

**WORLD TRADE
ORGANIZATION**

RESTRICTED
WT/TPR/G/241
27 October 2010

(10-5548)

Trade Policy Review Body

Original: English

TRADE POLICY REVIEW

Report by

HONG KONG, CHINA

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Hong Kong, China is attached.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Hong Kong, China.

CONTENTS

	<i>Page</i>
I. OVERVIEW	5
(A) CONTINUANCE OF THE SUCCESSFUL OPERATION OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION	5
(B) TRADE POLICY OBJECTIVES	5
II. ECONOMIC AND TRADE ENVIRONMENT	5
(A) MACROECONOMIC SITUATION	5
(a) Economic Environment	5
(b) Impact of the Global Financial Crisis	6
(c) Policies in Response to the Global Financial Crisis	6
(d) Ways to Sustain Long-term Growth after the Global Financial Crisis	7
(e) Outlook	8
(B) FISCAL SITUATION	9
(C) MONETARY POLICY	9
(D) EXTERNAL TRADE & FOREIGN DIRECT INVESTMENT	10
(a) Merchandise Trade	10
(b) Major Trading Partners	10
(c) Trade in Services	11
(d) Foreign Direct Investment	11
III. TRADE POLICY DEVELOPMENT	11
(A) PARTICIPATION IN THE WORLD TRADE ORGANIZATION (WTO)	11
(B) PARTICIPATION IN ASIA-PACIFIC ECONOMIC CO-OPERATION (APEC) AND THE ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD)	12
(C) REGIONAL TRADE AGREEMENTS	12
(a) Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA)	12
(b) Hong Kong, China-New Zealand Closer Economic Partnership Agreement	13
(c) Free Trade Agreement under Negotiation between Hong Kong, China and European Free Trade Association	14
IV. SECTORAL DEVELOPMENTS	14
(A) DEVELOPMENTS IN TRADE IN GOODS	14
(a) Textiles and Clothing	14
(b) Reserved Commodities	15
(c) Strategic Commodities	15
(d) Wine and Related Business	16
(e) Trade Facilitation	16
(B) DEVELOPMENTS IN SERVICES	17
(a) Financial Services	17
(b) Telecommunications	19
(c) Broadcasting	19

	<i>Page</i>
(C) PROTECTION OF INTELLECTUAL PROPERTY RIGHTS IN HONG KONG, CHINA	20
(a) Comprehensive Legislation	20
(b) Rigorous Enforcement Action	21
(c) Sustained Public Education	21
(d) Close Cooperation with Rights Owners and Other Law Enforcement Agencies	22
(D) ELECTRONIC COMMERCE	22
(E) GOVERNMENT PROCUREMENT	23
(F) COMPETITION POLICY	23
V. DOHA DEVELOPMENT AGENDA	24
(A) HONG KONG, CHINA'S OVERALL POSITION IN THE DOHA DEVELOPMENT AGENDA (DDA)	24
(B) HONG KONG, CHINA'S PRIORITY AREAS IN THE ROUND	24
(a) Services	24
(b) Non-agricultural Market Access	25
(c) Trade Rules	25
(C) OTHER AREAS IN THE DOHA DEVELOPMENT AGENDA	26
(a) Intellectual Property Rights	26
(b) Trade Facilitation	26
(c) Trade and Environment	26
(d) Dispute Settlement Understanding Review	26

I. OVERVIEW**(A) CONTINUANCE OF THE SUCCESSFUL OPERATION OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION**

1. This is the fourth Trade Policy Review of Hong Kong, China (HKC) since the establishment of the Hong Kong Special Administrative Region (HKSAR) of the People's Republic of China (PRC). In the past four years since the last Trade Policy Review in 2006, the HKC economy has gone through various ups and downs. In 2007, our economy expanded rapidly alongside the strong global economic upturn. However, due to the intensification of the global financial crisis in the latter part of 2008, the HKC economy was hard hit in the first quarter of 2009, due mainly to the plunge in world trade. As the global economy began to stabilise and as the economy of the Mainland of China resumed faster growth, our economy rebounded strongly in the second quarter of 2009 and continued to improve in the second half of the year. The economic recovery became increasingly entrenched in the first quarter of 2010. The global economic downturn in 2008-09 has not shaken HKC's firm belief in free and open trade. The principle of "One Country, Two Systems" has continued to be implemented effectively. The institutions and policies that served HKC well in the past, such as the rule of law, free and open trade policy, low and simple tax regime, and a level playing field for business, remain the bedrock of HKC's prosperity.

2. The Basic Law, the constitutional document of the HKSAR, provides that the HKSAR shall maintain the status of a free port, allow the free movement of goods and capital, be a separate customs territory and may, on its own, using the name of "Hong Kong, China", maintain and develop relations and conclude and implement agreements with foreign states and regions and international organisations in the appropriate fields including the economic and trade fields, and participate in international organisations and conferences not limited to states. This provides the very foundation for our separate membership in the World Trade Organization (WTO).

(B) TRADE POLICY OBJECTIVES

3. HKC's trade policy objectives are to promote a free, open and stable multilateral trading system; to safeguard our rights and fulfil our obligations under multilateral, regional, and bilateral trade and trade-related agreements and arrangements; and to secure, maintain and improve access for our exports.

4. Active participation in the multilateral trading system through our separate membership in the WTO is the cornerstone of HKC's external trade policy. Such participation is guided by two objectives: firstly, to sustain the momentum of progressive global trade liberalisation; and secondly, to strengthen and update the rules-based multilateral trading system so that it continuously provides an effective framework to promote trade expansion and liberalisation, as well as to protect HKC against arbitrary and discriminatory actions.

II. ECONOMIC AND TRADE ENVIRONMENT**(A) MACROECONOMIC SITUATION****(a) Economic Environment**

5. HKC is recognised as the world's freest economy. The Heritage Foundation has put HKC at the top of the list in its Index of Economic Freedom for the 16th consecutive year. Canada's Fraser Institute, in conjunction with institutes from over 70 countries and territories, has also consistently

ranked HKC as the freest economy in the world in their Annual Report on Economic Freedom of the World. In continuing to uphold the principles of "Market Leads, Government Facilitates" and "Big Market, Small Government", the HKSAR Government has taken an active role to create a conducive environment for business and to facilitate economic development, particularly to enhance HKC's competitiveness and to allow the market to function efficiently and effectively.

(b) Impact of the Global Financial Crisis

6. HKC is a small and open economy. Its economic performance necessarily hinges on the global and regional environment. The HKC economy had sustained robust economic growth since the latter half of 2003, until the abrupt escalation of the global financial crisis in August 2008 and the subsequent global recession that spanned most of 2009. Real GDP growth reached 7% in 2006, followed by 6.4% in 2007 before slowing to 2.2% in 2008. The HKC economy was hard hit by the global financial crisis in the first quarter of 2009, due mainly to the plunge in world trade as a result of the severe recession in the advanced economies. Real GDP contracted by 7.7% in the first quarter of 2009 over a year earlier. Yet, as the major economies began to stabilise and the economy of the Mainland of China returned to faster growth, the HKC economy rebounded strongly in the second quarter of 2009, resuming quarter-to-quarter expansion, and has since continued to improve. In the fourth quarter of 2009, the HKC economy returned to positive year-on-year growth at 2.5%. For 2009 as a whole, GDP fell by 2.8%, the first annual recession since 1998. The economy continued to show broad-based recovery in the first half of 2010, with real GDP growing strongly by 7.2% over a year earlier. By the first quarter of 2010, overall economic activity had largely returned to the peak level of early 2008. The seasonally adjusted GDP level in the second quarter of 2010 surpassed the pre-crisis peak of the first quarter of 2008 by some 1.6%.

(c) Policies in Response to the Global Financial Crisis

7. Faced with the worst global recession in decades, the Government spared no effort in stabilising the financial system, supporting enterprises and preserving employment in the shortest possible time. We have exercised our best endeavours to ensure financial system stability and strictly performed our supervisory functions. The Hong Kong Monetary Authority, the Securities and Futures Commission, and the Office of the Commissioner for Insurance have strengthened their supervision of financial markets and institutions to ensure proper protection of the public interest. The Hong Kong Monetary Authority also introduced a full deposit protection scheme for the period from October 2008 to end of 2010. As a result, interbank rates fell significantly.

8. As a consequence of the global financial crisis, world trade declined sharply towards the end of 2008 and the downward trend continued into the early part of 2009. The market for trade finance also tightened abruptly. In the face of the global recession, HKC resisted trade protectionism and continues to maintain an open market. Furthermore, HKC has implemented certain trade facilitation measures, namely in the form of expanded trade finance facilities, which represent the policy initiative to help reverse the contraction of international trade. Relevant details are set out below.

(i) Enhanced Services of the Hong Kong Export Credit Insurance Corporation

9. Since the end of 2008, the Hong Kong Export Credit Insurance Corporation, a statutory corporation set up in HKC to provide exporters with export credit insurance protection against non-payment risk, has launched a basket of enhancement measures to assist exporters to sustain their business and develop new markets during the global financial crisis. These measures include, where risk allows, providing higher cover for exporters, expediting the processing of credit limit applications and offering free buyer credit consultation sessions for exporters.

(ii) Measures to Support Business Enterprises

10. In response to the global financial crisis, the Government has implemented a package of measures which aim to provide greater support to small and medium enterprises (SMEs).¹ The support measures included introducing greater flexibility in the use of loans and extending the guarantee period for the SME Loan Guarantee Scheme, as well as raising the grant ceiling and expanding the scope of reimbursable items of the SME Export Marketing Fund. All SMEs that comply with the application requirements of the respective funding schemes are eligible to apply. In addition, the Government introduced a Special Loan Guarantee Scheme (SpGS) in December 2008. This is a time-limited scheme to tackle the problem of the credit crunch arising from the global financial crisis. All enterprises (except listed companies) complying with the application requirements are eligible to apply. Under the SpGS, the Government has pledged to provide a total loan guarantee of HK\$100 billion in support of enterprises obtaining credit facilities from the commercial lending market.

11. As the credit crunch problem had been largely alleviated by early 2010, the Government decided to let the credit market gradually resume its normal operation. It was announced that the application period for the SpGS would end on 31 December 2010.

(iii) Banking Institutions' Loans to SMEs

12. To encourage banking institutions to adopt a supportive attitude towards their SME customers, the Hong Kong Monetary Authority in late 2008 issued a circular to such institutions urging them to be as accommodating and flexible as possible to the funding needs of SMEs, within the bounds of prudent risk management. Any actions which have the effect of tightening credit to SME customers should as far as practicable be considered on a selective and case-by-case basis in the light of the given customer's credit position rather than applied across the board to SMEs within the same industry or sector.

13. The Hong Kong Monetary Authority has also advised the banking institutions that, if any tightening in the provision of credit to existing SME customers is considered necessary, the banking institution should be prepared to work with the customers to identify whether there are other ways in which the banking institutions' credit or other concerns might be addressed. Where SME customers experience financial stress and run into difficulties as a result of the global financial crisis, the banking institutions should remain supportive and adopt a sympathetic attitude towards requests for temporary relief arrangements, such as extensions of repayment deadlines.

(d) Ways to Sustain Long-term Growth after the Global Financial Crisis

14. The global financial crisis has dealt a great blow to many governments and economies. While HKC has exhibited much resilience in countering the crisis, we have also been constantly looking for opportunities to strengthen our economic foundations further and enhance our competitiveness. In his 2009-10 Policy Address, the Chief Executive of the HKSAR unveiled new incentives to promote the development of six innovation and knowledge-based industries where HKC enjoys a competitive advantage. These six industries are education services, medical services, testing and certification, innovation and technology, cultural and creative industries, and the environmental industry. The aim of the policy initiative is to broaden HKC's economic structure to complement the development of the four traditional pillar industries, namely financial services, trading and logistics, tourism, and

¹ A SME is defined as a manufacturing business which employs fewer than 100 persons in HKC, or a non-manufacturing business which employs fewer than 50 persons in HKC.

professional services. These four pillar industries together account for almost 60% of GDP and nearly half of the total workforce whilst the other six industries contribute about 8% of GDP, and employ around 380,000 workers, or about 11% of the total workforce.

15. The role of the Government is to create a conducive environment for the development of the six industries under the principle of “Market Leads, Government Facilitates”. The Government will provide the necessary support in land resources, human capital, regulatory framework, etc. to facilitate the development of industries under the market mechanism. Some specific measures/proposals to promote the development of the six industries are as follows –

- (a) Two urban sites will be earmarked for self-financed tertiary education.
- (b) Four sites have been earmarked for private hospital development.
- (c) The Hong Kong Council for Testing and Certification was established in September 2009 to promote the professional standards and international recognition of HKC’s testing and certification industry and to draw up a three-year development plan.
- (d) On innovation and technology, a new Research and Development Cash Rebate Scheme has been launched since April 2010 to encourage the private sector to increase investment in research and development.
- (e) A dedicated office, Create Hong Kong (CreateHK), was established in June 2009 for co-ordination within the Government to drive the development of cultural and creative industries, respond more effectively to industries’ demands and better serve the trade through a one-stop service. A comprehensive strategy to speed up development of the industries and build HKC into Asia’s creative capital has been drawn up.
- (f) The Government is working closely with the arts sector to strengthen the cultural software through arts programme development, manpower training, promotion of arts education, audience building and cultural exchanges. How cultural and creative industries can make greater use of under-utilised industrial buildings through retrofitting or redevelopment will be explored.
- (g) Legislative measures as well as expanding the scope of green procurement will be undertaken to make HKC a greener city.

These new measures will bring new business opportunities for overseas and local investors alike.

(e) Outlook

16. The global economy is emerging from the worst recession in more than sixty years. So far the pace of recovery has been uneven and has varied greatly across regions. This is likely to remain so going forward.

17. The impact of the global financial crisis in 2008-09 was much stronger and more widespread than the Asian financial turmoil in 1997-98. Nevertheless, HKC's labour market was more resilient this time, with significantly fewer job losses. This was attributable to the stronger economic fundamentals possessed by HKC now than before. It also reflected partly the effect of the Government's prompt policies in response to the global financial crisis.

18. On the short-term outlook, the growth forecast of the HKC economy for 2010 as a whole is 4% to 5%. In view of the current strong growth momentum in HKC and in the Asian region, economic growth will likely exceed the forecast if no major external shocks occur. But with the latest developments in the external environment and the already fragile nature of the global recovery, the outlook for the HKC economy has turned somewhat more uncertain, more so in the latter part of the year upon the waning of exceptional fiscal boosts in the advanced economies. The medium-term outlook for the HKC economy is bright nevertheless. HKC will continue to strengthen its competitiveness and evolve into a high value-added knowledge-based economy, complemented by deepening economic relations with the Mainland of China. The large-scale infrastructure projects planned or in train will enter their peak construction period in the coming years, thereby providing impetus to aggregate demand over the medium term and raising the production capacity of the economy upon their completion.

(B) FISCAL SITUATION

19. Fiscal prudence has all along been a guiding principle of the HKSAR Government. Expenditure is kept within the limits of revenues in drawing up the budget. It strives to achieve fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of the GDP. It also adheres to the principles of pragmatism, commitment to society and sustainability in managing public finances.

20. The Accounts of the HKSAR Government have been in surplus since 2004-05. Consolidated surplus for 2009-10 is HK\$25.9 billion (equivalent to US\$3.3 billion or 1.6% of GDP). In 2010-11, HKC will continue to invest in infrastructure, promote the development of its industries and adopt various measures to achieve the objectives of consolidating the recovery, developing its economy and building a caring society. A deficit of HK\$25.2 billion (equivalent to US\$3.2 billion or 1.5% of GDP) is budgeted for the year.

21. In the medium term to 2014-15, the Government forecasts a surplus in the Operating Account from 2011-12, which would help meet the capital deficit arising from its enormous expenditure on infrastructure in these years. The deficit in the Consolidated Account is forecast to decrease gradually in the next few years, and a balance is expected by 2013-14. The Government anticipates that the fiscal reserves would be around HK\$480 billion (equivalent to US\$61.5 billion) by end-March 2015, representing approximately 22% of GDP and 16 months of government expenditure.

(C) MONETARY POLICY

22. HKC is a highly externally-oriented economy. Our trade-to-GDP ratio was 380% in 2009. A credible fixed exchange rate system helps minimise exchange rate risk, benefiting externally-oriented businesses. A stable Hong Kong dollar is also an important anchor for financial stability, which underpins HKC's role as an international financial centre.

23. The primary monetary objective of HKC is to maintain currency stability, defined as a stable external exchange value of the currency of HKC, in terms of its exchange rate in the foreign exchange market against the US dollar, at around HK\$7.80 to US\$1. The structure of the monetary system is characterised by currency board arrangements, requiring the Hong Kong dollar monetary base to be at least 100% backed by, and changes in it to be 100% matched by corresponding changes in, US dollar reserves held by the Exchange Fund at the fixed exchange rate of HK\$7.80 to US\$1.

(D) EXTERNAL TRADE & FOREIGN DIRECT INVESTMENT

(a) Merchandise Trade

24. According to the preliminary figures published by the WTO, HKC was the world's 11th largest trading entity in 2009 in terms of value of merchandise trade. It was also the world's 11th largest exporter and 9th largest importer.

25. Supported by strong performance of the global and regional economic environment, the value of HKC's merchandise trade² grew from HK\$5,060 billion (US\$649 billion) in 2006 to HK\$5,849 billion (US\$750 billion) in 2008. The same value however declined to HK\$5,161 billion (US\$662 billion) in 2009 due to the global economic downturn. Re-exports remained the key driver for overall trade due to strong trade flows with the Mainland of China. The outlook for trade in 2010 remains largely positive.

26. In 2009, electrical machinery, apparatus and appliances, and parts accounted for the largest share (26.4%) by value of total exports (sum of domestic exports and re-exports) of goods, followed by telecommunications, audio and video equipment (16.8%), and office machines and computers (10.1%).

(b) Major Trading Partners

27. HKC's largest trading partner in 2009 was the Mainland of China, which accounted for a 49% share by value of total merchandise trade. This was followed by the European Union (EU) and the United States (US), which accounted for 10% and 8% respectively.

28. Total merchandise trade between the Mainland of China and HKC increased from HK\$2,349 billion in 2006 to HK\$2,513 billion in 2009. Principal export items to the Mainland in 2009 included electrical machinery, apparatus and appliances, and parts; telecommunications and sound recording and reproducing apparatus and equipment; office machines and automatic data processing machines. Major imports from the Mainland in 2009 included electrical machinery, apparatus and appliances, and parts; telecommunications and sound recording and reproducing apparatus and equipment; office machines and automatic data processing machines.

29. Total merchandise trade between the EU and HKC was HK\$532 billion in 2006 and registered a continuous growth, reaching HK\$615 billion in 2008. Due to the global economic downturn, merchandise trade dropped to HK\$517 billion in 2009, representing a decrease of 15.9% over 2008. Principal export items to the EU in 2009 included telecommunications equipment, jewellery, and clothing. Major imports from the EU in 2009 included telecommunications equipment, non-electric engines and motors, and pearls and precious and semi-precious stones.

30. Total merchandise trade between the US and HKC increased from HK\$495 billion in 2006 to HK\$510 billion in 2008 before dropping to HK\$427 billion in 2009 due to the global economic downturn. Principal export items to the US in 2009 included articles of apparel and clothing accessories, miscellaneous manufactured articles, and telecommunications and sound recording and reproducing apparatus and equipment. Major imports from the US in 2009 included electrical machinery, apparatus and appliances, and parts; telecommunications and sound recording and reproducing apparatus and equipment; and office machines and automatic data processing machines.

² Total merchandise trade comprises imports, re-exports and domestic exports.

(c) Trade in Services

31. According to preliminary figures published by the WTO, HKC was the world's 15th largest services trading entity in 2009. It was also the world's 11th largest services exporter and the world's 19th largest services importer. The major export services sectors of HKC in 2009 were merchanting, merchandising and other trade-related services (30.2% of total exports of services), transportation services (29.0%) and travel services (19.1%), while the major import services sectors in 2009 were travel services (36.0% of total imports of services) and transportation services (30.8%).

(d) Foreign Direct Investment

32. HKC is a major destination for foreign direct investment (FDI) in Asia. According to the World Investment Report 2010 released by the United Nations Conference on Trade and Development (UNCTAD), HKC ranked fourth in the world in FDI inflows in 2009, and was also the second largest recipient of FDI in Asia, after the Mainland of China. The preliminary figure of HKC's FDI inflow in 2009 was HK\$374 billion (US\$48 billion). At the end of 2008, the Mainland of China was HKC's largest source of inward direct investment (IDI), with an IDI stock of HK\$2,309 billion (US\$296 billion), accounting for 37% of HKC's total IDI stock.

III. TRADE POLICY DEVELOPMENT**(A) PARTICIPATION IN THE WORLD TRADE ORGANIZATION (WTO)**

33. Hong Kong is a founding member of the WTO. Our separate membership continues after reunification with China in 1997, under the name of "Hong Kong, China".

34. It is HKC's top priority to bring the Doha Round of multilateral trade negotiations to a successful and early conclusion. We will continue to contribute actively in the negotiating process and work closely with other Members to push for progress in reaching a successful conclusion of the Round. Details of HKC's participation in the Doha Round are elaborated in Section V.

35. HKC welcomes the current work that the WTO is undertaking to monitor trade protectionist measures. We strongly support and encourage the WTO's continued work in this area. HKC has been working closely with other Members to ensure that the monitoring process undertaken by the Trade Policy Review Body is effective and comprehensive. We believe that our strong commitment against protectionism will be the only way to ensure that international trade, which has been a key engine of global prosperity and our own economic success, will not be hampered. HKC has been working with other Members on initiatives to fight against protectionism. We maintain our position that the rules-based system embodied under the WTO and the dispute settlement mechanism have provided the most effective insurance against the outbreak of widespread trade protectionism time and again. Our Secretary for Commerce and Economic Development speaks out against any form of protectionist measures whenever it counts, including at the Organisation for Economic Co-operation and Development (OECD) Ministerial Council Meeting held on 25 June 2009³ and during the Seventh Ministerial Conference of the WTO later that year. We will continue to call on our trading

³ At the OECD Ministerial Council Meeting held on 25 June 2009, Ministers of HKC and 10 other WTO Members issued a joint statement, calling upon all WTO Members to remain vigilant and exercise restraint against protectionism, rectify promptly any protectionist measures already introduced, and conclude the Doha Round negotiations as soon as possible. The joint statement can be viewed at http://www.cedb.gov.hk/speech/2009/annex_26062009.pdf.

partners to refrain from protectionist measures and to roll back any trade-distorting measures they have implemented.

(B) PARTICIPATION IN ASIA-PACIFIC ECONOMIC CO-OPERATION (APEC) AND THE ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD)

36. HKC attaches great importance to regional economic cooperation fora with the aim of promoting free and open trade in support of the multilateral trading system. In the past four years, we have continued to participate actively in the Asia-Pacific Economic Cooperation (APEC) and contribute to its work. Such work includes, among others, (a) APEC's political statements in support of the WTO and the Doha Round negotiations, and commitments in keeping markets open and resisting all forms of protectionism⁴; (b) initiatives to strengthen economic integration in the Asia-Pacific region; (c) formulation of a growth strategy to ensure that economic growth in the region is balanced, inclusive, sustainable, innovative and secure; (d) initiatives to build capacity and skills in developing member economies to enable them to participate more fully in the regional economy and the liberalisation process in trade and investment, including a financial contribution in 2008 to the APEC Support Fund; and (e) initiatives on trade and investment liberalisation and facilitation undertaken by APEC.

37. APEC Leaders set a visionary goal of free and open trade and investment in Bogor, Indonesia in 1994 (often referred to as "the Bogor Goals") for industrialised economies to achieve no later than 2010 and developing economies no later than 2020. Though not an industrialised economy, HKC has set out for itself to achieve the Bogor Goals by 2010 and volunteered for assessment together with the industrialised economies. In the latest APEC Individual Action Plan Peer Review conducted on HKC in January 2007, HKC was commended for having made remarkable progress in a number of areas in achieving the Bogor Goals and having established itself as a "model member economy" in trade and investment liberalisation and facilitation.

38. HKC has been an observer to the OECD's Trade Committee and Committee on Financial Markets since 1994 and 1995 respectively. We have contributed to and benefited from the work of these two Committees, and will continue to participate actively therein.

(C) REGIONAL TRADE AGREEMENTS

39. HKC considers that free trade agreements (FTAs) which are fully WTO-consistent should help promote the cause of eventual global trade liberalisation. While upholding our commitment to the primacy of the multilateral trading system, we maintain a positive and active approach in pursuing with other economies comprehensive and high standard FTAs that go beyond the commitments under the WTO. So far, we have concluded a Closer Economic Partnership Arrangement with the Mainland of China and a Closer Economic Partnership Agreement with New Zealand. FTA negotiations with the European Free Trade Association are under way.

(a) Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA)

40. The Mainland of China and HKC signed the "Mainland and Hong Kong Closer Economic Partnership Arrangement" (CEPA) on 29 June 2003. CEPA is the first FTA concluded by HKC. CEPA adopts a building block approach, whereby the scope and content of the agreement may be

⁴ On anti-protectionism, APEC Ministers agreed to continue to exercise maximum restraint in implementing measures that may be considered to be WTO consistent if they had a significant protectionist effect and promptly rectify such measures where implemented.

expanded from time to time to suit the needs of the parties. To date, the two sides have concluded seven supplements. Since the last Trade Policy Review of HKC in 2006, Supplements IV to VII to CEPA have been signed in June 2007, July 2008, May 2009 and May 2010 respectively.

41. CEPA provides a convenient platform for HKC and the Mainland of China to pursue new trade and investment facilitation and liberalisation initiatives. In fulfilment of the pertinent objectives of CEPA, both sides seek to:

- (a) apply zero tariffs to the merchandise of the other party;
- (b) progressively reduce or eliminate existing restrictive measures applicable to service suppliers of the other party; and
- (c) promote cooperation in ten designated areas to facilitate trade and investment flows between both sides.⁵

42. Under CEPA, effective from 1 January 2006, all products of HKC origin (except for some prohibited articles) enjoy tariff-free treatment on importation into the Mainland of China upon fulfilment of the CEPA rules of origin. On the services front, inclusive of the measures in Supplement VII to CEPA, there are market access liberalisation measures in 44 service sectors. CEPA also enhances cooperation of both parties in financial services, tourism promotion, mutual recognition of professional qualifications and exchange of professional talent.

(b) Hong Kong, China-New Zealand Closer Economic Partnership Agreement

43. HKC and New Zealand signed the "Hong Kong, China – New Zealand Closer Economic Partnership Agreement" (CEP Agreement) on 29 March 2010. The CEP Agreement is HKC's first FTA with a foreign economy. Both parties aim to have the CEP Agreement come into force soon after completion of their respective domestic procedures.

44. The CEP Agreement is a comprehensive and high quality FTA, with the commitments therein going beyond the commitments undertaken by HKC and New Zealand under the WTO in many areas. It comprises liberalisation measures for trade in both goods and services. It also contains provisions on facilitating investment and movement of business persons, as well as improving the business environment. It is expected that the CEP Agreement will open up new business opportunities for the two economies, and strengthen bilateral trade and investment ties.

45. Specifically on trade in goods, HKC and New Zealand have both committed to eliminating tariffs on all products. New Zealand's tariffs on products originating from HKC will be gradually removed over a six-year period, while HKC will bind its existing zero tariff regime with respect to New Zealand originating products, upon the entry into force of the CEP Agreement. On trade in services, the CEP Agreement covers a comprehensive range of service sectors. The service providers of the two economies will be able to enjoy secure market access. The CEP Agreement also provides for a set of robust disciplines on domestic regulation.

⁵ CEPA promotes cooperation between both sides in trade and investment promotion; customs clearance facilitation; commodity inspection and quarantine, food safety and quality and standardization; electronic business; transparency in laws and regulations; cooperation of small and medium enterprises; cooperation in industries; protection of intellectual property; cooperation on branding; and cooperation on education.

(c) **Free Trade Agreement under Negotiation between Hong Kong, China and European Free Trade Association**

46. In January 2010, HKC commenced FTA negotiations with the European Free Trade Association, which comprises Iceland, Liechtenstein, Norway and Switzerland. The negotiations encompass a wide-ranging scope, covering, among others, liberalisation of trade in goods, trade in services, and liberalisation and promotion of investment. The negotiations are making good progress.

IV. SECTORAL DEVELOPMENTS

(A) DEVELOPMENTS IN TRADE IN GOODS

(a) Textiles and Clothing

47. Textiles and clothing (T&C) products remain as one of the key export items of HKC. In 2009, domestic exports of T&C products amounted to HK\$6.7 billion (roughly US\$0.86 billion), which accounted for 11.5% of our total domestic exports of merchandise.

48. With the global elimination of textile quotas starting 1 January 2005 as prescribed under the World Trade Organization Agreement on Textiles and Clothing, HKC has streamlined its textiles control system to provide greater facilitation to the trade while ensuring origin compliance of T&C products claiming HKC origin. All quota-related operations have been dispensed with, and the licensing requirements for all personal shipments have been lifted.

49. The simplified textiles control system continues to be backed up by the Import and Export Ordinance, Laws of Hong Kong, and its subsidiary regulations. For the purpose of safeguarding the interest of its textiles trade, all import and export of T&C products, unless exempted⁶, are required to be covered by import and export licences or notifications. Different licensing requirements are applied to textiles exports/imports involving the "sensitive" and "non-sensitive" markets in the following manner:

- (a) For sensitive markets⁷, textiles imports/exports should be covered by either consignment-specific import/export licences or textiles notifications whereby details of individual shipments are captured.
- (b) Places other than the sensitive markets are classified as non-sensitive markets. For shipments to the non-sensitive markets, apart from consignment-specific licences, a comprehensive licence (valid for a year for multiple shipments) may be used, regardless of the product type, quantity and country of origin of the goods.

⁶ Exempted items are woven or knitted fabric swatches and sample yarn imported by air and not exceeding 0.8m² in size in respect of fabric swatches and 1.2 kilograms in weight in respect of each type of yarn; textiles articles of reasonable quantities that are imported or exported by an individual for his personal use or as a bona fide gift to another individual; and textiles articles of reasonable quantities to be used by the crew or passengers of a vessel, aircraft, or vehicle on which the articles are carried.

⁷ Sensitive markets are textiles exports to and imports from the Mainland of China, and exports to the US. Textiles exports to the EU were once classified as "sensitive market" but reclassified as "non-sensitive" on 29 June 2009 in light of the expiry of the EU's quantitative restrictions and the EU/Mainland joint import surveillance system on T&C products originating in the Mainland of China by end-2007 and end-2008 respectively.

- (c) A Production Notification requirement is applied to cut-and-sewn garments intended for export to the US.⁸ Under this requirement, manufacturers are required to lodge a Production Notification with the Trade and Industry Department shortly before commencement of the origin-conferring process in HKC, so as to enable the Hong Kong Customs officers to conduct real time checks on the garments during the manufacturing process.

50. The textiles control system is rigorously enforced by the Customs and Excise Department to safeguard the legitimate interest of HKC's textiles trade. Malpractices are taken seriously. Any person who commits an offence under the Import and Export Ordinance of Hong Kong is liable upon conviction to a maximum fine of HK\$500,000 (roughly US\$64,000), imprisonment for two years and possible forfeiture of the goods concerned.

(b) Reserved Commodities

51. Rice is the major staple foodstuff in HKC and is therefore scheduled as a reserved commodity under the Reserved Commodities Ordinance, Laws of Hong Kong. Under the Ordinance, the Government operates the Rice Control Scheme to ensure a stable supply of rice and to keep a reserve stock sufficient for consumption by the population for a reasonable period to cater for emergencies or any temporary shortage of supply. Since the liberalisation of the Rice Control Scheme in 2003, the rice trade generally operates in a free market environment. Any business may register as an importer of rice and there are no restrictions on rice import. The Government continues to maintain only the necessary controls to ensure a stable supply of rice and to keep a reserve stock adequate for about 15 days' consumption to cater for emergencies.

(c) Strategic Commodities

52. The Government maintains a comprehensive and effective control system on the import and export of strategic commodities. The system serves to prevent the HKSAR from being used as a conduit for proliferation, and to secure our continued access to high-tech goods and technology that are essential for our economic development.

53. The legal basis for strategic trade control in the HKSAR is set out in the Import and Export Ordinance, Laws of Hong Kong. The Ordinance requires the import and export of strategic commodities to be subject to licensing control administered by the Trade and Industry Department. Re-export and transshipment cargoes are treated as import and export and are subject to the licensing requirement. Certain sensitive items are required to be covered by licences when they are transiting through HKC.

54. The items under licensing control are listed in the Schedules to the Import and Export (Strategic Commodities) Regulations under the Ordinance, and mirror those adopted by various international export control regimes and conventions. Items subject to control include munitions items, chemical and biological weapons and their precursors, nuclear materials and equipment, and industrial dual-use goods. End-use control is also imposed on products which are used in connection with the development of weapons of mass destruction. The control lists are updated from time to time in order to reflect the changes made by the international regimes. The latest amendment of the control lists which has been effective since mid-June 2010 reflects, among other things, the latest changes in respect of commonly traded strategic commodities (including electronics, computers, and

⁸ The Production Notification requirement was similarly applied to cut-and-sewn garments intended for export to the EU for the period from 15 March 2006 to 28 June 2009.

telecommunications and information security products) adopted in the international non-proliferation regime control list up to end-2009.

55. Over the years, various facilitation measures have been introduced in the licensing service for strategic commodities. The latest facilitation initiative is the "Approval-in-Principle Arrangement for Bulk Users of Strategic Commodities Licensing Service" introduced in 2007. It aims to further streamline licensing procedures and expedite processing time for certain frequent and qualified users of licensing services for strategic commodities. Under the Arrangement, a company which frequently imports certain products from the same supplier or frequently exports certain products to the same consignee may request for an approval-in-principle for such consignments. The company may then apply for the relevant import/export licence electronically, on a pre-shipment basis, for each and every shipment which is within the scope of the approval-in-principle granted. The relevant licence applications would require less processing time and may be processed even outside office hours as they will be vetted and processed by the computerised licensing system automatically.

(d) Wine and Related Business

56. To support the further development of the wine and related business in HKC, with effect from February 2008, HKC exempted the duties on wine, beer and all other alcoholic beverages with an alcoholic strength not more than 30%. The market has responded positively to the wine duty exemption. Business related to wine trading, distribution and auctions, etc. has grown. On trading, the value of wine imports has increased significantly. It reached HK\$3.2 billion in 2008-09, representing an increase of 80% over 2007-08. In 2009-10, the imports continued to grow by another 45% year-on-year, amounting to HK\$4.6 billion. As at the second quarter of 2009, over 150 new wine-related companies had been established in HKC since the duty exemption, covering areas including trading, storage, retailing, etc. The policy has also brought benefits to related economic activities such as tourism, catering and hospitality, exhibitions as well as brand promotion.

57. Since the wine duty exemption, our wine auctions have also flourished. In 2009, a total of 14 wine auctions were held in HKC, with the aggregate sales amounting to some HK\$496 million. According to the industry, HKC has become the second largest wine auction centre in the world, just after New York. The surge in wine auctions and the wine-related business across the board is largely attributable to the growing demand in the region, HKC's zero wine duty policy, and a favourable business environment.

(e) Trade Facilitation

58. The HKSAR Government attaches great importance to trade facilitation. We have been actively implementing measures to facilitate legitimate trade and movement of goods, while ensuring effective controls on cargo clearance.

59. To facilitate customs clearance, the Customs and Excise Department (C&ED) rolled out the electronic Road Cargo System (ROCARS) on 17 May 2010. With ROCARS, Customs officers can receive cargo information before the goods arrive at the land boundary. This enables C&ED to perform computer-based risk profiling in advance to determine whether inspection is called for. As a result, cross-boundary trucks, except those selected for inspection, enjoy seamless customs clearance at the land boundary. After a transitional period of 18 months, ROCARS submissions will become mandatory in November 2011. ROCARS also provides added room for C&ED to facilitate the passage of transshipment cargoes which involve inter-modal transfer (e.g. from land to air/sea). At present, transshipment cargoes may be subject to customs inspection at both the land boundary control points and the Airport/container terminals. In future, for traders using ROCARS and certain tracking

devices prescribed by C&ED, such cargoes will only be subject to customs inspection at either the point of exit or entry. Subject to consultation with the industry, we plan to introduce the facilitation measures in October 2010.

60. Guided by the principles and standards promulgated by the World Customs Organization in its Framework of Standards to Secure and Facilitate Global Trade, and in the light of the growing importance attached to supply chain security and facilitation of international trade, C&ED plans to introduce an "Authorised Economic Operator" pilot scheme in HKC in 2010, having regard to local circumstances. Under the scheme, companies with good compliance track record will be given customs facilitation. We will conduct a review 12 months after the pilot to decide on the way forward, including implementation of the scheme on a wider scale.

(B) DEVELOPMENTS IN SERVICES

(a) Financial Services

61. To strengthen HKC's competitiveness in the face of increasing global competition and maintain our position as a leading regional and international financial centre, we continue our efforts in improving the quality of the market, modernising the regulatory regime and upgrading market infrastructure.

(i) Banking Industry

62. HKC has an open banking sector whereby local and foreign banks compete on a level playing field. Under the current three-tier licensing system maintained by the HKSAR, foreign banks may enter the HKC banking market as licensed banks, restricted licence banks or deposit-taking companies. They may operate in the form of locally incorporated companies or branches of foreign banks.

(ii) Securities and Futures

63. The Securities and Futures Ordinance (SFO), Laws of Hong Kong, which brought HKC's regulatory framework on a par with international standards and practices, has been in operation since 1 April 2003.

64. From March to June 2010, the Government consulted the public on a legislative proposal to oblige timely disclosure of price sensitive information by listed companies. The objective is to cultivate a continuous disclosure culture among companies listed in HKC and further improve the transparency of our equity market. The Government is studying the public response.

65. With the Government's support, our securities regulator, stock exchange and federation of share registrars have reactivated a working group and launched a public consultation in December 2009 on the operational model for implementing a scripless securities market in HKC, with a view to modernising HKC's financial infrastructure, enhancing shareholder transparency and investor protection. The consultation has closed and the working group would publish the consultation conclusions in the third quarter of 2010. As a first step in the entire legislative amendment exercise, the Government proposed some technical changes to the Companies Ordinance in 2010 to remove the existing legal limitations that compel the issue or use of paper documents of title and transfer. To operationalise the scripless securities market, the Government has been working with the working group in mapping out further legislative amendments tentatively scheduled to be introduced into the Legislative Council in 2011.

66. As a responsible player in the international arena, we will continue to ensure that our regulatory regime is in keeping with the evolving international standards. For instance, we plan to introduce a licensing framework for credit rating agencies and credit analysts. We are working towards consulting the market in the third quarter of 2010 and introducing the relevant legislative amendments in the fourth quarter of 2010.

(iii) Insurance

67. The insurance industry in HKC is a cosmopolitan and competitive one. A level playing field is maintained for all insurers and insurance intermediaries irrespective of their country of origin. This is evident from the large number of authorised insurers (170 as at 31 May 2010) and the strong presence of foreign companies. About 47% of the authorised insurers were incorporated outside HKC in 21 places, with Bermuda (14) taking the lead.

68. The Office of the Commissioner of Insurance (OCI) has been implementing a number of measures to further enhance the regulatory regime in respect of the insurance sector. Among them are step-up monitoring of the financial and solvency position of all insurers in HKC, enhanced disclosure requirements and enhanced policyholder education. To ensure the institutional independence of OCI and enhance its flexibility to respond to market developments, we are also studying the proposal of turning OCI into a regulator independent of the Government. In addition, the OCI is preparing proposals for the establishment of a Policyholders' Protection Fund in HKC to improve market stability and safeguard the interest of policyholders in the event of insolvency of an insurer.

(iv) Mandatory Provident Fund System

69. HKC implemented the Mandatory Provident Fund (MPF) System in December 2000. It is a privately managed, mandatory system of provident fund schemes to assist members of the workforce to accumulate financial resources for their retirement. The MPF System operates under a free market competition environment. There is no barrier to entry, quantitative or qualitative, for foreign institutions intending to participate in the MPF market. MPF schemes are governed by trust. Any institution, irrespective of its place of origin, that meets the eligibility requirements (including paid up capital and net asset requirements) may apply for approval as a trustee, or to provide services for MPF schemes such as investment management and custody of assets. There is no fixed quota on the number of approved trustees, which stood at 19 as at 30 March 2010.

70. The Mandatory Provident Fund Schemes (Amendment) Bill 2009 was passed on 8 July 2009. The legislation would allow more than 2.2 million MPF scheme members (as at 30 March 2010) to transfer accrued benefits derived from their mandatory contributions during their current employment to a MPF scheme of their own choice at least once a year. It would also allow employees to have access to a broader spectrum of MPF service providers, MPF schemes and funds for investment. Upon implementation, the proposal will enable around 60% of MPF benefits to be portable between trustees and hence promote greater market competition.

(v) Corporate Governance

71. Enhancing HKC's corporate governance (CG) regime is a priority of our work. The Government, together with other relevant parties, attaches much importance to uphold our CG standards in line with international standards. We have been working on the rewrite of our Companies Ordinance, Laws of Hong Kong, since 2006 with a view to modernising our legal framework for companies in HKC, and enhancing CG is one of the key objectives of the exercise. In this context, we are consulting the public on a draft Companies Bill, which contains a number of

proposals to strengthen the accountability of directors, improve disclosure of company information, strengthen auditors' rights, enhance shareholders' engagement in the decision-making process and foster shareholder protection. We aim to introduce the Bill into the Legislative Council before the end of 2010. Ahead of that, the Companies (Amendment) Ordinance 2010 which was passed by the Legislative Council on 7 July 2010 contains improvements to the area of statutory derivative actions. The statutory derivative action procedure in the Companies Ordinance allows a member of a company to bring an action or intervene in the proceedings on behalf of the company in respect of "misfeasance" committed against the company. The Amendment Ordinance expands the scope and allows a member of a related company to commence or intervene in statutory derivative action on behalf of the company as well, thus enhancing the protection of shareholders in a corporate group. The Amendment Ordinance will come into effect by phases starting from late 2010.

(b) Telecommunications

72. HKC has one of the most sophisticated and successful telecommunications markets in the world. This has been an important factor in HKC's development as a leading business and financial centre.

73. All sectors of HKC's telecommunications market have been liberalised, with no foreign ownership restrictions. Our regulatory regime is pro-competition and pro-consumer. The objectives are to provide a level playing field in the telecommunications market and ensure that consumers get the best services in terms of capacity, quality, speed and price.

(c) Broadcasting

74. The objectives of the broadcasting policy are to promote programme choice and quality through competition, to facilitate the introduction of new and innovative broadcasting services, as well as to enhance HKC's position as a regional broadcasting hub. HKC has a vibrant broadcasting sector offering a wide range of services to local viewers and listeners. HKC's viewers and listeners have access to over 700 local and overseas television channels in various languages through free-to-air terrestrial and satellite reception or pay television services, and 13 radio channels provided by two commercial broadcasters and Radio Television Hong Kong, the public service broadcaster. At the same time, it is a regional broadcasting hub with 18 licensees uplinking over 200 satellite television channels for the regional market.

75. On 31 December 2007, the two domestic free television programme service licensees launched digital terrestrial television. Apart from simulcasting the existing 4 free-to-air analogue terrestrial television channels in digital format, the stations introduced a total of five new standard definition television channels and two new high definition television channels, all of which are offered to viewers free of charge. In February 2010, the Government invited interested parties to submit applications for the provision of a digital audio broadcasting (DAB) service. It is expected that the DAB service will be launched by late 2010 or early 2011 at the earliest. In June 2010, HKC carried out an auction of one multiplex for the provision of a broadcast-type mobile television service which is expected to be launched by the end of 2011. The Government continues to keep track of the development and application of new technologies in the broadcasting sector and will update the regulatory regime as necessary in the light of technological and market convergence.

(C) PROTECTION OF INTELLECTUAL PROPERTY RIGHTS IN HONG KONG, CHINA

76. HKC is committed to protecting intellectual property rights (IPR). This commitment is underpinned by our respect for private economic rights and our recognition of the importance of robust IPR protection to our economic growth.

77. We achieve this through comprehensive legislation, vigorous enforcement action, sustained public education, and close cooperation with rights owners and other law enforcement agencies.

(a) Comprehensive Legislation

78. HKC has comprehensive legislation for the protection of patents, trade marks, copyright, registered designs, layout-designs (topographies) of integrated circuits and plant varieties. Our intellectual property laws comply fully with the requirements of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

79. We constantly review our intellectual property laws to ensure they remain appropriate in present-day circumstances. Since the last Trade Policy Review in 2006, we have introduced, or proposed, a number of additional legislative measures to further strengthen the protection of IPR. The major ones are:

- (a) The Copyright (Amendment) Ordinance 2007 was passed by the Legislative Council in June 2007. It (i) provides new civil and criminal liability to enhance copyright protection (including a new business end-user copying/distribution offence for four types of printed works as well as civil and criminal liability against activities relating to circumvention of technological measures used for copyright protection); (ii) makes our copyright exemption regime more flexible; (iii) relaxes the restrictions on parallel importation of copyright works; and (iv) strengthens enforcement of rights. Most of the above amendments took effect on 6 July 2007.
- (b) The Patents Ordinance was amended in November 2007 to implement the compulsory licensing scheme under Paragraph 6 of the Doha Declaration on the TRIPS Agreement and Public Health and the Protocol amending WTO's TRIPS Agreement. This facilitates access to generic versions of patented pharmaceutical products for addressing public health problems. The amendments took effect on 22 February 2008.
- (c) The Copyright (Amendment) Ordinance 2009 was passed in November 2009. It prescribes the numeric limits in relation to the copying and distribution offence (enacted in 2007 as mentioned in (a) above). The offence as well as the numeric limits came into operation on 16 July 2010.
- (d) To meet the challenges posed by advances in technology, we are embarking on a review of how best to strengthen copyright protection in the digital environment. The refined proposals we released in November 2009 include enhancing copyright protection for works transmitted through electronic media, strengthening the role played by online service providers (OSPs) in combating online piracy, and providing specific exceptions for OSPs and users to enhance flexibility in electronic transmission and use of copyright works. The Government is working closely with stakeholders on the amendment legislation.

(b) Rigorous Enforcement Action

80. Rigorous enforcement actions are taken by the Customs and Excise Department (C&ED) against piracy and trademark counterfeiting activities. We have a strong enforcement team comprising some 400 officers. The infringement situation in HKC has been brought under firm control.

81. The Anti-Internet Piracy Teams and Computer Analysis and Response Team of C&ED are playing a vital role in tackling Internet piracy. The use of advanced investigation skills and technology, including a Lineament Monitoring System that tracks the uploading of BitTorrent "seeds", enables us to monitor illegal piracy activities round-the-clock and track down the identity of those taking part in such activities.

82. In June 2009, C&ED effected the first case in Asia which involved an international piracy syndicate using high-speed Internet servers (generally called "Top-site") to distribute infringing items including movies, music, computer software and video game software. We successfully dismantled the syndicate's setup in HKC.

(c) Sustained Public Education

83. The Intellectual Property Department (IPD) promotes awareness of and respect for IPR in the community through on-going and sustained public education programmes. These include school visits and programmes for school children, and territory-wide publicity campaigns (e.g. seminars, exhibitions, printed and electronic advertisements, No Fakes Pledges Scheme and I Pledge Campaign) targeted at the business community (both in HKC and the Mainland cities where HKC enterprises have a strong presence) and the general public. An annual budget of about HK\$8 million is set aside every year for this purpose.

84. IPD launched an Intellectual Capital Management Consultancy Programme⁹ in March 2009, offering a free consultancy service to help enterprises, especially small and medium enterprises, capitalise on and manage their intellectual assets, with a view to effectively exploiting and protecting these assets for the long-term economic benefits of both the enterprises themselves and HKC.

85. Since September 2006, C&ED has collaborated with the business software industry to launch a range of initiatives to raise the awareness of local businesses on software piracy and promote the use of genuine business software, including the Business Software Legalisation Scheme and the enhancement of the reward scheme sponsored by the software industry.

86. Since 2006, C&ED, IPD, the IPR industry and eleven local uniformed youth groups have worked together and established the 'Youth Ambassador Against Internet Piracy' Scheme. By encouraging local young people to report online piracy, the Scheme helps heighten awareness of the importance of IPR protection and secure their commitment to serving the community. Various educational activities including IPR workshops, visits to production companies and competitions were organised for the 200,000 members of the Scheme.

⁹ Intellectual Capital Management is a set of simple management tools which helps enterprises to strengthen business management to enhance productivity and sustainable development. It provides tools to identify intellectual capital, estimate its importance, identify the risks inherent in each asset, and then determine a strategy to reduce the risk and exploit each asset.

(d) Close Cooperation with Rights Owners and Other Law Enforcement Agencies

87. We liaise closely with IPR owners to solicit their assistance in fighting IPR infringement. For example, C&ED has taken the lead in forming an Intellectual Property Rights Protection Alliance (IPRPA). Membership encompasses individual companies and stakeholders in the IPR industry, such as the proprietors of copyrights/trademarks, their authorised agents and legal representatives. The IPRPA serves as a platform for voluntary monitoring by the IPR owners of IPR infringement activities in the retail market. Members will report to C&ED on finding any suspected IPR violation.

88. C&ED has also launched a number of cooperation campaigns jointly with the IPR industry. The 'E-auctioning with Integrity Scheme' was launched in 2005 with local auction site operators and various IPR owners to combat the sale of infringing items on the Internet. Under the Scheme, auction site operators agree to step up screening and remove items suspected to be IPR infringing goods. The 'Fast Action Scheme' was launched in 2006 with the Hong Kong Brands Protection Alliance to combat infringing activities during large scale trade exhibitions and fairs.

89. We also maintain regular liaison with other enforcement agencies in the region to prevent cross-boundary infringing activities.

(D) ELECTRONIC COMMERCE

90. The Government recognises the importance of promoting the development of electronic commerce to sustain HKC's competitiveness on a global scale. The Government first promulgated the Digital 21 Strategy in 1998 focusing on building HKC's information infrastructure and creating an enabling environment for e-business to prosper. The Strategy was updated in 2001, 2004 and 2007 to take into account technological advancement and changing needs of the economy.

91. To provide an environment that is conducive to the development of electronic commerce, the Government has put in place appropriate measures in the promotion of information security and protection of privacy and intellectual property rights, including relevant regulations and legislations. The Government is reviewing the Personal Data (Privacy) Ordinance, Laws of Hong Kong, to examine whether the existing provisions of the Ordinance afford adequate protection to personal data having regard to developments, including advancement in technology, over the last decade. The Government is also considering how best to strengthen copyright protection in the digital environment while promoting the development of HKC as an Internet service hub. In November 2009 the Government released its latest proposals, which would form the basis for preparing the relevant amendment legislation.

92. To promote electronic commerce, improve efficiency and maintain HKC's competitiveness as an international trading centre, the Government introduced Government Electronic Trading Services (GETS) in 1997. GETS refer to the front-end electronic services operated by the service providers appointed by the Government for the trading community to submit six commonly used trade documents to the government departments concerned for the purposes of customs control, trade declaration, trade control and statistics compilation. By 2009, around 60,000 traders and carriers had registered with the service providers as GETS users and the transaction volume was about 20.3 million. The Government has increased the number of service providers from two to three from January 2010. The appointment of the third service provider has given users a wider choice and brought added room for healthy competition in the market. Technical enhancements have also been introduced to the GETS System to facilitate the possible switching of service providers.

93. An e-Procurement Pilot Programme for low-value purchases was launched in 2009 which allowed suppliers to share procurement-related information with three pilot departments of the Government and submit quotations and proposals online. As mentioned in paragraph 59 above, in 2010, the Government launched a Road Cargo System for traders and truck drivers to enjoy seamless customs clearance at the land boundary control points by submitting advance cargo information to the Government for electronic customs clearance of road cargoes.

94. In the area of supply chain management, the Government has established the Hong Kong Logistics and Supply Chain Management Enabling Technologies R&D Center (LSCM) to help the industry to improve operational efficiency, particularly through the use of Radio Frequency Identification (RFID) technology. During the period from 2004 to 2009, the Government has supported more than 31 RFID projects, involving a total funding of over HK\$190 million. On top of our continuous support for research and development projects, the Government has been driving wider application and more extensive utilisation of research and development results through commercialisation.

95. The Government has been providing support through launching Sector-specific Programmes (SSP) to enhance the adoption of information and communication technology by SMEs. The SSP has so far covered thirteen business sectors, namely travel agencies, medical and health, drugstores, logistics, accounting, beauty service, trade, social service, watches and clocks, supply chain, social enterprises, Chinese medicine practitioners and manufacturing sectors.

96. In 2005, APEC assessed the status of development in Paperless Trading in APEC economies through which HKC was recognised as one of the two economies at the highest advanced level.

(E) GOVERNMENT PROCUREMENT

97. The Government adopts an open, fair, competitive and transparent system in the procurement of goods and services. Local and overseas suppliers and contractors are treated on an equal footing. The principles underlying the procurement system of the Government are consistent with the spirit and objectives of the WTO Agreement on Government Procurement, to which HKC is a party. There has not been any change to the procurement policy since the last Trade Policy Review in 2006.

(F) COMPETITION POLICY

98. A free and competitive market has always been the backbone of HKC's economy. The HKSAR Government's competition policy is to enhance economic efficiency and the free flow of trade through promoting sustainable competition, thereby bringing benefits to both the business sector and consumers. Backed by the aspirations of society for a cross-sector competition law as revealed in the results of the public consultation exercises conducted in 2006 and 2008, the Government introduced the Competition Bill into the Legislative Council in 2010 for scrutiny with a view to establishing a legal framework to ensure the effective implementation of our competition policy. The proposed competition law will adopt a judicial enforcement model and provide for general prohibitions on all anti-competitive conduct which has the object or effect of preventing, restricting or distorting competition in HKC.

99. Pending the enactment and implementation of the competition law, the Competition Policy Advisory Group (COMPAG), chaired by the Financial Secretary, reviews competition issues that have policy or systemic implications. COMPAG regularly examines existing policies and investigates practices alleged to be anti-competitive. It also considers initiatives to promote competition.

V. DOHA DEVELOPMENT AGENDA

(A) HONG KONG, CHINA'S OVERALL POSITION IN THE DOHA DEVELOPMENT AGENDA (DDA)

100. HKC strongly supports the multilateral trade negotiations under the DDA and believes that further trade liberalisation can help forestall regression into protectionism and provide the engine for sustained economic growth worldwide. The successful conclusion of the DDA will benefit the entire WTO membership. To this end, we have been sparing no efforts in working with all WTO Members towards bringing the DDA negotiations to a successful conclusion.

(B) HONG KONG, CHINA'S PRIORITY AREAS IN THE ROUND

101. As a small, open and externally oriented economy, HKC's priorities in the DDA negotiations are naturally market-access related issues, notably market access for non-agricultural products and for services. Furthermore, we see the need to clarify and improve WTO rules to ensure that they remain relevant and conducive to trade and investment. In parallel, we also attach much importance to other negotiating areas in the DDA.

(a) Services

102. HKC sees services as one of the three underpinning market access pillars of the Doha Round negotiations and together with the rule-making part of the negotiations, part and parcel of the overall deal. To this end, we attach great importance to the ongoing services negotiations and strongly believe that progress has to be made on this important pillar to achieve a truly balanced outcome for the Round.

103. Being a strong exporter of services trade, HKC is keen on the progressive liberalisation of trade in a wide range of services sectors, in particular telecommunications, maritime transport, logistics, audio-visual and financial services. We aim to seek comprehensive and commercially meaningful services commitments from our trading partners so that our service providers may compete on a par with their overseas counterparts. To this end, HKC has been participating actively and constructively in the market access negotiations. HKC tabled its initial and revised offers on further liberalisation of services in accordance with the stipulated timelines. Our commitments and offers are substantive, all without most-favoured-nation treatment (MFN) exemptions, foreign equity caps or numerical quotas.

104. In parallel, HKC considers it paramount to strengthen the rules in the area of services and put in place a proper regulatory structure for services liberalisation, particularly with respect to the adherence to the MFN principle, development of robust disciplines on domestic regulations, and enhancing the legal certainty of Members' specific commitments. For this purpose, we have been providing constructive input for the multilateral discussions of these rules issues to help advance the discussions in the relevant subsidiary bodies and bridge the differences amongst Members.

105. In the spirit of pushing forward the services negotiations, HKC participated actively in the Signalling Conference on Services in July 2008. We consider it imperative for Members to build on the hard-earned achievements, including those of the Signalling Conference; and not to backtrack. Despite the difficulties of the negotiations, HKC remains committed to engaging intensively and constructively in the services negotiations and is prepared to work closely with Members to help bring the negotiations to a fruitful conclusion.

(b) Non-agricultural Market Access

106. In the area of non-agricultural market access, HKC's objective is to seek significant market access improvements through substantial and early reduction/elimination of tariffs and non-tariff barriers (NTBs). To this end, we support a simple Swiss Formula with ambitious coefficients, for developed and developing Members respectively, to reduce or as appropriate eliminate tariffs. Together with some other Members, HKC put forward a "middle-ground" proposal for reduction of tariffs for industrial goods. The proposal has been largely taken up in the fourth revision of the draft modalities for NAMA. We also support voluntary participation in sectoral initiatives eliminating or reducing tariffs beyond what would be achieved by the Swiss Formula. To date, HKC has co-sponsored five sectoral initiatives.¹⁰

107. As regards NTBs, HKC has been participating actively and constructively in the negotiations to eliminate or reduce NTBs. In this connection, we have worked with a number of developing country Members to offer a compromise proposal¹¹ in relation to the role of WTO Committees under the proposed Horizontal Mechanism, which seeks to address concerns regarding NTBs. The compromise proposal has been well-regarded by Members as an effort to bridge the gap between existing proposals on the table.

(c) Trade Rules

108. HKC firmly supports the negotiations on rules which aim at clarifying and improving the Agreements on Anti-dumping (AD) and Subsidies and Countervailing Measures, as well as disciplines and procedures under the existing WTO provisions applying to regional trade agreements (RTAs).

109. As a staunch supporter of free trade, HKC has never taken any AD or countervailing measures against other economies. We are committed to strengthening the AD discipline to make it more competition-friendly and more compatible with the globalised economy. Being a strong advocate of the rules-based multilateral trading system, it is our long-held belief that strong and clear rules free of abuse are essential to safeguard the hard-earned market access commitments and prevent abuse of trade remedies. This is particularly important in the midst of an economic downturn in which strengthened multilateral rules would serve as an effective insurance against protectionism. We have been participating actively and constructively in the AD negotiations, and will continue to work closely with Members and the Chair of the Negotiating Group on Rules to achieve a substantive and meaningful outcome.

110. On negotiations relating to rules on RTAs, HKC considers it important to ensure coherence of RTAs with the multilateral trading system so as to make them building blocks for further liberalisation of the multilateral trading system. We also support the RTA Transparency Mechanism which has been very useful in shedding light on the key elements of individual RTAs and we call for its permanent adoption as part of the overall result of the Doha Round.

¹⁰ The five sectoral initiatives are (i) electronics and electrical products; (ii) fish and fish products; (iii) forest products (including paper products); (iv) gems and jewellery; and (v) toys.

¹¹ The compromise proposal is in JOB/MA/35 dated 9 July 2010.

(C) OTHER AREAS IN THE DOHA DEVELOPMENT AGENDA

(a) Intellectual Property Rights

111. On the establishment of a multilateral system of notification and registration of geographical indications (GIs) for wines and spirits, HKC has been playing a constructive role to bridge Members' differences in the negotiation process. We aim at having a system simple to operate, with minimum financial and administrative burdens, which facilitates the protection of GIs for wines and spirits.

112. As regards the Decision of the General Council of 6 December 2005 on an Amendment of the TRIPS Agreement, which gives permanent effect to the arrangement agreed under the Doha Declaration on the TRIPS Agreement and Public Health, we notified HKC's formal acceptance of the Protocol Amending the TRIPS Agreement in November 2007.

(b) Trade Facilitation

113. HKC attaches much importance to the negotiations on trade facilitation. Expeditious and seamless movement of goods in international trade would be conducive to economic growth and development in this era of globalisation. We firmly believe that a set of multilateral commitments on trade facilitation, with clarified and improved rules and streamlined customs and trade procedures, will bring significant benefits to all WTO Members by reducing costs for both businesses and governments, as well as promoting efficiency.

114. HKC has been actively participating in the discussions under the Negotiating Group on Trade Facilitation with a view to developing a set of multilateral commitments on all elements of the mandate contained in Annex D of the July package in 2004. Together with some other Members, we have put forward a number of proposed trade facilitation measures. In addition, we have organised activities including technical workshops and small group discussions in order to help build consensus and take forward the negotiations.

(c) Trade and Environment

115. HKC fully supports the objective of sustainable development and will continue to work constructively with Members in the negotiations to enhance the mutual supportiveness of free trade and the environment. We will also actively work with Members to explore other environmental-related trade issues in the Doha Development Agenda to forestall the abuse of environmental measures as protectionist tools in disguise.

(d) Dispute Settlement Understanding Review

116. HKC agrees with other Members on the systemic importance of strengthening the dispute settlement mechanism without upsetting the rights and obligations of Members. We share the view that there is room for improving and clarifying the Dispute Settlement Understanding, for example, in the area of sequencing of the compliance determination and suspension of concession procedures in Articles 21 and 22 respectively. We also support the enhancement of third party rights. We will continue to work actively and constructively with other Members towards a timely and satisfactory conclusion of the negotiations.
