

立法會
Legislative Council

LC Paper No. CB(1)2153/11-12(08)

Ref. : CB1/PL/CI

Panel on Commerce and Industry

Meeting on 18 June 2012

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

Purpose

This paper provides an update on 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 the 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.

The Mainland and Hong Kong Closer Economic Partnership Arrangement

3. CEPA is the first free trade agreement concluded by the Mainland and Hong Kong and it 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, and CEPA 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, eight 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, 27 May 2010 and 13 December 2011 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 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.

4. According to the information provided by the Administration in December 2011, 301 market liberalization and trade and investment facilitation measures in 47 service sectors have been promulgated. These measures have brought plenty of benefits and preferential treatments to businesses in Hong Kong. The Mainland and Hong Kong have also agreed on CEPA origin rules for over 1 600 Hong Kong products.

National 12th Five-Year Plan

5. The "Outline of the Twelfth Five-Year Plan for the National Economic and Social Development of the People's Republic of China" (National 12th Five-Year Plan) passed at the 4th Session of the 11th National People's Congress held in March 2011 unprecedentedly included a dedicated chapter on the Hong Kong and Macao Special Administrative Regions (the Dedicated Chapter). This demonstrated the support given by CPG to Hong Kong in various aspects, including the support for Hong Kong in deepening its economic co-operation with the Mainland, namely the on-going implementation of CEPA, deepening co-operation among Guangdong, Hong Kong and Macao and implementation of the Framework Agreement.

6. In August 2011, Vice Premier of the State Council, Mr LI Keqiang, announced during his visit to Hong Kong a series of concrete policies and measures formulated by CPG under the requirements of the National 12th Five-Year Plan to support Hong Kong in further developing and deepening its co-operation with the Mainland. There were more than 30 policies and measures (the New Supporting Policies and Measures) covering areas such as economic and trade, finance, society and people's livelihood, tourism and

co-operation between Guangdong and Hong Kong, with the overall objective of enhancing development in six major areas, one of which was to increase the Mainland's opening to Hong Kong in trade in services significantly.

Hong Kong/Guangdong Co-operation Joint Conference

7. The Hong Kong Special Administrative Region Government (HKSARG) and the Guangdong Provincial Government 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.

8. The National Development and Reform Commission 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 the Framework Agreement on Hong Kong/Guangdong Co-operation (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 HKGDCJC 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.

9. On 9 January 2012, the 17th Working Meeting of HKGDCJC was held in Hong Kong. The two sides reviewed the progress of implementation of the 2011 Work Plan of the Framework Agreement and drew up the 2012 Work Plan with a proactive and pragmatic approach. In response to the call to strengthen Hong Kong/Guangdong co-operation set out in the National 12th Five-Year Plan, a total of 86 specific action items had been included in the 2012 Work Plan. On commerce and trade, the Guangdong Province would continue to implement CEPA and the various early and pilot measures to open up its service industries for Hong Kong. The Guangdong side would strive for the early promulgation of the implementation details for all relevant measures to be taken forward in Guangdong in respect of Supplement VIII to CEPA. The HKSARG would continue to co-operate closely with the Guangdong Province to step up the promotion of CEPA and

follow up on any problems encountered in the process. The major outcomes of the 17th Working Meeting of HKGDCJC are set out in the Administration's paper issued vide LC Paper No. CB(1)923/11-12(02) on 20 January 2012.

Hong Kong/Shenzhen Co-operation Meeting

10. 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 (CS) 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 2011 Hong Kong/Shenzhen Co-operation Meeting on 25 November 2011 in Hong Kong. Since Shenzhen is one of the second batch "model cities on CEPA implementation" designated by the Ministry of Commerce in the Mainland, Hong Kong and Shenzhen will enhance co-operation in promotion and implementation of CEPA, with a view to further deepening the implementation of CEPA in Shenzhen.

11. The National 12th Five-Year Plan has affirmed the importance of Qianhai as the "Hong Kong/Guangdong modern service industries co-operation exemplary zone" in the national development strategy. The Guangdong Provincial Government announced in September 2011 that the development of transport infrastructure connecting Qianhai and neighbouring areas would be accelerated. Foreign-invested services sector enterprises in Qianhai could serve the entire Guangdong Province. In addition, some of the provincial approval authorities in respect of the establishment and operation of enterprises would be delegated to the Qianhai authorities. The early and pilot measures under CEPA could be implemented in Qianhai. Details of the 2011 Hong Kong/Shenzhen Co-operation Meeting are set out in the Administration's paper issued vide LC Paper No. CB(1)512/11-12(01) on 2 December 2011.

Hong Kong/Beijing Co-operation

12. In September 2004, the HKSARG 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 co-operation 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 the direction for future co-operation. 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.

Hong Kong/Shanghai Co-operation

13. In October 2003, the HKSARG and the Shanghai Municipal Government established the Hong Kong/Shanghai Economic and Trade Co-operation Conference, which aimed to foster closer economic and trade ties between the two places. On 5 January 2012, the Second Plenary Session of the Hong Kong/Shanghai Economic and Trade Co-operation Conference was held in Shanghai. The two sides reached consensus on nine areas of co-operation, namely commerce, trade and investment, financial services, civil aviation, maritime transport and logistics, tourism, convention and exhibition industries, innovation and technology, cultural and creative industries and sports, exchange of professionals, education, medical and health care, and youth and social development. The Governments and relevant authorities of the two places also signed four co-operation agreements, including the Agreement on Strengthening Commerce and Trade Co-operation. The major outcomes of the Hong Kong/Shanghai Economic and Trade Co-operation Conference are set out in the Administration's paper issued vide LC Paper No. CB(1)923/11-12(01) on 20 January 2012.

Previous discussions

14. 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.

Council meetings

15. At a number of Council meetings, Members raised questions on the Overall Development Plan on Hong Kong/Shenzhen Co-operation on Modern Service Industries in Qianhai Area, restructuring and upgrading of Hong Kong enterprises engaging in processing trade on the Mainland and the barriers of entry to the Mainland market.

16. At the Council meetings on 30 March and 4 May 2011, two motions on "Implementing the Twelfth Five-Year Plan" and "Promoting regional economic integration between Guangdong and Hong Kong" were carried respectively. Members urged the HKSARG to seize the golden opportunity presented by the National 12th Five-Year Plan, intensify the co-operation between Hong Kong and the Mainland, and adopt a forward-looking attitude in formulating policies and measures which were conducive to promoting the development of Hong Kong and the Mainland, in particular Guangdong.

House Committee special meetings

17. At the special HC meetings on 20 May and 11 November 2011, CS briefed Members on the latest progress of the work of HKSAR in complementing the National 12th Five-Year Plan. Members noted that the Dedicated Chapter and the announcement of the New Supporting Policies and Measures signified a landmark progress in the HKSAR's work on economic and trade, finance, society and people's livelihood, tourism and co-operation between Guangdong and Hong Kong. The HKSARG would continue to liaise with the relevant ministries of CPG and the provincial and municipal governments to implement the various supporting policies and measures of CPG.

Discussions at the Panel on Commerce and Industry

Hong Kong/Shenzhen and Hong Kong/Beijing economic and trade co-operation

18. At the meeting of the Panel on Commerce and Industry (the Panel) 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.

19. 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.

20. 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 the local workforce.

Hong Kong/Guangdong economic and trade co-operation

21. At the Panel meeting held on 15 March 2011, members were briefed on matters relating to commerce and industry discussed at the 16th Working Meeting of the Hong Kong/Guangdong Co-operation Joint Conference (Working Meeting) held on 28 February 2011 in Guangzhou. Panel members noted that many Hong Kong enterprises in Guangdong which had restructured into import processing operations were plagued by the taxation problem when struggling to establish their brands in the Mainland domestic market. These enterprises were also unable to claim the depreciation allowances in respect of their machinery or plants used in import processing operations in the Mainland. To address these concerns, some Panel members urged the Administration to provide assistance to these enterprises, in particular those with an intention to switch back to the processing trade.

22. Panel members also noted that in complementing the National 12th Five-Year Plan, the HKSARG would proactively liaise with the CPG ministries to secure their support to take forward the relevant work further. This included continuous implementation of CEPA, opening up of the Guangdong market under "early and pilot measures" to Hong Kong's service industries, and gradual extension of such measures to other regions. Some Panel members expressed concern whether the HKSARG, upon the new round of consultation with the Mainland authorities, had proposed further liberalization measures following the implementation of the Supplement VII to CEPA. The Administration assured the Panel that it would continue to discuss with the Mainland authorities, so as to review the implementation of current measures and to broaden and enrich the scope of CEPA and its supplements through continuous liberalization in a gradual and orderly manner.

Supplement VIII to CEPA

23. At the Panel meeting held on 17 January 2012, members noted that the HKSARG and CPG signed the Supplement VIII to CEPA on 13 December 2011. Supplement VIII to CEPA provides for a total of 32 services liberalization and trade and investment facilitation measures, including 23 liberalization measures in 16 service sectors, and strengthens co-operation in areas such as finance, tourism, innovation and technology. Both sides also agreed to enhance the origin criteria under trade in goods, and relax the definition and related requirements of "Hong Kong service supplier". Among the 32 measures, 15 are related to the implementation of measures announced by Vice-Premier LI Keqiang during his visit to Hong Kong in August 2011.

24. Some Panel members pointed out that the service industry, such as the exhibition industry, was still being confronted with various barriers of entry to the Mainland market with the associated access restriction. These members urged the Administration to push forward the implementation of the measures announced under Supplement VIII to CEPA. Some other Panel members called on the Administration to set up liaison units to facilitate the communications with different provincial and municipal governments in the Mainland on the implementation of CEPA measures and issues related to the restructuring and upgrading of the processing trade. In addition, the Administration should set up a specific unit to co-ordinate the work for assisting Hong Kong brands to enter Mainland market.

25. On the liberalization measure to expand the scope of product testing that could be undertaken by testing organizations in Hong Kong for the China Compulsory Certification (CCC) System to all existing products processed in Hong Kong that required CCC, some Panel members called on the Administration to strive for further expansion of the scope to cover all products manufactured by Hong Kong enterprises in the Mainland.

Upgrading and restructuring of Hong Kong enterprises engaged in processing trade in the Mainland

26. At the Panel meetings held on 20 March and 17 April 2012, Panel members noted that the National 12th Five-Year Plan placed emphasis on expanding domestic demand as well as upgrading and restructuring of enterprises. During his visit to Hong Kong in August 2011, Vice-Premier LI Ke-qiang reiterated that CPG supported the stable development and upgrading and restructuring of Hong Kong enterprises engaged in processing trade in the Mainland. To help Hong Kong enterprises capture the opportunities arising from the National 12th Five-Year Plan and tap the Mainland market, the HKSARG would set up a dedicated fund of \$1 billion

to assist them in exploring and developing the Mainland market through developing brands, restructuring and upgrading their operations and promoting domestic sales in the Mainland. The financial proposal was approved by the Finance Committee on 11 May 2012.

Co-operation between the Mainland and Hong Kong in innovation and technology

27. At the Panel meeting held on 15 May 2012, Panel members noted that the HKSARG had established collaboration mechanisms at all levels in the Mainland, from the State Ministry of Science and Technology (MOST) in Beijing, the Guangdong Provincial Government to the Shenzhen Municipal Government. With CPG's emphasis on science and technology development in the 12th Five-Year Plan, the HKSARG had been working closely with MOST through the Mainland/Hong Kong Science and Technology Co-operation Committee to identify and implement initiatives to dovetail the 12th Five-Year Plan. These included:

- (a) encouraging more local R&D institutions and research personnel to take part in national science and technology programmes;
- (b) nominating Hong Kong experts for the National Science and Technology Programmes Expert Database. 56 Hong Kong experts recommended by ITC were approved by MOST;
- (c) providing financial support to the 12 laboratories in Hong Kong which had gained the status of Partner State Key Laboratories (SKLs) by pairing up with SKLs in Mainland. The HKSARG would also start a new round of application exercise for Partner SKLs in 2012; and
- (d) establishing other fora for fostering technology co-operation with the Mainland. For instance, the HKSARG was following up with MOST on a new initiative of setting up of a Hong Kong branch of the Chinese National Engineering Research Centre. The HKSARG was also working with MOST on another initiative of setting up of High-Tech Industrialization Bases in Hong Kong and accordingly Hong Kong Science Park was designated by MOST in November 2011 as the National High-tech (Partner) Industrialization Base for Green Technology.

Latest position

28. The Administration will update the Panel on 18 June 2012 on the latest developments of trade relations between Hong Kong and the Mainland (including Hong Kong/Guangdong, Hong Kong/Shenzhen, Hong Kong/Beijing, Hong Kong/Shanghai Economic and Trade Co-operation).

Reference

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

Council Business Division 1
Legislative Council Secretariat
14 June 2012

List of relevant papers

Committee	Paper	LC Paper No.
Legislative Council	Question No. 6 on "The Overall Development Plan on Hong Kong/Shenzhen Co-operation on Modern Service Industries in Qianhai Area" (3 November 2010)	Hansard
	Motion on "Implementing the Twelfth Five-Year Plan" (30 March 2011)	Hansard
	Motion on "Promoting regional economic integration between Guangdong and Hong Kong" (4 May 2011)	Hansard
	Question No. 2 on "Restructuring and upgrading of Hong Kong enterprises engaging processing trade on the Mainland" (2 May 2012)	Hansard
	Question No. 2 on "Barriers of entry to the Mainland market" (9 May 2012)	Hansard
House Committee	Administration's paper : "Latest progress of the work of the Hong Kong Special Administrative Region in complementing the National 12th Five-Year Plan"	CB(2)1792/10-11(01)
	Verbatim Transcript of the special meeting held on 20 May 2011	CB(2)2065/10-11
	Administration's paper : "Latest progress of the work of the Hong Kong Special Administrative Region in complementing the National 12th Five-Year Plan"	CB(2)238/11-12(01)
	Verbatim Transcript of the special meeting held on 11 November 2011	CB(2)614/11-12
Panel on Commerce and Industry	<u>Meeting on 18 January 2011</u> Administration's paper on Provision of funding support for Partner State Key Laboratories in Hong Kong	CB(1)1050/10-11(05)

Committee	Paper	LC Paper No.
	Minutes of the meeting held on 18 January 2011	CB(1)1529/10-11
	<u>Meeting on 15 February 2011</u> Administration's paper : "2010 Hong Kong/Shenzhen Co-operation Meeting"	CB(1)846/10-11(01)
	Administration's paper : "Third Plenary Session of the Hong Kong/Beijing Economic and Trade Cooperation Conference"	CB(1)846/10-11(02)
	Minutes of the meeting held on 15 February 2011	CB(1)1830/10-11
	<u>Meeting on 15 March 2011</u> Administration's paper : "Trade relations between the Mainland and Hong Kong and Hong Kong/Guangdong Co-operation Joint Conference in relation to commerce and industry between the two places"	CB(1)1531/10-11(05)
	Minutes of the meeting held on 15 March 2011	CB(1)2014/10-11
	<u>Meeting on 18 October 2011</u> Administration's paper : "The 14th Plenary of the Hong Kong/Guangdong Co-operation Joint Conference" (Information paper)	CB(1)3102/10-11(01)
	<u>Meeting on 20 December 2011</u> Administration's paper : "The 2011 Hong Kong/Shenzhen Co-operation Meeting" (Information paper)	CB(1)512/11-12(01)
	<u>Meeting on 17 January 2012</u> Administration's paper : "The Mainland and Hong Kong Closer Economic Partnership Arrangement"	CB(1)623/11-12(01)
	Updated background brief on trade relations between the Mainland and Hong Kong	CB(1)829/11-12(06)
	Minutes of the meeting held on 17 January 2012	CB(1)1296/11-12

Committee	Paper	LC Paper No.
	<u>Meeting on 21 February 2012</u>	
	Administration's paper : "Hong Kong/Shanghai Economic and Trade Co-operation Conference" (Information paper)	CB(1)923/11-12(01)
	Administration's paper : "17th Working Meeting of the Hong Kong/Guangdong Co-operation Joint Conference" (Information paper)	CB(1)923/11-12(02)
	<u>Meeting on 20 March 2012</u>	
	Administration's paper : "Dedicated fund on branding, upgrading and domestic sales"	CB(1)1298/11-12(03)
	Background brief on the support for Hong Kong enterprises in branding, upgrading and domestic sales	CB(1)1298/11-12(04)
	Minutes of the meeting held on 20 March 2012	CB(1)1787/11-12
	<u>Meeting on 17 April 2012</u>	
	Administration's paper : "Dedicated fund on branding, upgrading and domestic sales"	CB(1)1549/11-12(05)
	Minutes of the meeting held on 17 April 2012	CB(1)1809/11-12
	<u>Meeting on 15 May 2012</u>	
	Administration's paper : "Promotion of innovation and technology in Hong Kong"	CB(1)1790/11-12(03)