

# THE AMERICAN CHAMBER OF COMMERCE IN HONG KONG

## Position Paper

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### COMPETITION IN THE SERVICE SECTOR

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Much of Hong Kong's service sector is not open to competition to the same degree that the commercial and manufacturing sectors are. As a result, the Hong Kong economy frequently fails to provide its citizens and businesses with the world-class levels of performance.

#### *Position*

*The SAR Government should take steps to ensure that Hong Kong's service sector is as open and competitive as possible.*

#### *Rationale*

One of the foundations of Hong Kong's success has been the robust competition it enjoys in the trading and manufacturing sector. Both in its willingness to accept competition from overseas and in the ease with which new local enterprises emerge to satisfy consumer demand, Hong Kong regularly rates among the most competitive markets in the world. This has led to almost unmatched consumer choices and business efficiencies and propelled Hong Kong to the forefront of world trading economies.

Unfortunately that success is not always replicated in the service sector, a shortfall which becomes increasingly serious as the service sector grows in economic importance. Additionally, the manufacturing and commercial sectors are increasingly dependent on the service sector. So even excellent manufacturing performance can over time be degraded if the service sector does not keep pace. We have identified four general areas in which the Hong Kong government ought to lead the way in opening competition to ensure a strong service sector.

#### *Recommendations*

**Air travel:** Hong Kong should adopt policies to ensure as many flights from as many locations reach Hong Kong as frequently as possible, serving tourists, business people, and cargo needs. This means allowing foreign carriers "onward" rights - the ability to pick up passengers in Hong Kong for example, on a flight originating in Los Angeles and going on to Bangkok. We encourage adoption of a more liberal air services agreement between Hong Kong and the United States. We further encourage Hong Kong to take unilateral steps in liberalizing its air travel industry, allowing Hong Kong to maintain its leadership position as a regional travel and tourist hub.

**Professional Licensing:** We believe mechanisms should be developed to allow professionals who have achieved accreditation in the OECD countries to carry out

their practice here on as close to an even footing as possible with locally accredited professionals. This includes medical, legal, engineering, and architecture professionals. In certain fields there has been progress in recent years, but in others the trend has been toward restriction rather than openness.

Allowing people in Hong Kong to choose OECD accredited professional assistance will be an asset to Hong Kong. Harnessing the talents and experience of the international professional community will be a boon to the standard of living in Hong Kong and will strengthen Hong Kong's role as an international business center.

**Municipal Services:** The Hong Kong government should consider privatizing or allowing competition in municipal services such as mail delivery, utilities, port management and education. Long viewed as natural monopolies, developments in municipal government in the U.S. and Europe over the past two decades has shown that communities can garner substantial advantages from allowing competition in these areas. Privatizing or opening competition in these services requires particular care that reliability and quality are maintained or improved and that the underlying rules are transparent and provide a level playing field.

**Communications:** Hong Kong should be commended for liberalizing its cellular telecommunications and internet markets earlier in the decade and for its decision this year to open its international voice telecommunications market to full competition. The government should apply this same logic to the local telecom market and allow open competition there as well.

Hong Kong should also be commended for the proposed liberalization of its television and broadcasting market. It ended the 49 percent foreign ownership cap on satellite uplink licensees, and has proposed to open the pay television market to full competition. We encourage the Hong Kong Government to follow through with these proposals.