

LEGISLATIVE COUNCIL BRIEF

PROPOSED FREE TRADE AGREEMENT BETWEEN HONG KONG AND PERU

INTRODUCTION

At the meeting of the Executive Council on 1 November 2022, the Council ADVISED and the Chief Executive ORDERED that Hong Kong should commence negotiation on a free trade agreement (FTA) with Peru covering those elements as set out in paragraph 10 below.

JUSTIFICATIONS

Hong Kong's FTA Policy

2. President Xi Jinping, in his address on 1 July 2022, stated that the central government fully supports Hong Kong “in its effort to improve its presence as an international ... trading center”, and “in carrying out more extensive exchanges and close cooperation with the rest of the world”. The national 14th Five-Year Plan also fully supports Hong Kong to enhance its status as an international trade centre. In this regard, we have been actively seeking to forge FTAs with our trading partners in order to strengthen Hong Kong's economic and trade connections and to create more favourable conditions for Hong Kong's goods, services and enterprises to gain access to the relevant markets.

3. Apart from seeking accession to the Regional Comprehensive Economic Partnership (RCEP)⁽¹⁾, Hong Kong has been lobbying, amongst others, the Pacific Alliance, a regional economic bloc in Latin America which comprises Chile, Colombia, Mexico and Peru, in the past few years on the initiation of an FTA discussion.

Note⁽¹⁾ RCEP was signed among ten member states of the Association of Southeast Asian Nations (ASEAN) and five of ASEAN's FTA partners (viz. Australia, Japan, Korea, New Zealand and the Mainland of China (the Mainland)) in November 2020.

4. Meanwhile, Hong Kong and Peru agreed, at a ministerial meeting held in the margins of the Asia-Pacific Economic Cooperation (APEC) Ministers Responsible for Trade meeting in Bangkok in May 2022, to explore the feasibility of a bilateral FTA.

Potential Benefits of Hong Kong - Peru FTA

5. We consider that it is in Hong Kong's interest to negotiate an FTA with Peru to exploit the untapped business opportunities. Peru ranked 5th among our merchandise trading partners in Latin America in 2021. Bilateral merchandise trade between Hong Kong and Peru amounted to HK\$7.1 billion in 2021 and grew at an average annual rate of 12.2% from 2017 to 2021. Such remarkable growth suggests that there should be scope for further enhancement of the economic ties between Hong Kong and Peru.

6. On trade in goods, successful reduction of entry restrictions to the Peruvian market either by cutting tariffs or by removing non-tariff barriers would be beneficial to Hong Kong. Goods of Hong Kong will benefit from the preferential tariff rates under the FTA and be able to compete with products of other FTA partners of Peru in the Peruvian market on equal footing.

7. On trade in services, we will strive for a comprehensive, ambitious and balanced outcome. Our service providers will be able to enjoy enhanced market access commitments, as well as more legal certainty and predictability in entering and operating in the Peruvian market.

8. Peru, as an emerging market and a resource-rich country with a population over 33 million, will provide Hong Kong's investors with good investment opportunities. The FTA with Peru will help Hong Kong secure better market access conditions for investment in Peru, thereby helping Hong Kong investors tap the investment opportunities there and, indirectly, those in Latin America. More generally, the FTA will strengthen Hong Kong's FTA network and status as an international investment hub.

9. Forging an FTA with Peru also has important strategic value. First, it could help contribute to the Belt and Road Initiative through the closer cooperation and collaboration as envisaged under the FTA. The FTA will also provide a platform for Hong Kong's traders and investors to expand their businesses in the Peruvian market and the Latin America

region. Second, the FTA will create synergy with our existing FTA with Chile signed in 2012.

Elements to be Covered in the FTA

10. Hong Kong and Peru share the common aspiration of pursuing a high-quality and comprehensive FTA. Based on the exploratory discussions, we envisage that the negotiation would cover, among others, the following -

- (a) elimination or reduction of tariffs;
- (b) preferential rules of origin;
- (c) customs facilitation procedures;
- (d) reduction of non-tariff barriers, including technical barriers to trade, and sanitary and phytosanitary measures;
- (e) market access for trade in services;
- (f) market access and treatment of investment;
- (g) other subjects such as electronic commerce, government procurement, intellectual property, competition, cooperation, and small and medium sized enterprises; and
- (h) legal and institutional arrangements, including dispute settlement mechanism for the FTA.

BASIC LAW IMPLICATIONS

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

ECONOMIC IMPLICATIONS

13. Depending on the outcome of negotiation, an FTA with Peru will provide Hong Kong with better access to the Peruvian market and create more business and investment opportunities. Broadly speaking, it would help strengthen Hong Kong's role as an international trade, commerce and financial centre, and is thus beneficial to our long-term economic development.

SUSTAINABILITY IMPLICATIONS

14. The FTA with Peru can, in overall terms, bring more and better access to the Peruvian market, create more business opportunities for Hong Kong businessmen and increase trade and investment flows between Hong Kong and Peru. Enhancing our economic links with Peru will help reinforce Hong Kong's 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 Peruvian market, we will consult major trade and industrial associations as well as professional bodies before or in the course of our negotiation. Relevant bureaux / departments may also engage their stakeholders as appropriate during the negotiation process.

PUBLICITY

16. We will issue a press release before public consultation. A spokesman will be available to answer media enquiries.

BACKGROUND

17. Hong Kong has so far signed eight FTAs respectively with the Mainland, New Zealand, the member states of the European Free Trade Association (i.e. Iceland, Liechtenstein, Norway and Switzerland), Chile, Macao, ASEAN⁽²⁾, Georgia and Australia. All these FTAs have entered

Note ⁽²⁾ ASEAN comprises Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam.

into force. In addition to pursuing an FTA with Peru, Hong Kong has been actively seeking to accede to the RCEP and to engage in exploratory talks with other potential FTA or investment agreement partners.

ENQUIRIES

18. For enquiries, please contact Mr. Kar-keung Chan, Assistant Director-General of Trade and Industry Department (Europe) (Acting), at 2398 5394.

Trade and Industry Department
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