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Panel on Commerce and Industry

Meeting on 18 June 2013

**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, nine 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, 13 December 2011 and 29 June 2012 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. By now, there are more than 1 700 Hong Kong origin products that can enjoy zero tariff on importation to Mainland. Including the measures in Supplement IX to CEPA, a total of 338 liberalization measures have been announced in 48 service sectors. Details and content of Supplement IX to CEPA are set out in the Administration's paper issued vide LC Paper CB(1)2295/11-12(01) on 3 July 2012.

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 on Hong Kong/Guangdong Co-operation (Framework Agreement).

6. In August 2011, the then 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 significantly increase the Mainland's opening to Hong Kong in trade in services¹.

Hong Kong/Guangdong co-operation

7. The Government of the Hong Kong Special Administrative Region (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 in the presence of the then 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 14 September 2012, the Chief Executive (CE) and the Governor of Guangdong Province, Mr ZHU Xiaodan, co-chaired the 15th Plenary of HKGDCJC in Guangzhou. At the meeting, the two sides reviewed the progress of Hong Kong/Guangdong co-operation over the past year and set directions for future co-operation. The two sides were satisfied that implementation of the 86 co-operation items under the 2012 Work Plan have

¹ The other five areas include: (i) to consolidate and upgrade Hong Kong's standing as an international financial centre; (ii) to support Hong Kong in developing into a centre for offshore Renminbi business; (iii) to support Hong Kong in its participation in international and regional economic co-operation; (iv) to help enterprises in both the Mainland and Hong Kong to "go global" together; and (v) to give full play to Hong Kong's important role in Guangdong-Hong Kong-Macao co-operation.

made good progress. Key areas discussed at the meeting are set out in the Administration's paper issued vide LC Paper No. CB(1)41/12-13(01) on 17 October 2012.

10. On 15 March 2013, the Chief Secretary for Administration (CS) and the Vice-Governor of Guangdong Province, Ms ZHAO Yufang, co-chaired the 18th Working Meeting of HKGDCJC in Guangzhou. At the meeting, the two sides reviewed the progress of implementation of the 2012 Work Plan of the Framework Agreement and compiled the 2013 work Plan. With the efforts of the two sides, a total of 84 co-operation items have been included in the 2013 Work Plan, which basically covered all areas of co-operation of the two places. The major outcomes of the meeting are set out in the Administration's paper issued vide LC Paper No. CB(1)829/12-13(01) on 10 April 2013.

11. On 6 September 2012, the State Council approved the Plan for the Development of Nansha New District of Guangzhou (Nansha Development Plan) which set out the macro development direction for Nansha, positioning Nansha New District as "a zone to demonstrate comprehensive co-operation amongst Guangdong, Hong Kong and Macao". The Nansha Development Plan aimed at aligning the business environment of Nansha New District with international standards, as well as those of Hong Kong and Macao, on all fronts by 2025. The Nansha Development Plan also stated that Nansha would strengthen key economic sectors such as commercial services, scientific and technological innovation, education and training, maritime logistics and high-end manufacturing; facilitate continuous enhancement of the international competitiveness of Hong Kong; achieve liberalization of trade in services with Hong Kong and Macao; and introduce measures to facilitate investment by small and medium enterprises (SMEs) from Hong Kong and Macao.

Hong Kong/Shenzhen co-operation

12. 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 CS 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.

13. On 11 January 2013, CS and the Mayor of the Shenzhen Municipal Government, Mr XU Qin, co-chaired the Hong Kong-Shenzhen Co-operation Meeting in Shenzhen. In the meeting, the two sides comprehensively reviewed the co-operation work in 2012, and set the major directions for co-operation in the coming year. The two sides agreed that Hong Kong and Shenzhen should grasp the opportunities arising from the country's development, and deepen co-operation according to the development needs of the two places with a view to "expanding economies and improving livelihood". Key areas discussed at the meeting are set out in the Administration's paper issued vide LC Paper No. CB(1)514/12-13(01) on 1 February 2013.

14. 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. In June 2012, the State Council approved a total of 22 policies supporting the development of Qianhai. These policies cover six major areas including finance, taxation, legal services, professional services, medical services and education, and telecommunication services. By setting out clearly the opportunities arising from the development of Qianhai, these policies would assist Hong Kong business sectors to consider investing in Qianhai.

Hong Kong/Beijing co-operation

15. 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, CE 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

16. 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

17. 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 were keen to ensure that such initiatives could 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.

Panel on Commerce and Industry

Liberalization and facilitation measures under CEPA

18. At the meeting of the Panel on Commerce and Industry (the Panel) held on 17 January 2012, members were briefed on Supplement VIII to CEPA signed by HKSARG and CPG on 13 December 2011. Members noted that Supplement VIII to CEPA provided for a total of 32 service liberalization and trade and investment facilitation measures (including 23 liberalization measures in 16 service sectors), and strengthened co-operation of the two sides in areas such as finance, tourism, innovation and technology. Among the 32 measures, 15 were related to the implementation of measures announced by the then Vice-Premier LI Keqiang during his visit to Hong Kong in August 2011. 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".

19. Some Panel members pointed out that the service industry, such as the exhibition industry, was still being plagued with various barriers of entry to the Mainland market with the associated access restrictions. These members urged the Administration to push forward the implementation of the measures announced under Supplement VIII to CEPA and to strive for more liberalization measures. 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 in respect of the implementation of CEPA measures and issues related to the restructuring and upgrading of the processing trade. There was also a suggestion to set up a dedicated unit to co-ordinate the work for assisting Hong Kong brands to enter the Mainland market.

20. Regarding liberalization measures 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 for further expansion of the scope to cover all products manufactured by Hong Kong enterprises in the Mainland.

Co-operation between Hong Kong and Shenzhen

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 services industries in Qianhai. On technology co-operation between Hong Kong and Shenzhen, some 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.

Assistance to cross-border workers and Hong Kong enterprises

22. At the Panel meeting held on 19 June 2012, members were briefed on the latest developments of the trade relations between the Mainland and Hong Kong. Some Panel members called on the Administration to continue liaising with the Mainland authorities on tax issues, with a view to introducing tax concessions for cross-border workers and putting in place measures for claiming depreciation allowances in respect of the machinery or plants used by Hong Kong enterprises in import processing operations in the Mainland. Suggestions were made for the Administration to upgrade the functions of the Economic and Trade Offices in the Mainland so as to enhance the assistance to Hong Kong enterprises and to reflect their views to the relevant Mainland authorities as appropriate.

2013 Policy Address

23. At the Panel meeting held on 23 January 2013, members were briefed on the policy initiatives in relation to co-operation with the Mainland covered in the 2013 Policy Address. Members welcomed the initiatives to strengthen the trade and economic co-operation between Hong Kong and the

Mainland through enhanced G2G (Government-to-Government) co-operation and economic partnership with provinces and municipalities in the Mainland on all fronts.

24. Some Panel members were concerned about how the existing mechanism for the implementation of CEPA could be further enhanced to help resolve the problems encountered by the trade in entering into the Mainland market through the CEPA preferential measures. The Administration advised that an additional Joint Working Group would be established by HKSARG and CPG to provide targeted assistance to sectors that had encountered relatively more entry barriers with emphasis on assisting SMEs. Some Panel members suggested that trade missions, to be led by CE and Principal Officials, should be organized to enable Hong Kong enterprises to better understand the investment environment and development potentials in the Mainland as well as the emerging markets overseas.

Restructuring and upgrading of Hong Kong enterprises and domestic sales in the Mainland

25. Panel members welcomed the introduction of the \$1 billion Dedicated Fund on Branding, Upgrading and Domestic Sales (the BUD Fund) in June 2012 to assist Hong Kong enterprises in upgrading and restructuring their operations, developing brands and promoting domestic sales in the Mainland. Some Panel members were of the view that the application for the BUD Fund should be open to SMEs only, but not large non-listed enterprises, so as to ensure that local SMEs could benefit from the BUD Fund. The Administration was urged to simplify the application procedures to facilitate applications by SMEs and to put in place more concrete support measures to further assist Hong Kong enterprises to increase their competitiveness in the Mainland market. Concern was also raised about the economic benefits to be brought about by the BUD Fund to the overall economy of Hong Kong, especially the industrial sector and local workforce.

26. To facilitate Hong Kong enterprises to access the Mainland market and promote domestic sales in the Mainland, some Panel members suggested that the Administration should consider setting up showcase centres in major cities in the Mainland for staging exhibition and product shows on a long-term basis. Exhibition booths or divided units could be subsequently leased out to Hong Kong enterprises to showcase their products.

Council questions

27. Council questions on the restructuring and upgrading of Hong Kong enterprises engaging in processing trade on the Mainland, as well as the barriers of entry to the Mainland market were raised by Members at the

Council meetings on 2 and 9 May 2012.

28. At the Council meeting on 5 December 2012, Hon NG Leung-sing raised a question about the impact of the development of the Nansha New District of Guangzhou on the economy, finance and other aspects of Hong Kong. The Administration advised that the specific policies and detailed arrangement in taking forward the development of Nansha had yet to be formulated by the relevant authorities. The HKSARG had been maintaining close liaison with the Guangzhou Government. The two sides had established the Hong Kong/Guangzhou Co-operation Working Group to serve as the communication platform for pushing forward the development of Nansha. The related bureaux of HKSARG had been watching closely the progress of the development of Nansha and conveying views of the industries to the Mainland authorities.

Latest position

29. The Administration will update the Panel on 18 June 2013 on the latest developments of the trade relations between Hong Kong and the Mainland, including CEPA, the restructuring and upgrading of Hong Kong enterprises and domestic sales in the Mainland, promotion of trade and investment, customs clearance of goods, intellectual property rights, etc.

Reference

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

Council Business Division 1
Legislative Council Secretariat
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Trade relations between the Mainland and Hong Kong

List of relevant papers

Date of meeting	Meeting	Minutes/Paper	LC Paper No.
2/5/2012	Council	Question No. 2 raised by Dr Hon LAM Tai-fai	Hansard (Page 8942-8954) http://www.legco.gov.hk/yr11-12/english/counmtg/hansard/cm0502-translate-e.pdf
9/5/2012	Council	Question No. 2 raised by Hon Andrew LEUNG Kwan-yuen	Hansard (Page 9180-9193) http://www.legco.gov.hk/yr11-12/english/counmtg/hansard/cm0509-translate-e.pdf
19/6/2012	Panel on Commerce and Industry	Administration's paper Updated background brief Minutes of meeting	CB(1)2153/11-12(07) http://www.legco.gov.hk/yr11-12/english/panels/ci/papers/ci0619cb1-2153-7-e.pdf CB(1)2153/11-12(08) http://www.legco.gov.hk/yr11-12/english/panels/ci/papers/ci0619cb1-2153-8-e.pdf CB(1)2493/11-12 http://www.legco.gov.hk/yr11-12/english/panels/ci/minutes/ci20120619.pdf
3/7/2012 (Issue date)	Panel on Commerce and Industry	Information paper	CB(1)2295/11-12(01) http://www.legco.gov.hk/yr11-12/english/panels/ci/papers/cicb1-2295-1-e.pdf

Date of meeting	Meeting	Minutes/Paper	LC Paper No.
29/10/2012	Panel on Commerce and Industry	Information paper	CB(1)41/12-13(01) http://www.legco.gov.hk/yr12-13/english/panels/ci/papers/cicb1-41-1-e.pdf
5/12/2012	Council	Question No. 8 raised by Hon NG Leung-sing	Hansard (Page 3050-3051) http://www.legco.gov.hk/yr12-13/english/counmtg/hansard/cm1205-translate-e.pdf
23/1/2013	Panel on Commerce and Industry	Administration's paper Minutes	CB(1)436/12-13(04) http://www.legco.gov.hk/yr12-13/english/panels/ci/papers/ci0123cb1-436-4-e.pdf CB(1)694/12-13 http://www.legco.gov.hk/yr12-13/english/panels/ci/minutes/ci20130123.pdf
19/2/2013	Panel on Commerce and Industry	Information paper	CB(1)514/12-13(01) http://www.legco.gov.hk/yr12-13/english/panels/ci/papers/cicb1-514-1-e.pdf
16/4/2013	Panel on Commerce and Industry	Information paper	CB(1)829/12-13(01) http://www.legco.gov.hk/yr12-13/english/panels/ci/papers/cicb1-829-1-e.pdf
21/5/2013	Panel on Commerce and Industry	Administration's paper	CB(1)1026/12-13(04) http://www.legco.gov.hk/yr12-13/english/panels/ci/papers/ci0521cb1-1026-4-e.pdf

Date of meeting	Meeting	Minutes/Paper	LC Paper No.
		<p>Background brief</p> <p>Follow-up paper</p>	<p>CB(1)1026/12-13(05)</p> <p>http://www.legco.gov.hk/yr12-13/english/panels/ci/papers/ci0521cb1-1026-5-e.pdf</p> <p>CB(1)1180/12-13(01)</p> <p>http://www.legco.gov.hk/yr12-13/english/panels/ci/papers/ci0521cb1-1180-1-e.pdf</p>