



Measuring the economic impact of inbound tourism in Hong Kong

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Abstract

Hong Kong is a popular tourist destination in the Asia Pacific region, with rapid growth in the number of visitor arrival and spending over the past decade. As one of the four pillar industries in Hong Kong, tourism generates significant revenue and employment, providing impetus to the growth of the Hong Kong economy.

As tourism comprises a wide range of economic activities straddling across different industries, the Tourism Satellite Account (TSA) is generally considered an effective statistical tool for measuring the economic contribution of tourism.

This paper gives an overview of the development of inbound tourism in Hong Kong, their importance to various industries, and their economic contribution to the Hong Kong economy over the past decade. The methodology and data sources used in Hong Kong for compiling TSA will also be discussed. The mix and spending pattern of visitors are useful information for policy makers to formulate the development strategy of tourism.

Keywords: Tourism Satellite Account; direct tourism consumption; tourism ratio; tourism direct value added

1. Introduction

Being one of the four pillar industries, tourism is an important economic activity in Hong Kong. For estimation purpose, tourism cannot be readily defined by the supply of a specific list of products or economic activities, as in conventionally defined industries like manufacturing. Rather, the status of the purchaser (i.e. whether the purchaser is a visitor or a local resident) determines whether a product or an activity is tourism related or not. Tourism thus comprises a wide range of economic activities straddling across different industries that are somehow related to a common purpose of serving visitors.

Tourism Satellite Account (TSA) is an effective statistical tool for measuring the economic contribution of tourism. Given the importance of inbound tourism to Hong Kong's economy, TSA for inbound tourism of Hong Kong was developed in 2000. It follows closely the compilation framework of TSA recommended by the World Tourism Organisation, with corresponding local adaptation mainly on product classification and industry classification. TSA contains information such as tourism consumption, value added of tourism industries, direct value added, etc., which are useful information for policy makers in formulating the development strategy of tourism in Hong Kong.

2. Development of inbound tourism over the past decade

Over the past decade, Hong Kong experienced rapid growth in the number of visitor arrivals. The number has more than doubled from 25.3 million in 2006 to 56.7 million in 2016, representing an average annual growth of 8.4% over the period. The significant growth was mainly attributable to the surge in visitors from the mainland of China through the support of the Mainland's Individual Visit Scheme and its related policies. In 2016, the top three visitor source markets were the mainland of



China (75.5% of total arrivals), Taiwan (3.6%) and South Korea (2.5%), together accounting for 81.5% of total arrivals. [Table 1]

Table 1: Visitor arrivals by major economy

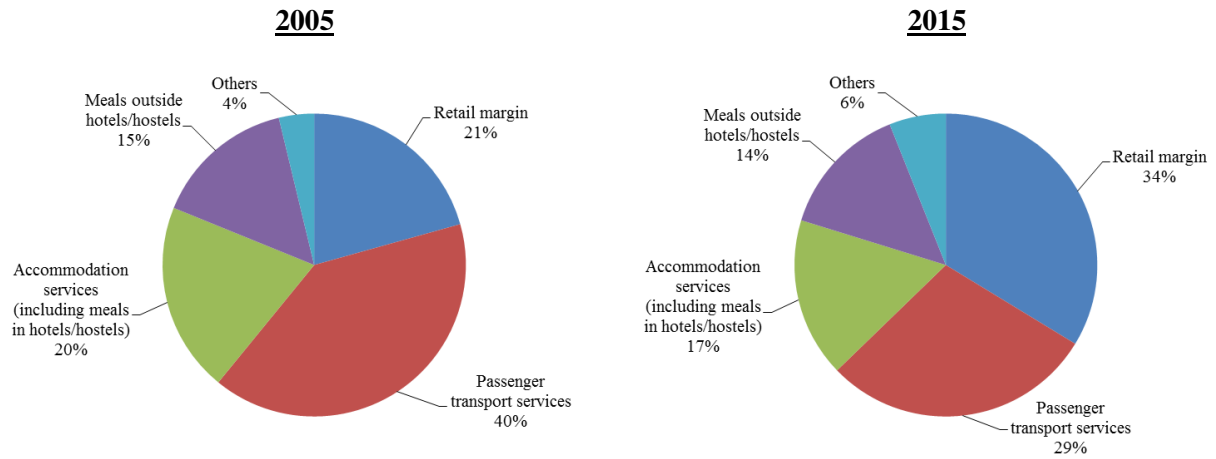
	2006	2011	2015	2016	Average annual % change 2006-2016
The mainland of China	13 591 342 [53.8%]	28 100 129 [67.0%]	45 842 360 [77.3%]	42 778 145 [75.5%]	12.1
Taiwan	2 177 232 [8.6%]	2 148 733 [5.1%]	2 015 797 [3.4%]	2 011 428 [3.6%]	-0.8
South Korea	718 758 [2.8%]	1 020 996 [2.4%]	1 243 293 [2.1%]	1 392 367 [2.5%]	6.8
USA	1 159 025 [4.6%]	1 212 336 [2.9%]	1 181 024 [2.0%]	1 211 539 [2.1%]	0.4
Japan	1 311 111 [5.2%]	1 283 687 [3.1%]	1 049 272 [1.8%]	1 092 329 [1.9%]	-1.8
Others	6 293 656 [24.9%]	8 155 429 [19.5%]	7 975 850 [13.4%]	8 169 095 [14.4%]	2.6
Total	25 251 124 [100.0%]	41 921 310 [100.0%]	59 307 596 [100.0%]	56 654 903 [100.0%]	8.4

Regarding tourism spending, two aggregates are compiled, namely inbound tourism consumption (ITC) and direct tourism consumption (DTC). ITC refers to the total spending made by visitors on services and goods bought in Hong Kong. DTC, on the other hand, is the spending made by visitors, but excludes the cost of goods sold to the visitors by retailers. It emphasizes on the direct contact between a visitor and the industry serving the visitor. Thus, in the purchase of retail goods by visitors, since only the retailers have direct contact with visitors, only the retail margin is regarded as the output of the retailer and hence included in DTC. In other words, the difference between ITC and DTC is the cost of goods sold by retailers to visitors. In 2015, ITC was HK\$322.8 billion, compared with the HK\$105.3 billion in 2005. Of this, DTC was HK\$211.8 billion, representing an average annual growth rate of 10.8% when compared with 2005.

Within DTC, the retail margin accounted for the largest proportion (33.7%) in 2015, followed by passenger transport services (29.1%), accommodation services (including meals in hotels/hostels) (17.0%), and meals outside hotels/hostels (14.2%). In 2005, however, the proportion of passenger transport services (40.2%) was larger than that of retail margin (20.7%). The noticeable rise in the proportion of retail margin in DTC in recent years was attributable to the increased number of same-day visitors from the mainland of China, who spent a higher proportion of their consumption on shopping. [Chart 1]



Chart 1: Direct tourism consumption by major tourism product, 2005 and 2015

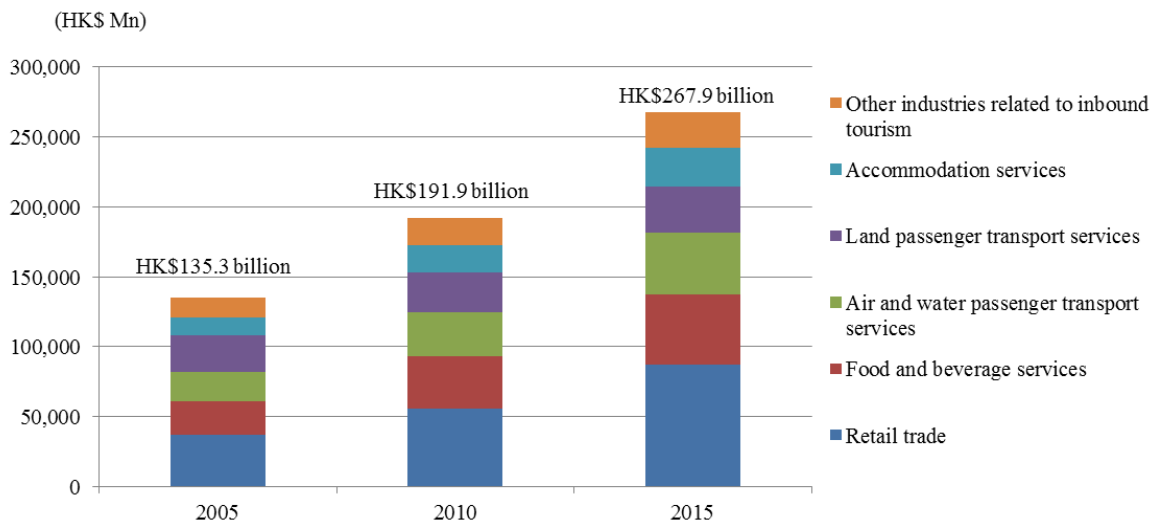


3. Measuring the economic contribution of inbound tourism in Hong Kong

Inbound tourism makes significant contribution to the Hong Kong economy, since many industries are involved in providing goods and services directly to visitors. Tourism is not an industry in the traditional sense because conventionally defined industries are classified in accordance with the goods and services they produce, whereas tourism depends on the status of the customer and therefore straddles across different industries. Some industries bear particular relevance to inbound tourism because of their important role in serving visitors. In Hong Kong, such “tourism industries” include retail trade; food and beverage services; air and water passenger transport services; land passenger transport services; accommodation services; cultural and amusement services; travel agency, reservation service and related activities as well as convention and trade show organising services.

In 2015, total value added (VA) of the “tourism industries” was HK\$267.9 billion, or 11.5% of Hong Kong’s Gross Domestic Product (GDP), with an average annual growth of 7.1% from HK\$135.3 billion in 2005. Among them, retail trade generated the largest VA (HK\$87.0 billion) and contributed 3.7% to GDP, followed by food and beverage services (2.2%). [Chart 2]

Chart 2: Value added of “tourism industries”, 2005, 2010 and 2015





The above-mentioned VA of the “tourism industries” measures the VA of the whole industries no matter whether they are serving visitors or local residents. To assess the direct economic contribution from inbound tourism, the tourism direct value added (TDVA) and tourism employment are compiled in TSA. TDVA is measured as the value of the output of products by industry that are directly consumed by visitors less the value of intermediate consumption (IC) used in producing such products. Compared with the VA of the “tourism industries”, TDVA excludes the part of VA generated by the industries for providing goods and services to local residents. As the conceptual framework for compiling the TDVA is same as that for any other conventional industry such as manufacturing and retail trade under the national accounts framework, economic contribution of inbound tourism to the whole economy can thus be easily measured by expressing TDVA as a percentage of the total GDP of the economy.

To compile TDVA, some methods have to be developed to apportion the VA figure of the selected industries to inbound tourism. First, the products purchased by visitors and the industries from which they purchased have to be identified. Second, the share of domestic output of the products consumed by visitors (i.e. the tourism ratio) for each selected industry is compiled. In Hong Kong, the tourism ratio of a particular industry is estimated by the share of the business receipts from visitors (derived from data on visitor spending) in total business receipts of that industry. Third, the tourism ratio for each industry is then applied to the total output of the industry to derive the direct tourism output of each industry. Fourth, the tourism value added of a particular industry is then compiled by applying the VA to gross output (GO) ratio of the industry concerned based on the assumption that the ratio of IC to GO is the same for all products consumed by both visitors and local residents of that industry. Similarly, tourism employment of each selected industry is derived by applying the tourism ratio to the total employment of the industry.

The tourism ratio of the accommodation services industry was highest, as the industry relied heavily on inbound tourism consumption. In 2015, the ratio was 0.83, meaning that 83% of the net output of accommodation services was directly consumed by visitors. This figure was higher than that in 2005 (74%) by 9 percentage points. Air and water passenger transport services had the second highest tourism ratio at 0.40 in 2015, similar to 0.38 in 2005. As for the retail trade, the ratio increased from 0.20 in 2005 to 0.34 in 2015. This indicated that the importance of inbound tourism to these industries has become more significant. [Table 2]

Table 2: Tourism ratio for selected industries

Industry	Ratio		
	2005	2010	2015
Accommodation services	0.74	0.85	0.83
Air and water passenger transport services	0.38	0.42	0.40
Retail trade	0.20	0.30	0.34
Food and beverage services	0.17	0.17	0.23

Based on the tourism ratios, the TDVA which measures the VA generated in an economy by industries providing goods and services directly to visitors are compiled. The TDVA in 2015 was HK\$93.2 billion, nearly three times that of HK\$32.9 billion in 2005. The share in GDP also increased from 2.4% in 2005 to 4.0% in 2015. [Chart 3] In 2015, inbound tourism provided jobs for 234 400 persons, or 6.2% of total employment. [Chart 4]



Chart 3: Tourism value added and percentage share in GDP, 2005-2015

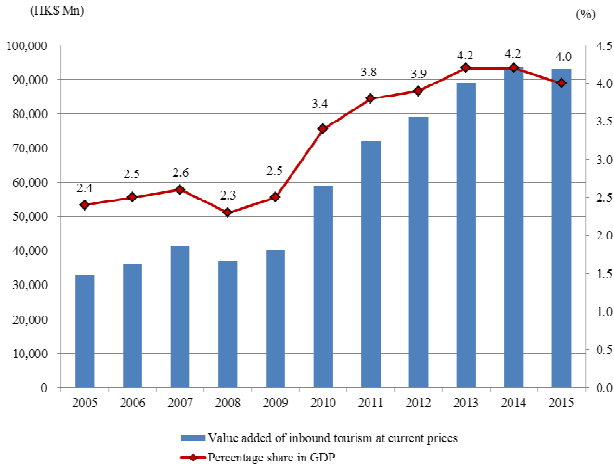
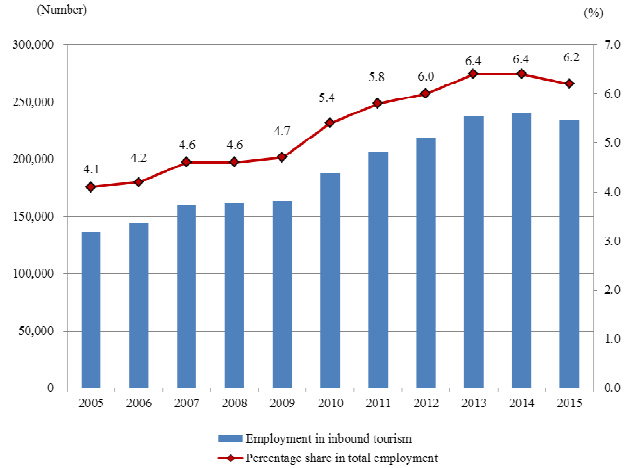


Chart 4: Tourism employment and percentage share in total employment, 2005-2015



Analysed by industry, inbound tourism generated the largest VA in retail trade (HK\$29.5 billion, or 1.3% of GDP) in 2015, followed by accommodation services (1.0% of GDP), cross boundary passenger transport services (0.8% of GDP) and food and beverage services (0.5% of GDP). [Chart 5] As for employment, again inbound tourism created the largest number of jobs in retail trade (108 100, or 2.9% of total employment), followed by food and beverage services (1.4% of total employment) and accommodation services (1.0% of total employment). [Chart 6]

Chart 5: Tourism value added by major industry, 2005, 2010 and 2015

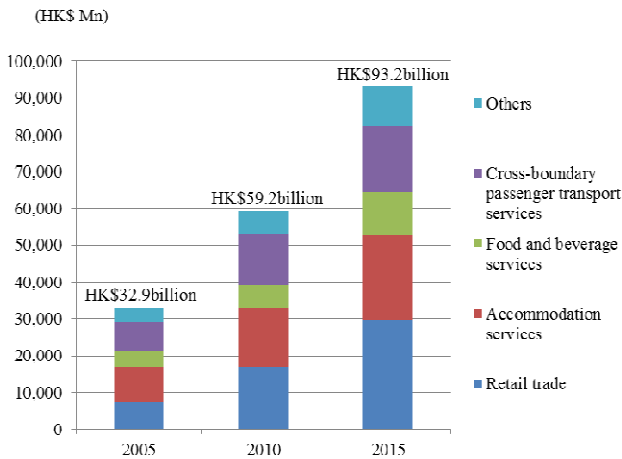
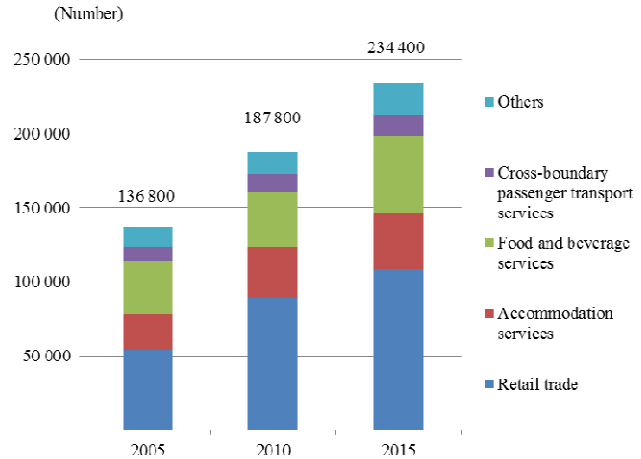


Chart 6: Tourism employment by major industry, 2005, 2010 and 2015



4. Data sources for compiling TSA

The compilation of TSA is based on many different data sources. Visitor spending and their spending patterns are mainly compiled based on data obtained from the Travel Pattern Survey and the Main Visitor Survey conducted by the Hong Kong Tourism Board. Other data sources include the Annual Survey of Economic Activities conducted by the Census and Statistics Department which collects information on business receipts and operating expenses of all industries; and administrative data from government departments and other organisations.



5. Conclusion

Based on the different statistics shown in TSA, it was observed that while inbound tourism in Hong Kong developed rapidly in the past decade, there was some consolidation in recent years. TSA provides information on the VA and employment generated by inbound tourism in different industries which is useful information for policy makers to formulate the development strategy of tourism. In the case of Hong Kong, instead of seeking growth in visitor numbers, the Hong Kong Government in recent years made continuous efforts to drive the tourism industry towards more diversified and high value-added services, with a view to attracting more overnight visitors to Hong Kong. In line with this policy direction, the Government supports the promotion of diversification of tourism products with local characteristics and green tourism products; provides promotional offers to transit passengers or overnight visitors; and promotes cruise tourism. Inbound tourism will continue to play an important role in the economy of Hong Kong.

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