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HONG KONG

Key Economic Indicators

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

	1999	2000	2001 1/
Income, Production and Employment:			
Nominal GDP 2/	157.4	162.5	161.7
Real GDP Growth (pct)	3.0	10.5	-0.3
GDP by Sector:			
Agriculture	0.2	N/A	N/A
Manufacturing	8.4	N/A	N/A
Services	124.6	N/A	N/A
Government	15.6	15.7	16.0
Per Capita GDP (US$)	23,824	24,375	23,571
Labor Force (000s)	3,306	3,343	3,380
Unemployment Rate (pct)	6.2	4.9	5.5
Money and Prices (annual percentage growth):			
Money Supply (M2) 3/	8.1	8.8	-0.4
Consumer Price Inflation (pct)	-4.0	-3.7	-1.5
Exchange Rate(HK$/US$ - annual average)			
Official	7.77	7.79	7.80
Balance of Payments and Trade:			
Total Exports FOB 4/	172.9	201.6	193.5
Exports to United States 5/	10.5	11.5	10.1
Total Imports CIF	178.6	212.6	204.8
Imports from United States 5/	12.6	14.6	13.8
Trade Balance	-5.7	-10.9	-11.3
Balance with United States 5/	-2.1	-3.1	-3.7
External Public Debt	0	0	0
Fiscal Balance/GDP (pct)	0.8	-0.6	-1.8
Current Account Balance/GDP (pct)	7.2	5.4	2.7
Debt Service Payments/GDP (pct)	0	0	0
Gold and Foreign Exchange Reserves (end of period) 6/	96.3	107.6	110.8
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

1/ Estimates from private sources 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 12.6 percent (1999), 13.0 percent (2000) and 10.3 percent (2001 estimate based on data through August).
5/ Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 2001 figures are estimates based on data available through July 2001. 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 but interest, royalties, dividends, capital gains and sales are not. In the face of a possible structural deficit, the government has faced pressure to identify new sources of revenue. A recent Advisory Committee report suggested 13 options to broaden the tax base including a general consumption tax, capital gains tax and tax on interest. However, Financial Secretary Antony Leung has indicated that none of these reforms will be implemented in the near future.

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. A strong, export-led recovery in 2000 and early 2001 stalled abruptly at mid-year, following a slump in consumer demand in the United States and Europe. The September 11 terrorist attacks in the United States and subsequent further economic downturn in Hong Kong's major markets have worsened the short-term outlook. Unemployment is increasing (to around five percent) and Hong Kong will experience recession in 2001. The local community remains concerned about Hong Kong's long-term competitiveness in the face of challenges from mainland China. In response to these economic difficulties, the government unveiled a series of modest stimulus measures, including infrastructure expenditures, small tax cuts, employment generation, and development funds for small and medium enterprises. However, authorities generally resisted pressure for large-scale government expenditures to kick start the economy.

One exception to this traditional laissez faire approach was the creation of a new Innovation and Technology Commission, which in mid-2000 was given responsibility for spearheading Hong Kong’s move to create a “knowledge based” economy. The government’s willingness to fund technology investment reflected the widespread belief that Hong Kong cannot compete in the high tech sector without targeted government support.

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 December 2000, the Hong Kong Monetary Authority completed the third and final phase 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. The establishment of the system is aimed at reinforcing 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, with Hong Kong exports suffering during periods of strong U.S. dollar exchange rates.

3. Structural Policies

The government does not have pricing policies, except in a few sectors such as energy, which is a regulated duopoly. Even in these 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. The Monetary Authority implemented the final phase of interest rate deregulation covering savings and current accounts in July 2001. Interest rates on all types of deposits are determined by competitive market forces. 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 up to 10 years. 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 government owned 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, accounting for 23 percent of government's total shareholding.

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 – most of which are related to health standards. These licensing 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 local fixed telecommunications network services (FTNS), now contested by five companies, until January 2003. In January 2000, the Hong Kong government began opening of other telecom sectors, issuing five licenses for FTNS using wireless networks and 12 licenses for external FTNS providers using satellites. In February 2000, 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. In September 2001, the government issued four Third Generation (3G) mobile services licenses. Under the terms of the license, 3G operators must offer 30 percent of their network capacity to non-affiliated service providers. The government plans to invite additional FTNS licenses by the end of 2001 and will fully open the sector effective January 1, 2003.

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 2000, 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 2000. 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.

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 complied with the general admission requirements, including passing any required examinations. 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.

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 2001. In the meantime, foreign banks can 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

The Berne 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, a WTO member, 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 years, 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 encouraged 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, conducting more aggressive raids at the retail level, passing new legislation and engaging in public education efforts to encourage respect for intellectual property rights. Recent raids have closed down some of the most notorious retail arcades and dispersed this illicit trade. In the first eight months of 2001, Customs seized 5.79 million pirated optical discs with a market value of US$14.1 million, and arrested 1,049 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 524 piracy-related jail sentences in the first half of 2001.

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. Faced with intensive public criticism of the new criminal provisions for photocopying newspapers and magazine articles, the LEGCO passed a bill in June 2001 to suspend criminal provisions for unauthorized copying of materials other than computer programs, movies, television dramas and music. The bill also suspended criminal penalties for the use of parallel-import computer software. The suspension is an interim arrangement expiring on July 31, 2002. The government will consult the community with a view to formulating a long-term solution before then.

Broadcast satellite signal piracy is also a growing concern for U.S. companies, and industry associations have asked the government to take action against pubs and other public venues that use satellite signals without compensation.

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 associations report that Hong Kong-based web sites are being used to sell and transmit pirate software and music. Since April 2000, Hong Kong Customs has raided nine establishments believed to be engaged in Internet piracy. None of these cases has gone to court, but 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 2001 that software piracy in Hong Kong rose from 56 percent in 1999 to 57 percent in 2000. However, estimated total losses for the software industry decreased from US$88.6 million to US$86 million. U.S. film and music distributors also report increasing levels of legitimate sales in Hong Kong.

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. 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 removed the legal stipulation of trade unions' right to engage employers in collective bargaining and banned 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 nine years of education and protecting their safety, health, and welfare. In 2000, 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 2000, a total of 58,092 occupational accidents (33,652 of which are classified as industrial accidents) were reported, of which 199 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 **--** 2000

(Millions of U.S. Dollars)

Category	Amount

Petroleum		202
Total Manufacturing		3,283
Food & Kindred Products	-55	
Chemicals & Allied Products	374	
Primary & Fabricated Metals	349	
Industrial Machinery and Equipment	138	
Electric & Electronic Equipment	1,758	
Transportation Equipment	33	
Other Manufacturing	686	
Wholesale Trade		5,617
Banking		2,405
Finance/Insurance/Real Estate		7,828
Services		546
Other Industries		3,427
TOTAL ALL INDUSTRIES		23,308

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