



Mainland and Hong Kong Closer Economic Partnership Arrangement

Background

- In December 2001, the Chief Executive obtained the CPG's agreement in principle to his proposal of establishing a form of free trade area between the Mainland and the HKSAR.
- Consultations began in January 2002.
- The two sides have held a series of high level and senior official meetings between January 2002 and June 2003.
- An agreement was reached on the main parts at the High Level meeting on 29 June 2003 and the CEPA was signed on the same day.

Background

- The HKSAR Government conducted a consultation exercise in February and March 2002 to seek public views.
- It also conducted discreet consultations with various practitioners and professional bodies in the manufacturing and services sectors, and took into account the views expressed in the discussions with the Mainland.

Summary of CEPA

- Trade in Goods
- Trade in Services
- Trade and Investment Facilitation

Trade in Goods

- The Mainland agrees to apply zero tariff from 1 January 2004 for exports from Hong Kong meeting the rules of origin requirement in some 270 Mainland product codes, including electrical and electronics products, plastic articles, paper articles, textile and clothing, chemical products, pharmaceutical products, clocks and watches, jewellery, cosmetics, metal products, etc.
- About 90% of the value of our domestic exports to the Mainland will enjoy zero tariff by 1 January 2004.

Benefits of Zero Tariff Preference as from 1 January 2004

Types of Products	Current Applied Tariff Rates (%)	2004 WTO Bound Rate (%)	Final WTO Bound Rate (%)
Electrical and Electronic Products	5 - 30	5 - 30	5 - 30
Plastic Articles	8.4 - 12.7	6.5 - 10.8	6.5 - 10
Paper Articles	5 - 13.3	5 - 10.4	5 - 7.5
Textiles and Clothing	5 - 21.3	5 - 19.4	5 - 17.5
Chemical Products	5.5 - 21.7	5.5 - 15.8	5.5 - 10

Benefits of Zero Tariff Preference as from 1 January 2004

Types of Products	Current Applied Tariff Rates (%)	2004 WTO Bound Rate (%)	Final WTO Bound Rate (%)
Pharmaceutical Products	3 - 6	3 - 6	3 - 6
Clocks and Watches	14 - 23	12.5 - 25	12.5 - 25
Jewellery	26.7 - 35	23.3 - 35	20 - 35
Cosmetics	18.3 - 22.3	14.2 - 19.2	6.5 - 15
Metal Products	4 - 10.5	4 - 10.5	4 - 10.5
Others	5 - 24.2	5 - 25	5 - 25

Trade in Goods

- The Mainland also agrees to apply zero tariff latest by 1 January 2006 upon applications by local manufacturers for other product codes maintained on China's tariff system meeting the CEPA rules of origin.

Trade in Goods

- Hong Kong undertakes to bind our existing zero import tariff regime with respect to goods of Mainland origin and not to impose restrictive regulations on trade in these goods.

Rules of Origin

- The two sides agree to discuss the origin rules applicable to those product codes covered in the initial phase, with a view to reaching an agreement before end 2003 so that these products can enjoy zero tariff from 1 January 2004.
- For the remaining products, we aim to agree on their origin rules early, having regard to the submission of applications by local manufacturers.
- The two sides also agree to discuss cooperation to prevent illegal circumvention of the agreed origin rules.

Other Trade Measures

- The two sides agree not to take anti-dumping, countervailing and certain specific safeguard measures against goods of Mainland or Hong Kong origin.
- At the same time, the Mainland agrees not to apply tariff rate quotas against goods of Hong Kong origin.

Trade in Services

- Coverage: 17 sectors, including:
 - management consulting services;
 - convention services;
 - advertising services;
 - accounting services;
 - construction and real estate services;
 - medical and dental services;
 - distribution services;
 - logistics services;
 - freight forwarding agency services;

Trade in Services

- Coverage (cont'd):
 - storage and warehousing services;
 - transport services;
 - tourism services;
 - audiovisual services;
 - legal services;
 - banking services;
 - securities services; and
 - insurance services.

Trade in Services

- Broadly speaking, the liberalisation permits earlier access to Hong Kong companies and services providers to the Mainland market, **ahead of China's WTO timetable**. In some sectors like construction and real estate services, logistics services, transport services, distribution services, legal services, and audio-visual services, the concessions extend **beyond China's WTO commitments**.
- Similar to trade in goods, the HKSAR has undertaken to bind our existing services regime for, and undertake not to introduce new discriminatory measures against, services and services suppliers of the Mainland for those sectors covered in the CEPA.

Definition of HK Companies

- To be eligible for enjoying the benefits offered by the Mainland under the CEPA, a company must have “substantive business operations” in the HKSAR as assessed on the basis of the following criteria:
 - (a) the company must be incorporated under the laws of the HKSAR;
 - (b) the company must pay profits tax in the HKSAR (or be exempted by law from paying such tax);

Definition of HK Companies

- Criteria (cont'd):
 - (c) the length of the company's substantive business operations in the HKSAR;
 - (d) the size and nature of business activity of the company's office in the HKSAR; and
 - (e) the proportion of the company's staff force employed in the HKSAR.
- a “sectoral” approach to take into account the unique characteristics of individual service sectors

Trade and Investment Facilitation

- Both sides have reached agreement on promoting co-operation in the following seven areas:
 - customs clearance;
 - quarantine and inspection, quality assurance and food safety;
 - small and medium-sized enterprises;
 - Chinese medicine and medical products;
 - e-commerce;
 - trade and investment promotion; and
 - transparency in law and regulations.

Further Liberalisation

- The two sides agree to pursue further liberalisation of services trade between the Mainland and Hong Kong through consultation under the CEPA.

Economic Benefits

- Good potential to open up many new business opportunities in the Mainland for Hong Kong.
- Attract manufacturing of **brand name products**, or manufacturing process with **high value-added content** or **substantial intellectual property input** to Hong Kong.
- The WTO-plus liberalisation in trade in services would give companies in Hong Kong a **“first mover”** advantage.

Economic Benefits

- Up to the businessmen from Hong Kong and elsewhere in the world to decide whether and how they would like to leverage on the CEPA to gain greater access into the Mainland market.
- At this point in time, difficult to quantify, with reasoned assumptions, the effects of these potential new opportunities.

WTO and Basic Law Consistency

- The CEPA is fully consistent with the WTO rules governing free trade areas. The HKSAR will continue to be a separate customs territory from the Mainland and a separate Member of the WTO. We will continue to adhere to our commitments under the WTO.
- The CEPA is also in conformity with the Basic Law.

Way Forward

- The two sides will continue discussions with a view to finalising and announcing the details of implementation (such as the preferential rules of origin for goods) as soon as possible.

Way Forward

The HKSAR Government will

- continue to consult relevant trade and advisory bodies to prepare for the next phase of CEPA discussions with the Mainland.
- spare no effort in encouraging the business sector in Hong Kong to make full use of the openings under the CEPA.
- include the business opportunities secured under the CEPA in attracting more foreign investment to Hong Kong.
- discuss with the concerned sectors on appropriate policy measures that may be required to enable them to gain the greatest benefits from the CEPA.

Full Text of CEPA

Available for downloading at
the following web site:

www.tid.gov.hk/english/cepa/



Questions and Answers



The End

Thank you