

TRADE IN VALUE ADDED: HONG KONG, CHINA

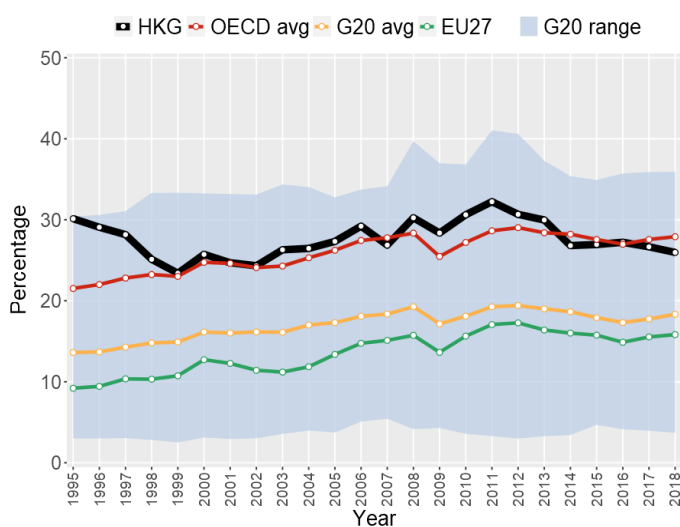
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Trade in Value Added (TiVA) indicators offer new insights into the commercial relations among economies and provide a broad view of where value is created along each stage of global value chains (GVCs). Painting a more complete picture than gross trade measures alone, the TiVA approach better reflects the significantly higher contribution made by services in GVCs, the role of imports in export performance, and the true nature of economic interdependencies. The 2021 version of the TiVA database covers 66 economies and 45 industrial sectors, for the years 1995 to 2018, and brings together indicators based on the value-added origins (both country and industry) of exports, imports and final demand. This note highlights the trade patterns in value-added terms for Hong Kong, with a view to informing policy making for a range of areas including trade, innovation and investment.

Key findings

- ▶ The foreign content of Hong Kong's gross exports peaked in 2011 at 32.2% and has since followed a mostly downward trend, reaching 26% in 2018, below the OECD average of 27.9% (Figure 1).
- ▶ In 2018, Hong Kong's domestic share of value added meeting foreign final demand was highest in manufacturing activities such as *ICT and electronics* (92.6%) and *Basic metals* (89.8%); however, this share for the overall Hong Kong economy decreased by 2.6 percentage points since 2008 (Figure 2).
- ▶ Hong Kong's economy is highly connected to mainland China, which is by far its largest trade partner both in gross and value-added terms, representing roughly a third of all of Hong Kong's value added meeting foreign final demand and a third of foreign value added meeting Hong Kong's final demand. Hong Kong is also well connected within ASEAN GVCs: although Southeast Asian countries are Hong Kong's second biggest export market in gross terms, a significant amount of its value added is then re-exported to final demand in countries such as the United States (Figure 5).
- ▶ Services are a major contributor to Hong Kong's economy, accounting for 83% of Hong Kong's gross exports in 2018 - significantly above the OECD average of 55.7%. However, the services content of gross exports decreased for most manufacturing industries since 2008, particularly *Basic metals*, by 12.8 percentage points (Figure 7).

Figure 1. Foreign value-added content of gross exports
As a percent of total gross exports, 1995 to 2018



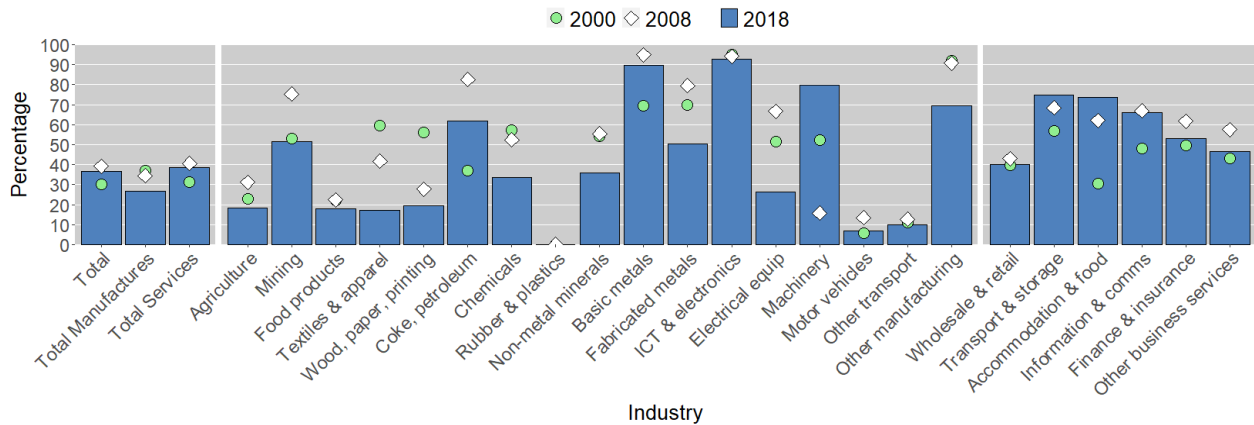
At the global level, the new TiVA indicators confirm that there has been a slowdown in GVC integration since the Financial Crisis in 2008-2009 (Figure 1). However, in general, foreign value added in trade increased between 2016 and 2018.

Between 2008 and 2018, the foreign content of Hong Kong's exports is estimated to have decreased from 30.2% to 26% - close to the OECD average of 27.9%. Compared to 2008, the foreign content of exports in 2018 was 4.3 percentage points lower.

The role of foreign final demand in domestic production

Overall, in 2018, 36.6% of Hong Kong's domestic value added was driven by foreign final demand, down from 39.2% in 2008. By industry, the shares ranged from ICT and electronics (92.6%) and Basic metals (89.8%) at the higher end to Rubber and plastics products (0%) at the lower end.

Figure 2. Hong Kong, China - domestic value added in foreign final demand
As a percent of value added, by industry, 2000, 2008 and 2018



The importance of imports for exports

The industries with the most foreign value-added contents in their exports (Figure 3a) were Basic metals (78.8%), Electrical equipment (76.8%) and Machinery and equipment, nec (73.3%). Financial and insurance generated the greatest source of domestic value-added content of exports in 2018, accounting for 21.8% of gross exports (Figure 3b), followed by Transport and storage (15.8%) and Wholesale and retail trade (14.5%). The most foreign content in total exports came from Transport and storage (7.1%).

Figure 3a. Hong Kong, China - foreign value-added content of gross exports
As a percent of gross exports, by industry, 2000, 2008 and 2018

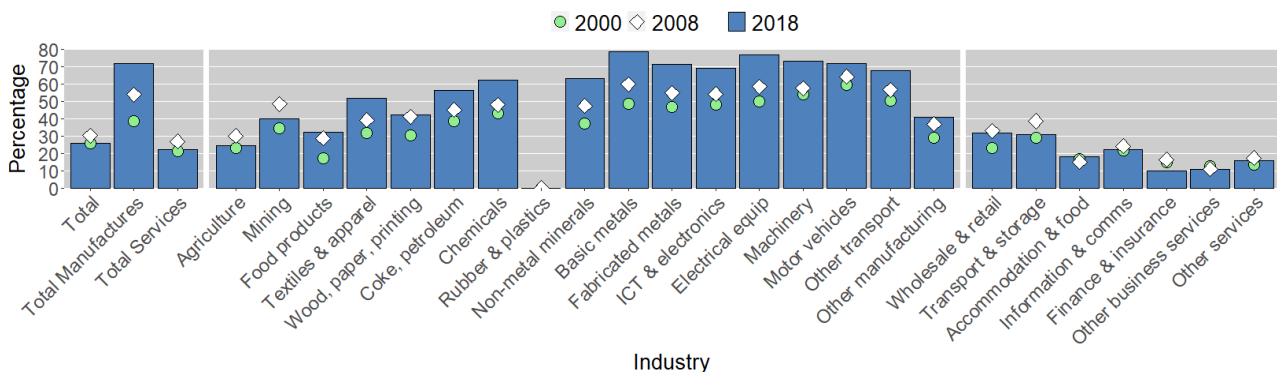
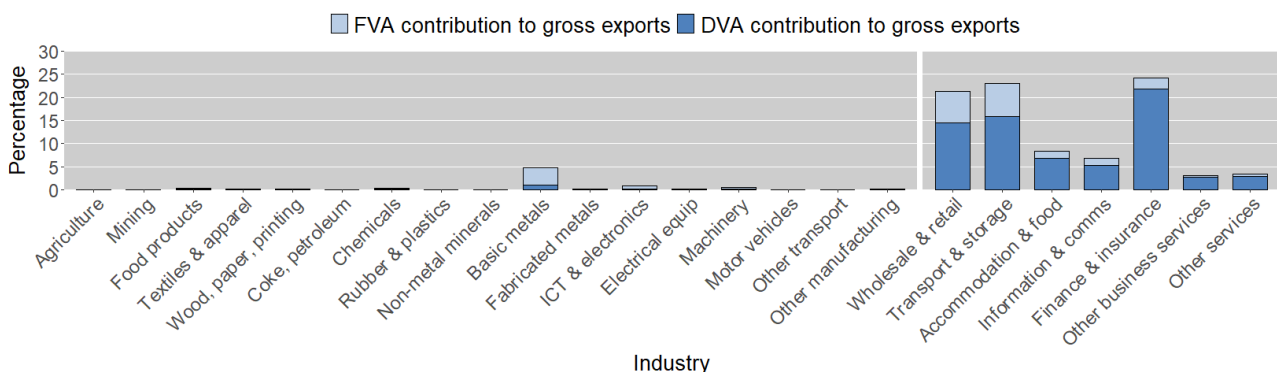
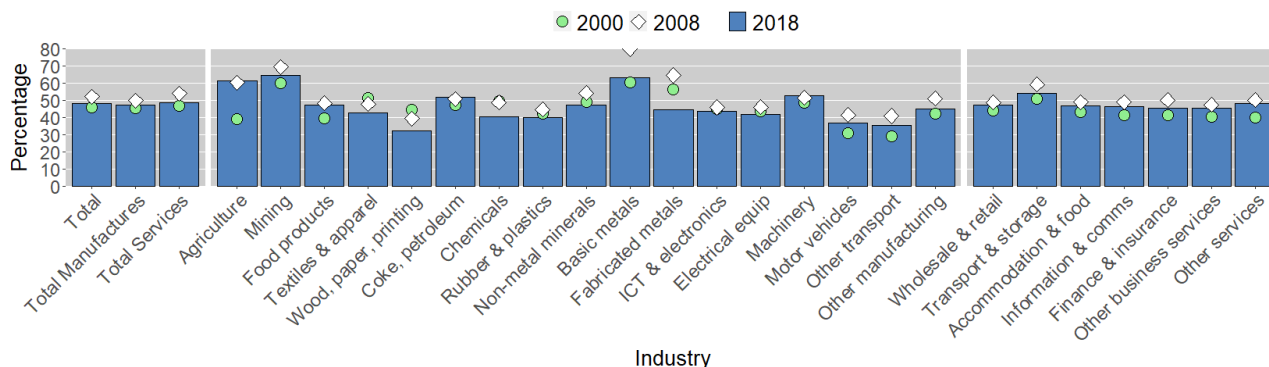


Figure 3b. Hong Kong, China - industry share of domestic and foreign value-added content of gross exports
As a percent of total gross exports, 2018



Of the total value of Hong Kong's imports of intermediate goods and services in 2018, 48.3% was subsequently embodied in exports, close to the OECD average of 47.9%, and below the share in 2008 (52.1%). The originating industries with the highest shares of intermediate imports used in Hong Kong's exports were *Mining and quarrying* (64.7%), *Basic metals* (63%) and *Agriculture, forestry and fishing* (61.4%).

Figure 4. Hong Kong, China - imported intermediate inputs used for exports, by industry-origin of imports
As a percent of intermediate imports, 2000, 2008 and 2018

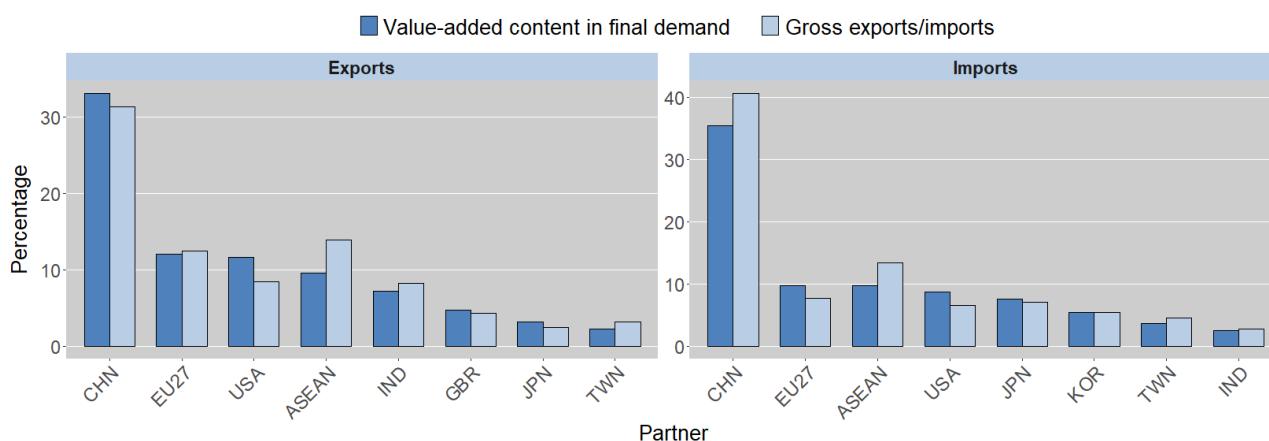


Hong Kong, China: international flows of goods and services, main players

In gross terms, mainland China (31.3%), Southeast Asia¹ (13.9%) and the European Union (12.5%) were the three most important Hong Kong's export market destinations in 2018. The top three final destinations for Hong Kong's value added were mainland China (33.1%), the European Union (12%) and the United States (11.6%).

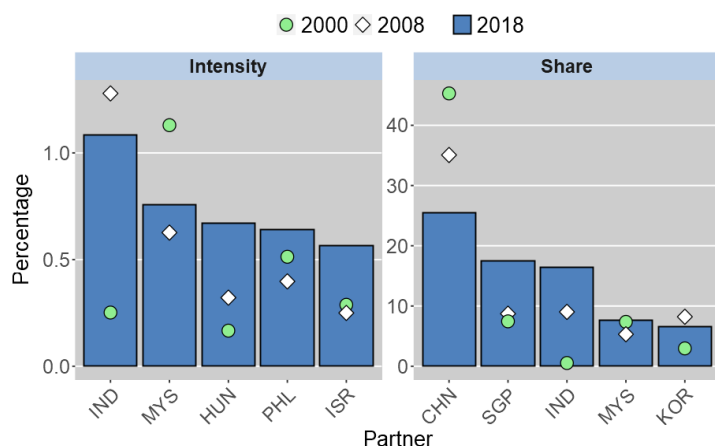
For imports in gross terms, Hong Kong's top three partners in 2018 were mainland China (40.6%), Southeast Asia (13.3%) and the European Union (7.7%), while in value-added terms, the top three were mainland China (35.4%), the European Union (9.7%) and Southeast Asia (9.7%).

Figure 5 Hong Kong, China - exports and imports: main partners
As a percent of total gross and value-added exports and imports, 2018



¹ Southeast Asia refers to the ASEAN group of countries.

Figure 6. Hong Kong's domestic value-added content of manufactured imports, top 5 partners
As a share of total Hong Kong's value added embodied in Hong Kong's imports (right) and as a percent of total imports by partner (left)



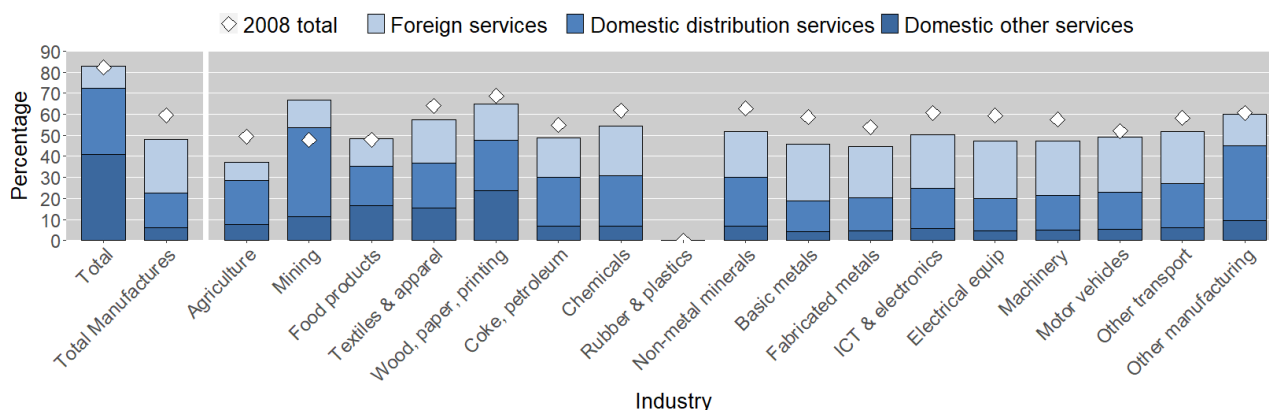
In 2018, the highest shares of Hong Kong's domestic value added embodied in Hong Kong's manufactured imports (Figure 6, right) came from mainland China (25.5%), Singapore (17.5%) and India (16.4%).

The trading partners with the highest shares of Hong Kong's value added in their exports of manufactures to Hong Kong (Figure 6, left) in 2018 were India (1.1%), Malaysia (0.8%) and Hungary (0.7%).

The importance of services in international trade

Services are a major contributor to Hong Kong's economy, accounting for 83% of Hong Kong's gross exports in 2018 (Figure 7) - significantly above the OECD average of 55.7%. Foreign services contributed 10.5% to the value of total gross exports. For manufactures, services value-added content was 47.9% of gross exports, with the highest shares in *Mining and quarrying* (67%), *Wood and paper products* (64.9%) and *Manufacturing nec* (60.2%).

Figure 7. Hong Kong, China - services content of gross exports
As a percent of gross exports by industry, 2018



Further information is available to supplement this country note:

- ▶ Access the data at: <http://oe.cd/tiva>
- ▶ Guide to TiVA 2021 Country Notes: www.oecd.org/sti/ind/tiva-2021-guide-to-country-notes.pdf
- ▶ TiVA indicators are based on the 2021 version of ICIO tables: <http://oe.cd/icio>
- ▶ Related indicators of Trade in Employment <http://oe.cd/io-emp> and Trade in Embodied CO2 <http://oe.cd/io-co2>
- ▶ Trade policy implications of global value chains: <http://www.oecd.org/trade/topics/global-value-chains-and-trade/documents/trade-in-value-added-2021.pdf>

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