

LEGISLATIVE COUNCIL BRIEF

PROPOSED HONG KONG AND MACAO CLOSER ECONOMIC PARTNERSHIP ARRANGEMENT

INTRODUCTION

At the meeting of the Executive Council on 29 September 2015, the Council ADVISED and the Chief Executive ORDERED that Hong Kong should commence negotiation on a Hong Kong and Macao Closer Economic Partnership Arrangement (HK-Macao CEPA) covering those elements as set out in paragraph 9 below.

JUSTIFICATIONS

Hong Kong's Free Trade Agreement (FTA) policy

2. Hong Kong has been active in forging FTAs with our trading partners. In the 2015 Policy Address, the Chief Executive reiterated that the Government of the Hong Kong Special Administrative Region seeks to negotiate and conclude FTAs with individual countries or regions. In the 2015-16 Budget Speech, the Financial Secretary indicated that Hong Kong was exploring a HK-Macao CEPA to enhance economic cooperation and integration between the two places.

Potential benefits of HK-Macao CEPA

3. Hong Kong and the Macao Special Administrative Region (Macao) enjoy close and long-established bilateral trade relations. Both economies have highly similar and liberalised trade regimes. Establishing a comprehensive and high-quality HK-Macao CEPA would provide an even more favourable environment for trade and business, further enhancing economic cooperation and development of the two places.

4. On trade in goods, the HK-Macao CEPA will bind the existing tariff-free regimes of the two economies, providing legal certainty to our traders on tariff-free movement of goods between the two places.

5. On trade in services, while the existing trade regimes of Hong Kong and Macao are already open and non-discriminatory, the two sides will make market access commitments to each other beyond those committed under the WTO, and agree on rules and disciplines to enhance transparency and minimise unnecessary restrictions on services provisions. Our service providers will enjoy better market access and predictability in operating in Macao.

6. As for investment, the HK-Macao CEPA will provide for non-discriminatory treatment and contain provisions on investment promotion and facilitation. These will help reinforce investors' confidence and stimulate bilateral investment flows.

7. At present, Hong Kong and Macao have each entered into a separate Closer Economic Partnership Arrangement (CEPA) with the Mainland. After the establishment of the HK-Macao CEPA, the three places may build upon those CEPAs to establish a new, common platform to advance further liberalisation and facilitation of trade and investment in the 'Greater China' region.

Elements to be covered in HK-Macao CEPA

8. Hong Kong and Macao have held exploratory talks on the scope and modalities of the HK-Macao CEPA. In general, the two sides share a common aspiration of pursuing a comprehensive and high-quality HK-Macao CEPA.

9. We envisage that the HK-Macao CEPA will cover the following key elements –

- (a) commitment to bind tariff at zero;
- (b) minimising non-tariff barriers and avoiding imposing trade remedies including anti-dumping, safeguards, and countervailing measures;
- (c) customs facilitation procedures;

- (d) liberalisation and facilitation of trade in services;
- (e) liberalisation, protection, promotion and facilitation of investment;
- (f) cooperation in the area of intellectual property; and
- (g) legal and institutional arrangements and dispute settlement mechanism.

10. Before commencing negotiations, we shall develop our negotiation strategy and wish-lists in consultation with relevant bureaux/departments (B/Ds), and 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 HK-Macao CEPA negotiations 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 an agreement with Macao.

ECONOMIC IMPLICATIONS

13. The successful negotiation and conclusion of the HK-Macao CEPA would bring economic benefits to Hong Kong. The HK-Macao CEPA will provide Hong Kong with better access to the Macao market and create more business opportunities beneficial to Hong Kong's long-term economic growth. Also, the HK-Macao CEPA, together with the existing Mainland-HK CEPA and Mainland-Macao CEPA, would lay the foundation for a new, free-trade platform that could advance further liberalisation and facilitation of trade and investment in the Mainland-Hong Kong-Macao region. Broadly speaking, the HK-Macao

CEPA is conducive to Hong Kong's role as an international trade, commerce and financial centre.

SUSTAINABILITY IMPLICATIONS

14. The HK-Macao CEPA can, in overall terms, bring more and better access to the Macao market, create more business opportunities for Hong Kong businessmen and increase trade and investment flows between Hong Kong and Macao. By enhancing our economic links with Macao, 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 Macao market, we will consult major trade and industrial associations as well as professional bodies before and, if necessary, also in the course of our negotiation with Macao. 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. We have so far signed four FTAs respectively with the Mainland, New Zealand, the Member States of the European Free Trade Association (EFTA Member States)¹ and Chile, and have commenced FTA negotiations with the Association of Southeast Asian Nations (ASEAN)².

¹ EFTA Member States refer to Iceland, Liechtenstein, Norway and Switzerland.

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

18. On trade in goods, Macao was Hong Kong's 19th largest trading partner in 2014. Bilateral trade in goods between the two economies grew on average 22% annually between 2010 and 2014, amounting to HK\$55 billion in 2014. On trade in services, Macao ranked 14th among Hong Kong's trading partners in 2013. Bilateral trade in services amounted to HK\$17 billion in 2013, registering an average annual growth rate of 18% between 2009 and 2013. On investment, in 2013 Macao was the 11th largest source of foreign direct investment (FDI) into Hong Kong (with a stock of HK\$113 billion) and 11th largest recipient of FDI from Hong Kong (with a stock of HK\$64 billion).

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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