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JOINT REPORT TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Hong Kong Special Administrative Region

Annual Report for 2022

JOINT REPORT TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

HONG KONG SPECIAL ADMINISTRATIVE REGION

ANNUAL REPORT FOR 2022

Summary

Since Hong Kong's handover to the People's Republic of China (PRC) in 1997, the European Union (EU) and its Member States have closely followed political and economic developments in the Hong Kong Special Administrative Region (SAR).

In line with the commitment given to the European Parliament in 1997, the Commission and the High Representative issue an annual report on developments in Hong Kong with a particular focus on the implementation of the 'one country, two systems' principle and on Hong Kong's autonomy as stated in the Basic Law.

This is the 25th report, covering 2022. The year was marked by: (i) the 25th anniversary of the handover of Hong Kong to China, with the visit of President Xi Jinping; (ii) the second anniversary of the imposition of the National Security Law (NSL) on Hong Kong; and (iii) the swearing-in of John Lee, the first Chief Executive to be selected after the implementation of sweeping changes to Hong Kong's electoral system. John Lee was the sole candidate. In parallel, 2022 saw the continuing erosion of Hong Kong's high degree of autonomy and of rights and freedoms that were meant to be protected until at least 2047.

The year was also marked by the far-reaching implementation of the NSL. Trials of pro-democracy activists and politicians continued to intensify. Many people were awaiting trial, including 47 pro-democracy activists who participated in a primary election, members of the now-disbanded Hong Kong Alliance in Support of Patriotic Democratic Movements of China, media tycoon Jimmy Lai and many others. Many of them have been held in custody since January 2021, in some cases in solitary confinement. The colonial-era sedition law was repeatedly used in national security cases. In July, the United Nations Human Rights Committee in its fourth periodic review under the International Covenant on Civil and Political Rights in Hong Kong called for the repealing of both the NSL and the sedition law.

Although Hong Kong still enjoys internet freedom, the authorities blocked sensitive online content, such as the website of Hong Kong Watch, in February 2022. Several other laws threaten internet freedom, such as the ‘anti-doxxing’ law and the copyright law.

On 28 November, the Chief Executive requested the Standing Committee of the National People’s Congress to interpret the NSL for the first time.

These developments increasingly cast doubt on the state of the rule of law in Hong Kong – a cornerstone of its economic success.

The EU has publicly and privately raised concerns about developments in Hong Kong.

The High Representative issued the following declaration on behalf of the EU relating to Hong Kong:

8 May – declaration on the Chief Executive election held on 8 May¹.

The High Representative issued the following tweet relating to Hong Kong:

12 May – tweet on the arrests of Denise Ho, Hui Po-keung, Margaret Ng and Cardinal Joseph Zen².

The EU Spokesperson’s statement on Hong Kong covered the following:

28 July – statement on civil and political rights³.

The EU Spokesperson’s tweets on Hong Kong covered the following:

4 January – tweet on the closure of Citizen News⁴;

16 March – tweet on Hong Kong Watch as the first foreign organisation to receive a warning from the national security police⁵;

¹ Declaration by the High Representative on behalf of the European Union on the Chief Executive election held on 8 May, Council of the EU, 8 May 2022, available at: <https://www.consilium.europa.eu/en/press/press-releases/2022/05/08/hong-kong-declaration-by-the-high-representative-on-behalf-of-the-european-union-on-the-chief-executive-election-held-on-8-may/>

² Tweet by the High Representative on the arrests of Cardinal Joseph Zen, Margaret Ng, Denise Ho and Hui Po-keung, 12 May 2022, available at: https://twitter.com/josepborrell/status/1524463674278264834?s=21&t=waWDgBNVJ77GO5_t9QmZ-g.

³ Statement by the Spokesperson on civil and political rights, European External Action Service, 28 July 2022, available at: https://www.eeas.europa.eu/eeas/hong-kong-statement-spokesperson-civil-and-political-rights_en.

⁴ Tweet by the Spokesperson on the closure of Citizen News, European External Action Service, 4 January 2022, available at: <https://twitter.com/nabilauspox/status/1478056509825327109?s=21>.

1 July – tweet on the 25th anniversary of the establishment of the Hong Kong SAR⁶.

Following the selection of the Chief Executive, the foreign ministers of the G7 issued a joint statement on Hong Kong on 9 May

The EU raised its concerns on Hong Kong's fundamental freedoms and degree of autonomy with the Chinese leadership at the EU-China Summit held on 1 April 2022, and at a Leaders' meeting held on 1 December 2022.

In 2022, the European Parliament adopted two resolutions on Hong Kong, as set out below.

On 20 January, the European Parliament adopted a resolution on violations of fundamental freedoms in Hong Kong. The resolution 'condemns in the strongest terms the fact that freedom of expression, freedom of association and freedom of the press are as severely restricted in Hong Kong as they are in China, and reiterates its solidarity with the people of Hong Kong in their fight for freedom and democracy'.

On 7 July, the European Parliament adopted a resolution on the arrest of Cardinal Zen and the trustees of the 612 Humanitarian Relief Fund in Hong Kong. The resolution 'condemns the arrests of Cardinal Joseph Zen, one of the strongest advocates of the city's pro-democracy movement, and of the other four trustees of the 612 Humanitarian Relief Fund in Hong Kong, which constitute an attack on the freedoms guaranteed in the Hong Kong Basic Law, including the freedom of religion or belief'.

Hong Kong's economy fell back into recession in 2022, even though travel and health restrictions were gradually relaxed in the second part of the year. Hong Kong remained the world's third-largest investment destination and was the world's fifth-largest trading economy. The number of EU companies decreased by 0.9% year-on-year (y-o-y) between June 2021 and June 2022 (to 1 600). Still, EU companies were amongst the more resilient since the start of the pandemic (with a decrease in number of only 0.2% from June 2019) and remained the largest non-Chinese business community in Hong Kong. The EU

⁵ Tweet on Hong Kong Watch as the first foreign organisation to receive a warning from the National Security Police, European External Action Service, 16 March 2022, available at: <https://twitter.com/nabilauspox/status/1504029166622191616?s=21>.

⁶ Tweet on the 25th anniversary of the establishment of the Hong Kong Special Administrative Region, European External Action Service, 1 July 2022, available at: <https://twitter.com/NabilaEUspox/status/1542747257639952384>.

was Hong Kong's third-largest trading partner in goods in the 10 first months of 2022, after mainland China and Taiwan.

Hong Kong's economy contracted by 3.3% y-o-y⁷ in the first 9 months of 2022. The financial industry and the trade and logistics industry faced increased headwinds during the year, while industries with exposure to tourist spending continued to underperform.

Official data from the Census and Statistics Department shows that Hong Kong has experienced the largest population drop since tracking began in 1961. Around 116 600 people aged between 18 and 39 have left in the past 2 years. As a result, the population decreased by 121 500 – or 1.6% y-o-y – between June 2021 and June 2022 (95 000 due to a net outflow of residents and 26 500 due to deaths surpassing births)⁸.

Overview of the COVID-19 situation and developments

At the beginning of the year, the government strengthened the measures in place to curb the COVID-19 outbreak. These measures isolated Hong Kong from the rest of the world, as they included a flight suspension mechanism, a transit ban covering more than 100 countries and territories including France⁹, and 3 weeks of hotel quarantine for incoming travellers. The restrictions affected both daily life and the economy, with limitations on social life, the implementation of a health code, and the introduction of a digital tracing app. The peak of the fifth wave was reached in March, as Hong Kong recorded more than 58 000 confirmed cases a day. After the pandemic situation gradually improved and a new administration took office on 1 July, the government took steps to gradually return to normality.

I. Political and social developments

Political developments

The year marked the **25th anniversary of the handover of Hong Kong** from the United Kingdom to the PRC. Under the principle of 'one country, two systems', the economic system and way of life of Hong Kong should remain

⁷ Press release: *Advance estimates on Gross Domestic Product for third quarter of 2021*, 1 November 2021, Census and Statistics Department of the Hong Kong Special Administrative Region, available at: https://www.censtatd.gov.hk/en/press_release_detail.html?id=4917.

⁸ Press release: *Mid-year population for 2022*, 11 August 2022, Census and Statistics Department of the Hong Kong Special Administrative Region, available at: https://www.censtatd.gov.hk/en/press_release_detail.html?id=5078.

⁹ France was the only EU Member State affected by this measure.

unchanged for 50 years, as stipulated in the Sino-British Joint Declaration. On 1 July, President Xi Jinping indicated for the first time that the ‘one country, two systems’ principle could remain in force beyond 2047, under China’s comprehensive jurisdiction.

The Sino-British declaration envisaged that Hong Kong would enjoy a ‘high degree of autonomy’ as an SAR and that Hong Kong people would rule Hong Kong.

A 2021 electoral overhaul aimed to ensure that ‘patriots administer Hong Kong’. The first **election of the Chief Executive** since the overhaul took place on 8 May. Former police officer and Chief Secretary for Administration John Lee was the only candidate in the race. The COVID-19 restrictions disrupted the electoral schedule. On 18 February, the Chief Executive at the time, Carrie Lam, announced that the election would be postponed by 6 weeks, from 27 March to 8 May, citing President Xi Jinping’s instruction to control the COVID-19 situation and invoking the Emergency Regulations Ordinance.

After the nomination period started on 3 April, Chief Executive Carrie Lam stated that she would not seek re-election. On 6 April, the Liaison Office of the Central People’s Government in Hong Kong signalled in a meeting with political elites that it supported John Lee. The same day, John Lee resigned from his position as Chief Secretary for the Administration and declared his intention to run for office. On 7 April, the State Council of the Central People’s Government accepted John Lee’s resignation in accordance with the Basic Law. On 9 April, John Lee formed a campaign team and organised a virtual media event to declare his candidacy.

In 1 day, John Lee received around 300 nominations covering all 5 sectors of the revamped 1 463-strong Election Committee, surpassing the required threshold of 188, and close to his stated goal of 500. On 16 April, the nomination period ended: he had gathered 786 nominations. Two days later, the Candidate Eligibility Review Committee confirmed John Lee’s candidacy, declaring him the sole candidate.

This one-person race followed the model of Macao, where there has always been only one candidate for the selection of the Chief Executive.

During the election campaign, John Lee and his team failed to file copies of three consent-of-support forms within the time specified by the electoral affairs commission, an offence carrying a maximum sentence of 6 months in prison and a penalty of HKD 5 000 (EUR 594.5). In August, the High Court ruled that

the breach was a result of inadvertence and that there was no bad faith. John Lee was not fined.

On 8 May, John Lee secured 1 416 votes, or 99.2% of the valid votes, from the members of the Election Committee. Eight members voted against him while another four cast blank ballots. On 30 May, he received a certificate of appointment as the sixth-term Chief Executive from Premier Li Keqiang and on 1 July, he was sworn in by President Xi Jinping.

The Chief Executive restructured the government in line with his political priorities. He created three new positions: Deputy Chief Secretary for Administration, Deputy Financial Secretary, and Deputy Secretary for Justice. He also set up a new Culture, Sports and Tourism Bureau, divided the Transport and Housing Bureau into the Transport and Logistics Bureau and the Housing Bureau, and strengthened the Home Affairs Bureau, which became the Home and Youth Affairs Bureau.

Soon after the new government was formed, senior government officials, including Chief Executive John Lee and Financial Secretary Paul Chan, led delegations abroad in line with China's 'Belt and Road' strategy. They paid visits to Middle Eastern countries, in particular Saudi Arabia, and Southeast Asia. In November, Paul Chan attended the G20 meeting in Bali as a member of the Chinese delegation, while Chief Executive John Lee led a delegation to attend the Asia Pacific Economic Cooperation Forum in Thailand, to promote the image of Hong Kong, as the territory was reopening to the world.

On 19 October, John Lee delivered his first policy address to the Legislative Council. He unveiled a series of measures on the recovery of Hong Kong, such as talent schemes that aim to attract 35 000 professionals annually over the next 3 years; the set-up of an Office for Attracting Strategic Enterprises; and the launch of a HKD 30 billion (EUR 3.7 billion) co-investment fund to attract investment from strategic businesses. He also announced the set-up of dedicated teams in the 17 mainland and overseas Economic and Trade Offices of Hong Kong, to reach out to businesses and professionals.

The government waived the extra property stamp duties for foreigners who have resided in Hong Kong for 7 years and who are permanent residents. John Lee unveiled an ambitious target to reduce the waiting time for renting public housing from the existing level of about 6 years to about 4.5 years in 4 years' time.

On 18 December, the by-election for the Legislative Council Election Committee constituency took place to fill four seats of the Election Committee

vacated by former members of the Legislative Council appointed to the government. This was the fourth by-election under the principle of ‘patriots administering Hong Kong’ established by the 2021 electoral overhaul. The electoral base consisted of 1 441 people. The turnout was 90.7%. No member of the pro-democracy camp participated in the election.

Hong Kong fell three places in the Economist Intelligence Unit’s **global democracy index**, ranking 88th among 167 countries and territories. The space for pro-democracy political groups shrank. In December, the chairperson of the Civic Party, once the second-largest party in the Legislative Council, announced that the party would have to dissolve.

Impact of the COVID-19 pandemic

At the beginning of the year, the government **strengthened measures** to curb the fifth wave of the COVID-19 outbreak, implementing three-week-long quarantine in hotels for inbound travellers, a strict flight suspension mechanism, and a transit ban covering more than 100 countries and territories including France, thereby isolating Hong Kong from the rest of the world. Large isolation facilities were built with a total capacity of 40 000 beds, as the authorities pledged to implement a ‘dynamic zero-COVID policy’ similar to that of mainland China. Local compulsory testing and lockdowns were introduced. There were cases of separation of young children including babies from their parents. The government applied strict social distancing measures including online schooling and restrictions on restaurants, while sports centres, cinemas and public spaces closed.

The EU Office wrote several letters to the government, expressing concerns about the impact of these policies, as it was estimated that around 10% of EU nationals resident in Hong Kong had left due to the strict policies.

The central government provided guidance in the fight against the pandemic signalling that it was a matter of national security. On 16 February, media quoted Xi Jinping in his capacity of General Secretary of the Communist Party of China, instructing Hong Kong leaders to make controlling the pandemic their overriding priority. The government of Hong Kong set up five task forces with the central government. The local government invoked the Emergency Regulations Ordinance to allow mainland Chinese medical professionals to treat COVID-19 patients without applying for a local licence, and allowed a mainland Chinese medicine to bypass the local registration mechanism.

After 1 July, the government gradually lifted inbound travel restrictions and the flight suspension mechanism and reduced the length of the compulsory hotel

quarantine. In October, centralised hotel isolation for inbound travellers was replaced by home quarantine. Until the end of the year, measures including medical surveillance and COVID-19 tests remained in place. The public gathering limit increased to 12 from 4.

Implementation of national security laws

Law enforcement agencies continued to make arrests on national security grounds. According to the Security Bureau, 236 people had been arrested under the NSL as of 31 December 2022¹⁰. The authorities have pressed charges against 145 individuals and 5 companies. The conviction rate is 100%. The maximum sentence under the NSL is life imprisonment.

The extra-territorial dimension of the NSL started to be implemented. Starting from February, internet service providers blocked the website of the UK-based rights group Hong Kong Watch. The following month, Hong Kong Watch became the first group outside Hong Kong to have received a warning from the national security police. In October, the website of the US-based rights group Hong Kong Democracy Council was no longer accessible from Hong Kong.

Members of civil society abroad have received warnings from the authorities. In April, a former legislator in exile received a property restraint order, prohibiting him and several family members from dealing with their assets in the city. There was a report of an activist in exile who was warned that she could face arrest upon return to Hong Kong and whose family had been summoned by the police for questioning¹¹.

The eight publicly-funded universities announced plans to introduce national security courses. Secondary and primary schools received guidelines to remove publications that could violate the NSL. A secondary school suspended 14 students who did not attend a flag-raising ceremony¹². Foreign native-speaking English teachers working in public schools had to sign a declaration of allegiance to the Basic Law.

The colonial-era sedition law, which had remained unused until March 2020, was regularly used in 2022. Around one fifth of the arrests made by the national security police are made under this law. On 1 November, one EU national was arrested under the law. At a later stage, the authorities claimed that the man was a Chinese national and that, therefore, he was not allowed consular assistance.

The personal data ordinance of 2021, known as the ‘anti-doxxing’ law, was applied extensively. The Commissioner for Personal Data revealed that since the law came into effect in October 2021, her office had issued more than 770

¹⁰ <https://www.info.gov.hk/gia/general/202302/14/P2023021400644.htm>

¹¹ <https://www.rfa.org/cantonese/news/hk-relative-11222022024155.html>

¹² <https://www.thestandard.com.hk/breaking-news/section/4/195744/School-suspends-14-students-for-%E2%80%98disrespectful-behavior%E2%80%99-during-national-anthem-and-flag-raising-ceremony>

‘cessation notices’ to 14 social media platforms, demanding the removal of around 3 900 messages¹³.

The introduction of the announced national security legislation under Article 23 of the Basic Law has been delayed. In addition to the four offences under the NSL, Article 23 legislation is expected to outlaw treason, sedition, theft of state secrets, foreign political organisations or bodies conducting political activities, and political organisations or bodies of Hong Kong establishing ties with foreign political organisations or bodies.

Judicial proceedings

Judicial proceedings under the NSL continued.

The mass **trial of 47** lawmakers and activists who participated in a primary election in 2020 is the NSL case with the largest number of defendants so far. The formal trial in the High Court, scheduled for early 2023, could last for months. The prosecutor accused the 47 lawmakers and activists of ‘conspiracy to subversion’ under the NSL; they face up to life imprisonment. As the court denied bail to most of the defendants in March 2021, many of them have remained in custody since January 2021, in some cases in solitary confinement. Those who are on bail have to abide by strict conditions, including a ban on speaking to media or diplomats. In January and March, respectively, the court revoked the bail of two defendants after concluding that their social media posts could endanger national security. The Secretary for Justice promised to address concerns over delays in the prosecution of the case. In August, the Secretary for Justice ordered a panel of three designated judges under the NSL to hear the case, instead of granting a jury trial, invoking the involvement of foreign elements and the personal safety of jurors and their family members.

Two cases against the **Hong Kong Alliance in Support of Patriotic Democratic Movements of China** (the ‘Alliance’) entered the trial stage in 2022. The group had organised the annual candlelight vigil to commemorate the Tiananmen massacre. The Alliance’s former vice-president Chow Hang-tung has been in prison since September 2021. In one of the cases, the prosecutor accused the Alliance and its core members (Chow Hang-tung, Lee Cheuk-yan, and Albert Ho) of incitement to subversion with a maximum penalty of life imprisonment. The case is with the High Court, pending final confirmation of its hearing schedule. The three defendants pleaded not guilty. One of the

¹³ <https://hongkongfp.com/2022/06/14/hong-kong-watchdog-told-14-social-media-sites-to-remove-3900-doxxing-items-in-8-months/>

defendants, Chow Hang-tung, who is defending herself, won a legal battle to lift reporting restrictions¹⁴ in August 2022.

In the second case, the prosecutor accused the Alliance of not complying with a request to provide information issued by the national security police in August 2021. During the hearing, the prosecutor accused the group of being a ‘foreign agent’ but refused to identify the country or foreign entity involved. The prosecutor redacted a large part of the information, preventing the three former standing committee members of the Alliance from arguing and cross-examining witnesses in court. The judge banned Chow Hang-tung from calling the violent crackdown of 1989 the ‘Tiananmen massacre’. The maximum penalty is 6 months of imprisonment.

On 14 December, the High Court acquitted Chow Hang-tung of the charge of inciting an unauthorised assembly (the 2021 Tiananmen vigil) and revoked the 15-month imprisonment sentence handed to her in January 2021.

In the NSL and sedition case involving media tycoon **Jimmy Lai**, six former Apple Daily journalists pleaded guilty while Jimmy Lai and the three Apple Daily-related companies pleaded not guilty. The prosecutor accused them of ‘conspiracy to commit collusion with a foreign country or with external elements to endanger national security’ and ‘conspiracy to print, publish, sell, offer for sale, distribute, display and/or reproduce seditious publications’. The maximum penalty is life imprisonment.

After the Court of Final Appeal ruled that Jimmy Lai could hire a foreign lawyer to defend him in court, Chief Executive John Lee requested the National People’s Congress Standing Committee (NPCSC) to interpret the NSL, to see if hiring a foreign lawyer could go against the ‘objective’ and the ‘legislative intent’ of the law. On 30 December, the NPCSC adopted an interpretation of Articles 14 and 47 of the NSL, stating that in national security cases, the Chief Executive and the Committee for Safeguarding National Security could decide if a defendant could hire overseas lawyers¹⁵. This was the first interpretation of the NSL by the NPCSC. Regardless of the specific case of Jimmy Lai, this interpretation of the NSL gives the Chief Executive and the Committee for Safeguarding National Security the powers to take decisions on individual court cases without the possibility to challenge the decision by judicial review. This could potentially undermine the independence of the judiciary and thus affect

¹⁴ Hong Kong’s Magistrate’s Ordinance bans reporting on committal proceedings, but the ban can be lifted by the magistrate upon request by the accused.

¹⁵ http://www.news.cn/2022-12/30/c_1129245755.htm

confidence in the rule of law. The trial of Jimmy Lai was postponed to 25 September 2023, as the government is amending the Legal Practitioners Ordinance following the NPCSC ruling.

In a separate case, the District Court ruled that Jimmy Lai had violated the terms of the lease of his media company's headquarters by concealing the consultancy firm operating in the same location¹⁶. The judge sentenced Jimmy Lai to 5 years and 9 months in prison, and fined him HKD 2 million (EUR 241 570)¹⁷.

The case of the **612 Humanitarian Relief Fund** (the 'Fund') involved former lawmaker Cyd Ho, singer Denise Ho, scholar Hui Po-keung, barrister Margaret Ng, 92 year-old Cardinal Joseph Zen, and the Fund's secretary Sze Ching-wee. They were arrested between 10 and 12 May. At the time of his arrest, Hui was leaving the city to take up a teaching post at a university in the EU.

The Fund, set up in June 2019, provided financial aid to those who were hurt or arrested during the 2019 protests. It ceased operations in October 2021 after the national security police stated that it was a subject of investigation. The Vatican declared to be 'following the development of the situation with extreme attention'¹⁸. The court ruled that trustees of the Fund had failed to apply for registration or exemption from registration within the specified time, an offence with a maximum penalty of HKD 10 000 (EUR 1 269). The five trustees received a fine of HKD 4 000 (EUR 490) each, while the secretary had to pay HKD 2 500 (EUR 305). The five trustees have filed an appeal.

The assets of **Spark Alliance**, another platform providing financial aid during the 2019 protests, were confiscated. The High Court approved the seizure of HKD 70 million (EUR 8.89 million) of 'crime proceeds.' The police accused the arrested of using the funds for other purposes than those claimed¹⁹.

The year also saw the first **sentencing of minors** under the NSL, which has 'alarmed' the UN High Commissioner for Human Rights²⁰. In October, the court sentenced four teenagers aged 16 to 19 to up to 3 years detention at a correctional facility. The four pleaded guilty for conspiring to incite subversion.

On 30 March, the President of the UK Supreme Court, Lord Reed, and his colleague Lord Hodge submitted their resignations as non-permanent judges

¹⁶ https://legalref.judiciary.hk/doc/judg/html/vetted/other/ch/2021/DCCC000349_2021_files/DCCC000349_2021ES.htm

¹⁷ https://legalref.judiciary.hk/doc/judg/html/vetted/other/ch/2021/DCCC000349A_2021_files/DCCC000349A_2021ES.htm

¹⁸ <https://www.vaticannews.va/en/pope/news/2022-05/cardinal-zen-arrested-in-hong-kong-holy-see-expresses-concern.html>

¹⁹ [https://www.thestandard.com.hk/breaking-news/section/4/195125/HK\\$70m-confiscated-from-fundraising-platform-for-HK-protesters](https://www.thestandard.com.hk/breaking-news/section/4/195125/HK$70m-confiscated-from-fundraising-platform-for-HK-protesters)

²⁰ <https://www.ohchr.org/en/press-briefing-notes/2022/10/alarm-sentencing-under-national-security-law>

from the Hong Kong Court of Final Appeal. Lord Reed stated that ‘the judges of the Supreme court cannot continue to sit in Hong Kong without appearing to endorse an administration that had departed from values of political freedom, and freedom of expression, to which the Justices of the Supreme Court are deeply committed’. Ten overseas judges continued sitting on the bench of the Court of Final Appeal. All of them have retired from their official positions.

International responses

On 28 May, **UN High Commissioner for Human Rights** Michelle Bachelet issued a statement following her official visit to China. She called on the government to ‘nurture and not stifle’ the tremendous potential for civil society and academics in Hong Kong to help promote human rights in the SAR and beyond. She expressed worries about the arrests of lawyers, activists, journalists and others under the NSL²¹.

In July, the **United Nations Human Rights Committee** in its fourth periodic review under the International Covenant on Civil and Political Rights in Hong Kong urged Hong Kong to ‘repeal the current National Security Law and, in the meantime, refrain from applying the Law’. The Committee highlighted concerns regarding the lack of clarity around the concept of ‘national security’ and the possibility of transferring cases from Hong Kong to mainland China (which is not a state party to the Covenant) for investigation, prosecution, trial and execution of penalties. The Committee also urged the authorities to repeal the sedition rules and refrain from using the NSL to suppress the expression of critical and dissenting opinions. On the possibility of enacting new national security legislation under Article 23 of the Basic Law, the Committee urged Hong Kong to ensure that the legislative process would be ‘inclusive and transparent, facilitating the free, open and meaningful participation of civil society and the public’.

Rights, freedoms and equal opportunities

The NSL had a negative impact on key parts of the legal community. Several lawyers known for defending human rights, including the former chair of the **Bar Association**, left after being called to meetings with the national security police or after being singled out in pro-Beijing media. In March, Chief Executive Carrie Lam appointed the chairperson of the Bar Association to the Judicial Officers Recommendation Commission instead of the more outspoken nominee suggested by the Bar Association. Less outspoken candidates were

²¹ <https://www.ohchr.org/en/statements/2022/05/statement-un-high-commissioner-human-rights-michelle-bachelet-after-official>

elected to the governing council of the **Law Society**, Hong Kong's formerly vocal solicitors' body that issues legal recommendations to the government. A prominent human rights lawyer lost his seat on the body.

Freedom of assembly has come increasingly under threat. Organisers of rallies must obtain a 'letter of no objection' from the police if over 50 people attend. For demonstrations, this threshold is set at 30 people. Since 2020, gatherings of more than four – at times two – people have been banned on COVID-19 grounds. In March, a few individuals attending a small protest marking the first month of the Russian war of aggression against Ukraine were fined for gathering in groups larger than two people. For the third time in a row, the annual commemoration of the anniversary of the Tiananmen massacre could not take place. Police officers cordoned off the park and arrested six people.

Academic freedom has come under pressure as some media have singled out academics and criticised their research work based on their perceived political stances, forcing some of them to leave their positions. In one case, the government rejected a foreign researcher's visa application and neither the scholar nor the school was officially informed about the reasons behind this refusal. Scholars in the field of political sciences decided to postpone sensitive research. Several universities closed down their political-science departments, and a number of classes on human rights are no longer included in the curricula. The number of students and researchers from the EU in Hong Kong decreased.

Freedom of association and to form trade unions saw more constraints. Since September, trade unions have to sign a pledge to commit not to endanger national security. The Legislative Council approved the creation of a dedicated post of Chief Labour Officer in the Labour Department to strengthen the regulation of trade unions. The duties of the post include amending the Trade Union Ordinance to prohibit people convicted of national security offences from becoming officials of trade unions, and implementing education plans for trade unions on national security²².

The Hong Kong Labour Rights Monitor reported that at least 62 unions had disbanded and 11 union organisers had been arrested or charged²³.

The Hong Kong Journalists Association (HKJA), the largest journalist group in terms of membership, received a written request from the Registry of Trade

²² <https://www.legco.gov.hk/en/legco-business/committees/financial-proposals-results.html?2022&20220708>

²³ <https://hklabourrights.org/advocacy/hong-kong-trade-union-movement-under-the-national-security-law-two-years-into-the-authoritarian-rule/>

Unions under the Labour Department for an explanation of its operations. As a result, the association changed its internal rules to facilitate its disbandment.

Press freedom was under continued pressure: according to the HKJA's annual survey, the press freedom score representing media workers' views was at 26.2, down from 32.1 in 2021, the steepest decline since the association started the index²⁴. According to Reporters Without Borders' ranking, Hong Kong's press freedom plunged to a record low, falling 68 places to 148th among 180 locations²⁵.

The HKJA's chairperson faced charges of obstructing police and causing public disorder while on a reporting assignment. If convicted, he could face a maximum prison sentence of 2 years. In April, national security police arrested a veteran journalist under the sedition law, on a charge of conspiracy to publish seditious material.

More independent news outlets ceased their operations. In January, Citizen News shut down out of concern for the security of their staff. In June, investigative newswire Factwire ceased operations. Mad Dog Daily, Dare Media HK and Polymer also stopped operating alongside the Cantonese programmes of Radio Free Asia.

The Foreign Correspondents' Club cancelled its annual Human Rights Press Awards, citing 'legal red lines'. Starting from 2023, the Arizona State University will organise the prize.

Self-censorship increased: a television channel apologised after receiving complaints that its reporter 'incited hatred.' The reporter had asked government officials about the procedure for handling complaints against mainland medical professionals who came to Hong Kong to assist in controlling the pandemic²⁶.

A High Court ruling permitted police officers to access journalistic materials stored in the smartphones of a defendant in an NSL case. The judge ruled that the need to deal with crimes in the public interest overrode journalistic privilege²⁷.

²⁴ <https://hongkongfp.com/2022/09/24/shrinking-news-industry-hong-kong-press-freedom-index-sinks-to-new-low-as-media-outlets-disappear/>

²⁵ <https://rsf.org/en/country/hong-kong>

²⁶ <https://www.rfa.org/english/news/china/hongkong-media-03182022083215.html>

²⁷ https://legalref.judiciary.hk/lrs/common/search/search_result_detail_frame.jsp?DIS=148078&QS=%2B%7C%28CACV356%2F2022%29&TP=JU

The High Court upheld the conviction of a journalist who used information obtained from a public registry for an investigative story on the 2019 social unrests. The Court of Final Appeal scheduled the case for January 2023.

The government selected the journalists covering the 1 July ceremonies, where President Xi Jinping swore in the new Chief Executive. The Information Services Department rejected the requests of at least 13 journalists from 9 local and international media outlets.

Media professionals faced pressure as government officials wrote to local and foreign media organisations to condemn reports that appeared to be critical of the authorities²⁸.

In February, the Media Freedom Coalition, consisting of the US, the UK and 19 other countries, condemned the Hong Kong and Chinese authorities for undermining press freedom²⁹.

The **sedition law** has had further impact on **freedom of speech** as netizens have been arrested under the law following comments posted on social media and internet forums. In one case, four people managing a social media forum where civil servants expressed opinions anonymously were arrested by the police for inciting sedition. The police pressed charges against at least one person. Other internet pages of a similar nature also disappeared³⁰.

In June, two women were jailed for 6 and 7 months, respectively, for social media posts opposing COVID-19 vaccines and anti-epidemic rules³¹. In November, an autistic man received a 12-month jail sentence for inciting others to take part in an illegal assembly and performing an act with seditious intention³².

Five executive committee members of the General Union of Hong Kong Speech Therapists were sentenced to 19 months in prison under the sedition law for ‘conspiring to print, publish, distribute or display seditious publications³³’. According to the judgment, the illustrated books published by the defendants constituted ‘in effect a brainwashing exercise with children aged four and

²⁸ <https://www.brandhk.gov.hk/en/media-centre#clarifications>

²⁹ <https://hk.usconsulate.gov/n-2022020801/>

³⁰ <https://www.thestandard.com.hk/section-news/section/4/244475/Four-civil-servants-held-for-social-media-'sedition'>

³¹ <https://www.scmp.com/news/hong-kong/law-and-crime/article/3183395/taiwanese-drinks-shop-owners-jailed-7-months-over>

³² https://legalref.judiciary.hk/doc/judg/html/vetted/other/ch/2022/DCCC000354A_2022_files/DCCC000354A_2022ES.htm

³³ https://legalref.judiciary.hk/lrs/common/search/search_result_detail_frame.jsp?DIS=147148&QS=%2B%7C%28DCCC854%2F2021%29&TP=RS

above³⁴. Human Rights Watch said that the Hong Kong government ‘may have regularised the sedition law in its legal arsenal to penalise minor speech offences’³⁵.

Two former editors of disbanded news outlet Stand News, along with Stand News’ parent company Best Pencil, faced sedition charges. The court ruled that a fair trial was possible even though prosecutors failed to hand over all evidence gathered during the investigation³⁶.

LGBTIQ+

The Court of Appeal rejected a bid from an **LGBTIQ+** activist to recognise same-sex marriages registered overseas³⁷. The court said that recognising them would be ‘clearly contrary to the intention of the drafters of the Basic Law’. The case is in the Court of Final Appeal³⁸.

The court also granted permission to two transgender men to appeal to the Court of Final Appeal over a government policy that only permitted a transgender person to change the gender on their identity document after they had completed full sex-reassignment surgery³⁹. The Court of Appeal had earlier ruled against the two applicants⁴⁰.

An adolescent with gender dysphoria introduced a complaint with the Equal Opportunities Commission in July, asserting that the ban in schools on boys with long hair was discriminatory and violated the Sex Discrimination Ordinance⁴¹. In September, the Equal Opportunities Commission organised a mediation between the teenager and the school.

Due to COVID-19 travel and social restrictions, organisers of the Gay Games decided to co-host the games with Mexico in 2023 as the event was postponed in 2022. The Pride parade could not be organised for the third year in a row.

Foreign domestic workers

³⁴ https://legalref.judiciary.hk/lrs/common/search/search_result_detail_frame.jsp?DIS=147148&QS=%2B%7C%28DCCC854%2F2021%29&TP=RS

³⁵ <https://www.hrw.org/news/2022/09/07/hong-kong-childrens-book-authors-convicted-0>

³⁶ <https://hongkongfp.com/2022/12/22/hong-kong-court-rejects-bid-by-former-stand-news-editors-to-terminate-trial/>

³⁷ https://legalref.judiciary.hk/lrs/common/search/search_result_detail_frame.jsp?DIS=146704&QS=%2B%7C%28CACV557%2F2020%29&TP=JU

³⁸ https://legalref.judiciary.hk/lrs/common/search/search_result_detail_frame.jsp?DIS=148605&QS=%2B%7C%28CACV557%2F2020%29&TP=JU

³⁹ https://legalref.judiciary.hk/lrs/common/search/search_result_detail_frame.jsp?DIS=144139&QS=%2B%7C%28CACV183%2F2019%29&TP=JU

⁴⁰ https://legalref.judiciary.hk/lrs/common/ju/ju_frame.jsp?DIS=142010&currpage=T

⁴¹ <https://www.scmp.com/news/hong-kong/society/article/3185931/hong-kong-teen-challenging-school-policy-long-hair-boys>

Pandemic restrictions affected domestic workers, and discrimination increased. Cases were reported of domestic helpers not being allowed to leave employers' homes during pandemic waves⁴² and of helpers not allowed to return to their employers' homes for fear of contaminating them⁴³. More generally, cases of abuse of domestic workers continue to be reported.

In September, the authorities increased domestic helpers' wages⁴⁴, which had been frozen for 2 years. They also implemented measures to discourage domestic workers from changing employer so that they could not 'take advantage' of the shortage of workers caused by the difficulties in entering Hong Kong due to pandemic restrictions. Domestic workers could not visit their families abroad under the restrictions and were the target of specific quarantine measures when entering the territory. Domestic workers were not included in the bonus schemes designed by the government to support the economy.

Human trafficking

In July, the US placed Hong Kong on the Tier 2 Watch List for the third consecutive year. The US said that Hong Kong did not meet the minimum standards for eliminating trafficking although it was making 'significant efforts'. The US called for enacting legislation to fully criminalise all forms of trafficking.

In December, the government tightened the policy for removing non-refoulement claimants⁴⁵. The Immigration Department may expel claimants awaiting court verdicts once the court dismisses their application for judicial review. It is estimated that 1 200 people may face immediate removal. Human rights lawyers regretted the lack of consultation with non-governmental organisations, civil society groups, academics, the United Nations High Commissioner for Refugees Hong Kong, and the legal profession.

II. Economic developments

⁴² <https://theinitium.com/article/20220225-hongkong-domestic-workers-who-caught-the-covid19-virus/>

⁴³ <https://www.scmp.com/yp/discover/news/hong-kong/article/3177657/no-home-away-home-domestic-workers-terminated-after>

⁴⁴ <https://www.info.gov.hk/gia/general/202209/30/P2022093000326.htm?fontSize=1>

⁴⁵ <https://www.scmp.com/news/hong-kong/law-and-crime/article/3202303/new-get-tough-policy-refugee-appeals-against-deportation-orders-comes-force-hong-kong>

Hong Kong is a very open economy (trade in goods over 300% of GDP). It is the fifth-largest trading economy in the world (2021)⁴⁶ and the world's third destination for investment flows (2021). It is the seventh-largest source of investments globally⁴⁷.

Hong Kong continued to exercise independent authority in implementing commercial agreements, setting monetary policy autonomously from mainland China and participating in its own right in many international organisations and multilateral bodies. These organisations include the Financial Action Task Force and the World Trade Organization. Hong Kong also remained a separate legal jurisdiction from mainland China, especially on economic policy. It maintained a separate currency free of capital restrictions, as well as separate regulatory structures to supervise companies operating in the territory. Bringing back talent and companies to Hong Kong and strengthening economic integration with mainland China were among the government's main priorities.

On finance, Hong Kong is still one of the largest capital markets in the world and remained connected with the Chinese financial market.

Hong Kong remained the **world's third-largest investment destination for foreign direct investment** in 2021 according to the World Investment Report 2022 by the United Nations Conference on Trade and Development (June)⁴⁸. However, foreign companies scaled down their presence, and foreign and local talent left, mainly due to COVID-19 restrictions. As a result, the population had fallen by 121 500 – or 1.6% year-on-year (y-o-y) – as of June 2022 (95 000 due to a net outflow of residents, and 26 500 due to deaths surpassing births)⁴⁹.

Hong Kong's economy fell into recession in 2022. After growing by 6.3% in 2021, it contracted by 3.3% y-o-y⁵⁰ in the first 9 months of 2022. The financial industry and the trade and logistics industry – which had performed well in 2021 – faced headwinds during the year. In addition, industries dependent on tourism continued to underperform due to the absence of tourists. Hong Kong's economy has **yet to return to its 2018 level** (pre-pandemic and before the 2019 protests).

⁴⁶ *World Trade Statistical Review 2022*, World Trade Organization, https://www.wto.org/english/res_e/publications_e/wtsr_2022_e.htm.

⁴⁷ *World Investment Report 2022*, United Nations Conference on Trade and Development, <https://unctad.org/publication/world-investment-report-2022>.

⁴⁸ *World Investment Report 2022 monitoring global and regional investment trends and national and international policy development*, United Nations Conference on Trade and Development, 9 June 2022, available at: <https://unctad.org/webflyer/world-investment-report-2022>.

⁴⁹ Press release: *Mid-year population for 2022*, 11 August 2022, Census and Statistics Department of the Hong Kong Special Administrative Region, available at: https://www.censtatd.gov.hk/en/press_release_detail.html?id=5078.

⁵⁰ *Advance estimates on Gross Domestic Product for third quarter of 2022*, November 2022, Census and Statistics Department of the Hong Kong Special Administrative Region.

Inflation remained moderate, with an annual 1.9% increase in the consumer price index in the first 10 months of the year⁵¹.

The job market was stable. Unemployment peaked at 5.4% in April before gradually decreasing to 3.8% in October 2022 (closer to the 3.9% recorded at the start of the year)⁵². It was 4.5% on average in the first 10 months of 2022, an improvement when compared with 5.2% in 2021 but above the 3% range before the COVID-19 crisis.

The **trade and logistics sector** contracted. This sector accounts for about 20% of Hong Kong's GDP and contributed to the economic recovery in 2021. GDP from the import and export industry fell by 6.9% y-o-y in the first half of 2022. This occurred as the value of Hong Kong's external trade in goods dropped by 4.0% y-o-y to HKD 7.97 trillion (EUR 984 billion)⁵³ in the first 10 months. The situation deteriorated during the year, and external trade dropped by 11.1% y-o-y compared to the July to October period.

The financial industry (23% of Hong Kong's GDP) – the main growth driver in the past years – slowed noticeably in the first half of 2022 and grew by only 0.8% y-o-y⁵⁴.

The number of **initial public offerings (IPOs)** fell to 69 in the first 11 months from 83 in the same period in 2021, and the amount raised by IPOs dropped 70.6% y-o-y to HKD 87.8 billion (EUR 10.8 billion). In 2021, the city was the world's fourth-largest hub for IPOs, after ranking second in 2020 and first in 2019.

Since the start of the year, the **Hong Kong Hang Seng Index** lost 15.8% of its value (as of 13 December), and **market capitalisation** on the Hong Kong Stock Exchange dropped by 21.4% to HKD 33.3 trillion (EUR 4.1 trillion). At the end of September 2022, Hong Kong was the world's seventh-largest and Asia's fourth-largest stock market by market capitalisation as well as the largest offshore renminbi business hub. Average daily market turnover was down by 27.7% y-o-y to HKD 124 billion (EUR 15.3 billion) in the first 11 months⁵⁵.

⁵¹ Census and Statistics Department of the Hong Kong Special Administrative Region, <https://www.censtatd.gov.hk/en/scode270.html#section3>.

⁵² Census and Statistics Department of the Hong Kong Special Administrative Region, <https://www.censtatd.gov.hk/en/scode200.html#section3>.

⁵³ Exchange rate from December 2022 of 1 EUR = HKD 8.0965.

⁵⁴ Chain volume measures of GDP by economic activity - in chained (2019) dollars, Census and Statistics Department of the Hong Kong Special Administrative Region, https://www.censtatd.gov.hk/en/web_table.html?id=310-34501.

⁵⁵ IMF report. *Detailed Assessment of Observance on Principles for Financial market Infrastructures for the People's Republic of China–Hong Kong Special Administrative Region*, Country Report No. 21/122, 15 June 2021, available at:

The drop in market capitalisation and IPOs was due to a combination of global and regional headwinds. These included: (i) rising inflation and the tightening of monetary policies; (ii) the weakening of the global economy and geopolitical tensions; (iii) and worries over the Chinese economy and the ‘dynamic zero-COVID policy’, especially as mainland Chinese companies dominate Hong Kong’s stock market capitalisation.

Industries relying on tourist spending (retail, food and beverage, transport, travel, hospitality) were still underperforming because the relaxation of travel restrictions towards the end of the year did not lead to a significant increase in tourist flows. In the first 10 months of 2022, Hong Kong welcomed only 330 223 visitors⁵⁶, less than 1% of the 65 million visitors in 2018 (78% of who were mainland Chinese, accounting for an estimated 40% of the city’s retail sales). In the first half of 2022, GDP from **accommodation and food services industries** and from **wholesale and retail sales** dropped by 16.7% and 7.1% y-o-y respectively. Their contribution to GDP accounted for only 46% and 41% of the level observed in the first half of 2018, respectively. In the first 10 months of 2022, retail sales decreased by 0.7% y-o-y to HKD 286.8 billion (EUR 35.4 billion). In the first 9 months, restaurant receipts fell by 9.2% y-o-y to HKD 61.3 billion (EUR 7.6 billion). Both were roughly 30% below the level recorded in 2018. The hotel room occupancy rate was 65% (vs 61% in 2021 and 91% in 2018) due to compulsory quarantining.

Similarly, the **aviation industry** and related industries faced a challenging environment. The number of flights at Hong Kong International Airport decreased by 5.3% y-o-y in the first 10 months to only 30% of the level observed in 2018. The number of passengers increased to 3 million (from 1 million in the first 10 months of 2021), but this was only 5% of the 61.8 million passengers recorded in 2018. Air cargo volume decreased by 14% y-o-y in the period to 84% of the 2018 level. Although the flight suspension mechanism was lifted later in 2022, restrictions in place for aircrew made it difficult to increase the number of flights.

The **construction industry** recorded a 5.3% increase in GDP in the first half of the year, but **real estate activities** dropped by 6.8% in the same period.

<https://www.imf.org/en/Publications/CR/Issues/2021/06/15/Peoples-Republic-of-ChinaHong-Kong-Special-Administrative-Region-Financial-Sector-460761>.

⁵⁶ Visitor arrivals to Hong Kong, Hong Kong Tourism Board, available at: https://partnernet.hktb.com/en/research_statistics/latest_statistics/index.html.

Property prices and rents fell in the first 9 months, but Hong Kong remained one of the most expensive cities in the world⁵⁷.

The **Hong Kong Monetary Authority** (HKMA) intervened several times to support the Hong Kong dollar amid rising interest rates in the US and the appreciation of the US dollar. The aim was to ensure that the currency's exchange rate did not fall below the HKD 7.85 floor of the HKD 7.75-7.85 to USD 1 band under the SAR's Linked Exchange Rate System. Throughout 2022, the HKMA increased Hong Kong's base rate, from 0.50% at the start of the year to 4.25% (at the end of November). The HKMA also made use of the SAR's foreign currency reserve assets, which decreased from USD 497 billion at the start of the year to USD 423 billion at the end of November.

Business environment

COVID-19 policies were the main concern of the business community during the year. **Political developments** also had a negative effect on business sentiment. These developments included risks to freedom of information, the implementation of the NSL, data privacy and sanctions.

The business community advocated for a roadmap to the full lifting of COVID-19 restrictions. The restrictions, including compulsory testing and the risk of quarantine if tested positive, remained an obstacle to bringing back talent and tourists. The partial reopening eroded Hong Kong's competitiveness as a place for locating regional headquarters. The situation was exacerbated by the restrictions in mainland China (including quarantine requirements for arrivals from Hong Kong) that affected the role of Hong Kong as a business gateway. Despite the easing of quarantine measures in September, visitor arrivals in October were only 2.5% of their pre-COVID levels (October 2019), which hampered a full recovery.

An annual survey of foreign companies in Hong Kong⁵⁸ indicated that, as of 1 June 2022, the **number of foreign companies** (excluding mainland Chinese companies) continued to decrease by 5.2% compared with June 2019 (pre-COVID levels) and by 1.5% compared with June 2021. The number of foreign

⁵⁷ According to the *Worldwide Cost of Living 2022* study by The Economist available at: <https://www.economist.com/graphic-detail/2022/11/30/the-worlds-most-and-least-expensive-cities>.

⁵⁸ *Report on 2022 Annual Survey of Companies in Hong Kong with Parent Companies Located outside Hong Kong*, Census and Statistics Department of the Hong Kong Special Administrative Region, <https://www.censtatd.gov.hk/en/EIndexbySubject.html?pcode=B1110004&scode=360>.

regional headquarters dropped more noticeably (by 12.5% since June 2019 and 3.7% since June 2021). These numbers confirmed anecdotal evidence of companies reducing their activities or relocating to other cities. While the number of non-Chinese foreign companies dropped in the survey, the number of mainland Chinese companies in Hong Kong had increased by 17.5% since June 2019.

In the past 2 years, the **local workforce shrank** by 140 000 (as of October 2022)⁵⁹ due to a combination of emigration and foreign employees leaving the city.

In his annual **policy address** on 19 October 2022, Chief Executive John Lee proposed policies to support and develop the economy. To continue developing Hong Kong as an innovation and technology (I&T) hub, John Lee announced the target of attracting HKD 10 billion (EUR 1.2 billion) of investment in I&T within 5 years. The SAR's I&T infrastructure will be expanded, and HKD 10 billion (EUR 1.2 billion) will be allocated to support the commercialisation of research and development by Hong Kong universities. High value manufacturing will also be encouraged. Hong Kong's position as a trading and logistics hub will be supported by focusing on high value-added maritime services and logistics, intermodal transportation and facilitating land and cross-boundary flows with the mainland. Operations at the airport, which saw the launch of a third runway during the year, will be streamlined. On Hong Kong's competitiveness as a financial centre, measures announced included improving the southbound leg of the Bond Connect scheme⁶⁰, strengthening Hong Kong's role as the world largest Chinese yuan business hub, and supporting the insurance and asset and wealth management industries (including tax waivers for attracting more family offices to Hong Kong). Other priorities include developing Hong Kong as intellectual property and commercial arbitration centres.

The Northern Metropolis, a development zone that will include residential districts and an I&T centre, located on the boundary with mainland China will contribute to integrating Hong Kong with the city of Shenzhen and the Greater Bay Area (GBA). Infrastructure works for the **Northern Metropolis** have started. The new neighbourhood will include the first 'double access zone' between mainland China and Hong Kong. It will contribute to moving the city's economic and administrative centre of gravity to the north, while the south side of the city will focus on tourism and leisure activities. Environmental

⁵⁹ The Chief Executive's 2022 Policy Address, October 2022, available at: <https://www.policyaddress.gov.hk/2022/en/policy.html>.

⁶⁰ The 'Bond Connect' (as some other connect schemes) allows investors to trade in mainland China bond market via Hong Kong (northbound) and mainland China investors to trade in Hong Kong (southbound).

organisations have noted that the development might affect nature reserves and wetland conservation parks that are important to mitigate the impact of climate change.

On **green finance**, Hong Kong issued additional green bonds during the year under the government green bond programme launched in 2018. The goal is to promote the local green bond market while advancing the city's carbon-neutrality objective. In addition, the stock exchange launched a voluntary carbon-trading platform.

On 31 October, Hong Kong presented a strategy on **virtual assets**⁶¹, widely seen as a move towards a more favourable position on virtual assets and cryptocurrencies. A licencing regime for virtual asset service providers was put in place, retail transactions will be enabled, and virtual asset exchanges will be encouraged to establish a presence in Hong Kong.

Government support and the fiscal situation

Hong Kong was **expected to record a fiscal deficit for the 2022-2023 financial year** (ending in March 2023) due to increased spending and a weak economy. In the 2022-2023 budget, more than HKD 170 billion (EUR 21 billion) was budgeted for COVID-19 measures⁶², such as the construction of isolation facilities, efforts to control the pandemic, and financial support to residents and companies. The budget was announced with the expectation that the economy would grow by 2% to 3.5% in 2022 instead of the contraction that actually occurred.

In September, the Financial Secretary warned that the public deficit could reach HKD 100 billion (EUR 12.4 billion) for the whole financial year. This would be the third deficit in 4 years after deficits of HKD 17 billion in 2019-2020 and HKD 252 billion in 2020-2021 and a surplus of HKD 255 million in 2021-2022⁶³. This is unusual for an economy accustomed to fiscal surpluses (the deficit in 2019-2020 was the first one in 15 years).

The deficits were largely funded by tapping into Hong Kong's large fiscal reserves. The fiscal reserves amounted to HKD 681 billion (EUR 84.1 billion) in October, a decrease of 16.5% y-o-y and 35.2% from HKD 1 trillion in

⁶¹ Policy statement: *Development of Virtual Assets in Hong Kong*, Financial Services and The Treasury Bureau, The Government of the Hong Kong Special Administrative Region, available at: <https://www.info.gov.hk/gia/general/202210/31/P2022103000454.htm>.

⁶² 2022-2023 Budget, Speech by the Financial Secretary, the Hon Paul MP Chan, <https://www.budget.gov.hk/2022/eng/index.html>

⁶³ Monthly Financial Results, The Treasury, The Government of the Hong Kong Special Administrative Region, available at https://www.try.gov.hk/internet/ehpubl_acc_monfinancial.html.

October 2019. Reserves are equivalent to an estimated 12 months of expenditure, compared to 24 months before COVID-19.

Trade policy

The government announced in November the formal launch of negotiations of a free trade agreement (FTA) with Peru⁶⁴. The first round of negotiations covered trade in goods, services, investment, electronic commerce, and small and medium-sized companies. In 2021, Peru was Hong Kong's fifth-largest trading partner in goods in Latin America. Peru is also a member of the Pacific Alliance, with which Hong Kong has also been exploring the start of FTA discussions.

During the year, Hong Kong continued to seek accession to the Regional Comprehensive Economic Partnership through the support of its members.

So far, Hong Kong has signed eight FTAs. These are with mainland China (June 2003), New Zealand (March 2010), the Member States of the European Free Trade Association (June 2011), Chile (September 2012), Macao (October 2017), the Association of Southeast Asian Nations (November 2017, full entry into force in February 2021), Georgia (June 2018) and Australia (March 2019).

Economic integration within mainland China

In 2022, the impact of the pandemic continued to hamper the development of the GBA. According to the GBA outline development plan⁶⁵ released by the State Council in 2019, 2022 was the first milestone for an optimised industrial structure and coordinated development, with a reasonable division of labour, and low-carbon production and a low-carbon lifestyle.

China's national **14th five-year plan**, released in March 2021, reiterated the objectives for the GBA and the role of Hong Kong. Hong Kong is to consolidate its role as an international financial centre and deepen mutual access between the financial markets of mainland China and Hong Kong. The five-year plan further mandated Hong Kong to develop itself as a centre for trade, I&T and transportation, including infrastructure connectivity with the GBA. International legal and dispute resolution services and intellectual property trading are also to be developed. The SAR is to facilitate bringing capital and talent to the GBA.

⁶⁴ Press release of the Government of the Hong Kong Special Administrative Region, available at: <https://www.info.gov.hk/gia/general/202211/16/P2022111600587.htm?fontSize=1>.

⁶⁵ *Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area* (Courtesy Translation), available at: <https://www.bayarea.gov.hk/en/outline/plan.html>.

In June 2022, the **Qianhai** Shenzhen-Hong Kong Modern Service Industry Cooperation Zone (in Shenzhen) announced nine Hong Kong-related facilitation measures covering areas such as youth innovation and entrepreneurship, technology development, financial services, legal services and medical services. Other GAB measures in the Chief Executive's policy address include: (1) strengthening support to Hong Kong companies expanding in the GBA; (2) improving intermodal transport integration and Hong Kong's airport connectivity with the GBA (including direct transfer facilities); (3) encouraging the convergence of legal practices and mediation; and (4) using more Hong Kong registered drugs and medical devices in the GBA (under facilitation measures implemented in 2021).

Hong Kong is also seeking to allow insurance companies to provide insurance after-sales services in GBA cities. The aim is to provide support services to GBA residents holding Hong Kong insurance policies and develop mutual access to insurance markets.

III. Relations between Hong Kong and mainland China

General Secretary of the Communist Party of China and Chinese **President Xi Jinping visited Hong Kong from 30 June to 1 July** for the 25th anniversary of the handover. It was his first visit to Hong Kong since 2017 and his first outside mainland China since the outbreak of COVID-19 in 2020. Xi Jinping held the inaugural ceremony for the sixth-term government of Hong Kong and swore in Chief Executive John Lee.

On that occasion, Xi Jinping delivered a speech in which he asserted that the 'one country, two systems' principle served not just the fundamental interests of Hong Kong, but also of the whole country. He summarised the lessons of the past 25 years and underscored the importance of fully and faithfully implementing the 'one country, two systems' principle. This includes upholding the central government's overall jurisdiction, securing Hong Kong's high degree of autonomy, ensuring that Hong Kong is administered by patriots, and maintaining Hong Kong's distinctive status and advantages.

In addition, Xi Jinping put forward 'four proposals' for the new administration and society: improve governance, continue to create a strong impetus for growth, address people's concerns, and work together to safeguard harmony and stability. He met with members of the legislature, the judiciary, the private sector, and leaders from different sectors of society and inspected the garrison of the People's Liberation Army.

In the weeks following Xi Jinping's visit, government and pro-Beijing organisations organised seminars to study the 1 July speech. The Education Bureau distributed copies of the speech to schools and kindergartens.

Ahead of the Communist Party Congress, a number of personnel changes took place in central government agencies in charge of Hong Kong, including in the People's Liberation Army Hong Kong Garrison.

Travel between Hong Kong and mainland China remained restricted. Chief Executive John Lee cancelled his first visit to Guangdong province. A visit by delegates of the National People's Congress from Hong Kong to Xinjiang in August had to be delayed due to the pandemic.

The election of the Hong Kong delegates to the National People's Congress Deputies took place on 15 December. The procedures for electing the delegates, adopted by the National People's Congress in March 2022, restricted the electoral college to the Chinese members of the Election Committee.

In October, China recalled six officials from its consulate in the British city of Manchester after UK law enforcement authorities requested to waive their diplomatic immunity over an incident involving overseas Hong Kong protestors⁶⁶.

During **Chief Executive John Lee's first visit to Beijing** between 21 December and 24 December, President Xi Jinping and Premier Li Keqiang praised his work. John Lee also met with Li Qiang, the second highest official in the Chinese Communist Party.

Mainland China was Hong Kong's largest trading partner in goods, accounting for 49% of Hong Kong's total trade during the first 10 months of 2022. In turn, Hong Kong was an important trading hub for mainland China and ranked as China's fifth-largest trading partner in the first 9 months of 2022.

Guangdong province remained a major outward-processing base for Hong Kong. The Closer Economic Partnership Arrangement with mainland China (2003) is Hong Kong's most substantial trade agreement. There was no major amendment to the agreement in 2022. The value of goods re-exported through Hong Kong from and to mainland China accounted for about 90% of Hong Kong's total re-export trade value (2021).

⁶⁶ <https://www.thestandard.com.hk/section-news/section/47096428/248254/UK-row-ends-as-China-recalls-diplomats>.

Hong Kong remained mainland China's key offshore financial centre and investment hub. At the end of 2021, mainland China was Hong Kong's largest source of inward foreign direct investment (FDI), excluding offshore centres, and the first destination for Hong Kong's outward FDI, accounting for 28% and 49% of total stocks respectively⁶⁷. In turn, Hong Kong remained the leading destination for mainland China's FDI and a leading source of FDI to the mainland – accounting for more than half of the total in each direction. There were 1 395 mainland companies listed in Hong Kong, accounting for 77% of the total market capitalisation.

Hong Kong and mainland China's capital markets are connected via the **Stock Connect scheme**, linking the Hong Kong Stock Exchange with its counterparts in Shanghai and Shenzhen, and the Bond Connect mutual market access scheme for bond markets. This was complemented in September 2021 by the launch of a Wealth Management Connect scheme for the GBA. This makes it possible for eligible mainland Chinese, Hong Kong and Macao residents to invest in wealth management products distributed by banks in each other's market.

Hong Kong strengthened its preferential mutual access with mainland China's capital market. Exchange-traded funds (ETF) were included in the Stock Connect scheme, allowing international investors to buy eligible ETFs in the mainland and mainland investors to buy eligible ETFs in Hong Kong. A Swap Connect scheme was also announced⁶⁸. It will facilitate mutual access between Hong Kong and mainland China's interbank interest rate swap markets, providing an additional investment and risk management tool to investors in the mainland's bond market. The northbound route will be launched first, and the southbound route could come at a later stage.

IV. EU-Hong Kong bilateral relations and cooperation

High-level visits from representatives of the EU institutions continued to be prevented by the COVID-19 travel restrictions. For the third year in a row, the annual **EU-Hong Kong Structured Dialogue** did not take place. The EU attaches importance to dialogue, both on issues of concern and areas of mutual interest.

⁶⁷ *Statistical report on External Direct Investment Statistics of Hong Kong* (2021 Edition), 9 December 2022: available at: <https://www.censtatd.gov.hk/en/EIndexbySubject.html?pcode=B1040003&scode=260>.

⁶⁸ Joint Announcement of the People's Bank of China, the Hong Kong Securities and Futures Commission and the Hong Kong Monetary Authority, available at: <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2022/07/20220704-3>.

The **EU remained the largest foreign business community**, ahead of Japan, the US and the UK. As of June 2022, at least 1 600 EU companies had set up business in Hong Kong. Many of them (857) were using the city as their regional headquarters. EU businesses were present in many sectors, including financial and business services, trading and logistics, retail, food and beverage, and construction. Based on the annual survey on foreign companies by the Hong Kong Census and Statistics Department⁶⁹, the number of EU companies only fell slightly (-0.2%) from their pre-COVID level (June 2019) to 1 600 companies. This indicates that EU companies were more resilient to local developments than other foreign business communities (the total number of foreign companies decreased by 5.2% in the survey). However, EU companies that have cut or relocated some activities and/or staff but remain in Hong Kong are not reflected in these statistics.

In the first 9 months of 2022, bilateral trade in goods amounted to EUR 22.1 billion, which is flat (-0.03%) when compared with the same period in 2021. EU exports of goods to Hong Kong amounted to EUR 17.9 billion, while imports from Hong Kong totalled EUR 4.1 billion, resulting in a surplus of EUR 13.8 billion for the EU⁷⁰. **The EU was Hong Kong's third-largest trading partner in goods** in the first 10 months of 2022 after mainland China and Taiwan⁷¹. Hong Kong remained a major platform for trade between mainland China and the EU.

EU bilateral trade in services with Hong Kong grew by 25.1% y-o-y in 2021 to reach EUR 34.1 billion⁷². EU imports from Hong Kong amounted to EUR 12.3 billion, and EU exports to Hong Kong totalled EUR 21.8 billion (provisional data). This resulted in a EUR 9.5 billion trade surplus for the EU. Preliminary data for the first half of 2022 shows strong growth in bilateral trade in services with Hong Kong (+21.4% y-o-y to EUR 19.3 billion) and a trade surplus for the EU of EUR 4.7 billion⁷³.

⁶⁹ *Report on 2022 Annual Survey of Companies in Hong Kong with Parent Companies Located outside Hong Kong*, Census and Statistics Department of Hong Kong Special Administrative Region, available at: <https://www.censtatd.gov.hk/en/EIndexbySubject.html?pcode=B1110004&scode=360>.

⁷⁰ Eurostat: European Union trade in goods, <http://epp.eurostat.ec.europa.eu/newxtweb/mainxtnet.do>.

⁷¹ Statistical report on Hong Kong External Merchandise Trade (October 2022), 6 December 2022, available at: <https://www.censtatd.gov.hk/en/EIndexbySubject.html?pcode=B1020005&scode=230>.

⁷² Eurostat: European Union trade in services - annual data (provisional), https://ec.europa.eu/eurostat/databrowser/view/bop_its6_det/default/table?lang=en.

⁷³ Eurostat: European Union and euro area balance of payments – quarterly data, https://ec.europa.eu/eurostat/databrowser/view/BOP_EU6_Q_custom_457552/default/table.

Two-way **investment** remained significant: according to the most recent data, investment stocks from Hong Kong into the EU amounted to EUR 162 billion, and investment from the EU into Hong Kong amounted to EUR 128 billion⁷⁴.

The European Commission and Hong Kong authorities resolved several issues relating to the **trade of food products**. The transition to a new platform (TRACES NT) for the export of animal products from the EU was implemented.

Operational activities planned under the EU-Hong Kong Customs Cooperation and Mutual Administrative Assistance Agreement and the action plan on customs enforcement of **intellectual property rights** (IPR) were hampered by COVID-19 restrictions. Hong Kong remained the second-largest place of origin by value of IPR-infringing goods imported into the EU, even if these goods were not produced in the city. Meetings in Hong Kong with the leadership of the Customs and Excise Department did not take place in 2022.

On **taxation**, the Code of Conduct Group contacted jurisdictions that were identified as relevant in relation to their foreign sourced income exemptions (FSIE), including Hong Kong. As a result of the dialogue and the information provided, Hong Kong committed to reform its FSIE regime by the end of 2022 as it was found to be non-compliant. A bill was adopted on 14 December 2022 to reform Hong Kong's tax with regard to the FSIE regime⁷⁵. Work on implementing guidance is still ongoing.

The sixth annual **TAIEX anti-trafficking event** took place on 26-27 January 2022. The workshop consisted of two half-day online sessions, covering international trends under COVID-19, combating human trafficking involving forced marriage of ethnic minorities, anti-money laundering, financial investigations into human trafficking and helping victims of human trafficking. This was the second time that the event was held online. The turnout from the Hong Kong side was good, with around 70 participants from several government departments. Seven experts from the EU addressed the workshop.

A **EU-Hong Kong Engagement Support Facility** was launched to engage with Hong Kong. Public events were organised on tax reform (FSIE) and sustainability.

⁷⁴ Eurostat : European Union foreign investment statistics,
https://ec.europa.eu/eurostat/databrowser/view/bop_fdi6_geo/default/table?lang=en.

⁷⁵ <https://www.info.gov.hk/gia/general/202212/14/P2022121400286.htm>.

Due to COVID-19 restrictions, **public diplomacy activities**, such as Europe Day, could not be organised in the first half of the year. After restrictions eased, in-person activities resumed gradually.

The EU Office organised the **EU Film Festival 2022**, which featured a Ukrainian film. Other events included beach cleaning, the International Day Against Homophobia, Biphobia and Transphobia, a festival of documentary films, Speak Dating (an event promoting EU languages), the International Day for the elimination of violence against Women, and World Aids Day. The EU Office did not hold any public events on fundamental freedoms and human rights due to the environment created by the NSL.

The Council Conclusions of July 2020 on Hong Kong mandated the continued **observation of the trials** of pro-democracy activists. The EU Office and the EU Member States in Hong Kong conducted 71 trial observations in 2022.