

**立法會**  
**Legislative Council**

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**Panel on Commerce and Industry**

**Meeting on 18 May 2010**

**Updated background brief on  
trade relations between the Mainland and Hong Kong**

**Purpose**

This paper provides an update of the initiatives in place to foster trade relations between the Mainland and Hong Kong. It also summarizes Members' views and concerns on related issues.

**Initiatives to foster trade relations**

2. Since the reunification, communications between Hong Kong and the Mainland have been increasingly frequent in various aspects, especially in trade and commerce. Apart from being Hong Kong's largest trading partner and major investor, the Mainland is also the largest market and the major source of Hong Kong's re-export goods. In recent years, the launching of various major initiatives by the Central People's Government (CPG), such as the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), has greatly strengthened linkage between Hong Kong and the Mainland in many aspects. Hong Kong has also been actively developing regional co-operation initiatives with the provincial governments and municipalities of the Mainland to further enhance communication and co-operation between the places concerned and Hong Kong.

Hong Kong/Guangdong Co-operation Joint Conference

3. The Governments of the Hong Kong Special Administrative Region (HKSAR) and the Guangdong Province jointly set up the Hong Kong/Guangdong Co-operation Joint Conference (HKGDCJC) in 1998 to study and co-ordinate issues of mutual interests, and to facilitate co-operation and exchanges of both sides.

4. The National Development and Reform Commission (NDRC) promulgated in January 2009 the "Outline of the Plan for the Reform and Development of the Pearl River Delta (PRD)" (the Outline), which elevates the development of the PRD region to the strategic level of national development, specifying Hong Kong/Guangdong co-operation as a national policy. During their meeting in Beijing in March 2009, the Chief Executive and Wang Yang, the Party Secretary of Guangdong Province, reached important consensus on the work relating to deepening Hong Kong/Guangdong co-operation. One of the most important tasks is the joint formulation of the Framework Agreement on Hong Kong/Guangdong Co-operation (Framework Agreement), which would become an official agreement between the two governments. This will translate the Outline's macro policies into concrete measures conducive to the development of both places. The framework will also serve as an agenda for Hong Kong-Guangdong co-operation, laying a foundation for the HKSAR to seek to incorporate the related initiatives into the National 12th Five-Year Plan. With the assistance and support from various fronts, the Framework Agreement has been endorsed by the State Council. On 7 April 2010, top leaders of Hong Kong and Guangdong signed the Framework Agreement in Beijing, witnessed by the State Leaders. Details and content of the Framework Agreement are set out in the Administration's paper issued vide LC Paper No. CB(1)1559/09-10(01) on 7 April 2010.

#### Hong Kong/Shenzhen Co-operation Meeting

5. The close liaison between Hong Kong and Shenzhen started in 1978 after the Mainland had begun its "reform and opening up". Since then, a broad base of co-operation has developed. Both sides have been maintaining close partnership on the basis of the "One Country, Two Systems" principle and the HKGDCJC. The Hong Kong/Shenzhen Co-operation Meeting co-chaired by the Chief Secretary for Administration and the Mayor of the Shenzhen Municipal Government had been set up since 2004 with a view to consolidating the achievements attained in various co-operation initiatives and considering the co-operation in the future so as to obtain synergy. At the meeting on 30 November 2009, the two governments reached agreement on many fronts and signed seven agreements at the co-operation agreement signing ceremony after the meeting. Details of the agreements are set out in the Administration's paper issued vide LC Paper No. CB(1)633/09-10(01) on 9 December 2009.

#### The Mainland and Hong Kong Closer Economic Partnership Arrangement

6. 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, six Supplements to the CEPA have been signed on 27 October 2004, 18 October 2005, 27 June 2006, 29 June 2007, 29 July 2008 and

9 May 2009 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.

## **Previous discussions**

### CEPA

7. 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.

8. At various Council meetings, Members 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, measures to deepen trade co-operation and foster closer economic integration between Hong Kong and the Mainland, business opportunities on the Mainland for local professionals and service sectors, enhancing co-operation between services industries in the Pearl River Delta Region (PRD) region and Hong Kong, developing Mainland market for Hong Kong products, and providing assistance to Hong Kong courier companies operating on the Mainland.

9. Three motions on CEPA were carried at the Council meetings on 9 July 2003, 19 November 2003 and 15 June 2005. During the motion debate, Members generally expressed support for the implementation of CEPA, and were keen to ensure that arrangements were made to assist Hong Kong businessmen in gaining greater access to and tapping the vast opportunities of the Mainland market. The Administration was urged 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.

*Supplement VI to CEPA*

10. At its meeting held on 19 May 2009, the Panel on Commerce and Industry (the CI Panel) noted that Supplement VI to CEPA contained a total of 29 liberalization measures covering 20 service sectors, including 18 existing CEPA service sectors and two new service sectors (i.e. transportation and liberalization measures in the China-Pakistan Free Trade Agreement). As a result, the total number of service sectors covered by CEPA would expand from 40 to 42. Both sides had also agreed to enhance financial cooperation and take forward the work on mutual recognition of professional qualifications.

11. CI Panel members welcomed the signing of Supplement VI to CEPA. They envisaged that with the improving relationship between the Mainland and Taiwan, some form of economic partnership arrangement similar to CEPA would eventually be reached between both sides. As such, account should be taken of the need to provide lower market access thresholds under CEPA liberalization so as to deepen trade co-operation and foster closer economic integration between Hong Kong and the Mainland.

Trade relations between the Mainland and Hong Kong

12. At the CI Panel meeting held on 19 May 2009, members were briefed on the recent developments in the trade relations between the Mainland and Hong Kong, including the measures taken by HKSAR Government and the Mainland authorities to support Hong Kong-owned enterprises in the Mainland.

13. CI Panel members urged the Administration to formulate measures to assist Hong Kong-owned enterprises to adjust to changes in the Mainland's policy on processing trade. The Administration advised that the HKSAR Government had been working closely with the Guangdong Provincial Government to help enterprises restructure their business and upgrade their technological performance, so that they would not lose out in competition in the knowledge-based economy. In parallel, the HKSAR Government would continue to encourage the processing trade to relocate their operations to the reception sites designated by the Ministry of Commerce, the northern mountain areas and the east and west wings of Guangdong, or other central and western regions of the Mainland.

14. On the project "Transform, Upgrade, Relocate for a New Horizon" jointly organized with the Hong Kong Productivity Council and other industry support bodies, CI Panel members urged the Government to strengthen co-operation with the Mainland authorities so as to assist Hong Kong-owned enterprises in the Mainland to upgrade their technological and environmental performance, and re-organize their business structure to foreign-owned investments.

15. CI Panel members noted that the Hong Kong Trade Development Council (HKTDC) had organized the Consumer Products Expo in Guangzhou and the Style Hong Kong Show in Wuhan. In view of the successful events held by the HKTDC, members considered that more funding resources should be provided to

the HKTDC to organize similar events in other cities to help Hong Kong enterprises tap the business opportunities in the Mainland market. Members also welcomed the implementation of the "single tax return for multiple domestic sales" arrangement. They urged the Administration and the HKTDC to step up effort to facilitate Hong Kong enterprises to build up their brand names and to open up the Mainland market through the exhibition and business matching activities.

#### Mainland Hong Kong technology Co-operation

16. At the CI Panel meeting held on 16 June 2009, members were briefed on the collaboration underway between Hong Kong and the Mainland to promote technological development. Noting the success of the DuPont project on global thin film photovoltaic research, members considered that similar co-operation projects should be carried out between Hong Kong and the Mainland to promote technological development.

17. CI Panel members noted that Hong Kong and the Mainland together supported more than 850 projects with a total funding of \$1.9 billion under the "Guangdong-Hong Kong Technology Co-operation Funding Scheme" (TCFS) from 2004 to 2008. Members urged the Administration to adopt a prudent approach in vetting and providing funding for projects under TCFS.

18. CI Panel members also enquired about the Mainland-Hong Kong cooperation in the grooming of talent in technological development. The Administration advised that the grooming of talent and technological exchanges between Shenzhen and Hong Kong would be strengthened under the "Shenzhen-Hong Kong Innovation Circle".

#### **Recent developments**

19. At the special meeting of the Panel on Financial Affairs (FA Panel) held on 14 December 2009, FA Panel members discussed with the Financial Services and the Treasury Bureau (FSTB) the depreciation allowances in respect of machinery or plants used in import processing operations. These members urged to, inter alia, change the broad-brush approach adopted for granting depreciation allowances to Hong Kong enterprises in respect of their machinery or plants (including moulds) used on the Mainland, as such approach rendered some local enterprises with no tax avoidance intention or acts unable to claim such allowances, and hence paying more taxes. According to FSTB, the completeness of the anti-avoidance provisions in the Inland Revenue Ordinance (IRO) would be affected if the concerned restriction under the IRO was relaxed. There would also be practical difficulties in implementation and opening possible loopholes for abuse. In response to the trade's request, FSTB has invited the Joint Liaison Committee on Taxation (JLCT) to study the issue. The Administration will consider any practical and feasible recommendations by the JLCT to address the industry's concern.

20. At the special meeting of the House Committee held on 7 January 2010, the Administration briefed Members on the work and major co-operation initiatives in relation to Hong Kong/Guangdong economic co-operation. On the trade fronts, some Members urged the HKSAR Government and the Guangdong authorities to provide more assistance to Hong Kong processing trade operating on the Mainland. The HKSAR Government should continue to pursue with the authorities in addressing the concern of local professional sectors on mutual recognition of professional qualifications as part of the services trade under CEPA.

### **Latest position**

21. The Administration will brief the CI Panel on 19 May 2010 on details of the Framework Agreement in relation to trade and industry between Hong Kong and Guangdong. The Administration will also update members on the latest developments of Mainland policies and legislation that will affect Hong Kong-owned enterprises, including the effect of the new Postal Law of the Mainland on Hong Kong courier enterprises operating on the Mainland, and the assistance rendered to Hong Kong processing trade enterprises which have difficulties in operating their businesses on the Mainland.

### **Reference**

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

Council Business Division 1  
Legislative Council Secretariat  
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## 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 Developments of Mainland and Hong Kong Closer Economic Partnership Arrangement"	CB(1)860/04-05
	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	CB(1)1259/04-05(03)	

Committee	Paper	LC Paper No.
	Partnership Arrangement"	
	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)
	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

Committee	Paper	LC Paper No.
	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 relations between the Mainland and Hong Kong"	CB(1)1536/07-08(04)
	Minutes of the meeting held on 20 May 2008	CB(1)1863/07-08
	Administration's paper : "Mainland and Hong Kong Closer Economic Partnership Arrangement and deepening economic and trade co-operation with Guangdong province"	CB(1)201/08-09(04)
	Legislative Council Brief on "Further liberalization under Mainland and Hong Kong Closer Economic Partnership Arrangement and deepening economic and trade co-operation with Guangdong province" dated 29 July 2008	CB(1)148/08-09
	Updated background brief on "The latest development of the Mainland and Hong Kong Closer Economic Partnership Arrangement"	CB(1)201/08-09(05)
	Minutes of the meeting held on 18 November 2008	CB(1)846/08-09
	Administration's paper : "Trade relations between the Mainland and Hong Kong"	CB(1)1551/08-09(03)
	Updated background brief on "Trade relations between the Mainland and Hong Kong"	CB(1)1551/08-09(04)
	Minutes of the meeting held on 19 May 2009	CB(1)2643/08-09
	Administration's paper : "Mainland-Hong Kong	CB(1)1866/08-09(03)



Committee	Paper	LC Paper No.
	Motion on "Actively implementing complementary policies for the Outline of the Plan for the Reform and Development of the Pearl River Delta" (4 March 2009)	Hansard
	Question No. 3 on "Business opportunities in the Mainland for local professionals and service sectors" (26 November 2008)	Hansard
	Question No. 16 on "Statistics on Hong Kong-owned factories in the Pearl River Delta Region" (14 January 2009)	Hansard
	Question No. 3 on "Enhancing cooperation between the service industries in the Pearl River Delta Region and Hong Kong" (18 February 2009)	Hansard
	Question No. 6 on "Assistance provided to Hong Kong businessmen engaged in business on the Mainland" (21 October 2009)	Hansard
	Question No. 4 on "Progress of the Mainland and Hong Kong Closer Economic Partnership Arrangement" (18 November 2009)	Hansard
	Question No. 6 on "Assistance for Hong Kong courier companies operating on the Mainland" (24 February 2010)	Hansard
	Question No. 3 on "Hong Kong enterprises operating express delivery service within the Mainland" (17 March 2010)	Hansard