

立法會
Legislative Council

LC Paper No. CB(1)1873/06-07(04)

Ref. : CB1/PL/CI

Panel on Commerce and Industry

Meeting on 12 June 2007

**Background brief on development of the
Mainland and Hong Kong Closer Economic Partnership Arrangement**

Purpose

This paper updates development of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) and Members' deliberations on the subject.

Background

2. CEPA is the first free trade agreement ever concluded by the Mainland and Hong Kong, covering liberalization of trade in goods, trade in services, as well as trade and investment facilitation between the two places. The Mainland and Hong Kong signed the main text of CEPA on 29 June 2003 and its six Annexes on 29 September 2003 (CEPA I). CEPA I was fully implemented on 1 January 2004. As CEPA adopts a building block approach, the Central People's Government (CPG) and the Government of the Hong Kong Special Administrative Region (HKSAR) entered into consultation with a view to further broadening and enriching the scope of CEPA. The two sides reached agreement on the second and third phases of further trade liberalization measures (CEPA II and CEPA III) and signed the two Supplements to CEPA on 27 October 2004 and 18 October 2005 respectively. CEPA II and CEPA III came into full implementation on 1 January 2005 and 1 January 2006 respectively. Pursuant to Article 3 of CEPA regarding its further development, the two sides agreed to broaden and enrich the content of CEPA through continuous and further reciprocal liberalization. In this connection, consultations with CPG were launched in 2006. The two sides subsequently signed another Supplement to CEPA and the confirmation note on rules of origin (ROOs) on 27 June 2006 in Hong Kong.

Trade in goods

3. Under CEPA I and CEPA II, the Mainland applies zero import tariff for Hong Kong origin products covered in 1 108 Mainland 2005 tariff codes and meeting CEPA ROOs. Under CEPA III, the Mainland agrees to give all products of Hong Kong origin tariff-free treatment starting from 1 January 2006, upon applications by local manufacturers and upon CEPA ROOs being agreed and met. On top of the products covered in CEPA I and CEPA II, the Mainland and Hong Kong also agree on ROOs for a list of goods covered in 262 Mainland 2006 tariff codes and to amend the existing ROOs to waive the 30% value adding requirement for watches of Hong Kong brand names. For products that have no agreed CEPA ROOs for the time being, both sides agree that Hong Kong manufacturers may apply and request to include them in subsequent phases of ROO discussions held twice a year after 2005 (instead of once a year as in previous phases of CEPA). This provides further flexibility to potential investors planning to manufacture products which are not yet currently produced in Hong Kong.

4. In the first round of ROO discussion conducted in the first half of 2006, ROOs on 37 products have been worked out and are eligible for zero tariff as effective from 1 July 2006. ROOs on another 45 products have been worked out in the second half of 2006 and are eligible for zero tariff as from 1 January 2007. Together with ROOs agreed during previous discussions, this has added up to a total of 1 448 Hong Kong products (Mainland 2007 tariff codes) with CEPA rules of origin worked out.

Trade in services

5. As a result of the first three phases of CEPA, the Mainland has given preferential market access to Hong Kong service suppliers in a total of 27 services areas¹.

6. Under CEPA III, there are 23 further liberalization measures which took effect on 1 January 2006, covering 10 existing services areas². Pursuant to discussions made with the Government of HKSAR in 2006, CPG has agreed further on 15 liberalization measures spreading across 10 areas (i.e. legal, construction, information technology, convention and exhibition, audiovisual, distribution, tourism, air transport, road transport and individually owned stores), and the liberalization measures took effect on 1 January 2007. Altogether the preferential market access to the Mainland under CEPA has brought tangible

¹ The 27 services areas that are given preferential market access to Hong Kong include: accounting, advertising, airport, audiovisual, banking, cultural, convention and exhibition, distribution, freight forwarding agency, individually owned stores, information technology, insurance, job referral agency, job intermediary, legal, logistics, management consulting, medical and dental, patent agency, professional qualification examinations, real estate and construction, storage and warehousing, securities and futures, telecommunications, tourism, trade mark agency and transport (including road freight/passenger transportation and maritime transport).

² The 10 existing services include: legal, accounting, audiovisual, construction, distribution, banking, securities, tourism, transport and individually owned stores.

benefits to a total of 27 services areas in Hong Kong. Broadly speaking, the liberalization measures under CEPA permits earlier and wider access for Hong Kong service suppliers to the Mainland market, ahead of China's World Trade Organization (WTO) timetable. In some sectors, like legal, audiovisual, transport, banking and insurance services, the concessions go beyond China's WTO commitments.

7. As part of the services trade under CEPA, the Mainland and Hong Kong have committed to encouraging mutual recognition of professional qualifications. In this connection, a mutual recognition agreement between Mainland construction supervising engineers and Hong Kong building surveyors was signed on 27 June 2006 in Beijing.

Trade and investment facilitation

8. Both the Mainland and Hong Kong agree that trade and investment facilitation plays a crucial role in the successful implementation of CEPA and that it should enhance co-operation in seven areas, such as trade and investment promotion, customs clearance facilitation, transparency in laws and regulations, etc. Some of the measures under CEPA III have been worked out with the intention to enhance the flow of trade and investment between the two places. Major achievements are as follows:

- (a) textiles and clothing products under Hong Kong's Outward Processing Arrangement are exempt from the Mainland's export duty when they are re-imported to Hong Kong; and
- (b) the permission for certain types of Mainland securities and futures companies to come to establish subsidiaries in Hong Kong.

9. Pursuant to discussions made between CPG and the Government of HKSAR in 2006, protection of intellectual property (IP) has been incorporated as a new initiative under trade and investment facilitation of CEPA to help enhance co-operation and exchanges between the Mainland and Hong Kong on issues relating to IP protection. The Mainland Intellectual Property Protection Coordination Centre is also set up in Hong Kong to facilitate the trade in handling IP matters.

Issues of concern raised by Members

Discussion at the Panel on Commerce and Industry (CI Panel)

10. The CI Panel has followed closely the implementation of CEPA at its meetings held on 30 June and 13 October 2003, 10 May and 19 October 2004, 15 February, 19 April and 15 November 2005, and 18 July 2006. In general, members welcome the implementation of CEPA and are keen to ensure that Hong

Kong can make the best use of the opportunities brought about by CEPA. Members' latest concerns on the subject are summarized in the ensuing paragraphs.

Economic benefits

11. On the benefit of zero tariff on Hong Kong exports, according to the Administration, unlike Hong Kong products which can enjoy tariff-free entry to the Mainland under CEPA, the Mainland tariffs for certain foreign products can be as high as 10 to 20%. As such, despite the relatively high production costs in Hong Kong, the zero-tariff preferential treatment applicable to Hong Kong products, among other things, will give Hong Kong a competitive edge vis-à-vis its competitors. Nevertheless, members remain concerned that as the Mainland will further open its market to other trading partners in compliance with its commitment made to WTO, Hong Kong manufacturers are likely to face keener competition from foreign producers of international brand-name goods. Members therefore urge the Administration to remind the local business sectors of the need to carefully assess the opportunities afforded by CEPA as well as the prospect of tapping the Mainland market from a longer term perspective.

12. In this connection, some members raise concern that to some local sectors, the economic benefits derived from CEPA are limited as various barriers still exist. As such, in the long-term interest of Hong Kong's economy, some members consider that it is more important to provide an environment conducive to fairer and freer market competition than seeking concessions and preferential treatment from trading partners. The Administration has explained that although CEPA has promoted the liberalization of trade between Hong Kong and the Mainland, and has benefited the economic and trade development of both places, CEPA is by no means the only driving factor which account for the economic development of Hong Kong. Nevertheless, the Administration has assured members that it will maintain close liaison with the Mainland with a view to improving the implementation of the liberalization measures under CEPA in the light of operational experience.

13. While noting that the Administration will conduct another review on the impact of CEPA measures on the Hong Kong economy in the light of the implementation of CEPA so far, members consider that the review should be an in-depth one and should be conducted by phases on the impact of CEPA on the economy of Hong Kong. The review should also include information and analysis on the number and nature of overseas and Mainland enterprises set up in Hong Kong as a result of CEPA, the future trend of such development, and whether the measures introduced under CEPA have created a genuine positive impact on Hong Kong's economic development in the long run.

Job creation under CEPA

14. The impact of the implementation of CEPA on local employment is another major concern for the CI Panel. Members remain concerned that the implementation of CEPA so far has not brought about significant improvements to the local employment market, particularly in terms of job opportunities. They therefore urge the Administration to be more proactive in providing practical assistance to local small and medium enterprises (SMEs) in the manufacturing sector in the Mainland interested in relocating their production base to Hong Kong, so as to create more employment opportunities for local workers. According to the Administration, the value of CEPA exports has doubled in 2005, as compared with that in 2004, leading to an increase in business activities conducive to the creation of more job opportunities for the local workforce. The liberalization measures under CEPA has also facilitated Mainland enterprises to invest in Hong Kong, thus leading to a more vibrant economy which would in turn benefit the labour sector.

Trade in services

15. Despite the commitment between the Mainland and Hong Kong to encourage mutual recognition of professional qualifications as part of the services trade under CEPA, members note with concern that the local engineering and building surveying professions are still being confronted with various barriers of entry to the Mainland market with all the associated access restrictions, such as the high capital and assets requirement for setting up business in the Mainland. Moreover, in spite of obtaining Class I Registered Qualification in the Mainland, many local professionals are still unable to establish business in the Mainland due to their failure to satisfy the practice qualification in accordance with the Mainland requirements. Those local professionals also consider the unbalanced ratio of job opportunities available to Hong Kong professionals in the Mainland vis-à-vis those offered to Mainland professionals in Hong Kong unfair. As such, members have urged the Administration to continue to pursue with the Mainland authorities in addressing concerns relating to local professional sectors more effectively under the liberalization measures of CEPA. Whilst admitting that there are still practical problems which need to be resolved with respect to further opening up the Mainland market for Hong Kong professionals, the Administration has assured members that it will explore solutions with the local professions and the Mainland authorities with a view to ensuring that Hong Kong professionals can make full use of the opportunities offered by CEPA.

16. In this connection, while welcoming the liberalization measure to allow Hong Kong travel agents to set up wholly-owned or joint venture branches in Guangdong to organize group tours to Hong Kong and Macao for residents of Guangdong Province on a pilot basis, some members suggest that the same practice should also be extended to other major Mainland cities such as Shanghai and Beijing.

Support measures

17. To encourage Hong Kong manufacturers to relocate or set up their production base in Hong Kong, some members have suggested that the Administration should consider the introduction of new initiatives such as land grant and tax concessions. Whilst the Administration is not in favour of providing discriminatory tax incentives to a particular sector or industry, and there is no plan to provide such concessions for the purposes of CEPA, the Administration has referred to a number of concessions which are generally applicable to all sectors such as the depreciation of machine and equipment, etc.

18. In this connection, some members have suggested that the land released as a result of the reduction of the frontier closed area (FCA) might be developed as a production base for the local manufacturing industries. On this issue, the Administration has advised that the ultimate use of the FCA will be subject to the outcome of the feasibility and planning study of the Administration and the subsequent public consultations. In February 2007, the Administration has issued an information paper advising on the results of public consultation on the recommendations arising from the review of the coverage of the FCA. According to the Administration, one of the suggestions received during the consultation is that the area to be released from the FCA should be developed for special industrial uses. The Administration has undertaken to take into account the views and suggestions received during the consultation in formulating the land use proposals, based on the principle of sustainable development. The Administration will also embark on a consultancy study in this regard.

Promotion of CEPA

19. Owing to the importance of CEPA, members are concerned about the Administration's promotion effort in this regard. According to the Administration, Invest Hong Kong and the relevant Government departments and bodies have been working jointly and actively in promoting CEPA to attract more Mainland and overseas enterprises to invest in Hong Kong. Improvement measures have been introduced to facilitate such enterprises in setting up their business operation in Hong Kong. To further promote trade and investment between Hong Kong and different regions in the Mainland, the Administration has, in addition to the ETO in Guangdong and the Beijing Office, set up two additional ETOs, one in Shanghai and the other in Chengdu, in late 2006. The Administration has also advised that about 30% of the foreign investors attracted to Hong Kong and assisted by InvestHK have indicated that CEPA is a significant factor in their consideration of setting up business in Hong Kong. There is also a marked increase during the last few years in the number of foreign corporations setting up regional headquarters and offices in Hong Kong. One of the reasons for this increase is the preferential access to the Mainland market brought about by CEPA. This has led to direct foreign investment flows to Hong Kong.

Discussion at Council meetings

20. Questions on the implementation of CEPA, ranging from CEPA Certificates of Origin to market entry facilitation measures to assist businessmen in grasping the business opportunities provided by CEPA, have been raised at Council meetings. On 9 July 2003, a motion on CEPA moved by Hon CHAN Kam-lam was carried. On 19 November 2003, Members passed a motion moved by Hon CHAN Yuen-han and as amended by Hon Kenneth TING, Hon LEE Cheuk-yan and Dr Hon YEUNG Sum on grasping the opportunities brought about by CEPA to enhance employment. A motion on deepening CEPA moved by Hon WONG Ting-kwong and as amended by Hon SIN Chung-kai was carried at the Council meeting on 15 June 2005.

21. When speaking during the aforesaid motion debates, Members in general expressed support for CEPA but urged the Administration to formulate appropriate measures to improve the business environment and facilitate local enterprises, especially SMEs, to make the best use of the business opportunities brought about by CEPA, thereby creating more employment opportunities and improving the economy.

Reference

22. A list of relevant papers is at the **Appendix**.

Council Business Division 1
Legislative Council Secretariat
11 June 2007

List of relevant papers

Committee	Paper	LC Paper No.
Panel on Commerce and Industry	✧ Administration's paper : "Briefing on Closer Economic Partnership Arrangement"	CB(1)2101/02-03(01)
	✧ Presentation materials provided by the Administration	CB(1)2101/02-03(02)
	✧ Minutes of special meeting held on 30 June 2003	CB(1)2396/02-03
Panel on Commerce and Industry	✧ Administration's paper : "The Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA)"	CB(1)2524/02-03(01)
	✧ Administration's paper : "The Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA)"	CB(1)2101/02-03(03)
	✧ Presentation materials provided by the Administration	CB(1)2101/02-03(02)
	✧ Leaflet provided by the Administration on the six Annexes to and implementation details of CEPA	CB(1)40/03-04
	✧ Leaflet provided by the Administration summarizing the major aspects and benefits of CEPA	CB(1)2219/02-03
	✧ Minutes of meeting held on 13 October 2003	CB(1)430/03-04
	Panel on Commerce and Industry	✧ Administration's paper : "Implementation of Mainland and Hong Kong Closer Economic Partnership Arrangement"
✧ Minutes of meeting held on 10 May 2004		CB(1)2335/03-04

Committee	Paper	LC Paper No.
	<ul style="list-style-type: none"> ✧ Administration's paper : "Mainland and Hong Kong Closer Economic Partnership Arrangement" ✧ Background Brief on "Mainland and Hong Kong Closer Economic Partnership Arrangement" ✧ Minutes of meeting held on 19 October 2004 	<p>CB(1)2500/03-04</p> <p>CB(1)50/04-05</p> <p>CB(1)211/04-05</p>
	<ul style="list-style-type: none"> ✧ Administration's paper : "Preliminary report on the impact of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA)" ✧ Background Brief on "Recent Developments of Mainland and Hong Kong Closer Economic Partnership Arrangement" ✧ Question raised by Hon Jeffrey LAM at the Council meeting on 26 January 2005 and the Administration's reply ✧ Minutes of meeting held on 15 February 2005 	<p>CB(1)861/04-05(03)</p> <p>CB(1)860/04-05</p> <p>CB(1)861/04-05(04)</p> <p>CB(1)1071/04-05</p>
	<ul style="list-style-type: none"> ✧ Administration's paper : "Report on the impact of the Mainland and Hong Kong Closer Economic Partnership Arrangement" ✧ Leaflet on Mainland and Hong Kong Closer Economic Partnership Arrangement – Implementation details ✧ Background Brief on "Recent Developments of Mainland and Hong Kong Closer Economic Partnership Arrangement" ✧ Minutes of meeting held on 19 April 2005 	<p>CB(1)1259/04-05(03)</p> <p>CB(1)1007/04-05(01)</p> <p>CB(1)1249/04-05</p> <p>CB(1)1499/04-05</p>

Committee	Paper	LC Paper No.
	<ul style="list-style-type: none"> ✧ Administration's paper : "Implementation of the third phase of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA III)" ✧ Leaflet on Mainland and Hong Kong Closer Economic Partnership Arrangement published by the Trade and Industry Department in October 2005 ✧ Background Brief on "Recent Developments of Mainland and Hong Kong Closer Economic Partnership Arrangement" ✧ Minutes of meeting held on 15 November 2005 	<p>CB(1)90/05-06(01)</p> <p>CB(1)259/05-06</p> <p>CB(1)499/05-06</p>
	<ul style="list-style-type: none"> ✧ Administration's paper : "Mainland and Hong Kong Closer Economic Partnership Arrangement - Further Liberalization Measures in 2006" ✧ Background Brief on "Developments of Mainland and Hong Kong Closer Economic Partnership Arrangement" ✧ Minutes of meeting held on 18 July 2006 	<p>CB(1)1898/05-06(01)</p> <p>CB(1)1977/05-06</p> <p>CB(1)2179/05-06</p>
Legislative Council (meeting held on 9 July 2003)	✧ Motion on "Mainland and Hong Kong Closer Economic Partnership Arrangement"	Hansard
Legislative Council (meeting held on 19 November 2003)	✧ Motion on "Grasping the opportunities brought about by CEPA to enhance employment"	Hansard
Legislative Council (meeting held on 8 June 2005)	✧ Question on "Hong Kong Professionals Practising on the Mainland"	Hansard
Legislative Council (meeting held on 15 June 2005)	✧ Motion on "Deepening the Mainland and Hong Kong Closer Economic Partnership Arrangement"	Hansard

Committee	Paper	LC Paper No.
Legislative Council (meeting held on 22 March 2006)	✧ Question on "Assisting Hong Kong People in doing business on the Mainland"	Hansard