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Hong Kong's compilation of manufacturing services
and implementation of the change of ownership
principle

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Desmond Sam, Statistician
Census and Statistics Department, Hong Kong, China



Hong Kong's trade in services (TIS)

- Data for 1980 - 1994
 - Broad components

- Enhancements on data for 1995 onwards
 - 1990s : Detailed service types and country breakdowns
 - 2012 : Change of ownership principle and other enhancements in services classification and estimation methods



Change of ownership principle

- Merchanting

- Goods sent abroad for processing
 - Hong Kong's **outward processing** predominantly carried out in Mainland China
 - Negligible **inward processing** in Hong Kong



Outward processing in Mainland China

- Two types of outward processing arrangements in Mainland China
- **Processing and assembling**
 - Materials supplied by non-residents to Mainland China processors with **no change of ownership**
- **Processing with imported materials**
 - Materials purchased and imported from non-residents by Mainland China processors with **change of ownership**



Activities with manufacturing services

- Processing on goods owned by others with the owner and processor residing in different economies
 - ▣ Imports and exports of manufacturing services by owner and processor respectively

- Goods sent to Mainland China for processing under “**processing and assembling**” arrangement without change of ownership
 - ▣ Processed goods returned to Hong Kong
 - ▣ Processed goods sold offshore after processing



Data requirements

Goods sold under merchanting	<ol style="list-style-type: none"> 1. Sales value of goods (A_1) 2. Cost of goods sold (A_2)
Goods sent to Mainland China under “processing and assembling” arrangement	<p>For processed goods returned to Hong Kong</p> <ol style="list-style-type: none"> 1. Value of goods sent from Hong Kong (B_1) 2. Cost of materials sent from other places (B_2) 3. Cost of manufacturing services (B_3) 4. Value of goods returned after processing (i.e. $B_1+B_2+B_3$)
	<p>For processed goods sold offshore</p> <ol style="list-style-type: none"> 1. Value of goods sent from Hong Kong (C_1) 2. Cost of materials sent from other places (C_2) 3. Cost of manufacturing services (C_3) 4. Sales value of goods (C_4)



Impact on Hong Kong's TIS

Exports of services (2011)

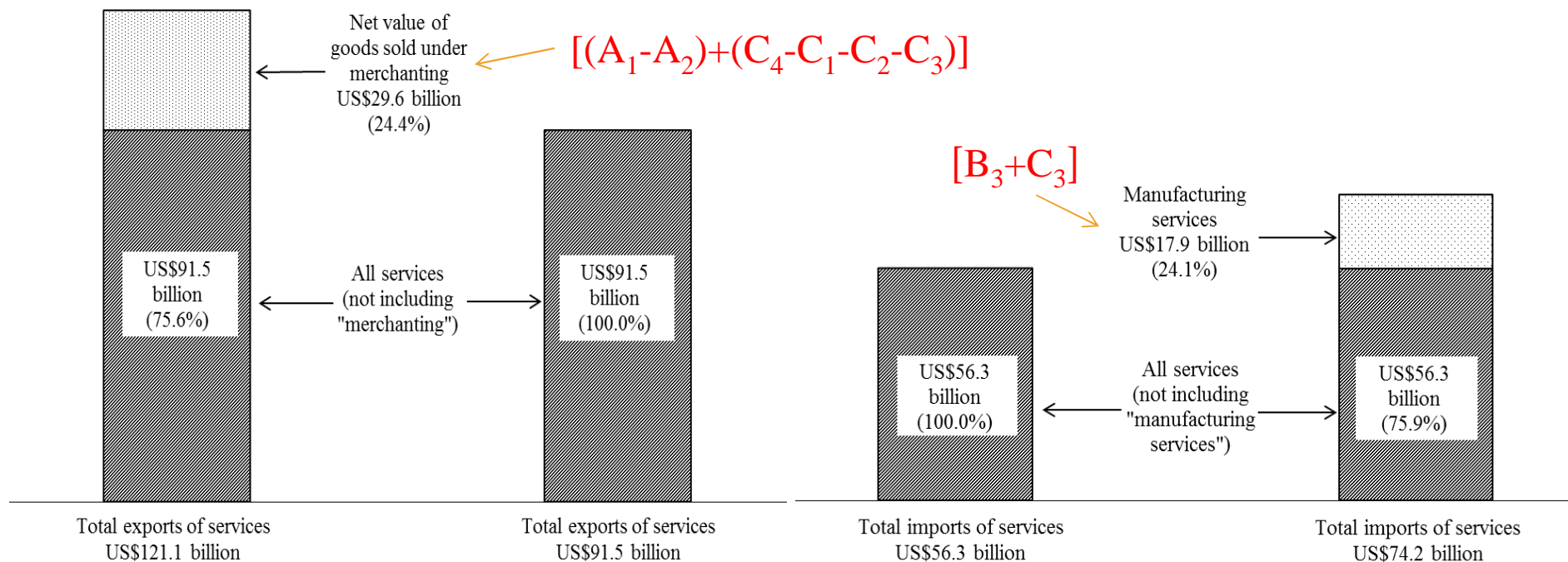
Imports of services (2011)

Before the adoption of the change of ownership principle

After the adoption of the change of ownership principle

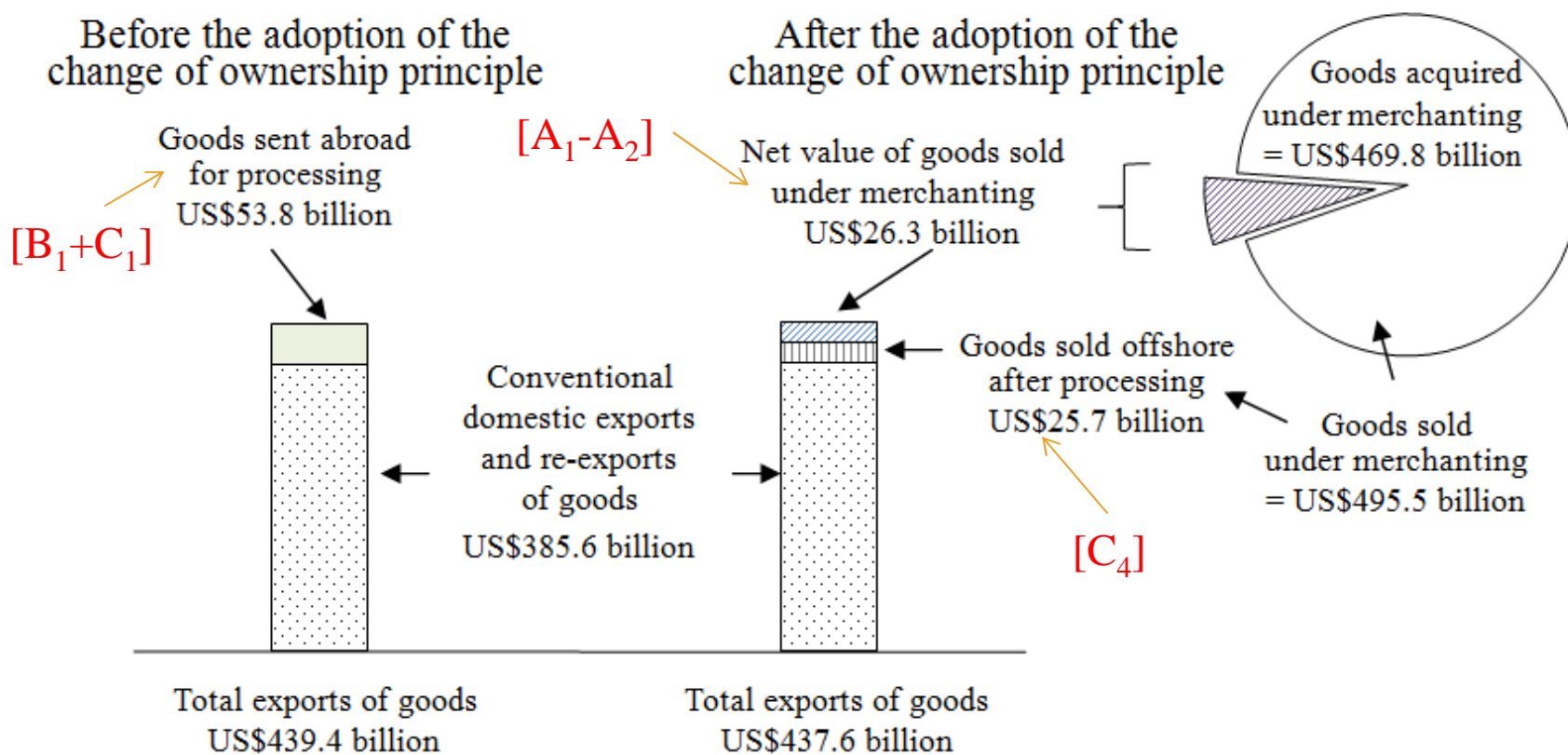
Before the adoption of the change of ownership principle

After the adoption of the change of ownership principle



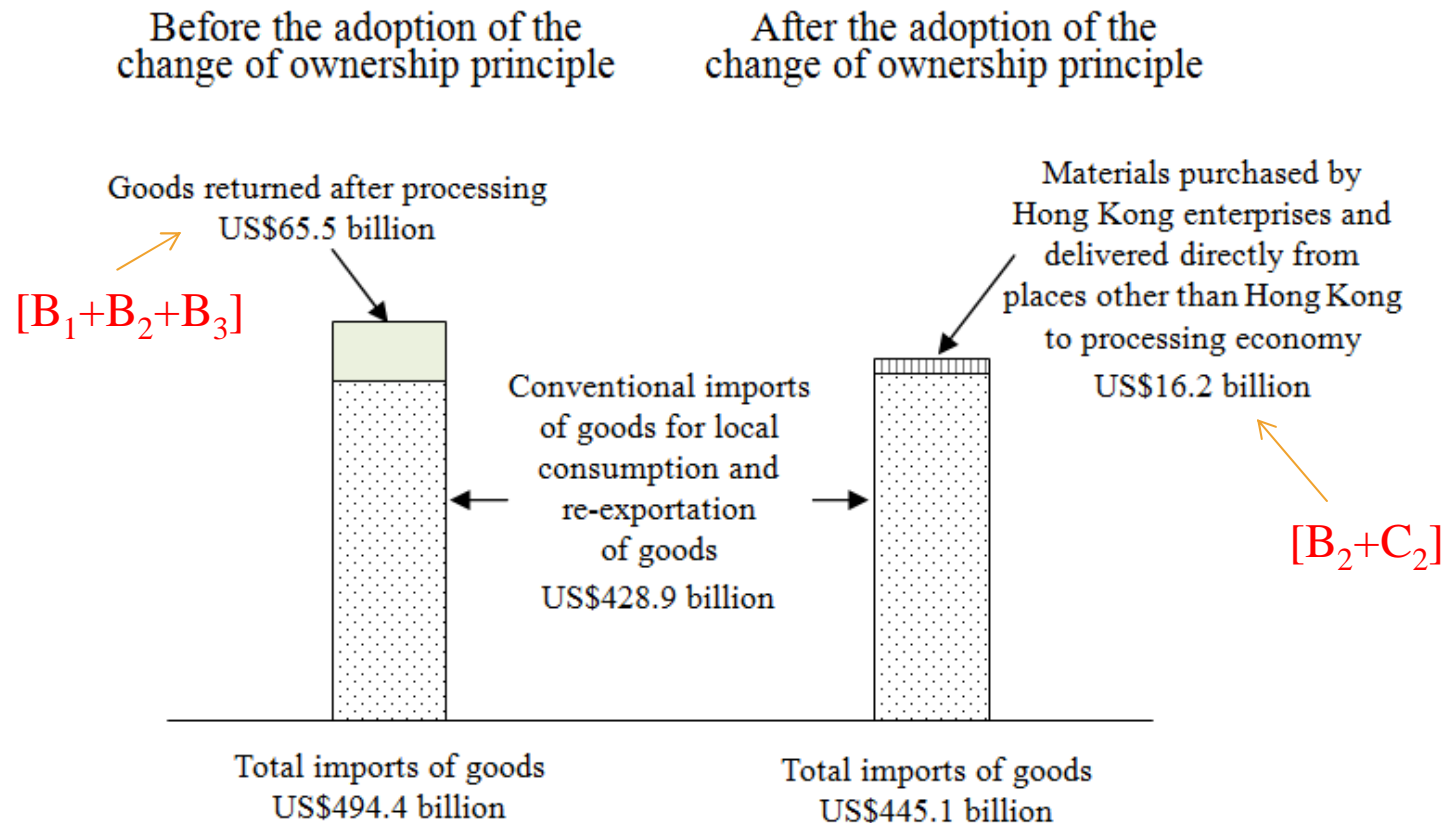
Impact on Hong Kong's goods exports

Exports of goods (2011)



Impact on Hong Kong's goods imports

Imports of goods (2011)



Data sources for merchanting and processed goods sold offshore

- Merchanting
 - ▣ Annual Survey of Import and Export of Services (**ASIES**)

- Processed goods sold offshore after processing
 - ▣ **ASIES** enhanced to collect the sales value and various cost components of the goods involved in “processing and assembling” arrangement

- **Quarterly survey** launched to collect similar information for timely compilation of quarterly GDP and BoP



Data items in ASIIES

- Sales value (A_1) and cost (A_2) of goods sold under merchanting
- Goods sold offshore after “processing and assembling” or similar arrangements
 - ▣ Value (C_1) of materials sent from Hong Kong to the processor’s economy
 - ▣ Cost (C_2) and origin of materials purchased and delivered directly from places other than Hong Kong to the processor’s economy
 - ▣ Cost (C_3) of manufacturing services
 - Processing fee paid by Hong Kong owners
 - Cost of materials procured directly by the processors abroad
 - ▣ Sales value (C_4) of processed goods sold offshore by origin, destination and commodity group



Data sources for processed goods returned to Hong Kong

- Processed goods returned to Hong Kong
 - ▣ **Import declarations** from the Hong Kong Customs and Excise Department and related to goods under processing for identifying target enterprises
 - ▣ **Survey on Trade Involving Outward Processing in the Mainland of China (OP Survey)** enhanced to collect from a monthly sample of the identified enterprises the various cost components of goods involved in “processing and assembling” arrangement



Data items in OP Survey

- **Imports** from Mainland China involving outward processing of goods under “**processing and assembling**” arrangement
 - Value (B_1) of materials sent from Hong Kong to Mainland China
 - Cost (B_2) and origin of materials purchased and delivered directly from places other than Hong Kong to Mainland China
 - Cost (B_3) of manufacturing services
 - Processing fee paid by Hong Kong owners
 - Cost of materials procured directly by Mainland China processors
- Value ($B_1 + B_2 + B_3$) and commodity type of goods returned from Mainland China available from imports declarations



Impact on Hong Kong's external trade

Adoption of the change of ownership principle				
2011 (US\$ billion)		Before	Change	After
TIS	Exports	121.1	- 29.6 (($A_1 - A_2$) + ($C_4 - C_1 - C_2 - C_3$) goods sold under merchanting)	91.5
	Imports	56.3	+ 17.9 ($B_3 + C_3$ manufacturing services)	74.2
TIG	Exports	439.4	- 53.8 ($B_1 + C_1$ goods sent abroad for processing) + 25.7 (C_4 goods sold abroad after processing) + 26.3 ($A_1 - A_2$ goods sold under merchanting)	437.6
	Imports	494.4	- 65.5 ($B_1 + B_2 + B_3$ goods returned after processing) + 16.2 ($B_2 + C_2$ materials from a third economy for processing)	445.1
Trade balance (X-M)	TIS	64.8		17.3
	TIG	-55.0		-7.5
	Overall	9.8	← Trade balance in TIS and TIG remains unchanged →	9.8
Total trade (X+M)	TIS	177.4		165.7
	TIG	933.8		882.7
	Overall	1,111.2	← Total external trade becomes smaller →	1,048.4



Manufacturing services

- Cover processing services on materials owned by non-residents, excluding production of goods for residents in the processor's economy and processing trade on the processor's own account
 - ▣ **Resident owners** importing manufacturing services from non-residents through **outward processing**
 - ▣ **Resident processors** exporting manufacturing services to non-residents through **inward processing**

- Collect data for
 - ▣ Estimating the import/export value of manufacturing services
 - ▣ Adjusting merchandise trade to obtain TIG estimates for GDP/BoP



Dissemination of Hong Kong's TIS

- Major TIS components under quarterly GDP estimates
 - ▣ Main tables (**not adopting** change of ownership principle)
 - ▣ Supplementary tables (**adopting** change of ownership principle)
 - ▣ Parallel release with a transition period for users to adapt to the new TIS and TIG series and for international comparison on the same standards among economies
- Major TIS components under quarterly BoP estimates (**adopting** change of ownership principle)
- TIS with breakdowns by service type and destination/source (**adopting** change of ownership principle)



Thank you

