

# CEPA: Cross-boundary Business Opportunities

*Edward Leung*  
*Chief Economist, HKTDC*  
*18 September 2009*



## 4 Major Concerns on CEPA:

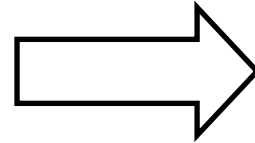
---



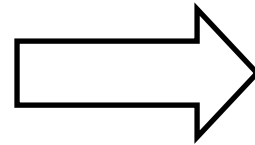
- **What are the main provisions of CEPA?**
- **Who qualifies?**
- **What are the benefits of CEPA?**
- **How can foreign companies take advantage of CEPA?**

# What are CEPA's Main Provisions?

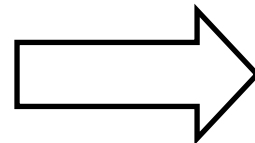
**CEPA**



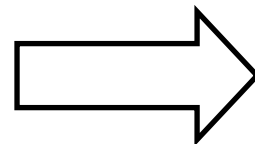
**Trade in Goods**  
(Zero tariff for 1,565  
HK-origin products)



**Trade in Services**  
(over 40 service sectors,  
including banking,  
securities, insurance,  
legal, construction, etc.)



**Mutual Recognition of  
Professional Qualification**  
(including construction,  
securities, insurance, etc.)



**Trade Facilitation**

# Who Qualifies (trade in goods)?

---



## Manufacturers:

- Products fulfill CEPA Rules of Origin are classified as “made in Hong Kong”
- CEPA Rules of Origin
  - “Specific Manufacturing Process” criterion
  - “Change in Tariff Heading” approach
  - “30% Value-Added” requirement

## Distribution of Products with Approved Hong Kong-origin (As of 30 Jun 2009)

Product Types	No. of CO Approved
Textiles and Clothing	11,905
Food and Beverages	11,687
Plastics and Plastic Articles	6,801
Pharmaceutical Products	5,770
Chemical Products	2,553
Base Metal Products	2,020
Colouring Matters	1,563
Paper and Printed Articles	1,496
· · ·	· · ·
<b>Total</b>	<b>45,176</b>

## Export Value of Goods Benefiting from CEPA and their Shares in Hong Kong's Domestic Exports

Year	Value (HK\$Mn)	% share in Domestic Exports to China	% Share in Total Domestic Exports
2004	1,150	3.0	0.9
2005	2,366	5.3	1.9
2006	3,254	8.1	2.4
2007	4,430	10.9	4.1
2008	4,819	13.9	5.3
2009 (Jan-Jun)	2,305	18.8	8.7

# What are the benefits of CEPA?



## Increase price competitiveness

### CEPA effect on the import price of Hong Kong products

Example: *High-end Knitwear*

Ex-factory price: HK\$100; Tariff rate in 2009: 17.5%; VAT: 17%

Import price = ex-factory price x (1 + tariff rate) x (1 + VAT)

#### Without CEPA

Import Price = HK\$100 x (1 + 17.5%) x (1 + 17%) = HK\$137.5

#### With CEPA

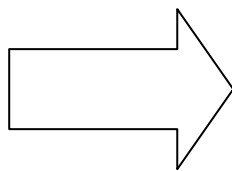
Import Price = HK\$100 x (1 + 17%) = HK\$117

**Savings** = HK\$20.5 (i.e. 15%)

# What are the benefits of CEPA?

---

- Attract high value-added manufacturing activities
- Help develop brand products targeting China's middle-class consumer market



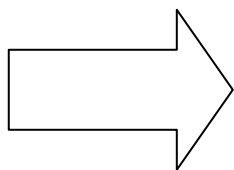
**Fashion, jewellery,  
high-end watches, food  
and cosmetics industries**

# What are the benefits of CEPA?



## Hong Kong's Advantages under CEPA

- Intellectual property rights protection
- Free trade and investment environment
- Reputation in cosmopolitan design
- Quality assurance



**Develop high intellectual property value industries targeting mainland market**

## Who Qualifies (trade in services)?

---

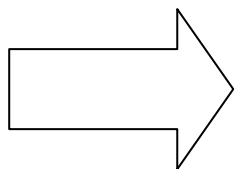
### **Hong Kong service suppliers (HKSS)**

- Incorporated in Hong Kong and engaged in substantive business of no less than three years  
*(regardless of the nationality of its investors)*
- Liable to pay Hong Kong tax
- Own or rent business premises in Hong Kong
- Employ 50% or more of its staff in Hong Kong

# What are the benefits of CEPA?

---

- HKSS granted preferential access to the mainland's service market
- Over 200 service liberalisation measures introduced since Jan 2004; some pilot measures implemented in Guangdong since Jan 2009.
- Lower entry thresholds, broader business scope and first-mover advantage compared to non-CEPA foreign companies



**WTO-plus benefits**

## Over 40 services benefitting from CEPA

Accounting	Elderly and disabled services	Mining	Securities
Advertising	Environmental	Management consulting	Project management services
Air transport	Freight Forwarding	Market research	Sporting
Audio-visual	Individual stores	Medical and dental	Storage and warehousing
Banking	Info. technology	Patent agency	Telecommunications
Building cleaning	Insurance	Printing	Tourism
Computer and related services	Job intermediary	Professional qualification exams	Trade mark agency
Construction and real estate	Job referral	Public utility	Translation & interpretation
Conventions and exhibitions	Legal	Rail Transport	Transport (road & sea)
Cultural	Logistics	Research and development	
Distribution	Mining	Scientific and technical consulting	

# Banking

## - lower entry threshold & cost effective sub-branching

Current scope of Access	Access for HKSS under CEPA
<p>- To establish a branch in China, a foreign bank needs to have total assets of over <u>US\$20 bln.</u></p>	<p>- A Hong Kong bank needs to have total assets of no less than <u>US\$6 bln</u> to establish a branch on the mainland.</p>
<p>- Foreign banks can open sub-branches in cities where they already have a branch operation</p>	<p>- No need to set up a representative office before setting up a joint-venture bank.</p> <p>- From Oct. 2009, a branch of a Hong Kong bank in Guangdong can apply to set up <b>cross-location sub-branches</b> in Guangdong, that is, a sub-branch can be set up in another administrative area of Guangdong before having to first establishing a branch in that administrative area.</p>

# Securities

## - opportunities for HK securities firms and professionals

Current scope of Access	Access for HKSS under CEPA
<p>- Sino-foreign joint-venture securities firms holding no more than one-third of the shares are allowed. They may engage directly in underwriting A-shares, and underwriting and transactions of B-shares, and government and corporate bonds.</p>	<p>- In addition to the left, HKSS can establish in Guangdong <b>JV securities investment advisory firms</b> (holding no more than one-third of the shares) from Oct 2009.</p>
	<p>- HKSS can set up <b>JV futures brokerage companies</b> holding up to 49% of the shares, with same business scope as their mainland counterparts.</p>
	<p>- Hong Kong securities and futures professionals <b>can sit the mainland's qualifications exams</b> and apply for mainland licences</p>

# Legal

- no residency requirement; association operations allowed

Current scope of Access	Access for HKSS under CEPA
<p>- Foreign law firm representatives are subject to a residency period of <u>six months each year</u>.</p>	<p>- Hong Kong law firm's representatives in their mainland offices are <b>exempt from residency requirements</b>.</p>
<p>- Foreign law firms <u>cannot operate in association</u> with mainland law firms</p>	<p>- A Hong Kong law firm that has set up a representative office on the mainland is allowed to operate in <b>association with one mainland law firm, with no geographic restriction</b>.</p> <p>- From Oct. 2009, the requirement for operating in association with a mainland law firm in Guangdong will be lowered.</p> <ul style="list-style-type: none"><li>- The Guangdong law firm should be set up for 1 year or more (vs 3 years for elsewhere on the mainland).*</li></ul>

# Legal

- allowed to practise Chinese law

Current scope of Access	Access for HKSS under CEPA
<p>- <u>Foreign lawyers cannot practise Chinese law</u></p>	<ul style="list-style-type: none"><li>- Hong Kong residents with Chinese citizenship <b>can sit the mainland's <i>National Judicial Examination</i></b>.</li><li>- Can apply to practise as mainland lawyers after 1-year internship in a mainland law firm (or its Hong Kong branch).</li><li>- From Oct 2009, to undergo <b>intensive training of no less than 1 month</b> by mainland lawyers associations before applying to practise as lawyers on the mainland.</li></ul>

# Construction

## - greater flexibility in forming joint-ventures

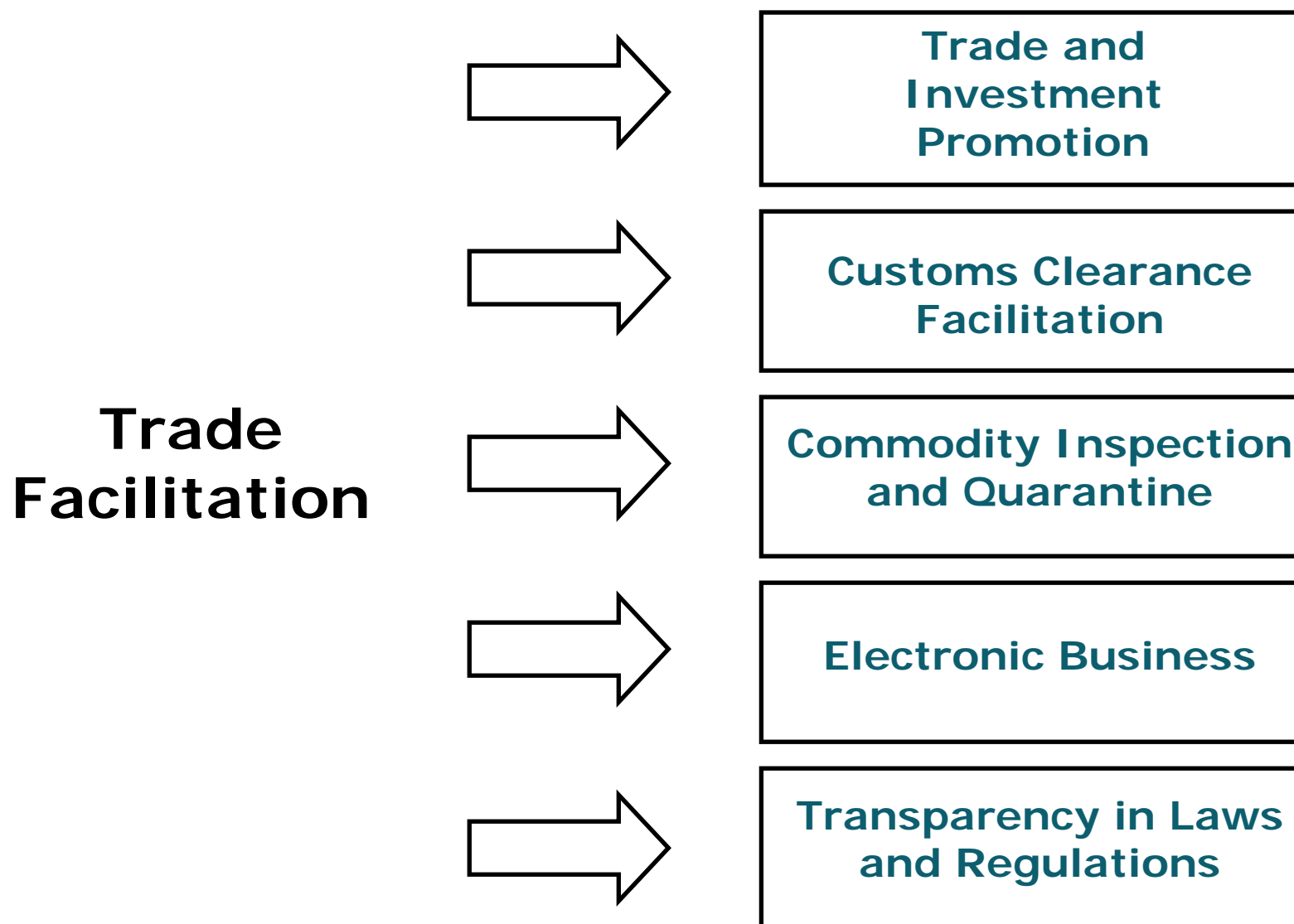
Current scope of Access	Access for HKSS under CEPA
<ul style="list-style-type: none"><li>- Wholly foreign-owned enterprises (WFOEs) in <u>construction and engineering design</u> are allowed.</li><li>- The proportion of capital contributed by mainland partners of Sino-foreign joint ventures (JV) should be no less than 1/4 of the registered capital.</li></ul>	<ul style="list-style-type: none"><li>- WFOEs are allowed for HKSS</li><li>- For setting up Sino-foreign construction and engineering design JVs, <b>mainland partners of HKSS are not subject to required proportion of the registered capital.</b></li></ul>
<ul style="list-style-type: none"><li>- WFOE and JV in <u>urban planning</u> service are allowed.</li><li>- Mainland performance will be taken into account in the assessment of graded qualification.</li></ul>	<ul style="list-style-type: none"><li>- In assessing the graded qualification of a JV planning service enterprise set up by two or more HKSS, the <b>performance of all individual enterprises both in Hong Kong and the mainland will be taken into account.</b></li></ul>

# Construction

## - greater flexibility in licensing & staff deployment

Current scope of Access	Access for HKSS under CEPA
<ul style="list-style-type: none"><li>- On applying as WFOE or JV in construction and engineering design, the number of certified architects or engineers of the unit in China shall not be fewer than 1/4 for WFOE, or 1/8 for JV, of the total key technical staff.</li><li>- Mainland performance will be taken into account in the assessment of graded qualification.</li></ul>	<ul style="list-style-type: none"><li>- HKSS can employ mainland registered professionals to fulfil the requirements as set out on the left column.</li><li>- In assessing the graded qualification of construction and engineering design enterprises set up by HKSS, the <b>performance both in Hong Kong and the mainland will be taken into account.</b></li></ul>
<ul style="list-style-type: none"><li>- Foreign professional and technical staff employed by a foreign-invested construction and engineering design enterprise or urban planning services enterprise must reside on the mainland for a cumulative period of no less than 6 months in a year.</li></ul>	<ul style="list-style-type: none"><li>- Relax the residency requirement for Hong Kong professional and technical staff on the mainland by <b>counting their period of residence in Hong Kong</b> as their period of residence on the mainland.</li></ul>

# Benefits of Trade Facilitation



# Other Key Provisions of CEPA

---

## Individual Visit Scheme (IVS)

- Cumulatively, more than 40 million mainlanders have visited HK as IVS travellers
- IVS travellers represented 56% of total mainland visitors during Jan-Jun 2009.

## Renminbi Business

- HK is the first city outside the mainland to conduct personal RMB business since 2004 (RMB deposits, remittances, exchanges, cards, personal checks)
- Business scope recently expanded to include RMB bond issuance and RMB trade settlement

# Other Key Provisions of CEPA

---

## Financial cooperation

### **Chinese government has agreed under CEPA to:**

- Support mainland banks in setting up subsidiaries in HK through acquisition, and re-locating international treasury and forex trading centres to HK
- Support eligible mainland financial companies to list in Hong Kong, and full utilisation of HK's financial intermediaries in reforming and restructuring the mainland's financial sector.
- Give priority to HK banks in their applications to set up branches in Guangdong, Central Western/North Eastern China

# How can Austrian companies take advantage of CEPA?

---

## For Austrian service providers

- Become HKSS
- Partner with, invest in, or buy into a CEPA-qualified firm in Hong Kong  
*(qualify for CEPA benefits one year after majority-stake acquisition)*

## For Austrian manufacturers or traders of goods

- Develop high intellectual property value units in HKG targeting mainland market
- Partner with, or outsource to Hong Kong manufacturers

# How can Austrian companies take advantage of CEPA?

---

**CEPA further enhances HK's role as a platform for foreign companies to do business in China**

- As an international financial centre
- as a business hub
- as a logistics and distribution hub

**HK as a springboard for China enterprises to "go outward"**

- Raise capital
- Set up regional headquarters

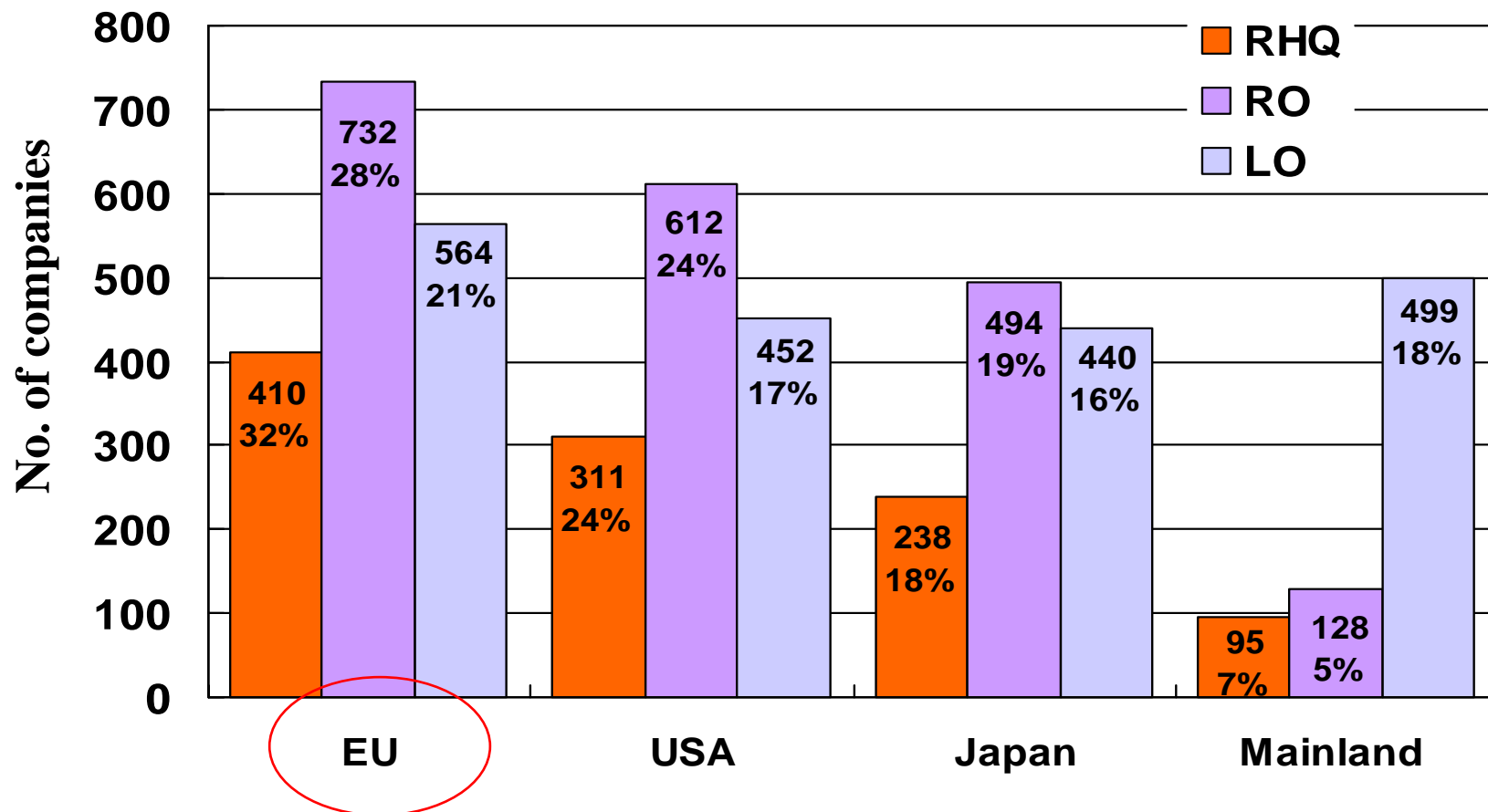
# How can Austrian companies take advantage of CEPA?

---

## HK as a platform for Austrian companies to do business in China

- Regional headquarters
- Marketing & Sales
- Banking
- Import-export services
- Accounting
- Business negotiations

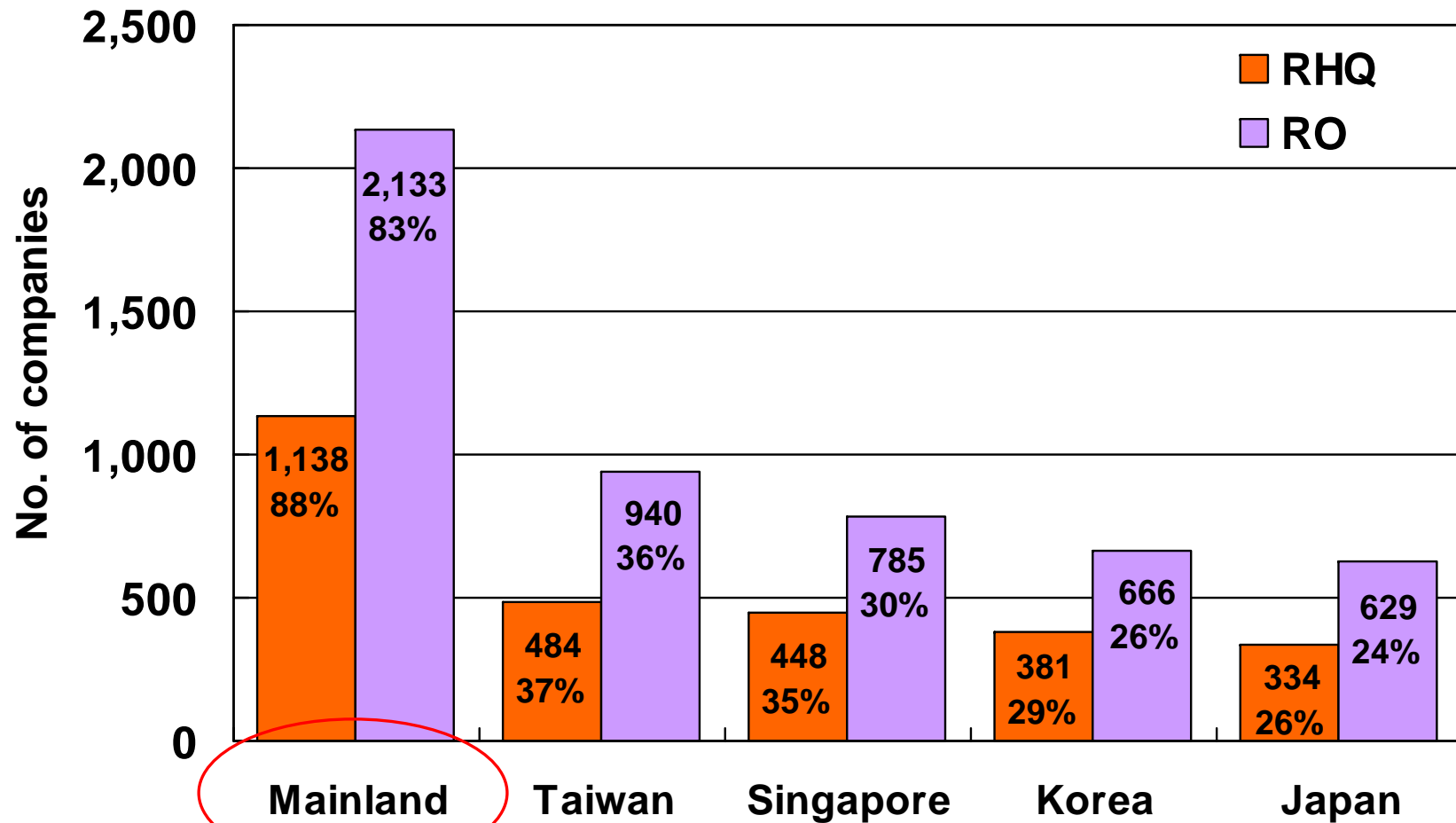
# Country/Territory of Location of Parent Companies



Note : Top 4 countries/territories listed in terms of total no. of RHQs, ROs and Los

Source: Census and Statistics Department

# Geographical Responsibility of RHQs and ROs in the Region (other than HK)



## HK advantage: attractive business environment

- HQ and high value-added activities are conducted in HK

	Hong Kong	Mainland	Difference
<b>Overall management &amp; planning</b>	<b>86%</b>	<b>56%</b>	<b>+30%</b>
Trade financing/insurance arrangement	83%	31%	+52%
Sales & marketing	88%	48%	+40%
Trade documentation	95%	71%	+24%
Product design & development	70%	63%	+7%
Logistics, warehouse, shipping & consolidation	81%	75%	+6%
Purchasing of raw materials	76%	79%	-3%
Quality control	64%	84%	-20%
Management & coordination of production	56%	77%	-21%
Manufacturing	22%	82%	-60%

## Hong Kong: core competence as a business hub

*Free market*

*Systematic*

*High quality service*

*Infrastructure*

<b>"Favourable" or "very favourable"</b>	<b>Hong Kong</b>	<b>Mainland</b>
Free flow of information	<b>91%</b>	<b>20%</b>
Network with overseas markets	<b>88%</b>	<b>17%</b>
Business integrity	<b>86%</b>	<b>3%</b>
Infrastructure (e.g. highway, seaport, airport)	<b>84%</b>	<b>28%</b>
Rule of law	<b>84%</b>	<b>3%</b>
Low and simple tax system	<b>84%</b>	<b>4%</b>
Availability of financial services & ease of financing	<b>83%</b>	<b>6%</b>
Import/export policies and customs clearing	<b>83%</b>	<b>12%</b>

## HK: core competence as a business hub

Intellectual property rights

Sourcing

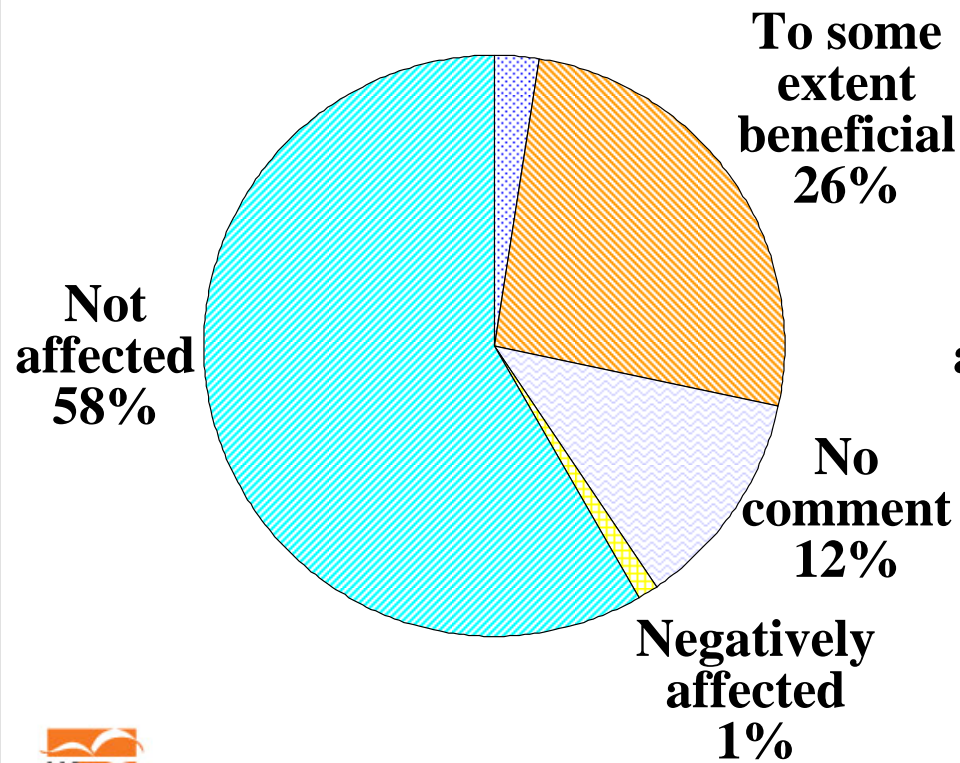
Service-oriented economy

<b>"Favourable" or "very favourable"</b>	<b>Hong Kong</b>	<b>Mainland</b>
Transparency and predictability of government measures	<b>75%</b>	<b>3%</b>
Availability of trade supporting services	<b>73%</b>	<b>7%</b>
Protection of intellectual property rights	<b>73%</b>	<b>3%</b>
Proficiency of English	<b>66%</b>	<b>10%</b>
Availability of knowledge professionals	<b>53%</b>	<b>28%</b>
Size of domestic market	<b>21%</b>	<b>45%</b>
Cost of manual workers & land availability	<b>9%</b>	<b>77%</b>

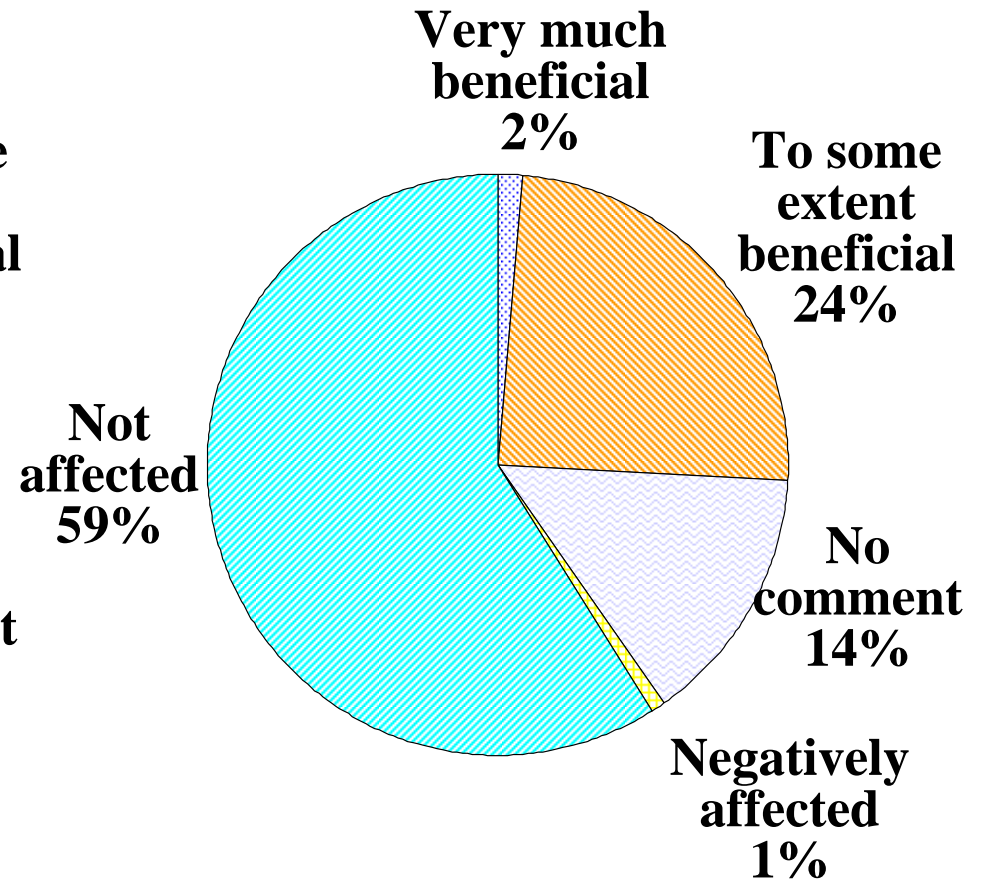
*Source: HKTDC Survey*

# Views on Effect of CEPA Implemented since January 2004 on RHQs/ROs and LOs

## RHQs/ROs



## LOs





**Thank You**