

**HONG KONG'S CEPA WITH CHINA:
AN UPDATE**

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Executive Summary

1. Along with Hong Kong's (HK) 10th anniversary handover celebration in July 2007, the HK-Mainland Closer Economic Partnership Arrangement (CEPA), established in June 2003, received a timely update with the signing of its fourth supplement.
2. Previous CEPA supplements have greatly liberalised trade in goods between HK and the Mainland. Between 2004 and 2006, CEPA eliminated tariffs for some 1,369 types of HK products and from 1 January 2006, the Mainland has fully implemented zero tariff treatment on all imported goods of HK origin.
3. CEPA's Supplement IV would unleash more opportunities for HK service suppliers by opening up 11 new service sectors for HK's service providers, making it a total of 38. The new supplement also aims to promote greater financial cooperation and mobility of professionals from both sides.
4. The trade accord's preceding efforts to intensify the service links between HK and China utilised fully HK's comparative advantage in services vis-à-vis the Mainland. This has benefited HK service providers greatly.
5. CEPA as a whole has helped revive HK's post-SARS sagging economy. Between 2004 and 2006, CEPA induced about US\$652 million additional capital investment in the territory's manufacturing and services sectors and generated more than 36,000 jobs. Furthermore, the Individual Visit Scheme programme that was introduced under the framework of CEPA to facilitate easier movement of Mainlanders to HK is estimated to have generated about US\$2.9 billion in tourist spending between 2004 and 2006.
6. CEPA has been conducive to liberalising trade and investment between Hong Kong and China, which in turn, boosts market sentiment and facilitates a recovery of the whole economy. Hong Kong's GDP reverted from a negative

0.7% growth in 2003 to a positive 8.6% in 2004, 7.5% in 2005 and 6.8% in 2006.

7. According to CEPA, a wider variety of service sectors has been provided with greater access to the mainland market than stipulated in China's WTO access agreement. This gives them an early mover advantage, thus enhancing the attractiveness of Hong Kong to overseas investors.
8. The introduction of more liberalisation measures in CEPA is one thing but fully implementing them is another. There are still many factors constraining the full benefit of CEPA such as slow processing time for new investment application and a lack of transparency of commercial laws in the Mainland.
9. Nonetheless, the continuing liberalisation efforts by CEPA will further strengthen the links between Mainland and HK. CEPA is believed to be a driving factor for deeper economic interaction between the two economies. For example, as at the end of 2005, HK's foreign direct investment in the Mainland was worth nearly US\$190 billion, while that of the Mainland in HK was US\$160 billion. Indeed, this synchronization will in the years ahead allow HK to benefit from China's growth.