

**2010 Update of CEPA's Impact on the Hong Kong economy
(Trade in Services)**

KEY SURVEY FINDINGS

- (1) During 2007-2009, CEPA brought about cumulative business receipts totalling HK\$55.1 billion to Hong Kong companies in the CEPA covered service areas. An overwhelming proportion of these business receipts (amounting to HK\$52.5 billion) was obtained from Mainland-related business. It is estimated that during 2004-2009 cumulative business receipts obtained by companies in Hong Kong due to CEPA from Mainland-related business reached HK\$61.6 billion. As at end-2009, over 4 400 jobs were created in Hong Kong because of CEPA services trade liberalisation measures.
- (2) On the Mainland, operations established by Hong Kong service suppliers provided about 40 600 jobs as at end-2009. In cumulative terms, CEPA-induced business receipts obtained by these operations on the Mainland amounted to about HK\$198.5 billion during 2007-2009.
- (3) Among the Hong Kong companies that have been issued with a Certificate of Hong Kong Service Supplier under CEPA, about 48% reported having established business operations on the Mainland. Further analysed by service area, higher than average percentages of companies in the service areas of freight forwarding agency, job intermediary/job referral, and management consulting services have established operations on the Mainland (above 60%).
- (4) The survey results also suggest that increasingly more of Hong Kong companies have made use of CEPA to expand their services-related operations to places other than Guangdong on the Mainland. This is particularly notable in service areas like construction and real estate, job intermediary/job referral, and tourism.
- (5) Over the past three years, the cumulative CEPA-induced business receipts obtained by the Mainland operations established by Hong Kong service suppliers came mainly from four service areas, namely freight forwarding agency, distribution, advertising/audiovisual, and transport and logistics. These service areas also accounted for over 90% of the jobs created due to CEPA.

BACKGROUND

- (6) In the current update, the Census and Statistics Department, as on previous occasions, conducted a survey on behalf of the Trade and Industry Department (TID) from end-December 2009 to early-March 2010 to collect data for a broad impact assessment of CEPA on Hong Kong companies that fall in the service areas covered under CEPA and its six Supplements.

METHODOLOGY

- (7) According to the information provided by TID, 2 173 Hong Kong service supplier (HKSS) certificates had been issued as at 30 September 2009. It is noted that some companies could hold HKSS certificates in more than one CEPA service area. Discounting for this, there were 1 208 companies that have been issued with HKSS certificate(s) (“holders”). This survey covered all holders as well as a sample of 1 804 non-HKSS certificate holders (“non-holders”). The total sample size for the survey was 3 012.
- (8) 2 509 selected companies were successfully enumerated. The overall response rate was close to 90%. The respondents were mainly enumerated via telephone interviews.
- (9) As at February 2010, 42 service areas are covered under CEPA. This survey covers 38 of them, which are as set out at Appendix. The survey collected data for the reference years of 2007 to 2009.

ANALYSIS OF MAJOR SURVEY FINDINGS

A. Operations set up by Hong Kong Service Suppliers on the Mainland under CEPA

- (10) Since the introduction of CEPA in 2003, it has offered many opportunities for Hong Kong service suppliers across different service areas to establish an early and preferential presence in the Mainland market vis-à-vis other foreign investors. Over the years, a considerable number of operations have been set up on the Mainland under CEPA.
- (11) Among the 1 208 holders covered in the survey, about 48% reported having set up operations on the Mainland under CEPA. Over 60% of the companies in three service areas, viz. freight forwarding agency, job

intermediary/job referral and management consulting services, reported to have Mainland operations set up under CEPA (*Table 1*).

Table 1: Percentage of HKSS having operations on the Mainland under CEPA in selected service areas in 2009

Service Areas	(%)
Freight forwarding agency	65.5%
Job intermediary/ job referral	62.0%
Management consulting services	69.7%
Total 38 Service Areas	47.9%

- (12) Guangdong remains a key location of operations set up by Hong Kong service suppliers (*Table 2*).

Table 2: Percentage of HKSS having operations on the Mainland under CEPA by geographical location in 2009

	%
Guangdong only	34.2%
Non-Guangdong Provinces only	38.5%
Both	27.3%

- (13) Understandably, the rapid developments across different Chinese provinces have opened up unprecedented opportunities for Hong Kong service suppliers to expand their scope of businesses. Analysed by service area, construction and real estate, job intermediary/job referral and tourism are the three sectors that predominantly choose to locate their CEPA-related operations in places other than Guangdong (*Table 3*).

Table 3: Percentage of HKSS having operations on the Mainland under CEPA by geographical location and by selected service area in 2009

Service Areas	Construction and real estate	Job intermediary/ Job referral	Tourism
Guangdong only	37.5%	12.9%	12.5%
Non-Guangdong Provinces only	50.0%	74.2%	62.5%
Both	12.5%	12.9%	25.0%

A.1 Business receipts due to CEPA

- (14) For all service areas combined, from 2007 to 2009, the cumulative CEPA-induced business receipts obtained by Mainland operations established by Hong Kong service suppliers amounted to HK\$198.5 billion (*Table 4*).

Table 4: Cumulative CEPA-induced business receipts obtained by Mainland operations established by HKSS

Year	Amount (HK\$ Mn)
2007	54 014
2008	75 653
2009	68 785
Cumulative Total (2007-2009)	198 452

- (15) Of these business receipts, nearly 98% came from four service areas, viz. freight forwarding agency, distribution, advertising/audiovisual and air transport/rail transport/transport and logistics (collectively referred as “transport and logistics” hereafter) (*Table 5*), suggesting that the direct benefits of CEPA are more distinct in these service areas.

Table 5: Cumulative CEPA-induced business receipts obtained by the Mainland operations established by HKSS in selected service areas (2007-2009)

Service Areas	Amount (HK\$ Million)	as % share of total
Distribution	88 029	44.4%
Freight forwarding agency	75 670	38.1%
Advertising/audiovisual	20 288	10.2%
Transport and logistics	10 084	5.1%
Total 38 Service Areas	198 452	100%

- (16) CEPA-induced business receipts obtained by Mainland operations established by Hong Kong service suppliers, however, fell notably by 9% in 2009 (*see Table 4*). This was dragged mainly by the performances of the freight forwarding agency and transport and logistics, with their CEPA-induced business receipts plunged by 30% and 18% respectively amidst the slump in world trade in the aftermath of the global financial crisis (*Table 6*). On the other hand, service areas with stronger business focus on the Mainland market were better shielded from the global economic downturn as the Mainland economy experienced a rapid recovery since the second quarter of 2009. The CEPA-induced business receipts of advertising/audiovisual and distribution, for example, expanded by 25% and 5% respectively over the past two years.

Table 6: CEPA-induced business receipts obtained by Mainland operations established by HKSS in selected service areas (2008 and 2009)

Service Areas	Amount (HK\$ Million)		% change
	2008	2009	
Freight forwarding agency	32 406	22 625	-30.2%
Transport and logistics	3 984	3 256	-18.3%
Advertising/audiovisual	6 908	8 634	+25.0%
Distribution	30 573	32 200	+5.3%

- (17) In overall terms, around 69% of the CEPA-induced business receipts obtained by Mainland operations came from non-Guangdong provinces (*Table 7*). In recent years, notable increase in the percent shares of these CEPA-induced business receipts from non-Guangdong provinces are noted in areas like accounting/banking/insurance/securities and futures (collectively referred as “financial services” hereafter), transport and logistics, construction and real estate, job intermediary/job referral, and tourism.

Table 7: Percentage shares of CEPA-induced business receipts obtained by Mainland operations established by HKSS in the Non-Guangdong Provinces

Service Areas	2007	2009
Financial services	27.7%	55.6%
Transport and logistics	79.7%	84.7%
Construction and real estate	90.5%	97.6%
Job intermediary/job referral	87.2%	96.6%
Tourism	50.0%	84.6%
Total 38 Service Areas	69.5%	69.1%

A.2 Employment due to CEPA

- (18) Around 90% of the companies surveyed reported having persons engaged due to CEPA in their Mainland operations. The majority of the remaining 10% of companies considered that the number of persons engaged on the Mainland was already sufficient and hence did not find it necessary to engage persons for CEPA in the last three years.
- (19) The number of persons engaged due to CEPA in the Mainland operations showed a sustained rising trend over the past six years. As at end-2009, about 40 600 jobs were created in all service areas, up from some 31 300 jobs in 2007 (*Table 8*).

Table 8: Number of persons engaged due to CEPA in the Mainland operations

Year	Number of persons engaged
2004	2 842
2005	9 414
2006	16 696
2007	31 316
2008	37 688
2009	40 558

- (20) Around 93% of these jobs (*Table 9*) scattered in freight forwarding agency, distribution, transport and logistics and advertising/audiovisual.

Table 9: Number of persons engaged due to CEPA in the Mainland operations in selected service areas (as at end-2009)

Service Areas	Number	as % share of total
Freight forwarding agency	19 540	48.2%
Distribution	8 137	20.1%
Advertising/audiovisual	7 981	19.7%
Transport and logistics	1 818	4.5%
Total 38 Service Areas	40 558	100%

- (21) Moreover, consistent with the share of CEPA-induced business receipts by geographical location (see *Table 7*), we saw declining shares of employment due to CEPA in Guangdong for some service areas (*Table 10*). Yet in overall terms, Guangdong's share of employment edged up to around 30% in 2009 from 27% in 2007, driven primarily by the rising shares in advertising/audiovisual, distribution, and freight forwarding agency.

Table 10: Percentage share of the number of persons engaged due to CEPA in the Guangdong Province by selected service area

Service Areas	2007	2009
<i>with declining share in Guangdong</i>		
Financial services	60.0%	16.7%
Transport and logistics	58.5%	47.3%
Construction and real estate	5.0%	1.9%
Job intermediary/job referral	16.6%	8.4%
Tourism	7.9%	7.5%
<i>with rising share in Guangdong</i>		
Advertising/audiovisual	4.5%	11.4%
Distribution	43.2%	46.7%
Freight forwarding agency	27.0%	31.7%
Total 38 Service Areas	26.9%	29.8%

B. Operations in Hong Kong

B.1 *Business receipts due to CEPA*

- (22) In overall terms, during 2007-2009, the cumulative business receipts obtained by Hong Kong companies due to CEPA amounted to HK\$55.1 billion (*Table 11*). An overwhelming proportion of these business receipts was obtained from Mainland-related business. As the overall Hong Kong economy suffered a heavy blow in the early part of 2009, the CEPA-induced business receipts obtained by Hong Kong companies also recorded a significant decline, by around 24%, from HK\$20.4 billion in 2008 to HK\$15.5 billion in 2009.

Table 11: Business receipts obtained by Hong Kong companies due to CEPA and the percentage share of Mainland-related business

Year	Amount (HK\$ Million)	% share from Mainland-related business (%)
2007	19 157	95.5%
2008	20 408	95.7%
2009	15 495	94.8%
Cumulative Total	55 060	95.4%

- (23) The four major contributing service areas were distribution, transport and logistics, construction and real estate and freight forwarding agency. They together accounted for over 95% of the total cumulative business receipts due to CEPA for all of the service areas during 2007-2009 (*Table 12*).

Table 12: Cumulative business receipts due to CEPA obtained by Hong Kong companies in selected service areas during 2007-2009

Service Areas	Amount (HK\$ Million)	as % share of overall total
Distribution	45 784	83.2%
Transport and logistics	3 003	5.5%
Freight forwarding agency	1 879	3.4%
Construction and real estate	1 765	3.2%
Total 38 Service Areas	55 060	100%

- (24) For all the service areas combined, the cumulative business receipts received from Mainland-related business due to CEPA by the Hong Kong companies during 2004-2009 amounted to HK\$61.6 billion (*Table 13*).

Table 13: Business receipts obtained by Hong Kong companies from Mainland-related business due to CEPA

Year	Amount (HK\$ Million)
2004	1 582
2005	3 323
2006	4 178
2007	18 288
2008	19 529
2009	14 689
Cumulative Total (2007-2009)	52 506
Cumulative Total (2004-2009)	61 589

B.2 Employment due to CEPA

- (25) As at end-2009, over 4 400 persons were engaged in Hong Kong companies due to CEPA (*Table 14*), with about 93% of them in the distribution service area.

Table 14: Number of persons engaged due to CEPA in Hong Kong companies

Year	Number of employees
2004	1 415
2005	4 295
2006	5 877
2007	3 884
2008	4 417
2009	4 425

C. Qualitative assessment and limitations of the CEPA study

- (26) Of the companies surveyed, they generally agreed that the benefits from CEPA were mainly by way of business facilitation and expanded business scope. The top three benefits identified by respondents are summarised at *Table 15* below.

Table 15: Benefits gained from CEPA – Top three responses identified by companies surveyed

Benefits gained	 Holders	 Non-holders
Relaxation in equity share restrictions	✓	
Reducing the requirement for registered capital or business turnover		✓
Simplifying/expediting the application procedures	✓	
Expansion of allowable business scope	✓	✓
Elimination of geographical limitation		✓

- (27) As for the quantifiable benefits of CEPA, measured in terms of business receipts and employment, these are often entwined with the general macroeconomic environment and shifts in economic cycles.
- (28) CEPA has been implemented for over six years. Respondents' memory about the CEPA-induced effect on their operations is likely to fade over time. During the course of the survey, the respondents often had difficulties in relating their business receipts and employment to the CEPA influence or otherwise. When CEPA has become part of the institutional features in their business framework, the impacts of CEPA would become increasingly interwoven with the other macro and micro factors so that the CEPA impact would become increasingly hard to distinguish.

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Service Areas Covered in the 2009/10 CEPA Survey[#]

1. Accounting
2. Advertising
3. Air Transport
4. Audiovisual
5. Banking
6. Building-cleaning
7. Computer and related services/Information Technology ⁽¹⁾
8. Convention and Exhibition
9. Cultural
10. Distribution
11. Environmental
12. Freight Forwarding Agency
13. Insurance
14. Job Intermediary/Job Referral Agency ⁽²⁾
15. Legal/Trade Mark Agency/Patent Agency ⁽³⁾
16. Management Consulting/ Services related to Management Consulting ⁽⁴⁾
17. Market Research
18. Medical and Dental
19. Photographic
20. Printing
21. Public Utility
22. Rail Transport (exclude construction work)
23. Construction ⁽⁵⁾
24. Real Estate ⁽⁵⁾
25. Research and Development
26. Securities and Futures
27. Social Services (for elderly and disabled)
28. Sporting
29. Storage and Warehousing
30. Telecommunications
31. Tourism
32. Translation and Interpretation
33. Transport (including road freight/passenger transportation and maritime transport) / Logistics ⁽⁶⁾

Notes:

There are 42 service areas under CEPA and four of them are not included in the present survey. Reasons are as follows:

- (i) "**Professional qualification examinations**" straddles across different sectors and its economic impacts are hard to identify separately.
 - (ii) For "**individually owned stores**", a sampling frame of individual persons who are likely to own a store is not readily available.
 - (iii) For "**services incidental to mining**" and "**related scientific and technical consulting services**" (covering a narrow scope related to provision of prospecting and surveying services in respect of iron, copper and manganese), a sampling frame of establishments under the respective service area is not readily available.
- (1) "**Computer and related services**" and "**Information Technology**" are combined as one single service area group.
 - (2) "**Job Intermediary**" and "**Job Referral Agency**" are combined as one single service area group.
 - (3) "**Legal**", "**Trade Mark Agency**" and "**Patent Agency**" are combined as one single service area group.
 - (4) "**Management Consulting**" and "**Services related to Management Consulting**" are combined as one single service area group.
 - (5) "**Real Estate and construction**" is a single service area.
 - (6) "**Transport (including road freight/passenger transportation and maritime transport)**" and "**Logistics**" are combined as one single service area group.