2000 Country Reports on Economic Policy and Trade Practices
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HONG KONG

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	1998	1999	2000 1/
Income, Production and Employment:			
Nominal GDP 2/	161.8	158.1	166.0
Real GDP Growth (pct)	-5.3	3.1	8.5
GDP by Sector:			
Agriculture	0.2	N/A	N/A
Manufacturing	9.1	N/A	N/A
Services	127.7	N/A	N/A
Government	15.1	15.6	15.7
Per Capita GDP (US$)	24,352	23,530	24,707
Labor Force (000s)	3,306	3,343	3,380
Unemployment Rate (pct)	4.7	6.3	4.8
Money and Prices (annual percentage growth):			
Money Supply (M2) 3/	11.8	8.1	9.0
Consumer Price Inflation (pct)	2.8	-4.0	-3.5
Exchange Rate(HK$/US$)			
Official	7.75	7.77	7.78
Balance of Payments and Trade:			
Total Exports FOB 4/	172.8	172.9	197.1
Exports to U.S. 5/	10.5	10.5	11.7
Total Imports CIF	183.2	178.6	207.1
Imports from U.S. 5/	12.9	12.6	14.4
Trade Balance	-10.4	-5.7	-10.0
Balance with U.S. 5/	-2.4	-2.1	-2.7
External Public Debt	0	0	0
Fiscal Balance/GDP (pct)	-2.5	0.8	-0.5
Current Account Balance/GDP (pct)	1.1	5.4	4.9
Debt Service Payments/GDP (pct)	0	0	0
Gold and Foreign Exchange Reserves			
(end of period) 6/	89.6	96.3	101.8
Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

1/ Estimates based on monthly data through August 2000.
2/ Expenditure-based GDP estimates.
3/ Money supply of Hong Kong dollars and foreign currencies.
4/ Of which domestic exports (as opposed to re-exports) constituted 14.0 percent (1998), 12.6 percent (1999) and 12.0 percent (2000 estimate based on data through August).
5/ Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 2000 figures are estimates based on data available through July 2000. Hong Kong merchandise trade includes substantial re-exports (mainly from China) to the United States, which are not included in these figures.
6/The Land Fund was included in the foreign exchange reserves effective July 1, 1997.

Source: Census and Statistics Department.

1. General Policy Framework

Since becoming a Special Administrative Region of the People's Republic of China on July 1, 1997, Hong Kong has continued to manage its own financial and economic affairs, its own currency, and its independent role in international economic organizations and agreements.

The Hong Kong Government generally pursues policies of noninterference in commercial decisions, low and predictable taxation, government spending increases within the bounds of real economic growth, competition subject to transparent laws (albeit without antitrust legislation) and consistent application of the rule of law. With few exceptions, the government allows market forces to set wages and prices, and does not restrict foreign capital flows or investment. It does not impose export performance or local content requirements, and allows free repatriation of profits. Hong Kong is a duty-free port, with few barriers to trade in goods and services.

Until 1998, the government regularly ran budget surpluses and thus has amassed large fiscal reserves. The corporate profit tax is 16 percent and personal income is taxed at a maximum of 15 percent. Property is taxed; interest, royalties, dividends, capital gains and sales are not.

Because monetary policy is tied to maintaining the nominal exchange rate linked to the U.S. dollar, Hong Kong's monetary aggregates have effectively been demand-determined. The Hong Kong Monetary Authority, responding to market pressures, occasionally adjusts liquidity through interest rate changes and intervention in the foreign exchange and money markets.

The Asian financial crisis provoked a sharp economic downturn in 1998 and the first half of 1999, but Hong Kong's economic fundamentals remained strong, with a stable banking system, prudent fiscal policy and massive dollar reserves. In August 1998 the government made what it describes as a “one-time” intervention in the stock, futures, and currency markets (spending about $15 billion) to defend against what it believed were market manipulation efforts by financial market players. In October 1999 the government began to divest itself of the shares it acquired in this intervention through sales to the public. By mid-2000 the economy was well into an export-driven recovery, but unemployment remained high by Hong Kong standards and concerns remained about the possible impact of an economic slow-down in the United States, which is Hong Kong's most important export market after China.

In July 2000 Hong Kong's Trade and Industry Bureau was reorganized to support the government's strategy of technology-based development. The creation of a new Innovation and Technology Commission reflects the government's increasing willingness to fund technology investment and encourage commercial applications. At the same time, the government created Invest Hong Kong, a new agency under the renamed Commerce and Industry Bureau, to actively promote inward investment.

2. Exchange Rate Policies

The Hong Kong dollar is linked to the U.S. dollar at an exchange rate of HK$7.8 = US$1.00. The link was established in 1983 to encourage stability and investor confidence in the run-up to Hong Kong's reversion to Chinese sovereignty in 1997. PRC officials have supported Hong Kong's policy of maintaining the link. In September 2000 the Hong Kong Monetary Authority completed phase two of the implementation of Hong Kong's U.S. dollar payment system, which allows local firms to achieve real-time settlement of U.S. dollar transactions. When completed in December 2000, the system will reinforce monetary stability.

There are no foreign exchange controls of any sort. Under the linked exchange rate, the overall exchange value of the Hong Kong dollar is influenced predominantly by the movement of the U.S. dollar against other major currencies. The price competitiveness of Hong Kong exports is therefore affected by the value of the U.S. dollar in relation to third country currencies.

3. Structural Policies

The government does not have pricing policies, except in a few sectors such as energy, which is partially regulated. Even in those controlled areas, the government continues to pursue sector-by-sector liberalization. Hong Kong's personal and corporate tax rates remain low and it does not impose import or export taxes. Since 1996, Hong Kong has deregulated most interest rates. In July 2000 the Monetary Authority removed the remaining interest rate cap on time deposits with maturity of less than seven days. The interest rate cap on savings and current accounts will be removed in July 2001. Consumption taxes on tobacco, alcoholic beverages, and some fuels constrain demand for some U.S. exports. Hong Kong generally adheres to international product standards.

Hong Kong's lack of antitrust laws has allowed monopolies or informal cartels, some of which are government-regulated, to dominate certain sectors of the economy. These informal cartels can use their market position to block effective competition indiscriminately but do not discriminate against U.S. goods or services in particular.

4. Debt Management Policies

The Hong Kong government has minuscule public debt. Repeated budget surpluses have meant the government has not had to borrow. To promote the development of Hong Kong's debt market, the government launched an exchange fund bills program with the issuance of 91-day bills in 1990. Since then, maturities have gradually been extended. Five-year notes were issued in October 1993, followed by 7-year notes in late 1995 and 10-year notes in 1996. In March 1997 the Hong Kong Mortgage Corporation was set up to promote the development of the secondary mortgage market. The Corporation is 100 percent owned by the government through the Exchange Fund. The Corporation purchases residential mortgage loans for its retained portfolio in the first phase, followed by packaging mortgages into mortgage-backed securities for sale in the second phase.

In October 2000 the government launched a partial privatization of the Mass Transit Railway Corporation to the general public in Hong Kong and domestic and international professional and institutional investors. The Initial Share Offer of this first-ever Hong Kong government privatization raised about US$1.3 billion.

Hong Kong does not receive bilateral or multilateral assistance.

5. Significant Barriers to U.S. Exports

Hong Kong is a member of the World Trade Organization, but does not belong to the WTO's plurilateral agreement on civil aircraft. As noted above, Hong Kong is a duty-free port with no quotas or dumping laws, and few barriers to the import of U.S. goods.

Hong Kong requires import licenses for textiles, rice, meats, plants, and livestock. The stated rationale for most license requirements is to ensure that health standards are met. The requirements do not have a major impact on U.S. exports.

There are several barriers to entry in the services sector, as follows.

The government decided in May 1999 to maintain a moratorium on additional licenses for the fixed local network market, now contested by four companies, until January 2003. In January 2000 the Hong Kong government began a dramatic opening of other telecom sectors, issuing five licenses for local fixed telecommunication network services (FTNS) using wireless networks and 12 licenses for external FTNS providers using satellites. In February the government issued Letters of Intent to 13 applicants for cable-based external facilities, and since then at least two American companies have been licensed to land international data cables in Hong Kong.

The Hong Kong government limits foreign ownership of free-to-air television stations to 49 percent and imposes strict residency requirements on the directors of broadcasting companies. In June, however, the Legislative Council (LEGCO) passed a Broadcasting Bill that ended the foreign ownership limit for cable broadcasters and substantially liberalized Hong Kong's television market. By adopting a more open and flexible regulatory framework, the bill aims to expand program choice, encourage investment and technology transfer in the broadcasting industry, promote fair and effective competition and spur the development of Hong Kong as a regional broadcasting and communications hub. The Information, Technology and Broadcasting Bureau moved quickly to exercise the new authorities granted by this bill, announcing five new television licenses in July. These new broadcasters (several of which are foreign owned) will create new outlets for U.S. entertainment companies, which already enjoy a substantial presence in the Hong Kong market.

Our bilateral civil aviation agreement does not permit code sharing and restricts the ability of U.S. cargo and passenger airlines to carry fifth freedom traffic to and from Hong Kong and other points. These restrictions limit the expansion of U.S. carrier services in the Hong Kong market.

Foreign law firms are barred from hiring local lawyers to advise clients on Hong Kong law, even though Hong Kong firms can hire foreign lawyers to advise clients on foreign law. Foreign law firms can become "local law firms" and hire Hong Kong attorneys, but they must do so on a 1:1 ratio with foreign lawyers. In June 2000 the LEGCO passed a Legal Practitioners (Amendment) Bill that removed the privileges conferred on barristers from England, Scotland, Northern Ireland and other Commonwealth countries. A Hong Kong court may admit a foreign lawyer to practice as a barrister if he is considered a fit and proper person and has compiled with the general admission requirements, including passing any required examinations.

Foreign banks established after 1978 are permitted to maintain only three branches (automated teller machines meet the definition of a branch). The Hong Kong Monetary Authority has promised to consider further relaxation of this limit in the first quarter of 2001. Foreign banks can, however, acquire local banks that have unlimited branching rights.

6. Export Subsidies Policies

The Hong Kong Government neither protects nor directly subsidizes manufacturers who export. It does not offer exporters preferential financing, special tax or duty exemptions on imported inputs, resource discounts, or discounted exchange rates.

The Trade Development Council, a quasi-governmental statutory organization, engages in export promotion activities and promotes Hong Kong as a hub for trade services. The Hong Kong Export Credit and Insurance Corporation sells insurance protection to exporters.

7. Protection of U.S. Intellectual Property

Hong Kong is a member of the WTO. In addition, the Bern Convention for the Protection of Literary and Artistic Works, the Paris Convention on Industrial Property, and the Universal Copyright Convention (Geneva, Paris) apply to Hong Kong by virtue of China's membership. Hong Kong passed a new Copyright Law in June 1997 and a modernized trademark law in May 2000. Enforcement of copyright and trademarks has improved measurably in recent months, but eliminating intellectual property piracy will require sustained effort.

Copyrights: Sale of pirated discs at retail shopping arcades is much less widespread than it used to be but remains a problem. The United States has urged the government at senior levels to crack down on this retail trade, and on the distributors and manufacturers behind them. Hong Kong has responded by doubling Customs' enforcement manpower and conducting more aggressive raids at the retail level. Recent raids have closed down some of the most notorious retail arcades and dispersed this illicit trade. In the first eight months of 2000, Customs seized 5.7 million pirated optical discs with a market value of US$13.8 million, and arrested 2,018 people. Hong Kong Customs intelligence operations and raids on underground production facilities have shut down most pirate manufacturing and forced retailers to rely increasingly on smuggled products. The judiciary has also begun to increase sentences and fines for copyright piracy, handing down 909 piracy-related jail sentences in the first half of 2000. The LEGCO further strengthened the government's anti-piracy authorities in January 2000 by passing legislation to reclassify piracy under Hong Kong's Organized and Serious Crimes Ordinance, which facilitates interrogations and allows the seizure of piracy-related assets.

With the government's success against optical disc pirates, increasing attention has turned to the problem of computer end-user piracy. In 1999 Hong Kong courts handed down a first conviction for unauthorized dealer hard-disk loading. The LEGCO also passed in June 2000 an IPR miscellaneous amendments bill which makes it clearly illegal for companies to use unlicensed software in trade or business. In November 2000 the government announced that this important new amendment would enter into force effective April 1, 2001 and began a public education campaign designed to inform Hong Kong businesses of their software license obligations.

Trademarks: Sale of counterfeit items, particularly handbags and apparel, is widespread in Hong Kong's outdoor markets. Customs officials have conducted numerous raids, but these actions have had little impact on the overall availability of counterfeit goods.

New Technologies: U.S. industry reports that Hong Kong-based web sites are being used to sell and transmit pirate software and music. In April Hong Kong Customs staged its first raid on an Internet server hosting a web site offering pirate software for sale. In August Customs conducted another raid against a server offering pirate downloads of music in the MP3 format. Although neither case has been tested in court, these raids put Hong Kong well ahead of its neighbors in tackling the problem of Internet-based piracy.

Hong Kong's stepped-up IPR enforcement effort has helped to reduce estimated losses to U.S. film and music companies. The Business Software Alliance reported in May 2000 that software piracy in Hong Kong had dropped from 59 percent in 1998 to 56 percent in 1999. However, estimated total losses for the software industry increased from US$88.6 million to US$110.2 million.

8. Workers Rights

a. *The Right of Association:* Local law provides for right of association and the right of workers to establish and join organizations of their own choosing. Trade unions must be registered under the Trade Unions Ordinance. The basic precondition for registration is a minimum of seven persons who serve in the same occupation. The government does not discourage or impede the formation of unions

Workers who allege antiunion discrimination have the right to have their cases heard by the Labor Relations Tribunal. Violation of antiunion discrimination provisions is a criminal offense. Although there is no legislative prohibition of strikes, in practice, most workers must sign employment contracts that state that walking off the job is a breach of contract and can lead to summary dismissal.

b. *The Right to Organize and Bargain Collectively:* In June 1997 the Legislative Council passed three laws that greatly expanded the collective bargaining powers of Hong Kong workers, protected them from summary dismissal for union activity, and permitted union activity on company premises and time. However, the Provisional Legislature repealed these ordinances, removing workers' new statutory protection against summary dismissal for union activity. New legislation passed in October 1997 permits the cross-industry affiliation of labor union federations and confederations, and allows free association with overseas trade unions (although notification of the Labor Department within one month of affiliation is required), but removes the legal stipulation of trade unions' right to engage employers in collective bargaining and bans the use of union funds for political purposes. Collective bargaining is not widely practiced.

c. *Prohibition of Forced or Compulsory Labor:* Compulsory labor is prohibited under the Bill of Rights Ordinance. While this legislation does not specifically prohibit forced or bonded labor by children, there are no reports of such practices in Hong Kong.

d. *Minimum Age for Employment of Children:* The "Employment of Children" Regulations prohibit employment of children under age 15 in any industrial establishment. Children ages 13 and 14 may be employed in certain non-industrial establishments, subject to conditions aimed at ensuring a minimum of 9 years of education and protecting their safety, health, and welfare. In 1999 there were three convictions for violations of the Employment of Children Regulations.

e. *Acceptable Conditions of Work:* Aside from a small number of trades and industries in which a uniform wage structure exists, wage levels are customarily fixed by individual agreement between employer and employee and are determined by supply and demand. Some employers provide workers with various kinds of allowances, free medical treatment and free subsidized transport. There is no statutory minimum wage except for foreign domestic workers (US$500 per month). To comply with the Sex Discrimination Ordinance, provisions in the Women and Young Persons (Industry) Regulations that had prohibited women from joining dangerous industrial trades and limited their working hours were dropped. Work hours for people aged 15 to 17 in the manufacturing sector remain limited to 8 per day and 48 per week between 6 a.m. and 11 p.m. Overtime is prohibited for all persons under the age of 18 in industrial establishments. Employment in dangerous trades is prohibited for youths, except 16 and 17 year old males.

The Labor Inspectorate conducts workplace inspections to enforce compliance with these and health and safety regulations. Worker safety and health has improved, but serious problems remain, particularly in the construction industry. In 1999 a total of 58,841 occupational accidents (35,986 of which are classified as industrial accidents) were reported, of which 235 were fatal. Employers are required under the Employee's Compensation Ordinance to report any injuries sustained by their employees in work-related accidents.

f. *Rights in Sectors with U.S. Investment:* U.S. direct investment in manufacturing is concentrated in the electronics and electrical products industries. Aside from hazards common to such operations, working conditions do not differ materially from those in other sectors of the economy. Relative labor market tightness and high job turnover have spurred continuing improvements in working conditions as employers compete for available workers.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		398
Total Manufacturing		3,798
Food & Kindred Products	-21	
Chemicals & Allied Products	393	
Primary & Fabricated Metals	396	
Industrial Machinery and Equipment	381	
Electric & Electronic Equipment	1,444	
Transportation Equipment	27	
Other Manufacturing	1,178	
Wholesale Trade		4,851
Banking		1,873
Finance/Insurance/Real Estate		5,766
Services		1,141
Other Industries		3,022
TOTAL ALL INDUSTRIES		20,848

Source: U.S. Department of Commerce, Bureau of Economic Analysis.