Hong Kong

RISK & COMPLIANCE REPORT

DATE: March 2018

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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 U.S. $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 continues its expansion as the primary offshore renminbi (RMB) financing center, accumulating the equivalent of over U.S. $79.9 billion in RMB-denominated deposits at authorized institutions as of August 2017. Hong Kong does not differentiate between offshore and onshore entities for licensing and supervisory purposes. Hong Kong has its own U.S. dollar interbank clearing system for settling transactions.

VULNERABILITIES AND EXPECTED TYPOLOGIES

The groups involved in money laundering range from local street organizations to sophisticated international syndicates, including Asian triads involved in assorted criminal activities, including drug trafficking.

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. Hong Kong shell companies can be exploited by a variety of illicit actors and have been used by the sanctioned regime in North Korea to launder money and gain access to the international financial system.

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 improved detection capabilities to identify drug traffickers and other criminals that use Hong Kong financial institutions to launder or retain their illicit profits. Hong Kong also 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, Hong Kong's FIU, 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.

The Hong Kong Government introduced in June 2017 to the Legislative Council (LegCo) two bills, one of which would amend the AMLO, and one of which would amend the Company Ordinance. The first amendment would apply statutory CDD and record-keeping requirements to DNFBPs when they engage in specified transactions; the second would require companies incorporated in Hong Kong to maintain beneficial ownership information. The bills remain under discussion at the LegCo.

In June 2017, the LegCo passed a bill that aims to establish a declaration and disclosure system to detect the movement of large quantities of physical currency and bearer negotiable instruments (valued over approximately U.S. $15,400 (HKD120,000)) into and out of Hong Kong. It is unclear when the new rules will come into operation as the Secretary for Security must determine a date on which the bill comes into force.

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

AML DEFICIENCIES

Until the Secretary for Security designates an effective date for the new legislation, Hong Kong still lacks a system to detect the physical cross-border transportation of currency and bearer negotiable instruments.

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 AMLO.

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 agreements, as China is responsible for Hong Kong's international affairs. China may extend the application of any ratified agreement or convention to Hong Kong. The 1988 Drug Convention was extended to Hong Kong in 1997, and the UNCAC and UNTOC were extended to Hong Kong in 2006.

From January 1 through August 31, 2017, there were 55 money laundering convictions. Assets restrained under the money laundering and asset confiscation laws totaled U.S. $3.2 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 2016 (introduction):

Hong Kong is classified a Tier 2 Watch List 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 primarily a destination, transit, and to a much lesser extent, a source territory for men, women, and children subjected to sex trafficking and forced labor. Victims include citizens from mainland China, Indonesia, the Philippines, Thailand, and other Southeast Asian countries as well as countries in South Asia, Africa, and South America. Approximately 340,000 foreign domestic workers, primarily from Indonesia and the Philippines, work in Hong Kong; some become victims of forced labor in the private homes in which they are employed. Employment agencies generally charge job placement fees in excess of legal limits, which may lead to situations of debt bondage of workers in Hong Kong. The accumulated debts sometimes amount to up to 80 percent of workers' salaries for the first seven to eight months of employment. Some workers are unwilling to report abusive employers for fear of losing their jobs and being unable to repay their debts; some employers or employment agencies illegally withhold passports, employment contracts, or other possessions until the debt is paid. Domestic workers have also reported working 17-hour days, receiving less than minimum wage, experiencing physical or verbal abuse and confinement in the employer's home, and not receiving a legally required weekly day off. An NGO report released in 2016 estimated that as many as one in six foreign domestic workers are victims of labor exploitation. Some foreign domestic workers sign contracts to work in Hong Kong but upon arrival are sent to work in mainland China or the Middle East. Separately, criminal syndicates or acquaintances sometimes lure women to Hong Kong using false promises of lucrative employment and subsequently force them into prostitution to repay money owed for passage to Hong Kong. Traffickers sometimes psychologically coerce sex trafficking victims by threatening to reveal photos or recordings of the victims' sexual encounters to their families.

The Government of Hong Kong does not fully meet the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. Despite these measures, the government did not demonstrate overall increasing anti-trafficking efforts compared to the previous reporting period; therefore, Hong Kong is placed on Tier 2 Watch List. Authorities' investigations and prosecutions for labor trafficking were inadequate for the scale of the problem, and there were no convictions for labor trafficking in 2015 because there remains no specific criminal offense related to the crime. Hong Kong's laws do not prohibit all forms of trafficking and authorities continued to define human trafficking as the trans-border movement of people for prostitution, inconsistent with the 2000 UN TIP Protocol. While the government convicted eight traffickers during the reporting period, sentences were incommensurate with the gravity of the crime, with three perpetrators sentenced to seven months' imprisonment or less. The government did not appropriately penalize employment agencies that perpetuated labor trafficking via debt bondage. Labor tribunals lacked sufficient translation services, did not provide the right to counsel, and often had judges inexperienced with forced labor cases. Some trafficking victims may have been punished for crimes committed as a direct result of being subjected to trafficking. The government continued to fund partially six NGO-run shelters and three government-owned and -operated shelters for victims of abuse and trafficking, and identified 16 trafficking victims during the reporting period. It continued distribution of anti-trafficking information pamphlets to foreign domestic workers, law enforcement training, and cooperation with the consulates of labor-sending countries.

US State Dept Terrorism Report 2016

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 implementation of the Container Security Initiative, participation in U.S. government-sponsored training in port and border security, and 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 coordinates 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, the Special Duties Unit, the Airport Security Unit, and the VIP Protection Unit.

Hong Kong is a member of the FATF and the Asia/Pacific Group on Money Laundering, a FATF-style regional body. Hong Kong's Joint Financial Intelligence Unit is a member of the Egmont Group of Financial Intelligence Units. Terrorist financing is a criminal offense in Hong Kong, and financial institutions are required to continuously search for terrorist financing networks and screen accounts using designations lists provided by the United States under relevant authorities, as well as the UN Security Council (UNSC) 1267/1989 ISIL (Da'esh) and al-Qa'ida and 1988 (Taliban) Sanctions Committees' lists. Hong Kong was in the process of making legislative amendments to its United Nations (Anti-Terrorism Measures) Ordinance (UNATMO) to adequately comply with UN Security Council resolution (UNSCR) 1373 and UNSCR 2178. 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 complements U.S. efforts to restrict commodities, software, and technology transfers 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 counterterrorism, and financial investigations. Select Hong Kong police officers also attended Asia-Pacific Center for Security Studies courses and Department of Defense-sponsored conferences.

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 continues to link its currency closely to the US dollar, maintaining an arrangement established in 1983.

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 9.4% of total system deposits in Hong Kong by the end of 2015. 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 47.3 million in 2014, outnumbering visitors from all other countries combined. Mainland visitors to Hong Kong declined 3% in 2015 to approximately 45.7 million, reflecting an overall drop of 2.5% in total visitors to Hong Kong. Hong Kong has also established itself as the premier stock market for Chinese firms seeking to list abroad. In 2015, mainland Chinese companies constituted about 51% of the firms listed on the Hong Kong Stock Exchange and accounted for about 62.1% 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. In 2014, Hong Kong and China signed a new agreement on achieving basic liberalization of trade in services in Guangdong Province under the Closer Economic Partnership Agreement, adopted in 2003 to forge closer ties between Hong Kong and the mainland. The new measures, effective from March 2015, cover a negative list and a most-favoured treatment provision, and will improve access to the mainland's service sector for Hong Kong-based companies.

Credit expansion and a tight housing supply have caused Hong Kong property prices to rise rapidly; consumer prices increased 4.4% in 2014, but slowed to 2.9% in 2015. Lower- and middle-income segments of the population are increasingly unable to afford adequate housing.

Hong Kong's economic integration with the mainland continues to be most evident in the banking and finance sector. Initiatives like the Hong Kong-Shanghai Stock Connect, the Mutual Recognition of Funds, and The Hong Kong Shanghai Gold Connect are all important steps towards opening up the Mainland's capital markets and has reinforced Hong Kong's leading role as China's offshore RMB market. Additional connect schemes from bonds to commodities and other investment products are also under exploration by Hong Kong authorities.

Agriculture - products:

fresh vegetables and fruit; 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 53.7%, US 9.5% (2015)

Imports - commodities:

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

Imports - partners:

China 49%, Japan 6.4%, Singapore 6.1%, US 5.2%, South Korea 4.3% (2015)

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.

Nineteen 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, the sixth-largest for total agricultural products, and fourth largest for high-value consumer food and beverage products. Hong Kong's economy, with its world-class institutions and regulatory systems, is based on competitive financial and professional services, trading, logistics, and tourism. It is the world's most services-oriented economy, with the service sector accounting for more than 90 percent of its nearly USD 308 billion GDP in 2015. 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.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2015	18 of 168	http://www.transparency.org/country/#HKG
World Bank's Doing Business Report "Ease of Doing Business"	2015	5 of 189	doingbusiness.org/rankings
Global Innovation Index	2015	11 of 141	globalinnovationindex.org/content/page/data-analysis

U.S. FDI in partner country ($M USD, stock positions)	2014	66,240	bea.gov/international/factsheet/factsheet.cfm?Area=611
World Bank GNI per capita	2014	40,320	data.worldbank.org/indicator/NY.GNP.PCAP.CD

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

Hong Kong is the second biggest FDI recipient after Mainland China, according to the United Nations Conference on Trade and Development's (UNCTAD) World Investment Report 2015. 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. Hong Kong does not have laws or practices that discriminate against foreign investors by prohibiting, limiting, or conditioning foreign investment in a sector of the economy.

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.

According to HKG statistics, 3,798 regional operations of overseas companies were registered in Hong Kong in 2015. The U.S. has the largest number of regional headquarters and offices in Hong Kong (812 companies), followed by Japan (685 companies), and the United Kingdom (346 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.

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. Since March 2015, Hong Kong and China's Guangdong Province have implemented an agreement signed in December 2014 on achieving basic liberalization of trade in services in Guangdong. The agreement has introduced for the first time under the CEPA framework the use of negative list that covers 134 service sectors for Hong Kong and granted national treatment to Hong Kong's 62 service industries. In addition, this agreement has offered Hong Kong most-favored treatment -- any CEPA-plus liberalization measures included in the free trade agreements signed by the Mainland China with other countries will be automatically extended to Hong Kong. The framework and content of the agreement has set a model for basic liberalization of trade in services between Hong Kong and all of Mainland China by the end of 2015. With the PRC's launch of Guangdong Free Trade Zone in March 2015, industry observers expect Hong Kong will deepen further its economic integration with Guangdong.

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. In July 2014, Hong Kong and ASEAN launched the negotiation of a FTA, which is expected to conclude by the end of 2016. 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.

Other Investment Policy Reviews

Hong Kong conducted the Trade Policy Review in November 2014 through WTO.
https://www.wto.org/english/tratop_e/tpr_e/g306_e.pdf

Laws/Regulations on Foreign Direct 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, which is independent of the government, 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 Hong Kong Code on Takeovers and Mergers (1981) sets out general principles for acceptable standards of commercial behavior.

Companies Ordinance (Chapter 622) applies to Hong Kong-incorporated companies and contains the statutory provisions governing compulsory acquisitions. For companies incorporated in jurisdictions other than Hong Kong, the relevant local company laws will apply.

Securities and Futures Ordinance (Chapter 571) contains provisions requiring shareholders to disclose interests in securities in listed companies and provides listed companies with the power to investigate ownership of interests in its shares. It also regulates the disclosure of inside information by listed companies and restricts insider dealing and other market misconduct offences.

Business Registration

http://www.cr.gov.hk/en/home/index.htm links to the application for company incorporation and business registration site.

https://www.eregistry.gov.hk/icris-ext/apps/por01a/index links to the e-Registry, which is an online one-stop platform jointly provided by the Companies Registry and the Inland Revenue Department for applying for company incorporation and business registration. Before using the e-Registry services, applicants have to register for user accounts. User registration is free of charge. Applicants for the e-Registry must present the original identification document (e.g. Hong Kong Identity Card or overseas passport), or attach a certified true copy of the identification document. If it is an application for company incorporation, the Companies Registry will normally issue the Business Registration Certificate and the Certificate of Incorporation within the same day. If it is an application for registration of a non-Hong Kong company, the Companies Registry will normally issue the Business Registration Certificate and the Certificate of Registration on the 14th working day after the submission date.

InvestHK is a government agency whose mission is to attract and retain foreign direct investment which is of strategic importance to the economic development of Hong Kong. InvestHK offers services to all investors applying the following core values: passion, integrity, professionalism, customer service, business friendliness and responsiveness.

Industrial Promotion

In 2013, InvestHK launched a StartmeupHK Campaign to attract more innovative startups to Hong Kong and promote HK as a global hub for startups and entrepreneurs. The online portal provides startups with an information and exchange platform, connecting the startup community in Hong Kong with those from overseas.

The HKG defines the small and medium-sized enterprises (SMEs) as any manufacturing enterprises which employ fewer than 100 persons, or any non-manufacturing enterprises which employ fewer than 50 persons. The HKG has set up the SME Loan Guarantee Scheme, the SME Export Marketing Fund, the SME Financing Guarantee Scheme, etc., to assist enterprises in securing trade finance and business capital, expand market and enhance overall competitiveness. A Dedicated Fund on Branding, Upgrading and Domestic Sales was launched in 2012 to assist enterprises in exploring and developing the Mainland market. All these support measures are available to all enterprises in Hong Kong irrespective of their origin. In February 2016, the HKG announced a three-year Pilot Technology Voucher Program under the Innovation and Technology Fund to subsidize a maximum of USD 25,600 for each eligible SME for its use of technological services and solutions to improve productivity and upgrade or transform business processes.

The HKG plans to develop and promote location filming and film production services in Hong Kong and the Pearl River Delta Region with a view to attracting overseas production crews to shoot films in the region.

In order to leverage “re-industrialization” as an opportunity for Hong Kong’s economic growth, the HKG plans to promote smart manufacturing and attract high value added technology industries as well as high value-added production processes by developing high-efficiency multi-story buildings in industrial estates and recovering lands on which corporates have ceased operation.

The HKG has earmarked USD 256 million to set up the Innovation and Technology Venture Fund for co-investing with private funds on a matching basis to enhance investments in technology start-ups.

In January 2016, the HKG announced that it would, together with research and academic institutions as well as private organizations, examine the details of developing Hong Kong into a smart city.

The HKG will adopt a more proactive approach in promoting the modernization and sustainable development of local agriculture. One of its major measures is to establish a USD 64 million Sustainable Agricultural Development Fund for promoting research and development in agricultural production, enhancing manpower training, improving agricultural infrastructure and strengthening marketing and branding of local agricultural produce.

The HKG will run pilot measures over the next three years to boost promotion of local fashion design and brands, provide technical training and launch the Fashion Incubation Program.

In March 2016, the Hong Kong Monetary Authority (HKMA) announced that it has established a Fintech Facilitation Office to facilitate the healthy development of the financial technology (fintech) ecosystem in Hong Kong and to promote Hong Kong as a fintech hub in Asia.

These measures were announced by the Chief Executive or the Financial Secretary and promoted on the government's websites as well as local media.

Limits on Foreign Control and Right to Private Ownership and Establishment

Foreign investors can invest in any business and can own up to 100 percent of equity. Like domestic private entities, foreign investors have the right to engage in all forms of remunerative activity.

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 lawyers at foreign law firms may only practice the law of their jurisdiction and are prohibited from practicing Hong Kong law. Foreign law firms may 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.

Privatization Program

All major utilities in Hong Kong are owned and operated by private enterprises, with the exception of the water supply and airport. The HKG considered privatizing the Hong Kong International Airport in 2003, but concluded after a study that keeping the airport under full government ownership would ensure delivery of maximum benefit to the Hong Kong economy. The HKG has not, since then, indicated any interest in further privatization programs.

Screening of FDI

Hong Kong has no investment approval procedure directed specifically toward foreign investors.

Competition Law

The Competition Commission, an independent statutory body which has been set up since January 2013 under the competition law, investigates anti-competitive conduct that prevents, restricts or distorts competition in Hong Kong. The competition law has come into operation since December 2015. In March 2016, 12 trade and professional associations have indicated publicly that they had revised their conduct or were in the process of doing so to remove one or more price restrictions or fee scales. In addition, the Competition Commission has identified over 20 trade and professional associations whose public practices such as price recommendations appeared to place them at high risk of contravening the competition law.

2. Conversion and Transfer Policies

Foreign Exchange

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 HKD 7.75 – HKD 7.85 = USD 1.

Remittance Policies

Hong Kong has no restrictions on the remittance of profits and dividends derived from investment, nor reporting requirements on cross-border remittances. Foreign investors bring capital into Hong Kong and remit it through the open exchange market.

Hong Kong has anti-money laundering (AML) legislation allowing the tracing and confiscating of proceeds derived from drug-trafficking and organized crime. Hong Kong also has an anti-terrorism law, which allows the authorities to freeze funds and financial assets belong to terrorists.

Hong Kong is not on the Financial Action Task Force (FATF) List of Countries identified as having strategic AML deficiencies. Hong Kong, however, was identified as a “Jurisdiction of Primary Concern” among those “major money laundering countries” by the U.S. Department of State 2015 International Narcotics Control Strategy Report, basing on the significance of the amount of proceeds laundered, not on the AML measures taken.

3. Expropriation and Compensation

The U.S. Consulate General is not aware of any expropriations (direct or indirect) 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

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

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, Small Claims Tribunal, Market Misconduct Tribunal, Competition Tribunal, Copyright Tribunal and other statutory tribunals.

Hong Kong’s commercial law covers a wide range of issues related to doing business, such as the rights and relations of business people and businesses involved in commerce, trade, sale and merchandise. Most of Hong Kong’s contract law is found not in legislation but in the reported decisions of the courts in Hong Kong as well as other common law jurisdictions.

Foreign judgments in civil and commercial matters may be enforced in Hong Kong at common law or under the Foreign Judgments (Reciprocal Enforcement) Ordinance to facilitate reciprocal recognition and enforcement of judgments on the basis of reciprocity. A judgment originating from a jurisdiction which does not recognize a Hong Kong judgment may still be recognized and enforced by the Hong Kong courts provided that all the relevant requirements at common law are met. However, a judgment will not be enforced in Hong Kong if it can be shown that either the judgment or its enforcement is contrary to Hong Kong’s public policy.

Bankruptcy

Hong Kong’s Bankruptcy Ordinance provides the legal framework to enable i) a creditor to file a bankruptcy petition with the court against an individual, a firm or a partner of a firm who owes him/her money; and ii) a debtor who is unable to repay his/her debts to file a bankruptcy petition against himself/herself with the court. Bankruptcy offences are subject to criminal liability.

In October 2015, the HKG introduced the Companies (Winding Up and Miscellaneous Provisions) (Amendment) Bill to the Legislative Council (LegCo). The bill, which is still under discussion by the legislators, aims to improve and modernize the corporate winding-up regime by increasing creditor protection and further enhancing the integrity of the winding-up process.

Hong Kong's average duration of bankruptcy proceedings is 0.8 year, ranking the 26th in the world for resolving insolvency, according to the World Bank's Doing Business 2016.

Investment Disputes

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 mediation. Alternatively, disputes may be referred to the Hong Kong International Arbitration Center.

International Arbitration

The HKG accepts international arbitration of investment disputes between itself and investors. Following reversion to Chinese sovereignty on July 1, 1997, Hong Kong became a member state to the International Centre for the Settlement of Investment Disputes (ICSID Convention) and a signatory to the Recognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention). 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, LegCo 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, LegCo 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 in January 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.

The HKG planned to amend the Arbitration Ordinance in the second quarter of 2016 to attract more parties to resolve their intellectual property disputes by arbitration in Hong Kong.

ICSID Convention and New York Convention

Hong Kong is a member state to the International Centre for the Settlement of Investment Disputes (ICSID Convention) and a signatory to the Recognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention).

Duration of Dispute Resolution – Local Courts

The HKG does not publish the duration of dispute resolution. However, the latest figures available from the Department of Justice show that the average duration from start to finish was 40 days in 2014 for cases filed in the Court of First Instance. Of the mediated cases, 48 percent resulted in agreements; while 52 percent did not lead to any agreement. However, of the mediated cases without any agreement, 106 cases eventually disposed of within six months. The ultimate settlement rate was 65 percent.

Hong Kong has a track record of enforcing court decisions and orders. A person who disobeys a court order is at risk of being found in contempt of court.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Hong Kong, a founding Member of the World Trade Organization (WTO), does not maintain any measures that are inconsistent with Trade Related Investment Measures (TRIMs) requirements.

Investment 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 is reduced over time, or that technology is transferred on certain terms.

Research and Development

Regardless of size, companies registered in Hong Kong with “substantial connection to Hong Kong” are eligible to apply for the Innovation and Technology Fund (ITF), which supports midstream/downstream research and development (R&D) projects undertaken mainly by universities, R&D Centers, industry support organizations, professional bodies, trade and industry associations and private companies. “Substantial connection to Hong Kong” means that it must have a significant proportion of its research, design, development, production, management or general business activities located in Hong Kong. Universities or research institutes outside Hong Kong are not eligible to apply for the ITF.

The Hong Kong Science & Technology Parks Corporation’s incubation programs provide subsidized office spaces, consultancy services, investment matching and financial aid package to support R&D. An applicant must be a Hong Kong registered technology start-up company established for no more than two years before the date of application.

Performance Requirements

The HKG does not mandate local employment or performance requirements. In addition, the HKG does not follow a forced localization policy in which foreign investors must use domestic content in goods or technology.

Foreign nationals normally need a visa to live or work in Hong Kong. But Hong Kong adopts light-touch visa policies, which means that short-term visitors are permitted to conduct business negotiations and sign contracts while on a visitor’s visa or entry permit. Companies which plan to employ people from overseas need to demonstrate that a prospective employee has special skills, knowledge or experience not readily available in Hong Kong.

Data Storage

Hong Kong has free flow of information with no censorship of content and adequate protection of data privacy -- elements that are critical to support global data center operations. The HKG has no requirements for foreign IT providers to turn over source code and/or provide access to surveillance. In addition, the HKG has never interfered with data center operations or censored content and there are no laws that allow the HKG to do so.

6. Protection of Property Rights

Real Property

Private ownership of property is enshrined in the Basic Law, Hong Kong's mini-constitution. The real estate sector is one of Hong Kong's pillar industries, and is equipped with a sound banking mortgage system.

The Basic Law requires the protection of the lawful traditional rights and interests of the indigenous inhabitants of the New Territories.

Since 1844, land transactions in Hong Kong have been operating on a deeds registration system governed by the Land Registration Ordinance. The Land Titles Ordinance was enacted in July 2004 to provide greater certainty on land title and to simplify the conveyancing process.

HK ranked the 59th for ease of registering property, according to the World Bank's Doing Business 2016.

Intellectual 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. HKCED detected a total of 1,003 infringement cases in 2015, representing an increase of 18 percent when compared to 2014. Among these cases, 200 involved internet crime.

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. In July 2015, HKCED rolled out a SocNet Monitoring System for online surveillance of infringing activities on social networking platforms. Using the new system, HKCED can screen 4,000 social media accounts per day, compared to 200 in the past by manual.

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 HKG 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 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 June 2014, the HKG introduced the amended copyright bill into the LegCo. The bill aims to enhance copyright protection against online piracy, while providing exemptions for parody makers. LegCo resumed its second reading of the bill in February 2016. But in March 2016, the HKG technically shelved the copyright bill without a vote after a total of 28 hours of debating and a total of 62 hours of filibustering by the pan-democrats. The HKG's decision was made in light of a backlog of 23 other bills on livelihood and economic issues, as well as the fiscal budget that must be passed by the legislators before LegCo's summer recess in July.

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 it intended to establish an "original grant patent" system, while retaining the current re-registration system for the granting of standard patents. The new patent system may 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. In November 2014, the HKG launched a three-month consultation on the application of the Madrid Protocol. The HKG is analyzing the public comments on the merits of introducing the Madrid Protocol to 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 regarding 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.

The Working Group on IP Trading released in March 2015 a report with recommendations on measures to further develop Hong Kong as an IP trading hub in the region. The HKG has accepted the Working Group's report for implementation and set aside about USD 3 million in the coming three years to roll out a series of new support measures. In February 2016, the HKG announced expanding the scope of tax deduction for capital expenditure incurred for the purchase of IP rights from the existing five categories to eight.

Resources for Rights Holders

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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

7. Transparency of the 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 amending or making any legislation, including investment laws, the HKG will conduct a three-month public consultation on the issue concerned and write up a draft bill based on the results of the public consultation. The lawmakers will discuss the draft bill and finally give it a vote. Hong Kong's legal, regulatory, and accounting systems are transparent and consistent with international norms. For instance, Hong Kong adopts the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

8. 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.

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 January 2016 (the latest figures available), the HKMC's outstanding amount of debt totaled USD 4.0 billion.

In 2006, a Deposit Protection Scheme (DPS) began operation. Depositors are now protected up to a maximum of HKD 500,000 (USD 64,100) 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 assets of the DPS Fund (funded through contributions by member banks) amounted to USD 359.0 million at the end of March 2015, 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 September 2014, the HKG launched a three-month public consultation on the enhancements measures to the DPS to provide a more reliable safeguard for depositors against any event of bank failures. In May 2015, the HKG released the consultation results. As of March 2016, the HKG planned to introduce relevant amendments to the legislation to implement the proposals.

In 2004, 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.

In February 2016, HKMA stated that it would establish within six months an office to provide a platform for pooling the efforts of investors, banks, and the financial sector to offer comprehensive financial services for infrastructure projects in the emerging markets.

Under the Insurance Companies Ordinance, insurance companies are authorized by the Office of the Commissioner of Insurance (OCI) to transact business in Hong Kong. As of December 2015, there were 157 authorized insurance companies in Hong Kong. Of these, 69 were foreign companies (from 21 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, which was enacted in July 2015, aims to provide a legal framework for establishing an Independent Insurance Authority (IIA) and a statutory licensing regime for insurance intermediaries, and enhance the protection for policyholders. The IIA will replace the OCI by the end of 2016.

The Hong Kong Stock Exchange’s total market capitalization dropped by 1.5 percent during 2015 to USD 3.16 trillion, with 1,866 listed firms as of year-end 2015. Hong Kong’s stock exchange ranked third in Asia after Tokyo and Shanghai, and seventh 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 2015, a total of 229 Chinese enterprises had “H” share listings on the stock exchange, with market capitalization of USD 662.1 billion. In April 2014, Chinese Premier Li Keqiang announced the establishment of a Shanghai-Hong Kong stock exchanges connectivity mechanism (Shanghai-Hong Kong Stock Connect). The scheme, which aims to facilitate individual investor’s ability to cross trade Hong Kong and Shanghai stocks, has operated since November 2014. Meanwhile, the RMB conversion limit for Hong Kong residents of RMB 20,000 per day has been removed. The connectivity mechanism between Shenzhen and Hong Kong stock exchanges, which will allow foreign investors to access China’s private companies in the technology and health-care industries, is expected to be put in place in 2016.

In July 2015, the Hong Kong and Mainland China authorities launched the Mainland-Hong Kong Mutual Recognition of Funds scheme. By the end of February 2016, 26 Mainland mutual funds and six Hong Kong mutual funds were allowed to be distributed in each other's markets. This scheme, together with the Shanghai-Hong Kong Stock Connect, represents significant steps to liberalize the Chinese capital account and have created additional channels for the circulation of RMB funds between the onshore and offshore markets.

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 USD 3.46 billion at the end of 1989 to USD 195.5 billion by the end of 2015. Since July 2007 when the PRC Government approved the sales of RMB-denominated bonds in Hong Kong, RMB 660.0 billion (USD 99.0 billion) of offshore RMB bonds were issued in Hong Kong (as of December 2015). The range of issuers has diversified to include 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 USD five billion annually into various investment vehicles. By the end of 2015, the net asset values of MPF funds amounted to USD 75.8 billion. In September 2014, the HKG made a successful inaugural issuance of sovereign Islamic bonds, with an issuance size of USD one billion and a tenor of five years. It was the world’s first U.S. dollar-denominated sukuk (Islamic bond) originated by an AAA-rated government, creating 4.7 times oversubscription rate. In May 2015, the HKG launched its second sukuk, with an issuance size of USD one billion and a tenor of five years. Buyers of this sukuk were 42 percent from the Middle East, 43 percent from Asia and 15 percent from Europe. The Financial Secretary mentioned in February 2016 that the HKG would seize the opportunity to issue the third sukuk in a timely manner.

In March 2014, the LegCo enacted the Securities and Futures (Amendment) Ordinance, which provides for a regulatory framework for the over-the-counter (OTC) derivatives market in Hong Kong to meet the commitments of the Group of Twenty (G-20.) The HKG implemented the new regime in July 2015 in phases starting first with mandatory reporting and related record keeping obligations, followed by mandatory clearing and related record keeping obligations in a later phase.

In November 2015, the HKG introduced the Financial Institutions (Resolution) Bill to the LegCo in order to promote the quality of the financial markets. The bill intends to establish a regime to facilitate orderly resolution of financial institutions when risks are posed by their non-viability to the stability and effective working of the financial system of Hong Kong. As of March 2016, the bill was still under discussion in LegCo.

Money and Banking System, Hostile Takeovers

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 February 2016, Hong Kong had 157 licensed banks, 24 restricted licensed banks, 19 deposit-taking institutions, and 60 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 170 branches, the group controls more than 30.3 percent of Hong Kong dollar deposits. The Bank of China (Hong Kong) is the second-largest banking group, controlling 15.3 percent of Hong Kong dollar deposits throughout 220 branches. Thirty-five U.S. "authorized financial institutions" operate in Hong Kong. Most banks in Hong Kong maintain U.S. correspondent relationships. Hong Kong has begun implementing the Basel III capital, liquidity, and disclosure requirements from January 2013 in phases, with full implementation expected by January 2019.

Hong Kong's five largest banks, in terms of total assets (2014):

Rank	Institution	Total Assets (USD Billions)
1	Hong Kong & Shanghai Banking Corp (HSBC)	881.6
2	Bank of China (Hong Kong)	269.5
3	Hang Seng Bank Ltd	162.1
4	Standard Charter Bank, Hong Kong Branch	138.3
5	Bank of East Asia, Ltd.	102.0
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.

Hostile takeovers are permitted in Hong Kong, but are rare. This is mainly due to the prevalence of Hong Kong-listed companies held by families or small groups of shareholders with controlling stakes which make it difficult for hostile bids to succeed.

9. Competition from State-Owned Enterprises

Hong Kong does not have State-owned Enterprises (SOEs). The closest entity to SOEs in Hong Kong are known as statutory bodies, which are bodies corporate established by statutes to perform a variety of functions, which are largely commercial in nature.

Hong Kong is party to the Government Procurement Agreement (GPA) within the framework of WTO. Annex 3 of the GPA includes such statutory bodies as the Housing Authority, Hospital Authority, Airport Authority, Mass Transit Railway Corporation Limited, and the Kowloon-Canton Railway Corporation, which procure in accordance with the agreement.

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.

OECD Guidelines on Corporate Governance of SOEs

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.

Sovereign Wealth Funds

In February 2015, the Financial Secretary John Tsang announced in his Budget Speech that the HKG will set up a new sovereign wealth fund, dubbed the Future Fund, with an endowment of USD 28.2 billion from part of the fiscal reserves and a proportion of future budget surpluses. The Future Fund, which has been in place since January 2016, seeks higher returns through long-term investments. The Future Fund adopts a "passive" role as a portfolio investor, and will be placed with the Exchange Fund which follows the Santiago Principles, for an initial ten-year period. About half of the Future Fund will be deployed in alternative assets, mainly global private equity and overseas real estate, over a three-year period. The rest is placed with the Exchange Fund's Investment Portfolio, part of which is a multi-currency portfolio invested in the major fixed-income markets.

10. Responsible Business Conduct

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, LegCo 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.

Hong Kong is not a member of the OECD and hence the OECD Guidelines for Multinational Enterprises is not applicable to Hong Kong companies. The HKG, however, commend enterprises for fulfilling their social responsibility.

11. 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.

However, violence erupted in the streets of Mong Kok on the night of February 8, 2016 after a municipal crackdown on illegal outdoor food vendors rapidly escalated. A few hundred people gathered in the streets. Dozens of protesters hurled bottles and garbage cans at police officers and tore bricks from the pavement to be used as weapons. Police responded with pepper spray and batons, and also fired two warning shots into the air.

12. 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 HKD 100,000 (USD 12,820) fine if convicted. Individuals in both the private and public sector can receive up to seven years imprisonment and a HKD 500,000 (USD 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. In January 2016, the ICAC announced that there would be no criminal proceedings or further criminal investigations into Tong because there was no clear and convincing evidence.

In December 2014, former Chief Secretary for Administration Rafael Hui and co-chairman of Sun Hung Kai Properties (SHKP) Thomas Kwok were found guilty of corruption in Hong Kong's most high-profile corruption trial. Two of the middlemen involved in the scandal, SHKP director Thomas Chan and ex-stock exchange official Francis Kwan were both found guilty in the months-long trial. Hui was jailed for 7.5 years, Chan for six years, and the two other defendants for five years.

It was alleged in February 2012 that former Chief Executive Donald Tsang agreed to a low-rent deal for a luxury Shenzhen flat with a businessman and accepted complimentary rides in private yachts or jets for travel to Macau and elsewhere. Tsang was charged by the ICAC with two counts of misconduct in public office in October 2015. The High Court has scheduled Tsang's case before the Court of First Instance on January 3, 2017. Tsang will become the highest-ranking Hong Kong official to face a corruption trial.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Hong Kong is not a party to the UN Anticorruption Convention, nor a party to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

Resources to Report Corruption

Simon Pei, Commissioner
Independent Commission Against Corruption
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13. Bilateral Investment Agreements

To date, Hong Kong has signed agreements with Australia, Austria, the Belgo-Luxembourg Economic Union, Denmark, Finland, France, Germany, Italy, Japan, Korea, Kuwait, the Netherlands, New Zealand, Sweden, Switzerland, Thailand, and the United Kingdom. Hong Kong concluded the negotiations with Canada, Bahrain and Burma (Myanmar) separately. Hong Kong will sign the agreements with the three countries after the completion of the necessary internal procedures by the parties concerned. The HKG has tentative agreements with Vietnam and is negotiating agreements with Chile, Singapore, United Arab Emirates and Russia. Hong Kong is expected to commence negotiations on the agreements with Mexico and India in 2016.

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.

Bilateral Taxation Treaties

The United States does not have a bilateral treaty on avoidance of double taxation with Hong Kong, but in 2014 the United States signed a Tax Information Exchange Agreement (TIEA) with Hong Kong, and an Inter-Government Agreement on the Foreign Account Tax Compliance Act (FATCA IGA).

14. Foreign Trade Zones/Free Ports/Trade Facilitation

Hong Kong is a free port without foreign trade zones. Hong Kong's modern and efficient infrastructure supports Hong Kong's role as a regional trade, finance, 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. The HKG is planning to spend over USD 13 billion in the next decade to redevelop Kai Tak 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 approved a proposal to build a third runway at Hong Kong International Airport, following the Environmental Protection Department's decision to approve an environment impact assessment report, and issued a permit for the expansion project in November 2014. It is expected that construction work on the proposed third runway, projected to cost USD 19.3 billion, will commence in 2016 and finish by 2023. However, two conservationists sought a judicial review from the High Court in February 2015 to block the permit for the third runway. The High Court is expected to hear arguments in July 2016.

15. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) ($M USD)	2014	289,184	2014	290,900	http://data.worldbank.org/country/hong-kong-sar-china
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country ($M USD, stock positions)	2014	49,359	2014	66,240	http://bea.gov/international/factsheet/factsheet.cfm?Area=611
Host country's FDI in the United States ($M USD, stock positions)	2014	9,763	2014	7,604	http://bea.gov/international/factsheet/factsheet.cfm?Area=611
Total inbound stock of FDI as % host GDP	2014	501.5	2014	498.6	N/A

*Source: Hong Kong Census and Statistics Department. Note: 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 3: 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	1,333,687	100%	Total Outward	1,310,133	100%
British Virgin Islands	532,593	40%	China, P.R.: Mainland	584,738	45%
China, P.R.: Mainland	358,958	27%	British Virgin Islands	489,702	37%
Netherlands	87,099	7%	Bermuda	44,867	3%
Bermuda	72,006	5%	United Kingdom	31,206	2%

United States	47,962	4%	Cayman Islands	29,847	2%
"0" reflects amounts rounded to +/- USD 500,000.					

Table 4: Sources of Portfolio Investment

Portfolio Investment Assets								
Top Five Partners (Millions, US Dollars)								
Total			Equity Securities			Total Debt Securities		
All Countries	1,168,872	100%	All Countries	743,032	100%	All Countries	425,840	100%
China, P.R.: Mainland	377,942	32%	Cayman Islands	248,437	33%	China, P.R.: Mainland	172,253	40%
Cayman Islands	258,292	22%	China, P.R.: Mainland	205,688	28%	United States	72,191	17%
Bermuda	119,903	10%	Bermuda	118,939	16%	Australia	21,545	5%
United States	104,319	9%	United Kingdom	50,063	7%	Japan	18,594	4%
United Kingdom	62,793	5%	Luxembourg	37,391	5%	Luxembourg	17,403	4%

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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