

**Information Paper for
LegCo Panel on Commerce and Industry**

**Reports on the work of
Hong Kong Economic and Trade Offices
and the latest developments
on various economic and trade matters in the countries concerned**

Attached at Appendices 1 to 12 for Members' reference are reports on the work of the Hong Kong Economic and Trade Offices and the latest developments on various economic and trade matters in the countries concerned since the last meeting between the Panel and the Heads of Economic and Trade Offices on 10 December 2001.

Commerce, Industry and Technology Bureau
September 2002

Report on the Work of the Geneva ETO

The main focus of the work of the Geneva Office since December 2001 has been the new round of multilateral trade negotiations in the World Trade Organisation (WTO), which was launched at the Doha Ministerial Conference (MC) in November 2001.

2. A structure for handling the negotiations through various negotiating bodies, and their respective chairpersons, were agreed in February 2002. A Trade Negotiations Committee has been established to oversee the negotiations as a whole, with the WTO Director-General as its Chairman. From March onwards, these bodies have started working intensively but the progress in different areas has been uneven. Services negotiations, which are one of our priority areas, have progressed steadily. A number of Members, including Hong Kong, China, have submitted their initial bilateral requests for services liberalization. On the other hand, the Negotiating Group on Market Access for Non-agricultural Products which focuses on customs duties, another of our priority areas, has proceeded slowly and only recently managed to agree on a programme of work.

3. The Geneva Office also participated actively in other aspects of the Work Programme agreed at the Doha MC, including the clarification of the elements of possible multilateral agreements on investment, competition policy, and transparency in government procurement, and additional rules concerning trade facilitation, on which negotiations may start after the Fifth WTO Ministerial Conference to be held in Cancun, Mexico in September 2003.

4. Throughout the reporting period, the WTO continued its consideration of certain proposals put forward by some developing Members concerning their difficulties in implementing the WTO Agreements, but little progress had been made. In addition, the Committee on Trade and Development in Special Sessions has started to review all special and differential treatment provisions for developing members in the WTO Agreements with a view to making them more effective and operational. The review will continue until end of 2002.

5. In general, the work of the WTO has moved forward gradually over the period. However, many challenges remain to be overcome in order to meet the deadline of 1 January 2005 for the conclusion of negotiations. It should also be noted that Dr. Supachai Panitchpakdi of Thailand will replace Mr. Mike Moore of New Zealand as Director-General of the WTO on 1 September 2002.

Report by Commissioner for Economic and Trade Affairs, USA

The Commissioner oversees the three Hong Kong Economic and Trade Offices in the USA (Washington, D.C., New York and San Francisco) which are responsible for:

- (a) safeguarding Hong Kong's commercial interests and strengthening economic and trade ties with the U.S.;
- (b) looking after Hong Kong's public relations interests in the U.S.; and
- (c) promoting U.S. investments in Hong Kong.

2. The three Economic and Trade Offices work together closely and proactively in representing Hong Kong's interest. They meet regularly and stay in close contact with the Hong Kong family in the U.S. (HKTDC, HKTB and HKMA) to promote Hong Kong. Our lobbying targets include the U.S. Administration, Congress, political leaders, business community, media, think-tanks and academic institutions. We maintain regular dialogue with our interlocutors through personal calls, meetings, briefings, public speeches, seminars, conferences, interviews and media-related activities. We disseminate our messages through newsletters, press releases, electronic mail distribution services and our website. We also work closely with our network of advocates who are opinion-formers and influential leaders prepared to speak up for Hong Kong.

3. September 11 continues to be a dominant issue in the U.S. but the economy is rapidly becoming a dominant issue and may well be a deciding factor in the Congressional elections in November. For the Administration, the war on terrorism continues to be a very high priority with domestic and foreign policies being driven largely by homeland security concerns. Although President Bush is commanding an exceptionally high popularity rating for his handling of September 11 and the ensuing war on terrorism, his popularity has slipped a little in recent weeks.

4. The poor U.S. economic data is fueling concern that the economic recovery is losing momentum and there is considerable public discontent over the wave of corporate scandals which have hit Wall Street causing loss of confidence in the stock market, loss of jobs and loss of people's retirement benefits. All these developments are adding to the uncertainty over the Republicans ability to retain control of the House in the upcoming November elections. Republicans being traditionally seen as pro-business are being blamed for protecting the major corporations. Repeated scandals like those of Enron and Worldcom have focused attention on corporate responsibility and forced the Administration and Congress to move swiftly on financial reforms which will have far-reaching implications on the investment sentiment and performance of the U.S. economy. We will continue to monitor very closely the developments and extend our network to prepare for the changes that will ensue after the Congressional election.

5. The good news on the trade front is the passage of Trade Promotion Authority (TPA). For the first time in 8 years the President has been given the ability to move forward on its trade engagement policies. But the Administration has lost some credibility in the compromises it has made to get TPA which in turn raised questions about its commitment to trade liberalization. The Administration appears to have taken opportunistic trade protection measures in order to preserve the Republican margin in the House in the run-up to the November elections. We will need to keep a close watch on how TPA will be used to promote FTAs and other preference programmes as well as the implications for the Doha Round.

6. Container Security Initiative (CSI) is a key component of the Administration's homeland defense and the war against terrorism. Major ports including Hong Kong are being asked to participate in the initiative. We used the occasion of the Financial Secretary's visit in June to let our U.S. contacts know that the HKSAR Government is supportive of the goal of CSI and Hong Kong's efforts in the fight against terrorism have been highlighted. Senior visits such as the Financial Secretary provided an important focus for our lobbying and PR efforts in the U.S.

7. China's entry into the WTO has generated a lot of interest among U.S. businessmen. To capitalize on this and to ensure that Hong Kong is not bypassed, Directors in my New York and San Francisco Offices and I have increased our outreach to our target audiences in key states/cities. An important new target is major business delegations going to China but not Hong Kong. We will continue to be alert to such opportunities and promote Hong Kong as a platform for U.S. businessmen in doing business not only in China but in Asia.

8. Despite some worries expressed by some of our contacts, "One Country, Two Systems" is seen on the whole to be working much to the delight and surprise of our hosts. Hong Kong is held in high regard as a responsible trading partner by the Administration. There is appreciation of our leadership role in the Financial Action Task Force on Money Laundering and our support for the war against terrorism. The challenge is to ensure that our interlocutors do not lose sight of the bigger picture. We will keep up with our momentum in promoting Hong Kong's economic and trade interests and will continue to build on the good working relationship that we have established with various contacts in our host country.

Report on the Work of the Brussels ETO

Commercial Relations

The Brussels Office has continued to develop relations with the institutions of the European Union. During the Chief Secretary's visit to Brussels in May 2002 he called on the Commission President Romano Prodi who agreed to the significant procedure of a joint press statement emphasizing the strength of HK/EU relations and the value of further cooperation.

2. Relations with the European Commission on commercial issues have continued to be excellent and HK/EU share common interests in advancing negotiations in the WTO Doha Round.

3. Bilateral relations with EU Member States are also good. Memoranda of Understanding (MOU) on Information Technology have been signed in recent months with France, Germany and Italy. An adjustment to the HK/Italy Air Services Agreement has permitted inauguration in August of direct cargo flights between Hong Kong and Milan.

4. Bilateral relations in other areas of activity are also developing over such matters as negotiation of Mutual Legal Assistance agreements, Avoidance of Double Taxation Agreements, the conclusion of an MOU between the Hong Kong Stock exchange and the Luxembourg Bourse to facilitate sharing of information on listed companies, the conclusion of an MOU with Italy on Cultural Cooperation, and a growing number of education and youth exchange initiatives. Such activities help raise Hong Kong's profile and reputation with benefits to our commercial interests.

Public Relations

5. The Brussels Office continues to convey the Hong Kong message to politicians, officials, the business community and the media throughout the continental EU.

6. Visits have recently been arranged for senior Hong Kong officials including a visit by the Chief Secretary to Brussels, Vienna, Rome and Milan, and by the Secretary for Information Technology and Broadcasting to Germany and France during which she signed MOUs with both governments.

7. Major functions were held in Belgium and the Netherlands to celebrate the 5th anniversary, three major dance and two music ensemble performances were hosted for the Academy for Performing Arts across Europe, various functions were held to promote Hong Kong as "Asia World City" and a new HK/EU website was launched. Regular media briefings have been held.

Report on the Work of the London ETO

The London Office is responsible for Hong Kong's economic and trade relations with the UK, as well as the non-European Union (EU) member states in the continent including Norway, Switzerland, the Central and Eastern European countries, Malta and Cyprus.

The UK

2. Despite the global economic downturn, the UK economy remains strong, though growth in consumer spending started to slow down in May. GDP growth in the UK in Q2 2002 increased by 2.1% compared to the same period last year. Public opinion remains divided on whether and when the UK should adopt the Euro. The weight of public opinion, especially in the business sector, remains not in favour, but the margin has been narrowing. Tony Blair has been promoting his pro-Euro stance on various occasions, although Gordon Brown, the Chancellor of the Exchequer still held fast to his independent 'Five Economic Tests'.

3. The resignation of the Transport Secretary, Stephen Byers, who has long been criticised for his support for his special adviser and for his handling of various transport policies, triggered another cabinet reshuffle in May 2002, following the reshuffle after the General Election in June 2001. This resulted in Blair tightening his grip in the Cabinet and in the Government.

4. Internally, Blair continued his efforts for regaining credibility in delivering better public services, particularly on transport, health, education and street crime, as well as rectifying the increasing negative image of 'spin doctoring'. Externally, he is trying to project an image of a world leader shoulder to shoulder with President Bush in his fight against terrorism. Overall, the Labour Party is still very much in control and there is no sign of any serious potential challenge by the Conservatives.

Incoming Visits

5. The London Office organised the visits of the Chief Secretary for Administration in May and July. The CS met with the Economist Intelligence Unit in May to tackle them on their country ranking methodology. In July, the CS met with the Foreign Secretary and Cabinet Secretary (designate). During this visit, he officiated, together with the Duke of York (Prince Andrew), the launch of the 3-month long Hong Kong Festival in London.

6. The London Office also assisted in organising official visits of other senior government officials, including the Secretary for Financial Services, Secretary for Health & Welfare and the Secretary for Information Technology & Broadcasting.

Outgoing Visits

7. During the period, the office invited 18 influential opinion formers to visit Hong Kong under the government's sponsored visitor programme. Two of them have already visited Hong Kong under this sponsorship.

Public Relations and Inward Investment Promotion Activities

8. To coincide with the celebrations of the 5th anniversary of the HKSAR, the London Office organised a Hong Kong Festival in London from July to September 2002. The Festival was officiated by the CS and the Duke of York at a Gala Luncheon on 4 July 2002. The anchor event was an architectural exhibition, "Hong Kong : City on the Move", at the Royal Institute of British Architects, which was officiated by Lord Foster. Other events of the Festival include :

- (a) a Film Festival at the Institute of Contemporary Arts;
- (b) an exhibition on contemporary Chinese ink painting, "Hong Kong Cityscapes" at the Brunei Gallery, School of Oriental and African Studies;
- (c) concerts by students of the Hong Kong Academy for Performing Arts;
- (d) photographic exhibitions, "Hong Kong : Asia's World City" at Guildhall, Canary Wharf and ExCel;
- (e) a series of lectures on film, architecture, art and design featuring renowned speakers from Hong Kong including Alan Chan, Freeman Lau, Rocco Yim and David Tang;
- (f) a business seminar, "Hong Kong : Your Trade Platform in Asia" co-organised with the Hong Kong Trade Development Council;
- (g) a seminar, "Hong Kong's Prospects Five Years After Transition", co-organised with the London School of Economics and Political Science which DGL delivered a speech entitled "Hong Kong : Beyond the Clouds";
- (h) a Dragon Boat Fun Day co-organised with the London Chinatown Lions Club;
- (i) a Hong Kong Day at Ascot; and
- (j) a Golf Charity Day co-organised with the Hong Kong Executives Club.

9. During the reporting period, the London Office organised two receptions, 122 briefings and six luncheon speeches. In addition DGL gave 20 speeches/presentations on Hong Kong.

10. The London Office conducted 75 company visits and had been successful in helping six British companies set up business in Hong Kong.

11. The Office continued to liaise closely with leading businessmen and opinion formers in the UK, including politicians, journalists, rating agencies, think tanks, academics and professional groups.

Other Countries

12. The Office made seven bilateral visits to capitals and major cities in the non-EU countries in Europe including Switzerland, Norway, Hungary, Czech Republic, Poland, Slovenia, and Slovakia, to brief government officials and businessmen of these countries and to provide support to the SAR Government's lobbying efforts for visa-free access for HKSAR passport holders. The Office also organised five receptions in Budapest, Edinburgh, Oslo, Prague and Warsaw, and three business seminars in Budapest, Prague and Warsaw. DGL spoke at all of these seminars. The London Office also maintained regular liaison with ranking agencies in the UK and Switzerland, including Fitch Ratings Ltd, Economist Intelligence Unit, and the International Institute for Management Development based in Lausanne, Switzerland. In addition, the Office conducted 15 company visits in Norway and Switzerland.

EU Enlargement

13. The London Office monitored closely the accession progress of the candidate countries for EU enlargement. Denmark took over from Spain the rotating presidency on 1 July. The European Council reaffirmed at the Seville Summit in June that the EU is determined to complete by end of 2002 the negotiation with the ten candidate countries (Cyprus, Lithuania, Latvia, Estonia, Slovenia, Slovakia, Czech Republic, Poland, Hungary and Malta) provided that those countries are ready and the present rate of progress in negotiations and reform is maintained. At the Copenhagen Summit in December, the EC would adopt an 'updated road map and a revised and enhanced pre-accession strategy' and, a 'more precise timetable' for the accession of Bulgaria and Romania. Besides the negotiations with the candidate countries, one of the tricky questions that needs to be settled is how to resolve the Cyprus' division.

14. Of the twelve candidate countries, Cyprus (28 of the 31 Chapters of EU legislation (acquis) closed), Lithuania (28), Latvia (27), Estonia (27), Slovenia (27) are the frontrunners in the negotiation process, Slovakia (26), Czech Republic (25), Poland (25), Hungary (24) and Malta (23) are maintaining satisfactory progress. Bulgaria (20) and Romania (12) would not be part of the first accession 'wave' scheduled for 2002. More chapters would be closed before the summer break and the negotiations are expected to be completed by end of 2002. Poland, Hungary and the Czech Republic would also expect high support for their countries' EU membership at national referenda scheduled to take place in the course of next year.

Activities Planned for the second half of 2002 and 2003

15. The London Office would continue to promote HK in and maintain bilateral relations with the countries under its preview. Emphasis will be put on Hong Kong's highly strategic role to leverage the Mainland market, on the strength of Hong Kong's status as a world class business hub and a major portal to the global economy, particularly in the wake of Mainland China's access to the WTO.

Report on the Work of the Tokyo ETO

Work of the Office

During the period under review, Tokyo ETO continued to conduct activities to promote the Hong Kong-Japan partnership amongst Hong Kong's constituents in Japan amongst different segments (e.g. government, business, etc.) and in different regions of Japan. A reception organised in Tokyo to celebrate the 5th anniversary of the establishment of the HKSAR attracted a record turnout of 500 prominent guests. ETO promotional visits were organised for Nagoya/Tokai region, Osaka/Kansai region and Fukuoka/Kyushu region. A business reception was held in Nagasaki to promote the business opportunities that Hong Kong could offer in connection with China's entry into the World Trade Organisation.

2. During the period, five opinion formers in various sectors in Japan visited Hong Kong as invited guests of Tokyo ETO under the sponsored visitors' programme. They included a former foreign minister, advisor to the foreign minister, the managing director of the Japan's Federation of Economic Organisations (Keidanren), a parliamentarian and a highly respected scholar. The Office also helped arrange the visits of four other senior delegations from Japan to Hong Kong. Tokyo ETO assisted in organising visits of HKSAR government officials to Japan, including the Director General of Telecommunications, Deputy Secretary for Information Technology and Broadcasting, and delegations from a number of other government departments.

Commercial Relations

3. There has been a lot of interest in Japan on bilateral CEPA discussions between Hong Kong and the Mainland on the proposed Closer Economic Partnership Agreement. Japan signed its first free trade agreement (FTA) with Singapore during the period under review and has been active in pursuing further FTAs with other trade partners e.g. Mexico, South Korea and the ASEAN countries. The ETO will continue to monitor discussions relating to FTAs.

Investor Relations

4. The InvestHK Desk of the Tokyo Office continued to make calls on companies during the report period to explain to potential investors the investment environment in Hong Kong and provide assistance to their new investment projects. The InvestHK Desk set up a booth at the 10th JETRO Overseas Investment Fair to promote investment opportunities in Hong Kong. The Desk arranged for two delegations from the InvestHK head office to visit Japanese companies in the targeted sectors, i.e. transportation, logistics and trade-related service sector. The Desk made follow-up calls to help companies speed up their process of setting up in Hong Kong and had helped companies arrange visits to Hong Kong to facilitate their investment decision.

Media Relations

5. During the report period, the Japanese press continued to give regular coverage to developments in Hong Kong. There was a lot of attention on Hong Kong around the time of the fifth anniversary, with many major newspapers carrying special reports and commentaries on Hong Kong's transition during the five years and its current situation. The general tone of the reports was that while the "one country, two systems" arrangements had worked well, with political stability maintained during the first five years, the media tended to cast a wary eye on the impact of the increasing integration between Hong Kong and the Mainland. There was interest on whether Hong Kong could continue to remain prosperous economically in the light of challenges coming from other cities in the Mainland. PRT had contributed two articles relating to the fifth anniversary which were published in the Japanese media.

Japan's Politics

6. The period under review was characterized by a substantial decline in the approval rating of Prime Minister Junichiro Koizumi's administration which went down from the high of 90% when he first assumed office to the current 40%. Public support for the ruling Liberal Democratic Party (LDP) and for politicians in general had been dampened by a series of money-related scandals involving senior members of the LDP and some prominent members in the opposition parties. The Koizumi Administration has pledged to pursue structural reforms and had successfully sought the Diet's agreement to extend the Diet session to deal with important bills put forward by the Administration. Priority areas for the Administration included: clearing up of non-performing loans in the banking sector, tax reform to revitalise the economy, administrative reform of the public-funded institutions, fiscal reform to address the high public debts, medical reform, postal reform, emergency security, privacy protection. The Administration successfully pushed through the medical reform and postal reform bills but the deliberation on the emergency security bill and the privacy protection bills were stalled in the Diet.

Japan's Economy

7. The future of Japan's economy remains uncertain. Officials have been saying that the economy has bottomed-out, but they have been timid in commenting on the timing for a recovery. Analysts generally agreed that this would depend on the future direction of the US economy. Continuing deflation, rising unemployment and stagnant growth continued to be matters of concern during the period under review.

Report on the Work of the New York ETO

The New York ETO is responsible for promoting economic and trade interests of and US investments in Hong Kong in 31 states in the East Coast. The Office continues to conduct a vigorous and proactive programme of activities to reach out to companies, business groups, think-tanks and business and community leaders. D(NY) makes regular visits to states and key cities to meet business groups, media contacts, think-tanks and government officials, and to update them on developments in Hong Kong. During the past nine months, D(NY) made 11 out-of-state visits covering seven states. Its information services team liaises closely with the electronic and print media to provide them with updated information on Hong Kong. The investment promotion team also makes frequent company visits to seek out potential investors.

Public Relations and Media Relations

2. The New York ETO is an active member of a number of think-tanks and organisations focusing on Asia/China issues, as well as professional and business bodies. It regularly organises and sponsor seminars, events and arrange meetings to outreach to opinion formers and leaders. The PR and media strategy is built around major events, VIP visit programmes, speaking engagements with emphasis on US business groups, think-tanks and financial and business media. The activities of the Office included -

- a) Major Events
 - Delegation led by FS to World Economic Forum (January 31 to February 4, 2002)
 - Spring Reception on February 26 attended by over 300 guests
 - FS visit to New York (June 2 to 4, 2002)
 - 5th Anniversary of HKSAR reception on July 1 attended by over 350 guests
 - Hong Kong Dragon Boat Festival in New York held on August 10 and 11 with 85 competing teams and over 40,000 attendees
- b) Visits by HK Officials/Visitors
 - Logistical assistance for Commissioner of Narcotics (February 18-25), Director General of Investment Promotion (March 12-15 and June 19-21) and his Assistant Director-General (Feb. 26 – March 5 and June 23-27), and a Container Security Initiative fact-finding delegation (June 23-26)
 - Media arrangements for a Hong Kong student receiving a poster contest grand prize in UN
- c) Sponsored Visitors to Hong Kong
 - Two visitors and three journalists visited Hong Kong under Information Services Department's Visitors Programme
 - Programme for two visitors being arranged
- d) Visitors to Hong Kong
 - Assistance in arranging visit programme in Hong Kong for Asia Trek Delegation of Harvard Business School, Columbia University's EMB students, Georgia State University and Standard & Poor's Rating Services

- e) Speaking Engagements
 - Public speaking forums often staged in conjunction with collaborators such as Hong Kong Associations, think tanks and business organisations
 - 45 speaking engagements, round-table discussions and meetings organised for 27 government officials and 16 non-Government speakers
 - 11 speaking engagements by D(NY)
- f) Updating the Contacts
 - A monthly *Hong Kong Digest* with the latest news on Hong Kong sent to over 3,500 business and media contacts
 - Press releases issued to hundreds of media contacts in 31 states on a regular basis
 - Three major mailing exercises conducted every year [Budget Speech (March) and Hong Kong Report (July), and CE's Policy Address]

Investment Promotion

3. Investment promotion in the East Coast focuses on financial services, business and professional services, technology, media and multimedia. The investment promotion team visited 145 companies in 14 states during this period. Particular attention was paid to areas with a greater preponderance of targeted companies: NY tri-state area, the Philadelphia, PA and Boston, MA areas, the mid-Atlantic region, the mid-West (centered around Chicago) and the Southeast (revolving around Atlanta). Targeted marketing has led to tailored promotional literature, focused calling and sponsorship of industry-specific events.

4. Amidst an uncertain economy and moribund capital investment, ten projects have been successfully completed. However, in today's environment, longer lead times are expected from US companies which are cautiously looking at any kind of expansion with a greater eye to return on investment over a shorter period of time. The Mainland continues to be an area of interest for business development. As the Mainland economy opens to FDI, companies are more critically assessing the value of Hong Kong's role in PRC strategies.

Report on the Work of the Sydney ETO

Work of the Office

The Sydney Office is responsible for Hong Kong's economic and trade relations with Australia and New Zealand. In the past eight months, the Sydney Office has continued to vigorously promote Hong Kong as Asia's premier international city and explain government policies and initiatives to political leaders, government officials, the business community and the general public. This is done mainly through regular liaison, speaking engagements, exhibitions, radio interviews, media briefings, and press releases and op-eds/letters to editors. The Investment Promotion Unit conducted investment promotion visits to Australian and New Zealand companies and assisted them in establishing/expanding their presence in Hong Kong.

2. The period under report saw a number of visits by senior officials from Hong Kong. We received, among others, the Secretary for Justice, the then Secretary for Financial Services and the Director-General of InvestHK. The Office also organised a week-long promotional visit by the Chief Secretary for Administration to Sydney, Canberra and Melbourne in August. During his visit, the Chief Secretary delivered keynote speeches in Melbourne and Sydney, met with a wide cross-section of political, business and community leaders and held a comprehensive range of media briefings. He also officiated at the opening of the 'Hong Kong – Setting the Pace in Asia' exhibition; a tourism promotion campaign; and met with Hong Kong students studying in Melbourne and Sydney.

3. The various visits by senior officials have all contributed towards raising the profile of Hong Kong in Australia and highlighting the opportunities for further developing two-way trade and investment links.

4. In June and July, the Office hosted receptions in Sydney and Melbourne to mark the 5th anniversary of the HKSAR. It sponsored the production of a one-hour TV documentary entitled "Hong Kong 2002 – five years after handover" for broadcast on a national TV channel. The Office also arranged for the publication of a special 8-page report on Hong Kong in Australia's largest newspaper.

5. In the coming year, the Office will continue to liaise closely with our interlocutors in both the public and private sectors to keep them abreast of developments in Hong Kong and strengthen, where possible, our efforts in cultivating even stronger ties with Australia and New Zealand.

Political Development

6. New Zealand held its general elections on 27 July. The ruling Labour Party, led by Prime Minister Helen Clark, was victorious and increased the number of its seats in parliament to 52, but the result fell some way short of the absolute majority needed to rule. After weeks of negotiation with potential partners, Labour signed a coalition agreement with the Progressive Coalition and a support agreement with United Future. The two deals gave the government 62 votes in the 120-member parliament and secured for the minority government an assured majority vote on crucial confidence and supply issues.

7. While the business community gave a cautious welcome to Labour's victory, they expressed worries in the way the votes were weighted and feared that, with a minority government, there might not be one clear party line for many issues, which would create uncertainty for business.

Economic Outlook

8. Australia's economy is forecast to grow by 3.75% in 2002-03 while the unemployment rate is expected to decline from 6.3% to 6% by June 2003. Inflation is forecast at 2.5% by June 2003. The buoyant economic growth and labour market provided further evidence of the Australian economy's resilience against the global economic slowdown. The Organization for Economic Co-ordination and Development (OECD) provided recently another positive assessment of the Australian economy – growth of 3.7% in 2002, which is significantly higher than the average of most other advanced economies and the OECD, and further increasing to 4.0% in 2003.

9. The New Zealand economy has remained resilient during the global slowdown. Solid consumer spending and a rebound in housing construction and business investment were the major contributing factors. Economic growth is forecast at 3.1%, unemployment rate and inflation at 5.4% and 2.6% respectively for 2002-03. The 2002 budget also forecast an improvement in the current account deficit from 4.8% of GDP in March 2001 to 4.1% by March 2006.

Report on the Work of the San Francisco ETO

The San Francisco ETO reaches out and updates the business community, political and government representatives, academic institutions and the media in the 19 western states of the USA on developments in Hong Kong, highlighting in particular the business opportunities.

2. The ETO has organised and sponsored a variety of functions promoting the Hong Kong Advantage and Brand Hong Kong. Special attention has also been given to the theme of the 5th anniversary of the Hong Kong Special Administrative Region this year. A key reception was organised on 1 July at the ETO to celebrate the anniversary, and this theme resounded throughout the year's promotional events and meetings with the media.

3. To promote the Hong Kong film industry, the ETO also partnered with the 45th San Francisco International Film Festival in April and the 28th Seattle International Film Festival in May – June to bring a total of 11 Hong Kong movies to the west coast audience. These screenings contributed to arousing the general awareness of the breadth and depth of contemporary Hong Kong cinema.

4. There were a number of visitors from Hong Kong this year. The ETO received, amongst them, Director of Intellectual Property at Los Angeles and Seattle in April; Director of the Hong Kong General Chamber of Commerce at San Francisco in May; Secretary General of the Hong Kong International Arbitration Centre at Los Angeles and San Francisco in June; Chief Executive Officer of the Science and Technology Parks Corporation at the Bay Area in June; and Secretary for Security at the Bay Area in July and at Seattle in August.

5. The Invest Hong Kong desk in the ETO organised a visit programme for the Director-General of Investment Promotion in July to Los Angeles, Orange County, San Diego, Dallas, San Francisco and Silicon Valley to promote Hong Kong as a destination for investment. Together with Forbes, it also hosted a reception in Silicon Valley in July for networking and promotion of the upcoming Forbes conference in Hong Kong.

6. The ETO also assisted with the lining up of visit programmes for sponsored visitors, and helped with the visit of the Mayor of Cupertino, California, in April and the Denver Mayor's office planning of a trade delegation to Hong Kong in June. Recognising the significance of media coverage for the 5th anniversary celebrations in Hong Kong, the ETO has arranged for four sponsored journalists to visit Hong Kong during the time to witness the historic event.

Report on the Work of the Washington ETO

The major challenge to the work of the Washington ETO in 2002 has been the constant need to present a proper and positive image of Hong Kong in view of concern over our autonomy and economic adjustments and to safeguard the bilateral economic and trade relations between Hong Kong and the US at the time when the prime concern of the US community is still pretty pre-occupied with the war against terrorism and domestic agenda in the run up to the November Congressional election.

2. While the continued success in the implementation of 'One Country, Two Systems' has been well recognized by our key contacts in Washington, the 5th anniversary and the media interests so generated have given rise to some interest on our autonomy, preservation of freedom and rights as well as whether and how we position ourselves as a strategic partner that the US could engage in exploring the fast opening up of the Mainland market. In the past 12 months, the Office has stepped up its outreaching efforts in engaging various parties and agencies, opinion leaders and think tanks explaining the challenges and opportunities that Hong Kong faces and reassuring them of our strength in maintaining not just as the gateway to China but also a world city in Asia.

3. Specifically, we have doubled our arrangement of visit programme for Congressional staffers to come to Hong Kong. We have expanded our liaison contacts with various Congressional offices through increased calls on them and joint functions with Congressional staffers organisations. We have made use of visiting officials, scholars, trade leaders from Hong Kong and connect them with key contacts through meetings and seminars so as to update the Washington circle with the development in Hong Kong. We have also taken part in more speaking engagements and trade seminars to present Hong Kong's unique stance and leadership in various areas of multilateral trade policy areas.

4. Recognizing the fact that anti-terrorism and homeland security have become the main stay of the US policy after September 11, we continue to take proactive steps to engage key stakeholders in both Administration and Congress demonstrating to them the assistance and leadership that Hong Kong has exercised in various areas of the campaign against terrorism. All these efforts have paid dividends in fostering the trust and partnership and our efforts have also featured prominently in the various government and Congressional reports on Hong Kong. In the post September 11 era, this Office also stayed alert to initiatives on tightening US homeland security that might have an impact on the trade and economic interests of Hong Kong. We report, research and engage players on these initiatives and discuss with Hong Kong the way to react to these proposals.

5. While the Bush Administration has finally succeeded in getting US Congress to grant them the Trade Promotion Authority (TPA), the fast track trade authority is not obtained without cost. Given the protectionistic concessions made on steel and farm subsidies, the US stance in going into the new round of WTO negotiation has been called into question by trading partners. The Washington Office keeps a close watch on such development and gives reports and assessments on the trade policy initiatives and changes taken by the Bush Administration. In addition, the Office also provides support to the bilateral consultations between US and Hong Kong over various trade control issues including subjects of strategic trade and textiles transshipment.

6. The slowing down of the US economy as well as the series of accounting fraud and corporate collapses are likely to dominate the domestic agenda in the coming months leading up to the Congressional election. This creates both opportunities and challenges to us. The efforts Hong Kong has made recently in improving our financial regulatory environment and market transparency have been useful boost to our image as an international financial centre. On the other hand, we need to keep watch on remedial proposals made by the US Congress which might bring over-regulatory effects on us. All these reinforce the need to reach out more both to present the Hong Kong picture and to gauge US sentiment and stay alert to impacts of new policy proposals.

7. There are also two regular reports specifically on Hong Kong which are written by the State Department and the Congressional Task Force led by Rep. Doug Bereuter. These are important documents in that they may serve as a basis for adjusting future US policy towards Hong Kong. Hence, it is important for this Office to continue to actively engage the State Department as well as Rep. Bereuter and his office to forestall any misunderstanding and address any concerns they may have on Hong Kong.

8. Apart from these reports, the annual economic freedom index reports released by two leading think tanks in Washington DC, namely Heritage Foundation and Cato Institute also are important in helping to define Hong Kong to the US audience. We continue to maintain close contact with key authors within the two organisations so as to keep them updated on the latest development about Hong Kong as well as to address any concerns they may have. We also make use of senior officials' visit to DC to arrange for meetings with these two organisations to further reinforce the effort.

9. Looking ahead, we see the US political agenda will continue to be dictated by the concern over homeland security and the health of the US economy. We are conscious of the danger of a more inward looking or even protectionistic sentiment towards trade at a time of uncertainty. The Washington Office will stay vigilance and re-double its effort to engage the various stakeholders so as to ensure the Hong Kong interests are well preserved in the fast changing and delicate political scene.

Report on the Work of the Guangdong ETO

The Economic and Trade Office of the Government of the Hong Kong Special Administrative Region in Guangdong (GDETO) came into full operation in late July 2002. As one of the 11 ETOs located outside Hong Kong, the GDETO is set up to promote economic cooperation between Hong Kong and Guangdong, to enhance business liaison between the two places, to attract more mainland businesses to invest in Hong Kong or gain access to the global market with Hong Kong as their intermediary, and to provide better support services for Hong Kong businessmen in Guangdong.

The Work of GDETO

2. Guangdong, in particular the Pearl River Delta (PRD), has long been Hong Kong's economic hinterland and closest business partner. Boasting the presence of the largest number of Hong Kong enterprises operating outside Hong Kong, it is also the main destination of Hong Kong's outward investments. In terms of economic development, the PRD and Hong Kong have always complemented each other. At present, approximately five million people are employed by about 40 000 Hong Kong businesses in Guangdong. Hong Kong's accumulated direct investments in Guangdong amounted to HK\$ 600 billion as at end 2001.

3. In the past few months, the GDETO made courtesy calls on The People's Government of Guangdong Province and a number of provincial agencies including Guangdong Provincial Development Planning Commission, The Economic and Trade Commission of Guangdong Province, Department of Foreign Trade and Economic Cooperation of Guangdong Province as well as Foreign Affairs Office. Visits to six above-prefecture-level cities in Guangdong, namely, Guangzhou, Yangjiang, Chaozhou, Shantou, Jieyang and Huizhou as well as other economic and trade departments were also arranged. Apart from meeting the municipal authorities, the GDETO also called on Hong Kong businessmen in Guangdong.

Investment Promotion

4. The Investment Promotion Division of GDETO serves to extend Invest Hong Kong's promotional efforts in Guangdong. In the past few months, the Division focused on establishing a strategic partnership network and making contacts with relevant organisations. It also took part in activities organised by our strategic partners, including the Information Technology and Logistics Study Visits to Guangzhou and Nanhai, the Visit to Chaozhou and Shantou by Senior Staff from the Hong Kong Press, and the Southern China Information Sharing Convention organised respectively by the Hong Kong Productivity Council, the Hong Kong Federation of Chiuchow Associations and the Guangzhou Computer Science Society. In the preparation for these activities, the GDETO established good working relationship with the top officials of relevant local authorities and visited leading local enterprises, laying a sound foundation for further cooperation with both the public and private sectors.

Trade Promotion

5. In the past few months, the Trade Promotion Division called on more than 20 economic and trade departments of the Guangdong Provincial Government and key semi-official services agencies in Guangdong, and met major Hong Kong and Guangdong trade associations as well as trade support organisations in Hong Kong with a view to promoting better mutual understanding and liaison. In addition, action is in hand to address common concerns of Hong Kong businessmen investing on the mainland, including the interim safeguards applied to the import of iron and steel products by PRC Customs in late May, and the adjustment of the base of minimum retirement insurance payment for employees of enterprises in Shenzhen Municipality.

Public Relations

6. The GDETO has made contacts with major media organisations in Guangdong and established links with the directors of various offices. In early August, the GDETO held press briefings in Hong Kong and the mainland respectively, presenting the mission of the GDETO, its organisational structure and work programme. Media coverage in both places is positive. The GDETO's web-site (<http://www.gdeto.gov.hk>) was launched in early August with traditional Chinese, simplified Chinese and English versions, providing the public with information on trade and economy in Guangdong and Hong Kong.

The Way Forward

7. We plan to hold the inauguration ceremony of the GDETO and a series of activities during the Guangzhou Autumn Trade Fair in October 2002. With businessmen from various places gathering in Guangzhou, it will be a great opportunity to promote the image of Hong Kong as well as trade and investment between Guangdong and Hong Kong.

8. We intend to complete the programme of visiting 21 above-prefecture-level cities in Guangdong by the end of 2002 with a view to building up good relationship and channels of communication with various cities as well as setting up a communication network for Hong Kong businessmen in Guangdong to enhance communication with them and better understand their needs.

9. Apart from maintaining close contacts with various municipal governments and relevant commerce and trade departments, we will also strengthen our links with offices of Hong Kong business organisations in Guangdong including the Hong Kong Trade Development Council and the Hong Kong Productivity Council as well as various trade associations so that concerted efforts can be made to solve problems generally affecting Hong Kong businessmen in the mainland.

Report on the Work of the Toronto ETO

Work of the Toronto Office

The Toronto Office continues to reach out to the three levels of governments, legislators, the business community, the media, and think-tanks/academia across Canada through a range of proactive programmes (including speaking engagements, seminars, media interviews/briefings, press releases, newsletters, exhibitions, courtesy calls, receptions, etc) to keep them abreast of the latest state of play in Hong Kong, promote inward investment and Hong Kong's overall image as Asia's world city. We also assist HKSARG bureaux and departments in liaising with their Canadian counterparts and collating of information.

2. As detailed in the relevant bi-monthly reports, we have successfully launched Brand Hong Kong in Calgary in January and a series of activities in June in Toronto to commemorate the 5th Anniversary of the HKSAR. These together with our upcoming promotional events to be held in Montreal and Vancouver in early October and early November respectively will help enhance the mainstream community's awareness of and interest in Hong Kong.

3. As to investment promotion, we have so far attracted two Canadian companies to set up their offices in Hong Kong this year, and are currently working on several other companies. With the rapid recovery of the Canadian economy this year, we expect that our investment promotion effort could yield better results than last year. Besides, to encourage more Canadian businesses to make use of Hong Kong as a gateway to Mainland China after China's WTO accession, we are organizing a November trade mission to Hong Kong entitled "Hong Kong – Your Fast Track to China".

Political Developments

4. The political developments in the first half of 2002 have been tumultuous. The ruling Liberal Party has been beleaguered by scandals involving unethical awarding of government contracts and in-fighting for party leadership. As a result, there have been three cabinet reshuffles in the first six months of 2002 with the latter two happening within a week in May.

5. The first reshuffle took place in January when former Industry Minister Brian Tobin suddenly announced his resignation. Although he cited personal reasons for his decision, critics believed that it stemmed from his underground party leadership campaign being frustrated by Prime Minister Jean Chretien. The second reshuffle took place in May, which saw the ousting of Defence Minister Art Eggleton and the demotion of Public Works Minister Don Boudria. Both of them, among some other Cabinet Ministers, were criticized for conflict of interest in awarding public contracts. A week after the second cabinet reshuffle in late May, the Prime Minister shocked the whole country by removing the popular Finance Minister Paul Martin from his cabinet, and putting this important portfolio under the Deputy Prime Minister John Manley. It is widely believed that the Prime Minister's decision arose from Paul Martin's refusal to halt his underground party leadership campaign.

6. Whilst Jean Chretien was widely criticized by party members for ousting Paul Martin, Paul Martin has emerged from this saga as being even more popular and ambitious. He has been campaigning across the country to generate support for his yet-to-announce showdown with the Prime Minister at the Liberal Party leadership review next February. In the mean time, there are reports that Chretien supporters are trying to reach a deal with the Martin camp, which will mean the Prime Minister will announce a definite retirement date in exchange for Martin's support at the leadership review.

7. Despite the turmoil in the ruling Liberal Party, the opposition parties have not gained much political mileage. It has been observed that, insofar as federal politics is concerned, the Liberal Party still has the widest appeal and is able to rule the country for long periods of time, interspersed by brief periods of governments by other political parties. Indeed, a June poll shows that the Liberal Party still enjoys the support of almost 50% of voters.

Economic Developments

8. Defying gloomy forecasts after September 11 and the lackluster economic performance in the first three quarters of 2001, the Canadian economy had been able to avoid a recession by recording a 2% growth in the fourth quarter of 2001 and 1.5% growth for the year 2001. Taking most economists by surprise, the pace of economic recovery in 2002 has been faster than any optimist could have expected. The first quarter saw the economy surging up by 6%, coupled with a decreasing unemployment rate from 8% in last December to 7.5% in June this year. In fact, the Canadian economy has out-performed all G7 economies so far in 2002. In view of the faster than expected growth of the economy, Bank of Canada has raised interest rate three times (0.75% accumulatively) in this year to forestall the possible outbreak of inflation. The general growth forecast for 2002 is 4.5% and the Bank has hinted that further interest rate hikes in this year are quite likely.

9. The key driving force behind the strong recovery has been robust consumer spending, especially in housing, thanks to the stimulating effect of continuous interest rate cuts. Some economists have cautioned that whether the economic recovery can be sustained depends much on whether business investment would pick up. Recent statistics show that although the red-hot real estate market is still the pillar for the robust economy, the composition of growth has become more balanced as both export and business investment have risen.

Report on the Work of the Singapore ETO

Work of the Office

The Singapore Office is responsible for enhancing the economic and trade interests of Hong Kong among ten member countries of the Association of South East Asian Nations (ASEAN)*, providing useful information to Hong Kong on major political, economic and social developments in the region, conducting various research projects on public policies and legislation, arranging visits for official delegations from Hong Kong, contributing to sponsored visitors' programme to invite VIPs in the region to visit Hong Kong, and serving as a point of liaison with the APEC and PECC Secretariats. The Singapore Office also seeks to promote, among the business communities in the region, the investment opportunities in Hong Kong and to encourage them to set up operations in Hong Kong.

2. The Singapore Office continues to promote the understanding of Hong Kong as Asia's world city in the ASEAN region. The Office has organised business seminars, talks and participated in exhibitions and other promotional activities to enhance the knowledge of Hong Kong among government authorities, business communities, think-tanks, research institutes and academia, diplomatic corps, as well as international and community organisations in the region. Besides, we have also conducted press and editorial briefings to update the media on latest developments and government policies in Hong Kong. Briefings on the Financial Secretary's 2002-03 budget were also held in March/April in our major host cities.

3. The Office has actively publicized the Hong Kong Brand in the region, e.g. the Brand was displayed at all major events organised and participated by the Office, such as the speaking events by D(SG) and visiting senior government officials, trade talks co-organised with the Hong Kong Trade Development Council, spring receptions co-hosted with the Hong Kong Tourism Board, functions celebrating the HKSAR Fifth Anniversary, etc. The publicity drive on promoting the Brand was further pitched in July when the Office launched a promotion campaign with the Brand and the tagline painted on the entire body of a skytrain in Bangkok, Thailand.

4. To commemorate the 5th Anniversary of the HKSAR, the Singapore Office hosted receptions in Singapore, Thailand and Malaysia in July. The receptions were all well attended by diplomatic corps, senior government officials and key business people. The Office also organised an exhibition "Building a Dynamic Hong Kong" in Singapore in July to showcase Hong Kong's achievements in the past five years and the visionary plans ahead.

Regional Development

Economic and trade development

5. Major ASEAN economies are recovering gradually from the impact of the September 11 incident. With the improved situation in manufacturing output, Singapore managed to register a 3.9% growth in the second quarter and is expecting a growth of 3%-4% for 2002, compared to a -2.2% in 2001. Singapore is, however, still striving hard to reform and restructure the economy through various means put forward by the Economic Review Committee which was set up last October and tasked to recommend ways to restructure Singapore's economy. Both Malaysia and Indonesia are also expecting a growth of 3.5%-4% for 2002. The recovery in Thailand is also impressive as it forecasts a growth of as much as 5% for 2002. However, whether the economic recovery in the ASEAN region can be sustained would depend largely on the global economic development, in particular that of the US.

6. Regional competition has become more fierce among the more developed ASEAN countries like Singapore, Malaysia and Thailand. Malaysia has been investing heavily in its ports, airport and logistics facilities to compete head on with Singapore. With the advantage of lower operation costs, two major shipping lines namely Maersk Sealand and Evergreen have moved their operation from Singapore to Malaysia. On the other hand, Singapore responded by intending to allow foreign participation in container port business so as to secure a long-term partnership between the shipping lines and the Singapore ports. Thailand is also considering to construct a Kra Canal cutting through the IndoChina Peninsula to boost its status as a regional marine hub.

7. On the external trade front, ASEAN countries are now more receptive to regional trading agreements. Singapore has been active in securing a network of free trade agreements (FTAs) with its major trading partners. It has signed an agreement with New Zealand and Japan and has completed the negotiation with the European Free Trade Association (EFTA). It has also been reported that the one with the US will soon wrap up and those with Australia, Mexico and Canada are in the pipeline. Apart from Singapore, Thailand has also become more proactive. It has started to negotiate an FTA with Australia and engaged studies on a possible FTA with other major economies like the US, China and Japan. ASEAN is in the course of negotiating an FTA with China and may enter into similar negotiations with other major trading partners such as Japan.

Political development

8. Political environment has become more stable in the ASEAN region. Singapore's new cabinet line-up has been smoothly put in place and Thai Prime Minister Thaksin Shinawatra has remained popular among the Thai communities and his ruling party has succeeded in consolidating another opposition party. The leadership of Indonesian President Megawati and Philippines President Arroyo has not encountered major challenges so far. The only surprise might be the sudden announcement of resignation of Malaysian Prime Minister Dr Mahathir from office and political party but he has later agreed to remain in office for another year. He has named Deputy Prime Minister Abdullah Badawi as his successor.

9. On the other hand, bilateral tension has increased among some ASEAN countries. Singapore and Malaysia have been on disputes over a number of issues including the supply of water from Malaysia to Singapore, the banning of wearing tudung (Muslim headscarf) by Malay girls in Singapore's public schools, construction of the new Causeway bridge to link their border checkpoints, reclamation of the Singapore Strait on Singapore side which Malaysia criticized strongly for impeding their coastal developments, etc. Thailand and Myanmar are also on dispute over border issues. A series of border clashes involving drug trafficking activities in May have further heightened the already tensed border relations.

10. After the September 11 incident, the ASEAN countries together with China, Japan and the Republic of Korea have agreed to extend the regional cooperation from trade to anti-crime and terrorism activities. It is expected that there will be more dialogues among these countries in the coming year on issues of common concern. The Singapore Office will continue to keep a watching brief over the economic and political prospects in the ASEAN region.

* ASEAN member countries include Brunei Darussalem, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.
