

HONG KONG

In 1996, the U.S. trade surplus with Hong Kong was \$4.1 billion, an increase of \$162 million from the U.S. trade surplus of \$3.9 billion in 1995. U.S. merchandise exports to Hong Kong were nearly \$14.0 billion, a decrease of \$264 million (1.9 percent) from the level of U.S. exports to Hong Kong in 1995. Hong Kong was the United States' eleventh largest export market in 1996. U.S. imports from Hong Kong were \$9.9 billion in 1996, a decrease of \$427 million (4.2 percent) from the level of imports in 1995.

The stock of U.S. foreign direct investment (FDI) in Hong Kong in 1995 was \$13.8 billion, an increase of 5.9 percent from the level of U.S. FDI in 1994. U.S. FDI in Hong Kong is concentrated largely in the wholesale, financial, and manufacturing sectors.

Overview

On July 1, 1997, Hong Kong will become a special administrative region (SAR) of the People's Republic of China (China). China will assume the responsibility for Hong Kong's foreign affairs and defense. However, under China's policy of "one country, two systems" as guaranteed by the 1984 Sino-U.K. Joint Declaration and the 1990 Basic Law, Hong Kong has been promised "a high degree of autonomy" from China in managing its trade, financial, social, legal, and other internal matters for fifty years.

This commitment means that Hong Kong will remain a separate customs territory with all of its current border arrangements. Hong Kong will retain its independent membership in economic organizations such as the World Trade Organization (WTO), and retain control of its internal economic and financial policies.

LACK OF INTELLECTUAL PROPERTY PROTECTION

Hong Kong's laws provide a good legal framework for the protection of intellectual property rights (IPR), but distribution and retail sale in Hong Kong of pirated compact discs (software, video, and music) illegally produced in China remains widespread. Retailers of pirated software and music operate openly, and U.S. property rights industry representatives believe that individuals and firms in Hong Kong are an important link in distributing pirated goods from China within Hong Kong and for export around the world. The International Intellectual Property Alliance estimated 1996 losses due to piracy in Hong Kong at \$239.7 million, including more than \$115 million in entertainment software.

The United States has urged the Hong Kong Government at the most senior levels to crack down on the major distributors of pirated goods as well as retailers, and to work with Chinese authorities to pursue Hong Kong individuals alleged to be involved in illegal production in China. Hong Kong has responded by increasing manpower in the Customs Department devoted to IPR enforcement, conducting more retail-level raids, strengthening law enforcement links with Guandong provincial customs officials, and including in the new draft Copyright Bill provisions that would facilitate enforcement. A 1996 increase in penalties

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for copyright violations resulted in the first two convictions at the district court level, a sign of progress, albeit at a slow pace.

So far, however, government action has had little if any demonstrable impact on the availability of pirated goods in Hong Kong. Well-known arcades full of shops selling pirated goods continue to flourish. Citing the establishment and operations of new arcades, industry sources claim that the availability of pirated goods in Hong Kong actually increased in the latter part of 1996. Investigations into alleged involvement by Hong Kong residents in the financing (in China) and distribution (in Hong Kong and for export worldwide) of pirated compact discs have not yet resulted in action.

When authorities have moved against infringers, effective prosecution has been hampered by burdensome evidentiary requirements imposed by some prosecutors. The government has attempted to address this problem by including provisions in the draft Copyright Bill clarifying some of the evidentiary requirements.

The United States will continue to press Hong Kong to toughen its stance towards IPR piracy.