

Hong Kong's Development Positioning in the "East Asian Hemisphere"

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Since the beginning of this century, the most momentous event in human society is undoubtedly the global financial crisis that broke out in 2008. This epic crisis within the Western system ended the globalization led by the West and triggered the reposition of the global economy, which refers to the so-called "rise of the East, fall of the West". IMF statistics show that in 2008, the total economic output of East Asia¹ only accounted for 20.2% of the world's total, far lower than 27.3% in North America and 25.5% in the European Union (EU). By 2020, East Asia's GDP accounted for a substantial increase to 30.3%, compared to 27.9% in North America and 17.9% in the EU, laying the foundation for the region to become the center of global economic gravity.

Historically, the Western developed countries (countries in North America and Western Europe) had dominated the global economy in modern society. When the inter-governmental political forum, Group of Seven, was established in 1975, its seven members accounted for 80% of the gross world product, which refers to an "absolutely controlling" position in the world economy. On the eve of the outbreak of the financial crisis of 2008, the global economy was still revealed as dominated by the U.S and EU, who accounted for more than half of the world's total economic output. However, the financial crisis broke this pattern and made East Asia the center of world economic growth. Specifically, East Asia has contributed more than 40% to global economic growth since then, and the new trend of "rise of the East, fall of the West" has gradually been revealed. According to data provided by KPMG, during the five years from 2015 to 2019, the average economic growth rate of the RCEP with East Asia as the main body was 5.2%, which significantly exceeded the 2.4% of the USMCA, 2.3% of the EU, and 2.2 of CPTPP. This growth data is also substantially higher than the world average growth rate of 3.4%, leading to a continuous increase in the region's economic share of the world.

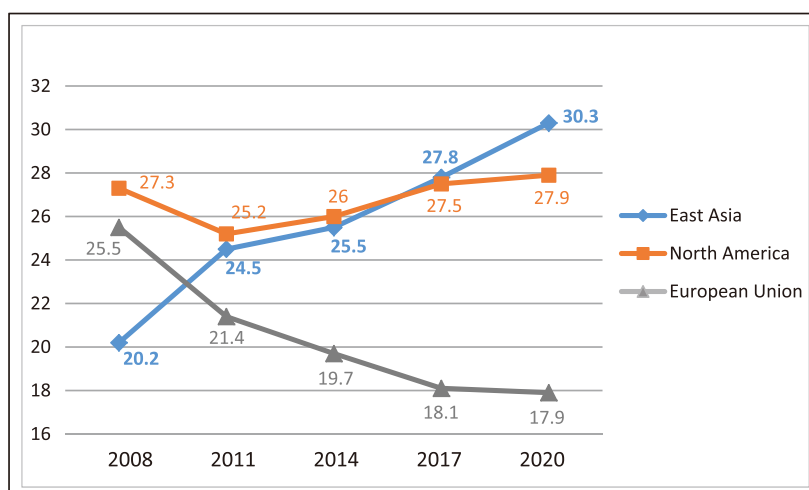
A landmark event was that in 2017, the total economic aggregate of East Asia had surpassed that of North America for the first time and became the world's largest economy. This shift of economic power reshaped the central position for East Asia in global economic activities. In other words, in just nine years, East Asia smoothed the colossal gap in total economic output with North America. It achieved a historical leap from the engine of global economic growth to the center of global economic activity. Although the Covid-19 pandemic first broke out in East Asia in 2020, the epidemic in the region was relatively controlled, enabling the region to take the lead in economic recovery all over the world. Statistically, the share of East Asia's GDP in the world has increased to more than 30% and more than 10 pps higher than that in 2008, with an average annual increase of 0.84 pps. Such an unprecedented increase has rarely happened in the history of regional economic development. As a result, East Asia's GDP has further surpassed North America and the European Union.

1. The Three Economic Engines of the "East Asian Hemisphere"

The rapid rise of the East Asian economy is mainly due to the following three engines of technological innovation, expansion of domestic demand, and deepening regional cooperation. These are the three internal driving forces that support the tremendous growth of the East Asian economy. Their role will be further strengthened in the future due to technological upgrading and the impacts of a collaborative network, which will drive the East Asian economy to grow to a higher level.

¹ The term East Asia used in this analysis refers to 16 economies, including the Mainland China, Japan, South Korea, Hong Kong, Macao, and Taiwan, and the 10 ASEAN countries.

Figure 1: Share of Global GDP for East Asia, North America, and European Union



Source: Wind, BOC Hong Kong Financial Research Institute

1.1 The Growth of Technological Capacity

Among the world's innovation-driven economies, the ranking of East Asian economies has risen rapidly, which has changed the landscape of global innovation patterns. In the 2021 edition of the Global Innovation Index (GII), the World Intellectual Property Organization (WIPO) ranked four East Asian countries to the list of the top 15 innovative economy, namely, South Korea (5th), Singapore (8th), China (12th), and Japan (No. 13). Among which, South Korea ranked from 10th in 2010 to 5th in 2021. Malaysia, Vietnam, Thailand, and the Philippines are also in the top 50, ranking the top among developing economies. For the scientific and technological clusters with the greatest numbers of PCT international patent applications and scientific publications, the city clusters of Tokyo-Yokohama, Shenzhen-Hong Kong-Guangzhou, Beijing, and Seoul have been ranked top 4 in the world, showing that the superior innovation and technological strength of these regions.

It is worth mentioning that since 2013, China has steadily increased its ranking in the Global Innovation Index for 23 places in 9 consecutive years, making it the only middle-income economy among the top 30 in the index. Precisely, the indicators measure country's innovation capacity, such as the number of domestic patent applications, domestic applications for practical purpose, domestic trademark applications, domestic design applications, and the proportion of creative product exports in total export, all reveal that China's innovation capacity has ranked number one in the world. Nowadays, China has operated seventeen top technology clusters in the world. The nation's 14th Five-Year Plan put high-quality development as a major direction for economic reform. At the same time, it regards the completion of a technological industry ecosystem as the country's primary developmental strategy. Obviously, such a transformation will further promote the innovation capability for East Asian countries and make technological innovation the primary driving force for economic growth.

1.2 The Persistent Expansion of Domestic Demand

East Asia is the world's primary production base and the largest consumer market due to the large middle-class population. The World Bank had issued a report in 2017 stating that the developing countries of East Asia and the Pacific have made outstanding achievements in reducing poverty and improving people's living standards. The region has transformed from being dominated by low-income countries in the 1980s to a cluster of middle-income economies by significantly reducing the population in moderate and extreme poverty. According to the latest research by the World Data Lab, the world's middle-class population had reached 3.75 billion in 2020. More than half of them lived in Asia, which made Asian consumers' total spending account for 41% of the world. China is undoubtedly the best in terms of poverty alleviation and expansion of middle-income groups. The number of middle-income population in China has reached more than 400 million, which is equivalent to the total of the 27 EU countries. And its domestic consumption has surpassed that of the United States, becoming a vital force driving the economic growth in East Asia.

And that is just the beginning, with great potential in the future. The first is the upcoming expansion of the

middle-class population in East Asia. The World Data Lab estimates that more than 1 billion Asian population will turn into the middle class in the next ten years, of which China and India will contribute about 750 million. Indonesia will have the fourth largest middle-class population, followed closely by Japan. Based on this calculation, by 2030, the middle class in East Asia will increase to 1.3 billion, 1.5 times higher than the total population of the United States and European Union; by 2040, it will further increase to 1.75 billion. Secondly, as per capita income increases, the middle class in East Asian countries may be entitled to a higher consumption power. With the impacts from the two factors mentioned above, the share of consumer spending in Asia to the world will increase from 41% in 2020 to almost half in 2030, and will further increase to 60% in 2040. And more importantly, East Asia will undoubtedly become the main driver for building up such a big consumer market. The middle-income population in China alone will increase from 400 million now to 800 million in 2030, and may break through 1 billion in 2040. This largest consumer market will continuously drive the East Asian economy to climb to higher levels.

1.3 Deepening Regional Cooperation

Regional economic cooperation between countries has played an essential role in the rapid economic growth of East Asia in the past 20 years. Although diplomatic relations between countries may fluctuate occasionally, the economic cooperation among the East Asian countries has never been terminated. For example, the three “10+1” free trade agreements, namely “China + ASEAN”, “Japan + ASEAN” and “South Korea + ASEAN”, and the East Asia Summit have become important platforms for promoting multilateral plans and actions. Thus, the outputs of these multilateral cooperation networks have been considered very significant in recent years. One of the notable indicators to assess this is that China has become the largest trading partner of 15 East Asian economies for decades. Another indicator is that the ASEAN had surpassed the EU and become the largest trading partner of China in 2020. In the future, the regional cooperation practices between the East Asian countries will be further deepened in the following two paths:

First, the East Asian countries will strengthen their economic cooperation by implementing the Regional Comprehensive Economic Partnership (RCEP). The RCEP was signed at the end of last year, which refers to an important milestone for the region’s economic integration. The RCEP has been considered the world’s most economically valuable regional trade agreement, and it is reportedly opening that all countries are optimistic about its developmental prospects. Even if the RCEP was fully implemented, the footsteps toward further economic integration between the East Asian countries would not be terminated. Members may use CPTPP as a blueprint to start negotiations on an upgraded version of RCEP quickly. In terms of membership distribution, there are currently seven countries participating in both RCEP and CPTPP, accounting for nearly half of RCEP members. These countries are willing to upgrade RCEP. In November last year, Chinese President Xi Jinping stated that China is “actively considering joining” the RCEP, which shed light on China’s attitude; In September this year, the Chinese government formally applied for joining the RCEP. The RCEP has built a sophisticated framework for regional economic integration for East Asian countries at this very first stage. It will continue to be polished in the future until the formation of the East Asian Common Market.

Secondly, the Belt and Road Initiative (BRI) will promote more collaborative practices by fostering high-quality development. The RCEP and BRI have been considered the two major forces that promote regional economic integration, but their functions are different. The RCEP pays attention to setting up rules for international trade and investment, and the ultimate goal is to build up an open market. The BRI is an innovation of globalization and regional cooperation model, mainly driven by China’s infrastructure and production capacity export to its neighboring countries to help with their economy. Since Southeast Asia is a primary market for the expansion of the BRI investment, the implementation of the RCEP soon will offer a better business environment for implementing the BRI projects, which will also benefit the integration and development of the economy in the host countries.

Of course, we must also be aware that the strategic suppression of China by the United States will bring some interference to the regional economic integration in East Asia. However, the momentum of the rise of East Asia is unstoppable. Countries in the region have deeply realized the only chance for their economy to go to the next level is by continuously strengthening regional cooperation. Such doctrine has been viewed as the key to the agreement of the RCEP at the taut diplomatic relationship between China and the United States. With the implementation of the RCEP and BRI, the economic potential of East Asia will be further liberated. It is estimated that by 2040, East Asia’s GDP will account for 50% of the global GDP. In other words, the trend of “rising in the East and falling in the West” of the

world economy will be strengthened by the assistance of technological innovation, domestic demand, the RCEP and BRI in East Asia, and will ensure a new era of 20 years for the East Asian countries to dominate the global economy.

2. Hong Kong's Development Positioning: "One Metropolis, Four Centers"

The formation and development of the East Asian Hemisphere have brought Hong Kong a historic opportunity to achieve further growth. This significant opportunity is concentrated in the form of "One Metropolis, Four Centers". "One Metropolis" refers to becoming a global city, and "Four Centers" refers to becoming the international centers of innovation and technology, finance, commerce, and culture. These will be the future development positioning of Hong Kong and an important opportunity for Hong Kong to rebuild its new advantages and fully integrate into the national development.

Before discussing the possible paths for Hong Kong to be a global city, it is necessary to redefine the concept of a global city based on the new standards. All cities can be classified into domestic and international cities by referencing their openness and influence. The international cities can be further divided into two categories: regional cities and global cities. To be more specific, the impact of regional cities is limited within the region, such as Hong Kong, Singapore, Frankfurt, etc.; Global cities need to have a large land scale, diverse urban functions and recruit talents worldwide. Additionally, a global city must be a technological, financial, educational, and cultural center with intercontinental influence. At present, only New York and London have these factors.

Hong Kong is a cosmopolitan city in Asia as Hong Kong often advertises itself as "Asia's world city". Although there is still a gap with the global cities such as New York and London, Hong Kong is fully equipped to evolve into a global city in the future considering the general economic momentum of East Asia. Practically speaking, the economic influence of a city is highly related to three primary factors: total economic volume, economic structure, and geographic location. Hong Kong is located in the geographic center of East Asia and owns significant geographical advantages to connect with other markets. To transform into an international city in the future, Hong Kong still needs to expand its economic volume and reshape economic structure. Building four major global centers is the key. Specifically:

2.1 Developing a world-class innovation and technology center in the Northern Metropolis

The first necessary task for Hong Kong to evolve into a global city is to become a world-class innovation and technology center. As mentioned above, technological innovation is the core engine for East Asia to achieve further development, also provides an opportunity for Hong Kong to become a global city. Hong Kong's future development of the innovative and technological industry should work on the following three paths: (1) Cultivating a world-class business and policy environment to promote innovation. The government needs to actively engage with constructing the innovative industry ecosystem by offering policies and infrastructure to boost the growth; (2) Finding a suitable location in the Northern Metropolis with 30 square kilometers to construct a world-class industrial park for innovation. The government needs to issue tailor-made policies about finance, talents, and housing to accelerate the development of technological and innovative industries; (3) Leveraging the resources of Hong Kong's higher education to create a large-scale international platform that can accommodate 300,000 college students in the Northern Metropolis. The government should issue policies to encourage reputable universities in Hong Kong, the Mainland, and the world to set up branches and research institutes in the region to train more talents supporting Hong Kong's innovation and technology industry.

2.2 Formulate and implement financial development strategies to promote Hong Kong as a global financial center

The second necessary task for Hong Kong to become a global city is to develop into an international financial center. In the article "How Hong Kong reinvigorate based on its three-pronged economy", we pointed out that building into an international financial center is the ultimate goal of a global city, but currently, only New York and London have met these requirements. It is undeniable that Hong Kong still has a gap compared with New York and London regarding their financial industries, but this distance is not out of reach. In this regard, Hong Kong can catch up with New York and London by upgrading its financial sector. To achieve this, Hong Kong may take the following two paths in the future:

First of all, Hong Kong should learn from the experience of how New York and London developed into international financial centers, that is, let the government formulate long-term plans and industrial policies to enhance and expand the existing financial industry. The British government, for example, has provided a good policy environment for the financial sector, including tax incentives, regulatory facilitation, and flexible policies, which have played an essential role in maintaining and developing London's status as an international financial center. Given this, Hong Kong needs to draft a comprehensive plan to lay out the direction and objectives for the city to build a global financial center and adjust the related industrial policies and measures for risk prevention and regulatory control to connect with the financial market in the Mainland.

Second, Hong Kong should focus on developing five leading Asian financial markets, including (1) attracting more Mainland companies to list in the Hong Kong stock market, thereby strengthening the relationship between the capital markets in the two places. Hong Kong may also foster an international bond trading market in Asia, which will help its capital market evolve into a world-class level. (2) Strengthening the financing and transaction functions of RMB to better meet the market's demand for RMB use, which will enhance Hong Kong's position as a hub for offshore RMB business; (3) Further expanding the asset management market in the Mainland and Asia, which will catalyze Hong Kong to approach London in term of the scale of asset under management. (4) Developing Hong Kong as a significant investment and financing platform for the BRI. Specifically, to finance transnational projects through financial institutions and capital markets by offering project loans, syndicated loans, bond issuance and development funds, etc.; (5) Promoting Hong Kong to become a green financial hub in Asia by strengthening cooperation between the overseas and Mainland markets, setting up a "fast track" for overseas green bond issuance, and speeding up the formulation of green economy standards for the relative businesses.

2.3 Actively participate in regional trade agreements to consolidate Hong Kong's position as a global trade center

The third necessary task for Hong Kong to become a global city is to promote the city as an international trade center. Last year, Hong Kong's total merchandise trade ranked 6th in the world, which could be considered a world-class performance; this year, Hong Kong's total merchandise trade will climb to a higher level at US\$1.25 trillion, which indicates its global ranking is expected to be further improved. In the process of moving towards the "East Asian Hemisphere", Hong Kong's merchandise trade owns a lot of potentials for further development. On the one hand, Hong Kong must actively join various regional trade agreements, particularly the RCEP. On the other hand, Hong Kong should initiate free trade negotiations with the economies with good business potentials to purchase Hong Kong's re-export goods. In addition, Hong Kong could export services, such as banking, insurance, and professional services, to the Mainland in the form of cross-border provision. The development of the innovation and technology industry will create a mutually beneficial relationship with the commerce industry. Hong Kong may learn from South Korea's successful experience in doing so.

2.4 Taking the advantages of openness and internationalization to build Hong Kong as a world cultural exchange center

The fourth necessary task for Hong Kong to become a global city is to become a cultural exchange center to the world. Hundreds of thousands of foreigners live and work in Hong Kong, where the Chinese and Western cultures meet and mix. The National 14th Five-Year Plan supported Hong Kong's development into a center of cultural and artistic exchanges between China and foreign countries, which encouraged the city to work on the field with more confidence. Hong Kong should maintain the existing social environment where Chinese and foreign cultures blend, and build world-class cultural facilities, which will make Hong Kong an artistic and creative capital of Asia. In addition, Hong Kong should also increase research on the culture of East Asian countries, increase cultural exchanges with other countries, and assist the central government in interpreting the favorable implication of China's rise.

3. To Achieve Development Goals through Innovation and Cooperation

Although Hong Kong is facing an excellent opportunity to evolve into a global city, it requires long-term and tremendous efforts in, for example, economics, technology, finance, culture, education, livelihood, and governance to make a dream come true. Most importantly, innovation and cooperation could help Hong Kong achieve its development goal of being a comprehensively developed metropolis. In particular:

3.1 To develop innovative consciousness and creative thinking of the society

The essence of innovation is breakthrough and creation. All the achievements of human civilization come from the crystallization of innovative consciousness and creative thinking. As the most successful Special Economic Zone in China, Shenzhen has created a miracle in the world's history of modernization, which benefits from a strong sense of urgency and crisis and dares to try and take risks in the whole city. As a free trade port, Hong Kong takes full advantage of international business rules but lacks creative thinking. Therefore, Hong Kong should further strengthen the sense of urgency for innovation and promote entrepreneurial spirit in the future to reach new heights and new leaps in innovative economy. Hong Kong government should take the lead to enhance creative thinking, establishing some new concepts such as good governance and efficient market and strengthening innovation and global strategic planning, thereby leveraging Hong Kong's comparative advantages in striving for excellence and achievements.

3.2 To jointly build “One City, Four Centers” with Shenzhen and the Greater Bay Area (GBA)

Hong Kong and Shenzhen are the core engines in the GBA to lead the development of nearby regions. In the near future, Hong Kong should cooperate with Shenzhen to establish a global metropolis, which will become the most influential region in East Asia, and eventually form the pattern of “One Metropolis, Two Cities”. Accordingly, the joint construction of a global metropolis between Hong Kong and Shenzhen should be taken as the core strategy of the cooperation. Based on the Northern Metropolis Development Strategy, in-depth planning and full promotion should be made. Ideally, by the end of the 14th Five-Year Plan in 2025, the GDP of Hong Kong and Shenzhen will exceed US\$1 trillion, equivalent to the total level of a world-class metropolis. By 2035, the total GDP in this region will exceed US\$2 trillion, which could keep pace with New York and London. By the 100th anniversary of the founding of the People's Republic of China, the total GDP in this region will further increase to US\$4 trillion, becoming the world's benchmark city and the most prosperous global metropolis.

The development of international innovation and technology, finance, commerce and trade, and cultural exchanges in Hong Kong also benefit from the deep cooperation with Guangdong Province. Promoting the complementarity of innovation between Hong Kong and the Greater Bay Area is essential for Hong Kong in the future. Specifically, high-level research capacity in Hong Kong could make up for the deficiency of research capacity in Guangdong. Meanwhile, the ability to industrialize scientific and technological accomplishments in Guangdong could make up for the shortcomings of the underdeveloped innovation and technology industry in Hong Kong. If this plan can be achieved, the GBA could entirely surpass the Silicon Valley in the United States.

3.3 To resolve internal conflicts with wisdom and courage and to create a metropolis with high quality

From the perspective of international experiences, global metropolises are often considered as the ones with high-living standards. In developing a new era, Hong Kong needs to establish citizen-oriented development and build the high-living standard as the fundamental and goal. In promoting economic transformation, priority should be given to the development of sustainable livelihoods, including housing, education, medical care, culture, and social security, to improve the living standards of Hong Kong citizens. In particular, tackling Hong Kong's housing crisis is the most urgent task. This issue should start with demand management, distinguishing residential needs from investment demand, and adopting different supply methods based on two needs to implement the real “dual housing system” and form two nature-based markets. Accordingly, we had proposed a long-term development strategy named “New Home Ownership Scheme”, which considers the development of the economy, the improvement of citizen livelihood, and the enhancement of social equity. From an economic point of view, the new scheme can effectively promote economic growth while meeting the housing needs of most families in Hong Kong. In this sense, the real estate industry will once again boost Hong Kong's economic growth and provide more job opportunities for the public.

All in all, the formation and development of the “East Asian Hemisphere” has brought Hong Kong an excellent opportunity to accomplish “one city and four centers”. Of course, achieving this goal depends on our wisdom, courage, strategy, and action. If Hong Kong could seize the opportunity and move ahead in the right direction, then an average annual GDP growth of 3-4% can be achieved in the next 20 years. By then, Hong Kong's GDP per capita will rocket up to the range of US\$80,000 to US\$100,000, genuinely entering the ranks of super-high-income economies. At that time, Hong Kong will be able to get rid of the predicament of stagnation and make more remarkable contributions to the country's modernization.

主要經濟指標 (Key Economic Indicators)

一. 本地生產總值 GDP	2019	2020	2021/Q1	2021/Q2
總量 (億元) GDP(\$100 Million)	27,997	26,277	6,980	6,752
升幅 (%) Change(%)	-1.2	-6.1	8.0	7.6
二. 對外貿易 External Trade			2021/9	2021/1-9
外貿總值 (億元) Total trade(\$100 Million)				
總出口 Total exports	40,961	39,275	4,418	35,813
進口 Total imports	45,714	42,698	4,842	38,524
貿易差額 Trade balance	-4,753	-3,422	-424	-2,712
年增長率 (%) YOY Growth(%)				
總出口 Total exports	-5.6	-1.5	16.5	27.3
進口 Imports	-8.1	-3.3	23.5	26.5
三. 消費物價 Consumer Price				
綜合消費物價升幅 (%) Change in Composite CPI(%)	2.9	0.3	1.4	1.4
四. 樓宇買賣 Sale & Purchase of Building Units			2021/10	2021/1-10
合約宗數 (宗) No. of agreements	74,804	73,322	6,250	81,818
年升幅 (%) Change(%)	-5.5	-2.0	1.0	39.9
五. 勞動就業 Employment			2021/6-2021/8	2021/7-2021/9
失業人數 (萬人) Unemployed(ten thousands)	139	259.1	18.8	18.1
失業率 (%) Unemployment rate(%)	2.9	5.5	4.7	4.5
就業不足率 (%) Underemployment rate(%)	1.1	3.1	2.2	2.1
六. 零售市場 Retail Market			2021/9	2021/1-9
零售額升幅 (%) Change in value of total sales(%)	-11.1	-24.3	7.3	8.0
零售量升幅 (%) Change in volume of total sales(%)	-12.3	-25.5	4.7	6.8
七. 訪港遊客 Visitors				
總人數 (萬人次) arrivals (ten thousands)	5,590	356.9	0.9	5.5
年升幅 (%) Change(%)	-14.2	-93.6	8.2	-98.5
八. 金融市場 Financial Market			2021/8	2021/9
港幣匯價 (US\$100=HK\$)				
H.K. Dollar Exchange Rate (US\$100 = HK\$)	779.3	775.2	777.7	778.7
貨幣供應量升幅 (%) change in Money Supply(%)				
M1	2.6	30.1	-4.2	0.1
M2	2.8	5.8	0.4	1.4
M3	2.7	5.8	0.4	1.4
存款升幅 (%) Change in deposits(%)				
總存款 Total deposits	2.9	5.4	0.4	1.6
港元存款 In HK\$	2.5	6.2	-3.3	-2.2
外幣存款 In foreign currency	3.2	4.6	4.3	5.6
放款升幅 (%) in loans & advances(%)				
總放款 Total loans & advances	6.7	1.2	-1.3	-0.1
當地放款 use in HK	7.1	1.7	-1.6	-0.1
海外放款 use outside HK	5.8	0.1	-0.4	0.1
貿易有關放款 Trade financing	-0.7	-6.2	22.4	25.3
最優惠貸款利率 (%) Best lending rate (%)	5.0000	5.0000	5.0000	5.0000
恆生指數 Hang Seng index	28,189	27,231	25,879	24,576