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.
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I. OVERVIEW

A. CONTINUANCE OF THE SUCCESSFUL OPERATION OF THE HKSAR

1. This is the third Trade Policy Review of Hong Kong, China since the establishment of the Hong Kong Special Administrative Region (HKSAR) of the People’s Republic of China (PRC). Looking back, in the past four years since the last Trade Policy Review in 2002, the HKSAR has risen to the challenges posed by the repercussions of the Asian Financial crisis and the outbreak of SARS, and recovered to register the strongest economic expansion in its recent history. The second quarter of 2006 marked the eleventh consecutive quarter that economic growth was notably above-trend. The principle of “One Country, Two Systems” has continued to be effectively implemented. The institutions and policies that served Hong Kong well in the past, such as the rule of law, the free and open trade policy, a low and simple tax regime, and a level playing field for business, remain the bedrock of Hong Kong’s success.

2. The Basic Law, the constitutional document of the HKSAR, sets out the way in which the HKSAR is to be administered. Under its provisions, the HKSAR shall remain a free port, a separate customs territory and may, on its own, using the name “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 Organisation (WTO).

B. PURSUING EXCELLENCE IN GOVERNANCE

3. The Government implemented a new political appointment system in 2002 to create a political tier at the top echelon of the Government, comprising individuals from academia, business and professional sectors, as well as the civil service. It has brought about a new system of governance whereby there would be a political tier at the top underpinned by the civil service.

4. There are a total of 14 principal officials under the political appointment system, comprising three Secretaries of Department (the Chief Secretary for Administration, the Financial Secretary and the Secretary for Justice) and 11 Directors of Bureau. Principal officials are accountable to the Chief Executive for matters falling within their respective portfolios. Having reviewed the new system after four years of practical experience, the Government is conducting a public consultation on the proposal of creating new positions in the political tier at different levels to further develop the system.

C. TRADE POLICY OBJECTIVES

5. Hong Kong, China’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.

6. Active participation in the multilateral trading system through our separate membership in the WTO is the cornerstone of Hong Kong, China’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 Hong Kong, China against arbitrary and discriminatory actions.
II. ECONOMIC AND TRADE ENVIRONMENT

A. MACROECONOMIC SITUATION

7. Hong Kong is recognised as the world’s freest economy. The Heritage Foundation has put Hong Kong at the top of the list in its Index of Economic Freedom for twelve consecutive years. Canada’s Fraser Institute, in conjunction with institutes from 71 other countries, has also consistently ranked Hong Kong as the freest economy in the world in their Annual Report on Economic Freedom of the World. Under the guiding principle of “Market leads, Government facilitates”, the HKSAR Government has taken an active role to create a conducive environment for business and to facilitate economic development, particularly to enhance Hong Kong’s competitiveness and to allow the market to function efficiently and effectively.

8. Hong Kong is a small open economy. Its economic performance always depends much on developments in the global and regional environment. The Hong Kong economy has undergone several years of adjustments in the aftermath of the Asian financial crisis in 1997. The rebound in economic activity in 2000 was interrupted by a series of external shocks, including the burst of the global IT bubble in 2000 and the 911 incident in 2001. The severe setback due to the outbreak of SARS in the second quarter of 2003 saw a bottoming out of the economy in that quarter. Once the outbreak of the epidemic subsided, the economy rebounded swiftly and entered into a full-fledged upturn. Real GDP growth picked up strongly from 1.8% in 2002 and 3.2% in 2003 to 8.6% in 2004 and 7.3% in 2005. The two years 2004 and 2005 saw the fastest pace of economic growth in any two consecutive years since 1988.

9. The Hong Kong economy sustained its upturn in the first half of 2006, with real GDP leaping by 6.6% over a year earlier. The economy expanded further on a broad front, driven by fairly strong external trade, a distinct pick-up in consumer spending, as well as a continued surge in investment in machinery and equipment. Thus, while external trade continues to grow, domestic demand is also playing an increasingly important role in the current economic upturn. This sustained economic upturn has also led to a broad-based improvement in labour market conditions. Yet consumer price inflation has remained benign.

10. The outlook for the rest of the year depends on how the various downside risks from the external front including, most notably, weaker US economic growth and high oil price would play out to affect Hong Kong’s external trade. Yet at this juncture, the external environment would likely remain largely positive in the near term. With the resilience in domestic demand and with the expected further growth in trade, the economic outlook is for a further solid expansion in the second half of the year. Given the actual GDP outturn so far, the Hong Kong economy should easily attain the forecast growth range of 4-5%. Indeed, barring any abrupt adverse changes in the external environment, GDP growth for 2006 as a whole is likely to be close to 5%. As for the inflation outlook, overall inflationary pressures are likely to stay rather moderate in the rest of 2006. For the year as a whole, consumer price inflation is forecast at 2%.

11. The medium-term prospect for the Hong Kong economy is bright. With sustained robust growth in the mainland of China and with increasing integration between Hong Kong and the Mainland, the Hong Kong economy, being market-based and highly flexible and resilient, will continue to shift towards higher value-added services and more knowledge-based activities. The productivity gains achieved in the process will enable the economy to attain a 4% trend growth over the medium term. As Hong Kong has moved into a new phase of economic expansion, there is a need to stay alert to the possible threat from a resurgence in inflation.
12. Hong Kong has been benefiting from the rapidly growing economy of the mainland of China, especially since the latter’s accession to the WTO. The Chinese government has clearly stipulated in its Eleventh Five-Year Plan that it would encourage the rapid development of the service industries, in particular modern industries such as finance, insurance, logistics, information and legal services. These industries are where Hong Kong’s niches lie. In addition, in terms of comparative advantage, there is huge complementarity between Hong Kong’s vibrant service economy and the great manufacturing capability of the Pan-Pearl River Delta, which is Hong Kong’s natural hinterland and the most economically dynamic region in the mainland of China. It is the HKSAR Government’s strategy to continue to strengthen economic co-operation under the Pan-Pearl River Delta initiatives, which brings together nine provinces\(^1\) and the two Special Administrative Regions of Hong Kong and Macao, to enable Hong Kong to tap the vast potential in the market of the mainland of China and to enhance the role of Hong Kong as a gateway-cum-business platform for the mainland of China and the rest of the world. The signing of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) in mid-2003 was also a significant milestone in marking the closer ties between Hong Kong and its economic hinterland.

B. **Fiscal Situation**

13. Fiscal prudence has been the guiding principle of the HKSAR in managing public finances\(^2\). Our long-standing fiscal policy objective has been to maintain sound and stable public finances and to foster a fiscal environment conducive to continued economic growth and success. Our target is to ensure that the right balance is struck between meeting public demand for better government services on the one hand and adhering to our principles of small government and low taxes on the other.

14. The Operating Account of the HKSAR Government had been in deficit since 1998-99. To restore fiscal balance, the Government has continued to rein in government expenditure in recent years and managed to achieve, three years ahead of schedule, all the fiscal targets set in 2004 Budget:

(a) Operating expenditure reduced to less than HK$200 billion in 2004-05 and 2005-06;

(b) Fiscal balance restored in the Operating and Consolidated Accounts in 2005-06; and

(c) Public expenditure as a proportion of GDP lowered to and remaining below 20 per cent from 2004-05, in line with the principle of “Big Market, Small Government”.

15. The Operating and Consolidated Accounts restored balance in 2005-06, the first time since 1997-98 that both accounts have recorded a surplus. The fiscal reserves stood at $310.7 billion as at 31 March 2006, equivalent to 22.5% of GDP or 16 months of government expenditure. In the 2006-07 Budget, we projected that both the Operating and Consolidated Accounts would remain in surplus over the next five years to 2010-11. We also anticipated that the fiscal reserves would be maintained at a level between $310 billion and $400 billion, the equivalent of 15 to 17 months of government expenditure. With such substantial fiscal reserves the Government has no borrowing requirement.

16. The Government launched a public consultation on tax reform including the introduction of a Goods and Services Tax (GST) in July 2006. The main objective of the proposed tax reform is to

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\(^{1}\) These nine provinces include Guangdong, Fujian, Jiangxi, Hunan, Guangxi, Guizhou, Yunan, Sichuan and Hainan.

\(^{2}\) Article 107 of the Basic Law of the HKSAR sets out the budget principles to be followed – “The Hong Kong Special Administrative Region shall follow the principle of keeping expenditure within the limits of revenues in drawing up its budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its gross domestic product.”
broaden the tax base so as to ensure future growth and prosperity. The consultation will last for nine months and following the consultation, a report will be prepared for the Government of the next term to consider whether Hong Kong should pursue such tax reform and introduce a GST.

C. MONETARY POLICY

17. Hong Kong is a highly externally-oriented economy, with total value of trade in goods and services exceeding 350% of GDP. A credible fixed exchange rate system helps minimize exchange rate risk, benefiting externally-oriented business. A stable Hong Kong dollar is also an important anchor for financial stability, which underpins Hong Kong’s role as an international financial centre.

18. The primary monetary objective of Hong Kong is to maintain currency stability, defined as a stable external exchange value of the currency of Hong Kong, 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 characterized by currency board arrangements, requiring the Hong Kong dollar monetary base to be at least 100 percent backed by, and changes in it to be 100 percent matched by corresponding changes in, US dollar reserves held in the Exchange Fund at the fixed exchange rate of HK$7.80 to US$1.

D. EXTERNAL TRADE & FOREIGN DIRECT INVESTMENT

(a) Merchandise Trade

19. According to the preliminary figures published by the WTO, Hong Kong, China was the world’s 11th largest trading entity in 2005 in terms of value of merchandise trade. It was also the world’s 11th largest importer and 11th largest exporter.

20. Supported by strong performance of the global and regional economic environment, the value of Hong Kong’s merchandise trade grew from US$408 billion (HK$3,180 billion) in 2002 to US$587 billion (HK$4,580 billion) in 2005. Re-exports remained the key driver in overall trade with the vibrant trade flows of the mainland of China. The outlook for trade in 2006 remains largely sanguine.

21. In 2005, articles of apparel and clothing accessories accounted for the largest share (41%) by value of total exports of goods, followed by electrical machinery, apparatus and appliances (14%), and office machines and automatic processing machines (10%).

(b) HKSAR’s Major Trading Partners

22. Hong Kong’s largest trading partner was the mainland of China, which accounted for a 45% share by value of total merchandise trade in 2005. This was followed by the European Union (EU) and the United States (US), which accounted for 11% and 10% respectively.

23. Total merchandise trade between the mainland of China and Hong Kong increased from HK$1,330 billion in 2002 to HK$2,062 billion in 2005. Principal export items to the Mainland in 2005 included electrical machinery, apparatus and appliances, office machines and automatic data processing machines and telecommunications and sound recording apparatus and equipment. Major imports from the Mainland in 2005 included telecommunications and sound recording apparatus and equipment, electrical machinery, apparatus and appliances and clothing.

3 Total merchandise trade comprises imports, re-exports and domestic exports.
24. Total merchandise trade between the EU and Hong Kong increased from HK$359 billion in 2002 to HK$504 billion in 2005. Principal export items to the EU in 2005 included clothing, telecommunications and sound recording apparatus and equipment and miscellaneous manufactured articles. Major imports from the EU in 2005 included electrical machinery, apparatus and appliances, non-metallic mineral manufactures and telecommunications and sound recording apparatus and equipment.

25. Total merchandise trade between the US and Hong Kong increased from HK$424 billion in 2002 to HK$480 billion in 2005. Principal export items to the US in 2005 included clothing, miscellaneous manufactured articles and telecommunications and sound recording apparatus and equipment. Major imports from the US in 2005 included electrical machinery, apparatus and appliances, office machines and automatic data processing machines and miscellaneous manufactured articles.

c) Trade in Services

26. According to the preliminary figures published by the WTO, Hong Kong, China was the world’s 16th largest services trading entity in 2005. It was also the world’s 11th largest services exporter and the world’s 20th largest services importer.

d) Foreign Direct Investment

27. Hong Kong, China is a major destination for foreign direct investment (FDI) in Asia. According to the World Investment Report 2006 released by the United Nations Conference on Trade and Development (UNCTAD), Hong Kong, China ranked sixth in the world in FDI inflows in 2005, and was also the second largest recipient of FDI in Asia, after the mainland of China. The preliminary figure of Hong Kong, China’s FDI inflow in 2005 was US$35.9 billion. Excluding tax haven economies, the mainland of China was Hong Kong, China’s largest source of FDI. By the end of 2004, the Mainland had invested an accumulated total of US$131 billion in Hong Kong, China, accounting for 29% of the total. Hong Kong, China was classified in the UNCTAD Report as a “front-runner” economy, which means that Hong Kong, China out-performed its investment potential by attracting high FDI flows relative to its economic size.

III. TRADE POLICY DEVELOPMENT

A. PARTICIPATION IN THE WORLD TRADE ORGANIZATION (WTO)

28. Hong Kong is a founding member of the WTO. Our separate membership continues after reunification with China on 1 July 1997, under the name of “Hong Kong, China”.

29. As a continuous demonstration of its strong commitment to the WTO, Hong Kong, China hosted the WTO Sixth Ministerial Conference (MC6) in December 2005. MC6 concluded successfully and Ministers adopted the Hong Kong Ministerial Declaration, which sets out a series of agreements in the major areas of negotiations, and a timetable for the multilateral trade negotiations under the Doha Development Agenda (DDA).

30. However, progress of the DDA negotiations post-MC6 has not been satisfactory, largely because of the failure to reach agreement on the modalities on agriculture and non-agricultural market access. The DDA negotiations were suspended in July 2006. Hong Kong, China is deeply

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4 On 1 May 2004, 10 new members joined the EU. Together with the 15 original members, there are a total of 25 members in the EU. Statistics in this paragraph are compiled based on the new coverage.
disappointed at the suspension. Hong Kong, China has been maintaining close contacts with major
WTO Members and the Director-General of the WTO to exchange views and explore ways to bring
the DDA back on track.

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

31. Hong Kong, China attaches great importance to regional economic cooperation fora with the
aim of promoting free 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 make
contribution to its work. Such work concerns, among others, (a) APEC’s political statements in
support of the WTO and the Doha Round negotiations, (b) initiatives under the APEC Strategic Plan
on Capacity Building to enhance APEC developing economies’ capacity in their participation in the
WTO, and (c) the various initiatives on trade and investment liberalization and facilitation undertaken
by APEC.

32. Hong Kong, China has been an observer to 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 in the Committees.

C. REGIONAL TRADE AGREEMENTS

33. Hong Kong, China considers that free trade agreements (FTAs) which are fully WTO-
consistent should help promote the cause of eventual global trade liberalisation. We are positive
towards more liberalised trade arrangements which are WTO plus and will actively consider pursuing
these arrangements with other economies. So far, we have concluded a Closer Economic Partnership
Arrangement with the mainland of China and have been discussing a Closer Economic Partnership
Agreement with New Zealand.

(a) Hong Kong/New Zealand Closer Economic Partnership Agreement (HK/NZ CEP)

34. In May 2001, the HKSAR started its first FTA negotiations with New Zealand for a CEP
Agreement. Five rounds of formal negotiations have been held so far. The negotiations encompass a
wide-ranging scope, covering, among others, elimination of tariffs, liberalisation of trade in services,
and liberalisation and promotion of bilateral investment. The negotiations have yet to conclude.

(b) Closer Economic Partnership Agreement (CEPA)

35. Discussions on the Mainland and Hong Kong Closer Economic Partnership Agreement
(CEPA) came to fruition when CEPA was signed on 29 June 2003. CEPA is the first free trade
agreement ever concluded by the mainland of China and Hong Kong, China. It came into full
implementation on 1 January 2004, and both parties have subsequently entered into consultations and
reached agreement on the second and third phases of further trade liberalisation measures (CEPA II
and CEPA III). The two economies signed the Supplement to CEPA on 27 October 2004 and
Supplement II to CEPA on 18 October 2005 respectively. The further liberalisation measures of
CEPA II and CEPA III came into full implementation on 1 January 2005 and 1 January 2006
respectively. Furthermore, Supplement III to CEPA was signed on 27 June 2006 with additional
liberalisation measures for trade in goods (taking effect from 1 July 2006) and services (taking effect
from 1 January 2007). The legal text of CEPA and its supplements are available on the designated
CEPA website of the Trade and Industry Department (TID) at http://www.tid.gov.hk/english/
ceps/legaltext/cepa_legaltext.html.
36. CEPA adopts a building block approach and provides a convenient platform for Hong Kong, China 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 tariff 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 eight designated areas to facilitate trade and investment flows between both sides.

37. Under CEPA, effective from 1 January 2006, all products of Hong Kong origin (except for some prohibited articles) enjoy tariff free treatment for import into the mainland of China upon fulfilment of the CEPA rules of origin. On the services front, Hong Kong service suppliers in 27 service areas enjoy WTO-plus preferential market access treatment in the mainland of China. CEPA also enhances co-operation of both parties in tourism promotion, mutual recognition of professional qualifications and exchange of professional talents, as well as strengthens co-operation and information sharing in the areas of banking, securities and insurance.

IV. SECTORAL DEVELOPMENTS

A. DEVELOPMENTS IN TRADE IN GOODS

(a) Textiles and Clothing

38. Textiles and clothing (T&C) product is a major export item of Hong Kong. In 2005, domestic exports of T&C products amounted to HK$60.9 billion (roughly US$7.8 billion), which accounted for 44.8% of our total domestic exports among all merchandise.

39. Prior to 2005, textiles exports from Hong Kong, China to Canada, the EU and the US were subject to quantitative restrictions maintained under the World Trade Organization Agreement on Textiles and Clothing (WTO ATC). To administer the quantitative restrictions, Hong Kong, China put in place a comprehensive textiles quota control and licensing regime which was backed up by the Import and Export Ordinance and its subsidiary legislations. All imports and exports of T&C products were required to be covered by import and export licences or notifications.

40. With the global elimination of textiles quotas starting 1 January 2005 as prescribed under the WTO ATC, Hong Kong, China has streamlined its textiles control system in order to provide greater facilitation to the trade while ensuring origin compliance of the T&C products claiming Hong Kong origin. While all textiles export from and import into Hong Kong (other than a few exempted items) are still required to be covered by valid licences or notifications, all quota-related operations and export licences for restrained T&C products have been dispensed with since 1 January 2005. Licensing requirements for all personal shipments have also been lifted.

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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; co-operation of small and medium enterprises; co-operation in Chinese traditional medicine industry; and protection of intellectual property.

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 that are imported or exported by an individual for his personal use or as a bona fide gift to another individual; and textiles articles to be used by the crew or passengers of a vessel, aircraft, or vehicle.
41. Under the revised system, different licensing requirements are applied to textiles exports/imports involving the "sensitive" and "non-sensitive" markets in the following manner:

(a) For sensitive markets\(^7\), textiles imports/exports should be covered by consignment-specific licences or textiles notifications whereby consignment-specific 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, a comprehensive licence (valid for a year for unlimited shipments) may be used, regardless of the product type, quantity and country of origin of the goods.

(c) A Production Notification requirement is imposed for cut-and-sewn garments intended for export to the US and the EU. Under this requirement, manufacturers are required to lodge a Production Notification with the TID shortly before commencement of the origin-conferring process in Hong Kong, so as to enable officers of the Customs and Excise Department (C&ED) to conduct real time check on the garments during the manufacturing process.

42. The textiles control system is rigorously enforced by the C&ED to safeguard the legitimate interest of Hong Kong’s textiles trade. Malpractices are taken seriously. Any breach of the origin control requirement is an offence under the laws of Hong Kong, with offenders 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

43. Rice is the major staple foodstuff in Hong Kong and is therefore scheduled as a reserved commodity under the Reserved Commodities Ordinance (Cap. 296). The Government has been operating a Rice Control Scheme (RCS) 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 short term shortage of supply. The reserve stock level has been subject to regular review and as a result it has been reduced gradually from 50 days local consumption before 1998, to 21 days in 2001, and to 15 days in 2002. The rice trade in general agrees that a reserve stock level of 15 days local consumption is reasonable having regard to the lead time required in replenishing stocks in time of sudden surge in demand for rice domestically. To enhance competition and market efficiency, the TID has implemented significant liberalisation measures since January 2003 as follows:

(a) The registration criteria for rice stockholders have been relaxed. There are no capital and financial requirements, and any interested party registered with the Business Registration Office could register as a stockholder under the RCS. The number of registered stockholders has increased from 52 in end 2002 to 101 in September 2006.

(b) There is no more import quota for rice. The import level is decided by individual stockholders in accordance with their assessment of market demand and their own marketing capability.

(c) To monitor the supply of rice, the TID collates statistics on rice import and reserve stock level. At the same time, aggregate statistics are regularly disseminated to rice traders to facilitate their understanding of the overall market situation. As a

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\(^7\) Textiles exports to and imports from the mainland of China, and exports to the US and the EU.
transparency measure, the statistics are uploaded to the TID website at: http://www.tid.gov.hk/english/import_export/nontextiles/nt_rice/nt_rice.html.

44. The rice trade now generally operates in a free market environment. The gap between the c.i.f. import price and the retail price of Thai fragrant rice (accounting for about 92% of total imports in the first six months of 2006) has narrowed by about 15% since 2003.

(c) Strategic Commodities

45. 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.

46. The legal basis for strategic trade control in the HKSAR is set out in the Import and Export Ordinance. The Ordinance requires the import and export of strategic commodities to be subject to licensing control administered by the TID. 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 Hong Kong.

47. 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 regimes. The latest amendment of the control lists which was effected in July 2006 reflects the changes up to end 2005.

48. Over the years, many facilitation measures have been introduced in the licensing service for strategic commodities. For example, we introduced in April 2004, an electronic submission system of licence applications via the Internet. With e-application system, licence applicants no longer have to prepare paper applications and submit them in person.

49. In June 2004, the Chemical Weapons (Convention) Ordinance came into operation. It enables the full implementation of the Chemical Weapons Convention in the HKSAR. The TID implements a permit and notification system for the operation of chemical facilities involved in specified activities of chemicals controlled under the Convention.

(d) Other Licensing Control and Trade Facilitation

(i) Control of Rough Diamonds

50. To implement the Kimberley Process\(^8\) Certification Scheme for rough diamonds in Hong Kong, amendments were introduced to the Import and Export (General) Regulations in 2002 to implement a Certification Scheme on rough diamonds. The Certification Scheme in Hong Kong,\(^8\) The Kimberley Process is a negotiating forum originated from discussions in the United Nations General Assembly (UNGA) regarding rebel activities in some parts of Africa. It seeks to stop trade in conflict diamonds (rough diamonds used by rebel movements or their allies to finance conflicts aimed at undermining legitimate governments, as described in relevant United Nations Security Council resolutions, and as understood and recognised in the relevant UNGA Resolutions) from fuelling armed conflicts, activities of rebel movements and illicit proliferation of armament.
which has been effective since January 2003, comprises a registration system for rough diamond traders and a certification system for the imports and exports of rough diamonds. To further facilitate the trade, amendments to the Import and Export (General) Regulations were introduced to lift the registration requirement in May 2006 for persons who only carry on a business of carrying rough diamonds and are owners of vessels, aircrafts or vehicles lodging manifests with the Director-General of Trade and Industry for the imported and exported rough diamonds.

(ii) Licensing Control of 9 Categories of Articles

51. As from January 2004, the licensing control on the import, export or transshipment of nine out of 31 categories of articles (namely, television sets, video cassette recorders and players; air conditioners and refrigerators; poultry carcasses and poultry products; ozone depleting substances; left-hand-drive vehicles; outboard engines exceeding 111.9 kilowatts; marine fish; optical disc mastering and replication equipment; and radio-communications transmitting apparatus) has been relaxed or simplified following the implementation of the Import and Export (Facilitation) Ordinance 2003. The relaxation measures, which had been made after careful consideration and wide consultation, facilitate the smooth flow of legitimate trade while maintaining Hong Kong’s commitment to fulfil international obligations to protect public health, safety, environment, and intellectual property rights, or to ensure Hong Kong’s unrestricted access to high technologies and hi-tech products.

(iii) Trade Facilitation

52. To facilitate trade, an additional service provider was appointed by the Government to provide electronic submission services for cargo manifests, import/export trade declarations as well as dutiable commodities permits. Customs clearance documentation and procedures have also been further simplified/reduced. The measures include:

(a) Electronic submission of cargo manifests

On 11 April 2003, the Import and Export (Electronic Transactions) Ordinance 2002 came into operation. It provided a legal basis for the carriers to electronically submit to Hong Kong Customs and other government departments cargo manifests in the air, rail, river and ocean modes of transport. Electronic submission of air and rail cargo manifests became mandatory with effect from 17 July 2004 while electronic submission of ocean and river cargo manifests became mandatory from 16 June 2006 onwards. The system has helped reduce substantially the time and effort of traders consumed in lodging paper cargo manifests. The additional service provider started to provide the electronic service for cargo manifests from April 2006 onwards.

(b) Electronic Submission of Notifications under the Textiles Trader Registration Scheme (TTRS)

The Import and Export (General) (Amendment) (No. 2) Regulation 2003 introduced the legislative framework for electronic submission of textiles notifications, which took effect since 30 May 2003. The Amendment Regulation provided an open-ended transitional period during which traders may choose to submit notifications in paper form or by electronic means.

(c) Electronic submission of import/export trade declarations

On 1 January 2004, the electronic service for import/export trade declarations was enhanced, and the additional service provider also started to provide the electronic service for import/export trade declarations.
(d) Open Bond System
With effect from 1 April 2004, Hong Kong Customs implemented an Open Bond System to allow all bonded warehouses storing dutiable goods to operate without full-time Customs supervision. The system aims to facilitate the trade by lowering the compliance costs and allowing more flexibility in business operations.

(e) Electronic service for processing applications for dutiable commodities permits
On 18 August 2004, the electronic service for processing applications for dutiable commodities permits was enhanced, and the additional service provider also started to provide the electronic service for dutiable commodities permits.

(f) Other customs procedures
Starting from 15 November 2004, General Administration of Customs of the PRC and Hong Kong Customs have agreed to use the mutually recognized “Green Customs Seal” to avoid unnecessary duplication of Customs examination, facilitate trade and expedite vehicular traffic at the land boundary on both sides.

B. DEVELOPMENTS IN SERVICES

(a) Financial Services

53. To strengthen Hong Kong’s competitiveness under 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, modernizing the regulatory regime and upgrading market infrastructure.

(i) Banking Industry

54. Hong Kong 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 Hong Kong 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

55. The Securities and Futures Ordinance (SFO), which brought Hong Kong’s regulatory framework on a par with international standards and practices, has been in operation since 1 April 2003. The Government plans to introduce amendments to the SFO this year to further update the Ordinance in response to recent market development, and enhance efficiency in administering the new licensing regime.

56. The Securities and Futures (Amendment) Ordinance 2006, which provides for the separation of the role of the Chairman from that of the executive arm of the Securities and Futures Commission (SFC) and to create a Chief Executive Officer post, commenced operation on 23 June 2006. This model is in line with best governance practices both locally and internationally.

57. The Government has taken the lead in drawing up measures to improve the regulation of listing to enhance market quality, following public consultation on Proposals to Enhance the Regulation of Listing in October 2003. We are now refining the draft bill in light of comments received during the public consultation, and aim to introduce the Bill into the Legislative Council this year.
58. The Government is implementing measures to review the existing regulatory framework for offers of shares and debentures in phases. The first phase involved the publication of various guidelines by the SFC in February 2003. The second phase was the commencement of the prospectus-related provisions in the Companies (Amendment) Ordinance 2004 in December 2004 which simplified the procedures for the registration and issue of prospectuses. The SFC in the third phase conducted a public consultation on possible reforms to the prospectus regime. The consultation conclusions setting out the reform initiatives to be pursued were published in September 2006. The SFC will discuss with relevant stakeholders to refine details of the specific initiatives proposed to be taken.

59. The Revenue (Profits Tax Exemption for Offshore Funds) Bill 2005 was passed on 1 March 2006 to exempt offshore funds from profits tax. The exemption, which applies with retrospective effect to the year of assessment 1996/97, will enhance the attraction of Hong Kong to international investors in asset management.

(iii) Insurance

60. The insurance industry in Hong Kong is a cosmopolitan and competitive one. A level playing field is maintained for all insurers and insurance intermediaries irrespective of their countries of origin. This is evident from the large number of authorized insurers (174 as at 31 May 2006) and the strong presence of foreign companies. About 50% of the authorized insurers were incorporated outside Hong Kong in 21 places, with the United States (15) taking the lead.

61. 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. 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.

(iv) Mandatory Provident Fund System

62. Hong Kong 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 life. 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 like investment management and custody of assets. There is no fixed quota on the number of approved trustees and the number is currently 19.

63. In order to enhance transparency and to enable scheme members to make more informed and effective investment decisions, a Code on Disclosure for MPF Investment Funds was issued in June 2004 by the Mandatory Provident Fund Schemes Authority. A set of Compliance Standards was published in July 2005 to assist approved MPF trustees in establishing a rigorous framework for monitoring their compliance with statutory duties and responsibilities.

64. The Mandatory Provident Fund Schemes (General) (Amendment) Regulation 2006 will be introduced into the Legislative Council this year, aiming to improve the existing investment regulation in respect of the MPF scheme funds.
(v) Corporate Governance

65. Enhancing Hong Kong’s corporate governance (CG) regime is a priority of our work. The Government, together with other relevant parties, attach much importance to uphold our CG standards in line with international standards.

66. Good progress has been made in the past few years. For example, we together with the SFC and the Hong Kong Exchanges and Clearing Limited had drawn up a CG Action Plan in 2003. All the initiatives under the Action Plan have been completed or are near completion.

67. One of the key proposals is the establishment of the Financial Reporting Council (FRC) to enhance the regulation of auditors and check the compliance of the financial reports of listed entities with the relevant legal, accounting and regulatory requirements. The Financial Reporting Council Ordinance, which provides for the legislative framework for the establishment of the FRC, was enacted by the Legislative Council in July 2006. With the enabling legislation in place, we are working on the start-up of the FRC.

68. The Hong Kong Financial Reporting Standards, which are issued by the Hong Kong Institute of Certified Public Accountants, have been fully converged with International Financial Reporting Standards since 1 January 2005. This uniform accounting platform, well understood by global investors and financial analysts, is conducive to the comparison of corporations and their results in different jurisdictions and leads to greater confidence in the transparency and quality of Hong Kong’s financial markets.

69. The Companies Ordinance (CO) is one of the largest and most complex pieces of legislation in Hong Kong. We are embarking on a major exercise to rewrite the CO, starting this year, to ensure that the new CO will provide Hong Kong with an up-to-date legal infrastructure attuned to our needs in the 21st century through streamlining and modernizing its provisions, strengthening its existing corporate governance framework and leveraging company law developments around the world.

(b) Telecommunications

70. Since 2003, the Government has fully opened all sectors of the telecommunications market to competition. Thus local and external, services-based and facilities-based telecommunications services in Hong Kong are all provided by the private sector. There are no foreign ownership restrictions.

71. The Telecommunications (Amendment) Ordinance 2003 was passed by the Legislative Council in May 2003. It sets out a framework for the regulation of mergers and acquisitions of carrier licensees in the telecommunications market with an ex post regulatory regime whereby the Telecommunications Authority is empowered to sanction against completed mergers and acquisitions which have, or are likely to have, the effect of substantially lessening competition.

72. In January 2005, the Government announced the lifting of the prior approval requirement on the tariff of services provided by PCCW-HKT Telephone Limited, an incumbent operator, via the issue of a new Fixed Carrier Licence. The removal of ex ante regulation does not affect the ex post regulation. The criteria of sanction on anti-competitive conduct remain unchanged and the Office of the Telecommunications Authority will continue to detect and act against such conduct in a timely manner.
(c) Broadcasting

73. Hong Kong has a liberalized and vibrant broadcasting market. The Government’s broadcasting policy objectives are to widen the programme choice for the community, encourage investment and innovation in the broadcasting industry, promote fair and effective competition and enhance Hong Kong as a regional broadcasting hub.

74. The Government announced the implementation framework for digital terrestrial television in July 2004. The two domestic free television programme service licensees are now embarking on network planning, design and construction with a view to launching digital terrestrial television by 2007 and achieving within 2008 digital coverage for 75% of Hong Kong.

75. Following a public consultation in the first half of 2006, the Government plans to introduce the legislation to merge the Broadcasting Authority and the Telecommunications Authority into a unified regulator to oversee the entire electronic communications sectors in 2007. The purpose is to ensure coordinated, consistent and effective regulation of the converging communications industry.

(d) Professional Services - Legal Services

76. Lawyers are admitted to practice in Hong Kong either as solicitors or barristers, and there are different admission requirements for the two branches of the profession. Such requirements are provided in the Legal Practitioners Ordinance. Pursuant to the Ordinance, the two professional bodies, namely the Law Society and the Bar Association, are vested with the power to regulate solicitors and barristers in areas such as practice, conduct, discipline, examination and continuing education by way of subsidiary legislation. It is provided in the Ordinance that these rules and regulations made by the Law Society and the Bar Association would require the prior approval of the Chief Justice.

77. With the amendments to the Ordinance in 1995 and 2000 respectively, the admission criteria for solicitors and barristers are now in line with the general obligations of the GATS. All foreign lawyers, coming from common law and non-common law jurisdictions are allowed to take specified examinations to become solicitors and barristers.

C. Protection of Intellectual Property Rights in Hong Kong

78. Hong Kong 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 IPR protection regime to our economic growth.

79. We achieve this through comprehensive legislation, vigorous enforcement action, sustained public education, and close co-operation with rights owners and other law enforcement agencies.

(a) Comprehensive Legislation

80. Hong Kong has comprehensive legislation for the protection of patents, trade marks, copyright, registered designs, layout-designs (topographies) of integrated circuits and plant varieties. Our IPR laws fully comply with the international standards laid down in the Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS”).

81. We keep our laws under constant review to ensure that they meet the needs of the changing environment. Over the past few years since the last Trade Policy Review in 2002, we have introduced

* The new provision relating to the new admission criteria for barristers commenced on 28 March 2003.
a number of additional legislative measures to further strengthen the protection of IPR. The major ones are:

(a) Amendments to the Copyright Ordinance were made to remove the civil and criminal liabilities pertaining to parallel importation into Hong Kong of computer software products. The amendments took effect from 28 November 2003.

(b) Amendments to the Copyright Ordinance were made to introduce a “copyshop offence” to facilitate enforcement and prosecution against illicit reproduction of books, magazines or periodicals by copyshops for the purpose or in the course of their business. The amendments took effect from 1 September 2004.

(c) The new Trade Marks Ordinance (Chapter 559) and Rules came into force on 4 April 2003. Instead of a two-part register, the new Ordinance provides for a single register. It allows filing of a single application for registration of a trade mark in respect of multiple classes of goods or services, and provides for streamlined procedures for recording assignments and licences of trade marks. Parallel import of trade marked goods is permissible, unless the goods have been impaired or changed and the reputation of the mark is thereby adversely affected.

(d) The Trade Marks Ordinance (Chapter 559) and Rules, among other things, provide for electronic filing and publication of trade mark applications. There have been subsequent amendments to the trade marks legislation, patents legislation and registered designs legislation to provide for electronic publication of notifications and advertisements of patents and designs, electronic filing and processing of patents and designs applications, and enhancement of electronic services for the registration of assignments and assents relating to registered trademarks and trademark applications.

82. With a view to enhancing the protection for copyright owners and affirming fair and legitimate use of copyright works by certain sectors of the public, the Government submitted the Copyright (Amendment) Bill 2006 to the Legislative Council in March 2006. The Bill reflects the outcome of the public consultation conducted in late 2004 – early 2005 and our discussions with stakeholders. It contains, among other things, the Government’s proposal enhancing the anti-circumvention provisions and copyright protection for specified categories of printed works, introducing rental rights for films and comic books, providing more flexible exceptions for the education sector and persons with print disability, and strengthening enforcement efficiency and effectiveness. The Bill is currently being scrutinized by the Legislative Council.

83. To give effect to the intent of the trade mark legislation, the Intellectual Property Department rolled out a range of e-services to realize the vision of convenient, efficient and high quality registration services. At present, services such as search, filing, publication and payment for trademarks, patents and designs business are available on the Internet.

(b) Vigorous Enforcement Action

(i) Copyright Piracy

84. Under Hong Kong Customs’ vigorous enforcement, the piracy situation in Hong Kong is firmly under control. At the retail level, the number of retail shops selling pirated optical discs (POD) has been reduced from over 100 in 2002 to about 50, with the circulation of PODs reduced from 20,000 to about 3,000.
85. Hong Kong Customs has two Anti-Internet Piracy Teams (AIPT) to fight against infringing activities in the cyber world. One criminal case of particular importance concerns copyright infringement using a “peer-to-peer” (P2P) file-sharing program known as BitTorrent (BT). The defendant was convicted before a magistrate in October 2005 and sentenced to three months’ imprisonment. The conviction gives a strong deterrence against similar infringing activities. Moreover, copyright owners have also resorted to civil actions against infringers on P2P networks.

86. Since 1 April 2001, Hong Kong Customs has been actively enforcing the end-user criminal provisions of the Copyright Ordinance. The targets include firms using pirated software and karaoke bars using infringing music videos in the course of their business.

(ii) Trademark Counterfeiting

87. Trademark counterfeiting remains firmly under control, and there is no major manufacturing operation in Hong Kong. For the local retail market, only some low-level sales activities of a limited scale by hawkers are found in certain black spots. Due to the vigorous enforcement actions of Hong Kong Customs, most counterfeiters operating at the black spots have now adopted a stealthy mode of operation. Only photos of counterfeit goods are displayed and customers will be led to showrooms/storage centres in nearby buildings for the actual transactions.

(iii) Application of the Organized and Serious Crime Ordinance

88. To enable the forfeiture of the financial proceeds obtained from IPR infringing activities, the Organized and Serious Crimes Ordinance was first applied to piracy and counterfeiting cases in July 2004 and July 2005 respectively. Restraint orders were applied from the High Court to freeze the financial proceeds of syndicates involved in IPR offences so that their illicit trade could not be revitalized. So far, financial proceeds of about $97 million have been restrained in 6 cases.

(c) Sustained Public Education

89. We have on-going and substantial public education programmes to promote the public’s respect for IPR. The Intellectual Property Department conducts annual benchmark surveys (one targeted at the general public since 1999 and the other at the business community since 2004). An annual budget of about HK$7 million (that is, US$1 million) is allocated for the public education programmes. For 2006-2007, the Government will spend an additional sum of HK$2.9 million (that is, US$0.37 million) to promote the awareness of IPR and proper software asset management among enterprises.

(d) Close Co-operation with Rights Owners and Other Law Enforcement Agencies

90. We liaise closely with IPR owners to solicit their assistance in fighting copyright piracy and trademark counterfeiting. We also maintain regular liaison with other enforcement agencies in the region to prevent cross-boundary infringing activities.

D. ELECTRONIC COMMERCE

91. The Government is fully aware of the importance of promoting the development of electronic commerce to sustain Hong Kong’s competitiveness on a global scale. The Office of the Government Chief Information Officer (OGCIO) was set up on 1 July 2004 to provide leadership for the development of information and communications technology (ICT) within and outside the Government. The OGCIO provides a single focal point with responsibility for ICT policies, strategies, programmes and measures under our Digital 21 Strategy (www.digital21.gov.hk). We updated the
Digital 21 Strategy in 2004 with a view to sustaining Hong Kong’s role as a leading e-commerce community and digital city. To keep pace of technological advancements and the evolving needs of the community, a public consultation document on the 2007 Digital 21 Strategy was released on 18 October 2006, which sets out the blueprint for future development of ICT in Hong Kong. The Government will announce the new strategy next year after considering feedback received during the consultation exercise.

92. The Electronic Transactions Ordinance (ETO), enacted in 2000 and amended in June 2004, gives electronic records and signatures the same legal status as that of their paper-based counterparts and provides a voluntary recognition scheme for certification authorities.

93. The Government has been providing support through launching Sector-specific Programmes (SSP) to enhance the IT and e-business capabilities of the small and medium enterprises (SMEs). The SSP has so far covered six business sectors, namely travel agents, private medical doctors, drugstores, logistics, accounting and beauty services providers. We also provide on-going support for SMEs to adopt IT through various initiatives under the TID, including the SME funding schemes, information services, a free IT enquiry service for the business sector and a free IT advisory service for SMEs, and awareness building programmes.

94. About 97.3% of all persons aged 15 and over had used electronic business services in 2005. Hong Kong was also among the forerunners in the 2006 e-Readiness rankings released by the Economist Intelligence Unit (EIU) where Hong Kong was ranked second in Asia Pacific and tenth among other 68 global economies.

E. GOVERNMENT PROCUREMENT

95. 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 equal footing. The procurement system of the Government is fully consistent with the WTO’s Agreement on Government Procurement, to which Hong Kong, China is a party. There has not been any change to the procurement policy since the last Trade Policy Review in 2002.

F. COMPETITION POLICY

96. There have been a number of developments in this area since the last Trade Policy Review in 2002.

97. In June 2005, the Government appointed an independent Competition Policy Review Committee (CPRC), with a non-official Chair and members drawn from different sectors, to review the effectiveness of existing competition policy as well as the set-up, functions and modus operandi of the Competition Policy Advisory Group (COMPAG). The CPRC is made up mostly of non-Government stakeholders from the business, academic, consumer protection and other sectors to review Hong Kong’s competition policy, and in particular to consider whether there was a need to introduce a general competition law. The CPRC reported back to COMPAG in June this year and its review report was published in early July. Briefly, the CPRC has recommended that the Government introduce a cross-sector competition law targeting specific types of anti-competitive conduct to be enforced by a Competition Commission operating outside the normal government structure. The CPRC has recommended that the Commission be given appropriate investigative powers, and that penalties in the form of large fines and disqualification from holding directorships should apply to any parties found to have engaged in prohibited conduct. The Government is now considering the recommendations in the CPRC report, with a view to consulting the public later this year on the way forward, in positive response to the discussions on this topic during the last Trade Policy Review.
98. Meanwhile, we commissioned a consultancy study in mid-2005 to study competition in the local auto-fuel retail market. The consultant completed its work in early 2006, and its report was made public in April 2006. In brief, the consultant has found no clear evidence of collusion by oil companies in the Hong Kong auto-fuel retail market. However, given the inherent characteristics of the local auto-fuel market, the consultant suggests there is a risk that collusion could occur. As such, the consultant recommends that the Government should consider preventive measures aimed at prohibiting cartel behaviour, either through general or sector-specific competition laws. The Government is considering the recommendations.

99. The Government has also published two documents respectively\(^\text{10}\) entitled “Consultation Paper on Future Development of the Electricity Market in Hong Kong – Stage I Consultation” and “Consultation Paper on Future Development of the Electricity Market in Hong Kong – Stage II Consultation” in January and December 2005. The Stage II consultation exercise ended on 31 March 2006. Taking into account, among other things, the public comments received and the prevailing situations, the Government plans to further open up the electricity market of Hong Kong in the longer terms when the requisite conditions are present.

V. DOHA DEVELOPMENT AGENDA

A. HONG KONG, CHINA’S OVERALL POSITION IN THE DOHA DEVELOPMENT AGENDA

100. Hong Kong, China 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 DDA will benefit the entire WTO membership. The current suspension of the talks, which were seen as a once-in-a-generation chance to boost growth and ease poverty around the world, is a serious blow to both developing and developed economies. We will spare no efforts in working with all WTO Members towards reviving the DDA negotiations and putting them back on track.

B. HONG KONG, CHINA’S PRIORITY AREAS IN THE NEW ROUND

101. As a small, open and externally oriented economy, Hong Kong, China’s priorities in the DDA negotiations are naturally market-access related issues, notably market access for non-agricultural products and for services. We also see the need to clarify and improve WTO rules to make sure that they remain relevant and conducive to trade and investment.

(a) Services

102. Hong Kong, China 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, Hong Kong, China 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

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\(^{10}\) Relevant documents are available at the following websites: (a) Stage I consultation document -- http://www.edlb.gov.hk/edb/eng/papers/electricity/pdf/Consultation_paper.pdf; and (b) Stage II consultation document -- http://www.edlb.gov.hk/edb/eng/papers/electricity/pdf/StageII_CP.pdf
providers may compete on a par with their overseas counterparts. Hong Kong, China tabled its initial and revised offers on further liberalisation of services in accordance with the stipulated timelines. In our offers, we have proposed substantive improvements in terms of the number and scope of sectors to be committed as well as level of commitments. Besides, Hong Kong, China has been participating actively and constructively in plurilateral negotiations of those modes and sectors in which we have interests.

104. In parallel, Hong Kong, China 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, stronger 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.

(b) Non-agricultural Market Access

105. In the area of non-agricultural market access, Hong Kong, China’s objective is to seek significant market access improvements through substantial and early reduction/elimination of tariffs and non-tariff barriers. To this end, we support a simple Swiss Formula with two ambitious coefficients, for developed and developing Members respectively, to reduce or as appropriate eliminate tariffs. We also support sectoral initiatives eliminating or reducing tariffs over and above what would be achieved by the formula.

(c) Trade Rules

106. Hong Kong, China 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).

107. As a staunch supporter of free trade, Hong Kong, China has never taken any AD or countervailing measures against other economies. We are committed to tightening the AD disciplines with a view to making them more competition-friendly and more compatible with the globalised economy. We seek to ensure that market access opportunities under the multilateral trading system will not be eroded by the abusive use of trade remedies. We have been participating actively and constructively in the AD negotiations, and will continue to work closely with Members and the Chair of the Negotiation Group on Rules to achieve a substantive and meaningful outcome.

108. On negotiations relating to rules on RTAs, Hong Kong, China considers it important to ensure the coherence of RTAs with the multilateral trading system through clarifying and, where appropriate, reinforcing existing WTO rules and decision. We are committed to the negotiations on WTO rules relating to RTAs.

C. OTHER AREAS IN THE DOHA DEVELOPMENT AGENDA

(a) Intellectual Property Rights

109. Hong Kong, China welcomes the Decision of the General Council of 6 December 2005 on an Amendment of the TRIPS Agreement, which gives permanent effect to the arrangements agreed under the Doha Ministerial Declaration on the TRIPS Agreement and Public Health. We fully subscribe to the object and purpose of the Protocol Amending the TRIPS Agreement. We are
studying how our domestic laws should be amended to make them consistent with the details of the Protocol, and will notify Hong Kong, China’s formal acceptance when we are in a position to do so.

(b) Trade Facilitation

110. Hong Kong, China fully supports the negotiations on trade facilitation. We firmly believe that clarified and improved rules on trade facilitation will simplify and streamline customs and trade procedures, thereby enhancing efficiency and reducing costs for business, consumers and governments. We have been actively participating in the discussions under the Negotiating Group on Trade Facilitation and in collaboration with other Members making proposals to expedite text-based negotiations, with a view to developing a set of multilateral commitments on all elements of the mandate contained in Annex D of the July Decision.

(c) Trade and Environment

111. Hong Kong, China 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 environment. We would also actively work with Members to explore other environmental-related trade issues in the Doha Development Agenda to ensure that environmental measures would not be abused for protectionist purpose.

(d) Dispute Settlement Understanding Review

112. Hong Kong, China 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.