

AN ACCOUNT OF
STATISTICS ON TRADE IN SERVICES
COMPILED BY HONG KONG

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Frederick Wing Huen HO
Deputy Commissioner for Census & Statistics
HONG KONG

A. Introduction

Hong Kong imports and exports a substantial amount of services each year. This paper describes the concepts, coverage, definition and data collection methods of trade in services (TIS) statistics for Hong Kong (HK).

2. TIS statistics for HK are compiled by the Census and Statistics Department (C&SD) primarily for compiling Gross Domestic Product (GDP) estimates. The definitions, classification and concepts of the statistics are developed based on international statistical guidelines published in "A System Of National Accounts" by the United Nations Statistical Office (UNSO) in 1968 and in the "Balance of Payments Manual" by the International Monetary Fund (IMF) in 1977.

B. Significance of TIS in HK

3. The HK Government has always taken the view that it generally should not undertake activities which can be done commercially and more efficiently by the private sector. It advocates free trade and free, open economy, practising what is called "positive non-interventionism". Under such policy, regulations are the minimal consistent with orderly conduct of business.

4. Exemplifying the policy, many of the port facilities in HK, such as container terminals and dockyards, are privately owned and operated. The port of HK is one of the world's busiest with vessels of all descriptions plying the busy harbor daily, handling transshipment cargo as well as goods imported into and exported from Hong Kong. During 1990, there was one ocean-going ship arrival or departure every 13 minutes.

5. In 1990, there were 43 scheduled airlines serving HK. These airlines operated about 870 direct round trip services weekly between HK and some 80 other large cities. In addition to the scheduled services, an average of 240 non-scheduled flights were operated each week. In 1990, there was an increase of 12% in aircraft movements, bringing the annual total to 105,800. About 78% of the aircrafts calling at HK were wide-bodied types.

6. Tourism is one of HK's largest service industries. Some 5.9 million visitors came to HK in 1990, against a local population of around 5.8 million in the same period. Tourism earnings in the same period reached a total of HK\$40 billion (around US\$5 million). HK is a popular destination for visitors almost from all over the world. Tourism is of course not a single industry. Services rendered to visitors include hotel and restaurant services, retail services, entertainment services and other touring services.

7. Apart from transportation and tourism, which are the more "visible" of the invisible trades, HK is also engaged in many other kinds of trade in services, given its position as a significant commercial and financial centre. Thus, TIS statistics are very important in analyzing the general macroeconomic performance of the economy. In 1990, for estimates at current market prices, the ratio of exports of services to GDP was 19.6%, imports of services to GDP was 13.3%, and net export of services to GDP was 6.2%.

8. The main contributors to surpluses in the HK services account are transportation and travel. However, in interpreting the surplus in TIS, it is important to note that since imports of merchandise into HK are

recorded on c.i.f. basis, freight and insurance services rendered by foreign residents in connection with goods imported into HK are included in HK merchandise trade statistics as part of imports. They are not included in transportation (Debit) in the services account.

C. Concepts of TIS Statistics

9. TIS statistics record services transactions undertaken between HK residents and foreign residents. Following the convention of the Balance of Payments Manual, these external services transactions comprise shipment, passenger and other transport services, travel as well as other current account transactions not classified as merchandise, factor services or transfers. Market transactions between foreign residents and HK government agencies, foreign residents and HK government personnel abroad, HK residents and foreign governments, HK residents and foreign government personnel stationed in HK, are in general classified as external services transactions.

10. External transactions in factor services are not included in TIS statistics. Factor services are "services" of labour and capital, and are measured by income from direct investment abroad, investment income (interest and dividends), property income and labour income. Royalties and license fees accruing to owners of patents, copyrights, and other similar nonfinancial intangible assets are classified as nonfinancial property income and are outside the scope of TIS statistics of HK.

11. Since services transactions between two HK residents are domestic transactions and are not classified as TIS, the definition of residence status of the transactors in services plays a crucial role in the

collection and interpretation of TIS statistics. For persons and enterprises, the criteria adopted in HK in determining their residence status are as follows:-

- (a) Persons are considered as HK residents when their stay (or expected stay) in HK is one year or more. Hence, new immigrants arriving in HK who are expected to stay for more than one year, and foreigners living in HK for one year or more, are considered as HK residents irrespective of their nationality. Tourists, business visitors, seasonal workers and crew members of foreign resident transport carriers who stay in HK for less than one year are classified as foreign residents. HK citizens residing outside HK for one year or more are classified as foreign residents.
- (b) Enterprises are classified as residents of HK if they engage (or expected to engage) in production in HK for one year or more. In this connection, it is very important to distinguish between ownership and residency. Many foreign-owned enterprises located in HK (e.g. foreign banks) are classified as HK residents because they engage in production in HK for one year or more. Hence, ownership is irrelevant in determining residency of enterprises engaged in TIS.

12. Since transportation activities account for, in terms of value, a significant proportion of TIS activities in HK, the definition of residence status of mobile equipments, such as ships and aircrafts, is equally important for collecting and interpreting the TIS statistics. In determining the residency of ships and aircrafts, HK follows the convention in the Balance Of Payments Manual and tries to determine the residence

status of the enterprise that employs the mobile equipment in its productive activities, rather than the residence status of the mobile equipment itself. Hence, all ships (or aircrafts) that are owned and/or operated by enterprises residing in HK will have HK residency, regardless of the country where the ships (or aircrafts) are registered. The country of registration is irrelevant in determining residency of ships (or aircrafts) engaged in TIS. For instance, all subsidiaries of foreign shipping enterprises are HK resident enterprises if they are located in HK. Ships that are owned and/or operated by these subsidiaries will then have HK residency. On the other hand, subsidiaries of HK shipping enterprises will have foreign residency if they are located abroad. Ships registered in HK that are owned and/or operated by those subsidiaries will then have foreign residency.

13. The final point to mention here is the treatment of agents in TIS statistics. Transactions undertaken by agents (e.g. shipping agents) located in HK on behalf of a foreign principal are attributed to the economy in which the principal resides. Services rendered by the agent in HK to the foreign principal enterprises that it represents is attributed to HK. In evaluating the value of the service rendered by the agent, in the event when it is a subsidiary of the principal such that service fees are not charged (e.g. a ticketing office), cost of the total inputs is taken.

D. Coverage and Definition of TIS Statistics

14. TIS statistics for HK can be broadly categorized into 3 main groups : Transportation, Travel and Other Services. The coverage and data definitions of the corresponding TIS statistics are described below.

Exports of Services (Credit)

Transportation (Credit)

15. Transportation (Credit) mainly covers the following sea and air transportation services performed by HK residents:-

- (a) Receipts for freight services rendered on exports by HK transport operators
- (b) Receipts for freight services rendered on cross-trades by HK transport operators
- (c) Receipts from foreign residents for passenger services provided by HK transport operators
- (d) Receipts for chartering ships to foreign operators by HK transport operators
- (e) Receipts of agency fees, management fees, commission and other service charges for services provided to foreign residents by HK ship managers, agents or sub-agents
- (f) Disbursements of foreign transport operators in HK, including fuel oils and port charges.

Travel (Credit)

16. Travel (Credit) covers the expenditure of tourists and other travellers on goods and services in HK during their stay in HK. The estimates are computed by using the following:

$$\text{Travel (Credit)} = E \times N$$

where

- E : per capita expenditure of foreign travellers by country of residence (estimated by the HK Tourist Association based on a quarterly sample survey)
- N : the number of foreign travellers by country of residence (obtained from the HK Immigration Department).

Other Services (Credit)

17. Other services (credit) cover:

- (a) Receipts of insurance and reinsurance premiums from foreign residents (net of claims paid to foreign residents) for life insurance policies and other general insurance policies covering marine vessels, aircrafts and other non-merchandise insurance.
- (b) Receipts of commission and services charges from foreign residents for banking services such as arrangements for syndication loans, portfolio management, executor and trustee services by HK resident banks and deposit-taking companies.
- (c) Receipts of commission and services charges for financial assets dealing and broking services provided to foreign residents.
- (d) Receipts from foreign residents for distribution of movies, television films and programmes.
- (e) Receipts for hotel management services provided to foreign residents.

- (f) Receipts for advertising and market research services provided to foreign residents.
- (g) Receipts for news transmission services provided to foreign residents.
- (h) Miscellaneous services: this entry includes receipts for telecommunications, postal and professional services, the expenditure of foreign consulates and trade commissions in HK.

Adjustment for Import Shipment

18. Since imports of merchandise into HK are recorded on c.i.f. basis, freight and insurance services rendered by HK residents in connection with goods imported into HK are also included in HK merchandise trade statistics as part of imports. However, following the convention in the Balance of Payments Manual, this amount should be treated as domestic services transactions and be excluded from TIS. Hence, in order to arrive at a correct overall balance of net exports of goods and services for compiling GDP for HK, and also for the sake of convenience in presentation, freight and insurance services rendered by HK residents in connection with goods imported into HK are entered as credit entries under exports of services.

Import of Services (Debit)

Transportation (Debit)

19. Transportation mainly covers the following sea and air transportation services provided by foreign resident operators :-

- a) Payments to foreign transport operators by HK residents for chartering ships and aircrafts.
- (b) Payments to foreign transport operators by HK residents for passenger services received.
- (c) Payments of agency fees, management fees, commission and other service charges for services by foreign resident ship managers, agents or sub-agents.
- (d) Disbursements abroad by HK transport operators.

Travel (Debit)

20. Travel (Debit) covers the expenditure of HK resident travellers on goods and services outside HK during their stay overseas. HK resident travellers include HK residents going abroad for business, or touring for less than one year. Travel (Debit) also covers expenditure of HK students studying abroad, regardless of their length of stay. The data are estimated by the following formula:

$$\text{Travel (Debit)} = V \times M$$

where

- V : per capita expenditure of HK resident travellers by country of destination and by purpose of travel (obtained from General Household Survey)
- M : the number of HK residents travelling abroad (obtained from the HK Immigration Department and the General Household survey)

Other Services (Debit)

21. Other services (debit) cover:

- (a) Payments of insurance and re-insurance premium (net of claims received from foreign resident insurers) for life insurance policies and other general insurance policies covering marine vessels, aircrafts and other non-merchandise insurance.
- (b) Payments to foreign residents for the distribution of movies, television films and programmes.
- (c) Payments to foreign residents for hotel management services.
- (d) Payments to foreign residents for advertising and market research services.
- (e) Payments to foreign residents for news transmission services.
- (f) Payments of commission and services charges to foreign residents for financial assets dealing and broking services.
- (g) Payments to foreign residents for banking services.
- (h) Miscellaneous services: this entry covers payments for the maintenance of HK Government Offices abroad, reimbursement by the HK Government to the United Kingdom Government for part of the cost of maintaining United Kingdom troops in HK, and payments for postal and professional services.

E. Practices of Collecting TIS Statistics for HK

22. HK is a free, open economy. The attitude of HK government in the making of many aspects of public policy can be described as one of positive non-interventionism. It involves taking the view that, in most circumstances, it is futile or even damaging to the growth of the HK economy for attempts to be made to plan the allocation of resources in the private sector and to frustrate the operation of market forces which, in the open economy of HK, are difficult enough to predict, let alone to control. Under this business environment and atmosphere, the enterprises in HK are only required to report a minimum amount of economic data to the HK government; and their reporting burden is continuously under review. Despite the legal provision for guaranteeing the confidentiality of all data reported to the statistical authority, most enterprises are still reluctant to disclose to C&SD data that they consider to be sensitive or related to their commercial secret. As a result, while in some countries (e.g. U.S.A.) the survey frame of enterprises engaged in TIS can be successfully updated by mandatory self-reporting of the enterprises concerned, the cost of updating the survey frame and ensuring a full coverage of enterprises engaged in TIS is rather high in HK.

23. Statistics on imports and exports of services for HK are at present compiled based on data obtained through the Annual Survey of Imports and Exports of Services; the Annual Survey of Banks, Deposit-taking Companies and Representative Offices of Foreign Banks; and other administrative sources. The TIS statistics are released annually in the publication "Estimates of Gross Domestic Product" published by C&SD.

24. The main features of the two annual surveys are described below.

Annual Survey of Imports and Exports of Services

25. This survey has been conducted since the reference year 1978 to provide data for estimating imports and exports of services in respect of the following types of services: shipping; air transportation; insurance; cargo forwarding; production and distribution of films/programmes, hotel management; advertising and market research; news transmission; and financial assets dealing and broking. This is a full coverage establishment survey. The survey frame covers all establishments (around 2500) identified to be engaged in the external transactions of the above mentioned services. In view of the divergent type of services involved, a total of 18 different survey questionnaires are employed.

26. The survey frame is updated annually through a screening enquiry on new establishments engaged in the relevant type of economic activities. Establishments previously found outside the scope of this survey would also be screened, but less frequently. The screening enquiry covers some 3500 establishments per annum to identify potential respondents.

27. The Survey of Imports and Exports of Services is a mandatory survey (i.e. response is compulsory by law).

28. As the HK dollar is used as the valuation unit, currency conversion rates are supplied by respondents when necessary.

Annual Survey of Banks, Deposit-taking Companies and
Representative Offices of Foreign Banks

29. Since the reference year 1980, information relating to the imports and exports of banking services are collected through the Annual Survey of Banks, Deposit-taking Companies, and Representative Offices of Foreign Banks which covers all banks, deposit-taking companies and representative offices of foreign banks in HK. Response to this survey is legally compulsory.

30. The banking sector is particularly sensitive about their business information. To cater for this attitude, special arrangement has been made to safeguard the identity of the reporting banks and their business information. The arrangement involves the C&SD employing an elaborate secret coding system whereby the identity of the banks is not known to the staff of C&SD. The secret coding system operates as follows. For each round of survey, blank survey forms are sent by C&SD to the Monetary Affairs Branch (MAB), which is a government policy unit that, among other functions, monitors the banking sector. The names of the banks are coded by the staff of MAB and the codes are forwarded to the banks concerned. The coding details are not available to the staff of C&SD. MAB staff will forward the survey forms to the banks and after completing these survey forms, the banks will mail them directly to the C&SD, not identifying the bank by name, only by code. In order to avoid the deduction of the identity of the large banks, such banks will be allocated more than one case and when responding, will split up their transactions and enter the information into more than one form, ensuring in the meantime the accuracy of the aggregate figures. For example, for the 1989 survey a total of 214 survey forms were completed by 165 banks. To achieve the purpose, even the number of forms filled in by each bank is not

known to the staff of the C&SD. If questions arise on the returns, they are sent by the staff of C&SD, in sealed envelopes, to the staff of MAB who will forward the questions to the appropriate banks. In return the banks will supply answers directly to the C&SD, identifying again only by code number. Under this arrangement, neither C&SD staff nor MAB staff -- in other words, no government staff -- will have access to an individual bank's data in so far as the survey information is concerned.

31. The co-operation of the banks in the survey has been most satisfactory, as compared with the initial reluctance when the survey was first conceived. An elaborated description is made above to illustrate that the efforts do pay.

32. Based on our experience, there are a few areas in conducting the Survey of Imports and Exports of Services in HK that require our special attention to ensure correct reporting by the respondents. These areas are discussed below:

- (a) In most cases, it is not simply obvious to the field officer of C&SD or the respondent whether a particular foreign-owned company in HK should be classified as a HK resident enterprise or as an agent in HK acting on behalf of a foreign principal. The following criteria, though not meant to be exhaustive and definitive, are used to help drawing the distinction:

A foreign-owned company as a HK resident enterprise:

- (i) Functional role performed by the company is largely comparable to that of a local producer.

- (ii) Administrative and operative decisions are usually made quite independent of the foreign parent company.
- (iii) Managerial functions are localized in HK.
- (iv) Distinctively separate and reasonably comprehensive accounting system with details on business transactions is maintained in the local office.
- (v) The number of staff employed is at least sufficient to carry out the typical function of a HK local producer.

An agent in HK acting on behalf of a foreign principal:

- (i) The company does not perform general functional role analogous to that of a local producer, it only performs selective or restrictive functions.
- (ii) The company is financially and administratively dependent on the parent company, and is only allowed to make rather routine decisions.
- (iii) Separate accounts are usually not kept on day-to-day business transactions. Business receipts are transmitted to parent company overseas and operating expenses are remitted to the branch office regularly by the parent.
- (iv) The employment size is less than sufficient to perform the full function similar to

that of a HK local producer.

It is important to note that an agent in HK acting on behalf of a foreign principal in one reference year may become a HK resident enterprise in the next year, or vice versa. Hence, careful checking by the field officers is necessary in each survey round.

- (b) When a HK resident enterprise covered in our survey, e.g. a shipping company, purchase insurance from a foreign insurance company, the transaction clearly represents an import of services. However, if that shipping company pay the insurance fee to the foreign insurer through an agent of the latter in HK, then the same insurance fee will also be reported by the agent to C&SD again because all agents are fully covered in our survey. In order to avoid this double-reporting, the shipping company is asked not to report any insurance fee paid to foreign insurers through agents in HK. However, in practice, we find that many shipping companies pay some of the insurance fee to the foreign insurers directly and some through agents in HK, and their payment records are always mixed up. As a result, our field officer will have to go through a painstaking job to check the payment records in the reference period carefully to ensure that there is no double-reporting.
- (c) In the advertising and film-making business in HK, it is very common to draw in free-lance experts and artists from Taiwan and Japan to form a team to make a particular film. For taxation purposes, the foreign artists usually will form companies so that their expenses can be deducted from their

taxable income. If the HK resident enterprise which makes the film transacts with the companies formed by the foreign artist, then the transaction clearly represents an import of services. However, if that HK resident enterprise pays the foreign artist as a person employed by the enterprise, but not to a company formed by the artist, then the transaction should not be covered in TIS at all. Hence, our field officer will again have to check the payment records in the reference period carefully to ensure correct reporting.

F. Future Development

33. On the whole, the statistical framework of TIS in Hong Kong has covered the major types of external transactions in services, though the coverage cannot be claimed as comprehensive due to the business environment of the free, open economy of HK. Accordingly, the coverage of the TIS statistics in HK is being constantly under review so as to capture services which have been left out. Besides, new types of services has become increasingly important. Currently, C&SD is exploring the feasibility of collecting data on land transport services between HK and China and merchanting services so as to incorporate them into the TIS framework.

34. Many types of statistical information are not very useful unless they are internationally comparable. TIS is obviously one such type. In the future development of HK's TIS system, international consensus and guidelines will be taken full account of. In this regard, C&SD is concerned about the following points:

- (i) Based on the Common Product Classification (CPC)

developed by the United Nations Statistical Office, the Secretariat of GATT has drawn up and circulated draft of a 'Services Sectoral Classification List'. While such a detailed classification list of services may facilitate negotiating countries to make, compare and record commitments in a consistent manner, the proposed list appears too detailed for collecting statistics on TIS in HK (and possibly in many other developing economies). For example, difficulties would be encountered in collecting statistics relating to the subclassifications under the sub-sectors: Computer and Related Services; Real Estate Services; Telecommunication Services; Banking and other financial services, either because the traders may not have information in such detailed breakdown in their accounts or because they would find it too burdensome to extract the required information from their records. At the level of such subclassifications, it is difficult to expect that accurate data can be collected.

- (ii) Although the nature of factor and non-factor services are very different, there are many occasions when they are mixed up and there appear to be suggestions to include both under the TIS framework. Such idea seems also to be burgeoning in the GATT negotiations. While obviously there should be no limit on what can be discussed in negotiations, we have strong reservations on including factor services under a TIS framework from a statistical point of view.
- (iii) In HK, since processing trade with China accounts for a significant portion of our external trade, the classification of processing activity as

merchandise or services transactions has a great influence on our statistical data. At present, HK's outward processing of manufacturing goods in China is registered as merchandise trade. There appear to be suggestions that processing activities should instead be classified as services. Our concern is that any deviation from the present approach may represent significant disharmonization with our external trade statistics which are separately published. Besides, there are serious practical difficulties with data compilation if processing activities are to be classified as services transactions.