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Panel on Commerce and Industry

Meeting on 18 July 2017

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

Purpose

This paper provides updated background information on the initiatives to foster trade relations and economic co-operation between the Mainland and Hong Kong and the implementation of the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA"). This paper also provides a summary of views and concerns expressed by Members during previous discussions on the subject.

Initiatives to foster trade relations

2. Trade relations and economic co-operation between the Mainland and Hong Kong have been developing rapidly in recent years. The various major initiatives launched by the Central People's Government ("CPG"), such as CEPA, have greatly strengthened the linkage between the Mainland and Hong Kong in trade. 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.

Mainland and Hong Kong Closer Economic Partnership Arrangement

3. As the first free trade agreement concluded by the Mainland and Hong Kong, CEPA makes way for liberalization of trade in services, trade in goods as well as trade and investment between the two places. After the signing of the main text of CEPA on 29 June 2003 and its six Annexes on 29 September 2003 between the Mainland and Hong Kong, CEPA came into force on 1 January 2004. Pursuant to Article 3 of CEPA, both sides will broaden and enrich from time to time the contents of CEPA through continuous and further reciprocal liberalization.

4. Between 2004 and 2015, the two sides had signed 10 Supplements to CEPA and two agreements (i.e. the Agreement between the Mainland and Hong Kong on Achieving Basic Liberalization of Trade in Services in Guangdong and the Agreement on Trade in Services),¹ expanding market liberalization and further facilitating trade and investment. The Agreement on Trade in Services consolidates and expands services liberalization commitments introduced under CEPA since 2003. It was implemented on 1 June 2016 to basically achieve liberalization of trade in services between the Mainland and Hong Kong.

5. On 28 June 2017, the Mainland and Hong Kong signed the Investment Agreement and Agreement on Economic and Technical Co-operation ("Ecotech Agreement") to enhance CEPA in line with a modern and comprehensive free trade agreement, providing for promotion and protection of increasing investments between the two places as well as fostering economic and technical co-operation and exploring new areas of co-operation.

Investment Agreement

6. As the first investment agreement of the Mainland with pre-establishment national treatment commitments made for the advocacy of investment adopting a negative listing approach, the Investment Agreement came into effect on 28 June 2017 and will be implemented from 1 January 2018.

7. According to the Administration, under the Investment Agreement, the Mainland commits to providing national treatment to Hong Kong investments and investors on par with Mainland investment and investors except for the 26 measures listed in the Investment Agreement. Hong Kong can also enjoy more preferential investment access than other external investors in specific sectors. Moreover, the Investment Agreement will cover admission of investments outside the scope of the Agreement on Trade in Services (including manufacturing sectors, mining sectors and investment in assets, or collectively the "non-services sectors"). The Investment Agreement also provides for commitments of both sides relating to protection and facilitation of investments, such as restriction on expropriation of investments, compensation for losses, and transfer abroad of investments and returns etc.

The Agreement on Economic and Technical Co-operation

8. The Ecotech Agreement consolidates and updates the economic and

¹ The Agreement between the Mainland and Hong Kong on Achieving Basic Liberalization of Trade in Services in Guangdong was signed in December 2014, and the Agreement on Trade in Services was signed in November 2015.

technical co-operation activities set out in CEPA and its Supplements taking into account the development trends and needs of Hong Kong and the Mainland. According to the Administration, the Ecotech Agreement incorporates the co-operation in the economic and trade aspects of the Belt and Road Initiative and Sub-regional Co-operation into the framework of CEPA, thereby providing Hong Kong businesses with good opportunities for participation in the national development strategies. The Ecotech Agreement came into force on 28 June 2017.

Regional co-operation

9. The Hong Kong Special Administrative Region Government ("HKSARG") has established various co-operation platforms with the Mainland authorities to promote cross-boundary cooperation in various aspects, including promotion of trade and commerce, facilitation of the flow of personnel and goods, environmental protection, food safety, information technology, city construction, tourism co-operation, cultural exchanges, sports promotion, etc.

Hong Kong/Guangdong co-operation

10. 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. Hong Kong and Guangdong signed the Framework Agreement on Hong Kong/Guangdong Co-operation in April 2010 which set out six long-term development positions for Hong Kong/Guangdong co-operation.² To monitor the progress of Hong Kong/Guangdong co-operation, the two sides hold annual plenary meetings of HKGDCJC, co-chaired by the Chief Executive of HKSARG and the Governor of Guangdong Province.

11. At the 19th Plenary of HKGDCJC held in Guangzhou on 14 September 2016, the two sides reviewed the progress of the implementation of the 2016 Work Plan of Hong Kong/Guangdong co-operation and reached a consensus on the key areas for further co-operation. The Plenary agreed to further strengthen co-operation in areas such as the Belt and Road Initiative, innovation and technology ("I&T"), youth, environmental protection, financial services, professional services, key regions, education, and tourism.

12. Subsequently, at the 22nd Working Meeting of HKGDCJC in Guangzhou on 23 February 2017, the two sides signed the 2017 Work Plan of

² These include developing 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.

the Framework Agreement on Hong Kong/Guangdong Co-operation, which covers 77 co-operation items in various areas, based on the consensus above.

Hong Kong/Fujian co-operation

13. To strengthen co-operation between Hong Kong and Fujian Province, both sides agreed on the establishment of a Hong Kong-Fujian Co-operation Conference. The first Hong Kong-Fujian Co-operation Conference was held on 22 January 2015 in Fuzhou where the two governments signed two agreements to strengthen economic and trade, as well as financial co-operation so as to assist Fujian enterprises to explore overseas market and attract foreign investment, and enhance Hong Kong/Fujian co-operation in sectors such as tourism, banking, insurance, securities and accounting services and financial market.

14. The second Hong Kong-Fujian Co-operation Conference was held in Hong Kong in April 2016. Both sides agreed to further strengthen economic and trade co-operation as well as financial co-operation under the two agreements signed in 2015 through the liaison mechanism. Both sides also agreed to explore means to promote co-operation on I&T between the two places, and to strengthen youth exchange and exchanges on cultural and creative industries.

Hong Kong/Shenzhen co-operation

15. The close liaison between Hong Kong and Shenzhen started in 1978 after the Mainland had begun its "reform and opening up". The Hong Kong/Shenzhen Co-operation Meeting was set up in 2004 with a view to consolidating the achievements attained in various co-operation initiatives and exploring future co-operation so as to obtain synergy. At the Hong Kong/Shenzhen Co-operation Meetings held on 30 January 2015 in Shenzhen, and on 29 February 2016 in Hong Kong, the two sides comprehensively reviewed the co-operation progress and set the main directions for co-operation in areas such as I&T, creative industries, financial services, professional services and youth in the coming year.

16. At the Hong Kong/Shenzhen Co-operation Meeting held on 3 January 2017 in Hong Kong, both sides reviewed co-operation progress of the past year and set the main directions for co-operation in the coming year. On the same day, both sides also signed the "Memorandum of Understanding on Jointly Developing the Lok Ma Chau Loop by Hong Kong and Shenzhen", agreeing to jointly develop the Lok Ma Chau Loop into a Hong Kong/Shenzhen Innovation and Technology Park under the principles of "one country, two systems" and "co-development and mutual benefit".

Hong Kong/Shanghai co-operation

17. In October 2003, 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. The Third Plenary Session of Hong Kong/Shanghai Economic and Trade Co-operation Conference was held on 10 April 2015 in Shanghai. At the Conference, the two sides reached consensus on 10 areas of co-operation, including the China (Shanghai) Pilot Free Trade Zone ("FTZ") co-operation; finance; commerce, trade and investment; youth development and social management; science and technology; tourism, creative industries, culture and sports; exchange of professionals, etc.

18. In the report on the work of the Hong Kong Economic and Trade Office ("ETO") in Shanghai in October 2016, the Shanghai ETO had been monitoring closely the latest developments in the China (Shanghai) Pilot FTZ co-operation, including those after its expansion and relevant financial measures, disseminating timely information to the industry and answering related enquiries.

National 13th Five-Year Plan

19. In April 2014, the National Development and Reform Commission announced the commencement of preliminary research work on the National 13th Five-Year Plan, indicating that it would consider placing Hong Kong and Macao under a dedicated chapter when drawing up the National 13th Five-Year Plan, with a view to promoting the economic development of Hong Kong and Macao, and would support Hong Kong in consolidating and enhancing its status as an international financial, trade and maritime centre. In this connection, HKSARG submitted nine proposed policy proposals in end 2014 to CPG for its consideration when conducting research work.³

³ The Hong Kong Special Administrative Region Government's nine proposals include: (a) deepening the policy direction of National 12th Five-Year Plan, consolidating and enhancing Hong Kong's status as the world's offshore Renminbi business hub and an international asset management centre; (b) consolidating Hong Kong's role as a platform for Mainland's enterprises "going global" and a leading international investment and financing platform in Asia; (c) deepening and expanding mutual access between the financial markets of the Mainland and Hong Kong; (d) strengthening co-operation with the Mainland to promote Hong Kong's status as an international maritime centre/supporting Hong Kong's role as an international and regional aviation hub; (e) building up Hong Kong as major homeport for cruise and an international cruise hub; (f) further achieving liberalization of trade in services between the Mainland and Hong Kong; (g) supporting the positioning of Hong Kong as a centre for international legal and dispute resolution services in the Asia Pacific Region; (h) developing the Pearl River Delta region into a quality living green port cluster; and (i) further promoting technology, and cultural and creative industries.

20. On 17 March 2016, CPG promulgated the Outline of the National 13th Five-Year Plan. The chapter dedicated to Hong Kong and Macao expressed support for Hong Kong's participation in the Mainland's two-way opening up and the Belt and Road Initiative, as well as expeditious development of co-operation platforms among Hong Kong, Macao and Guangdong (including Qianhai, Nansha and Hengqin). According to the Administration, the Steering Committee on Co-operation with the Mainland would coordinate various policy bureaux and departments in formulating policies and measures based on the National 13th Five-Year Plan under the "one country, two systems" principle. To support exchange, promotion and co-operation efforts with countries along the Belt and Road and other external markets, including the Mainland, the Chief Executive announced in the 2016 Policy Address that \$200 million funding support would be provided to Hong Kong professional services sector. Subsequently, the funding proposal of the Professional Services Advancement Support Scheme ("PASS") was approved by the Finance Committee of the Legislative Council in July 2016. PASS was launched in November 2016.

Previous discussions

Panel on Commerce and Industry

21. The Panel on Commerce and Industry ("Panel") was briefed on the latest developments in the trade relations and economic co-operation between the Mainland and Hong Kong including the implementation of CEPA and related issues at the meetings on 19 January and 19 April 2016 and 25 January 2017. Members' major views and concerns are summarized as follows.

Regional co-operation

22. At the meeting on 19 January 2016, some members requested the Administration to elaborate on the co-operation between Hong Kong and Guangdong Province in promoting the development of the Guangdong FTZ which covered the Nansha, Qianhai and Hengqin regions.

23. The Administration explained that Nansha, Qianhai and Hengqin each had a unique positioning in terms of development. While Qianhai and Hengqin would serve as the Shenzhen-Hong Kong Modern Service Industry Co-operation and a region for cultural, creativity, tourism and leisure industries development respectively, the Guangdong Province intended to develop Nansha by drawing on Hong Kong's experience in economic development and social management to achieve mutual benefits. To enhance members' understanding of the developments in the three regions, the Administration could help arrange visits to the regions and briefings from

related Mainland management authorities for members and delegations of Hong Kong business and professional to learn about their development plans.

24. At the meeting on 25 January 2017, members enquired about the implementation progress of the "Register of Hong Kong Professional Firms" ("the Register") and other related implementation measures since they were promulgated in June 2016, which allowed Hong Kong professionals and firms to practice and provide professional services for development projects in Qianhai that were wholly or majority owned by Hong Kong enterprises. The Administration provided supplementary information on the implementation progress of the Register vide LC Paper No. CB(1)561/16-17(01) after the meeting.

25. At the meeting on 25 January 2017, members enquired about the contents of the nine co-operation agreements that were signed between Hong Kong and Guangdong Province at the 19th Plenary in Guangzhou on 14 September 2016, one of which was the "Co-operation Arrangement between Guangdong and Hong Kong on Exchanges on Medical and Health Services". Members were concerned whether the arrangements provided in the said Agreement would eventually enable Mainland medical professionals to practice in Hong Kong.

26. The Administration advised that the said Agreement aimed at enhancing the exchanges of medical personnel and reporting mechanism between Hong Kong and Guangdong Province, and did not touch on the autonomy of medical professional services of the two places.

The Belt and Road Initiative

27. Noting that the Administration would form a steering committee to co-ordinate work between government departments to explore and capture the trade opportunities under the Belt and Road Initiative ("the Steering Committee"), some members suggested at the meeting on 19 April 2016 that the Administration should invite representatives of the private sector to join the Steering Committee or to form an advisory council to incorporate the views and experience of the private sector in trade development and formulating policies on the Belt and Road Initiative. The Administration took note of the view and advised that the Belt and Road Summit would be held in May 2016 where speakers from overseas, the Mainland and Hong Kong would exchange views and ideas on exploring the business opportunities presented by the Belt and Road Initiative.

Mainland and Hong Kong Closer Economic Partnership Arrangement

28. Noting that Hong Kong travel agents were allowed to operate outbound group tours for Mainland residents on the Mainland on a pilot basis

pursuant to the liberalization measures under CEPA, some members enquired whether the Administration would pursue expansion or enrichment to such measures at the meeting on 25 January 2017.

29. The Administration advised that under the Agreement on Trade in Services signed on 27 November 2015 under CEPA, with effect from 1 June 2016, the restriction on the number of Mainland-Hong Kong joint venture travel agents operating outbound group tours for Mainland residents had been lifted. Moreover, up to five Hong Kong travel agents established on a wholly-owned basis were allowed to operate outbound group tours for Mainland residents on a pilot basis, and the place of establishment of the five travel agents would no longer be confined to the Guangdong Province. The Administration would keep in view the implementation progress of relevant measures and, where necessary, to explore with the China National Tourism Administration to expand or enrich such measures, or introduce new measures having regard to the actual operating experience of the industry.

30. At the same meeting, some members enquired whether the Administration would consider regularizing the CEPA Joint Working Group ("the Joint Working Group"), and whether the new term of Government would continue to adopt such a mechanism. The Administration advised that the Joint Working Group was established in 2013 to provide targeted assistance in sectors which had encountered relatively more entry barriers, and help resolve CEPA implementation problems encountered in individual provinces and municipalities. The Joint Working Group was effective in resolving CEPA implementation issues. On the other hand, the Administration was not in the position to reply whether the Joint Working Group would continue to operate or would be regularized under the new term of Government.

Council question

31. At the meeting of 14 June 2017, Mr Jimmy NG asked an oral question on the work of the Steering Committee and the Belt and Road Office ("BRO"), enquiring whether the authorities had assessed the effectiveness of the various tasks undertaken by the Steering Committee and BRO since their establishment, as well as the follow-up work to the Belt and Road Forum for International Co-operation ("the Forum") held in Beijing on 14th May 2017 to be carried out by the Steering Committee and BRO.

32. The Administration advised that the Steering Committee monitored the progress of the Belt and Road work plans of relevant bureaux and departments, and discussed important issues, including participation of HKSARG in the Forum held in Beijing in May 2017, discussions with Mainland authorities on how to assist Hong Kong companies to participate in Belt and Road development, strategies to promote Hong Kong's edge, and to

step up efforts to promote people-to-people bond.

33. The Commissioner for Belt and Road ("CBR") of BRO assists the Chief Executive through the work of the Steering Committee and BRO to liaise with government bureaux and departments, as well as various sectors of the community, to better seize the new development opportunities brought by the Belt and Road Initiative; and offers recommendations and advice to the Chief Executive and the Steering Committee on the formulation and implementation of strategies related to the Belt and Road Initiative.

34. Under CBR's leadership, BRO's work includes liaising and communicating with various stakeholders and offering advice and assistance, where appropriate, regarding the issues and suggestions raised by them. BRO was also responsible for organizing HKSARG's participation in the Forum.

35. The Administration further advised that the Joint Communique of the Leaders Roundtable of the Forum ("Joint Communique") was agreed at the Leaders Roundtable of the Forum. The Joint Communique reaffirms the commitment to uphold and advance the principle of open economy. HKSARG welcomed and supported the Joint Communique. Furthermore, before and during the Forum, 76 items comprising more than 270 concrete results in five key areas (namely policy co-ordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bond) were achieved. BRO together with relevant policy bureaux would analyze the list of deliverables of the Forum, so that the new term Government, after discussion with various sectors, could formulate and implement suitable policies and initiatives in a timely manner.

Latest position

36. The Administration will brief the Panel on 18 July 2017 on the latest developments of CEPA in respect of the signing of the Investment Agreement and Ecotech Agreement.

Reference

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

List of relevant papers

| Date of meeting | Meeting | Paper |
|----------------------------|--------------------------------|--|
| 19/1/2016 | Panel on Commerce and Industry | <p>Administration's paper on "2016 Policy Address - Policy Initiatives of Commerce, Industry and Tourism Branch, Commerce and Economic Development Bureau" (LC Paper No. CB(1)436/15-16(03))</p> <p>Administration's paper on "2016 Policy Address - Policy Initiatives of Constitutional and Mainland Affairs Bureau in relation to Mainland and Taiwan co-operation" (LC Paper No. CB(1)436/15-16(04))</p> <p>Administration's paper on "2016 Policy Address - Policy Initiatives of Innovation and Technology Bureau" (LC Paper No. CB(1)436/15-16(05))</p> <p>Minutes of meeting (LC Paper No. CB(1)665/15-16)</p> |
| 19/4/2016 | Panel on Commerce and Industry | <p>Administration's paper on "Trade relations between the Mainland and Hong Kong" (LC Paper No. CB(1)794/15-16(05))</p> <p>Background brief on trade relations between the Mainland and Hong Kong prepared by the Legislative Council Secretariat (LC Paper No. CB(1)794/15-16(06))</p> <p>Minutes of meeting (LC Paper No. CB(1)1043/15-16)</p> |
| 26/10/2016 (issue date) | Panel on Commerce and Industry | <p>Administration's information paper on "The 19th Plenary of the Hong Kong/Guangdong Co-operation Joint Conference" (LC Paper No. CB(1)39/16-17(01))</p> |

| Date of meeting | Meeting | Paper |
|----------------------------|--------------------------------------|--|
| 11/11/2016 (issue date) | Panel on Commerce and Industry | Administration's information paper on "Report on the work of the HKSAR Government's Offices in the Mainland and Taiwan" (LC Paper No. CB(1)115/16-17(03)) |
| 25/1/2017 | Panel on Commerce and Industry | Administration's paper on "2017 Policy Address - Policy Initiatives of Commerce, Industry and Tourism Branch and Innovation and Technology Commission, Commerce and Economic Development Bureau" (LC Paper No. CB(1)464/16-17(03)) Administration's paper on "2017 Policy Address - Policy Initiatives of Constitutional and Mainland Affairs Bureau in relation to Mainland and Taiwan co-operation" (LC Paper No. CB(1)464/16-17(04)) Administration's paper on "2017 Policy Address - Policy Initiatives of Innovation and Technology Bureau" (LC Paper No. CB(1)464/16-17(05)) Minutes of meeting (LC Paper No. CB(1)678/16-17) |
| 15/2/2017 (issue date) | Panel on Commerce and Industry | Administration's information paper on "Hong Kong/Shenzhen Co-operation Meeting" (LC Paper No. CB(1)557/16-17(01)) |
| 14/3/2017 (issue date) | Panel on Commerce and Industry | Administration's information paper on "Co-operation between Hong Kong and the Mainland – Hong Kong/Guangdong co-operation" (LC Paper No. CB(1)671/16-17(01)) |
| 14/6/2017 | Council | Question No. 6 on "Work of steering committee for the Belt and Road and Belt and Road Office" raised by Hon Jimmy NG (Government press release) |

| Date of meeting | Meeting | Paper |
|------------------------|--------------------------|---|
| 28/6/2017 | Government press release | Investment Agreement and Agreement on Economic and Technical Co-operation signed under framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement (Government press release) |