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TRADE POLICY REVIEW MECHANISM

HONG KONG

Report by the Government

In pursuance of the CONTRACTING PARTIES' Decision of 12 April 1989 concerning the Trade Policies Review Mechanism (BISD 36S/403), the full report by the Government of Hong Kong for the review by the Council is attached.

NOTE TO ALL DELEGATIONS

Until further notice, this document is subject to a press embargo.

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Note: Where dollars are quoted in this report, they are Hong Kong dollars unless otherwise specified. The annual average exchange rate of the Hong Kong dollar against the US dollar for 1993 was HK\$7.736 to US\$1.

EXECUTIVE SUMMARY

PART A: TRADE POLICY AND PRACTICES

Objectives of Trade Policies

Hong Kong's trade policy is to promote free and open trade within a stable and effective multilateral trading system. Now the world's eighth largest trader, and with a per capita GDP forecast to reach US\$20,600 in 1994, Hong Kong is an economic miracle which owes its success to a large extent to the world trade liberalisation, and consequent economic expansion, brought about by the General Agreement on Tariffs & Trade (GATT). Hong Kong is one of the most open economies in the world, and the perfect example of GATT principles at work. There are no tariffs; no trade restrictions other than those required to protect health, safety, security and the environment and to discharge Hong Kong's obligations under bilateral and international agreements; and no unilateral 'trade policy instruments' to protect domestic industries or to promote exports.

Hong Kong's trade policy is distinguished by its firm commitment to the multilateral trading system as the best guarantee of free trade and economic expansion. Despite Hong Kong's active participation in the Asia Pacific Economic Cooperation (APEC) since becoming a member in 1991, Hong Kong's guiding principle in participating in such regional economic cooperation forum remains to promote free trade and to reinforce the multilateral trading system.

Hong Kong has participated actively and constructively in the GATT and the Uruguay Round (UR) of multilateral trade negotiations. Hong Kong strongly supports the early implementation of the UR agreements and the early establishment of the World Trade Organisation (WTO) on 1 January 1995. Hong Kong will ratify the WTO agreement and become an original member of the WTO. Hong Kong is a separate customs territory and will remain so after the change of sovereignty in 1997. Both the Sino-British Joint Declaration on the Question of Hong Kong and the Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China (legislation promulgated by China setting out the systems in Hong Kong after 1997) provide for the continuation of Hong Kong's participation on its own in relevant international organisations and international trade agreements.

Description of the Import and Export System

Hong Kong's import and export system is characterised by minimum controls, zero tariff and no subsidies or assistance to exports.

Hong Kong is a party to the GATT Tokyo Round Agreement on Import Licensing Procedures. Import and export controls are kept to a minimum, and either stem from obligations under various international undertakings, or are applied for health, safety or security reasons.

Import and export licensing requirements are maintained under the Laws of Hong Kong. Such requirements are administered by the relevant Government departments. Fees are charged as appropriate to recover the operating costs of import and export licensing systems, including relevant enforcement activities. Quantitative import restrictions apply to certain ozone depleting substances. Imports of rice must meet, but may not exceed, minimum levels prescribed by the Director-General of Trade. Exports of a wide range of textiles and clothing are subject to quantitative restraints under agreements concluded under the Multi-Fibre Arrangement (MFA).

Imports into Hong Kong are not required to be accompanied by certificates of origin issued by the exporting countries concerned. In regard to its exports, Hong Kong provides origin certification services as necessary to facilitate the trade in meeting requirements at the importing end.

Any person or firm who imports, exports or re-exports any article other than an exempted article (e.g. personal baggage) is required, under the Import and Export Ordinance, to lodge with the Customs and Excise Department an import or export declaration which is used to compile statistics on Hong Kong's merchandise trade. A charge is payable on each declaration. Such charges constitute part of the Government's general revenue.

The Trade Policy Framework

Domestic Laws and Regulations Governing the Application of Trade Policies

The statutory provisions under the purview of the Director-General of Trade and other government enforcement agencies give legal effect to the control of imports and/or exports to enable Hong Kong to fulfil international/bilateral obligations or to meet Hong Kong's requirements on health, safety and security grounds.

The main purposes of the provisions of the Import and Export Ordinance and its subsidiary regulations are to enable Hong Kong to exercise its rights and meet its obligations under textiles agreements and to monitor and control the flow of strategic commodities into and out of Hong Kong.

The purpose of the Reserved Commodities Ordinance is to ensure the availability of certain essential foodstuffs for emergency situations.

The Export (Certificates of Origin) Regulations and the Protection of Non-Government Certificates of Origin Ordinance provide a system governing the issue of certificates of origin for goods.

Summary Description of the Process of Trade Policy Formulation and Review

Trade policy formulation involves the Governor, the Executive Council, the Legislative Council, the Administration and advisory boards and committees.

The Administration is organised into branches and departments. The branches, each headed by a Secretary, collectively form the Government Secretariat. The Trade and Industry Branch, headed by the Secretary for Trade and Industry, is the policy branch in the Government Secretariat responsible for trade policy formulation and review. The Trade Department, headed by the Director-General of Trade, is responsible for the implementation of trade policy. The Director-General of Trade also advises the Secretary for Trade and Industry on matters affecting trade policy and is also Government's chief trade negotiator. The Commissioner of Customs and Excise is responsible to the Secretary for Trade and Industry in respect of trade-related enforcement activities. The Director of Intellectual Property reports to the Secretary for Trade and Industry on matters related to intellectual property protection.

The Administration also involves the private sector in the process of formulating, implementing and reviewing trade policy so as to ensure that proposals command a high degree of public support. The Trade Advisory Board and the Textiles Advisory Board, which are advisory bodies chaired by the Secretary for Trade and Industry, advise the Administration on a wide range of trade policy issues.

Multilateral and Bilateral Trade Agreements

The GATT is the cornerstone of Hong Kong's trade policy. Hong Kong acquired separate contracting party status in April 1986. Hong Kong is a party to six Tokyo Round Agreements. It has participated fully in the MFA since its inception. Hong Kong at present has bilateral textiles agreements with Austria, Canada, the European Union (EU), Finland, Norway and the United States (U.S.). These agreements have been concluded under the MFA, and cover a wide range of textiles and clothing products of cotton, wool, man-made fibre, silk blend and other vegetable fibres. In 1993, the value of textiles and clothing exports covered by the six agreements amount to \$60 billion, representing 69 per cent of Hong Kong's domestic exports of textiles and clothing and 27 per cent of all domestic exports.

The Implementation of Trade Policies

Trade Measures Used

Hong Kong's trading regime is marked by the absence of unilateral 'trade policy instruments' and minimum control. Hong Kong applies zero tariff on all imports from all sources. Hong Kong does not maintain any tariff quotas or surcharges, safeguards, anti-dumping or countervailing actions, concessionary export financing, export taxes or government-mandated countertrade. Hong Kong offers neither subsidies nor tax exemptions. It does not operate any state-trading enterprises, and has no foreign exchange controls.

Hong Kong maintains a number of trade control measures, including a rice control scheme; quantitative restrictions on the import of certain ozone depleting substances into Hong Kong; licensing controls which either stem from obligations under international undertakings or are applied for health, safety and security reasons; rules of origin; and export restrictions on textiles and clothing.

Prospective Changes in Trade Policies and Practices

Hong Kong does not have any prospective changes in its trade policies and practices.

PART B: BACKGROUND AGAINST WHICH THE ASSESSMENT OF TRADE POLICIES IS CARRIED OUT

Wider Economic and Developmental Needs, Policies and Practices

Given its small size and lack of natural resources, Hong Kong has to be externally oriented. Hong Kong's economic growth and prosperity depend heavily on its ability to participate in world trade.

Hong Kong's developmental needs are basically twofold: the implementation of an ambitious social programme to improve the quality of life in a wide range of areas, including education, the environment, housing, and social welfare; and continuous investment in Hong Kong's physical infrastructure (such as airport and port facilities, road and sea links with China and the internal transport system) to remove the constraints on Hong Kong's growth. While expansion under the former category is funded largely by the Government, the Government encourages the private sector to invest in the essential physical infrastructure that promotes economic growth by participating in design and development and by taking up Build, Operate and Transfer franchises.

In recent years, in view of the need for Hong Kong's industry to move into higher value-added, high technology production so as to maintain its competitive edge, the Hong Kong Government has launched various programmes to promote technological innovation, technology transfer and the undertaking of applied research and development.

The Hong Kong Government's economic philosophy is marked by minimum interference with the markets; keeping Government small and our systems open; keeping taxes low, simple and predictable and ensuring that Government expenditure does not outstrip the pace of economic expansion.

The External Economic Environment

Major Trends in Imports and Exports

Over 80 per cent of the manufactured products of Hong Kong are for export, while most of the foodstuffs and consumer goods, as well as raw materials and capital goods for production, are imported.

Hong Kong's domestic exports, re-exports, total exports and imports increased rapidly during the ten years between 1983 and 1993 which had an average annual growth rate of 5, 27, 17, 17 per cent in real terms respectively.

Hong Kong has been diversifying its export markets over the past decade. This was largely due to the initiatives taken by Hong Kong businessmen in tapping overseas markets, as well as the opportunities created by China's open door policies. Apart from a decrease in shares attributable to the United States, the Federal Republic of Germany and the United Kingdom, the most significant change between 1983 and 1993 was the emergence of China as the largest market for Hong Kong's domestic exports. China also emerged as the largest market for Hong Kong's re-exports. As for sources of imports, Hong Kong imported considerably more from within the Asia-Pacific region in 1993 than in 1983. China has also become the largest supplier of Hong Kong's imports since the early 1980s.

Structural Changes of the Hong Kong Economy

The economic reform and open door policies adopted by China has led to the re-emergence of Hong Kong as the entrepôt for China trade and the relocation of the more land and labour-intensive industrial operations to China. This has accelerated the restructuring of Hong Kong's economy, with the result that manufacturing now accounts for only 13 per cent of the GDP, compared to 23 per cent in 1983, and Hong Kong now increasingly has the profile of a service-oriented economy. The growing importance of the services sector is consistent with Hong Kong's continuous development as an entrepôt serving not just China but the Asia Pacific region, and as a regional financial and business services centre.

Developments in the Terms of Trade and Commodity Prices

The prices of Hong Kong's domestic exports, re-exports and imports increased by broadly similar magnitudes over the period 1983 to 1993. This has resulted in generally stable terms of trade for Hong Kong.

Important Trends in the Balance of Payment, Reserves, Debt, Exchange and Interest rates

In so far as visible trade balance is concerned, Hong Kong is neither building up big surpluses nor incurring chronic unacceptable deficits. The visible trade deficits or surpluses, expressed as a percentage of the value of imports of goods, stabilised at low levels of zero to three per cent during the period 1984 to 1993. This suggests that in this free market economy with no major structural rigidities, the adjustment mechanism to changes in the external environment has been operating well.

Hong Kong has traditionally been running surpluses in the invisible trade account. Reflecting the buoyant tourist sector and the expansion of trade-related services arising from the flourishing entrepôt trade, such surpluses saw some increases in the last few years.

The Government has not incurred any external debts, and there are no official statistics on the external debts of the private sector.

The official foreign exchange reserves of Hong Kong are held by the Exchange Fund which is operated mainly for the purpose of maintaining exchange rate stability.

The Hong Kong dollar was linked to the U.S. dollar at the rate of HK\$7.80 to US\$1 in October 1983, after a period of much instability in the exchange rate of the Hong Kong dollar arising from political uncertainties connected with the Sino-British negotiations on Hong Kong's future.

The linked exchange rate system has provided a stable monetary system for Hong Kong. It helps to ensure orderly economic and financial conditions under which business thrives. More importantly, it maintains confidence in Hong Kong dollars and in Hong Kong dollar-denominated assets. Hong Kong does not maintain the linked exchange rate to gain a competitive advantage or to build up trade surpluses.

Under the linked exchange rate system, the movements of various Hong Kong dollar interest rates closely follow the corresponding U.S. dollar interest rates.

International Macroeconomic Situation Affecting the External Sector of Hong Kong

Given its externally-oriented nature, Hong Kong's economy is vulnerable to any adverse economic developments in its major markets. While reliance on the traditional markets has been reduced, they still remain as Hong Kong's top trading partners. Consequently, any significant unfavourable economic developments in these economies will have adverse implications for Hong Kong's external trade sector and thus overall economic growth.

The growing economic links with China represent both an opportunity and a risk. On the one hand, Hong Kong has benefitted from the phenomenal economic growth and opening up of China. On the other hand, Hong Kong's economic interdependence with China means that she is vulnerable to developments in China's economy.

Intra-regional trade with the economies in East Asia has increased significantly in recent years while trade with the Central and Eastern European countries has picked up, albeit from a small base.

Problems in External Markets

Hong Kong's exports face a range of trade barriers maintained by the importing countries. Such trade barriers include quantitative restrictions on textiles and clothing products maintained under MFA bilateral agreements, anti-dumping actions against Hong Kong products, and changes in origin criteria which could be disruptive to trade.

PART A: TRADE POLICIES AND PRACTICES**CHAPTER 1: OBJECTIVES OF TRADE POLICIES**

1.1 Hong Kong's trade policy is remarkably simple : it is a firm believer in free trade rather than fair or "managed" trade, and a staunch supporter of the multilateral trading system, rather than bilateral or regional trading arrangements, as the best guarantee of free trade, and hence world trade liberalisation and economic expansion. The objectives of Hong Kong's trade policy are essentially threefold :

- (a) to promote a free, open and stable multilateral trading system;
- (b) to safeguard Hong Kong's rights and fulfill its obligations under multilateral and bilateral trade and trade-related agreements; and
- (c) to secure, maintain and improve access for Hong Kong's exports.

1.2 To achieve (a) above, Hong Kong played an active role in the UR of multilateral trade negotiations to liberalise trade and to strengthen the authority and disciplines of the multilateral trading system. It looks forward to the early implementation of the UR agreement and the establishment of the WTO. Since becoming a member in 1991, Hong Kong has participated actively in the APEC. Its guiding principle in participating in regional economic cooperation forum is to promote free trade and to reinforce the multilateral trading system.

1.3 As regards (b) above, Hong Kong abides by GATT rules and disciplines and seeks to resolve trade disputes (e.g. anti-dumping disputes with the U.S. and the EU) bilaterally and multilaterally and does not resort to unilateral action to address trade problems. In the absence of unilateral 'trade policy instruments' to restrict imports, protect domestic industries or promote exports, the key objective of Hong Kong's trade policy framework is to implement its obligations under multilateral or bilateral trade and trade-related agreements.

1.4 Hong Kong pursues the objective in (c) above mainly through two channels : pressing for the elimination of trade restricting or trade-distorting practices, eg the restrictions on trade in textiles and garment and the illegitimate use of anti-dumping measures, in the multilateral forum; and taking up bilaterally, on a Government-to-Government basis, trade or trade-related measures adopted by a trading partner which may be inimical to Hong Kong's trading interests.

CHAPTER 2: DESCRIPTION OF THE IMPORT AND EXPORT SYSTEM

2.1 Hong Kong's import and export system is characterized by:

- (a) minimum controls;
- (b) zero tariff; and
- (c) no subsidies or assistance to exports.

Import and Export Controls

2.2 Hong Kong is a party to the GATT Tokyo Round Agreement on Import Licensing Procedures. Import and export controls are kept to the minimum, and either stem from obligations under various international undertakings, or are applied for health, safety or security reasons.

2.3 Only a few items are under absolute prohibition. Slightly more items are subject to import and export licensing requirements. Such requirements are administered by the relevant government departments. In some cases, fees are charged to recover the operating costs of import and export licensing systems, including relevant enforcement activities. Quantitative import restrictions apply to certain ozone depleting substances. Imports of rice must meet, but may not exceed, minimum levels prescribed by the Director-General of Trade. Exports of a wide range of textiles and clothing are subject to quantitative restraints under agreements concluded under the MFA. Hong Kong also enforces trade sanctions against certain countries in accordance with the Resolutions of the United Nations Security Council.

Import Prohibitions and Licensing

2.4 The following products are subject to an absolute prohibition of imports into Hong Kong:

- (a) Imports of halons for local consumption and imports of ozone depleting substances from non-parties to the Montreal Protocol on Substances that Deplete the Ozone Layer have been banned.
- (b) Imports of smokeless tobacco products which the WHO has ruled to be carcinogenic and food containing non-permitted colouring matter, artificial sweeteners, aflatoxins, erucic acid, preservatives, anti-oxidants, or certain metals are prohibited to protect public health.

2.5 The products which are subject to import control (involving mainly licensing requirements) and the purposes behind the control are as follows :

- (a) Reserved commodities

To provide information and control over stocks of rice, frozen meat and poultry.

- (b) Ozone depleting substances

To protect the environment in accordance with the 1987 Montreal Protocol on Substances that Deplete the Ozone Layer.

- (c) Pesticides; radioactive substances and irradiating apparatus; pharmaceutical products and medicines; dangerous drugs; acetylating substances
To protect human life and public health.
- (d) Mammals including dogs and cats
To prevent the spread of rabies.
- (e) Mammals, birds, reptiles and carcasses
To prevent the introduction of infectious diseases.
- (f) Plant, plant pests and soil
To prevent the introduction and spread of plant pests.
- (g) Meat and poultry
To protect public health.
- (h) Textiles and clothing
To assist with surveillance necessary to complement the enforcement of the textiles export control system.
- (i) Endangered species of animals and plants including their parts or derivatives such as worked ivory; rhinoceros horn; tiger bone or other parts; bear gall bladders, bile and bile powder; medicine containing or claiming to contain rhinoceros or tigers ingredients; and manufactured products of certain species
To protect animals and plants of endangered species, in conformity with the requirements of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).
- (j) Radio transmitting equipment
To control the use of such equipment so as to avoid radio interference to authorized radio equipment users.
- (k) Sand
To provide a mechanism to enable the protection of beaches and the seabed within Hong Kong.
- (l) Strategic commodities
To monitor and control the flow of strategic commodities into Hong Kong in accordance with guidelines laid down by multilateral export control regimes including the Co-ordinating Committee for Multilateral Export Controls (COCOM), the Nuclear Suppliers Group, the Missiles Technology Control Regime and the Australia Group on Chemical and Biological Weapons. Although COCOM was dissolved on 31 March 1994, ex-COCOM members have

agreed to maintain COCOM export controls to all destinations on a national level pending the establishment of a new multilateral export control regime to promote greater transparency and responsibility with regard to transfers of armaments and sensitive dual-use goods and technologies. Hong Kong follows this arrangement.

- (m) Left-hand drive vehicles and outboard engines exceeding 111.9 kilowatts (150 horsepowers)

To curb smuggling activities.

Export Restrictions and Licensing

2.6 The following products are subject to licensing requirements or other forms of control when exported from Hong Kong :

- (a) Reserved commodities
- (b) Ozone depleting substances
- (c) Pesticides; pharmaceutical products and medicines; dangerous drugs; acetylating substances; poultry carcasses or poultry products
- (d) Textiles and clothing

To safeguard Hong Kong's rights and to discharge Hong Kong's obligations under bilateral textiles agreements concluded under the MFA.

- (e) Endangered species of animals and plants including their parts or derivatives such as worked ivory; rhinocero horn; tiger bone or other parts; bear gall bladders, bile and bile powder; medicine containing or claiming to contain rhinoceros or tigers ingredients; and manufactured products of certain species
- (f) Radio transmitting equipment
- (g) Strategic commodities
- (h) Television sets, video cassette recorders, video cassette players exported by a vessel of less than 250 gross tons

To curb smuggling of such products.

- (i) Left-hand drive vehicles and outboard engines exceeding 111.9 kilowatts (150 horsepowers)
Trade Sanctions

2.7 Hong Kong has implemented trade sanctions against certain countries in accordance with the Resolutions of the United Nations Security Council. A table on trade sanctions currently enforced is at Annex 1.

Import of Rice

2.8 Hong Kong has no commercial production of rice and relies entirely on imports for local consumption. The Reserved Commodities Ordinance and its subsidiary regulations provide the legal framework for the control of rice. Such imports are subject to a control scheme, to ensure a regular and adequate supply and to maintain a reserve stock for emergency purposes. Under these arrangements, the Director-General of Trade prescribes each quarter, on the basis of current consumption of rice, the level of rice to be held in the territory, including a substantial reserve stock for emergency situations. Import licences for amounts equal to, but not exceeding this level, are then issued only to persons or firms registered as stockholders with the Trade Department. Stockholders are obliged to import rice in the amounts specified in the licences. They are liable to directions from the Director-General of Trade on storage, movement, distribution, sale and pricing of rice. The powers relating to sale and pricing have never been used. Stockholders are free to import rice from any source. Applications for imports of rice for subsequent re-export are freely approved. A fact sheet on the Rice Control Scheme is at Annex 2.

Import of Frozen Meat and Poultry

2.9 Imports of frozen meat and poultry are subject to licensing control under the Reserved Commodities Ordinance and its subsidiary regulations. Frozen meat and poultry refer to frozen or chilled meat (including beef, mutton, pork, lamb and all offals) and frozen poultry (including fowl, duck, goose or turkey and parts thereof). The control on frozen meat and poultry enables the Trade Department to monitor the imports and stock levels of frozen meat and poultry in Hong Kong and to maintain a reserve stock for emergency purposes. Import licences covering consignments for local consumption are issued only to persons or firms registered as stockholders with the Department. Stockholders are free to import from any source and imports are not subject to quota control. Applications for imports for subsequent re-export are freely approved. The licensing of frozen meat and poultry is under review to see whether these should continue to be controlled as reserved commodities.

Import of Ozone Depleting Substances

2.10 Ozone depleting substances, including chlorofluorocarbons (CFCs), halons, 1,1,1-trichloroethane, and tetrachloromethane, are controlled under the Ozone Layer Protection Ordinance. The import of ozone depleting substances is subject to licensing control to ensure that the amount retained for local consumption does not exceed the levels agreed under the 1987 Montreal Protocol on Substances that Deplete the Ozone Layer and its subsequent amendments. Imports of five CFCs and halons from non-signatories of the Montreal Protocol have been banned since 1 January 1990. Similar prohibition also applies to 10 other fully halogenated CFCs, 1,1,1-trichloroethane and tetrachloromethane since 10 August 1993. Imports of halons for local consumption have been banned since 1 January 1994. All imports of CFCs and 1,1,1-trichloroethane for local consumption are debited against valid import quota held by registered importers. Imports of ozone depleting substances for re-export are licensed but are not subject to quota control. Applications will be approved if they do not violate the trade restrictions laid down in the Montreal Protocol and its subsequent amendments.

Import and Export of Textiles and Clothing

2.11 Compliance with Hong Kong's textiles import and export control system is enforced by the Import and Export Ordinance and its subsidiary regulations. Under the Ordinance, all imports and exports of textiles and clothing, with the exception of a few exempted items, are required to be covered

by valid licences or notifications where appropriate. The purpose of import control on textiles and clothing is to supplement the enforcement of the textiles export control system by a stringent surveillance system. The objectives of export control are to ensure that Hong Kong discharges fully its obligations arising from bilateral textiles agreements concluded under the MFA, and that Hong Kong derives optimum benefits from the rights secured under the agreements. The textiles export control system comprises a quota system governing the allocation and use of textiles quota and a licensing system which requires all textiles import and exports to be covered by valid licences or notifications. Details of the textiles export control system are set out in the publication entitled "Textiles Export Control System 1993" at Annex 3.

2.12 Hong Kong takes its obligations under international and bilateral agreements seriously. In order to meet such obligations, the Hong Kong Government has instituted a comprehensive programme of control. In view of the growing international concern about fraudulent transshipment, Hong Kong has, in addition to existing control measures, introduced new initiatives to tackle the situation.

2.13 In July 1993, the Textiles Trader Registration Scheme (TTRS) which replaced the Transshipment Cargo Exemption Scheme (TCES) in respect of textiles, was introduced to tighten up control over transshipments. Whereas the TCES exempted registered forwarders/carriers from licensing requirements to tranship textile products through Hong Kong under certain conditions, the TTRS requires registered traders to report to the Hong Kong Government full details of each consignment of textiles imports, exports to non-restrained markets, and re-exports (including transhipped consignments) at the time of importation and exportation. The new arrangement enhances Customs' enforcement capability over transhipped textiles and also provides useful information to supplement the textiles export control system.

2.14 Besides the TTRS, other initiatives to combat illegal transshipment include the establishment of a special Hong Kong Customs task force to target suspected companies and consignments; blitz checks on textile imports in addition to normal cargo examinations; enhanced exchange of information between customs authorities in the course of investigations; and extension of the Reward Scheme by Hong Kong Customs to cover illegal transshipment in order to encourage members of the public to provide information on textile transshipment fraud.

Transshipment Cargo Exemption Scheme

2.15 Subject to compliance with a set of conditions, shipping companies, airline companies and their appointed agents who are registered with the Trade Department under the TCES, are exempted from import and export licensing requirements in respect of the following types of transshipment cargo :

- (a) pharmaceutical products and medicines;
- (b) reserved commodities (rice, frozen meat and frozen poultry); and
- (c) pesticides if transhipped within the premises of the Hong Kong Air Cargo Terminals Limited (HACTL). (Transshipments of pesticides outside HACTL must be covered by import and export licences.)

Origin Certification

2.16 Imports into Hong Kong are not required to be accompanied by certificates of origin issued by the exporting countries concerned. With regard to its exports, the Hong Kong Government provides an origin certification system to facilitate exporters meeting the requirements of importing countries.

COs are also generally required for the export of restrained textiles to a number of restrained markets including the EU and the USA. This is to ensure that textiles products exported under the bilateral agreements with these countries are of Hong Kong origin.

2.17 The Trade Department is the agency of the Hong Kong Government responsible for administering the origin certification system and issues the certificates. Apart from the Trade Department, there are five other organisations in Hong Kong which have been designated by the Hong Kong Government as competent to issue certificates of origin under Article 11 of the International Convention for the Simplification of Customs Formalities 1923. These Government Approved Certification Organisations (GACOs) are :

- (a) the Hong Kong General Chamber of Commerce;
- (b) Federation of Hong Kong Industries;
- (c) the Indian Chamber of Commerce, Hong Kong;
- (d) the Chinese Manufacturers' Association of Hong Kong; and
- (e) the Chinese General Chamber of Commerce.

2.18 The Hong Kong Government accepts international responsibility for the integrity of the Hong Kong certification system. To fulfil this responsibility, it operates a manufacturer and product registration system and only permits registered manufacturers verified to have the manufacturing capability to perform the origin-conferring processes of their registered products to apply for a certificate of origin. It also ensures that all issuing organisations in Hong Kong adopt the same practices and procedures in the issue of certificates of origin; and in particular that the Hong Kong rules of origin are followed. The Trade Department assists GACOs in the training of their administrative and inspection staff and ensures maintenance of a uniform high standard of integrity by all certification organisations.

2.19 The issue of certificates of origin by the Trade Department and by the GACOs is governed by the laws of Hong Kong which provide the Director-General of Trade with the power to operate the certification system and also sets out penalties for certification offences. The Customs & Excise Department of the Hong Kong Government has the legal responsibility for enforcement of the laws. Its trade control teams carry out inspections on consignments under applications for certificates of origin and checks on books and records to ensure that the goods are manufactured in the manner described in the certificate of origin applications.

2.20 Hong Kong rules of origin are established in accordance with internationally accepted practice and conform with the standards and practices set out in Annex D1 of the Kyoto Convention. Goods are accepted to be of Hong Kong origin if they are indigenous to or wholly produced in Hong Kong; or where two or more countries are involved in their production, they have undergone in Hong Kong the last manufacturing process which has changed permanently and substantially the shape, nature, form or utility of the basic materials used in manufacture.

2.21 Specific origin rules and the principal manufacturing processes which are required to be undertaken in Hong Kong to meet the origin rules are laid down by the Trade Department and published in circulars sent to manufacturers and overseas Governments. The current list of specific rules is at Annex 4. These specific origin rules are subject to review periodically to take account of technological changes and industrial developments. Any changes to the origin criteria for specific products also

follow the basic principle of last substantial transformation. Products are eligible for a certificate of Hong Kong origin when all the principal processes of manufacture for the products in question have been performed in Hong Kong.

Import and Export Declarations

2.22 Any person or firm who imports, exports or re-exports any article other than an exempted article (eg personal baggage) is required, under the Import and Export (Registration) Regulations of the Import and Export Ordinance, to lodge with the Customs and Excise Department an import or export declaration within fourteen days of import, export or re-export. These declarations are used to compile statistics on Hong Kong's merchandise trade. A charge is payable on each declaration. Such charges constitute part of Government's general revenue. The current level of charge is stipulated in Section 8 of the Import and Export (Registration) Regulations, an extract of which is at Annex 5.

CHAPTER 3 : THE TRADE POLICY FRAMEWORKDomestic Laws and Regulations Governing the Application of Trade Policies

3.1 The Government does not normally interfere with the operations of the economy. The rationale for keeping Government intervention to a minimum is a firm belief in the efficient operation of market forces. The Government does not provide any subsidy nor other forms of incentive to promote exports. Neither does it provide any import relief to any particular industrial sector.

3.2 The statutory provisions under the purview of the Director-General of Trade and other government enforcement agencies give legal backing to the control of imports and/or exports to enable Hong Kong to fulfil international/bilateral obligations or to meet Hong Kong's requirements on health, safety and security grounds. The following is a description of the principal statutory provisions:

<u>Legal Authority</u>	<u>Item</u>	<u>Rationale</u>
Import and Export Ordinance & its subsidiary regulations:	(a) Textiles	To enable Hong Kong to exercise its rights and meet its obligations under textile agreements.
Import and Export (General) Regulations;	(b) Pharmaceutical products and medicines	To help control the sale and distribution of such goods to safeguard public health and to fight against counterfeit or sub-standard medicines.
Import (Radiation) (Prohibition) Regulations;		
Import and Export (Fees) Regulations;	(c) Pesticides	To protect human life and public health.
Import and Export Manifests Notice;	(d) Radioactive substances and irradiating apparatus	To protect human life and public health.
Import and Export (Strategic Commodities) Regulations	(e) Strategic commodities	To monitor and control the flow of strategic commodities into and out of Hong Kong in accordance with guidelines laid down by multilateral export control regimes.
Reserved Commodities Ordinance and its subsidiary regulations.	Rice, frozen meat and frozen poultry	To ensure the availability of certain essential foodstuffs for emergency situations.

3.3 In addition to the above, the Export (Certificates of Origin) Regulations and the Protection of Non-Government Certificates of Origin Ordinance provide a system governing the issue of certificates of origin for goods.

Summary Description of the Process of Trade Policy Formulation and Review

3.4 Trade policy formulation involves the Governor, the Executive Council, the Legislative Council, the Administration and advisory boards and committees.

3.5 The Governor consults the Executive Council on all important matters of policy. The Governor in Council - the Governor acting after consulting the Executive Council - is Hong Kong's central and highest authority on policy matters. The Executive Council also advises on all principal bills before they are introduced into the Legislative Council.

3.6 The Legislative Council is the Hong Kong law-making body. Members of the Council also approve public expenditure, debate government policy and put questions to Administration on policy issues and on the Government's performance generally.

3.7 The executive branch of the Government is organised into branches and departments. The branches, each headed by a secretary, collectively form the Government Secretariat. Branch Secretaries are senior officials with the equivalent of Ministerial ranking. The Financial Secretary, who is responsible for the fiscal, economic and financial policies of the Government, oversees the operations of the Financial Services, Trade and Industry, Economic Services, Finance and Works Branches of the Government Secretariat. The Trade and Industry Branch, headed by the Secretary for Trade and Industry who reports directly to the Financial Secretary, is the policy branch in the Government Secretariat responsible for trade policy formulation and review. The Trade Department, headed by the Director-General of Trade, is responsible for the implementation of trade policy and trade negotiations. The Director-General of Trade also advises the Secretary for Trade and Industry on matters of policy affecting trade and is Government's chief trade negotiator. The Commissioner of Customs and Excise is responsible to the Secretary for Trade and Industry in respect of trade-related enforcement activities, such as certification of origin matters. Other heads of departments who report to the Secretary for Trade and Industry include the Director-General of Industry who advises on matters of policy affecting industry and to provide infrastructural and developmental support to industry; and the Director of Intellectual Property who operates statutory systems for the protection of intellectual property and advises the Secretary for Trade and Industry on matters of policy affecting intellectual property.

3.8 The private sector is involved to the widest possible extent in the process of formulating, implementing and reviewing trade policy so as to ensure that any proposal will command a high degree of public support. A network of government boards and committees is in place to facilitate the Government to obtain, through consultation with interest groups in the community, the best possible advice on which to base decisions. The Trade Advisory Board and the Textiles Advisory Board, which are advisory bodies chaired by the Secretary for Trade and Industry, advise the Administration on a wide range of trade policy issues.

3.9 Consultations with the private sector are also facilitated by the Secretary for Trade and Industry's attendance at the regular meetings of both the Hong Kong Trade Development Council, Hong Kong Productivity Council and the Advisory Board of the Hong Kong Export Credit Insurance Corporation which are composed of representatives of traders and businessmen from the private sector.

3.10 Meetings with different sectors of the trading community to discuss specific trade issues are held from time to time. Other consultation channels include briefing sessions and seminars involving representatives from major trade organisations.

Multilateral and Bilateral Trade Agreements

The GATT

3.11 Hong Kong is a staunch supporter of an open multilateral trading system based on the fundamental Most Favoured Nation and National Treatment principles of the GATT. Hong Kong is an active participant in the GATT, and has joined six Tokyo Round Codes:

- (a) Agreement on Technical Barriers to Trade;
- (b) Agreement on Government Procurement;
- (c) Agreement on Import Licensing Procedures;
- (d) Agreement on Interpretation and Application of Articles VI, XVI and XXIII of the GATT;
- (e) Agreement on Implementation of Article VI of the GATT; and
- (f) Agreement on Implementation of Article VII of the GATT.

3.12 As a separate customs territory with full autonomy in the conduct of its external commercial relations, Hong Kong has separate GATT contracting party status. This was achieved in April 1986. The Sino-British Joint Declaration (1984) provides that Hong Kong will remain a separate customs territory with full autonomy in the conduct of its external commercial relations after the change of sovereignty on 1 July 1997.

3.13 Hong Kong has participated actively in the UR of multilateral trade negotiations. Its prime objectives in the Round were to :

- (a) strengthen multilateral trade rules and disciplines in relation to trade in merchandise goods and services;
- (b) improve access to world goods and services markets;
- (c) secure the return of textiles and clothing to GATT disciplines; agree on modalities for a smooth transition so as to provide certainty to the trade;
- (d) formulate rules of origin and ensure they are administered in a fair manner so as not to become protectionist trade measures;
- (e) ensure the non-discriminatory application of safeguards action against imports; and
- (f) tighten anti-dumping rules to ensure that such measures address genuine problems in a fair and open manner, and are not used to disrupt legitimate trade.

3.14 At the Marrakesh Ministerial Conference in April 1994, Hong Kong signed the Final Act embodying the results of the UR, and subject to ratification the Marrakesh Agreement Establishing the World Trade Organization.

3.15 In the run up to the entry into force of the WTO Agreement, preparation for its full implementation is underway in Hong Kong. No problems are foreseen in the timely implementation of the Agreement. Hong Kong is also taking part in the extended tracks of negotiations on services and discussions on the future work programme of the WTO and its institutioned arrangements.

Other Multilateral Fora

3.16 Hong Kong is a member of the Customs Co-operation Council, an Associate member of the United Nations' Economic and Social Commission for Asia and the Pacific (ESCAP) and a member of the International Maritime Organization. In April 1994, Hong Kong was granted observer status on the Trade Committee of the Organization for Economic Co-operation and Development (OECD).

The MFA

3.17 Hong Kong has participated fully in the MFA since its inception.

Bilateral Textiles Agreements

3.18 Bilateral agreements negotiated under the MFA govern Hong Kong's textiles exports to Austria, Canada, the EU, Finland, Norway and the United States. Sweden lifted all quantitative restrictions on textiles and clothing imports with effect from 1 August 1991. In 1993, the value of restrained textiles and clothing exports amounted to \$60 billion, or 69 per cent of Hong Kong's domestic exports of these products, which in turn accounted for 27 per cent of its domestic exports.

3.19 Details of the six bilateral textile agreements that Hong Kong has concluded with importing countries and are currently in force are at Annex 6.

CHAPTER 4 : IMPLEMENTATION OF TRADE POLICIES

Trade Measures in Operation

Tariffs

- 4.1 Hong Kong is a duty free port and does not levy any tariffs on imports.
- 4.2 At present, 13 tariff items at the Harmonized System 8-digit level are bound at zero rate. A copy of GATT Schedule LXXXII which contains these tariff bindings is at Annex 7.
- 4.3 As part of the UR negotiations, Hong Kong agreed to bind at zero rate 2,029 additional tariff items, representing over 29 per cent of all imports in 1988 value terms. These tariff bindings have been negotiated on a mutually beneficial and reciprocal basis. The items bound include all agricultural products, some other primary products, and a wide range of industrial products including machinery, electronics and textiles and clothing.
- 4.4 Hong Kong does not maintain any tariff quotas or surcharges.

Customs Valuation

- 4.5 Hong Kong is a signatory to the GATT Tokyo Round Customs Valuation Code. Hong Kong does not raise customs duties and therefore no laws, regulations or administrative procedures exist for customs valuation purposes.

Quantitative Restrictions

- 4.6 Apart from import quota control on rice and certain ozone depleting substances, Hong Kong does not maintain any quantitative restrictions. Voluntary export restraint arrangements and orderly marketing arrangements do not exist, either at the government or the industry level.
- 4.7 The rice control scheme is maintained for internal security purposes. Registered stockholders must meet, but may not exceed, import levels set on a quarterly basis by the Trade Department. The purpose of this, is to ensure a regular and adequate supply of rice and to provide for a reserve supply to cater for emergency situations. There are no restrictions on the source of supply. The rice control scheme is explained in detail in Appendix 2.
- 4.8 Hong Kong implements the provisions of the Montreal Protocol on Substances that Deplete the Ozone Layer and the subsequent revisions thereof. The import control system for ozone depleting substances is designed to meet Hong Kong's obligations under the Protocol.

Licensing

- 4.9 Hong Kong is a signatory to the GATT Tokyo Round Agreement on Import Licensing Procedures. Licensing requirements are kept to a minimum and exist only for reasons of health, safety or security or to comply with Hong Kong's international obligations. Details of all import licensing measures in force are notified to the GATT Import Licensing Committee. A detailed description of the import and export licensing control system can be found in Chapter 2.

Technical Regulations and Standards

4.10 Hong Kong does not maintain its own system of technical standards or regulations. Where standards, regulations or technical certification requirements are applied in Hong Kong, they are based on international standards, such as those produced by the International Organization for Standardization (ISO), the International Electrotechnical Commission (IEC) and the World Health Organisation (WHO), and/or other internationally recognised overseas national standards. Technical regulations and standards are applied on a non-discriminatory basis to imports and domestic products alike.

4.11 In Hong Kong, technical regulations are given effect through legislation. Before any become effective, extensive consultations are held to ensure that they are indeed necessary to protect the public (e.g. for reasons of health, safety, security, or consumer protection).

4.12 Hong Kong is a party to the GATT Tokyo Round Agreement on Technical Barriers to Trade. The provisions of the Agreement are fully observed, including the preparation and despatch of notifications of technical regulations and certification systems, and the operation of an enquiry point.

Rules of Origin, Local Content Requirement

4.13 Imports into Hong Kong are not required to comply with any specific rules of origin. A detailed description of the origin certification system as it applies to exports is given in Chapter 2. There are no local content requirements for Hong Kong imports or exports.

Safeguard, Anti-Dumping and Countervailing Actions, Concessionary Export Financing, Export Taxes or Government-Mandated Countertrade

4.14 None of these measures is in place.

State-Trading Enterprises

4.15 Hong Kong does not have any state-trading enterprises.

Government Procurement

4.16 Hong Kong is a party to the GATT Tokyo Round Agreement on Government Procurement to which the Government Supplies Department is the designated procurement entity. The Department is responsible for over 90 per cent of central Government purchases in terms of value, and strictly follows the procurement policy and procedures set out in the Agreement. All local and overseas suppliers are treated on an equal footing. The Department has an Information Centre to respond to any questions raised by potential tenderers.

4.17 Hong Kong has decided not to join the new Agreement on Government Procurement as it contains sectoral non-application and reciprocity provisions which are against the national treatment and non-discrimination principles Hong Kong firmly supports. However, Hong Kong remains a signatory to the previous Agreement and has confirmed that the procurement entities in Hong Kong will continue to follow open and non-discriminatory procurement policies and practices.

Export Restrictions

4.18 Hong Kong has no export control or restrictions/requirements other than those described in Chapter 2.

Export Assistance

4.19. The Hong Kong Government does not provide subsidies, tax exemptions or financial assistance of any kind to assist the promotion of exports from Hong Kong.

Trade Promotion

4.20. The Hong Kong Trade Development Council is responsible for the promotion of Hong Kong's overseas trade. It is a statutory corporation established under the Hong Kong Trade Development Council Ordinance. It is subvented by the Government, but operates independently. The Council's promotional activities include organising trade fairs, exhibitions and trade missions, undertaking market research and disseminating business information and market data to local and overseas enquirers.

Foreign Exchange Controls

4.21. There is no foreign exchange control in Hong Kong. Movement of funds into and out of Hong Kong is completely free and the Hong Kong dollar is freely convertible.

PART B: BACKGROUND AGAINST WHICH THE ASSESSMENT OF TRADE POLICIES IS CARRIED OUT

CHAPTER 5: WIDER ECONOMIC AND DEVELOPMENTAL NEEDS AND POLICIES

Economic and Developmental Needs

5.1 Given its small size (with an area of only 1,078 square kilometers and a population of about 6 million) and lack of natural resources, Hong Kong has to depend heavily on trade to sustain its growth. This is illustrated by the high ratio of the value of visible trade to GDP, which stood at 250 per cent in 1993. The ratio rises to 282 per cent if invisible trade is included.

5.2 Between 1983 and 1993, the value of Hong Kong's external merchandise trade grew at an average rate of 17 per cent in real terms per annum, which is roughly twice the growth rate of the value of world merchandise trade in the same period. With a gross value of \$2,119 billion in overall merchandise trade in 1993, Hong Kong ranks 8th among the world's trading economies.

5.3 Hong Kong's per capita GDP is forecast to reach US\$20,600 in 1994, one of the highest in Asia. The Government is embarking on an ambitious programme to improve the quality of life in a wide range of areas, including measures to improve the quality of education and to upgrade the skills of the workforce; to improve the environment; to provide more public housing and to improve the quality of life of those who live in public housing; to provide the elderly with integrated care; to ensure a quality health service which responds to patients' needs; and to cater for the physically and mentally handicapped. Public expenditure in these areas (education, environment, housing, health and social welfare) is estimated to reach \$80 billion in 1994-95. The Government has also proposed an Old Age Pension Scheme to provide financial security for the elderly.

5.4 In addition, the Government needs to continue to invest in Hong Kong's physical infrastructure to remove the constraints on Hong Kong's growth. The key projects under planning or in the pipeline include the Airport Core Programme (an integrated project to improve our air links by building a new airport and related infrastructure); major port expansion works; road projects to improve our land links with China and to relieve the overloaded domestic traffic system. Cumulative expenditure on the airport core projects is estimated to reach over \$150 billion by 1997. The private sector is also encouraged to invest in essential physical infrastructure that promotes economic growth. Such projects include railway development and design, build and operate franchises for major toll routes.

Policies

5.5 The fundamental economic policies of the Government are summarized as follows:

- free trade and open markets, which are considered the best guarantees of economic efficiency;
- a stable currency and a sound financial system, both essential for business confidence;
- low, simple and predictable taxes, to minimize the burdens on those who create our wealth and encourage new investment; and
- prudent management of public finance, so that public spending does not outstrip the rate of economic growth.

5.6 In keeping with the above policies, public expenditure has been consistently well below 20 per cent of the GDP. Also in keeping with the above policies, the Government has kept interference in the market place to the absolute minimum necessary to ensure social and economic stability. For the purpose of promoting the further development of trade and industry, this economic philosophy has translated into a policy of "minimum intervention and maximum support", whereby the Government confines its role to providing the necessary infrastructural and developmental support, but refrains from picking winners or bailing out losers. To assist local industries to move into higher value-added, high-tech production, a number of initiatives have been launched by the Government in recent years. These include the following:

- (a) the commissioning of six consultancy studies to study major industrial issues as well as major industry types;
- (b) the introduction of a New Technology Training Scheme, a matching grant scheme for manufacturers to train their staff locally or overseas in a new technology;
- (c) the establishment of the Hong Kong Industrial Technology Centre Corporation, a statutory body to promote technological innovation and development and the application of new technologies in Hong Kong;
- (d) the establishment of an Employees Retraining Board, which helps workers acquire new or upgraded skill to cope with the structural change of the economy;
- (e) the launching of an Applied Research and Development Scheme, which provides matching funding assistance to worthwhile market-driven applied research and development projects in the industry; and
- (f) the establishment of an Industry and Technology Development Council to advise on the overall development of industry and technology in Hong Kong, and on the provision of funding for industry support (\$180 million in 1994-95) to assist Hong Kong industries to move up the technological ladder.

CHAPTER 6: THE EXTERNAL ECONOMIC ENVIRONMENT

Major Trends in Imports and Exports

6.1 As indicated in the preceding Chapter, Hong Kong's economy is highly externally oriented. Between 1983 and 1993, the value of Hong Kong's visible trade grew rapidly by an average of 20 per cent in value terms (17 per cent in real terms) per annum (Table 1).

Table 1
Hong Kong's external trade

	1983 (\$ billion)	1988 (\$ billion)	1993 (\$ billion)	Average annual growth rate	
				1983-93 (10 years) (per cent)	1988-93 (5 years) (per cent)
Domestic exports	104.4	217.7	223.0	7.9	0.5
Re-exports	56.3	275.4	823.2	30.8	24.5
Imports	175.4	498.8	1,072.6	19.8	16.5
Total trade	336.1	991.9	2,118.9	20.2	16.4

During this period, clothing remained Hong Kong's most important export item, despite the decrease in its relative importance from 32.6 per cent to 32.2 per cent. The past decade also saw a decline in the share of watches and clocks from 7.9 per cent to 5.9 per cent. However, the shares of such major products as electrical machinery and appliances; office machines and automatic data processing machines; textile yarn, fabrics and made-up articles; and telecommunication equipment increased during the period (Table 2).

Table 2
Hong Kong's domestic exports: breakdown by principal commodities

	1983 (per cent)	1988 (per cent)	1993 (per cent)
Articles of apparel and clothing accessories	32.6	30.8	32.2
Electrical machinery apparatus and appliances and electrical parts thereof	6.3	7.7	10.2
Office machines and automatic data processing machines	4.9	6.4	7.7
Textile yarn, fabrics, made-up articles and related products	6.7	7.1	7.3
Watches and clocks	7.9	8.1	5.9
Telecommunication equipment	3.7	5.1	5.4
Jewellery, goldsmiths' and silversmiths' wares	1.2	2.5	2.4

6.2 There was a very rapid growth of re-exports in the past decade, primarily because of China's dramatic economic development. This led to the re-emergence of Hong Kong as an entrepôt for China, as well as the relocation of the more land and labour-intensive industrial operations into China. In 1993, re-exports of consumer goods accounted for 54.4 per cent of Hong Kong's total re-export value, compared with 40.6 per cent in 1983. The share of capital goods also rose over the period, from 13.5 per cent to 17.1 per cent. However, declines were observed in the shares of foodstuffs (from 7.1 per cent to 1.7 per cent), raw materials and semi-manufactures (from 38.0 per cent to 26.1 per cent), and fuels (from 0.8 per cent to 0.7 per cent) during the ten-year period (Table 3).

Table 3
Hong Kong's re-exports: breakdown by end-use categories

	Share in total re-exports		
	1983 (per cent)	1988 (per cent)	1993 (per cent)
Foodstuffs	7.1	4.1	1.7
Consumer goods	40.6	42.5	54.4
Raw materials and semi-manufactures	38.0	39.3	26.1
Fuels	0.8	0.4	0.7
Capital goods	13.5	13.7	17.1

6.3 Analysis of re-exports by principal commodity shows that clothing has emerged steadily as Hong Kong's largest re-export item, accounting for 11 per cent of re-exports in 1993 as compared with 8 per cent in 1983. The share of the second largest re-export item, telecommunication equipment and sound reproducing apparatus and equipment, rose significantly from 3.9 per cent to 9 per cent. Baby carriages, toys, games and sporting goods, accounting for only 0.9 per cent of re-exports in 1983, grew dramatically to 7.7 per cent in 1993. On the other hand, textile yarn, fabrics, made-up articles and related products, which once topped the re-export list in 1983 and 1988, declined to the third position in 1993. Electrical machinery apparatus and appliances and electrical parts thereof more or less maintained its share in re-exports over the decade (Table 4).

Table 4
Hong Kong's re-exports: breakdown by principal commodities

	Share in total re-exports		
	1983 (per cent)	1988 (per cent)	1993 (per cent)
Apparel of apparel and clothing accessories	8.0	9.0	11.0
Telecommunications and sound recording and reproducing apparatus and equipment	3.9	7.2	9.0
Textile yarn, fabrics, made-up articles and electrical parts thereof	13.9	12.5	8.6
Electrical machinery apparatus and appliances and electrical parts thereof	8.8	10.4	8.4
Baby carriages, toys, games and sporting goods	0.9	5.9	7.7
Footwear	1.1	1.6	5.7

6.4 Hong Kong is heavily dependent on imports to meet the needs of its people and its diverse industries. In 1993, imports of consumer goods constituted 42.4 per cent of its total imports, up from 26.6 per cent in 1983. The share of capital goods likewise rose, from 12.8 per cent to 18.6 per cent. However, there were declines in the shares of foodstuffs (from 11.2 per cent to 4.2 per cent), raw materials and semi-manufactures (from 42.9 per cent to 33.1 per cent), and fuels (from 6.4 per cent to 1.7 per cent) over the ten-year period (Table 5). Analysed by commodities, the major import items in 1993 were textile yarn, fabrics and made-up articles; electrical machinery and appliances; clothing; telecommunication and sound reproducing equipment; and miscellaneous manufactured articles.

Table 5
Hong Kong's imports: breakdown by end-use categories

	Share in total imports		
	1983 (per cent)	1988 (per cent)	1993 (per cent)
Foodstuffs	11.2	6.4	4.2
Consumer goods	26.6	33.0	42.4
Raw materials and semi-manufactures	42.9	43.4	33.1
Fuels	6.4	1.8	1.7
Capital goods	12.8	15.5	18.6

6.5 Hong Kong has been diversifying its export markets over the past decade. This was largely due to the initiatives taken by Hong Kong businessmen in tapping overseas markets, as well as the opportunities created by China's open door and economic reform policies. Apart from a decrease in shares attributable to the United States, the Federal Republic of Germany and the United Kingdom, the most significant development between 1983 and 1993 was the emergence of China as the largest market for Hong Kong's domestic exports (Table 6). A large proportion of such domestic exports were related to outward processing arrangements commissioned by Hong Kong companies across the border. Besides, China also emerged as the largest market for Hong Kong's re-exports, most of which were again related to outward processing activities on the mainland. The shares of Taiwan, South Korea and Singapore as markets for Hong Kong's re-exports, however, declined in the past decade (Table 7). Taking domestic exports and re-exports together, China was the largest market for Hong Kong's total exports in 1993. China and the United States together accounted for 55.3 per cent of Hong Kong's total exports in that year (Table 8).

Table 6
Major markets for Hong Kong's domestic exports

Markets	Share in total domestic exports		
	1983 (per cent)	1988 (per cent)	1993 (per cent)
China	6.0	17.5	28.4
United States	42.0	33.54	27.0
Federal Republic of Germany	7.7	7.5	6.3
Singapore	2.1	2.4	5.1
United Kingdom	8.2	7.1	4.8
Japan	3.7	5.3	4.3
Taiwan	1.2	1.6	2.8
Canada	3.6	2.7	2.1
Netherlands	1.9	2.3	2.0
France	1.6	1.9	?
(EU)	(22.1)	(22.0)	(16.4)

Table 7
Major markets for Hong Kong's re-exports

Markets	Share in re-exports		
	1983 (per cent)	1988 (per cent)	1993 (per cent)
China	21.6	34.5	33.4
United States	14.3	18.0	21.9
Japan	5.6	6.3	5.4
Federal Republic of Germany	1.4	3.3	5.0
United Kingdom	1.4	2.3	3.0
Taiwan	6.1	5.1	2.7
Singapore	8.0	3.2	2.1
South Korea	4.3	4.3	1.9
France	0.6	1.1	1.6
Canada	1.2	1.4	1.5
(EU)	(5.3)	(10.9)	(14.5)

Table 8
Major markets for Hong Kong's total exports

Markets	Share in total exports		
	1983 (per cent)	1988 (per cent)	1993 (per cent)
China	11.5	27.0	32.3
United States	32.3	24.8	23.0
Federal Republic of Germany	5.5	5.1	5.2
Japan	4.4	5.9	5.1
United Kingdom	5.8	4.5	3.4
Singapore	4.2	2.8	2.7
Taiwan	3.0	3.6	2.7
South Korea	1.7	2.6	1.7
Canada	2.8	2.0	1.7
Netherlands	1.5	1.7	1.6
(EU)	(16.2)	(15.8)	(14.9)

6.6 As to sources of imports, Hong Kong imported mainly from within the Asia-Pacific region. China in particular has been the largest supplier of Hong Kong's imports since the early 1980s (Table 9).

Table 9
Main suppliers of Hong Kong's imports

Suppliers	Share in total imports		
	1983 (per cent)	1988 (per cent)	1993 (per cent)
China	21.6	34.5	33.4
Japan	14.3	18.0	21.9
Taiwan	5.6	6.3	5.4
United States	1.4	3.3	5.0
South Korea	1.4	2.3	3.0
Singapore	6.1	5.1	2.7
Federal Republic of Germany	8.0	3.2	2.1
United Kingdom	4.3	4.3	1.9
Italy	0.6	1.1	1.6
Malaysia	1.2	1.4	1.5
(EU)	(5.3)	(/10.9)	(14.5)

Structural Changes of the Hong Kong Economy

6.7 In response to changes in the pattern of overseas demand and in Hong Kong's own industrial structure, the local manufacturing sector was increasingly oriented to producing goods of a higher quality and requiring greater skill and design input. The share of the wearing apparel (excluding knitwear) industry in the net output of the manufacturing sector declined from 25.9 per cent in 1981 to 20.1 per cent in 1991. Offsetting this decline was an expansion of the textiles (including knitting); machinery equipment, apparatus, parts and components; and printing and publishing industries. Between 1981 and 1991, the shares of these industries in the net output of manufacturing increased from 12.7 per cent to 15.1 per cent, from 1.8 per cent to 6.9 per cent, and from 4.9 per cent to 7.6 per cent respectively.

6.8 The structural changes within the local manufacturing sector in the past decade were facilitated by the opening up of China's economy, which had enabled Hong Kong businessmen to set up production facilities and establish outward processing arrangements in China, mostly in the Guangdong Province. To the extent permitted by the rules of origin of Hong Kong which are vigorously enforced by the Trade Department and the Customs & Excise Department, the more land and labour intensive production processes in Hong Kong were progressively moved across the border. In consequence, the processes remaining in Hong Kong have become more demanding in terms of technical knowledge and skill. Moreover, the local base is likely to concentrate more on higher value-added strategic activities such as product design and development, marketing and negotiation of orders, sourcing of materials and components, quality control and overall production scheduling and supervision.

6.9 A major consequence of these structural changes has been an improvement in labour productivity of manufacturing workers in Hong Kong. This is reflected by the fact that, despite a significant decline in the share of the manufacturing sector in total employment from 42 per cent in 1980 to 21 per cent in 1993, its contribution to a rapidly expanding GDP showed a relatively moderate decrease, from 24 per cent in 1980 to about 13 per cent in 1992.

6.10 Besides moving up-market in the manufacturing sector, development of the Hong Kong economy is also characterised by a relative shift to the service sectors. In 1992, 76 per cent of the GDP was attributed to trading and services. This reflects the re-emergence of Hong Kong's role as an entrepôt serving the Asia-Pacific region generally and China in particular, and the increasing importance of Hong Kong as a regional trading, financial and business services centre. Following sustained rapid growth in the past years, the value of Hong Kong's re-exports in 1993 was 269 per cent larger than the value of its domestic exports. Moreover, about 88 per cent of Hong Kong's re-exports in 1993 involved China, either as a market or as a source of supply. In recent years Hong Kong's invisible trade also grew significantly.

Developments in the Terms of Trade and Commodity Prices

6.11 The prices of Hong Kong's domestic exports, re-exports and imports, as measured by the respective unit value indices, rose by broadly similar magnitudes over the period 1983 to 1993. This has resulted in generally stable terms of trade for Hong Kong. The terms of trade index, with the base year in 1990 at 100, fluctuated within a high of 102.6 in 1985 and a low of 97.6 in 1983. It was 101.6 in 1993 (Table 10).

Table 10
Unit value indices (1990 = 100)

	Total exports	Domestic exports	Re-exports	Imports	Terms of trade index
1983	75	78	74	77	97.6
1984	85	88	84	85	99.4
1985	85	88	85	83	102.6
1986	87	90	87	87	99.7
1987	90	94	89	90	99.4
1988	93	96	92	94	98.4
1989	97	97	97	98	99.7
1990	100	100	100	100	100.0
1991	103	103	102	102	100.7
1992	103	103	103	102	101.4
1993	103	103	102	102	101.6
Percentage change between 1983 and 1993	38	31	39	33	4

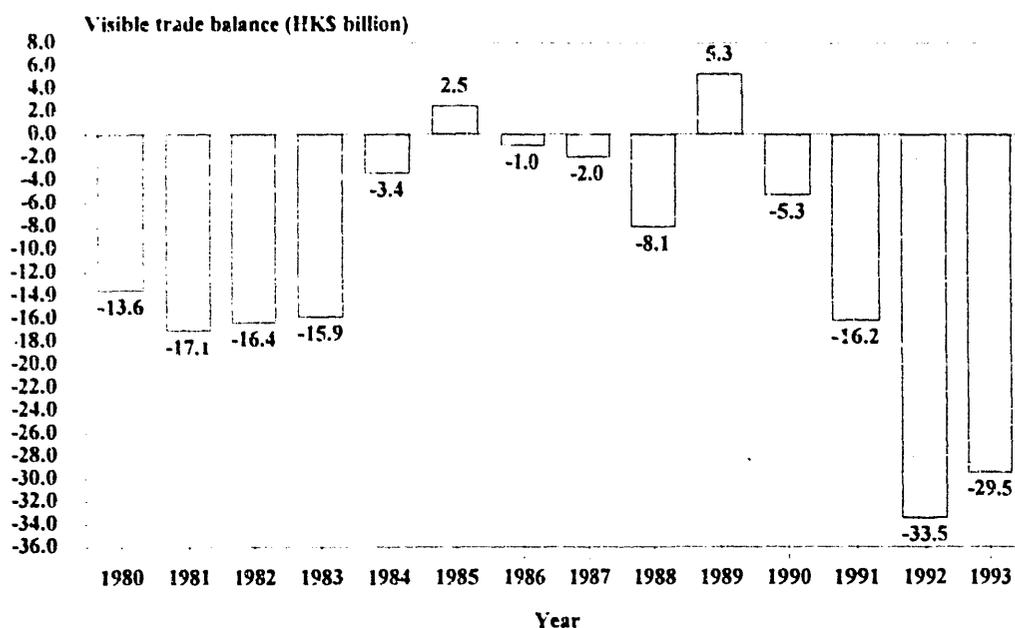
Important Trends in the Balance of Payments, Reserves, Debt Exchange and Interest Rates

Balance of Payments

6.12 Hong Kong does not compile balance of payments statistics. Data are available only in respect of visible and invisible trade accounts. With a view to strengthening national income statistics, the first set of GNP data for Hong Kong in respect of the reference year 1993 will be produced by end 1995. By then, data for factor income flows will also be available to provide a more complete picture of the current account.

6.13 As depicted in Graph 1, during the period 1980 to 1993, Hong Kong incurred visible trade deficits in twelve years. The two exceptions were 1985 and 1989, when small trade surpluses of \$2.5 billion and \$5.3 billion were recorded respectively.

Graph 1
Visible trade balance, 1980-93



Source: Government of Hong Kong.

6.14 During the past six years, the visible trade deficits or surpluses, expressed as a percentage of the value of imports of goods, stabilized at low levels of -3.5 per cent to 0.9 per cent (Table 11). This was so even in the face of the changing economic conditions in our major overseas markets and the variations in the exchange rates of the Hong Kong dollar (along with the movements of the US dollar) against major foreign currencies. This suggests that there has been an efficient economic mechanism to adjust to changes in the external environment.

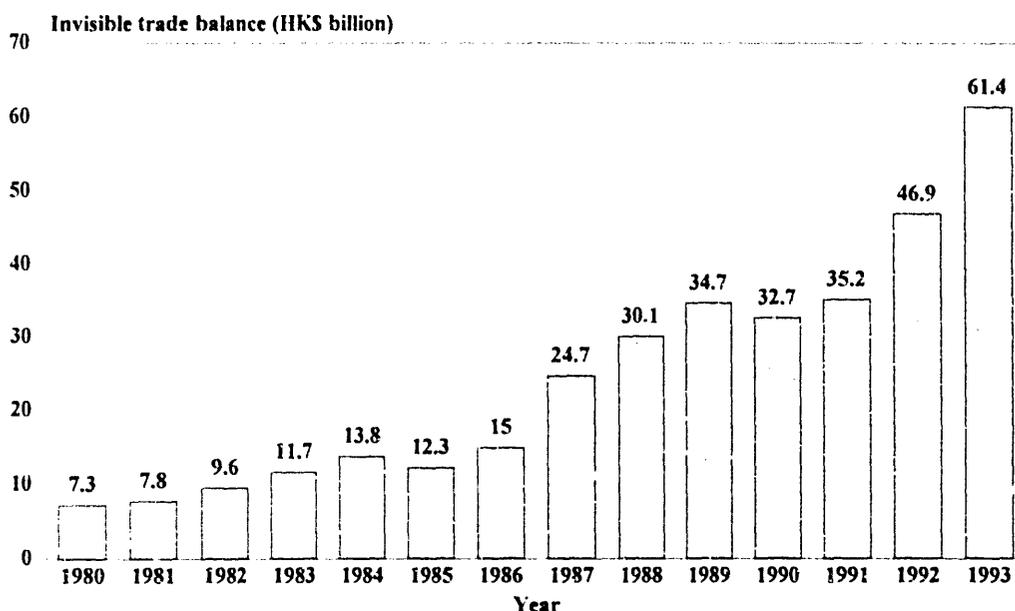
Table 11

Year	Visible trade balance*(a) (\$ mn)	Imports (b) (\$ mn)	(a)/(b) (per cent)
1988	-8,105	498,798	-1.6
1989	5,290	562,781	0.9
1990	-5,326	642,530	-0.8
1991	-16,156	778,981	-2.1
1992	-33,510	955,295	-3.5
1993	-29,460	1,072,597	-2.7

* Adjusted to take account of imports of gold for industrial and commercial use. In Hong Kong's merchandise trade statistics, all imports and exports of gold are excluded.

6.15 Hong Kong has traditionally been running surpluses in the invisible trade account. Reflecting the buoyant tourist sector and the expansion of trade-related services arising from the flourishing entrepôt trade, such surpluses saw pronounced increases in the last few years (Graph 2).

Graph 2
Invisible trade balance, 1980-93



Source: Government of Hong Kong.

6.16 The combined visible and invisible trade balance recorded small surpluses in the recent five years, amounting to only 1.3 per cent of the total trade value in 1993 (see Table 12). These surpluses were equivalent to 1.3 per cent to 6.4 per cent of the total imports of goods and services. The combined visible and invisible balance cannot be taken as the balance in the current account because several major items, including net investment income from abroad and net unilateral transfers, have not been included.

Table 12
Visible and Invisible Trade Balance, 1989 to 1993

	1989	1990	1991	1992	1993 (HK\$ bn)
Visible trade balance	5	-5	-16	-33	-29
Domestic exports <u>less</u> retained imports	-33	-67	-101	-152	-175
Re-exports <u>less</u> imports for re-exports	-38	61	85	119	146
Invisible trade balance	35	33	35	47	61
Total visible and invisible trade balance	40	27	19	13	32
Total trade value	1,297	1,469	1,756	2,123	2,389

6.17 Over the past few years, Hong Kong's investment in China and South East Asia has grown rapidly. Income derived from these investments should have helped to support at least in part the strong growth in consumption demand.

6.18 With the exchange rate of the Hong Kong dollar linked to the US dollar since 1983, exchange rate is no longer a variable in the economic adjustment process. Adjustments to balance of payment pressures depend on variables such as the level of economic activities, price and money supply.

6.19 Several factors have contributed to the flexibility of the Hong Kong economy in adjusting to external imbalance. In the first place, given the external orientation of the economy, the limited natural resources and the virtual absence of import restrictions, the propensity to import is very high. For instance, in 1993, the ratio of retained imports to GDP was as high as 0.5:1. Hence, an improvement in overall income generated by an increase in export activities will in turn result in a greater demand for retained imports, for production as well as consumption needs. Conversely, should export activities slacken, import growth will correspondingly slow down. Secondly, there is a high degree of flexibility in the determination of wages. Experience in past years suggests that not only are wages flexible upwards, in periods of sluggish economic growth, workers have been willing to accept only modest increase in wages. This flexibility allows economic adjustments to be made through internal cost/price structure. Thirdly, rapid growth in labour productivity, made possible by capital investment and improved knowledge and skill of the workers, has helped to keep production costs down and maintain local products' competitiveness in the world market. Hence labour productivity growth contributes to the overall flexibility of the Hong Kong economy in adjusting to external changes. Fourthly, the extremely competitive, market-based system in Hong Kong exposes enterprises to changes in the external environment and adjustments will normally take place when imbalance occurs.

Debts

6.20 The Hong Kong Government has consistently maintained prudence in its fiscal policy and has no outstanding external debt. There are no official statistics on the external debts of the private sector.

Reserves

6.21 The official foreign reserves of Hong Kong are held by the Exchange Fund, which is under the management of the Hong Kong Monetary Authority (HKMA). The amount of foreign reserves in Hong Kong has been growing steadily and reached US\$43 billion at the end of 1993 (Table 13). It amounted to over ten months of retained imports of goods and over eight months of total retained imports of goods plus imports of services.

Table 13
Foreign Reserves of Hong Kong, 1986 to 1993

1986	1987	1988	1989	1990	1991	1992	1993 (US\$ bn)
11	14	16	19	25	29	35	43

Note: Yearend foreign reserve figures from 1986 to 1991 were first released in July 1992. Thereafter, the figures are released annually-

Exchange Rate

6.22 Under the linked exchange rate system established in October 1983, the note-issuing commercial banks are required to pay U.S. dollars to the HKMA for the account of the Exchange Fund at the fixed rate of HK\$7.8 to US\$1.0 in return for non-interest bearing Certificates of Indebtedness as backing for the issue of their Hong Kong dollar bank notes. In the foreign exchange market, however, the U.S. dollar market rate is determined by the forces of supply and demand. Against the fixed rate for the issue and redemption of Certificate of Indebtedness, the market exchange rate has stayed close to 7.8 within 1 per cent of the linked rate. The volatility of major monetary variables such as money supply and interest rates has also decreased notably.

6.23 The transparency of the linked exchange rate has contributed to its credibility. Over the past few years, the linked rate has weathered a number of external economic and political shocks, for example, the events in China during June 1989, the Gulf Crisis in 1990, the problem in the banking sector following the collapse of the Bank of Credit and Commerce in 1991 and the Exchange Rate Mechanism turmoil in 1992. The robustness of the link has buttressed confidence in the Hong Kong dollar.

6.24 Between 1989 and end 1993, there has been a slight overall appreciation of the Hong Kong dollar against the currencies of its trading partners as reflected by the gentle upward trend of the nominal trade-weighted effective exchange rate index (ERRI). The movement of ERRI between 1989 to April 1994 is shown in Graph 3. The sharp rise in ERRI in January 1994 was mainly due to the unification of the Renminbi (Rmb) exchange rates on the first day of the year 1994; the market rate (at around Rmb 8.7 to US\$1) was used in place of the previous official rates (at Rmb 5.8 to US\$1) in calculating the index.

6.25 The total volume of imports into Hong Kong is not particularly sensitive to the overall exchange rate movement, although there may be some substitution amongst the various import sources owing to exchange rate movements amongst individual currencies. Because of limited resources, Hong Kong has to depend on imports for virtually all its goods including food, consumer goods, raw materials, capital goods and fuel.

6.26 The Government has not compiled figures on the real effective exchange rate of the Hong Kong dollar.

Interest Rates

6.27 Under the linked exchange rate system, the movements of Hong Kong dollar interbank interest rates follow closely that of US dollar interest rates, particularly with the putting in place of the accounting arrangement in mid-1988, which enables the Government to have effective control over the level of interbank liquidity (Graph 4).

6.28 Hong Kong has, in recent years, implemented a number of reform measures to strengthen its monetary management capabilities in addition to the accounting arrangement mentioned earlier. The Liquidity Adjustment Facility (LAF) introduced in 1992 is Hong Kong's version of a discount window. Licensed banks can borrow overnight funds from the HKMA through the sales and repurchases of eligible securities at the Offer Rate.* On the other hand, banks can place surplus funds overnight

*Rates under the Liquidity Adjustment Facilities.

with the HKMA at the Bid Rate.* The LAF Bid and Offer Rates have strong bearing on short-term interbank interest rates (Graph 5). Thus, if the need arises, interest rates can be influenced by a shift in LAF rates to ensure exchange rate stability.

6.29 Interest rates for Hong Kong dollar time deposits of size HK\$500,000 or above, swap deposits and foreign currency deposits, which together constitute the majority of the total customer deposits in the banking sector of Hong Kong, are determined by individual banks largely with regard to the movements of interbank interest rates. The ceilings for interest rates on Hong Kong dollar demand deposits, savings deposits and small size time deposits (below HK\$500,000) are set by the Hong Kong Association of Banks (HKAB) after consultation with the Financial Secretary.

<u>Effective as from</u>	<u>Bid Rate</u> (per cent)	<u>Offer Rate</u> (per cent)
8 June 1992	2.5	4.5
3 July 1992	2.0	4.0
18 May 1994	2.5	4.5

International Macroeconomic Situation Affecting the External Sector of Hong Kong

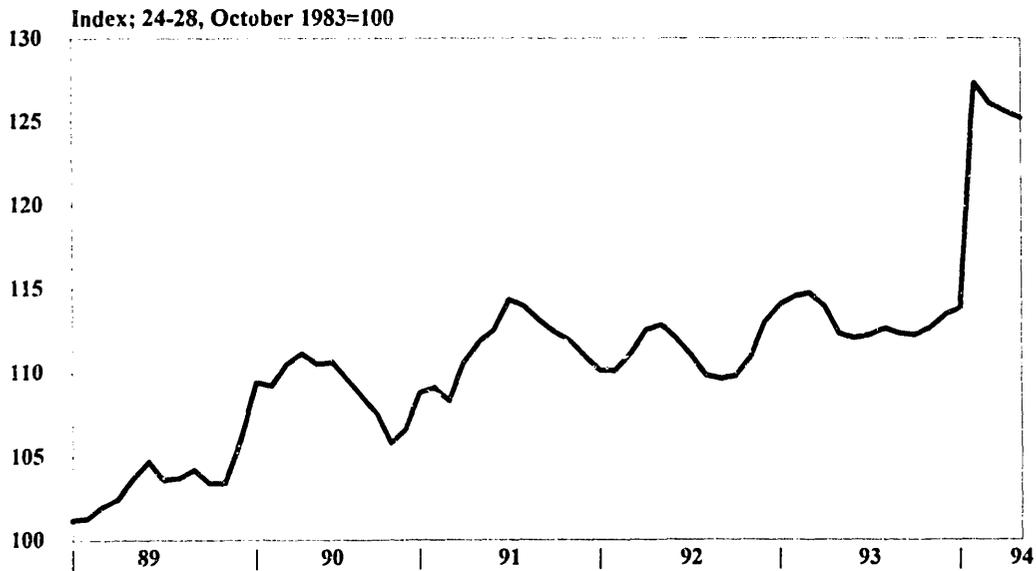
6.30 Given its externally-oriented nature, Hong Kong's economy is vulnerable to any adverse economic developments such as recession and financial crisis in its major markets. Economic downturn in the overseas markets will lead to reduction of consumption and hence imports from Hong Kong. Through diversification over the years, reliance on the traditional major markets such as the US and the EU has been reduced. Nevertheless, they still remain as Hong Kong's top trading partners. Consequently, any significant unfavourable economic development in these economies will have adverse implications for on Hong Kong's external trade sector and thus overall economic growth.

6.31 The growing economic links with China represent both an opportunity and a risk. On the positive side, Hong Kong has benefitted from the phenomenal growth that China experienced in the past decade. It has provided the much needed impetus for growth which has assisted Hong Kong in weathering the disinflation and slow or negative growth in Hong Kong's traditional major markets. On the other hand, Hong Kong's economic interdependence with China means that she is increasingly vulnerable to developments in China's economy.

6.32 Hong Kong's trade with the emerging new markets in East Asia other than China has also picked up strongly in the past few years. Following sustained growth in the past decades, many of the countries in the East Asia have become significant trading partners of Hong Kong. In 1993, five of Hong Kong's top ten trading partners were from East Asia. In 1993, Hong Kong's bilateral trade with major Asia-Pacific economies other than those in North America represented 63.3 per cent of Hong Kong's total trade. As economies in East Asia continue to grow at a brisk rate, Hong Kong's intra-regional trade with them can be expected continue to grow.

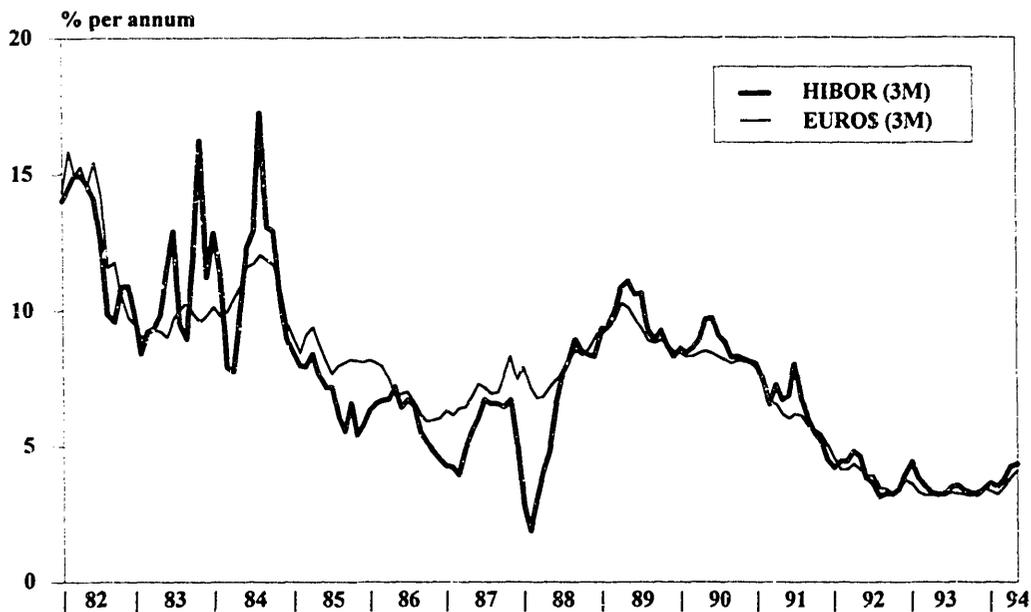
6.33 The Central and Eastern European countries including Poland, Hungary, Russia, Ukraine etc. represent potential new markets. The volume of trade with these countries is still relatively small. However, given the economic reforms that are taking place and the burgeoning market economy, Hong Kong's trade with these countries is likely to increase.

Graph 3
Trade-weighted exchange rate index
Monthly average, Jan 1989 - Apr 1994



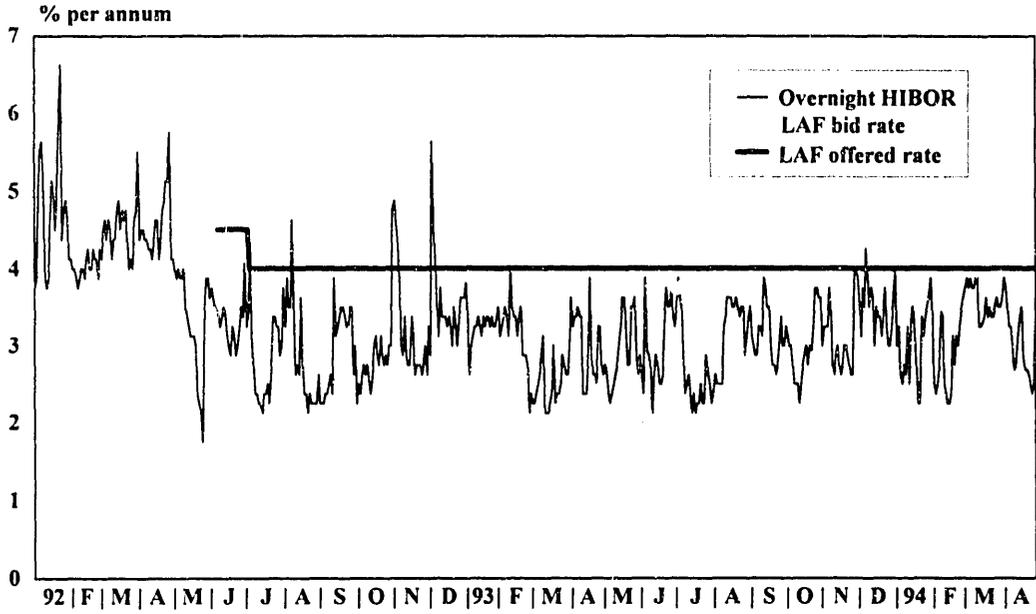
Source: Government of Hong Kong.

Graph 4
3-month HIBOR and Euro-dollar deposit rate
Monthly average, Jan 1982 - Apr 1994



Source: Government of Hong Kong.

Graph 5
Overnight HIBOR and LAF rate
Daily figures, Jan 92 - Apr 94



Source: Government of Hong Kong.

CHAPTER 7: PROBLEMS IN EXTERNAL MARKETS

7.1 Hong Kong exports are subject to certain import restrictions maintained by its major trading partners. The most significant examples of these trade restrictive measures are the bilateral agreements negotiated under the MFA, which impose quantitative restrictions on textiles and clothing, and the use of anti-dumping actions and rules of origin criteria.

Quantitative Restrictions on Textiles and Clothing Products

7.2 The bulk of Hong Kong's exports of textiles and clothing has been under quota restriction for the past thirty years. Hong Kong, therefore, welcomes the UR agreement which provides for the phased integration of this sector back into GATT rules and disciplines. Hong Kong will participate actively in the multilateral and bilateral discussions to implement the agreement and will strive to ensure its proper and timely implementation.

Anti-Dumping Actions

7.3 Hong Kong is not against legitimate anti-dumping action. It is, however, concerned that such action can easily be abused for protectionist purposes. Hong Kong is also concerned that anti-dumping proceedings may be initiated on flimsy evidence which in some cases resulted in disruption of legitimate trade.

7.4 Hong Kong believes that anti-dumping actions directed against Hong Kong exports are hard to justify. It is widely recognised that price discrimination, the basic premise of dumping, is only possible if companies are able to accumulate exorbitant profits in a protected home market. In reality, Hong Kong companies are mostly small scale operations competing on their merits in a completely protection free domestic market. They do not practise predatory pricing and have to compete with international rivals in overseas markets. However, ten anti-dumping proceedings were initiated against Hong Kong between 1990 and June 1994. Eight were eventually terminated. A list of Hong Kong products currently subject to anti-dumping duties is at Annex 8.

7.5 Hong Kong participated actively in the UR Negotiating Group and sought to curb the abuse of anti-dumping actions, to introduce clearer rules, tighter disciplines and greater transparency in the procedures. Whilst the final agreement is acceptable as part of the overall UR package, it has not completely removed the danger of anti-dumping action being misused for protectionist reasons.

Origin Rules

7.6 There are at present no internationally agreed definition of origin or specific rules of origin. Importing countries exercise a high degree of discretion in the determination and application of origin rules, particularly in respect of products where more than one country has been involved in its production. Hong Kong's view is that origin rules should in principle be objective and neutral. Otherwise they can be manipulated to pursue trade policy objectives and thereby become non-tariff barriers to international trade.

7.7 One of the more notable examples where a modification of origin rules has brought adverse effect on Hong Kong's exports was the United States' introduction, in 1984, of new country of origin rules for textile imports. Since then Hong Kong has been subject to pressure from our traders to bring our country of origin rules in line with those of the United States, in particular those involving piece-knitted garments. For effective control and the credibility of Hong Kong's certification system,

Hong Kong considers it undesirable to maintain different sets of origin rules for different markets. However, while Hong Kong has continued to implement its own rules of origin pending a satisfactory resolution of the problem, there exists a practical need to iron out differences. In order to accommodate the export of these garments under Hong Kong quota to the US without amending the Hong Kong origin rules, a special licensing arrangement was put in place on 1 August 1991. The system is backed up by enhanced enforcement arrangements to ensure the integrity of the control system.

7.8 Hong Kong believes that the ultimate solution to diverse origin rules between trading partners and unpredictable changes in origin rules, lies in the development of a set of internationally agreed and uniform rules for all products. The UR Agreement concluded in December 1993 embraces an international agreement on rules of origin which fully reflects Hong Kong's objective of introducing multilateral disciplines governing the application of origin rules and drawing up a work programme for the harmonization of origin rules. Hong Kong intends to play an active part in this work programme.

CHAPTER 8 : STATISTICAL INFORMATION**Trade Statistics of Hong Kong**

8.1 This chapter contains external trade statistics analysed by commodity at the SITC R3 Division (2-digit) level, and by main countries and geographic regions of consignment. In the case of trade by country, only the top 20 trading partners of Hong Kong are presented. The changes in trade value and volume during the last decade, 1983-1993, are also presented.

Concepts and Definitions

8.2 The "general" system of recording trade statistics is adopted in Hong Kong. The external trade statistics of Hong Kong cover movements of merchandise between Hong Kong and her trading partners by land, air, water and by post, except the following classes of goods :

- (a) transshipment cargo under through bill of lading or through airway bill;
- (b) transit cargo;
- (c) articles imported or exported by the armed forces of the Crown;
- (d) ship's stores, including bunker fuel; aircraft stores, including aviation fuel;
- (e) personal baggage and possessions of travellers, not including motor vehicles;
- (f) advertising materials supplied free of charge and samples of no commercial value or valued at less than one thousand dollars;
- (g) marine fish arriving direct from fishing grounds on fishing craft registered or licensed in Hong Kong;
- (h) gifts of a personal nature where no payment has been made by the receiver;
- (i) articles temporarily imported and exported solely for exhibition and subsequently returned;
- (j) articles imported or exported under and in accordance with an A.T.A carnet;
- (k) circulatory used freight containers and the like; and
- (l) banknotes after issue into circulation, being legal tender in any country.

8.3 The external trade statistics are related to movements of merchandise only. Statistics on gold and specie are not included but are separately available.

8.4 Imports are c.i.f. (cost, insurance and freight) values while domestic exports and re-exports are f.o.b. (free-on-board) values.

8.5 Imports are goods which have been produced or manufactured in places outside the jurisdiction of Hong Kong and brought into Hong Kong for domestic use or for subsequent re-export.

8.6 Domestic exports are the natural produce of Hong Kong or the products of a manufacturing process in Hong Kong which has changed permanently the shape, nature, form or utility of the basic materials used in manufacture.

8.7 Re-exports are products which have previously been imported into Hong Kong and which are re-exported without having undergone in Hong Kong a manufacturing process which has changed permanently the shape, nature, form or utility of the product.

8.8 The system of commodity classification is the United Nations Standard International Trade Classification (SITC) Revision 3.

8.9 In analysing external trade statistics by trading partners, the country of consignment is the basis for determining the partner country. Imports are credited to the country from which the goods were first consigned without any further intermediate commercial transaction, which is not necessarily the country of origin, manufacture or shipment. Domestic exports and re-exports are credited to the last country to which goods are consigned which is not necessarily the country in which the goods are unloaded nor their ultimate destination. A consignment on an optional bill of lading is credited to the first port declared.

Source of Data

8.10 The external trade statistics are compiled from information given in import/export declarations which importers and exporters are required by the Import and Export (Registration) Regulations to lodge with the Customs and Excise Department.

8.11 Hong Kong has adopted the Harmonised System for import and export declaration purpose by phases. During the first phase which began on 1 January 1988, the Harmonised System was partially adopted. Full adoption was completed on 1 January 1992. All the 5,019 6-digit subheadings of the Customs Co-operation Council's Harmonised System (CCC HS) are now adopted in full. To take into account local requirements, two additional digits are added to the CCC HS subheadings to form some 6,000 8-digit commodity codes in the Hong Kong Harmonised System (HK HS). Commodity data reported in HK HS codes are converted to SITC codes for the purpose of trade statistics publication, but trade statistics classified by HK HS codes are also available on computer printouts for reference.

Tables

8.12 External trade statistics tables are shown in Annexes 9 to 17.

8.13 A table showing some macroeconomic indicators are at Annex 18.