

立法會
Legislative Council

LC Paper No. CB(1)2396/02-03
(These minutes have been seen
by the Administration and
cleared by the Chairman)

Ref: CB1/PL/CI/1

Panel on Commerce and Industry

**Minutes of special meeting
held on Monday, 30 June 2003, at 10:45 am
at the Legislative Council Chamber**

- Members present** : Hon Kenneth TING Woo-shou, JP (Chairman)
Hon HUI Cheung-ching, JP (Deputy Chairman)
Dr Hon LUI Ming-wah, JP
Hon NG Leung-sing, JP
Hon Mrs Selina CHOW LIANG Shuk-ye, GBS, JP
Hon CHEUNG Man-kwong
Hon CHAN Kam-lam, JP
Hon Mrs Sophie LEUNG LAU Yau-fun, SBS, JP
Hon SIN Chung-kai
Hon MA Fung-kwok, JP
- Non-Panel Members attending** : Hon CHAN Yuen-han, JP
Dr Hon Philip WONG Yu-hong
Hon LI Fung-ying, JP
- Member absent** : Hon Henry WU King-cheong, BBS, JP
- Public officers attending** : **Item I**

Mr Antony LEUNG
Financial Secretary

Mr Henry TANG
Secretary for Commerce, Industry and Technology

Miss Denise YUE
Permanent Secretary for Commerce, Industry and
Technology (Commerce and Industry)

Mr Raymond YOUNG
Deputy Secretary for Commerce, Industry and
Technology (Commerce and Industry)

Mr Kevin HO
Director-General of Trade and Industry

Clerk in attendance : Miss Polly YEUNG
Chief Assistant Secretary (1)3

Staff in attendance : Mr TSANG Siu-cheung
Senior Assistant Secretary (1)7

Ms Sharon CHAN
Legislative Assistant 6

Action

I Briefing on the Mainland and Hong Kong Closer Economic Partnership Arrangement
(LC Paper No. CB(1) 2101/02-03(01))

The Chairman informed members that the purpose of the special meeting was to enable the Administration to brief members on the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) which had just been signed with the Mainland. The Financial Secretary (FS) advised that the CEPA was consistent with the rules of the World Trade Organization (WTO) and the principle of “one country, two systems”. He stressed that while consolidating Hong Kong’s status as an international financial, commercial and trade centre, the CEPA could facilitate the development of local industries in the high value-added direction and promote economic restructuring. Citing the manufacturing sector as an example, he believed that the introduction of zero tariff would attract more businesses to establish production bases in Hong Kong, which would further improve and upgrade the local economic regime. Moreover, it was expected that the CEPA would also benefit many other sectors, such as accounting services, tourism and banking, in addition to the manufacturing sector. On the whole, the CEPA could provide a useful platform for the economic and trade development of Hong Kong and the Mainland. It would also permit Hong Kong companies and service providers earlier access to the Mainland market.

FS supplemented that instead of being the end product, the CEPA marked the starting point of further bilateral economic and trade exchanges between both places. The details and related support measures, such as the rules of origin for goods and the monitoring mechanism concerned, required further consideration and discussion in future. The Administration undertook to consult the industries extensively during its further discussion with the Mainland.

2. With the aid of PowerPoint, the Secretary for Commerce, Industry and Technology (SCIT) briefed members on the specific contents of the CEPA, details of which were set out in the information paper provided by the Administration.

Publicity activities for the CEPA

3. Mrs Selina CHOW considered that the CEPA could facilitate the repositioning of industries, create more business opportunities in the Mainland market for Hong Kong businesses as well as boosting the economic and trade development of both places. Although individual local manufacturers had indicated that relocating their production base to the Mainland could lower production cost, she opined that in the long run, Hong Kong businesses should focus on enhancing their own competitiveness. In this connection, various trade facilitation measures under the CEPA would offer favourable conditions. To enable the business sector to fully understand and benefit from the CEPA before the introduction of zero tariff on 1 January 2004, she suggested that the Administration should step up its publicity efforts regarding the CEPA and explain in detail its contents to the relevant sectors. The Chairman concurred with Mrs Selina CHOW's suggestion.

4. SCIT responded that the Administration had planned a series of publicity activities to introduce to the business sector the details of CEPA and the potential business opportunities so arose. For example, the Hong Kong Trade Development Council (HKTDC) would organize a large-scale seminar on 3 July 2003 during which FS would explain the details of the CEPA. Views on the CEPA and the support measures would be sought from different sectors in small groups. If necessary, the Administration was prepared to organize similar seminars in due course upon individual sectors' request. SCIT pointed out that although the CEPA would open up the Mainland market for Hong Kong businesses and bring about more business opportunities, whether these opportunities could be grasped would ultimately depend on the initiative of individual businesses. However, he stressed that the Administration would spare no effort in providing the related support measures for the full implementation of the CEPA, including reaching an agreement with the Mainland on the rules of origin for goods by end 2003, so that Hong Kong products covered under the 273 Mainland product codes could enjoy zero tariff starting from 1 January 2004.

Support measures for the implementation of the CEPA and zero tariff

5. Given that the CEPA only provided a broad framework for bilateral economic and trade exchanges between the Mainland and Hong Kong, Mrs Selina CHOW suggested that the Administration should consider establishing a mechanism to provide the industries with one stop support service in respect of CEPA-related matters. ES advised that the feasibility of the suggestion would be examined. Meanwhile, the Administration would collect views from various industries through the relevant policy bureaux on support measures for the implementation of the CEPA with a view to fine-tuning it. He reiterated that although only 273 types of Hong Kong products could enjoy zero tariff starting from 1 January 2004, other Hong Kong products which met the CEPA rules of origin could also enjoy zero tariff after 1 January 2006 upon applications by local manufacturers. He believed that the above arrangements could attract businesses to invest and develop high value-added products in Hong Kong, as well as introducing a diversified production mode for locally made products. As regards trade in services, given that under the CEPA, Hong Kong companies and service providers had earlier access to the Mainland market, he anticipated that many local enterprises would make use of this advantage to expand their business in the Mainland.

6. Mrs Sophie LEUNG concurred that the CEPA could provide both Hong Kong and the Mainland an ideal platform for economic and trade development while promoting the economic development of both places and the restructuring of industries. According to her understanding, some local businesses, particularly those in the textiles industry, were already capable of developing high value-added products. She therefore urged the Administration to take appropriate support measures to enable these businesses to enjoy the benefits under the CEPA and open up the Mainland market. Furthermore, she considered that full implementation of CEPA would mean more job opportunities in both places. On the 273 types of Hong Kong products which would enjoy zero tariff from 1 January 2004, Mrs Sophie LEUNG requested the Administration to provide statistics in the past few years on Hong Kong's relevant domestic exports to the Mainland and forecast the future changes which might arise from the implementation of the CEPA. She was particularly concerned that some products might become obsolete when they lost their appeal in the market. She said that statistics in the past few years on Hong Kong's domestic exports to the Mainland could help members analyze and identify products which had greater development potentials. She also urged the Administration to formulate appropriate support measures so as to enable these products to leverage most on the CEPA.

Admin

7. The Permanent Secretary for Commerce, Industry and Technology (Commerce and Industry) advised that the Administration would collect relevant statistics as far as possible for members' reference. However, she pointed out that as Hong Kong was only one of the Mainland's trading partners, the amount of its domestic exports to the Mainland was very often affected by its trade

competitors. For example, the growth of industrial productivity of Southeast Asian countries in recent years affected the amount of Hong Kong's exports to the Mainland to a certain extent. As regards the impact of zero tariff on bilateral trade, she advised that it was very difficult to provide an accurate estimate at this stage.

8. ES added that the 273 types of products which would enjoy zero tariff from 1 January 2004 were determined with reference to the actual trade pattern between Hong Kong and the Mainland in the past. He anticipated that at that time, 90% of the exports originated from Hong Kong to the Mainland would enjoy zero tariff. As for other Hong Kong products, particularly the high value-added products which did not enjoy zero tariff in the initial phase, he encouraged the business sector to put forward their suggestions and views for the Administration to follow up and negotiate with the Mainland for their inclusion into the list of zero tariff products. He understood that with the introduction of zero tariff, many businesses would consider re-locating their production line from other places to Hong Kong. In order to achieve the diversification of local industries, he encouraged the business sector to consider ploughing resources into manufacturing high value-added products with development potentials and introduce them to the Mainland market.

9. In order to achieve economic restructuring, SCIT advised that the Administration would play an active role in creating a business-friendly environment and implement the various trade facilitation measures under the CEPA. He clarified that if Hong Kong businesses engaged in production activities with Mainland resources (e.g. raw materials, labour, factories, etc.) and sold their products in the Mainland market, they would not be subject to Mainland tariffs. The introduction of zero tariff mainly aimed at attracting to Hong Kong those businesses which relied on foreign resources in their production activities by providing them with a favourable foothold to access the Mainland market.

10. Recently, individual Mainland provinces/cities indicated that they were willing to offer concessions to Hong Kong businesses by allowing them to establish factories and sell their products in the Mainland market. In this regard, Mr CHAN Kam-lam was concerned whether Hong Kong businesses would become less inclined to re-locate their production base to Hong Kong due to these concessions. ES clarified that instead of encouraging vigorously the businesses to re-locate their production base back to Hong Kong, the trade facilitation measures under the CEPA aimed at encouraging them to develop and manufacture in Hong Kong high value-added and high technology-based products, particularly products whose production required foreign raw materials. Enhanced business turnover under zero tariff would provide impetus to the development of Hong Kong's economy.

11. While expressing concern about whether the CEPA was a win-win proposal to promote the economic and trade relations between Hong Kong and

the Mainland, Mr SIN Chung-kai enquired about ways to avoid causing dissatisfaction among Mainland provinces/cities with the concessions offered to Hong Kong. In response, ES explained that the CEPA would further develop bilateral economic and trade links and that Hong Kong had made considerable contributions to the reform and liberalization of the Mainland over the past two decades. According to available information, the bulk of direct foreign investments in Mainland provinces/cities came from Hong Kong, of which 50% flew to Guangdong Province. He pointed out that the reform and liberalization of the Mainland would inevitably bring about competition and pressure to certain Mainland sectors. The implementation of the CEPA could assist the business sector in exploring the vast Mainland market which would guide the Hong Kong economy to develop in the high value-added and regionalized direction. Although some local economic analysts held that the CEPA would only bring about business opportunities to Hong Kong businessmen, it could at the same time boost commercial and trade activities in the Mainland. He pointed out that apart from the manufacturing sector, the CEPA would also benefit other sectors including the services sectors. ES advised that at present, the services sectors contributed to 86% of the GDP of Hong Kong. Given that the local services sectors had already attained international standard, the facilitation measures relating to the trade in services under the CEPA was expected to give the local services sectors access to the Mainland market and promote the development of related Mainland sectors. He further stressed that apart from serving as a foothold for Hong Kong businesses to open up the Mainland market, the CEPA could also lead Mainland businesses to the international market. As such, the CEPA could create a win-win situation for bilateral economic and trade relations.

12. To avoid unnecessary misunderstanding, Mr SIN Chung-kai suggested that the Administration should consider taking measures to introduce to Mainland provinces/cities the contents of the CEPA and its impact on the bilateral economic development of both places. ES advised that the Administration would step up communication with the Mainland regarding the measures under the CEPA. For example, promotion and exchange activities would be organized in the Mainland through Invest Hong Kong, HKTDC, Hong Kong Tourism Board and the relevant trade associations to enhance Mainland provinces/cities' understanding of the CEPA. According to past experience, the leaders of Mainland provinces/cities welcomed exchanges with the Hong Kong business sector on measures to improve economic and trade relations and they also understood that the measures under the CEPA could promote the long-term economic development of both places. When the Severe Acute Respiratory Syndrome was put under control, the Administration would publicize the benefits of the CEPA among Mainland provinces/cities, especially those in the Pearl River Delta region.

Implications of CEPA on bilateral financial services cooperation

13. Referring to Article 13 of the CEPA, which stated that the Mainland supported stated-owned commercial banks and certain shareholding commercial

banks in re-locating their international treasury and foreign exchange trading centres to Hong Kong, Mr NG Leung-sing was concerned whether the Administration had assessed the implications of the measure. ES responded that at present, some Mainland banks had already taken similar measure and the provision mainly aimed at attracting more Mainland banks to engage in foreign exchange trading activities in Hong Kong. Moreover, the Administration and its Mainland counterparts were discussing and examining the feasibility of allowing these banks to re-locate to Hong Kong together with business relating to foreign exchange trading, such as derivatives and investment banking, with a view to promoting the development of high value-added financial activities.

14. Mr NG Leung-sing was concerned how Hong Kong would function as a financial intermediary under the CEPA. ES advised that apart from improving the existing financial system, the Administration attached paramount importance to upgrading the quality of financial services practitioners. He believed that Mainland banks could enhance their grasp on modern bank management skills through expanding their business to Hong Kong and sending their staff here for training. At the same time, Hong Kong banks could also send their staff to exchange with Mainland banks so as to explore the scope of expansion and mode of operation in the Mainland market for the banking sector. He stressed that the CEPA played a positive role in strengthening bilateral financial services cooperation and development.

15. Responding to Mr NG Leung-sing's enquiry about further liberalization of trade in services for the Mainland under Annex 4 of the CEPA, ES explained that the specific contents had to be further discussed with the Mainland. According to existing practice, Mainlanders could have their professional qualifications for providing certain services recognized by relevant examinations in Hong Kong and this system would remain unchanged. As to the request for mutual recognition of professional qualifications put forward by some individual services organization, the Administration would need to widely consult the services sectors and have in-depth discussion and negotiation with the Mainland in this regard.

16. Mr NG Leung-sing pointed out that local commercial banks had been developing at a faster pace than their Mainland counterparts. As such, he was concerned whether the Administration had estimated the number of Mainland banks that could be successfully attracted to invest in Hong Kong under the CEPA. ES responded that whether Mainland commercial banks would invest in Hong Kong was a commercial decision and the Government would step up its support measures.

17. Regarding the economic and trade relations between the United States and Mexico under the North American Free Trade Agreement vis-a-vis those between Hong Kong and the Mainland under the CEPA as referred to by Mr HUI Cheung-ching, ES advised that it was difficult to draw a direct comparison. Although both Mexico and Hong Kong enjoyed zero tariff under the relevant

agreements, the low production cost of the former made it easier to attract foreign businesses to establish their production base. Whether Hong Kong could succeed in attracting foreign investments would depend on other objective support measures. With the trade facilitation measures under the CEPA, he hoped that Hong Kong businesses could focus on the development of local products with high value-added and creative content.

Criteria for determining the place of origin and certification mechanism

18. In response to Mr HUI Cheung-ching's concern about ways to determine the place of origin of goods, SCIT advised that Hong Kong was discussing with the Mainland about the rules of origin for goods whose tariff would be lowered in the initial phase. An agreement was expected to be reached by end 2003 so that the products concerned could enjoy zero tariff from 1 January 2004. As to the criteria for determining the place of origin (e.g. added value or manufacturing process), he advised that the Administration would make reference to existing practice and consult the trade so as to formulate arrangements which would meet the actual requirements of both places.

19. On Mr HUI Cheung-ching's enquiry about the certification mechanism regarding the place of origin of Hong Kong products, SCIT responded that apart from the Trade and Industry Department (TID), there were currently five local certification authorities recognized by the Government. As the mechanism had been functioning satisfactorily, the Administration would maintain the existing certification arrangement. Mr MA Fung-kwok suggested that the Administration should consider negotiating with the Mainland about increasing the number of certification authorities in Hong Kong, particularly allowing the film industry to devise its own certification mechanism for compliance of those who dealt with film products.

Resource implications for implementation of the CEPA

20. Mr MA Fung-kwok was concerned whether TID would seek additional resources for implementing the various measures under the CEPA. SCIT pointed out that the Administration intended to absorb the new workload arising from the CEPA through resource redeployment within TID. However, with the removal of quota for textiles and clothing products under the WTO Agreement on Textiles and Clothing from 2005 onwards, additional workload was anticipated, particularly relating to measures for combating the illegal re-export of these products. As such, he would not rule out the possibility of seeking additional resources for the implementation of the CEPA from the Legislative Council having regard to the actual circumstances.

21. Mr MA Fung-kwok enquired when an overall assessment on the resource implications for the implementation of the CEPA would take place. SCIT replied that the Administration would be in a better position to make a clear and accurate assessment after reaching an agreement with the Central People's

Government on the rules of origin. As regards Mrs Selina CHOW's earlier suggestion that the Administration should provide the business sector with one stop support service in respect of the trade facilitation measures under the CEPA, he pointed out that this would inevitably involve additional resources.

Implications of the CEPA on the employment situation

22. Miss LI Fung-ying agreed that CEPA could create a business-friendly environment and bring about new business opportunities in the opening up of the Mainland market. She was concerned about the implications of the CEPA on easing the unemployment rate in Hong Kong. On the definition of "Hong Kong companies" which stipulated that only those companies which had "substantive business operations" in the Hong Kong Special Administrative Region could enjoy the benefits under the CEPA, she was particularly concerned about the criteria for determining the percentage of the staff employed by the businesses concerned in Hong Kong.

23. SCIT responded that whether the products manufactured by the businesses could enjoy zero tariff was not directly related to the number of staff they employed in Hong Kong. It was the place from which the goods originated that mattered i.e. the goods had to fulfill the "made in Hong Kong" principle. In other words, if Hong Kong jewellers manufactured and sold their products in the Mainland, they were not eligible for zero tariff under the CEPA. In view of the unique situation of individual sectors, he added that both Hong Kong and the Mainland agreed to exercise flexibility regarding the percentage of local staff employed by businesses in different sectors which had "substantive business operations" in Hong Kong. Nevertheless, SCIT stressed that the Administration had been keeping an eye on the employment situation in Hong Kong. He anticipated that the implementation of the CEPA would create job opportunities for different sectors, particularly the manufacturing and services sectors, and would ease the high unemployment rate. Concerning Miss LI's request for specific statistics to illustrate the implications of the CEPA on the local employment situation, ES advised that there were technical difficulties because the CEPA only provided a platform to promote bilateral economic and trade development. As to how far the local unemployment situation could be eased, it would depend on how local businesses made use of the benefits under the CEPA. However, he believed that on the premise of improving the business environment, the CEPA would provide favourable conditions for Hong Kong's economic restructuring and benefit the development of different sectors, thus easing the unemployment situation.

Other concerns

24. Mr CHAN Kam-lam was concerned about the support measures to realize the facilitation in trade brought to local businesses by the CEPA. ES responded that the CEPA was only the first step to promote the future economic and trade exchanges between Hong Kong and the Mainland. The Administration would

maintain close contact with the industrial sector to study and discuss the specific details and measures for the implementation of the CEPA.

25. Miss CHAN Yuen-han opined that although the CEPA would bring about business opportunities to the business sector in Hong Kong, she was concerned whether the Administration would consider taking appropriate measures to ensure that the investments and returns made by local businesses in the Mainland would effectively improve Hong Kong's economic and employment situations. She pointed out that even in the absence of the trade facilitation measures under the CEPA, small and medium enterprises (SMEs) in Hong Kong had been urging the Administration to take pro-active measures to eliminate business and trade barriers.

26. FS advised that the Administration would examine from a macro perspective how to make use of the CEPA to improve the local business environment. Given the wide scope of the CEPA and that different sectors might have different needs regarding the trade facilitation measures under the CEPA, he urged the industries to take the initiative to reflect their views to the relevant policy bureau(x) so that the CEPA would fully achieve its objective of improving bilateral economic and trade relations. On ways to attract businesses to establish production base in Hong Kong for the benefit of zero tariff, SCIT advised that the crux of the issue was not the lack of industrial land in Hong Kong for the construction of factories. As Hong Kong had well-established industrial estates and factory rental had undergone downward adjustment to a very reasonable level, he believed that there would be enough incentives for businesses to establish their production base here. However, in view of Hong Kong's aging working population and relatively high wages as compared with those of the Mainland, the Administration would study and adopt appropriate support measures to maximize the economic benefits brought about by the CEPA. The Administration was willing to follow up on SMEs' concerns with Miss CHAN after the meeting.

27. Dr LUI Ming-wah urged the Administration to implement as soon as possible the trade facilitation measures under the CEPA and work out appropriate support arrangements to enhance its attractiveness to the business sector. SCIT noted Dr LUI's suggestion.

Conclusion

28. The Chairman concluded that the Panel welcomed the agreement reached by Hong Kong and the Mainland on the CEPA so as to further promote bilateral economic and trade exchanges and development. In order to effect the benefits under the CEPA as soon as possible, the Panel urged the Administration to widely consult the business sector and consider views on the support measures concerned.

II Any other business

29. The meeting ended at 12:20 pm.

Council Business Division 1
Legislative Council Secretariat
1 September 2003