



EUROPEAN
COMMISSION

HIGH REPRESENTATIVE
OF THE UNION FOR
FOREIGN AFFAIRS AND
SECURITY POLICY

Brussels, 13.6.2024
JOIN(2024) 20 final

JOINT REPORT TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Hong Kong Special Administrative Region

Annual Report for 2023

JOINT REPORT TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

HONG KONG SPECIAL ADMINISTRATIVE REGION:

ANNUAL REPORT FOR 2023

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/Vice-President issue an annual report on developments in Hong Kong. Over the years, this has included 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 26th report, covering 2023. The year was marked by: (i) an electoral overhaul of the District Council and the first election after its implementation, leading to a further decrease of political pluralism in Hong Kong; (ii) an ongoing focus on national security in the third year after the imposition of the National Security Law (NSL); and (iii) a push for normalisation of economic relations after the end of COVID-19 related travel restrictions. The erosion of Hong Kong's autonomy and fundamental freedoms and rights, meant to be protected until at least 2047, continued. 2023 also saw court rulings supporting the advancement of the rights of LGBTI+ people.

Trials brought against pro-democracy activists, advocates and politicians under the NSL and related legislation continued, in some cases with considerable delays. Hearings for the national security trial against the 47 pro-democracy activists who had participated in a primary election started in February 2023 and closed in early December 2023. A verdict is expected by spring 2024. The Stand News trial with charges under the colonial era sedition law against two former chief editors of the disbanded independent media outlet was interrupted in November 2023 and postponed to spring 2024. The national security trial against media entrepreneur and pro-democracy advocate Jimmy Lai started on 18 December 2023. The hearing schedule for the trial against the Hong Kong Alliance in Support of Patriotic Democratic Movements in China, including prominent activist Chow Hang-tung, had not been announced by the end of 2023. Many defendants have been held in custody since March 2021, in some cases in solitary confinement.

In an extra-territorial application of the NSL, Hong Kong authorities twice issued arrest warrants against Hong Kong pro-democracy activists in exile. In Hong Kong, relatives and other contacts of wanted activists were subsequently interrogated by police.

Despite internet freedom being generally upheld in Hong Kong, the authorities continued to block online content considered sensitive, such as the website of Hong Kong Watch, a London-based advocacy non-governmental organisation.

These developments continue to undermine confidence in the rule of law in Hong Kong.

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

The High Representative/ Vice-President issued the following post on X (formerly Twitter) relating to Hong Kong:

- ✓ 5 July – Post related to the arrest warrant on eight activists¹

The EU Spokesperson issued statements on Hong Kong covering the following issues:

- ✓ 6 July – Statement by the Spokesperson on the changes to the District Council electoral system²
- ✓ 18 December – Statement by the Spokesperson on the start of the national security trial against Jimmy Lai³

The EU Spokesperson's posts on X (formerly Twitter) on Hong Kong covered the following issues:

- ✓ 11 March – Post on the sentencing of 4 June vigil organisers for failing to comply with a notice from the national security police⁴
- ✓ 11 December – Post on the District Council election⁵

The EU raised concerns about the deterioration of the freedom of peaceful assembly and association and freedom of expression in Hong Kong at the 38th session of the EU-China Human Rights Dialogue on 17 February in Brussels⁶.

The European Parliament adopted a resolution on the deterioration of fundamental freedoms in Hong Kong, notably the case of Jimmy Lai, on 15 June⁷. The resolution expressed 'concern about the extra-territorial application' of the NSL.

EU leaders raised concerns about developments in Hong Kong during the EU-China Summit on 7 December in Beijing.

The Hong Kong economy grew by 3.2% in 2023. This follows 4 years of mostly negative growth (-1.7% in 2019; -6.5% in 2020; -3.5% in 2022). However, even with growth in 2023 factored in, **Hong Kong's economy remained below the level of 2018** when adjusted for inflation. In 2023, **inflation remained under control**, standing at 2.1%.

¹ Post by the High Representative/ Vice-President on the arrest warrant on eight activists, 5 July, available at: <https://twitter.com/JosepBorrellF/status/1676663898886361088>

² Statement by the Spokesperson on the changes to the District Council electoral system, 6 July, available at: https://www.eeas.europa.eu/eeas/hong-kong-statement-spokesperson-changes-district-council-electoral-system_en

³ Statement by the Spokesperson on the start of the national security trial against Jimmy Lai, 18 December, available at: https://www.eeas.europa.eu/eeas/hong-kong-statement-spokesperson-start-national-security-trial-against-jimmy-lai_en

⁴ Post on the sentencing of 4 June vigil organisers for failing to comply with a notice from the national security police, available at: <https://twitter.com/NabilaEUspox/status/1634573843116220419>

⁵ Post on the District Council election, available at: <https://twitter.com/nabilaEUspox/status/1734134836573479177?s=48&t=DhTwM2QUg9VBLA9NCBIQXw>

⁶ https://www.eeas.europa.eu/node/425784_fr

⁷ https://www.europarl.europa.eu/doceo/document/TA-9-2023-0242_EN.html

On employment, the recovery to pre-COVID-19 levels was confirmed – with unemployment in the range of 3% during the year. In 2022 (latest available data), the SAR was the **seventh largest trading economy in the world** (2022, HK statistics and WTO data)⁸. The **EU was Hong Kong's third largest trading partner** in the first 10 months of 2023, after mainland China and Taiwan.

Development of the COVID-19 situation

Authorities lifted the last COVID-19 related travel restrictions in February 2023. The strict measures taken in response to the COVID-19 outbreak in 2020 – including 3 weeks of quarantine for incoming travellers – had de facto isolated Hong Kong from the rest of the world.

I. Political and social developments

District Council ordinary election

The **District Council election** on 10 December saw a historically low turnout rate of 27.54% for the directly elected constituency, as compared to 71.23% in 2019. Following the imposition of the National Security Law in 2020 and the overhaul of the electoral procedures for the Chief Executive and the Legislative Council elections in 2021, the District Council election process was also revamped, implementing the political doctrine of ‘patriots ruling Hong Kong’. No pro-democracy candidate qualified to stand in the election due to a redesigned nomination process.

On 2 May, the Chief Executive announced a plan to overhaul the electoral system for the District Council for the new term starting on 1 January 2024. On 31 May, the Hong Kong government tabled the District Council (Amendment) Bill 2023 to the Legislative Council for the first reading. On 6 July, the Legislative Council, which since its 2021 electoral overhaul has no representatives from the pro-democracy camp, passed the bill unanimously.

Under the new framework, the total number of seats in the District Council was reduced from 479 to 470, with directly elected seats down from 452 to 88. Members of Area Committees, District Fight Crime Committees and District Fire Safety Committees – all government appointees – vote for another 176 seats; the government itself appoints the remaining 179 seats. 27 *ex officio* seats continue to remain reserved for indigenous representatives.

Under the amended law, candidates for the elected seats need to secure three nominations from each of the local district committees and pass through a vetting process involving the National Security Committee, a body beyond judicial review established by the NSL in 2020. Civil servants, instead of elected district councillors, assume the roles of chairperson in each of the 18 District Councils, following the principle of ‘executive-led’ government. On 12 October, the government announced the composition of the District Councils Eligibility Review Committee, a new vetting body created by the District Councils (Amendment) Bill 2023.

During the nomination period for the election, from 17 October to 30 October, politicians from both the pro-Beijing and the pro-democracy camps highlighted difficulties in securing enough nominations. Ultimately, no candidate from the Democratic Party met the criteria to stand in

⁸ https://www.censtatd.gov.hk/en/web_table.html?id=81 (adding up EU MS).

the election. The pro-democracy opposition has now de facto been excluded from both the Legislative Council and the District Council.

On 9 November, the Vetting Committee confirmed the nomination of 399 candidates, stating that ‘all candidates meet the legal requirements and conditions for upholding the Basic Law and bearing allegiance’ to the Special Administrative Region of the People’s Republic of China. On 1 December, in a judicial review case, the High Court ruled that the nomination requirement did not constitute an excessive restriction on the constitutional right to stand for election.

On Election Day on 10 December, the Electoral Affairs Commission announced the extension of the voting period by one and a half hours, due to a technical problem in the electronic poll register system. Law enforcement officials arrested six people for allegedly inciting others to cast blank votes; at least one was charged and granted bail.

While the turnout rate for the directly elected seats (Geographical Constituency) was at a historic low, turnout for the indirectly elected seats (District Committees constituency) was 96.92%, i.e. around 2 454 eligible votes. On 12 December, the government announced the 179 appointed members of the new District Council.

National security and patriotism

National security remained a top priority for the Hong Kong authorities throughout 2023. The government continued its efforts to prepare legislation as stipulated by Article 23 of the Basic Law⁹, adding to the four national security offences under the National Security Law¹⁰. On 17 January, the Chief Executive said that the new law would target espionage activities, ‘disguised organisations’ and cover new media and technologies. On 25 October, the Chief Executive announced in his annual Policy Address that the government would complete the **Article 23 legislation** process within 2024.

The Chief Executive continued to call for ‘staying ‘vigilant’ against ‘**soft resistance**’, notably in his speech delivered on 1 July at the reception in celebration of the 26th anniversary of the establishment of the Hong Kong Special Administrative Region. The concept of ‘soft resistance’ has not been defined or explained further, adding to widespread caution and self-censorship within Hong Kong society.

The Hong Kong government also increased its emphasis on **patriotic education**. After quarantine-free travel between Hong Kong and the mainland resumed, a first batch of around 200 secondary school students travelled to the mainland on 3 April, fulfilling a requirement of the compulsory Citizenship and Social Development curriculum that has replaced the subject of Liberal Studies since 2021.

⁹ Article 23 of the Hong Kong Basic Law requires the Hong Kong Special Administrative Region to enact laws on its own to prohibit any act of treason, secession, sedition, subversion against the Central People’s Government, or theft of state secrets, to prohibit foreign political organisations or bodies from conducting political activities in the Region, and to prohibit political organisations or bodies of the Region from establishing ties with foreign political organisations or bodies. The last attempt at drafting Art. 23 legislation in 2003 triggered widespread public protests, leading to the halt of the legislative project.

¹⁰ The Law of the People’s Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region outlaws secession, subversion, terrorist activities and collusion with a foreign country or with external elements to endanger national security.

On 24 October, the Standing Committee of the National People's Congress in Beijing adopted the Patriotic Education Law. In his annual Policy Address, the Chief Executive pledged to promote patriotic education in Hong Kong. Within a month, on 23 November, the Education Bureau unveiled a new Humanities Curriculum Framework for primary schools. The guiding principle for developing this new subject, due to be implemented in the academic year 2024/2025, was to 'align with the national direction of patriotic education'.

On 15 November, the Legislative Council passed the Regional Flag and Regional Emblem (Amendment) Bill 2023, intended to 'better preserve the dignity' of the two official symbols. The bill listed inappropriate use of the two symbols and mandated the Secretary for Education to include the teaching of the two symbols in primary and secondary education.

The **space for pluralistic voices** in Hong Kong shrank further in 2023. The **Democratic Party** – once the largest pro-democracy political group – failed to organise fundraising events in February, March and September as at least five venue providers cancelled at the last minute. On 14 November, the government rejected a bid from the party to set up a stall at the annual Lunar New Year Market. The **Civic Party**, a political group founded in 2006, disbanded on 27 May. The group once had the second highest number of pro-democracy lawmakers in the Legislative Council. The decision came after no members took up positions in its Executive Committee.

Activists and politicians continued to leave Hong Kong. On 3 December, activist Agnes Chow, who had been arrested in August 2020 and was on bail and studying in Canada, announced that she would not return to Hong Kong to report to the police. On 27 December, activist Tony Chung, who tried to seek political asylum at the US consulate in Hong Kong in 2020, announced that he had arrived in the UK and planned to seek asylum there. Chung was convicted of secession under the National Security Law and received a sentence of 43 months.

On 19 October, the High Court ruled against the judicial review case over the forced retirement of a civil servant. The civil servant had not submitted a signed declaration pledging allegiance to the Special Administrative Region on time.

On 13 December, the government launched the consultation process to update the **Civil Service Code** that applies to over 180 000 government employees. The updated draft not only reminded government employees to be cautious in expressing their opinions about government policies, but also expanded the scope of loyalty for civil servants to include the Central People's Government of the People's Republic of China in Beijing. The government also required all civil servants to attend a national security training course.

Implementation of national security legislation

30 June marked the third anniversary of the imposition of the National Security Law. According to the Security Bureau, 290 people have been arrested under the NSL and related clauses as of 29 December 2023, with a conviction rate of 100%. In March, the Hong Kong government allocated an extra HK\$5 billion (EUR 590 million) to the 'special fund' dedicated to safeguarding national security.

In 2023, the Hong Kong authorities for the first time issued a wanted list targeting individuals residing overseas, including foreign nationals, **implementing the NSL extra-territorially**. On 3 July, the national security police placed a HK\$1 million (EUR 118 000) bounty each on eight

self-exiled activists over alleged collusion with foreign countries or external elements. The following day, the Chief Executive stated that the eight would be ‘pursued for life’.

The bounty list created a ripple effect in Hong Kong. On 5 July, the national security police arrested four members of the now-defunct political group Demosisto for raising funds to support ‘anti-China’ activities overseas. On 6 July, the Law Society and the Bar Association stated that they had launched investigations against two of their overseas members. So far, the police has taken in at least 26 family members and friends of the wanted eight for questioning.

On 14 December, the police published a second wanted list of five self-exiled activists, accusing them of ‘incitement to secession, incitement to subversion and collusion with a foreign country or with external elements’, with a bounty of HK\$1 million (EUR 118 000) placed on each of them. As of 31 December, no person on the bounty lists has been extradited to Hong Kong.

The Hong Kong authorities also extended the implementation of the NSL to other areas. For example, the government added national security clauses to land auctions and will require free-to-air TV and radio stations to air programmes about the NSL for at least 30 minutes per week once their licences are up for a midterm review. The government also launched new ways for library users to report titles deemed inappropriate or endangering national security.

On 15 December, the government for the first time amended the implementation guidelines for Article 43 of the NSL, which regulates the applicable law enforcement measures. The adjustment granted the Secretary for Security the authority to freeze the assets of suspects and defendants involved in national security cases until all their legal proceedings had ended, removing an earlier limit that capped the period at 2 years unless the High Court authorised an extension.

Judicial proceedings of the cases charged under the NSL and the colonial era sedition law continued, albeit with considerable delays. Many of the defendants have been held in custody since March 2021, in some cases in repeated solitary confinement.

In the mass trial of the 47 pro-democracy lawmakers and activists who participated in a primary election in 2020, the prosecutor accused the defendants of ‘conspiracy to subversion’ under the NSL. The maximum penalty is life imprisonment. This is the NSL trial with the highest number of defendants. A total of 16 of the defendants pleaded not guilty. As the court denied bail to most of the defendants in March 2021, many of them have since remained in custody. The trial started on 6 February and lasted for 118 days, exceeding the 90 days that had originally been scheduled. The closing submission finished on 4 December. It was announced that the verdict would be issued within 3 to 4 months from that date.

The NSL trial against the **Hong Kong Alliance in Support of Patriotic Democratic Movements of China (the Alliance)** entered the trial stage. However, as of 31 December 2023, the High Court has not announced a date for the beginning of court hearings. The civil society group had organised the annual candlelight vigil to commemorate the 1989 Tiananmen crackdown. The prosecutor accused the Alliance and its core members of incitement to subversion. The maximum penalty is life imprisonment.

In an opinion dated 1 May, the United Nations Working Group on Arbitrary Detention qualified the arrest and detention of Chow Hang-tung, one of the core members of the Alliance,

as ‘arbitrary’¹¹. On 12 December, the German and the French Foreign Ministries awarded Chow with the ‘Franco-German Prize for Human Rights and the Rule of Law’. On 21 December, Chow Hang-tung applied for bail for the 16th time and was rejected. She has repeatedly been held in prolonged solitary confinement.

The NSL and sedition trial brought against media entrepreneur and pro-democracy activist Jimmy Lai started on 18 December. Alongside Lai, six former journalists of the now-defunct newspaper Apple Daily, who pleaded guilty in November 2022, and three Apple Daily-related companies were charged. The prosecution accused Lai and the others of two charges under the NSL (‘conspiracy to commit collusion with a foreign country or with external elements to endanger national security’) and one charge under the colonial era sedition law (‘conspiracy to print, publish, sell, offer for sale, distribute, display and/or reproduce seditious publications’). The maximum penalty under the NSL is life imprisonment. The trial, which was expected to last for 83 days, was rescheduled twice – once from 1 December 2022 to 25 September 2023, and then ultimately to 18 December 2023.

In 2023, Jimmy Lai filed three legal reviews concerning the NSL trial, losing all of them. Lai filed two legal actions from February to April to assert representation in the NSL case by his UK-based lawyer and to ask for the rejection of the latter’s work visa application to be retracted. On 19 May, the High Court dismissed both challenges. On 29 May, Lai’s legal action to end his NSL trial on grounds of unfairness, arguing against the lack of a jury and the hand-picked NSL judges, was dismissed by the High Court. On 19 June, the court blocked Lai’s appeal against the search warrant relating to his phone. On 22 December, the Court ruled against Lai, whose legal team argued that the prosecutor pressed the sedition charge outside of its legal six-month time limit. The case was then adjourned to 2 January 2024.

26 September marked the 1 000th day of Jimmy Lai being in prison. His case continued to draw international attention. In a letter dated 16 May 2023, over 100 publishers, editors-in-chief and senior editors from 42 countries signed a joint statement organised by Reporters Without Borders to express support for Lai¹². In a petition dated 1 November, 10 overseas Catholic Church leaders called for his release¹³.

In the **NSL trial of Joseph John**, also known as Wong Kin-chung, a Portuguese national and UK resident, John was charged with ‘conspiracy to incite secession’. The maximum penalty is 10 years of imprisonment.

On 10 August, police arrested 10 people, accusing them of allegedly colluding with the 612 Humanitarian Relief Fund that offered assistance to protesters involved in the 2019 anti-extradition bill movements. The Fund’s secretariat ceased operations in October 2021.

On 12 October, the **United Kingdom Privy Council** ruled in relation to a case in the Republic of Trinidad and Tobago that sedition offences ‘must include an intention to incite violence or disorder’. To take this decision into account, the judge presiding over the sedition trial brought against the now-defunct online news outlet **Stand News** announced that the ruling would be handed down only in April 2024. The trial brought against two former journalists of the outlet

¹¹ <https://www.ohchr.org/sites/default/files/documents/issues/detention-wg/opinions/session96/A-HRC-WGAD-2023-30-AEV.pdf>

¹² <https://rsf.org/en/more-100-media-leaders-around-world-join-rsf-calling-release-hong-kong-press-freedom-emblem-jimmy>

¹³ <https://www.doughtystreet.co.uk/sites/default/files/media/document/Lai%20Petition%20%28Final%29%20%2801.11.2023%29.pdf>

who are charged with publication of seditious articles, had previously been expected to end in November 2023.

On 3 November, the West Kowloon Magistrates' Courts sentenced a 23-year-old student to 2 months in jail for 'inciting secession' after she had pleaded guilty. Evidence included social media posts the student posted when studying in Japan, raising concerns about the extra-territorial application of the NSL. She was arrested after she had returned to Hong Kong in March to renew her identity card.

On 17 April, the High Court sentenced activist Joshua Wong to 3 months in jail for disclosing a police officer's personal information online.

Legal proceedings related to the 2019 protests continued in 2023. On 11 April, the Judiciary Administrator informed the Legislative Council that around 90% of over 2 200 cases related to the 2019 protests and around 80% of some 170 national security trials were concluded by January 2023. 6 000 people, mostly young people, arrested during the 2019 protests but not yet charged, remain in a state of uncertainty about their future.

Against the background of these legal proceedings, Hong Kong's ranking in the Rule of Law Index fell for the third consecutive year. In the league table, as compiled by the World Justice Project and published on 25 October, Hong Kong dropped from 16th in 2020 to the 23rd place among 142 regions¹⁴.

Hong Kong's judiciary in 2023 continued to adjust its legal practice to the NSL, which prevails over the common law system on matters considered relevant to national security. In a judgement handed down on 22 August, the Court of Final Appeal ruled that pleading guilty in serious national security cases could no longer guarantee a one-third reduction of the sentence, as used to be the practice. Instead, the penalty 'could not be below the minimum set by the NSL.

On 9 June, the Court of Appeal ordered the retrial of a case based on doubts over the quality of the judicial work. The ruling noted that the Court of First Instance judge who had presided over the original trial had copied 'over 98%' of the plaintiff's written submission into his judgement. The judiciary told media that the judge, who was one of the three judges who heard the first NSL trial in 2021, had received a serious reprimand over his actions from the Chief Justice.

On 10 May, the Legislative Council unanimously passed the Legal Practitioners (Amendment) Bill 2023, which requires the Chief Executive's approval for the representation of foreign lawyers in national security cases. This amendment was based on the interpretation handed down by the Standing Committee of the National People's Congress on 30 December 2022. On the question of admitting a UK-based lawyer in the Jimmy Lai case, on 28 November 2022 the Chief Executive had for the first time requested from Beijing an interpretation of the NSL.

On 12 July, the Legislative Council passed the Criminal Procedure (Amendment) Bill 2023 that provides prosecutors with additional powers to appeal acquittal rulings of the Court of First Instance of the High Court, both in NSL cases presided by a panel of three judges and non-NSL cases presided by a jury.

¹⁴ <https://worldjusticeproject.org/rule-of-law-index/global>

Hong Kong's external relations

Hong Kong's external relations in 2023 were marked by efforts to diversify trade and economic links with countries in the Middle East and Southeast Asia. In February, the Chief Executive travelled to Saudi Arabia and the United Arab Emirates, where he signed 13 memoranda of understanding. In July, his delegation visited Singapore, Malaysia and Indonesia, signing 33 memoranda of understanding. Separately, on 4 May Belarus opened a Consulate General in Hong Kong.

Emigration from Hong Kong continued. In 2023, as of 30 September, the UK Home Office announced that it had received 30 300 applications for British National (Overseas) visas. The United Kingdom has received a total of around 191 000 applications by Hong Kong citizens for the special visa scheme that can pave the way to citizenship. Canada and Australia continued to receive visa applications under bespoke immigration schemes for Hong Kong residents.

On 26 January, the US extended the 'safe haven' policy for Hong Kong residents by 2 years, effectively allowing them to stay beyond the expiry of their visas. US lawmakers also introduced the 'Hong Kong Economic and Trade Office Certification Act', the 'Safeguarding Internet Freedom in Hong Kong Act' and the 'Hong Kong Sanctions Act'. On 14 December, the US Congress passed the 2024 National Defence Authorization Act that listed the People's Republic of China including Hong Kong as a 'foreign adversary', on a par with Cuba, Iran, North Korea, Russia and Venezuela.

Finland granted refugee status to a Hongkonger for the first time in 2022.

COVID-19 pandemic restrictions lifted

On 8 January, the government resumed the operation of four border checkpoints for the mainland and Macao, with a daily quota of 50 000. On the same day, the 'LeaveHomeSafe' system used to track the footprint of users ceased to operate. On 6 February, the government reopened all checkpoints, scrapping the daily quota and COVID testing requirements. On 1 March, the government lifted the obligation to wear masks.

Rights, freedoms and equal opportunities

On 15 and 16 February, the United Nations Committee on Economic, Social and Cultural Rights considered the fourth periodic report of Hong Kong on the implementation of the International Covenant on Economic, Social and Cultural Rights. Subsequently, on 22 March the Committee published its concluding observations¹⁵, urging Hong Kong to review the National Security Law to 'ensure the full independence of the judiciary and to ensure that national security legislation is not arbitrarily used to interfere with it'. The Committee further called on Hong Kong to 'immediately provide all due process guarantees to human rights defenders, civil society actors, journalists, lawyers working on human rights and others working to defend economic, social and cultural rights'.

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https://tbinternet.ohchr.org/_layouts/15/treatybodyexternal/Download.aspx?symbolno=E%2FC.12%2FCHN%2FCO%2F3&Lang=en

One of the 38 contributions by civil society organisations submitted in preparation of the review process contained edits by the Hong Kong government's Constitutional and Mainland Affairs Bureau. The Bureau later stated it had merely advised the respective NGO on document submission. None of the 20 organisations that expressed support for the NSL had filed a submission during the previous review process 9 years before.

On 12 May, the United Nations Committee on the Elimination of Discrimination against Women reviewed the fourth periodic report of Hong Kong on the implementation of the Convention on the Elimination of All Forms of Discrimination against Women. On 31 May, the Committee published its concluding observations¹⁶. The Committee recommended that Hong Kong 'take into consideration the paramount importance of the right of peaceful assembly and refrain from over-prioritising public order and security concerns when considering restrictions on democratic manifestations such as the annual Labour and Women's Rights and Gender Equality March'.

On 17 March, the United Nations Working Group on Arbitrary Detention and several Special Rapporteurs on human rights expressed 'grave concern relating to the arrest, detention and multiple prosecutions of Jimmy Lai [and the forced closure of the news outlet Apple Daily] which appeared to be related to his criticism of the Chinese government and his support for democracy' in Hong Kong¹⁷. On 19 April, the UN Special Rapporteur on the independence of judges and lawyers expressed concern about certain provisions under the National Security Law, the amendments to the Legal Aid Scheme and the amendment to the Legal Practitioners Bill¹⁸. On 25 July, five UN Special Rapporteurs stated that the proposed regulations on crowdfunding activities 'may result in the violation of certain fundamental rights and freedoms under international law'¹⁹. In his 2022 Policy Address, the Chief Executive had announced plans to regulate online and offline crowdfunding activities. Opposition groups have since criticised the proposal as a lack of funding could force them to cease operations.

On 31 August, in relation to the issuing of arrest warrants for activists in exile, four UN Special Rapporteurs expressed 'consternation at the charging of the seven individuals, who appear to stand accused under the NSL for activities that are protected by international human rights law'. The Special Rapporteurs also said that the mass trial of the 47 pro-democracy activists raised 'serious due process concerns of its own'²⁰.

On 9 October, four UN Special Rapporteurs expressed 'serious concern about the first mass trial of 47 people' and 'the issuance of arrest warrants and bounties against pro-democracy figures from Hong Kong currently in exile overseas'²¹.

In 2023, Hong Kong continued to slip in various rights-related global rankings. In the Human Freedom Index 2023 compiled by the Cato Institute and the Fraser Institute, Hong Kong fell from 34th place to 46th place²². In the Democracy Index 2022 published by the Economist

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https://tbinternet.ohchr.org/_layouts/15/treatybodyexternal/Download.aspx?symbolno=E%2FC.12%2FCHN%2FCO%2F3&Lang=en

¹⁷ <https://spcommreports.ohchr.org/TMResultsBase/DownloadPublicCommunicationFile?gId=27848>

¹⁸ <https://spcommreports.ohchr.org/TMResultsBase/DownloadPublicCommunicationFile?gId=27992>

¹⁹ <https://spcommreports.ohchr.org/TMResultsBase/DownloadPublicCommunicationFile?gId=28178>

²⁰ <https://spcommreports.ohchr.org/TMResultsBase/DownloadPublicCommunicationFile?gId=28323>

²¹ <https://www.ohchr.org/en/press-releases/2023/10/chinahong-kong-sar-un-experts-concerned-about-ongoing-trials-and-arrest>

²² <https://www.cato.org/sites/cato.org/files/2023-12/human-freedom-index-2023-county-profiles.pdf>

Intelligence Unit in February 2023, Hong Kong fell by three spots to 88th place²³. In the Democracy Report published by the Swedish organisation Varieties of Democracy, Hong Kong dropped to 139th place from 123rd place in the Liberal Democracy Index²⁴.

Press freedom also continued to be under pressure. Hong Kong ranked 140th among the 180 countries and regions in the 2023 World Press Freedom Index compiled by the organisation Reporters Without Borders and published on 3 May²⁵. The Press Freedom Survey conducted by the Hong Kong Foreign Correspondents' Club (FCC) and published on 5 July²⁶ found that 65% of the respondents, who are journalists in Hong Kong, said that they have self-censored in their own writing over the previous 18 months. The FCC also said it had developed a set of guidelines for releasing statements on press freedom issues, which included seeking legal advice and contacting government departments ahead of publishing. The Press Freedom Index published on 7 July by the Hong Kong Journalists Association²⁷ said that both the general public and journalists witnessed a decline in press freedom in 2022.

In the course of 2023, at least two Hong Kong-based journalists were reported missing in mainland China. These were an editor of the political magazine *Exclusive Character*, and a reporter covering Chinese defence policy and diplomacy for the *South China Morning Post*.

On 15 April, the government barred several media outlets from covering a National Security Education Day event attended by Xia Baolong, the Director of the Hong Kong and Macao Affairs Office in Beijing. In July, the Office of the Ombudsman concluded that since the decision had been issued by the National Security Committee, it needed to 'refrain from making comments on the matter'.

On 14 May, *Ming Pao*, a local news daily, stopped carrying the comic strips of political cartoonist Wong Kei-kwan, who went by the pseudonym 'Zunzi', after his work had received repeated criticism from government officials.

On 25 September, a court convicted Ronson Chan, Chairperson of the Hong Kong Journalists Association, of obstructing a plainclothes police officer in 2022. Chan was on a reporting assignment at the time of the arrest and had insisted on asking the officer to show the relevant credentials. The court sentenced Chan to 5 days in jail but granted him bail while awaiting appeal.

2023 saw the disbandment of news outlet *Transit Jam* in May after attacks from Beijing-controlled media. On 21 April, *Wen Wei Po*, a local newspaper, criticised the online media's founder for protesting during the Hong Kong visit of Xia Baolong, Director of the Hong Kong and Macao Affairs Office, earlier in the month.

During the year, the Hong Kong government banned the entry of three freelance journalists. These were Michiko Kiseki and Yoshiaki Ogawa from Japan, and Matthew Connors from the United States. Reportedly this was due to their coverage of the 2019 pro-democracy protests in Hong Kong.

²³ <https://www.eiu.com/n/campaigns/democracy-index-2022/>

²⁴ <https://www.v-dem.net/publications/democracy-reports/>

²⁵ <https://rsf.org/en/index>

²⁶ <https://www.fcchk.org/statement-on-results-of-fccs-press-freedom-survey/>

²⁷ <https://www.hkja.org.hk/en/press-release/hong-kongs-press-freedom-index-hits-new-low-with-most-hesitation-in-criticising-the-central-government/>

In contrast, the Court of Final Appeal on 5 June ruled that journalism was a valid reason for freelance producer Bao Choy to access the official car registration database for her investigative documentary on the mob attack against pro-democracy protesters in 2019. A lower court had convicted her of making false statements to the Transport Department and had handed down a fine of HK\$6 000 (EUR 705) in April 2021.

Separately, in an interview published on 29 June, the Chief Executive said that he did not wish to proceed with the **drafting of fake news legislation** as long as the press could ‘exercise self-discipline’.

In the name of national security, **freedom of expression experienced further strain in 2023**. On 14 April, the Secretary for Culture, Sports and Tourism told a lawmaker that the Hong Kong Arts Development Council had terminated funding for two projects, involving a total amount of HK\$1 million (~EUR 118 000), as the projects were deemed to have violated Hong Kong laws, including the NSL. The Council confirmed in July 2021 that it had withdrawn a grant of more than HK\$700 000 from Ying E Chi Cinema, the distributor of the protest-related documentary ‘Inside the Red Brick Wall’.

The Hong Kong government also attempted to ban the circulation of the popular protest song ‘Glory to Hong Kong’ through an injunction order. The Court of First Instance rejected the bid in July, citing that the ban could have a ‘chilling effect’ on freedom of expression. The Court of Appeal first heard the case on 19 December and adjourned hearings to 14 February 2024.

On 12 September, a student from the mainland was convicted of an ‘attempt to carry out an act or acts with seditious intent’ for planning to display a banner bearing the image of the Pillar of Shame – a copper sculpture by Danish sculptor Jens Galschiøt commemorating the 1989 Tiananmen crackdown which authorities had seized in December 2021. She received a six-month jail term. Separately, a Japanese music busker known as ‘Mr Wally’ was denied entry into Hong Kong as he had expressed sympathy with the protesters in 2019.

On **freedom of religion or belief**, religious organisations are under increasing pressure to conform to the government’s new emphasis on patriotism. To mark the Chinese National Day on 1 October 2023, the Anglican St John’s Cathedral, for the first time, displayed a Chinese national flag during its morning service. The Hong Kong Buddhist Association and the Kowloon Mosque organised flag-raising ceremonies to mark the occasion on 28 September and 17 October respectively.

On 17 April, the Roman Catholic Bishop of Hong Kong, Stephen Chow, led a delegation of senior priests to Beijing for a 5-day visit at the invitation of the Archbishop of Beijing, Joseph Li Shan. This visit was the first of its kind in nearly 40 years. Archbishop Li reciprocated with a visit to Hong Kong starting from 14 November.

Freedom of assembly remains significantly restricted since the imposition of the National Security Law. Organisers cancelled a planned march to mark International Labour Day on 1 May. The authorities again stifled the 4 June candlelight vigil marking the anniversary of the 1989 Tiananmen crackdown. The Pride Parade was not restored to its original format of a march despite the end of COVID-related restrictions.

The pro-Beijing Federation of Hong Kong and Kowloon Labour Unions called off its plans for a Labour Day march on 17 April after it had failed to secure police approval. On 26 April, a

former leader of the now-disbanded pro-democracy Confederation of Trade Unions in Hong Kong called off plans for a march, after being interrogated by the police and citing ‘tremendous pressure’ from the authorities.

In the case of the 4 June commemoration, the annual candlelight vigil in the Victoria Park, originally organised by the civil society group Hong Kong Alliance in Support of Patriotic Democratic Movements, did not take place for the fourth year in a row. The Catholic Diocese of Hong Kong announced it would not organise a memorial mass, following its practice from 2022. On the evening of 4 June, the police arrested 11 men and 12 women for suspected ‘breaches of the peace’ in the vicinity of Victoria Park. The police also intercepted a Polish exchange student for lighting candles.

The Office of the United Nations High Commissioner for Human Rights on 5 June stated that it was ‘alarmed by reports of detentions’ in Hong Kong linked to the 4 June anniversary and urged ‘the release of anyone detained for exercising freedom of expression and peaceful assembly’²⁸.

The annual 1 July protest, which last took place legally in 2019, did not return. Individual demonstration attempts were suppressed as the Hong Kong police deployed thousands of officers. A total of 16 protesters were searched and interrogated. The civil society group Civil Human Rights Front that had organised the protest since 2003 disbanded in August 2021.

The first authorised protest after the lifting of COVID-related restrictions took place on 26 March. A group of property owners protested against a land reclamation plan. The police required the participants to wear numbered badges around their necks, not to wear masks and to limit the group size to 100.

The President of the Legislative Council stated that the authorities would consider reopening the designated demonstration area at the Legislative Council Complex in early 2025 at the earliest. Meanwhile, the Chief Executive cancelled the practice of receiving letters from protesters ahead of weekly Executive Council meetings, saying that there were ‘too many channels to express opinions’. In the past, pressure groups saw this as an opportunity to directly voice concerns to the Chief Executive.

2023 also saw court cases in relation to the freedom of assembly. On 22 November, the Court of Final Appeal heard the appeal of the Department of Justice against a lower court’s decision to acquit Chow Hang-tung of incitement to join a banned candlelight vigil at Victoria Park on 4 June 2021. On 8 December, the Court of Appeal granted the application from seven pro-democracy leaders to appeal to the Court of Final Appeal in relation to their conviction for participating in a protest on 18 August 2019.

Freedom of association also continued to be under pressure. On 22 March, national security police took away four former members of the now-disbanded Hong Kong Confederation of Trade Unions to assist in an investigation. Hong Kong’s formerly largest independent trade union had disbanded in 2021.

On 9 November, the Hong Kong Professional Teachers’ Union announced the next step of its dissolution, informing all eligible members they could each receive HK\$3,190 (EUR375) out

²⁸ <https://twitter.com/UNHumanRights/status/1665415438514176002>

of the union's funds. The group expected the official dissolution process to be finished within 2024.

Association in political groups other than the pro-Beijing parties appeared to be increasingly difficult. In the case of the League of Social Democrats, three of the group's bank accounts were terminated in May. Several banks also terminated the personal accounts of four core members of the League.

Academic freedom also continued to be under pressure. Hong Kong dropped to the 152th place from 149th among 179 countries and territories in the Academic Freedom Index compiled by the Swedish-based V-Dem Institute and the German Friedrich-Alexander-Universität Erlangen-Nürnberg and published in September²⁹.

On 24 October, the Immigration Department rejected the work visa application of Rowena He, a history professor whose research focuses on the 1989 Tiananmen crackdown. On 27 October, the Chinese University of Hong Kong dismissed the Guangzhou-born Canadian citizen, citing He's inability to receive a work visa.

On 6 June, the independent Hong Kong Public Opinion Research Institute cancelled the publication of its '4 June Anniversary Survey Report' a few hours ahead of the scheduled release. The Institute stated it had received advice from 'relevant government department(s)' to call off the publication. On 20 June, the Institute announced it would cancel about a quarter of its regular survey questions. Responses to one third of the remaining questionnaire would not be made available to the public.

2023 saw hopeful signs of progress on the rights of **LGBTI+ people** in Hong Kong, mainly carried forward by the judiciary. On 7 February, the Court of Final Appeal ruled that the policy of barring transgender people from changing the gender entry on their identity card unless they underwent full sex reassignment surgery violated their rights and was unconstitutional.

On 5 September, the Court of Final Appeal ruled that it was the government's obligation to provide an alternative framework to protect same-sex partnerships within the following 2 years. The court, however, also ruled against recognising same-sex marriage, including those married abroad.

The court also handed a victory to same-sex couples in the following areas: on 15 September, the High Court granted parentage to the genetic mother of a child born through surrogacy conducted in South Africa, after the Births and Deaths Registry had only recognised the gestational mother as a parent. On 17 October, the Court of Appeal rejected two appeals from the Housing Authority and upheld the rights for same-sex couples to apply for public rental housing and live together in subsidised flats under the Home Ownership Scheme. On 24 October, the Court of Appeal upheld a lower court ruling that same-sex couples should enjoy equal inheritance rights.

Public attitudes towards LGBTI+ people have become more favourable. According to a survey conducted by researchers from the University of Hong Kong, the Chinese University of Hong Kong and the University of North Carolina, around 60% of the 1 551 respondents supported same-sex marriage legislation, representing an increase of 22 percentage points as compared

²⁹ <https://academic-freedom-index.net/#:~:text=The%20AFI%20assesses%20de%20facto,and%20the%20V%2DDem%20Institute>

to the same survey conducted 10 years before. Meanwhile, 71% of respondents supported measures against discrimination on the basis of sexual orientation.

The Hong Kong government, however, launched appeals to overturn the court rulings concerning subsidised housing policies and equal inheritance rights. The government also did not fully support the **2023 Gay Games** in Hong Kong, the first ever in Asia. The event, which took place between 3 and 11 November, attracting 2 300 participants from 45 countries, was organised by civil society and mainly funded by multinational companies.

The annual pride event Pink Dot on 10 December returned outdoors after having been restricted to an indoor venue in 2021 and 2022 during the COVID pandemic.

The guarantee of prisoners' rights continued to cause concern. Chow Hang-tung, the detained pro-democracy activist and member of the Hong Kong Alliance in Support of Patriotic Democratic Movements of China, has repeatedly faced solitary confinement.

On 2 February, the Office of the Ombudsman indicated that there was room for improvement in the 'Justices of the Peace Visit Programme', a legal feedback mechanism for detainees, among other purposes. The Office of the Ombudsman criticised the fact that in some cases people in custody were not sufficiently informed about their rights under the programme, for example they could request feedback meetings held in private.

On **asylum seekers**, in December 2022 the government implemented a new removal policy for non-refoulement claimants. Under the arrangement, the Immigration Department can remove an unsubstantiated claimant once the judiciary dismisses the respective application for judicial review. As of October 2023, the Immigration Department had deported 150 claimants under the new policy.

In the financial year 2023/2024, the government budgeted HK\$1.4 billion dollars (EUR 165 million) to spend on the handling of non-refoulement claimants, an increase of around HK\$300 million year on year. This is to prepare for an expected increase in claimants after the end of the COVID pandemic.

Foreign domestic workers in Hong Kong remain a vulnerable group. Between 21 March and 15 May, the government conducted a public consultation on the review of the Code of Practice for Employment Agencies. To discourage so-called 'job hopping', the major proposals included requiring employment agencies to explain clearly to foreign domestic helper job seekers that 'under the prevailing policy, an application for change of an employer in Hong Kong within the two-year contract period would normally not be approved save for exceptional circumstances'. The NGO International Migrants Alliance criticised this policy, arguing that helpers ought to be able to change jobs at will in a free market.

II. Economic developments

Hong Kong is the seventh largest trading economy in the world (2022)³⁰, the world's fourth destination for investment flows and seventh largest source of investments globally³¹ (2022). Trade in goods accounts for about 290% of GDP³², indicating the openness of the economy.

Hong Kong exercises independent authority in implementing commercial agreements and sets monetary policy autonomously from mainland China. Hong Kong remained, notably on economic policy issues, a separate legal jurisdiction from mainland China, maintaining a separate currency not limited by capital limitations, as well as separate regulatory structures to supervise companies operating in the territory. Reaching out to the world after the end of the pandemic restrictions – including to bring back talent and companies to Hong Kong – and enhancing the competitiveness of Hong Kong, as well as economic integration with mainland China, were among the government's priorities during the year.

Hong Kong fell by one place in the World Investment Report 2023 by the United Nations Conference on Trade and Development (June), making it the **world's fourth largest investment destination for foreign direct investment (FDI)** in 2022 (down from third in 2021)³³. The latest survey on foreign companies by the Hong Kong government indicates that the number of non-Chinese foreign companies in the territory stabilised in 2023 (at a lower level than before COVID), after several years of decline amid strict pandemic-related restrictions. Hong Kong's population also largely recovered after a drop of about 170 000 people during the pandemic. As of mid-2023, the population increased by 2.1% (126 500 people) from a low in mid-2022 – but was still 0.3% lower (39 500) than before the pandemic (end-2019)³⁴.

Hong Kong's economy returned to growth in 2023, with a 3.2% increase in GDP year on year (after a contraction of 3.7% in 2022)³⁵, but **is yet to recover to its level of 2018**. The financial industry and the trade and logistics industry faced significant challenges. Industries dependent on tourism partially recovered to pre-pandemic levels.

Inflation remained moderate, with an annual 2.1% increase in the consumer price index during the year³⁶. **The unemployment rate** continued to improve and was back to pre-pandemic levels – at 3.0% for the full year 2023, down from 4.3% in 2022³⁷.

³⁰ World Trade Statistical Review 2023 by the World Trade Organization
https://www.wto.org/english/res_e/publications_e/wtsr_2023_e.htm

³¹ World Investment Report 2023 by the United Nations Conference on Trade and Development
https://unctad.org/system/files/official-document/wir2023_en.pdf

³² Ratio calculated using GDP and external trade statistics (10-month 2023) from the Census and Statistics Department of the Hong Kong Special Administrative Region
<https://www.censtatd.gov.hk/en/scode250.html>
<https://www.censtatd.gov.hk/en/scode230.html>

³³ World Investment Report 2023 by the United Nations Conference on Trade and Development
https://unctad.org/system/files/official-document/wir2023_en.pdf

³⁴ The Census and Statistics Department of the Hong Kong Special Administrative Region:
<https://www.censtatd.gov.hk/en/scode150.html>

³⁵ Advance estimates on gross domestic product for 2023, January 2024, the Census and Statistics Department of the Hong Kong Special Administrative Region
https://www.censtatd.gov.hk/en/press_release_detail.html?id=5380

³⁶ The Census and Statistics Department of the Hong Kong Special Administrative Region
https://www.censtatd.gov.hk/en/press_release_detail.html?id=5378

³⁷ The Census and Statistics Department of the Hong Kong Special Administrative Region:
<https://www.censtatd.gov.hk/en/scode200.html>

The **trade and logistics sector** – which accounts for 23% of Hong Kong’s GDP – continued to face challenges. GDP from the import and export industry contracted by 11.0% year on year in the first 9 months of 2023³⁸ and the value of Hong Kong’s external trade in goods dropped by 6.7% to HK\$8.82 trillion (EUR 1.04 trillion)³⁹ in the year 2023⁴⁰. External trade returned to growth in the last 3 months of the year, ending 16 months of consecutive decline. Hong Kong’s trade in goods has a large exposure to the external trade of mainland China, by far its largest trading partner, given Hong Kong’s role as a transit and re-export centre for the mainland.

The financial industry (22% of Hong Kong’s GDP) contracted by 1.7% year on year in the first 9 months of 2023. The industry was a key growth driver for the city in the past years until it halted in 2022 (growing by only 0.1% year on year) and contracted in 2023.

The number of **initial public offerings (IPOs)** further decreased to 73 in 2023, from 90 in 2022. The amount raised through IPOs dropped by 55.8% year on year to HK\$46.3 billion (EUR 5.4 billion). Hong Kong was the world’s eighth largest hub for IPOs in 2023, down from fourth in 2022 and 2021, second in 2020 and first in 2019.

During the year, the **Hong Kong Hang Seng Index** lost 13.8% of its value, while **market capitalisation** on the Hong Kong Stock Exchange dropped by 13.0% to HK\$31.0 trillion (EUR 3.6 trillion). Average daily market turnover was down by 15.9% year on year to HK\$105 billion (EUR 12.4 billion)⁴¹. As of the end of October 2023, Hong Kong was the world’s seventh largest and Asia’s fourth largest stock market by market capitalisation and the largest offshore renminbi business hub.

The drop in market capitalisation and in IPOs was due to a combination of factors. These included high interest rates in the US, investor concerns over the Chinese economy and the quality of Chinese assets (Chinese companies accounting for about 78% of Hong Kong’s stock market capitalisation), and geopolitical tensions.

Tourists are a source of revenue for several sectors in Hong Kong’s economy. **Industries exposed to tourist spending** include retail, food and beverage, transport, travel and hospitality. Hong Kong welcomed 34 million visitors in 2023, a significant increase from 604 564 in 2022, but half (52%) of the number in 2018)⁴². In the second half of the year visitors increased, reaching about 60% of the 2018 level. Mainland Chinese visitors constituted the largest group of tourists (78% in 2023; similar to 2018) and accounted for an estimated 40% of the city’s retail sales before the pandemic.

In the first 9 months of 2023, GDP from **accommodation and food services industries** and from **wholesale and retail sales** increased by 35.8% and 29.2% respectively year on year. This supported Hong Kong’s economic growth, but the sectors still accounted for only 56% and 68% respectively of GDP in the same period in 2018, showing that the recovery was only

³⁸ Chain volume measures of GDP by economic activity - in chained (2021) dollars, the Census and Statistics Department of the Hong Kong Special Administrative Region https://www.censtatd.gov.hk/en/web_table.html?id=310-34501

³⁹ Exchange rate dated from December 2022 of EUR 1 = HK\$8.0965.

⁴⁰ The Census and Statistics Department of the Hong Kong Special Administrative Region <https://www.censtatd.gov.hk/en/scode230.html>

⁴¹ Market statistics, website of Hong Kong Exchange and Clearing Limited https://www.hkex.com.hk/Market-Data/Statistics/Consolidated-Reports/HKEX-Monthly-Market-Highlights?sc_lang=en

⁴² Visitor Arrivals to Hong Kong; Hong Kong Tourism Board https://partnernet.hktb.com/en/research_statistics/latest_statistics/index.html

partial. During the year, retail sales increased by 16.2% from 2022 to HK\$406.7 billion (EUR 47.9 billion) but were still only 83.8% of the 2018 level. Restaurant receipts increased by 33.9% year on year in the first 9 months to HK\$82.1 billion (EUR 9.7 billion), 92% of the same period in 2018. Hotel room occupancy was 82%, compared to 65% in 2022 and 92% in 2018.

The **aviation industry** and related industries partially recovered. The number of flights at Hong Kong International Airport roughly doubled compared to 2022 but were still only 65.8% of their pre-pandemic level (2019). The number of passengers increased to 39.4 million (from 5.6 million in 2022), accounting for only slightly more than half (55.3%) of the 71.3 million passengers in 2019. Air cargo volume decreased by 3.2% year on year, to 91.4% of 2019 levels⁴³.

The **construction** and **real estate** industries recorded increases of 4.8% and 6.7% respectively in the first 9 months of the year. Property prices decreased during the year, but Hong Kong remained one of the most expensive cities in the world.

The SAR's **Linked Exchange Rate System** remained in place during the year, within a HK\$7.75-7.85 to one US dollar band. Foreign currency reserve assets were mostly stable, ending 2023 at USD 425.5 billion, from USD 424.0 billion at the end of 2022.

Hong Kong is **expected to retain a fiscal deficit for the 2023-2024 financial year (ending in March 2024)**. This would be the SAR's fourth deficit in 5 years, unusual for an economy accustomed to recording fiscal surpluses. The budget presented in February 2023 forecasted a deficit for the 2023-2024 fiscal year of HK\$119 billion (EUR 14 billion), excluding proceeds from the issuing of government bonds, but the government later warned that it would be noticeably higher. The budget was presented with the expectation that the economy would grow by 3.5% to 5.5%, instead of the actual 3.2%.

The recent **deficits were largely funded by tapping into Hong Kong's large fiscal reserves**. The fiscal reserves amounted to HK\$692 billion (EUR 81.4 billion) in December 2023, a decrease of 10.5% year on year and of 40.3% from HK\$1.2 trillion in March 2020. Reserves are equivalent to an estimated 12 months of expenditures, compared to 24 months before COVID-19.

In December, **Moody's downgraded the credit rating outlook of Hong Kong to negative from stable**. This followed Moody's outlook change on China's A1 rating to negative from stable and its assessment of tight political, institutional, economic and financial linkages between Hong Kong and the mainland resulting in a credit rating gap between the two economies which should not be wider than one notch. The outlook also mentioned signs of reduced autonomy of Hong Kong's political and judicial institutions. Even after the downgrade, Hong Kong's rating (Aa3) still reflected Moody's assessment of the SAR's 'significant credit strengths, including its wealthy and competitive economy, substantial fiscal and external buffers, and track record of effective monetary and fiscal policy'. These strengths continued to offer a 'significant degree of resilience' to shocks and to negative trends such as a rapidly ageing population, the structural slowdown in mainland China's economy and sustained geopolitical and strategic uncertainty.

⁴³ Air Traffic Statistics, Civil Aviation Department
<https://www.cad.gov.hk/english/statistics.html>

The International Monetary Fund, in its latest Article VI consultations (May 2023), forecasted growth of below 3% in the mid-term. The Fund recommended not returning to a balanced budget too quickly as the economy still needs support. Hong Kong was also advised to introduce unemployment benefits, broaden its tax system and increase the housing supply. The IMF praised the city's high-quality financial sector oversight and substantial buffers and welcomed plans for positive countercyclical capital buffers. Risks to growth relate to global banking stress, monetary policy tightening, a global growth slowdown and to Hong Kong being 'at the forefront of rising geo-economic fragmentation as a financial gateway to China'. The SAR needed to monitor credit risk and financial stability in the light of exposure to mainland China's real estate and the remaining impact of the pandemic on Hong Kong firms' financial situation. Regarding an ongoing debate on the usefulness (and political desirability) of the USD peg, the IMF considered that the Linked Exchange Rate System was still the appropriate arrangement for the territory as an anchor for macro and financial stability. Hong Kong should continue to guarantee the free flow of capital and preserve the rule of law while boosting innovation and strengthening links with the Greater Bay Area and with countries that are members of the Regional Comprehensive Economic Partnership (RCEP).

Business environment

Political developments, including implementation of the National Security Law, freedom of information, data privacy and sanctions, remain a concern for the international business community and affected the perception of Hong Kong as an international business hub.

More pronounced issues cited in the business surveys are the challenges in accessing talent and the economic outlook of Hong Kong. In the meantime, many in the business sector acknowledge that the SAR remains a competitive place for business, thanks to its simple tax system, connectivity and access with mainland China, common law system, free movement of capital and full convertibility of its currency.

The **lifting of the COVID-19 restrictions** improved the business environment in the SAR. With the reopening of Hong Kong, and of mainland China, businesses were again able to make full use of Hong Kong as a regional hub. However, several sectors of the economy continue to underperform (tourism-related industries for instance). The outflow of talent during the pandemic is also still having an impact on companies' capacity to hire staff. The strict COVID-19 policies and continued political concerns have eroded the attractiveness and perception of Hong Kong for overseas talent. At the end of 2023, Hong Kong's labour force was still 4.0% smaller than before the start of the pandemic (equivalent to 160 000 workers), due to a combination of emigration and foreign employees leaving the city.

An annual survey on foreign companies in Hong Kong⁴⁴ indicated that as of 1 June 2023, the decrease in the **number of foreign companies** (excluding mainland Chinese companies) had halted (0.0% change in number of companies from June 2022). However, it had stabilised at a level 5.2% lower when compared to June 2019 (pre-COVID level). The number of staff employed by these companies also dropped by 5.2% from June 2019. The number of foreign (non-Chinese) regional headquarters dropped more noticeably (-6.1% year on year and -17.8% compared to 2019), indicating that Hong Kong might be losing relevance as a regional business

⁴⁴ Report on 2023 Annual Survey of Companies in Hong Kong with Parent Companies Located outside Hong Kong, the Census and Statistics Department of the Hong Kong Special Administrative Region
<https://www.censtatd.gov.hk/en/EIndexbySubject.html?pcode=B1110004&scode=360>

hub. While non-Chinese foreign companies dropped in the survey, mainland Chinese companies in Hong Kong increased by 3.0% year on year and by 21.0% from 2019.

Attracting talent and companies back to Hong Kong and promoting the SAR to the world was a policy priority during the year. The Office for Attracting Strategic Enterprises (OASES) commenced operations in December 2022, with the mission to attract strategic enterprises to Hong Kong, including in targeted key technologies. On 4 October, it signed an agreement with a first batch of 20 enterprises setting up or expanding their businesses in Hong Kong⁴⁵. Talent schemes were enhanced and, to attract wealthy individuals, in December 2023 the government reintroduced the Capital Investment Entrant Scheme (CIES) (suspended in 2015). This is an investment-migration scheme that offers a faster route to residency for people who invest at least HK\$30 million (EUR 3.5 million) in the stock market or other assets, excluding residential real estate.

In the annual **Policy Address** on 25 October 2023, the Chief Executive proposed policies to support the growth and recovery of the economy, to further advance integration with the Greater Bay Area (GBA) of economic, financial and people-to-people flows (including visa facilitation for expatriates) and to participate further in the Belt and Road Initiative. Attracting more talent and enterprises to set up a presence in Hong Kong, including headquarters, will remain a priority. For the economy, the Chief Executive announced measures to support the tourism industry and the setting-up of a New Industrialisation Development Office, as well as a HK\$10 billion (EUR 1.18 billion) New Industrialisation Acceleration Scheme. Cultural and creative industries will also be further promoted. With regard to the financial industry, the priorities are to improve market liquidity, strengthen mutual access with mainland China's capital market (including via the 'connect' schemes), facilitate the internationalisation of the renminbi and support financial technologies (Fintech) and green finance. The Policy Address also announced an action plan to develop Hong Kong into a leading international maritime centre, promote high value-added maritime services and facilitate GBA maritime collaboration (an action plan on maritime and port development strategy was released in December). New energy transport, decarbonised buildings and recycling will also be promoted.

Developing Hong Kong into an **innovation and technology (I&T) centre** is another policy objective. In March 2023, China's Ministry of Science and Technology and the Hong Kong government signed the 'Mainland and Hong Kong Arrangement on Accelerating the Development of Hong Kong into an International Innovation and Technology Centre'. The aim of the arrangement is to deepen scientific collaboration, share innovation and exchange talent, leveraging Hong Kong's advantages as an international city. Hong Kong is establishing an artificial intelligence supercomputing centre (the first phase is to be completed in 2024 as per the Policy Address). The Policy Address furthermore announced plans to establish a Hong Kong microelectronics research and development (R&D) institute. The 2023-2024 budget (February 2023) earmarked HK\$3 billion (EUR 352 million) to develop international scientific research collaboration and attract leading I&T talent, research teams and enterprises. Construction of the Hong Kong-Shenzhen Innovation and Technology Park (HSITP), on the border with Shenzhen (and geographically located within the Northern Metropolis), continued with Shenzhen. Batch 1 should be completed by 2027.

Works to develop the **Northern Metropolis** continued. The development zone, which will include residential districts, an I&T zone, a logistics hub and connecting railway infrastructure

⁴⁵ Press release by the Government of the Hong Kong Special Administrative Region:
https://www.news.gov.hk/eng/2023/10/20231004/20231004_173732_399.html

with the rest of Hong Kong and Shenzhen, will further integrate Hong Kong with the Greater Bay Area. The Northern Metropolis Coordination Office was established in June to formulate and promulgate an action agenda and an implementation plan. Another large development project is the construction of the **Kau Yi Chau Artificial Islands** (1 000 ha, for new residential and business districts). A public engagement report was released in August.

On **green finance**, Hong Kong issued additional green bonds during the year under the government green bond programme launched in 2018. The Hong Kong Monetary Authority also launched preparatory work to establish a **green taxonomy** for Hong Kong, including using the Common Ground Taxonomy (developed jointly by the EU and mainland China) as a reference. Hong Kong also pledged to adopt the international financial reporting standards (IFRS) sustainability disclosure standards.

On 1 June 2023, Hong Kong's new licensing regime for **virtual asset** trading platforms came into force, setting out regulatory requirements for licensed virtual asset trading platforms. Under the new regime, centralised virtual asset trading platforms operating in Hong Kong will need to apply for a licence under the Securities and Futures Ordinance and/or the Anti-Money Laundering and Counter-Terrorist Financing Ordinance.

Trade policy

Hong Kong has eight free trade agreements (FTAs). These are with mainland China (CEPA, June 2003 and enhanced thereafter), New Zealand (March 2010), the Member States of the European Free Trade Association (EFTA) (June 2011), Chile (September 2012), Macao (October 2017), the Association of Southeast Asian Nations (ASEAN) (November 2017), Georgia (June 2018) and Australia (March 2019). Hong Kong has also signed 23 investment promotion and protection agreements (IPPAs) with foreign economies (including with 10 EU Member States) and negotiations have been concluded (pending signature) with Bahrain, the Maldives and Myanmar.

Hong Kong continues to seek early accession to the Regional Comprehensive Economic Partnership (RCEP). Hong Kong submitted its accession request in January 2022. In January 2023, Hong Kong started negotiations for an FTA with Peru. In October, an IPPA was signed with Türkiye⁴⁶. IPPAs with Bangladesh, Russia and Saudi Arabia are under negotiation.

In his Policy Address of October 2023, the Chief Executive said that Hong Kong will continue its efforts to join RCEP and would also be holding or participating in 70 related events with RCEP members and stakeholders in 2024. Hong Kong will also be actively seeking to enhance its Closer Economic Partnership Arrangement (CEPA) with mainland China, including by striving for further liberalisation, aiming especially at those sectors where Hong Kong enjoys competitive advantages (such as financial services).

Economic integration with mainland China

On **financial integration and mutual access**, in May the northbound trading leg of the 'Swap Connect' scheme was launched⁴⁷. It aims to provide a channel for international investors to

⁴⁶ Press release by the Government of the Hong Kong Special Administrative Region: <https://www.info.gov.hk/gia/general/202310/31/P2023103100544.htm>

⁴⁷ Press release by the Hong Kong Monetary Authority: <https://www.hkma.gov.hk/eng/news-and-media/press-releases/2023/05/20230515-3/>

trade interest rate swap products in the mainland via a connection between infrastructure institutions in Hong Kong and the mainland. The scheme aims to facilitate global investors' management of interest rate risks arising from their allocation to mainland bonds and increase their participation in the onshore bond market via Hong Kong. In June, Hong Kong Exchanges and Clearing Limited (HKEX) launched the HK\$-RMB Dual Counter Model, which offers investors in Hong Kong a choice of trading the shares of a Hong Kong-listed company in either HK\$ or renminbi.

In September 2023, regulators in Hong Kong and mainland China announced that the **Greater Bay Area 'Wealth Management Connect'** scheme would be expanded⁴⁸, including with regard to eligibility criteria, scope, products and quota.

During the year, policy directions and initiatives were issued with regard to developing the **Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone** (located in Shenzhen) and enhancing links between Qianhai and Hong Kong. This included facilitating the opening of bank accounts, Hong Kong insurance firms establishing an insurance after-sales service centre in Qianhai, and helping Qianhai enterprises to make use of Hong Kong for fundraising and establishing overseas operations.

With regard to the Greater Bay Area, the Policy Address proposed: (i) a joint investment fund with the Guangdong provincial government to invest in GBA projects; (ii) the promotion of cross-boundary data flows; (iii) logistics clusters in the north of Hong Kong to serve as a logistics gateway to the GBA; and (iv) further bolstering of mutual-access financial cooperation (including with Qianhai and the setting-up of a cooperation committee on financial cooperation with Shenzhen). Hong Kong also sought to extend to the whole GBA (currently only in Qianhai and some free trade zones) options for mainland enterprises to adopt Hong Kong's law and dispute resolution services by enhancing cross-border cooperation on issues like bankruptcy proceedings. Cross-boundary medical collaboration will be increased (including medical research, healthcare and elderly care).

III. Relations between Hong Kong and mainland China

The Chinese central government underwent a leadership reshuffle in the annual plenary sessions of the National People's Congress and the Chinese People's Political Consultative Conference, known as 'Two Sessions', in March. This resulted in a series of personnel changes pertaining to Hong Kong.

Ding Xuexiang, a member of the Politburo Standing Committee of the Communist Party, became a Vice Premier and the Head of the Central Leading Group on Hong Kong and Macao Affairs. Former Chief Executive Tung Chee-hwa stepped down from his position as a Vice-chairperson of the Chinese People's Political Consultative Conference. Former Chief Executive CY Leung kept his seat as the Vice-chairperson of the same body.

On 11 March, Starry Lee, a lawmaker and a former chairperson of the pro-Beijing political party 'Democratic Alliance for the Betterment and Progress of Hong Kong' (DAB), succeeded Tam Yiu-chung as Hong Kong's sole representative in the Standing Committee of the National People's Congress.

⁴⁸ Press release by the Hong Kong Monetary Authority:
<https://www.hkma.gov.hk/eng/news-and-media/press-releases/2023/09/20230928-4/>

At the local level, on 14 January Beijing appointed Zheng Yanxiong, the former Director of the Office for Safeguarding National Security of the Central People's Government in the Hong Kong SAR, as the Director of the Liaison Office of the Central People's Government in the Hong Kong SAR and the National Security Adviser to the Committee for Safeguarding National Security of the Hong Kong SAR, succeeding Luo Huining. On 18 July, Beijing appointed Dong Jingwei as Head of the Office for Safeguarding National Security in the Hong Kong SAR, succeeding Zheng Yanxiong.

Alongside the personnel changes, Beijing announced on 16 March its plan to elevate the Hong Kong and Macao Affairs Office under the State Council to the Hong Kong and Macao Work Office of the Communist Party of China Central Committee. Between 13 and 18 April, Xia Baolong, the Director of the Hong Kong and Macao Work Office, visited Hong Kong. During his stay, Xia met with senior officials from the executive, legislature and judicial branches of the Hong Kong government as well as representatives from the business, legal, technology and education sectors. Xia also attended the opening ceremony of the city's National Security Education Day on 15 April. In a speech delivered on 22 December, Xia Baolong laid out his expectations for various sectors of Hong Kong society, including the government, political groups, businesses and ordinary people.

Between 29 October and 5 November, a delegation of 17 judges and judicial officers visited Beijing for an exchange visit that was part of the ongoing professional exchanges between the Hong Kong and mainland judges and judicial officers. Between 19 and 25 November, over 30 officials visited the mainland for the first national studies programme for politically appointed officials of the current administration.

The facilitation of Hong Kong's integration with mainland China remained a political priority for authorities both in Hong Kong, the Pearl River Delta region and Beijing. On 7 November, the Guangdong provincial government published the 'Three-Year Action Plan for the Construction of the Digital Greater Bay Area'. The plan seeks to provide comprehensive electronic services in areas such as business start-up and financing services.

Mainland China was Hong Kong's largest trading partner in goods during the year, accounting for 49.2% of Hong Kong's total trade. In turn, Hong Kong was an important trading hub for mainland China and ranked as China's fifth largest trading partner in 2023.

The province of Guangdong remained an important outward-processing base for Hong Kong. The Closer Economic Partnership Arrangement (CEPA) with mainland China (2003) was Hong Kong's most substantial trade agreement. There was no major amendment to the agreement in 2023. The value of goods re-exported through Hong Kong from and to mainland China accounted for about 85.4% of Hong Kong's total re-export trade value (2022).

Hong Kong remained mainland China's key offshore financial centre and investment hub. At the end of 2022, mainland China was Hong Kong's largest source of inward foreign direct investment, excluding offshore centres, and the first destination for Hong Kong's outward FDI, accounting for 30% and 49% of total stocks respectively⁴⁹. In turn, Hong Kong was the largest source of FDI in mainland China, accounting for 55.9% of the total FDI into the mainland (at the end of 2022), and the leading destination for mainland China's FDI, with 55.9% of the total

⁴⁹ Statistical report on External Direct Investment Statistics of Hong Kong (2021 Edition), 8 December 2023: available at <https://www.censtatd.gov.hk/en/EIndexbySubject.html?pcode=B1040003&scode=260>

(at the end of 2022). There were 1 447 mainland enterprises listed in Hong Kong, accounting for 76.5% of the total market capitalisation and 86.5% of the equity turnover.

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 launching of a 'Wealth Management Connect' scheme for the GBA, allowing eligible mainland Chinese, Hong Kong and Macao residents to invest in wealth management products distributed by banks in each other's market. In 2023, the 'Stock Connect' schemes were enhanced and the northbound trading leg of the 'Swap Connect' scheme was launched.

IV. EU-Hong Kong bilateral relations and cooperation

In 2023, Hong Kong reopened for business and travel following the very restrictive measures in place during the pandemic. This presented new opportunities in terms of physical meetings, events and visitors.

The Head of the EU Office and Member State Consuls-General engaged in regular dialogue with senior officials of the Hong Kong government, including the Chief Executive.

The EU Office, together with the European Chamber of Commerce in Hong Kong (Eurocham), organised the second edition of the 'Green Way' event with high-level participation, resulting in recommendations that would allow greater participation of EU industry and standards in support of Hong Kong's environmental agenda. In addition, public outreach took place on relevant EU policies including the Carbon Border Adjustment Mechanism, the Due Diligence Directive, circularity, the Battery Regulation, green finance, ESG reporting standards, etc.

The EU and Hong Kong continued their dialogue on taxation issues and Hong Kong amended its tax regime with regard to foreign sourced income exemptions. Hong Kong and the EU also agreed on equivalence of the digital COVID certificate.

In 2023, the Hong Kong authorities decided to continue supporting the participation of Hong Kong entities in 'Horizon Europe'. The Hong Kong Research Grants Council proposed the 'EU-Hong Kong Research Cooperation Co-funding Mechanism by the Research Grants Council' to financially support entities based in Hong Kong seeking to join Horizon Europe consortia. Events promoting people-to-people exchanges between the EU and Hong Kong were organised.

The **EU remained the largest foreign business community in the city**, ahead of Japan, the US and the UK, according to the annual survey on foreign companies by the Hong Kong Census and Statistics Department⁵⁰. As of June 2023, at least 1 548 EU companies had set up business in Hong Kong. Many of them (797) were using the city as their regional headquarters or regional offices. EU businesses were present in a wide range of sectors, including financial and business services, trading and logistics, retail, food and beverage, and construction. In the survey, the number of EU companies recorded a decrease of 3.4% from their pre-COVID level (June 2019), while the total number of non-Chinese foreign companies dropped by 5.2% in the

⁵⁰ Report on Annual Survey of Companies in Hong Kong with Parent Companies Located outside Hong Kong, 2023 edition, the Census and Statistics Department of Hong Kong Special Administrative Region, available at: <https://www.censtatd.gov.hk/en/EIndexbySubject.html?pcode=B1110004&scode=360>

period. This indicates that EU companies were more resilient to local developments than other foreign business communities. However, EU companies that have cut or relocated some activities and/or staff while remaining in Hong Kong are not reflected in these statistics.

In the first 11 months of 2023, **bilateral trade in goods between the EU and Hong Kong amounted to EUR 28.5 billion**, an increase of 4.2% on the same period in 2022. EU exports of goods to Hong Kong amounted to EUR 23.4 billion, while imports from Hong Kong totalled EUR 5.1 billion, resulting in a surplus of EUR 18.2 billion for the EU⁵¹. **The EU was Hong Kong's third largest trading partner in goods** in 2023, after mainland China and Taiwan⁵². Hong Kong remained an important platform for trade between mainland China and the EU.

The EU was Hong Kong's **third largest** trading partner in services (latest available data, Hong Kong statistics)⁵³. In 2022, Hong Kong was the EU's **10th largest** partner for Extra EU imports of services and eighth largest partner for Extra EU exports of services (Eurostat)⁵⁴. Eurostat data shows that EU trade volumes in services with Hong Kong reached a total of about EUR 41 billion in 2022, with **increases** in recent years (+8% in 2022, +30% in 2021). The main services traded are transport, telecommunications, financial services and other business services.

The EU was the fifth largest investor in Hong Kong and the second destination for Hong Kong's foreign direct investment globally. According to Eurostat, Hong Kong was the ninth largest source of FDI stock into the EU in 2022, with EUR 194.5 billion (11.6% higher year on year but down 4.2% from a high in 2019), and the 15th destination of EU FDI stock, with EUR 95.7 billion (3.1% higher year on year but down 42.8% from a record high in 2019)⁵⁵.

The EU-Hong Kong Policy Dialogue Support Facility continued to provide a platform for discussions on topics such as sustainability and higher education exchanges.

On 18 September, the Commissioner's Office of the Ministry of Foreign Affairs issued a Note Verbale, requiring foreign diplomatic representations to submit personal information relating to local staff. On 8 December, the government adopted a bill that required foreign diplomatic missions to apply for approval with the Commissioner's Office of the Ministry of Foreign Affairs to extend land leases.

The EU Office organised the European Union Film Festival 2023, opened by a Ukrainian film. Other events included a photo exhibition marking one year of the Russian war of aggression against Ukraine, an event on the World Press Freedom Day, a panel discussion with civil society representatives on the rights of LGBTI+ people in Hong Kong in the context of the Hong Kong Gay Games and a movie screening with a subsequent discussion to mark International Human Rights Day 2023.

⁵¹ Source: Eurostat: European Union trade in goods

<https://ec.europa.eu/eurostat/comext/newxtweb/>

⁵² Census and Statistics Department of the Hong Kong Special Administrative Region:

<https://www.censtatd.gov.hk/en/scode230.html#section4>.

⁵³ The Census and Statistics Department of the Hong Kong Special Administrative Region:

<https://www.censtatd.gov.hk/en/EIndexbySubject.html?pcode=B1020011&scode=240>

⁵⁴ Eurostat: European Union trade in services

<https://ec.europa.eu/eurostat/data/database> and <https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20240130-1>

⁵⁵ Source: Eurostat: European Union foreign investment statistics

https://ec.europa.eu/eurostat/databrowser/view/bop_fdi6_geo/default/table?lang=en

The Council Conclusions of July 2020 on Hong Kong⁵⁶ mandated the continued observation of the trials of pro-democracy activists. The EU Office and the EU Member States in Hong Kong conducted 122 trial observations in 2023.

⁵⁶ <https://www.consilium.europa.eu/media/45222/council-conclusions-on-hong-kong.pdf>.