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

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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 | 1. Sales value of goods ($A_1$)  
| 2. Cost of goods sold ($A_2$) |
| Goods sent to Mainland China under “processing and assembling” arrangement | **For processed goods returned to Hong Kong**  
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. $B_1+B_2+B_3$)  

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| **For processed goods sold offshore**  
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)

Before the adoption of the change of ownership principle

Net value of goods sold under merchanting US$91.5 billion (24.4%)

After the adoption of the change of ownership principle

[(A_1 - A_2) + (C_4 - C_1 - C_2 - C_3)]

Imports of services (2011)

Before the adoption of the change of ownership principle

Total exports of services US$91.5 billion

After the adoption of the change of ownership principle

Total imports of services US$74.2 billion

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Impact on Hong Kong’s goods exports

Exports of goods (2011)

Before the adoption of the change of ownership principle
- Goods sent abroad for processing US$53.8 billion
- Conventional domestic exports and re-exports of goods US$385.6 billion
- Total exports of goods US$439.4 billion

After the adoption of the change of ownership principle
- Net value of goods sold under merchanting US$26.3 billion
- Goods sold offshore after processing US$25.7 billion
- Total exports of goods US$437.6 billion

Goods acquired under merchanting = US$469.8 billion
Goods sold under merchanting = US$495.5 billion

B₁+C₁
[A₁-A₂]
C₄
Impact on Hong Kong’s goods imports

Imports of goods (2011)

Before the adoption of the change of ownership principle

- Conventional imports of goods for local consumption and re-exportation of goods US$428.9 billion
- Goods returned after processing US$65.5 billion

Total imports of goods US$494.4 billion

After the adoption of the change of ownership principle

- Materials purchased by Hong Kong enterprises and delivered directly from places other than Hong Kong to processing economy US$16.2 billion

Total imports of goods US$445.1 billion

\([B_1+B_2+B_3]\)

\([B_2+C_2]\)
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 ASIES

- 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

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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

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<th>Adoption of the change of ownership principle</th>
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<td><strong>2011 (US$ billion)</strong></td>
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<td><strong>TIS</strong></td>
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<td>Exports</td>
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<td>Imports</td>
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<td><strong>(X-M)</strong></td>
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<td><strong>Total trade</strong></td>
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<td><strong>(X+M)</strong></td>
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Note: TIS and TIG estimates revised in August 2013
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