TRADE POLICY REVIEW MECHANISM

Review of Hong Kong, 5-6 October 1994

GATT Council’s Evaluation

The GATT Council conducted its second review of Hong Kong under the trade policy review mechanism (TPRM) on 5-6 October 1994. The text of the Chairman’s concluding remarks is attached as a summary of the salient points which emerged during the 2-day discussion of the Council.

The TPRM enables the Council to conduct a collective review of the full range of trade policies and practices of each GATT member at regular periodic intervals to monitor significant trends and developments which may have an impact on the global trading system.

The review is based on two reports which are prepared respectively by the GATT Secretariat and the government under review and which cover all aspects of the country’s trade policies, including its domestic laws and regulations; the institutional framework; bilateral, regional and other preferential agreements; the wider economic needs; and the external environment.

A record of the Council’s discussions and of the Chairman’s summing-up, together with these two reports, will be published in due course as the complete trade policy review of Hong Kong and will be available from the GATT Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

CONCLUDING REMARKS BY THE CHAIRMAN

I. General policy framework

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, \textit{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 furthered 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.

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.

Members invited Hong Kong to comment on any policy changes that might result from the implementation of the Uruguay Round agreement and the shift of sovereignty in 1997. It was suggested that other WTO members should be informed, on a regular basis, of the legal changes to be made. Other 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 the 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.

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 might persist, 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.

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 change of sovereignty in 1997 would not require any major trade policy modifications and she anticipated only terminological changes to legislation.

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.
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, conducted every four years, to provide information for the Government within the framework of its free-trade policy.

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.

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

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.

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 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.

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 contracting party status in the GATT and would remain so under the WTO. Hong Kong was fully committed towards 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

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 GATT Code; 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 Intellectual Property Rights.

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.

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 that had been introduced by 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.

Hong Kong had comprehensive legislation to protect patents, trademarks, copyright and a 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 the relevant international fora, the Intellectual Property Investigation Bureau had recently stepped-up its activities in many areas.

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

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.

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. 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 system on frozen meat and poultry had recently been reviewed. It was found that there was in principle no further need for such controls, however, for health reasons some form of control is likely to be retained.

The First Registration Tax for motor vehicles was a revenue-raising mechanism and a measure to limit the growth of motor vehicles. From August 1994, the tax was raised on the published retail price of a vehicle; current rates range 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 did as such have no impact on trade and provided no price guarantees or other forms of subsidization.

V. General observations

Hong Kong's rapid economic ascent testifies to the benefits that a small territory, destitute 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.

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