Services in Trade of Hong Kong and Macao: Factors Influence on the Share

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Abstract

This study aims to determine factors influence on the share of services in international trade of Hong Kong and Macao based on the statistical data and analytical reviews of Hong Kong's Census and Statistics Department, World Trade Organization's Statistics, and International Trade Statistics. As Eastern subregion of the Asian continent, the performance of services in both special administrative regions (SARs) of China have shown the competitiveness in international trade according to the WTO’s Statistics of 2015 and 2016. Special attention is made on the Closer Economic Partnership Arrangement (CEPA) on trade in services with China. In order to establish a theoretical framework, qualitative method is applied to collect data and analyze statistics and reviews within the context of services and perspective of international trade based on the literature review. According to the analysis, the share of services in international trade of both SARs is determined that it is influenced by the multiple factors: liberalization processes, development of technology, agreement, and government support.

Keywords : Services, International Trade, Hong Kong Business, Service Sector, Macao

1. Introduction

Services is considered to be the most important sector of the economy especially for the developed countries. The share of services in GDP and employment rises as per capita incomes increase which has been determined as one of the stylized facts of economic development [1]. Initial stage of services in international economics was studied by Baumol [2], Fuchs [3], and Hill [4] until more attention began starting in the 1980s with emergence of services on the international policy agenda and potential interest of many countries in liberalizing trade in services [5][6][7][8]. While the role of services in economies at differing levels of development, its importance in relative terms increases as countries become richer reflecting in an increasing variety of market services [9].
In fact, the competitiveness is progressively determined in the service sector of the Eastern subregion of the Asian continent. This paper aims to analyze factors affecting the share of services in international trade focusing on the special administrative regions (SARs) of China, Hong Kong and Macao. According to the recent press released on February 10, 2017, Hong Kong's values of total exports and imports of services were $808.9 billion and $574.3 billion respectively in 2015 [10], increased by almost double the figures from 2005 where the exports at $495.8 billion and imports at $264.2 billion. The focus of Hong Kong on its foreign trade services can be learned from the statistics and analysis which was made every year since 2000. Fernando Chui Sai On, a current chief executive of Macao, announced a total profit of the casino business sector for 2017 is expected to be $29 billion which is about the same as the estimate in 2016 [11].

Besides, special attention is made on the opportunities which arise for Chinese business among the eastern countries due to its huge impact on the neighboring countries and regions. In March 11, 2017, Wang Shouwen, an assistant minister at the department of commerce in China, said at a press conference for the fifth session of the 12th National People’s Congress in Beijing, the agreement on trade in services between China and Hong Kong and Macao has been progressed satisfactorily playing its important role in trading services between them [12].

In this research study, firstly, the characteristics and development of international trade in services for each region is studied. Since international trade in services is often dominated by infrastructural services, so secondly transportation, travel, trade-related services, finance, and insurance services are looked at over the both regions. Thirdly, a close observation can be made on their relationship with China. Then, this study can reflect a comprehensive assessment of international trade in services and an analysis of its prospects and contributes to the understanding of positive and negative factors influence on the share of services in international trade of Hong Kong and Macao.

2. Methodology

Data in English, Chinese, and Korean languages are collected from articles, books, governmental web sites, analysis of the scholars, statistics, etc. and data in Chinese and Korean are translated in English. Qualitative research method is used to build a theoretical framework based on the literature review which draws the boundary for this study and places its discipline within the context of services and perspective of international trade. Under the basic agreement on the characteristics of service, especially on the intangibility and simultaneous
consumption of services, this study respects the concept of the General Agreement on Trade in Services (GATS) which includes the most of services possibly trade commercially in all modes of supply: mode 1) cosos-border supply, mode 2) consumption abroad, mode 3) commercial presence, and mode 4) presence of a natural person. The GATS defines trade in services as comprising cross border transaction (mode 1), and payments associated with movement of providers and consumers (modes 4 and 2), and the sales of foreign affiliates that have been established in host countries (mode 3) [1].

3. Data Analysis

Services transactions between Hong Kong and the rest of the world included in the statistics are the following 12 service components: manufacturing services; maintenance and repair services; transport; travel; construction; insurance and pension services; financial services; charges for the use of intellectual property; telecommunications, computer and information services; other business services; personal, cultural and recreational services; and government goods and services [13]. The overview of the last 15 years in the four categories are developed in this study based on the data provided by Census and Statistics Department (C&SD): exports of services, imports of services, destinations for exports of services, and destinations for imports of services. Hong Kong’s trade in services (TIS) refers to exports and imports of services which represent transactions between “residents” and “non-residents” of the economy [3]. Its transactions with China are considered as external in the statistics.

3.1 Hong Kong’s Exports and Imports of Services
According to the statistics for 2000-2015 in Figure 1 developed, travel was the largest component in both exports and imports of services. This was followed by transport for export and import services; financial services for export services; manufacturing services and other business services for import services. As the statistics for 2000-2015 in Figure 2 developed, China was the most important service trading partner of Hong Kong for both exports and imports. This was followed by another important destination, United States of America, thirdly United Kingdom, and the fourth one Japan for both exports and imports; Taiwan still appears to be for export; Australia and Singapore for imports.

Although there has been a deficit, the travel sector is the one the most exporting sector at US$ 36.15 billion (out of total exported value at US$ 104.26 billion) and US$ 32.75 billion (out of total exported value at US$ 98.34 billion) in 2015 and 2016. It is about one third of the total exported value. China is the largest market for Hong Kong at US$ 28.6 billion while the next market EU has taken US$ 1 billion in 2015. Details of the statistical data for 2016 are not available yet. Besides traveling, transport is the second most exported service sector taking US$ 29.78 billion and US$ 28.05 billion in 2015 and 2016. It divides into four different kinds: sea, air, other modes of transport and postal and courier services; and sea transport has taken the greatest share among them. For financial services, EU is the largest importing market for a
service exported by Hong Kong taking almost one third of the total at US$ 5.97 billion out of US$ 19.18 billion while US is taking US$ 4 billion in 2015. China and France are the next largest markets for Hong Kong in its market of financial services.

The fourth big services sector of Hong Kong is other business services which is categorized into three kinds: research development (R&D); professional and management consulting services which includes advertising market research, and public opinion polling services; and technical, trade-related, and other business services. There are more than forty two countries being importing markets for other business services exported by Hong Kong. One of the growing sector is telecommunication, computer, and information services showing increase every year especially in telecommunication services since 2012.

![Service Export of Hong Kong 2012-2016](image)

While keeping higher exported value than its import, Hong Kong’s dependency on importing commercial services has slowly decreased except for the year 2016. The decrease in its dependency on importing value is due to gradual slow down on the services of transportation, manufacturing services on physical inputs owned by others, and charges for the use of intellectual property n.i.e. Interestingly, Hong Kong’s dependency on China in transportation has increased over the last five years while reducing its dependency on EU, Singapore, and Japan. Hong Kong still relies on USA for its transportation services as the third region after China and EU.
Travel, financial services, and other business services sectors are the commercial service sectors showing increase in its importing for the last four to five years. Obviously, China is its number one supplying market for the import of travel services at US$ 7.12 billion out of US$ 23.06 billion in 2015 which has been increasing every year. Japan and EU are the next great suppliers taking imported value of US$ 2.8 billion and US$ 2.52. US, Taiwan, Great Britain, and Australia appear also as attractive destinations. Hong Kong depends on the financial suppliers from about thirty different countries, especially supplying markets of EU, Singapore, China, and Japan.

3.2 Macao’s Exports and Imports of Services

According to the statistics provided by ITC, UNCTAD, WTO trade in services database based on International Monetary Fund statistics [14], travel service exported value was US$ 30.03 billion which has taken 92.63% of the total exported commercial services of US$ 32.42 billion. In 2016, about 31 million people visited Macao and about 91% of them were from the parts of China. International travelers were increased for 8%, about 692 thousand Korean travelers with 17.6% increase visited which increases every year [15]. Long distance travelers from US and Canada increased at 10.2% and 12.8% [15].
The Macao Overseas Representative Offices of the Macao Government Tourist Office in Japan, Taiwan, South Korea, Malaysia, Philippines, Thailand, Australia and New Zealand handles many activities for tourist promotion providing travel information, distribution of news, organization of seminars, incentives or special interest programs, and making arrangements for special educational trips to Macao for trade and media people [16]. Liu Zhi Yi, an economist of Macao, prospects many challenges in Macao economy and concerns about linking both casino and non casino businesses in order to increasing profit from non casino business sector [11]. Apparently, Macao relies deeply on travel and its related businesses such as casino. The agreement carries a section for financial services, cross-border services, telecommunications services, cultural services, and investment facilitation.

Although the portion is very little compared to the service sector, financial services appears to be the next important sector creating exported value taking the 3.4% of the commercial services in 2015. Macao’s financial services are divided into two categories, explicitly charged and other financial services and financial intermediation services indirectly measured (FISIM). Transportation and other business services sectors are the next two sectors generating exported value. Its transportation services in export has increased for the last five years and reached US$ 602 million in 2016 which includes postal and courier services, passenger transport (all modes), freight transport (all modes), and other transport. Passenger transport appears to be the source of most exported value.
Macao made eight times more profit from the commercial service export compared to its import in 2016. The region depends on importing commercial services hugely less than any other regions in East Asia. The total imported value of commercial services was only US$ 3.83 billion in 2016. Its dependency on travel services has increased to US$ 1.23 billion until 2015 and dropped a little for US$ 12 million in 2016. Other business services, transport, financial services, and government goods and services n.i.e. are the next service sectors Macao depends on its importing.

4. Findings & Conclusion

Compared to the other regions in East Asia, both Hong Kong and Macao appear to be very active in exporting commercial services, besides, less depend on importing services except for travel services. Through the analysis, the share of service is determined to be sensitive to the multiple factors for both Hong Kong and Macao: technological development, liberalization of the processes, agreement and government support. Travel, transportation, other business services, and financial services are identified as dominating services in Hong Kong. Travel services of Macao has shown a strong competitiveness and potentials in transport and communication industries. It supports financial services in Hong Kong. Both regions rely on the cooperation with China in the overall trade in services. Therefore, liberalization process, development of technology and infrastructure of China considered to be the most strong factor on the share of services in trade of SARs.
References


