

# **Private Sector's View of Trade Liberalization in Services: A Hong Kong Perspective**

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## 1. Introduction

Asia has long been the home of many world-class manufacturers as well as the manufacturing centre of the world. Its service industries, however, are still largely shielded from world competition. This is changing as the so-called “Services 2000” Round of multilateral trade negotiations under the General Agreement of Trade in Services (GATS) proceeds in the new millennium. Two major recent events have had pronounced effects on service liberalisation in Asia: the 1997 Asian currency crisis and China’s imminent accession to the World Trade Organisation (WTO). The former has led to realisation on the part of policy makers that service liberalisation will increase the competitiveness of the service sector, which in turn will strengthen the overall economy. As a result, significant additional liberalisation has been achieved since the crisis started (Business Asia, 1999). Commitments to the WTO have in fact been used by some governments as an instrument to lend credibility to domestic liberalisation reforms, as failure to honour these commitments would require compensation be made to countries adversely affected (Mattoo 1998, Low and Mattoo 1998). China’s accession to the WTO would create significant opportunities for foreign participation in its service industries and provide the catalyst for domestic liberalisation both in China and in other Asian countries. Furthermore, China’s accession will pave the way for Taiwan’s.

Against this backdrop, multilateral liberalisation of services has had an immense impact on the Hong Kong service sector. Hong Kong is not only the most service-oriented economy in the world, but also a “service hub” in the Asia-Pacific region, directing the flow of goods, information, and capital.<sup>1</sup> In 1999, Hong Kong’s trade in services reached US\$57.53 billion, or 36.5% of gross domestic product. Not surprisingly, Hong Kong has evolved into a service hub because of its close proximity to China, excellent telecommunications infrastructure, laissez faire policy, free flow of information, and the rule of law. As a service hub, Hong Kong plays a key role in providing so-called “trade services” (Deardorff 1999) in the region. Trade services are services, such as financial services, transportation, trading, telecommunications

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<sup>1</sup> In 1999, the services sector accounted for 85% of Hong Kong’s gross domestic product (93% if construction and utilities were also included) and 85% of employment.

services, and professional services, which serve as inputs in the completion of international trade and investment.

Although the liberalisation of service trade would provide substantial benefits for the global trading community, its effects on the Hong Kong economy in general and its service providers in particular are worth understanding. As China and other regional economies undertake service liberalisation, Hong Kong's service sector faces both opportunities and challenges. On one hand, market liberalization in other countries, particularly in China, opens up new business opportunities for Hong Kong service providers to expand their operations beyond Hong Kong's boundary. The expanded market can, for example, improve their efficiency through the realization of economies of scale and scope. On the other hand, trade liberalization diminishes the attractiveness that Hong Kong used to enjoy. Some countries may now bypass Hong Kong and this would endanger its traditional role as a middleman between east and west, particularly as the gateway to China. Perhaps Hong Kong needs to search for and bolster its identity as a service hub as in the new millennium. What role can the WTO trade forum play? We approach these questions by going directly to Hong Kong service providers themselves since they are the main group (besides consumers) who will both be affected by and affecting the process of service liberalisation.

This paper reports the results of a project that studies the private sector's opinions and expectations of service liberalisation. It has two objectives. First, it summarizes the project's findings and discusses the implications of these findings for the upcoming Services 2000 negotiations. Second, it examines the private sector's view of how to maintain and enhance Hong Kong's current status as a service hub in the region. The rest of the paper is organized as follows. Section 2 describes the project's background and the methodology used. Section 3 provides an overview of the results of a large-scale questionnaire survey and a series of personal interviews with business leaders from Hong Kong service industries. It also discusses the implications of the findings on Services 2000 negotiations. Section 4 turns to the issue of how service liberalisation can affect Hong Kong's position as a service hub. In this section, we focus on three major service sectors that help shape Hong Kong's position as a service hub – financial services, telecommunications, and transport services. Some concluding remarks are offered in Section 5.

## **2. Methodology of Study**

The main research techniques used in this study are a questionnaire survey and personal interviews. This research approach is quite different from the standard research procedure in economics, which involves theorizing the phenomenon and then subjecting the empirical implications to an actual data test. Economists' traditional skepticism on the usefulness of the survey methodology can be traced back to the famous "billard player" analogy (Friedman and Savage 1948). However, as argued by Blinder (1991), results from a properly designed survey can provide valuable data that are unavailable to an econometrician.

The service providers covered by this study are members of the Hong Kong Coalition of Service Industries (HKCSI) which is the biggest and most representative association of the service industry in Hong Kong. The primary purpose of the study is to compile a private sector's "wish list" of issues that they would like to be addressed in the WTO negotiations.

### **2.1 Questionnaire design**

The most crucial step in designing the questionnaire was the construction of a proposed wish list for the respondents to choose from. We interviewed 14 senior executives from leading services companies in Hong Kong. The interviews sought to identify the problems encountered by Hong Kong service providers in market access, the countries in which they would like to see liberalisation, and the issues that they would like to be addressed in the Services 2000 Round negotiations.<sup>2</sup> Although the interviewees were from different service sectors and some of their concerns were quite sector-specific, they all alluded to several common concerns. These are restrictions on market access through various forms of establishment requirements, discriminatory treatment of foreign service providers, difficulty in accessing trade regulation information, and complex domestic and trade regulations. The feedback collected from the interviews was used, along with our own research, as inputs to

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<sup>2</sup> A summary of the interviews is published in *The Service Economy* (1999).

construct a proposed list.<sup>3</sup> The list was refined several times after consultations with the members of the HKCSI executive committee which consisted of representatives from various service industries. The final wish list consists of 38 wishes (see Appendix 1 for the list). Some of the wishes are general concerns (such as applying the same licensing requirements to both local and foreign firms) while others are quite specific (such as relaxing restriction on foreign equity ownership). The first 36 individual wishes can be classified into one of the following eight categories:

- I. Establishment requirements (wishes 1 - 6)
- II. Qualification of professional standard (wishes 7 - 8)
- III. Immigration and visa (wishes 9 - 11)
- IV. National treatment (wishes 12 - 18)
- V. Labour market regulations (wishes 19 - 23)
- VI. Information flow and transparency (wishes 24 - 27)
- VII. Market structure to promote competition (wishes 28 - 32)
- VIII. Trade facilitation and removal of restrictions in other industries (wishes 33–36)

Wishes 37 and 38 are not classified under any category. They are “relax travel restrictions, durations of stay and foreign currencies carried abroad” and “relax restrictions on foreign company’s profit repatriation”. The main parts of the survey are Questions 3, 4 and 8. Question 3 provides a sector classification scheme for the respondents to indicate their current businesses (Q3) and to define up to two *composite* service sectors called “Sector 1” and “Sector 2” (Q4) that they want to see liberalised. Our sectoral classification in Q3 follows the GATS classification scheme with only minor adjustments. There are 12 main sectors: (1) business services, (2) telecommunications, (3) construction and related engineering, (4) distribution services, (5) environmental services, (6) educational services, (7) financial services, (8) health related and social services, (9) tourism, travel and leisure services, (10) recreational, cultural, and sporting services, (11) transport services, and (12) information services. Each sector is further subdivided into sub-sectors. There are altogether 72 sub-sectors.<sup>4</sup> In defining the two composite sectors in Q4, the

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<sup>3</sup> We have consulted the literature from United Nations Conference for Trade and Development (UNCTAD), the World Bank, and Pacific Economic Co-operation Council (PECC), and Pacific Basic Economic Council (PBEC). See UNCTAD and the World Bank (1994), PECC (1995), and PBEC (1997). We also consulted some surveys that the HKCSI conducted on related topics.

<sup>4</sup> If the respondent just select a main sector without indicating the sub-sector, we treat this as a “general” sub-sector. Hence, there are 12 “general” sub-sectors. This, together with 60 “listed” sub-

respondents could combine several sub-sectors from the 72 provided. Since the wishes are likely to be (in fact they all are) country-specific, the respondents were also asked in Q8 to identify up to five economies, Hong Kong and four foreign economies, that should undertake market-opening measures to fulfill their selected wishes. Then the respondents could simply build up their own “wish list” by checking the boxes next to the 38 wishes or specifying other wishes in the spaced provided on page 5 of the questionnaire.

In counting the number of wishes, one must bear in mind that each “wish” can be identified by three fields: a wish code, a sub-sector (out of the 72 sub-sectors) and an economy the wish is made for. For instance, suppose a respondent selected wish code number 7 in Q8 for “Sector 1” which he defines in Q4 as “advertising” plus “public relations” and he put down country codes “A”, “B”, and “HK” next to check. Then, this respondent has made a total of six (two sub-sectors x three economies) wishes.

## **2.2 Background Statistics**

In May 1999 we sent the questionnaire to 1,787 members of the HKCSI. A reminder letter followed this two weeks later. We also made random follow-up telephone calls to the respondents approximately one month after the questionnaire was sent out. The calls were made for two purposes. The first purpose was to encourage participation and answer any queries about the questionnaire. The second purpose was to adjust the “effective” size of the sample because the original mailing list may have overstated the effective sample for two reasons. First, it was at least two-year old and many of the addresses may no longer have been valid. Second, some firms may not be the intended targets because their businesses were unrelated to trade in services. Out of the 241 telephone calls made, we found in 20 cases (8.3%) the addresses were out-of-date and could not be updated. Another 18 cases (7.5%) declined to participate in the study because their businesses were not related to trade, either directly or indirectly. Since the calls were made randomly, we project the same

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sectors (labeled a,b,c,d, and so on in the boxes below each main sector in Q3), constitute the 72 sub-sectors.

percentage of problem cases (15.8%) onto the whole sample. This reduced the effective sample size to 1,504 companies.

By August 1999, we had received 114 completed questionnaires, this implied an effective response rate of 7.6%. An obvious reason for the low response rate was that the questionnaire itself was lengthy. However, based on our experience from personal interviews, seminars, and follow-up telephone calls, there are also two other factors which we believe are more important explanations. First, there is a general feeling of apathy among business people, especially those from small and medium enterprises, towards the WTO. This can be attributed to a lack of understanding of what the WTO is about or a lack of confidence on what it can do for them. The common perception is that the WTO is too remote to be relevant to everyday business. Second, since market liberalisation brings about more intense competition, it is inevitable that some service providers take a cautious attitude and are not keen to see the Hong Kong government open its domestic markets. This tends to discourage companies from making wishes for Hong Kong or even participating in the survey altogether. We would also like to note that besides those 241 calls, we visited the chairmen of some sector-specific or small trade associations, such as the Hong Kong Information Technology Federation and Institute of Architects, to solicit their participation. We expect some of the returned questionnaires came from these associations. This tends to raise the “effective” response rate since those replies reflect the views of key members of the associations (i.e. from their executive committees).

Table 2.1 provides a summary of the service sectors of our respondents’ businesses. The majority of the respondents (38%) described the service they provided as “business services.” This is followed by financial services (27%), transport services (18%), distribution services (14%), information technology which consists of telecommunications and information services (14%) and construction and related engineering services (10%). Most respondents in our sample appear to be indigenous to Hong Kong. Among the 114 respondents, 75 replied that their parent company’s main place of operation was Hong Kong. For the other 39 respondents whose parent company’s main place of operation was outside Hong Kong, most are from the US (10) and UK (9). Regarding head office locations, 69 of the respondents

replied that their companies had a head office in the Asia-Pacific region, with a vast majority of them (59) located in Hong Kong.

TABLE 2.1 HERE

Table 2.2 summarises the distribution of firm size, based on the 1998 revenue. Most firms (26 firms or 29.5%) recorded revenues of between HK\$10 and HK\$50 million. This, along with the nine cases where revenues of HK\$10 million or below were reported, indicates that most of our respondents (around 40%) are relatively small companies. Another 43% (38 firms) are medium-sized companies with reported revenues between HK\$50 million and HK\$1 billion. Finally, 17% of the respondents (15 firms) are large firms with revenue exceeding HK\$1 billion in 1998.

TABLE 2.2 HERE

A legitimate concern is to what extent the “wishes” are realistic and do not represent wishful thinking. It is possible that a respondent may “wish” that it could access all markets by checking all 38 wish codes in the questionnaire. We trust that the wish list compiled from our survey does represent a realistic picture. First, only two companies checked all the 38 wishes. Second, from our personal interactions with business people on various occasions (interviews, follow-up telephone conversations, and meetings), we observe that they are very realistic people. Most of them had strong opinions on certain issues that are related to their business experiences and future expansion plans. The wishes collected in our questionnaire should reflect (a) the business opportunities the targeted economies can offer, and (b) the degree of difficulty of fulfilling those wishes. Companies are more likely to have wishes for promising markets and in measures that resolve the practical difficulties that they have encountered in the past. In this sense, the wish list collected from this survey are not “wishful” thinking and should be taken seriously as they are well-grounded in a firm’s business plans and past experiences. An indication of this conjecture is that 60% of the firms made 30 wishes or less and 75% made 50 wishes or less.<sup>5</sup>

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<sup>5</sup> Recall the discussion on page 6 about the definition of a wish.



### **3. Overall Results from the Questionnaire Survey and Interviews**

The 114 companies who returned the questionnaire recorded a total of 5,555 wishes. Table 3.1 presents the breakdown of the wishes by main service sectors. Six main service sectors account for 88% of all wishes. These are, in descending order in terms of the number of wishes, the financial services, business services, distribution services, information technology (which is defined as information services plus telecommunication services), construction and related engineering services, and transport services. Basically, the pattern in this table is consistent with the sectoral distribution of the respondents' businesses depicted in Table 2.1.

TABLE 3.1 HERE

Table 3.2 presents the breakdown of the wishes by economies of interest. Most wishes are directed towards Asian economies. The top eight economies for which the respondents have wishes are all located in Asia, and together, they account for 83% of all wishes. The top three economies are from Greater China area (China, Hong Kong, and Taiwan) and they account for 59% of the wishes. China, in particular, accounts for 38% of the wishes. This underscores the role of Hong Kong as the gateway to China for many multinationals trying to gain a foothold there, especially in anticipation of its imminent entry to the WTO. Since Hong Kong is often heralded as one of the most open regimes in the world, it may perhaps be surprising to find that it is the second most mentioned economy in the private sector's wish list. The other one-quarter of the wishes are directed at Korea, Japan, and three ASEAN countries: Singapore, Malaysia, and Thailand. The importance of Asian economies is consistent with our interview experiences and the fact that many multinationals use Hong Kong as a regional base to manage their businesses in the Asia-Pacific region. The notable absence of the US and EU economies might partly be due to the fact that many respondents originate from these two areas and therefore have no need to expand in their home markets.

TABLE 3.2 HERE

The breakdown of the wishes by the eight wish categories mentioned earlier is provided in Tables 3.3 where the categories are ranked in descending order of an “adjusted response rate”. The “adjusted” response rate controls for the fact that the categories have a different number of wishes.<sup>6</sup> The top ten most mentioned individual wishes are listed in Table 3.4. Since the service providers we interviewed had very different wishes for Hong Kong as compared with other economies, we breakdown the results in Tables 3.3 and 3.4 between those for Hong Kong and those for foreign economies. In order to have an idea of which issues should be dealt with in the Services 2000 Round, we also asked the respondents to name the most urgent issues from their wish lists, both for the Hong Kong and for foreign economies. The results are presented in Table 3.5.

TABLE 3.3, 3.4, 3.5 HERE

### 3.1 Wishes for Other Economies

The top three main types of wishes that Hong Kong service providers demanded from other economies were: (i) to relax establishment requirements restrictions, (ii) to be accorded national treatment, and (iii) to improve information transparency.

The use of establishment requirements as a way of restricting market access presents the biggest obstacle for Hong Kong service providers. Four of the wishes under this category are among the top 10 wishes in this survey (Table 3.5, panel b).

They are, starting with the most important:

- (i) relax restrictions on the scope of business activities;
- (ii) relax restrictions on foreign equity ownership;
- (iii) relax restrictions on the number of operating licences; and
- (iv) relax restrictions on the composition of local partners, agents, or board of directors.

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<sup>6</sup> In comparing the relative importance of the eight wish categories, one must also take into account the number of wish items in each category. Everything else being the same, categories with more wish items would be selected more often than those with fewer items. In order to adjust for this bias, an *adjusted response rate* is computed in addition to the *raw response rate* that is simply the relative frequency. The adjusted response rate of an  $i^{\text{th}}$  wish category is computed as follows. First, divide the number of votes for a category  $i$  by the number of wish items in the  $i^{\text{th}}$  category. Second, repeat the first step for the other seven categories. Third, add up the answers from steps 1 and 2. Finally, “standardize” the answer in step 1 by dividing it by the answer from step 3.

In particular, relaxing restrictions on the scope of business activities stands out as the most popular wish in the entire survey. This underscores the structural changes taking place in the service industry. Technological innovations and market liberalisation of service sectors have gradually weakened segmentation across service product lines. For example, banks and insurance companies are cross-selling each other products as “bancaassurance”; voice telephone service and facsimiles can now be provided as a package over the Internet; and mobile and fixed line services are converging. As the product lines blur, the ability of service providers to offer a one-stop, total solution package of services to their customers is absolutely essential. This not only allows service providers to build up customer loyalty, but also to benefit from economies of scale and scope. In this respect, restrictions on the scope of businesses would have a negative spillover effect on service sectors that are already open to foreign service providers.

The respondents’ second most important concern is to improve information flows and transparency. Two of the wishes in this category are among the top 10 individual wishes of the survey. They are:

- (i) to set up inquiry points for dissemination of trade related laws and regulations; and
- (ii) to improve transparency of court rulings on business disputes.

Article III of GATS on transparency stipulates that “Each Member shall publish promptly and, except in emergency situations, at the latest by the time of their entry into force, all relevant measures of general applications which pertain to or affect the operation of this Agreement (i.e. GATS).” Apparently, this overriding principle has not been complied with by WTO member economies covered in this survey. (China, Taiwan and Vietnam are yet to join the WTO.) Out of the 210 wishes on the establishment of inquiry points to disseminate trade-related laws and regulations, more than half are directed to WTO member countries. Some interviewees stressed that the problem they faced was not so much whether the regulatory information was available but how government officials implemented it. It was also noted that some countries such as Japan and Korea have not translated all of

their regulations in English, which put foreign firms at a disadvantage. The wishes to improve the transparency of court rulings on business disputes underscore another hazard of running a business in foreign economies. China alone accounts for 50% of these wishes. The result is consistent with the incidences of arbitrary imprisonment of Hong Kong businessmen in the mainland.

Another major concern is national treatment. This GATS principle is apparently not being followed by the main economies covered in this study. The two main complaints are (i) application of different licensing requirements for local and foreign service providers, and (ii) discriminatory taxes imposed on foreign firms. Demands to remove them are among the top 10 wishes from the survey. In a broader sense, some wishes in other categories may constitute violation of national treatment.<sup>7</sup> For example, “Qualification of professional standard” is the fourth most important wish category in Table 3.3 panel (b). Sectoral distribution shows that the use of unreasonable qualification standards unrelated to the quality of services provided (such as race and residency requirements) are commonly used against foreign professionals, especially in the business service sector. The establishment restrictions on the scope of business activities mentioned above are also a violation of national treatment as they are usually imposed on foreign service providers. For example, many interviewees from the financial service sector complained that foreign brokers are restricted to trade foreign-trenched stocks in many Asian economies. In the case of China, restrictions on renminbi business is a common complaint.

The interviewees also pointed out some measures that put foreign service providers at a disadvantaged position vis-à-vis domestic providers, hence violating the spirit behind national treatment. For example, Singapore requires foreign fund management companies to have a “full-fledged” position before they can bid for business. A full-fledged operation means that the company must establish an office with portfolio managers. This type of restriction discourages foreign fund management companies from operating there since the domestic market is too small to warrant setting up a full-fledged operation. Some interviewees in the courier

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<sup>7</sup> Technically, national treatment is used in the context *after* foreign service provider has gain market access to foreign markets. However, some measures, such as those on establishment requirements, also constitute unequal treatment although they operate *before* market access is achieved.

service business said that many developing countries have laws that limit courier service to commercial documents or the weight of the item delivered. The primary purpose of this type of measure is to protect the local postal service provider.

The other two wishes in the top 10 list are (i) to simplify customs clearance procedure (10<sup>th</sup>), and (ii) to relax restrictions on profit repatriation (4<sup>th</sup>). A cumbersome customs clearance procedure would raise transaction costs and discourage international trade of goods, which support service sectors such as transport and distribution. According to a study by Pacific Basin Economic Council (PBEC 1997), “excessive documentation” has been identified as one of the most reported administrative barriers to trade.

Panel (a) of Table 3.5 presents the distribution of the most urgent wishes for foreign economies. The five most urgent wishes are all among the top ten most mentioned wishes in panel (b) of Table 3.4 as well. In particular, the issue of capital controls was brought up many times in our interviews. In fact, “relax restrictions on profit repatriation” is the fourth most mentioned wish for foreign economies in this study.

### **3.2 Wishes for Hong Kong**

As mentioned earlier, Hong Kong is the second most mentioned economy in the private sector’s wish list. Most wishes, including the four most urgent wishes, are targeted at relaxing immigration policy and promoting Hong Kong’s high-technology sector. Whether we use the raw or the adjusted response rates, the three main types of wish that Hong Kong service providers demanded from their own government were: (i) to relax immigration and visa policy, (ii) to improve market infrastructure to promote competition, and (iii) to improve information transparency.

Although “immigration and visas” is a relatively small category with only three items, it accounts for one-fifth of all wishes for Hong Kong. Hong Kong also accounts for the lion’s share of wishes in this category. Out of the 447 wishes from all

our respondents, 29% are directed at Hong Kong.<sup>8</sup> All three wishes in this category are among the ten most mentioned for Hong Kong (1<sup>st</sup>, 2<sup>nd</sup>, and 4<sup>th</sup> in panel (c) of Table 3.4). This result accords with the common complaint we heard from our interviewees. Service providers, especially those from the high technology sector, are critical of the Hong Kong government's immigration policy. Commercial presence and movement of personnel are the two main modes of supplying services to overseas customers. Both modes of supply, however, assume unrestricted flows of personnel across national borders. The industry practitioners that we interviewed stressed that the most crucial element of a business friendly immigration policy is to offer the "flexibility" for people to move in and out of national boundaries frequently with minimum administrative hassle. Employees of many multinational corporations and people working in the trade sector often need to travel to foreign countries frequently for brief stays to attend a meeting, a training program, or to meet with business partners. Therefore, being able to obtain a foreign visa quickly and inexpensively is very important. Issuing more foreign work-visas with a longer durations of stay, such as the Hong Kong SAR policy of allowing in IT professionals from China, would not be able to address this kind of "flow" need.

The wishes in the other two wish categories also strongly reflect concerns for high-technology sector. In the "information flow and transparency" category, one of the most important concerns is "to set up electronic data interchange (EDI) facilities". Some interviewees suggested that Hong Kong needs to bolster its middleman role in the e-commerce age by offering other forms of e-middleman function. They argue that given Hong Kong's excellent telecommunications infrastructure, it can develop into a regional electronic catalogue centre and authentication centre. Electronic catalogue is a facility that translates buyers' and sellers' product information into a standardised electronic format understandable by both sides. For example, in the apparel industry, electronic catalogues can help a US purchasing manager pass his product requirements to a supplier in China.

The respondents also wished to see travel restrictions relaxed (7<sup>th</sup> in Table 3.4 (c)). This request is obviously motivated by the restrictions on mainland tourist's

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<sup>8</sup> From Table 3.3, there was a total 447 wishes in the category of *immigration and visa*, 318 for other economies and 129 for Hong Kong.

duration of stay and the complicated visa application procedures for Taiwanese tourists visiting Hong Kong and mainland China. Due to its excellent location, Hong Kong has the conditions to position itself as a hub destination. Hong Kong can be packaged as part of a China or South Asia itinerary. Another obstacle against Hong Kong developing as a travel hub is its human resources. According to a recent government estimate (MingPao 2000), the tourist and high-technology sectors are identified as the two sectors that are most affected by labor shortage.

Finally, as in the case for other countries, the respondents also recommended that Hong Kong should simplify its customs clearance procedures in order to facilitate trade. This wish is obviously important for Hong Kong to maintain and enhance its status as the major trading port in Asia. We elaborate on this point in Section 4.

In terms of urgency, the two most immediate issues for Hong Kong (Table 3.5 panel (b)) are relaxing the quota of foreign work visas and streamlining the procedures for obtaining visas. The third and fourth most urgent wishes are to set up e-commerce regulations and electronic data interchange.

### **3.3 Implications for GATS Negotiations**

Our results above may have some useful implications for GATS negotiations. First, there may be a need to deepen the meaning of transparency in Article III of GATS. This problem is borne out in our survey. “Set up inquiry points to disseminate trade information” and “improve the transparency of court rulings on business disputes” are the fourth and sixth most mentioned wishes in our survey. The feedback from practitioners raised our attention to two dimensions of transparency, namely, the interpretation and implementation of trade regulations. Foreign firms are often put in a disadvantaged position vis-à-vis local firms as the former are less familiar with how and in what context local laws and regulations are implemented or interpreted.

Another dimension of transparency is accountability - an element lacking in Article III of GATS. Since GATS members have no obligation to set up a special information agency to assist foreign companies to obtain trade-related information, it is more difficult to ensure that their compliance with GATS Article III.

The importance our respondents assigned to a fair, open, and efficient court ruling procedure would help reduce their political risks. As many countries are still in the process of adapting their laws and regulations to the requirements of WTO rules, trade disputes are bound to occur. From the service providers' point of view, transparency in court rulings can provide more timely and relevant means to resolve business disputes than the WTO dispute settlement mechanism that only operates at the country level. Perhaps, specifying some minimum level of due process and diligence in trade-related court rulings in GATS Article III would help. For example, court rulings on business disputes involving foreign companies could be published and the rationale of the rulings explained.

Violation of the WTO's national treatment principle is a major complaint in this survey. For example, wanting non-discriminatory licensing requirements is the second most mentioned wish. At present, GATS Article XVII governing national treatment does not oblige countries to state the public policy objectives behind exemptions from this principle and does not, as in the case of the MFN principle, impose a phase-out period on such exemptions.

#### **4. Sector-Specific Wishes**

In this section we examine the three sectors that make Hong Kong a service hub: financial services, information technology services, and transport services. These three sectors attracted 43% of the wishes from the private sector and nearly half of the wishes directed to the Hong Kong government. The hub status Hong Kong currently enjoys is, to a large extent, due to the fact that Hong Kong has adopted a free and open investment and trade policy while other Asian economies adopt restrictive policies. However, as other countries gradually open up their service sectors, Hong Kong's status as a hub will be challenged, particularly when new competing hubs develop. Under multilateral liberalization, therefore, improving "hub" infrastructures, such as customs facilities, the immigration regime, and information flows, are essential for a services hub to be competitive with other hubs. These points are demonstrated in a theoretical model of trade services liberalisation, given in



Appendix 2. The private sector's wishes for these three pillars of hub services seem to strike the same chord as our theoretical model. In our discussion below, we try to minimize repetition by focusing on features unique to each sector. Results that are similar to the overall pattern will only be mentioned briefly.

#### **4.1. Financial Services**

In the 1990s, the world's financial markets underwent several sweeping changes. The first structural change was large-scale privatization as governments tried to reduce their influence in economic activities. This weakens the segmentation of their financial services industries. Banks, insurance companies, securities brokers, and a new breed of non-financial institutions are invading each other's turf. The second phenomenon is an ongoing worldwide consolidation and restructuring of the financial services industries in the industrialized countries such as Japan and the EU as well as in developing economies. The latter also need badly foreign capital inflows to re-capitalize their financial sectors. The third major force is Internet technology that has had a major impact on financial services industries. Trading of financial assets now can be conducted around the clock from anywhere, breaking time and geographical constraints. On-line stockbrokers such as E\*Trade and the electronic communication networks are challenging the once protected markets. These forces have created a stock-market culture among investors worldwide. In Asia, this culture is eroding the once dominant position of the banking sector. Traditionally, Asian companies relied mainly on bank loans for financing. But the currency crisis has changed this partnership. Asian companies have discovered that they cannot rely too much on bank loans for financing. To reduce their funding risks, they are gradually turning to the equity and bond markets. Across the region, corporate restructuring and bank re-capitalisation have accelerated the push to equity markets.

The financial services sector is the most important sector in our survey. There are 1,141 wishes for liberalization in the financial sector, representing 21% of the wishes from the private sector. Our questionnaire adopts the GATS classification under which financial services sector is divided into three main sub-sectors: "insurance", "banking", and "other financial services". Banking includes all

traditional services such as deposits, lending, payment and money transmission services. Other financial services are mostly fee-based services. These include trading of financial assets (e.g. FX, equities and derivatives), underwriting, money broking, financial advisory, settlement and clearing, provision of financial information and fund management.

When the distribution of financial sector wishes by wish category is decomposed into Hong Kong and all other economies sub-samples, we observe a couple of results that are the same as the overall results discussed in Section 3. First, the top concern for Hong Kong remains as “immigrations and visas” while that of foreign economies is “establishment requirements”. Four of the top five wishes for foreign economies fall into the establishment requirement category - scope of business activities, number of branches/offices, foreign equity ownership and licensing requirements. Despite the significant progress made in the Financial Services Agreement, the financial services sector remains rather restrictive in Asia-Pacific economies. The results also shed light on the multitude of obstacles standing in the way of foreign financial institutions trying to gain a foothold in other Asian countries.

Second, as in the overall result case, both sub-sample groups continue to place great emphasis on “information flows and transparency” in their wishes. “Set up EDI facilities” is among the top ten wishes for both groups. Without a doubt, financial services are the main engine of growth in e-commerce because they are the most easily adaptable to Internet selling. On-line trading has caught on in Asia, particularly in Korea, Japan and Australia. It is estimated that almost half of all stock market turnovers in Korea is transacted on-line. Hong Kong, Taiwan and Singapore are the next biggest markets. One of the main obstacles to e-commerce is security concern. Facilities in public key infrastructure can foster an environment conducive to e-commerce. The introduction of e-Certification by the Hong Kong Post in 1999 is a good example of this. The other wish in the category demands that inquiry points be set up for dissemination of trade related laws and information. There is clearly a need to improve transparency in the financial services sector in the Asian-Pacific region. For example, the restructuring process of Daewoo of South Korea is neither open nor transparent. It neither includes the debts of Daewoo’s overseas subsidiaries nor

properly addresses transactions between Daewoo's affiliates. The plans were drafted without input from foreign creditors who complained that they were not given enough access to Daewoo's financial information. Another example of lack of transparency is the GITIC (Guangdong International Trust and Investment Corp.) incidence in China where lack of communication has led to misunderstandings over the need to register the loans of its overseas subsidiaries with the State Administration of Foreign Exchange. Foreign acquisitions of local financial institutions have slowed down in some countries such as Korea because of the substandard level of disclosure in these economies.

The only result that differs from the overall pattern in Section 3 is "qualification of professional standards" which is relatively more important in financial services than in overall results. A common complaint from this category is the use of unreasonable qualification requirements as a barrier to entry. These can take the form of requirements on language, race, and length of residency. These measures violate Article VI (4) of GATS (Domestic Regulation) that states that qualification requirements cannot constitute unnecessary barriers to trade in services.

The six main sub-sectors mentioned in the wish list are "trading of financial instruments", "clearing, settlement, and custodial services", "insurance services", "fund management services", "financial advisory services", and "lending services". With the exception of lending and insurance, the other four sub-sectors are all from "other financial services". This may suggest that Hong Kong financial services providers have a comparative advantage in these value-added services.

The most important financial service our respondents would like to see liberalised is the trading of financial assets (e.g. securities, derivatives, foreign exchange, bullion). This sub-sector attracts far more wishes than the rest, accounting for more than one-third of the wishes for financial services. Given the trend of expansion of stock trading in the global financial markets as discussed above, restrictions in this sub-sector would have a dire consequence on the business opportunities of trade in financial services. In the case of China, this wish was most likely made in response to the restrictions that foreign investors could only trade B-shares. Many countries in Asia also impose similar forms of trading restrictions such

as the maximum foreign ownership of local shares and prohibition on offering derivative or innovative financial products. Another 43% of the wishes requested that national treatment be granted to foreign firms trading financial assets, an improvement in financial market infrastructure to facilitate trading businesses, and a more transparent information disclosure standard. For example, the lack of reliable clearing and settlement services is often cited as one of the main reasons discouraging trading in emerging markets. The lack of information transparency such as lax accounting standards and rampant cross ownership-motivated trading has also introduced excessive risk to emerging markets.

Given our discussion above, it is not surprising to find that the second most important financial service our respondents sought to liberalise is clearing, settlement, and custodial services (16% of the wishes). Other financial sectors that foreign financial institutions find it difficult to enter include insurance, lending, fund management and financial advisory services. Note that these are all high profit margin businesses. Together, these four sub-sectors account for 37% of financial sector wishes.

Our respondents also demand to be given national treatment in licensing requirements (4<sup>th</sup> and 6<sup>th</sup> on the top-ten list of Hong Kong and foreign economies respectively). One solution is to require the licensing authority to publish the licensing requirements on the Internet in order to improve the transparency of the selection process. Another major concern in the foreign economies sub-sample is capital controls. The private sector would like governments to reduce their limitations on the repatriation of profits. Article XI (Payments and Transfers) of GATS stipulates that, except under circumstances envisaged in Article XII (Restrictions to Safeguard the Balance of Payments), a member country shall not apply restrictions on international transfers and payments for current transactions related to its GATS commitments.

#### **4.1.1 Implications for Hong Kong as an international financial centre**

Judging from many criteria, such as stock market capitalization as a percentage of GDP and the size of footloose international financial businesses such as

foreign exchange and international banking it can attract, Hong Kong is the premier financial center in the Asian time zone. The fact that the financial services sector attracts most of the wishes from the private sector wish list reflects Hong Kong's competitive strength in this sector. Nevertheless, other Asian economies are embarking on a service liberalization program of their own. Furthermore, as mentioned above, technological innovation is shaking up the financial services industry. Internet technology has made physical distance less important and cross border supply of services more feasible. As a consequence, financial centers such as Hong Kong, where the costs of doing business are high will face the threat of being bypassed. As other economies open their financial sectors, some non-personal intensive, administrative type of services such as clearing and settlement, custodial services, back office operations, and to some extent, even asset trading as technology develops further, could be diverted to less costly countries.

Hong Kong can keep these businesses by, as suggested by our respondents and our theoretical model, improving service trade facilitation and further liberalizing its financial market to bring down the cost of trading. For example, in asset trading, abolishing the minimum brokerage commission and opening exchange floor seats are urgent policies in need of adoption. Hong Kong also badly needs to develop EDI facilities to enable online payment. The lack of a secured and cheap online payment technology is holding back to development of e-commerce. Some financial institutions have started to use the Internet as a tool to provide value-added services. For example, some banks offer electronic bill presentment services to enhance existing cash management services. Another natural extension of their cash management services is to facilitate payment and information flows of B2B e-commerce.<sup>9</sup>

At the same time, as developing countries start to liberalize their financial markets, services that require close contact with clients such as fund management, insurance and lending may also move closer to the clients' countries. Hence, commercial presence may be a more preferable mode of supply than cross-border supply as it can provide more timely information. The relative importance of

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<sup>9</sup> See the web site of Citibank [www.citibank.com/singapore/get/english](http://www.citibank.com/singapore/get/english).

insurance, lending, and fund management in our wish list for financial services underscores the advantage of gaining better information by getting closer to the source.

While we cannot deny that there is a substitution effect from trade liberalization, we believe that Hong Kong's status as an international financial center can be maintained. In fact, it is well placed to become to the most important financial center in the Asian time zone, given the trends of consolidation we mentioned above. First, a relaxation of foreign equity ownership could bring opportunities to cross-border supply of financial services. In its recent WTO accession agreements with the US and the EU, China has made substantial concessions on foreign investment in many sectors. Many mainland companies will seek to use Hong Kong as a base to tap foreign capital. This will bring export businesses by increasing the number of mainland firms listed in the local bourse. The demand for advice on mergers and acquisitions, syndicated bank loans, and related business services will also increase.

Second, as an international financial center, Hong Kong is endowed with a critical mass of talents from a wide range of financial and business services, owing partly to its earlier start as a financial hub. Such a clustering of people could create a pressure for innovation that is important for high valued-added services such as investment banking. This clustering also makes it possible for financial service providers to have access to talents from other related financial services themselves. This allows them to enjoy economies of scope from the input point of view. For example, some financial services such as merges and acquisitions and initial public offerings require talents from many financial services and related business services (e.g. accountants, bankers, and lawyers) to work closely with each other.

## **4.2. Telecommunications and Information Services**

In this paper, we use a broader definition of the "telecommunications" sector which we call "information technology" (IT) sector. IT consists of two related sectors: "telecommunications" and "information services". The telecommunications sector includes basic telecom services (e.g. fax, fixed network, international telecom,

mobile and private leased circuit services) and some simple value-added services such as call waiting and email. The information services sector consists of higher value-added products (e.g. EDI, Internet access, on-line information services), hardware installation/maintenance, and software development. The IT sector is the third most important sector in our survey, after financial and business services. A total of 759 wishes are recorded for this sector, among them about 40% are for telecommunications and the remaining 60% aim at information services.

Hong Kong's role as a leading business centre in the Asia-Pacific region owes much to its advanced telecommunications infrastructure. The role of telecommunications will be especially important to Hong Kong in the age of electronic commerce. Trade liberalisation in telecommunications services would stimulate growth of e-commerce and offer tremendous business opportunities for Hong Kong Internet services providers and software companies. Within the telecommunications sector, China and Taiwan account for 71% of the wishes. Such a high concentration of wishes arises from Hong Kong's role as the hub of trade and investment in the Greater China region. At the end of 1999, 50% of Hong Kong's outgoing and incoming telecommunications traffic of Hong Kong originated from these two economies. Both China and Taiwan are currently under pressure to open their telecommunications markets in their bids to enter the WTO. As the Greater China hub, Hong Kong stands to benefit as competition would lower costs and, hence, increase telecommunications traffic in the region.

Hong Kong started to open its fixed-telecom network services (FTNS) market in 1995 by allowing three companies to compete with Cable and Wireless HKT (CWHKT). The number of such "cable based" FTNS licences is frozen at four until 2003. In the mobile-phone sector, six companies are now competing to serve the city's 6.8 million people. Competition intensified further when number portability was introduced in 1999. In the international services market, CWHKT surrendered its exclusive licence at the beginning of 1999. Since then, 70 companies have entered this market using what is called international simple resale whereby they lease lines from the CWHKT.

On January 26, 2000, 17 new telecommunication licences were granted. Five of these are "wireless" FTNS licences that allow licensees to launch broadband Internet

access and telephone services, and value-added services such as video conferencing and multimedia services. The other 12 licences are for external satellite-based services. These services allow licensees to bypass the undersea cable gateway of CWHKT. Two weeks later, the Hong Kong Government issued letters of intent to 13 companies for cable-based external fixed telecom network services licences. Companies can now build their own submarine cables, hence further eroding CWHKT's position.

Most of the wishes for Hong Kong (65%) are concentrated in the international telecom services (35%) and fixed telecom network services (30%). For foreign economies, fixed telecom network service dominates all others sub-sectors by attracting 40% of the wishes. The other 38% are roughly split between private-leased circuit services and international telecom services. Mobile services, on the other hand, attract very little attention.

The sub-sector distribution for information services highlights the importance of software development/implementation and the Internet services markets. Together, they account for 60% (Hong Kong sub-sample) to 67% (foreign economies sub-sample) of the wishes for information services. Deregulation, corporate restructuring, and investment in technology have stimulated a strong demand for Internet services and software development. For example, deregulation of the financial services industry has created a huge market for equity-trading and trading-clearance systems. Another reason is the realisation by corporate Asia that a huge profit potential arises from the so-called B2B e-commerce. As this form of business soars, many companies, especially small and medium enterprises that cannot afford major capital investment, are outsourcing their Internet operations. A new breed of Web hosting service providers spring up, providing business with the essential e-commerce tools from data storage, data management and business applications software to supply chain management. This creates enormous business opportunities for software companies.

#### **4.2.1 Wishes for Hong Kong: IT Sector**

For the Hong Kong market, most of the wishes for telecommunications services are from the "immigration and visas" and "market infrastructure" categories. The concern for a more relaxed immigration regime reflects the extremely tight labor market



for the high-tech industry as reported by the Hong Kong Government (Mingpao 2000) and our interviewees. If not solved quickly, Hong Kong's lead as a telecommunications hub and its role as a middleman in e-commerce business will be at risk. No wonder our respondents rated "increase/eliminate the quota of foreign work visas" and "streamline the procedures for obtaining visas" as the two most urgent wishes in this survey. Some respondents are also concerned with the enforcement of intellectual property rights law and competition law. Hong Kong's image as an international city has been tarnished by rampant piracy of computer software and brand name apparel products. Piracy does present a serious threat to Hong Kong's quest to become a high-tech hub. This is an implementation problem which some of our interviewees have raised.

As for competition law, Hong Kong does not have one. Instead, the government has adopted a moral persuasion approach. A policy statement on the objectives of promoting competition and discouraging various forms of anti-competitive practices was adopted in 1997.<sup>10</sup> However, the Hong Kong telecommunications liberalisation experience suggests that the current policy leave much to be desired. First, all six mobile operators raised their rates on the same day (January 1, 2000) and by the same extent. The Telecommunications Authority (TA) ruled that there was enough evidence to suggest that the price hike was the result of a tacit agreement. The mobile operators backed down and restored their original rates. This event has shown that self-regulation may not be enough to ensure that the six regulatory principles in the Reference Paper will be implemented effectively. Another issue is cross-ownership, which is common in many Asian economies, as illustrated by the chaebols in South Korea and the conglomerates in Hong Kong and Taiwan. Many telecom operators in Hong Kong have close ties with property developers, and some are even wholly owned by them. Therefore, there is a potential for collusion and consumers might be forced to use the service provided by the fixed-network operator with close ties to developer of their housing units. It is important for the telecommunications authority to ensure that access to facilities must be granted in a non-discriminatory manner.

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<sup>10</sup> See Cheng and Wu (1998) for the status of competition policy in Hong Kong.

For the information service sector, the most demanded requests for Hong Kong are, as expected, to set up e-commerce regulation and EDI facilities and to streamline application procedure for foreign work visas.

#### **4.2.2 Wishes for Foreign Economies: IT Sector**

The biggest obstacles facing Hong Kong telecommunications companies seeking a foothold in foreign telecom markets are the restrictions on establishing a commercial presence. Five of the top six wishes in the telecommunications sector in foreign economies demanded fewer restrictions on establishment requirements. This underscores the fact that many Asian economies still cling to the idea that telecommunications is a strategic sector and various restrictions are imposed on foreign participation. It is interesting to observe that some economies are using the WTO forum as a channel to lend credibility to domestic reform, particularly for China and Taiwan - two economies that are not WTO members yet. For instance, China has agreed to let foreign investors hold 49% of telecommunications companies upon China's accession to the WTO; this limit will be raised to 50% two years later. At least this is on par with the level of openness of other developing economies. Taiwan has also recently substantially raised the ceiling of foreign ownership of fixed telecom companies from 20% to 60% and is planning to increase the number of fixed telecom network operating licences.

Surprisingly, "immigration and visas" is also the second most important wish concern for foreign economies. "Streamline the procedure for obtaining foreign visas" is the fourth most mentioned wish. This indicates that restrictions on immigration and visa are fairly common problems in the telecommunications sector.

The main driving force behind government efforts to liberalise telecommunications is to foster its development by attracting the transfer of foreign technological know-how and capital. To this end, relaxation of establishment requirements must be accompanied by a more liberal immigration regime. Although it is certainly desirable to increase foreign work visa quotas and foreign employees' duration of stay, the IT industry practitioners that we interviewed stressed that the most crucial element of a business friendly immigration policy is to offer the "flexibility" for people to move in and out of national boundaries with minimum administrative hassle.

As for the information services sector, the respondents are also keen to see, as they do for Hong Kong, foreign economies establish adequate e-commerce regulation. Although the lack of regulation is hailed as the main reason behind the phenomenal growth of e-commerce, the result here does not square with the common perception that the business sector does not want any regulation. Instead, the respondents in our survey demanded that such regulations be set up. Lack of a regulatory framework has been a drag on the development of e-commerce in Asia. Only Singapore and Hong Kong have introduced an electronic transaction bill to give electronic records and digital signatures the same legal status as that of their paper counterparts.

Besides the common concern for e-commerce regulation, our respondents do have many concerns when thinking about expanding into foreign economies. These are familiar concerns mentioned in Section 3, such as improving the transparency of court rulings (most frequently mentioned) and setting up inquiry point to disseminate information.

Businesses would also like foreign governments to give them national treatment in the licensing applications and to relax local content rules on services. These wishes are borne by experiences in some countries. For example, China and Singapore have set up government-backed Internet companies to compete with private firms. This poses a risk to foreign firms that they might not receive equal treatment as local government backed companies – a violation of the national treatment principle of GATS. Another form of restriction on marketing channels is the high interconnect fee that Internet firms have to pay telecommunications operator for the “last mile” of connection.

### **4.3. Transport Services**

The transport services sector has been traditionally regulated at both national and international levels. There have been concerted efforts, and considerable progress, in deregulating and liberalizing transportation services over the last two decades. For example, countries such as the US, Canada, EU states and Australia

deregulated their internal markets (e.g. trucking, rail, and air). At the international level, the Uruguay Round succeeded in applying multilateral trade concepts to three ancillary areas of the air transport sector (aircraft repair and maintenance, the selling and marketing of air transport services, and computer reservation services). But efforts to bring air carriers' traffic rights under the multilateral purview of GATS have failed. Plans are currently being laid to discuss the inclusion of aviation services within the Services 2000 negotiations.

While the extended negotiations on maritime services lasted two years beyond the end of the Uruguay Round, they were finally laid to rest in June 1996 when WTO member delegations agreed to suspend negotiations. They deferred them again, this time until Services 2000.

A total of 489 wishes are directed to transport services, representing 9% of the entire wishes. The category of "services auxiliary to all modes of transport" receives 170 wishes, air transport 118, and maritime transport 102, while the other categories receive far fewer wishes. This is not surprising given Hong Kong's status as a hub for both aviation and maritime transportation, and the importance of services liberalization to both these modes of transport and to services auxiliary to them.

The most popular wishes for the transportation sector relate to immigration and visa policy. This is perceivable given the nature of transport services, which require movement of personnel across national borders.

The second most popular wishes are concerned with facilitating trade: to simplify customs clearance procedures, and to eliminate unnecessary practices for certification and testing of products. These are, in particular, the dominant wishes for the maritime, air cargo, and trucking industries. Currently, transshipments through Hong Kong are treated as imports and re-exports. As a consequence, carriers are required to lodge accurate and complete import/export declarations for transshipped cargo, thereby introducing unnecessary delay and costs in the process. On the other hand, in Singapore transshipped goods avoid customs by being held in a bonded zone during transfer. Companies within the zone can move, breakdown, store, consolidate

and repack cargo without documentation or incurring customs duties.<sup>11</sup> We believe that simplifying customs procedure for transshipment services will become increasingly important because of the global trend toward international fragmentation of production processes. More and more raw material, intermediate goods will be in transit from one location to the other to be further processed before reaching their final destinations. Jones and Kierzkowski (1999) argues that as trade liberalisation reduces the cost of co-ordinating activities across national borders (such as transport and communications), it becomes easier for producers to outsource part of their production processes to foreign locales to take advantage of comparative advantages. More production fragmentation in turn stimulate more demand for these trade services. They also argue that these co-ordination costs tend to be relatively fixed in nature. Therefore, the scale of outsourcing tend to be large. Given this kind of dynamic relationship, Hong Kong stands to lose more transport service business to other competing hubs if it delays simplifying its customs procedures.

Other popular wishes relate to establishment requirements and market access. In many economies, current rules restrict both the types of goods that can be shipped and the points from and to which carriers can transport them. The common barriers specific to the courier services industry, mainly found in developing countries, are laws and regulations limiting courier services to commercial documents or cargo below a certain value. The primary purpose of these restrictions is to protect local postal services. There are also cases where domestic regulatory policies or restrictions are applied to other sectors (e.g. ground transport, telecommunications) which are ancillary to air transport, but nonetheless critical to a foreign carrier's ability to provide competitive services in the host economy. In many economies considered in this study, for example, a host of local regulations (such as licensing and ownership restrictions) limit foreign participation in the trucking sector, with the sector sometimes being reserved for nationals. This means express carriers must obtain their road transport through local contracting. The fourth most popular wishes relate to information flow and transparency. In particular, our respondents ask for the establishment of EDI facilities.

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<sup>11</sup> In terms of our theoretical model in Appendix 2,  $N_{\text{AHB}}$  equals to 4 for Hong Kong and 2 for Singapore.

## 5. Concluding Remarks

With a “first mover” advantage in adopting an open and free trade policy regime, Hong Kong has evolved to become an important trade services hub in the Asia-Pacific region. Our discussions in this paper show that further liberalization of trade in services by other economies has presented challenges as well as opportunities for Hong Kong in general, and for its service providers in particular. There is a need to rethink the role that Hong Kong plays and will continue to play in view of trade liberalization. The fragmentation of supply chains will accelerate as technology improves and barriers to the flow of goods, information, capital, and even human resources are removed. Ironically, fragmentation of the supply chain can come with increased demand for a central location to organize and coordinate activities. These are the “hub” services that Hong Kong should provide. Our study shows that policies or services that can enhance this role, such as a more flexible immigration policy and a faster customs clearance system, are crucial for Hong Kong to continue its role as a service hub in the Asia-Pacific region.

A *flexible* immigration policy is also necessary for Hong Kong to continue to attract multinational corporations to use it as their head office in Asia. This is important for a knowledge-based economy and particularly so for Hong Kong as its labor market is undergoing changes that might put its future as a service hub in jeopardy. Over the past decade, about 400,000 well-educated Hong Kong people with key skills have emigrated. At the same time, tens of thousands of poorly educated mainlanders with few skills have settled in the territory annually on family reunion grounds. The concern about immigration and visas from the private sector in this study borne the urgency of this issue is borne out.

Finally, we reiterate the importance of promoting Hong Kong as a service hub, that is, a concentration of those “hub” services such as project management, product development, risk management and end-to-end supply chain management. All these activities require a clustering of essential inputs, including talents, located at the hub. A deeper question is then what are the factors that draw these inputs to the hub in the first place. In this paper we have made an attempt to address this question based on

unilateral trade liberalization and economies of scale (and scope). Further theoretical work is needed here, taking account of multilateral trade liberalization and IT-induced structural changes in the production process of goods and services. We believe that some of the empirical findings arising from our survey will be useful in developing such a theory.

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**Table 2.1. Main services provided by respondents**

Sectors	No. of company	% of company
Business services	43	37.7 %
Financial services	31	27.2 %
Transport services	21	18.4 %
Distribution services	16	14.0 %
Information technology <sup>1</sup>	16	14.0 %
Construction and related engineering services	12	10.5 %
Tourism, travel, and leisure services <sup>2</sup>	11	9.6 %
Environment services	8	7.0 %
Education services	8	7.0 %
Health-related and social services	2	1.8 %
Others	15	13.2 %
Total	114	100 %

Note:

1. 11 from information services and 5 from telecommunications.
2. 9 from tourism and travel-related services and 2 from recreation, cultural, and sporting services

**Table 2.2. Business revenues of respondents in 1998 by service (in HK\$ million)**

Business revenues	No. of company
Less than 10	9
10 – 50	26
51 – 100	3
101 – 200	12
210 – 500	9
501 – 1,000	14
1,001 – 10,000	10
Greater than 10,000	5
Total	88 <sup>1</sup>

Note:

1. The number of company is less than 114 since not all respondents indicate their revenue.

**Table 3.1. Distribution of All Wishes By Sectors**

	No. of wishes	Percentage (%)
Financial services	1141	20.5 %
Business services	966	17.4 %
Distribution services	773	13.9 %
Information Technology <sup>1</sup>	759	13.7 %
Construction & related engineering	746	13.4 %
Transport services	489	8.8 %
Recreational, cultural, & sporting	174	3.1 %
Health related & social services	154	2.8 %
Environmental services	144	2.6 %
Education services	137	2.5 %
Tourism & travel related services	59	1.1 %
Others	13	0.2 %
Total	5555	100 %

Note:

1. "Information technology" sector consists of "Information services" and "Telecommunications". There are 465 wishes for information services and 294 wishes for telecom services.

**Table 3.2. Distribution of All Wishes By Countries**

	No. of wishes	Percentage (%)
China	2104	37.9 %
Hong Kong	636	11.5 %
Taiwan	530	9.5 %
Korea	364	6.6 %
Singapore	289	5.2 %
Malaysia	275	5.0 %
Japan	242	4.4 %
Thailand	168	3.0 %
Others Countries	947	17.1 %
Total	5555	100.0 %

**Table 3.3. Distribution of All Wishes by Wish Categories**

<b>a. For All Economies</b>	No. of wishes	Adjusted response rate <sup>1</sup>
Establishment requirement	1092	16.1 %
Information flow and transparency	689	15.2 %
Immigration and visas	447	13.2 %
Market infrastructure	688	12.2 %
Qualification of professional standard	272	12.0 %
National treatment	937	11.8 %
Trade facilitation	456	10.1 %
Labor market regulations	535	9.5 %
Total	5116 <sup>2</sup>	100 %
<b>b. For Foreign Economies</b>		
	No. of wishes	Adjusted response rate <sup>1</sup>
Establishment requirement	1032	17.4 %
Information flow and transparency	610	15.5 %
National treatment	886	12.8 %
Qualification of professional standard	241	12.2 %
Market infrastructure	599	12.1 %
Immigration and visas	318	10.7 %
Trade facilitation	391	9.9 %
Labor market regulations	459	9.3 %
Total	4536	100 %
<b>c. For Hong Kong Only</b>		
	No. of wishes	Adjusted response rate <sup>1</sup>
Immigration and visas	129	29.7 %
Information flow and transparency	79	13.6 %
Market infrastructure	89	12.3 %
Trade facilitation	65	11.2 %
Qualification of professional standard	31	10.7 %
Labor market regulations	76	10.5 %
Establishment requirement	60	6.9 %
National treatment	51	5.0 %
Total	580	100 %

Notes:

- Adjusted response rate for category i ( $AR_i$ ) =  $R_i / (\sum R_k)$ , where  $k=1,2,3,\dots,8$  and  $R_i=X_i/N_i$  where  $N_i$  is the number of wishes listed in category i. Note that the sum of all  $AR_i$  is equal to 100% by construction.
- The number of wishes is less than 5555 since we exclude wishes do not fall into any of the eight categories.

**Table 3.4. Top Ten Individual Wishes For All Sectors**

<b>a. For All Economies</b>	No. of wishes	Percentage <sup>1</sup>
1. Relax restrictions on the scope of business activities	253	4.55 %
2. Apply same licensing requirement to local & foreign firms	213	3.83 %
3. Relax limit of foreign equity ownership	213	3.83 %
4. Set up inquiry points to disseminate information	210	3.78 %
5. Relax restrictions on profit repatriation	209	3.76 %
6. Improve transparency of court ruling	198	3.56 %
7. Relax restrictions on number of operating license	184	3.31 %
8. Streamline the procedures of obtaining foreign visa	176	3.17 %
9. Relax restrictions on the composition of local partners	172	3.10 %
10. Simplify customs clearance procedures	170	3.06 %
<b>Total</b>	<b>1998</b>	<b>36 %</b>
<b>b. For Foreign Economies</b>		
1. Relax restrictions on the scope of business activities	239	4.86 %
2. Relax limit of foreign equity ownership	207	4.21 %
3. Apply same licensing requirement to local & foreign firms	200	4.07 %
4. Relax restrictions on profit repatriation	199	4.05 %
5. Set up inquiry points to disseminate information	189	3.84 %
6. Improve transparency of court ruling	182	3.70 %
7. Relax restrictions on number of operating licence	172	3.50 %
8. Relax restrictions on the composition of local partners	163	3.31 %
9. Relax discriminatory tax on foreign firms	155	3.15 %
10. Simplify customs clearance procedures	151	3.07 %
<b>Total</b>	<b>1857</b>	<b>38 %</b>
<b>c. For Hong Kong Only</b>		
1. Streamline the procedures of obtaining foreign visas	51	8.02 %
2. Increase the quota of foreign work visas	43	6.76 %
3. Set up regulations related to e-commerce	36	5.66 %
4. Increase the duration of stay of foreign workers	35	5.50 %
5. Set up the electronic data interchange facilities	35	5.50 %
6. Increase flexibility of hiring and dismissing workers	25	3.93 %
7. Relax travel restrictions (e.g. durations of stay, FX)	22	3.46 %
8. Set up inquiry points to disseminate information	21	3.30 %
9. Enforce intellectual property rights law impartially	19	2.99 %
10. Simplify customs clearance procedures	19	2.99 %
<b>Total</b>	<b>306</b>	<b>48 %</b>

Note: 1. Percentage here is with respect to the total number of wishes: 5555.

**Table 3.5. Most Urgent Wishes<sup>1</sup>**

**a. For Foreign Economies**

	Number of Wish
1. Relax restrictions on the scope of business activities	35
2. Apply the same licensing requirements for both local and foreign firms	24
3. Relax restrictions on foreign equity ownership	22
4. Simplify customs clearance procedure	14
5. Relax restrictions on profit repatriation	12
6. Others	150
Total	257

**b. For Hong Kong**

	Number of wish
1. Increase/eliminate the quota of foreign work visa	14
2. Streamline the procedures of obtaining visa	13
3. Set up e-commerce regulation	11
4. Set up electronic data interchange	8
5. Simplify customs clearance procedure	7
6. Others	74
Total	127

Note:

1. 64 companies responded to this question (Q11).



<b>Survey on</b>
<b>Opportunities from Liberalization of Trade in Services – The Private Sector’s Interest</b>

We would be grateful if you could take the time to fill out this questionnaire. Your response will be kept in **strict confidence**. Only summary statistics compiled from the questionnaires will be released and under no circumstances will any personal and company specific information be disclosed.

Please send your completed questionnaire to:

Dr. Clement Wong,  
Department of Economics and Finance,  
Faculty of Business,  
City University of Hong Kong,  
Tat Chee Avenue, Kowloon,  
Hong Kong

If you have any question in completing this questionnaire, please contact the following persons:

	<u>Phone</u>	<u>Email</u>
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**香港服務業聯盟**  
HONG KONG COALITION OF SERVICE INDUSTRIES



## Section I. Background information of your company

In this questionnaire, "your company" refers to your Hong Kong operation; and "foreign" or "overseas" refers to places outside Hong Kong.

Q1. Is your (ultimate) parent company's **operating place** located in Hong Kong?

- Yes.  
 No, it is located at \_\_\_\_\_.

Q2. Does your company have a head office in the Asia-Pacific region?

- Yes, it is located at \_\_\_\_\_.  
 No.

Q3. Please **check** (✓) the main services provided by your company in the following table.

SECTOR	CODE			Others:	
<b>BUSINESS SERVICES</b>	<b>1</b>	<input type="checkbox"/>			
Accounting, auditing and bookkeeping services	1a	<input type="checkbox"/>		<b>TOURISM &amp; TRAVEL RELATED SERVICES</b>	<b>9</b>
Advertising services	1b	<input type="checkbox"/>	<b>SECTOR</b>	Hotels and catering	9a
Architectural services	1c	<input type="checkbox"/>	<b>CODE</b>	Travel agencies, tour operators and tourist guides services	9b
Engineering services	1d	<input type="checkbox"/>	<b>ENVIRONMENTAL SERVICE</b>	Others:	9c
Legal services	1e	<input type="checkbox"/>	<b>S</b>		
Management consulting services	1f	<input type="checkbox"/>	Refuse disposal, sanitation and similar services		
Market research and public opinion polling services	1g	<input type="checkbox"/>	Sewage services		
Placement and supply of personnel	1h	<input type="checkbox"/>	Others:	<b>SECTOR</b>	<b>CODE</b>
Postal and courier services	1i	<input type="checkbox"/>		<b>RECREATIONAL, CULTURAL &amp; SPORTING SERVICES</b>	<b>10</b>
Public relations services	1j	<input type="checkbox"/>	<b>EDUCATIONAL SERVICES</b>	Audiovisual services (e.g. TV, movies, radio, sound recording)	10a
Real estate services	1k	<input type="checkbox"/>	Post-secondary education services (e.g. certificates, dipbmas and degrees)	Entertainment services	10b
Rental/Leasing services	1l	<input type="checkbox"/>	Primary and secondary education services	News agency services	10c
Others:	1m	<input type="checkbox"/>	Professional and vocational training	Sporting services	10d
			Others:	Others:	10e
<b>TELECOMMUNICATIONS SERVICES</b>	<b>2</b>	<input type="checkbox"/>			
Call back services	2a	<input type="checkbox"/>	<b>FINANCIAL SERVICES</b>	<b>TRANSPORT SERVICES</b>	<b>11</b>
Fixed telecom network services	2b	<input type="checkbox"/>	Clearing/settlement/custodian services	Air transport	11a
International telecom services	2c	<input type="checkbox"/>	Deposit taking	Internal waterways transport	11b
Mobile telecom services	2d	<input type="checkbox"/>	Financial advisory services (e.g. credit reference and analysis, portfolio research and advice)	Maritime transport	11c
Private leased circuit services	2e	<input type="checkbox"/>	Funds management	Rail transport	11d
Telex/telegraph/fax services	2f	<input type="checkbox"/>	Insurance services	Road transport	11e
Value-added services (e.g. call waiting/forwarding, email)	2g	<input type="checkbox"/>	Lending (e.g. loans, mortgages, finance lease, factoring)	Services auxiliary to all modes of transport	11f
Others:	2h	<input type="checkbox"/>	Trading of financial instruments (e.g. securities, derivatives, foreign exchange, bullion)	Others:	11g
			Underwriting/placement		
<b>CONSTRUCTION &amp; RELATED ENGINEERING SERVICES</b>	<b>3</b>	<input type="checkbox"/>	Others:	<b>INFORMATION SERVICES</b>	<b>12</b>
Construction work for buildings	3a	<input type="checkbox"/>		Electronic Data Interchange (EDI) services	12a
Construction work for civil engineering	3b	<input type="checkbox"/>	<b>HEALTH RELATED &amp; SOCIAL SERVICES</b>	Internet services (e.g. internet access, homepage development, online-advertising, secured exchange transaction)	12b
Others:	3c	<input type="checkbox"/>	Hospital services	Hardware installation and maintenance	12c
			Other human health services	Software development and implementation	12d
<b>DISTRIBUTION SERVICES</b>	<b>4</b>	<input type="checkbox"/>	Social services	Data processing services	12e
Commission agents' services	4a	<input type="checkbox"/>			
Franchising	4b	<input type="checkbox"/>			
Retailing services	4c	<input type="checkbox"/>			
Wholesale trade services	4d	<input type="checkbox"/>			
Others:	4e	<input type="checkbox"/>			

On-line information and database retrieval (e.g. provision of real-time financial data) 12f

Others: 12g

\_\_\_\_\_

SERVICES NOT INCLUDED ABOVE (PLEASE SPECIFY) \_\_\_\_\_ 13

\_\_\_\_\_ 14

\_\_\_\_\_ 15

\_\_\_\_\_

**Section II. Wish List for Foreign and HKSAR Governments**

Q4. From the sectors listed in Q3, please **select** two sectors in which you wish the foreign or HKSAR governments can help to remove business restrictions and expand your business opportunities. (You can choose sectors you are not currently in but plan to enter in the future.)

**Sector 1                  Sector 2**

Please enter sector code. \_\_\_\_\_

*(In defining Sector 1 and Sector 2, feel free to combine the sectors. e.g. Sector 1 = 12a+12b if you have common wishes for EDI and internet services.)*

**If you have wishes for more than two sectors, please can make additional copies of this questionnaire.**

Q5. Does your company provide (or plan to provide) services of Sectors 1 and 2 to **overseas** customers? If yes, please indicate the channel(s) of supply. (You may check more than one.)

	<b>Sector 1</b>	<b>Sector 2</b>
• Cross-border supply	<input type="checkbox"/>	<input type="checkbox"/>
• Consumption abroad	<input type="checkbox"/>	<input type="checkbox"/>
• Commercial presence	<input type="checkbox"/>	<input type="checkbox"/>
• Presence of natural persons	<input type="checkbox"/>	<input type="checkbox"/>
• Others: _____	<input type="checkbox"/>	<input type="checkbox"/>

**EXPLANATION**

**Cross-border supply:** serve overseas markets with the service produced in Hong Kong, e.g. long-distance telephone services.

**Consumption abroad:** produce your service in Hong Kong, which is rendered to overseas customers when they travel to Hong Kong e.g. tourism.

**Commercial presence:** provide the service in foreign markets by setting up an operation there, e.g. a branch or a representative office.

**Presence of natural persons:** provide the service in foreign markets by sending staff there for a temporary stay, e.g. consultancy.

Q6. How does your company use e-commerce to conduct business (You may check more than one):

	<b>Currently using</b>	<b>Plan to use</b>
• On-line product or services catalog	<input type="checkbox"/>	<input type="checkbox"/>
• Advertising and promotion	<input type="checkbox"/>	<input type="checkbox"/>
• Receiving orders from customers	<input type="checkbox"/>	<input type="checkbox"/>



- Receiving payments from customers or paying suppliers
- Information exchange between companies
- Others: \_\_\_\_\_

Q7. Please provide the following information if available:

**Sector 1      Sector 2**

Business revenue in 1998 (e.g. sales, turnover) \_\_\_\_\_ (mil) \_\_\_\_\_ (mil)

(Please specify currency)

Percentage of the business revenue accounted for  
by overseas customers

\_\_\_\_\_ % \_\_\_\_\_ %

**Section II. Wish List for Foreign and HKSAR Governments (Continued)**

Q8. The following is a comprehensive wish list for liberalization of trade in service businesses. Please check the boxes next to the measures that you wish to see in Sectors 1 and 2. **Write down** the country codes for the countries that you think should undertake these measures. Use 'HK' for Hong Kong. If your wish is for foreign governments, please name up to four below and use the corresponding letter codes provided.

Country Code	Country Name
A	_____
B	_____
C	_____
D	_____
HK	Hong Kong SAR

**Wishes for General Market Access** (Wishes that are related to the opening of the foreign markets for competition)

Wish Code	Sector 1	Sector 2
Code	Please Country Code(s)	Please Country Code(s)
1. <b>Establishment Requirements</b> <input type="checkbox"/>		
1. Relax restrictions on minimum capital requirement <input type="checkbox"/>	<input type="checkbox"/> _____	<input type="checkbox"/>
2. Relax limit of foreign equity ownership <input type="checkbox"/>	<input type="checkbox"/> _____	<input type="checkbox"/>
3. Relax restrictions on scope of business activities <input type="checkbox"/>	<input type="checkbox"/> _____	<input type="checkbox"/>
4. Relax restrictions on number of branches/offices <input type="checkbox"/>	<input type="checkbox"/> _____	<input type="checkbox"/>
5. Relax restrictions on the composition of local partners/agents/board of directors <input type="checkbox"/>	<input type="checkbox"/> _____	<input type="checkbox"/>
6. Relax restrictions on number of operating licence <input type="checkbox"/>	<input type="checkbox"/> _____	<input type="checkbox"/>
7. <b>Qualification of Professional Standard</b>		
7. Eliminate unreasonable qualification requirements that are used as barriers to entry (e.g. race, language, length of residency before application) <input type="checkbox"/>	<input type="checkbox"/> _____	<input type="checkbox"/>
8. Recognise equivalently qualified foreign professionals <input type="checkbox"/>	<input type="checkbox"/> _____	<input type="checkbox"/>
9. <b>Immigration and Visa</b>		
9. Increase/eliminate the quota of foreign work visas <input type="checkbox"/>	<input type="checkbox"/> _____	<input type="checkbox"/>
10. Increase the duration of stay of foreign workers <input type="checkbox"/>	<input type="checkbox"/> _____	<input type="checkbox"/>
11. Streamline the procedures of obtaining foreign visa <input type="checkbox"/>	<input type="checkbox"/> _____	<input type="checkbox"/>
<b>Wishes for National Treatment</b> (Wishes that strive for equal treatment as local firms <i>once your company is allowed to serve those markets</i> )		
12. Relax/eliminate discriminatory tax on services provided by foreign service suppliers <input type="checkbox"/>	<input type="checkbox"/> _____	<input type="checkbox"/>
13. Relax/eliminate government subsidy to local firms <input type="checkbox"/>	<input type="checkbox"/> _____	<input type="checkbox"/>
14. Relax/eliminate restriction on ownership of land <input type="checkbox"/>	<input type="checkbox"/> _____	<input type="checkbox"/>

- \_\_\_\_\_  
by foreign firms
15. Apply same licensing requirements for both local  \_\_\_\_\_   
 \_\_\_\_\_  
and foreign firms
- Relax/eliminate 'buy local' state procurement policy  \_\_\_\_\_
17. Relax/eliminate quotas on foreign services  \_\_\_\_\_
18. Relax/eliminate local content rules on services  \_\_\_\_\_   
\_\_\_\_\_

## Section II. Wish List for Foreign and HKSAR Governments (Continued)

### Wishes for Labour Market Regulations

Wish Code		Sector 1		Sector 2	
		Please <input type="checkbox"/>	Country Code(s) _____	Please <input type="checkbox"/>	Country Code(s) _____
19	Relax minimum wage regulation	<input type="checkbox"/>	_____	<input type="checkbox"/>	_____
20	Increase flexibility of hiring and dismissing workers	<input type="checkbox"/>	_____	<input type="checkbox"/>	_____
21	Relax/eliminate foreign staff residency requirement	<input type="checkbox"/>	_____	<input type="checkbox"/>	_____
22	Relax/eliminate social security contribution requirements from foreign workers	<input type="checkbox"/>	_____	<input type="checkbox"/>	_____
23	Eliminate double-income taxation on foreign workers	<input type="checkbox"/>	_____	<input type="checkbox"/>	_____

### Wishes for Information Flow and Transparency

24	Set up inquiry points for dissemination of trade related laws and regulations	<input type="checkbox"/>	_____	<input type="checkbox"/>	_____
25	Relax/eliminate restrictions on transfer of information (e.g. internet)	<input type="checkbox"/>	_____	<input type="checkbox"/>	_____
26	Improve transparency of court ruling on business disputes	<input type="checkbox"/>	_____	<input type="checkbox"/>	_____
27	Set up the electronic data interchange (EDI) facilities	<input type="checkbox"/>	_____	<input type="checkbox"/>	_____

### Wishes for Market Infrastructure to Promote Competition

28	Relax/eliminate restrictions on marketing channels available to foreign firms	<input type="checkbox"/>	_____	<input type="checkbox"/>	_____
29	Simplify burdensome domestic regulation (e.g. zoning and planning laws, vertical restraints, pricing and promotion restrictions)	<input type="checkbox"/>	_____	<input type="checkbox"/>	_____
30	Enforce intellectual property rights law impartially and objectively	<input type="checkbox"/>	_____	<input type="checkbox"/>	_____
31	Enforce competition law impartially and objectively	<input type="checkbox"/>	_____	<input type="checkbox"/>	_____
32	Set up regulations related to e-commerce	<input type="checkbox"/>	_____	<input type="checkbox"/>	_____

### Wishes for Trade Facilitation and Removing Restrictions in Other Industries

33	Simplify customs clearance procedures	<input type="checkbox"/>	_____	<input type="checkbox"/>	_____
34	Unify product safety standards	<input type="checkbox"/>	_____	<input type="checkbox"/>	_____
35	Speed up/eliminate unnecessary practices for certification and testing of products	<input type="checkbox"/>	_____	<input type="checkbox"/>	_____
36	Relax/eliminate export restrictions/embargo on other goods and services	<input type="checkbox"/>	_____	<input type="checkbox"/>	_____

<b>Other Wishes</b>																								
37	Relax travel restrictions, duration of stay and foreign currencies carrying abroad	<input type="checkbox"/>	_____	<input type="checkbox"/>																				
38	Relax restrictions on foreign company's profit repatriation	<input type="checkbox"/>	_____	<input type="checkbox"/>																				
<b>Section II. Wish List for Foreign and HKSAR Governments (Continued)</b>																								
<b>Other Wishes (continued)</b>																								
Wish Code		Sector 1		Sector 2																				
		Please <input type="checkbox"/>	Country Code(s)	Please <input type="checkbox"/>																				
39.	Please specify: _____	<input type="checkbox"/>	_____	<input type="checkbox"/>																				
40.	_____	<input type="checkbox"/>	_____	<input type="checkbox"/>																				
41.	_____	<input type="checkbox"/>	_____	<input type="checkbox"/>																				
42.	_____	<input type="checkbox"/>	_____	<input type="checkbox"/>																				
43.	_____	<input type="checkbox"/>	_____	<input type="checkbox"/>																				
<p>Q9. Some governments may give preferential treatments to service providers from some but not all economies. Are any wishes you selected in Q8 motivated by this kind of unequal treatment? If yes, please describe.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 20%; padding: 5px;">Selected wishes from Q8 (Wish Code)</th> <th style="width: 10%; padding: 5px;">Sector (Please ✓)</th> <th style="width: 20%; padding: 5px;">Country giving preferential treatments (Country Code)</th> <th style="width: 10%;"></th> <th style="width: 30%; padding: 5px;">Countries receiving preferential treatments</th> </tr> <tr> <td style="padding: 5px;">_____</td> <td style="text-align: center; padding: 5px;">1 2</td> <td style="padding: 5px;">_____</td> <td style="text-align: center; padding: 5px;"><input type="checkbox"/> <input type="checkbox"/></td> <td style="padding: 5px;">_____</td> </tr> <tr> <td style="padding: 5px;">_____</td> <td style="text-align: center; padding: 5px;"><input type="checkbox"/> <input type="checkbox"/></td> <td style="padding: 5px;">_____</td> <td style="text-align: center; padding: 5px;"><input type="checkbox"/> <input type="checkbox"/></td> <td style="padding: 5px;">_____</td> </tr> <tr> <td style="padding: 5px;">_____</td> <td style="text-align: center; padding: 5px;"><input type="checkbox"/> <input type="checkbox"/></td> <td style="padding: 5px;">_____</td> <td style="text-align: center; padding: 5px;"><input type="checkbox"/> <input type="checkbox"/></td> <td style="padding: 5px;">_____</td> </tr> </thead></table>					Selected wishes from Q8 (Wish Code)	Sector (Please ✓)	Country giving preferential treatments (Country Code)		Countries receiving preferential treatments	_____	1 2	_____	<input type="checkbox"/> <input type="checkbox"/>	_____	_____	<input type="checkbox"/> <input type="checkbox"/>	_____	<input type="checkbox"/> <input type="checkbox"/>	_____	_____	<input type="checkbox"/> <input type="checkbox"/>	_____	<input type="checkbox"/> <input type="checkbox"/>	_____
Selected wishes from Q8 (Wish Code)	Sector (Please ✓)	Country giving preferential treatments (Country Code)		Countries receiving preferential treatments																				
_____	1 2	_____	<input type="checkbox"/> <input type="checkbox"/>	_____																				
_____	<input type="checkbox"/> <input type="checkbox"/>	_____	<input type="checkbox"/> <input type="checkbox"/>	_____																				
_____	<input type="checkbox"/> <input type="checkbox"/>	_____	<input type="checkbox"/> <input type="checkbox"/>	_____																				
<p>Q10. If foreign governments demand the HKSAR government to reciprocate the same wish to their service providers, which wishes for foreign governments would you prefer to withdraw from your list? (Please enter wish codes)</p>																								

**Sector 1:** Wish 1: \_\_\_\_\_ Wish 2: \_\_\_\_\_ Wish 3:

**Sector 2:** Wish 1: \_\_\_\_\_ Wish 2: \_\_\_\_\_ Wish 3: \_\_\_\_\_

**Section II. Wish List for Foreign and HKSAR Governments (Continued)**

Q11. From the selected wishes in Q8, please indicate the most urgent wishes:

for foreign countries that you would like to be discussed in the upcoming WTO negotiation in November 1999 (please enter the wish codes):

**Sector 1:** Wish 1: \_\_\_\_\_ Wish 2: \_\_\_\_\_ Wish 3: \_\_\_\_\_  
**Sector 2:** Wish 1: \_\_\_\_\_ Wish 2: \_\_\_\_\_ Wish 3: \_\_\_\_\_

for the HKSAR government (please enter the wish codes):

**Sector 1:** Wish 1: \_\_\_\_\_ Wish 2: \_\_\_\_\_ Wish 3: \_\_\_\_\_  
**Sector 2:** Wish 1: \_\_\_\_\_ Wish 2: \_\_\_\_\_ Wish 3: \_\_\_\_\_

Q12. If all the urgent wishes in Q11 were fulfilled, please assess the impact on your annual business volume:

	<b>in foreign countries</b>	<b>in HKSAR</b>
Percentage increase in business revenue	_____ %	_____ %

Q13. For your urgent wishes selected in Q11, please use the *Details of Wishes* form on page 7 to provide further details. Please make additional copies if required.

**Example**

**Details of Wishes**

---

**Wish code:**   4        **Country:** Country A

**Proposed wish:** Remove restrictions on number of branches

**Details:**  
In Country A, foreign banks are only allowed to open a limited number of branches. In addition, the locations of branches are also tightly regulated and restricted, any change in the location of a branch is considered as two applications for closure and opening of branch office and must be approved beforehand by the Monetary Authority of Country A. Hence, our bank cannot compete with domestic banks in retail-banking services, and our deposit base is not large enough to secure a stable source of long-term funds. Accordingly, our bank has been very reluctant in lending long-term.

\_\_\_\_\_

\_\_\_\_\_

**Details of Wishes (Please make additional copies if required.)**

**Wish code:** \_\_\_\_\_ **Country:** \_\_\_\_\_

**Proposed wish:** \_\_\_\_\_

**Details:**

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**Wish code:** \_\_\_\_\_ **Country:** \_\_\_\_\_

**Proposed wish:** \_\_\_\_\_

**Details:**

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**Wish code:** \_\_\_\_\_ **Country:** \_\_\_\_\_

**Proposed wish:** \_\_\_\_\_

**Details:**

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\*\*\*\*\* THE END \*\*\*\*\*

If you want to receive the summary result of this survey,  
please kindly attach a business card.



## Appendix 2: A Multilateral Model of Trade Service Hub

Consider some services, known as trade services such as transportation and telecommunications, that are intermediate inputs to the completion of international trade of some underlying good. The provision of trade services involves three countries: the service provider's country, the exporting, and the importing countries of the underlying good. If the trade service market is liberalised, the service provider can be from any country. If it is not, the service provider would come from either the exporting or the importing country, with a service provider from each country responsible for the part that falls within its own jurisdiction.

Let us examine the effect of liberalisation of this trade service. Since our focus is on a service hub, we assume a *multilateral* setting where a hub country (H) is surrounded by four spoke countries A, B, C, and D.<sup>1</sup> Let us first consider the case where only country H has liberalised its trade service sector. We cast the model in the context a transport service for the sake of exposition, although the conceptual issues extend to other trade services as well. Let the total cost (S) for a service provider from country J to transport a shipment of Q units from country A and to country B be given by

$$S_{AB}^J = c_0^J + c_1^J Q + c_2^J D_{AB} + c_3^J Q D_{AB} + c_4^J Q U_{AB} + c_5^J Q N_{AB} \quad (1)$$

Since the service market is not liberalised in either countries, the service will, as mentioned earlier, be provided by firms from both countries. For simplicity, we assume J=A or B.  $D_{AB}$  represents the travel distance between A and B,  $U_{AB}$  is the number of loadings and un-loadings, and  $N_{AB}$  is the number of customs crossings. The parameters  $c_i^J$  are functions of the technology and factor prices of country J, both are assumed to be exogenous.  $c_0$ , is a fixed cost per shipment,  $c_1$  is the cost per unit shipped,  $c_2$  is the cost per unit of distance,  $c_3$  is the cost that depends on both distance and quantity (such as the fuel cost),  $c_4$  is the cost that depends on both quantity and the number of loadings/ un-loadings, and  $c_5$  captures the cost associated with customs crossings that includes customs duties and the time delay. The last two terms in (1) add additional costs by reducing the speed of delivery. Note that  $U_{AB}$  and  $N_{AB}$  are equal to two: one loading/customs crossing at A plus one un-loading/customs crossing at B. The per-unit service cost is

$$s_{AB}^J = c_1^J + \frac{c_0^J}{Q} + \frac{c_2^J D_{AB}}{Q} + c_3^J D_{AB} + 2c_4^J + 2c_5^J, \quad (2)$$

On the other hand, the per-unit service cost for this shipment to go via H is:

$$s_{AHB}^I = c_1^I + \frac{c_0^I}{\hat{Q}} + \frac{c_2^I (D_{AH} + D_{HB})}{\hat{Q}} + c_3^I (D_{AH} + D_{HB}) + c_4^I U_{AHB} + c_5^I N_{AHB}, \quad (3)$$

Since country H has liberalised its trade service, I = H, A, B, C, D, or other countries in equation (3).  $\hat{Q} = Q + \bar{Q}$ , with  $\bar{Q}$  representing all other traffic carried on routes HA or HB. Potentially,  $\bar{Q}$  includes, on route HA for example, local traffic between A and H, or connecting traffic between A and C via H, etc. Taking the difference of (2) and (3), we obtain:

---

<sup>1</sup> Deardorff (1998) has explored the effects under a bilateral setting.

$$\begin{aligned}
s_{AHB}^I - s_{AB}^J &= (c_1^I - c_1^J) + \left( \frac{c_0^I}{\hat{Q}} - \frac{c_0^J}{Q} \right) + \left[ \frac{c_2^I (D_{AH} + D_{HB})}{\hat{Q}} - \frac{c_2^J D_{AB}}{Q} \right] \\
&+ \left[ c_3^I (D_{AH} + D_{HB}) - c_3^J D_{AB} \right] + (c_4^I U_{AHB} - 2c_4^J) + (c_5^I N_{AHB} - 2c_5^J) \quad (4)
\end{aligned}$$

Equation (4) shows three principal sources of gains from routing the AB shipment through H. The first is comparative advantage: since J is a subset of I,  $c_i^I \leq c_i^J$ . The second is economies of scale. Since AB goods will now be carried together with goods of other origin-destination pairs ( $\hat{Q} > Q$ ), the fixed cost associated with a shipment will be spread over more quantity. The third is economies of scope. This comes from two areas. First, a service hub has a critical mass of essential inputs for the certain related fragments of the trade service to be provided cost effectively. For example, the sorting, repackaging, and logistics facilities in transport service. Another is the cost saving through eliminating duplication of inputs. Note that as the number of spoke countries increases, the gain from economies of scale and scope will multiply. Equation (4) also illustrates three potential disadvantages of routing AB shipments via H: longer distance ( $D_{AH}+D_{HB} > D_{AB}$ ); additional loadings ( $U_{AHB}=4$ ); and possibly additional customs crossings ( $N_{AHB}=2$  or 4). All these would reduce the speed of delivery.

Consider the impacts on H if all countries liberalise their service sector. On the positive side, it allows service providers from H to expand their operations to other countries. The expanded market can, for example, improve their efficiency through the realization of economies of scale and scope. Second, increased trade activities mean more services opportunities for all countries, including H especially if it could improve its hub infrastructure and remain as a service hub. On the negative side, some traffic may be diverted away from H as the comparative advantage enjoyed by country H disappears, that is,  $c_i^I = c_i^J$ . Consequently, equation (4) becomes:

$$\begin{aligned}
s_{AHB}^I - s_{AB}^J &= \left( \frac{c_0^I}{\hat{Q}} - \frac{c_0^J}{Q} \right) + \left[ \frac{c_2^I (D_{AH} + D_{HB})}{\hat{Q}} - \frac{c_2^J D_{AB}}{Q} \right] \\
&+ \left[ c_3^I (D_{AH} + D_{HB}) - c_3^J D_{AB} \right] + (c_4^I U_{AHB} - 2c_4^J) + (c_5^I N_{AHB} - 2c_5^J) \quad (5)
\end{aligned}$$

Equation (5) shows that now the trade route via H is less attractive than under unilateral liberalization by H. The shipment may go directly between A and B if the extent of economies of scale and scope is weak, the delivery speed is important, and loading/unloading and customs procedures at H are costly and cumbersome. As long as the hub is well-established due to its early liberalisation, the benefits from economies of scale and scope at the hub will most likely offset the diversion effect. Furthermore, as discussed below, some activities can only be done with a critical mass of essential inputs located at the hub.

Perhaps key competitive threats to H under multilateral liberalization come from other competing hubs that spring up after liberalisation, such as K. The unit cost difference for an AB shipment going through H hub and K hub may be written as:

$$s_{AHB}^I - s_{AKB}^I = \left( \frac{c_0^I}{Q_{AHB}} - \frac{c_0^I}{Q_{AKB}} \right) + \left[ \frac{c_2^I(D_{AH} + D_{HB})}{Q_{AHB}} - \frac{c_2^I(D_{AK} + D_{KB})}{Q_{AKB}} \right] \\ + \left[ c_3^I(D_{AH} + D_{HB}) - c_3^I(D_{AK} + D_{KB}) \right] + c_4^I(U_{AHB} - U_{AKB}) + c_5^I(N_{AHB} - N_{AKB}) \quad (6)$$

Equation (6) shows that, if both the distance and traffic density of the two routes are about the same, then the first three terms are negligible and the competition between the two hubs lie in the port and airport terminal services and in the customs and immigration policy. Under multilateral liberalization, therefore, improving hub infrastructures, such as customs and immigration regime and information flow, is essential for a services hub to be competitive with other hubs.