

For information
On 27 May 2010

**LEGISLATIVE COUNCIL
PANEL ON COMMERCE AND INDUSTRY**

**THE MAINLAND AND HONG KONG
CLOSER ECONOMIC PARTNERSHIP ARRANGEMENT**

INTRODUCTION

This note informs Members of the latest state of the enhancement of economic and trade cooperation and exchanges between the Hong Kong Special Administrative Region Government (HKSARG) and the Central People's Government (CPG) 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 six Supplements to CEPA on 27 October 2004, 18 October 2005, 27 June 2006, 29 June 2007, 29 July 2008 and 9 May 2009 respectively.

SUPPLEMENT VII TO CEPA

3. Over the past few months, CPG and HKSARG again conducted consultations on further liberalization of trade in services in the Mainland for Hong Kong and promotion of trade and investment facilitation. After rounds of exchanges, the two sides signed Supplement VII to CEPA on 27 May 2010 in Hong Kong.

4. Supplement VII to CEPA provides for 35 market liberalization and trade and investment facilitation measures in 19 sectors. Among them, 27 are liberalization measures in 14 service sectors and of which eight are measures for "early and pilot implementation".

5. The Supplement is available for reference at the Trade and Industry Department's (TID) CEPA website at [http://www.tid.gov.hk/english/cepa/legaltext/cepa_legaltext.html]. Key contents of Supplement VII to CEPA are highlighted in paragraphs 6 to 15 below.

Further liberalization of trade in services

6. The market access conditions in 14 service sectors will be further relaxed under Supplement VII to CEPA. The 14 service sectors include construction; medical services; technical testing, analysis and product testing; specialty design; audiovisual services; distribution; banking; securities; social services; tourism; cultural services; air transport; qualification examinations for professionals and technicians; and individually owned stores. Among them, “technical testing, analysis and product testing” and “specialty design” are new service sectors. In other words, the service sectors covered by liberalization of trade in services under CEPA will expand from 42 to 44.

7. Major market liberalization measures under Supplement VII to CEPA are highlighted below:

- A. Medical services** – Hong Kong service suppliers (HKSS) are allowed to set up wholly-owned hospitals in the municipalities of Shanghai, Chongqing, and the provinces of Guangdong, Fujian and Hainan; and to set up convalescent hospitals in the form of wholly-owned, equity joint venture or contractual joint venture in Guangdong Province. No requirement is imposed on the total investment in setting up hospitals by HKSS on an equity joint venture or contractual joint venture basis in Guangdong Province; and no restriction is imposed on the ratio of capital investment between Hong Kong and Mainland partners in setting up hospitals in the form of equity joint venture or contractual joint venture in the municipalities of Shanghai, Chongqing, and the provinces of Guangdong, Fujian and Hainan. 12 categories of statutory healthcare professionals who are registered to practise in Hong Kong (medical practitioners, Chinese medicine practitioners, dentists, pharmacists, nurses, midwives, medical laboratory technologists, occupational therapists, optometrists, radiographers, physiotherapists and chiropractors) are allowed to provide short-term services in the Mainland.
- B. Tourism** – Hong Kong travel agents established on a wholly-owned or joint venture basis in Beijing and Shanghai Municipalities are allowed to apply for the operation, on a pilot basis, of group tours to Hong Kong and Macao for residents registered with permanent residence of the Beijing and Shanghai Municipalities.
- C. Banking** – A Hong Kong bank that has maintained a representative office in the Mainland for more than one year (previously required more than two years) can apply to set up a

wholly foreign-funded bank or a foreign bank branch. A Hong Kong bank's operating institution in the Mainland which has been operating for more than two years and profitable for one year prior to the application (previously required profitable operation for two consecutive years prior to the application) can apply to conduct Renminbi business. Foreign banking institutions established in the Mainland by Hong Kong banks can establish specialized institutions to provide financial services to small enterprises.

- D. Securities** – Mainland and Hong Kong will deepen the cooperation in financial services and product development, and launch, in the Mainland at an appropriate time, ETF (open-end index-tracking exchange-traded fund) constituted by Hong Kong listed stocks.
- E. Construction** – Hong Kong professionals who have obtained Mainland's class 1 registered architect qualification or class 1 registered structural engineer qualification, can act as partners to set up construction and engineering design offices in the Mainland in accordance with the relevant qualification requirements, without restrictions on the ratio of the number of Hong Kong partners to the number of the Mainland partners, the ratio of the total capital contributed by the Hong Kong partners to that by the Mainland partners, or the Hong Kong partners' period of residence in the Mainland. Hong Kong professionals who have obtained Mainland's class 1 registered architect qualification or class 1 registered structural engineer qualification by mutual recognition, can register and practise in Guangdong;
- F. Air Transport** – Airport transport sales agencies set up by HKSS in the Mainland in the form of wholly-owned enterprises, equity joint venture or contractual joint venture, can operate air transport sales agency services in the domestic routes in the Mainland. HKSS can also operate aircraft repair and maintenance services in the Mainland in the form of wholly-owned enterprises or with majority shareholding in the enterprises.
- G. Distribution** – Distribution enterprises set up by HKSS in the Mainland can sell books published in Hong Kong.
- H. Technical testing, analysis and product testing services** – Testing organizations in Hong Kong to cooperate with designated Mainland organizations to undertake testing of products under the China Compulsory Certification (CCC) System on a pilot basis, in respect of selected products listed in

the CCC Catalogue and processed in Hong Kong (i.e. the processing facilities are located in Hong Kong). These testing organizations have to be accredited by the accreditation body of the HKSARG (i.e. the Hong Kong Accreditation Service) to be capable of performing testing for the relevant products under the CCC System.

I. Audiovisual services – HKSS can set up enterprises on a wholly-owned, equity joint venture or contractual joint venture basis in the Mainland to produce video and sound recording products.

J. Specialty design – HKSS can set up wholly-owned enterprises in the Mainland to provide specialty design services.

8. Apart from benefiting the larger enterprises, measures in Supplement VII to CEPA would also benefit individuals and small businesses, such measures include allowing registered healthcare professionals to provide short-term services in the Mainland, allowing Hong Kong permanent residents to take the qualification examination for real estate valuer in the Mainland, and allowing Hong Kong permanent residents with Chinese citizenship to set up individually owned stores in the Mainland to provide services in the areas of marriage, renting and leasing of comics books, and pet clinics.

9. All the service liberalization measures under Supplement VII to CEPA will take effect from 1 January 2011.

10. 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 service sectors covered by CEPA. This commitment will also apply to sectors covered by the liberalisation of trade in services measures under Supplement VII to CEPA.

Enhancing cooperation in area of trade and investment facilitation

11. To enhance trade and investment facilitation, in addition to strengthening the cooperation in testing and certification, the Mainland and Hong Kong have also included under Supplement VII to CEPA cooperation in the cultural, environmental, innovation and technology industries, as well as cooperation on education.

12. For **cooperation in cultural and environmental industries**, Supplement VII to CEPA fosters the joint development of the industries of both sides, mainly through strengthening exchanges and communication between relevant organizations and the trade of both sides, as well as

cooperating in organization of visits and trade exhibitions and seminars. For **cooperation in innovation and technology industry**, both sides agree to progressively involve Hong Kong research institutes and enterprises in the national innovation system and encourage Hong Kong research personnel and organizations to participate in national science and technology projects, and also to strengthen exchanges and cooperation between the two places in high technology research, development and application, fundamental scientific research, etc.

13. As regards **cooperation on education**, both sides agree to strengthen exchanges, communication, and exchange of information in respect of education, to strengthen cooperation in training and organizing visits, etc. to support the Mainland's education institutions and Hong Kong's higher education institutions to jointly provide education programmes, to establish joint research facilities and to nurture talents at undergraduate or above level in the Mainland

14. Moreover, for **testing and certification**, both sides agree to strengthen co-operation between relevant authorities of both sides, and the Mainland will also assist Hong Kong's testing laboratories to be recognized under the international multilateral systems on mutual recognition of testing and certification that are open to national member bodies.

15. By establishing the above cooperation mechanisms, we hope to promote long-term cooperation in the aforementioned industries or service sectors between the two sides, and to jointly open up business opportunities and scope for development.

Conclusion

16. Inclusive of the measures in Supplement VII to CEPA, the two sides have so far announced nearly 280 liberalization measures in trade in services.

17. The measures under Supplement VII to CEPA will expedite and facilitate Hong Kong service industries to enter and expand in the Mainland market, and foster service industries integration and professional exchanges between the two sides. Moreover, most of the new measures cover the four pillar industries and six economic industries that Hong Kong has an competitive edge, and as such will help consolidate Hong Kong's status as an international financial, trade, shipping, logistics and high value-added service centre, and will lay the foundation for the two sides to jointly develop education, medical services, as well as testing and certification, environmental, innovative technology and cultural industries.

18. Since 2008, the Mainland and Hong Kong announced 41 measures (including related measures in Supplement VII to CEPA) for “early and pilot implementation” in Guangdong Province. These measures serve as role models for further liberalization in the respective service sectors and contribute positively to the exploration of cooperation and integration of the service industries of Hong Kong and Guangdong, and substantively respond to the policy direction of enhancing the cooperation between the service industries of Guangdong and Hong Kong as stipulated in the “Framework for Development and Reform Planning for Pearl River Delta Region”; as well as the positioning with respect to fostering the development of modern service industries under the “
“
Framework Agreement on Hong Kong/Guangdong Co-operation”.

ECONOMIC IMPACT OF CEPA

19. HKSARG has been closely monitoring the implementation of CEPA from 1 January 2004. We collect statistics relating to the Certificates of Hong Kong Service Supplier (HKSS) and "Individual Visit Scheme" (IVS) etc. to conduct statistical analysis, as well as to assess the impact on Hong Kong's economy. HKSARG has just updated the assessment of the impact of CEPA liberalisation of trade in services and IVS on Hong Kong's economy. As reflected by the assessment report (see Annexes I and II), during 2007-2009, liberalisation of trade in services and IVS have continued to bring benefits to Hong Kong enterprises and the economy as a whole.

20. During 2004-2009, cumulative business receipts obtained by companies in Hong Kong due to CEPA from Mainland-related business reached HK\$61.6 billion. During 2007-2009, CEPA-induced business receipts obtained by operations established by Hong Kong service suppliers on the Mainland amounted to HK\$198.5 billion. During the same period, companies in Hong Kong obtained additional business receipts totalling about HK\$55.1 billion due to CEPA.

21. IVS is a tourism cooperation measure first introduced under CEPA in 2003. By now, the scheme has been extended to 49 Mainland cities. By March 2010, over 49 million Mainland visitors have come to Hong Kong under the scheme. The number of IVS visitors has drastically increased from 4.26 million in 2004 to 10.59 million in 2009, representing a robust average annual growth rate of 20%. In 2009, benefiting from the implementation of the “multiple-entry” individual visit endorsement to Hong Kong for Shenzhen permanent residents with effect from 1 April, an additional HK\$26.4 billion in spending was generated by IVS visitors in 2009, which was almost 40% higher than that in 2008. In cumulative terms, during 2004-2009, IVS visitors brought about additional spending totalling over HK\$84.8 billion.

22. As at end 2009, due to liberalisation of trade in services and IVS under CEPA, a total of 54,700 jobs were created in Hong Kong, while 40,600 jobs were created on the Mainland.

23. CEPA also has a positive impact on attracting Mainland and foreign investments to Hong Kong. According to the information provided by InvestHK, among the 265 foreign companies assisted by InvestHK to invest or expand in Hong Kong in 2009, 70 (or 26%) cited CEPA as one of the key considerations for investing in Hong Kong. Moreover, since the Mainland streamlined the application procedures for Mainland enterprises to invest in Hong Kong in August 2004, the trade and investment between the Mainland and Hong Kong has further increased. According to the information provided by the Ministry of Commerce, between September 2004 and December 2009, 2,602 Mainland enterprises were granted approval to invest in Hong Kong, involving over US\$24.4 billion of investment.

24. We wish to point out that, as implementation of CEPA deepens, the economic impact of CEPA has become more closely interwoven with the overall macro economic environment, and as such it has become more and more difficult to single out the CEPA-induced benefits for quantitative analysis. Also, as CEPA has been implemented for more years, the respondents' impression of the CEPA-induced effects might become less clear with the passage of time, and the value of conducting quantitative analysis of CEPA-induced impact through opinion survey would reduce over time.

PUBLIC CONSULTATION

25. HKSARG has been in communication with the business and professional communities before and during the consultations with the Mainland. Views from the trade have been reflected to the Mainland as appropriate. We will maintain dialogue with the stakeholders to ensure effective implementation of the measures announced under Supplement VII to CEPA.

PUBLICITY

26. A signing ceremony for Supplement VII to CEPA was held on 27 May 2010. A press briefing was held by the relevant bureaux and departments immediately afterwards to explain the new measures. Information papers will be issued to various trade-related advisory bodies. In addition, TID maintains a dedicated website to provide the public with the latest information on CEPA.

Trade and Industry Department
May 2010

**2010 Update of CEPA's Impact on the Hong Kong economy
(Trade in Services)**

KEY SURVEY FINDINGS

- (1) During 2007-2009, CEPA brought about cumulative business receipts totalling HK\$55.1 billion to Hong Kong companies in the CEPA covered service areas. An overwhelming proportion of these business receipts (amounting to HK\$52.5 billion) was obtained from Mainland-related business. It is estimated that during 2004-2009 cumulative business receipts obtained by companies in Hong Kong due to CEPA from Mainland-related business reached HK\$61.6 billion. As at end-2009, over 4 400 jobs were created in Hong Kong because of CEPA services trade liberalisation measures.
- (2) On the Mainland, operations established by Hong Kong service suppliers provided about 40 600 jobs as at end-2009. In cumulative terms, CEPA-induced business receipts obtained by these operations on the Mainland amounted to about HK\$198.5 billion during 2007-2009.
- (3) Among the Hong Kong companies that have been issued with a Certificate of Hong Kong Service Supplier under CEPA, about 48% reported having established business operations on the Mainland. Further analysed by service area, higher than average percentages of companies in the service areas of freight forwarding agency, job intermediary/job referral, and management consulting services have established operations on the Mainland (above 60%).
- (4) The survey results also suggest that increasingly more of Hong Kong companies have made use of CEPA to expand their services-related operations to places other than Guangdong on the Mainland. This is particularly notable in service areas like construction and real estate, job intermediary/job referral, and tourism.
- (5) Over the past three years, the cumulative CEPA-induced business receipts obtained by the Mainland operations established by Hong Kong service suppliers came mainly from four service areas, namely freight forwarding agency, distribution, advertising/audiovisual, and transport and logistics. These service areas also accounted for over 90% of the jobs created due to CEPA.

BACKGROUND

- (6) In the current update, the Census and Statistics Department, as on previous occasions, conducted a survey on behalf of the Trade and Industry Department (TID) from end-December 2009 to early-March 2010 to collect data for a broad impact assessment of CEPA on Hong Kong companies that fall in the service areas covered under CEPA and its six Supplements.

METHODOLOGY

- (7) According to the information provided by TID, 2 173 Hong Kong service supplier (HKSS) certificates had been issued as at 30 September 2009. It is noted that some companies could hold HKSS certificates in more than one CEPA service area. Discounting for this, there were 1 208 companies that have been issued with HKSS certificate(s) (“holders”). This survey covered all holders as well as a sample of 1 804 non-HKSS certificate holders (“non-holders”). The total sample size for the survey was 3 012.
- (8) 2 509 selected companies were successfully enumerated. The overall response rate was close to 90%. The respondents were mainly enumerated via telephone interviews.
- (9) As at February 2010, 42 service areas are covered under CEPA. This survey covers 38 of them, which are as set out at Appendix. The survey collected data for the reference years of 2007 to 2009.

ANALYSIS OF MAJOR SURVEY FINDINGS

A. Operations set up by Hong Kong Service Suppliers on the Mainland under CEPA

- (10) Since the introduction of CEPA in 2003, it has offered many opportunities for Hong Kong service suppliers across different service areas to establish an early and preferential presence in the Mainland market vis-à-vis other foreign investors. Over the years, a considerable number of operations have been set up on the Mainland under CEPA.
- (11) Among the 1 208 holders covered in the survey, about 48% reported having set up operations on the Mainland under CEPA. Over 60% of the companies in three service areas, viz. freight forwarding agency, job

intermediary/job referral and management consulting services, reported to have Mainland operations set up under CEPA (*Table 1*).

Table 1: Percentage of HKSS having operations on the Mainland under CEPA in selected service areas in 2009

| Service Areas | (%) |
|--------------------------------|--------------|
| Freight forwarding agency | 65.5% |
| Job intermediary/ job referral | 62.0% |
| Management consulting services | 69.7% |
| Total 38 Service Areas | 47.9% |

- (12) Guangdong remains a key location of operations set up by Hong Kong service suppliers (*Table 2*).

Table 2: Percentage of HKSS having operations on the Mainland under CEPA by geographical location in 2009

| | % |
|------------------------------|-------|
| Guangdong only | 34.2% |
| Non-Guangdong Provinces only | 38.5% |
| Both | 27.3% |

- (13) Understandably, the rapid developments across different Chinese provinces have opened up unprecedented opportunities for Hong Kong service suppliers to expand their scope of businesses. Analysed by service area, construction and real estate, job intermediary/job referral and tourism are the three sectors that predominantly choose to locate their CEPA-related operations in places other than Guangdong (*Table 3*).

Table 3: Percentage of HKSS having operations on the Mainland under CEPA by geographical location and by selected service area in 2009

| Service Areas | Construction and real estate | Job intermediary/ Job referral | Tourism |
|------------------------------|------------------------------|--------------------------------|---------|
| Guangdong only | 37.5% | 12.9% | 12.5% |
| Non-Guangdong Provinces only | 50.0% | 74.2% | 62.5% |
| Both | 12.5% | 12.9% | 25.0% |

A.1 Business receipts due to CEPA

- (14) For all service areas combined, from 2007 to 2009, the cumulative CEPA-induced business receipts obtained by Mainland operations established by Hong Kong service suppliers amounted to HK\$198.5 billion (*Table 4*).

Table 4: Cumulative CEPA-induced business receipts obtained by Mainland operations established by HKSS

| Year | Amount (HK\$ Mn) |
|-------------------------------------|-------------------------|
| 2007 | 54 014 |
| 2008 | 75 653 |
| 2009 | 68 785 |
| Cumulative Total (2007-2009) | 198 452 |

- (15) Of these business receipts, nearly 98% came from four service areas, viz. freight forwarding agency, distribution, advertising/audiovisual and air transport/rail transport/transport and logistics (collectively referred as “transport and logistics” hereafter) (*Table 5*), suggesting that the direct benefits of CEPA are more distinct in these service areas.

Table 5: Cumulative CEPA-induced business receipts obtained by the Mainland operations established by HKSS in selected service areas (2007-2009)

| Service Areas | Amount (HK\$ Million) | as % share of total |
|-------------------------------|------------------------------|----------------------------|
| Distribution | 88 029 | 44.4% |
| Freight forwarding agency | 75 670 | 38.1% |
| Advertising/audiovisual | 20 288 | 10.2% |
| Transport and logistics | 10 084 | 5.1% |
| Total 38 Service Areas | 198 452 | 100% |

- (16) CEPA-induced business receipts obtained by Mainland operations established by Hong Kong service suppliers, however, fell notably by 9% in 2009 (*see Table 4*). This was dragged mainly by the performances of the freight forwarding agency and transport and logistics, with their CEPA-induced business receipts plunged by 30% and 18% respectively amidst the slump in world trade in the aftermath of the global financial crisis (*Table 6*). On the other hand, service areas with stronger business focus on the Mainland market were better shielded from the global economic downturn as the Mainland economy experienced a rapid recovery since the second quarter of 2009. The CEPA-induced business receipts of advertising/audiovisual and distribution, for example, expanded by 25% and 5% respectively over the past two years.

Table 6: CEPA-induced business receipts obtained by Mainland operations established by HKSS in selected service areas (2008 and 2009)

| Service Areas | Amount (HK\$ Million) | | % change |
|---------------------------|-----------------------|--------|----------|
| | 2008 | 2009 | |
| Freight forwarding agency | 32 406 | 22 625 | -30.2% |
| Transport and logistics | 3 984 | 3 256 | -18.3% |
| Advertising/audiovisual | 6 908 | 8 634 | +25.0% |
| Distribution | 30 573 | 32 200 | +5.3% |

- (17) In overall terms, around 69% of the CEPA-induced business receipts obtained by Mainland operations came from non-Guangdong provinces (*Table 7*). In recent years, notable increase in the percent shares of these CEPA-induced business receipts from non-Guangdong provinces are noted in areas like accounting/banking/insurance/securities and futures (collectively referred as “financial services” hereafter), transport and logistics, construction and real estate, job intermediary/job referral, and tourism.

Table 7: Percentage shares of CEPA-induced business receipts obtained by Mainland operations established by HKSS in the Non-Guangdong Provinces

| Service Areas | 2007 | 2009 |
|-------------------------------|--------------|--------------|
| Financial services | 27.7% | 55.6% |
| Transport and logistics | 79.7% | 84.7% |
| Construction and real estate | 90.5% | 97.6% |
| Job intermediary/job referral | 87.2% | 96.6% |
| Tourism | 50.0% | 84.6% |
| Total 38 Service Areas | 69.5% | 69.1% |

A.2 Employment due to CEPA

- (18) Around 90% of the companies surveyed reported having persons engaged due to CEPA in their Mainland operations. The majority of the remaining 10% of companies considered that the number of persons engaged on the Mainland was already sufficient and hence did not find it necessary to engage persons for CEPA in the last three years.
- (19) The number of persons engaged due to CEPA in the Mainland operations showed a sustained rising trend over the past six years. As at end-2009, about 40 600 jobs were created in all service areas, up from some 31 300 jobs in 2007 (*Table 8*).

Table 8: Number of persons engaged due to CEPA in the Mainland operations

| Year | Number of persons engaged |
|-------------|----------------------------------|
| 2004 | 2 842 |
| 2005 | 9 414 |
| 2006 | 16 696 |
| 2007 | 31 316 |
| 2008 | 37 688 |
| 2009 | 40 558 |

- (20) Around 93% of these jobs (*Table 9*) scattered in freight forwarding agency, distribution, transport and logistics and advertising/audiovisual.

Table 9: Number of persons engaged due to CEPA in the Mainland operations in selected service areas (as at end-2009)

| Service Areas | Number | as % share of total |
|-------------------------------|---------------|----------------------------|
| Freight forwarding agency | 19 540 | 48.2% |
| Distribution | 8 137 | 20.1% |
| Advertising/audiovisual | 7 981 | 19.7% |
| Transport and logistics | 1 818 | 4.5% |
| Total 38 Service Areas | 40 558 | 100% |

- (21) Moreover, consistent with the share of CEPA-induced business receipts by geographical location (see *Table 7*), we saw declining shares of employment due to CEPA in Guangdong for some service areas (*Table 10*). Yet in overall terms, Guangdong's share of employment edged up to around 30% in 2009 from 27% in 2007, driven primarily by the rising shares in advertising/audiovisual, distribution, and freight forwarding agency.

Table 10: Percentage share of the number of persons engaged due to CEPA in the Guangdong Province by selected service area

| Service Areas | 2007 | 2009 |
|--|--------------|--------------|
| <i>with declining share in Guangdong</i> | | |
| Financial services | 60.0% | 16.7% |
| Transport and logistics | 58.5% | 47.3% |
| Construction and real estate | 5.0% | 1.9% |
| Job intermediary/job referral | 16.6% | 8.4% |
| Tourism | 7.9% | 7.5% |
| <i>with rising share in Guangdong</i> | | |
| Advertising/audiovisual | 4.5% | 11.4% |
| Distribution | 43.2% | 46.7% |
| Freight forwarding agency | 27.0% | 31.7% |
| Total 38 Service Areas | 26.9% | 29.8% |

B. Operations in Hong Kong

B.1 *Business receipts due to CEPA*

- (22) In overall terms, during 2007-2009, the cumulative business receipts obtained by Hong Kong companies due to CEPA amounted to HK\$55.1 billion (*Table 11*). An overwhelming proportion of these business receipts was obtained from Mainland-related business. As the overall Hong Kong economy suffered a heavy blow in the early part of 2009, the CEPA-induced business receipts obtained by Hong Kong companies also recorded a significant decline, by around 24%, from HK\$20.4 billion in 2008 to HK\$15.5 billion in 2009.

Table 11: Business receipts obtained by Hong Kong companies due to CEPA and the percentage share of Mainland-related business

| Year | Amount (HK\$ Million) | % share from Mainland-related business (%) |
|-------------------------|--------------------------|--|
| 2007 | 19 157 | 95.5% |
| 2008 | 20 408 | 95.7% |
| 2009 | 15 495 | 94.8% |
| Cumulative Total | 55 060 | 95.4% |

- (23) The four major contributing service areas were distribution, transport and logistics, construction and real estate and freight forwarding agency. They together accounted for over 95% of the total cumulative business receipts due to CEPA for all of the service areas during 2007-2009 (*Table 12*).

Table 12: Cumulative business receipts due to CEPA obtained by Hong Kong companies in selected service areas during 2007-2009

| Service Areas | Amount (HK\$ Million) | as % share of overall total |
|-------------------------------|-----------------------|-----------------------------|
| Distribution | 45 784 | 83.2% |
| Transport and logistics | 3 003 | 5.5% |
| Freight forwarding agency | 1 879 | 3.4% |
| Construction and real estate | 1 765 | 3.2% |
| Total 38 Service Areas | 55 060 | 100% |

- (24) For all the service areas combined, the cumulative business receipts received from Mainland-related business due to CEPA by the Hong Kong companies during 2004-2009 amounted to HK\$61.6 billion (*Table 13*).

Table 13: Business receipts obtained by Hong Kong companies from Mainland-related business due to CEPA

| Year | Amount (HK\$ Million) |
|---|------------------------------|
| 2004 | 1 582 |
| 2005 | 3 323 |
| 2006 | 4 178 |
| 2007 | 18 288 |
| 2008 | 19 529 |
| 2009 | 14 689 |
| Cumulative Total (2007-2009) | 52 506 |
| Cumulative Total (2004-2009) | 61 589 |

B.2 Employment due to CEPA

- (25) As at end-2009, over 4 400 persons were engaged in Hong Kong companies due to CEPA (*Table 14*), with about 93% of them in the distribution service area.

Table 14: Number of persons engaged due to CEPA in Hong Kong companies

| Year | Number of employees |
|-------------|----------------------------|
| 2004 | 1 415 |
| 2005 | 4 295 |
| 2006 | 5 877 |
| 2007 | 3 884 |
| 2008 | 4 417 |
| 2009 | 4 425 |

C. Qualitative assessment and limitations of the CEPA study

- (26) Of the companies surveyed, they generally agreed that the benefits from CEPA were mainly by way of business facilitation and expanded business scope. The top three benefits identified by respondents are summarised at *Table 15* below.

Table 15: Benefits gained from CEPA – Top three responses identified by companies surveyed

| Benefits gained | Holders | Non-holders |
|--|-----------------|---------------------|
| Relaxation in equity share restrictions | ✓ | |
| Reducing the requirement for registered capital or business turnover | | ✓ |
| Simplifying/expediting the application procedures | ✓ | |
| Expansion of allowable business scope | ✓ | ✓ |
| Elimination of geographical limitation | | ✓ |

- (27) As for the quantifiable benefits of CEPA, measured in terms of business receipts and employment, these are often entwined with the general macroeconomic environment and shifts in economic cycles.
- (28) CEPA has been implemented for over six years. Respondents' memory about the CEPA-induced effect on their operations is likely to fade over time. During the course of the survey, the respondents often had difficulties in relating their business receipts and employment to the CEPA influence or otherwise. When CEPA has become part of the institutional features in their business framework, the impacts of CEPA would become increasingly interwoven with the other macro and micro factors so that the CEPA impact would become increasingly hard to distinguish.

Economic Analysis and Business Facilitation Unit
Financial Secretary's Office
May 2010

Service Areas Covered in the 2009/10 CEPA Survey[#]

1. Accounting
2. Advertising
3. Air Transport
4. Audiovisual
5. Banking
6. Building-cleaning
7. Computer and related services/Information Technology ⁽¹⁾
8. Convention and Exhibition
9. Cultural
10. Distribution
11. Environmental
12. Freight Forwarding Agency
13. Insurance
14. Job Intermediary/Job Referral Agency ⁽²⁾
15. Legal/Trade Mark Agency/Patent Agency ⁽³⁾
16. Management Consulting/ Services related to Management Consulting ⁽⁴⁾
17. Market Research
18. Medical and Dental
19. Photographic
20. Printing
21. Public Utility
22. Rail Transport (exclude construction work)
23. Construction ⁽⁵⁾
24. Real Estate ⁽⁵⁾
25. Research and Development
26. Securities and Futures
27. Social Services (for elderly and disabled)
28. Sporting
29. Storage and Warehousing
30. Telecommunications
31. Tourism
32. Translation and Interpretation
33. Transport (including road freight/passenger transportation and maritime transport) / Logistics ⁽⁶⁾

Notes:

There are 42 service areas under CEPA and four of them are not included in the present survey. Reasons are as follows:

- (i) "**Professional qualification examinations**" straddles across different sectors and its economic impacts are hard to identify separately.
 - (ii) For "**individually owned stores**", a sampling frame of individual persons who are likely to own a store is not readily available.
 - (iii) For "**services incidental to mining**" and "**related scientific and technical consulting services**" (covering a narrow scope related to provision of prospecting and surveying services in respect of iron, copper and manganese), a sampling frame of establishments under the respective service area is not readily available.
- (1) "**Computer and related services**" and "**Information Technology**" are combined as one single service area group.
 - (2) "**Job Intermediary**" and "**Job Referral Agency**" are combined as one single service area group.
 - (3) "**Legal**", "**Trade Mark Agency**" and "**Patent Agency**" are combined as one single service area group.
 - (4) "**Management Consulting**" and "**Services related to Management Consulting**" are combined as one single service area group.
 - (5) "**Real Estate and construction**" is a single service area.
 - (6) "**Transport (including road freight/passenger transportation and maritime transport)**" and "**Logistics**" are combined as one single service area group.

**2010 Update of CEPA's Impact on the Hong Kong economy
(Individual Visit Scheme)**

BACKGROUND

- (1) To update the impact of CEPA Individual Visit Scheme (IVS) on the Hong Kong economy, the Hong Kong Tourism Board (HKTB) has conducted a dedicated face-to-face survey of a random sample of IVS visitors from mid-November to mid-December in 2009. The survey attempts to gauge the influence of more convenient and flexible measures to facilitate Mainland visitors to Hong Kong under the IVS, and identify any consequential changes in the travel behaviour of the IVS visitors. The economic impact of IVS is thus estimated based on these survey results, and assisted by analysis of the past data on IVS visitors.

METHODOLOGY

- (2) Since the first introduction of IVS in July 2003, the trend of incremental IVS visitors (i.e. those additional visits by Mainland visitors to Hong Kong as induced by the convenience and flexibility of using IVS) has been constantly tracked and analysed. The estimates of incremental IVS visitors over the past six years are summarized in *Table 1* below.
- (3) Since April 2009, the Mainland government introduced a one-year multiple-entry Individual Visit endorsement for eligible Shenzhen permanent residents ("M permit") to give greater convenience to their visits to Hong Kong. The new visa arrangement conceivably has encouraged individual travellers to make more frequent visits to Hong Kong, which in turn has provided a new impetus to our inbound tourism growth. From 1 April to 31 December 2009, there were 1 472 208 M permit arrivals, constituting 8.2% of total Mainland visitors. Comparing to 2004, the share of overnight Shenzhen visitors in total overnight Mainland visitors rose from 12.7% to 15.8% in 2009. Likewise for same-day visitors, Shenzhen's share also increased notably from 46.4% in 2004 to 54.3% in 2009.

Table 1: Mainland visitors to Hong Kong and estimates of incremental IVS visitors

| | Mainland visitors | Incremental IVS | Incremental IVS as share of Mainland visitors |
|--------------------------|--------------------------|------------------------|--|
| | (No.) | (No.) | (%) |
| 2004 | 12 245 862 | 2 513 524 | (20.5) |
| 2005 | 12 541 400 | 2 721 388 | (21.7) |
| 2006 | 13 591 342 | 3 272 029 | (24.1) |
| 2007 | 15 485 789 | 4 037 559 | (26.1) |
| 2008 | 16 862 003 | 4 761 297 | (28.2) |
| 2009* (Overall) | 17 956 731 | 6 074 523 | (33.8) |
| <i>Of which:</i> | | | |
| <i>“M Permit”</i> | 1 472 208 | 758 383 | |
| <i>net of “M Permit”</i> | 16 484 523 | 5 316 140 | |

Note: (*) HKTB’s estimates.

- (4) Taking the effect of “M permit” into account, the observed percentage share of incremental IVS visitors in total Mainland visitors rose from 28.2% in 2008 to 33.8% in 2009. Netting out the effect of incremental “M permit” arrivals, the corresponding figure was about 32%.
- (5) In this round of the IVS impact assessment update, the estimation methodology has been adjusted to enable separate measure of the impacts of Shenzhen arrivals plus arrivals from Guangdong (excluding Shenzhen) and rest of Mainland other than Guangdong (non-Guangdong).
- (6) According to the per capita spending of IVS visitors by place of residence in **Table 2** and per capita spending pattern of IVS visitors in **Table 3**, the incremental IVS visitor arrivals and their spending are estimated in **Table 4**.

Table 2: Per capita spending of IVS visitors by place of residence in 2009 (HK\$)

| | Same-day | Overnight |
|----------------------------|-----------------|------------------|
| Shenzhen | \$2 564 | \$3 752 |
| Guangdong (Overall) | \$2 638 | \$4 037 |
| Non-Guangdong | \$4 061 (*) | \$11 637 |

Note: (*) HKTB’s estimates based on small sample size.

Table 3: Per capita spending and spending pattern of IVS visitors (HK\$)

| Per capita spending | Overnight visitors | Same-day visitors |
|----------------------------|---------------------------|--------------------------|
| 2004 | \$3 305 | \$1 644 |
| 2005 | \$3 829 | \$1 663 |
| 2006 | \$4 170 | \$1 985 |
| 2007 | \$4 978 | \$2 232 |
| 2008 | \$5 367 | \$2 517 |
| 2009 | \$6 511 | \$2 719 |
| <i>2008/09 (% change)</i> | (21.3%) | (8.0%) |

| Spending pattern in 2009^(^): | Overnight visitors | Same-day visitors |
|--|---------------------------|--------------------------|
| <i>Hotel and boarding houses</i> | 8.3% | 0.2% |
| <i>Restaurants</i> | 7.9% | 2.7% |
| <i>Retail trade</i> | 77.8% | 92.2% |
| <i>Local transport</i> | 2.8% | 2.9% |
| <i>Others</i> | 3.3% | 2.1% |

Note: (^) Sum of figures may not equal to 100% due to rounding.

Table 4: Incremental IVS visitor arrivals and tourist spending

| | Incremental IVS visitor arrivals | | Incremental IVS tourist spending^(*) |
|-------------|---|----------------|---|
| | (million) | | (HK\$ million) |
| 2004 | 2.51 | (27.6%) | 6 734 |
| 2005 | 2.72 | (36.1%) | 6 644 |
| 2006 | 3.27 | (37.6%) | 10 131 |
| 2007 | 4.04 | (40.3%) | 16 067 |
| 2008 | 4.76 | (44.3%) | 18 882 |
| 2009 | 6.07 | (47.7%) | 26 366 |
| | | | <i>Of which:</i> |
| | | | <i>“M Permit”</i> |
| | | | 2 193 |
| | | | <i>net of “M Permit”</i> |
| | | | 24 173 |

Notes: () % of same-day visitors of IVS.

(*) Include spending on cross-boundary transport.

ESTIMATED VALUE-ADDED and EMPLOYMENT IMPACT

(7) From the estimated incremental spending, and applying the relevant GDP multipliers, the contributions to value-added and employment in the Hong Kong economy are derived. This is summarized as follows:

Table 5: Contributions of the Individual Visit Scheme by selected sectors*

| | Overall Economy | <i>Of which</i> | | | | Cross boundary passenger services ⁺ |
|--------------------------------|------------------------|--|---------------------------|--------------------------|---------------------------------------|--|
| | | Hotel and boarding houses ⁺ | Retail trade ⁺ | Restaurants ⁺ | Other personal services ^{#+} | |
| Incremental Spending | | | | | | (HK\$ Million) |
| 2004 | 6 734 | 413 | 4 736 | 900 | 431 | 254 |
| 2005 | 6 644 | 138 | 5 374 | 667 | 264 | 201 |
| 2006 | 10 131 | 510 | 7 938 | 776 | 503 | 404 |
| 2007 | 16 067 | 1 014 | 12 400 | 1 136 | 892 | 624 |
| 2008 | 18 882 | 1 082 | 15 071 | 1 077 | 823 | 829 |
| 2009 | 26 366 | 1 409 | 21 458 | 1 566 | 1 473 | 459 |
| <i>Of which[@]:</i> | | | | | | |
| <i>“M Permit”</i> | <i>2 193</i> | <i>62</i> | <i>1 898</i> | <i>96</i> | <i>116</i> | <i>21</i> |
| <i>net of “M Permit”</i> | <i>24 173</i> | <i>1 347</i> | <i>19 560</i> | <i>1 470</i> | <i>1 357</i> | <i>438</i> |
| Value added[^] | | | | | | (HK\$ Million) |
| 2004 | 4 714 | 246 | 727 | 329 | 222 | 80 |
| 2005 | 4 651 | 85 | 833 | 241 | 140 | 60 |
| 2006 | 7 092 | 293 | 1 155 | 275 | 266 | 133 |
| 2007 | 9 801 | 595 | 1 850 | 404 | 466 | 191 |
| 2008 | 11 518 | 635 | 2 249 | 382 | 430 | 254 |
| 2009 | 16 136 | 877 | 3 512 | 581 | 695 | 123 |
| <i>Of which[@]:</i> | | | | | | |
| <i>“M Permit”</i> | <i>1 342</i> | <i>39</i> | <i>311</i> | <i>36</i> | <i>55</i> | <i>6</i> |
| <i>net of “M Permit”</i> | <i>14 794</i> | <i>838</i> | <i>3 201</i> | <i>546</i> | <i>640</i> | <i>117</i> |
| Employment[^] | | | | | | (persons engaged) |
| 2004 | 19 158 | 790 | 6 306 | 3 141 | 870 | 74 |
| 2005 | 17 815 | 213 | 6 779 | 2 204 | 500 | 51 |
| 2006 | 28 020 | 1 000 | 10 674 | 2 643 | 990 | 130 |
| 2007 | 32 921 | 1 435 | 13 103 | 2 893 | 1 679 | 228 |
| 2008 | 38 009 | 1 531 | 15 926 | 2 740 | 1 549 | 303 |
| 2009 | 50 281 | 1 950 | 22 424 | 3 619 | 2 676 | 211 |
| <i>Of which[@]:</i> | | | | | | |
| <i>“M Permit”</i> | <i>4 183</i> | <i>86</i> | <i>1 984</i> | <i>221</i> | <i>211</i> | <i>6</i> |
| <i>net of “M Permit”</i> | <i>46 098</i> | <i>1 864</i> | <i>20 440</i> | <i>3 397</i> | <i>2 465</i> | <i>204</i> |

Notes: (+) These are the first round net contributions by selected sectors.

(#) Other personal services include travel agent, airline ticket agents, domestic transport and other personal entertainment.

(*) In the present round of assessment, spendings of incremental IVS arrivals by place of residence are estimated. As a result, the IVS contributions are not strictly comparable to corresponding figures in previous years.

(^) The overall impact has covered the first and the subsequent rounds of impact on the economy. As a result, the summation of the first round impact on the different sectors is smaller than that on the overall economy.

(@) “M permit” and net of “M Permit” figures may not add up to total due to rounding.

- (8) To conclude, the net contribution of IVS (including the impact of “M permit”) to the Hong Kong economy in 2009 amounted to HK\$16.1 billion in value-added, and 50 300 in number of jobs. Of which, incremental “M permit” arrivals contributed HK\$1.3 billion in value-added and 4 200 jobs. The overall effect has reflected the first and subsequent rounds of impact.

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