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Panel on Commerce and Industry

Meeting on 21 January 2020

**Updated background brief on
the Mainland and Hong Kong Closer Economic Partnership Arrangement**

Purpose

This paper provides updated background information on the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA"), and provides a summary of views and concerns expressed by members of the Panel on Commerce and Industry ("the Panel") on the subject at the meeting on 18 December 2018.

Mainland and Hong Kong Closer Economic Partnership Arrangement

2. CEPA came into force on 1 January 2004.¹ Thereafter, pursuant to Article 3 of CEPA, the Mainland and Hong Kong have progressively broadened and enriched the content of CEPA and signed 10 Supplements to CEPA between 2004 and 2013, expanding market liberalization and further facilitating trade and investment. CEPA has now become a comprehensive and modern free trade agreement ("FTA") underpinned by four agreements, namely the Agreement on Trade in Services ("Services Agreement"), the Agreement on Trade in Goods, the Investment Agreement, and the Agreement on Economic and Technical Cooperation ("Ecotech Agreement"). CEPA covers all facets of Hong Kong's economic and trade relationship with the Mainland, and promotes further liberalization and facilitation of trade and investment between the two places, ensuring that Hong Kong traders continue to enjoy the most preferential treatment in accessing the Mainland market.

¹ The main text of the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA") and its six Annexes were signed between the Mainland and Hong Kong on 29 June and 29 September 2003 respectively.

Agreement on Trade in Services

3. The Services Agreement was signed on 27 November 2015 and implemented on 1 June 2016, covering the Mainland's liberalization commitments for Hong Kong services industry provided under CEPA, and adding new liberalization measures, thus basically achieving liberalization of trade in services between the Mainland and Hong Kong. Under the Services Agreement, the Mainland has fully or partially opened up 153 sectors to Hong Kong services industry, accounting for 96% of all the 160 services sectors.

Amendment to the Agreement on Trade in Services

4. On 21 November 2019, the Mainland and Hong Kong signed an Agreement to amend the Services Agreement ("Amendment Agreement") in order to further open up the services market, thereby giving Hong Kong enterprises and professional sectors more preferential treatment to tap into business opportunities in the Mainland market. According to the Administration, the Amendment Agreement introduces new liberalization measures in a number of important services sectors such as financial services, legal services, construction and related engineering services, testing and certification, television, motion pictures and tourism services, facilitating an easier access of Hong Kong service suppliers to set up enterprises and develop business in the Mainland, allowing more Hong Kong professionals to obtain qualifications to practise in the Mainland, and allowing more of Hong Kong's quality services to be provided to the Mainland market. The liberalization measures include removing or relaxing restrictions on equity shareholding, capital requirements and business scope in the establishment of enterprises; relaxing qualification requirements for provision of services by Hong Kong professionals; and relaxing the quantitative and other restrictions for Hong Kong's exports of services to the Mainland market.

Agreement on Trade in Goods

5. The Agreement on Trade in Goods under CEPA has been implemented since 1 January 2019,² consolidating and updating the commitments on liberalization and facilitation of trade in goods under CEPA. The Agreement enhances CEPA in line with the standard of modern and comprehensive FTAs, fully implements zero tariff on imported goods of Hong Kong origin through

² The Agreement on Trade in Goods was signed between the Mainland and Hong Kong on 14 December 2018.

the enhanced arrangement for rules of origin³ ("ROOs"), establishes principles of trade facilitation to reduce trade costs and to strengthen cooperation between the two sides, and introduces trade facilitation measures for the development of the Guangdong-Hong Kong-Macao Greater Bay Area ("Greater Bay Area").

Investment Agreement and Agreement on Economic and Technical Cooperation

6. The Mainland and Hong Kong signed the Investment Agreement and Ecotech Agreement on 28 June 2017 to provide for promotion and protection of increasing investments between the two places, fostering economic and technical cooperation and exploring new areas of cooperation.

7. Under the Investment Agreement which has been implemented from 1 January 2018, 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 therein. Hong Kong can also enjoy more preferential investment access than other external investors in specific sectors. Moreover, the Investment Agreement covers admission of investments outside the scope of the Services Agreement (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.

8. 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.

³ Before the implementation of the enhanced arrangement for rules of origin ("ROOs"), goods imported into the Mainland with zero tariff under CEPA must be produced in Hong Kong and must fulfil the specific ROOs agreed by the two sides. Hong Kong and the Mainland have developed Product Specific ROOs ("PSRs") for some 1 900 items of goods under CEPA. Following the signing of the Agreement on Trade in Goods, in addition to PSRs for goods developed under CEPA, a general rule of origin ("General Rule") based on the calculation of the value added to the products in Hong Kong has been introduced, thus allowing products without PSRs to instantly enjoy zero tariff upon importation into the Mainland subject to the fulfillment of the General Rule. According to the Administration, the General Rule covers about 6 000 items of goods, including machinery, equipment and parts, plastics articles, textiles articles and Chinese medicines.

Previous discussion

9. The Administration briefed the Panel on the details of the Agreement on Trade in Goods signed on 14 December 2018 between the Ministry of Commerce and Hong Kong Special Administrative Region Government under the framework of CEPA at the Panel meeting on 18 December 2018. The major views and concerns expressed by members on the new agreement and other contents of CEPA at the meeting are summarized in the ensuing paragraphs.

Trade in goods

Trade facilitation measures in the Guangdong-Hong Kong-Macao Greater Bay Area

10. Given the impact of the trade disputes between China and the United States on Hong Kong's exports, members held that the Administration should step up its effort to assist the trade in further developing the Mainland market at large, particularly for the market of the Greater Bay Area. They asked whether the Agreement on Trade in Goods had incorporated any measures to facilitate the interconnectivity of the single windows among the nine Pearl River Delta municipalities and Hong Kong's Trade Single Window. In this connection, some members urged the Administration to work out with the Mainland authorities an implementation timetable for the trade facilitation measures to expedite customs clearance of goods to facilitate movement of goods in the Greater Bay Area.

11. The Administration advised that the implementation of the Agreement on Trade in Goods and other FTAs would help enhance the level of economic and trade exchanges and cooperation with the Mainland and other economies, thereby assisting Hong Kong enterprises in alleviating the uncertainties facing the trade in the global economy. The Agreement on Trade in Goods would also help promote the "Brand Hong Kong" in the Mainland market.

12. The Administration also advised that it would take forward the initiatives set out in the dedicated Chapter of the Agreement on "Trade Facilitation Measures in the Guangdong-Hong Kong-Macao Greater Bay Area" with the Mainland authorities. For the initiative of exploring facilitation measures for expedited cross-boundary customs clearance, the Administration had been exploring with the Mainland authorities the application of the Single E-lock Scheme on a wider scale. With both the Mainland and Hong Kong authorities having agreed on the guiding principles as set out in the Agreement, the Administration looked forward to notable progress in 2019.

Tariffs

13. Some members enquired how the Administration would leverage the Agreement on Trade in Goods to attract Hong Kong enterprises to relocate their production lines from the Mainland back to Hong Kong; and whether Hong Kong enterprises which had relocated their production lines to Southeast Asia could also benefit from the zero tariff arrangement under the Agreement on Trade in Goods. Members also called on the Commerce and Economic Development Bureau and the Trade and Industry Department to strive for the allocation of more land for the development of the logistics industry (such as the land available from the proposed Sunny Bay reclamation project) in the face of keen competition from neighbouring Mainland cities such as Zhuhai.

14. The Administration advised that goods fulfilling CEPA ROOs including the general rule of origin ("General Rule") based on the calculation of the value added to the products in Hong Kong introduced by the Agreement on Trade in Goods would enjoy zero tariff upon importation into the Mainland. Apart from the existing Build-up method under CEPA for calculating the value added, the Agreement on Trade in Goods introduced a Build-down method of calculation, and product development costs (including patents and design fees) could be counted under both methods.

15. The Administration further advised that the FTAs which Hong Kong had forged with other countries provided adequate protection and support for Hong Kong enterprises setting up operations outside Hong Kong. Whether a Hong Kong enterprise producing and directly exporting its products to the Mainland from a country/region outside Hong Kong could enjoy zero tariff preference would depend on the specific provisions of the FTA reached between that country/region and the Mainland.

16. Some members urged the Administration to step up promotion overseas to attract more high value added industries such as pharmaceutical and biotechnology companies to set up bases in Hong Kong by leveraging the zero tariff preference under the Agreement on Trade in Goods.

17. The Administration advised that pharmaceutical products, including certain categories of Proprietary Chinese Medicines, were already covered under existing Product Specific ROOs ("PSRs"), and the scope would be further expanded in the new Agreement on Trade in Goods due to introduction of the General Rule. For products currently without PSRs, companies, including those from the pharmaceutical sector, setting up bases in Hong Kong could instantly enjoy zero tariff upon importation into the Mainland provided that the General Rule was met. The Administration would promote the preferential treatment offered by CEPA to local as well as overseas companies through the concerted effort of Invest Hong Kong, the Hong Kong Science and Technology

Parks Corporation and the Hong Kong Productivity Council, etc.

Trade in services

18. In response to members' enquiries on the latest progress of liberalization measures to support the development of Hong Kong's professional services in the Mainland, the Administration advised that it had all along been following up on further liberalization of trade in services under CEPA, which would be 2019's focus subsequent to the successful conclusion of the consultations on trade in goods in 2018. The Administration would continue to pursue further liberalization of trade in services under CEPA, including revising the schedule of commitments of the Services Agreement by shortening the existing negative list, and fostering mutual recognition of professional qualifications. Specifically, the Mainland authorities would implement on 1 March 2019 a new liberalization measure in the legal services sector to expand the geographical scope of setting up of Hong Kong and Mainland law firms in the form of partnership association from Guangzhou Municipality, Shenzhen Municipality and Zhuhai Municipality to the entire Mainland.

Cultural and creative industry

19. Some members urged the Administration to continue to strive for national treatment and facilitation measures under CEPA in respect of cultural and creative industries in the following areas: (a) facilitation of the short-term movement to and from the Mainland of stage equipment used by the performing arts sector; (b) relaxation of the requirements associated with motion pictures jointly produced by Hong Kong and the Mainland; and (c) relaxation of the restrictions on publishing and distribution of books in the Mainland by Hong Kong publishers and distributors.

20. The Administration advised that it had relayed the demand of the local performing arts sector for facilitating the short-term movement of stage equipment used in cultural performance (e.g. concerts) into and out of the Mainland to the Ministry of Commerce. The Ministry of Commerce had been proactively studying the issue, including exploring the expansion of the scope of ATA Carnet to facilitate temporary admission of professional equipment and commercial samples. The Administration had also successfully strived for further relaxation of import restrictions for Hong Kong motion pictures in the Mainland, and the waiving of requirement for experience in motion picture distribution in the Mainland for Hong Kong distributors.

Latest position

21. The Administration will brief the Panel on 21 January 2020 on the details of the Amendment Agreement mentioned in paragraph 4 above.

Reference

22. A list of relevant papers is in the **Appendix**.

Council Business Division 1
Legislative Council Secretariat
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List of relevant papers

Date of meeting	Meeting	Paper
18/12/2018	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: Agreement on Trade in Goods" (LC Paper No. CB(1)311/18-19(03))</p> <p>Updated background brief on trade relations between the Mainland and Hong Kong prepared by the Legislative Council Secretariat (LC Paper No. CB(1)311/18-19(04))</p> <p>Administration's follow-up papers (LC Paper No. CB(1)503/18-19(01)) (LC Paper No. CB(1)805/18-19(01))</p> <p>Minutes of meeting (LC Paper No. CB(1)673/18-19)</p>