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**JOINT REPORT TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

**Hong Kong Special Administrative Region:  
Annual Report for 2020**

# JOINT REPORT TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

## HONG KONG SPECIAL ADMINISTRATIVE REGION:

### ANNUAL REPORT FOR 2020

#### 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). The EU has consistently supported the 'one country, two systems' principle and its implementation.

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. Over the years, this has included a particular focus on implementation of the 'one country, two systems' principle and on Hong Kong's autonomy as foreseen in the Basic Law.

This is the 23rd report, covering 2020. This year has been dominated firstly by important political developments and secondly by the impact of the COVID-19 pandemic, which has also seriously affected Hong Kong's economy.

#### *Overview of political and social developments*

Politically, the erosion of Hong Kong's high degree of autonomy and of rights and freedoms that were meant to be protected until at least 2047 has accelerated markedly in 2020. This follows interventions by the mainland authorities that call into question China's willingness to uphold its international obligations and its commitment to the people of Hong Kong under the 'one country, two systems' principle and the Hong Kong Basic Law.

The imposition on 30 June of a National Security Law (NSL) through a decision by the National People's Congress Standing Committee (NPCSC) raised grave concerns in terms of process and the content of the legislation. Numerous pro-democracy activists, lawmakers and journalists were arrested during the year, including on NSL- and public order- related charges.

The wide-ranging nature of the NSL offences, and the uncertainties over how they will be applied, have provoked serious concerns and have had a chilling effect on the exercise of protected rights and freedoms in Hong Kong. While there has been little overt censorship in response to the NSL, and no pro-democracy publications have faced outright closure, the trend towards self-censorship in the media, academia and civil society has accelerated.

The mainland authorities have strengthened oversight of Hong Kong affairs in other ways. Fears about the vulnerability of 'one country, two systems' were compounded in April when the Hong Kong Liaison Office (HKLO), representing the mainland authorities in Hong Kong, asserted that it was not bound by the obligation of non-interference in Hong Kong affairs enshrined in the Basic Law.

The rule of law and independence of the judiciary remain essential safeguards for the upholding of key rights and freedoms in Hong Kong. The courts were subject to unfounded

accusations of bias by political figures during the year, prompting a detailed statement by the Chief Justice recalling the Basic Law provisions and principles that govern the judicial system and defending the role, independence and integrity of the courts.

There continues to be a high level of confidence in the competence and integrity of judges and their readiness to uphold the rule of law, and it is too early to say how the Hong Kong courts will interpret the NSL and the extent to which rights and freedoms will be protected in the context of its application. Bail pending trial has been granted by the courts in the majority of NSL cases, though questions arose about the denial of bail to high-profile figures in other cases. In one such case, an NSL judge was assigned to preside over a non-NSL case involving security-related matters at the request of the prosecution. This raises questions about the scope and interpretation of the designation provisions contained in Article 44 of the NSL.

The Legislative Council (LegCo) elections that were due to take place on 6 September were postponed for one year, with the government citing the COVID-19 outbreak as justification. The NPCSC issued a decision to extend the term of LegCo by at least one year pending the elections and most pan-democrats decided to continue serving in LegCo for the extended year.

The NPCSC decision of 11 November on the qualification of members of the Legislative Council of the Hong Kong SAR imposed criteria for the dismissal of incumbent lawmakers and disqualification of prospective lawmakers. This provided the basis for the Hong Kong authorities to expel four pro-democracy lawmakers from LegCo later the same day, further undermining Hong Kong's high degree of autonomy and the protection of fundamental rights and freedoms. The NPCSC decision prompted the resignation of remaining pro-democracy lawmakers from LegCo; the legislature continued to function, but with reduced democratic checks and balances.

The EU encourages the Hong Kong SAR and the central government to resume electoral reform as enshrined in the Basic Law. It is important to put in place an electoral system that is democratic, fair, open and transparent, underpinned by universal suffrage in fulfilment of the Basic Law commitment. Universal suffrage would give the Hong Kong government greater legitimacy, which would help in attaining Hong Kong's economic objectives and tackling its socioeconomic challenges.

*Overview of the EU response to the imposition of the National Security Law*

The High Representative made the following Declarations regarding Hong Kong on behalf of the EU:

- 29 May - on the approval of draft national security laws by the National People's Congress;
- 1 July - regarding the imposition of the NSL;
- 3 August - regarding the postponement of the Legislative Council elections;
- 12 November - regarding the disqualification of Members of the Hong Kong Legislative Council.

EU spokespersons' statements on Hong Kong covered the following:

- 10 August - on arrests and raids pursuant to the NSL;
- 24 September - regarding the arrest of Joshua Wong and other pro-democracy activists;
- 2 November - regarding the arrests of eight pro-democracy lawmakers and politicians;
- 29 December – on the trial of 10 Hong Kongers in Shenzhen.

The foreign ministers of the G7 issued a joint statement on Hong Kong on 17 June.

In Council conclusions adopted in July<sup>1</sup>, the EU agreed a package of measures as an initial response to the NSL. This covers inter alia asylum and visa policy; export controls; observation of trials; support for civil society; scholarships and academic exchanges; reviewing extradition agreements; and refraining from launching any new negotiations.

At the Foreign Affairs Council on 7 December, it was agreed that the EU should continue to implement the measures agreed in July, and consider additional measures if appropriate, depending on the evolution of the situation.

The EU raised its concerns about developments in Hong Kong directly with the Chinese leadership at the EU-China Summit held on 22 June, and at Leaders' meetings held on 14 September and on 30 December.

### *Overview of the COVID-19 situation and economic developments*

As regards COVID-19, Hong Kong's excellent healthcare system and robust policy response, including strict quarantine measures and the responsible attitude of its residents - as reflected in the almost ubiquitous wearing of facemasks during the outbreak - contributed to effective management of the COVID-19 outbreak.

2020 was a challenging year for the world economy and Hong Kong was no exception. The economy contracted significantly and most of the city's key industries were hit hard, with the notable exception of the financial industry. The plunge in tourist numbers had a major impact on the luxury, hospitality, food and beverage and transport industries, while the trade and logistics sectors were affected by weak international trade. Despite several rounds of measures by the government to support the economy, the unemployment rate doubled during the year (to 6.6% in the last quarter of 2020). The fiscal position of the SAR also started to deteriorate, though Hong Kong continues to hold substantial reserves.

European companies in the city have not been spared, especially those reliant on tourism flows and international trade. Travel restrictions have been a key challenge, as many EU businesses are in Hong Kong to pilot their regional and mainland China operations. Companies are also concerned about political developments in Hong Kong, including the erosion of 'one country, two systems' and the potential impact of the NSL on the business environment.

## **I. Political and Social Developments**

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<sup>1</sup> <https://www.consilium.europa.eu/en/press/press-releases/2020/07/28/hong-kong-council-expresses-grave-concern-over-national-security-law/>.

The social unrest and large-scale protests that began in 2019 in response to the government's proposed Fugitive Offenders and Mutual Legal Assistance Bill came to a halt during 2020, though sporadic demonstrations continued to take place. The imposition of the NSL by way of a decision of the NPCSC on 30 June, and the measures put in place by the Hong Kong government to address the outbreak of COVID-19, were key factors in deterring public demonstrations.

Approximately 10 000 individuals have been arrested to date for alleged offences related to the unrest, including many juveniles. The protracted nature of decisions relating to prosecution in numerous cases means that many of those arrested are uncertain as to how the allegations against them will be handled, raising questions of fairness. Prosecutions have so far been taken forward in around 20% of cases.

The NSL has provoked concern in several respects. The manner of its adoption was not in conformity with Article 23 of the Basic Law, which provides for the enactment of such measures by the Hong Kong SAR 'on its own'. There was minimal opportunity for Hong Kong stakeholders to provide input on the draft law prior to its imposition - with the full text only being made available after promulgation of the law - and no democratic scrutiny by LegCo. In the week before the imposition of the NSL, the Chief Executive stated publicly that she had not seen the complete details of the proposed legislation.

The disqualification of several pan-democratic lawmakers from standing for re-election to LegCo was partly based on their opposition to the NSL. This further restricts the scope for elected representatives to scrutinise the implementation of the NSL measures.

The NSL creates four offences: secession, subversion, terrorist activities, and collusion with foreign forces or external elements. The wide-ranging nature of the offences, and the uncertainties over how they will be applied, have provoked major concern and inhibited the exercise of protected rights and freedoms in Hong Kong. It is hard at this stage to gauge how profound this inhibiting effect is.

The EU Office and EU Member State missions in Hong Kong have had numerous contacts with representatives of civil society, academia and the media to understand the impact of the NSL on their work. The law has undoubtedly prompted greater recourse to self-censorship, a 'safety first' approach to the storage of information and the use of social media, and concerns that legitimate contacts with foreign missions might expose individuals to prosecution for 'collusion'.

The NSL has unlimited extraterritorial application and provides for the exercise of jurisdiction by the mainland authorities in certain cases. In addition, NSL cases can be heard in closed courts, which requires careful attention.

The power vested in the Chief Executive to designate a pool of judges to hear NSL cases has been subject to criticism. However, in designating such judges, the Chief Executive may solicit the advice of the Chief Justice. Moreover, the Chief Executive does not allocate a particular judge to a particular case.

It remains unclear how far the NSL requirement placed on the Hong Kong government to strengthen supervision and regulation over matters concerning national security in schools,

universities, social organisations, the media and the internet will have an impact on human rights and fundamental freedoms.

Foreign businesses in Hong Kong are exposed to the NSL. Articles 21 and 23 of the NSL foresee hefty prison sentences for anyone who ‘incites, assists in, abets or provides pecuniary or other financial assistance or property’ for the commission of subversion or secession offences. There is no stipulation that such assistance must have been granted intentionally for it to constitute an offence under the law, which has spurred banks to scrutinise the services they provide to individuals and groups engaged in pro-democracy and other political activities. Under Article 31 of the NSL, companies and organisations can be held criminally liable, fined and have their licence revoked.

In 2020, there were 31 arrests under the NSL, and charges have been laid in four cases. Among these arrests, several concerned high-profile pro-democracy activists. The arrest of media magnate Jimmy Lai on 10 August, on allegations of collusion with foreign forces, was followed by a raid on his media outlet, Apple Daily, by around 200 police officers. This large-scale police operation involving a prominent and outspoken media group provoked concerns about possible political motivations. Agnes Chow, a co-founder of the now disbanded pro-democracy platform Demosisto, was also arrested on 10 August on NSL-related charges.

Similar concerns were voiced over decisions by the Department of Justice to prosecute pro-democracy activists and lawmakers for public order offences relating to the demonstrations and unrest, and to their conduct during LegCo proceedings. However, no charges were laid against individuals from pro-establishment parties who were involved in some of the same LegCo incidents. Moreover, the absence of convincing action to bring to justice assailants involved in the 2019 Yuen Long MTR attack has also raised questions about the probity of prosecutorial decisions.

It is too early to say how the Hong Kong courts will interpret the NSL and the extent to which rights and freedoms will be protected, although the NSL states that human rights will be respected and protected in safeguarding national security. In a first NSL ‘test case’, the Court of First Instance underlined that the courts will have recourse to common law principles when interpreting the new law and will take account of human rights safeguards. There continues to be a high level of confidence in the competence and integrity of judges and their readiness to uphold the rule of law, but the ultimate prerogative of the NPCSC to issue ‘interpretations’ with respect to the law needs to be borne in mind. The first trial of an NSL case is due to begin only in 2021.

Opinion polls have found that a majority of respondents are opposed to the NSL. In a survey by the Hong Kong Public Opinion Research Institute (PORI) on behalf of Reuters in August 2020, almost 60% of those interviewed voiced opposition. The poll also signalled that support for the protest movement had diminished, with just 44% of respondents saying they backed it.

The police have responded robustly to unauthorised assemblies, relying on a combination of the NSL, public order laws and COVID-related restrictions. They have deployed a new purple flag that warns of suspected breaches of the NSL, while the authorities have taken a broad interpretation of what constitutes a potential violation of the new law in the context of demonstrations. This includes use of the popular protest slogan ‘*Liberate Hong Kong*,

*revolution of our times*' and even the holding of blank placards by protesters. While the protest-related anthem '*Glory to Hong Kong*' has not been expressly outlawed, its use is forbidden in schools. In addition, the police national security unit launched a hotline to facilitate the reporting of acts that allegedly violate the NSL.

### **EU response to the imposition of the National Security Law**

In July, EU ministers adopted Council conclusions underlining that China's actions in relation to the adoption of the NSL were not in conformity with its international commitments under the Sino-British Declaration of 1984 or with the Basic Law. According to the conclusions, these actions called into question China's will to uphold its international commitments, undermined trust and impacted EU-China relations. They set out a coordinated package of measures as an initial EU response to the NSL:

1. Considering the implications of the national security legislation for asylum, migration, visa and residence policy in accordance with the applicable law, including by discussing relevant aspects at EU level;
2. Further scrutinising and limiting exports of specific sensitive equipment and technologies for end-use in Hong Kong, in particular where there are grounds to suspect undesirable use relating to internal repression, the interception of internal communications or cyber-surveillance;
3. Exploring possibilities for stepping up and coordinating scholarships and academic exchanges involving Hong Kong students and universities;
4. Further engaging with and supporting civil society in Hong Kong;
5. Ensuring continued observation of the trials of pro-democracy activists in Hong Kong;
6. Discussing at EU level the potential risks to EU citizens presented by the national security legislation;
7. Monitoring the extraterritorial effect of the national security legislation;
8. Reviewing the implications of the national security legislation on the operation of Member States' extradition and other relevant agreements with Hong Kong;
9. For the time being, not launching any new negotiations with Hong Kong.

Key actions taken under the Council Conclusions include the suspension by six EU Member States<sup>2</sup> of their extradition agreements, or negotiations for such an agreement, with Hong Kong following the adoption of the Council Conclusions; heightened scrutiny by Member States' authorities of relevant exports for end-use in Hong Kong; coordinated attendance by EU and member state diplomatic representatives in Hong Kong to observe court hearings of pro-democracy activists; and intensification of their contacts with civil society

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<sup>2</sup> Germany, France, Ireland, Netherlands, Finland and Italy.

organisations. Hong Kong students, academic and university staff continued to participate in a wide range of higher-education exchanges under Erasmus+ and bilateral exchange schemes run by Member States. No new negotiations with Hong Kong were launched.

The implementation of the measures foreseen in the Council Conclusions was closely followed in the relevant Council bodies. At the Foreign Affairs Council on 7 December, the High Representative reviewed the implementation of the NSL, its effects on rights and freedoms and the business environment in Hong Kong, and the impact of the EU response package. Based on this, ministers agreed that the EU should continue to implement the measures agreed in July, and consider additional measures if appropriate, depending on the evolution of the situation.

Concerns over the NSL were voiced at the EU-China Summit on 22 June, and Hong Kong was also raised at the EU-China Leaders' Meetings held on 14 September and 30 December. The EU expressed grave concerns about the erosion of fundamental rights and freedoms following the imposition of the NSL; the EU also reiterated concerns over the postponement of the LegCo election by a full year and the disqualification of several pro-democracy candidates. The President of the European Commission, Ursula von der Leyen, mentioned human rights abuses in Hong Kong in her 'State of the Union' address to the European Parliament on 16 September.

On 19 June, the European Parliament adopted a resolution on the 'PRC national security law for Hong Kong and the need for the EU to defend Hong Kong's high degree of autonomy'. The resolution deplored the introduction of the NSL as an assault on Hong Kong's autonomy and a breach of China's international commitments, including the Sino-British Declaration of 1984. It made several recommendations for action by the EU and others.

### **International response to the imposition of the National Security Law**

International actors, including the G7, the UN High Commissioner for Human Rights and UN special rapporteurs also voiced concern over the NSL.

On 27 May, the US administration announced that China had fundamentally undermined Hong Kong's autonomy and that Hong Kong no longer warranted differential treatment to mainland China. Further to this announcement, the US's Hong Kong Autonomy Act was signed into law on 14 July. On 7 August, the US imposed sanctions on 11 individuals from the Hong Kong and mainland governments on the grounds of involvement in undermining the SAR's autonomy and restricting freedom of expression or assembly. These included the Chief Executive, the Secretary for Justice, the Secretary for Security, the Secretary for Constitutional and Mainland Affairs, the Police Commissioner, the Director of the HKLO, Luo Huining, and other senior mainland officials implicated in Hong Kong affairs. The sanctions provide for the seizure of property and freezing of assets in the US, in response to the 'unusual and extraordinary threat' posed by China's undermining of Hong Kong's autonomy. The US imposed sanctions on a further 18 people in relation to the implementation of the NSL on 9 November and 7 December.

The UK extended immigration rights to provide a path to citizenship for Hong Kongers with British National Overseas (BNO) status; around 3 million Hong Kong residents are estimated to hold BNO status. Under the new arrangements, those with BNO status are afforded five years' limited leave to remain in the UK, with the right to work or study. After five years,

they are able to apply for settled status, and after a further 12 months with settled status they will be able to apply for citizenship. Visa provisions to accompany the new arrangements were announced in October.

In response to the NSL, the UK, Australia and New Zealand also suspended their extradition agreements with Hong Kong.

### **Crackdown on dissent**

Arrest of pro-democracy activists on various charges had already taken place in 2020 before the adoption of the NSL and continued throughout the year. Fifteen high-profile figures were arrested in April, including: Martin Lee, founder of the Democratic Party and prominent barrister; Albert Ho, a senior lawyer and former Chairman of the Democratic Party; Jimmy Lai, the founder of Apple Daily. The arrests relate to alleged ‘unlawful assembly’ at rallies and protests held in August and October 2019, an offence that can carry up to five years in prison. They were released on bail pending the commencement of trials due to take place in 2021. Jimmy Lai was re-arrested under the NSL on 10 August but later charged with fraud. On 3 December, he was refused bail.

On 23 August, 12 Hong Kongers trying to flee the region by boat were stopped by the Chinese coastguard and detained in mainland China. The cases were formally transferred to the prosecuting authorities on 27 November on charges of attempting to cross the border.

On 24 September, pro-democracy activist Joshua Wong was arrested as part of a series of arrests over the summer that also targeted his fellow activists Ivan Lam and Agnes Chow. On 2 December, the three activists were sentenced to terms ranging from seven to thirteen-and-a-half months’ imprisonment for public order offences linked to protests in 2019.

On 7 December, police arrested eight people over protests which had taken place at The Chinese University of Hong Kong the previous month, three of whom were suspected of violating the NSL by ‘inciting secession’. On 8 December, another eight pro-democracy activists were arrested over their alleged roles in an unauthorised assembly in July.

On 15 May, the Independent Police Complaints Council (IPCC) published its report on the protests triggered by the proposed extradition bill. The report covers events from June to October 2019 and concludes that there was no systemic problem with the police force. The IPCC found no fault in police actions during the Yuen Long mob attack in July 2019, where a group of white-clad men believed to be associated with Triad gangs attacked subway passengers. The IPCC warned of the dangers of incipient terrorism in Hong Kong, and cautioned that the force faced ‘blatant propaganda’ aimed at smearing the police. In its 52 recommendations, the report emphasised the need for additional training on tactics, the use of tear gas, improving communication and dispelling rumours. The IPCC is vested with only limited prerogatives and the report drew strong criticism for its failure to address convincingly concerns over accountability.

For the first time in 30 years, the authorities in Hong Kong refused permission for events to commemorate the 1989 Tiananmen Square crackdown in China, citing public health concerns linked to COVID-19. The organisers of the annual vigil, the Hong Kong Alliance in Support of Patriotic Democratic Movements in China, contended that the ban was politically motivated. Several people were arrested and charged with taking part in an unauthorised

assembly following the holding of a vigil in spite of the ban. Activities relating to the Tiananmen crackdown are otherwise permitted, and the museum run by the Alliance in Support of Patriotic Democratic Movements in China reopened its doors in May.

On 4 June, LegCo passed the controversial National Anthem Bill that criminalises insulting the ‘March of the Volunteers’ with a maximum fine of HKD 50 000 [EUR 5 530] and imprisonment for three years. The NPCSC in Beijing first adopted the National Anthem Law in September 2017 and decided to add it to Annex III to the Basic Law two months later. The LegCo vote gave local effect to this decision.

The HKLO has exerted increasing influence over Hong Kong’s policymaking and its political establishment, calling into question the maintenance of Hong Kong’s high degree of autonomy. The NSL has also established a new mainland institution in Hong Kong, the Office for Safeguarding National Security, which can exercise jurisdiction in serious national security cases, including where there are ‘complex’ elements linked to the involvement of a foreign country or ‘external elements’ that are not accountable to Hong Kong institutions. These provisions have not been invoked to date.

The LegCo elections had been set to take place on 6 September, and on 30 July 12 pro-democracy candidates were disqualified from running in the elections. The returning officers said that they did not believe the candidates would genuinely uphold the Basic Law, as formally required through signed declarations. Among those disqualified were four incumbent lawmakers. Three incumbent district councillors elected through universal suffrage were also barred, along with former Demosisto leader Joshua Wong.

The Hong Kong government issued a statement backing the disqualifications, citing actual or alleged behaviour on the part of those disqualified as justification for the step, including: support for Hong Kong independence (which is not directly advocated by those concerned); objections to the NSL; intending indiscriminately to vote down the government’s proposed bills; and soliciting interventions by foreign governments. It insisted that there was no political censorship or restriction of freedoms and warned that insults and threats to returning officers would be investigated by the police. The HKLO also welcomed the decision of the returning officers.

The mass disqualifications drew much international criticism. An EU Declaration issued by HRVP Borrell stated that the disqualification ‘*weakens Hong Kong’s international reputation as a free and open society*’.

The pan-democrats ran primary elections on 11-12 July in order to identify LegCo candidates, garnering a turnout of around 600 000 voters. A young generation of activists - who generally advocate greater self-determination - performed well in the polls.

On 31 July, the LegCo elections were postponed for one year under the Emergency Regulations Ordinance. The Chief Executive justified the measure by citing the health risks should the elections proceed in the midst of the ‘third wave’ COVID-19 outbreak. She noted the particular danger posed to elderly voters, the inability of around 100 000 eligible voters presently in mainland China to exercise their right to vote, and the impediments to campaigning occasioned by social distancing measures. She cited the postponement of elections in other jurisdictions.

The Basic Law does not foresee a situation where elections are postponed for such a lengthy period. Article 69 stipulates that LegCo's term of office is four years. The NPCSC subsequently issued a short decision that the sixth LegCo would continue to perform its duties for at least one year after its term expired on 30 September. The next LegCo will be elected for the customary four years.

Incumbent lawmakers who had been disqualified from running for re-election were initially not excluded from their seats for the one-year extended period. However, there was heated debate within the pan-democratic camp as to whether pro-democracy lawmakers should remain in the LegCo chamber. Given divisions within the movement, an opinion poll was commissioned to solicit views from the public on the issue. The inconclusive results of that poll prompted agreement by all but two lawmakers to remain in their LegCo seats. A third lawmaker resigned for health reasons.

On 11 November, the NPCSC issued a decision that provided the basis for the immediate expulsion of four pro-democracy lawmakers from LegCo by the Hong Kong government. The decision also set out wide-ranging criteria to determine when an individual lawmaker or prospective lawmaker is deemed unable to fulfil the oath to uphold the Basic Law and hence should be excluded from office. These include support for Hong Kong independence, a refusal to recognise China's sovereignty over Hong Kong, encouragement to foreign countries or 'external elements' to interfere in the affairs of Hong Kong, or the committing of acts that endanger national security. The NPCSC decision was strongly criticised in Hong Kong and by the international community, including on the grounds that it significantly undermines Hong Kong's high degree of autonomy and the protection of fundamental rights and freedoms.

Disqualification of the four lawmakers prompted the resignation of the 15 remaining pro-democracy lawmakers from LegCo. The legislature continued to function, but with significantly reduced democratic checks and balances.

Several senior pro-democracy figures resigned from their party roles following these developments. Ted Hui of the Democratic Party, who is facing several criminal charges with connected bail conditions, went into self-exile in the UK, generating a strong response from the mainland and Hong Kong authorities.

The courts were buffeted by accusations of bias during the year, particularly in relation to the adjudication of protest-related cases. On 23 September, the Chief Justice issued a rare statement defending the judiciary and warned that attacks on judges would erode public trust in the rule of law. In September, Australian Justice James Spigelman stepped down as one of the 14 foreign judges who sit in Hong Kong's Court of Final Appeal (CFA) as non-permanent judges. The Hong Kong government underscored its commitment to the system of appointing foreign judges, noting its importance to the independence of the judicial system. In October, the government appointed Mr Justice Patrick Hodge, Deputy President of the UK's Supreme Court, to the CFA.

On 21 December, the CFA – including the Chief Justice Geoffrey Ma and the UK's Lord Hoffman participating as a non-permanent member – unanimously rejected the legal challenge to the government's ban on wearing face coverings by pro-democracy activists and upheld the constitutionality of the Emergency Regulations Ordinance (ERO) pursuant to which the ban was imposed. The CFA decision vindicated the government's recourse to the

ERO during the unrest, underlining that, whilst emergency powers are wide and flexible, their exercise is subject to “meaningful control” in the shape of judicial review, LegCo vetting and the Basic Law’s requirements that such regulations must be prescribed by law and be proportionate.

The 30th anniversary year of the Basic Law witnessed controversy over the question of separation of powers. In the context of the revision of school textbooks, the Hong Kong government asserted that the principle was not applicable in Hong Kong. This triggered a substantial debate, with leading lawyers contending that, while the Basic Law does not expressly mention separation of powers, there is a clear delineation of responsibilities among the different branches of government, with judicial independence safeguarded by Article 85.

LegCo witnessed ugly scenes of violent disorder during the course of the year, one cause being the controversy over the occupancy of the chair of the House Committee. The committee was paralysed for several months as a result of filibustering by the pan-democrats and disagreement over the ceding of the chair to the deputy chairperson pending the outcome of the election of the new chair in May. Eight pan-democratic politicians, including five serving legislators and two former legislators, were later arrested over incidents in the LegCo chamber. The arrests prompted serious concern about the use of criminal provisions against lawmakers, and former lawmakers, and the selective targeting of pro-democracy politicians.

The Chief Executive postponed by a month her annual Policy Address that was due to take place on 14 October. She indicated that the delay was motivated by the need to consult the central government authorities on measures to aid Hong Kong’s recovery and visited Beijing in early November to that end.

Her fourth Policy Address was delivered on 25 November to a LegCo bereft of opposition voices. The Chief Executive referred to the ‘multiple blows’ that had struck Hong Kong, including the human and economic impact of COVID-19 and the social unrest. She defended the NSL and other recent political developments, including the disqualification of pro-democracy lawmakers and included a section on the ‘Full Support of the Central Government.’ She cited Articles 9 and 10 of the NSL as the basis for government plans to strengthen regulations with respect to social organisations, the media and the internet, and to promote national security education in schools and universities. She also confirmed that the government would introduce a bill to amend provisions relating to oath-taking.

### **Impact of the COVID-19 pandemic**

Regarding the COVID-19 pandemic, Hong Kong has reported over 8 847 cases and 148 deaths. Hong Kong’s excellent healthcare system, robust policy response, including strict quarantine measures, and the responsible attitude of its residents - as reflected in the almost ubiquitous wearing of facemasks during the outbreak - contributed to effective management of the outbreak. Hong Kong also drew on valuable experience with the SARS epidemic in 2003.

Hong Kong reported its first case in late January. Shortly thereafter, the SAR closed all border points apart from the international airport, Shenzhen Bay and the Hong Kong-Zhuhai-Macau Bridge, allowing Hong Kong residents to return to the city. There was some criticism of the government’s initial response to the outbreak, including the procurement of masks. With support from the central government, Hong Kong conducted a city-wide voluntary

testing programme in September with around 1.78 million people participating. The government provided a range of relief measures to mitigate the economic and social impacts of the outbreak.

During the course of the outbreak, with three infection ‘waves’ over the course of the year, the government recurrently tightened and relaxed social distancing measures. These measures have included the closure of certain commercial establishments deemed to be high-risk, restrictions on spacing and numbers in restaurants, and limits on the number of people permitted to gather in one group.

In the second half of the year, Hong Kong launched discussions on possible travel ‘bubbles’ to facilitate travel with 11 states. An agreement in principle on the establishment of a ‘bubble’ with Singapore was reached in October, although its implementation was delayed by a COVID-19 surge. The EU decided in October to list the Hong Kong and Macao SARs as regions with which non-essential travel could be restored on the basis of reciprocity and when conditions allow.

### **Rights, freedoms and equal opportunities**

The NSL has undoubtedly had an impact on the exercise of freedoms, and the leaders of Demosisto disbanded the pro-democracy party when the law was enacted. The party had advocated self-determination for Hong Kong, but relinquished that goal in January 2020.

Self-censorship in public life increased, though its extent is hard to gauge. Direct censorship is not yet a widespread feature of the media landscape, although some journalists speak of questionable editorial decisions and increased ‘gatekeeping’ on sensitive issues by editors. Though not directly linked to the NSL, the public broadcaster RTHK has been subject to increasing pressure to avoid activities and reporting deemed ‘provocative’ by the government.

The arrest of a freelance journalist on 3 November for her work on an investigative documentary for RTHK on the Yuen Long MTR attacks in July 2019 was criticised strongly for seeking to criminalise legitimate journalistic work.

Academics are facing uncertainty over what they can and cannot teach in light of the NSL, particularly those that teach ‘sensitive’ subjects and those catering to mainland students. Some academics are refraining from soliciting research funding from foreign sources, particularly the US, to avoid creating sensitivities.

NGOs are trying to ensure that they do not fall foul of the NSL, with resulting complications for their work. The Friedrich Naumann Stiftung is the first major international organisation to close its operations in Hong Kong as a result of the NSL.

Schools are under increasing pressure, after the Beijing and Hong Kong authorities signalled that there needs to be a reorientation of teaching to encourage patriotism and understanding of the NSL. A teacher was ‘deregistered’ for life by the Education Bureau for discussing pro-independence thinking in classrooms prior to the NSL, school textbooks have been revised and teachers have been advised to avoid falling foul of the law. The education sector has become increasingly politicised, with pro-Beijing figures asserting that many teachers are supportive of the cause of democracy or even independence, and that students are being indoctrinated with western ideologies in classrooms and encouraged to engage in social

movements. The Chief Executive has put forward reforms to teacher training to ensure greater adherence to government guidelines.

Freedom of assembly has been subject to restrictions in light of the COVID-19 outbreak and the NSL. In the first six months of 2020, there were 107 applications for public assemblies, with 87 turned down. All applications since July 2020 have been refused. The COVID-19 outbreak has regularly been cited as the principal reason for refusal, with public gatherings of more than four, and then eight, people banned since March. The police have hoisted a purple warning flag at unauthorised gatherings to warn of possible breaches of the NSL, although the scope of what is and is not acceptable in terms of political expression is not clear.

There was some progress in Hong Kong's courts in terms of **recognising the rights of LGBTI persons**. In March, a Housing Authority policy that barred same-sex couples who had married overseas from applying for public housing was ruled unconstitutional and unlawful by the Court of Appeal. In June, the Inland Revenue Department amended the tax code to allow a married person, whether in a heterosexual marriage or same-sex marriage, to choose joint assessment or personal assessment jointly with the person's spouse. On 18 September, Hong Kong's High Court ruled that same-sex couples married according to other jurisdictions' laws should enjoy equal rights under inheritance laws in Hong Kong. However, on the same date, the court declined to accord broader recognition to overseas same-sex marriages, noting that particular instances of discrimination could be tackled through specific court cases. Concerns came to light in 2020 about allegations of homophobic remarks made by an adjudicator in relation to the sexual orientation of an asylum claimant.

Hong Kong has taken some steps to address **trafficking in human beings**, though the US placed Hong Kong on its Tier 2 watch list. The US annual report on trafficking in human beings cited, among the points of concern, an ineffective identification mechanism, the small number of prosecutions and penalisation of victims for illegal acts that they were compelled to commit. A fifth EU-Hong Kong seminar on trafficking in human beings took place on 17-18 December and addressed shared issues of concern. These included international cooperation on tackling trafficking, assistance to victims, and collaboration with civil society.

The COVID-19 outbreak is believed to have had a negative impact on the working conditions of some **foreign domestic workers**. This includes reports that some employers did not allow workers to leave home to enjoy their customary one day-off per week. The Hong Kong Federation of Asian Domestic Workers Unions reported increased discrimination against workers as a result of the pandemic. Examples included unlawful termination of contracts when employees were believed to have contracted the coronavirus, and a refusal to pay incoming foreign domestic workers while they undertook compulsory quarantine. A large number of domestic workers who lost their jobs remained stranded in Hong Kong, with a heavy reliance on charitable support in the absence of other assistance. The Hong Kong government has introduced free COVID-19 tests and masks for foreign domestic workers who are waiting in boarding facilities to join the households of their new employers.

The **anti-corruption system** remained vigorous and resilient, with Hong Kong boasting very high standards of transparency and anti-corruption measures. The authorities and political and business figures recognise that transparency is vital in maintaining Hong Kong's strong position as an international business centre.

The economic impact of the COVID-19 outbreak has had an impact on **poverty** levels, with unemployment rising to a 16-year high of 6.6% by the end of 2020<sup>3</sup>, and the unemployment rate for youth between 20 and 29 reaching 11%. The poverty rate had already risen to 20.4% in 2019. In January 2020, the Chief Executive announced 10 new initiatives intended to support grassroots and underprivileged people, including increasing the target for transitional housing to 15 000 from 10 000 by 2023, and providing cash allowances to applicants for public rental housing who have been waiting for more than three years.

## **II. Economic Developments**

Hong Kong's economy deteriorated significantly in 2020 and recorded a second consecutive year of recession, after a 1.2% fall in GDP in 2019. Despite some improvement later in the year, on the back of China's recovery, the economy still contracted by 9.1% in the first quarter, 9.0% in the second quarter and 3.5% in the third quarter of 2020 when compared to 2019. COVID-19 played a major role in the contraction, though it came on top of existing headwinds such as the 2019 unrest and the US-China trade war.

The SAR has a very open economy, traditionally prospering as a triple hub: for China to raise offshore capital, for global and China trade, and for tourism (largely Chinese tourists). Among the city's four key industries - financial services, tourism, trading and logistics, and professional and producer services - finance was the only one that performed well in 2020.

**Industries with a large exposure to tourist spending** were among the hardest hit during the year. This includes retail, food and beverage, hospitality, transport and aviation. Retail sales fell by 25.3% year on year (y-o-y) in the first eleven months of 2020, restaurant receipts fell by 30.8% y-o-y in the first three quarters of the year and passenger numbers at the airport were down 87.5% y-o-y for the whole year. This can largely be explained by a massive fall in tourist arrivals, which decreased by 93.6% y-o-y to just 3.6 million tourists, on the back of travel restrictions and fear of travelling. Traditionally, around 80% of tourists are from the mainland and they account for an estimated 40% of the retail sales in the city, notably in the luxury sector. Domestic spending was also impacted by the weak economy and local social distancing rules in restaurants and other businesses.

Thanks to some improvement in the later part of the year, and the improving economic situation in China and some other parts of the world, impact of the pandemic on Hong Kong's external **trade** was limited: For the first eleven months of 2020, exports in goods (almost exclusively re-exports) dropped by 2.8% y-o-y and imports fell by 5.0%. This in turn affected the trade and logistics industries, which account for about 20% of Hong Kong's GDP.

The **labour market** deteriorated significantly during the year. Unemployment reached 6.6% by the end of the year, compared with 3.3% at the end of 2019. There are also significant disparities between sectors, with unemployment of just 3.2% in the financial industry.

**Property prices** increased by 0.3% during the year (compared with an increase of 5.5% in 2019). Hong Kong remains one of the world's least affordable urban centres for homebuyers. Scarcity of housing is a long-term issue impacting many households.

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<sup>3</sup> These and following are the latest statistics available at the time of writing.

The **financial sector** has been much more resilient than the rest of the economy and continued growing during the year. The industry was supported by a strong pipeline of activity in Initial Public Offerings (IPOs). There were 154 IPOs during the year, raising a total amount of HKD 397.5 billion (EUR 42.4 billion). That is an increase of 26.5% y-o-y in the amount raised, even after Ant Group's dual IPO in Hong Kong and Shanghai - which was to be the largest in history - was cancelled at the last moment due to objections from mainland China regulators.

IPOs are a source of revenue for many players in the financial industry and attract investors and capital. New stricter rules for Chinese companies listed in the US and broader US-China tensions are seen as encouraging IPOs of Chinese firms in Hong Kong. Another reason for the resilience of the financial industry is its relatively small exposure to the local economy. About 80% of Hong Kong's stock market capitalisation is composed of mainland China companies, meaning that the industry has a large exposure to the Chinese economy (which performed better than Hong Kong during the year). During the year, average daily turnover on the Hong Kong Stock Exchange increased by 49% y-o-y and market capitalisation reached a record high of HKD 47.5 trillion (EUR 5.1 trillion). The Hong Kong Hang Seng index was down by about 3.4%. The banking sector remained well capitalised and with strong buffers. Despite an uncertain economic situation and destabilising local political developments, the SAR **has not recorded significant capital outflows. The Hong Kong dollar was strong** and the Hong Kong Monetary Authority had to intervene on several occasions to make sure it did not appreciate too much and remained within its trading band with the US dollar. In this regard, the inflows of money following IPO activities supported the strength of the currency, together with strong foreign exchange reserves.

Average inflation amounted to 0.4% in the first eleven months of 2020.

### **Government support and fiscal situation**

To cope with the economic recession and support the population, the government implemented several rounds of relief measures during the year. **In total, the measures amounted to HKD 311.5 billion (EUR 33.2 billion), or about 10-11% of the city's GDP**, according to government figures. They included a HKD 10 000 (EUR 1 066) one-off cash handout to residents, a wage subsidy scheme and various tax cuts, waivers of fees and charges, and subsidy schemes for various industries.

While providing vital support to the economy, the measures have also been criticised for not being targeted enough, thus reducing their efficiency and increasing their fiscal cost. This was the case for the two most expensive measures - the cash handout and wage subsidies - as they were open to most residents and companies, irrespective of their financial situation. Most of the measures were announced in the first half of the year and the government scaled down support thereafter.

These actions were complemented by a set of measures by the Hong Kong Monetary Authority, including increasing liquidity in the banking sector, reducing the level of regulatory reserves by half to release lending capacity, and implementing principal repayment holidays on loans for bank customers.

In the summer, the government bailed out Hong Kong flagship carrier Cathay Pacific with a large injection of liquidity and the stated goal of safeguarding jobs and the status of Hong Kong as an aviation hub. Despite this support, the company announced a massive restructuring a few months later.

**On the fiscal front**, after recording its first budget deficit in 15 years in 2019, the situation worsened significantly in 2020 due to weak revenues and the cost of economic support measures. As a result, in the April to November period, the public deficit reached a record HKD 318 billion (EUR 34 billion) while fiscal reserves decreased from HKD 1.16 trillion to HKD 842 billion (EUR 90 billion).

## **Business environment**

The economic recession and the impact of COVID-19 on business operations and revenue were the main concerns for European companies during the year. At the same time, many firms also took into consideration the changing political environment in the city, including the implementation of the NSL and the growing influence of Beijing.

As was the case during the unrest in 2019, European businesses largely maintained a ‘wait and see’ approach during 2020. However, there is a perception among the business community that the NSL has damaged the international reputation of Hong Kong. There are also concerns over the potential impact of the law on companies and, more broadly, on the business environment in the SAR. These impacts differ from one industry to another but, broadly speaking, concerns include the need to ensure the continued independence of the judiciary, freedom of speech and of doing business, access to data, and the impact on hiring and maintaining talent<sup>4</sup>. As a result, some companies are reassessing their presence in the city, while others are working on contingency plans. Although there are also some businesses that see the NSL as a positive development, including from the perspective of social stability, business surveys suggest that this is not the majority view.

Due to the economic downturn, some European companies have downsized their operations in the SAR. Those in industries with a large exposure to tourist spending were among the hardest hit and recorded significant cuts in revenues. Companies in the trade and logistics sectors were affected by weak global trade and the global economic downturn.

Travel restrictions in and out of Hong Kong are also having a significant impact on European businesses, especially as many of them are doing business with China and the Asia region.

Hong Kong’s operational efficiency, its high degree of autonomy, the rule of law and its independent judiciary have long been considered key competitive advantages. Erosion of any of these would therefore negatively affect Hong Kong’s attractiveness. Tensions between China and the US, including over Hong Kong, are also a concern for businesses.

## **Trade and other policies**

In January, a free trade agreement (FTA) with Australia - which was signed in March 2019 and which also includes an amended investment agreement - entered into force. In March, an

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<sup>4</sup> These concerns were highlighted in several business surveys conducted during the year.

investment agreement with the United Arab Emirates entered into force. During the year, a FTA with the ASEAN economies, signed in 2017, also continued to enter gradually into force.

The government announced measures to support the role of Hong Kong as a financial hub and the premier green hub in the region. These include a waiver on stamp duty for Exchange Tract Funds (ETF) and measures to attract equity funds. A new technology index was also launched, called the Hang Seng TECH Index. It represents the 30 largest technology companies listed in Hong Kong that have high exposure to technology and pass the index's screening criteria. On green finance, the government and financial regulators in the city established the Green and Sustainable Finance Cross-Agency Steering Group, and the government said it would issue new government green bonds in the next few years (after the first issuance in 2019).

To boost innovation and technology - one of its main priorities - the government earmarked HKD 3 billion (EUR 320 million) for the expansion of Hong Kong's Science Park and strengthened its technology voucher programme. In December, the government also released the Smart City Blueprint for Hong Kong 2.0. On housing, the government set a target of supplying 100 400 units of public housing by 2024 (and 19 600 private housing units annually by 2024). On the environmental front, one of the priorities was to further promote the use of electric vehicles and to phase out more polluting vehicles. The government launched a HKD 2 billion (EUR 212 million) subsidy scheme to upgrade charging facilities for electric vehicles at private residential buildings.

Regarding energy, the government aims to increase the share of natural gas in the energy mix to allow for a reduction of coal. Waste management remains a major issue in the city, with just a small share of the city's waste being recycled locally. A setback came in June, when lawmakers withdrew a long-delayed bill on a mandatory waste disposal charge, which had been introduced in 2018.

In her **2020 Policy Address**, delivered on 25 November, the Chief Executive proposed to strengthen Hong Kong's recovery. The short-term focus was on containing the pandemic, while longer-term economic plans confirmed the established priorities of: strengthening integration within the Greater Bay Area and with mainland China; supporting the role of Hong Kong as a hub for trade, finance and business services; promoting innovation and technology and the development of a smart city. While the Policy Address contained some measures for businesses, and the pledge to boost infrastructure spending, it did not add significantly to the 10-11% of GDP already injected into the economy over the course of the year.

Once again, the Policy Address emphasised solving the long-lasting issues of shortage and unaffordability of housing. On this point, the Chief Executive reiterated her support for Lantau Tomorrow Vision, a massive and contested land reclamation project. Given the challenges facing Hong Kong's reputation, the Policy Address also announced a large-scale publicity exercise to promote the city as a business hub.

A notable announcement was the decision for Hong Kong to reach carbon neutrality by 2050, as part of which Hong Kong's climate action plan will be updated by the middle of 2021. The Address included other 'green' announcements, including transport, building, green finance and waste energy.

The Chief Executive's visit to Beijing raised expectations that China might soon reopen its boundary with Hong Kong. Many businesses have operations, clients and/or suppliers in the mainland and Chinese tourists to Hong Kong are key spenders in the retail, food and beverage, hospitality and transport industries. However, as at the end of the year, travel restrictions such as mandatory quarantine remained in place.

### **III. Relations between Hong Kong and mainland China**

The HKLO has exerted increasing influence over Hong Kong's policymaking and its political establishment, calling into question the maintenance of Hong Kong's high degree of autonomy. The assertion in April that the HKLO was not bound by the Basic Law's protection of Hong Kong's autonomy against interference by central government (Article 22) sent a worrying signal about China's commitment to safeguarding 'one country, two systems'. The HKLO's statement confirming this interpretation stated that the HKLO enjoys wide-ranging authority in Hong Kong, including powers of supervision. The appointment in January 2020 of Luo Huining as Director of the HKLO foreshadowed a more proactive posture by the HKLO, reflected in the regular issuing of press releases commenting on developments relating to Hong Kong. These included trenchant criticism of pan-democratic lawmakers.

Mainland China remained Hong Kong's largest trading partner in goods, accounting for 59% of Hong Kong's total exports and 43% of its imports during the first eleven months of 2020. In turn, the SAR is an important trading hub for the mainland and ranked as the fifth-largest trading partner of China in 2020. The Chinese province of Guangdong remains an important outward-processing base for Hong Kong.

Hong Kong has also remained **China's key offshore financial centre and investment hub**. As at the end of 2019, 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 45% of the total stocks respectively. In turn, about 65% of the FDI into the Mainland come from Hong Kong and 61% of Chinese outbound FDI flow goes to Hong Kong. There are 1 319 mainland enterprises listed in Hong Kong, accounting for 80% of the total market capitalisation in the city. 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.

During the year, Hong Kong and the mainland continued to develop their relationship under the **China-Hong Kong Closer Economic Partnership Agreement (CEPA)**, first signed in 2003. New liberalisation measures for trade in services, signed in November 2019, entered into force in June 2020.

Regional integration under the **Guangdong-Hong Kong-Macao Greater Bay Area (GBA)** continued during the year. The blueprint released in 2019 set, as a target, the unimpeded flow of goods, services and capital within the GBA by 2035. During the year, the government announced measures to further integration and facilitate business in various sectors. In the financial sphere, a plan to implement a two-way cross-boundary wealth management connect pilot scheme ('Wealth Management Connect') was announced jointly by the People's Bank of China, the Hong Kong Monetary Authority and the Monetary Authority of Macao in June. It would allow residents in Hong Kong, Macao and nine cities in Guangdong Province to

carry out cross-boundary investment in wealth management products distributed by banks in the area. An ‘insurance connect’ within the GBA is also planned.

Businesses are largely positive about the opportunities offered by the GBA, but it comes with challenges relating to taxation policies, regulatory and legal aspects, policy uncertainty, transparency and visibility, and IPR protection. More broadly, there are still questions over how to bring together three different economic, legal, tax and customs systems and over possible rivalry between the participating cities. Hong Kong’s competitive advantage as a super-connector to China could also be eroded as cities in Guangdong liberalise their economies, improve their competitiveness and connect to the world through finance and trade.

#### **IV. EU-Hong Kong bilateral relations and cooperation in 2020**

In 2020, the annual EU-Hong Kong Structured Dialogue did not take place, for the first time since these meetings were established in 2006. In the past, the Structured Dialogue has provided an opportunity to review and give impetus to cooperation in fields such as financial services, trade, investment, procurement, customs, innovation technology, trafficking in human beings and environmental issues. The EU believes that it is important for both sides to have a regular institutional dialogue that allows relations to be reviewed comprehensively and any issue of concern or mutual interest falling under the other side’s jurisdiction or competence to be addressed. The EU hopes that the conditions will be in place for the Structured Dialogue to resume in 2021.

In 2020, 1 560 EU companies have set up business in Hong Kong and many of them are using Hong Kong as their regional headquarters or regional office. EU business is present in a wide range of sectors, mainly financial and business services, trading, logistics, retailing, food and beverage, and construction.

In 2020, Hong Kong was the EU’s 25<sup>th</sup> largest trading partner<sup>5</sup> in goods and ranked as the EU’s twelfth-largest trading partner in Asia. Total bilateral trade for the period totalled EUR 27.4 billion, a drop of 10.8% y-o-y compared to the same period in 2019. EU exports of goods to Hong Kong in that period amounted to EUR 23.0 billion, while imports from Hong Kong totalled EUR 7.1 billion, resulting in a surplus of EUR 15.8 billion for the EU. The EU was Hong Kong’s third largest trading partner in goods in 2020, after mainland China and Taiwan. The EU was Hong Kong’s second largest exports destination and fifth import supplier. Hong Kong remained an important entrepôt for trade between mainland China and the EU.

In 2019, Hong Kong was the EU’s fourth-most important **trading partner in services** in Asia. In 2019 (the most recent year for which data are available), bilateral (EU-27) trade in services amounted to EUR 26.8 billion (+9% y-o-y). EU imports of services from Hong Kong were EUR 11.0 billion, while exports to Hong Kong were EUR 15.8 billion, resulting in a surplus of EUR 4.7 billion for the EU<sup>6</sup>.

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<sup>5</sup> Based on EU-27 figures.

<sup>6</sup> Preliminary statistics by Eurostat.

Two-way **investment** between the EU and Hong Kong continued to be significant. Hong Kong statistics show that, excluding offshore centres, the EU was the seventh-largest foreign investor in Hong Kong and the second main destination of Hong Kong's outward FDI as at the end of 2019 (latest available figures). In turn, by the end of 2019 the total stock of FDI from Hong Kong into the EU-27 totalled, according to Eurostat figures, EUR 185.8 billion, making Hong Kong a noteworthy source of FDI into the EU, while the EU-27 investments in Hong Kong were at EUR 163 billion. In terms of investment flows, most recent data over the first three quarters of 2020 show a net FDI inflow from Hong Kong to the EU of EUR 7.6 billion (compared with net outflow of EUR 49.8 billion in the first three quarters of 2019).

During the year, the EU and Hong Kong continued to work together on **customs**, under an action plan to improve protection of intellectual property rights (IPR) under the EU-Hong Kong Customs Cooperation and Mutual Administrative Assistance Agreement and the Action Plan on Customs Enforcement in IPR. In 2020, the mutual exchange of risk information ran smoothly, although some planned operational activities were impacted by the COVID crisis. Despite excellent cooperation, Hong Kong remains the second-largest place of provenance by value of IPR-infringing goods imported into the EU, even if these goods are not produced in the city.

As regards **research, science and innovation**, the Hong Kong authorities published two application calls in 2020 to support Horizon 2020 participants from the SAR; the deadline for applications for the last call is mid-January 2021. Since the present collaboration scheme under Horizon 2020 finishes along with the European Framework Programme at the end of 2020, discussions should restart with Hong Kong to expand the scheme under Horizon Europe, including a co-funding mechanism open to the private sector. Any future discussions on Horizon Europe will prioritise reciprocity, level-playing field, openness, inclusiveness, and the respect of high ethical and integrity standards. On this note, going forward, the effects of the NSL on researchers and research mobility, academic freedom, and research institutions will be closely monitored by the EU side.

In terms of **anti-money laundering and countering the financing of terrorism (AML/CFT)**, the Financial Action Task Force (FATF) issued a mutual evaluation report of Hong Kong<sup>7</sup> last year, after which the territory was placed under a regular follow-up procedure. Given that Hong Kong is a thriving financial and trade hub, there are high risks that its system could be misused as a transit point for foreign proceeds of crime. In this regard, Hong Kong should continue to take action so that beneficial ownership information is available and accurate for all relevant legal arrangements.

A 5<sup>th</sup> annual EU-Hong Kong workshop on **trafficking** took place on 17-18 December. The workshop consisted of two half-day online sessions, covering international standards, partnerships to tackle trafficking, support to victims and the state of play in the fight against trafficking in the EU and Hong Kong. There was an excellent turn-out from the Hong Kong side, with around 80 participants from a diverse cross-section of government departments. The TAIEX instrument mobilised 7 expert speakers from Europe to address the workshop.

Due to the COVID-19 pandemic, most planned people-to-people activities had to be suspended, including cultural events, research, academic cooperation, student mobility and

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<sup>7</sup> <http://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-Hong-Kong-China-2019.pdf>

activities involving the creative industries. The EU Office therefore sought alternative ways to host public diplomacy events. In February, the EU Office hosted the EU Film Festival 2020, with the support of EU Member States, amid increased health measures. Together with EU Member States, the EU Office organised the third edition of ‘Make Music, Hong Kong’ in an online format. The EU Office also organised a design competition in cooperation with the Vocational Training Council.

The EU Office met frequently with government officials, lawmakers, academia and civil society.