Hong Kong

RISK & COMPLIANCE REPORT

DATE: March 2017

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Executive Summary - Hong Kong	
Sanctions:	None
FAFT list of AML Deficient Countries	No
Higher Risk Areas:	US Dept of State Money Laundering Assessment Not on EU White list equivalent jurisdictions
Medium Risk Areas:	Weakness in Government Legislation to combat Money Laundering Failed States Index (Political Issues)(Average Score)

Major Investment Areas:

Agriculture - products:

fresh vegetables; poultry, pork; fish

Industries:

textiles, clothing, tourism, banking, shipping, electronics, plastics, toys, watches, clocks

Exports - commodities:

electrical machinery and appliances, textiles, apparel, footwear, watches and clocks, toys, plastics, precious stones, printed material

Exports - partners:

China 54.1%, US 9.9%, Japan 4.2% (2012 est.)

Imports - commodities:

raw materials and semi-manufactures, consumer goods, capital goods, foodstuffs, fuel (most is reexported)

Imports - partners:

China 46.9%, Japan 8.4%, Taiwan 7.5%, South Korea 5%, US 4.7% (2012 est.)

Investment Restrictions:

The Hong Kong Government (HKG) welcomes foreign investment, neither offering special incentives nor imposing disincentives for foreign investors.

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.

Contents

Section 1 - Background

Occupied by the UK in 1841, Hong Kong was formally ceded by China the following year; various adjacent lands were added later in the 19th century. Pursuant to an agreement signed by China and the UK on 19 December 1984, Hong Kong became the Hong Kong Special Administrative Region (SAR) of the People's Republic of China on 1 July 1997. In this agreement, China promised that, under its "one country, two systems" formula, China's socialist economic system would not be imposed on Hong Kong and that Hong Kong would enjoy a high degree of autonomy in all matters except foreign and defense affairs for the next 50 years.

Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Hong Kong is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

Compliance with FATF Recommendations

FATF Mutual Evaluation - 2012:

The FATF has approved and published the follow-up report for Hong Kong, China. Hong Kong, China's third mutual evaluation report (MER) was adopted in 2008.

The FATF has released the follow-up report to the Mutual Evaluation Report of Hong Kong, China, which was adopted ion 11 July 2008.

In the 2008 mutual evaluation, Hong Kong, China was rated partially compliant (PC) on a number of key (Recommendation 3, SR I and III) and core recommendations (Recommendations 5, 10 and SR II).

In October 2012, the FATF recognised that Hong Kong, China had made significant progress in addressing the deficiencies identified in the 2008 Mutual Evaluation Report. The FATF agreed that Hong Kong, China should now report on any further improvements to its Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) system on a biennial update basis.

The decision by the FATF to remove a country from the regular follow-up process is based on updated procedures agreed in October 2009.

Extract from 2014 Asia Pacific Group on Money Laundering Yearly Typologies Report:

Continuing Trends:

Email Scams

The trend for email scams continues further to the typologies report last year. Culprits hacked the email account of the customers and suppliers, and then gave false instructions directing the customers to remit the outstanding amount to a new account and the funds were withdrawn by cash or transfer immediately.

US Department of State Money Laundering assessment (INCSR)

Hong Kong is categorised by the US State Department as a Country/Jurisdiction of Primary Concern in respect of Money Laundering and Financial Crimes.

OVERVIEW

Hong Kong, a Special Administrative Region (SAR) of the People's Republic of China, is a major international financial and trading center. As of December 31, 2016, Hong Kong's stock market was the world's seventh largest, with $3.2 trillion in market capitalization. Already the world's eighth largest banking center in terms of external transactions and the fifth largest foreign exchange trading center, Hong Kong has continued its expansion as the primary offshore renminbi (RMB) financing center, accumulating the equivalent of over $90.6 billion in RMB- denominated deposits at authorized institutions as of November 2016. Hong Kong does not differentiate between offshore and onshore entities for licensing and supervisory purposes.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Hong Kong's low tax rates and simplified tax regime, coupled with its sophisticated banking system, shell company formation agents, free port status, and the absence of currency and exchange controls present vulnerabilities for money laundering, including TBML and underground finance.

Casinos are illegal in Hong Kong. Horse races, a local lottery, and soccer betting are the only legal gaming activities, all under the direction of the Hong Kong Jockey Club (HKJC), a non- profit organization. The HKJC's compliance team collaborates closely with law enforcement to disrupt illegal gaming outlets. Government of Hong Kong officials indicate the primary sources of laundered funds, derived from local and overseas criminal activity, are fraud and financial crimes, illegal gaming, loan sharking, smuggling, and vice.

KEY AML LAWS AND REGULATIONS

Hong Kong has AML legislation allowing the tracing and confiscating of proceeds derived from drug-trafficking (Drug Trafficking (Recovery of Proceeds) Ordinance) and organized crime (Organized and Serious Crimes Ordinance). These two ordinances have made it more difficult for drug traffickers and other criminals to launder or retain their illicit profits. Hong Kong also has enacted the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (AMLO) for supervising authorized institutions' compliance with the legal and supervisory requirements.

Under the AMLO, where payment-related information is exchanged or intended to be exchanged authorized institutions need to carry out CDD procedures. Furthermore, the AMLO Guideline and the Hong Kong Monetary Authority's (HKMA) Transactions Guidance Paper provide substantial practical guidance on filing STRs. The guideline indicates that, where knowledge or suspicion arises, an STR should be filed in a timely manner with the Joint Financial Intelligence Unit, which is jointly run by staff of the Hong Kong Police Force and the Hong Kong Customs & Excise Department.

In February 2016, the Hong Kong Association of Banks, in collaboration with the HKMA, published the Guidance Paper on Combating Trade-based Money Laundering in order to implement effective measures to further mitigate authorized institutions' money laundering risks.

Hong Kong is a member of the FATF and the APG, a FATF-style regional body.

AML DEFICIENCIES

Hong Kong has yet to establish a system that detects the physical cross-border transportation of currency and bearer negotiable instruments. Hong Kong needs to accord priority to establishing such a declaration/disclosure system.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Over the last two years, financial regulators, most notably the HKMA, conducted extensive outreach, including at the highest corporate levels, to stress the importance of robust AML controls and highlight potential criminal sanctions implications for failure to fulfill legal obligations under the Anti-Money Laundering and Counter-Terrorist Financing (AML/CFT, Financial Institutions) Ordinance.

The United States and Hong Kong SAR are parties to the Agreement Between the Government of the United States of America and the Government of Hong Kong on Mutual Legal Assistance in Criminal Affairs, which entered into force in 2000. As a SAR of China, Hong Kong cannot sign or ratify international conventions in its own right. China is responsible for Hong Kong's international affairs and may arrange for its ratification of any convention to be extended to Hong Kong. The 1988 Drug Convention was extended to Hong Kong in 1997. The UNCAC and the UNTOC were extended to Hong Kong in 2006.

Hong Kong should establish threshold reporting requirements for currency transactions and put in place structuring provisions to counter efforts to evade reporting. The government should establish a cross-border currency reporting requirement. In July 2015, the Hong Kong government launched a three-month public consultation on such a reporting system. The Hong Kong government is consolidating the views collected. Hong Kong should also implement a mechanism whereby the government can return funds to identified victims once it confiscates criminally-derived proceeds.

From January 1 - November 30, 2016, there were 90 money laundering convictions. During the same timeframe, assets restrained under the money laundering and asset confiscation laws totaled $34.3 million.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Hong Kong does not conform with regard to the following government legislation: -

Record Large Transactions - By law or regulation, banks are required to maintain records of large transactions in currency or other monetary instruments.

International Transportation of Currency - By law or regulation, the jurisdiction, in cooperation with banks, controls or monitors the flow of currency and monetary

EU White list of Equivalent Jurisdictions

Hong Kong is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

To view historic Governance Indicators Ctrl + Click here and then select country

Failed States Index

To view Failed States Index Ctrl + Click here

Offshore Financial Centre

Hong Kong is considered to be an Offshore Financial Centre

Reports

US State Dept Narcotics Report 2013:

The Hong Kong Special Administrative Region is neither a major narcotics production center nor a significant illicit drug transshipment point. However, Hong Kong remains an attractive irregular transit point for drugs and for coordinating drug trafficking elsewhere due to its status as a highly efficient financial and transportation hub. The Hong Kong government remains a committed counter-narcotics partner, as evidenced by statements by senior officials, strict legislation, vigorous law enforcement efforts, and a robust prevention and treatment program.

Effective law enforcement capacity and the existence of alternative, and less scrutinized, air and sea ports in the region limits Hong Kong's attractiveness as a major transshipment point. However, in July 2012, Hong Kong authorities seized a record 649 kilogram cocaine load from a shipping container originating from Ecuador. Additionally in 2012, authorities arrested numerous drug couriers originating from South America. While these successes demonstrate Hong Kong's enforcement capacity, they also point to a rising demand for drugs, particularly cocaine, in Hong Kong and the region.

The Narcotics Bureau of the Hong Kong Police Force and the Drug Investigation Bureau of the Hong Kong Customs and Excise Department are the principal law enforcement agencies charged with suppressing drug trafficking and regulating trade in precursor chemicals. These agencies collabourate closely with U.S. law enforcement personnel. The U.S. Drug Enforcement Administration specifically works closely with these agencies to combat emerging cocaine networks with links to South America, money laundering activity tied to drug trafficking, and diversion of precursor chemicals worldwide.

In 2012, the Hong Kong government launched the Sixth Three- year Plan on Drug Treatment and Rehabilitation Services for the period 2012-2014. It also continued its support for the "Beat Drugs Fund," a government initiative established in 1996 with a $4.5 million capital base raised to $390 million in 2010 to fund anti- drug community outreach, education, and treatment projects proposed by the public. Dissemination of anti-drug messages by the Hong Kong Security Bureau's Narcotics Division is augmented through the Jockey Club Charities Trust-funded Drug Information Centre, via electronic media, posters and other printed materials.

Hong Kong routinely extradites individuals to the United States and affords mutual legal assistance to the United States in narcotics cases and other matters.

US State Dept Trafficking in Persons Report 2014 (introduction):

Hong Kong is classified a Tier 2 country - A country whose governments does not fully comply with the Trafficking Victims Protection Act's minimum standards, but are making significant efforts to bring themselves into compliance with those standards

The Hong Kong Special Administrative Region of the People's Republic of China is a destination, transit, and source territory for men, women, and children subjected to sex trafficking and forced labor. Victims include citizens from mainland China, the Philippines, Indonesia, Thailand, Vietnam, Nepal, Cambodia, other Southeast Asian countries, Colombia, Chad, and Uganda. 320,000 foreign domestic workers from Indonesia, the Philippines, Burma, and Bangladesh work in Hong Kong; some become victims of forced labor in the private homes in which they are employed. Workers from the Philippines and Indonesia are generally charged the equivalent of between $1,900 and $2,800, respectively, in their home countries for job placement; these debts lead to situations of debt bondage in Hong Kong. Several of Hong Kong's domestic worker employment agencies have charged fees in excess of the maximum job placement fee allowed under Hong Kong law. The accumulated debts amount to more than 80 percent of workers' salaries for the first seven to eight months of employment. During that period, some workers are unwilling to report abusive employers for fear of losing their jobs; some employers or employment agencies also illegally withhold passports, employment contracts, and workers' bank debit cards until their debt has been paid. In addition, domestic workers have reported working 17-hour days, receiving less than minimum wage, being physically or verbally assaulted, experiencing confinement in the employer's home, and not receiving a weekly day off. Many such workers do not have their own bedroom and are forced to sleep in bathrooms, kitchens, storage rooms, and other inappropriate locations. Some women are lured to Hong Kong by criminal syndicates or acquaintances with promises of financial rewards and are deceived about the nature of the prospective work. Upon arrival in Hong Kong, they are forced into prostitution to repay money owed for their passage to Hong Kong. Traffickers psychologically coerce some victims of sex trafficking by threatening to reveal photos or recordings of the victims' sexual encounters to their families. Hong Kong is a transit point for Southeast Asian fishermen subjected to forced labor on fishing ships bound for Fiji and other ports in the Pacific. "Compensated dating" continues to facilitate the prostitution of Hong Kong children and their vulnerability to trafficking.

Hong Kong authorities do not fully comply with the minimum standards for the elimination of trafficking; however, they are making significant efforts to do so. In 2013, authorities amended the Prosecution Code to include the 2000 UN TIP Protocol's definition of human trafficking. Authorities' anti-trafficking efforts remained limited, however, because of insufficient laws that do not prohibit all forms of trafficking. Authorities failed to screen women who were arrested for prostitution or immigration violations to determine if they were trafficking victims. Authorities identified and assisted only seven sex trafficking victims and made limited efforts to bring traffickers to justice, while thousands of potential victims were arrested, fined, and deported. The government did not identify or assist any labor trafficking victims and made no law enforcement efforts to address labor trafficking crimes, despite increased reports of forced labor involving foreign domestic workers, including a highly publicized case involving an Indonesian domestic worker severely abused and exploited by her employer for eight months.

US State Dept Terrorism Report 2015

Hong Kong continued its effective security and law enforcement partnership with the United States through the Hong Kong Customs and Excise Department's successful joint operation of the Container Security Initiative; through participation in U.S. government-sponsored training in related topics; and through engagement with U.S. counterterrorism agencies.

Counterterrorism remained an operational priority for the Hong Kong Police Force, as demonstrated by existing policies on prevention, protection, and preparedness. The Police Security Wing shares potential terrorist threat information with relevant counterterrorism units. The Police Counterterrorism Response Unit provides a strong deterrent presence, assisting police districts with counterterrorism strategy implementation, and complementing the tactical and professional support of existing police specialist units – such as the Explosive Ordnance Disposal Bureau, Special Duties Unit, Airport Security Unit, and VIP Protection Unit. The Security Bureau in November 2015 conducted a large-scale, inter-departmental counterterrorism exercise to test and enhance city-wide counterterrorism coordination and response capabilities. This exercise was the first of its kind in terms of scale and scope.

Hong Kong is a member of the Financial Action Task Force (FATF) and the Asia/Pacific Group on Money Laundering, a FATF-style regional body. Its Joint Financial Intelligence Unit is a member of the Egmont Group. Terrorism financing is a criminal offense in Hong Kong, and financial institutions are required to continuously search for terrorism financing networks and screen accounts using designations lists provided by the United States under relevant authorities, as well as the UN 1267/1989/2253 ISIL (Da'esh) and al-Qa'ida and1988 (Taliban) sanctions regime. Filing suspicious transactions reports irrespective of transaction amounts is obligatory, but Hong Kong does not require mandatory reporting requirements for cross-border currency movements.

Hong Kong's strategic trade regime buttresses U.S. efforts to restrict commodities, software, and technology to terrorist organizations or individuals. Hong Kong law enforcement officers attended U.S. government-sponsored capacity building training at the International Law Enforcement Academy on advanced post-blast investigations, personnel and facility security, law enforcement techniques to counter terrorism, and financial investigations. Select Hong Kong Police officers also attended Asia-Pacific Center for Security Studies (APCSS) courses, DoD sponsored conferences, and conducted subject matter exchanges and training with U.S. Military units.

International Sanctions

None applicable

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	77
World Governance Indicator – Control of Corruption	92

Corruption and Government Transparency - Report by US State Department

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.

Section 3 - Economy

Hong Kong has a free market economy, highly dependent on international trade and finance - the value of goods and services trade, including the sizable share of re-exports, is about four times GDP. Hong Kong has no tariffs on imported goods, and it levies excise duties on only four commodities, whether imported or produced locally: hard alcohol, tobacco, hydrocarbon oil, and methyl alcohol. There are no quotas or dumping laws. Hong Kong's open economy left it exposed to the global economic slowdown that began in 2008. Although increasing integration with China, through trade, tourism, and financial links, helped it to make an initial recovery more quickly than many observers anticipated, its continued reliance on foreign trade and investment leaves it vulnerable to renewed global financial market volatility or a slowdown in the global economy. The Hong Kong government is promoting the Special Administrative Region (SAR) as the site for Chinese renminbi (RMB) internationalization. Hong Kong residents are allowed to establish RMB-denominated savings accounts; RMB-denominated corporate and Chinese government bonds have been issued in Hong Kong; and RMB trade settlement is allowed. The territory far exceeded the RMB conversion quota set by Beijing for trade settlements in 2010 due to the growth of earnings from exports to the mainland. RMB deposits grew to roughly 12% of total system deposits in Hong Kong by the end of 2013. The government is pursuing efforts to introduce additional use of RMB in Hong Kong financial markets and is seeking to expand the RMB quota. The mainland has long been Hong Kong's largest trading partner, accounting for about half of Hong Kong's total trade by value. Hong Kong's natural resources are limited, and food and raw materials must be imported. As a result of China's easing of travel restrictions, the number of mainland tourists to the territory has surged from 4.5 million in 2001 to 34.9 million in 2012, outnumbering visitors from all other countries combined. Hong Kong has also established itself as the premier stock market for Chinese firms seeking to list abroad. In 2012 mainland Chinese companies constituted about 46.6% of the firms listed on the Hong Kong Stock Exchange and accounted for about 57.4% of the Exchange's market capitalization. During the past decade, as Hong Kong's manufacturing industry moved to the mainland, its service industry has grown rapidly. Credit expansion and tight housing supply conditions have caused Hong Kong property prices to rise rapidly; consumer prices increased by more than 4% in 2013. Lower and middle income segments of the population are increasingly unable to afford adequate housing. Hong Kong continues to link its currency closely to the US dollar, maintaining an arrangement established in 1983. In 2013, Hong Kong and China signed new agreements under the Closer Economic Partnership Agreement, adopted in 2003 to forge closer ties between Hong Kong and the mainland. The new measures, effective from January 2014, cover services and trade facilitation, and will improve access to the mainland's service sector for Hong Kong-based companies.

Agriculture - products:

fresh vegetables; poultry, pork; fish

Industries:

textiles, clothing, tourism, banking, shipping, electronics, plastics, toys, watches, clocks

Exports - commodities:

electrical machinery and appliances, textiles, apparel, footwear, watches and clocks, toys, plastics, precious stones, printed material

Exports - partners:

China 54.1%, US 9.9%, Japan 4.2% (2012 est.)

Imports - commodities:

raw materials and semi-manufactures, consumer goods, capital goods, foodstuffs, fuel (most is reexported)

Imports - partners:

China 46.9%, Japan 8.4%, Taiwan 7.5%, South Korea 5%, US 4.7% (2012 est.)

Banking

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 November 2010, Hong Kong had 146 licensed banks, 22 restricted licensed banks, 26 deposit-taking institutions, and 67 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 180 branches, the group controls more than 31.0 percent of Hong Kong dollar deposits. The Bank of China (Hong Kong) is the second-largest banking group (205 branches), and controls 13.2 percent of Hong Kong dollar deposits.

Stock Exchange

Hong Kong’s total market capitalization rose by 18.0 percent during 2010 to US$2.7 trillion, with 1,413 listed firms as of year-end 2010. Hong Kong’s stock exchange ranked second in Asia after Tokyo, and fifth in the world in terms of capitalization. Hong Kong Exchanges and Clearing Limited (HKEx), a listed company, operates the stock and futures exchanges. 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.

Section 4 - Investment Climate

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

Measure	**Year**	**Rank or value**	**Website Address**
TI Corruption Perceptions index	2013	(15 of 177)	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation's Economic Freedom index	2013	(1 of 178)	http://www.heritage.org/index/ranking
World Bank's Doing Business Report "Ease of Doing Business"	2013	(2 of 189)	http//doingbusiness.org/rankings
Global Innovation Index	2013	(7 of 142)	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	USD $36,560	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

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/.

Local lawyers list: 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).

Rank	Institution	Total Assets (US$ Billions)
1	Hong Kong & Shanghai Banking Corp (HSBC)	777.6

2	Bank of China (Hong Kong)	226.8
3	Hang Seng Bank Ltd.	138.1
4	Standard Charter Bank, Hong Kong Branch	120.5
5	Bank of East Asia, Ltd.	88.7

Source: Companies' annual reports.

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.

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

	Hong Kong Statistical source*		USG or international statistical source		USG or international Source of data (Source of Data: BEA; IMF; Eurostat; UNCTAD, Other)
Economic Data	Year	Amount	Year	Amount	
Gross Domestic Product (GDP) (*Millions U.S. Dollars*)	2013	272,114	2013	273,658	http://www.imf.org/external/index.htm

Foreign Direct Investment	Hong Kong Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in Hong Kong (*Millions U.S. Dollars, stock positions)*	2012	37,808	2012	47,767	(BEA) click selections to reach. Bureau of Economic Analysis Balance of Payments and Direct Investment Position Data U.S. Direct Investment Position Abroad on a Historical-Cost Basis By Country only (all countries) (Millions of Dollars)
Hong Kong's FDI in the United States (*Millions U.S. Dollars, stock positions)*	2012	7,974	2012	6,283	(BEA) click selections to reach Balance of Payments and Direct Investment Position Data Foreign Direct Investment Position in the United States on a Historical-Cost Basis By Country only (all countries) (Millions of Dollars)
Total inbound stock of FDI as % of Hong Kong's GDP (***calculate)***	2012	437.5	2012	438.9	http://cdis.imf.org

* 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	
From Top Five Sources/To Top Five Destinations *(US Dollars, Millions)*	
Inward Direct Investment	**Outward Direct Investment**

Total Inward	1,146,316	100%	Total Outward	1,008,947	100%
China, P.R.: Mainland	401,771	35%	China, P.R.: Mainland	421,814	42%
Virgin Islands, British	395,851	35%	Virgin Islands, British	403,198	40%
Netherlands	73,858	6%	Bermuda	37,223	4%
Bermuda	72,408	6%	United Kingdom	27,193	3%
United States	35,748	3%	Cayman Islands	21,520	2%
"0" reflects amounts rounded to +/- USD 500,000.					

Source: 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

Portfolio Investment Assets								
Top Five Partners (Millions, US Dollars)								
Total			**Equity Securities**			**Total Debt Securities**		
All Countries	966,317	100%	All Countries	581,894	100%	All Countries	384,423	100%
China, P.R.: Mainland	300,578	31%	Cayman Islands	197,723	34%	China, P.R.: Mainland	151,317	39%
Cayman Islands	207,786	22%	China, P.R.: Mainland	149,262	26%	United States	54,549	14%
Bermuda	87,969	9%	Bermuda	87,190	15%	Australia	24,627	6%
United States	71,448	7%	United Kingdom	52,151	9%	Japan	16,973	4%
United Kingdom	64,126	7%	Luxembourg	32,554	6%	Korea, Republic of	16,643	4%

Source: http://cpis.imf.org

Note: The Hong Kong Census and Statistics Department does not publish the statistics of portfolio investment assets.

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments]

Legal system:

mixed legal system of common law based on the English model and Chinese customary law (in matters of family and land tenure)

International organization participation:

ADB, APEC, BIS, FATF, ICC (national committees), IHO, IMF, IMO (associate), Interpol (subbureau), IOC, ISO (correspondent), ITUC (NGOs), UNWTO (associate), UPU, WCO, WTO

Section 6 - Tax

Exchange control

There are no exchange controls in Hong Kong.

Treaty and non-treaty withholding tax rates

As Hong Kong adopts the territorial tax system, income derived by a resident from overseas will not suffer double taxation in Hong Kong. Many countries which assess their residents on a worldwide basis will provide their residents with unilateral tax credit relief for any tax paid on income derived from their businesses in Hong Kong. Hong Kong also allows deduction of foreign tax paid on a turnover basis in respect of the same income chargeable to tax in Hong Kong. Under such circumstances, businesses operating in Hong Kong generally do not have problems with double taxation of income.

Nevertheless, the Hong Kong Government recognises that there are merits in concluding double taxation agreements with its trading partners, particularly in aviation and shipping industries. Hong Kong therefore has reached different double taxation relief arrangements with many countries including Bangladesh, Belgium, Canada, Croatia, Denmark, Estonia, Ethiopia, Fiji, Finland, Germany, Iceland, Israel, Jordan, Kenya, the Republic of Korea, Kuwait, the Lao People's Democratic Republic, Macao Special Administrative Region, Mainland China, Maldives, Mauritius, the Netherlands, New Zealand, Norway, the Russian Federation, Singapore, Sri Lanka, Sweden, Switzerland, the United Kingdom, the United Mexican States and the United States of America in order to avoid double taxation of airline and/ or shipping income.

The Hong Kong Government has also signed comprehensive tax arrangements applicable to income other than airline and shipping income. The following table summarises the withholding tax rates in Hong Kong that are applicable to dividends, interest and royalties as provided by the double taxation agreements:

Hong Kong, China has signed **29 agreements** (**29 DTC** agreements) providing for the exchange of information.

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5	
Austria	DTC	25 May 2010	1 Jan 2011	Yes	Yes	
Belgium	DTC	10 Dec 2003	7 Oct 2004	No	No	
Botswana	DTC	13 May 2013	not yet in force	Unreviewed	Yes	
Brunei Darussalam	DTC	19 Jul 2010	19 Dec 2010	No	Yes	
Canada	DTC	11 Nov 2012	29 Oct 2013	Yes	Yes	
China	DTC	10 Dec 2003	8 Dec 2006	Yes	Yes	

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5
Czech Republic	DTC	6 Jun 2011	24 Jan 2012	Yes	Yes
France	DTC	21 Oct 2010	1 Dec 2011	Yes	Yes
Guernsey	DTC	28 Mar 2013	not yet in force	Yes	Yes
Hungary	DTC	12 May 2010	23 Feb 2011	Yes	Yes
Indonesia	DTC	23 Mar 2010	28 Mar 2012	Yes	Yes
Ireland	DTC	22 Jun 2010	10 Feb 2011	Yes	Yes
Italy	DTC	14 Jan 2013	not yet in force	Yes	Yes
Japan	DTC	9 Nov 2010	14 Aug 2011	Yes	Yes
Jersey	DTC	15 Feb 2012	3 Jul 2013	Yes	Yes
Kuwait	DTC	13 May 2010	25 Jul 2013	Unreviewed	Yes
Liechtenstein	DTC	12 Aug 2010	8 Jul 2011	Yes	Yes
Luxembourg	DTC	2 Nov 2007	20 Jan 2009	Yes	Yes
Malaysia	DTC	25 Apr 2012	28 Dec 2012	Yes	Yes
Malta	DTC	8 Nov 2011	18 Jul 2012	Yes	Yes
Mexico	DTC	18 Jun 2012	7 Mar 2013	Yes	Yes
Netherlands	DTC	22 Mar 2010	24 Oct 2011	Yes	Yes
New Zealand	DTC	1 Dec 2010	9 Nov 2011	Yes	Yes
Portugal	DTC	22 Mar 2011	3 Jun 2012	Yes	Yes
Spain	DTC	1 Apr 2011	13 Apr 2012	Yes	Yes
Switzerland	DTC	4 Oct 2011	15 Oct 2012	Unreviewed	Yes
Thailand	DTC	7 Sep 2005	7 Dec 2005	No	No
United Kingdom	DTC	21 Jun 2010	20 Dec 2010	Yes	Yes
Viet nam	DTC	16 Dec 2008	12 Aug 2009	No	No

Methodology and Sources

Section 1 - General Background Report and Map

(Source: CIA World Factbook)

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	**Medium Risk**	**Higher Risk**
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: CIA World Factbook)

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: US State Department)

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: CIA World Factbook / https://www.cia.gov/library/publications/world-leaders-1/index.html)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: OECD Global Forum on Transparency and Exchange of Information for Tax Purposes PKF International)

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