

The Second Amendment to CEPA Brings New Prospects for Hong Kong's Economy

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KELLY MOK

ADVISORY DEPARTMENT
JAPANESE CORPORATE BANKING DIVISION
(HONG KONG)

T +852-2249-3938

E KELLY_MY_MOK@HK.MUFG.JP

MUFG Bank, Ltd.

(Incorporated in Japan with limited liability)

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On October 9, 2024, Hong Kong Chief Executive John Lee witnessed the signing of the Second Agreement Concerning Amendment to Closer Economic Partnership Arrangement (CEPA) between the Mainland and Hong Kong on Trade in Services (hereinafter referred to as Amendment Agreement II¹) by the Financial Secretary Paul Chan and Deputy China International Trade Representative of the Ministry of Commerce Li Yongjie. The Amendment will be implemented on March 1, 2025. The signing of the Amendment marks further opening up and cooperation between Hong Kong and the Mainland in trade in services, and is of great significance to the economic development and enhancement of Hong Kong's competitiveness, especially in Hong Kong's service industry and its access to the Mainland market. This article introduces the contents of Amendment Agreement II and considers its future impact on Hong Kong and its new prospects.

BACKGROUND

In November 2015, the Hong Kong government signed a services trade agreement with the Ministry of Commerce, promoting the liberalization of trade in services under the framework of CEPA between Hong Kong and the Mainland. The agreement was amended to add new liberalisation measures, aiming to enhance Hong Kong companies' participation in the Mainland market in 2019. The latest Amendment Agreement II is part of this trend, easing restrictions on Hong Kong service providers doing business in mainland China.

HIGHLIGHTS OF THE AMENDMENT AGREEMENT II

Amendment Agreement II introduces various liberalisation measures in service sectors where Hong Kong has particular strengths, such as financial services, construction and related engineering services, testing and certification, telecommunications, motion pictures, television and tourism services. These include relaxing restrictions on equity shareholding and business scope in establishing companies, relaxing qualification requirements for Hong Kong professional service providers, and easing restrictions on the export of Hong Kong services to the Mainland market. Most of the liberalisation measures apply throughout the Mainland, and some have been piloted in the GBA².

¹ [HKSAR Government and Ministry of Commerce sign Second Agreement Concerning Amendment to CEPA Agreement on Trade in Services](#)

² The Greater Bay Area (GBA) comprises the two Special Administrative Regions of Hong Kong and Macao, and the nine municipalities of Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing in Guangdong Province, forming a major economic hub in the region.

Below summarises the liberalisation measures of the Amendment Agreement II.

Field	Liberalisation measures	Anticipated effect
Construction and related engineering services	<ul style="list-style-type: none"> ■ Allow Hong Kong general practice surveying enterprises to provide professional services in Guangdong Province through filing of records ■ Allow Hong Kong engineering construction consultant enterprises that have completed filing of records to bid for consultancy services projects in joint venture in compliance with the laws in the GBA 	Strengthen the competitiveness of Hong Kong enterprises and promote their entry into the Mainland market
Motion pictures	<ul style="list-style-type: none"> ■ Remove the restriction on investment in enterprises engaging in film production by Hong Kong service providers ■ Allow enterprises established by Hong Kong service suppliers and approved by the relevant Mainland authorities to operate distribution of imported buy-out Hong Kong motion pictures 	Develop the Hong Kong film industry and promote Hong Kong films to the Mainland market
Television	<ul style="list-style-type: none"> ■ Remove the quantitative restriction on Hong Kong people participating as principal creative personnel in online television dramas ■ Allow imported dramas produced in Hong Kong to be broadcast during prime time in television stations on the Mainland after obtaining approval from the National Radio and Television Administration 	Easier access for Hong Kong creators to work in the Mainland, increase revenue and employment opportunities and deepen cultural understanding
Tourism services	<ul style="list-style-type: none"> ■ Optimise the implementation of the 144-hour visa-exemption policy for foreign group tours entering Guangdong from Hong Kong through increasing the number of inbound control points and expanding the stay areas to the whole of Guangdong Province ■ Provide facilitation for Mainland travel agents when receiving group tours at West Kowloon Station of the High-Speed Rail ■ Support cruise companies to arrange international cruise itineraries involving port-of-call in the Mainland cruise ports in accordance with the laws ■ In respect of Mainland visitors participating in such cruise itineraries, they can travel to Hong Kong in transit to join all sorts of cruise itineraries, by presenting their passports and confirmation documents of the relevant cruise itineraries 	Tourism promotion, revitalization of tourism industry in Guangdong Province
Financial services	<ul style="list-style-type: none"> ■ Remove the asset requirement of not less than US\$2 billion as at the end of the most recent year for Hong Kong financial institutions investing in shares of insurance companies ■ Remove the restriction prohibiting foreign bank branches established by Hong Kong service suppliers from conducting bank cards services ■ Consider extending the scope of eligible products under the mutual market access programme by including REITs (Real Estate Investment Trusts) ■ Promote and enhance the Cross-boundary Wealth Management Connect Pilot Scheme and the Mainland-Hong Kong Mutual Recognition of Funds scheme ■ Promote the cross-listing arrangement of the Mainland and Hong Kong ETF (open-ended index-tracking exchange-traded funds) as well as enhance Southbound Trading and Northbound Trading under Bond Connect³ 	Improve the competitiveness of Hong Kong's financial institutions, diversify asset management, and strengthen access to international financial markets

³ Bond Connect is an innovative mutual market access scheme that enables investors from Mainland China and overseas to trade in each other's bond markets through connection between the related Mainland and Hong Kong financial infrastructure institutions.

INSTITUTIONAL INNOVATION AND COLLABORATION ENHANCEMENT

The Amendment Agreement II also introduces institutional innovation and collaboration enhancements aiming at promoting Hong Kong's economic development and maximizing its roles as a "super-connector" and "super value-adder".

Institutional innovation	Content	Anticipated effects
Facilitation measures for Hong Kong investors	<ul style="list-style-type: none"> ■ Allow Hong Kong-invested enterprises to adopt Hong Kong law" and "allow Hong Kong-invested enterprises to choose for arbitration to be seated in Hong Kong" as facilitation measures for Hong Kong investors ■ Support Hong Kong-invested enterprises registered in the pilot municipalities in the GBA to adopt Hong Kong law or Macao law as the applicable law in their contracts ■ Support Hong Kong-invested enterprises registered in the GBA to choose Hong Kong or Macao as the seat of arbitration 	Provide flexibility and convenience to Hong Kong companies, facilitate their investment and business development in mainland China
Local regulation commitment	<ul style="list-style-type: none"> ■ Add commitments regarding domestic regulation to ensure transparency, predictability and efficiency of regulations on trade in services ■ Align with high-standard international economic and trade rules, cut red tape and lower trade costs when enterprises supply their services in a market to facilitate trade in services 	Reduce trade costs for companies and promote trade in services
Removal of the operation period requirement	<ul style="list-style-type: none"> ■ Remove the period requirement on Hong Kong service suppliers to engage in substantive business operations in Hong Kong for three years in most service sectors ■ Allow Hong Kong start-ups to enjoy the preferential treatment under CEPA in a shorter time and attract enterprises and talents from around the world to establish a presence in Hong Kong and explore the Mainland market 	Increase local employment, facilitate Hong Kong's economic development and give full play to Hong Kong's roles as a "super-connector" and "super value-adder"

COMMENTS

Hong Kong has been maintaining its own economic and legal system under "one country, two systems", yet strengthening economic ties with mainland China is essential for Hong Kong's sustainable development. The Amendment Agreement II is expected to have a wide range of positive effects on Hong Kong's economy.

In particular, the service industry is an important pillar of Hong Kong's economy, and growth is expected in a wide range of fields, including financial services, tourism, motion pictures, and construction. By easing regulations and introducing new liberalisation measures in these fields, Amendment Agreement II will play an important role in creating an environment with easier access into the Mainland market for Hong Kong service providers. It will also pave the way for promoting "one country, two systems and three jurisdictions" with new systems. This will enable Hong Kong companies and Japanese companies in Hong Kong to expand business opportunities by direct access to Mainland consumer markets.

In addition, the Amendment Agreement II is expected to not only enhance the competitiveness of Hong Kong's service providers, but also contribute to the Mainland's dual circulation strategy. The supply of Hong Kong's professional services to the Mainland market will promote the Mainland's industrial structure upgrading and diversification of its economy, building a mutually beneficial relationship.

Moreover, the Amendment Agreement II is a milestone step forward for Hong Kong as it seeks to strengthen its position as an international financial centre and business hub, also to increase Hong Kong's appeal to overseas investors in terms of transparency and stability of Hong Kong's legal system. As such, the Amendment Agreement II is an important initiative to deepen economic relations between Hong Kong and the Mainland and promote economic growth in both regions.

	Publish date	Title
No.2 2024	2024/10/23	Tax Incentives for Intellectual Property Income –Patent Box Regime
No.1 2024	2024/4/30	Hong Kong Budget 2024/25
No.4 2023	2023/12/13	Tax Certainty Enhancement Scheme

- Please refer to the below links for previous News Focus:

(English) https://www.bk.mufg.jp/report/chi200402/Archive_ENG.pdf

(Japanese) https://www.bk.mufg.jp/report/chi200402/Archive_JPN.pdf

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