Policy Recommendations for Further Liberalisation and Deepening of CEPA during the 12.5 Period

Summary

During his visit to Hong Kong, Mr LI Keqiang, Vice Premier of the State Council of the People’s Republic of China (PRC), announced the objective of basically achieving full liberalisation of trade in services between the Mainland and Hong Kong through CEPA by the end of the National 12th Five-Year Plan period. Taking this objective as the starting point, this study has canvassed the views of the Hong Kong business community, and come up with policy recommendations, including 10 measures under four areas following two basic approaches, to further broaden and deepen CEPA during the 12th Five-Year Plan period.

Over the past eight years, CEPA has played a crucial role in opening the main door to the Mainland services market (i.e. broadening market liberalisation). The current challenge facing CEPA is to deepen market liberalisation (i.e. opening the so-called “small doors”).

Guangdong and Hong Kong have established close co-operation over the years, exemplified by a framework agreement on co-operation in a wide range of domains. In addition, the National 12th Five-Year Plan has identified Hengqin, Nansha and Qianhai as major projects of co-operation among Guangdong, Hong Kong and Macao. Hong Kong and Guangdong should therefore take full advantage of the Central Government’s policy for the early and pilot implementation of measures under CEPA, and try out innovative ideas about the implementation mode and mechanism of CEPA in these places. In particular, Hong Kong and Guangdong should take the lead in pursuing full liberalisation of trade in services between them.

The two basic approaches to deepen market liberalisation under CEPA are: first, the early and pilot implementation of a hybrid system of “positive and negative lists” for market liberalisation under CEPA in Guangdong and Hong Kong; and second, the early and pilot implementation of services market reforms in Guangdong. Following these basic approaches, this study proposes 10 specific measures under four areas:

1. Establishing a multi-level consultation mechanism on the early and pilot implementation of measures in Guangdong and Hong Kong. With the co-operation and authorisation of the Ministry of Commerce and the Trade and Industry Department of the HKSAR, a multi-level consultation mechanism should be established for the participation of the Guangdong Provincial Government and the relevant business organisations of the services
sectors of the two places for consultation on measures for early and pilot implementation under CEPA.

2. **Compiling negative lists of commercial presence¹ for different service sectors in accordance with their characteristics.** There are five measures under this area. Based on their impact on national economic security, service sectors can be grouped under three major categories, namely sectors with low, medium and high sensitivity. For different categories of services, the progress and extent of implementing the “negative list” system should be different. Under CEPA, the “negative list” system can first be applied to the large number of sectors with low sensitivity on a trial basis to promote full liberalisation. Restrictive measures may be retained as necessary for sectors with medium sensitivity, while no negative list is required for highly sensitive sectors.

3. **Initiating trade and investment facilitation to expand the content of liberalisation.** The three measures under this area include: promoting mutual recognition of product testing results, service standards and brands between Guangdong and Hong Kong, and progressively unifying their consumer and services markets; expanding the scope of trade and investment facilitation measures to cover products manufactured by Hong Kong businesses in the Pearl River Delta (PRD) for domestic sales; and streamlining clearance procedures for personnel travelling between the two places and offering tax incentives to Hong Kong residents who work in the PRD region on a long-term basis.

4. **Guangdong and Hong Kong taking the lead in setting up a dispute resolution mechanism for trade in services under CEPA.** It is suggested that under the guidance of the Ministry of Commerce and the Commerce and Economic Development Bureau of the HKSAR, Guangdong and Hong Kong should take the lead in setting up in Guangdong a co-ordination group for the early and pilot implementation of measures under CEPA to resolve problems that may arise in the implementation of CEPA measures.

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¹ It refers to the establishment of business operations by service providers of one economy in another economy. This is the most common form of trade in services.
## Summary of 10 specific measures

### I. Consultation mechanism

1. Allowing the participation of the Guangdong Provincial Government and the relevant business organisations of the services sectors of Guangdong and Hong Kong for consultation on measures for early and pilot implementation under CEPA.

### II. Pilot implementation of a hybrid system of “positive and negative lists” for market liberalisation under CEPA

2. At the initial stage, applying the “negative list” system to low sensitivity sectors on a trial basis under CEPA.

3. Switching from the current “positive list” system adopted in CEPA to a “negative list” system for sectors to which access is encouraged by the country.

4. Designating Nansha as a testing ground for professional services such as town planning and city construction, introducing certification of qualifications for professional services with trade associations appointed as principal certification bodies so that certified persons and companies will be permitted to practise and register for operating a business in Nansha.

5. Adopting a “negative list” system for sectors with medium sensitivity, keeping the necessary restrictive measures.

6. No “negative list” required for highly sensitive sectors.

### III. Investment and trade facilitation

7. Promoting mutual recognition of product testing results, service standards and brands between Guangdong and Hong Kong, and progressively unifying their consumer and services markets.

8. Expanding the scope of trade and investment facilitation measures to cover products manufactured by Hong Kong businesses in the PRD for domestic sales.

9. Streamlining clearance procedures for personnel travelling between Hong Kong and
the Mainland, and offering tax incentives to Hong Kong residents who work in the PRD region on a long-term basis.

IV. Dispute resolution mechanism

10. Setting up in Guangdong a co-ordination group for the early and pilot implementation of measures under CEPA to resolve problems that may arise in the implementation of CEPA measures.