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Panel on Commerce and Industry

Meeting on 18 November 2008

**Updated background brief on the latest development of the
Mainland and Hong Kong Closer Economic Partnership Arrangement**

Purpose

This paper provides an update on the latest 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 concluded by the Mainland and Hong Kong which makes way for 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 which came into force on 1 January 2004. Pursuant to Article 3 of CEPA, which provides that the two sides will broaden and enrich from time to time the contents of the Arrangement through continuous and further reciprocal liberalization, four Supplements to the CEPA have been signed on 27 October 2004, 18 October 2005, 27 June 2006 and 29 June 2007 respectively for progressive implementation of liberalization measures under CEPA. On trade in goods, all products of Hong Kong importing into the Mainland enjoy preferential tariff free treatment if they meet the CEPA rules of origin. On trade in services, Hong Kong service suppliers (HKSS) enjoy preferential access to the Mainland market in selected service areas. Professional bodies of Hong Kong and regulatory authorities in the Mainland have also signed a number of agreements and arrangements on mutual recognition of professional qualifications. On trade and investment facilitation, both sides agree to enhance co-operation to improve the overall business environment.

3. A study was conducted by the Administration in 2007 on the impact of the first three phases of CEPA on the Hong Kong economy between 2004 and 2006 and thereafter. A summary of the key findings of the study covered three areas of CEPA (namely trade in goods, trade in services and the Individual Visit Scheme) is in **Appendix I**.

4. According to the Administration, CEPA has created for Hong Kong 36 000 new jobs and brought additional capital investment of HK\$5.1 billion during the first three years since its implementation in 2003. As at end 2007, over 900 Mainland enterprises were granted approval to invest in Hong Kong, with investment amounting to more than US\$5.5 billion. As at end August 2008, more than HK\$14.5 billion worth of goods entering the Mainland, of which 65% was exported to Guangdong, enjoyed the zero-tariff under CEPA. As for trade in services, more than 2,000 Certificates of HKSS have been issued. In addition, more than 30 million trips were made by Mainland visitors to Hong Kong under the Individual Visit Scheme, with about 80% of the applications coming from Guangdong.

Previous discussions

5. Members have followed closely the implementation of CEPA since its inception in 2003. In general, Members welcome the initiatives under CEPA and have all along been keen to ensure that CEPA can provide a window of opportunities for Hong Kong businesses to gain greater access to the Mainland market and create a genuine positive impact on Hong Kong's economic development in the long run. They have also urged the Administration to render every assistance to facilitate Hong Kong enterprises to make the best use of the opportunities brought about by CEPA.

6. At various Council meetings, Members have raised questions on the implementation of CEPA, Certificates of Origin under CEPA, market entry facilitation measures to assist businessmen/professionals in grasping the opportunities brought about by CEPA, and measures to deepen trade co-operation and foster closer economic integration between Hong Kong and the Mainland.

7. A number of motions on CEPA were carried at the Council meetings on 9 July 2003, 19 November 2003 and 15 June 2005. Members were supportive of CEPA and were keen to ensure that arrangements were made under CEPA to assist Hong Kong businessmen in gaining greater access to and tapping the vast opportunities of the Mainland market. Members also urged the Administration to formulate appropriate measures to improve the business environment and facilitate local enterprises, especially the small and medium sized enterprises, to make the best use of the business opportunities brought about by CEPA, thereby creating more employment opportunities and improving Hong Kong's economy in the long run.

8. Motions on promoting the Pan-Pearl River Delta (PPRD) cooperation and development and developing cooperative relationship with the Mainland were carried at the Council meetings on 3 July 2004 and 11 July 2007 respectively. Members urged the Government to continue to develop its cooperative relationship with the Mainland on all fronts so as to reinforce Hong Kong's position as a financial, logistics and commercial centre in the PPRD Region.

9. A motion on assisting Hong Kong residents encountering problems in the Mainland was passed at the Council meeting on 19 October 2005. Members urged the Government to develop closer communication and initiatives with Central/provincial/municipal governments of the Mainland with a view to enabling Hong Kong residents to receive proper assistance and support as soon as possible when they encountered difficulties in the Mainland.

10. At its meeting held on 20 May 2008, CI Panel exchanged views with the Administration and deputations on issues related to the furthering of trade relations between the Mainland and Hong Kong, including the developments of CEPA. Members' views and concerns on CEPA and related matters are summarized in the ensuing paragraphs.

Measures to help Hong Kong enterprises operating in the Mainland

11. Members noted that according to a survey conducted by some major chambers of commerce, about 10,000 Hong Kong enterprises operating in the Mainland might close down in 2008 as a result of the intensified business environment in the Mainland arising from the changes in policies, implementation of new laws, the lack of implementation details of new rules and policies as in the case of the new Labour Contract Law, and the appreciation of Renminbi.

12. Members were concerned that the closure of Hong Kong enterprises would have an adverse impact on Hong Kong's economy, the labour market and the livelihood of Hong Kong citizens working in the Mainland. The Panel was keen to ensure that effective measures would be devised to provide comprehensive assistance and alleviate the operation difficulties encountered by the enterprises. Some Panel members urged the Administration and the Hong Kong deputies to the National People's Congress and representatives of Hong Kong members of the National Committee of the Chinese People's Political Consultative Conference to reflect the difficulties and take up the concerns of Hong Kong businessmen with the relevant Mainland authorities.

Measures to help aggrieved Hong Kong businessmen operating in the Mainland

13. Regarding aggrieved cases involving Hong Kong businessmen operating in the Mainland, some members were concerned that despite the Mainland courts have ruled in favour of the aggrieved Hong Kong businessmen, remedial actions were not duly taken by the relevant Mainland authorities. The Administration was urged to play a more active role in assisting Hong Kong businessmen in distress to resolve their problems, and where warranted, to facilitate full settlement of these

outstanding cases in collaboration with the Mainland authorities.

14. There were also calls for the Hong Kong Economic and Trade Offices in Guangdong, Shanghai and Chengdu; the Office of the Government of the HKSAR in Beijing and the Mainland Affairs Liaison Office to step up support and assistance for Hong Kong residents in distress within their geographical coverage, and where appropriate, to bring up the issues to the top echelon of the Central Government for a solution. Suggestion was made for the above offices to compile and analyze complaints, aggrieved cases and commercial disputes for alerting Hong Kong businessmen of the identified loopholes of existing laws, regulations and policies, and for follow up with the Mainland authorities. Practical assistance such as enquiry services on general legal matters about the Mainland should also be provided to Hong Kong businessmen.

Recent developments

The signing of Supplement V to CEPA on 29 July 2008

15. Following consultation with the Central People's Government (CPG) launched in January 2008 and after several rounds of discussion, the two sides signed Supplement V to CEPA on 29 July 2008 to further enhance the level of economic and trade exchanges and cooperation between the Mainland and Hong Kong. Liberalization measures under Supplement V which will come into force on 1 January 2009 provides for further liberalization in trade in services, trade and investment facilitation (with three cooperative initiatives on electronic commerce, protection of intellectual property and branding) and mutual recognition of professional qualifications.

16. To enhance Hong Kong-Guangdong economic and trade cooperation, a package of service liberalization and facilitation measures were approved by the CPG for early and pilot implementation in Guangdong. Of the 25 measures announced on 29 July 2008, 17 were included under the CEPA liberalization package covering accounting, construction and related engineering, medical, placement and supply services of personnel, environment, social service, tourism, maritime transport, road transport, and individually-owned stores.

Latest position

17. The Administration will brief the Panel on the liberalization measures of the Supplement V to CEPA and other measures for deepening economic and trade co-operation with Guangdong Province at the Panel meeting to be held on 18 November 2008.

Reference

18. A list of relevant papers is at the **Appendix II**.

Council Business Division 1
Legislative Council Secretariat
12 November 2008

A summary of the key findings of the study on the impact of the first three phases of CEPA on the Hong Kong economy between 2004 and 2006 and thereafter

On trade in goods, the study found that 89% of the responding companies considered CEPA beneficial to the Hong Kong economy and 77% considered CEPA beneficial to the manufacturing sector. The additional capital investment in Hong Kong amounted to HK\$103 million in 2005, HK\$202 million in 2006, and a total of HK\$239 million additional capital investment was planned for 2007 and beyond.

2. On trade in services, 74% of the responding companies considered CEPA beneficial to the Hong Kong economy, and 47% considered CEPA beneficial to their own industries. The cumulative additional capital investment induced amounted to HK\$4.8 billion by 2006, representing an increase of 380% over two years. The expected capital investment in 2007 and beyond totalled HK\$2.4 billion.

3. As at end 2006, the Individual Visit Scheme (IVS) was implemented in 44 Mainland cities and Mainland residents made over 17.2 million trips to Hong Kong under the IVS, accounting for 39% of the total Mainland arrivals. The percentage share concerned increased from 28% in 2004. The IVS visitors generated an additional tourist spending of HK\$22.7 billion between 2004 and 2006. The additional spending concerned was estimated at HK\$9.3 billion in 2006, almost 38% higher than that in 2004. Major spending was made in the retail sector, hotel accommodation and restaurants.

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)
	✧ Minutes of special meeting held on 30 June 2003	CB(1)2396/02-03
	✧ 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)
	✧ Minutes of meeting held on 13 October 2003	CB(1)430/03-04
	✧ Administration's paper : "Implementation of Mainland and Hong Kong Closer Economic Partnership Arrangement"	CB(1)1710/03-04(04)
	✧ Minutes of meeting held on 10 May 2004	CB(1)2335/03-04
	✧ Administration's paper : "Mainland and Hong Kong Closer Economic Partnership Arrangement"	CB(1)2500/03-04
	✧ Background brief on "Mainland and Hong Kong Closer Economic Partnership Arrangement"	CB(1)50/04-05
	✧ Minutes of meeting held on 19 October 2004	CB(1)211/04-05
	✧ Administration's paper : "Preliminary report on the impact of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA)"	CB(1)861/04-05(03)
✧ Background brief on "Recent	CB(1)860/04-05	

Committee	Paper	LC Paper No.
	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	CB(1)861/04-05(04)
	✧ Minutes of meeting held on 15 February 2005	CB(1)1071/04-05
	✧ Administration's paper : "Report on the impact of the Mainland and Hong Kong Closer Economic Partnership Arrangement"	CB(1)1259/04-05(03)
	✧ Background brief on "Recent Developments of Mainland and Hong Kong Closer Economic Partnership Arrangement"	CB(1)1249/04-05
	✧ Minutes of meeting held on 19 April 2005	CB(1)1499/04-05
	✧ Administration's paper : "Implementation of the third phase of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA III)"	CB(1)90/05-06(01)
	✧ Background brief on "Recent Developments of Mainland and Hong Kong Closer Economic Partnership Arrangement"	CB(1)259/05-06
	✧ Administration's paper : "Strengthening HKSAR's Representation in the Mainland"	CB(1)260/05-06(04)
	✧ Minutes of meeting held on 15 November 2005	CB(1)499/05-06
	✧ Administration's paper : "Mainland and Hong Kong Closer Economic Partnership Arrangement - Further Liberalization Measures in 2006"	CB(1)1898/05-06(01)

Committee	Paper	LC Paper No.
	✧ Background brief on "Developments of Mainland and Hong Kong Closer Economic Partnership Arrangement"	CB(1)1977/05-06
	✧ Minutes of meeting held on 18 July 2006	CB(1)2179/05-06
	✧ Administration's paper : "Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) - Impact on the Hong Kong Economy"	CB(1)1849/06-07(04)
	✧ Background brief on "Development of the Mainland and Hong Kong Closer Economic Partnership Arrangement"	CB(1)1873/06-07(04)
	✧ Minutes of meeting held on 12 June 2007	CB(1)2085/06-07
	✧ Administration's paper : "Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) - Further Liberalization Measures in 2007"	CB(1)2012/06-07(01)
	✧ Minutes of meeting held on 17 July 2007	CB(1)121/07-08
	✧ Administration's paper : "Policy Agenda of Commerce, Industry and Tourism Branch and Innovation and Technology Commission, Commerce and Economic Development Bureau"	CB(1)32/07-08(03)
	✧ Minutes of meeting held on 16 October 2007	CB(1)366/07-08
	✧ Administration's paper : "Report on the Work of HKSAR's Offices in the Mainland"	CB(1)243/07-08(04)
	✧ Minutes of meeting held on 20 November 2007	CB(1)575/07-08
	✧ Administration's paper : "Commerce and Trade Relations between the Mainland and Hong Kong"	CB(1)1536/07-08(03)
	✧ Background brief on "Furthering of trade	CB(1)1536/07-08(04)

Committee	Paper	LC Paper No.
	<p>Partnership Arrangement and Deepening Economic and Trade Cooperation with Guangdong Province" dated 29 July 2008</p> <p>✧ Supplement V to the Mainland and Hong Kong Closer Economic Partnership Arrangement signed on 29 July 2008</p>	