



AUSTRALIA-HONG KONG

FREE TRADE AGREEMENT

Why is the Australian Government pursuing a free trade agreement with Hong Kong?

Australia and the Hong Kong Special Administrative Region of the People's Republic of China are natural partners with highly complementary economies and a shared interest in the economic prosperity of the region. Concluding a free trade agreement (FTA) would tie the two economies even closer and underpin a growing relationship for many years to come.

Hong Kong is Australia's fifth largest source of foreign investment and sixth largest services trading partner. In 2015-16, Australia's total services exports to Hong Kong were valued at \$2.4 billion. Australia's principal services exports to Hong Kong were transport (\$600 million), tourism (\$550 million), education (\$490 million), financial services (\$190 million) and other business services (\$340 million). Hong Kong was Australia's sixth largest destination for goods exports (\$8.9 billion) in 2015-16.

Hong Kong is Australia's leading business base in East Asia. Over 600 Australian businesses, including the four major banks, have offices there.

People-to-people links are significant. Over 100,000 Australians live in Hong Kong and around 96,000 people born in Hong Kong now live in Australia.

Why is an FTA needed?

Australia's trade relationship with Hong Kong is currently governed by Hong Kong's obligations under the World Trade Organization (WTO) Agreement. Hong Kong's WTO commitments on market access on goods, services or investment are much less open than its current, more liberal market settings. This means it would be legally possible for Hong Kong to adopt more restrictive policies, prejudicing Australian commercial interests (and those of any other party with whom it does not have a preferential relationship). For example, although Hong Kong currently maintains a tariff-free import regime, it has the capacity to increase tariffs to any level on many Australian products without breaching its WTO commitments.

An FTA would:

- deliver a guarantee to Australian business that Hong Kong's relatively open services and investment regime would remain that way, and
- ensure that Hong Kong could not apply any tariffs to Australian goods exports in the future.

An FTA with Hong Kong could also:

- provide guaranteed access to Hong Kong's government procurement market;
- improve conditions for services and investment;
- reduce the risk of Hong Kong imposing additional administrative requirements for the recognition of qualifications, skills and licensing or new barriers to the movement of skilled labour;
- ensure digital trade remains free of barriers; and

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More information on the Australia-Hong Kong Free Trade Agreement is available at www.dfat.gov.au/a-hkfta



Australian Government



- incorporate commitments by Hong Kong to minimise requirements relating to local presence, local content and residency. These requirements could inhibit Australian businesses – especially individuals and small to medium enterprises – seeking to operate in the Hong Kong market.

What could Australia's objectives be?

Australian negotiators would seek to conclude a high quality, comprehensive FTA to take the bilateral trading relationship to the next level. Key objectives could include the elimination or reduction of discriminatory barriers faced by Australian exporters and investors in the Hong Kong market, and the creation of greater legal certainty for Australian businesses. An in-built agenda to review the working of the FTA would form the basis for future liberalisation of bilateral trade and investment.

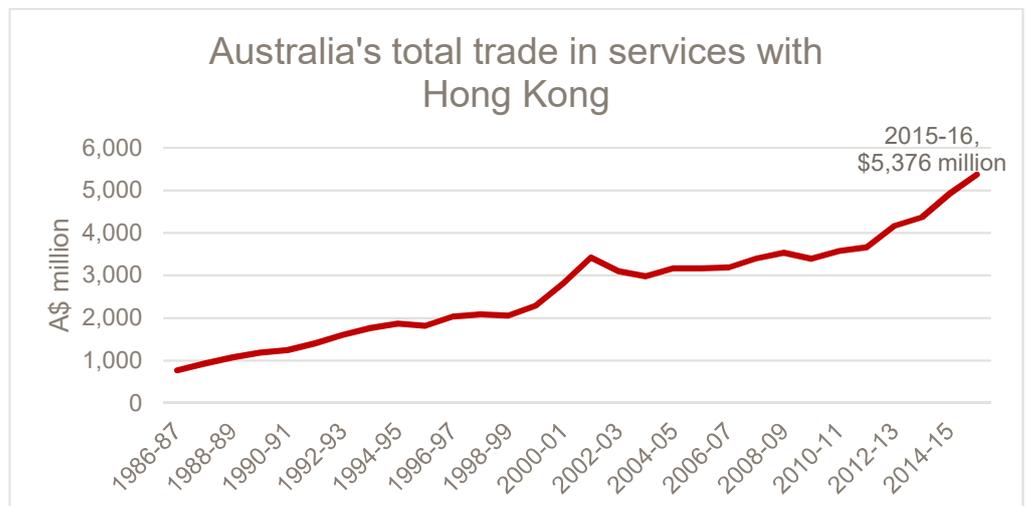


Goods

Australian merchandise exports to Hong Kong range from seafood to telecom equipment, beauty products to gold. Hong Kong does not currently apply import tariffs on Australian exports. Australia is seeking a commitment that Hong Kong will maintain its zero tariff regime. By addressing non-tariff measures and streamlining customs procedures, an FTA could deliver improvements to the trading environment, resulting in smoother and simpler bilateral transactions.

Services

Hong Kong is a global finance and business centre. Services trade between the two economies has been strong, with Australian exports growing at 8 per cent between 2010-11 and 2015-16. Australian negotiators could seek to build upon this services



growth by securing non-discriminatory access to the Hong Kong market, creating greater regulatory certainty and automatically capturing future unilateral liberalisation.

Investment

The FTA could update existing bilateral investment arrangements by creating new investment opportunities and a regulatory environment that promotes stability and certainty for investors, while safeguarding the Australian Government's ability to regulate for legitimate public welfare reasons, including public health and national security measures.

Ease of doing business

Getting the rules right assists businesses trade internationally. Through the FTA, Australia could seek to address such elements as: temporary entry of business people; competition policy; digital trade (for example, e-commerce); protection of intellectual property; and transparency in rules and procedures.

Why is a bilateral FTA the best option?

Hong Kong is one of only a few economies in North Asia which does not have an FTA with Australia. A high quality, comprehensive FTA is the shortest route to strengthening Australia and Hong Kong's bilateral economic relationship. A bilateral FTA offers the best prospect of delivering outcomes across goods, services and investment that respond to contemporary challenges facing Australian business.

What other options have been considered?

Multilateral negotiations in the WTO Doha Round have not produced any new services trade outcomes in 15 years. The goods negotiations have only delivered sector-specific outcomes and general multilateral trade rules have been piecemeal. In the absence of multilateral trade negotiations on services, Australia and Hong Kong are among the 23 negotiating Parties to a 'plurilateral' Trade in Services Agreement (TiSA). However, TiSA negotiations have not yet concluded. More broadly cast than TiSA, a bilateral FTA with Hong Kong offers the prospect of delivering outcomes for Australia across the spectrum of our trade and investment interests.

Regional FTA negotiations including Hong Kong are a distant prospect. Hong Kong is not a signatory to the Trans-Pacific Partnership Agreement (TPP – not in force) and is not a Party to the ongoing negotiations for a Regional Comprehensive Economic Partnership (RCEP). Proposals for a Free Trade Area of the Asia-Pacific (FTAAP) that could include Hong Kong and Australia are under consideration.

No action on an FTA with Hong Kong would continue exposing Australian business to the risk that Hong Kong could start applying tariffs above zero to Australian exports. Hong Kong could also amend its policy settings effectively creating barriers for Australian services exporters. No action would mean Australian service providers and investors would miss out on the prospect of new rules facilitating trade and investment and the attendant competitive advantage this provides.

Who will be consulted and how?

The Department of Foreign Affairs and Trade (DFAT) leads Australia's whole-of-government negotiations on the Australia – Hong Kong FTA. Australia's negotiating positions are determined, in part, through input provided by stakeholders. Stakeholders are invited to express their views through public meetings, industry specific consultations, or written submissions. DFAT is particularly interested in details of specific impediments to trade and investment that the FTA could address. Further



information on the Australia – Hong Kong FTA, including updates on negotiations and how to make a submission or submit a query, is available at www.dfat.gov.au/a-hkfta.

Requests for additional information can be made by email to: a-hkfta@dfat.gov.au

How are FTAs implemented?

In line with Australia's treaty-making processes, once agreed, an FTA with Hong Kong would be tabled in Parliament. The Joint Standing Committee on Treaties (JSCOT) would then conduct an inquiry into the FTA and report back to Parliament. Parliament would consider any legislation or amendments to existing legislation that may be necessary to implement an agreement.

