



Trade and Industry Department
The Government of the Hong Kong Special Administrative Region
香港特別行政區政府 工業貿易署

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Director-General of Trade and Industry 工業貿易署署長

28 May 2010

Dear Chairman/President,

The Mainland and Hong Kong
Closer Economic Partnership Arrangement (CEPA)

I am pleased to inform you that the Central People's Government and the Hong Kong Special Administrative Region Government have just signed Supplement VII to CEPA on 27 May 2010. Attached for your reference is an information note which sets out further trade and investment liberalization and facilitation measures provided for in the Supplement. Further information on CEPA can be found at the website of the Trade and Industry Department (www.tid.gov.hk/english/cepa/).

We look forward to working closely with you in helping Hong Kong enterprises make use of CEPA to tap the business potential of the Mainland market.

Yours sincerely,

(Ms. Maria S. N. Kwan)
Director-General of Trade and Industry

Encl.

**THE MAINLAND AND HONG KONG
CLOSER ECONOMIC PARTNERSHIP ARRANGEMENT
FURTHER LIBERALIZATION MEASURES IN 2010**

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 six Supplements to CEPA on 27 October 2004, 18 October 2005, 27 June 2006, 29 June 2007, 29 July 2008 and 9 May 2009 respectively.

SUPPLEMENT VII TO CEPA

3. Over the past few months, CPG and HKSARG again conducted consultations on further liberalization of trade in services in the Mainland for Hong Kong and promotion of trade and investment facilitation. After rounds of exchanges, the two sides signed Supplement VII to CEPA on 27 May 2010 in Hong Kong.

4. Supplement VII to CEPA provides for 35 market liberalization and trade and investment facilitation measures in 19 sectors. Among them, 27 are liberalization measures in 14 service sectors and of which eight are measures for "early and pilot implementation".

5. 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 contents of Supplement VII to CEPA are highlighted in paragraphs 6 to 15 below.

Further liberalization of trade in services

6. The market access conditions in 14 service sectors will be

further relaxed under Supplement VII to CEPA. The 14 service sectors include construction; medical services; technical testing, analysis and product testing; specialty design; audiovisual services; distribution; banking; securities; social services; tourism; cultural services; air transport; qualification examinations for professionals and technicians; and individually owned stores. Among them, “technical testing, analysis and product testing” and “specialty design” are new service sectors. In other words, the service sectors covered by liberalization of trade in services under CEPA will expand from 42 to 44.

7. Major market liberalization measures under Supplement VII to CEPA are highlighted below:

- A. Medical services** – Hong Kong service suppliers (HKSS) are allowed to set up wholly-owned hospitals in the municipalities of Shanghai, Chongqing, and the provinces of Guangdong, Fujian and Hainan; and to set up convalescent hospitals in the form of wholly-owned, equity joint venture or contractual joint venture in Guangdong Province. No requirement is imposed on the total investment in setting up hospitals by HKSS on an equity joint venture or contractual joint venture basis in Guangdong Province; and no restriction is imposed on the ratio of capital investment between Hong Kong and Mainland partners in setting up hospitals in the form of equity joint venture or contractual joint venture in the municipalities of Shanghai, Chongqing, and the provinces of Guangdong, Fujian and Hainan. Twelve categories of statutory healthcare professionals who are registered to practise in Hong Kong (medical practitioners, Chinese medicine practitioners, dentists, pharmacists, nurses, midwives, medical laboratory technologists, occupational therapists, optometrists, radiographers, physiotherapists and chiropractors) are allowed to provide short-term services in the Mainland.
- B. Tourism** – Hong Kong travel agents established on a wholly-owned or joint venture basis in Beijing and Shanghai Municipalities are allowed to apply for the operation, on a pilot basis, of group tours to Hong Kong and Macao for registered permanent residents of the Beijing and Shanghai Municipalities.
- C. Banking** – A Hong Kong bank that has maintained a representative office in the Mainland for more than one year (previously required more than two years) can apply to set up a wholly foreign-funded bank or a foreign bank branch. A Hong Kong bank’s operating institution in the Mainland which has

been operating for more than two years and profitable for one year prior to the application (previously required profitable operation for two consecutive years prior to the application) can apply to conduct Renminbi business. Foreign banking institutions established in the Mainland by Hong Kong banks can establish specialized institutions to provide financial services to small enterprises.

- D. Securities** – Mainland and Hong Kong will deepen the cooperation in financial services and product development, and launch, in the Mainland at an appropriate time, ETF (open-end index-tracking exchange-traded fund) constituted by Hong Kong listed stocks.
- E. Construction** – Hong Kong professionals who have obtained Mainland’s class 1 registered architect qualification or class 1 registered structural engineer qualification, can act as partners to set up construction and engineering design offices in the Mainland in accordance with the relevant qualification requirements, without restrictions on the ratio of the number of Hong Kong partners to the number of the Mainland partners, the ratio of the total capital contributed by the Hong Kong partners to that by the Mainland partners, or the Hong Kong partners’ period of residence in the Mainland. Hong Kong professionals who have obtained Mainland’s class 1 registered architect qualification or class 1 registered structural engineer qualification by mutual recognition, can register and practise in Guangdong;
- F. Air Transport** – Airport transport sales agencies set up by HKSS in the Mainland in the form of wholly-owned enterprises, equity joint venture or contractual joint venture, can operate air transport sales agency services in the domestic routes in the Mainland. HKSS can also operate aircraft repair and maintenance services in the Mainland in the form of wholly-owned enterprises or with majority shareholding in the enterprises.
- G. Distribution** – Distribution enterprises set up by HKSS in the Mainland can sell books published in Hong Kong.
- H. Technical testing, analysis and product testing services** – Testing organizations in Hong Kong to cooperate with designated Mainland organizations to undertake testing of products under the China Compulsory Certification (CCC) System on a pilot basis, in respect of selected products listed in

the CCC Catalogue and processed in Hong Kong (i.e. the processing facilities are located in Hong Kong). These testing organizations have to be accredited by the accreditation body of the HKSARG (i.e. the Hong Kong Accreditation Service) to be capable of performing testing for the relevant products under the CCC System.

- I. Audiovisual services** – HKSS can set up enterprises on a wholly-owned, equity joint venture or contractual joint venture basis in the Mainland to produce video and sound recording products.
- J. Specialty design** – HKSS can set up wholly-owned enterprises in the Mainland to provide specialty design services.

8. Apart from benefiting the larger enterprises, measures in Supplement VII to CEPA would also benefit individuals and small businesses, such measures include allowing registered healthcare professionals to provide short-term services in the Mainland, allowing Hong Kong permanent residents to take the qualification examination for real estate valuer in the Mainland, and allowing Hong Kong permanent residents with Chinese citizenship to set up individually owned stores in the Mainland to provide services in the areas of marriage, renting and leasing of comics books, and pet clinics.

9. All the service liberalization measures under Supplement VII to CEPA will take effect from 1 January 2011.

10. 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 liberalisation of trade in services measures under Supplement VII to CEPA.

Enhancing cooperation in area of trade and investment facilitation

11. To enhance trade and investment facilitation, in addition to strengthening the cooperation in testing and certification, the Mainland and Hong Kong have also included under Supplement VII to CEPA cooperation in the cultural, environmental, innovation and technology industries, as well as cooperation on education.

12. For **cooperation in cultural and environmental industries**, Supplement VII to CEPA fosters the joint development of the industries of both sides, mainly through strengthening exchanges and communication

between relevant organizations and the trade of both sides, as well as cooperating in organization of visits and trade exhibitions and seminars. For **cooperation in innovation and technology industry**, both sides agree to progressively involve Hong Kong research institutes and enterprises in the national innovation system and encourage Hong Kong research personnel and organizations to participate in national science and technology projects, and also to strengthen exchanges and cooperation between the two places in high technology research, development and application, fundamental scientific research, etc.

13. As regards **cooperation on education**, both sides agree to strengthen exchanges, communication, and exchange of information in respect of education, to strengthen cooperation in training and organizing visits, etc. to support the Mainland's education institutions and Hong Kong's higher education institutions to jointly provide education programmes, to establish joint research facilities and to nurture talents at undergraduate or above level in the Mainland

14. Moreover, for **testing and certification**, both sides agree to strengthen co-operation between relevant authorities of both sides, and the Mainland will also assist Hong Kong's testing laboratories to be recognized under the international multilateral systems on mutual recognition of testing and certification that are open to national member bodies.

15. By establishing the above cooperation mechanisms, we hope to promote long-term cooperation in the aforementioned industries or service sectors between the two sides, and to jointly open up business opportunities and scope for development.

Conclusion

16. Inclusive of the measures in Supplement VII to CEPA, the two sides have so far announced nearly 280 liberalization measures in trade in services.

17. The measures under Supplement VII to CEPA will expedite and facilitate Hong Kong service industries to enter and expand in the Mainland market, and foster service industries integration and professional exchanges between the two sides. Moreover, most of the new measures cover the four pillar industries and six economic industries that Hong Kong has competitive edge, and as such will help consolidate Hong Kong's status as an international financial, trade, logistics and high value-added service centre, and will lay the foundation for the two sides to jointly develop education, medical services, as well as testing and

certification, environmental, innovative technology and cultural industries.

18. Since 2008, the Mainland and Hong Kong announced 41 measures (including related measures in Supplement VII to CEPA) for “early and pilot implementation” in Guangdong Province. These pilot measures serve to demonstrate the effect of liberalization in the respective service sectors and contribute positively to the exploration of cooperation and integration of the service industries of Hong Kong and Guangdong, and substantively respond to the policy direction of enhancing cooperation between the service industries of Guangdong and Hong Kong as stipulated in the “Framework for Development and Reform Planning for Pearl River Delta Region”; as well as to the positioning with respect to fostering the development of modern service industries under the “Framework Agreement on Hong Kong/Guangdong Co-operation”.

ECONOMIC IMPACT OF CEPA

19. HKSARG has been closely monitoring the implementation of CEPA from 1 January 2004. We collect statistics relating to the Certificates of Hong Kong Service Supplier (HKSS) and "Individual Visit Scheme" (IVS) etc. to conduct statistical analysis, as well as to assess the impact on Hong Kong's economy. HKSARG has just updated the assessment of the impact of CEPA liberalisation of trade in services and IVS on Hong Kong's economy. As reflected by the assessment report, during 2007-2009, liberalisation of trade in services and IVS have continued to bring benefits to Hong Kong enterprises and the economy as a whole.

20. During 2004-2009, cumulative business receipts obtained by companies in Hong Kong due to CEPA from Mainland-related business reached HK\$61.6 billion. During 2007-2009, CEPA-induced business receipts obtained by operations established by Hong Kong service suppliers on the Mainland amounted to HK\$198.5 billion. During the same period, companies in Hong Kong obtained additional business receipts totalling about HK\$55.1 billion due to CEPA.

21. IVS is a tourism cooperation measure first introduced under CEPA in 2003. By now, the scheme has been extended to 49 Mainland cities. By March 2010, over 49 million Mainland visitors have come to Hong Kong under the scheme. The number of IVS visitors has drastically increased from 4.26 million in 2004 to 10.59 million in 2009, representing a robust average annual growth rate of 20%. In 2009, benefiting from the implementation of the “multiple-entry” individual visit endorsement to Hong Kong for Shenzhen permanent residents with effect from 1 April, an

additional HK\$26.4 billion in spending was generated by IVS visitors in 2009, which was almost 40% higher than that in 2008. In cumulative terms, during 2004-2009, IVS visitors brought about additional spending totalling over HK\$84.8 billion.

22. As at end 2009, due to liberalisation of trade in services and IVS under CEPA, a total of 54,700 jobs were created in Hong Kong, while 40,600 jobs were created on the Mainland.

23. CEPA also has a positive impact on attracting Mainland and foreign investments to Hong Kong. According to the information provided by InvestHK, among the 265 foreign companies assisted by InvestHK to invest or expand in Hong Kong in 2009, 70 (or 26%) cited CEPA as one of the key considerations for investing in Hong Kong. Moreover, since the Mainland streamlined the application procedures for Mainland enterprises to invest in Hong Kong in August 2004, the trade and investment between the Mainland and Hong Kong has further increased. According to the information provided by the Ministry of Commerce, between September 2004 and December 2009, 2,602 Mainland enterprises were granted approval to invest in Hong Kong, involving over US\$24.4 billion of investment.

24. We would wish to point out that, as implementation of CEPA deepens, the economic impact of CEPA has become more closely intertwined with the overall macro economic environment, and as such it has become more and more difficult to single out the CEPA-induced benefits for quantitative analysis. Also, the longer CEPA has been implemented, the respondents' impression of the CEPA-induced effects might become less clear with the passage of time, and the value of conducting quantitative analysis of CEPA-induced impact through opinion survey would reduce over time.

ENQUIRIES

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

| Subject | Contacts |
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| 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 |

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| | 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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