

LEGISLATIVE COUNCIL BRIEF

**HONG KONG SPECIAL ADMINISTRATIVE REGION
AND MACAO SPECIAL ADMINISTRATIVE REGION
CLOSER ECONOMIC PARTNERSHIP ARRANGEMENT**

INTRODUCTION

At the meeting of the Executive Council on 19 September 2017, the Council ADVISED and the Chief Executive ORDERED that the outcome of the discussions of the Hong Kong Special Administrative Region and Macao Special Administrative Region Closer Economic Partnership Arrangement (HK-Macao CEPA) should be endorsed and the HK-Macao CEPA should be signed.

JUSTIFICATIONS

Key Outcomes of the Discussions

2. The HK-Macao CEPA is comprehensive in scope and the commitments therein go beyond those undertaken by Hong Kong and Macao under the World Trade Organisation (WTO), providing enhanced legal certainty to market access or treatment to one another. Key outcomes of the discussions and expected benefits to Hong Kong are summarised in paragraphs 3 to 11 below.

(A) Trade in Services

3. We have achieved a balanced outcome on trade in services, building on both sides' commitments under the WTO General Agreement on Trade in Services. Hong Kong service providers will enjoy legal certainty in market access and national treatment for a wide range of services in the Macanese market under the four modes of supply, namely cross-border supply, consumption abroad, commercial presence, and movement of natural persons. Many of these preferential arrangements go beyond those committed under the WTO (i.e. WTO-plus) by Macao.

4. Macao's WTO-plus commitments in respect of individual modes of supply of services encompass sectors where Hong Kong has traditional strengths or has potential for development. These include

audiovisual services, environmental services, telecommunications services, distribution services and education services. Hong Kong's commitments are also WTO-plus and largely match Hong Kong's revised offers under the unfinished WTO Doha Round of negotiations. Hong Kong's WTO-plus commitments cover sectors of economic importance to Macao, such as convention services, and tourism and travel related services.

5. Apart from market access commitments, the two sides have agreed on other general obligations to facilitate trade in services. In particular, the rules and disciplines developed under the HK-Macao CEPA will improve transparency of domestic regulations and ensure that they do not constitute unnecessary barriers to trade in services.

(B) Trade in Goods

6. Both Hong Kong and Macao do not apply any tariff on imports. Upon the entering into force of the HK-Macao CEPA, both economies will bind the existing regimes providing legal certainty to our traders on tariff-free movement of goods between the two places. The existing non-preferential origin rules will be used to establish the origin of Hong Kong products.

7. As regards the use of trade remedy measures, apart from reaffirming our obligations under the relevant WTO agreements, the two sides agree not to take anti-dumping and countervailing measures against goods of each other. These go beyond our commitments in the WTO and existing FTAs with foreign partners, and are in line with our commitments under the Closer Economic Partnership Arrangement (CEPA) between Hong Kong and the Mainland. At the same time, Hong Kong and Macao undertake not to apply tariff rate quotas.

(C) Side Instrument on Investment

8. With a view to further enhancing investment flows between Hong Kong and Macao, the two sides have agreed in principle to discuss a separate instrument on investment. The discussions will cover elements of investment promotion and protection that are typically found in a modern investment agreement.

(D) Other Areas

9. HK-Macao CEPA contains provisions to enhance cooperation in areas including customs procedures and trade facilitation, technical barriers to trade, sanitary and phytosanitary measures, intellectual

property, as well as transparency in laws and regulations.

10. As for institutional arrangements, we will adopt a consultation-based mechanism, under which any problems arising from the interpretation or implementation of the HK-Macao CEPA will be resolved through consultation, similar to the mechanism under the CEPA between Hong Kong and the Mainland.

Economic Value of the HK-Macao CEPA

11. Hong Kong and Macao enjoy close and long-established bilateral trade relations. Both economies have highly liberalised trade regimes. The HK-Macao CEPA would contribute to enhanced economic cooperation and development of the two places, as our service providers will enjoy better market access and predictability when operating in Macao.

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. The commitments made under the HK-Macao CEPA are no more than a reflection of Hong Kong's existing *de facto* regimes. Additional workload, if any, arising from its implementation, including that related to the relevant enforcement activities, will be absorbed by existing manpower resources of relevant bureaux and departments.

ECONOMIC IMPLICATIONS

14. Signing the CEPA with Macao would bring economic benefits to Hong Kong. In broad terms, the HK-Macao CEPA will provide Hong Kong with better access to the Macanese market and create more business opportunities beneficial to Hong Kong's long-term economic growth. All in all, the HK-Macao CEPA is conducive to Hong Kong's role as an international trade, commerce and financial centre.

SUSTAINABILITY IMPLICATIONS

15. The HK-Macao CEPA can provide Hong Kong businessmen with more and improved business opportunities in Macao, resulting in

expansion of trade and investment flows between Hong Kong and Macao, and eventually benefits in income and employment.

PUBLIC CONSULTATION

16. We conducted a one-month public consultation exercise on the proposed HK-Macao CEPA from October to November 2015 to help develop our positions and to better gauge our traders' areas of interest in the Macanese market. We have sought views from major trade and industrial associations, professional bodies and the general public, and their feedback was positive.

PUBLICITY

17. Details of the HK-Macao CEPA will be made public after it is formally signed in October 2017. We will issue a press release upon the signing of the HK-Macao CEPA. A spokesman will be available to answer media enquiries.

BACKGROUND

18. The discussions on a HK-Macao CEPA commenced in November 2015 and were concluded in June 2017. The HK-Macao CEPA will enter into force on the date of signature and the liberalisation of trade in goods and services provided for therein will be implemented on 1 January 2018.

19. On trade in goods, Macao was Hong Kong's 20th largest trading partner in 2016. Bilateral trade in goods between the two economies grew on average by 3.5% annually between 2012 and 2016, amounting to about HK\$48 billion in 2016. On trade in services, Macao ranked 15th among Hong Kong's trading partners in 2015. Bilateral trade in services amounted to about HK\$15 billion in 2015, registering an average annual growth rate of 3.8% between 2011 and 2015. On investment, Macao was the 15th largest source of foreign direct investment (FDI) into Hong Kong (with a stock of HK\$46.7 billion) and 11th largest recipient of FDI from Hong Kong (with a stock of HK\$69 billion) at the end of 2015.

ENQUIRIES

20. For enquiries, please contact Ms Jenny Chan, Assistant

Director-General of Trade and Industry, at 2398 5307.

Trade and Industry Department
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