

30 July, 2014
Our Ref: CC113

Mr Kenneth Mak
Director-General of Trade and Industry
Trade and Industry Department Tower
700 Nathan Road
Kowloon

Dear Kenneth

**Free Trade Agreement between
Hong Kong and the Association of Southeast Asian Nations**

The Hong Kong Coalition of Service Industries (“HKCSI”) welcomes the commencement of the Government’s negotiation of a Free Trade Agreement (“FTA”) with the Association of Southeast Asian Nations (“ASEAN”). Having an FTA with Hong Kong’s second largest trading partner in terms of goods and fourth largest in terms of services will definitely boost our economic growth and create more job opportunities, considering the benefits generated from the closer economic relationship.

2. The failure to move aggressively forward with trade and investment liberalisation under the auspices of the World Trade Organisation has led to a proliferation of regional FTAs. China has actively pursued such arrangements, and Hong Kong needs to do the same, or risk being left behind.

3. Our strengths lie in simple and efficient documentation procedures, international standard professional services, a reliable legal system, flexibility of SMEs and our experience and close relationship with the Mainland. Such strengths would be better and more fully utilized with the signing of the FTA. We certainly would like to see Hong Kong maintaining its leading position in this role.

4. Hong Kong’s free port status and ease of customs procedures have made us a transshipment hub for Mainland China and neighbouring jurisdictions. ASEAN is Hong Kong’s second largest trading partner in goods, and the SAR’s fourth largest export market. More than 13% of trade between the Mainland of China and ASEAN is routed through Hong Kong’s port.

5. Under the ASEAN-China Free Trade Agreement, tariffs on Made-in-China products sold into ASEAN member economies fall from 12.8% to 0.6%, while those flowing from ASEAN to China fall from 9.8% to 0.1%. Unless Hong Kong is a member of this FTA, products moving between ASEAN and China via our port may be taxed at the higher rate. Further, under the FTA agreement, goods moved from China to ASEAN (and vice versa) cannot be “substantially transformed” in Hong Kong, reducing our role in this trade.

6. At present, since Hong Kong is not included in any ASEAN related FTAs, we are losing business to our ASEAN trading partners, the Mainland and other markets where trade agreements now exist. Hong Kong has been serving as a regional distribution centre ever since its establishment as a trading port, and our middleman role of splitting consignments into smaller orders for our neighbours provides opportunities for our many SMEs. The continued growth in trading business is no doubt crucial for the survival of the majority of SMEs whose core business is trading. Therefore, it is imperative that discussions be brought to a successful conclusion as soon as possible.

7. In our immediate hinterland, other than the FTA between China and ASEAN, there have been regular discussions between ASEAN and the “Plus 3” countries of China, Japan and South Korea whereby measures to reduce tariffs and streamline trade procedures are ongoing. Discussions to widen the geographical scope under the Regional Comprehensive Economic Partnership to Australia, India and New Zealand are also underway.

8. Liberalizing trade in services, protection of intellectual property rights, promoting and protecting foreign investment and access to the proposed FTA’s dispute resolution mechanism are key concerns for companies based in Hong Kong. Among the sectors where reductions in tariff rates have the largest impact are garments, furniture, footwear, ceramics, transportation equipment such as automobile parts and electric and electronic machinery and consumer goods. Hong Kong investors in both China and ASEAN are significant players in many of these industries, and would greatly benefit from the certainty arising from Hong Kong’s full participation in the FTA.

9. Full access to the Mekong River Basin (“MRB”) development programme is another promising opportunity for Hong Kong companies. Major infrastructure projects in transportation, sanitation, water supply and electric power are in the planning stages. The MRB Commission is actively looking for private funding, which is one of Hong Kong’s major strengths. Additional opportunities will arise as development of the East-West Economic Corridor (“EWEC”) progresses. As well as the commercial considerations, the EWEC canal, linking the Bay of Bengal and South China Sea, will likely attract passenger cruise ships.

10. We understand that the ASEAN countries are aiming for an ASEAN Economic Community by 2015 to achieve economic integration among member states. Bringing Hong Kong into partnership with such an important arrangement would be of mutual

benefits to all. Negotiations should cover areas such as customs procedures and regulations, transportation barriers, tariffs, common documentation and goods inspection procedures, and a common classification of goods. We would also highlight the importance of fair and transparent treatment of financial services, and the continual need to safeguard intellectual property rights.

11. As service industries account for over 90% of our GDP, trade in services should be an important feature in the Hong Kong - ASEAN FTA. We believe that the FTA would have significant economic benefits for Hong Kong. It would also strengthen our role as an international trade, commerce and financial centre.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Leland Sun', with a stylized, cursive script.

Leland Sun
Chairman