Implementation of the change of ownership principle in the context of 2008 SNA: the experience of Hong Kong

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Introduction

• Processing trade and merchanting activities in Hong Kong

• Overview of development work

• Impact on trade in goods and services statistics

• Latest development
Change of ownership principle

2008 SNA and BPM6 adopt the change of ownership principle in recording international trade in goods and services

Hong Kong
- Implemented in GDP and BoP compilation frameworks of Hong Kong since Sep 2012

Benefit
- Better reflect the rapid development in globalisation
- Facilitate analysis of genuine international trade flows

Impact
- Significant impact on the trade in goods and services statistics of economies that engage in substantial amount of processing trade and merchanting activities
Processing trade and merchanting activities of Hong Kong

- Goods sent abroad for processing and merchanting play a vital role in the external trade of Hong Kong.
- Hong Kong’s outward processing activities are predominantly carried out in the mainland of China.
- Since the 1980s, many manufacturing companies in Hong Kong relocated their production processes to the Mainland to take advantage of geographical proximity, and lower land and production cost there.
- Majority under the arrangement of processing and assembling, with no change of ownership of raw materials and finished outputs.
Processing trade and merchanting activities of Hong Kong

- A gradual shift in outward processing from **processing and assembling** to **processing with imported materials** (with change of ownership of raw materials and finished outputs) arrangements in the recent past.
Processing trade and merchanting activities of Hong Kong

Companies in Hong Kong typically undertake 3 types of processing trade and merchanting activities:

(a) Outward processing
(b) Merchanting
(c) Offshore trade activities involving outward processing
Under 2008 SNA

Goods sent abroad for processing

• Follow change of ownership principle

• Imports and exports of goods involved in processing without a ‘change of ownership’ is excluded from trade in goods

• Payment of processing fees to the processing economy is recorded as imports of services
Under 2008 SNA

Merchanting

- Follow change of ownership principle
- Acquisition of goods abroad for merchanting is recorded as imports (shown as negative exports) of goods by the economy where the trader resides (since a change of ownership is involved)
- Subsequent resale of goods is recorded as exports of goods from that economy
- Merchanting is not included in exports of services, but shown as ‘net exports of goods’
Under 2008 SNA

Offshore trade activities involving outward processing

• Follow change of ownership principle
• Imports and exports of goods involved in processing without a ‘change of ownership’ is excluded from trade in goods
• Payment of processing fees to the processing economy is recorded as imports of services
• Sale of goods to non-residents is recorded as exports of goods as the goods sold involve actual selling activities (with a change of ownership)
Overview of development work

- Outward processing trade in the Mainland can be carried out under the arrangements of either **processing and assembling** or **processing with imported materials**.

- **Processing and assembling** - involved no change of ownership of raw materials and finished outputs

- **Processing with imported materials** - involved change of ownership of raw materials and finished outputs

- Under new statistical standards, adjustments are needed only for Hong Kong’s outward processing in the Mainland under **processing and assembling** contracts only.
Overview of development work

Outward processing

• Enhance the survey since the second quarter of 2008 to collect additional data to meet new data requirements
• Construct new data models to produce preliminary estimates at shorter time lag
Overview of development work

Additional information on imports from the Mainland under the arrangement of processing and assembling:

- value of raw materials / semi-manufactures sent from Hong Kong to the Mainland
- value of raw materials / semi-manufactures purchased and delivered directly from places other than Hong Kong to the Mainland
- value of manufacturing services on physical inputs owned by Hong Kong, with the following breakdowns:
  1. processing fees paid by Hong Kong; and
  2. raw materials / semi-manufactures procured directly by the Mainland’s processing units.
Overview of development work

Merchanting and offshore trade activities involving outward processing

- A feasibility study was conducted in 2008 and 2009 to assess the practicability of collecting quarterly data as well as additional data to meet new data requirements.
- A new survey has been introduced to collect additional data at quarterly intervals since the first quarter of 2010.
Overview of development work

Additional data on offshore trade activities involving outward processing activities:

(A) value of goods sold offshore after processing;
(B) cost of goods sold offshore after processing, with breakdowns:
   • value of raw materials / semi-manufactures sent from Hong Kong to the processing economy;
   • value of raw materials / semi-manufactures purchased and delivered directly from places other than Hong Kong to the processing economy;
   • value of manufacturing services on physical inputs owned by Hong Kong, with breakdowns:
     (i) processing fees paid by Hong Kong; and
     (ii) raw materials / semi-manufactures procured directly by the processing units abroad.
Impact on trade in goods statistics

- The value of total exports of goods in 2015 under the new standards is 4% higher than that under the old standards. In earlier years, the value of total exports was smaller under the new standards.

Figure 1: Exports of goods under the old and new standards, 2015
Impact on trade in goods statistics

- The value of total imports of goods under the new standards amounted to US$529 billion in 2015, smaller than that under the old standards (US$553 billion).

Figure 3: Imports of goods under the old and new standards, 2015

- Total imports of goods: US$553 billion (BPM5 / 1993 SNA)
- Conventional imports: US$519 billion
- Goods returned after processing: US$34 billion
- Total imports of goods: US$529 billion (BPM6 / 2008 SNA)
- Goods purchased for processing delivered directly from places other than Hong Kong to processing economy: US$10 billion
Impact on trade in goods statistics

- The balance of trade in goods of Hong Kong generally exhibited a structural change from deficit to surplus under the new standards before 2011. From 2011 onwards, the balance of trade in goods record a deficit.

*Figure 5: Balance of trade in goods under the old and new standards*
Impact on trade in services statistics

- Under the new standards, the amount of manufacturing services on physical inputs owned by Hong Kong companies is added.
- Total imports of services under the new standards is 17% higher than that under the old standards in 2015.

Figure 6: Imports of services under the old and new standards, 2015
Impact on trade in services statistics

- For exports of services, the gross margin of merchanting is taken out under the new standards.
- Total exports of services under the new standards is 24% less than that under the old standards in 2015.

Figure 7: Exports of services under the old and new standards, 2015

1993 SNA / BPM5
- Financial services: 12%
- Travel services: 26%
- Merchanting and other trade-related services: 27%
- Others: 11%

Total exports of services
US$ 136 billion

2008 SNA / BPM6
- Travel services: 34%
- Transportation services: 29%
- Financial services: 18%
- Others: 19%

Total exports of services
US$104 billion
Impact on trade in services statistics

- The balance of trade in services of Hong Kong generally exhibited a structural change from surplus to deficit, except in 2009-2015.

Figure 8: Balance of trade in services under the old and new standards
Impact on trade in services statistics

• From 2009 onwards, the balance of trade in services saw an increasing surplus, partly due to:
  - Decline in imports of manufacturing services
  - Exports of travel services grew significantly
  - Exports of financial services grew significantly
Impact on overall balance of trade in goods and services

• New statistical standards involves only the re-classification of components of trade in goods and services.

• Overall balance of trade of goods and services of Hong Kong remains unchanged.

• Levels and growth rates of overall GDP and the overall current account balance under BoP are not affected.
Latest development

Several structural changes regarding outward processing in the Mainland in recent years

1. Upgrading and restructuring of enterprises engaged in processing trade in the Mainland, shifting from lower value-added processes to higher value-added processes involving innovation, design, branding and marketing. Manufacturers increased research and development (R&D) capabilities.
Latest development

2. Many manufacturing enterprises realign their supply chain and actively increase sourcing activities in the Mainland, instead of importing input materials from overseas.

3. More sourcing from places other than the Mainland, e.g. Vietnam, Cambodia and Bangladesh.
Latest development

Factoryless Goods Production (FGP)

• Owns the underlying intellectual property products
• Controls the outcome of the production process
• Full transformation process, including the acquisition of material inputs, outsourced to a contractor in another economy
• Respondent burden would be a major implementation issue in classifying and recording FGP, particularly when detailed data on individual transactions involving overseas set-ups are required.
Conclusion

Compilers of statistics based on the change of ownership principle

• Conscious of ongoing structural changes in the mainland of China as well as in the broader external environment

• Enhance the statistical system regularly

• Ensure statistics continue to be relevant to policy formulatoe rs, analysts and the industry
Thank you