Executive Summary

Hong Kong became a Special Administrative Region (SAR) of the People's Republic of China (PRC) on July 1, 1997. Hong Kong’s status since reverting to Chinese sovereignty is defined in the Sino-British Joint Declaration (1987) and the Basic Law. Under the concept of “One Country, Two Systems” articulated in these documents, Hong Kong will retain its political, economic, and judicial systems for 50 years after reversion. Hong Kong pursues a free market philosophy with minimal government intervention. The Hong Kong Government (HKG) welcomes foreign investment, neither offering special incentives nor imposing disincentives for foreign investors.

Hong Kong's well-established rule of law is applied consistently and without discrimination. There is no distinction in law or practice between investments by foreign-controlled companies and those controlled by local interests. Foreign firms and individuals are allowed freely to incorporate their operations in Hong Kong, register branches of foreign operations, and set up representative offices without encountering discrimination or undue regulation. There is no restriction on the ownership of such operations. Company directors are not required to be citizens of, or resident in, Hong Kong. Reporting requirements are straightforward and are not onerous.

Seventeen years after its reversion to PRC sovereignty, Hong Kong remains an excellent destination for U.S. investment and trade. Despite a population of less than eight million, Hong Kong is America’s ninth-largest export market, its sixth-largest for agricultural products, and fourth for beef. Hong Kong's economy, with its world-class institutions and regulatory systems, is based on competitive financial and professional services, trading and logistics, and tourism. It is the world's most services-oriented economy, with the service sector accounting for more than 90% of its nearly US$275 billion GDP in 2013. Hong Kong hosts a large number of regional headquarters and regional offices. Close to 1,400 U.S. companies are based in Hong Kong, and more than half are regional in scope. Finance and related services companies, such as banks, law firms, and accountancies, dominate the pack. Seventy of the world's 100 largest banks have operations here.

1. Openness to, and Restrictions Upon, Foreign Investment

Hong Kong's extensive body of commercial and company law generally follows that of the United Kingdom, including the common law and rules of equity. Most statutory law is made locally. The local court system provides for effective enforcement of contracts, dispute settlement, and protection of rights. Formalities are minimal in company incorporation and business registration. Foreign and domestic companies register under the same rules and are subject to the same set of business regulations.

The HKG’s Invest Hong Kong department encourages inward investment as a means of introducing new or improved products, processes, designs, and management techniques. U.S.
and other foreign firms can participate in government financed and subsidized research and development programs on a national treatment basis. Capital gains are not taxed, nor are there withholding taxes on dividends and royalties. Profits can be freely converted and remitted. Foreign-owned and Hong Kong-owned company profits are taxed at the same rate – 16.5 percent. No preferential or discriminatory export and import policies affect foreign investors. Domestic industries receive no direct subsidies. Foreign investments face no disincentives, such as quotas, bonds, deposits, or other similar regulations.

The Hong Kong Code on Takeovers and Mergers (1981) sets out general principles for acceptable standards of commercial behavior.

According to HKG statistics, 3,835 regional operations of overseas companies were registered in Hong Kong in 2013. The U.S. has the largest number of regional headquarters and offices in Hong Kong (822 companies), followed by Japan (729 companies), and the United Kingdom (335 companies). The major lines of business of the regional headquarters include wholesale/retail; import/export; finance and banking; manufacturing; professional, business, and education services; information technology services; and transportation, storage and courier services.

The HKG owns all land, granting long-term leases without transferring title. Local and foreign leaseholders are treated equally. The HKG plays a significant role in the housing market, with about 50 percent of homes in Hong Kong either rented from the Government or purchased with government assistance at below-market rates. In September 2012, in reaction to complaints about excessively high real estate prices for average Hong Kong residents, the HKG announced a pilot program to implement the “Hong Kong land for Hong Kong people” project to develop 1,100 new residential flats. These properties will be restricted to Hong Kong residents only. Furthermore, in October 2012 the HKG introduced a 15 percent Buyer’s Stamp Duty on all non-permanent-resident and corporate buyers, which expatriates claim discriminates against them. In April 2014, the HKG announced that it had shelved the “Hong Kong land for Hong Kong people” policy because the property market had cooled down due to the dampening effect imposed by the stamp duties.

The main exceptions to the HKG’s open foreign investment policy are:

Broadcasting - Voting control of free-to-air television stations by non-residents is limited to 49 percent. There are also residency requirements for the directors of broadcasting companies.

Legal Services - Foreign law firms may not hire local lawyers to advise on Hong Kong law, but may themselves become “local” firms after satisfying certain residency and other requirements. Localized firms may thereafter hire local attorneys, but must do so on a 1:1 basis with foreign lawyers. Foreign law firms can also form associations with local law firms.

Hong Kong has a free trade agreement (FTA) with Mainland China, called the Closer Economic Partnership Arrangement (CEPA), which provides tariff-free export to Mainland China of Hong Kong-origin goods and preferential access for specific services sectors. Signed in 2003, CEPA has gradually expanded every year thereafter. Following the 10th phase, announced in August 2013, service providers in 48 sectors (e.g., logistics, distribution) now enjoy preferential
treatment on the Mainland. U.S. and other foreign firms engaged in substantive business operations in Hong Kong over the past three to five years are eligible to take advantage of most CEPA concessions to enter the Mainland market. The HKG plans to achieve “basic” service sector liberalization between Hong Kong and Guangdong Province by the end of 2014 and between Hong Kong and all of Mainland China by the end of 2015.

Hong Kong also has FTAs with New Zealand (2010); member states of the European Free Trade Association – Iceland, Liechtenstein, Norway and Switzerland (2011); and Chile (2012). These agreements are fully consistent with the provisions of the World Trade Organization. In November 2011, Hong Kong made a formal request to join the ASEAN-China FTA (ACFTA). However, in April 2013, the HKG announced that Hong Kong and ASEAN had agreed to pursue a bilateral FTA instead of making Hong Kong a member of the ACFTA. Finally, Hong Kong is an Asia-Pacific Economic Co-operation (APEC) member economy and a participant in the APEC Business Travel Card (ABTC) Scheme, which grants qualified business travelers streamlined immigration clearance.

**Rankings**

<table>
<thead>
<tr>
<th>Measure</th>
<th>Year</th>
<th>Rank or value</th>
<th>Website Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>TI Corruption Perceptions index</td>
<td>2013</td>
<td>(15 of 177)</td>
<td><a href="http://cpi.transparency.org/cpi2013/results/">http://cpi.transparency.org/cpi2013/results/</a></td>
</tr>
<tr>
<td>Heritage Foundation’s Economic Freedom index</td>
<td>2013</td>
<td>(1 of 178)</td>
<td><a href="http://www.heritage.org/index/ranking">http://www.heritage.org/index/ranking</a></td>
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<tr>
<td>Global Innovation Index</td>
<td>2013</td>
<td>(7 of 142)</td>
<td><a href="http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener">http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener</a></td>
</tr>
</tbody>
</table>

2. Conversion and Transfer Policies

Conversion and inward/outward transfers of funds for any purpose are not restricted. The Hong Kong dollar is a freely convertible currency that, since late 1983, has been linked via a de facto currency board to the U.S. dollar at an exchange rate that is allowed to fluctuate in a narrow band between HK$7.75 – HK$7.85 = US$1.

3. Expropriation and Compensation
The U.S. Consulate General is not aware of any expropriation actions in the recent past. Expropriation of private property may occur if it is clearly in the public interest, but only for well-defined purposes such as implementation of public works projects. If this is the case, expropriations are to be conducted through negotiations, in a non-discriminatory manner in accordance with established principles of international law. Due process and transparency are to be observed. Investors in and lenders to expropriated entities are to receive prompt, adequate, and effective compensation. Property may be acquired under the State Land Resumption Ordinance, the Land Acquisition Ordinance, the Mass Transit Railway (Land Resumption and Related Provisions) Ordinance, or the Roads Ordinance. These ordinances provide for payment of compensation. If agreement cannot be reached on the amount payable, either party can refer the claim to the Land Tribunal.

4. Dispute Settlement

Hong Kong's legal system is firmly based on the rule of law and the independence of the judiciary. Courts of justice in Hong Kong include the Court of Final Appeal, the High Court (composed of the Court of Appeal and the Court of First Instance), the District Court, the Magistrate's Courts, the Coroner's Court, and the Juvenile Court. Tribunals include the Lands Tribunal, Labor Tribunal, and other statutory tribunals.

The U.S. Consulate General is not aware of any investor-state disputes in recent years involving U.S. or other foreign investors or contractors and the HKG. The Hong Kong Department of Justice is also not aware of any such disputes. Private investment disputes are normally handled in the courts or via private negotiation. Alternatively, disputes may be referred to the Hong Kong International Arbitration Center.

The HKG accepts international arbitration of investment disputes between itself and investors. Following reversion to Chinese sovereignty on July 1, 1997, Hong Kong applies provisions of the International Center for the Settlement of Investment Disputes (ICSID), known as the Washington Convention, and the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. Hong Kong has also adopted the United Nations Commission on International Trade Law (UNCITRAL) model law for international commercial arbitration. Since 1999, Hong Kong and Mainland China have maintained a Memorandum of Understanding on an arrangement parallel to the New York Convention for the reciprocal enforcement of arbitral awards.

In 2010, the Legislative Council passed a new Arbitration Ordinance. The ordinance, which came into force in June 2011, represents a major reform of arbitration law in Hong Kong, abolishing the previous distinction between domestic and international arbitration and adopting a unitary regime based on the UNCITRAL Model Law. The HKG intends to use the new arbitration law to help promote Hong Kong as a regional center for dispute resolution. In June 2012, the Legislative Council passed a new Mediation Bill to provide a regulatory framework for mediation, fortifying Hong Kong’s status as an international dispute resolution center. The mediation legislation, which came into effect on January 1, 2013, deals with the rights and obligations of participants in mediation especially in relation to confidentiality and admissibility of mediation communications in evidence.
In July 2013, LegCo amended the Arbitration Ordinance so that any emergency relief granted by an emergency arbitrator before the establishment of an arbitral tribunal, whether in or outside Hong Kong, is enforceable.

5. Performance Requirements and Incentives

Consistent with its principle of "Big Market, Small Government," and "Market Leads, Government Facilitates", Hong Kong imposes no export performance or local content requirements as a condition for establishing, maintaining, or expanding a foreign investment. Hong Kong offers no special privileges to attract foreign investment. There are no requirements that Hong Kong residents own shares, that foreign equity be reduced over time, or that technology be transferred on certain terms.

6. Right to Private Ownership and Establishment

Hong Kong law and regulations provide for the right of foreign and domestic private entities to establish, own, and dispose of interests of business enterprises. Foreign investors are allowed, except for the sectors noted above, to engage in all lawful forms of remunerative activity. The HKG does not generally engage directly in business activity via public enterprises. Business privileges, franchises, and land development rights are granted on the basis of competitive equality.

7. Protection of Property Rights

Hong Kong’s commercial and company laws provide for effective enforcement of contracts and protection of corporate rights. Hong Kong has filed its notice of compliance with the trade-related intellectual property (TRIPs) requirements of the World Trade Organization. The Intellectual Property Department, which includes the Trademarks and Patents Registries, is the focal point for the development of Hong Kong's intellectual property regime. The Customs and Excise Department (HKCED) is the sole enforcement agency for intellectual property rights (IPR). Hong Kong has acceded to the Paris Convention for the Protection of Industrial Property, the Bern Convention for the Protection of Literary and Artistic Works, and the Geneva and Paris Universal Copyright Conventions. Hong Kong also continues to participate in the World Intellectual Property Organization, as part of Mainland China's delegation; and has seconded an officer from HKCED to INTERPOL in Lyon, France to further collaborate on IPR enforcement.

The HKG devotes significant attention and resources to IPR enforcement. Enforcement of laws passed in recent years, including aggressive raids at the retail level and corresponding criminal prosecutions, has significantly reduced illegal production and retail sales of copyright and trademark protected products. The Hong Kong courts have imposed longer jail terms than in the past for violations of Hong Kong’s copyright ordinance. In addition, HKCED works closely with foreign customs agencies and the World Customs Organization to share best practices and to identify, disrupt, and dismantle criminal organizations engaging in IP theft that often operate in multiple countries. The government has conducted public education efforts to encourage respect for IPR. Nevertheless, pirated and counterfeit products remain available on a small scale at the
retail level throughout Hong Kong. The remaining sellers of infringing goods tend to keep a small stock of items and are highly mobile.

Other IPR challenges include end-use piracy of software and textbooks, the rapid growth of Internet peer-to-peer downloading, and the illicit importation and transshipment of pirated and counterfeit goods from Mainland China and other places in Asia. Hong Kong authorities have taken steps to address these challenges by strengthening collaboration with Mainland Chinese authorities, prosecution of software end-use piracy, and monitoring of suspect shipments at points of entry. In addition, the HKG has established a task force to monitor and crack down on Internet-based peer-to-peer piracy and reviewed ways to strengthen copyright protection in the digital environment. HKCED opened a new Electronic Crime Investigation Center (ECIC) in early 2013. In December 2013, ECIC programs expanded to begin monitoring cases involving “cyberlockers.”

Health authorities continue to permit the registration of generic drugs for marketing without regard to whether these products infringe on valid patents. Despite extensive consultations with industry, no progress has been made on establishing effective patent linkages.

The Copyright Ordinance protects any original copyrighted work created or published by any person anywhere in the world. In 2007, the government amended the Copyright Ordinance, criminalizing the copying and distribution of infringing printed works in business and the act of circumventing technological protection measures. The amendments provide rental rights for sound recordings, computer programs, films, and comic books, and include enhanced penalty provisions and other legal tools to facilitate enforcement. The amended ordinance also decriminalized parallel imports of copyrighted products 15 months after their release anywhere in the world, although it maintained civil penalties. The law continues to define possession of an infringing copy of computer programs, movies, TV dramas, and musical recordings (including visual and sound recordings) for use in business as an offense, but provides no criminal liability for other categories of works.

Over the past few years the HKSAR government has consulted unsuccessfully with Internet service providers and content user representatives on a voluntary framework for IPR protection in the digital environment. In June 2011, the government introduced an amended copyright bill to the Legislative Council (LegCo) for debate. In June 2012, the government shelved the bill because of concern from “netizen” groups regarding freedom of speech and parody protections. Between July and November 2013, the HKG held a public consultation on parody. In March 2014, the HKG submitted to LegCo a summary of the consultation submissions and an outline of the HKG’s principles on parody vis-à-vis copyright for a potential future bill.

The Patent Ordinance allows for granting of an independent patent in Hong Kong based on patents granted by the UK and China. The patent granted in Hong Kong is independent and capable of being tested for validity, rectified, amended, revoked and enforced in Hong Kong courts. In 2011, the government initiated a public comment process to ensure that the patent system continues to meet the most modern standards and is well suited to Hong Kong’s development into a regional innovation and technology hub. The HKG announced in February 2013 to establish an “original grant patent” system, while retaining the current re-registration
system for the granting of standard patents. The new patent system was expected to be introduced in 2016-17, depending on the progress of legislative and other preparatory work.

The Registered Design Ordinance is modeled on the EU design registration system, with certain modifications. To be registered, a design must be new. The system requires no substantive examination. Protection is for an initial period of five years and may be extended for four periods of five years each, up to a maximum of 25 years.

Hong Kong’s trademark law is TRIPS-compatible and allows for registration of trademarks relating to services. All trademark registrations originally filed in Hong Kong are valid for seven years and renewable for 14-year periods. Proprietors of trademarks registered elsewhere must apply anew and satisfy all requirements of Hong Kong law. When evidence of use is required, such use must have occurred in Hong Kong.

Hong Kong has no specific ordinance to cover trade secrets; however, the government has a duty under the Trade Descriptions Ordinance to protect information being disclosed to other parties. The Trade Descriptions Ordinance prohibits false trade descriptions, forged trademarks, and misstatements in respect of goods supplied in the course of trade. The law was amended in July 2012 to extend coverage to services and put into force in July 2013.

Resources for Rights Holders

Timothy Browning
U.S. Patent and Trademark Office IPR Attaché for South China, Hong Kong, and Macau
U.S. Consulate General
43 Hua Jiu Road, Zhujiang New Town
Tianhe District
Guangzhou, China
510623

+86 (20) 3814-5533
Timothy.Browning@trade.gov

American Chamber of Commerce Hong Kong
1904 Bank of America Tower
12 Harcourt Road
Central, Hong Kong

+(852) 2530 6900
amcham@amcham.org.hk

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO’s country profiles at [http://www.wipo.int/directory/en/](http://www.wipo.int/directory/en/).

Local lawyers list: [http://hongkong.usconsulate.gov/acs_attorneys.html](http://hongkong.usconsulate.gov/acs_attorneys.html)
8. Transparency of Regulatory System

Hong Kong’s body of law and regulation recognizes the value of competition in economic activity. Regulations and policies typically strive to avoid distortions or impediments to the efficient mobilization and allocation of investment. Bureaucratic procedures and "red tape" are held to a minimum and are equally transparent to local and foreign investors. In July 2010, the government introduced legislation to regulate price-fixing, bid-rigging, market allocation, output control, and the abuse of a substantial degree of market power. In June 2012, after intense public discussion, LegCo passed the bill, which included amendments to address concerns raised by small- and medium-sized enterprises. The government will introduce the law in two phases. The establishment of the Competition Commission and publication of guidelines for enforcement became effective in January 2013, while the Competition Tribunal came into operation in August 2013. Pending implementation of the new law, only the telecommunications and, to a lesser degree, the broadcasting sectors have competition regulations in place. Those two sectors are specifically excluded from the new Competition Law. Analysts have noted that some sectors of the economy (e.g. energy and real estate) are dominated by monopolies or cartels.

9. Efficient Capital Markets and Portfolio Investment

There are no impediments to the free flow of financial resources. Non-interventionist economic policies, complete freedom of capital movement, and a well-understood regulatory and legal environment have greatly facilitated Hong Kong's role as a regional and international financial center. Hong Kong has one of the most active foreign exchange markets in Asia.

Hong Kong has a three-tier system of deposit-taking institutions: licensed banks, restricted license banks, and deposit-taking companies. Only licensed banks can offer current (checking) or savings accounts. In April 2014, Hong Kong had 158 licensed banks, 21 restricted licensed banks, 23 deposit-taking institutions, and 61 representative offices. The Hong Kong & Shanghai Banking Corporation (HSBC) is Hong Kong's largest banking group. With its majority-owned subsidiary Hang Seng Bank, and 166 branches, the group controls more than 30.5 percent of Hong Kong dollar deposits. The Bank of China (Hong Kong) is the second-largest banking group, controlling 14.9 percent of Hong Kong dollar deposits throughout 215 branches. Thirty-five U.S. "authorized financial institutions" operate in Hong Kong. Most banks in Hong Kong maintain U.S. correspondent relationships. In December 2011, the government introduced the Banking Amendments Bill to the Legislative Council. The main purpose of the bill is to set out the legal framework for implementing the Basel III capital, liquidity, and disclosure requirements in Hong Kong. The Legislative Council passed the bill in March 2012. Hong Kong has begun implementing the new capital standards from January 2013 in phases, with full implementation expected by January 2019.

Table 1: Hong Kong's five largest banks, in terms of total assets (2012).

<table>
<thead>
<tr>
<th>Rank</th>
<th>Institution</th>
<th>Total Assets (US$ Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Hong Kong &amp; Shanghai Banking Corp (HSBC)</td>
<td>777.6</td>
</tr>
<tr>
<td>2</td>
<td>Bank of China (Hong Kong)</td>
<td>226.8</td>
</tr>
<tr>
<td>3</td>
<td>Hang Seng Bank Ltd.</td>
<td>138.1</td>
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</table>
Credit in Hong Kong is allocated strictly on market terms and is available to foreign investors on a non-discriminatory basis. The private sector has access to the full spectrum of credit instruments as provided by Hong Kong’s banking and financial system. Legal, regulatory, and accounting systems are transparent and consistent with international norms. The Hong Kong Monetary Authority (HKMA) functions as a de facto central bank. It is responsible for maintaining the stability of the banking system and managing the Exchange Fund that backs Hong Kong’s currency. The HKMA, with the assistance of the banking sector, has upgraded Hong Kong's financial market infrastructure. Real Time Gross Settlement helps minimize risks in the payment system and brings Hong Kong in line with international standards.

The Hong Kong Mortgage Corporation (HKMC, wholly-owned by the government), promotes the development of the secondary mortgage market in Hong Kong. The HKMC purchases residential mortgage loans for its own retained portfolio and also repackages mortgages into mortgage-backed securities for sale. In February 2014 (the latest figures available), the HKMC’s outstanding amount of debt totaled US$4.3 billion.

In 2006, a Deposit Protection Scheme (DPS) began operation. Depositors are now protected up to a maximum of HK$100,000 (US$12,820) per bank. As a result of the global financial crisis in late 2008, the HKG announced the use of the Exchange Fund to guarantee the repayment of all customer deposits in Hong Kong-dollars and foreign-currency held with licensed banks, restricted license banks, and deposit-taking companies, including Hong Kong branches of overseas institutions. The original DPS ended in 2010. In June 2010, the Legislative Council passed the Deposit Protection Scheme (Amendment) Ordinance, which raised the DPS protection limit from HK$100,000 (US$12,820) to HK$500,000 (US$64,100). The assets of the DPS Fund (funded through contributions by member banks) amounted to US$269.2 million at the end of March 2013, which is sufficient to cope with the simultaneous failures of two medium-sized banks. While Hong Kong requires locally licensed banks to participate, overseas-incorporated banks may apply for an exemption if a comparable scheme in their home jurisdiction covers deposits taken in by its Hong Kong branches.

In 2004, the Hong Kong Monetary Authority (HKMA) and Dun & Bradstreet (HK) Ltd. (D&B) jointly launched a Commercial Credit Reference Agency (CCRA) to collate information about the indebtedness and credit history of small and medium-sized enterprises (SMEs) and make such information available to members of the Hong Kong Association of Banks (HKAB) and the Hong Kong Association of Deposit Taking Companies.

Under the Insurance Companies Ordinance, insurance companies are authorized by the Insurance Authority to transact business in Hong Kong. As of April 2014, there were 159 authorized companies in Hong Kong. Of these, 72 were foreign companies (from 20 countries) and two were Mainland-Chinese enterprises. A number of the world's top insurance companies in terms of assets have branch offices or subsidiaries in Hong Kong. In April 2014, the HKG introduced the Insurance Companies (Amendment) Bill into the LegCo. The bill will provide a legal
framework for establishing an independent Insurance Authority and a statutory licensing regime for insurance intermediaries, and enhance the protection for policyholders.

The Hong Kong Stock Exchange’s total market capitalization rose by 9.5 percent during 2013 to US$3.1 trillion, with 1,643 listed firms as of year-end 2013. Hong Kong’s stock exchange ranked second in Asia after Tokyo, and sixth in the world in terms of capitalization. Hong Kong Exchanges and Clearing Limited (HKEx), a listed company, operates the stock and futures exchanges. In June 2011, Samsonite International S.A. became the first U.S.-based company to list on the Hong Kong stock market, followed in December by luxury-brand Coach, the first U.S.-domiciled company to list. The Securities and Futures Commission, an independent statutory body outside the civil service, has licensing and supervisory powers to ensure the integrity of markets and protection of investors.

No discriminatory legal constraints exist for foreign securities firms establishing operations in Hong Kong via branching, acquisition, or subsidiaries. In practice, foreign firms typically establish operations in Hong Kong in the form of subsidiaries. Rules governing operations are the same, irrespective of ownership. Portfolio investment decisions are left to the private sector. No laws or regulations specifically authorize private firms to adopt articles of incorporation/association that limit or prohibit foreign investment, participation, or control.

The stock exchange plays a significant role in raising capital for Chinese state-owned enterprises. Chinese state enterprises raise equity (through the issuance of so-called "H" shares) in Hong Kong provided they meet Hong Kong regulatory and accounting requirements. These "H" shares are denominated in Renminbi (RMB), but must be purchased in Hong Kong Dollars. In 2013, a total of 182 Chinese enterprises had “H” share listings on the stock exchange, with market capitalization of US$629.8 billion. In April 2014, Chinese Premier Li Keqiang announced the establishment of a Shanghai-Hong Kong stock exchanges connectivity mechanism. The scheme will facilitate individual investors to cross trade Hong Kong and Shanghai stocks starting in October 2014.

Hong Kong has made a concerted effort to develop a local debt market with the Exchange Fund bills and notes program. Maturities now extend to ten years. Hong Kong Dollar debt (public and private) has increased gradually, from US$3.46 billion at the end of 1989 to US$183.1 billion by March 2014. Since July 2007 when the PRC Government approved the sales of RMB-denominated bonds in Hong Kong, RMB 410.5 billion (US$65.8 billion) of offshore RMB bonds were issued in Hong Kong (as of December 2013). The range of issuers has diversified, including a number of multinational enterprises such as McDonald's, Caterpillar, Unilever, Volkswagen and Renault. Regional infrastructure financing requirements and increasing investor demand are projected to stimulate further development of the local debt market. The HKG requires workers and employers to contribute to retirement funds under the Mandatory Provident Fund (MPF) scheme. Contributions are expected to channel roughly US$5 billion annually into various investment vehicles. By the end of 2013, the net asset values of MPF funds amounted to US$65.9 billion.

10. Competition from State-Owned Enterprises
Although Hong Kong is a free-market economy, the government provides more than half the population with subsidized housing, the vast majority of hospital services, and most education services from childhood through the university level. The government also owns major business enterprises, such as the stock exchange, the railway company, and the airport.

Conflicts occasionally arise between the government's respective roles as owner and policy-maker. Industry observers have recommended that the government establish a separate entity to coordinate its ownership of government-held enterprises and initiate a transparent process of nomination to the boards of government-affiliated entities. Other recommendations from the private sector include establishing a clear separation between industrial policy and the government’s ownership function and minimizing exemptions of government-owned enterprises from general laws. The Exchange Fund, for example, is exempt from the securities disclosure laws in its purchases of shares, and makes its disclosures only on a voluntary basis.

Hong Kong has a total of 581 government-affiliated enterprises (also known as “statutory bodies”). The 2012 Competition Law exempts all but six of the statutory bodies from the law’s purview. While the government’s private sector ownership interests do not materially impede competition in Hong Kong’s most important economic sectors (e.g., banking, external trade, tourism), private sector industry representatives have encouraged the government to adhere more closely to the OECD’s Guidelines on Corporate Governance of State-owned Enterprises.

11. Corporate Social Responsibility (CSR)

In April 2010, the Hong Kong Productivity Council (HKPC) announced the launch of the Hong Kong Corporate Citizenship Program (HKCCP) to raise awareness of corporate citizenship among local enterprises and to assist them in adopting it as their business strategies. HKCCP organizes a series of activities including awards such as “The Hong Kong Outstanding Corporate Citizenship Award” and as well as seminars and workshops. In July 2012, the Legislative Council passed amendments to the Companies Ordinance that embrace corporate social responsibility by mandating listed companies as well as larger private companies to report on their corporate environmental policies and performances. The new law came into force in March 2014.

12. Political Violence

Hong Kong is politically stable. Demonstrations are almost always peaceful. The U.S. Consulate General is not aware of any recent incidents involving politically motivated damage to projects or installations.

13. Corruption

Hong Kong has an excellent track record in combating corruption. U.S. firms have not identified corruption as an obstacle to foreign direct investment. The Independent Commission Against Corruption (ICAC) is responsible for combating corruption. The ICAC is independent of the public service and the ICAC Commissioner is responsible directly to the Chief Executive. A bribe to a foreign official is a criminal act, as is the giving or accepting of bribes, for both private
individuals and government employees. Penalties are stiff. For example, a civil servant who solicits or accepts any advantage without special permission of the Government can receive one year's imprisonment and a HK$100,000 (US$12,820) fine if convicted. Individuals in both the private and public sector can receive up to seven years imprisonment and a HK$500,000 (US$64,100) fine for offering, soliciting, or accepting a benefit for performance or non-performance of an official duty.

In May 2013, the ICAC started a criminal investigation into its own former head Timothy Tong after an audit revealed that he overspent the hospitality limit at two dinners that he hosted and spent public money on other banquets and gifts for Mainland officials during his 2007-2012 term. The ICAC is currently looking into Tong's alleged misconduct in public office and violations of anti-bribery laws.

Resources to report corruption

Simon Pei, Commissioner
Independent Commission Against Corruption
303 Java Road, North Point, Hong Kong
+852-2826-3111
com-office@icac.org.hk

14 Bilateral Investments Agreements

To date, Hong Kong has signed agreements with Australia, Austria, Belgo-Luxembourg Economic Union, Denmark, Finland, France, Germany, Italy, Japan, Korea, Kuwait, the Netherlands, New Zealand, Sweden, Switzerland, Thailand, and the United Kingdom. In December 2013, Hong Kong concluded the negotiations with Bahrain and Myanmar separately. Hong Kong will sign the agreements with the two countries after the completion of the necessary internal procedures by the parties concerned. The HKG has tentative agreements with Canada and Vietnam and is negotiating agreements with Chile, Singapore, and Russia. All such agreements are based on a model text approved by Mainland China through the Sino-British Joint Liaison Group. The United States and Hong Kong held talks on a bilateral investment agreement in the late 1990s, but certain differences could not be resolved and negotiations were suspended. U.S. firms, however, are generally not at a competitive or legal disadvantage, since Hong Kong’s market is open and its legal system impartial.

15. OPIC and Other Investment Insurance Programs

Overseas Private Investment Corporation (OPIC) coverage is not available in Hong Kong. Hong Kong is a member of the World Bank Group's Multilateral Investment Guarantee Agency (MIGA).

16. Labor

In the 1980s and much of the 1990s, Hong Kong's unemployment rate hovered around two percent. Reflecting structural changes in the local economy and weak global economic
conditions, Hong Kong’s unemployment rate rose slightly to 3.1 percent by the end of March 2014. The Employees Retraining Board provides skills retraining for local employees to cope with ongoing structural change in the economy. To address a shortage of highly skilled technical and financial professionals, the HKG has made efforts to attract qualified foreign and Mainland-Chinese workers. As of July 2003, conditions for admitting Mainland Chinese for employment were eased and aligned with those applicable to foreign nationals.

In 2012 (latest available figure), membership in Hong Kong's 800 registered unions totaled 813,897, a participation rate of about 23.7 percent. Hong Kong has implemented 41 conventions of the International Labor Organization in full and 18 others with modifications.

Local law provides for the right of association and the right of workers to establish and join organizations of their own choosing. The government does not discourage or impede the formation of unions. Workers who allege discrimination against unions have the right to have their cases heard by the Labor Relations Tribunal. Although legislation does not prohibit strikes, in practice most workers must sign employment contracts that state that walking off the job is a breach of contract and can lead to summary dismissal. Collective bargaining is legal in Hong Kong, but there is no obligation on employers to engage in it. In practice, collective bargaining is not widely used. For more information on labor regulations in Hong Kong, please visit the following website: www.labour.gov.hk/eng/legislat/contentA.htm (click on Chapter 57 “Employment Ordinance”).

On January 5, 2011, the Legislative Council passed Hong Kong's first statutory minimum hourly wage, which is set at HK$28 (US$3.6) and went into force on May 1, 2011. In December 2012, the government decided to raise the minimum hourly wage to HK$30 (US$3.8), effective from May 1, 2013. The Minimum Wage Commission launched a one-month public consultation in April 2014 to review the minimum hourly wage. It is expected that the commission will submit a report on its recommendation by the end of 2014.

17. Foreign Trade Zones/Free Ports

Hong Kong is a free port without foreign trade zones. Hong Kong's modern and efficient infrastructure supports Hong Kong's role as a trade entrepôt and regional financial and services center. Rapid growth has placed severe demands on that infrastructure, necessitating plans for major new investments over the next few years in transportation and shipping facilities. Significant elements include a planned expansion of container terminal facilities, additional roadway and railway networks, major residential/commercial developments, community facilities, environmental protection projects, and redevelopment of the old Kai Tak Airport. Regarding the airport, the HKG is planning to spend over US$13 billion in the next decade to redevelop it into a modern green zone that contains government offices, public housing, commercial centers, and cruise terminals. Construction at the site began in July 2009. The HKG has conditionally approved the proposal to build a third runway at Hong Kong International Airport, and an environmental impact assessment is underway. It is expected that the construction work on the proposed third runway will commence in 2015.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics
### Table 1: Key Macroeconomic data, U.S. FDI in Hong Kong

<table>
<thead>
<tr>
<th>Economic Data</th>
<th>Year</th>
<th>Amount</th>
<th>Year</th>
<th>Amount</th>
<th>Source of data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Direct Investment</td>
<td>Hong Kong Statistical source*</td>
<td>USG or international statistical source</td>
<td>USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. FDI in Hong Kong (Millions U.S. Dollars, stock positions)</td>
<td>2012</td>
<td>37,808</td>
<td>2012</td>
<td>47,767</td>
<td>(BEA) click selections to reach.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Bureau of Economic Analysis</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Balance of Payments and Direct Investment Position Data</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- U.S. Direct Investment Position Abroad on a Historical-Cost Basis</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- By Country only (all countries) (Millions of Dollars)</td>
</tr>
<tr>
<td>Hong Kong’s FDI in the United States (Millions U.S. Dollars, stock positions)</td>
<td>2012</td>
<td>7,974</td>
<td>2012</td>
<td>6,283</td>
<td>(BEA) click selections to reach</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Balance of Payments and Direct Investment Position Data</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- Foreign Direct Investment Position in the United States on a Historical-Cost Basis</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- By Country only (all countries) (Millions of Dollars)</td>
</tr>
<tr>
<td>Total inbound stock of FDI as % of Hong Kong’s GDP (calculate)</td>
<td>2012</td>
<td>437.5</td>
<td>2012</td>
<td>438.9</td>
<td><a href="http://cdis.imf.org">http://cdis.imf.org</a></td>
</tr>
</tbody>
</table>
* Source: Hong Kong Census and Statistics Department
Notes: The FDI statistics of U.S. Department of Commerce differ from Hong Kong data because the Hong Kong Census and Statistics Department refers country to the immediate source/destination economy and does not necessarily reflect the country from/in which the funds are initially mobilized/ultimately used.

### Table 2: Sources and Destination of FDI

**Direct Investment from/in Counterpart Economy Data**

<table>
<thead>
<tr>
<th>From Top Five Sources/To Top Five Destinations (US Dollars, Millions)</th>
<th>Inward Direct Investment</th>
<th>Outward Direct Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Inward</td>
<td>1,146,316</td>
<td>100%</td>
</tr>
<tr>
<td>China, P.R.: Mainland</td>
<td>401,771</td>
<td>35%</td>
</tr>
<tr>
<td>Virgin Islands, British</td>
<td>395,851</td>
<td>35%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>73,858</td>
<td>6%</td>
</tr>
<tr>
<td>Bermuda</td>
<td>72,408</td>
<td>6%</td>
</tr>
<tr>
<td>United States</td>
<td>35,748</td>
<td>3%</td>
</tr>
</tbody>
</table>

"0" reflects amounts rounded to +/- USD 500,000.

Source: [http://cdis.imf.org](http://cdis.imf.org)

Note: Hong Kong’s statistics are not consistent with the IMF figures because the Hong Kong Census and Statistics Department refers country to the immediate source/destination economy and does not necessarily reflect the country from/in which the funds are initially mobilized/ultimately used. British Virgin Islands, Bermuda, Cayman Islands, and Cook Islands are sources/destinations of Hong Kong’s inward/outward FDI, with ultimate source(s)/destination(s) being another country/economy.

### Table 3: Sources of Portfolio Investment

<table>
<thead>
<tr>
<th>Portfolio Investment Assets</th>
<th>Total (Millions, US Dollars)</th>
<th>Top Five Partners (Millions, US Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All Countries</td>
<td>Equity Securities</td>
</tr>
<tr>
<td>Total</td>
<td>966,317</td>
<td>100%</td>
</tr>
<tr>
<td>China, P.R.: Mainland</td>
<td>300,578</td>
<td>31%</td>
</tr>
<tr>
<td>Cayman Islands</td>
<td>207,786</td>
<td>22%</td>
</tr>
<tr>
<td>Bermuda</td>
<td>87,969</td>
<td>9%</td>
</tr>
<tr>
<td>United States</td>
<td>71,448</td>
<td>7%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>64,126</td>
<td>7%</td>
</tr>
</tbody>
</table>

Source: [http://cpis.imf.org](http://cpis.imf.org)
Note: The Hong Kong Census and Statistics Department does not publish the statistics of portfolio investment assets.

19. Contact Point at Post

Marc Forino, Economic Unit Chief
U.S. Consulate General Hong Kong
26 Garden Road, Central
Hong Kong SAR, PRC
+852-2841-9011
information_resource_center_hk@yahoo.com