

For discussion  
on 19 May 2009

**Legislative Council**  
**Panel on Commerce and Industry**

**Trade Relations between the Mainland and Hong Kong**

**Introduction**

This paper briefs Members on the recent developments in the trade relations between the Mainland and Hong Kong, including the measures taken by the Hong Kong Special Administrative Region (HKSAR) Government and the Mainland authorities to support Hong Kong-owned enterprises in the Mainland.

**Trade Relations between the Mainland and Hong Kong**

2. The Mainland is Hong Kong's largest trading partner. In 2008, the total merchandise trade between the Mainland and Hong Kong was HK\$2,781.2 billion, accounting for 47.5% of the total trade value of Hong Kong during the period. Separately, Hong Kong ranks third among the trading partners of the Mainland, after the United States and Japan.

3. Hong Kong is the Mainland's largest source of realised direct foreign investment, accounting for 39.8% of the national total as at end March 2009, with a cumulative value of realised direct investment at HK\$2,802.6 billion. At the same time, the Mainland is Hong Kong's biggest external investor. As at end 2007, inward direct investment from the Mainland amounted to HK\$3,737.4 billion, accounting for 40.7% of our total. There are over 2,600 Mainland-related enterprises operating in Hong Kong, covering a wide range of economic activities, including import/export, wholesale/retail, transportation and warehousing etc.

4. Hong Kong is also an important entrepot for the Mainland. The value of re-export goods destined for the Mainland was HK\$1,335.7 billion in 2008. In the same period, the value of Mainland goods re-exported through Hong Kong to other parts of the world was HK\$1,707.7 billion.

## **Impact of Mainland Policy Adjustments and the Financial Tsunami**

5. Hong Kong businessmen have invested in a large number of manufacturing operations in the Mainland, many of which are in the processing trade. In recent years, the Mainland has introduced adjustments to many policy areas, including restricting the operation of polluting, resource-intensive and energy-intensive industries, encouraging enterprises to move up the value chain, upgrade their production technologies or shift their operations to the central and western regions, and implementing the Labour Contract Law etc. These new legislation and measures aim to improve the Mainland's industrial structure, which would benefit the nation's economic development in the long run. However, the cumulative impacts of these policy adjustments, the financial tsunami and the shrinking overseas market have brought about grave challenges to the operation of our enterprises.

6. The HKSAR Government has been maintaining close contact with the trade through various channels, including the Task Force to Support the Processing Trade, the Hong Kong Economic and Trade Office in Guangdong and trade associations. To enhance the trade's understanding of the new legislation and measures, we have been organizing policy symposiums and seminars jointly with Mainland authorities. We also reflect the trade's views and make recommendations to the Mainland authorities through different channels before promulgation of new policies and legislation, whenever such is possible.

7. The Mainland actively responded to the recommendations of the HKSAR Government, and in December 2008 announced 14 policies to support Hong Kong. Specific policies have been rolled out gradually. Examples include raising the export tax rebate rates six times, suspending the actual payment of standing book deposit for processing trade enterprises, making adjustments to the Catalogues of Restricted Products and Prohibited Products for the Processing Trade, reducing or waiving administrative fees and charges, and reducing social insurance and economic compensation for enterprises with hardship etc. These measures can alleviate the burden on enterprises.

8. The Mainland also announced that Hong Kong-owned enterprises would be allowed to use their assets in Hong Kong as collateral in securing loans from the Mainland branches of Hong Kong banks. This measure, to be implemented in Guangdong and Shanghai on a pilot basis, will further facilitate the financing of Hong Kong-owned enterprises.

9. In addition, the Guangdong Province announced 30 measures in January to assist Hong Kong, Macau and Taiwan-owned enterprises to expedite restructuring and upgrading. These measures include launching a RMB 1 billion special fund for the restructuring and upgrading of processing trade enterprises, reducing or waiving certain taxes and fees, reducing social insurance levies, and simplifying the process for domestic sales. In addition, clarification has been made to the calculation of overtime payment and retrospective period in the labour system.

10. All these measures will bring a win-win situation for both the Mainland and Hong Kong, as they will help Hong Kong-owned enterprises in the Mainland continue to operate, and at the same time contribute to the Mainland economy and employment situation.

### **Business and Technological Restructuring**

11. Through the Hong Kong/Guangdong Expert Group on the Restructuring and Upgrading of the Processing Trade, the HKSAR Government and the Guangdong Provincial Government work together to assist enterprises to restructure and upgrade their operations. As set out in paragraph 9 above, the Guangdong Province has launched a special fund for the restructuring and upgrading of Hong Kong-owned enterprises. In another development, through the project “Transform, Upgrade, Relocate for a New Horizon” jointly organized with the Hong Kong Productivity Council, as well as other industry support bodies like the Hong Kong Trade Development Council (HKTDC) etc, we assist enterprises to upgrade their technological and environmental performance, and restructure their business structure to foreign-owned investments. As the process for restructuring is complex and time-consuming, we have been reflecting to the relevant authorities the need to simplify the arrangements for carry-over

and taxation during restructuring, and to allow enterprises to “restructure without stopping production” so as to minimize the impact on enterprises.

### **Relocation of Production Lines**

12. The Mainland has designated 31 reception sites for the relocation of the processing trade in the past two years. The HKSAR Government and HKTDC have organized business delegations to visit seven of these sites where there were more business interests. We also reflect to the relevant provincial and municipal authorities the trade’s concerns, such as preferential taxation, labour supply, logistics and support facilities, customs clearance and utility supply etc. We will continue to encourage the trade to relocate their operations. Separately, in line with Guangdong’s policy of “Dual Transfer of Labour and Industry”, we will encourage enterprises to relocate to the east/west and the mountain areas of Guangdong.

### **Helping Hong Kong Enterprises Tap the Mainland Domestic Market**

13. One of our priorities of work this year is to join force with the Mainland authorities to help Hong Kong enterprises tap the Mainland market, which also ties in with the Mainland’s policy of expanding domestic demand.

14. In March, the Chief Executive and the Minister of Commerce co-chaired the “Forum on Assisting Hong Kong Enterprises to Open Up the Mainland Domestic Market” in Beijing. The Forum provided an opportunity for Hong Kong business leaders to reflect directly to Mainland officials the difficulties encountered by Hong Kong enterprises in developing the Mainland market. The Secretary for Commerce and Economic Development (SCED) subsequently wrote to the Minister, setting out the trade’s concerns. The Ministry of Commerce (MoC) indicated that it would actively follow up the proposals put forward at the meeting.

15. MoC subsequently organized, with the support of the Commerce and Economic Development Bureau, the “Domestic Market Business Matching Forum at the 105<sup>th</sup> China Import and Export Fair” in late April.

SCED led more than 100 Hong Kong enterprises to participate in the Forum. This demonstrated our business sector's keen interest to tap the Mainland market. MoC indicated that they would continue to organize similar business matching activities. Separately, Guangdong will cooperate with the HKSAR Government to organize the "Guangdong Foreign-invested Enterprises Commodities Fair" in Dongguan in June, thus providing another platform for domestic sales for Hong Kong-owned enterprises in the processing trade.

16. HKTDC organized the Consumer Products Expo in Guangzhou in mid-March and the Style Hong Kong Show in Wuhan in early May. Both events attracted over 100,000 visitors. HKTDC will continue to organize similar events in other cities to assist Hong Kong enterprises tap the Mainland market.

17. Other than the abovementioned exhibition and business matching activities, we will continue to work with the Central authorities and relevant ministries to implement the "single tax return for multiple domestic sales" arrangement. We will also examine different measures to facilitate Hong Kong enterprises to open up the Mainland market, such as streamlining the procedures for opening shops and certification/inspection, expediting the approval process and simplifying the tax filing arrangements.

### **Financial Support**

18. In face of the global financial crisis and other economic uncertainties, the HKSAR Government has enhanced the "SME Loan Guarantee Scheme", which would facilitate enterprises to procure new equipment that meets the latest environmental requirements, restructure their business or relocate their operations. In addition, we have introduced the "Special Loan Guarantee Scheme" to alleviate the pressure on small and medium enterprises (SMEs) by providing them \$100 billion loan guarantee. Hong Kong-owned enterprises may also apply for the Innovation and Technology Fund to upgrade their technological capability and introduce more innovative ideas to their businesses.

19. To facilitate Hong Kong enterprises to develop overseas and Mainland markets, we have enhanced the Export Marketing Fund by raising the grant ceiling and extending the scope of reimbursable items from participating in trade fairs/missions to placing advertisements in export trade publications or the websites of exhibition organizers.

### **Export Credit Insurance**

20. The Hong Kong Export Credit Insurance Corporation (ECIC) has launched a series of measures in October last year. For example, ECIC will be as accommodating and flexible as possible when handling SMEs' credit limit applications and provide exporters with higher insurance covers. Other measures include upgrading the credit ratings of individual emerging markets, lowering the premium rates, expediting the processing of credit limit applications, offering exporters free overseas buyer credit assessment services, and waiving the annual policy fee for existing and new policyholders for one year etc. To strengthen ECIC's underwriting capacity, the Government has also increased ECIC's statutory maximum liability from \$15 billion to \$30 billion. The market limits for individual markets have doubled accordingly. Furthermore, ECIC will step up co-operation with the China Export and Credit Insurance Corporation in the area of business referrals with a view to assisting enterprises to obtain credit insurance services for their sales to the Mainland market. The two organizations will hold seminars in the Mainland and Hong Kong to promote credit insurance services to local enterprises.

### **Conclusion**

21. We will continue to liaise with the trade and keep in view their conditions. At the same time, we will discuss with the Mainland authorities measures to support the trade to ease their pressure and develop the Mainland market.

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