

# HONG KONG

Asia's world city

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## CEPA : The Mainland — Hong Kong Free Trade Pact

Hong Kong goods and a wide range of services enjoy preferential access to the Mainland market under a landmark Closer Economic Partnership Arrangement (CEPA) with the Mainland.

This free trade pact provides a new platform for businesses in Hong Kong, local and foreign-owned, to tap the vast opportunities in the Mainland.

CEPA, which came into effect in 2004, has given Hong Kong companies a head start over the competition. In some cases, the preferential market access goes beyond the Mainland's World Trade Organization (WTO) commitments.

CEPA covers three broad areas: trade in goods, trade in services, and trade and investment facilitation.

### Trade in Goods

All Hong Kong exports meeting CEPA rules of origin requirements enjoy tariff-free access to the Mainland.

CEPA has increased the competitiveness of Hong Kong goods in the Mainland. For some products, Mainland tariffs on imports from other economies remain relatively high (up to 35%).

### Trade in Services

CEPA has liberalised market access for 27 services areas. Hong Kong services suppliers now have greater access to the Mainland market ahead of China's WTO timetable.

Services areas covered by CEPA :

- accounting
- advertising
- air transport
- audiovisual
- banking
- convention and exhibition
- cultural
- distribution
- freight forwarding agencies
- individually owned stores
- information technology
- insurance
- job intermediaries
- job referral agencies
- legal
- logistics
- management consulting

### Greater Market Access

**CEPA enhances the attractiveness of Hong Kong to foreign investors wishing to gain greater access to the mainland of China. Investors can set up manufacturing processes in Hong Kong and immediately export products meeting CEPA origin rules tariff-free to the Mainland.**

**These may include brand-name products or goods with high value-added content. Or, investors may choose to manufacture products with substantial intellectual property (IP) content, thereby taking advantage of Hong Kong's legal system and IP protection regime.**



- medical and dental
- patent agencies
- professional qualification examinations
- real estate and construction
- securities and futures
- storage and warehousing
- telecommunications
- tourism
- trade mark agencies
- transport (including road freight, passenger and maritime)

In a number of key services sectors, CEPA goes beyond China's WTO commitments. For example, the entry asset threshold for Hong Kong-incorporated banks has been significantly lowered from US\$20 billion to US\$6 billion. Hong Kong movies can now enter the Mainland quota-free. Hong Kong law firms with a representative office in the Mainland are permitted to do business in association with their Mainland counterparts.

### **Trade and Investment Facilitation**

Hong Kong and the Mainland agreed to promote co-operation in eight areas:

- customs clearance
- quarantine and inspection of commodities, quality assurance and food safety
- small and medium-sized enterprises
- Chinese traditional medicine and medical products
- electronic commerce
- trade and investment promotion
- transparency in laws and regulations
- protection of intellectual property

The Mainland and Hong Kong have agreed to keep broadening and enriching CEPA through continuous discussion.

One of CEPA's major benefits is much closer economic co-operation between Hong Kong and Guangdong Province, especially the Pearl River Delta (PRD) region. The PRD has become one of the world's most dynamic and diverse manufacturing basins.

To further this economic relationship, cross-boundary co-operation has been upgraded in areas such as tourism, transport infrastructure, environmental protection and the flow of people, goods, services and capital.

The Individual Visit Scheme, part of CEPA, allows residents of 49 Mainland cities to visit Hong Kong on their own.

### **Definition of a Hong Kong Company**

Under CEPA, objective and transparent criteria are laid down on what constitutes a Hong Kong company. In brief, the criteria stipulate that to qualify for the benefits of CEPA, a company must be incorporated in Hong Kong and must engage in substantive business operations in the city.

Ownership, shareholding structure, ethnicity or nationality considerations do not figure in the definition. Under this nationality-neutral test, there is no discrimination against foreign-owned companies incorporated in Hong Kong. Hong Kong continues to offer a level playing field for all.

In most of the services categories, a company must have been operating

in Hong Kong for three to five years. Manufacturers, on the other hand, may immediately set up operations in Hong Kong and begin exporting tariff-free if their products meet the CEPA rules of origin requirements.

### **Economic Benefits**

CEPA has opened many new business opportunities for Hong Kong, giving manufacturers based in Hong Kong a boost and services companies a 'first mover' advantage. These opportunities will lead to direct and indirect economic spin-offs, including new jobs.

It is a win-win arrangement. CEPA strengthens Hong Kong's position as an international trade and business centre and as a springboard to the Mainland market. It also helps Mainland enterprises reach out to international markets.

For further details, visit the CEPA website: [www.tid.gov.hk/english/cepa/](http://www.tid.gov.hk/english/cepa/)