

# CLOSER ECONOMIC PARTNERSHIP ARRANGEMENT (Cepa)

## WHAT IS CEPA?

- A free trade agreement<sup>1</sup> between Hong Kong and mainland China (China's *first* FTA)
- Effective from 1 January 2004
- Significant China market liberalisation (for goods and services)
- Preferential access to China's market from Hong Kong
- Offers better deal than China's WTO commitments
- Strengthens Hong Kong as your platform for China business

## WHAT DOES IT MEAN?

- Zero tariffs on 90% of Hong Kong exports to China
- Faster/easier market access for 18 service sectors
- Lower entry thresholds for smaller players (capital/trading history requirements)
- 100% ownership of many China ventures
- Makes Hong Kong the simplest, most profitable route into/out of China
- Manufacturers in China able to use Hong Kong services

## WHO QUALIFIES?

Service providers (in 17 Cepa-eligible areas):

- *Company* must be incorporated in Hong Kong
- Doing business in Hong Kong for past 3-5 years
- Liable for Hong Kong profits tax
- Employing 50% of staff locally
- Any nationality or size of company can be eligible

Manufacturers/distributors of goods (273 categories of goods covered):

- *Goods* must qualify as "made in Hong Kong"
- Not necessary for *company* to be based in Hong Kong
- To qualify, goods must be "substantially transformed" – 30% of value must be added in Hong Kong (includes R&D, design costs)

## HOW CAN OVERSEAS COMPANIES TAKE ADVANTAGE?

Service companies

- *Partner* with, *invest* in, or *buy* into a Cepa-qualified firm in Hong Kong

Manufacturers or traders of goods

- *Partner* with, or *outsource* to, a Hong Kong manufacturer (no need to be based in Hong Kong)

---

<sup>1</sup> **What is the difference between a Free Trade Agreement and a Closer Economic Partnership Arrangement?** Normally FTAs are signed between two countries. Because of the 'one country, two systems' between the Chinese mainland and Hong Kong, a *new* name has been used. In all other ways Cepa is a FTA.