

**The American Chamber of Commerce in Hong Kong
Chairman 2004 Inaugural Speech**

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Our Business, Our Community, our Future

Thank you, Jim. ... And thank you Consul General Keith [and our past chairmen _____] for joining us today. I take great pride in being here with all of you today. Thank you for choosing me to lead the American Chamber of Commerce in 2004.

It is also my great pleasure to have the opportunity to talk to you today about our Chamber— what we have been doing in 2003 and what we will be doing in 2004, the business issues that affect us most, our role in the community in which we live and our hopes for the future.

I have been active in the American Chamber of Commerce for a number of years, perhaps 20 years now. I was first involved in AmCham in Beijing, starting after my arrival in 1983 and continuing into 1989. When we moved back to Hong Kong in 1996, I wanted to become active in AmCham Hong Kong. AmCham has always provided me the opportunity to step away from my desk and see issues affecting my work from a different perspective, in a different context. Through AmCham I have been able to work with people who are facing similar challenges or obstacles in their businesses, and through our discussions to better understand the scope of our problems, identify causes and effects in the economy in which we are operating, and ultimately, to develop solutions.

Our approach to working on these problems has much in common-- values that are AmCham's core values:

- private enterprise;
- free trade;
- the rule of law;
- ethical and responsible business practices;
- transparency and the free flow of information.

What makes this truly worthwhile is that as a Chamber, we are able to take forward our ideas, make our recommendations to government officials and work toward positive change. I have learned that in AmCham, it is not just a matter of talking about our business or trade problems—it is possible to do something about them. The Chamber is a forum for networking, providing access to information and the exchange of ideas. But it also goes one step further, it aims to serve its members as a trusted

and influential advocate with governments. Importantly, the American Chamber of Commerce has direct access to government officials and policy makers in Hong Kong, Mainland China and Washington -- and the Chamber is willing to step forward and take a stand when necessary.

SO WHAT WE HAVE BEEN WORKING ON IN 2003 AND WHAT IS ON OUR AGENDA IN 2004?

U.S. Trade Issues. In the area of trade issues and looking first to the US side of the equation, we have been coping with what Alan Greenspan recently characterised as “creeping protectionism.” Lawmakers and policy-makers back home are understandably reacting to continued job loss, especially in the manufacturing sector. Competition from abroad causes lower skilled jobs to be priced out of the market, a trend that serious analysts have noted has been going on for decades. But effective remedies to such job loss require a deeper understanding of how new jobs are generated and what can be done to prepare American workers for such jobs. There are no easy answers, but with the pressure of politics—especially when elections are looming on the horizon-- there is a great temptation to give in to what appears to be a quick fix.

US calls for the revaluation of the RMB are an example of this. Chinese exports to the United States continue to rise in volume and are for the most part lower priced items. Are Chinese products too cheap? Are they priced unfairly because the RMB is too cheap when 1 USDollar buys 8.2 Renminbi? Should the RMB be revaluated? Such arguments can be very appealing, especially because they cut across industry sectors and provide an easy-to-use, easy-to-understand “one-size fits all” proposal. The thinking is that if the price of Chinese exports goes up, purchases in the US of imports will go down, and home-based manufacturing will be given some breathing room. Sadly, there is little evidence to show that revaluation of the RMB will bring back jobs or create new jobs in the US. A shift in currency rates is more likely to cause producers to search for other low-cost production bases because US consumers want quality for the lowest prices. Furthermore, what is ignored in this “one-size-fits-all” proposal is that many of the Chinese exporters to the US are in fact US-owned in whole or part. Another important but complicating factor is that many producers inside the United States are sourcing materials and components from China for use in making products in Alabama, Kentucky or Wisconsin. If the price of these inputs goes up, these American producers will have trouble staying competitive.

There have, of course, been other initiatives even more overtly protectionist. In December, the Bush administration finally repealed tariffs and quotas that had been imposed against imported steel since March 2002 under safeguard provisions of the WTO rules. WTO rules aside, the steel tariffs were damaging for US manufacturers who needed competitively-priced steel inputs to maintain their own competitive pricing. But on top of that, these tariffs were the subject of complaints brought by nine WTO members including China, and found to be in violation of WTO rules. Such use of steel tariffs has hurt US credibility on trade issues. Nevertheless, the fact that there is a willingness in the US to take such action has lent encouragement in other quarters to pursue protectionist measures. In November, the Dept of Commerce took action against Chinese textile exports by supporting three petitions filed by US textile producers of knit fabric, dressing gowns and undergarments under the safeguard provision of China’s WTO Accession Agreement. As a result, imports of

these fabrics and garments are now capped until a formal agreement is reached with China.

While these proposals have the appearance of doing something to ameliorate the plight of US steel-makers, textile and garment manufacturers, in fact they do little or nothing to save jobs. They do raise prices for US consumers, of course. But they allow the search for more effective solutions to industry problems in the U.S. to be neglected, while internationally they take the focus off opening more markets for US goods and services. We take every opportunity we have in our meetings with U.S. Senators and Congressmen and their staffers to make these points.

China and the WTO. We would, of course, rather see that greater attention and energy be directed at opening the China market further to US products and services, working to see that China lives up to its WTO commitments. There has been a feeling for some time that China has been slow to implement many obligations included in its WTO Accession Agreement. This seems to be especially the case in the area of services. When a deadline requires that China implement a change, for instance, within the second year of entry into WTO (or by December 11, 2000), China often means that liberalization is implemented only at the end of that year. This interpretative lag enhances an appearance that Chinese officials are taking an increasingly legalistic approach to implementation, undercutting full compliance with the WTO Accession commitments.

We are now in the third year of China's entry into WTO, and a number of important deadlines are coming due. Chief among them is China's obligation to allow all persons and entities the right to buy from abroad. The right to import and export was one of the most hotly negotiated aspects of China's WTO commitments. US negotiators fought hard to ensure that this would be a liberalization that will apply broadly and not be subject to government approval. As of next December 11, all businesses in China, whether foreign-owned or Chinese domestic companies, have the right to import and sell a broad range of products, except those which were identified in the WTO Accessions Agreement as subject to 'State trading'. This means that companies can import not only those items which are needed for their own manufacturing, but also finished products. And in a major change from the way we are used to doing business in China, these rights are to be conferred automatically, not through a government approval process. The right to import and export a broad range of products will not only change the way foreign-invested companies do business in China, it will also change the way Chinese customers do business, allowing them to buy foreign products with less bureaucracy and fewer middlemen. That makes for better business and more opportunity for US exports. It is critical that China implement the liberalization of trading rights as it promised when entering the WTO.

Protection of IPR. Protection of intellectual property rights also ranks at the top of our list of trade issues. In preparation for joining the WTO, China took a number of steps to improve laws and regulations for the protection of intellectual property, which are acknowledged to meet most of the requirements of the TRIPS Agreement. China's obligations for the protection of IPR extend beyond passing basic laws that create and define trademark, copyright and patent rights, however. Enforcing these rights is just as much a part of China's WTO obligations. And it is in this area that much greater efforts are needed, starting from the drafting of regulations and procedures, and following through with instructions and guidance to local officials so

that enforcement can be effectively carried out. AmCham's Intellectual Property Committee has developed a series of papers making specific recommendations for greater protection of trademark, copyright and patent rights, and specifically focussing on needed improvements in criminal, administrative and civil enforcement. We are particularly encouraged by the agreement by Guangdong and Hong Kong officials in December to work out a framework for dealing with cross-border intellectual property infringement cases.

Moving to the Hong Kong side of IPR issues, AmCham's Pharmaceutical Committee has been working on the issue of "patent linkage" in the registration of pharmaceutical products. AmCham has expressed its concerns about the lack of coordination between the system for pharmaceutical patent protection and that for pharmaceutical product registration. We will be continuing with these and other efforts for the protection of intellectual property rights in the coming year.

Taxing Expatriates. Section 911. The foreign income exclusion of US taxpayers abroad (Section 911 of the US Internal Revenue Code) was targeted for elimination in 2003. Thanks to the work of our Tax Committee Chair and our AmCham President, AmCham Hong Kong was quick to voice its concern for the equitable tax treatment of individual Americans working overseas and to point out how such tax treatment can affect the competitiveness of US companies abroad. In the end, Section 911 was not eliminated, but many feel that renewed attacks are likely to occur. We will be watching this issue closely and will be ready to weigh in when needed.

CLOSER TO HOME, HONG KONG ISSUES AND THE HONG KONG COMMUNITY

CEPA, the Closer Economic Partnership Arrangement. CEPA was definitely good news for Hong Kong. At AmCham, we were pleased to see that the benefits of CEPA are available to Hong Kong companies and service suppliers regardless of whether they are locally-owned or foreign-owned. Given that there has been much discretion in the way officials in Mainland China have been implementing WTO commitments, we are attentive to how CEPA will be implemented. Will CEPA turn out to be a fast track for obtaining benefits that would otherwise be available at a later date under WTO commitments? Will Hong Kong foreign-owned companies be given the same treatment as Hong Kong locally owned companies? We hope that many of our members will be taking advantage of CEPA and will be watching to see how this develops.

Hong Kong as a Regional and International Business Center. We believe Hong Kong is the key regional and international business center in Asia. We also believe that Hong Kong should develop more fully as a key business centre in southern China. This requires greater practical integration with the Mainland. Better connections and infrastructure are crucial. We are therefore delighted that the planning for the new Hong Kong-Zhuhai-Macau bridge is proceeding. There are also number of practical needs on a lesser scale, such as improving processes at boundary points, which must be accomplished if there are to be better flows of people, goods, and services, which are so necessary to improving business conditions. At the same time, we appreciate that integration must not undermine Hong Kong's special status as a separate legal and customs territory. Hong Kong is still greatly valued as a business center which enjoys the full benefit and protection of an established and

secure legal and commercial system, with a free and open press, and where the flow of information and ideas is unrestricted.

AmCham is committed to helping Hong Kong maintain its stature as the pre-eminent business centre in Asia. Several of AmCham's Committees have been committed over a number of years now to promoting improved competitiveness in Hong Kong. At the heart of maintaining our position-- and improving it-- is the quality of our workforce. To stay ahead, we need a long-term commitment to improving all aspects of education here in Hong Kong. We have been watching with some concern therefore the debate about expenditure cuts in all parts of the education system. We hope that any moves which are made are undertaken in such a way that they do not undermine the quality of education delivered and the potential to improve it further to meet Hong Kong's needs into the future.

Harbour Fest. Our desire to see Hong Kong shine internationally is what gave rise to Harbour Fest. In the aftermath of SARS, Hong Kong needed to shake off the broadcast images of a scared populace wearing hospital masks and show the world it was healthy, happy, and back on track. AmCham demonstrated once again a willingness to help and get out in front of issues for Hong Kong. AmCham members came forward, showing the very best of our American tradition of volunteerism, committing long hours to organizing and arranging the concerts, all without compensation. In the end they achieved a world-class music fest which was enjoyed by over 100,000 people in person and which will continue to be enjoyed by those who see the television broadcasts overseas and in Hong Kong.

Along with this, AmCham was subjected to criticism the like of which we have never before experienced. We are still trying to digest the range of views that were expressed. Whether we agree or not, we take these views to heart. I will be working with the Board to ensure that if there is something we should learn from this experience, we will do so.

Hong Kong Community Service. One of the stated objectives of the American Chamber of Commerce in Hong Kong is "to encourage civic-minded participation in the Hong Kong community." We aim to fulfil this in various ways. One way is community service through initiatives such as our Business Orientation Program—an intensive 2-week summer program, which introduces university students from Hong Kong, Mainland China, Macau and Taiwan to leading international companies here in Hong Kong. This program has been operating for over 20 years. Unfortunately due to SARS, we were not able to conduct this program in 2003. We look forward to getting it back on track in 2004.

Article 23 Legislation and Constitution Reform. Civic-minded participation in the Hong Kong community also means becoming involved in issues, such as the Article 23 legislation and constitutional reform. On the Article 23 legislation, AmCham submitted its views both during the consultation period and again when the Blue Bill was submitted to LegCo. We voiced a number of concerns relating to specific provisions in the bill, but generally we felt that the Art. 23 proposals needlessly jeopardized the distinctive features of Hong Kong which make it a choice location for doing business in Asia, such as

- its transparent legal system and independent judiciary; and

- the free flow of information and expression of ideas.

Preserving these features is crucial to Hong Kong's future economic growth. Anything that weakens Hong Kong's rule of law or its open business climate ultimately makes Hong Kong less competitive. Furthermore, we were concerned that provisions of the proposed Bill would have had an impact not only on the business environment directly, but also on the ability of our academics, researchers, medical professionals and journalists to function effectively. During the consultation period, AmCham urged the Government to have meaningful consultations with the community and in particular to issue a White Bill. After the issuance of the Blue Bill, AmCham went on record asking that the legislation be delayed. The issue of Article 23 legislation has now been postponed, but we keep in mind that one opinion that we expressed consistently throughout was that the Government should have meaningful consultations with the Hong Kong people.

We now look forward to a period where constitutional reform will be considered for Hong Kong. The Basic Law clearly states that the ultimate goal is universal suffrage both for the selection of the Chief Executive and the election of the Legislative Council. In his speech to the Joint Business Community on Monday, the Chief Executive said that the Government will "encourage all sectors of the community in Hong Kong to continue considering these issues and expressing their views." AmCham welcome this statement by the Chief Executive and AmCham will be there to share our views. AmCham supports genuine democratization with the scope of the Basic Law.

All Hong Kong residents have a role to play in progressing toward the Basic Law's goal of resuming greater democracy of the political process, keeping in mind the procedures required by the Basic Law. Hong Kong people have shown on more than one occasion in the past months, that they are ready for this. The relatively high education, economic, commercial and civic awareness we experience daily in Hong Kong is a good indicator of the maturity in the community. We see it everywhere and every day.

Considered review, appropriate but swift progress will strengthen local and international confidence in our community in ways beneficial to China as a whole and to Hong Kong itself.

WORKING TO MAKE HONG KONG THE BEST PLACE IN ASIA TO DO BUSINESS

We will have a very full program this year. I invite you to join me in working on those interests that will make your business more successful and on those interests which will contribute to making Hong Kong the best place to do business in Asia.

Thank you.