

LCQ13: Regional Comprehensive Economic Partnership Agreement

Following is a question by the Hon Chan Chun-ying and a written reply by the Secretary for Commerce and Economic Development, Mr Edward Yau, in the Legislative Council today (January 13):

Question:

A total of 15 countries such as China and the ten ASEAN states signed the Regional Comprehensive Economic Partnership Agreement (RCEP) in November last year, with an aim to promote regional economic integration and progressively attain an overall tariff abolition rate of 91 per cent. The Financial Secretary has stated that the Government will strive to make Hong Kong one of the first batch of economies joining RCEP after it takes effect. In this connection, will the Government inform this Council:

- (1) of the concrete plan and timetable for spurring Hong Kong's joining RCEP;
- (2) whether it has assessed the opportunities and challenges that joining RCEP may bring to Hong Kong; if so, of the details; if not, the reasons for that;
- (3) given that the RCEP signatories, for the sake of complying with the rule of "direct consignment" so as to enjoy tariff reduction, may avoid transshipment of goods through a third place that is not a RCEP signatory, whether the Government has assessed the impact of such situation on Hong Kong's re-export trade; if so, of the assessment outcome; if not, the reasons for that; and
- (4) given that Hong Kong is the world's largest offshore Renminbi (RMB) business hub, whether the Government has plans to promote the use of RMB for trade settlements in Hong Kong among the importers and exporters of the RCEP signatories; if so, of the details; if not, the reasons for that?

Reply:

President,

Hong Kong has been a staunch supporter of trade and investment liberalisation. It actively seeks to forge Free Trade Agreements (FTAs) and Investment Promotion and Protection Agreements (IPPAs) with overseas economies to expand Hong Kong's economic and trade network, with a view to attaining preferential access to international markets for Hong Kong's goods, services, and investments, as well as assisting Hong Kong enterprises in market diversification to facilitate Hong Kong's participation in regional economic integration. So far, Hong Kong has signed eight FTAs with 20 economies and 22 IPPAs with 31 overseas economies. Hong Kong will continue

with its efforts to forge more of such agreements with individual economies as well as on a regional level. And on the regional level, Hong Kong is already well placed to seek early accession to the Regional Comprehensive Economic Partnership (RCEP).

Reply to the four parts of the question is as follows:

(1) and (2) Fifteen economies including Mainland China, the ten member states of the Association of Southeast Asian Nations (ASEAN), Australia, Japan, Korea, and New Zealand signed RCEP in November last year. It is the largest FTA in the world, covering about 30 per cent of the world's population and accounting for one-third of the global GDP. In 2019, the total trade between Hong Kong and the 15 RCEP participating economies amounted to US\$765.5 billion, accounting for 71 per cent of Hong Kong's total trade.

Joining RCEP is an important milestone for Hong Kong's further participation in regional economic cooperation, which will not only facilitate Hong Kong's further integration into the regional value chain and strengthen the economic, trade, and investment ties between Hong Kong and RCEP participating economies in the region and hence driving regional economic growth, but also bring benefits to Hong Kong's goods and enterprises under the relevant measures in RCEP such as tariff reduction, preferential market access, removal of trade barriers and simplified customs procedures, etc. It will lower the costs of trading and provide new business opportunities for Hong Kong's goods and enterprises to expand their markets in the region, thereby providing a momentous drive to global economic recovery in the post-pandemic era.

As highlighted in "The Chief Executive's 2020 Policy Address", as a major financial and trade centre and a logistics hub of the region, coupled with our high quality FTAs signed with 13 of the RCEP participating economies (i.e. Mainland China, ASEAN, Australia and New Zealand), Hong Kong is well placed to join RCEP.

The HKSAR Government indicated, as early as in 2018, to individual RCEP participating economies at various levels and on various occasions our keen interest in joining RCEP. In November 2019, when the text-based negotiations were concluded, the Secretary for Commerce and Economic Development (SCED) wrote to individual RCEP participating economies reiterating Hong Kong's interest to join RCEP, and received positive responses that Hong Kong's accession to RCEP could be facilitated in accordance with the relevant provisions set out in the Agreement after its entry into force. SCED wrote again to the participating economies after RCEP was signed end of last year to reiterate Hong Kong's interests in joining RCEP. The government is actively engaging individual RCEP participating economies for early commencement of discussions on Hong Kong's accession with the aim to be among the first batch of economies joining RCEP after its entry into force.

(3) According to the "Direct Consignment" clause (Note 1) under RCEP, an originating good must be transported directly from an exporting Party to an importing Party in order to enjoy the tariff preference. Nonetheless, it is

stipulated that the transportation of goods via non-Parties could be perceived as direct consignment between the importing and exporting Parties and enjoy relevant tariff preference, provided that the good has not undergone, save for under certain specified conditions, any further processing and remains under the control of the customs authorities in the non-Parties. The above-mentioned specified conditions include logistics activities such as unloading, reloading, storing, or any other operations necessary to preserve in good condition or to transport it to the importing Party. As RCEP has yet to enter into force, pending the completion of domestic procedures of the RCEP participating economies, the government is not in the position to assess the actual impact of the "Direct Consignment" clause on Hong Kong's trade at this stage.

Notwithstanding the above, since Hong Kong has already signed FTAs with 13 of the RCEP participating economies, the impact of the "Direct Consignment" clause under RCEP on Hong Kong's re-exports is expected to be limited.

In addition, the HKSAR Government has implemented the "Free Trade Agreement Transshipment Facilitation Scheme" (the Scheme) since 2015. The Scheme aims to facilitate cargoes passing through Hong Kong to enjoy preferential tariffs under the FTAs and preferential trade arrangements signed by Mainland China with other economies through the provision of customs supervision services and issuance of "Certificate of Non-manipulation" to certify that the cargoes have not undergone further processing during their stay in Hong Kong. At present, the Scheme covers 15 FTAs and preferential trade arrangements signed between Mainland China and other economies, including 14 RCEP participating economies (excluding Japan). The HKSAR Government will closely monitor the development of RCEP and explore the feasibility of extending the Scheme to cover RCEP, with a view to facilitating more cargoes passing through Hong Kong to enjoy relevant preferential tariffs.

(4) As Mainland China is the largest economy amongst the RCEP members, it is expected that RCEP would forge a conducive environment to promote cross-boundary Renminbi (RMB) trade settlement and investment, thereby elevating the level of RMB usage in the region. As the leading global RMB trade settlement centre, Hong Kong has been supporting various types of cross-boundary and offshore RMB trading activities, Hong Kong's offshore RMB financial and foreign exchange markets, as well as various mutual market access schemes, providing market participants with diversified options and convenient channels for their RMB risk management and financial investments. In the first 11 months in 2020, Hong Kong processed over RMB5,700 billion worth of RMB trade settlements, which is an increase of 20 per cent compared to the same period in 2019. Hong Kong also has the world's deepest offshore RMB liquidity pool of over RMB700 billion. The government will closely monitor the development of RCEP and continue with our efforts to further promote market development with a view to consolidating Hong Kong's position as a global hub for offshore RMB business.

Note 1: The relevant clause in the legal text reads, "[the good] has not

undergone any further processing in the intermediate Parties or the non-Parties, except for logistics activities such as unloading, reloading, storing, or any other operations necessary to preserve it in good condition or to transport it to the importing Party; and remains under the control of the customs authorities in the intermediate Parties or the non-Parties".