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**Panel on Commerce and Industry**

**Meeting on 19 October 2004**

**Background brief on  
Mainland and Hong Kong Closer Economic Partnership Arrangement  
prepared by the Secretariat**

**Purpose**

This paper summarizes recent developments of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) and Members' deliberations on the subject.

**Background**

2. In December 2001, the Chief Executive obtained the agreement of the Central People's Government (CPG) on the establishment of a form of free trade area between the Mainland and the Hong Kong Special Administrative Region (HKSAR). After a series of consultation with major trade associations and professional bodies in Hong Kong and discussions with the Mainland, the two governments signed the main text of CEPA on 29 June 2003 and concluded the six accompanying Annexes on 29 September 2003. In gist, CEPA covers trade in goods, trade in services, as well as trade and investment facilitation. The scope of liberalization under CEPA will be broadened and enriched through continuous discussion between the two sides. A Joint Steering Committee jointly chaired by the Financial Secretary and the Vice Minister of Commerce of CPG has been set up to oversee the overall coordination of CEPA.

Trade in goods (import tariffs)

3. Under the first phase of CEPA implemented on 1 January 2004, the Mainland eliminated import tariff for 374 Hong Kong products under its 2004 tariff codes. The categories of products which benefited from zero tariff include jewellery, textiles and clothing, electronic components, watches and clocks.

Hong Kong and the Mainland reached a further agreement on 27 August 2004 to provide further liberalization under the second phase of CEPA. Starting from 1 January 2005, the Mainland will apply zero tariff to 529 Hong Kong products under existing production. In addition, 184 products under planned production will enjoy zero tariff from 1 January of the following year after they have come into production. The two sides have agreed to complete discussion on the respective rule of origin for these 713 products by 1 October 2004.

#### Trade in services

4. Starting from 1 January 2004, the Mainland gave preferential market access to Hong Kong companies in 18 services sectors including accounting, banking, construction and real estate, insurance, legal, logistics, medical and dental, securities and telecommunications. Under the second phase of CEPA, it was announced on 27 August 2004 that the liberalization of the 11 out of the 18 services sectors will be broadened. In particular, the Mainland has agreed to lift the geographical restriction and expand the business scope for the individually-owned stores set up by Hong Kong permanent residents with Chinese nationality. On top of the 18 services sectors, preferential market access will be extended to eight new sectors including airport, cultural and entertainment, information technology, patent agency and trademark agency. The new liberalization measures will take effect on 1 January 2005.

5. Meanwhile, the HKSAR Government has been pursuing the mutual recognition of professional qualifications as part of, but on a separate track from, the services talks with the Mainland. According to the Administration's recent report, an agreement on mutual recognition of professional qualifications in structural engineering was signed by the concerned professional bodies for Hong Kong and the Mainland on 27 August 2004. A memorandum of understanding expressing intention of both sides to work closely in relation to the mutual recognition of qualifications in the accounting sector was also signed.

#### Trade and investment facilitation

6. Hong Kong and the Mainland have agreed on promoting cooperation in seven major areas including customs clearance, electronic commerce, trade and investment promotion and transparency in laws and regulations.

7. On recent facilitation measures, the Ministry of Commerce announced on 6 September 2004 a new policy to encourage and support Mainland enterprises to invest and expand business in Hong Kong and Macao. With a few exceptions, Mainland enterprises intended to be set up in Hong Kong will be approved by the provincial authorities of commerce as delegated by the MOC, instead of by MOC itself.

## **Issues of concern considered by Members**

### Discussion at the Panel on Commerce and Industry

8. The Panel has been briefed on the implementation of CEPA at the meetings held on 30 June, 13 October 2003, and 10 May 2004. Members welcome the implementation of CEPA and have expressed views on how best the opportunities provided by CEPA can be grasped.

#### *Economic benefits*

9. The Administration has expected that CEPA will enhance the attractiveness of Hong Kong to those overseas investors that wish to access the Mainland market. As the formula for calculating the value added percentage to qualify for zero tariff for certain products such as watches and clocks include the costs of design, research and patent incurred in Hong Kong, members are aware that the zero import tariff preference may attract to Hong Kong the manufacturing of brand name products or manufacturing activities with high-value added content or substantial intellectual property input. While it may be difficult to quantify the effect of the potential opportunities brought about by CEPA in its early stages of implementation, members have urged the Administration to conduct such an analysis in due course. They are also concerned about the implications of CEPA on the local employment situation, in particular whether the unemployment problem can be eased. Some members have suggested that the Administration should establish a high-level committee comprising Government representatives and business leaders to explore ways to maximize the opportunities brought about by CEPA.

#### *Further liberalization*

10. The Panel notes that CEPA is an open and developing platform. The HKSAR Government has also undertaken to continue discussion with the Mainland with a view to broadening CEPA's scope and coverage of liberalization. Some members have raised concern about specific sectors such as whether or not design per se should be included as one of the sectors specified for liberalization in trade in services. The Administration has also been requested to discuss with the Mainland the feasibility of raising the 50% threshold in shareholding by Hong Kong services suppliers in joint venture enterprises set up in the Mainland for the provision of value-added telecommunication services. The Administration takes note of members' views and re-affirms that it will continue to pursue with the Mainland authorities further liberalization of the Mainland market for trade in goods and services.

### *Promotion of CEPA*

11. Reckoning the importance of CEPA, members have highlighted the need to step up publicity and promotion of CEPA. In this regard, the Administration has assured members that it will spare no effort in promoting CEPA. Members also note that the Trade Development Council, Invest Hong Kong and various overseas Economic and Trade Offices have included the business opportunities under CEPA as a significant part of their promotional work.

### Discussion at Council meetings

12. Some Members have raised questions on the implementation of CEPA ranging from CEPA certificates of origin to facilitating businessmen in grasping the business opportunities under CEPA. On 9 July 2003, a motion on CEPA moved by Hon CHAN Kam-lam was passed. On 19 November 2003, Members passed a motion moved by Hon CHAN Yuen-han and as amended by Hon Kenneth TING, Hon LEE Cheuk-yan and Dr Hon YEUNG Sum on grasping the opportunities brought about by CEPA to enhance employment.

### **Assessment of the impact of CEPA**

13. Having regard to members' concerns about the implications of the implementation of CEPA, in particular its economic benefits, if any, the Administration has announced that it will conduct a quantitative analysis of the economic impact of CEPA, including the effect on local employment, nine to 12 months after CEPA's implementation and revert to the Panel in due course.