



Hong Kong General Chamber of Commerce
香港總商會 1861

香港總商會
香港金鐘道統一中心廿二樓
Hong Kong General Chamber of Commerce
22/F United Centre,
95 Queensway, Hong Kong
Tel (852) 2529 9229
Fax (852) 2527 9843
Email chamber@chamber.org.hk
www.chamber.org.hk

REGIONAL TRADE AGREEMENT WITH MAINLAND, NOT PREFERENTIAL TREATMENT

Christopher Cheng

China getting into the World Trade Organization is about the only piece of economic good news for Hong Kong in recent months. And it is one piece of news that has long-term implications for China and Hong Kong. For the past two years, Hong Kong businesses have been looking at their business plan, looking at China's WTO commitments, and looking at new challenges. They know that doing business in China will undergo major changes in a fundamentally new rule-based business environment. This is all very positive and very healthy, but increasingly, some unhealthy tendencies are cropping up.

I am talking about the loud voices by some Hong Kong businesses asking Central and provincial and local officials to grant "special preferential treatment" to Hong Kong companies. These voices are fueled by newspapers which have a less than complete understanding of what WTO rules are. This is worrisome for a number of reasons:

- (1) It reveals a lack of confidence, thinking that only through special preferential treatment can Hong Kong companies compete in the Mainland. One could consider this an insult to the many Hong Kong companies which have succeeded in China in past years through hard work and not short-cuts or "preferences".
- (2) It puts unwarranted pressure on the SAR government to obtain special favors that are not allowed under WTO and side-tracks the SAR government from concentrating on genuine, legitimate and much needed efforts to help Hong Kong businesses in China.
- (3) It puts unwarranted pressure on the Central government for favors that are not allowed under WTO rules, causing problems for China with other WTO members who are watching carefully Chinese compliance with WTO rules.

- (4) It adds pressure on the Central government that is already going to have a difficult time ensuring uniform observation of the new rules by cities and provinces in China.
- (5) It creates a bad impression of Hong Kong businesses in the mind of Chinese officials and foreign officials/businesses who are going to be annoyed at some Hong Kong companies' constant request for "special favors."

Clearly, the call for preferential treatment not in keeping with WTO rules should be rejected. But this does not mean the Hong Kong government cannot help Hong Kong businesses when it comes to doing business on the mainland. What about the concern in Hong Kong that our companies may have trouble competing with multinationals on a level playing field? What about the request for the Hong Kong government to at least provide the same sort of boost that foreign governments give to their businesses in China? What about timely information on mainland trade policies for Hong Kong businesses? How can the SAR government help? We have several suggestions:

- (1) **Immediately begin discussions with China, as two separate WTO members, on a mutually beneficial, reciprocal regional trade agreement (RTA)—this is allowable under WTO rules.** We are happy to hear that the SAR government finally is moving forward and has approached the Central government with a proposal to explore this idea. Premier Zhu Rongji has indicated that China would like to negotiate a regional trade agreement with ASEAN. Hong Kong is negotiating a regional trade agreement with New Zealand, and almost all of the 144 WTO members are included in some sort of regional trade agreement—also called sometimes a "free trade agreement", with the most well-known being EU and NAFTA—with the latter consisting of USA, Canada, and Mexico.

While many RTAs deal with tariff reduction on goods, the emphasis in our regional trade agreement should be on early liberalization of China's service sectors, ahead of the time schedule of China's WTO sector-specific concessions. In other words, Hong Kong would get some time advantage, but this presupposes that we start immediately with a dialogue with Beijing. China would benefit by an early test with a gradual opening to get ready for the formal WTO-mandated opening date. China

could also negotiate some additional access to Hong Kong for its businesses. The SAR government had been reluctant to approach Beijing with this idea. But we believe that given the recent cries for WTO-violating preferential treatment, and given the recognition many Hong Kong companies do suffer a disadvantage in certain sectors, a regional free trade agreement with Hong Kong might be welcomed by Beijing as a way to “help” Hong Kong, as well as benefiting China. This RTA, of different content, can even be extended to include Taiwan in the future.

- (2) **Increase the quantity and improve the quality of the dialogue with Beijing on trade policies and on identifying business opportunities in China.** To continue to help international SMEs wanting to access the post-WTO China market, Hong Kong middlemen need to have the latest policy and business information. Instead of fixed-time meetings, this dialogue of SAR and Central government officials should take place continuously. There should be no worry that economic closeness interferes with “one country, two systems.” TDC and the chambers are doing their part, but the SAR Office in Beijing and the pending one in Guangzhou need to step up the economic liaison and information efforts. A China business policy information office needs to be set up in the government itself right here in Hong Kong. Our SMEs will benefit the most.

- (3) **Begin closer coordination with Guangdong and Shenzhen officials on economic and investment policies**—the only caveat is that we realize dialogue with Hong Kong often is managed not just at the provincial level. Hong Kong should begin to move quickly down the route of Pearl River Delta integration. Anything from border control and transportation facilitation, to environment protection, to infrastructure planning, to technology development, to labor movement, to education and social issues should be discussed with Guangdong authorities on a continuous basis. Hong Kong’s future lies in being the center of a Pearl River Delta commerce area, and that cannot be done in isolation with protectionist policies or with procrastination.

Time is of essence as China is expected to develop rapidly after entry into WTO. Hong Kong risks being left behind not enjoying the fruits of China’s gain. To ensure beneficial economic integration, a reciprocal regional free trade agreement would be a useful tool to start with. We admit there are many technical difficulties for such an

agreement and it may even not be feasible, but our sense is that the Central government has been generally open-minded on SAR economic initiatives. Let us stop pestering the SAR government and the Central government and local governments for WTO-violating “special preferential treatment”. Instead, let us get on with a fast-paced discussion with Beijing on the mutually beneficial idea of a regional trade agreement.

Christopher Cheng is Chairman of the Hong Kong General Chamber of Commerce