

**THE MAINLAND AND HONG KONG
CLOSER ECONOMIC PARTNERSHIP ARRANGEMENT
FURTHER LIBERALIZATION MEASURES IN 2011**

INTRODUCTION

This note sets out the latest state of the enhancement of economic and trade cooperation and exchanges between the Hong Kong Special Administrative Region Government (HKSARG) and the Central People's Government (CPG) under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA).

BACKGROUND

2. The Mainland and Hong Kong signed the main text of CEPA on 29 June 2003 and its six annexes on 29 September 2003. Pursuant to Article 3 of CEPA, which provides that the two sides will broaden and enrich the content of the Arrangement through continuous and further reciprocal liberalization, the two sides signed seven Supplements to CEPA on 27 October 2004, 18 October 2005, 27 June 2006, 29 June 2007, 29 July 2008, 9 May 2009 and 27 May 2010 respectively.

3. During the visit to Hong Kong on 17 August 2011, Vice-Premier of the State Council, LI Keqiang, announced a series of measures from the Central Government to support the economic and social development in Hong Kong. It was stated clearly *inter alia* that liberalization of trade in services for Hong Kong would be further broadened and deepened, and that Supplement VIII to CEPA would be signed before the end of 2011.

4. We started consultations with the CPG on further liberalization under CEPA in mid-2011 and signed Supplement VIII to CEPA on 13 December 2011 in Hong Kong. The Supplement is available for reference at the Trade and Industry

Department's (TID) CEPA website at [http://www.tid.gov.hk/english/cepa/legaltext/cepa_legaltext.html]. Key measures of Supplement VIII to CEPA are summarized in paragraphs 5 to 14 below.

DETAILS

Supplement VIII to CEPA

5. Supplement VIII to CEPA provides for a total of 32 services liberalization and trade and investment facilitation measures, which include 23 liberalization measures in 16 service sectors, and strengthen cooperation in areas of finance, tourism, innovation and technology etc. Both sides also agreed to enhance origin criteria under trade in goods, and relax the definition and related requirements of "Hong Kong Service Supplier". Among the 32 measures, 15 are related to the implementation of measures announced by Vice-Premier LI Keqiang during his visit to Hong Kong in August 2011.

6. The respective measures are summarized below.

Trade in goods

7. Under trade in goods, some Hong Kong products have to fulfil the "value-added content"¹ requirement in order to benefit from the zero tariff arrangement under CEPA. Supplement VIII to CEPA allows traders to include the value of raw materials and component parts originated from the Mainland when calculating the "value-added content". The value allowed to be included into the calculation can be up to half of the "value-added content". The measure facilitates the trade to make use of

¹ The existing "value-added content" requirement refers to the total value of raw materials, component parts, labour costs and product development costs exclusively incurred in Hong Kong being greater than or equal to 30% of the FOB value of the exporting goods. Of the 1,633 rules of origin already formulated under CEPA, 213 (about 13%) have adopted the "value-added content" requirement.

the zero tariff preferential treatment offered to Hong Kong goods under CEPA.

Trade in services

(i) Liberalization measures

8. Under Supplement VIII to CEPA, the market access conditions will be further relaxed in 13 existing sectors, namely, legal; construction; technical testing, analysis and product testing; placement and supply services of personnel; distribution; insurance; banking; securities; hospital; tourism; road transport; qualification examinations for professionals and technicians; and individually owned stores. Liberalization measures will also be introduced in three new sectors, namely, inter-disciplinary research and experimental development services; services incidental to manufacturing; and library, museum and other cultural services. Inclusive of measures in Supplement VIII to CEPA, the two sides have so far announced 301 liberalization measures under 47 service sectors. Supplement VIII to CEPA consists of the following key measures:

- A. **Legal** — To further develop closer cooperation between the legal professions of the Mainland and Hong Kong, and to explore ways of improving the mode of association of law firms of the two places; and to consider broadening the scope of businesses of Hong Kong residents who have acquired Mainland legal professional qualification and hold a Mainland lawyer's practice certificate in acting as agents in civil litigation cases in the Mainland relating to Hong Kong residents and juridical persons.

- B. **Construction** — To allow Hong Kong professionals who have obtained Mainland's construction professional qualifications through mutual recognition, to register and practise in Guangdong and enjoy the same treatment as Mainland professionals having the same professional qualifications. To recognize Hong Kong professionals who have obtained

Mainland's class 1 registered architect qualification or Mainland's class 1 registered structural engineer qualification through mutual recognition as registered practitioners for the purpose of declaration of engineering design enterprise qualifications within Guangdong, in accordance with the relevant Mainland regulations.

- C. **Hospital** — In addition to Shanghai Municipality, Chongqing Municipality, Guangdong Province, Fujian Province and Hainan Province, to allow Hong Kong service suppliers to set up wholly-owned hospitals in all municipalities directly under the Central Government and provincial capitals in the Mainland.
- D. **Banking** — To allow any Mainland-incorporated banking institution established by a Hong Kong bank to engage in the sale and distribution of mutual funds.
- E. **Securities** — To continue to support qualified Mainland financial institutions engaged in securities activities to set up subsidiaries in Hong Kong and to operate businesses in accordance with law; and to deepen cooperation between the Mainland and Hong Kong in financial services and products development, and to allow investments in the Mainland securities market by means of the RMB Qualified Foreign Institutional Investor scheme.
- F. **Insurance** — To allow Hong Kong insurance brokerage companies to set up wholly-owned insurance agency companies in Guangdong Province (including Shenzhen) on a pilot basis. The place of operation should be in Guangdong Province (including Shenzhen), and the applicant must fulfill the criteria: (1) the applicant should have been operating insurance brokerage businesses in Hong Kong for over 10 years; (2) the applicant's average annual business revenue for the past 3 years before application should not be less than HK\$500,000 and the total assets as at the end of the year

before application should not be less than HK\$500,000; (3) within 3 years before application, there has been no serious misconduct and record of disciplinary action; and (4) the applicant should have set up a representative office in the Mainland for over one year.

- G. **Tourism** — To optimize the current “144-hour facilitation visa” policy in Guangdong Province through relaxing the requirement to pre-register the outbound control point, and reviewing the requirement regarding tour size at an appropriate juncture.
- H. **Technical testing, analysis, and product testing** — To expand the scope of product testing that can be undertaken by testing organizations in Hong Kong for the China Compulsory Certification (CCC) System to all existing products processed in Hong Kong that require CCC. These testing organizations have to be accredited by the accreditation body of HKSARG (i.e. the Hong Kong Accreditation Service) to be capable of performing testing for the relevant products under the CCC System.
- I. **Distribution** — To allow the same Hong Kong service supplier which opens more than 30 stores accumulatively in the Mainland and sells different types and brands of commodities (including staple food) coming from multiple suppliers to operate in Guangdong on a wholly-owned basis, as a pilot measure.
- J. **Individually Owned Stores** — To expand the scope of services of individually owned stores set up by Hong Kong permanent residents with Chinese citizenship in the Mainland; and to relax the restrictions of individually owned stores set up by Hong Kong permanent residents with Chinese citizenship in the Mainland, i.e. the number of persons engaged in the operation is relaxed from no more than eight persons to ten persons, and the business area for certain

types of services is relaxed from not exceeding 300 square meters to 500 square meters.

9. In accordance with Article 5 of Annex 4 of CEPA, Hong Kong will not impose any new discriminatory measures on the Mainland's services and service suppliers in the service sectors covered by CEPA. This commitment will also apply to sectors covered by the liberalization of trade in services measures under Supplement VIII to CEPA.

(ii) Relaxation in the Definition of "Hong Kong Service Supplier"

10. Supplement VIII to CEPA relaxes the criteria of "substantive business operations" under the definition of "Hong Kong Service Supplier" by amending "(t)he nature and scope of the services provided in Hong Kong should encompass the nature and scope of the services it intends to provide in the Mainland." in Article 3.1.2.(1) of Annex 5 to CEPA as "(t)he nature and scope of the service provided in Hong Kong by a Hong Kong service supplier who intends to provide services in the Mainland should meet the requirements in Annex 4 and this Annex, and any restrictive requirements applicable to the nature and scope of the business of foreign investment entities in the laws, regulations and administrative regulations of the Mainland shall apply." In other words, unless individual CEPA measures, or the laws, regulations as well as administrative regulations of the Mainland impose specific requirements on the nature and scope of business, the scope of CEPA preferential measures that Hong Kong service suppliers may apply is not restricted to the scope of their business in Hong Kong.

Financial Cooperation

11. On financial cooperation, Supplement VIII to CEPA clearly supports Mainland banks to make use of Hong Kong's international financial platform to develop their international businesses on the premises of prudent operation; and supports Hong Kong insurance companies to enter the market through setting up business institutions or capital participation, so as to participate and share in the development of the Mainland insurance market. It also enhances bilateral cooperation in

areas such as development of insurance products, business operation and operational management, etc.

Cooperation in Tourism

12. The two sides agreed to strengthen cooperation in tourism, which include measures to jointly improve the quality of tourism services in the Mainland and Hong Kong, and together strive for the healthy and orderly development of Mainland's Hong Kong-bound tourism market; to take forward the Mainland and Hong Kong's cooperation in overseas joint tourism promotion, joint development of "multi-destination" itineraries featuring the Mainland and Hong Kong, and closer cooperation between the overseas tourism offices of the two places; to encourage mutual entry of tourism enterprises and investments in the two places to enter each other's markets, to support strategically Hong Kong service providers to set up travel agents in the Mainland; and to enhance support for developing Hong Kong as a homeport for cruise tourism.

Cooperation in Trade and Investment Facilitation

13. On trade and investment facilitation, the two sides agreed to further strengthen cooperation in commodity inspection and quarantine, food safety, quality and standardization; and to strengthen cooperation between the two places in the area of innovation and technology, so as to support Hong Kong's development in innovation and technology.

14. Under Supplement VIII to CEPA, measures pertaining to enhancement of origin criteria, relaxation of the definition and related requirements of "Hong Kong Service Supplier", and measures relating to trade in services will be effective from 1 April 2012.

Conclusion

15. The signing of Supplement VIII to CEPA fully reflects the support of the Central Government for the Hong Kong Special Administrative Region. The Supplement provides for preferential measures in trade in goods, trade in services, as well as trade and

investment facilitation. On trade in goods, the measure for origin criteria allows Hong Kong manufacturing enterprises to include materials and component parts originated from the Mainland in the calculation of “value-added content”, which will help to further improve the origin criteria and enable more Hong Kong products to enter the Mainland market under the zero tariff preferential arrangement, thus increasing their competitiveness, as well as attracting and encouraging the manufacturing industry to move towards diverse and sustainable development. The liberalization and trade and investment facilitation measures for the pillar industries and those industries in which Hong Kong has a competitive edge will help Hong Kong service industries accelerate their opening up of the Mainland market. This will be greatly conducive to the sustainable development of these industries, and will foster the economic and trade integration and professional exchanges between the two places. The measures for individually owned stores will expand the scope of business and improve operating conditions. This will help the small and medium enterprises tap the Mainland market and increase the beneficiaries of CEPA. The relaxation on the criteria of “substantive business operations” in the definition of "Hong Kong Service Supplier" also enables Hong Kong businesses to expand their scope of business in the Mainland with greater flexibility and diversity, thereby maximizing CEPA’s benefits.

ENQUIRIES

16. For enquiries on issues related to CEPA, please contact the relevant sections in the Trade and Industry Department with details listed below:

Subject	Contacts
General	Tel. : 2398 5667 Fax. : 3525 0988 E-mail : cepa@tid.gov.hk
Rules of Origin, Certificate of Origin and Factory Registration (FR)	Tel. : 3403 6432 Fax. : 2787 6048 E-mail : cepaco@tid.gov.hk

General Enquiries on Trade in Goods under CEPA	Tel. : 2398 5676 Fax. : 2398 9973 E-mail: ma_registry@tid.gov.hk
Certificate of Hong Kong Service Supplier	Tel. : 3403 6428 Fax. : 3525 0988 E-mail : hkss@tid.gov.hk

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