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**Speech by the Hon Mrs Selina Chow Liang Shuk-ye,
GBS, JP**
**Motion Debate on Mainland / Hong Kong Closer
Economic Partnership Arrangement, 10 July 2003**



Selina Chow:

Madam President, the signing of the "Mainland/Hong Kong Closer Economic Partnership Arrangement" (CEPA) is undoubtedly good news to Hong Kong. Recently, I have talked with many people from my constituency — I am not sure which constituency to which Mr CHAN Kam-lam belongs — they all think that CEPA will help the wholesale and retail trades and many manufacturing industries in some measure.

Under CEPA, first, the threshold of average annual sales volume during the three years prior to the application of a Hong Kong company for the right to operate as a retail enterprise in the Mainland has been reduced from not less than US\$2 billion to US\$100 million; and second, Hong Kong companies are now allowed to operate as sole proprietorships in the Mainland, different from the past practice of requiring all Hong Kong businesses to look for mainland partners to form joint ventures. Insofar as operational policies are concerned, the move has undoubtedly removed many obstacles. Besides, CEPA also allows Hong Kong businessmen to operate as individual enterprises, running retail shops with business area of less than 300 sq m. This has also provided SMEs with opportunities of development.

Many Hong Kong businesses have already set up manufacturing factories in the Mainland, and they may not relocate their factories back to Hong Kong, even if we have CEPA now. However, in the case of the jewellery industry, I have conducted a study. I discover that, under CEPA, jewellery imported from Hong Kong can enjoy the zero-tariff benefit. This may prove to be a major incentive for internationally famous brand names, and they may be attracted to set up manufacturing facilities in Hong Kong. Be they European, American or Hong Kong brand names, as long as the products are manufactured in Hong Kong, even on materials from overseas countries, CEPA will provide favourable conditions for such internationally famous brand products in access to the mainland market.

However, even if these products can enjoy zero tariff under CEPA, according to some jewellers, they still have to pay 17% value-added tax and 5% consumption tax. This combined 22% tax has to be factored into the costs of the products. Furthermore, there are also some other ambiguities in taxation. They have asked some questions which I cannot

answer. So I have to ask the Secretary, but I am not sure if he can furnish me with a full reply at the present stage. For example, if a Hong Kong businessman has made a profit, how is the profits tax calculated? Can such profits be freely converted into Hong Kong dollar? If yes, would there be foreign exchange control? We hope such issues can be resolved as soon as possible. Although the retail trade now enjoys the benefit of being allowed to operate sole proprietorships, the operators worry that they still have to tackle certain administrative barriers, even though some of them have already been removed by CEPA. For example, if they want to start a shop, they will have to apply for a licence. So, even if the past problems have been removed as the operators are allowed to run their businesses as sole proprietorships, they still have to apply for a licence. In that case, are there certain administrative barriers still not yet removed? Although CEPA has made certain relaxations, there are still a whole lot of tedious formalities to handle. Such formalities have to be streamlined and well co-ordinated, so as to enable them to make good use of the benefits offered by CEPA, and be able to start their businesses as soon as possible.

Many industries of Hong Kong will benefit from CEPA. This is of course a blessing to us. However, certain industries have been left out. I believe the Secretary must have noted that I have frequently spoken for the design industry, and the Secretary is also very much concerned with them. The design industry is very successful in many different fields, including graphic design, product design, interior design, and so on. Their works have won the admiration of many enterprises in the Mainland. However, it is most disappointing to us that the three words of "the design industry" are nowhere to be found in CEPA. I think the Government and the Secretary should pay greater attention to this matter. CEPA does mention advertising, but there is no mention of "the design industry". As I have just mentioned, the design talents of Hong Kong in different fields have won praises by people in the Mainland. Prior to CEPA, they took orders on a contract basis, and they could receive their remuneration in Hong Kong dollar. However, mainland enterprises do not like this approach because they will have to pay in foreign currency. If they do not adopt the above approach, they will have to work by way of a joint venture. They strongly hope that the Secretary can negotiate for the arrangement of enabling them to set up sub-offices in the Mainland for their parent companies in Hong Kong. This would be the best arrangement for them.

The industry that has received the similar treatment as the design industry is the leather and fur industry. Not only does the leather and fur industry does well in Hong Kong, but it also occupies a prominent position in the international leather and fur market. We have very good international visions in such aspects as the purchase, professional expertise, packaging, fashion design, distributor network, and so on. We are also leaders of the latest trend, with many of our products featuring the most trendy designs. In March, I joined the Secretary in attending a

major design exhibition entitled "Style Hong Kong" organized in Beijing by the TDC. I could see that, not only did many mainland businessmen like our fashion designs, but they also welcomed the leather and fur products of Hong Kong. Now, it is most disappointing to us that CEPA has left out such products.

In fact, as I have just mentioned, many industries in Hong Kong such as the leather and fur industry, shoe-making industry, and so on, enjoy certain edges. I hope the Secretary can listen more to the views expressed by the industries in the next few months, so as to find out the items that have been left out and then include them in CEPA as soon as possible.

Thank you, Madam President.