

Australia-Hong Kong Free Trade Agreement

Submission to: Australia-Hong Kong Free Trade Agreement, Office of Trade Negotiations, Department of Foreign Affairs and Trade

By: The Australian Chamber of Commerce in Hong Kong

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The Australian Chamber of Commerce in Hong Kong is pleased to submit this document to The Department of Foreign Affairs and Trade (DFAT) in response to the call by DFAT for written submissions on the potential opportunities and impacts of a Free Trade Agreement (FTA) with Hong Kong.

About AustCham Hong Kong

AustCham Hong Kong ("AustCham") is the largest Australian Chamber of Commerce globally outside of Australia and one of the largest of the international business chambers in Hong Kong. AustCham is a member of AustCham Greater China along with the Australian Chambers in Beijing, Shanghai and Southern China. AustCham has a large and diverse membership and is active in organising and hosting events, in advocacy, and in offering a range of other member services.

On 16 May 2017, AustCham was pleased to co-host, with the Hong Kong General Chamber of Commerce, a breakfast in Hong Kong attended by The Hon. Steven Ciobo, Minister for Trade, Tourism and Investment, Australia, and The Hon. Gregory So, Secretary for Commerce and Economic Development, Hong Kong Special Administrative Region, to officially launch negotiations in support of the Australia-Hong Kong FTA.

In Support of the Proposed Australia-Hong Kong FTA

AustCham strongly supports an Australia-Hong Kong FTA and it is an important initiative to further strengthen trade and investment ties between the two jurisdictions.

Australia presently has Free Trade Agreements with several countries including, in Asia, the China-Australia Free Trade Agreement, the Malaysia-Australia Free Trade Agreement, the Association of Southeast Asian Nations-Australia-New Zealand Free

Trade Area, the Australia-Thailand Free Trade Agreement, the Singapore-Australia Free Trade Agreement and the Australia-New Zealand Closer Economic Agreement.

The Free Trade Agreements that are already in place in Asia make sense for Australia at various levels, but particularly when viewed through the lens of Australia's desire to engage more closely with Asia and to be a key player in economic and political terms in the Asian Century. Establishing Free Trade Agreements and all that comes with them is not a costless exercise, however, and for Hong Kong the business case will need to be made to justify both to Australia and to Hong Kong that entering into a Free Trade Agreement is worthwhile in business and economic terms.

Australia has important and enduring interests in Hong Kong and Hong Kong is Australia's largest business base in East Asia. Australia's two-way trade in goods and services with Hong Kong is significant and has consistently been so over many years. Hong Kong is also an important source of foreign investment for Australia. Many students from Hong Kong are enrolled in Australian educational institutions. Tertiary courses are also offered by Australian institutions operating in Hong Kong, and several Australian and Hong Kong tertiary institutions have agreements for student exchanges and research collaboration.

Some 100,000 Australians live in Hong Kong. The Australian Chamber of Commerce in Hong Kong and Macau is the second-largest foreign business chamber in Hong Kong, and the largest Australian Chamber of Commerce outside Australia. The Chamber, together with organisations such as the Australian Association of Hong Kong, the Australian Chinese Association, CPA Australia, Engineers Australia, the Australian International School, the Federation of Australian Alumni Associations and a large number of alumni groups, help in promoting business networks and in deepening ties between Hong Kong and Australia.

Hong Kong's economy is dominated by the services sector and Australian service providers are actively engaged in banking, transport and logistics, employment consultancies, engineering, construction, aviation, architecture, accountancy, legal services, insurance, tourism, and retailing. Hong Kong's financial services sector is expected to grow further, in part because China has designated Hong Kong as an offshore renminbi centre. Hong Kong is a leading location for the listing and financing of and PRC companies as Hong Kong acts as a gateway for China to the rest of the world for renminbi trade and capital flows. China is implementing part of its strategy for developing and liberalising its services sector under the auspices of the Closer Economic Partnership Arrangement, a free trade agreement signed with Hong Kong in 2003 and extended several times since, under which qualifying foreign-owned companies can obtain preferential access to the Chinese market.

Strong people-to-people links, underpinned by an active dual-national community, continue to support and strengthen Australia's economic and cultural links with Hong Kong.

The strength in economic ties

Australia and Hong Kong have a longstanding and significant trading relationship. Hong Kong's investment in Australia ranges from infrastructure and telecommunications to banking, property development, transport, hospitality and agriculture¹. Australian businesses also have considerable trading and services ties with Hong Kong.

Hong Kong is Australia's 12th largest two-way trading partner (2015-16)², including being Australia's 6th largest destination for merchandise exports (A\$8.8 billion) and 7th largest destination for service exports (A\$2.3 billion)³.

Hong Kong is also the 6th largest source of foreign investment for Australia (A\$85.4 billion in 2015). This outranks direct investment from China into Australia (A\$74.5 billion in 2015)⁴, noting that many Chinese enterprises prefer to manage their outbound investments through Hong Kong. Importantly, there is room for growth. Based on Australia's International Business Survey 2016 ("AIBS 2016"), which captures responses from more than 900 Australian businesses undertaking international activities, Hong Kong is expected to be a key new market for the "Information, Communications and Technology" ("ICT") (ranked 7th) and "professional, scientific and technical services" (ranked 8th) sector, in terms of additional revenue expected over the next two years. This suggests that Australian businesses are seeing opportunities for increased technology intensive goods and service exports to Hong Kong. This is also consistent with a recent report on *"Australia's jobs future: The rise of Asia and the services opportunity"*⁵, which noted that service exports from Australia to Asia are underperforming relative to Australia's traditional partners and concluded that by employing the right strategies, services can become Australia's number one export to Asia in terms of total value added, creating jobs in the process⁶.

¹ Hong Kong Financial Secretary, Australian Consulate-General Australia Day Reception Address on 24 January 2017, http://www.news.gov.hk/en/record/html/2017/01/20170124_204510.shtml

² Refer Note 1

³ Australian Government Department of Foreign Affairs and Trade ("DFAT"), Trade and economic factsheet for Hong Kong, December 2016, <http://dfat.gov.au/trade/resources/Documents/hong.pdf>

⁴ Refer Note 2

⁵ ANZ/ PwC/ Asialink Business Services Report, *Australia's jobs future: the rise of Asia and the services opportunity*, April 2015, <https://www.pwc.com/asia-practice/assets/anz-pwc-asialink-apr15.pdf>

⁶ Commissioned by the Export Council of Australia ("ECA") with the support of Austrade and Export Finance and Insurance Corporation ("Efic"), <http://www.austrade.gov.au/ArticleDocuments/1358/AIBS-2016-full-report.pdf.aspx>

At the same time, innovation and technology development is high on the Hong Kong Government's policy agenda, and Hong Kong's Financial Secretary has expressed a desire to partner with Australia in this area⁷.

A FTA between Australia and Hong Kong would further strengthen the already strong economic and trading ties that exist between the two jurisdictions, and in particular, foster the provision of goods and services by Australian businesses. In fact, we consider that the FTA would create considerable opportunities to Australian business in the area of services. Australia has world leading professional services experience in the area of financial services, asset management, education and healthcare, amongst others. A FTA would ensure that there are no barriers or impediments to Australian businesses looking to provide such services in Hong Kong.

To highlight some of the specific areas that a FTA would assist Australian business in Hong Kong would include:

- **Asset Management:** Australia has particular expertise in the asset management sector, which represents an important part of the overall financial services sector in Australia. Australia is seen as a global market leader in the provision of traditional, pensions and regulated asset management products and there would be considerable opportunities to Australian asset managers in accessing the Hong Kong market. Some of the areas a FTA could address include the ability of Australian asset managers to market their investment products in Hong Kong; the authorization of funds; and the mutual recognition of asset management funds. The asset management business is regulated by the Securities and Futures Commission in Hong Kong and the FTA would need to facilitate the necessary changes required in order to enable Australian asset managers to further compete for business in Hong Kong.
- **Healthcare:** The medical profession in Hong Kong has considerable restrictions on the ability of overseas trained healthcare professionals to work in Hong Kong. The FTA should ideally provide for Australian qualified doctors and healthcare professionals to practice in Hong Kong. This could involve, for example, Hong Kong recognising certain medical and healthcare degree programs offered by Australian universities. The benefit would be that students that have studied and trained at the selected universities would be able to practice in Hong Kong following completion of their degree. Importantly, this would provide a much-needed pipeline of qualified and suitably trained medical professionals – as well as an exchange of specialist knowledge – in Hong Kong where medical services and doctors are severely under-

⁷ Refer Note 20

resourced. The two-way exchange of specialist experience would benefit both jurisdictions.

- Infrastructure: Australia is considered to have considerable expertise in the development of public private partnerships in the area of infrastructure construction and the financing of large scale infrastructure projects. A FTA should facilitate Australian businesses to participate and tender in Government infrastructure projects in Hong Kong.
- Education: The demand for education services in Hong Kong continues to increase year on year. International schools continue to look to Hong Kong to open up schools to serve the growing demand for an international education and there are a number of tertiary education providers that have opened up campuses in Hong Kong to cater to students in the local Hong Kong market. Australian schools and universities have international reputations of excellence and Australia is a popular country for Hong Kong families to send their children for their education needs. A FTA should ideally facilitate the ability of Australian education services providers to open up schools and campuses in accordance with the requirements of the Education Bureau.
- Professional qualifications - Certain jurisdiction-specific local qualifications particularly in the legal and accounting professions restrict the ability of Australian qualified professionals to work in their field in Hong Kong. A FTA may allow for easier market access by Australian law firms to establish practices, and for Australian lawyers to qualify by reducing the current onerous requirements in Hong Kong under the Law Society rules.
- Fintech: Hong Kong's Government has been actively promoting and allocating significant resources to the fintech industry in Hong Kong. As an international financial centre, Hong Kong has a tradition of entrepreneurship and such a unique position vis-à-vis China, which has one of the highest fintech adoption rates in the world. There is no doubt that the city can provide a good opportunity for Australian fintech businesses looking at entering the Asian region. To support the flow of innovation, Austrade and the Commonwealth Bank of Australia have signed a new collaboration agreement to help Australian businesses access the Hong Kong/Greater China market, as well as to support Hong Kong businesses coming to Australia. A FTA can facilitate the development of fintech as well as the emerging innovations and startups.
- CEPA: The complementarities between Australia and Hong Kong should be assessed so that companies might find opportunities that are complementary to their Australian home base. As part of the complementarity analysis, an analysis of the

potential benefits of CEPA in allowing Australian companies to access China should be undertaken.

Concluding remarks

AustCham strongly supports an Australia-Hong Kong FTA and it is an exciting and important initiative to further strengthen trade and investment ties between the two jurisdictions.

Australia and Hong Kong have a longstanding and significant trading relationship and there are also strong cultural links, underpinned by the number of Hong Kong people that have migrated to Australia and call Australia home, as well students that chose Australia as a place to study.

The FTA would demonstrate Australia's commitment to the existing economic relationship between Hong Kong and Australia and should facilitate increased trading and investment between the two jurisdictions. We would add a final comment that upon conclusion of FTA, we believe it would be important to then reach a Double Tax Agreement to further complement the FTA and facilitate the promotion of trading and investment between the two jurisdictions.

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