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TRADE POLICY REVIEW MECHANISM

HONG KONG

MINUTES OF MEETING

Chairman: Dr. M. Zahran (Egypt)

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I. INTRODUCTORY REMARKS BY THE CHAIRMAN OF THE COUNCIL

1. The Chairman (Dr. Zahran), introducing the second review of Hong Kong's trade policies and practices, welcomed the Hong Kong delegation headed by Mrs. Regina Ip, members of the Council, and the discussants, Ambassador Wade Armstrong and Mr. Peter Palečka. As usual, the discussants would speak in their personal capacities.

2. The Chairman recalled the objectives of the Trade Policy Review Mechanism, as decided by the CONTRACTING PARTIES on 12 April 1989 (BISD 36S/403). The Council was to base its work on two reports, one submitted by the Government of Hong Kong (C/RM/G/49 and Add.1) and the other by the GATT Secretariat (C/RM/S/49). He reminded the Council of the procedures for conducting reviews, introduced in May 1993 (document L/7208).

3. Australia, the Nordic countries and the United States had given advance notice in writing of points they wished to raise during the meeting. These had been conveyed to the Hong Kong delegation and copies were available to Council members.

II. OPENING STATEMENT BY THE REPRESENTATIVE OF HONG KONG

4. The representative of Hong Kong noted that Hong Kong's trade policy had remained unchanged since its first review four years ago. While the structure of Hong Kong's economy and its trade pattern had undergone substantial transformation, the Government continued to rely on free trade and free market principles. Thus, Hong Kong maintained no tariffs, quotas, governmental impediments to international trade, or any other instruments to influence trade flows. The only significant modifications had been aimed at further simplifying and streamlining existing licensing arrangements.

5. She emphasized that free trade was a matter of self-interest. As a tiny territory on the South China coast, destitute of resources other than its harbour and its people, Hong Kong had learned from an early stage to consider the whole world as its market. It had never sought to stimulate the growth of domestic industries by import substitution and protectionism. Hong Kong had also learned, from its own rise from poverty after the Second World War, that the world's wealth or output was not fixed, and that any increase in production and jobs did not have to be at the expense of others. The steady rise of Hong Kong standards of living over the years bore testimony to the new opportunities which trade created. Her Government was thus not worried about the Territory's merchandise trade deficits since 1990, knowing that the level of net exports was only one indicator of economic welfare. Exposure to international competition provided the best spur to long-term economic expansion and productivity increase.

6. Hong Kong supported the multilateral trading system, as embodied in the GATT, as the best guarantee of trade and economic expansion. The principles of non-discrimination and national treatment under the GATT were the best assurance of a level playing field; and the rules and disciplines of GATT were the best safeguard against the law of the jungle in international trade. Thus, the Hong Kong Government had wholeheartedly supported the goals of the Uruguay Round to liberalize trade and investment and to strengthen GATT disciplines.

7. Hong Kong played a very active rôle in the Uruguay Round negotiations and had very recently ratified the Marrakesh Agreement establishing the World Trade Organization. Her Government looked forward to the early establishment of the WTO with a broadened remit and stronger disciplines, and it would take the necessary action to implement promptly and faithfully the outcome of the Round.

8. Hong Kong did not anticipate any change to its trade policy or trading régime associated with the change of sovereignty in less than three years' time. Both the Sino-British Joint Declaration on the Question of Hong Kong and the Basic Law of the Hong Kong Special Administrative Region provided that Hong Kong would continue to be a separate customs territory; that it would maintain the existing economic and trade systems; decide economic and trade policies on its own; remain a free port; maintain and develop economic and trade relations with all States and regions; and participate in relevant international organizations and international trade agreements. Hong Kong would continue to be a separate member of the WTO and other international trade and economic fora such as APEC. Thus, her Government anticipated 'Business As Usual' after 1997.

9. China, Hong Kong's largest trade and investment partner, was now the single most important factor affecting the Territory's economic and trade development. The opening up of China to international trade and market forces, and the consequent relocation of more land- and labour-intensive manufacturing industries to China, had accelerated the restructuring of Hong Kong's economy towards a large and growing service sector. This was entirely an autonomous development, driven by market forces and commercial decisions. Hong Kong's producers had decided to shift their lower-end production facilities to China; the Government had done nothing to influence these decisions and accelerate or

hold back the migration. Although the relative importance of manufacturing for Hong Kong's domestic economy had declined, what had actually happened was an expansion of the Territory's manufacturing activities into China. While many manufacturers had relocated their lower skilled, lower value-added assembly-type operations, they had kept activities such as research and development, prototype development, product design, materials and component sourcing, quality control and product testing in Hong Kong. In many respects Hong Kong had become the 'nerve centre' of manufacturing development in China. However, the textiles and clothing sector had not participated in this relocation process. Under bilateral agreements with major markets, the sector was bound to keep key production stages in Hong Kong to qualify for Hong Kong's quotas.

10. In conclusion, the representative of Hong Kong reiterated that free trade and free markets had served Hong Kong well in the past and had helped its economy to weather many storms. Her Government would thus continue to rely on free trade and the GATT, and she was pleased to share Hong Kong's experience with other GATT members.

III. STATEMENT BY THE FIRST DISCUSSANT

11. The first discussant (Ambassador Wade Armstrong) stressed Hong Kong's strong economic performance since the 1989 slowdown. Due to major infrastructure commitments, public investment had expanded more rapidly than private investment. Uncertainties, if any, in the broad economic outlook were associated with China, although the Basic Law ensured continuity after 1997. Hong Kong's increasingly close economic links with Southern China, while allowing for growth-generated economic restructuring, introduced a certain vulnerability to economic developments abroad, including those resulting from third-country policies vis-à-vis China.

12. Cyclical factors, such as recession in Europe and China's economic boom, had had a strong impact on the Territory's recent trade expansion and its trade pattern. The economic dynamism of the wider Asia-Pacific region was likely to continue to influence longer-term structural shifts. In this context, he enquired about the Territory's trade priorities within the region and the extent of practical co-operation with China and other countries to reduce or eliminate administrative impediments to trade. Pointing to the growth of re-exports which was indicative of Hong Kong's intensive economic integration with China, he noted that compliance with rules of origin requirements, particularly in the textiles sector, was an issue of concern to certain trading partners.

13. Structural adjustment and sectoral growth in Hong Kong were market driven, and domestic policies, designed to raise factor productivity and facilitate change, were implemented in a transparent manner. Government measures affecting individual production factors did not appear to have restraining or distorting effects. However, due to the MFA quota agreements, which might have slowed down the shift from textiles into higher value-added industries, the textiles and clothing sector still represented a significant share in employment and output.

14. The discussant wondered whether the four-year structural assessments, sponsored by the Government, addressed specifically the provision of financial assistance and the orientation of trade policies in the sectors under review. Certain qualifications on labour market access in services sectors also attracted his attention.

15. Hong Kong relied on open markets to discipline anti-competitive behaviour; it had taken no further action to promote competition or identify possible trade restraints. He sought further clarification on the Government's approach towards restrictive business practices and regulated industries. Referring to recent seizures of fake goods, he saw a need for ongoing vigilance in enforcing legislation on copyrights and trademarks and enquired about relevant policy initiatives.

16. In conclusion, he recognized that, despite its cautious approach to tariff bindings, Hong Kong had fully participated in the Uruguay Round and considered its GATT membership as fundamental to the advancement of its global interests.

IV. STATEMENT BY THE SECOND DISCUSSANT

17. The second discussant (Mr. Peter Palečka) appreciated that Hong Kong's relationship with China, an important element behind its recent economic performance, had not affected its commitment to an open and non-discriminatory trade régime. Presupposing the resumption of China's GATT status and its participation in the WTO, he invited the Hong Kong delegation to elaborate on the resulting trade and investment opportunities for, and the growth impact on, Hong Kong. He considered enhanced co-operation with China as an important element of economic integration and enquired about the development of a common or harmonized approach to improve the protection of intellectual property rights.

18. Hong Kong's free-market policy relied on the creation of a business environment conducive to adjustment, investment and growth. The Territory had never sought to protect domestic industries from external pressures, though its own exports had occasionally suffered from other countries' trade remedy actions. In this context, he wondered whether the Hong Kong Government anticipated any policy changes as a result of the Uruguay Round implementation process or the shift of sovereignty in 1997.

19. He asked why Hong Kong had not signed the new Agreement on Government Procurement and enquired how the Uruguay Round results would affect domestic exports and re-exports. Referring to the Hong Kong Trade Development Council, he sought further information on the regional and sectoral structure of current export promotion activities. Recalling the authorities' approach to competition policy, he wondered whether market disciplines in areas such as public transport, energy or voice telephony were sufficient to obviate the need for stricter public scrutiny. Finally, he enquired about the prospects for further deregulation initiatives in Hong Kong's remaining regulated industries.

V. STATEMENTS BY MEMBERS OF THE COUNCIL

20. Council members considered the Government and Secretariat reports as a highly informative basis for the review. Both reports confirmed the excellent performance of Hong Kong's economy which, facilitated by an open and strictly m.f.n. trade régime, had rapidly adjusted to new external challenges. Hong Kong had been an active participant in the Uruguay Round, even though its level of tariff bindings remained low.

21. The representative of the European Communities recalled the Communities' strong support for Hong Kong's GATT membership. In general, the EC was equally supportive of the transfer process to Chinese sovereignty under the Sino-British Joint Declaration, which sought to preserve Hong Kong's economic momentum and political stability beyond 1997.

22. Hong Kong's economy depended on the state of the Chinese economy. A combination of high inflation, the Hong Kong dollar's peg to the U.S. dollar and competition from low-cost suppliers had encouraged substantial relocation of manufacturing activities to South China. In parallel, Hong Kong had diversified into services sectors; he wondered, however, whether these were also facing stiffening competition from other economies in the region.

23. While Hong Kong's commitments in the Uruguay Round covered virtually all areas, its scope of tariff bindings was not commensurate with its level of development. In view of its refusal to sign the new Agreement on Government Procurement, he queried how Hong Kong could guarantee the continuation of its present open policy. In addition, he sought more information on the functions of the Trade Development Council; the motives behind, and the scale of, Hong Kong's outward investments in the EC; the collection mechanism underpinning the First Registration Tax on motor vehicles; and legislative amendments necessary to ensure Hong Kong's implementation of the Uruguay Round Agreement on Trade-Related Aspects of Intellectual Property Rights. In the latter context, he enquired in particular whether Hong Kong's judicial or administrative authorities had the power to order injunctions or provisional measures against infringements of IPRs; what measures and procedures were available in such cases; how intellectual property rights could be enforced at the border; whether goods for exportation and goods in transit were also covered; and how current rules governing non-voluntary licences complied with the relevant provisions of the TRIPs Agreement.

24. Hong Kong's new system of excise duties on alcoholic beverages continued to favour Chinese-type wines. In addition, the system, based on ad valorem rates, seemed to discriminate against higher-quality products. This ran counter to a tendency in many countries to encourage consumption of quality goods. Referring to Hong Kong's critical assessment of anti-dumping activities, as presented in its TPR report, he emphasized that dumping could even occur in open markets. In compliance with the GATT Agreement, the EC made sure in every case that there was prima facie evidence of dumping and injury before it decided on the initiation of an investigation.

25. The representative of Australia commended Hong Kong for its commitment to the open, multilateral trading system. This was evidenced by its zero-tariff import régime, the limited use of import licensing, streamlined internal regulations and the absence of subsidies. However, Hong Kong's post-Uruguay Round level of tariff bindings, though significantly improved, did not match the level attained by other participants.

26. The representative of Canada, noting that Hong Kong was an important trading partner for her country, showed interest in current legal changes aimed at bringing trade-related legislation into

conformity with the Basic Law. She suggested that periodic reports on ongoing changes be submitted in the TPR framework.

27. While Hong Kong's tariff bindings remained limited in the industrial area, the full coverage of agricultural products constituted a significant improvement, testifying to the authorities' commitment to a liberal trading system. She noted, however, that the system of excise taxation resulted in differing rates for European-type and Chinese-type wines of similar strength. A uniform tax rate, based on alcoholic content, would avoid such distortions. Since Hong Kong's Uruguay Round Tariff Schedule did not contain a tariff or tariff quota on rice, Canada presumed that rice would enter free in future. She enquired about the criteria governing the level of stockpiles and the import licensing process for reserved products, and the timeframe for reviewing the reserve stock requirements for frozen meat and poultry. Referring to new environment-related restrictions on domestic meat production, she sought information on any support granted for the installation of pollution-control equipment or the cessation of livestock production.

28. The representative of Hungary appreciated Hong Kong's open and liberal trade régime, based on the free play of market forces. Except for textiles and clothing, the rice quotas and a few import controls for health, security and environmental purposes, trade flows were free of any government interference. He hoped that Hong Kong's liberal policy régime would be maintained and further consolidated.

29. The representative of India praised Hong Kong's rôle in international trade. Hong Kong did not participate in any preferential trade agreements and adhered strictly to the m.f.n. principle. It was a major growth factor in the region, offering external suppliers free access to infrastructural projects.

30. The representative of New Zealand highlighted Hong Kong's compliance with basic GATT objectives. Since its initial review in 1989, the Territory's trade policy had remained open and outward-looking across the full product range. While Hong Kong had lived up to the Uruguay Round objectives in agriculture, he saw some room for future negotiations in the industrial and services sectors. Though Hong Kong had assumed few commitments concerning the movement of persons, it had made important first steps under the GATS.

31. Since the excise duties on alcoholic beverages could have discriminatory effects, he suggested a simplified régime, based exclusively on alcoholic strength. Referring to import licensing requirements for reserved commodities, he enquired whether the current system, despite the absence of quantitative limitations, could have restrictive effects in practice. In addition, he sought further information on the operation of the marketing organizations in the vegetable and fisheries sectors and their impact, if any, on market access.

32. The representative of the Republic of Korea considered Hong Kong as a rôle model for all contracting parties and all developing countries striving for rapid growth. Hong Kong played not only an important rôle in regional fora such as APEC, but was a key participant in the multilateral system and had made impressive contributions to the Uruguay Round. Though Hong Kong's decision not to sign the new Agreement on Government Procurement was understandable, he wondered how this would affect actual procurement decisions. In addition, he enquired about the functions assigned to competition policy in Hong Kong, and any intentions to develop legislation in this area.

33. The representative of Japan shared other members' positive assessment of Hong Kong's trade policy and its active participation in the Uruguay Round and APEC. Referring to the recent surge in re-exports and the potential for illicit practices, such as fraudulent labelling or illegal trans-shipment

of clothing, he queried about Hong Kong's prevention policy in this area. In addition, he sought information on: the official definition and classification of re-exports; the specification and implementation of rules of origin, including Hong Kong's approach towards harmonization under the WTO; and the authorities' experience with the Textile Traders Registration Scheme.

34. The representative of the United States, while commending Hong Kong for its liberal trade régime and economic performance, felt that the level of tariff bindings remained disappointing even after the Uruguay Round. This included product areas such as textiles and apparel where Hong Kong was an important supplier to the United States. In addition, she expressed concern about the discrepancy in excise taxation between European- and Chinese-type wines; price differences between licence forms for imports and exports which seemed to be inconsistent with the concept of cost recovery; and a lack of border enforcement of intellectual property rights. While Hong Kong's domestic legislation seemed, for the most part, to be consistent with the TRIPs Agreement, she felt that neither the level of fines nor the penalties sought by prosecutors were a sufficient deterrent, and enquired about any intentions to provide redress.

35. While Hong Kong had participated actively in the Uruguay Round negotiations on trade in services, it kept certain sectors closed to foreign providers. She encouraged the Government to review the telecommunications monopoly arrangement, expiring in June 1995, with a view to opening as many services as possible to competition. In the area of medical services, she believed that requirements affecting foreign nationals trained abroad, including restrictive training and testing obligations, should be relaxed. Though market access for foreign-owned law firms had recently been improved, there was further scope for easing restrictions and ensuring national treatment.

36. Hong Kong's competition policy suffered from the absence of any anti-trust laws and an enforcement agency. Foreign companies were often compelled to enter exclusive arrangements with domestic firms in order to do business in Hong Kong. While such arrangements in the telecommunications sector had recently been terminated, they continued to affect access to airport services, supermarkets, banking and broadcasting.

37. The representative of Turkey commended Hong Kong for its extremely dynamic economy and was pleased to note that the present economic, monetary and financial régime would be maintained for 50 years under the Basic Law. Like other delegations, she expressed disappointment at the low level of tariff bindings, particularly in important sectors such as textiles and clothing, chemicals and minerals. Given the Territory's booming services economy, its schedule of commitments under the GATS was of utmost economic importance. However, there was scope for improvement, especially with regard to air transport and the movement of natural persons.

38. The representative of Switzerland highlighted the absence of industry-specific support schemes and emergency trade measures in Hong Kong's open import régime. Given its deepening integration with China, Hong Kong would benefit greatly from economic prosperity and stability in the region and a smooth shift of sovereignty in 1997.

39. Switzerland would have been pleased if Hong Kong had bound a wider range of tariffs and signed the new Agreement on Government Procurement. He also felt that the lack of competition policy raised questions and wondered whether the authorities had any control over anti-competitive market developments and abusive pricing practices. Finally, he expressed confidence that, under the WTO, Hong Kong's open régime would extend to all services areas, including financial services, and cover cross-border supply.

40. The representative of Iceland, speaking on behalf of the Nordic countries, praised Hong Kong as one of the most open and least regulated economic entities in the world. It provided an excellent example of the benefits ensuing from rapid structural change without Government involvement. The continuation of the current economic régime for 50 years, as provided for under the Basic Law, would enable Hong Kong to maintain its rôle as a trading and financial centre in Asia.

41. While appreciating Hong Kong's extensive contribution to the Uruguay Round, the Nordic countries would have preferred to see a higher level of tariff bindings. Referring to perceived derogations from the principles of national treatment and non-discrimination that had prevented Hong Kong from joining the new Agreement on Government Procurement, he encouraged the authorities to re-evaluate their position.

42. The representative of Poland, commending Hong Kong for its overall economic performance, noted that the low level of government intervention contrasted significantly to the prevailing policy approach in many other East Asian economies. Pointing to the stagnation of private investment and the significant rise of public investment in 1993 and 1994, he wondered about the underlying economic relationship. In addition, he sought further information on the economic rôle of State-owned companies and any plans for further privatization; quantitative estimates of the impact of the Uruguay Round on the Hong Kong economy and individual sectors; and the authorities' assessment of whether, in view of a per capita GDP of over US\$18,500, Hong Kong could still be considered as a developing country.

43. The representative of Argentina appreciated Hong Kong's consistent support for free-trade policies, including in multilateral fora, and its exemplary application of GATT principles. He considered the improvement in economic performance as the most notable development since the 1989 Trade Policy Review, and wondered about the impact of Hong Kong's booming domestic economy, driven by consumer spending and public investment projects, on inflation, exchange rates and trade patterns. He warned that the link made in several statements between Hong Kong's low level of tariff bindings and other countries' liberalization efforts could in practice slow down the process of multilateral market opening.

44. Referring to individual policy measures, he sought further clarification on: the First Registration Tax on motor vehicles; the import declaration charge on foodstuffs, raised at a flat rate of HK\$5; the review of current import licensing requirements on rice, frozen meat and poultry; the price differences between import and export licensing forms for certain products; and the circumstances in which selective tendering procedures were used in government procurement.

45. The representative of Magagascar highlighted Hong Kong's economic importance for other countries in the region, including least-developed countries. She enquired about the rôle of State-owned enterprises in Hong Kong's liberal market economy.

VI. REPLIES BY THE REPRESENTATIVE OF HONG KONG AND ADDITIONAL COMMENTS

46. The Council Chairman invited the representative of Hong Kong, in giving her responses, to focus on four major themes: Hong Kong's general policy framework; its economic relationship and co-operation with neighbouring China; trade policy after the Uruguay Round; and specific trade issues.

(1) General policy framework

47. The representative of Hong Kong noted that the statements made generally reflected a good understanding of Hong Kong's policy framework and the main forces, both external and internal, driving its economy in recent years. She saw three key issues influencing Hong Kong's future development: the on-going restructuring of the economy, the intensification of economic and trade relations with China, and Hong Kong's participation in regional economic co-operation initiatives.

48. Since free-market and free-trade policies had served Hong Kong so well in the past, there was no question of any policy change, whether in connection with the transfer of sovereignty in 1997 or for any other reasons. The Sino-British Joint Declaration on the Question of Hong Kong and the Basic Law provided for the continuation of existing trade and economic policies and ensured Hong Kong's autonomy in external commercial relations after 1997. While certain modifications would have to be made, such as terminological changes to existing legislation, continuity was the key consideration governing the transition process. In addition, various legislative changes were required in the context of implementing the Uruguay Round results, in particular in the area of intellectual property and, to a lesser extent, in services.

49. The recipe behind Hong Kong's economic ascent was simple and straightforward: free trade and fair markets; a stable currency and a sound financial system; low and predictable taxes; prudent fiscal policies; and minimal burdens on those who create wealth and encourage new investment.

50. Public expenditure was guided by the principle that it should not exceed 20 per cent of the GDP. This, in turn, was one factor behind Hong Kong's high savings rate, reaching an average rate of 35 per cent of GDP over the period 1989-93. While the linked exchange rate system had reduced the scope for using interest and exchange rate adjustments in order to curb inflation, she stressed that Hong Kong's high inflation rate in recent years was essentially driven by supply-side constraints, namely shortage of land and labour coupled with sustained high demand for services. Despite a recent moderation, inflationary pressures were likely to persist in tandem with strong demand for land, labour and services. As the linked exchange rate system had provided monetary stability, she did not see any reason for change in the foreseeable future.

51. Against this macroeconomic background, the Hong Kong Government had adopted a policy of minimum interference with market forces and, at the same time, maximum infrastructural and developmental support. In recent years a number of schemes had been introduced to encourage technological upgrading, such as the Applied R & D Scheme and some additional funding for industrial support. The objectives of the Applied R & D Scheme were to encourage, in the form of interest-bearing and repayable loans or equity participations, company projects contributing to productivity growth, quality improvement or product or process innovation. The key criterion was whether the project was technologically innovative and capable of yielding commercially exploitable results. As regards additional funding for industrial support, administered by the Director-General of Industry, the key criterion was a project's contribution to the overall technological and industrial development of Hong Kong. By the end of September 1994, a total of 63 industry-support projects had been approved for additional funding. They included the development of palladium-plating technology to replace the use of nickel

in watch-making, and the development of clean technologies for surface-finishing applications. The main beneficiaries were industry-support organizations such as the Productivity Council, tertiary educational institutions, and trade and industry associations. Since these programmes were fairly recent, their effect on technology and productivity remained to be seen.

52. The Hong Kong Government had set up a Task Force on Land Supply and Property Prices in April this year. In June, a package of measures had been announced to dampen speculation, increase housing and land supply, and enhance consumer protection. Since then, there had been a 15 to 30 per cent correction in residential property prices. She acknowledged that, as the measures did not extend to the office property market, spiralling office rentals could affect the attractiveness of Hong Kong as a regional business centre. However, there was no evidence of significant deterrent effects so far. The recently published World Competitiveness Report had found Hong Kong to be the fourth most competitive economy in the world, owing to such factors as economic fundamentals, internationalization, government policies, quality of financial institutions and services, infrastructure, management, science and technology, and human resources.

53. Techno-economic and market research studies on major industries were conducted every four years in the plastics, textiles and clothing, electronics, and metals and light engineering industries. They aimed to identify the characteristics and market opportunities of each industry; the determinants of, and the constraints upon, industrial expansion; the adequacy of manpower training, capital infrastructure, industrial support facilities and technical back-up services. The studies made recommendations on how to build on existing strengths or overcome weaknesses in the industries covered, but did not examine the need for financial assistance or any change in trade policy. The findings were considered by the Hong Kong Government within the framework of its free-trade and free-market policy.

54. Concerning the rôle of competition policy, or the perceived lack of it, she noted that the absence of designated competition officials or tangible competition laws in Hong Kong did not mean that there was no competition policy. There was no evidence of high market concentration in Hong Kong's manufacturing or services sectors which would require anti-trust legislation and regulatory controls. Hong Kong's open trade régime ensured that domestic industries were fully exposed to international competition, giving market forces full play in the economy. Competition enhanced consumer welfare and provided the best guarantee of economic efficiency.

55. She rejected any claims that foreign companies were compelled to enter into exclusive arrangements with domestic firms in order to do business in Hong Kong. A recent Government survey showed that small and medium enterprises, defined as manufacturing enterprises employing less than 100 persons, and enterprises in other sectors employing less than 50 persons, accounted for 97.95 per cent of all enterprises in Hong Kong. To find out more about the state of competition in the services sector, Hong Kong's Consumer Council was undertaking a series of specific studies in areas where market power appeared to exist, namely banking, supermarkets, gas supply, telecommunications, and broadcasting. While the study on banking had been completed, the others were expected by late 1995. Following a recommendation made by the Consumer Council, the Government had sought to encourage competition in retail interest rates and, with effect from 1 October, had removed time deposits with a maturity of over one month from the Interest Rate Rule of the Hong Kong Association of Banks. Interest rates on other fixed term deposits would be de-regulated in stages.

56. Hong Kong had legislation against unfair trade practices, contained in the Trade Descriptions Ordinance, the Control of Exemption Clauses Ordinance, and a package of further bills to be enacted in the near future. In addition, the Consumer Council would be provided with the resources to establish

a Trade Practices Division to examine unfair trade practices, and with a Consumer Legal Action Fund to assist consumer groups in legal actions against unscrupulous traders. Before adopting any kind of anti-trust legislation, however, the Government would carefully examine the evidence of sectoral market concentration, the sources of market power, and the measures that would best promote competition. The sector-specific studies conducted by the Consumer Council provided the best basis for considering the need for further initiatives.

57. Concerning entry barriers to the medical and legal professions in Hong Kong, she noted that legislation was in draft to introduce a universal licensing examination system for the medical profession. Successful candidates would not be required to perform the present 18-month medical residency. Legislation had also been introduced to enable foreign lawyers to qualify, under clear and transparent procedures, as Hong Kong solicitors.

58. Hong Kong had no State-owned enterprises as they were normally defined. While the Government owned a number of statutory corporations such as the Mass Transit Railway Corporation and the Kowloon Canton Railway Corporation, and operated a number of essential services including postal services and water supply, these were largely autonomous in their day-to-day operations. They were required by law to be run on commercial lines. To enhance efficiency, promote competition, and generally reduce the Government's rôle, the management of several public facilities, such as tunnels, car parks and parking meters, had been turned over to the private sector. This policy would be continued wherever possible.

59. Given the absence of foreign exchange controls on, and reporting requirements for, capital outflows, it was impossible for Hong Kong to provide data on the scale and geographic distribution of direct investments abroad. Investment inflows into Hong Kong's manufacturing sector, at original costs, had increased by over 220 per cent between 1984 and 1992.

60. Turning to regional co-operation initiatives, she characterized APEC as an informal body that had done much useful, practical work to encourage investment liberalization, establish guidelines for the harmonization of equipment certification and testing standards, and promote human resources development. While looking forward to further discussion of the objective of achieving free trade by 2020, as recommended by an APEC Eminent Persons Group, Hong Kong was anxious to ensure that this was achieved in a GATT-consistent manner.

61. The first discussant sought further information on: the interaction between private and public investment initiatives; the Government's approach towards continued privatization and deregulation; any additional recommendations contained in the Consumer Council's report on the banking sector and the policy status of such recommendations.

62. The second discussant referred to a recent rise in investment inflows into Hong Kong's manufacturing sector and wondered whether these had encouraged initiatives to promote advanced technologies and pave the way for new lucrative business opportunities. Given the existence of arrangements among banks to harmonize business conditions, he enquired whether there was a deliberate policy in sensitive areas to let fiduciary interests prevail over competition policy objectives. Further, he invited the Hong Kong delegation to elaborate on ways and means of establishing an APEC free-trade area in a GATT-consistent manner, without undermining the multilateral system.

63. The representative of Australia sought further clarification on any barriers or incentives that could prompt foreign companies to seek alliances with established domestic firms in order to promote sales.

64. The representative of Hong Kong saw no relationship between investment inflows and recently introduced support programmes, apart from the fact that Hong Kong was a very attractive business location. While some academic researchers, comparing Hong Kong with other Asian countries, had called for stronger public support for applied R & D, the Government sought to encourage company initiatives leading to technological upgrading. The recent strong increase in public relative to private investment was due to major infrastructural projects, such as the new airport.

65. Hong Kong's Governor had indicated very recently that one of his prime economic objectives was to promote competition in order to increase efficiency and prosperity. However, there were only few government monopolies in Hong Kong, including postal services and water supply. The air cargo terminal at the present Kai Tak Airport was operated by a private concessionaire, subject to a government control scheme; the new airport would be open to other services providers. In public transport, although franchised bus companies gave an impression of market power, there was intensive competition between different transport modes. In recent years, the Government had adopted a more pro-active approach in examining the state of competition in sectors prone to market concentration such as those currently examined by the Consumer Council.

66. Hong Kong welcomed free-trade initiatives within the APEC framework as long as these complied with the m.f.n. principle. However, it would not agree to any closed or reciprocal trade arrangements among APEC members.

(2) Economic relationship and co-operation with neighbouring China

67. The representative of Hong Kong considered that the relative decline of the manufacturing sector was a phenomenon common to mature economies and posed no particular risk for Hong Kong. On the contrary, given a booming services sector, Hong Kong was able to rapidly shed traditional manufacturing activities without running into unemployment problems. Though the restructuring process was likely to continue, she did not believe that the manufacturing sector would ever disappear from Hong Kong. The Territory had a competitive edge in various sectors and she was confident that its skills base, capacity for quality production and advanced communications systems would continue to attract efficient producers.

68. Hong Kong's economic relationship with China was characterized by mutual interdependence. While Hong Kong made use of China's abundant land and labour supply, it provided the technical and managerial expertise that enabled China and other countries in the region to raise their standards of living. Though Hong Kong's economy had benefited greatly from the synergies arising from China's economic liberalization, Hong Kong continued to be a separate customs territory. Under the Sino-British Joint Declaration and the Basic Law, existing borders would remain after 1997. Its separate customs territory was the basis of Hong Kong's status as a GATT contracting party, which her Government took very seriously. In international trade in textiles, Hong Kong complied with its multilateral and bilateral obligations and was fully committed to combatting illegal trans-shipments and other malpractices; its control system was among the best in the world. Additional measures had been taken in recent years to intensify licensing controls and enforcement actions.

69. China's participation in world trade was the key factor driving Hong Kong's re-export trade. However, the continuous emergence of new growth poles in East Asia provided Hong Kong with many more promising business opportunities. The Territory's trade with Asia had increased by over 600 per cent in the past 10 years, and the Asia Pacific region now accounted for 80 per cent of its total trade.

70. Though Hong Kong had no rôle to play in trade disputes involving China and third countries, her Government had made it clear that Hong Kong was liable to be affected by such disputes, and that this had to be taken into account. Thus, in the context of the renewal of China's m.f.n. status in the United States, Hong Kong had focused on a point of principle in rejecting any attempts to link trade with non-trade issues. Nevertheless, in most cases, her Government's rôle was confined to monitoring developments and providing information and advice to domestic traders and manufacturers.

71. Reflecting their growing trade and investment links, Hong Kong and China had intensified co-operation on technical issues, such as phytosanitary and quarantine inspections, customs co-operation, and product testing and certification. While Hong Kong and China conducted separate quarantine inspections, regular meetings were held between the relevant authorities to exchange information and share experience. Similarly, despite their separate customs systems, Hong Kong and China had organized meetings and training programmes to enhance co-operation in combatting illegal textiles trade or infringement of intellectual property rights. There had also been increasing contacts with China in areas such as standards measurement, laboratory accreditation and quality management certification.

72. Explaining the activities of the Hong Kong Trade Development Council, she mentioned in particular the organization of trade fairs and exhibitions in Hong Kong, overseas promotion of Hong Kong's products, and business missions to emerging new markets throughout the world, including in Eastern Europe, Asia, Africa and Latin America.

73. The first discussant emphasized the positive effects of technical co-operation between Hong Kong and other regional economies in standards-related areas, including sanitary and phytosanitary issues. Noting that Hong Kong had a well developed system of laboratory accreditation and conformity testing, he queried whether the relevant services were extended to Hong Kong-owned companies operating in Southern China and whether the Hong Kong Laboratory Accreditation Scheme intended to co-operate with the relevant authorities in China and other countries in the region.

74. The second discussant wondered whether different regulatory approaches in Hong Kong and China could retard the economic integration process in technically advanced areas such as telecommunications.

75. The representative of Hong Kong said that written replies would be provided to these questions.

(3) Trade policy after the Uruguay Round

76. The representative of Hong Kong explained that intellectual property protection was ensured via the United Kingdom's membership in the relevant international conventions and their extension to Hong Kong. These included the Paris Convention for the protection of industrial property; the Berne Convention for the protection of literary and artistic works; the Universal Copyright Convention; the Geneva Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication; and the Patent Co-operation Treaty. The Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations was not currently applied in Hong Kong, but the relevant legislation was in draft. Hong Kong offered national treatment in accordance with the Berne and Paris Conventions to nationals from all EU member States provided these had signed the conventions.

77. Hong Kong had comprehensive legislation to protect patents, trademarks, copyrights, and the layout design of integrated circuits. It was in the process of modernizing existing laws on patents, copyrights, and trademarks and aligning them with obligations under the Uruguay Round Agreement on Trade-Related Aspects of Intellectual Property Rights. Hong Kong's current legislation on patents

and designs, allowing for compulsory and non-voluntary licences, followed the relevant U.K. laws. Modifications might prove necessary to ensure compliance with Article 31 of the TRIPs Agreement. Hong Kong's legislation on the protection of layout design of integrated circuits already complied with this Article. Though Hong Kong intended to implement the TRIPs Agreement within the general transitional period, the legislative process might take longer than expected due to a packed programme.

78. Hong Kong's judicial authorities had the power to order injunctions against infringements of intellectual property rights. Right owners were free to initiate civil proceedings in accordance with domestic law. In addition, copyright legislation provided for criminal sanctions against the possession of each infringing copy of any copyright work; certain statutory presumptions facilitated the establishment of facts before the courts. The statutory penalties for copyright infringement were being reviewed as part of current law reforms.

79. Hong Kong's Customs and Excise Department had an enforcement team, the Intellectual Property Investigation Bureau, to combat counterfeit and pirated goods. In international intellectual property and customs fora, it was generally considered as very effective. The Bureau had stepped up its efforts in several areas: checking pirated and counterfeit goods at border control points; raids on retail outlets and hawker black spots; seeking review of sentences in appropriate piracy cases; public education in conjunction with representatives of the affected industries; and exchange of information and liaison with other customs authorities. An additional team of 25 officers would be created to reinforce the Bureau.

80. Referring to the new Government Procurement Code, she recalled that Hong Kong had been an active participant in the negotiations. However, as explained at the Marrakesh Ministerial Conference, Hong Kong had chosen not to sign because of reciprocity and sectoral non-application provisions that had been introduced in the closing days of the negotiations; it was Hong Kong's view that these ran counter to the fundamental GATT principles of m.f.n. and national treatment. Since these principles had served Hong Kong so well in the past, her Government felt unable to participate in an Agreement which it considered to be fundamentally flawed. Of course, Hong Kong would continue to operate an open, transparent and non-discriminatory procurement system, before and after 1997.

81. Selective tendering procedures were used only for minor purchases or in exceptional circumstances where justified under the Government Procurement Agreement. This included cases where there was only one identifiable source of supply, compatibility with existing equipment was to be ensured, patented or proprietary items were involved, or security considerations came into play.

82. The interest in Hong Kong's tariff bindings was surprising, given that no import duties were levied at present nor would be after 1997. Hong Kong was not prepared to further extend the scope of bindings, given the imbalance of concessions received from some major trading partners. Hong Kong had made a generous offer, bearing in mind that all of its bindings were at zero, which had not been reciprocated in some sectors of importance. Nevertheless, all agricultural products, all fish and fishery products, certain raw materials and a wide range of industrial products, including machinery, electronic items, paper, wood and watches had been bound. She hoped that the little negotiating leverage Hong Kong was trying to preserve would encourage its trading partners to make greater concessions in future negotiations, to the benefit of all contracting parties.

83. Full implementation of the Uruguay Round agreements was estimated to lift Hong Kong's total exports by HK\$85 billion and its GDP by HK\$14 billion, corresponding to an increase of 8.1 per cent and 1.6 per cent, respectively, over 1993 levels. Some 32,000 additional jobs would be created.

84. Hong Kong had not prepared studies to identify the costs associated with the MFA textiles régime. While export quotas were allocated on the basis of a company's historical performance, they were freely transferable on the open market, thus allowing the more competitive producers to expand. Though the phasing-out of the MFA could have adverse short-term effects on the sector, she reckoned that the removal of a major economic distortion would generate substantial long-term benefits. The loss of jobs in the sector was likely to be more than offset by employment opportunities elsewhere in the economy.

85. She said the Hong Kong Government had not undertaken any detailed estimates of the impact of China's resumption of GATT membership on Hong Kong. However, observers generally expected considerable economic benefits for Hong Kong. Trade flows to and from China were likely to increase, translating into further growth of Hong Kong's re-exports. Moreover, China's GATT status would boost investors' confidence, spur investment inflows from and through Hong Kong and, thus, further enhance the Territory's rôle as a major financial and services centre.

86. The first discussant appreciated that Hong Kong was in the process of bringing its intellectual property legislation into conformity with the TRIPs Agreement. He asked whether the authorities intended to make use of the prolonged transitional period that the Agreement provided for developing countries.

87. Pointing to the Territory's tight labour market, the second discussant wondered how the increase in employment projected to result from the Uruguay Round would actually materialize.

88. Referring to the phasing-out of the MFA quota régime, the representative of Australia sought information on the effects on resource use and production patterns in Hong Kong, while the representative of Egypt was interested in how adjustments in Hong Kong's export structure would affect competing supplies from developing countries.

89. The representative of Switzerland enquired about deadlines for completing the legislative changes in the intellectual property area. Appreciating the authorities continued political commitment to an open, non-discriminatory and transparent procurement system, he asked whether there were any legal safeguards to prevent policy reversals.

90. The representative of Hong Kong said, while the objective was to implement the TRIPs Agreement within the general one-year transitional period, it might prove difficult to meet this objective despite the advanced stage of preparations. Hong Kong had not yet decided on the invocation of provisions in favour of developing countries. Implementation of the TRIPs Agreement might require special sui generis legislation on plant varieties.

91. There was no significant degree of industrial concentration in the textiles and clothing area, the sector was characterized by a large number of small firms. She could thus not see the problem of market congestion. In the short term, the phasing-out of the MFA quotas would expose the industry to increasing competition from lower-cost producers in the region, encouraging relocation across the border. In the longer term, she expected significant economy-wide benefits since resources, that were artificially locked in Hong Kong's textiles and clothing industry, would be switched to more efficient uses. However, owing to their international experience, Hong Kong's firms had acquired a competitive edge in several areas, enabling them to continue high-value added operations like product design and R&D in the Territory.

92. Responding to the second discussant, she noted that additional demand for personnel could not be fully met by the domestic workforce, but would require immigration. The eventual liberalization of the movement of natural persons was currently under negotiation.

(4) Specific trade issues

93. The representative of Hong Kong stressed that the recent reform of the excise duty régime for alcoholic beverages was intended to enhance simplicity and fairness. The sole purpose of the system was to raise revenue. Under the old system, different product types were subject to a confusing mixture of ad valorem and specific duties. By contrast, the new régime was based entirely on ad valorem duties, charged across the board at three different rates. They applied to broad product categories, defined according to alcoholic content and ingredients. The duty payable was commensurate with the value of a product, contrary to the old system where cheaper products bore relatively higher duties. The distinction between 'European' and 'Chinese-type' liquors, which had given rise to misapprehension in the past, had been removed.

94. She acknowledged that a number of countries charged specific duties on alcoholic beverages. However, the duties were usually combined with either a sales tax or a value-added tax which, in turn, were assessed on an ad valorem basis. In reality, therefore, such systems amounted to a mixture of specific and ad valorem duties.

95. The tax reforms had led to duty reductions for over 90 per cent of all categories of alcoholic beverages sold in Hong Kong. According to a recent study covering the best selling products in each category in 1993, the reductions ranged from 6 to 75 per cent. Competition had intensified, particularly at the lower end of the market, and the product range had widened. Only a small minority of products, mostly at the upper end, was subject to higher duties. However, given the strong growth of local consumption, any demand effects should be negligible. In fact, import volumes had not declined to date.

96. The First Registration Tax on motor vehicles was both a revenue-raising and a transport management measure, given Hong Kong's high concentration of traffic and its finite land resources. It was an internal tax, payable upon the first registration of a motor vehicle for use in Hong Kong. The tax applied on a uniform basis to all motor vehicles, irrespective of their origin. In August 1994, the tax basis was reformed in order to prevent evasion; the tax was now levied on the published retail price of a motor vehicle rather than on its c.i.f. import value. Since the reform was not intended to raise more revenue, the tax rates had been adjusted to take account of the new base. For instance, rates for private cars, previously between 90 and 120 per cent of the c.i.f. value, were now ranging from 40 to 60 per cent of the published retail price.

97. Under the control system for reserved commodities, traders were required to import prescribed quantities as a reserve in addition to normal consumption needs. Import quotas were determined on a quarterly basis, taking into account the estimated level of consumption, the international supply situation, rice prices, existing stock levels, plus a reserve stock currently set at around 52,000 tonnes, or around 15 per cent of annual domestic consumption.

98. In view of the special importance of rice to the Chinese community, she saw a continued need for the rice control scheme. It did not have any trade-restrictive effects, and importers were free to import from any source. A recent review of a similar system for frozen meat and poultry had shown that it was no longer needed. However, the health authorities wished to retain some form of licensing control for health reasons; the modalities were currently being discussed with the Trade Department.

She stressed that licence applications from the registered importers were automatically approved by the Trade Department if the consignments were accompanied by valid health certificates from the originating countries or written approval by the Health Department.

99. Hong Kong's rules of origin had been developed in accordance with internationally accepted practice and conformed with Annex D1 to the Kyoto Convention. Goods which had been wholly produced in Hong Kong, or which had undergone the last substantial manufacturing process in the Territory, were accepted to be of Hong Kong origin. Specific origin rules and the principal manufacturing processes to be carried out in Hong Kong were published in circulars, and sent to manufacturers and overseas governments. Only exports of restrained textiles and clothing products needed to be accompanied by Certificates of Hong Kong Origin; all imports were free of certification requirements. Hong Kong fully supported the Uruguay Round Agreement on Rules of Origin and intended to contribute actively to the definition of a work programme for harmonization.

100. The Textile Traders Registration Scheme, introduced in July 1993, was intended both to tighten controls on trans-shipments and facilitate trade. The Scheme had improved the surveillance of textiles trans-shipments through more onerous reporting requirements on shippers and forwarders. By contrast, the licensing requirements for textiles trade with non-restrained markets had been replaced by a notification requirement.

101. The primary function of the Fish Marketing Organization and the Vegetable Marketing Organization, created in 1945 and 1946 respectively, was to establish and manage wholesale markets and depots for local fish and vegetables. The organizations provided an orderly, fair and efficient marketing service; they had no impact on trade. There was no guaranteed price or any form of subsidy that could protect local products against imports.

102. Under the Livestock Waste Control Scheme, the keeping of livestock was prohibited in specified areas, while it was subject to a licence in so-called Control and Restricted Areas. While farmers were free to choose any system to treat their livestock waste, they were obliged to comply with prescribed discharge standards. Financial assistance was offered only once to the operator of an affected livestock farm. Eligible farmers who wanted to remain in business could apply for a capital grant to reduce the installation cost of waste treatment facilities, subject to certain conditions. They could also apply for low interest loans under an agricultural loan scheme or an ex-gratia allowance if they decided to cease business permanently.

103. Referring to questions concerning trade-related fees and charges, she noted that the price of all trade licence forms was determined solely on a cost-recovery basis. Import licence forms for non-textiles products, such as pharmaceuticals, radioactive substances and reserved commodities, were more expensive than the corresponding export licence forms because they comprised five copies while the latter consisted only of three copies. The extra copies were required to inform all authorities concerned, including for example the Department of Health, the Department of Environmental Protection or the Royal Observatory, to facilitate surveillance and control. In any case, the cost involved, amounting to US\$2.70 for 20 sets, was insignificant. No fee was charged for the processing of import licences for the non-textiles items mentioned above.

104. Under the Import and Export (Registration) Regulations, the declaration charge on food items imported into and exported from Hong Kong amounted to HK\$5 per consignment, irrespective of the value involved. No difficulties had been encountered by traders in making the necessary declarations.

105. Under Hong Kong's statistical classification system, re-exports were defined as products which had previously been imported into Hong Kong and which were re-exported without having undergone a manufacturing process which had changed permanently their shape, nature, form or utility.

106. The first discussant appreciated the statement confirming that there was no further need for licensing controls on frozen poultry and meat as reserved commodities. He encouraged the authorities, when considering licensing for health reasons, to carefully evaluate the existence of health risks and contemplate alternative instruments such as certification by the exporting country.

107. The rice control scheme, covered by GATT Articles XI and XX, was a matter of interest to a number of delegations. As rice importers were required to comply with the quantities stipulated by the Trade Department, apparently in accordance with actual market demand, he wondered whether there could be price effects. In addition, he enquired how the licences were allocated and whether they were transferable.

108. Recalling that certificates of origin were required by the Hong Kong authorities only for exports of restrained textiles products, the second discussant wondered whether in other cases the individual companies were completely free to decide on their use.

109. The representative of New Zealand acknowledged that no information was yet available on the effects in practice of the new excise tax régime. He felt, however, that exporters of alcoholic beverages might prefer specific duties to an ad valorem system. Referring to the prospective elimination of licensing controls on frozen meat and poultry, he stressed that more effective instruments than import licences were available to ensure appropriate levels of health protection.

110. The representative of Australia enquired whether grape-based wine was among the products facing duty increases under the new excise system.

111. The representative of Hong Kong reiterated that the import régime for rice had no price effects and that trade flows were purely market-driven. Within the global quota, individual shares were allocated to registered traders who could then apply for a licence. The abolition of the present upper ceiling on stockpiles was under consideration, however, this could increase the market power of large companies.

112. The fact that only a limited product segment was subject to certificate of origin requirements, did not mean that the system was uncontrolled. Certificates were issued by the Trade Department and a number of chambers of commerce whose performance was regularly monitored.

113. The differentiation in excise duty rates between grape-based and other alcoholic products was based on internal revenue considerations. Her authorities had aimed to reform the system in a revenue-neutral way, and the new duty structure lived up to that objective. The relatively few products experiencing duty increases under the new system were spread across all categories, including Chinese-type beverages containing over 30 per cent alcohol.

VII. CONCLUDING REMARKS BY THE CHAIRMAN OF THE COUNCIL

114. In concluding this second Trade Policy Review of Hong Kong, I should like to highlight salient policy features that have emerged from the discussion. As usual, these remarks are on my own responsibility and do not substitute for the Council's collective appreciation. The full debate will be reflected in the Minutes of this meeting.

I. General policy framework

115. Council members considered Hong Kong as an exemplary case of an open, market-driven economy founded on the most-favoured-nation principle. Trade flows were allowed, *grosso modo*, to enter and exit free of tariffs, quantitative restrictions or administrative controls, apart from very few health and security exceptions and measures applied under the MFA or for intellectual property protection. Hong Kong had made significant contributions to the Uruguay Round process and fostered a successful conclusion. Owing to its extraordinary economic flexibility and capacity for swift adjustment, Hong Kong had reached the per capita income level of an advanced industrial economy.

116. Members appreciated that the Territory's liberal trade régime was underpinned by minimum government intervention in the domestic economy. There was no evidence of significant subsidy programmes, restrictive procurement practices or similar forms of government interference. The regulatory framework was streamlined and transparent.

117. Members invited Hong Kong to comment on any policy changes that might result from the implementation of the Uruguay Round agreements and the shift of sovereignty to China in 1997. It was suggested that WTO members should be informed, on a regular basis, of the legal changes to be made. Questions concerned Hong Kong's policy towards closer co-operation in the Asia-Pacific region, and the strategy behind outward direct investments by Hong Kong enterprises in Europe. Several members sought information on the eligibility criteria for, and economic effects of, recent initiatives to encourage the development of skills and new technologies. Clarification was also sought on the rôle of competition policy; the interplay of private and public enterprises in economic development; and any prospects for further liberalization of regulated areas such as telecommunications. A clarification was sought whether the current high level of both public and private investment could have inflationary consequences.

118. The representative of Hong Kong emphasized the main elements behind Hong Kong's economic success, namely free trade and fair markets, a stable currency and a sound financial system, low and predictable taxes, and fiscal prudence. The linked exchange rate system provided monetary stability. Hong Kong's inflation rate was essentially driven by supply side constraints, thus inflationary pressures were essentially fuelled by high demand for land, labour and services. With a view to maintaining Hong Kong's competitiveness as a regional business centre, the Government had recently set up a Task Force on Land Supply and Property Prices and announced a package of measures to dampen speculation. Residential property prices had since declined by 15 to 30 per cent; the office property market was not affected by the measures.

119. An open, rule-based trading system was the best guarantee for continued trade and economic expansion. It was thus in Hong Kong's self-interest to promptly and faithfully implement the Uruguay Round outcome. The shift of sovereignty in 1997 would not require any major trade policy modifications; only terminological changes to legislation were anticipated.

120. Hong Kong welcomed APEC as an informal body to promote regional economic co-operation, and supported the free-trade objectives recently recommended by the Eminent Persons Group. However, these should be achieved in a GATT-consistent manner.

121. Without departing from Hong Kong's non-interventionist policy stance, a number of schemes had been introduced in recent years to encourage technological upgrading, such as the Applied R & D Scheme and additional funding for industrial projects that contributed to overall technological and industrial development. Techno-economic and market research studies into main industries were conducted every four years to provide information within the framework of the Government's free-trade policy.

122. The absence of competition legislation did not mean that Hong Kong had no competition policy. The Government believed that competition enhanced consumer welfare and ensured economic efficiency. Studies in other countries had shown that anti-trust laws and fair trade acts had often proved counterproductive. There was no evidence of high market concentration in Hong Kong's manufacturing or services sectors, or of any informal entry barriers that could discourage foreign companies.

123. Hong Kong had no State-owned enterprises corresponding to the normal definition; the few existing government-owned corporations were required to operate on a commercial basis, and some public facilities had been turned over to private enterprises. As a result of a recent study by Hong Kong's Consumer Council, the Government had recently liberalized interest rates on time deposits with a maturity of over one month.

II. Economic relationship and co-operation with neighbouring China

124. Council members emphasized the rapid change in trading patterns that resulted from Hong Kong's intensive trade and investment links with southern China, in particular, re-exports had grown much faster than domestic exports in recent years. Members referred to the potentially positive impact on Hong Kong of China's growing integration into the multilateral system and its prospective WTO membership, but also highlighted the risk of adverse side-effects for Hong Kong from other countries' trade actions on China's exports. Questions were raised as to how Hong Kong encouraged export diversification and the rôle assigned, in this context, to the Trade Development Council. Information was also sought on how Hong Kong currently co-operated with China to ensure food safety or address problems such as product piracy and trans-shipment fraud.

125. The representative of Hong Kong underlined the importance of economic and trade links with China in encouraging structural change in favour of services. She did not believe, however, that the manufacturing sector would ever disappear from Hong Kong, given its competitive edge in areas requiring skills, quality production, and easy access to information.

126. Hong Kong's relationship with China was one of mutual interdependence. Hong Kong's status as a separate customs territory was the basis for its membership of the GATT and would remain so under the WTO. Hong Kong was fully committed to combatting illegal trans-shipment shipments and other malpractices; additional measures had been taken in recent years to intensify control and enforcement. Co-operation with China on technical issues, such as quarantine and illegal trade, had grown. While it was not appropriate for Hong Kong to comment on trade disputes between China and its trading partners, it was clear that such disputes could affect the Territory. The Trade Development Council, a statutory body, organized trade fairs and exhibitions, overseas promotion services, and the like. China's resumption of GATT membership should bring considerable economic benefits to Hong Kong.

III. Trade policy after the Uruguay Round

127. A number of Council members expressed the view that Hong Kong's commitment to bind only 34 per cent of its tariffs in the Uruguay Round - albeit at zero - was not commensurate with its levels of income and trade. Further questions revolved around Hong Kong's future government procurement régime, given its abstention from the new Agreement; any intentions to upgrade its schedule of commitments in the services area, for example through easing restrictions on the movement of natural persons; and the enforcement of existing legislation on intellectual property protection and Hong Kong's future implementation of the Agreement on Trade-Related Aspects of Intellectual Property Rights.

128. Recent changes in the Territory's system of excise taxation, including the substitution of ad valorem for specific duties on alcoholic beverages, were generally welcomed. However, several members called for the abolition of existing tax differences between wine from grapes and comparable Chinese-type liquors. One participant also noted that ad valorem taxes discriminated against more expensive, high-quality imports.

129. The representative of Hong Kong noted that full implementation of the Uruguay Round Agreement might increase exports by HK\$85 billion and GDP by HK\$14 billion, creating some 32,000 jobs. Though the phasing-out of the MFA could have a negative impact on the sector in the short term, the resulting removal of economic distortions should have substantial long-term benefits. The tariff bindings offered by Hong Kong in the Uruguay Round were comprehensive and generous, given the lack of reciprocal concessions by major trading partners. They had left Hong Kong little negotiating leverage for the future. Though Hong Kong had actively participated in the negotiations on government procurement, it had not signed the new Agreement because of the reciprocity and sectoral non-application provisions introduced by some other participants. Hong Kong would continue to operate an open, transparent and non-discriminatory procurement system. Selective tendering procedures were used only for minor purchases or in exceptional circumstances.

130. Hong Kong had comprehensive legislation to protect patents, trademarks, copyright and layout design of integrated circuits. Thorough legislative changes would be made to incorporate Hong Kong's obligations under the Agreement on Trade-Related Aspects of Intellectual Property Rights and to modernize existing provisions. Though Hong Kong intended to implement the Agreement within the general transition period, the legislative process might take longer than expected due to a packed programme. Hong Kong's judicial authorities had the power to order injunctions against infringement of intellectual property rights. The provisions for compulsory and non-voluntary licences under Hong Kong's current patent and design laws followed the relevant U.K. legislation. Copyright legislation already provided for criminal sanctions. Though Hong Kong's efforts to enforce intellectual property rights had been praised in relevant international fora, the Intellectual Property Investigation Bureau had recently stepped up its activities in many areas.

131. Hong Kong's system of excise duties on alcohols had been changed to enhance simplicity and fairness; it did not favour Chinese-type liquors. The changes had reduced duties on over 90 per cent of all categories of alcoholic beverages sold in the Territory.

IV. Specific trade issues

132. Council members sought additional information on specific issues, including Hong Kong's application of rules of origin; the definition and classification of re-export trade; intentions to abolish reserve-stock obligations for rice, frozen meat and poultry; and details of the First Registration Tax for motor vehicles. Hong Kong was also invited to explain the reasons for price differences between

various licence forms. Further questions concerned the powers of the marketing organizations for agricultural and fisheries products, and incentives provided for environmentally friendly meat production.

133. The representative of Hong Kong said that rules of origin were developed in accordance with internationally-accepted practice and conformed with the Kyoto Convention. There were no certificate of origin requirements with respect to any imports or exports, except for restrained textiles and clothing to major markets. Re-exports were defined as goods imported into Hong Kong and exported without having changed permanently their shape, nature, form or utility. Hong Kong had retained its controls on rice as a reserve commodity to ensure regular and adequate supplies and maintain a stock for emergency purposes; import quotas were determined on a quarterly basis taking into account internal consumption, the international supply situation and other market parameters. The scheme did not have any trade restrictive effects. The control systems on frozen meat and poultry had recently been reviewed. It was found that there was in principle no further need for the systems, however, for health reasons some form of control is likely to be retained.

134. The First Registration Tax for motor vehicles was a revenue-raising mechanism and a measure to limit the growth of the motor vehicle stock. From August 1994, the tax was raised on the published retail price of a vehicle; current rates ranged between 40 and 60 per cent. The price of all trade licence forms was determined solely on a cost-recovery basis, and represented only a very insignificant part of the total cost of any business operation. Under Hong Kong's Livestock Waste Control Scheme, livestock farming was banned in certain areas and subject to licensing in others. Financial assistance was offered only once to the operators of affected farms. The primary functions of Hong Kong's fish and vegetable marketing organizations was to establish and manage wholesale markets. They had no impact on trade as such and provided no price guarantees or other forms of subsidization.

V. General observations

135. Hong Kong's rapid economic ascent testifies to the benefits that a small territory, devoid of natural resources, can reap from the free operation of market forces. Rapid structural adjustment, an outward-looking business community, institutional stability, and the authorities' unfettered commitment to an open, m.f.n. based trade régime have helped to shape and propel one of the world's most successful economies. Hong Kong's basic growth factors have been revitalized recently by China's economic boom and the Territory's growing rôle as a business centre for Southern China. With the positive outcome of the Uruguay Round, the stage appears set for Hong Kong's continued expansion within a strengthened multilateral system.