SUMMARY

1. Between 2014 and 2017, the economy of Hong Kong, China (HKC) grew at an average annual rate of 2.8%, driven mainly by domestic demand and exports, mainly to the People's Republic of China (Mainland China). This growth rate is slightly lower than at the time of the previous Review. Services, in particular trade and finance, continued to be the mainstay of the economy, contributing 92% to GDP and 88% to total employment, and reflecting HKC's position as a global trade and financial centre. HKC remains one of the most open economies in the world, with a trade/GDP ratio of 375%. Its investment regime remains open.

2. The HKC economy has strong fiscal and financial fundamentals. During the review period, HKC recorded substantial fiscal surpluses, which allowed for increased public spending, mainly on infrastructure and social welfare; while under strengthened supervision and regulation, the banking sector has built up large capital and liquidity reserves. Monetary policy focuses on currency stability, which is achieved through a pegged exchange rate to the US dollar. Inflation (CPI) has been on a declining trend during the review period, dropping to 1.5% in 2017 from 4.4% in 2014. Despite higher policy rates (in the aftermath of increases in the US rates), low financing costs and the measures implemented by the authorities to restore balance in the property market have helped maintain financial stability. HKC's current account surplus increased during the review period, owing largely to a net inflow of primary income and a positive services trade balance. Foreign exchange reserves amounted to the equivalent of 36.7 months of retained imports of goods in 2017. Mainland China is HKC's main trading partner, receiving 55.3% of HKC's re-exports and supplying 44.6% of its imports in 2017, largely unchanged since the previous Review.

3. Notwithstanding its strong macroeconomic fundamentals and good performance, HKC's sustained economic growth faces some external and domestic challenges, including heightened volatility in international markets, rising trade protectionism, persistently high housing prices, the need to preserve fiscal sustainability in the face of an ageing population, and income disparities.

4. HKC was the first Member to accept the Trade Facilitation Agreement in December 2014, and designated all its provisions under Category A for immediate implementation. HKC is a signatory of the revised WTO plurilateral Agreement on Government Procurement (GPA), and the Information Technology Agreement (ITA), including its expansion agreement (ITA Expansion). It has an excellent record of providing notifications to the WTO. Since its previous Review, HKC has signed FTAs with ASEAN; Georgia; and Macao, China. It has also continued to strengthen its economic and financial ties with Mainland China, in particular by concluding four subsidiary agreements to the CEPA.

5. HKC's open trade regime has remained broadly the same since the last Review. All applied tariff rates are zero. However, more than half of the schedule remains unbound. Excise duties apply on four commodity groups (liquor, tobacco, hydrocarbon oil, and methyl alcohol), whether locally-produced or imported. HKC runs an efficient customs system, with procedures that are faster and less costly than in most other economies. During the review period, HKC adopted measures to further streamline customs procedures and strengthen its role as a transit hub, including the introduction of a Free Trade Agreement Transhipment Facilitation Scheme; the enhancement of an IT-based tracking system for road cargo; the full implementation of the Authorized Economic Operator (AEO) Programme and the conclusion of several AEO mutual recognition arrangements; and the introduction of a cap on import/export declaration fees. Currently, HKC is in the process of establishing a full-fledged Trade Single Window to allow traders to lodge electronically 50-plus documents to meet the regulatory requirements for the import/export of goods.

6. Few trade restrictions/prohibitions apply on imports, and they are mainly on safety, health and environmental grounds, or to comply with international conventions. The import control regime has remained largely unchanged since the previous Review. Licensing and notification requirements for textile imports were removed on 21 November 2014. There is no legislation pertaining to anti-dumping, countervailing, and safeguard measures. HKC's TBT and SPS systems remain transparent and relatively simple. No specific trade concerns have been raised in the TBT or SPS Committees regarding measures applied by HKC during the review period. The authorities actively support the development of the testing and certification industry, as they consider it to have a clear competitive advantage.

7. HKC does not apply any duties or taxes on exports. Excise duties are refunded if the goods on which they were paid are exported. Export controls essentially mirror those applied to imports, with the exception of powder formula, frozen and chilled meat and poultry, and live animals and plants. Textile exports are no longer subject to licensing requirements or notifications. The authorities support HKC exporters mainly through export credit insurance schemes and funding for export promotion and marketing activities. A number of tax incentives are offered, including a first registration tax concession for electrical vehicles and environment-friendly commercial vehicles, profit tax deductions for capital expenditure incurred in the purchase of intellectual property rights (IPRs), and several other profit tax exemptions. Non-tax incentives, essentially in the form of loans and cash grants, are provided to support SMEs, R&D activities and professional services. In the past few years, some new schemes were introduced, mainly to support innovation and technology-related activities.

8. In December 2015, the Competition Ordinance came into full effect, after a series of implementation guidelines, guidance notes and enforcement policy documents were issued by the Competition Commission. The Ordinance applies to all economic sectors and regulates different kinds of anti-competitive conduct. However, merger control remains limited to the telecommunications sector, and most statutory bodies are exempted from its provisions. In the near future, a review of the scope of application of the Ordinance is expected to take place.

9. During the review period, HKC introduced some changes to its government procurement regime in order to bring regulations in line with the revised GPA, which came into force on 6 April 2014. Changes were also made to simplify tender procedures; foster participation of suppliers, especially SMEs, by streamlining financial vetting requirements; and promote green procurement.

10. HKC's intellectual property regime has remained largely unchanged since the last Review, except that the authorities enacted the Patents (Amendment) Ordinance 2016, which provides the legal foundation for introducing an "original grant" patent (OGP) system into HKC; the Ordinance has not yet entered into force. The authorities also plan to introduce a bill to amend the Copyright Ordinance so as to align the relevant provisions with the Marrakesh Treaty concerning blind and visually impaired persons. During the period under review, HKC stepped up efforts to address IPR-infringing activities in the digital environment, including through the launching of the Big Data Analytical System in 2017, which analyses mass information on Internet platforms to screen infringing activities.

11. The agriculture and fisheries sector is very small, representing less than 0.1% of both GDP and total employment. In 2016, the authorities announced a New Agriculture Policy with a view to promoting the modernization and sustainable development of local agriculture. HKC is a net energy importer. It imports, and to a lesser extent exports, electricity through a grid connected with Mainland China. HKC also imports natural gas through pipelines connected to Mainland China. The manufacturing sector is also small, accounting for around 1.1% of GDP and 2.5% of employment. HKC has adopted no new policy initiatives concerning manufacturing since its previous Review.

12. Services continue to be the mainstay of the economy, accounting for 92% of GDP and 88% of total employment in 2016. In the telecommunications sector, policy developments during the review period included: the signing of three new free trade agreements containing commitments on telecommunication services; the reassignment of the frequency spectrum for existing mobile services; and the review of licensing conditions in carrier licences. The authorities plan to provide financial incentives to telecommunication companies with a view to encouraging the extension of the fibre-based network to villages in remote areas.

13. In financial services, there have been a few changes in the regulatory regime, including the establishment of a new Insurance Authority in charge of supervision and licensing on 26 June 2017. Otherwise, the market access regime for financial services has not changed substantially, and most of the measures taken since the last Review are of a domestic regulatory and prudential nature.

14. HKC has made no commitments regarding legal services in its GATS Schedule or in FTAs with its trading partners, except in the CEPA with Mainland China, where HKC has committed not

to impose any new discriminatory measures on Mainland China's legal services and service suppliers. Foreign lawyers may work as foreign legal consultants in corporations or companies if they provide legal services only to their employer corporations or companies. Legal professionals from overseas may also qualify as HKC solicitors or barristers after specified requirements are satisfied, as provided by the Overseas Lawyers (Qualification for Admission) Rules and the Barristers (Qualification for Admission and Pupillage) Rules.