

For information
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**LEGISLATIVE COUNCIL
PANEL ON COMMERCE AND INDUSTRY**

**MAINLAND AND HONG KONG
CLOSER ECONOMIC PARTNERSHIP ARRANGEMENT
FURTHER LIBERALIZATION MEASURES in 2009**

INTRODUCTION

This note informs Members of the outcome of our discussions with the Central People's Government (CPG) this year on further liberalization under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA).

BACKGROUND

2. The Mainland and Hong Kong signed the main text of CEPA on 29 June 2003 and its six annexes on 29 September 2003. Pursuant to Article 3 of CEPA, which provides that the two sides will broaden and enrich the content of the Arrangement through continuous and further reciprocal liberalization, the two sides signed five Supplements to the CEPA on 27 October 2004, 18 October 2005, 27 June 2006, 29 June 2007 and 29 July 2008 respectively. Further consultations with the CPG on liberalization under CEPA were launched in January 2009. After several rounds of exchanges, the two sides signed the Supplement VI to CEPA on 9 May 2009 in Hong Kong. The Supplement is available for reference at the Trade and Industry Department's CEPA website at http://www.tid.gov.hk/english/cepa/legaltext/cepa_legaltext.html. Key measures agreed in the Supplement VI to CEPA are highlighted in paragraphs 3 to 6 below.

DETAILS

3. Supplement VI to CEPA contains a total of 29 liberalization measures, covering 20 service sectors, including 18 existing CEPA service sectors and two new service sectors (please see paragraphs 4 (H) and (J) below). As a result, the total number of service sectors covered by CEPA will expand from 40 to 42. Both sides have also agreed to enhance

financial cooperation and take forward the work on mutual recognition of professional qualifications.

(A) Further liberalization of trade in services

4. Some of the more noteworthy liberalization measures for trade in services are highlighted below -

- (A) Banking** – to allow branches established by a Hong Kong bank in Guangdong Province to set up “cross-location” sub-branches¹ within the Guangdong Province;
- (B) Securities** – to allow qualified Hong Kong securities companies and Mainland securities companies which satisfy the requirements for establishing subsidiaries, to set up in Guangdong Province joint venture securities investment advisory companies, with the scope of business focusing specifically on securities investment advisory services. The percentage of shareholding of the Hong Kong securities company could, at a maximum, reach 1/3 of the total shareholding of such joint venture securities investment advisory company;
- (C) Tourism** – (i) Mainland travel agents authorized to operate group tours to Taiwan can organize group tours for Mainland residents, who hold valid exit/entry permit for travelling to and from Taiwan and travel endorsement, to enter and remain in Hong Kong in transit. This measure aims to facilitate the travel trade in the Mainland and Hong Kong to develop multi-destination tour products; and (ii) to allow Hong Kong permanent residents with Chinese citizenship to obtain Mainland outbound tour escort credential. They can be employed by Mainland international travel agents authorized to operate outbound group tours for Mainland residents, as well as by Hong Kong and Macau travel agents authorized to operate group tours to Hong Kong and Macau for Mainland residents;
- (D) Audio-visual** – (i) to allow Hong Kong service suppliers to provide videos and sound recording (including motion picture products) distribution services in the Mainland in the form of

¹ According to the regulations in the Mainland, commercial banks (including foreign banks) can establish business sub-branches (i.e. same municipality sub-branches) below the branch level, within the administrative area of the same municipality. However, if a bank plans to establish service points in another administrative area, it has to first establish a branch in that administrative area. This liberalization measure allows banks in Hong Kong to expand their service points in multiple areas, without first establishing branches there. The measure could help banks in Hong Kong to efficiently expand their service points to different locations, thus enhancing their services provision to clients in the Guangdong Province.

wholly-owned operations; and (ii) to allow post production of domestic films (including co-productions) to be processed in Hong Kong after obtaining the approval of the State Administration of Radio, Film and Television;

- (E) Telecommunications** – to allow Hong Kong service suppliers to distribute in Guangdong Province fixed/mobile telephone service cards which can only be used in Hong Kong;
- (F) Legal** – (i) to allow Hong Kong legal practitioners who have at least five years' experience in legal practice and who have passed the National Judicial Examination to undergo intensive training offered by lawyers associations in the Mainland that lasts for at least one month in accordance with the relevant Mainland rules. Upon completion of the training and passing of the assessment, they can apply to practise as lawyers in the Mainland; and (ii) to allow Hong Kong law firms which have set up representative offices in the Mainland to operate in association with Mainland law firms in Guangdong Province; the Mainland law firms shall have been established for one year or more, with at least one person who established the firm having been in legal practice for five years or more;
- (G) Convention and Exhibition** - (i) to allow Hong Kong service suppliers to organize exhibitions, in the form of cross-border supply, in Beijing Municipality, Tianjin Municipality, Chongqing Municipality, Zhejiang Province, Jiangsu Province and Fujian Province on a pilot basis; and (ii) to allow enterprises set up by Hong Kong service suppliers on a wholly-owned, equity joint venture or contractual joint venture basis in the provinces and autonomous regions of Guangxi, Hunan, Hainan, Fujian, Jiangxi, Yunnan, Guizhou and Sichuan to organize overseas exhibitions on a pilot basis. Participating enterprises should be registered enterprises in that province or autonomous region (these liberalization measures represent further geographical extension of the 2007 measure on cross-border supply of services and the 2008 measure on allowing Hong Kong service suppliers to organize overseas exhibitions on a pilot basis);
- (H) Transportation** – (i) for rail transport services, to allow Hong Kong service suppliers to construct, operate and manage the Shenzhen Metro Line 4 project in Shenzhen in the form of wholly-owned operations. This is a newly added service sector ; and (ii) for maritime transport services, to allow Hong Kong service suppliers to set up wholly-owned shipping companies in

the Mainland to provide regular business services such as shipping undertaking, issuance of bills of lading, settlement of freight rates, signing of service contracts, etc. for shipping transport between Hong Kong and Class B ports in Guangdong operated by Hong Kong service suppliers using chartered Mainland vessels;

(I) Printing and Publishing - to allow Hong Kong service suppliers to establish typesetting and production services company on a wholly-owned, equity joint venture or contractual joint venture basis in the Mainland to provide pre-press services such as proof-reading, design and typesetting for books; and

(J) Liberalization Measures in the China-Pakistan Free Trade Agreement (the Agreement) - to allow Hong Kong service suppliers to enjoy preferential market access in three service sectors, namely (i) medical and dental services²; (ii) research and development services; and (iii) real estate services². These liberalization commitments were made by the Mainland to Pakistan under the Agreement signed in February 2009. The same preferential treatments are now extended to Hong Kong in accordance with CEPA. Research and development services is a newly added sector under CEPA; Hong Kong service suppliers are allowed to set up wholly-owned enterprises in the Mainland to provide research and experimental development services on natural sciences and engineering.

5. In addition, to enhance financial cooperation, the Mainland shall (i) allow qualified Mainland securities companies approved by the China Securities Regulatory Commission to set up subsidiaries in Hong Kong in accordance with the relevant requirements; and (ii) actively explore the introduction in the Mainland of “open-end index-tracking exchange-traded fund”, the portfolios of which are constituted by Hong Kong listed stock.

6. Supplement VI to CEPA includes a total of 9 liberalization measures for early and pilot implementation in Guangdong Province, covering the legal, convention and exhibition, public utility,

² For medical and dental services, the liberalization commitment is to allow Hong Kong service suppliers to set up medical institutions in the Mainland in the form of equity joint venture or contractual joint venture with foreign investment ratio not exceeding 70%. There is however no restriction on the ratio of capital investment between Hong Kong service suppliers and Mainland partners for the setting up of outpatient clinics in the form of equity joint venture or contractual joint venture in Guangdong Province, in accordance with Supplement V to the CEPA. For real estate services, the liberalization commitment is to allow Hong Kong service suppliers to provide, in the form of wholly-owned operations, real estate project services in the Mainland.

telecommunications, banking, securities, maritime transport and rail transport sectors. Such measures can enhance co-operation of service industry between Guangdong and Hong Kong. They also complement the policy direction, as set out in the “Outline of the Plan for the Reform and Development of the Pearl River Delta” (the Outline) of supporting the intensive cooperation in modern service sectors between the Pearl River Delta Region and Hong Kong and Macao, thus helping to accelerate the economic integration of the entire region.

7. All the service liberalization measures will take effect from 1 October 2009³.

8. In accordance with Article 5 of Annex 4 of CEPA, Hong Kong will not impose any new discriminatory measures on the Mainland’s services and service suppliers in the sectors covered by CEPA. This commitment will also apply to the new liberalization package.

(B) Mutual Recognition of Professional Qualifications

9. Under Article 15 of CEPA, the Mainland and Hong Kong are committed to encouraging mutual recognition of professional qualifications as part of the services liberalization measure under CEPA. In this connection, both sides agreed to take forward the work on mutual recognition of the following professional qualifications:

- (i) Supervision Engineers of the Mainland and Building Engineers as well as Architects of Hong Kong; and
- (ii) estate agents of the Mainland and Hong Kong.

10. In addition, both sides have agreed that their competent authorities or professional bodies will take forward technical exchange work of the following professionals:

- (i) landscape architectural professionals of the Mainland and Hong Kong;
- (ii) Certified Property Managers of the Mainland and members of the Hong Kong Institute of Housing; and
- (iii) printing technicians.

11. Furthermore, the Mainland allows Hong Kong residents who have formally become members of the Hong Kong Institute of Certified Public Accountants on or before 31 March 2009 to be exempted from the

³ The qualification recognition arrangement for Hong Kong project managers under the construction sector will be effective from the signing date of the Supplement.

"Finance and Accounting" paper when sitting for Mainland's Certified Tax Agent qualification examination.

ASSESSMENT

12. The various liberalization measures under Supplement VI to CEPA fully reflect CPG's support of Hong Kong. The measures also complement the policy direction, as advocated in the "Outline", of promoting cooperation between the two places on services industry, thus helping to support Hong Kong's development in financial services, logistics and tourism, further consolidating Hong Kong's status as an international financial, trade, shipping, logistics and high value-added service centre.

13. For the tourism sector, the measure of permitting Mainland group tours travelling to and from Taiwan to enter and remain in Hong Kong in transit helps open up the Hong Kong-Taiwan "multi-destination" itinerary. Complementing with the measure, announced earlier, of allowing Mainland group tours to go to Taiwan from Hong Kong by taking cruise vessels homeporting in Hong Kong, the measure will not only enrich the travelling experience of the Mainland tourists, but will also enable Hong Kong to maximize the opportunities brought about by the "Three Direct Links" across the Taiwan Strait. It will facilitate the development of retailing, catering and hotel industries and contribute to the creation of job opportunities.

14. For the banking sector, the measure of allowing branches established by a Hong Kong bank in Guangdong Province to set up "cross-location" sub-branches within the Guangdong Province enables them to expand their business network in the Guangdong Province more effectively. It will also improve the quality and efficiency of banking services provided to enterprises in the Guangdong Province (including Hong Kong-invested enterprises). As for the securities sector, the measures of allowing Hong Kong securities companies to participate in the development of Mainland's securities market and of exploring the introduction in the Mainland of "open-end index-tracking exchange-traded fund" with portfolios constituted by Hong Kong listed stock will facilitate co-operation and exchange between the two places in the securities sector.

15. On the creative industry, the various measures under audio-visual, cultural and printing and publishing services sectors will help the local industry further open up the Mainland market and work in tandem with Government's policy of encouraging the further development of the local creative industry.

16. On the whole, the new measures can help enhance the competitiveness of the Hong Kong service suppliers in the Mainland. Such measures will not only help enterprises overcome the current financial crisis, but will also promote the long term economic development of both sides. The various measures on mutual recognition of professional qualifications will facilitate the upgrading of the professional standards of the two places, and will provide greater development opportunities for the trade. As CEPA is an open and ever-evolving platform, we will continue to take account of the views from the trade and will enter into consultation with the Mainland at an appropriate time on further trade liberalization.

PUBLIC CONSULTATION

17. We have been in communication with the business and professional communities when formulating the strategy for CEPA consultations. Views from the trade have been appropriately reflected to the Mainland. We will continue to maintain close dialogue with the stakeholders in the implementation of liberalization measures under Supplement VI to CEPA.

PUBLICITY

18. A signing ceremony for Supplement VI to CEPA was held on 9 May 2009. A press briefing was held immediately afterwards to explain the details of new measures. Information papers will also be issued to various trade-related advisory bodies.

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