

Negotiation of the Hong Kong and Macao Closer Economic Partnership Arrangement

Consultation Document

INTRODUCTION

The Government of the Hong Kong Special Administrative Region announced today (9 October 2015) that Hong Kong will negotiate a free trade agreement (FTA) with the Macao Special Administrative Region (Macao), namely a Hong Kong and Macao Closer Economic Partnership Arrangement (HK-Macao CEPA). This note provides information on key areas to be covered in the negotiations. It also invites comments and suggestions from interested parties with a view to assisting the Government in formulating its strategies and positions in the negotiation with Macao.

BACKGROUND

Hong Kong's Position on FTAs

2. Hong Kong is a staunch supporter of the multilateral trading system. At the same time, we maintain an open mind on bilateral, plurilateral and regional FTAs (Note 1). We are prepared to explore the possibility of entering into new FTAs with other economies, so long as they are in Hong Kong's interests; are consistent with the principles of the World Trade Organization (WTO); and can contribute to multilateral trade liberalisation.

3. We have been actively pursuing FTAs with our trading partners and have so far signed four FTAs respectively with the Mainland in 2003, New Zealand in 2010, the Member States of the European Free Trade Association (Note 2) in 2011, and Chile in 2012. In addition, Hong Kong and the Association of Southeast Asian Nations (ASEAN) (Note 3) commenced the negotiation of an FTA in July 2014.

General Economic and Trade Relations between Hong Kong and Macao

4. Hong Kong and Macao enjoy close and long-established bilateral trade relations. Our overarching objective in pursuing the HK-Macao CEPA is to provide an even more favourable environment for trade and business, and in turn further enhance economic cooperation and development of the two places.

5. 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.

Merchandise Trade

6. In terms of trade in goods, Macao was Hong Kong's 19th (Note 4) largest trading partner in 2014, with total bilateral trade amounted to HK\$55 billion, about 0.7% of Hong Kong's total trade, and an increase of 4% as compared to 2013. The average annual growth rate of bilateral trade between Hong Kong and Macao from 2010 to 2014 recorded a remarkable double digit increase of 22%.

Trade in Services

7. In 2013, Macao was Hong Kong's 14th largest services trading partner. Bilateral services trade amounted to HK\$17 billion, representing 1.3% of Hong Kong's total trade in services with the world.

8. Services trade between Hong Kong and Macao has recorded remarkable growth in recent years. The average annual growth rate was 18% between 2009 and 2013. Construction services, travel services and other business services constitute Hong Kong's major services exports to, as well as major services imports from Macao.

Investment

9. Hong Kong and Macao have a close investment relationship. As at the end of 2013, Macao was the 11th largest source of foreign direct investment (FDI) into Hong Kong (with cumulated stock of HK\$113 billion) and the 11th largest destination of FDI from Hong Kong (with cumulated stock of HK\$64 billion).

KEY ELEMENTS TO BE COVERED IN THE NEGOTIATIONS AND VIEWS SOUGHT

10. Hong Kong and Macao share a common aspiration of pursuing a comprehensive and high-quality HK-Macao CEPA. The negotiations will cover the following key elements -

- (a) commitment to bind tariff at zero;
- (b) minimising non-tariff barriers (Note 5) and avoiding imposing trade remedies (Note 6) 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.

Trade in Goods

11. Both Hong Kong and Macao do not apply any tariff on imports. Under the HK-Macao CEPA negotiations, Hong Kong and Macao will seek to 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.

12. Given that both Hong Kong and Macao are free ports and impose no tariffs, the HK-Macao CEPA needs not cover preferential rules of origin, as in the case of Hong Kong's other FTAs.

13. Furthermore, the two sides will seek to minimise non-tariff barriers and avoid imposing trade remedy measures in order to further reduce obstacles to trade and promote trade in goods between the two places.

Views sought: we invite views on the above elements and whether there are any other particular areas or measures which Hong Kong should focus on.

Trade in Services

14. Hong Kong's major services sectors include import and export trade, wholesale and retail trades (25.0% of GDP in 2013); public administration, social and personal services (17.0%); financing and insurance services (16.5%); real estate, professional and business services (10.8%); transportation, storage, postal and courier services (6.0%); and information and communications services (3.6%).

15. In the negotiations, we aim to seek better market access or more predictability for services and service suppliers of Hong Kong in Macao.

Views sought: we invite views on -

- (a) which services sectors and services measures of Macao Hong Kong should particularly focus on in the services negotiations under the HK-Macao CEPA, e.g. whether there are any existing or foreseeable hurdles to the provision of services in Macao's market; and
- (b) whether there are any services sectors, areas or measures which Hong Kong should be more cautious in undertaking commitments, including those commitments to maintain our current regime for access of services or services suppliers of Macao.

We also welcome comments and inputs on other matters relating to services trade with Macao.

Investment

16. Hong Kong and Macao will seek to create a more favourable investment environment to facilitate mutual investment flows.

Views sought: we invite views on improvements that should be sought from Macao to its policy on, and treatment of, investments from Hong Kong.

Other Elements of Negotiations

17. The HK-Macao CEPA negotiations will cover, among others, customs facilitation procedures, cooperation in the area of intellectual property, legal and institutional matters and a mechanism for settlement of disputes. We welcome views and suggestions, if any, on these elements.

CONCLUDING REMARKS

18. We believe that the HK-Macao CEPA will bring economic benefits to Hong Kong and provide Hong Kong with better access to the Macao market and create more business opportunities beneficial to Hong Kong's long-term economic growth. It will also be conducive to Hong Kong's role as an international trade, commerce and financial centre. Furthermore, the HK-Macao CEPA, together with the existing Mainland-HK CEPA and Mainland-Macao CEPA, would lay the foundation for a new, common platform that could advance further liberalisation and facilitation of trade and investment in the Mainland-Hong Kong-Macao region.

19. Interested parties are invited to submit their views and suggestions in writing by **9 November 2015** by mail, fax, or e-mail as indicated below. For enquiries, you are welcome to contact Mr. Vincent LI at 3403 6060 or email: fta@tid.gov.hk.

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**Trade and Industry Department
The HKSAR Government
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Note 1 :

An FTA is an agreement concluded by two or more economies that provides preferential access to each other's markets by eliminating or reducing tariffs and other restrictive measures in the trade in goods and services, investment, and other trade-related areas between the participating economies.

Note 2 :

Member States of the European Free Trade Association refer to Iceland, Liechtenstein, Norway and Switzerland.

Note 3 :

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

Note 4 :

All rankings mentioned in this document are worked out with the values of the individual economies being considered separately.

Note 5 :

Non-tariff barriers are trade restrictive measures other than tariffs, such as quotas, import licensing systems, sanitary and phytosanitary measures, technical barriers to trade, prohibitions, etc.

Note 6 :

Trade remedy measures refer to anti-dumping, countervailing and safeguard measures. Imposition of these measures could result in additional duties (being one of the usual forms) on top of tariffs and other charges by the importing economy.