1999 Country Reports on Economic Policy and Trade Practices
Released by the Bureau of Economic and Business Affairs
U.S. Department of State, March 2000

HONG KONG

Key Economic Indicators

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

	1997	1998	1999 1/
Income, Production and Employment:			
Nominal GDP 2/	171.7	162.6	160.1
Real GDP Growth (pct)	5.3	-5.1	0.5
GDP by Sector:			
Agriculture	0.2	N/A	N/A
Manufacturing	10.3	N/A	N/A
Services	134.8	N/A	N/A
Government	14.6	15.1	N/A
Per Capita GDP (US$)	26,129	24,310	23,095
Labor Force (000s)	3,216	3,359	3,393
Unemployment Rate (pct)	2.2	4.7	6.0
Money and Prices (annual percentage growth):			
Money Supply (M2) 3/	8.4	11.8	5.7
Consumer Price Inflation (pct)	5.7	2.5	-3.5
Exchange Rate(HK$/US$)			
Official	7.74	7.75	7.75
Balance of Payments and Trade:			
Total Exports FOB 4/	188.1	172.8	167.6
Exports to U.S. 5/	10.3	10.5	11.0
Total Imports CIF	210.9	214.1	176.3
Imports from U.S. 5/	15.1	12.9	12.6
Trade Balance	-22.8	-10.4	-8.7
Balance with U.S. 5/	-4.8	-2.4	-1.6
External Public Debt	0	0	0
Fiscal Balance/GDP (pct) 6/	0.8	1.8	2.9
Current Account Balance/GDP (pct)	-3.4	0.5	2.0
Debt Service Payments/GDP (pct)	0	0	0
Gold and Foreign Exchange Reserves (end of period) 7/	92.8	89.6	90.5

Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

1/ Estimates based on monthly data through August 1999.

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 14.5 percent (1997), 14.0 percent (1998) and 13.0 percent (1999 estimate based on data through August).

5/ Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1999 figures are estimates based on data available through August 1999. Hong Kong merchandise trade includes substantial re-exports (mainly from China) to the United States, which are not included in these figures.

6/ As of Q2 1999.

7/ As of September 1999; 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.

Financial contagion spreading throughout Asia caused major downturns in Hong Kong in 1997 and 1998. The government made modest accommodations in its 1998 budget and halted government property sales from mid-1998 to mid-1999 to arrest a steady decline in property prices (which had sparked fears for the banking sector). In August 1998, the government made a "one-time" intervention in the stock, futures, and currency markets (spending about $15 billion) to defend itself from market manipulators. In October 1999, the government began to divest itself of the shares it acquired in this intervention through sales to the public. By late 1999, the Hong Kong economy had begun a modest recovery, but unemployment remained high and Hong Kong's services-dependent market lagged behind some of its neighbors in shaking off the regional crisis.

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.

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 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 telecommunications which remain partially regulated. Even in those 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, removing the rate cap for deposits of seven days or more. In July 1999, the Hong Kong Monetary Authority announced that remaining interest rate caps would be removed in two stages: the interest rate restrictions on time deposits with a maturity of less than 7 days in July 2000 and interest rate cap on savings and current accounts in July 2001. Consumption taxes on tobacco, alcoholic beverages, and some fuels probably restrict 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 cartels -- some of which are government-regulated -- to dominate certain sectors of the economy. These monopolies/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.

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:

-- In 1998, the Hong Kong Government announced it would open the international voice telecommunications sector to full competition. The Government decided in May 1999 not to issue any additional licenses for the local fixed network market, now contested by four companies, until the end of 2002. Hong Kong is currently adjudicating license applications for local fixed wireless and external fixed network services (undersea cable and satellite-based). Hong Kong has eliminated a regulation that required foreign broadcasters to use the Hong Kong Telecom satellite uplink and has also promised comprehensive liberalization of the broadcasting regime.

-- Our bilateral civil aviation agreement does not permit code sharing or allow U.S. carriers new fifth freedom passenger rights to carry passengers beyond Hong Kong. These factors limit expansion of U.S. passenger carriers 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.

-- 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, however, 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

Hong Kong is a member of the WTO. In addition, 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 passed a new Copyright Law in June 1997. Enforcement of copyright and trademarks has improved measurably in recent months, but eliminating optical disc piracy will require sustained effort.

Copyrights: Sale of pirated discs at retail shopping arcades is 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 wholesalers 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. Hong Kong Customs intelligence operations and raids on underground production facilities have forced pirate retailers to rely more on smuggled products. Nevertheless, pirated goods remain available throughout the territory. The judiciary has begun to increase sentences and fines for copyright piracy and recently handed down Hong Kong's first conviction for unauthorized dealer hard-disk loading. Computer end-user piracy remains a significant problem for the business software industry. In 1999 the government introduced legislation to reclassify piracy under Hong Kong's Organized and Serious Crimes Ordinance, which would facilitate interrogations and allow the seizure of assets. As of November, approval by the Legislative Council is still pending.

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. The Government asserts that Hong Kong's 1997 Copyright Ordinance established civil liability for internet service providers to who host such pirate web sites, but concedes that this theory has yet to be tested in court.

The International Intellectual Property Alliance estimated total losses due to piracy against American copyright holders at $243.5 million in 1998 – slightly less than half of which was entertainment software. The Business Software Alliance reported in early 1999 that software piracy in Hong Kong had dropped from 67 to 59 percent.

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 1998, there were ten 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 1998, a total of 63,526 occupational accidents (43,034 of which are classified as industrial accidents) were reported, of which 68 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 -- 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		600
Total Manufacturing		3,122
Food & Kindred Products	4	
Chemicals & Allied Products	348	
Primary & Fabricated Metals	282	
Industrial Machinery and Equipment	167	
Electric & Electronic Equipment	1,230	
Transportation Equipment	29	
Other Manufacturing	1,062	
Wholesale Trade		5,054
Banking		1,637
Finance/Insurance/Real Estate		5,007
Services		1,009
Other Industries		4,373
TOTAL ALL INDUSTRIES		20,802

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