# HONG KONG

In 1998, the U.S. trade surplus with Hong Kong amounted to $2.4 billion, about half of the U.S. trade surplus with Hong Kong during the previous year. U.S. exports to Hong Kong were $12.9 billion: imports from Hong Kong were $10.5 billion. Hong Kong was the United States' 14th largest export market in 1998. The stock of foreign investment in Hong Kong rose to $19.1 billion in 1997, up from $14.7 billion in 1995. U.S. direct investment in Hong Kong is largely in the services and financial sectors.

**Overview**

On July 1, 1997 Hong Kong became a special administrative region (SAR) of the People's Republic of China (PRC). Under the PRC's policy of "one country, two systems", Hong Kong is to enjoy a "high degree of autonomy" from the PRC in managing its trade, financial, social, legal, and other internal matters for fifty years.

Although the PRC has assumed responsibility for conducting foreign affairs and defense matters for the SAR, Hong Kong remains a separate customs territory with all of its previous border and customs arrangements. As a separate customs territory with autonomy in the conduct of its economic, trade, and financial policies, Hong Kong retains independent membership in economic organizations, such as the World Trade Organization and APEC.

Along with others in the region, Hong Kong's economy has suffered over the past year, registering a decline of around 5.1% in GDP in 1998 and expectations of flat growth for 1999. The government recorded a modest fiscal deficit for 1998 of $ 4.2 billion, and projects a similar deficit for 1999. Nonetheless, Hong Kong enjoys a number of positive factors, including accumulated personal wealth from several years of unprecedented growth, massive fiscal and foreign exchange reserves, virtually no public debt, a strong legal system, and a strong and rigorously-enforced anti-corruption regime. The lengthening of the recovery period and the need for restructuring, as Hong Kong's advanced, high-cost, service-based economy continues to evolve, pose difficult challenges and choices for the Hong Kong Government.

## LACK OF INTELLECTUAL PROPERTY PROTECTION

Hong Kong has made significant progress over the past year to address the problem of piracy, including passaged 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 product 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 much 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 medial production capacity. U.S. officials have asked the HKSAR to take effective actions to ensure that these facilities are producing only legitimate product.

## ANTICOMPETITIVE PRACTICES

Opening telecommunications markets in Hong Kong has been the subject of intense debate over the last year. Substantial liberalization has been achieved; however, in February, the Hong Kong Government once again put off a decision on whether to issue additional licenses for the local fixed telecommunications network market. Politically powerful existing telecommunications companies, including the dominant operator Hong

Kong Telecom, have lobbied hard to keep out additional competitors. The decision to postpone further liberalization will restrict facilities based telecommunications competition in Hong Kong, and keep phone rates high than in other regional markets.