

**For discussion
on 19 February 2021**

**LEGISLATIVE COUNCIL
PANEL ON COMMERCE AND INDUSTRY**

**Implementation of the Free Trade Agreement and
Investment Agreement between Hong Kong, China and
the Association of Southeast Asian Nations**

INTRODUCTION

Hong Kong forged a Free Trade Agreement (FTA) and a related Investment Agreement (IA) with the Association of Southeast Asian Nations (ASEAN)¹ in late 2017. The agreements have gradually entered into force since June 2019 and taken effect in full on 12 February 2021². This paper updates Members on the implementation of the agreements since their entry into force.

Economic and Trade Relations between Hong Kong and ASEAN

2. Over the past 20 years, the economic and trade relationship between ASEAN and Hong Kong has grown tremendously. ASEAN is a very important trading partner of Hong Kong. In terms of trade in goods, overall speaking, ASEAN ascended from being Hong Kong's fifth largest trading partner in 1997 to the third place in 2007, and has become our second largest trading partner since 2010. In 2020, four of the ASEAN Member States (AMS) were among the top 10 trading partners of Hong Kong. They are Singapore (4th), Malaysia (7th), Viet Nam (8th) and Thailand (10th) respectively.

¹ ASEAN comprises Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam.

² The dates of entry into force of the FTA and the IA for the parties are as follows –

- Hong Kong, Laos, Myanmar, Singapore, Thailand and Viet Nam: 11 June 2019 (for FTA) and 17 June 2019 (for IA);
- Malaysia: 13 October 2019 (for FTA and IA);
- The Philippines: 12 May 2020 (for FTA) and 17 June 2019 (for IA);
- Indonesia: 4 July 2020 (for FTA and IA);
- Brunei Darussalam: 20 October 2020 (for FTA and IA); and
- Cambodia: 12 February 2021 (for FTA and IA).

3. Since the agreements started gradually entering into force in June 2019, the total value of merchandise trade between Hong Kong and ASEAN has grown correspondingly, reaching HK\$1,034 billion in 2020. It accounted for 12.6% of Hong Kong's total merchandise trade during the period, representing an increase of 0.5% as compared to 2019. Despite the overall decline in Hong Kong's total trade in goods with the world due to the global downturn brought about by the COVID-19 pandemic, the total merchandise trade between Hong Kong and ASEAN recorded an encouraging growth of 1.6%³. Positive growth was recorded in three AMS including Myanmar, Singapore and Viet Nam.

4. In terms of trade in services, total services trade between Hong Kong and ASEAN reached HK\$137 billion in 2018, increased by 7.7% year-on-year. In 2018, ASEAN accounted for 9.3% of Hong Kong's total services trade, making it our fourth largest trading partner in services. Five AMS were among our top 20 trading partners of services trade. They are Singapore (5th), Thailand (10th), Malaysia (13th), the Philippines (17th) and Indonesia (20th) respectively.

5. On investment, taken as a group, ASEAN was the sixth largest source of external investment in Hong Kong, with its inward direct investment (DI) in Hong Kong amounted to HK\$559.7 billion at end-2019. According to a survey conducted by InvestHK from June to September 2020 covering some 9 000 companies in Hong Kong with parent companies located outside Hong Kong, there were 61 regional headquarters, 136 regional offices and 443 local offices in Hong Kong with parent companies located in ASEAN.

6. At the same time, ASEAN has also been an attractive investment location for Hong Kong enterprises. ASEAN was the fourth largest destination of Hong Kong's outward DI, amounting to HK\$535 billion at end-2019. By individual economy, five AMS (namely Singapore, Thailand, Malaysia, the Philippines and Viet Nam) were among the top 20 largest recipient countries of investment from Hong Kong.

³ Hong Kong's total merchandise trade recorded a year-on-year decrease of 2.5% with the world in the same period.

DEVELOPMENTS SINCE THE ENTRY INTO FORCE OF THE AGREEMENTS

7. The agreements are comprehensive in scope, encompassing trade in goods, trade in services, investment, economic and technical cooperation, dispute settlement mechanism and other related areas. They bring legal certainty, better market access, as well as fair and equitable treatment in trade and investment, further facilitating trade and investment flows between Hong Kong and ASEAN and assisting our traders to explore new business opportunities in ASEAN.

Trade in goods

8. Under the FTA, AMS commit to progressively eliminate or reduce their customs duties on goods originating from Hong Kong. Hong Kong enterprises in export trade can benefit from the progressive reduction of duties. AMS' commitments of tariff reduction cover different kinds of commodities of interest to Hong Kong enterprises, including apparel and clothing accessories, precious metal and jewellery, as well as food and beverages, etc.

9. To enjoy the preferential tariff treatment, Hong Kong traders have to comply with the relevant preferential rules of origin, and to apply for Certificates of Hong Kong Origin – Form AHK (CO(Form AHK)) from the Trade and Industry Department (TID) or one of the Government Approved Certification Organizations (GACOs)⁴ to cover the goods concerned. As at 31 December 2020, a total of 183 CO(Form AHK) have been issued. The total export value of the goods concerned amounted to more than HK\$26.7 million, and the major categories of products were food and beverages as well as metal products.

Trade in services

10. Service providers of Hong Kong can enjoy better market access and legal certainty in a wide range of services sectors as committed by

⁴ The five GACOs are the Hong Kong General Chamber of Commerce; the Federation of Hong Kong Industries; the Chinese Manufacturers' Association of Hong Kong; the Chinese General Chamber of Commerce; and the Indian Chamber of Commerce, Hong Kong.

AMS under the FTA. Individual AMS have also made commitments on Hong Kong's competitive services sectors which have not been offered to open by AMS before under the World Trade Organisation. There are also a number of liberalisation commitments in respect of local investment regimes.

11. Besides, the FTA will also facilitate the movement of persons in terms of temporary stay and entry for business purposes. Business visitors, intra-corporate transferees, contractual services suppliers and independent specialists/experts/professionals will be granted temporary entry in accordance with the commitments of individual parties.

12. The service industry of Hong Kong as a whole will benefit from the FTA because AMS has made commitments in a large number of services sectors where Hong Kong has competitive edges and room for further development. Given the short time span since the entry into force of the FTA amongst different AMS, coupled with the impact brought about by the COVID-19 pandemic, the immediate benefits as transpired from the FTA may not be obvious for the time being. We will continue to provide the necessary support and assistance for our service industry and encourage the trade to leverage the FTA to explore the ASEAN market with a view to capitalising on the tremendous potential brought about by the post-pandemic economic recovery.

Investment

13. The IA complements the FTA by providing Hong Kong investors with non-discriminatory treatment of investments in non-services sectors and protection of investments in all sectors in respect of their investments in ASEAN. Such protection includes fair and equitable treatment; compensation in case of expropriation; non-discriminatory treatment in compensation for investment losses or damages owing to war, armed conflict, civil strife, or similar events; and free transfer of investments and returns. These measures provide legal certainty for investments and help facilitate investment flow between the two places. We will continue monitoring development in light of the effects brought forth by the entry into force of the IA by all AMS in full.

Economic and Technical Cooperation (ECOTECH)

14. The FTA comprises a chapter on ECOTECH which aims to enhance the benefits of the FTA through capacity building and technical assistance. Both sides agreed to conduct ECOTECH activities in five priority areas, namely customs cooperation, professional services, small and medium enterprises (SME) cooperation, trade facilitation/logistics and e-commerce cooperation. The continued collaboration between ASEAN and Hong Kong on ECOTECH will reinforce our close and amicable trade and economic cooperation in the long run. In August 2020, first batch of the ECOTECH projects submitted by Hong Kong, Laos, Myanmar and Thailand respectively were approved covering different areas including customs cooperation, professional services, SME cooperation and trade facilitation/logistics.

15. Further details of the agreements, including the full texts, are available at TID's website (<http://www.tid.gov.hk>).

PROACTIVE ENGAGEMENT WITH LOCAL ORGANISATIONS AND ASEAN

16. The agreements not only secure better market access and greater legal certainty in trade and investment for Hong Kong enterprises, they also play an instrumental role to enhancing positive engagement at various levels between Hong Kong and ASEAN, especially following the entry into force of the agreements since June 2019. Key areas of work are highlighted below –

- The Secretary for Commerce and Economic Development (SCED) represented Hong Kong to attend two high-level meetings with ASEAN Economic Ministers to exchange views on trade and economic matters. At the meeting held in August 2020 via videoconference, Economic Ministers expressed deep concerns over the COVID-19 pandemic and acknowledged the importance of having collective action and regional cooperation in the economic recovery process. These formed a solid foundation for Hong Kong and ASEAN to join hands to combat the virus and ride over the challenges unitedly.

- The Director-General of Trade and Industry attended a videoconference meeting with ASEAN Senior Economic Officials in July 2020 to keep track of the development of the agreements to ensure smooth implementation. Hong Kong also hosted the first meeting of the ASEAN – Hong Kong, China Free Trade Area Joint Committee in August 2019 which served a pivotal role to build up a platform for close and effective dialogue on implementation issues of the agreements with AMS.
- As one of the major initiatives for closer engagement with AMS, the Bangkok Economic and Trade Office (ETO) in Thailand was set up in February 2019. This is the third ETO in ASEAN, after Singapore and Jakarta in Indonesia, to strengthen our commercial and trade relations with ASEAN. Since its inception, the Bangkok ETO has been establishing ties actively with, among others, the ASEAN economies under its purview, including Cambodia, Myanmar and Thailand. Besides, the three ETOs in ASEAN continue to reach out extensively to government officials, business and other relevant sectors and organisations of AMS, to promote Hong Kong as a vibrant and international financial and trade hub as well as to keep them abreast of Hong Kong’s latest situation and economic development. In view of the COVID-19 pandemic, the ETOs have been making wider use of social media platform and other virtual means to promote Hong Kong.
- The Hong Kong Trade and Development Council (HKTDC) and the Hong Kong Tourism Board (HKTB) continue their efforts to step up promotion of Hong Kong in ASEAN. In July 2019, HKTDC organised a high-level business delegation to Thailand to better understand the country’s latest development, especially the investment opportunities in its Eastern Economic Corridor Development Plan. The HKTB continues to maintain Hong Kong’s exposure in ASEAN through consumer promotion and trade engagement. HKTB launched “Hong Kong is On” recovery campaign in December 2019 that featured airfare and package deals from airline and travel agent partners across Southeast Asia to entice consumers to make travel bookings to Hong Kong. Despite the global pandemic situation, HKTB Southeast Asia Office started a series of bi-monthly online

webinars in 2020 to share destination update with specific theme for over 700 industry partners in the Southeast Asia region.

- Our Principal Officials made frequent visits to AMS to maintain close ties and explore new opportunities prior to the global rampage of the COVID-19 pandemic. In November 2019, SCED led a high-level business and professional delegation to Malaysia and Thailand. During her visit to Thailand in November 2019, the Chief Executive signed a Memorandum of Understanding (MOU) between the Governments of the two places on strengthening economic relations. As one of the key cooperation areas in the MOU, the two sides agreed to pursue exploratory talks on negotiating a bilateral FTA.
- All AMS are also economies along the Belt and Road (B&R). The closer ties forged by the agreements has enhanced Hong Kong's role as the prime platform and a key link for the B&R Initiative and catered for our strategy to tap the relevant business opportunities. For instance, over 800 government officials, entrepreneurs and professionals from AMS had registered to attend the 5th Belt and Road Summit held from 30 November – 1 December 2020. Furthermore, under the Innovation and Technology Inventions Experience Sharing and Business Promotion Platform set up in June 2020, the Government jointly organised three webinars with Indonesia, Malaysia and Thailand respectively from June to September 2020, at which experiences and insights on the economic, trade as well as innovation and technology fronts, etc., were shared.

17. Domestically, TID spares no efforts to assist Hong Kong enterprises to reap the benefits and gain access to the ASEAN market. To help Hong Kong enterprises capture the business opportunities brought about by the agreements, TID has extended the geographical coverage of the Dedicated Fund on Branding, Upgrading and Domestic Sales to provide financial support to assist Hong Kong enterprises in exploring and developing the ASEAN markets, in addition to the Mainland, since August 2018. As at end December 2020, some 470 applications targeting ASEAN markets have been approved with funding amount reaching HK\$295 million.

18. Besides, since the announcement of the conclusion of the agreements, TID has organised and participated in some 30 seminars and briefings in Hong Kong to introduce the key benefits of the agreements to major local chambers of commerce, foreign chambers of commerce, and industrial and trade organisations. TID has also established enquiry telephone hotlines and email service to handle enquiries on the agreements.

NEXT STEP

19. Hong Kong has signed eight FTAs with 20 economies. With the coming into force of the FTA between Hong Kong and ASEAN in full, all the four FTAs signed in the current term of the Government, namely with Macao Special Administrative Region, Georgia, ASEAN and Australia, have taken effect. The Government will continue to promote the FTAs to the business community so as to facilitate their full realisation of the benefits of the preferential treatments under the FTAs, including organising trade seminars to provide up-to-date information; promoting SME support measures (such as the SME funding schemes) to assist the business sectors in exploring and opening up the ASEAN market; organising trade missions to tap the emerging business opportunities; conducting visits to AMS and hosting visiting delegations to establish close contacts with relevant trade officials.

20. Looking ahead, we will continue our efforts to forge new FTAs on a regional level as well as with individual economies to expand Hong Kong's economic and trade network. On the regional level, Hong Kong is well placed to seek accession to the Regional Comprehensive Economic Partnership (RCEP)⁵. To this end, the Government has indicated at various levels and on different occasions, as early as in 2018, to RCEP participating economies our keen interest in joining RCEP, and we are encouraged by their positive responses that Hong Kong can negotiate our accession after RCEP enters into force. We will continue to actively engage individual RCEP participating economies for commencement of discussions on Hong Kong's accession, with the aim of joining RCEP early after its entry into force. On a bilateral level, we will continue to push

⁵ RCEP comprises ASEAN and its five FTA partners (viz. Mainland China, Australia, Japan, Korea and New Zealand).

ahead our exploratory talks on the FTA with Thailand, with a view to establishing by 2021 a workplan for negotiations.

ADVICE SOUGHT

21. Members are invited to note this paper.

**Commerce and Economic Development Bureau
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