

## Letter to SCMP Editor: Two-way Benefits of CEPA

The article “*Hong Kong too greedy in trade talks*” and editorial “*Economic integration is a two-way street*”, both in the March 11 issue of SCMP, reveal a lack of understanding of regional trade agreements and the WTO framework under which CEPA (the Closer Economic Partnership Arrangement between Hong Kong and the Mainland) is now being negotiated.

CEPA will be a regional trade agreement between two WTO members. The Hong Kong General Chamber of Commerce has emphasized repeatedly that CEPA must abide by WTO rules and principles. One of the fundamental principles is mutual benefit. So CEPA cannot be, as your report implies, a one-way street. It must by nature benefit both sides; however, the benefits need not be symmetrical and matching item-by-item.

True, if indeed early liberalization is allowed, Hong Kong will benefit from early liberalization of some service industries, but at the same time it will take on the “risk” of early exposure to the myriad of problems that now plague China’s WTO implementation – the complex regulatory practices in the Mainland’s service industries, for instance.

Already, many such problems are being identified in the ongoing “Transitional Review Mechanism” of the WTO. By allowing China to pilot-test market openings and gain regulatory experience, CEPA will benefit China by contributing to China’s capacity building in WTO implementation.

It should also be remembered that there is a new round of trade negotiations going on in the WTO. China being a newly joined member, there will be increasing pressure for the country to make further concessions. Again, CEPA provides the mechanism for China to “test flight” these issues without acceding to them in the multilateral context until it is ready.

Similarly, experience gained from CEPA will help China negotiate similar trade arrangements with other WTO countries—and China is already committed to negotiating a much more complex free trade agreement with ASEAN countries.

These benefits may appear “macro” in nature, but CEPA will bring considerable concrete benefits as well – an increase in foreign direct investment from the potentially large sector of service-industry SMEs, for instance. There is also the opportunity for more export to third countries, as well as greater access for China’s own service sectors in professional and business services, education, culture, entertainment and related industries.

A final point to remember: All such trade agreements in the world essentially are political agreements rather than economic agreements—e.g., NAFTA between Canada, United States, and Mexico. No one can say benefits in that agreement are absolutely symmetrical either.

If one thinks less narrowly and less tit-for-tat, one will not believe the myth that Hong Kong has everything to gain from CEPA and the Mainland has little to gain.

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