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JOINT REPORT TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Hong Kong Special Administrative Region:

Annual Report for 2021

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HONG KONG SPECIAL ADMINISTRATIVE REGION:

ANNUAL REPORT FOR 2021

Summary

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

In line with the commitment given to the European Parliament in 1997, the Commission and the High Representative issue an annual report on developments in Hong Kong. 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 stated in the Basic Law.

This is the 24th report, covering 2021. This year has been characterised by a further undermining of the 'one country, two systems' principle, the implementation of the National Security Law (NSL), an electoral overhaul, shrinking press freedom, the disbandment of many pro-democracy civil society groups including trade unions, and more restrictions to access the territory of Hong Kong because of the COVID-19 pandemic.

The erosion of Hong Kong's high degree of autonomy and the erosion of the rights and freedoms that the Sino-British Joint declaration was meant to protect until at least 2047 has rapidly accelerated. The year 2021 started with the mass arrest of 55 pro-democrats in early January and ended with the elections to a Legislative Council void of opposition on 19 December. The year also saw the start of the first trials under the NSL and an election overhaul reinforced by an ordinance on oath taking that served to disqualify pro-democracy district councillors elected in 2019.

Hong Kong has taken an authoritarian turn: most democratic politicians are either in prison or in exile; numerous civil society organisations have disbanded and several international NGOs have closed their offices in Hong Kong. The implementation of the NSL has been more forceful than expected. The wide-ranging nature of the offences under the NSL and the severity of the sentences prescribed by the law are a serious concern and have had a chilling effect on the exercise of previously protected rights and freedoms. The trend towards self-censorship in the media, academia and civil society has accelerated.

While the EU Office still met with a wide range of political contacts and representatives of civil society at the beginning of the year, this was no longer the case towards the end of the year. Many of them have become reluctant to have contact with foreign diplomats, as they are wary of the provisions of 'collusion with foreign forces' under the NSL, which can lead to long prison sentences.

The mainland authorities have strengthened oversight of Hong Kong affairs in many ways. In Beijing, the Hong Kong and Macao Affairs Office added two new departments overseeing national security and propaganda. In Hong Kong, the Liaison Office of the Central People's Government became more visible in reaching out to Hong Kong citizens.

The independence of the judiciary remained an essential safeguard for upholding key rights and freedoms but the role of the rule of law in protecting civil liberties has been affected by the implementation of the NSL. While court proceedings and legal arguments may be largely in line with common law practices, the judiciary has become less liberal and tolerant in cases involving the exercise of political freedoms. There continued to be a certain level of confidence in the competence and integrity of judges and their readiness to uphold the rule of law.

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

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

- ✓ 7 January – Declaration on the mass arrest of people involved in the July 2020 pro-democracy primary elections¹
- ✓ 11 March - Declaration on the electoral system²
- ✓ 9 June - Statement on the changes to Hong Kong’s electoral system³
- ✓ 20 December - Statement on the Legislative Council Election held on 19 December 2021⁴

The EU spokespersons’ statements on Hong Kong covered the following:

- ✓ 5 March: Statement on possible electoral reform⁵
- ✓ 16 April: Statement on the sentencing of pro-democracy activists⁶
- ✓ 23 June – Statement on the closure of Apple Daily’s Hong Kong operations⁷

¹ Declaration by the High Representative on behalf of the EU on the mass arrest of people involved in the July 2020 pro-democracy primary elections, Council of the EU, 7 January 2021, available at:

<https://www.consilium.europa.eu/en/press/press-releases/2021/01/07/hong-kong-declaration-by-the-high-representative-on-behalf-of-the-eu-on-the-mass-arrest-of-people-involved-in-the-july-2020-pro-democracy-primary-elections/>

² Declaration by the High Representative on behalf of the EU on the electoral system, Council of the EU, European External Action Service, 11 March 2021, available at: <https://www.consilium.europa.eu/en/press/press-releases/2021/03/11/hong-kong-declaration-by-the-high-representative-on-behalf-of-the-eu-the-electoral-system/>

³ Statement by the High Representative on the changes to Hong Kong’s electoral system, European External Action Service, 9 June 2021, available at: https://eeas.europa.eu/headquarters/headquarters-homepage/99822/hong-kong-statement-high-representativevice-president-josep-borrell-changes-hong-kong%E2%80%99s_en

⁴ Statement by High Representative/Vice-President Josep Borrell on the Legislative Council Election held on 19 December 2021, European External Action Service, 20 December 2021, available at: https://eeas.europa.eu/headquarters/headquarters-homepage/109196/hong-kong-statement-hrvp-josep-borrell-legislative-council-election-held-19-december-2021_en

⁵ Statement by the Spokesperson on possible electoral reform, European External Action Service, 5 March 2021, available at: https://eeas.europa.eu/headquarters/headquarters-homepage/94303/hong-kong-statement-spokesperson-possible-electoral-reform_en

⁶ Statement by the Spokesperson on the sentencing of pro-democracy activists, European External Action Service, 16 April 2021, available at: https://eeas.europa.eu/delegations/mali/96763/hong-kong-spokesperson-statement-sentencing-pro-democracy-activists_en

⁷ Statement by the Spokesperson on the closure of Apple Daily’s Hong Kong operations, European External Action Service, 23 June 2021, available at: https://eeas.europa.eu/headquarters/headquarters-homepage/100567/hong-kong-statement-spokesperson-closure-apple-daily%E2%80%99s-hong-kong-operations_en

- ✓ 21 October - Statement on the expulsion of democratically elected district councillors and the shrinking space for civil society⁸

The deterioration of the situation in Hong Kong was also discussed on several occasions at the EU's Foreign Affairs Council. The EU has stepped up coordination with like-minded partners in its response on Hong Kong, as shown in the G7 statement on electoral reform of 12 March.

During 2021, COVID-19 was kept largely under control in Hong Kong with several restrictions in place, such as a ban on public gatherings. Restrictions to access the territory of Hong Kong have become increasingly severe, and by the end of the year, were on par with the restrictions to access mainland China. The border with mainland China had not reopened by the end of the year.

Hong Kong performed well economically in 2021. It was the world's third-largest investment destination and became the sixth-largest trading economy. While foreign staff were leaving, the presence of EU companies increased in the 12 months ending June by 3.5% in terms of number of companies (reaching 1614), and thus remained the largest non-Chinese business community in Hong Kong. The EU was Hong Kong's third largest trading partner in goods in 2021, after mainland China and Taiwan.

Hong Kong's economy rebounded by 7.0% year-on-year in the first 9 months of 2021⁹. The economy was supported by strong performance in the trade and logistic sectors and the financial industry while retail, transport and construction navigated a still challenging environment. Yet, Hong Kong's status as an international business hub could be eroded if the downsizing in non-Chinese foreign companies continues. This would also bring new challenges in terms of global competitiveness, availability of talent and labour market shortages (in a recent survey, the number of staff employed by foreign companies in Hong Kong decreased by 4% or 20,000 in a two-year period).

I. Political and social developments

The year 2021 has been marked by strong democratic setbacks and an increasingly restrictive interpretation and undermining of the 'one country, two systems' principle aided by the National Security Law (NSL).

The first days of 2021 saw **the mass arrest of 55 persons linked to the pro-democracy movement**, including prominent political figures. They were detained for subversion under the NSL, following their involvement in the informal pro-democracy primary elections of 2020. Of them, 47 were charged with 'conspiracy to commit subversion'. The High Representative issued a Declaration, on behalf of the EU, on the mass arrest of people involved in the July 2020 pro-democracy primary elections on 7 January.

⁸ Statement by the Spokesperson on the expulsion of democratically elected district councillors and the shrinking space for civil society, European External Action Service, 21 October 2021, available at: https://eeas.europa.eu/headquarters/headquartershomepage_en/106025/Hong%20Kong:%20Statement%20by%20the%20Spokesperson%20on%20the%20expulsion%20of%20democratically%20elected%20district%20councillors%20and%20the%20shrinking%20space%20for%20civil%20society

⁹ Comprehensive overview of Hong Kong's social and economic developments from a statistical perspective (Hong Kong Annual Digest of Statistics), the Census and Statistics Department of the Hong Kong Special Administrative Region, 29 October 2021, available at: <https://www.censtatd.gov.hk/en/EIndexbySubject.html?pcode=B1010003&scode=460#section2>

On 30 March, **the National People's Congress amended the annexes of the Basic Law to overhaul Hong Kong's electoral system.** This further weakened the already modest democratic elements of the electoral system and ensured that pro-establishment voices could control all levels of government - the Government, the Legislative Council (LegCo) and the Election Committee. The High Representative made a statement on the changes to Hong Kong's electoral system on 9 June.

The Election Committee was enlarged from 1200 to 1500 members (in practice it has 1448 largely pro-establishment members). In September, this committee was elected by 4389 persons, meaning a turnout rate of 89.77%. The voters only elected one self-proclaimed 'non pro-establishment' politician. Its composition and role were altered. The 117 seats reserved for District Councillors were eliminated. New seats for members of the Chinese People's Political Consultative Conference and Hong Kong members of selected national organisations were added. The Election Committee was given new powers of scrutiny, in particular a say in the election of almost half of LegCo's members.

The electoral overhaul also modified the size and composition of LegCo. The total number of seats in the legislature grew from 70 to 90, with only 20 secured through direct elections (geographical constituencies). Forty seats were filled by the Election Committee. Thirty seats remained as functional constituencies and tended to be filled by pro-establishment figures. The five super seats' in LegCo were abolished, terminating the only successful political reform since the handover.

The Legislative Council election on 19 December was the first LegCo election since the imposition of the NSL and the electoral overhaul. A total of 153 candidates ran in three broad groups of constituencies. 219 254 voters registered to vote in the functional constituencies and 4 472 863 in geographical constituencies].

The seventh Legislative Council Election, originally scheduled for September 2020, took place on 19 December 2021. This was the first of such election since the imposition of the NSL and the implementation of sweeping changes in the electoral system.

In the directly-elected Geographical Constituencies, a total of 1 350 680 voters cast their ballot papers, meaning a turnout rate of 30.2% - a record low. In the indirectly-elected Functional Constituencies and the new Election Committee Constituency, 70 490 voters and 1 426 voters respectively cast their ballot papers, representing a turnout rate of 32.22% and 96.28%.

A total of 153 candidates ran in three broad groups of constituencies. Only one self-proclaimed 'non pro-establishment' lawmaker managed to win enough votes and earn a seat. Meanwhile, the mass arrests in relation to the July 2020 primary elections have prevented 47 pro-democracy advocates, including former opposition lawmakers and civil society representatives, from standing in this election as they were held in custody on charges pursuant to the National Security Law.

In addition, the electoral overhaul mandated the establishment of Candidate Eligibility Review Committee to disqualify contenders deemed "unpatriotic" in the Election Committee, the LegCo and the Chief Executive elections. Decisions arrived after consultation with the National Security Committee would not be subject to judicial challenges. The overhaul also made it illegal to call on people to cast blank votes.

The Oath-taking Bill added another element to the electoral overhaul: On 23 February, the government introduced the Public Offices (Candidacy and Taking Up Offices) (Miscellaneous Amendments) Bill 2021, stipulating the requirement for current and future members of district councils to take an oath when assuming office. The law entered into force on 21 May. As a result, a first batch of 214 district councillors resigned in July after media began to report that the government could pursue retroactive claims for salaries and allowances of those disqualified. Starting from September, the authorities disqualified 49 pro-democracy district councillors, invalidating their oaths to uphold the Basic Law and bear allegiance to the SAR as ‘not genuine’, reportedly on the basis of opinions they had previously expressed, confirming the retroactive character of the Ordinance. This move negated the results of the November 2019 district council elections, in which pro-democracy candidates had secured over 80% of the seats and gained absolute majorities in 17 of the 18 district councils. The EEAS Spokesperson issued a statement on the expulsion of democratically elected district Councillors and the shrinking space for civil society on 21 October.

2021 saw **the end of effective political opposition in Hong Kong**. The Democratic Party, the Civic Party and a few others remained, but their position became increasingly tenuous, as their existence was questioned unless they played the role of ‘loyal opposition’. However, these parties did not field candidates for the LegCo elections and the majority of leading democratic politicians were barred from running for election. Civic Passion, the only ‘non-pro-establishment’ party remaining in LegCo in 2021, disbanded in September. The Alliance for True Democracy dissolved in August, and the NeoDemocrats disbanded in June.

2021 also witnessed **deep changes in Hong Kong’s civil society**. All major civil society organisations that were not pro-establishment disbanded out of fear of the NSL, with some activists citing threats to personal safety. The Civil Human Rights Front, the China Human Rights Lawyers Concern Group, the Hong Kong Alliance in Support of Patriotic Democratic Movements of China, the Democratic Alliance, the local chapter of Amnesty International, but also student unions, trade unions, media groups, church-related groups dissolved. In total, more than 50 organisations have disbanded. Many of their leaders have been arrested.

The tax code was revised to stipulate that any group supporting, promoting or engaging in activities detrimental to national security would not be recognised as a charitable organisations. Like in mainland China, only civil society organisations involved in fields that do not challenge the government were allowed to continue operating.

The Hong Kong SAR government confirmed that more than 10 000 persons have been arrested since the 2019 social unrest, including many juveniles. It is estimated that the trials could last 3 years. Chief Executive Carrie Lam confirmed in her annual Policy Address on 6 October that a ‘mega courtroom’ would be built to handle cases involving a large number of defendants.

Since June 2020, around 162 individuals including former pro-democracy activists, opposition lawmakers, journalists and academics have been arrested under the NSL and other related legislation as of 31 December. 99 of them have been charged.

The NSL’s extraterritorial provisions remained a source of concern. Around 30 activists located overseas were reportedly on a wanted list of the law enforcement forces. Included among them were a number of non-Chinese nationals.

The sentencing for the first conviction of a case under the NSL took place in July 2021. The court handed down a nine-year sentence for ‘incitement to secession’ and ‘engaging in terrorist activities’. The Hong Kong courts have interpreted the NSL with severity, although the law stated that human rights would be respected and protected while safeguarding national security. The granting of bail was the exception rather than the norm in spite of the Court of Final Appeal’s judgment that provided some leeway to the lower courts in determining whether to remand defendants in custody. For example, in the case of the 47 pro-democracy activists prosecuted in relation to the primary elections, only 14 secured bails as of end of 2021. The long pre-trial detentions, sometimes in isolation, were increasingly a source of concern.

In a ruling dated 14 December, the Court of Final Appeal confirmed that the standard for granting bail to national security suspects could also apply to those charged under other laws – as long as the alleged acts are seen as endangering national security. These could include offences listed in Article 23 of the Basic Law.

The NSL also affected the education system at all levels. The Education Bureau released a circular in October, providing national security guidelines for school administration and education in order to help schools ‘put in place measures to maintain a safe and orderly learning environment in schools and promote national security education’.

The NSL also required the authorities to reinforce supervision and regulation over national security in social organisations, the media and the internet.

An increasing number of foreign businesses expressed concerns about Hong Kong’s increasing integration with mainland China. Political developments have had an impact on the predictability and the overall business climate, affecting the ability of companies to do business. This has been exacerbated by the pressure on freedom of information and the risk that mainland China would impose more laws on Hong Kong, including for instance legislation on anti-doxing, anti-sanctions, cybersecurity, data.

Against the background of the on-going political developments, emigration increased. Official figures of the Statistics Department released in August showed a net outflow of around 89 200 residents since mid-2020. In September, official statistics showed that there were 81 fewer primary one classes than the year before. Many Hong Kong citizens left for the UK, which on 31 January extended immigration rights to provide a path to citizenship for those with British National (Overseas), or BN(O), status. According to UK official statistics, 88 900 BN(O) visa applications were made between 31 January and 30 August 2021 - not taking student visas into account. Other major destinations included Australia, which introduced permanent residence visas for Hong Kong citizens, as well as Canada, the US and Taiwan. Hong Kong also faced a declining birth rate. According to the Census and Statistics Department, the total fertility rate was lower than the population replacement rate.

Chief Executive Carrie Lam delivered **her fifth policy address to the Legislative Council on 6 October**. The government prioritised national security and integration with mainland China. She announced the implementation of Article 23 of the Basic Law, which states that the Hong Kong Special Administrative Region will enact laws on its own (i) to prohibit any act of treason, secession, sedition, subversion against the Central People’s Government, or theft of state secrets, (ii) to prohibit foreign political organisations or bodies from conducting political activities in the Region, and (iii) to prohibit political organisations or bodies of the Region from establishing ties with foreign political organisations or bodies. The Chief Executive also

emphasised the importance of the principle of ‘patriots governing Hong Kong’. She announced the establishment of a separate bureau for culture and for sports and said there would be legislation on fake news and cyber security.

As of 31 December, Hong Kong reported 12,631 cases of COVID-19, resulting in 213 deaths. The vaccination campaign took off slowly. As of 31 December, 4 662 013 persons had received two doses of vaccines and 387 074 people three doses. Restrictions were gradually eased, but the limit on the number of people permitted to gather in one group remained in place.

Maintaining a ‘zero-COVID’ approach and reopening the border with mainland China were the political priorities. The central government required Hong Kong to adopt stringent policies as a condition for reopening the border. In late November, it was announced that a digital tracking system similar to the one in use on the mainland would be launched in Hong Kong.

In contrast, access to Hong Kong from foreign countries became increasingly difficult. This contributed to the relative isolation of Hong Kong and raised questions about its status as an international hub in the long term. Hong Kong’s discussions on possible ‘travel bubbles’ were not conclusive. In June, the EU added Hong Kong to the list of countries and territories with which non-essential travel could take place.

The measures taken by the EU and Member States in response to the NSL in the Council Conclusions adopted in July 2020 remain in force¹⁰. This package of measures included:

- a review of the asylum, migration, visa and residency policy, and of extradition agreements;
- scrutiny and limitation of exports of sensitive equipment;
- observation of trials; support for civil society;
- the possibility of more scholarships and academic exchanges;
- monitoring of the extraterritorial impact of the law; and
- the refraining from launching any new negotiations with Hong Kong.

These measures were implemented throughout the year.

The EU raised its concerns about Hong Kong at the EU-China Political Directors Dialogue in January 2021, at the Strategic Dialogue on 28 September, and in the call between President of the European Council Charles Michel and President of China Xi Jinping on 15 October.

Rights, freedoms and equal opportunities

The deterioration of rights, freedoms and equal opportunities directly affected many sectors of society. The community of foreign journalists and academics has been shrinking. Politicians and members of civil society were largely reluctant to meet foreign diplomats, in part due to accusations of foreign collusion, or because of their bail conditions.

For the second year in a row, the authorities denied permission for events to commemorate the 1989 Tiananmen Square crackdown, citing public health concerns linked to the pandemic. 24

¹⁰ Council conclusions on Hong Kong’s national security law, Council of the EU, 28 July 2020, available at: <https://www.consilium.europa.eu/en/press/press-releases/2020/07/28/hong-kong-council-expresses-grave-concern-over-national-security-law/>

activists who participated in the vigil in 2020 were charged with ‘taking part in an unauthorised assembly.’ 21 of them received jail terms ranging between 4 months and 24 months, the rest received suspended sentences.

On 4 June, police pre-emptively arrested a leader of the Alliance. Several citizens who came to Victoria Park, where the vigil was held in previous years, were also arrested. The June 4th museum, which has been run by the Alliance for 10 years, closed in June after the Food and Environmental Hygiene Department stated that it did not have a public entertainment venue licence. Police raided the museum in September shortly after the Alliance’s leaders were detained. Hong Kong authorities adopted comprehensive measures to suppress remembrance of the 4 June crackdown in other areas. The Pillar of Shame, a sculpture designed to commemorate the Tiananmen Square crackdown, was removed from its current location in the University of Hong Kong after the university called for it to be removed. The Chinese University of Hong Kong, Lingnan University and City University of Hong Kong have since followed suit and removed related art work from campus. Public libraries have also removed books on the crackdown.

In line with the Council Conclusions, the EU Office and Member States have to date monitored 81 court hearings, including the ongoing trial of 15 pro-democracy activists on unlawful assembly charges.

Under the Sino-British Joint declaration, Hong Kong retained its **common-law legal system** and is party to the International Covenant on Civil and Political Rights (ICCPR). The Basic Law prescribes that the ICCPR as applied to Hong Kong will remain in force and be implemented through the laws of Hong Kong. The closure of Amnesty International’s local and regional offices in October 2021 confirmed that Hong Kong is no longer a safe harbour for human rights activism.

A vast range of civil rights and fundamental freedoms were adversely affected in 2021:

Media freedom regressed. In January, police officers visited the newsrooms of Stand News and Apple Daily with search warrants demanding documents relating to the 2020 democratic primary elections. Apple Daily closed in June. Former Apple Daily executives and editors, along with three companies previously associated with the paper, were charged with foreign collusion under the NSL. The challenges for Next Digital – the parent company of Apple Daily – continued well after the newspaper ceased printing.

In December, police raided the newsroom of independent online outlet Stand News and arrested seven individuals related to the publication for publishing seditious materials. Two former editors-in-charge were brought to the court and denied bail.

The replacement of personnel at Radio Television Hong Kong (RTHK) and I-Cable further demonstrated an increase in self-censorship. The work of the Hong Kong Journalists’ Association came under close scrutiny.

In addition to local media, the presence of foreign journalists and news outlets in Hong Kong has been impacted. A survey on press freedom released in November 2021 pointed to high levels of concern regarding the proposed fake news law and self-censorship. The continued unexplained visa denials for foreign journalists showed that their working conditions are increasingly restricted. A number of high-profile journalists, commentators and broadcasters

ceased their programmes or departed from Hong Kong. Government officials have also written to international media, accusing them of publishing “incitement materials” and threatened to take “necessary action”.

The vague wording and strict implementation of the NSL damaged **freedom of expression**. In 2021, self-censorship became more widespread. This affected the right of access to culture, as censorship over cultural productions, films, books and media in general became more common. Public libraries removed around 70 titles. The government agency organising the Hong Kong Book Fair issued warnings in relation to the NSL over five books displayed.

The film industry came under increased scrutiny. In June, a movie theatre cancelled the projection of a documentary about the 2019 protests and the distributor of the film was deprived of public funding. LegCo adopted a film censorship law enabling the Chief Secretary to directly ban films that ‘violate China’s national security interests’, including films that were previously permitted to be screened in Hong Kong.

Regarding **internet freedom**, the ‘anti-doxing law’, Personal Data Privacy Ordinance 2021, which became effective in October, raised concerns about its capacity to target civil society. The scope of powers granted to authorities by the law prompted concern from major internet companies. Access to a website that had documented the 2019 protests was blocked at the request of the police on grounds of ‘doxing’.

In November, the Chief Executive announced the intention to ‘plug loopholes’ of the internet using the NSL. As part of such efforts, new cybersecurity legislation was proposed in the Policy Address in October.

Freedom of assembly was subject to restrictions in light of the NSL and the COVID-19 outbreak. Applications for public assemblies have been refused since July 2020. Public gatherings of more than four people have been banned since March 2020. The Civil Human Rights Front decided not to organise its annual July 1st march, on the anniversary of the handover. The June 4th vigil, organised by the Hong Kong Alliance in Support of Patriotic Democratic Movements of China for more than 20 years, was banned on the basis of public health concerns.

Freedom of association decreased as the two groups most closely associated with Hong Kong’s two best-known annual political demonstrations both disbanded this year. Prior to their disbandment, both groups were accused of receiving ‘foreign support’. In August, the Alliance was asked to submit documents under Article 43 of the NSL and accused of being a ‘foreign agent’.

Many trade union leaders are in prison or awaiting trial and all the ‘non pro-establishment’ trade unions disbanded in 2021. Trade unions from different sectors disbanded, starting with the Professional Teachers’ Union (PTU), which was the largest teachers’ union and the Confederation of Trade Unions (CTU), which was the largest pro-democracy coalition of trade unions. Other unions that disbanded in 2021 include the Finance Technology Professional Services Personnel Union, the Pharmaceutical and Medical Device Industries Employees General Union, the Maritime Transport Services Industry Trade Union, the New Media Trade Union, the Frontline Doctors’ Union, the Union for New Civil Servants and the General Union of Hong Kong Speech Therapists. The General Union of Hong Kong Speech Therapists

received particular attention as they were accused of inciting anti-government hatred with children's picture books. Five leaders of this union were arrested.

The average remand population in detention centres reached a decade-long high in 2020, rising 37% from 1436 to 1962 according to the Correctional Services Department's annual report. **Prisoners' rights** were often undermined by overcrowding in particular in pre-trial detention facilities. The main advocacy group for prisoners' rights, Wall-fare, disbanded in September 2021. Another prominent association providing support for prisoners, the 612 Humanitarian Relief Fund, ceased its operations and is being investigated by the National Security Department of the police for 'suspected contravention of the Hong Kong National Security Law or other Hong Kong laws'.

Same-sex unions or civil partnerships continued not to be recognised in Hong Kong, but the rights of **LGBTI** persons saw some progress. In June, the Court of First Instance ruled that the government policy to deny same sex couples the right to add occupants and transferring ownership of subsidised housing constituted unlawful discrimination on the basis of sexual orientation. In October, in a lawsuit filed by a gay widower, the government clarified that various departments did not have any policies and guidelines prohibiting the provision of services on death arrangements to the same-sex spouses of the deceased and denied the same-sex spouse of the deceased from applying for a death certificate. Positive LGBTI mainstream media representation became prevalent, with Hong Kong's first mainstream television drama covering gay relationships and same-sex marriage *The Gay Games* originally scheduled for November 2022 were postponed due to concerns over COVID-19 travel restrictions. The Chief Executive and other pro-establishment politicians expressed support for the games. The annual Pink Dot and Pride Parade both moved indoors.

Ethnic minorities represented 4% of Hong Kong's permanent residents. They faced discrimination in particular in access to housing, health care and quality education. Because they often occupied low-skill jobs, they were particularly hit by the social impact of the pandemic. It is estimated that 1 in 3 members of this community live in poverty.

Hong Kong continued not to be a signatory to the 1951 Convention relating to the Status of **Refugees**. The government has a policy of not determining the refugee status of or granting asylum to anyone, but would accept claims for non-refoulement protection against expulsion, return or surrender from Hong Kong under the Unified Screening Mechanism. In 2021, there were 13 000 refugee claimants in Hong Kong, according to the government¹¹. The average acceptance rate for the past 11 years was 1%, according to some estimates. Existing laws bar protection claimants from working.

The government has amended new immigration law in April that became effective in August. The law provided authorities unlimited powers to prevent residents and others from entering or leaving the SAR without a Court order. The Security Bureau promised that it would table subsidiary legislation to limit the power to inbound flights targeting illegal border crossings by migrants without offering a timeline.

¹¹ Letter from the Secretary for Security, May 6, 2021:
https://www.sb.gov.hk/eng/articles/letters_2021_04_30.html

Child and elderly care remained dependent on domestic **foreign domestic workers**, most often from the Philippines and Indonesia. Their working conditions remained an issue, as they were legally obliged to reside with their employers, making it sometimes difficult to protect them from abuses. The restrictions in accessing Hong Kong caused a shortage of domestic helpers. In order to address the shortage, the government opened specific quarantine hotels for domestic helpers, but froze their minimum wage.

Following the declaration of the Government of China upon accession, the **UN Protocol to Prevent, Suppress and Punish Trafficking in Persons** does not apply to Hong Kong.

The **anti-corruption system** remained resilient. The authorities and political and business figures recognise that transparency is vital in maintaining Hong Kong's strong position as an international business centre.

II. Economic developments

Hong Kong continued to have a **very open economy** (trade in goods being around 300% of GDP). **Political and economic integration with mainland China** deepened, notably through the Greater Bay Area and closer financial market links. However, some economic distinctions remain, such as free and open trade, negligible tariff or non-tariff barriers, well-protected property ownership and intellectual property rights.

Hong Kong continued to exercise independent authority in implementing commercial agreements, setting a monetary policy autonomously from mainland China and participating separately in its own right in many international organisations and multilateral entities, including the Financial Action Task Force, and the World Trade Organisation (WTO). Hong Kong also remained 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. Economic integration with the mainland and the recently announced Northern Metropolis were among the government's main priorities. In terms of finance, Hong Kong remained among the largest capital markets in the world, aimed at increasing its role in green finance and environmental, social and corporate governance and at becoming more closely connected with the Chinese financial market.

Hong Kong performed well economically in 2021. It was the world's third largest investment destination and became the sixth largest trading economy. While many foreign employees were leaving (staff employed by foreign firms decreased by 4.1% over 2 years, a drop of 20 000 people)¹², the number of new non-Hong Kong companies (including those from mainland China) and start-ups stood at record highs.

Hong Kong's position as a **hub for foreign direct investment (FDI)** strengthened in 2020. According to the World Investment Report 2021 by the United Nations Conference on Trade and Development (June)¹³, Hong Kong was the third largest investment hub globally.

¹² Report on 2021 Annual Survey of Companies in Hong Kong with Parent Companies Located outside Hong Kong, the Census and Statistics Department of Hong Kong Special Administrative Region, 7 October 2021, available at: https://www.censtatd.gov.hk/en/press_release_detail.html?id=5133

¹³ The World Investment Report 2021 monitoring global and regional investment trends and national and international policy development, United Nations Conference on Trade and Development, 21 June 2021, available at: <https://unctad.org/webflyer/world-investment-report-2021>

Key environmental legislation (waste management, animal trafficking) was adopted in 2021. Hong Kong's climate action plan set the target of achieving carbon neutrality by 2050; the plan envisages a 50% cut in carbon emissions before 2035 compared to the 2005 level and an interim target to stop using coal for the daily generation of electricity by 2035.

After 2 years of contraction (-1.7% in 2019; -6.1% in 2020), **Hong Kong's economy rebounded by 7.0% year-on-year (y-o-y) in the first 9 months of 2021¹⁴**. The economy was supported by strong performance in the trade and logistic sectors and the financial industry, while retail, transport and construction navigated a still challenging environment. **The economy remained below its level in 2018**, with several sectors still underperforming. **Inflation was moderate**, with an annual 1.5% increase in the consumer price index in the first 10 months of the year¹⁵.

The job market improved, with unemployment rates falling to 4.1% in November 2021, from 7.2% at the beginning of 2021¹⁶. However, this remained above the unemployment rates seen before the COVID-19 crisis.

The trade and logistics sector – which accounted for about 20% of Hong Kong's GDP – largely contributed to the recovery. GDP from import and export activities increased by 20.8% y-o-y in the first half of 2021. This strong performance was supported by a significant increase in the value of Hong Kong's external trade in goods. External trade reached HKD 8.3 trillion (EUR 921 billion)¹⁷ in the first 10 months of 2021, a 26% increase compared to the same period in 2020¹⁸ – surpassing the recovery in global trade.

The financial industry remained a key driver for growth, with a 6.8% increase in financing and insurance activities in the first half of 2021 – an acceleration compared to the same periods in 2020 (2.6% y-o-y) and 2019 (3.3% y-o-y)¹⁹.

Initial public offerings (IPOs) supported financial activities. During the first 10 months of 2021, Hong Kong's stock exchange hosted fewer but larger IPOs: 76 IPOs with a total of HKD 291 billion (EUR 32 billion) raised – compared to 120 IPOs and HKD 251 billion in 2020. Hong Kong was the world's second largest hub for IPOs in 2020 (after ranking first seven times since 2009). Tightened scrutiny of Chinese firms listed in the US played a role in the increased number of IPOs in Hong Kong, due to firms shifting to the Hong Kong listing.

¹⁴ Press Release on advance estimates on Gross Domestic Product for third quarter of 2021, 1 November 2021, the Census and Statistics Department of the Hong Kong Special Administrative Region, available at: https://www.censtatd.gov.hk/en/press_release_detail.html?id=4917

¹⁵ Press Release on Consumer Price Indices for October 2021, 22 November 2021, the Census and Statistics Department of the Hong Kong Special Administrative Region, available at: https://www.censtatd.gov.hk/en/press_release_detail.html?id=4924

¹⁶ Press Release Unemployment and underemployment statistics for September - November 2021), the Census and Statistics Department of the Hong Kong Special Administrative Region, 16 December 2021, available at: https://www.censtatd.gov.hk/en/press_release_detail.html?id=4934

¹⁷ Exchange rate dated from November 2021 of 1EUR = HKD 9.0167

¹⁸ Press Release of Hong Kong External merchandise trade statistics for October 2021, the Census and Statistics Department of the Hong Kong Special Administrative Region, 25 November 2021, available at: https://www.censtatd.gov.hk/en/press_release_detail.html?id=4925

¹⁹ Chain volume measures of Gross Domestic Product (GDP) by economic activity - in chained (2019) dollars, the Census and Statistics Department of the Hong Kong Special Administrative Region, 12 November 2021, available at: <https://www.censtatd.gov.hk/en/scode250.html>

Market capitalisation on the Hong Kong stock exchange reached HKD 45.3 trillion (EUR 5 trillion) at the end of October 2021 (up 4.5% y-o-y). As of end-September 2021, Hong Kong was the world's 7th largest and Asia's 4th largest stock market (by market capitalisation) as well as the largest offshore Renmimbi business hub. Average daily turnover for the first 10 months of 2021 was HKD 175.8 billion (EUR 19.5 billion), an increase of 41% y-o-y²⁰. Nevertheless, **there was volatility in the stock market**, and the Hong Kong Hang Seng Index registered a loss of 8.4% by the end of October 2021 – making the Hang Seng one of the worst performing indices globally. This was due to a combination of concerns over the world economy and the pandemic (including in mainland China), geopolitical tensions, high corporate debt in mainland China and the regulatory tightening in several industries in mainland China (technologies, online gaming, education, property), especially as the Hong Kong stock market continued to be dominated by companies from mainland China.

In June, the International Monetary Fund (IMF)²¹ stated that **Hong Kong's banking sector** remained well capitalised, profitable and with low nonperforming loan ratios. Banks' solvency was resilient to severe macro-financial shocks, thanks to high capital buffers and profitability. The exchange rate mechanism, the Linked Exchange Rate System (LERS), remained well anchored and resilient to shocks, underpinned by large foreign exchange reserves. However, the IMF also noted that the banking system's macro-financial vulnerabilities were related to extensive linkages to mainland China, stretched real estate valuations, and exposure to shifts in global market and domestic risk sentiments.

Industries exposed to tourist spending (retail, food and beverage, transport, travel, hospitality) were still facing a challenging situation in 2021, as inbound tourism remained very low. In 2018, Hong Kong welcomed 65 million visitors (78% of which were mainland Chinese, accounting for an estimated 40% of the city's retail sales) but this number fell to 72 458 in the first 10 months of 2021²². Despite a 4.9% rebound y-o-y in the first half of 2021, GDP in the accommodation and food services industries was still significantly lower than in 2018 (43% compared to the first half of 2018). During the first 9 months of 2021, retail sales increased by 8% y-o-y but remained 28.5% below the level of 2018, and restaurant receipts rebounded by 12.9% y-o-y but 24.2% below their level in 2018. In the same period, the hotel room occupancy rate was 60% (vs. 90% in 2018), supported by compulsory quarantine requirements for inbound travellers. Unemployment in the retail, accommodation and food services sectors was 6.9% in October 2021 – an improvement (11.3% at the beginning of 2021).

The aviation industry (and related industries) was severely hit. In the first 10 months of 2021, the number of flights at Hong Kong International Airport was 67.5% below the level of 2018 and the number of passengers reduced to a fraction of the previous level (a 98.3% drop compared to 2018). Freight performed better, with a 13.7% rebound y-o-y, almost back to the

²⁰ IMF report on Detailed Assessment of Observance on Principles for Financial market Infrastructures for the People's Republic of China–Hong Kong Special Administrative Region, Country Report No. 21/122, 15 June 2021, available at: <https://www.imf.org/en/Publications/CR/Issues/2021/06/15/Peoples-Republic-of-ChinaHong-Kong-Special-Administrative-Region-Financial-Sector-460761>

²¹ IMF report on Detailed Assessment of Observance on Principles for Financial market Infrastructures for the People's Republic of China–Hong Kong Special Administrative Region, Country Report No. 21/122, 15 June 2021, available at: <https://www.imf.org/en/Publications/CR/Issues/2021/06/15/Peoples-Republic-of-ChinaHong-Kong-Special-Administrative-Region-Financial-Sector-460761>

²² Visitor Arrivals to Hong Kong in 2021; Hong Kong Tourism Board, November 2021, available at: <https://www.discoverhongkong.com/eng/hktb/newsroom/tourism-statistics.html>

level of 2018²³. Airlines expressed concerns over the stringent COVID-19 travel restrictions making it difficult to schedule flights. Some decided to stop operations, while others introduced stopovers elsewhere so that crew did not have to stay over in Hong Kong.

The **construction industry** recorded 2.0% y-o-y a decrease in GDP in the first half, and **real estate activities** rebounded by 2.3% y-o-y in the same period.

Business environment

A 2021 annual survey on foreign companies in Hong Kong²⁴ indicated that the number of foreign companies (excluding mainland Chinese companies) fell in the past 2 years (by 3.8%). The decrease was driven by the reduction in the number of foreign regional headquarters based in Hong Kong (by 9.1%) – indicating that the city might be losing some relevance as a regional business hub. These numbers confirmed anecdotal evidence of companies reducing their activities in Hong Kong or relocating to other cities in Asia. While non-Chinese foreign companies dropped in the survey, mainland Chinese companies in Hong Kong increased by 15.6% over the past 2 years. The decrease in the number of non-Chinese foreign companies has started to affect Hong Kong's position as an international business hub. This was also related to the availability of talent and specialised labour (according to the survey mentioned above, the number of staff employed by foreign companies in Hong Kong decreased by 4% over 2 years – or 20 000 employees).

Some companies considered leaving Hong Kong. International companies headquartered in Hong Kong or with regional chief executive officers in Hong Kong found that operating in Hong Kong had become more complicated due to COVID measures and to due diligence and compliance issues. Some offices, including banks were relocating to other cities in the region. Open letters of business associations were sent to the Hong Kong government to express concern over stringent COVID-19 measures that would prompt business to consider relocating out of Hong Kong. The political developments mentioned above, which include risks regarding freedom of information, the imposition of the NSL, data privacy and sanctions, have also had a detrimental effect on the business environment.

Companies were impacted significantly by the stringent COVID-19 travel restrictions. Piloting regional operations in the region and/or their business with China as well as conducting regular business travel became increasingly difficult. Bringing staff to Hong Kong and /or running normal business operations became more challenging. Companies exposed to tourist spending also lost a source of income. Strict travel restrictions and long compulsory hotel quarantines were put in place for most inbound travellers during 2021. Foreign non-residents were also largely barred from entering Hong Kong. A few existing exemptions were scrapped in November 2021, including for most diplomats. The travel restrictions are kept in place in order to achieve a reopening of the boundaries with the mainland. However, the boundaries remained closed and Hong Kong was mostly isolated from both China and the world.

²³ Hong Kong International Airport Civil International Air Transport Movements of Aircraft, Passenger and Freight (1998 onward), October 2021, available here: <https://www.cad.gov.hk/english/statistics.html>

²⁴ Report on 2021 Annual Survey of Companies in Hong Kong with Parent Companies Located outside Hong Kong, the Census and Statistics Department of the Kong Special Administrative Region, 7 October 2021, available at: https://www.censtatd.gov.hk/en/press_release_detail.html?id=5133

Government support and fiscal situation

The government continued to support the economy impacted by the pandemic. The 2021-2022 budget included about HKD 81 billion (EUR 9 billion) in one-off relief measures, down from HKD 122 billion in the previous budget and HKD 300 billion (EUR 33 billion, 11% of GDP) when including additional packages that were also rolled-out. The measures announced included lower taxes on profits and wages, the waiving of certain business fees, rental concessions on government properties and government loan guarantees schemes (for companies and unemployed persons). Electronic spending vouchers worth HKD 5,000 (EUR 555) were distributed to all residents regardless of their financial situation.

Hong Kong is expected to record its third consecutive fiscal deficit²⁵ in fiscal year 2021-2022 ending March 2022. The deficit was HKD 112 billion (EUR 12.42 billion) in the first 7 months to October 2021. This would be a significant improvement after a deficit of HKD 250 billion (roughly 10% of GDP) in the previous fiscal year but remained unusual in an economy accustomed to having a fiscal surplus (the deficit in fiscal year 2019-2020 was the first in 15 years).

The deficit was largely funded by tapping into the city's ample fiscal reserves²⁶. As a result, reserves dropped from HKD 1,160 billion in March 2020 to HKD 816 billion (EUR 90.49 billion) as of the end of October 2021. In the 2021-2022 budget, the government forecast fiscal deficits to run until 2025 or longer and reserves could drop to HKD 775 billion (EUR 86 billion) in 2025. This would be equivalent to an estimated 15 months of expenditure at current levels, a drop by 10 months compared to 2018.

In 2021, stamp duties on stock transfers were raised from 0.1% to 0.13%, and the first registration tax and vehicle licence fee for private cars were increased, bringing additional revenues. On the expenditure side, total government spending from the 2021-2022 budget was 10.3% lower y-o-y.

Trade policy

In 2021, the Free Trade Agreement (FTA) and Investment Promotion and Protection Agreement (IPPA) with ASEAN (signed in 2017) entered into force with Cambodia. By the end of the year, the agreement was in full force with ASEAN's 10 members. An IPPA with Mexico entered into force in June. Hong Kong expressed interest in joining the Regional Comprehensive Economic Partnership (RCEP) as soon as possible. In May, Hong Kong suspended the operation of its Economic, Trade and Cultural Office in Taiwan, even though Taiwan became its second largest trading partner. The government explained that the decision was due to Taiwan's interference in Hong Kong's affairs.

Chief Executive Carrie Lam proposed several policies for the SAR's economy in her recent policy address, including further enhancing Hong Kong's role in finance. Hong Kong aimed at

²⁵ Press Release on financial results for the past 7 months until end of October 2021, 31 October 2021, The Treasury of Government of the Hong Kong Special Administrative Region, available at: <https://www.info.gov.hk/gia/general/202111/30/P2021112900457.htm>

²⁶ Press Release on financial results for the past 7 months until end of October 2021, 31 October 2021, The Treasury of Government of the Hong Kong Special Administrative Region, available at: <https://www.info.gov.hk/gia/general/202111/30/P2021112900457.htm>

becoming an international green finance centre, with the ambition of becoming a carbon market in co-operation with the Guangzhou Futures Exchange. Environmental, social and corporate governance professionals will be added in the Talent List of Hong Kong. This meant that environmental, social and corporate governance professionals would be eligible for immigration facilitation under the Quality Migrant Admission Scheme (QMAS).

Regional integration

Chief Executive Carrie Lam presented the concept of **Northern Metropolis**, an area spanning 300 square kilometres that would become the city's 'most important area' to facilitate integration with Shenzhen and connect with the Greater Bay Area (GBA). The Northern Metropolis will accommodate a population of about 2.5 million, with the total number of jobs set to increase from 116 000 at present to about 650 000, including 150 000 I&T-related jobs.

Integration with the **GBA** is supported by a number of initiatives: mainland China's 14th Five-Year Plan (including the Guangdong-Hong Kong-Macao Greater Bay Area), the Comprehensive Deepening Reform and Opening Up of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, the economic development for domestic and international dual circulation, and the Belt and Road Initiative. Innovation and technology development are key objectives under these initiatives.

Chief Executive Carrie Lam also proposed to allow stocks traded via the southbound trading under the Stock Connect scheme to be denominated in Chinese yuan. The government supported the Hong Kong Stock Exchange to promote cooperation with the Guangzhou Futures Exchange in developing carbon emission trading-related financial products and assessed the feasibility of developing Hong Kong into a regional carbon-trading centre. Hong Kong aimed at further developing RMB cross-boundary trade, developing offshore RMB products and promoting cross-border financial technologies (Fintech).

Important environmental policies were adopted in 2021 such as the Waste Blueprint, the Electric Vehicle Roadmap, and a Climate Action Plan 2050. On climate change, Chief Executive Carrie Lam announced that Hong Kong, as an international city of China and as part of the overall Chinese commitment, would reduce carbon emissions by 50% before 2035 as compared to the 2005 level and achieve carbon neutrality before 2050. In the next 15 to 20 years, the government would devote about EUR 27 billion to finance measures on climate change mitigation and adaptation. The government set up an Office of Climate Change and Carbon Neutrality, and a climate action plan was presented in October 2021.

A green and sustainable finance grant scheme was launched in May 2021 to provide subsidies for eligible bond issuers and loan borrowers. During 2021, the ceiling under the government green bond programme was doubled to HKD 200 billion (EUR 22 billion) helping the government to promote the local green bond market while advancing the city's carbon neutrality objective. Three additional offerings of government green bonds were completed in 2021: USD 2.5 billion in January, USD 1 billion and EUR 1.75 billion in November 2021 and another RMB 5 billion later the same month (after a first issuance of USD 1 billion in 2019).

III. Relations between Hong Kong and mainland China

The central government adopted an increasingly visible role in Hong Kong's political and economic affairs. On 28 January, the principle of 'patriots ruling Hong Kong' as the

foundation for the ‘one country, two systems’ principle was made public when Chief Executive Carrie Lam presented her annual report to President Xi Jinping. For the second year in a row the National People’s Congress (NPC) adopted legislation on Hong Kong. On 11 March, the NPC approved the Decision on Improving the Electoral System of the Hong Kong Special Administrative Region, with immediate effect. The Decision’s explanatory document mentioned ‘loopholes and deficiencies’ in Hong Kong’s electoral system and aimed at ensuring that Hong Kong is administered by ‘patriots’.

The role of the **Central Government Liaison Office (CGLO) in Hong Kong** evolved. Its director intensified engagement and reached out to the people of Hong Kong. The CGLO, the size of which increased by 100 people, exerted increasing influence over Hong Kong’s policymaking and political establishment, calling into question the maintenance of Hong Kong’s high degree of autonomy.

Hong Kong’s policies were increasingly aligned with those of the mainland. Hong Kong was included in the PRC’s Five Year Plan, with a focus on integration in the GBA. In November, the communiqué of the Party’s 6th plenum mentioned Hong Kong for the first time in a resolution on history and endorsed the principle of ‘patriots governing Hong Kong’.

Mainland China was Hong Kong’s largest trading partner in goods, accounting for 60% of Hong Kong’s total exports and 45% of its imports during the first 10 months of 2021. In turn, the SAR was an important trading hub for the mainland and ranked as China’s the fifth largest trading partner in the first 10 months of 2021. The Chinese province of Guangdong remained an important outward-processing base for Hong Kong. The **Closer Economic Partnership Arrangement (CEPA)** with the mainland (2003) was Hong Kong’s most substantial trade agreement. There was no major amendment under the agreement this year.

Hong Kong also remained mainland **China’s key offshore financial centre and investment hub**. At the end of 2020, 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 27% and 47% of the total stocks respectively²⁷. In turn, Hong Kong remained the leading destination for mainland China’s FDI and a leading source of FDI to the mainland – accounting for more than half of the total in each direction. There were 1 350 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 were 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.

Hong Kong strengthened its preferential mutual access with the mainland’s capital market. Two initiatives were launched in the second half of 2021: the Greater Bay Area (GBA) Wealth Management Connect (WMC) and the southbound leg of the Bond Connect. They complement existing channels.

In September 2021, the central government announced a plan was to extend and further open up the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone (**Qianhai**

²⁷ Statistical report on External Direct Investment Statistics of Hong Kong (2020 Edition), 10 December 2021: available at <https://www.censtatd.gov.hk/en/EIndexbySubject.html?pcode=B1040003&scode=260>

zone) in Shenzhen. The zone was launched more than a decade ago and hosted about 11 500 Hong Kong invested enterprises. Other developments in relation to the GBA included: (i) hosting the inaugural GBA Legal Professional Examination – with candidates obtaining a lawyer’s practice certificate (GBA) to provide legal services in the GBA on specified civil and commercial matters (including litigation); (ii) establishing a framework for cooperation on liquidation proceedings; (iii) opening up more national-level science and technology programmes to Hong Kong; and (iv) promoting equivalence of qualifications for architecture and engineering professionals.

IV. EU-Hong Kong bilateral relations and cooperation in 2021

High-level visits from the EU institutions could not take place for the second year in a row. The EU Office met frequently with government officials, lawmakers, academia and civil society, although it proved more challenging than in previous years. In 2021, the annual EU-Hong Kong Structured Dialogue did not take place, for the second year in a row.

In 2021, the EU was the largest foreign business community in Hong Kong, ranking ahead of Japan, the US and the UK. As of June 2021, at least 1 614 EU companies set up business in Hong Kong, and many of them were using Hong Kong as regional headquarters. EU businesses were present in a wide range of sectors, including financial and business services, trading, logistics, retailing, food and beverage, and construction. Based on the annual survey on foreign companies by the Hong Kong Census and Statistics²⁸, the number of EU companies registered a slight increase in the past 2 years (+0.7%), reaching 1614. However, EU companies that have cut or relocated some activities and / or staff while remaining in Hong Kong are not reflected in those numbers.

In 2021, bilateral trade in goods reached EUR 30.5 billion, an increase of 2.5% y-o-y compared to 2020. EU exports of goods to Hong Kong amounted to EUR 23.5 billion, while imports from Hong Kong totalled EUR 7 billion, resulting in a surplus of EUR 16.5 billion for the EU²⁹. **The EU was Hong Kong’s third largest trading partner in goods** in 2021, after mainland China and Taiwan³⁰. Hong Kong remained an important platform for trade between mainland China and the EU.

EU bilateral trade in services with Hong Kong amounted to EUR 27.2 billion in 2020 (-2.5% y-o-y)³¹ of which EU imports from Hong Kong, which amounted to EUR 9.8 billion, and EU exports to Hong Kong, which totalled EUR 17.4 billion. This resulted in a EUR 7.6 billion trade surplus for the EU. Preliminary data for 2021 shows strong growth in bilateral trade in services with Hong Kong in the first three quarters of the year (+23.1% y-o-y to EUR 24.5

²⁸ Report on 2021 Annual Survey of Companies in Hong Kong with Parent Companies Located outside Hong Kong, the Census and Statistics Department of Hong Kong Special Administrative Region, 7 October 2021, available at: https://www.censtatd.gov.hk/en/press_release_detail.html?id=5133

²⁹ Source: Eurostat/Comext database available at <https://ec.europa.eu/eurostat/web/international-trade-in-goods/data/focus-on-comext>

³⁰ Statistical report on Hong Kong External Merchandise Trade (December 2021), 9 February 2022. Available at: <https://www.censtatd.gov.hk/en/EIndexbySubject.html?pcode=B1020005&scode=230>

³¹ Source: Eurostat: European Union and euro area balance of payments - quarterly data available at https://ec.europa.eu/eurostat/databrowser/view/BOP_EU6_Q__custom_457552/bookmark/table?lang=en&bookmarkId=906b5b31-513e-4656-95e7-613fde4706ed

billion)³². Two-way **investment** between the EU and Hong Kong dropped by almost a quarter, but remained significant: according to the most recent data, investment stocks from Hong Kong into the EU amounted to EUR 162 billion and investment from the EU into Hong Kong amounted to EUR 128 billion³³.

With regard to the EU-Hong Kong Customs Cooperation and Mutual Administrative Assistance Agreement and the Action Plan on Customs Enforcement in IPR, planned operational activities were impacted by the COVID crisis. Hong Kong remained the second-largest place of provenance by value of IPR-infringing goods imported into the EU, even if these goods were not produced in the city. Meetings in Hong Kong with the leadership of the Customs and Excise Department did not take place in 2021, despite several requests.

With regard to **taxation**, the Code of Conduct Group (COCG) launched communication with jurisdictions which were identified as relevant in relation to their foreign sourced income exemptions, including Hong Kong. As a result of the dialogue and the information provided, Hong Kong was asked to commit to reform its Foreign Sourced Income Exemption (FSIE) regime as it was found to be non-compliant. The authorities were also requested to implement the reform by the end of 2022.

Regarding research, science and innovation, the Hong Kong authorities published two calls for applications in 2021 to support Horizon 2020 participants from the SAR. The EU and Hong Kong were exploring the expansion of the existing collaboration scheme under the EU's new flagship programme Horizon Europe.

Drastic restrictions due to the COVID-19 pandemic caused the rescheduling of many planned **people-to-people** activities such as cultural events, research, academic cooperation, student mobility and activities involving the creative industries. However, the EU Office was able to gradually restart public outreach and engage with the local community. The EU Film Festival 2021 was organised with the support of EU Member States. The Office also hosted – in cooperation with the European Chamber of Commerce in Hong Kong – a green event entitled 'EU-Hong Kong: the Green Way', where the industry handed over 12 recommendations to senior government representatives on ways to accelerate the green transition in the SAR. The EU Office also engaged with the local authorities to promote the EU's reform proposal of the World Trade Organisation towards a sustainable and effective multilateral trading system and in preparation for the 12th WTO Ministerial Conference. Two events took place with the Department of Commerce and many technical meetings with government and industry on key EU Policies, including finance, the green deal and commerce. The 6th annual EU-Hong Kong workshop on **trafficking** was delayed to January 2022.

³² Source: Eurostat: European Union and euro area balance of payments - quarterly data
https://ec.europa.eu/eurostat/databrowser/view/bop_its6_det/default/table?lang=en

³³ Source: Eurostat database available at :

https://ec.europa.eu/eurostat/databrowser/view/BOP_FDI6_GEO__custom_2077647/default/table