

# PHASE V OF CEPA

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On 29 June 2007, an agreement between the Central People's Government and the Government of the Hong Kong Special Administrative Region was reached concerning the latest round of liberalization measures under CEPA V which are effected from January 2008. CEPA V has added 17 new products to the list of goods eligible for tariff-free treatment and a total of 40 liberalization measures covering 28 services sectors, among which 11 are new sectors.



## Trade in Goods

Apart from the immediate benefit of cost savings for Hong Kong's domestic export items being sold to the Chinese mainland, it is expected that zero-tariff access to the mainland market will stimulate manufacturing activities in Hong Kong and provide an impetus for Hong Kong's domestic exports to the mainland. Existing production can also be expanded to take advantage of the zero-tariff benefits.

Industries that are likely to benefit from CEPA's zero-tariff arrangement and justify production in Hong Kong for selling to the mainland market would need to fulfill at least one of the following criteria:

- High savings in tariffs;
- More dependent on imported raw materials or intermediate goods from overseas (rather than sourcing from the mainland);
- Production of Hong Kong reputable products, enabling a higher price for the "Made in Hong Kong" label;
- High-price products with value-added in terms of brand, design, quality, technology, etc. rather than the labour input;
- Predominant share of intellectual property input in the overall cost structure requiring strong IP protection;
- Limited quantity rather than mass production;
- Availability of sufficient skilled labour and ability to adopt advanced technology in production in Hong Kong.

## Trade in Services

The Chinese mainland has agreed to further relax the market access conditions for qualified Hong Kong service suppliers in the following business sectors: -

- |                             |   |
|-----------------------------|---|
| ● Legal                     | ● Insurance                                   |
| ● Medical                   | ● Banking                                     |
| ● Real estate               | ● Securities                                  |
| ● Job intermediary          | ● Tourism                                     |
| ● Convention and exhibition | ● Cultural                                    |
| ● Telecommunications        | ● Transport                                   |
| ● Audiovisual               | ● Renminbi business                           |
| ● Distribution              | ● Professional qualification and examinations |
| ● Individually owned stores |   |

From January 2008, Hong Kong insurance agency companies will be allowed to set up wholly-owned enterprises in the mainland to provide insurance agency services to local insurance companies.

Apart from the Individual Visitor Scheme, CEPA allows Hong Kong's travel agencies to set up wholly-owned companies in the mainland China. CEPA V further lowers the turnover requirement of Hong Kong travel agencies to set up such companies from US\$25 million to US\$15 million.

Hong Kong companies engaging in job intermediary services are allowed to set up wholly-owned intermediary agencies on the mainland with the required minimum registered capital of US\$125,000 from January 2008 onwards.

Hong Kong permanent residents with Chinese citizenship are permitted under CEPA to set up individually owned stores throughout the country. CEPA V further broadens the scope of business covered by these stores to the following additional services:

- Computer services;
- Software services;
- Road transport goods handling services;
- Other transport services except international freight forwarding and courier services;
- Storage and warehousing services;
- Translation and interpretation services to business activities.

On top of the service sectors that have already been offering preferential treatments under the previous phases I to IV of CEPA, the mainland agreed to liberalize the following 11 new areas under the phase V arrangement:-

- |                                 |   |
|---------------------------------|---|
| ● Building cleaning services    | ● Printing services                         |
| ● Computer and related services | ● Public utility services                   |
| ● Elderly services              | ● Services related to management consulting |
| ● Environmental services        | ● Sporting services                         |
| ● Market research               | ● Translation and interpretation services   |
| ● Photographic services         |   |

Details of the liberalization measures being offered under the phase V of CEPA can be downloaded from the following website:

- <http://www.tdctrade.com/econforum/tdc/tdc070803.htm>

## Conclusion

The signing of the phase V agreement under CEPA is instrumental in eliminating the remaining hurdles for Hong Kong companies to participate in the mainland's distribution business, which has already opened up. It acts a platform to allow Hong Kong to enjoy further liberalization of trade of goods and services with the mainland and other areas of cooperation in the future.

Further liberalization measures connected with individually-owned stores expand the scope and flexibility for Hong Kong residents doing business in the mainland and further stimulate the entrepreneurship of Hong Kong people.