

LEGISLATIVE COUNCIL BRIEF

PROPOSED PARTICIPATION IN THE MAINLAND'S FREE TRADE AGREEMENTS

INTRODUCTION

At the meeting of the Executive Council on 3 May 2016, the Council ADVISED and the Chief Executive ORDERED that Hong Kong should participate as a separate customs territory and a separate signatory in the Mainland's Free Trade Agreement (FTA) negotiations with Maldives and Georgia respectively.

JUSTIFICATIONS

Established Policy to Pursue FTAs with Trading Partners

2. In view of the fast proliferation of FTAs in the recent decades⁽¹⁾ and to safeguard Hong Kong's long-term economic interest, we have been seeking to conclude FTAs with our trading partners. This would expand our commercial and trading networks, creating more favourable conditions for Hong Kong enterprises to access the Mainland and overseas markets.

Progress

3. So far, Hong Kong has signed four FTAs⁽²⁾, respectively with the Mainland, New Zealand, the Member States of the European Free

Note ⁽¹⁾ As of 1 February 2016, some 625 notifications of FTAs between two or more parties have been received by the World Trade Organization (WTO).

Note ⁽²⁾ The four FTAs are –

- (a) The Mainland and Hong Kong Closer Economic Partnership Arrangement, which was signed and came into effect in 2003.
- (b) Hong Kong, China-New Zealand Closer Economic Partnership Agreement, which was signed in March 2010 and came into effect in January 2011.
- (c) FTA with Member States of the European Free Trade Association, which was signed in June 2011 and came into effect in October 2012 for Iceland, Liechtenstein and Switzerland, and in November 2012 for Norway.
- (d) FTA with Chile, which was signed in September 2012 and came into effect in October 2014.

Trade Association (comprising Iceland, Liechtenstein, Norway and Switzerland), and Chile.

4. We are actively negotiating an FTA with the Association of Southeast Asian Nations (ASEAN)⁽³⁾, a closer economic partnership arrangement with Macao, and a Trade in Services Agreement that involves 23 WTO members.

Additional Approach for Further Expansion

5. A key motivation behind FTA negotiations is to secure preferential market access for trade in goods and/or services. In respect of goods, better market access primarily means tariff concessions, even though reduction of non-tariff trade barriers is of increasing importance, too. As Hong Kong has long maintained a tariff-free regime, it has been increasingly difficult to convince our trading partners to accord priority to negotiate FTAs with us vis-à-vis their other trading partners.

6. To minimise our risk of being marginalised, it is important for us to take part in FTA negotiations that involve our major trading partners. FTA negotiations of the Mainland, our largest trading partner that accounts for about 50% of our total trade, are of particular value for maintaining Hong Kong's position as a major trading and logistics hub. We have thus explored the possibility of our participation in the Mainland's FTA negotiations.

Participation in the Mainland's FTA Initiatives

7. The Central People's Government has been supportive of Hong Kong's pursuit of FTAs and our participation in regional economic cooperation. Under the Basic Law, the Hong Kong Special Administrative Region (HKSAR) is a separate customs territory, and may participate in international trade agreements on its own. Following the above, the HKSAR will participate as a separate customs territory and be a separate signatory in the FTA negotiations between the Mainland and its trading partners.

Note ⁽³⁾ ASEAN comprises Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam.

Potential Benefits of the Proposed FTAs

8. While Maldives and Georgia are not our conventional trading partners and their current trade volume ⁽⁴⁾ with us may be less significant, these markets are considered under-explored but with potential. Maldives is on the “maritime route”, while Georgia is on the “land route” under the Belt and Road initiative. Forging FTAs with these two economies has strategic value for Hong Kong in two aspects. First, the respective negotiations would enable us to gain relevant experience and make adjustment, as appropriate, in our participation in the Mainland’s FTA negotiations in future. Second, these FTAs, if signed, will help expand Hong Kong’s FTA network into the respective regions including the Eurasia.

9. In terms of tangible benefits in respect of trade in goods, successful reduction of entry restrictions either by cutting tariffs or removing import barriers would be beneficial to Hong Kong. Assuming total elimination of tariffs on Hong Kong’s domestic exports to the two said markets, the annual tariff savings is roughly estimated at HK\$0.43 million in total ⁽⁵⁾. We envisage that the amount of savings will grow with the enhanced trade relations after the FTAs are in place. On trade in services, negotiation and conclusion of FTAs with these economies will raise the interest of Hong Kong service suppliers in expanding to the respective regions. Besides, the negotiations will likely cover both market access commitments and trade facilitation disciplines. These commitments and disciplines (such as those concerning domestic regulation) would bring about enhanced market opportunities, legal certainty and predictability for Hong Kong service suppliers in entering and operating in these economies. As for investment, the proposed FTAs are expected to provide Hong Kong investors with greater certainty in the treatment and protection, and possibly market access, of investment in these emerging economies.

Elements in the Proposed FTAs

10. The proposed FTAs with Maldives and Georgia would likely

Note ⁽⁴⁾ In 2015, Hong Kong’s bilateral trade with Georgia and Maldives amounted to HK\$285 million and HK\$276 million respectively.

Note ⁽⁵⁾ The estimated tariff savings are calculated based on Hong Kong’s total domestic exports to the economies in 2015 and the latest average applied tariff rates of the economies on non-agricultural products as available in the WTO.

cover, among others, the following key elements –

- (a) elimination or reduction of tariffs;
- (b) liberalisation of non-tariff barriers, including technical barriers to trade, sanitary and phytosanitary measures, anti-dumping, safeguards, and countervailing measures;
- (c) a set of flexible disciplines on rules of origin which would facilitate bilateral trade;
- (d) a set of customs facilitation procedures;
- (e) liberalisation as well as promotion and protection of investment;
- (f) liberalisation of trade in services; and
- (g) legal and institutional arrangement and dispute settlement mechanism for the FTA.

11. Other elements may include economic and technical cooperation, intellectual property rights, competition, environment and e-commerce. They will be dealt with as they arise in consultation with the relevant bureaux and departments.

BASIC LAW IMPLICATIONS

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

FINANCIAL AND CIVIL SERVICE IMPLICATIONS

13. Apart from the existing financial and staffing resources, additional recurrent resources have been earmarked for the Trade and Industry Department and the Department of Justice to step up the work relating to the FTA and Investment Agreement negotiations. Provision has been included in the draft estimates of 2016-17 and will be included in the subsequent financial years of the relevant departments.

ECONOMIC IMPLICATIONS

14. The successful negotiations and conclusion of the respective FTAs would bring economic benefits to Hong Kong. Depending on the actual outcome of negotiations on the openness level in various sectors, the respective FTAs will provide Hong Kong with better access to these markets and create more business opportunities beneficial to Hong

Kong's long-term economic growth. In particular, from a strategic point of view, Hong Kong's participation in the Mainland's FTAs with other third parties will facilitate Hong Kong's businesses that serve as a conduit between the Mainland and the rest of the world, thereby fostering Hong Kong's integration into the global value chain. Hong Kong's role as an international trade, commerce and financial centre will hence be strengthened as a result.

SUSTAINABILITY IMPLICATIONS

15. The respective FTAs can, in overall terms, bring more and better access to Maldives and Georgia, create more business opportunities for Hong Kong businessmen and increase trade and investment flows between Hong Kong and the respective FTA partners. By enhancing our economic links with these economies, this will also help strengthen our role as an international trade, commerce and financial hub.

ENVIRONMENTAL IMPLICATIONS

16. Depending on the substance of the environment provisions to be eventually covered in the proposed FTAs with these economies, the FTAs may have positive environmental implications for Hong Kong.

PUBLIC CONSULTATION

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

PUBLICITY

18. We will issue a press release before public consultation on Hong Kong's participation in the Mainland's FTA negotiations with Maldives and Georgia. A line-to-take will be prepared and a spokesman will be available to answer media enquiries.

ENQUIRIES

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

Trade and Industry Department
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