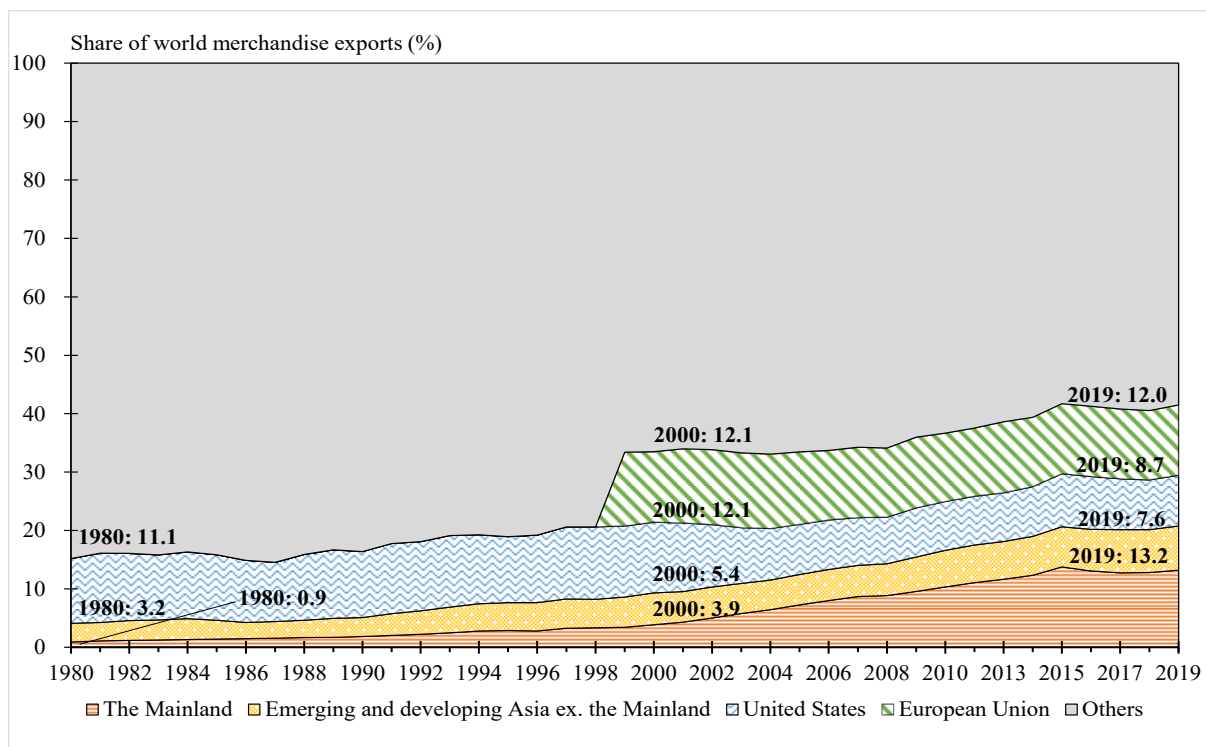
Sources : IMF World Economic Outlook database and internal calculations.

(1) Emerging and developing Asia as defined by the IMF includes the Mainland, India, and ASEAN (excluding Singapore) as well as other smaller Asian economies.

Box 2.2 (Cont'd)

Having become more integrated into the world economy, emerging and developing Asia has naturally taken up a greater role in international trade. For the Mainland in particular, its share of world merchandise exports rose visibly from 0.9% in 1980 to 13.2% in 2019 (*Chart 2*). The Mainland’s accession to the World Trade Organization in 2001 was a pivotal moment, which coincided with the growing globalisation wave. Technological advancements in transportation and communication linkages facilitated deeper global cooperation and cross-regional trading. The Mainland was able to capture this opportunity in these early days with cheap labour and vast production resources, and later cemented its position as the “world’s factory” with a holistic business ecosystem formed from sprawling supply chain networks. Overall, the Mainland’s merchandise exports to regions other than Asia out of its total merchandise exports rose from 31.1% in 1985 to 51.2% in 2019. At the same time, other emerging and developing Asian economies were able to enjoy spillover effects as foreign companies moved their production lines to the East.

Chart 2: Selected economies’ shares of world merchandise exports



Sources : World Trade Organization database, Eurostat and internal calculations.

Note : Export figures for the European Union are available starting in 1999 and refer to exports from the EU 28 (i.e. including the United Kingdom) to the rest of the world.

In tandem with the abovementioned shift of production lines, emerging and developing Asia has attracted a significant amount of foreign direct investment (FDI) over the past few decades. Comparing the five-year period 2015-2019 with 20 years ago, FDI flows into the Mainland and the rest of emerging and developing Asia showed cumulative growth of 226% and 429% respectively, higher than the corresponding figures of 144% and 115% for FDI flows into the United States and the European Union. As a result, the share of Mainland’s inward FDI flows in the world’s total increased from 7.1% in 1995-1999 to 7.8% in 2015-2019. Meanwhile, the share of FDI flows to emerging and developing Asia excluding the Mainland rose by a larger extent from 3.5% to 6.2%. In the other direction, investment originating from Asian economies was also on the rise in recent years as they sought investment opportunities and business cooperation abroad, with the share of Mainland’s outward FDI flows in the world’s total jumping significantly from 0.4% in 1995-1999 to 10.6% in 2015-2019.

Box 2.2 (Cont'd)

Looking ahead, the shifting of global economic gravity from the West to the East is set to continue. The Mainland serves as a vital node in regional supply chains, and its continued growth should bring positive spillover effects to other regional economies. The rise of a larger and richer middle class in emerging and developing Asia will also continue to create higher consumption demand for both goods and services. For example, the OECD's Bilateral Trade in Goods by Industry and End-use database shows that among the Mainland's imports, the share of household consumption goods rose steadily from 2.4% in 2005 to 6.8% in 2019, suggesting that the country is gaining importance in final demand. All in all, the IMF forecast that the Mainland's share of world GDP will rise further from 17.4% in 2020 to 19.3% in 2025, and that for other emerging and developing Asian economies combined will rise from 7.0% to 7.7%. In comparison, the United States' and the European Union's combined share will edge down by about two percentage points to around 41%. By 2025, emerging and developing Asia is expected to contribute around three-fifths of global economic growth (*Table 1*).

Table 1: Economic growth of selected economies

	2020	2021*	2022*	2023*	2024*	2025*
GDP growth (%)						
The Mainland	2.3	8.4	5.6	5.4	5.3	5.1
Emerging and developing Asia ex. the Mainland	-9.2	8.9	7.0	6.7	6.6	6.6
United States	-3.5	6.4	3.5	1.4	1.5	1.6
European Union	-6.1	4.4	3.9	2.3	1.9	1.6
Contributions to world GDP growth (based on purchasing power parity, % share)^						
The Mainland	12.7	26.3	24.0	30.0	30.8	30.8
Emerging and developing Asia ex. the Mainland	-22.8	20.6	21.2	26.6	27.8	28.5
United States	-17.1	16.9	12.6	6.2	6.7	7.2
European Union	-28.0	10.7	13.1	9.4	8.1	6.9
Shares of world GDP (based on market exchange rates, %)&						
The Mainland	17.4	17.7	18.0	18.4	18.9	19.3
Emerging and developing Asia ex. the Mainland	7.0	7.0	7.1	7.3	7.5	7.7
United States	24.8	24.2	24.0	23.6	23.3	22.9
European Union	17.9	18.2	18.3	18.0	17.8	17.6

Sources : IMF World Economic Outlook database and internal calculations.

Notes : (*) Forecast figures by IMF.

(^) All the selected economies are labelled with negative contributions to world GDP in 2020, except the Mainland which attained positive economic growth in the year.

(&) Shares of world GDP of the Mainland and rest of emerging and developing Asia would be higher if estimated on a purchasing power parity basis, at 20.1% and 15.7% respectively in 2025.

As a small and outward looking economy, Hong Kong will as in the past stay tuned to the evolving international economic landscape, getting prepared for any challenges while looking for greater development opportunities. With our unique advantages under "One Country, Two Systems", strong competitive edges in financial services and high value-added professional and business services, as well as deep and extensive connections with the world, Hong Kong will stand to benefit from the ongoing Eastward shift of global economic gravity and the further advancement of the Mainland economy. Under our country's new dual circulation development strategy, Hong Kong will be able to proactively integrate into the national development and achieve greater success in the future as long as we can give full play to our unique roles as a gateway, a springboard and an intermediary. The Government will also play the role of a "facilitator" and "promoter" for our enterprises and people, assisting them to explore new opportunities.