

Hong Kong to Negotiate Free Trade Agreements with Georgia and Maldives

Consultation Document

INTRODUCTION

The Government of the Hong Kong Special Administrative Region announced today (6 May 2016) that Hong Kong will soon commence Free Trade Agreement (FTA) (Note 1) negotiations with Georgia and Maldives respectively. 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 respective negotiations.

BACKGROUND

2. In view of the fast proliferation of FTAs in the recent decades (Note 2) 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.

3. So far, Hong Kong has signed four FTAs (Note 3), respectively with the Mainland, New Zealand, the Member States of the European Free Trade Association (comprising Iceland, Liechtenstein, Norway and Switzerland), and Chile. We are actively negotiating an FTA with the Association of Southeast Asian Nations (ASEAN) (Note 4), a closer economic partnership arrangement with Macao, and a Trade in Services Agreement that involves 23 World Trade Organization members.

4. 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.

Bilateral Relations with Georgia and Maldives

5. Both Georgia and Maldives are emerging markets which are considered under-explored but with potential. Georgia is on the “land route” while Maldives is on the “maritime route” under the Belt and Road initiative.

6. In 2015, Hong Kong's bilateral merchandise trade with Georgia and Maldives amounted to HK\$285 million and HK\$276 million respectively. The average annual growth rate in bilateral merchandise trade from 2011 to 2015 between Hong Kong and Georgia was 1.5%. The average annual growth rate in bilateral merchandise trade between Hong Kong and Maldives was 38% from 2011 to 2015.

KEY ELEMENTS IN THE TWO FTA NEGOTIATIONS AND VIEWS SOUGHT

7. The two FTA negotiations with Georgia and Maldives will likely cover, among others, the following key elements –

- (a) elimination or reduction of tariffs;
- (b) liberalisation of non-tariff barriers;
- (c) flexible disciplines on rules of origin which would facilitate bilateral trade;
- (d) 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.

Tariffs

8. Hong Kong does not apply any tariff on imports. For Georgia and Maldives, the average applied tariff rates are 0.7% and 20.8% respectively (Note 5). Under the FTA negotiations, we shall seek to agree on the modalities for early elimination or reduction of tariffs for products of Hong Kong origin, while Hong Kong will bind its tariff on all products originated from Georgia and Maldives at zero percent.

Views sought: we invite views on which sectors (please specify which economy) Hong Kong should particularly focus on in tariff negotiations under the respective FTAs.

Rules of Origin

9. The existing origin rules applicable to Hong Kong's domestic exports are based on the criterion of "last substantial transformation" (Note 6) and are applied for non-preferential purpose. To ensure that only goods originating from Hong Kong and the other party will benefit from the preferential tariff rates under the respective FTA to be negotiated, it will be necessary for both sides to agree on a set of origin rules to prevent circumvention.

10. Under the FTA negotiations, the two sides will seek to agree on a set of simple and transparent rules of origin to facilitate trade in goods between Hong Kong and the other party. It is envisaged that both sides will also draw up implementation details of the origin rules, including the documentation requirements for products to substantiate claim of origin and preferential tariffs on importation, with an aim of encouraging trade in goods between the parties.

Views sought: we invite views on the origin rules under the FTA with Georgia and Maldives respectively as well as the implementation aspects of such rules.

Trade in Services

11. Hong Kong's major services sectors include import and export trade, wholesale and retail trades (24.1% of GDP in 2014); public administration, social and personal services (17.2%); financing and insurance services (16.6%); real estate, professional and business services (10.9%); transportation, storage, postal and courier services (6.2%); and information and communications services (3.5%).

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

Views sought: we invite views on -

- (a) which services sectors and services measures of the two economies Hong Kong should particularly focus on in the services negotiations, e.g. whether there are any existing or foreseeable hurdles to the provision of services in these two markets; 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 these two markets.

We also welcome comments and inputs on other matters relating to services trade with these two economies.

Investment

13. Hong Kong will seek to create a more favourable investment environment to facilitate mutual investment flows with Georgia and Maldives.

Views sought: we invite views on improvements that should be sought from Georgia and Maldives to their policies on, and treatments of, investments from Hong Kong.

Other Elements of Negotiations

14. The two FTA negotiations will cover, among others, reduction of non-tariff barriers, improvement on the rules of trade remedy measures, simplification of customs facilitation procedures, legal and institutional matters and a simple mechanism for timely settlement of disputes. The proposed FTA with Georgia will also cover intellectual property rights, competition, environment and possibly e-commerce. The proposed FTA with Maldives will cover economic and technical cooperation on issues of mutual interests.

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

CONCLUDING REMARKS

15. We believe that the two FTAs concerned will bring economic benefits to Hong Kong, provide Hong Kong with better access to these two emerging markets, 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.

16. Interested parties are invited to send in their views and suggestions in writing by **6 June 2016** by mail, fax, or e-mail as indicated below. For enquiries, you are welcome to contact Miss Jessica MAK at 2398 5684 or email: fta@tid.gov.hk.

Mailing address:	Europe Division Trade and Industry Department Room 1325, 13/F Trade and Industry Tower 3 Concorde Road Kowloon City Hong Kong
Fax Number:	2789 9761 / 2789 2491
E-mail address:	fta@tid.gov.hk

Trade and Industry Department
The Government of the HKSAR
6 May 2016

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:

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

Note 3:

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.

Note 4 :

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

Note 5 :

Based on the latest average applied tariff rates on non-agricultural products as available in the World Trade Organization.

Note 6 :

The “last substantial transformation” criterion, when applied to manufactured goods involving multiple country/place materials and/or processing, refers generally to the manufacturing process (or processes) which has changed permanently and substantially the shape, nature, form or utility of the basic materials used in manufacture.