

## HONG KONG

### TRADE SUMMARY

In 2000, the U.S. trade surplus with Hong Kong amounted to \$3.2 billion, up from last year's \$2.1 billion. U.S. imports from Hong Kong were \$11.5 billion and exports were \$14.6 billion, making Hong Kong the United States' 13<sup>th</sup> largest export market in 2000.

U.S. exports of private commercial services (i.e., excluding military and government) to Hong Kong were \$3.3 billion in 1999, and U.S. imports were \$3.8 billion. Sales of services in Hong Kong by majority U.S.-owned affiliates were \$6.2 billion in 1998, while sales of services in the United States by majority Hong Kong-owned firms were \$1.5 billion.

The stock of U.S. foreign direct investment in Hong Kong rose to \$20.8 billion in 1999, up from \$18.4 billion in 1998. U.S. direct investment in Hong Kong is concentrated in the finance and wholesale services sectors.

### OVERVIEW

On July 1, 1997, Hong Kong became a Special Administrative Region (SAR) of the People's Republic of China (PRC). Under the policy of "one country, two systems," Hong Kong is to enjoy a high degree of autonomy from the PRC in managing its trade, financial, social, legal, and other internal matters for 50 years. Although the PRC has assumed responsibility for conducting foreign affairs and defense matters for the SAR, Hong Kong remains a separate customs territory with all of its previous border and customs arrangements. As a separate customs territory with autonomy in the conduct of its economic, trade, and financial policies, Hong Kong retains independent membership in economic organizations such as the World Trade Organization and APEC.

Hong Kong's recovery from the Asian economic crisis, which began in the second half of 1999, accelerated rapidly in 2000, fueled by strong growth in exports (mainly to the United States

and China). The SAR projects full year real growth at 10 percent, a rate that will slow in 2001 as a reflection partly of higher base year figures and moderate deflation. Hong Kong recorded a fiscal surplus of \$1.28 billion for 2000 and projects a modest deficit of \$800 million for 2001. Over the long term, Hong Kong enjoys a number of economic advantages, including a large market and base of production in the Chinese mainland, massive fiscal and foreign exchange reserves, virtually no public debt, a strong legal system, and a strong and rigorously-enforced anti-corruption regime. Growing competition for Hong Kong's historic role as an entrepot to the Chinese mainland and the need for restructuring of Hong Kong's high-cost, service-based economy will pose continued challenges in the years ahead, but Hong Kong is well positioned to benefit from China's WTO accession and Asia's economic recovery.

### INTELLECTUAL PROPERTY RIGHTS PROTECTION

Hong Kong has made very good progress over the past two years in addressing the problem of copyright piracy, starting with the creation of an anti-piracy task force in the Customs Department that allowed a stepped-up pace of raids against retail establishments. As a result of this enforcement effort, piracy-related arrests reached 2,752 in 2000. Although customs and industry associations believe they have eliminated the network of underground factories that previously contributed to Hong Kong's piracy problem, freeing the government to focus its enforcement efforts on those registered disc manufacturers who are producing unlicensed material on the side, there is continuing concern with the number of pirated DVD's on the market.

The past year has also seen passage of several key legislative improvements, including an amendment to reclassify piracy under Hong Kong's Organized and Serious Crimes Ordinance and a second amendment to clearly criminalize the corporate use of unlicensed software. The SAR has announced that this

## HONG KONG

corporate software law will be enforced from April 1, 2001 and that Customs and industry associations have begun providing training in proper software asset management practices. Customs has also begun to tackle the emerging problem of Internet-based piracy by working with U.S. copyright associations to identify, raid and prosecute Hong Kong-based web sites offering pirate material via mail order or download. The first of six pending cases are expected to move to the Hong Kong Department of Justice in early 2001. U.S. officials have encouraged Hong Kong authorities to sustain the pace of street-level enforcement and to ensure that Hong Kong's very large optical disc production capacity is used only for legitimate products. In this regard, Hong Kong's recent efforts to increase liaison with mainland copyright licensing officials should help to ensure the legitimacy of optical disc orders from Chinese customers.

U.S. companies are concerned that recent approvals of generic pharmaceutical compounds by the Hong Kong Department of Health infringe upon existing patents. In addition, the industry believes that certain pharmaceutical product imports have not received official regulatory approval, leading to the diversion of non-approved products to the Hong Kong market.

### SERVICES BARRIERS

Over the past five years Hong Kong has evolved into one of Asia's most open and competitive telecommunications markets. New licenses for long distance calling, international data transmission via satellite and cable and local wireless communications have produced a sharp reduction in costs and a proliferation of new services. This liberalization has also brought a significant flow of new U.S. investment in Hong Kong's information technology sector.

Nonetheless, Hong Kong's May 1999 decision to extend the current moratorium on additional local fixed line operators until January 1, 2003 has created a situation where new market entrants must negotiate backhaul and interconnection arrangements with the four incumbent local operators. New facilities-based international long distance operators are also prohibited from purchasing undersea capacity on existing submarine cables before 2003, and are required to construct new cables to obtain such capacity. This extension of the moratorium has raised the cost of market entry and diluted the benefits to consumers from Hong Kong's telecommunications market opening. In addition, concerns have been expressed over Hong Kong's universal service fund collection mechanism, which reportedly targets international traffic and exempts domestic traffic. A June 2000 amendment to the Telecommunications Ordinance strengthened Hong Kong's authority to intervene in the market if dominant operators are shown to engage in anti-competitive behavior. In October 2000, the SAR announced its intention to begin accepting applications for additional local fixed line licenses in 2001 although permission to operate will not be granted until 2003. U.S. officials welcomed this announcement while encouraging Hong Kong to proceed as quickly as possible in moving towards full market opening by January 2003.

Foreign banks wishing to establish a branch in Hong Kong must have assets of at least US \$16 billion. The Hong Kong Monetary Authority (HKMA) relaxed the restriction on foreign bank branches in September 1999 to allow overseas banks licensed after 1978 to operate in a maximum of three locations (an ATM machine counts as a branch). Further relaxation of this 3-branch policy will be considered in 2001. In the meantime, HKMA has lifted all restrictions on

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## FOREIGN TRADE BARRIERS

## HONG KONG

the number of regional offices that foreign banks can maintain.

Concerns have been expressed by industry that the aviation market is still restrictive and that the Hong Kong Airport Authority (HKAA) is levying excess surcharges on carriers for landing, parking, and terminal usage.

### **ELECTRONIC COMMERCE**

Hong Kong places great importance on its role as an information technology and electronic commerce hub. The Legislative Council passed an electronic transactions bill providing a legal framework for electronic commerce in early 2000 and, in November 2000, Hong Kong launched a privately-managed electronic services delivery scheme under which government transactions will be available on-line and at public Internet kiosks throughout the SAR. Hong Kong also is encouraging software and content developers to use the SAR as a base for regional operations and is investing heavily in technology parks. However, restrictions on acquiring additional capacity on existing submarine cables (described above) will likely hinder the development of competitive broadband and competitive Internet-provision.

### **OTHER BARRIERS**

#### **Wine**

There are no general tariffs on goods entering Hong Kong, but excise duties are levied on fuel, tobacco and alcohol products, whether they are imported or manufactured locally. A duty of 60 percent on wine products has been identified as a significant concern for U.S. exporters.

#### **Pharmaceuticals**

Concerns have been expressed with new procedures for the approval of patented drugs which may double approval times to eight months, thus shortening the effective patent life. In addition, the ability to market these products on a timely basis is reduced.