For Information

LEGISLATIVE COUNCIL PANEL ON COMMERCE AND INDUSTRY

MAINLAND AND HONG KONG CLOSER ECONOMIC PARTNERSHIP ARRANGEMENT (CEPA)

IMPACT ON THE HONG KONG ECONOMY

PURPOSE

This note informs members of the key findings of a study of the Administration on the initial impact of the first phase of CEPA (hereafter referred to as CEPA I) on the Hong Kong economy.

DETAILS

2. At the meeting of the Legislative Council Commerce and Industry Panel (C&I Panel) on 10 May 2004, the Administration undertook to conduct a quantitative analysis of the economic impact of CEPA I, 9-12 months after its implementation. The study was conducted by the Commerce, Industry and Technology Bureau, in collaboration with the Trade and Industry Department, the Economic Analysis and Business Facilitation Unit and the Census and Statistics Department. The Hong Kong Tourism Board also provided useful input. Data collection and analysis took place in the fourth quarter of 2004 and the first quarter of 2005. The study mainly covers three areas of CEPA I, namely trade in goods, trade in services, and the Individual Visit Scheme (IVS) (as implemented in 2004). At the meeting of the C&I Panel meeting on 15 February 2005, the Administration briefed members on the preliminary findings of the study (vide CB(1)861/04-05(03)).

3. The study has now been completed. It covers essentially the economic impact of CEPA I for the first year or so of implementation, and offers a forecast of its impact on the Hong Kong economy in 2005. The key findings in each of the three areas above, together with the research methodology adopted in the study, are set out in Annexes A to C respectively.

Trade in Goods

4. For trade in goods, over 90% of the responding companies considered that CEPA I is beneficial to the Hong Kong economy and 89% considered CEPA I beneficial to the manufacturing sector. In 2004, 9% of the responding companies raised the number of staff engaged, 4% increased the area of premises used, and 6% increased the use of self-owned machinery and equipment. Over 3,000 certificates of origin were issued under CEPA I in 2004, and products with a total value of $1.15 billion enjoyed tariff free treatment on importation into the Mainland. CEPA is expected to bring more benefits to Hong Kong's domestic exports and manufacturing sector in 2005. The value of CEPA exports to the Mainland is expected to increase by $1.2 billion in 2005, doubling that in 2004.

Trade in Services

5. For trade in services, 78% of the responding companies considered that CEPA I is beneficial to the Hong Kong economy, and 46% considered CEPA I beneficial to their own industries. More than 660 companies have obtained the Hong Kong Service Supplier certificates in 2004, and 27% of them have already set up operation under CEPA I in the Mainland. In 2004, companies in the 18 sectors covered in CEPA I increased their capital investment in Hong Kong by $1 billion due to CEPA. This amount is expected to surge to $4.5 billion in 2005. Services receipts generated in 2004 as a result of CEPA I amounted to $1.6 billion, and the amount is expected to reach $3.8 billion in 2005.

Individual Visit Scheme

6. Under CEPA 's IVS, Mainland residents made 4.26 million trips to Hong Kong in 2004, accounting for 34.8% of all the Mainland visitors or 20% of the total visitors to Hong Kong. The IVS visitors generated an additional $6.5 billion in tourist spending during the year. IVS has also exerted indirect effect on the Hong Kong economy, through boosting confidence, though this is difficult to quantify.

Job Creation under CEPA

7. About 29,000 new jobs have been and are forecast to be created for Hong Kong in the first two years of implementing CEPA I, with breakdowns as follows:

Number of jobs created for Hong Kong as a result of CEPA I

Year	Trade in Goods	Trade in Services	IVS
2004	1000	1959	16588
2005	1280	8194	-
Total	2280	10153	16588
		Grand Total	29021

Comments from Respondents

8. Notwithstanding the positive findings on the economic benefit of CEPA to Hong Kong, some responding companies of the services sectors expressed the wish to see further improvements in the regulatory environment of the Mainland market (e.g. more transparent and consistent rules and regulations as well as rationalized licensing regimes and their implementation), and the deepening and widening of liberalization measures under CEPA (e.g. lowering of capital thresholds and opening up additional services). In particular, certain professional services are concerned about the difficulties for firms of Hong Kong to meet the rules of the Mainland on setting up business there and the variations of such rules across provinces and cities. The Administration attaches great importance to these views. We have, through different channels, been following up with the Mainland authorities. In this connection, the coming consultations with the Mainland on CEPA III should provide a further opportunity for the two sides to address market access and implementational issues related to CEPA.

Trade and Investment Facilitation

9. While trade and investment facilitation was not covered in the quantitative analysis part of this study, Annex D outlines the effect so far of trade and investment facilitation measures under CEPA on attracting foreign investments to Hong Kong. According to information disclosed by the Mainland authorities, between end-August 2004 when the new facilitation policy for Mainland enterprises to invest in Hong Kong and Macao took effect and end-December 2004, a total of 68 Mainland enterprises or 42.5% of the total number for the year were granted approval for investing in Hong Kong, and their planned investment totaled US$470 million or 48.9% of the total amount for the year.

10. The Administration's further responses to the issues raised by members at the meeting on 15 February regarding measures in support of the implementation of CEPA are set out in Annex E.

BACKGROUND

11. CEPA is the first free trade agreement signed by the Mainland and Hong Kong. CEPA I and II came into full effect in January 2004 and January 2005 respectively. Details of CEPA and its implementation have been reported to this Panel, vide CB(1)2524/02-03(01), CB(1)1710/03-04(04) and CB(1)2500/03-04(01).

Commerce, Industry and Technology Bureau
April 2005

Annex A

Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA): Impact on the Hong Kong economy (Trade in goods)

General remarks

CEPA lays the foundation for a new business platform that reaffirms the role of Hong Kong in the Mainland's next phase of economic development and liberalisation. These benefits tend to permeate through all facets of economic and social development, and are crucial to the shaping of the longer-term socio-economic relations between the two places. But these are often so entwined with the general macro-environment and embodied in the ultimate outcome that it is difficult to disaggregate and quantify.

2. Nevertheless, attempts are still made to assess the direct impact of the CEPA measures on the Hong Kong economy at both the macro- and micro-levels. But the interpretation of the impact assessment may be constrained by the following considerations:

- Implementation period is still short, and planning of manufacturing, investment and other economic activities takes time. Hence, assessment is necessarily preliminary and confined mostly to first round effects.

- Further liberalisation measures will continue to be introduced. Present study covers mainly the first 9-12 months following CEPA I's implementation in January 2004. The liberalisation measures under CEPA II for implementation in January 2005 are not yet covered. Hence, the economic benefits are likely to continue to rise as the effects of CEPA deepen.

Trade in goods under CEPA

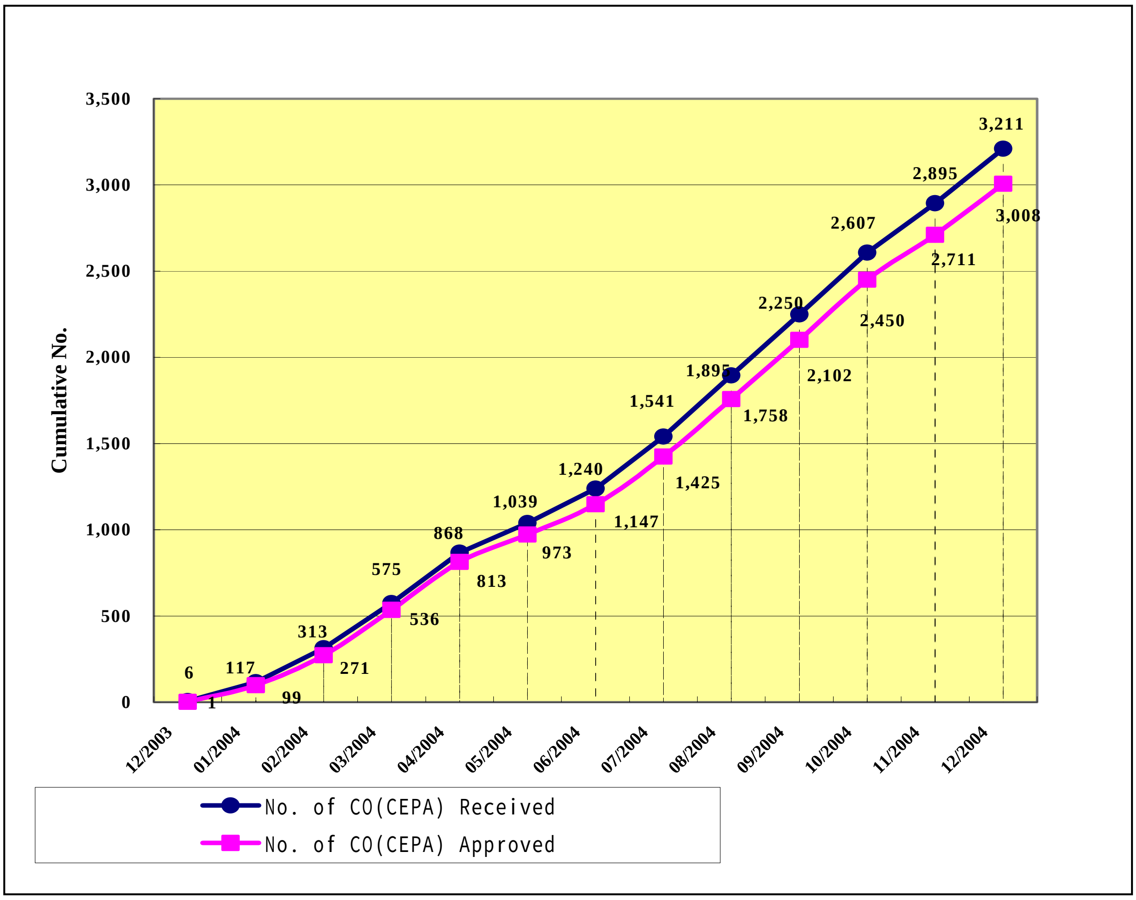
3. In respect of trade in goods, the Mainland accords zero tariff to imports of 379 items under CEPA I as from 1 January 2004 (and another 729 items under CEPA II as from 1 January 2005 or when the products come into production).

4. As at 31 December 2004, the Trade and Industry Department and the five Government Approved Certification Organisations received 3 211 CO(CEPA) applications under CEPA I, of which 3 008 applications were approved, involving products with a total value of HK$1.15 billion (see the table and chart below). The latest figures as at 31 March 2005, covering products under both CEPA I and CEPA II, were 4 682 applications, 4 393 approval and HK$1.57 billion in value. According to the data of the Mainland's Customs General Administration, 2 577 consignments of products under CEPA I with a total value of HK$0.99 billion were

already imported to the Mainland in 2004. The tariff savings amounted to Rmb 66 million.

Statistics on CO(CEPA) applications under CEPA I in 2004

Products Types	CO(CEPA) Applications Received	CO(CEPA) Applications Approved	FOB Value
	(No.)	(No.)	(HK$ Mn)
Textiles and clothing	1 300	1 193	122.4
Electrical and electronic products	186	183	40.0
Plastics and plastic articles	317	308	112.3
Chemical products and colouring matters	380	351	90.9
Paper and printed articles	178	157	10.3
Metal products	66	62	21.7
Pharmaceutical products	702	681	737.0
Clocks & watches	29	27	1.7
Jewellery	33	32	3.6
Cosmetics	1	-	0.0
Others	19	14	10.3
Total:	**3 211**	**3 008**	**1,150.3**



Assessment for trade in goods: methodology and key findings

5. This annex aims at evaluating the impact of the CEPA measures for trade in goods on the Hong Kong economy. The evaluation is based on the findings of a statistical survey, and complemented by observations from a consultation with the chief representatives and senior executives of a number of manufacturing enterprises and related industry/trade associations.

6. Questionnaires were sent to nearly 280 enterprises (30% of them are manufacturers/traders engaging in domestic exports of CEPA I products to the Mainland, and 70% of them are traders exporting CEPA I products to the Mainland but have not applied for CO(CEPA)) between October and November 2004 by random sampling. Staff were sent to visit some of the enterprises to follow-up on their responses. The overall response rate of the survey was 75%.

7. Both the manufacturers and the traders surveyed are very positive about CEPA I (see the table below). 93% of the respondents believe that CEPA I is beneficial to the Hong Kong economy, 89% think that it is beneficial to Hong Kong's manufacturing industry, and 53% consider CEPA I beneficial to the company's Mainland-related business. The impression obtained from the consultation exercise is largely the same.

General impression about CEPA I impact
(% of respondents)

Impact on:	Beneficial	Negative	Not available
The Hong Kong economy	93%	7%	-
The manufacturing sector	89%	10%	1%
The respondents' Mainland-related business	*53%*	*28%*	*19%*

8. The manufacturing industry usually involves an extended supply chain, both up and down stream. It is not surprising that a larger part of CEPA I's benefits will be manifested indirectly through spillovers onto the linkage industries/sectors, leading to strengthened confidence and firmer economic outlook.

9. Intuitively, CEPA I has the following benefits:

- Boosting Hong Kong's domestic exports to the Mainland through enhancing the price competitiveness of Hong Kong products, and improving the profit margin of the manufacturers/traders concerned.

- Encouraging expansion of local manufacturing capacity through expanding existing production lines or adding new production lines. This can be seen from the rise in investment in or usage of industrial/commercial premises and machinery and equipment.

- Creating new job opportunities, though the impact may be limited by the relatively more capital-intensive nature of the manufacturing industry in Hong Kong.

10. Both the consultation and the survey results point out that products with otherwise high Mainland tariff rate, high capital intensity, high value-added content, high intellectual property content, short product cycle, and well-established brand-name should stand to benefit more. These include pharmaceutical products, plastics and plastic products, chemical products and colouring matters, fashion garments, and food products.

11. Consistent with the above observation, pharmaceutical products, textiles and clothing products, and plastics and plastic articles taken together accounted for nearly 85% of the value of CO(CEPA) issued in 2004 under CEPA I. The ratio of CO(CEPA) to the domestic exports of CEPA I products to the Mainland was highest for pharmaceutical products (88%), followed by chemical products and colouring matters (14%). Most of these products registered the largest increase or the most significant turnaround in domestic exports to the Mainland in recent quarters.

12. According to the survey respondents, in 2004, 9% of the companies raised the number of staff engaged, 4% increased the area of premises used, and 6% increased the use of self-owned machinery and equipment. In the next year, these percentages rose further to 11%, 5% and 7% respectively. Very broadly, these percentages can be crudely converted into the following quantitative estimates.

Impact of CEPA I on scale of operation

Percentage of respondents increasing scale of operation	2004			2005*		
	(a)	(b)	Net Impact	(a)	(b)	Net Impact
In terms of,						
employment (no. of staff)	9%	3%	+1 004 persons (4.2%)(i)	11%	4%	+1 280 persons (5.4%)(i)
premises	4%	2%	+39 555m$^{2\#}$ (79.8%)(ii)	5%	1%	+16 568m$^{2\#}$ (33.4%)(ii)
machinery and equipment	6%	4%	N.A.	7%	5%	N.A.

Notes: (a) Category (a) respondents (manufacturers/traders engaging in domestic exports of CEPA I products to the Mainland).

(b) Category (b) respondents (traders exporting CEPA I products to the Mainland but have not applied for CO(CEPA)).

(*) Anticipated impact for 2005.

(i) Percentage against the estimated employment engaging in the manufacturing/trading of domestic exports of CEPA I products to the Mainland.

(ii) Percentage against the estimated area of premises utilised in the manufacturing/trading of CO(CEPA) consignments.

(#) Net impact of category (a) respondents.

N.A. Not available

13. According to the survey respondents, companies engaging in the manufacturing/trading of domestic exports of CEPA I products to the Mainland have hired about 1 000 additional employees in 2004 due to CEPA I. A further 1 280 jobs will be added in 2005. CEPA I has also boosted the use of premises, and machinery and equipment in 2004 and its impact is expected to extend to 2005.

14. Furthermore, a number of macro-economic indicators showed broadly consistent trends (see the table below). For instance, in 2004, Hong Kong's domestic exports to the Mainland reverted to a 4% growth after consecutive declines for three years. Retained imports of industrial machinery for manufacturing use recorded a 19% growth in value, marking a sharp turnaround from a 3-year persistent downtrend. The overall decline in the number of factory registration narrowed and registration in sectors other than textiles and clothing even reverted to an increase. Meanwhile, there was a surge in the number of sales and purchase agreement for industrial property.

Statistics related to scale of manufacturing production

Year	Hong Kong's domestic exports	Retained imports of industrial machinery for use in the manufacturing sector	Number of factory registration			Transactions of flatted factories	
	(year-on-year change in value terms)	(year-on-year change in nominal terms)	Total	Of which: Textiles and clothing	Others	No. of transactions	Value
			(end-of-year figures)				(HK$Mn)
2001	-15.2%	-17.6%	2 865	1 892	973	-	-
2002	-14.7%	-11.4%	2 556	1 681	875	3 756	4,028
2003	-7.1%	-9.2%	2 414	1 628	786	3 813	3,160
2004	3.5%	19.0%	2 373	1 550	823	5 722*# <+50%>	6,308*# <+100%>

Note: (*) Figures are estimated based on data for the first 11 months in 2004.

(#) Provisional figures.

< > Percentage increase.

15. While the rebound in export performance and the revival in fixed asset investment can be partly attributable to the CEPA I influence, the more favourable global economic environment should have provided the underlying forces for the upturn.

16. Looking ahead, 13% of the survey respondents indicate that they will formulate their business plan in the light of CEPA I. And amongst them, 63% indicate that they will extend their business from manufacturing to wholesale and retail of goods in the Mainland, 28% will line up with foreign investors in setting up manufacturing line in Hong Kong, and 28% will increase production/trading of tariff-free goods under CEPA I.

17. It is quite likely that CEPA will bring more benefits to Hong Kong's domestic exports and manufacturing sector in 2005. According to the survey, the value of CEPA exports to the Mainland is expected to increase by $1.2 billion in 2005, doubling that in 2004.

Factors constraining the CEPA benefits for trade in goods

18. Some factors are more fundamental. The Administration notes that over the years, the structural transformation of Hong Kong into a service economy has diminished the importance of domestic exports and manufacturing. Domestic exports now account for only 6% of Hong Kong's total exports, and manufacturing only 4% of GDP and 5.4% of total employment. Of Hong Kong's domestic exports, 30% are destined for the Mainland. And of these, about 2/3 are associated with outward processing arrangement and are thus not subject to tariff in any case. Against these developments, the direct CEPA impact for trade in goods is unlikely to be overwhelmingly large.

19. There are other inherent barriers as noted by the interviewees. These include the relative scarcity of industrial land suitable for very land-intensive manufacturing, and the absence of a sizeable manufacturing workforce with the appropriate skills in Hong Kong. Both will restrict Hong Kong's capability to expand its manufacturing industry, unless it is going to confine its development to the more capital-intensive processes, and engage in product design, marketing and distribution, trade and logistics, and R&D related work.

20. Other factors are less likely to persist and can be overcome given time. Like any other policy measures, it takes time for the authorities and practitioners to get accustomed with the change.

21. Though CEPA I already covers 64% of the value of Hong Kong's domestic exports to the Mainland, some niche products are not yet included. An often-cited example is food and beverages. The issue has been addressed in CEPA II on the advice of the market players, i.e. the manufacturers and traders. CEPA is an on-going exercise and will remain so, building on the wisdom and experience gained along with implementation of the arrangement.

22. There are other general issues related to the conduct of business in the Mainland. The distribution of certain products like chemicals and pharmaceutical goods in the Mainland is still restrictive. And the restrictions tend to differ from cities to cities and from provinces to provinces, making market entry and subsequent compliance an issue. For some products such as chemicals, and clocks and watches, the interviewees consider the value-added content requirement for obtaining CO(CEPA) is rather high, and the verification of the value-added content is cumbersome and costly to comply.

Annex B

Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA): Impact on the Hong Kong economy (Trade in services)

General remarks

CEPA is important to the future economic development of Hong Kong. It will lead to the evolution of a new socio-economic relation with the Mainland in the longer term.

2. With over 20 years of economic opening and liberalisation of industrial production in the Mainland, its secondary industry has reached a scale and maturity that needs to be matched by comparable expansion and deepening of the tertiary services industry to bring balanced development of the Mainland economy. The Mainland's services market has thus become more open to international participation. International investors are also eyeing the Mainland market with rising interests and increasing confidence in its growth potential. Reflecting this, foreign direct investment into the Mainland has been rising by leaps and bounds in the past few years(1).

3. Rising internationalization of the Mainland market brings more business opportunities on the one hand and keener competition on the other. The Mainland enterprises are intent to embrace modern management skills and up-to-date technology to uplift efficiency to meet the challenge of globalisation. The large influx of foreign investors in recent years has also posed rising threat. Many of these are large multinationals with strong competitive power, operating on advanced management model.

4. Hong Kong has always been a major conduit for capital investment flow into the Mainland(2), given its strong service infrastructure, well developed financial system and international connectivity. While the role will continue, the Mainland today is not lacking in capital(3). Foreign capital is important more because of the knowledge, technology, and management skills embodied in it. Hong Kong, as the major business partner, has to broaden its role and re-orientate to the changing needs of the Mainland.

---

(1) Over the past five years, inflow of realised foreign direct investment in the Mainland rose at an average annual rate of 9%. In 2004, the increase was 13%.

(2) For illustration, the share of Hong Kong in the total foreign direct investment flow into the Mainland averaged at 34% in the last five years.

(3) At end-2004, Mainland's foreign exchange reserves reached Rmb 5.0 trillion (US$609.9 billion). Meanwhile, the total deposits in the financial institutions amounted to Rmb 24.1 trillion (US$2.9 trillion).

5. Hong Kong cannot be content to be merely a source of capital for industrial production as in the past two decades. It has to turn itself into a conduit of “quality” capital in order to stay competitive vis-à-vis the other foreign investors as the Mainland economy opens up wider to foreign investment.

6. At the same time, Hong Kong should leverage on its knowledge about modern management concepts and techniques and familiarity with international codes of business to consolidate its role in the Mainland’s new phase of economic development and structural reform, by bringing high quality capital to promote industry upgrade, diversification and broadening of the industry base of the Mainland economy.

7. CEPA allows this to happen by opening a host of services industries to investment from Hong Kong, and at the same time, allows freer exchange of people and expertise to take place. It thus lays the foundation for a new business relation between Hong Kong and the Mainland to evolve over time.

8. This relation will no longer be uni-direction, from manufacturing to manufacturing and from overseas to the Mainland via Hong Kong. It will become multi-direction cutting across a whole range of economic activities, with two-way flows of people and capital from overseas to the Mainland and vice versa. In both instances, Hong Kong can play the role of either the home, or the host or the middleman. CEPA is thus mutually beneficial to both Hong Kong and the Mainland, and significantly widens the scope of business for Hong Kong service providers.

Constraints to the economic impact evaluation of CEPA I

9. Attempts are made to evaluate the direct impact of CEPA I measures on the Hong Kong economy at both the macro- and micro-levels. But the interpretation of the impact evaluation may be constrained by the following considerations:

- Implementation period is still short, and planning of investment and other economic activities takes time. Hence, evaluation is necessarily preliminary and confined mostly to first round effects.

- Further liberalisation measures will continue to be introduced. Present study covers mainly the first 9-12 months following CEPA I’s implementation in January 2004. The liberalisation measures under CEPA II for implementation mainly in January 2005 are not yet covered. Hence the economic benefits are likely to continue to rise as the effects of CEPA deepen.

- The CEPA I effects tend to permeate through all facets of economic and social development. These are often so entwined with the general macro-environment and embodied in the ultimate outcome that it is difficult to disaggregate and quantify.

Economic impact evaluation of CEPA I for trade in services: methodology

10. The economic impact evaluation of the CEPA measures for trade in services on the Hong Kong economy is based on the findings of a statistical survey of the 18 services sectors(4) subject to opening to the Hong Kong investors under CEPA I. The results are then complemented by observations from a consultation with the chief representatives and senior executives of related trade associations/companies in 12 selected sectors.

11. The objective of the survey is to collect from a sample of companies in the 18 services sectors their general impression about the CEPA impact on the Hong Kong economy, on the concerned services sector and on the related companies. The survey also collects cross-boundary exports of services, investment and employment data relating to the impact of CEPA I on the companies in the concerned services sector.

12. CEPA I covers the following 18 services sectors:

(i) Accounting
(ii) Advertising
(iii) Architectural and engineering
(iv) Audiovisual
(v) Banking
(vi) Construction and related engineering
(vii) Convention and exhibition
(viii) Distribution
(ix) Freight transport and logistics
(x) Hotels and travel agencies
(xi) Insurance
(xii) Legal
(xiii) Management consulting
(xiv) Medical
(xv) Real estates
(xvi) Road passenger transport
(xvii) Securities
(xviii) Telecommunications

13. The survey reference period covers the calendar years 2004 and 2005. Questionnaires were sent to 1 673 companies selected for enumeration, 1 502 (188 Hong Kong Service Supplier ("HKSS") certificate holders and 1 314 non-HKSS certificate holders) were successfully enumerated while 171 establishments failed to respond (36 HKSS certificate holders and 135 non-HKSS certificate holders). The overall response rate was 90% (84% for HKSS certificate holders and 91% for non-HKSS certificate holders). The HKSS certificate holders were mainly interviewed face-to-face, while the non-HKSS certificate holders were enumerated mainly by telephone.

---

(4) The statistical survey does not cover the CEPA I benefits to natural persons.

Economic impact evaluation of CEPA I for trade in services: key findings

14. The CEPA I benefits can be broadly analysed in terms of raising Hong Kong's investment in the Mainland (including plans to set up operation in the Mainland), increasing Hong Kong's exports of services to the Mainland, lifting investment in Hong Kong, and creating employment for both Hong Kong people and Mainland residents. The key observations are highlighted below.

(a) General impression

15. Companies and trade associations consulted generally consider CEPA I beneficial to the Hong Kong economy, though less so for the sector and for individual companies' business **(Table 1)**.

Table 1: General impression about CEPA I's benefits

	Proportion of companies considering CEPA I beneficial to:		
Services sectors	**the Hong Kong economy**	**the concerned sector**	**the respondent's company***
	(%)	(%)	(%)
Accounting	96	62	48
Advertising	91	58	52
Architectural and engineering	97	56	18
Audiovisual	89	46	44
Banking	100	91	96
Construction and related engineering	81	34	3
Convention and exhibition	87	62	62
Distribution	72	45	38
Freight transport and logistics	79	40	41
Hotels and travel agencies	84	70	62
Insurance	87	72	59
Legal	74	56	60
Management consulting	84	60	54
Medical	100	83	100
Passenger transport	81	51	84
Real estates	85	54	40
Securities	93	55	44
Telecommunications	97	66	72
Total of the above 18 sectors	**78**	**46**	**36**

Note: (*) This reflects solely the opinion of those companies with Mainland-related business.

(i) 78% of the respondents consider CEPA I beneficial to the Hong Kong economy. Analysed by sector, banking and medical services registered the highest percentages (both 100%), followed by telecommunications and architectural and engineering services (both 97%). Companies in the other services sectors are very positive too (with percentages all exceeding 70%). Though the percentage in the distribution services is the lowest, it is still at 72%.

(ii) 46% consider CEPA I beneficial to their industries. Again the percentage is the highest in banking services (91%), followed by medical services (83%). The other more optimistic sectors are insurance (72%) and hotels and travel agencies (70%). The sector showing the lowest percentage is the construction and related engineering services (34%).

(iii) 36% consider CEPA I beneficial to their companies. Similarly, the highest percentages are seen in banking (96%) and in medical services (100%). Companies in passenger transport (84%) and in telecommunications services (72%) are also very positive.

16. Generally speaking, there is a higher percentage of HKSS certificate holders than non-HKSS certificate holders that find CEPA I beneficial to the overall economy and to their industries.

(b) Plans of setting up operation in the Mainland

17. Altogether 668 companies in the 18 services sectors have obtained HKSS certificates at end-2004(5). The bulk is in freight transport and logistics and distribution services, at 308 and 204 respectively **(Table 2)**.

18. Among the HKSS certificate holders surveyed, 27% have set up operation under CEPA in the Mainland, and another 44% have plans to do so in 2005 and beyond. Legal (100%), real estates (100%), banking (100%), advertising (89%), management consulting (89%), and construction and related engineering services (76%) have the highest percentages of HKSS certificate holders having/have plans to set up operation in the Mainland.

---

(5) As at 31 March 2005, 747 companies have obtained HKSS certificates.

Table 2: HKSS certificate holders and their investment plan in the Mainland under CEPA I

		Proportion of HKSS certificate holders:	
Services sectors	**Number of HKSS certificates issued at end-2004**	**Have already set up operation under CEPA I in the Mainland in 2004**	**Have plans to set up operation under CEPA I in the Mainland in 2005 and beyond**
		(%)	(%)
Accounting	0	N/A	N/A
Advertising	48	23	66
Architectural and engineering	15	33	33
Audiovisual	6	29	29
Banking	5	80	20
Construction and related engineering	16	32	44
Convention and exhibition	7	38	25
Distribution	204	14	48
Freight transport and logistics	308	33	42
Hotels and travel agencies	1	#	#
Insurance	3	#	#
Legal	6	67	33
Management consulting	19	56	33
Medical	1	#	#
Passenger transport	2	#	#
Real estates	7	43	57
Securities	0	N/A	N/A
Telecommunications	20	20	30
Total of the above 18 sectors	**668**	**27**	**44**

Notes: (#) Figures are suppressed to preserve data confidentiality due to the small number of HKSS certificate holders in the sectors concerned.

N/A There are no HKSS certificate holders in accounting, auditing and bookkeeping services as well as securities services.

(c) CEPA I-induced exports of services to the Mainland

19. CEPA I has generated about HK$1.6 billion worth of services receipts for companies in the 18 services sectors engaging in exports of services to the Mainland in 2004. This is equivalent to 2.6% of these companies' overall services receipts from this market. The amount is expected to more than double to HK$3.8 billion or 5.5% in 2005.

20. Amongst the 18 services sectors, distribution services recorded the largest CEPA I-induced exports of services to the Mainland in 2004, at about HK$1.1 billion. This is expected to pick up further, by 75.1% to almost HK$2 billion in 2005. The next two services sectors down the line are hotels and travel agencies, and freight transport and logistics services, with CEPA I-induced exports of services to the Mainland expected to rise by 124.7% from HK$285 million in 2004 to HK$640 million in 2005, and by 527.6% from HK$129 million to HK$807 million respectively.

21. Indeed, over time, many other services sectors such as accounting, legal, logistics, transport, banking, insurance etc. will also find themselves deriving indirect benefits from the CEPA I-induced overall rise in businesses between Hong Kong and the Mainland, by way of larger demand for a wide range of sophisticated support services.

(d) CEPA I-induced investment in the Mainland

22. CEPA I-induced investment in the Mainland by Hong Kong companies in all the 18 services sectors taken together amounted to a total of nearly HK$2.9 billion in 2004. The amount is expected to rise to HK$3.8 billion in 2005, representing an increase of 32.5%.

23. Companies in the distribution services, banking services, and freight transport and logistics services registered the largest business investment in the Mainland in 2004, at HK$862 million, HK$809 million and HK$726 million respectively. These were followed by telecommunications (HK$224 million) and advertising (HK$142 million).

24. Both distribution and freight transport and logistics services envisage further rise in CEPA I-induced investment in the Mainland, by 14.0% and 85.6% respectively to HK$983 million and HK$1.3 billion in 2005. The huge market potential for these two sectors has provided strong incentive for entry into the Mainland. Some freight transport and logistics companies see CEPA I facilitating them to provide a more complete chain of quality services in the Mainland, thereby enhancing their competitiveness.

(e) CEPA I-induced investment in Hong Kong

25. Companies in the 18 services sectors have lifted capital investment by HK$1 billion in 2004 due to CEPA. The amount is expected to surge by more than three-fold to HK$4.5 billion in 2005.

26. Analysed by services sector, freight transport and logistics, distribution and passenger transport services account for the largest part of the CEPA I-induced increase in capital investment in Hong Kong. For freight transport and logistics and distribution services, CEPA I-induced capital investment in these two sectors is expected to surge further and continue to dominate in 2005. This is consistent with the increase in exports of services in these two sectors, both actual in 2004 and anticipated in 2005. As to road passenger transport, huge initial outlay is needed for setting up a fleet of passenger coaches to meet the surge in cross-boundary traffic.

27. More companies can be expected to raise capital investment in due course as they gain confidence about the rise in business and believe that this is likely to be permanent and substantial. At present, capital investment in road passenger transport as induced by CEPA I in 2004 was equivalent to about 86% of the average over the past ten years. That in advertising amounted to about 20%. While the ratios were rather modest in the distribution and freight transport and logistics business in 2004, they are expected to rise to about 14% and 9% in 2005.

(f) CEPA I-induced employment creation due to increased business

28. CEPA I has created 1 959 jobs for Hong Kong residents in the 18 services sectors in 2004. Among these, 1 415 new jobs are in Hong Kong, while 544 new jobs are in the Mainland. The number of CEPA I-created jobs is expected to soar to 8 194 in 2005. Of these, 7 493 will be in Hong Kong, and 701 in the Mainland. Taking the two years together, there will be a total of 10 153 new jobs created for Hong Kong residents.

29. The bulk of the newly created jobs is likely to focus in the distribution and freight transport and logistics services, to support the increased movement of goods and services between Hong Kong and the Mainland due to CEPA I. Of the newly created jobs in 2004 and 2005 taken together, 2 545 or 25% are professional posts for Hong Kong people in Hong Kong and 751 or 7% are for Hong Kong professionals in the Mainland.

30. At the same time, CEPA I is expected to create a total of 17 204 new jobs for Mainland residents in the Mainland in 2004 and 2005 taken together. Analysed by services sector, the largest number of new jobs created for Mainland residents are found in the distribution, freight transport and logistics, and construction and related engineering services sectors. Amongst the total, 4 524 or 26% are professional posts.

(g) Factors constraining CEPA I benefits to the services sector

31. The trade associations and selected companies consulted have raised a number of factors, which they believe have limited CEPA I's benefits to the services sectors. The salient points are highlighted below.

(i) Regulatory environment. Many companies consulted consider regulations in most services sectors in the Mainland complicate, not business friendly and transparent enough. In some sectors such as certain professional services, the regulations tend to vary from province to province.

(ii) Entry barriers. In some sectors, respondents consider that the entry requirements remain high even after the lowering by CEPA I of the entry threshold through the reduction of the minimum assets, or the lowering of registered capital and working capital requirements for business operations in the Mainland.

(iii) Scope of liberalisation. Certain related associations and selected companies in some sectors consider that some activities with greater business potential are still not open under CEPA I.

(iv) Supporting services. In some sectors, inadequate supporting services (e.g. infrastructure) offered by the Mainland market constrain Hong Kong operators' capability to provide high quality services, according to some respondents.

(v) Competition. To many small and medium-sized companies surveyed, their high quality services are not valued by the mass Mainland market. Price is a more important consideration, and they are usually faced with keen competition from the local Mainland enterprises.

Annex C

Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA):

Impact of the Individual Visit Scheme on the Hong Kong economy

Background

The Individual Visit Scheme (IVS), introduced under the framework of CEPA, was first implemented on 28 July 2003. Initially it allowed residents in Dongguan, Zhongshan, Jiangmen and Foshan in the Mainland to visit Hong Kong two times within a period of three months and stay in Hong Kong each time up to seven days. The scheme has been successively extended. It now covers the whole of the Guangdong province, plus Beijing, Shanghai, Tianjin, Chongqing and nine cities in the provinces of Jiangsu, Zhejiang and Fujian **(see Appendix for the geographical coverage of the scheme)**.

2. Since the introduction of IVS, Mainland visitors have made 4.9 million trips to Hong Kong under the scheme, helping to revive retail sales and bringing added tourism receipts. This annex attempts to assess the implications of IVS for the different tourism-related sectors in Hong Kong in terms of both value-added and employment, as well as the overall macro impact for the economy as a whole.

Table 1: Mainland visitors to Hong Kong

		Non-IVS (million)	IVS (million)	Total (million)
2003		7.80	0.67	8.47
2004		7.99	4.26	12.25
2003	Q1	2.13	0	2.13
	Q2	1.10	0	1.10
	Q3	2.28	0.13	2.40
	Q4	2.29	0.54	2.83
2004	Q1	2.12	0.80	2.92
	Q2	1.95	0.80	2.75
	Q3	1.96	1.36	3.31
	Q4	1.97	1.30	3.27

Economic Assessment for IVS: Methodology

3. In 2004, Hong Kong Tourism Board (HKTB) interviewed IVS visitors randomly, to estimate the additional trips spurred by IVS and IVS visitors' spending on different items. With the net incremental spending on tourism generated by IVS, and applying the results of the econometric model on GDP forecasting, the economic impact of IVS on Hong Kong's economy was estimated. Matching also the IVS visitors' spending on different items to the related sectors, and making reference to business receipts and the value-added content of the said sectors and their relationship with employment, we could estimate the impact of IVS on major tourism-related industries.

Incremental spending by IVS visitors

4. 4.26 million Mainland residents visited Hong Kong under IVS in 2004, accounting for 34.8% of the total Mainland visitors. Among the total, 3.08 million or 72.4% were overnight visitors and 1.18 million or 27.6% were same-day visitors. The average length of stay of IVS visitors was 2.7 nights, much shorter than the average of 5.1 nights for non-IVS visitors. The increased convenience of IVS should have increased the frequency of travel, but shortened the length of stay of some of the Mainland visitors.

5. Overnight IVS visitors generally spent less money per trip than overnight non-IVS visitors. According to the HKTB, the per capita spending of these two types of visitors in 2004 were HK$3,305 and HK$4,908 respectively. As most of the IVS visitors were from nearby cities in the Guangdong Province, they usually came more frequently, and hence would tend to spend less on shopping per visit compared with the non-IVS visitors who generally came from more distant sources in the Mainland. Also, reflecting the shorter length of stay of the IVS visitors, they would tend to spend less on accommodation, meals and entertainment per visitor.

6. By contrast, same-day IVS visitors generally spent more money per trip than same-day non-IVS visitors, as a large proportion of the latter were merely transit passengers. According to HKTB, per capita spending of these two types of visitors in 2004 were HK$1,644 and HK$820 respectively. The difference stemmed mainly from the different amount spent on shopping.

7. It should be noted that the net contribution of IVS should be less than what was suggested by the total spending of all IVS visitors, as some of the trips could have been made even without the scheme (i.e. the diversion effect). According to HKTB, 1.82 million or 43% of the trips by IVS visitors in 2004 were diversion from other modes of visit, and only

2.44 million trips or 57% were incremental visits induced by IVS (i.e. the creation effect). The incremental visitor spending induced by IVS was estimated to be HK$6,238 million in 2004.

Table 2: Incremental spending by IVS visitors in 2004

(HK$ million)

Arrival (million)	Total spending	Of which: Accommodation	Shopping	Meals	Others
Total					
4.26	12,123	978	8,669	1,528	948
Less: diversion					
1.82	*5,885*	*589*	*4,102*	*654*	*539*
Net					
2.44	**6,238**	**388**	**4,567**	**873**	**409**

8. In addition to spending in Hong Kong, IVS visitors also consumed cross-boundary transport services. By making reference to the average spending on cross-boundary transport services of overseas visitors, it is estimated that the incremental visits by IVS visitors raised Hong Kong's exports of air, land and sea transport services by HK$248 million[(1)] in 2004.

Contribution to the Hong Kong economy

(a) Value-added

9. Applying the results of the econometric model on GDP forecasting, exports of tourism services have a GDP multiplier of about 0.7. The net incremental spending of HK$6,486 million (inclusive of spending on cross-boundary transport services) by IVS visitors is thus expected to have raised Hong Kong's GDP by HK$4,540 million or 0.36%

---

(1) The per capita spending on cross-boundary transport services of IVS visitors entering Hong Kong by land and sea is assumed to be the same as the per capita spending of a corresponding average visitor (from all sources). But per capita spending on cross-boundary transport services of IVS visitors entering Hong Kong by air is assumed to be only one-third of the spending of a corresponding average visitor (from all sources), taking into account the generally shorter distance of travel.

in 2004 (including both the first and subsequent rounds of effects). This is notable compared with the first round contribution of inbound tourism to GDP, estimated at 2.2% in 2002. The impact stems mainly from the sheer number of IVS visitors, which accounted for 35% of Mainland visitors or 20% of the total visitors in 2004.

10. The impact tends to vary from sector to sector. The sectors closely related to the tourism industry, like retail sales, restaurants and hotels, have benefited more than the other sectors. Matching the incremental spending on different items to the related sectors, and making reference to the value-added content of the said sectors, the first round net contribution(2) of IVS to the related sectors in 2004 are calculated as follows:

Table 3: First round net contribution of IVS by selected sector in 2004

Sector	Value-added (HK$ million)
Hotels and boarding houses	225
Retail trade	702
Restaurants	335
Other personal services(3)	265
Cross boundary transport	100

(b) Employment

11. Assuming that the value-added per person engaged of the overall economy as well as in the different sectors remain stable, the net contribution of IVS to Hong Kong's employment in 2004 is also estimated, as follows:

---

(2) As this does not cover the subsequent rounds of impact, the summation of the first round impact on the different sectors is smaller than the overall impact on GDP as calculated in paragraph 9.

(3) In this annex, other personal services are defined to cover tour agents and ticketing agents, domestic transport and miscellaneous personal services.

Table 4: Net contribution of IVS to Hong Kong's employment in 2004

Whole economy	16 588
Of which, 1st round effect on:	
Hotels and boarding houses	*700*
Retail trade	*5 034*
Restaurants	*2 450*
Other personal services	*919*
Cross boundary transport	*91*

(c) Indirect impact

12. IVS has also exerted indirect effect on the Hong Kong economy through boosting confidence, though this is difficult to quantify. Soon after the introduction of IVS, the Hong Kong economy rebounded sharply from the impact of SARS in the latter half of 2003. Real GDP switched from a 0.6% fall in the second quarter of 2003 to a 4.0% growth in the third quarter, and the growth accelerated to a peak of 12.1% in the second quarter of 2004. Among the GDP components, private consumption reverted from a 4.1% drop in real terms in the second quarter of 2003 to a 0.1% growth in the third quarter before accelerating to a 11.2% growth in the second quarter of 2004.

Appendix

Cities/provinces covered by IVS

Effective date	Additional cities/provinces covered	Registered population (Mn persons)	Per capita GDP in 2002 (Rmb)
28 July 2003	Dongguan, Zhongshan, Jiangmen and Foshan	10.1	28,893
20 August 2003	Guangzhou, Shenzhen, Zhuhai and Huizhou	12.2	50,665
1 September 2003	Beijing and Shanghai	24.7	34,897
1 January 2004	Shantou, Chaozhou, Meizhou, Zhaoqing, Qingyuan and Yunfu	22.6	7,611
1 May 2004	All other cities in Guangdong	31.6	7,040
1 July 2004	Nanjing, Suzhou and Wuxi in Jiangsu; Hangzhou, Ningbo and Taizhou in Zhejiang; Fuzhou, Xiamen and Quanzhou in Fujian	47.1	24,515
1 March 2005	Tianjin, Chongqing	40.3	9,974
	All cities/provinces covered	**188.6**	**19,746**

Annex D

Trade and Investment Facilitation under CEPA

Under CEPA's framework of trade and investment facilitation, the Mainland and Hong Kong agreed on promoting co-operation in the following seven areas: trade and investment promotion; customs clearance; transparency in law and regulations; quarantine and inspection of commodities, quality assurance and food safety; electronic commerce; small and medium-sized enterprises; and Chinese medicine and medical products. Relevant authorities of the two sides have been discussing and pursuing trade and investment facilitation measures in the above areas on an on-going basis, through existing or where necessary newly established forums.

2. The trade and investment facilitation measures under CEPA have positive impact in attracting Mainland and foreign investment to Hong Kong. According to the 2004 survey by the Census and Statistics Department, as at 1 June 2004, there were a total of 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 the findings of a similar survey in 2003, and the largest increase since 2001. The number of regional headquarters of Mainland enterprises in Hong Kong alone increased from 84 in 2003 to 106 in 2004, an increase of 26%. Of course, CEPA is not the only reason for the increase. Yet, 45 or 22% of the foreign companies assisted by Invest Hong Kong (Invest HK) in 2004 have indicated that CEPA is one of the factors considered when making the investment. Some companies even expressed that they invested in Hong Kong because of CEPA. These 45 companies have created over 400 jobs in Hong Kong[1] in 2004 and they plan to create a further 850 jobs in the next two years.

3. In addition, the Mainland implemented the new investment facilitation policy for Mainland enterprises to invest in the Hong Kong and the Macao Special Administrative Regions (the new facilitation policy) since end-August last year.

4. According to the State Ministry of Commerce (MOC), between end-August 2004 when the above new facilitation policy was implemented and end-December 2004, a total of 68 Mainland enterprises or 42.5% of the total number for the year were granted approval for investing in Hong Kong, and their planned investment totaled US$470 million or 48.9% of the total amount for the year. The major areas of economic activities

[1] Not all companies assisted by Invest HK have provided information on the number of staff employed.

involved included trade, consultancy service, research and development, tourism, entertainment, transport and contract works.

5. With the implementation of the new facilitation policy, relevant Government departments and the Hong Kong Trade Development Council (TDC) have stepped up promotional efforts to attract Mainland enterprises to invest here and have offered an even more comprehensive range of business facilitation services and assistance, including:

- Invest HK has launched the Invest HK One-Stop Service in September 2004 which provides:

    - a toll-free hotline (800 988 1000) in the Mainland for enquiries from Mainland investors about investing in Hong Kong;

    - an investment service centre staffed by experts from Invest HK offering information and advice to Mainland investors on matters relating to investing in Hong Kong;

    - an "Invest Hong Kong Guidebook" tailor-made for Mainland investors, highlighting information they need to know about investing in Hong Kong, including procedures for setting up business operations in Hong Kong, funding schemes, visa requirements, taxation, etc; and

    - a "Step-by-step Guide", jointly compiled by Invest HK and MOC for the first time, setting out the procedures in the Mainland for their enterprises to apply for investing in Hong Kong, as well as key notes on the approval procedures in both the Mainland and Hong Kong and the documentation requirements.

- regular and large-scale "Hong Kong Week" functions organised jointly by the Office of the HKSAR Government in Beijing and relevant bureaux/departments of the HKSAR Government in various Mainland provinces and cities. These functions aim to promote Hong Kong's many advantages, strengthen ties and co-operation with the Mainland, as well as attract Mainland enterprises to invest here. The "Hong Kong Investment Environment Seminar" is also an integral part of the "Hong Kong Week" function. The Hong Kong Economic and Trade Office in Guangdong also stepped up their efforts in the publicity and promotion of CEPA.

- efforts to encourage Mainland enterprises to come to Hong Kong to do business by TDC through conducting research on Mainland enterprises' needs for business and trade services in Hong Kong, providing information on doing business in Hong Kong to Mainland enterprises and stepping up publicity.

Annex E

Administration's Further Response to the Issues Raised by Members at the Commerce and Industry Panel on 15 February 2005

Import of skilled labour from the Mainland (Para. 8 of LC Paper No. CB(1)1071/04-05)

- The Administration has been in touch with employer and employee groups to discuss how best to create local employment opportunities under CEPA through flexibly bringing in skilled labour. Meanwhile, employers can always make use of the existing Supplementary Labour Scheme (SLS), which has no quota and sector restriction, to import labour.

- The general thinking appeared to be that this should best be pursued by building on and streamlining and liberalizing, where possible, the Supplementary Labour Scheme.

- The aim of a more flexible labour importation mechanism is to facilitate the manufacturing sectors to admit skilled labour not readily available locally under the guiding principles that employment opportunities and wages of local workers would not be adversely affected.

- We keep an open mind on the matter. However, any new measures can only be implemented with the consensus of both the employer and labour sectors.

Favorable taxation arrangements (Para. 9 of LC Paper No. CB(1)1071/04-05)

- Hong Kong adopts a simple and low tax system. Our system provides a level-playing field for different groups of taxpayers and various industries. The above inherent features of our tax system already ensure that our system is competitive as compared with other jurisdictions and is favourable to the development of different sectors. The Administration does not favour providing discriminatory tax incentives to a particular sector or industry as it will undermine the impartiality of our system and tilt the level-playing field in favour of particular groups. That said, <u>a number of tax concessions which are generally applicable to various sectors may have particular relevance to manufacturing industries</u>. They are listed below.

- Firstly, in computing a taxpayer's profits tax liability, deduction or depreciation allowances are allowable in respect of capital expenditure on purchase of plant and machinery as follows:

(a) for plant and machinery used specifically and directly for manufacturing process as well as computer hardware and software [collectively referred to as "prescribed fixed assets" in the Inland Revenue Ordinance], the whole purchase cost is deductible in the year of assessment within which the cost is incurred; and

(b) for other plant and machinery, depreciation allowances are granted in respect of the capital expenditure on its acquisition. An initial allowance at 60% of the acquisition cost will be allowed in the year of purchase. Plant and machinery are spilt into three different categories by reference to their normal depreciable lives. Each category is subject to a standard rate of annual allowance, which is set at 10%, 20% or 30%. Annual allowance will be granted by applying the appropriate standard rate to the residual value [i.e. acquisition cost less the initial allowance and annual allowances already granted] of the particular category of plant and machinery.

- Secondly, notwithstanding that capital expenditure generally is not deductible for profits tax purposes, deduction is allowed in respect of expenditure incurred on research and development ("R&D") and payments made to an approved research institute for R&D. Allowable expenditure on R&D also covers acquisition costs of plant and machinery used for R&D related to the taxpayer's business. As from the 2004-05 year of assessment, the profits tax reduction for R&D has also been extended to cover expenses on design-related activities.

- Thirdly, deduction is allowed in respect of payments made for technical education related to the taxpayer's business at any university or other similar institution which is approved by the Commissioner of Inland Revenue. For deduction purposes, technical education refers to that which is special requisite for persons employed in the class of the taxpayer's business.

- Fourthly, again notwithstanding its capital nature, expenditure incurred on the purchase of patent rights or rights to know-how for use in Hong Kong in the taxpayer's business is allowable for deduction. "Patent rights" widely refer to the right to do anything which would, but for that right, be an infringement of a patent, and "know-how" refers to any industrial information or techniques likely to assist in the manufacture or processing of goods or materials.

- Fifthly, deduction in respect of capital expenditure on the renovation or refurbishment of a building other than a domestic building [i.e. including the factory premises of a manufacturing business] is allowable by a straight-line amortization over a period of five years [i.e. 20% for each year]. The deduction is much more generous than that otherwise available as industrial buildings allowance at only 4% for annual allowance.

River-loop industrial zone (Para. 14 of LC Paper No. CB(1)1071/04-05)

- As regards the suggestion to develop the border area for industrial use, Planning Department has received a lot of views on development of the border area during the Stage 3 consultation on "HK2030: Planning Vision and Strategy". Judging from the views received, the community has not yet come to a consensus on whether and how the border area should be developed.

- As development of the border area involves many considerations, including land use rights, treatment of contaminated mud, environmental impact, supporting infrastructure, and development costs, etc., the Administration will take into account the views expressed by different parties and discuss with the Mainland before coming to a decision. In studying the development of the border area, the Administration will consider the unique features of the area and base its decision on the best interests of Hong Kong as a whole.

Import of raw materials for Chinese medicine from the Mainland (Para. 16 of LC Paper No. CB(1)1071/04-05)

- Under current legislations on the regulation of Chinese medicines, person engaged in the business of retail and wholesale of Chinese herbal medicines (中藥材), and wholesale and manufacture of proprietary Chinese medicines (中成藥) are required to apply and obtain a license for their respective business. For the purpose of importation of raw materials of 31 potent Chinese herbal medicines (中藥材原料) as listed in Schedule 1 of the Chinese Medicine Ordinance (Cap 549) and 5 other Chinese herbal medicines scheduled in the Import & Export (General) Regulations, wholesaler of Chinese herbal medicines (中藥材批發商) or manufacturer of proprietary Chinese medicines (中成藥製造商) should apply for a permit for every consignment of their imported materials. For the import of raw materials for all the other herbal medicines, no special permit is required. (There are over 1000 types of commonly used herbs available in Hong Kong market.)

- So far, we have not received any complaints from the industry about difficulty in the importing of raw material for Chinese medicine.

Applications with the Immigration Department for Mainland technical staff (Chinese Medicine) to come to Hong Kong (Para. 16 of LC Paper No. CB(1)1071/04-05)

- Under the Admission Scheme for Mainland Talents and Professionals (ASMTP), local businesses may apply to bring in qualified Mainland talent and professionals to meet their manpower needs. Under the Scheme, Mainland residents meeting the following eligibility criteria may be approved to enter Hong Kong for employment:

(a) the applicant should have a good education background, normally a first degree in the relevant field, but in special circumstances, good technical qualifications, proven professional abilities and/or relevant experience and achievements supported by documentary evidence may also be accepted;

(b) the applicant's admission is contingent on a confirmed offer of employment. The applicant should be employed in a job relevant to his academic qualifications or working experience which cannot be readily taken up by the local work force; and

(c) the remuneration package including income, accommodation, medical and other fringe benefits should be broadly commensurate with the prevailing market level for professionals in Hong Kong.

- The Scheme is open to applicants from all sectors, including those from the Chinese medicine field, and there is no quota on the number of admission. The Immigration Department will consider such applications in accordance with the eligibility criteria set out for the ASMTP.

- Between the implementation of the ASMTP on 15 July 2003 and the end of February 2005, the Immigration Department has received a total of 6 897 applications, out of which 5 705 have been approved and 299 have been refused. Amongst them, 103 approved applications and 5 refused applications related to the traditional Chinese medicine (TCM) sector. Of the 103 approved applications, 51 were for short-term employment lasting for not more than six months. None of the refused applications related to employment of Mainland professionals coming to set up TCM production facilities or to manage the relevant production matters.

Same-day visitors under IVS (Para. 28 of LC Paper No. CB(1)1071/04-05)

- The Individual Visit Scheme (IVS) provides a more convenient mode of travel for the Mainland residents to visit Hong Kong. According to Hong Kong Tourism Board (HKTB)'s information, among the 4.26 million IVS travellers visited Hong Kong last year, over 70% were overnight visitors, and the rest were same-day in-town visitors, accounting for only about 1.18 million. There is a tendency that the IVS visitors, particularly those living in Guangdong province such as Shenzhen and Dongguan, make more frequent but shorter trips to Hong Kong. Some of these IVS visitors are "same-day in-town visitors", i.e. they visit Hong Kong only for one day and leave on the same day. They come to Hong Kong mainly for shopping, entertainment and leisure activities or to enjoy services (e.g, beauty salons). This segment favours the trendy and fashionable products and the high-quality merchandise and services available in Hong Kong. According to HKTB's survey in 2004, 53% of the same-day-in-town IVS visitors indicated that shopping was the main purpose of their visit.