

# 立法會 *Legislative Council*

LC Paper No. CB(1)311/18-19(04)

Ref. : CB1/PL/CI

## **Panel on Commerce and Industry**

**Meeting on 18 December 2018**

### **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 cooperation between the Mainland and Hong Kong. It 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 cooperation between the Mainland and Hong Kong have continued to develop rapidly in recent years. The various major initiatives launched by the Central People's Government ("CPG"), such as the Mainland and Hong Kong Closer Economic Partnership Agreement ("CEPA"), have greatly strengthened the linkage between the Mainland and Hong Kong in trade. Hong Kong has also been actively developing regional cooperation initiatives with the provincial governments and municipalities of the Mainland to further enhance communication and cooperation.

#### **Mainland and Hong Kong Closer Economic Partnership Arrangement**

3. As the first free trade agreement concluded by the Mainland and Hong Kong, CEPA, which came into force on 1 January 2004,<sup>1</sup> makes way for liberalization of trade in services, trade in goods, and trade and investment between the two places. Pursuant to Article 3 of CEPA, the two sides broadened and enriched the content of CEPA and signed 10 Supplements to

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<sup>1</sup> The main text of the Mainland and Hong Kong Closer Economic Partnership Arrangement and its six Annexes were signed between the Mainland and Hong Kong on 29 June and 29 September 2003 respectively.

CEPA between 2004 and 2013, expanding market liberalization and further facilitating trade and investment.

*Agreements on trade in services*

4. In December 2014, the Agreement between the Mainland and Hong Kong on Achieving Basic Liberalisation of Trade in Services in Guangdong ("the Guangdong Agreement") was signed under the framework of CEPA, enabling early realization of basic liberalization of trade in services with Hong Kong in Guangdong.

5. The geographical coverage was later extended to the whole Mainland for basic liberalization of trade in services after the implementation of the Agreement on Trade in Services between the Mainland and Hong Kong on 1 June 2016.<sup>2</sup> The Agreement on Trade in Services, which made reference to the framework of the Guangdong Agreement, consolidates and expands services liberalization commitments introduced under CEPA since 2003.

6. The Administration is in discussion with the Ministry of Commerce to explore further liberalization for Hong Kong enterprises and professional sectors so as to encourage their active participation in national development, including the development of the Guangdong-Hong Kong-Macao Greater Bay Area ("the Bay Area").

*Agreements on trade and investment*

7. 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 to provide for promotion and protection of increasing investments between the two places, fostering economic and technical cooperation and exploring new areas of cooperation.

8. 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 has been implemented from 1 January 2018.

9. 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

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<sup>2</sup> The Agreement on Trade in Services was signed on 27 November 2015.

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.

10. The Ecotech Agreement came into force on 28 June 2017. It consolidates and updates the economic and technical cooperation 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 cooperation 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 proposed agreement on trade in goods*

11. 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. Currently, there are about 1 900 Hong Kong origin products that can enjoy zero tariff on importation to Mainland. According to the Administration, it has been in discussion with the Ministry of Commerce of an Agreement on Trade in Goods to further facilitate the flow of goods between the two places and to enhance CEPA in line with the framework of a comprehensive free trade agreement covering four major areas, namely trade in goods, trade in services, investment, and economic and technical cooperation.

#### Regional cooperation

12. The Hong Kong Special Administrative Region Government ("HKSARG") has established various cooperation platforms with the Mainland authorities to promote cross-boundary cooperation. The scope of cooperation is no longer confined to trade, finance and investment, but has been extended to cover innovation and technology ("I&T"), creative industries, young exchanges, etc.

#### *Hong Kong/Shenzhen cooperation*

13. 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 cooperation initiatives and exploring future cooperation so as to obtain synergy.

14. At the Hong Kong/Shenzhen Co-operation Meeting held in January 2017, both sides reviewed cooperation progress of the past year and set the main directions for cooperation 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/Guangdong cooperation*

15. 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 cooperation and exchanges of both sides.

16. At the 20<sup>th</sup> Plenary of HKGDCJC held in November 2017, both sides agreed that the focus of Hong Kong-Guangdong cooperation would be to take forward the development of the Bay Area together, deepen mutually beneficial cooperation and serve the development of the Belt and Road Initiative.

#### *Hong Kong/Shanghai cooperation*

17. In 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.

18. The Fourth Plenary Session of Hong Kong/Shanghai Co-operation Conference was held in August 2018. The two sides reached consensus on 16 cooperation areas, namely, the Belt and Road Initiative; cultural cooperation and creative industries; education; finance; youth development; I&T; facilitation measures for Hong Kong people working, studying and living in the Mainland; legal and dispute resolution services; commerce, trade and investment as well as cooperation in the Shanghai Pilot Free Trade Zone; civil aviation, maritime transport and logistics; exchange of professionals; healthcare, food and medicine; urban planning, development and management; environmental protection; sports and tourism; as well as social and elderly services. The two sides also signed 15 cooperation agreements on a number of areas.

#### *Pan-Pearl River Delta region cooperation*

19. In 2004, governments of the nine provinces/regions and Hong Kong and Macao Special Administrative Regions ("SARs") in the Pan-Pearl River

Delta ("PPRD") region<sup>3</sup> jointly signed the PPRD Regional Co-operation Framework Agreement to pursue cooperation in areas including infrastructure development, commerce and trade, financial services, tourism, new and high technology, environmental protection, etc.

20. During the 12<sup>th</sup> PPRD Regional Co-operation and Development Forum and Trade Fair held in September 2018, the Administration promoted Hong Kong's cooperation with the PPRD provinces/regions under the Belt and Road Initiative and the Bay Area development, I&T sector, the transportation and logistics sectors, etc.

#### *Hong Kong/Beijing cooperation*

21. In 2004, HKSARG and the Beijing Municipal Government established the Hong Kong/Beijing Economic and Trade Co-operation Conference to strengthen Hong Kong/Beijing cooperation and to tap the opportunities arising from CEPA and the 2008 Olympic Games.

22. The Fourth Plenary Session of the Hong Kong/Beijing Co-operation Conference was held in October 2018. The two sides reached consensus on eight areas of cooperation, namely the Belt and Road Initiative, economic and trade cooperation; service industries; I&T; cultural and creative industries; education and training of civil servants; city management and public services; youth development; and facilitation measures for Hong Kong people on the Mainland.

#### *Hong Kong/Macao cooperation*

23. To strengthen cooperation between Hong Kong and Macao, the Chief Executives of the two SARs agreed in 2007 to establish a formal communication mechanism. At the 10<sup>th</sup> Hong Kong Macao Co-operation High Level Meeting held in October 2017, the two sides agreed that the key area of cooperation in future was to press ahead with the development of the Bay Area together with Guangdong Province. On the same day, the two sides signed the Hong Kong Special Administrative Region and Macao Special Administrative Region Closer Economic Partnership Arrangement,<sup>4</sup> with a view to promoting trade liberalization and facilitation and further enhancing economic cooperation and development between the two places.

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<sup>3</sup> The Pan-Pearl River Delta region covers nine provinces/regions (Fujian, Jiangxi, Hunan, Guangdong, Guangxi, Hainan, Sichuan, Guizhou, Yunnan) and the Hong Kong and Macao Special Administrative Regions, accounting for one third of the country's population and gross domestic product.

<sup>4</sup> The Hong Kong Special Administrative Region and Macao Special Administrative Region Closer Economic Partnership Arrangement took immediate effect on the date of signature and the commitments on the liberalization of trade in goods and trade in services came into effect on 1 January 2018.

### *Hong Kong/Fujian cooperation*

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

25. At the second Hong Kong-Fujian Co-operation Conference held in 2016, both sides agreed to explore means to promote cooperation on I&T between the two places, and to strengthen youth exchange and exchanges on cultural and creative industries. At the third Hong Kong-Fujian Co-operation Conference held in November 2018, both sides reached consensus on enhancing cooperation in 10 areas, which include close liaison and exchanges; trade and investment; joint participation in Belt and Road Initiative; I&T cooperation; youth exchanges; facilitation measures for Hong Kong people in the Mainland; finance; cultural and creative industries; tourism; and education. Both sides also signed three agreements, namely on the internship programme on biodiversity conservation in Wuyishan for Hong Kong young people, on joint participation in the Belt and Road Initiative, and on cooperation between the Fuzhou-Xiamen-Quanzhou National Innovation Demonstration Zone and the Hong Kong Science Park.

### *Hong Kong/Sichuan cooperation*

26. In May 2018, HKSARG and the Sichuan Provincial People's Government held the high-level meeting cum the First Plenary Session of the Hong Kong-Sichuan Co-operation Conference. Both sides agreed to establish a new cooperation mechanism as a platform for the multifaceted cooperation between Hong Kong and Sichuan. Both sides also reached consensus on 11 cooperation areas, namely, the Belt and Road Initiative and economic and trade matters; cultural cooperation and creative industries; I&T; finance; youth development; building and construction; education; Chinese medicine and food safety; tourism; airport and railway construction and management; and facilitation measures for Hong Kong people working, studying and living in the Mainland.

### National 13<sup>th</sup> Five-Year Plan

27. On 17 March 2016, CPG promulgated the Outline of the National 13<sup>th</sup> 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 cooperation platforms among Hong Kong, Macao and Guangdong (including Qianhai, Nansha and Hengqin).

28. The Steering Committee on Co-operation with the Mainland coordinates various policy bureaux and departments in formulating policies and measures based on the National 13<sup>th</sup> Five-Year Plan under the "one country, two systems" principle, with a view to consolidating and enhancing Hong Kong's competitive advantages and complementing the long term development of the country.

### **Previous discussions**

29. The Administration briefed the Panel on Commerce and Industry ("the Panel") on the content of the Investment Agreement and Ecotech Agreement at the meeting on 18 July 2017. The Panel also discussed the related issues at the policy briefing-cum-meetings on 17 October 2017 and 16 October 2018. The major views and concerns expressed by members are summarized in the ensuing paragraphs.

#### Most-Favoured Treatment under the Investment Agreement

30. At the meeting on 18 July 2017, members enquired whether the Administration had to do anything to trigger the Most-Favoured Treatment ("MFT") provision of the Investment Agreement as and when the Mainland accorded more preferential treatment to another economy or such treatment would be granted automatically to Hong Kong investors.

31. The Administration advised that according to Article 6 of the Investment Agreement, MFT would be automatically extended to Hong Kong investments and investors if any preferential treatment the Mainland accorded to investments and investors from other countries or regions was more preferential than that provided under CEPA.

#### Enhancing cooperation with the Mainland

32. At the meeting on 16 October 2018, members enquired how the Administration would strengthen collaboration with Mainland provinces and municipalities to identify more business and development opportunities for Hong Kong's enterprises, and the measures to enhance Hong Kong/Sichuan, Hong Kong/Shanghai, Hong Kong/Beijing and Hong Kong/Fujian cooperation.

33. The Administration advised that it had been actively exploring room for closer cooperation with the Central Authorities and the provincial and municipal governments. The scope of cooperation was no longer confined

to trade, finance and investment, but had been extended to cover I&T, creative industries and youth exchanges, etc. The Administration also advised that it would continue to maintain close contact with industries, business associations, professional bodies and relevant stakeholders, and to listen to their views on how to effectively take forward the initiatives on regional cooperation, so as to ensure that relevant measures would better suit the needs of different sectors of society. Cooperation between Hong Kong and Sichuan/Shanghai/Beijing/Fujian spanned a wide spectrum, including the Belt and Road Initiative and economic and trade matters; cultural cooperation; I&T; finance; youth development and facilitation measures for Hong Kong people working, studying and living in the Mainland.

### Market access

#### *Travel agents*

34. At the meeting on 18 July 2017, some members enquired whether the Administration would explore with the China National Tourism Administration to expand the quota<sup>5</sup> and lower the entry threshold for wholly-owned Hong Kong travel agents to operate outbound group tours for Mainland residents.

35. The Administration advised that four Hong Kong travel agents established on a wholly-owned basis had so far been allowed to operate outbound group tours for Mainland residents. The Administration would actively pursue further opening up of the market with the Mainland authorities, having regard to the need to ensure that the travel agents concerned should possess adequate capital, scale and capabilities to operate such tours.

#### *Publishers and filmmakers*

36. At the same meeting, some members enquired about the progress made by the Administration in striving for liberalization and trade facilitation measures under CEPA, in particular, the measures to facilitate entry into the Mainland market by the publishers, filmmakers and television producers in Hong Kong.

37. The Administration advised that under CEPA, Hong Kong filmmakers were already granted preferential access to the Mainland market which was not available to other foreign companies. For example, Chinese language films produced by Hong Kong companies and approved by Mainland authorities were not subject to the import quota set for foreign films; films

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<sup>5</sup> Under the Agreement on Trade in Services, with effect from 1 June 2016, 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.

co-produced by Hong Kong and the Mainland were treated as Mainland productions. Under CEPA Supplements VI and X, post-production of domestic films, including co-productions, was allowed to be processed in Hong Kong after obtaining approval of the State Administration of Press, Publication, Radio, Film and Television on applications initiated by the principal production entity in the Mainland; and the Cantonese version of Hong Kong films and Hong Kong-Mainland co-produced films could be distributed and screened in Guangdong with the approval of relevant Mainland authorities. Although the Investment Agreement and the Ecotech Agreement were not aimed at providing national treatment to Hong Kong investments and investors in the service sectors, the Administration would continue to strive for national treatment for the creative industries. In fact, facilitation measures for the printing services had been provided progressively under CEPA Supplements IV, V, VI, IX and X.

### *Professional services*

38. At the meeting on 17 October 2017, some members pointed out that unlike local solicitors, Hong Kong barristers were not allowed to set up their own representative offices in the Mainland, but were only allowed to be engaged by a law firm in the Mainland as its Hong Kong law consultant to advise on Hong Kong law and procedure-related matters. They urged the Administration to strive for further market liberalization measures for Hong Kong barristers under CEPA.

39. The Administration advised that under CEPA, Hong Kong law firms were allowed to form associations with Mainland counterparts, allowing them to work together on various kinds of legal business under the same roof. Up to the date of the meeting, 10 such associations had been formed in the Mainland, including Nansha, Qianhai and Hengqun. Moreover, Mainland Chinese law firms and Hong Kong law firms were allowed under CEPA to second lawyers to work at each other's offices. The Administration would continue to strive for further market liberalization measures for Hong Kong barristers in different aspects such as arbitration.

### Publicity

40. At the meeting on 18 July 2017, noting that the scope of cooperation covered by the Investment Agreement and the Ecotech Agreement would span multifarious areas including accounting, I&T, e-commerce and intellectual property, members suggested that the Administration should conduct dedicated briefing sessions tailored to the needs of individual trades and industries to facilitate their in-depth understanding of the benefits of the two agreements.

41. The Administration advised that a media briefing and a meeting with

chambers and stakeholders were held immediately after the signing of the two Agreements to introduce the details of the two Agreements to the media and the trade. In addition to the issuance of information papers to trade-related advisory bodies and trade associations, trade/sector-specific briefing sessions would be held to deepen their understanding of the new liberalization measures. The Trade and Industry Department ("TID") also maintained a dedicated website and a hotline service to provide the public and industries with the latest information on CEPA and the two Agreements.

#### Potential negative side effects of economic integration with the Mainland

42. Whilst recognizing that enhancing market access to the Mainland would certainly bring benefits to Hong Kong, some members suggested at the meeting on 18 July 2017 that the Administration should analyze the potential negative side effects of Hong Kong's economic integration with the Mainland, such as the drain of local talents, and formulate measures to ensure that Hong Kong could retain the requisite talents in Hong Kong and maintain its economic competitiveness.

43. The Administration advised that the spirit of CEPA was to achieve mutual benefits, complementarity with each other's advantages and joint prosperity. CEPA opened up huge markets for Hong Kong goods and services, greatly enhancing the already close economic cooperation and integration between the Mainland and Hong Kong. As a win-win agreement, CEPA had brought about new business opportunities to the Mainland, Hong Kong and foreign investors. As for Hong Kong, CEPA provided a window of opportunity for local businesses to gain greater access to the Mainland market. CEPA also benefitted the Mainland as Hong Kong served as a perfect springboard for Mainland enterprises to reach out to the global market and accelerated the Mainland's full integration with the world economy. There had not been any sign that there was a drain of local professional talent brought about by the implementation of CEPA.

#### Council question

44. At the Council meeting on 8 November 2017, Hon Jeffrey LAM asked a written question on the implementation of CEPA. He relayed the comments of the local enterprises that they often encountered difficulties that "big doors are open, but small doors are not yet open" when doing businesses in the Mainland. He then sought details on the enquiries and requests for assistance relating to CEPA received by TID and the follow-up actions taken by the Administration in respect of such cases.

45. The Administration advised that, between 2013 and 2017, TID had received around 10 000 enquiries per annum relating to CEPA. Most of them were enquiries about application for Hong Kong Service Supplier

Certificate and application for Certificate of Hong Kong Origin. With regard to problems encountered by the trade in utilizing CEPA in the Mainland, the relevant bureaux and departments of the respective sectors and the Hong Kong Economic and Trade Offices in the Mainland would report and follow up on the cases with the relevant Mainland authorities. TID would follow up on unresolved issues with the Ministry of Commerce at Joint Working Group meetings through the established mechanisms.

46. The Joint Working Group had followed up on 24 cases involving CEPA implementation between 2013 and 2017 covering various service sectors including securities, insurance, accounting, construction, medical, banking, air transport, property management, education, film, cultural and entertainment, as well as printing and trademark agencies. The relevant bureaux and departments had explained the implementation measures in the Mainland to the trade in detail after each meeting.

#### Member's motion

47. At the Council meeting of 30 May 2018, a Member's motion on "Strengthening regional collaboration and jointly building the Greater Bay Area" was passed. In its progress report in response to the motion, the Administration advised that the objectives of the development of the Bay Area were to further deepen cooperation among Guangdong, Hong Kong and Macao, and to promote coordinated regional economic development. In taking forward the development of the Bay Area, the Government would focus on (a) developing the Bay Area into an international I&T centre; (b) facilitating the development of industries in which Hong Kong's strengths lied in the Bay Area, such as healthcare services and education; and (c) strengthening interconnectivity among Bay Area cities through policy innovation and breakthrough.

#### **Latest position**

48. The Administration will brief the Panel on 18 December 2018 on the latest developments of the trade relations between the Mainland and Hong Kong.

#### **Reference**

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

## List of relevant papers

Date of meeting	Meeting	Paper
18/7/2017	Panel on Commerce and Industry	<p>Administration's paper on "Trade relations between the Mainland and Hong Kong - The Mainland and Hong Kong Closer Economic Partnership Arrangement: Investment Agreement and Agreement on Economic and Technical Cooperation"  <a href="#">(LC Paper No. CB(1)1234/16-17(01))</a></p> <p>Updated background brief on trade relations between the Mainland and Hong Kong prepared by the Legislative Council Secretariat  <a href="#">(LC Paper No. CB(1)1293/16-17(05))</a></p> <p>Minutes of meeting  <a href="#">(LC Paper No. CB(1)1454/16-17)</a></p>
8/11/2017	Council	<p>Question No. 13 on "Implementation of the Mainland and Hong Kong Closer Economic Partnership Arrangement in the Guangdong-Hong Kong-Macao Bay Area" raised by Hon Jeffrey LAM  <a href="#">(Hansard)</a> (page 1459 – 1465)</p>
13/12/2017 (issue date)	Panel on Commerce and Industry	<p>Administration's information paper on "The 20th Plenary of the Hong Kong/Guangdong Co-operation Joint Conference"  <a href="#">(LC Paper No. CB(1)351/17-18(01))</a></p>
30/5/2018	Council	<p><a href="#">Wording of the motion on "Strengthening regional collaboration and jointly building the Guangdong-Hong Kong-Macao Bay Area" and the Administration's progress report</a></p>