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Panel on Commerce and Industry

**Subcommittee on Issues Relating to the Stimulation of
Hong Kong's Economy**

Meeting on 28 June 2021

**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 a summary of views and concerns expressed by members of the Panel on Commerce and Industry ("the Panel") during relevant discussions in recent years

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

¹ The main text of CEPA and its six Annexes were signed between the Mainland and Hong Kong on 29 June and 29 September 2003 respectively.

places, ensuring that Hong Kong traders continue to enjoy the most preferential treatment in accessing the Mainland market.

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. The Amendment Agreement was implemented on 1 June 2020.

Agreement on Trade in Goods

5. The Agreement on Trade in Goods was signed on 14 December 2018 and implemented on 1 January 2019, 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 the enhanced arrangement for rules of origin ("ROOs"),² 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 since 1 January 2018, the Mainland commits to providing national treatment to Hong Kong investments and investors on par with Mainland investments and investors except for the 26 measures³ 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.

² Before the implementation of the enhanced arrangement for 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. According to the information provided by the Administration in December 2018, 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.

³ Covering sectors such as exploitation of petroleum oil and natural gas; exploitation and smelting of mineral products; manufacture of vehicles; manufacture of ground effect or water effect aeroplanes and the manufacture of drones and aerostats; production of tobacco products; investment in financial products; traditional arts and crafts and production of Chinese medicinal products, etc.

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.

Previous discussions

9. The Administration briefed the Panel on the details of the Agreement on Trade in Goods and the Amendment Agreement signed under the framework of CEPA at the meetings on 18 December 2018 and 21 January 2020 respectively. The major views and concerns expressed by members at the meetings are summarized in the ensuing paragraphs.

Trade in services

Implementation of the new liberalization measures

10. Members reflected that practitioners of various industries were keen to know more about the implementation arrangements for the new liberalization measures introduced by the Amendment Agreement, for example, the application procedures and contact points in the Mainland for Hong Kong professionals to register for practice in the Mainland. They suggested that the Administration should publish guidelines on the application for the preferential treatments under CEPA onto a dedicated webpage and provide a contact point for answering further enquiries.

11. The Administration advised that following the signing of the Amendment Agreement, the Trade and Industry Department ("TID") had met with the relevant trades to brief them on the details of the respective new liberalization measures. TID would, in collaboration with other government departments, make available all the latest information (including contact points in the Mainland) in relation to the implementation of the CEPA measures on CEPA's dedicated webpage. Enquiry hotlines were also available to handle relevant questions and receive feedbacks from the trades.

Banking services and financial services

12. Some members referred to the new liberalization measure introduced by

the Amendment Agreement to support Hong Kong-funded non-bank payment institutions to conduct electronic payment business in the Mainland. They asked whether the Administration and/or the Mainland authorities would introduce any specific initiatives to support non-bank payment institutions to start their businesses in the Mainland, say by encouraging the Mainland public transportation operators to use the electronic payment services provided by Hong Kong-funded non-bank payment institutions.

13. On developing cross-boundary financial services, some members emphasized the importance of striving for the Mainland's policy support for the securities industry to develop verification service in remote account opening and requested TID to assist in this respect.

14. The Administration advised that the Financial Services and the Treasury Bureau was discussing with its counterparts in the Mainland the implementation details of the liberalization measures to support Hong Kong-funded non-bank payment institutions, and had also been following up on issues relating to online client onboarding for the securities industry.

Tourism services

15. Members asked whether the Governments of Hong Kong, Guangdong and Macao had prepared any budget, plan and timetable for developing multi-destination tourism. They also enquired whether the Administration had allocated any resources for introducing measures to support the tourism trade to develop multi-destination products.

16. The Administration advised that the Tourism Commission had been keeping close liaison with its counterparts of Guangdong, Macao and other relevant Mainland cities such as Guangzhou and Shenzhen, on the development of multi-destination tourism. Besides, the Administration had been actively supporting the development of multi-destination tourism by, for instance, providing additional funding to the Travel Industry Council of Hong Kong ("TIC") to further encourage the tourism trade to develop more multi-destination tourism products. TIC would continue to organize visits to the Greater Bay Area and business forums for the local trade to explore business opportunities with trade members in the area.

Legal services

17. Some members noted that, under the Amendment Agreement, Hong Kong legal practitioners would, after passing the special examination, be qualified to provide legal services in the Greater Bay Area and to engage in

matters on specific areas of Mainland law. They suggested that (a) the special examination should be tailored to Hong Kong legal practitioners so that the legal terminologies and styles could be suitably adjusted; and (b) the areas of Mainland law which were allowed to be practised by Hong Kong legal practitioners passing the special examination should be wide enough to attract more Hong Kong legal practitioners to sit the examination.

18. The Administration advised that the liberalization measure would be applicable to Hong Kong barristers and solicitors. While the Department of Justice ("DoJ") was discussing with the relevant Mainland authorities the content and mode of the special examination, it was expected that the special examination would to a certain extent be tailored to Hong Kong legal practitioners. Currently, a Hong Kong resident who had obtained the Mainland lawyer's practice certificate could practise as a lawyer in the Mainland only in certain areas in accordance with the specific scope of permitted business provided in the relevant provisions of the judicial administrative authority. Similarly, Hong Kong legal practitioners passing the special examination would only be allowed to engage in specific areas of Mainland law. The exact scope would be finalized after the discussion between DoJ and its counterparts in the Mainland.

Medical services

19. Members enquired whether Hong Kong's healthcare professionals were eligible to practise in the Mainland. The Administration advised that Hong Kong service suppliers might, under CEPA, set up medical institutions in the Mainland in the form of wholly-owned entity, or in the form of equity or contractual joint venture with Mainland's medical institutions. Besides, statutory healthcare professionals who had registered to practise in Hong Kong might provide short-term services in the Mainland. Eligible Hong Kong permanent residents might sit the Mainland's Qualification Examinations for Medical Practitioners in clinical medicine, traditional Chinese medicine or dental medicine.

Trade in goods

Tariffs

20. On members' concerns regarding the preferential tariff treatment of goods of Hong Kong origin, the Administration advised that the Agreement on Trade in Goods under CEPA had affirmed that all goods of Hong Kong origin could enjoy zero tariff preference upon importation into the Mainland. Since the implementation of the CEPA until end of December 2019, TID had issued

187 393 Certificates of Hong Kong Origin involving more than HK\$108.4 billion worth of exports which were entitled to zero tariff treatment upon importation into the Mainland, with tariff savings of about RMB 7.44 billion. In 2019, the major product types involved were plastics and plastic articles; food and beverages; pharmaceutical products; chemical product; and machinery and mechanical appliances.

21. 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 TID 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.

22. The Administration advised that goods fulfilling CEPA ROOs, including the 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 Build-up method under CEPA for calculating the value added, the Agreement on Trade in Goods introduced a Build-down method of calculation. Product development costs (including patents and design fees) could be counted under both methods.

23. 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.

24. 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.

25. The Administration advised that pharmaceutical products, including certain categories of Proprietary Chinese Medicines, were already covered under existing 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.

Member's motion

26. At the Council meeting of 5 May 2021, a motion on "Developing Hong Kong into a regional professional services hub" was passed. Members urged the Administration to (a) perfect the mechanism for mutual recognition of professional qualifications and enterprise qualities between Hong Kong and the Mainland by including more Hong Kong professional sectors and enterprises currently not recognized by the Mainland in the scope of mutual recognition; and (b) strive for opening up more construction projects on the Mainland for participation by Hong Kong enterprises and professional personnel.

Latest position

27. The Administration will brief the Subcommittee at the meeting on 28 May 2021 on liberalization measures under the Amendment Agreement that would facilitate Hong Kong's professional services in the banking, construction and related engineering, securities and futures, and legal sectors to tap into the vast potential of the Mainland market.

Reference

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

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>
21/1/2020	Panel on Commerce and Industry	<p>Administration's paper on "Trade relations between the Mainland and Hong Kong - Amendments to the Agreement on Trade in Services of the Mainland and Hong Kong Closer Economic Partnership Arrangement" (LC Paper No. CB(1)329/19-20(05))</p> <p>Updated background brief on the Mainland and Hong Kong Closer Economic Partnership Arrangement prepared by the Legislative Council Secretariat (LC Paper No. CB(1)329/19-20(06))</p> <p>Administration's follow-up paper (LC Paper No. CB(1)432/19-20(01))</p> <p>Minutes of meeting (LC Paper No. CB(1)444/19-20)</p>
5/5/2021	Council	<p>Wording of the motion on "Developing Hong Kong into a regional professional services hub"</p>