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**Panel on Commerce and Industry**

**Meeting on 15 November 2005**

**Background brief on recent developments of the  
Mainland and Hong Kong Closer Economic Partnership Arrangement**

**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. CEPA covers liberalization of trade in goods, trade in services, as well as trade and investment facilitation between the Mainland and Hong Kong. The first and second phases of CEPA (CEPA I and II) were implemented on 1 January 2004 and 1 January 2005 respectively. Following further discussion with a view to broadening and enriching the scope of CEPA, the Mainland and Hong Kong reached an agreement and announced on 18 October 2005 the liberalization measures under the third phase of CEPA (CEPA III) which will be implemented on 1 January 2006.

Trade in goods

3. Under CEPA III, the Mainland agrees to give all products of Hong Kong origin tariff-free treatment starting from 1 January 2006, upon application by local manufacturers and upon the CEPA rules of origin (ROO) being agreed and met. As a result, under the first three phases of CEPA, a total of 1 369 Hong Kong products can enjoy zero tariff when being exported to the Mainland. Both sides have agreed to jointly work out the ROOs for the remaining products twice a year after 2005 on application by the trades concerned. The Mainland has also agreed to amend the existing ROOs to waive the 30% value adding requirement for watches of Hong Kong brand names to be eligible for zero tariff.

4. To enable goods exported to the Mainland under the tariff-free treatment of CEPA to bear a "Made in Hong Kong" label, the following items of subsidiary legislation, which align the origin marking requirements under the Trade Descriptions Ordinance (TDO) (Cap. 362) with the CEPA origin rules in respect of certain products, have been made under the TDO :

- (a) Trade Descriptions (Country of Origin)(Watches) (Amendment) Order 2003 (L.N. 233 of 2003);
- (b) Trade Descriptions (Place of Manufacture) (Piece-Knitted Garments) Notice (L.N. 234 of 2003); and
- (c) Trade Descriptions (Place of Manufacture) (Textile Made-up Articles) Notice (L.N. 187 of 2004)

#### Trade in services

5. Since 1 January 2004, the Mainland has given preferential market access to Hong Kong service suppliers in 27 services sectors under CEPA I and II.

6. Under CEPA III, there are 23 liberalization measures covering 10 areas, namely legal, accounting, audiovisual, construction, distribution, banking, securities, tourism, transport and individually owned stores. All the liberalization measures will take effect on 1 January 2006 and the Mainland will work out and promulgate the necessary implementation rules and regulations as appropriate.

#### Trade and investment facilitation

7. Many of the measures under CEPA III have been worked out with the intention to enhance the flow of trade and investment between the two places. The exemption of textiles and clothing products under Hong Kong's Outward Processing Arrangement from the Mainland's regime of export duty imposed earlier this year as a result of the special safeguard measures of the United States and the European Union is a case in point.

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

#### Discussion at the Panel on Commerce and Industry

8. The Panel has followed closely the implementation of CEPA at its meetings held on 30 June, 13 October 2003, 10 May, 19 October 2004, 15 February and 19 April 2005. In general, members welcome the implementation of CEPA and are keen to ensure that Hong Kong can make the best use of the opportunities presented by CEPA. The Panel has also exchanged views with the Administration on the findings of its study on the impact of CEPA I for the first year or so of implementation on Hong Kong's economy at the macro- and micro-levels.

*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. The zero import tariff preference may also attract to Hong Kong the manufacturing of brand name products or activities with high-value added content or substantial intellectual property input. Moreover, the liberalization in trade in services will offer new business opportunities in the Mainland for Hong Kong professionals and service providers. The Panel also notes the Administration's analysis that Hong Kong should turn itself into a conduit of "quality" capital in order to stay competitive vis a vis other foreign investors in the Mainland market. CEPA has thus laid the foundation for a new business platform in which the longer-term socio-economic relations between Hong Kong and the Mainland will be shaped.

*Job creation under CEPA*

10. One of the Panel's major concerns is the impact of CEPA on local employment, notably how far its implementation can help create employment opportunities for the local workforce. Members note that according to the Administration, about 29 000 new jobs (including those generated by the 'Individual Visit Scheme') have been and are forecast to be created in Hong Kong in the first two years of implementing CEPA I, with the bulk of these jobs found in the services sector. Some Members remain concerned that as Hong Kong's manufacturing sector moves away from labour-intensive operations to capital-intensive processes, Hong Kong's industrial development and the job opportunities of manufacturing workers are unlikely to be improved. The Administration has nevertheless advised that the local business community would need time to plan and adjust their strategies and mode of operation under CEPA. If the initial response of the Mainland market is favourable, local manufacturers will likely set up additional production lines and engage more staff, thereby boosting local employment.

*Support measures*

11. To encourage Hong Kong manufacturers to relocate or set up their production base in Hong Kong, some Members have suggested that the Administration should consider the introduction of new initiatives such as concessions in land grant and taxation. While the Administration is not in favour of providing discriminatory tax incentives to a particular sector or industry, it has nevertheless referred to a number tax concessions which are generally applicable to various sectors such as the deductions currently allowed for profits tax purposes.

12. Some members have referred to trade barriers currently confronting Hong Kong enterprises and urged the Administration to work more closely with the Mainland authorities in overcoming these impediments. The Administration has confirmed that it will maintain close liaison with Mainland authorities and will continue to improve the operational procedures under CEPA in the light of implementation experience. Members also note that a dedicated team of staff has been set up in the Trade and Industry Department to oversee the coordination and implementation of liberalization measures under CEPA. It also handles enquiries, takes follow-up actions and maintains a website on CEPA.

13. Members have also expressed concern about the assistance available to Hong Kong businessmen and professional bodies when they encounter problems in connection with their investment or business in the Mainland. In this connection, the Panel notes from the Chief Executive's 2005-06 Policy Address that in addition to the Hong Kong Economic and Trade Office in Guangdong and the Beijing Office, the Administration will discuss with the Central Authorities the setting up of additional offices in Shanghai and Chengdu. The Panel will be advised of further details in due course.

*Promotion and dissemination of information*

14. Owing to the importance of CEPA, members have highlighted the need to step up the publicity and promotion of CEPA. The Administration has assured members that it will spare no effort in this regard. Invest Hong Kong and the overseas Economic and Trade Offices of the SAR Government have included the business opportunities under CEPA as a significant part of their promotional activities. Members also note that the Trade Development Council, various industry organizations and chambers of commerce are also actively involved in promoting CEPA such as by organizing thematic seminars on CEPA on their own or in conjunction with the Government.

15. The Panel considers it necessary to enhance the dissemination of information on CEPA for the benefit of the business community, especially small and medium enterprises. In response, the Administration has advised that it is working closely with the Mainland authorities to improve transparency and efficiency in the transmission of official information, especially that relating to rules and regulations. Members note that currently, the general public can access the official websites of all the 21 municipalities of the Guangdong Province via the hyperlinks set up in the home page of the Trade and Industry Department.

16. Regarding some Members' concern about the provision of information to assist Hong Kong residents to set up individually owned stores in the Mainland, the Administration has confirmed that the Trade and Industry Department has published information on its website to facilitate Hong Kong residents to have a better understanding of the procedures, formalities and the documents required for setting up such stores.

Discussion at Council meetings

17. Questions on the implementation of CEPA ranging from CEPA Certificates of Origin to facilitating businessmen in grasping the business opportunities under CEPA have been raised at Council meetings. On 9 July 2003, a motion on CEPA moved by Hon CHAN Kam-lam was carried. 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. A motion on deepening CEPA moved by Hon WONG Ting-kwong and as amended by Hon SIN Chung-kai was carried at the Council meeting on 15 June 2005.

18. When speaking during the aforesaid motion debates, Members in general expressed support for CEPA but urged the Administration to formulate appropriate measures to improve the business environment and facilitate local enterprises, especially small and medium enterprises, to make the best use of the business opportunities brought about by CEPA, thereby creating more employment opportunities and improving the economy.

Council Business Division 1  
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