

LEGISLATIVE COUNCIL BRIEF

PROPOSED FREE TRADE AGREEMENT BETWEEN HONG KONG AND AUSTRALIA

INTRODUCTION

At the meeting of the Executive Council on 25 April 2017, the Council ADVISED and the Chief Executive ORDERED that Hong Kong should commence negotiation on a free trade agreement (FTA) with Australia covering those elements as set out in paragraph 8 below.

JUSTIFICATIONS

Established Policy to Pursue FTAs with Trading Partners

2. Hong Kong has been seeking to forge FTAs with our trading partners. This would help expand our commercial and trading networks, and create more favourable conditions for Hong Kong enterprises to gain access to the Mainland and overseas markets. As noted by the Financial Secretary in the 2017-18 Budget Speech, Hong Kong, as a separate customs territory, has signed trade agreements with various economies and continuously expanded its FTA network.

Potential Benefits of HK-Australia FTA

3. Australia is an important trading partner of Hong Kong. It was Hong Kong's 7th largest services trading partner in 2015, and 19th largest merchandise trading partner in 2016. Hong Kong and Australia have been enjoying close bilateral relations. A bilateral FTA with Australia will be instrumental in fostering closer economic relationship between the two economies. It will also provide a platform for our traders and investors to exploit the untapped business opportunities and further expand their businesses in this important market.

4. On trade in goods, successful reduction of entry restrictions to the Australian market either by cutting tariffs or by removing import

barriers would be beneficial to Hong Kong. The negotiation will also cover a set of flexible disciplines on preferential rules of origin which would facilitate merchandise trade between Hong Kong and Australia.

5. On trade in services, we aim to reach comprehensive, high-level and balanced results. The FTA will bring about enhanced market opportunities, legal certainty and predictability for Hong Kong service suppliers in entering and operating in the Australian market.

6. As for investment, Hong Kong and Australia signed an Investment Promotion and Protection Agreement (IPPA) in 1993. We will explore with Australia options for further enhancement of our bilateral investment agreement to the benefit of both sides, taking into account, among other things, the latest global investment environment.

7. On the macro level, the Asia Pacific region is one of the fastest growing regions in the world. On top of our existing FTAs respectively with the Mainland and New Zealand, preferential trade and investment treatments to be negotiated with Australia will expand our economic foothold in the region.

Elements to be covered in the FTA

8. Hong Kong and Australia shared the aspiration of pursuing a comprehensive and high-quality FTA. Judging from our exploratory discussion on the prospective FTA, we envisage that the FTA negotiation with Australia will include the following key elements -

- (a) elimination or reduction of tariffs;
- (b) reduction of non-tariff barriers, including technical barriers to trade, and sanitary and phytosanitary measures;
- (c) preferential rules of origin;
- (d) customs facilitation procedures;
- (e) better market access for trade in services;
- (f) promotion and protection of investment; and
- (g) legal and institutional arrangements, including dispute

settlement mechanism for the FTA.

9. Besides, the two sides are open-minded about whether to explore additional commitments in such areas as intellectual property rights, government procurement and competition.

10. Before commencing negotiation, we will develop our negotiation strategy and wish-lists in consultation with relevant bureau/departments (B/Ds), taking into account the views of the business sector and professional bodies.

BASIC LAW IMPLICATIONS

11. The proposal is in conformity with the Basic Law, including the provisions concerning human rights.

FINANCIAL AND CIVIL SERVICE IMPLICATIONS

12. The preparation for and conduct of the FTA negotiation with Australia will require no additional financial and staffing resources. The Trade and Industry Department will absorb the additional workload involved from within its existing manpower resources. As for the implementation of the negotiation outcome, we will assess the implications before concluding the negotiation with Australia.

ECONOMIC IMPLICATIONS

13. The successful negotiation and conclusion of the FTA with Australia would bring economic benefits to Hong Kong. Depending on the actual outcome of negotiation on the openness level in various sectors, the FTA with Australia will provide Hong Kong with better access to the Australian market and create more business opportunities beneficial to Hong Kong's long-term economic growth. Broadly speaking, an FTA with Australia is conducive to strengthening Hong Kong's role as an international trade, commerce and financial centre.

SUSTAINABILITY IMPLICATIONS

14. The FTA with Australia can, in overall terms, bring more and better access to the Australian market, create more business opportunities for Hong Kong businessmen and increase trade and investment flows

between Hong Kong and Australia. By enhancing our economic links with Australia, this will also help strengthen our role as an international trade, commerce and financial hub.

PUBLIC CONSULTATION

15. To help develop our negotiation strategy and to better gauge our traders' areas of interest in the Australian market, we will consult major trade and industrial associations as well as professional bodies before or in the course of our negotiation. Relevant B/Ds may engage their stakeholders as appropriate during the negotiation process.

PUBLICITY

16. We will issue a press release before public consultation. A line-to-take will be prepared and a spokesman will be available to answer media enquiries.

BACKGROUND

17. Hong Kong has so far signed four FTAs respectively with the Mainland, New Zealand, the Member States of the European Free Trade Association (i.e. Iceland, Liechtenstein, Norway and Switzerland) and Chile. We are now negotiating FTAs respectively with the Association of Southeast Asian Nations (ASEAN)¹, Georgia and Maldives, and discussing a closer economic partnership arrangement with Macao.

18. The bilateral trade in services between Hong Kong and Australia amounted to HK\$41 billion in 2015, registering an average annual growth rate of 1.2% between 2010 and 2015. Bilateral trade in goods amounted to HK\$52 billion in 2016.

ENQUIRIES

19. For enquiries, please contact Mr. Owin FUNG, Assistant Director-General of Trade and Industry Department, at 2398 5309.

¹ ASEAN comprises Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam.

Trade and Industry Department
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