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Panel on Commerce and Industry

Meeting on 15 March 2011

**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 in 1997, communications between Hong Kong and the Mainland have become much more 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 interest, 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. To translate the macro policies in the Outline into concrete measures that are conducive to the development of both places, Hong Kong and Guangdong signed a Framework Agreement in the presence of the State Vice-President, Mr Xi Jinping, and senior officials from relevant ministries in Beijing in April 2010. This is the first agenda on Hong Kong/Guangdong co-operation ever endorsed and approved for implementation by the State Council since the establishment of the Joint Conference in 1998. The Framework Agreement sets out six long-term development positions for Hong Kong/Guangdong co-operation, including a world-class new economic region, a financial co-operation region, a manufacturing and modern services base, a modern economic circulation sphere, a quality living area and a world-class metropolitan cluster. 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.

5. On 16 September 2010, the 13th Plenary of the Hong Kong/Guangdong Co-operation Joint Conference was held in Guangzhou. Both sides reviewed the progress of major co-operation initiatives over the past year and discussed the direction of the future development. According to the Administration, HKSAR Government and Guangdong Provincial Government were working closely to actively implement the various policies and measures in the Framework Agreement. Good progress had been made in the 43 projects of the 2010 Work Plan. Both sides also signed an arrangement on the implementation of the Framework Agreement after the Plenary, with a view to attaining concrete deliverables in major co-operation areas within a year or two. For this purpose, Hong Kong would continue to work closely with Guangdong to draw up the 2011 Work Plan. The HKSAR Government would also continue to strive to incorporate the relevant policies on Hong Kong/Guangdong co-operation in the Framework Agreement into the National 12th Five-Year Plan.

Hong Kong/Shenzhen Co-operation Meeting

6. 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 was set up in 2004 with a view to consolidating the achievements attained in various co-operation initiatives and considering the co-operation in future so as to obtain synergy. Both parties co-chaired the sixth Hong Kong/Shenzhen Co-operation Meeting on 6 December 2010 in Shenzhen and discussed key co-operation areas in financial services, tourism, testing and certification industry, modern service industries in Qianhai Area, etc. Both sides agreed to strengthen and deepen co-operation and considered various co-operation initiatives for the coming year. Details of the meeting are set out in the Administration's paper issued vide LC Paper No. CB(1)846/10-11(01) on 17 December 2010.

Hong Kong/Beijing Co-operation

7. In September 2004, the HKSAR Government and the Beijing Municipal Government established the Hong Kong/Beijing Economic and Trade Co-operation Conference to strengthen Hong Kong/Beijing co-operation and to tap the opportunities arising from CEPA and the 2008 Olympic Games. On 25 November 2010, the Chief Executive of the HKSAR and the Mayor of the Beijing Municipal Government co-chaired the Third Plenary Session of the Conference to review the progress of cooperation in eight areas, namely, economic and trade, city management and public services, education, tourism, financial services, health, professional exchanges, as well as innovation technology and creative and cultural industries. Both sides also exchanged views on direction for future cooperation. Details of the meeting are set out in the Administration's paper issued vide LC Paper No. CB(1)846/10-11(02) on 17 December 2010.

The Mainland and Hong Kong Closer Economic Partnership Arrangement

8. 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 CEPA through continuous and further reciprocal liberalization, seven Supplements to CEPA have been signed on 27 October 2004, 18 October 2005, 27 June 2006, 29 June 2007, 29 July 2008, 9 May 2009 and 27 May 2010 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

9. Members have followed closely issues relating to Mainland/Hong Kong co-operation and the various initiatives that foster trade relations between the two places. They are keen to ensure that such initiatives 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.

Council meetings

10. 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 PRD Region and Hong Kong, developing Mainland market for Hong Kong products, providing assistance to Hong Kong courier companies operating on the Mainland, and the Overall Development Plan on Hong Kong/Shenzhen Co-operation on Modern Service Industries in Qianhai Area.

11. Motions on CEPA and the implementation of the Framework Agreement on Hong Kong/Guangdong Co-operation were carried at the Council meetings on 4 March 2009 and 26 May 2010 respectively. During the motion debates, Members generally expressed support for the implementation of CEPA and the Framework Agreement. They urged the Administration to formulate appropriate measures to improve the business environment and facilitate local enterprises to make the best use of the business opportunities brought about by such initiatives, thereby creating more employment opportunities and improving Hong Kong's economy in the long run. The Administration was also asked to formulate and implement the specific policies and measures outlined in the Framework Agreement as early as possible.

House Committee special meetings

12. At the special meeting of the House Committee on 7 January 2010, the Chief Secretary for Administration briefed Members on major co-operation initiatives in relation to Hong Kong/Guangdong economic co-operation, including fostering flow of key economic factors such as people, goods, information and capital, assisting Hong Kong enterprises to restructure, upgrade and develop the Mainland domestic market. Members urged the Administration to cooperate with the Mainland, in particular Guangdong in developing the six industries (namely educational services, medical services, testing and certification, innovation and technology, cultural and creative industries, and environmental industry).

13. At the special meeting of the House Committee on 14 May 2010, the Chief Secretary for Administration briefed Members on the details of the Framework Agreement. Members welcomed the policies, measures and items set out in the Framework Agreement which would facilitate complementarities between the two places and enhance the core competitiveness of the whole region.

Discussions at the Panel on Commerce and Industry

Supplement VII to CEPA

14. At the meeting of the Panel on Commerce and Industry (the Panel) held on 15 June 2010, members noted that 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”. As a result, the service sectors covered by liberalization of trade in services under CEPA will expand from 42 to 44. Details of Supplement VII are set out in the Administration's paper issued vide LC Paper No. CB(1)2065/09-10(01).

15. Panel members welcomed the signing of Supplement VII to CEPA. However, they expressed concern that the service industry was still being confronted with various barriers of entry to the Mainland market with the associated access restrictions. Members urged the Administration to introduce more liberalization and facilitation measures by improving and streamlining the relevant rules and procedures, so as to facilitate local enterprises operating on the Mainland.

Trade relations between Guangdong and Hong Kong

16. At the Panel meeting held on 18 May 2010, members were briefed on the Framework Agreement on Hong Kong/Guangdong Co-operation in relation to trade and industry between the two places and Hong Kong/Shenzhen Co-operation Meeting in relation to trade and industry between the two places. Panel members expressed concern about the lack of consultation during the formulation of the Framework Agreement, the depreciation allowances in the Inland Revenue Ordinance which deterred Hong Kong enterprises in the Mainland from upgrading and restructuring, and the benefit for Hong Kong in developing Qianhai with Shenzhen. They urged the Economic and Trade Offices in the Mainland to provide assistance to local small and medium enterprises (SMEs) operating in the PRD Region to upgrade and restructure in a bid to develop the Mainland domestic market.

17. The Administration advised that it would continue to liaise closely with the Mainland authorities and organize trade delegations to visit the Mainland with a view to exploring new business opportunities and new sites for relocations of production base for these SMEs. The Administration further advised that the HKSAR Government and the Shenzhen Municipal Government would cooperate in the development of Qianhai for mutual benefit.

Mainland/Hong Kong technology co-operation

18. At the Panel meetings held on 16 March, 15 June 2010 and 18 January 2011, members discussed issues related to the technology co-operation between the Mainland and Hong Kong. Panel members noted that the Mainland would assist Hong Kong's testing laboratories to be recognized under the international multilateral systems on mutual recognition of testing and certification that were open to national member bodies. Members also noted that the Innovation and Technology Commission and the Tsinghua University in Beijing entered into a co-operation agreement in 2006. Research institutes in Hong Kong had carried out a number of exchange activities with the Tsinghua University and discussed co-operation projects on applied technology. In addition, several universities in Hong Kong had secured the agreement of the Ministry of Science and Technology to set up Partner State Key Laboratories (SKLs) in Hong Kong with the relevant SKLs in the Mainland to carry out innovative research in technology areas.

19. Some Panel members opined that the Administration should seek closer co-operation with the Guangdong authorities in sectors in which Guangdong excelled such as biotechnology, pharmaceuticals and information technology. The Administration advised that the Shenzhen-Hong Kong Innovation Circle had been established to reinforce technological

co-operation with the Mainland. The HKSAR Government would continue to step up effort in this respect.

Recent developments

20. At the Panel meeting held on 15 February 2011, members were briefed on the gist of the Hong Kong/Shenzhen Co-operation Meeting in relation to commerce and industry between the two places, including the Overall Development Plan on Hong Kong/Shenzhen Co-operation on Modern Service Industries in Qianhai Area (Qianhai Development Plan), and the gist of the Third Plenary Session of the Hong Kong/Beijing Economic and Trade Co-operation Conference in relation to commerce and industry between the two places.

21. Some Panel members opined that Hong Kong enterprises should make the best use of the opportunities brought about by the mutual co-operation in modern service industries in Qianhai. On technology co-operation between Hong Kong and Shenzhen, some Panel members urged the Administration to encourage and assist high-tech enterprises in Shenzhen to set up their operations in Hong Kong, thereby promoting technological development, creating more job opportunities and improving Hong Kong's economy in the long run. The Administration advised that in December 2010, the Shenzhen Municipal Government had invited 20 research and development institutes and promotional organizations in Hong Kong to participate in the Qianhai development plan. The Administration would update the Panel on the latest development of the matter in due course.

22. Some Panel members commented that Hong Kong failed to make the best use of the opportunities brought about by CEPA. They urged the Administration to be more proactive in formulating concrete measures to attract and assist overseas enterprises of internationally renowned goods to set up operations for post-processing arrangement in Hong Kong so as to gain access to the Mainland market by taking advantage of the tariff concessions applicable to Hong Kong products under CEPA, thereby creating more employment opportunities for local workers.

Latest Position

23. The Administration will brief the Panel on 15 March 2011 on trade relations between the Mainland and Hong Kong, in particular Hong Kong/Guangdong Co-operation Joint Conference in relation to commerce and industry between the two places.

Reference

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

Council Business Division 1
Legislative Council Secretariat
11 March 2011

List of relevant papers

| Committee | Paper | LC Paper No. |
|---------------------|---|--------------|
| Legislative Council | Question No. 9 on "Assisting professionals to development business in the Mainland" (8 June 2005) | Hansard |
| | Question No. 6 on "Assisting Hong Kong people in doing business in Mainland under CEPA" (22 March 2006) | Hansard |
| | 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 |
| | Motion on "Proactively implementing the Framework Agreement on Hong Kong/Guangdong Co-operation (26 May 2010) | 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 co-operation 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" | Hansard |

| Committee | Paper | LC Paper No. |
|--------------------------------|--|---|
| | <p>(24 February 2010)</p> <p>Question No. 3 on "Hong Kong enterprises operating express delivery service within the Mainland" (17 March 2010)</p> <p>Question No. 6 on "The Overall Development Plan on Hong Kong/Shenzhen Co-operation on Modern Service Industries in Qianhai Area" (3 November 2010)</p> | <p>Hansard</p> <p>Hansard</p> |
| House Committee | <p>Administration's paper : "Hong Kong/Guangdong Economic Co-operation"</p> <p>Verbatim Transcript of the special meeting held on 7 January 2010</p> <p>Administration's paper : "Framework Agreement on Hong Kong/Guangdong Co-operation"</p> <p>Verbatim Transcript of the special meeting held on 14 May 2010</p> | <p>CB(2)669/09-10(01)</p> <p>CB(2)837/09-10</p> <p>CB(1)1559/09-10(01)</p> <p>CB(2)1766/09-10</p> |
| Panel on Commerce and Industry | <p><u>Meeting on 18 November 2008</u></p> <p>Administration's paper : "Mainland and Hong Kong Closer Economic Partnership Arrangement and deepening economic and trade co-operation with Guangdong province"</p> <p>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</p> <p>Updated background brief on "The latest development of the Mainland and Hong Kong Closer Economic Partnership Arrangement"</p> <p>Minutes of the meeting held on 18 November 2008</p> | <p>CB(1)201/08-09(04)</p> <p>CB(1)148/08-09</p> <p>CB(1)201/08-09(05)</p> <p>CB(1)846/08-09</p> |

| Committee | Paper | LC Paper No. |
|-----------|--|---------------------|
| | <u>Meeting on 19 May 2009</u> 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 |
| | <u>Meeting on 16 June 2009</u> Administration's paper : "Mainland-Hong Kong technology co-operation" | CB(1)1866/08-09(03) |
| | Minutes of the meeting held on 16 June 2009 | CB(1)2770/08-09 |
| | <u>Meeting on 16 March 2010</u> Administration's paper : "Latest development on Hong Kong/Guangdong co-operation" | CB(1)347/09-10(01) |
| | Administration's paper : "The 14th Working Meeting of the Hong Kong/Guangdong Co-operation Joint Conference and the 3rd Liaison and Co-ordinating Meeting of Hong Kong, Guangdong and Macao in Jointly Taking Forward the Implementation of the Outline of the Plan for the Reform and Development of the Pearl River Delta" | CB(1)1222/09-10(01) |
| | Minutes of the meeting held on 16 March 2010 | CB(1)1681/09-10 |
| | <u>Meeting on 18 May 2010</u> Administration's paper on development of Science Park Phase 3 and proposed financing arrangements | CB(1)1357/09-10(03) |
| | Minutes of the meeting held on 18 May 2010 | CB(1)2519/09-10 |
| | <u>Meeting on 27 May 2010</u> Administration's paper : "Mainland and Hong Kong Closer Economic Partnership Arrangement" | CB(1)2065/09-10(01) |
| | <u>Meeting on 15 June 2010</u> Administration's paper on relations between the Mainland and Hong Kong on industry and | CB(1)1875/09-10(03) |

| Committee | Paper | LC Paper No. |
|-----------|--|---|
| | <p>trade fronts</p> <p>Administration's paper on Framework Agreement on Hong Kong/Guangdong Co-operation</p> <p>Minutes of the meeting held on 15 June 2010</p> <p><u>Meeting on 19 October 2010</u> Administration's paper : "13th Plenary of the Hong Kong/Guangdong Co-operation Joint Conference"</p> <p><u>Meeting on 18 January 2011</u> Administration's paper on Provision of funding support for Partner State Key Laboratories in Hong Kong</p> <p><u>Meeting on 15 February 2011</u> Administration's paper : "2010 Hong Kong/Shenzhen Co-operation Meeting"</p> <p>Administration's paper : "Third Plenary Session of the Hong Kong/Beijing Economic and Trade Cooperation Conference"</p> | <p>CB(1)1559/09-10(01)</p> <p>CB(1)2761/09-10</p> <p>CB(1)2936/09-10(01)</p> <p>CB(1)1050/10-11(05)</p> <p>CB(1)846/10-11(01)</p> <p>CB(1)846/10-11(02)</p> |