Hong Kong General Chamber of Commerce
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Chamber Press Release

CEPA Zero Tariffs May Create up to 9,000 Manufacturing Jobs

CEPA Job benefits

The Hong Kong General Chamber of Commerce (HKGCC) calculates that, if Mainland China will abolish tariffs for "Made in Hong Kong" goods under the Closer Economic Partnership Arrangement (CEPA), between 4,500 to 9,000 jobs in manufacturing may be created here.

"We made this calculation by looking at how tariff abolition affects China's import figures and investments in Hong Kong, which in turn impacts on job creation. We stress that 4,500-9,000 is an estimate only. But whatever the final number, it will provide a boost to our manufacturing industries and to the wider economy in general," said Dr Eden Woon, HKGCC Director. "We urge the Central Government and the SAR Government to include zero tariffs in the first phase of CEPA consultation, which hopefully can be concluded before the end of this year. Then we can begin to see an impact of CEPA on the employment picture here at an early date. This jobs-benefit can last for some time since zero tariff is not offered by China to other WTO members and would only be available to Hong Kong under a WTO-recognized CEPA. Of course, progress in CEPA on early liberalization of services should continue to be pursued, which will bring substantial benefits to Hong Kong."

One result of tariff reduction will be to enlarge the China market. "Zero tariff will encourage the supplier to produce more. It also offers room for price to be lowered in the Mainland, which will in turn raise demand in the China market," explained Dr Woon. Hong Kong producers will thus have the opportunity to capture a bigger market share in the larger China market.

The Chamber's figure is derived in several different ways. For the lower figure, we estimate around 4,500 jobs will be generated from the total tariff savings of HK$4.3 billion and the average value added per worker in Hong Kong manufacturing. For the upper figure, we estimate around 9,000 jobs are created because of additional Hong Kong export to China which will generated. China's total dollar value for imported goods currently stands at HK$1,812 billion. The Chamber estimated that tariff abolition for Hong Kong goods could enlarge this value by up to $102 billion. While the original share of Hong Kong's domestic exports among Chinese imports is about 3%, tariff reduction could enable Hong Kong manufacturers to gain 8.4% from the increase of import by China. This would generate an additional production of around $8.6 billion in Hong Kong, which is equivalent to about 9,000 jobs.

Types of industries to benefit

The Chamber also used a third method to analyze the impact on Hong Kong's exports to the Mainland, with estimated job creation number lying between the upper and lower figures described above. But this method yielded more specific information on the types of industries to benefit. The Chamber identified and examined 462 "high-tariff" goods, i.e. those with tariff rate of 20% or higher even after China follows through on all its WTO tariff concessions. It includes 221 high-tariff products, for which there is currently no export from Hong Kong.

Four industries have been identified as being the most probable beneficiaries of the zero-tariff regime. These are **(1) textiles, (2) hats and headgear, (3) jewelry, and (4) spectacles**. Not all products within these industries are relevant, however; those which are likely to benefit are identified using the following five criteria:

i. strength of the current industry
ii. proportion of export to the Mainland
iii. the level of tariff
iv. the presence of "nearby industries"
v. comparative advantage of the industry in Hong Kong

For the four industries in question, the high-tariff products most likely to benefit are as follows:

Industry	*Products*
Textiles	• Women's or girls' overcoats, car-coats, capes, cloaks, anoraks, ski-jackets, wind-jackets and similar articles of wool or fine animal hair, knitted or crocheted • Men's or boys' suits of wool, fine animal hair or synthetic fiber, knitted or crocheted • Men's or boys' ensembles of cotton or synthetic fiber, knitted or crocheted • Women's or girls' suits or ensembles of synthetic fibers, knitted or crocheted
Hats and headgear	• Hats and other headgear, knitted or crocheted
Jewelry	• Gold or silver jewelry with or without precious metal • Jewelry made of metal and clad with precious metal • Design jewelry of various combinations: gold, silver, precious metal, pearl, precious or semi-precious stones • Cuff links with or without precious metal • Imitation jewelry
Spectacles	• Spectacle Lenses • Sunglasses • Specialized spectacles: goggles, corrective or protective spectacles, etc.

In addition, there may also be potential for increase export in certain specialized products in the following industries:

- Foodstuffs: sauces and condiments
- Leather and handbags: leather cases, bags, gloves and accessories
- Metallic products: small iron cast design-articles
- Personal care and light appliances
- Clocks and watches
- Buttons and zips

The above are industries *with potential* for growth from tariff reduction. It should be emphasized that the growth may not materialize in all of them, as these industries will be competing for investment and labor.

"The industries we have identified are all from traditional sectors. Job creation in these industries will be beneficial for 'traditional workers', especially the middle-aged semi-skilled workers who are under pressure from economic restructuring," said Dr Woon. "It should be noted, however, that the products to benefit for these traditional industries are those with a bigger degree of design and innovation, e.g. jewelry, specialized spectacles, ensembles, designer hats."

Estimates only, but sure benefits

If 9,000 jobs are created, that is equivalent to 0.28% of the labor force, or 3.9% of the manufacturing workforce. They will be accompanied by an estimated additional investment of $5.9 billion in manufacturing industries, and contribute to a modest increase of 0.22% in GDP.

But Dr Woon cautions against reading too much into the figures. "We know the manufacturing industries will benefit; we know some jobs will be created; but we also know it will not be large scale. The point is not about distributing these jobs among different industries, but to leverage upon CEPA to foster closer economic integration between Hong Kong and the Mainland so that everybody will eventually benefit," explained Dr Woon. "For instance, we have not counted the jobs which may be created as a result of more support services in trade, transport and logistics, which could be substantial."

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