



**-Hong Kong-**  
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## GENERAL FEATURES OF TRADE POLICY

A small territory (1078 km and 7.2 million inhabitants), Hong Kong is an international trade hub whose trade policy is based on free trade. Hong Kong has, since 1986, been a contracting party in its own right to the General Agreement on Tariffs and Trade (GATT) and six Tokyo Round agreements. It ratified the WTO Agreement in 1995, thereby becoming a founder member of the organisation. All of its partners enjoy MFN status. The structure of its trade is characterised by a high proportion of re-exports, which represent 3.7 times the amount of exports of locally-produced goods. Unlike other departments, the administrators dealing with foreign trade and industrial development are not organised sectorally. This means that almost all trade rules are horizontal in nature.

The considerable changes in the sectoral breakdown of Hong Kong's economy since it first began to grow in the early 1950s can mainly be ascribed to the speed with which it is able to shed declining industries. Financial and commercial services, including the territory's role as an entrepôt and trading centre, have become increasingly important. The industrial sector has declined as percentage of GDP while the service sector accounts has increased. The economic system does not, on the whole, favour specific sectors. There is an emphasis on managing, supervising, designing, inspecting and developing industrial goods, with production tending to be "subcontracted" to China. For more than thirty years the clothing sector has been Hong Kong's main export sector, accounting for a third of locally-made exports. With textiles, this sector accounts for 44% of jobs in manufacturing and provides 35% of value added in manufacture.

Hong Kong's inhabitants enjoyed a per capita GNP of US\$24,600 in 1998. The economic growth in the second half of the 90ies amounted to a yearly 5% (5.3% in 1997) and has been disrupted by the Asian crisis and a contraction of GDP by 5% in 1998. Inflation rate decreased from 9% in 1995 to around 6% in 1996 and 1997 (5.7%). In 1998 prices increased by 2.6%. In the first half of 1999 the consumer price index registered a year-on-year decrease of 2.9%. For 1999 consumer prices are falling by an estimated yearly rate of 4%.

Unemployment has not been a problem for many years. The unemployment rate reached 3.5% in 1995, at that time the highest level in ten years. The Asian crisis led to increasing numbers of unemployed peaking at 6% at the end of 1998.

Hong Kong has avoided the region's round of currency devaluation and held to a peg against the US dollar of 7.8 to one. The high interest rates necessary to defend the Hong Kong dollar against speculative attacks together with a loss of competitiveness caused Hong Kong's economy to go into recession.

The Community has traditionally an important trade surplus that is partly due to indirect exports to China. The EU exports machinery, electronics and precious stones and metals. Other important export categories are automobiles, chemicals, iron and steel, ceramic products, articles of leather and fur and beverages and

spirits.

*The following table is an overview of the trade flow between the European Union and Hong Kong*

Section	Year	Import(Euro)	Export(Euro)
<b>Animals &amp; animal products</b>	1996	8,305,500	229,402,450
	1997	9,790,050	288,592,410
	1998	8,960,100	261,463,940
	1999	9,289,820	236,285,210
	2000	11,497,850	269,317,840
	2001	11,146,030	258,561,660
	2002	13,377,610	216,359,090
	2003	12,025,180	228,400,220
<b>Vegetable products</b>	1996	12,160,430	40,265,570
	1997	11,281,720	50,957,520
	1998	8,885,880	46,681,170
	1999	7,460,740	52,915,970
	2000	8,156,920	48,120,790
	2001	4,204,280	51,147,560
	2002	5,332,660	51,912,890
	2003	3,760,350	39,601,780
<b>Animal or vegetable fats</b>	1996	1,829,670	23,858,150
	1997	2,258,310	110,628,410
	1998	2,039,080	160,257,210
	1999	2,100,440	31,699,480
	2000	1,735,220	33,071,490
	2001	1,406,160	19,006,600
	2002	1,306,180	14,221,990
	2003	1,673,970	8,049,940
<b>Prepared foodstuffs</b>	1996	37,965,140	506,790,350
	1997	40,785,930	566,058,530
	1998	40,374,950	466,514,600
	1999	42,298,760	401,927,550
	2000	50,728,410	426,112,190
	2001	39,977,650	438,847,560
	2002	36,934,970	375,754,360
	2003	30,689,690	319,063,790
<b>Mineral products</b>	1996	3,396,920	63,016,310
	1997	1,790,560	94,395,700
	1998	5,355,120	66,547,980
	1999	1,618,620	68,126,990
	2000	1,336,100	71,206,740
	2001	1,132,570	59,056,940
	2002	1,094,960	46,978,660
	2003	3,620,110	47,287,160
<b>Chemical products</b>	1996	50,023,150	1,329,817,070
	1997	62,618,390	1,406,337,480
	1998	63,767,500	1,265,853,010
	1999	68,776,910	1,274,434,940
	2000	56,955,810	1,465,617,070
	2001	51,435,870	1,427,278,460
	2002	45,295,610	1,398,885,030
	2003	57,905,290	1,326,237,010
<b>Plastics &amp; rubber</b>	1996	106,261,550	485,953,830
	1997	119,833,180	622,294,510
	1998	130,092,000	525,669,100
	1999	139,947,490	636,142,920
	2000	108,844,750	784,658,230
	2001	74,760,910	805,846,540
	2002	67,706,140	792,374,350
	2003	75,579,870	764,903,050

<b>Hides &amp; skins</b>	1996	171,257,070	1,329,683,210
	1997	196,748,450	1,131,088,420
	1998	214,395,700	974,374,770
	1999	261,292,230	1,046,382,600
	2000	245,270,550	1,546,324,080
	2001	215,962,700	1,604,151,400
	2002	200,573,890	1,519,555,710
	2003	190,524,950	1,387,321,100
<b>Wood &amp; wood products</b>	1996	17,360,230	81,275,620
	1997	13,848,570	179,306,920
	1998	16,366,250	254,663,870
	1999	18,477,780	292,845,300
	2000	25,508,840	234,758,030
	2001	26,229,840	155,753,120
	2002	14,669,030	98,229,110
	2003	11,972,210	56,697,400
<b>Wood pulp products</b>	1996	156,788,420	471,710,990
	1997	191,774,380	522,545,690
	1998	176,766,310	376,892,540
	1999	222,854,350	385,620,200
	2000	222,873,680	467,423,250
	2001	178,332,990	420,152,410
	2002	212,660,960	394,434,390
	2003	167,154,830	342,285,070
<b>Textiles &amp; textile articles</b>	1996	2,515,670,870	1,358,828,930
	1997	2,640,971,650	1,456,822,110
	1998	2,626,788,070	1,122,430,790
	1999	2,778,915,720	1,079,975,040
	2000	3,108,969,700	1,340,290,340
	2001	2,564,572,750	1,436,331,360
	2002	2,273,496,260	1,340,080,310
	2003	2,004,521,490	1,255,619,410
<b>Footwear, headgear</b>	1996	118,409,940	191,612,520
	1997	154,068,830	201,456,780
	1998	194,528,030	141,577,870
	1999	314,267,820	137,602,010
	2000	218,143,110	158,894,880
	2001	173,477,110	174,387,230
	2002	140,267,770	157,149,410
	2003	129,652,260	135,548,190
<b>Articles of stone, plaster, cement, asbestos</b>	1996	23,741,220	471,295,200
	1997	24,858,020	548,617,000
	1998	19,717,130	385,782,750
	1999	21,332,370	304,275,350
	2000	19,063,000	343,904,770
	2001	19,909,220	337,158,030
	2002	18,327,260	328,002,150
	2003	19,587,420	287,806,720
<b>Pearls, (semi-)precious stones, metals</b>	1996	395,828,700	910,397,670
	1997	615,241,920	1,143,476,390
	1998	1,025,111,080	916,675,610
	1999	681,079,790	1,144,245,450
	2000	1,098,805,400	1,459,083,370
	2001	1,068,494,730	1,568,397,430
	2002	1,426,403,870	1,617,235,990
	2003	1,534,002,970	1,350,069,160
<b>Base metals &amp; articles thereof</b>	1996	107,040,600	920,839,980
	1997	107,997,770	956,508,430
	1998	118,594,890	588,565,160
	1999	163,471,820	572,864,910
	2000	166,697,860	689,710,570

	2001	152,091,590	651,471,180
	2002	136,725,860	630,518,390
	2003	137,163,910	570,366,230
<b>Machinery &amp; mechanical appliances</b>	1996	1,838,322,190	4,585,110,460
	1997	2,272,689,380	6,277,153,430
	1998	2,994,769,810	5,181,955,400
	1999	3,702,178,960	4,696,334,080
	2000	4,228,793,780	7,032,867,130
	2001	3,444,208,010	6,954,783,880
	2002	3,330,883,740	6,708,621,830
	2003	3,418,220,210	6,142,002,170
	<b>Transportation equipment</b>	1996	18,026,230
1997		38,881,200	551,693,680
1998		80,007,530	577,468,810
1999		49,688,140	437,872,790
2000		68,473,180	569,413,210
2001		56,874,740	701,799,290
2002		90,796,950	733,266,860
2003		106,977,550	1,026,471,140
<b>Instruments - measuring, musical</b>	1996	746,945,540	571,429,700
	1997	855,610,730	707,891,260
	1998	886,610,200	605,368,300
	1999	883,898,140	638,653,890
	2000	829,496,660	871,714,540
	2001	844,262,170	1,008,437,660
	2002	736,151,320	970,557,100
	2003	628,730,890	931,039,410
<b>Arms &amp; ammunition</b>	1996	44,350	3,749,570
	1997	137,290	4,295,270
	1998	14,920	5,025,170
	1999	68,040	1,822,460
	2000	233,050	2,121,090
	2001	253,560	2,299,880
	2002	740,640	1,039,400
	2003	1,510,190	419,810
<b>Miscellaneous</b>	1996	234,077,070	345,196,290
	1997	280,338,260	408,302,080
	1998	300,510,750	322,757,460
	1999	406,367,690	313,349,370
	2000	369,003,430	352,874,510
	2001	301,231,480	328,768,750
	2002	272,587,350	295,342,220
	2003	298,671,060	249,044,920
<b>Works of art</b>	1996	43,834,870	46,900,950
	1997	50,734,580	64,287,000
	1998	42,542,730	35,738,200
	1999	43,335,960	44,375,490
	2000	35,381,070	42,003,100
	2001	49,878,920	46,162,180
	2002	47,385,150	53,731,620
	2003	30,086,740	51,344,220
<b>Other</b>	1996	69,474,510	34,335,170
	1997	51,690,840	34,712,290
	1998	75,233,160	44,480,440
	1999	70,954,870	42,011,790
	2000	85,200,750	50,396,020
	2001	76,268,140	49,134,440
	2002	89,658,140	42,071,290
	2003	88,965,030	60,018,900

**last updated on 2001-11-15** Hong Kong does not produce vehicles or parts for the motor industry. Import duties are zero and there are no quantitative restrictions. Declarations are not required for goods being transhipped or in transit. Some sectors are subject to excise duties, which constitute a major instrument of indirect taxation (fuel, tobacco, spirits). Exemptions, refunds or discounts can be accorded on excise duties for goods destined for export or other specified purposes. Motor vehicles being registered for the first time are subject to a tax based on the CIF value. There are standards and procedures for testing emissions by motor vehicles for the purposes of combating air pollution.

**Chemicals last updated on 2001-11-15** The chemicals sector accounts for only 9.2% of value added in manufacture, more than half of it from plastics. Its share of manufacturing output is declining. Products authorized in their country of origin are normally authorized in the territory. Additional levies are collected via the licences required for substances that deplete the ozone layer, pharmaceuticals and pesticides. Some sectors are subject to excise duties, which constitute a major instrument of indirect taxation (fuel, tobacco, spirits).

**Iron, Steel and Non-Ferrous Metals last updated on 2001-11-15** The iron and steel sector is relatively undeveloped. It employs about 30,000 people.

**Services - Financial last updated on 2001-11-15** Banking:  
Hong Kong has a three-tier banking system made up of licensed banks, restricted licence banks and deposits taking companies. The latter are active in underwriting securities, fund and unit-trust management, as well as in other investment banking services.

Foreign banks are granted national treatment in conducting their activities.

Insurance:

Foreign insurance companies may establish and operate under national treatment conditions. In the WTO Financial Services negotiations, concluded in December 1997, Hong Kong undertook to liberalise cross border trade of reinsurance and auxiliary insurance services.

Securities:

The Stock Exchange of Hong Kong is the second largest in Asia and ranks 7th in the world in market capitalisation. It raises equity capital for state-owned companies from the People's Republic of China. One of the requirements for individual membership is that applicants are required to have been ordinarily resident in Hong Kong for five out of seven years immediately preceding application.

The Hong Kong Futures Exchange offers stock exchange index and sub-index futures, index options and three-month Hong Kong Interbank Offered Rate futures. Since 31 March 1995 the futures exchange now offers stock futures on HSBC Holdings and HK Telecom. It also offers stock futures and gold futures. At the end of 1997, 51.5% of the members were foreign companies.

**Shipbuilding last updated on 2001-11-15** Hong Kong has competitive repair yards and builds certain types of ships. Outboard motors over 150 hp are subject to import licences in an effort to counter smuggling.

# TARIFFS AND DUTIES

There are no customs duties on imports or exports. Nor are imports subject to quantitative restrictions for considerations other than health, safety or the environment.

In the Uruguay Round, Hong Kong undertook to bind tariffs on only 23% of industrial products (29% by value).

Hong Kong intends to increase its tariff bindings in stages, in 2000, 2005 and 2010. Each stage will increase bindings by about 20%.

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## NON TARIFF BARRIERS

Almost all imported goods must be declared to the Department of Customs and Excise.

The EU signed a customs agreement with Hong Kong in November 1998. It provides for customs authorities from both parties to assist each other in order to allow effective enforcement of customs legislation.

Apart from certain restrictions regarding distribution circuits and the advertising of drugs, there are no price controls in Hong Kong.

Hong Kong is a signatory to the Agreement on import licences. Where licences are required, they are usually issued within no more than four working days. In the case of refusal, the grounds must be stated and an appeal may be lodged.

Hong Kong has no law on cartels or any other law prohibiting or admitting restrictive trading practices. The authorities fall back on the disciplines imposed by freedom of competition.

The system of standards, type-approval and certification is administered by the Department of Industry, which is responsible for applying the Agreement on Technical Barriers to Trade. The technical standards employed are identical or very similar to international or foreign reference standards. Hong Kong has adopted the ISO 9000 Series of quality standards. Hong Kong's laboratory accreditation body currently accredits 48 testing laboratories, which perform tests on certain chemical and electric/electronic products. Under mutual recognition agreements, test certificates issued by the accreditation body are recognised in the United Kingdom, the Netherlands, the United States, Australia and New Zealand.

Though Hong Kong has applied the Tokyo Round's code on public procurement since 1979, it has yet to sign the 1996 version. Public procurement is currently wide open, with 95% going to third-country suppliers. Most contracts for goods and services are handled by the Department of Public Procurement. This department is responsible for tender procedures and the award of contracts. In 1993 the government awarded contracts totalling US\$3.6 billion; 1995 and 1996 the volume of government procurement reached US\$4.65 billion.

Subject to a fine of between HK\$ 100,000 and HK\$ 500,000 and two to five years in prison, trade descriptions must not be misleading or contain any substantive errors. Dangerous products are subject to special provisions drafted in English and Chinese.

Hong Kong offers various subsidy schemes to local industry. In general, support for companies located in Hong Kong is quite limited. The available support focuses on R&D and high technology development.

Funding for Applied Research and Development: A fund financing applied research and development has been set up by the Hong Kong government several years ago and is currently available to the local industry. The total amount of available aid is about HK\$ 200 million. The funds are replenished according to the needs of the applicant. In this respect, the government appears to have certain discretion concerning the eligible companies and the amount of aid.

The Hong Kong government established a special programme with the primary aim of developing or transferring new technologies to Hong Kong. The Fund has an annual budget of about HK\$ 250 million.

The Industry and Technology Development Council (ITDC) administers a fund which aims to support industrial projects which can contribute to the overall industrial or technological development of Hong Kong and improve the competitiveness of Hong Kong's manufacturing industries. The total project costs amount to HK\$177 million. The selected projects can be classified as follows: biotechnology (15 projects), electronics (5), information technology (8), metals (7), plastics (2) and textiles (6).

In general, a number of authorities, sponsored by the government, have a budget to assist local industry. The Industrial Technology Centre, the Productivity Council, the Hong Kong Trade Development Council and the Clothing Technology Centre provide indirect support to the concerned industries. Government policy consists of granting large budgets to these institutions. The institutions can on a discretionary basis use these budgets in support of local industry.

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## INVESTMENT RELATED BARRIERS

Restrictions apply to broadcasting, banking and insurance. All other firms have to register with the official company register. There are no exchange controls on capital earnings or on payments by residents or non-residents. This makes Hong Kong an attractive venue for foreign investors. According to a 1998 survey of foreign investors, the benefits of Hong Kong as a place to do business lay in the financial facilities, communications and infrastructure. They also cited the regional environment, a qualified workforce and government policy.

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## IPR

Hong Kong has made progress in addressing the problem of piracy, including passages of the Prevention of Copyright Piracy Ordinance, closing approximately 70 pirate CD production lines, and closing shops dealing with pirated products in major retail arcades. Pirated products remains readily available in Hong Kong at the retail level. Significant new steps must be taken in the near future to address effectively the problem of piracy. In addition, steps must be taken to put an end to criminal corporate end user software piracy and hard disk loading piracy. Moreover, we have continuing concerns about the very large volume of optical media production capacity. Officials have asked the HKSAR to take effective actions to ensure that these facilities are producing only legitimate product.