

CB(1)861/04-05(04)

**(Translation)****LEGCO QUESTION NO. 23 (Written Reply)**

Date of Sitting: 26 January 2005

Asked by: Hon Jeffrey Lam

Replied by: Secretary for Commerce, Industry and Technology

Question:

Will the Government inform this Council:

- (a) of the substantial benefits brought to the overall economy of Hong Kong by the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA");
- (b) of the number of Hong Kong businessmen who have relocated part of their production process from the Mainland to Hong Kong due to the implementation of CEPA;
- (c) whether new measures, such as simplifying the vetting and approval procedures for setting up factories, have been drawn up to facilitate early commencement of production or provision of services by Hong Kong businessmen who have relocated their factories to Hong Kong due to the implementation of CEPA;
- (d) of the respective numbers of foreign companies which, due to the impact of CEPA, have entered the Mainland market by establishing companies in Hong Kong or hiring local companies to serve as a gateway to the Mainland market, and have entered the Mainland market by acquiring Hong Kong enterprises; and
- (e) of the number of Mainland enterprises which, due to the impact of CEPA, have been successful in applying for the establishment of companies to operate in Hong Kong, as their first step to enter the international market?



Reply:

Madam President,

My reply to the various parts of the question is set out below:

- (a) Last year the Hong Kong economy saw a robust growth of 7.5%. In particular, exports of goods rose by 15% in real terms during the first 11 months; exports of services increased in real terms by nearly 17% in the first three quarters and visitor arrivals exceeded 21 million, a surge of nearly 40% compared to 2003. There was a 7.4% hike in private consumption expenditure during the first three quarters, the highest rise in the past decade. Investment in machinery and equipment picked up by 18% in real terms in the first three quarters. The unemployment rate has dropped steadily from a peak of 8.6% in 2003 to 6.5% at the end of 2004. Deflation, with which Hong Kong has been beset for several years, finally disappeared. While there were many factors leading to economic growth, the positive impact on our economy generated by the implementation of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) in the past year was obvious.

CEPA II came into full effect starting from 1 January 2005. As a result, Hong Kong products under a total of 1,108 Mainland 2005 tariff codes can be imported tariff free to the Mainland, and Hong Kong suppliers are now eligible for Mainland's preferential treatment in a total of 26 service areas. We believe these new liberalization measures would further propel Hong Kong's economic growth.

The implementation of CEPA has been smooth. The number of applications for Certificates of Hong Kong Origin (CO) and Certificates of Hong Kong Service Supplier (HKSS) are growing steadily. As at end of 2004, Hong Kong made products of a total value of HK\$1.15 billion were imported into the Mainland tariff free under CEPA. Major products benefited include: textiles and clothing, pharmaceutical products, electrical and electronics products, coloring matters, and chemical products, etc. Over 660 Hong Kong-registered enterprises have been issued with Certificates of HKSS. Under CEPA, these enterprises are able to enjoy preferential treatment to enter the Mainland market. Some enterprises in sectors such as banking, distribution, transport and logistics have already set up operations in the Mainland; over 1,000 Hong Kong residents have registered with the Guangdong authorities to set up individually owned stores to provide retailing services. Over 5 million Mainland visitors came to Hong Kong under the Individual Visit Scheme (IVS), which helped to boost the tourism-related industries, such as restaurants, retail

and hotels. Since last August, the application procedures for state-owned and private enterprises in the Mainland to set up business in Hong Kong have been greatly streamlined. This has speeded up the pace of Mainland enterprises investing in Hong Kong and fostered growth for both places.

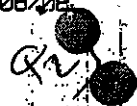
The Administration is conducting an analysis of the economic impact of CEPA. The study would cover three aspects: trade in goods, trade in services, and IVS. It is expected that the study would be completed in the first quarter this year. We would report the results to the LegCo Panel on Commerce and Industry, and would publish them.

- (b) We do not have the relevant figures. Relocation of production lines and process entails a number of considerations, such as demolition and rebuilding of existing facilities, backend support, and suspension of production. Even if production in Hong Kong is considered profitable, most businessmen may choose to expand their existing local production lines, or set up new ones, in order to enjoy the benefits from CEPA.

The industrial estates under Hong Kong Science and Technology Parks received a lot of enquiries from local and overseas investors from high-value added industries on how to set up factories in Hong Kong. Recently, a famous Chinese herbal medicine enterprise set up operations in the industrial estate to make use of CEPA. Following the implementation of subsequent phases of CEPA, it is expected that more manufacturing activities with high-value added content would be attracted to Hong Kong.

- (c) Hong Kong has a sufficient supply of factory premises. Hong Kong businessmen who want to set up factories here may choose to buy or rent factory buildings. Manufacturers who want to apply for Certificates of Hong Kong Origin for CEPA should apply for Factory Registration (FR) with the Trade and Industry Department (TID). They are required to fulfill just some basic requirements such as the possession of valid Business Registrations; fixed and self-contained premises; as well as machinery and labour force for production etc. In general, TID would complete the registration procedures and issue the FR within 14 working days. Manufacturers may apply for the Certificates of Hong Kong Origin for CEPA immediately after registration.

The HKSAR Government is determined to improve the business environment in order to facilitate the development of commerce and industry. For example, we launched the Helping Business Programme in 1996, with a view to creating a facilitating environment through eliminating outdated and unnecessary regulations, and cutting red tape. A Subgroup on Business Facilitation has been set up under the Economic and Employment Council chaired by the Financial Secretary to study the



regulatory measures in different industries, and recommend streamlining measures.

- (d) According to the results of the 2004 Annual Survey of Regional Offices Representing Overseas Companies in Hong Kong conducted by the Census and Statistics Department, as at 1 June 2004, there were 1,098 companies which had set up regional headquarters and 2,511 which had set up regional offices in Hong Kong, an increase of 13.7% and 12% respectively compared to 2003, and the largest increase since 2001. In addition, among the 205 foreign companies assisted by Invest HK in setting up or expanding operations in Hong Kong during 2004, 45 (22%) have indicated that CEPA is one of the factors considered when making the investment. Some 19 companies invested in Hong Kong because of CEPA, while others have accelerated their investment plan, and/or invested more capital or employed more staff as a result of CEPA.
  
- (e) According to the statistics provided by the Census and Statistics Department, as at mid-2004, the number of Mainland enterprises with regional headquarters and regional offices in Hong Kong was 12.9% higher than in the previous year. Out of the 205 investment projects assisted by Invest HK in 2004, 35 were Mainland enterprises, a sharp increase of 106% compared to 17 in 2003. We believe the implementation of CEPA is one of the factors attracting Mainland enterprises to Hong Kong. In addition, the application procedures for state-owned and private enterprises in the Mainland to set up business here have been greatly streamlined since end August last year. This, together with Invest HK's facilitating measures, has speeded up the pace of Mainland enterprises investing in Hong Kong. The HKSAR Government would continue to seek to attract more Mainland enterprises, large and small, to come to Hong Kong.

