

INTERNATIONAL BUSINESS COMMITTEE

MAINLAND AND HONG KONG
CLOSER ECONOMIC PARTNERSHIP ARRANGEMENT
(CEPA)

FURTHER LIBERALIZATION MEASURES in 2007

INTRODUCTION

This paper informs Members of the outcome of our discussions with the Mainland in 2007 on further liberalization under CEPA. Key measures agreed are highlighted below.

DETAILS

(A) Services Liberalization Measures

2. In the latest round of liberalisation, we have agreed with the Mainland a total of 40 liberalization measures covering 28 services areas, including 17 existing CEPA services areas and 11 new services areas. As a result, the total number of services areas covered by CEPA will expand from 27 to 38. Both sides have also agreed to enhance cooperation in financial services, convention and exhibition, and in mutual recognition of professional qualifications. Details of Supplement IV to the CEPA and its annex can be downloaded from Trade and Industry Department's web site at <http://www.tid.gov.hk/english/cepa/index.html>. The more noteworthy measures are highlighted below -

Existing Services Areas

- (a) **Convention and Exhibition** – (i) Hong Kong service suppliers (HKSS) will be allowed to organize exhibitions in Guangdong Province and Shanghai Municipality on a pilot basis through cross-border supply; and (ii) exhibition enterprises set up by HKSS in Guangdong Province and Shanghai Municipality will be allowed to organize overseas exhibitions for enterprises incorporated in the province/municipality on a pilot basis.

In addition, both sides will enhance cooperation in convention and exhibition services under the Trade and Investment Facilitation pillar of CEPA, with the Mainland offering support to Hong Kong for organizing large-scale international conventions and exhibitions;

- (b) **Banking** – (i) the minimum asset requirement for a Hong Kong bank to acquire shareholding in a Mainland bank will be reduced from US\$10 billion to US\$6 billion; and (ii) the “substantial business operation” requirement for HKSS will be relaxed. Currently, the requirement is for a bank to have operated as an incorporated entity for 5 years or more in Hong Kong. In future, a bank will also have satisfied the “substantial business operation” requirement if it has operated as a branch for two years and as an incorporated entity for three years or more in Hong Kong.

In addition, both sides will enhance financial cooperation. The Mainland side will support Mainland banks to set up subsidiary operations in Hong Kong. Green lanes will be set up for processing applications of Hong Kong banks to open branches in the central western, north eastern areas and the Guangdong Province of the Mainland. Hong Kong banks will also be encouraged to set up rural banks in the Mainland rural areas;

- (c) **Securities** – (i) Mainland fund management companies approved by the China Securities Regulatory Commission will be allowed to establish subsidiaries in Hong Kong to operate relevant business; and (ii) the timeline for Mainland securities companies to complete their registration procedures in setting up subsidiaries in Hong Kong will be extended from 6 months to 1 year;

- (d) **Tourism** – (i) the minimum annual business turnover required for Hong Kong travel enterprises to establish joint venture travel agents will be lowered from US\$12 million to US\$8 million, while that required for setting up wholly-owned travel agents will be reduced from US\$25 million to US\$15 million; and (ii) Hong Kong travel agents established in Guangxi, Hunan, Hainan, Fujian, Jiangxi, Yunnan, Guizhou and Sichuan will be allowed to apply for the operation of group tours to Hong Kong and Macao on a pilot basis for the permanent residents in these provinces;

- (e) **Cultural** – (i) HKSS will be allowed to set up wholly-owned performing arts agencies in the Mainland; and (ii) subject to prior approval of the relevant Mainland authorities, Hong Kong performing arts agencies and performing arts groups will be allowed to organize commercial performances in Guangdong Province and Shanghai Municipality on a pilot basis through cross-border supply; and

- (f) **Medical and Dental** – (i) the minimum investment amount for HKSS to set up medical institutions on equity or contractual joint venture basis in the Mainland will be reduced from no less than 20 million RMB to no less than 10 million RMB; and (ii) HKSS who have obtained a “medical practitioner’s qualification certificate” are allowed to follow the same conditions that are applicable to Mainland practitioners when setting up solo practice clinics.

New Services Areas

- (g) **Public Utility** – HKSS will be allowed to set up wholly-owned operations to construct and operate networks of gas, heating, water supply and water drainage for medium-sized cities in the Mainland;
- (h) **Social Service for the Elderly** – HKSS will be allowed to operate elderly service agencies in the form of wholly-owned private non-government enterprises to provide elderly services in Guangdong Province on a pilot basis; and
- (i) **Liberalization Measures in the ASEAN-China Free Trade Agreement (ACFTA)** – HKSS will be allowed preferential market access in eleven services areas (nine of which are new areas) offered by the Mainland to the ASEAN countries under the ACFTA but yet to be covered by CEPA. They include new services areas of computer and related services, market research, services related to management consulting, building-cleaning services, photographic services, printing services, translation and interpretation services, environmental services and sporting services; and existing services areas of air transport services and road transport services. For services related to management consulting and photographic services, HKSS will be allowed to establish wholly-owned operations, while under ACFTA, ASEAN service suppliers are allowed to form joint ventures.

3. All the services liberalization measures will take effect from 1 January 2008. HKSS will be eligible for the preferences in accordance with the qualifying criteria in Annex 5 of CEPA. The Mainland will work out and promulgate the necessary implementation rules and regulations as appropriate.

4. Under Article 15 of CEPA, the Mainland and Hong Kong have committed to encourage mutual recognition of professional qualifications as part of the services trade under CEPA. In this connection, both sides have agreed that their competent authorities or professional bodies will commence discussions on the mutual recognition of registered electrical exploration and design engineers as well as registered public facility exploration and design engineers. Both sides will also start technical exchanges for registered geotechnical exploration and design engineers as well as land surveying work. Further, both sides will set up a working group to take forward the work on registration and practice of construction sector professionals who have acquired professional qualifications through mutual recognition.

(B) Goods Liberalization Measures

5. On top of the Supplement IV to the CEPA, both sides have also attained progress in the implementation of the liberalization measures for trade in goods.

6. Starting from 1 January 2006, the Mainland has granted all products of Hong Kong origin tariff free treatment upon applications by local manufacturers and subject to satisfying the agreed CEPA rules of origin (ROOs). For products without agreed ROO, Hong Kong manufacturers may apply to include these products into the subsequent rounds of ROO discussion which are held twice a year.

7. The first round of ROO discussion in 2007 was completed in June 2007 with ROOs on 17 products worked out. They include dried plants, food products and mechanical and electrical products. These products will be eligible for zero tariff as from 1 July 2007 if their corresponding origin criteria are fulfilled.

(C) Further Liberalization

8. The new liberalization package represents an active response to a number of recommendations on further liberalization under CEPA in the Final Report of the Economic Summit on “China’s 11th Five-Year Plan and the Development of Hong Kong” (the Economic Summit). These measures will support Hong Kong in the development of our services industries such as financial services, logistics, tourism and information services, and the maintenance of our status as an international centre of financial services, trade and shipping. We will continue to make use of the open and developing platform provided by CEPA to engage the Mainland authorities in good time on further liberalization, taking into account the interests and the concerns of the trade.

ECONOMIC BENEFITS

9. The current CEPA package will offer new business opportunities on the Mainland for Hong Kong businesses and service suppliers, enhancing the attractiveness of Hong Kong to overseas investors. The latest economic impact assessment on CEPA by the Administration indicates that CEPA has brought about positive effects on both Hong Kong’s and the Mainland’s economies. The new package should be able to reinforce such mutual benefits, and should strengthen the comparative advantages of our businesses in better tapping the potential of the Mainland market.

ENQUIRIES

10. Details of CEPA, including the further liberalization measures in 2007, have been promulgated in the web site of Trade and Industry Department at www.tid.gov.hk/english/cepa/. For enquiries, please make use of the following contacts.

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MEMBERS' ADVICE

11. Members are invited to note the content of this paper.

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