

# Development of Trade in Goods and Services Statistics in Hong Kong, China

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## Introduction

- New international statistical standards for recording goods for processing and merchanting based on “change of ownership” principle
  - ⇒ Introduction of “Manufacturing services on physical inputs owned by others”
  - ⇒ Removal of “Goods for processing” from merchandise trade
  - ⇒ Removal of “Merchanting” from trade in services
- Major recommendations will be implemented in Hong Kong for the compilation of GDP and BoP statistics in the latter part of 2012

## Growing significance of trade in goods and trade in services in Hong Kong

Ratio of TIS to GDP (%) :

Year	Exports of services	Imports of services	Total TIS
1990	23.8	16.8	40.6
2000	23.9	14.6	38.5
2010	47.4	22.7	70.1

Ratio of Trade in goods to GDP (%) :

Year	Exports of goods	Imports of goods	Total trade in goods
1990	106.8	105.2	212.0
2000	119.4	124.2	243.6
2010	175.5	194.7	370.2



## Overview of Hong Kong's external trade

- Hong Kong's external trade mainly comprised merchandise trade in the past.
- Increasing degree of globalization of the world economy in past decades and opening policy of the mainland of China in late 1970s
  - ⇒ Remarkable development in both trade in goods and trade in services
  - ⇒ Relocation of production processes to the mainland of China
  - ⇒ Structural shift of Hong Kong to a servicing economy



## Hong Kong plays an important role as the regional and world hub

According to WTO statistics released, ranking of Hong Kong's trade in goods and trade in services in 2010 :

### World:

Exports of goods : 11<sup>th</sup>

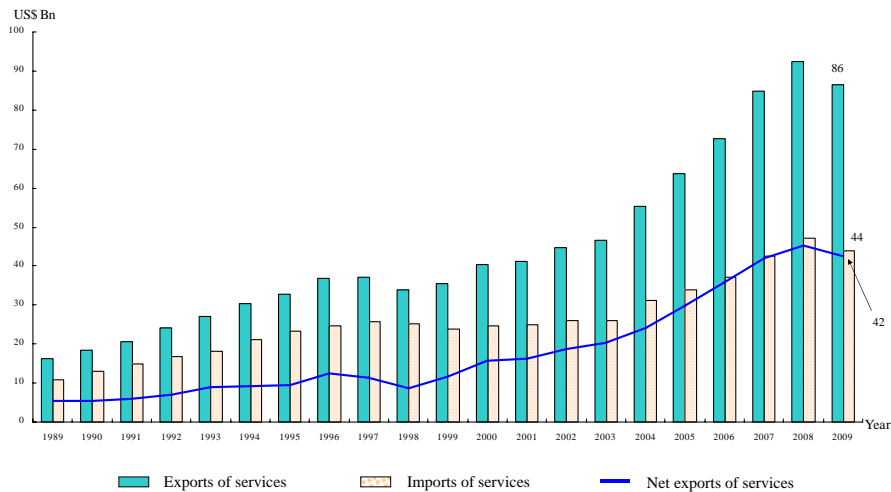
Exports of services: 11<sup>th</sup>

### Asia Pacific region:

Exports of goods : 4<sup>th</sup>

Exports of services: 5<sup>th</sup>

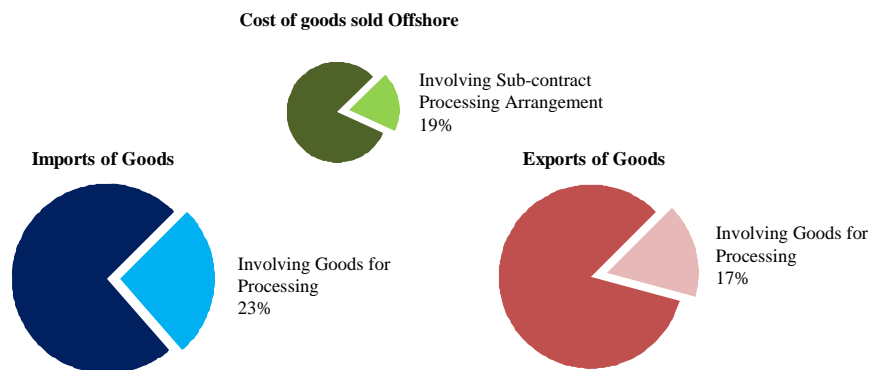
## Trade in services of Hong Kong



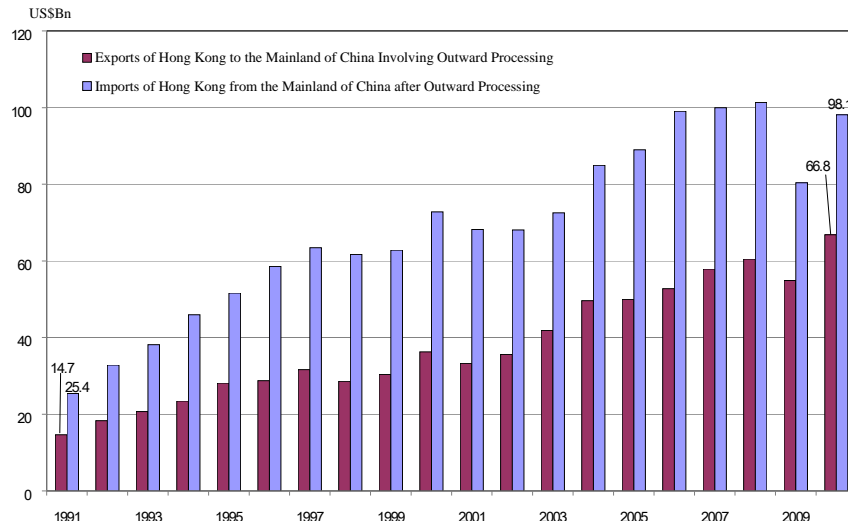
## Hong Kong's Outward Processing Trade

- Predominantly carried out in the Mainland
- Finished goods are re-imported to Hong Kong or exported to directly to overseas markets after processing
- Two types of inward processing trade in the Mainland:
  - ⇒ “*processing and assembling*”
    - involve no change of ownership
  - ⇒ “*processing with imported materials*”
    - involve change of ownership

## Proportion of outward processing to imports and exports of goods of Hong Kong and offshore trade involving outward processing, 2009



## Outward processing trade of Hong Kong with the mainland of China, 1991-2010



## Current Practice of Compiling OP Activities

### Outward processing in the Mainland with goods re-imported to Hong Kong

⇒ Survey on Trade Involving Outward Processing in the Mainland of China (OP Survey)

### Offshore trade involving outward processing

⇒ Annual Survey of Imports and Exports of Services (ASIES)

## Survey on Trade Involving Outward Processing in the Mainland of China (OP Survey)

- Establishment survey conducted on a monthly basis since third quarter of 1988
- Delineate OP activities in the Mainland from the regular trade
- Estimate the value and proportion of Hong Kong's trade involving OP in the Mainland
- Sampling units: import/export declarations in respect of Hong Kong's trade with the Mainland
- Survey method: Computer-Assisted Telephone Interviews

## Survey on Trade Involving Outward Processing in the Mainland of China (OP Survey)

### Coverage

- ⇒ OP activities with exportation of raw materials/semi-manufactures from Hong Kong with contractual arrangement for subsequent re-importation of processed goods into Hong Kong
- ⇒ OP activities under the arrangement of “*processing with imported materials*” or “*processing and assembling*”

## Annual Survey of Imports and Exports of Services (ASIES)

- Establishment survey conducted since 1980 to collect detailed TIS data from establishments having significant amount of TIS transactions
- Collect data related to offshore trade activities since 1999
- Sampling frame: Central Register of Establishments (CRE)
- Questionnaire: Industry-specific questionnaires
- Survey method: Postal enumeration, Telephone interview, Face-to-face interview

## Annual Survey of Imports and Exports of Services (ASIES)

### Coverage

- ⇒ ASIES covers all industries
- ⇒ Data on offshore trade activities largely collected from establishments in imports and exports trade sector
- ⇒ A sample of around 4 000 establishments selected from around 100 000 establishments in sampling frame of imports and exports trade sector
- ⇒ To fill data gap of OP Survey, goods manufactured outside Hong Kong and directly sold to parties outside Hong Kong without the goods entering and leaving Hong Kong through sub-contract processing arrangement under “*processing and assembling*” or “*processing with imported materials*” are covered

## **New International Standards on Goods for processing**

- Change of ownership principle
- Imports and exports of goods involved in processing without a ‘change of ownership’ to be *excluded* from trade in goods
- Payments of processing fees to the processing economy are recorded as imports of “manufacturing services on physical inputs owned by others” by the goods hosting country/economy



## **Manufacturing Services on Physical Inputs owned by Others**

- Cover processing, assembly, labeling, packing, etc. undertaken by enterprises that do not own the goods and that are paid a fee by the owners
- Ownership of the goods does not change between the processor and the owner
- Only the fee charged by the processor is included
- Also cover the cost of materials purchased by the processor

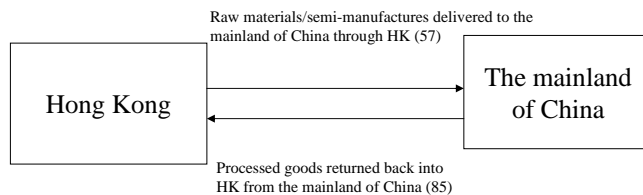




## Manufacturing Services on Physical Inputs owned by Others

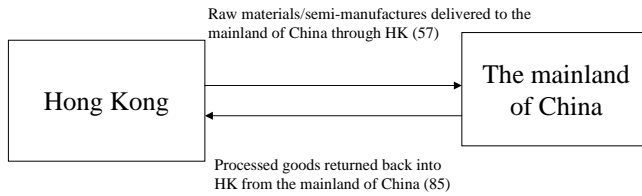
- Apply to the goods sent to the Mainland for processing under the arrangement of “*processing and assembling*” only as no change of ownership is involved for both inputs and finished goods
- Processing under the arrangement of “*processing with imported materials*” should be recorded under general merchandise as there involves a change of ownership for both inputs and finished goods

## Typical trade flows of outward processing trade of Hong Kong (US\$)



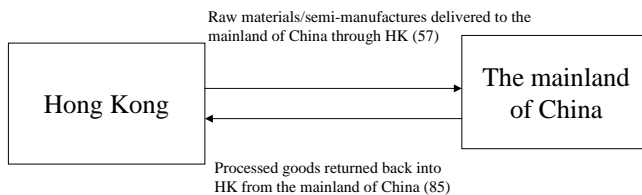
Current situation:  
57 → exports of goods  
85 → imports of goods

## Typical trade flows of outward processing trade of Hong Kong (US\$)



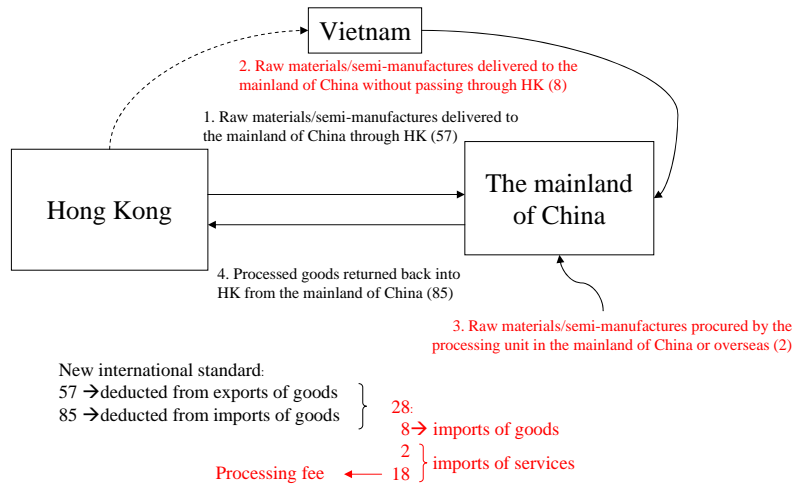
New international standard:  
 57 →deducted from exports of goods  
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## Typical trade flows of outward processing trade of Hong Kong (US\$)



New international standard:  
 57 →deducted from exports of goods  
 85 →deducted from imports of goods } 28: all counted as imports of services?

## Typical trade flows of outward processing trade of Hong Kong (US\$)



## Implementation of the New Standards

### Outward processing in the Mainland with goods re-imported to Hong Kong

- **Data models** are constructed to produce preliminary estimates of trade aggregates to support timely compilation of GDP and BoP statistics
- **Enhanced the Survey on Trade Involving Outward Processing in the Mainland of China**
  - ⇒ To collect additional information pertaining to imports from the Mainland related to OP which involve processing under the arrangement of “*processing and assembling*”
  - ⇒ To revise the preliminary estimates at aggregate level and provide parameters for updating the data models

## Implementation of the New Standards

### Enhanced OP survey

- Since Q2 2008, the quarterly sample size has been doubled to around 28 500 imports/exports declarations
- To collect additional information for goods imported from the Mainland involving processing under the arrangement of “*processing and assembling*”:
  - ✧ processing fee paid by Hong Kong;
  - ✧ raw materials/semi-manufactures provided through Hong Kong;
  - ✧ raw materials/semi-manufactures procured from sources other than Hong Kong and delivered directly to the Mainland without going through Hong Kong; and
  - ✧ raw materials/semi-manufactures procured directly by the Mainland processing units

## Implementation of the New Standards

### Offshore trade involving outward processing

- Launched a new “Quarterly Survey of Merchanting and Other Trading Activities” (QSMTA) since the reference period of the first quarter of 2010 :
  - ⇒ To collect quarterly data on the sales and the cost of goods sold for merchanting
  - ⇒ To collect data related to offshore trade activities involving outward processing
  - ⇒ Sampling frame: industries with significant offshore trade activities or TIS transactions
  - ⇒ Sample size: 4 000 establishments each quarter
  - ⇒ Questionnaire: industry-specific questionnaires

## Implementation of the New Standards

### QSMTA

- To collect additional information for offshore trade of goods involving processing under the arrangement of “*processing and assembling*”:
  - ✧ value of goods sold offshore after processing ;
  - ✧ value of cost of goods sold offshore after processing, with further breakdown into:
    - (a) processing fees paid by Hong Kong;
    - (b) raw materials/ semi-manufactures procured by Hong Kong traders and delivered to processing units through Hong Kong;
    - (c) raw materials/ semi-manufactures procured by Hong Kong traders but delivered to processing units without passing through Hong Kong;
    - (d) raw materials/ semi-manufactures procured by the processing units.

## Preliminary results

### Outward processing in the Mainland with goods re-imported to Hong Kong

- ⇒ Processing fees accounted for around 20% of the import value of goods manufactured under arrangement of “*processing and assembling*” in the Mainland
- ⇒ Higher proportion of processing fees for some commodities, e.g. *toys, games and sports requisites*

## Preliminary results

### Offshore trade involving outward processing

- ⇒ Around 10% of goods sold offshore involve outward processing under the arrangement of “*processing and assembling*”.
- ⇒ Processing fees accounted for around 20% of the cost of goods sold offshore under the arrangement of “*processing and assembling*”.

## Preliminary results

Preliminary studies on sources of investment of sampled establishments involving in the OP activities under the arrangement of “*processing and assembling*” as identified in the enhanced OP Survey and QSMTA:

***Business scene is dominated by locally owned establishments***

## Impact on Hong Kong's published trade statistics

External Trade of Hong Kong in 2008	Under BPM5	Change of ownership	Change of ownership	Change of ownership	Change of ownership
Exports of Goods	365	-57	308	-16%	
Imports of Goods					
<i>Balance of Trade in Goods</i>	-23				
Exports of Services	92		92	0%	
Imports of Services	47	+2	+18	67	+42%
<i>Balance of Trade in Services</i>	45			25	
<i>Balance of Trade in Goods and Services</i>	22			22	

Export of goods for OP  
 Procurement of raw materials/ semi-manufactures from abroad for OP without passing through Hong Kong  
 Other procurements of materials/semi-manufactures for processing units  
 Processing fees

## Way Forward

### Dissemination plan:

- conventional merchandise trade statistics will continue to be compiled
- a supplementary set of trade in goods and trade in services statistics based on the “change of ownership” principle under the *BPM6* will be compiled starting from 2012 for data backcasted to 1990s

## Way Forward

### Educational and publicity work:

- provide bridge tables explaining the gaps between the two sets of figures
- publish educational leaflets with illustrative applications for two sets of trade in goods figures
- engage different target groups of stakeholders (e.g. media, academia, economic analysts, teachers of secondary schools)

## Thank You