

Box 1.1

Change in dissemination of the Hong Kong's gross domestic product (GDP) statistics

Starting from February 2017, the Census and Statistics Department (C&SD) will present the statistics on trade in goods and services compiled based on the change of ownership principle in the main statistical tables of C&SD's regular report on Hong Kong's Gross Domestic Product (GDP). These trade statistics were previously presented in the supplementary tables of C&SD's reports on GDP. The adoption of the change of ownership principle in compiling trade statistics within the GDP framework follows closely the prevailing international standards given in the *System of National Accounts 2008*, which is the latest version of the international statistical manual on the compilation of national accounts statistics. This short article attempts to recap the key features of the trade statistics based on the change of ownership principle. More details can be found in C&SD's *Special Report on Gross Domestic Product – September 2012*.

Simply put, the adoption of the change of ownership principle is a technical amendment to the ways of recording trade in goods (TIG) and services (TIS) related to (i) goods sent abroad for processing (outward processing); and (ii) merchanting⁽¹⁾. Following this principle, goods sent abroad for processing and subsequently returned to Hong Kong will no longer be recorded as TIG. Instead, the fees paid to the processing units will be recorded as imports of services. Meanwhile, merchanting will be re-classified as TIG, instead of TIS⁽²⁾.

Adopting the change of ownership principle can better reflect the latest trend in globalisation and the genuine trade flows irrespective of the goods' physical movements and locations. This is particularly relevant since outward processing and merchanting activities feature prominently in Hong Kong's trade structure with our traders' extensive trading network of buyers and sellers in the global market.

Based on the above re-classification, the trade deficit in goods would be smaller, due to the exclusion of trade in goods for processing and the inclusion of the net value of goods under merchanting. Similarly, the trade surplus in services would likewise be smaller, after the exclusion of exports of merchanting services and the inclusion of imports of manufacturing services (*Charts 1 and 2*). The ratio of total trade to GDP compiled according to the change of ownership principle is also slightly lower than before. For instance, such a ratio in 2016 was 372.8%, compared to 382.2% compiled according to the previous standards.

Chart 1 : Balance of trade in goods

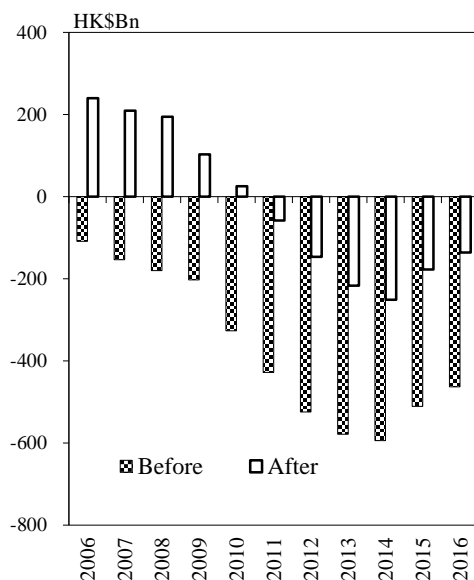
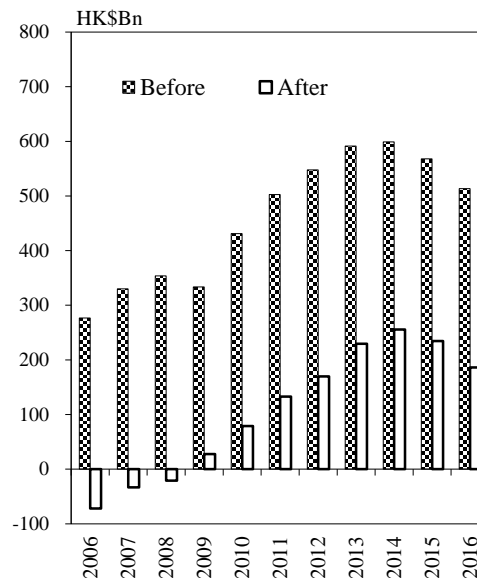
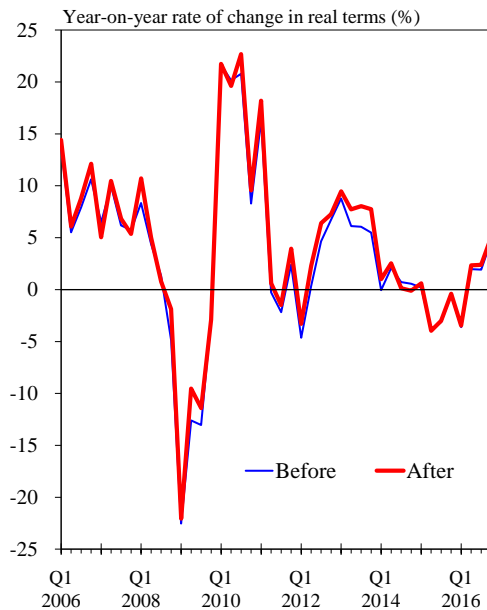
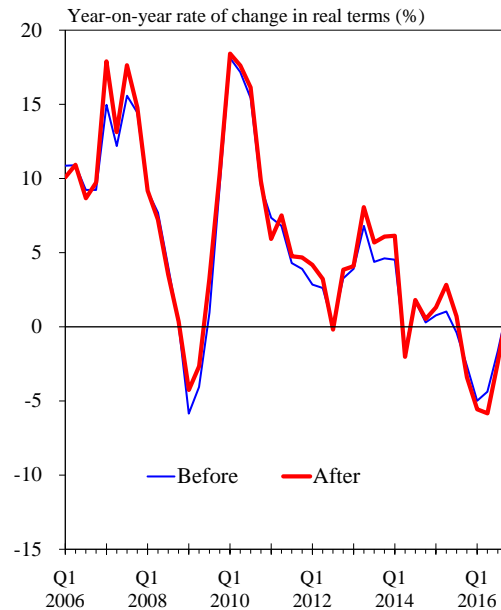


Chart 2 : Balance of trade in services



Box 1.1 (Cont'd)

Nevertheless, as the adoption of the change of ownership principle only involves re-classification of components in TIG and TIS, **the overall trade balance of goods and services remains unchanged. The level and the growth rate of overall GDP are also unaffected.** Regarding the past trends of the trade-related variables, it can be observed that the year-on-year rates of changes in exports of goods and services compiled based on adopting the change of ownership principle are broadly similar to those based on the previous standards (*Charts 3 and 4*), and so is the case for imports of goods and services.

Chart 3 : Exports of goods**Chart 4 : Exports of services**

Given that the statistics adopting the change of ownership principle were first released back in 2012, sufficient time should have been allowed since then for users to understand the new series. Also, as an increasing number of statistically advanced economies, such as the UK, Australia, the US and Singapore, have gradually adopted the change of ownership principle, the present switch by C&SD in the presentation of trade statistics in the context of GDP follows closely this international statistical development. The original set of statistics not adopting the change of ownership principle will still be presented in the supplementary tables in the routine publications for readers' reference.

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- (1) Item (i) refers to the arrangement by a Hong Kong company to send raw materials or semi-manufactures abroad for processing, with the processed goods later returned to Hong Kong for local consumption or re-exporting. The goods sent abroad for processing and the processed goods subsequently returned to Hong Kong remained to be owned by the Hong Kong company. Offshore trade activities involving outward processing are also included. Item (ii) refers the purchase of goods by a Hong Kong trader from a non-resident and subsequent resale of the goods to another non-resident without the goods entering or leaving Hong Kong.
 - (2) According to the old principle, TIG statistics records imports and exports of goods at the time they cross Hong Kong's borders. Hence, the materials sent abroad for processing are recorded as exports and the returned goods as imports. For now, these goods are not recorded as TIG as they do not involve actual buying and selling (i.e. no change of ownership is involved). Similarly, as a change of ownership is involved in goods traded under merchanting, the value of goods sold is recorded as exports of goods while the value of goods acquired for resale as negative exports of goods.