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Hong Kong Special Administrative Region: Annual Report 2014

SUMMARY

Since the handover of Hong Kong to the People's Republic of China 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) under the 'one country, two systems' principle. In line with the commitment given to the European Parliament in 1997, an annual report is issued on developments in Hong Kong. This is the 17th report, covering developments in 2014. The EU adheres to a 'one China' policy and supports the 'one country, two systems' principle and its implementation.

The EU believes that, notwithstanding challenges, the 'one country two systems' principle continued to work well in 2014, to the benefit of Hong Kong, China as a whole and the international community.

The judiciary continued to demonstrate its independence and consistent adherence to due process. During the large civil disobedience campaign, the rule of law remained the guiding principle for the government, economic actors and the population at large. Anti-corruption action remained strong, as shown by the conviction of two high-profile personalities and positive good governance indicators. Apart from two incidents, police conduct during the three-month-long pro-democracy street protests was professional and the use of force was proportionate. Media freedom continued to be upheld, even though attacks on media representatives have been an increasing cause for concern. The free market economic system continued to function efficiently and Hong Kong remained a competitive international business centre as well as the premier hub for business with mainland China.

Hong Kong is at a crucial stage in its democratic development, with unprecedented protests and more polarised and intense debates, revealing both political and socio-economic divides. The EU reiterates its commitment to strengthening democracy, including the rule of law, the independence of the judiciary, fundamental freedoms and rights, transparency, and freedom of information and expression in Hong Kong.

As a stakeholder in Hong Kong's future and in line with the Basic Law, the EU supports the introduction of universal suffrage for the election of the Chief Executive in 2017 and for the Legislative Council by 2020. The EU supports the Hong Kong people's desire for a high degree of political participation and genuine choice in the 2017 Chief Executive election and thereafter. An accountable government contributes to stability and prosperity, helps to safeguard basic rights and freedoms, and serves to sustain Hong Kong's standing and competitiveness as a key international business centre. Universal suffrage would give the government greater public support and legitimacy in reaching Hong Kong's economic objectives and tackling social challenges.

The EU hopes that, through constructive discussion, Hong Kong will be able to reach timely agreement on an election system that is democratic, fair, open and transparent. Following this, the EU also hopes that the process for introducing universal suffrage for electing all members of the Legislative Council in 2020 will be started without delay.

While respecting the principle of sovereignty, the EU is ready to cooperate on issues relating to electoral reform, including inter-parliamentary exchanges and sharing practical experience on democratic development.

POLITICAL DEVELOPMENTS

The introduction of universal suffrage in electing the Chief Executive in 2017 remains Hong Kong's main domestic issue. Under the Basic Law of the Hong Kong SAR, the Chief Executive and Legislative Council must follow a five-step constitutional procedure. The SAR government took the first step on 15 July 2014, when Chief Executive Leung Chun-ying submitted a report to China's Standing Committee of the National People's Congress (NPCSC), proposing to reform the system for electing the Chief Executive. The proposal was based on a five-month long public consultation, which had resulted in 124 700 written proposals.

According to the Chief Executive's report, the key issue for debate was the nomination of candidates. It proposed that candidates be nominated by a 1 200-strong nominating committee, as stipulated in the Basic Law. It rejected the idea of civic or political party nomination advocated by the opposition pan-democrat parties, which claimed that nomination by a committee fell short of democratic standards and would effectively bar pan-democrat candidates.

Following the public consultation, the civil society group 'Occupy Central with Love and Peace' organised an unofficial referendum on 20-29 June. Nearly 800 000 people voted, well above expectations, with a large majority supporting civic and political party nomination of candidates. In August, the pro-government civil society group 'Alliance for Peace and Democracy' collected 1.5 million signatures against the 'Occupy Central' campaign and in support of the government line; the signatories included Chief Executive Leung Chun-ying and other senior officials.

The debate was further fuelled by the publication on 10 June 2014 of a white paper by China's State Council entitled 'The Practice of the "One Country, Two Systems" Policy in the Hong Kong SAR'. The white paper stressed that Hong Kong's high degree of autonomy was subject to the authority of the central government, which had comprehensive powers to govern the SAR, and specified the need to safeguard China's sovereignty, security and development interests. The white paper also noted that 'loving the country' was a basic political requirement for Hong Kong's administrators, including judges and other judicial personnel. While representatives of the central government asserted that the white paper merely stated the existing situation and did not constitute new policy, many in Hong Kong saw the paper as an attempt to diminish Hong Kong's 'high degree of autonomy' and undermine the independence of Hong Kong's judiciary.

On 31 August 2014, the NPCSC unanimously decided on the framework for Hong Kong's first 'one person, one vote' election for Chief Executive in 2017. According to the framework, only two or three candidates, receiving at least 601 votes from the 1 200-strong nominating committee, could run for the office of Chief Executive. The nominating committee itself,

based on the model of the current election committee, would be divided into four sectors and its members would be chosen by about 250 000 individual and corporate voters.

The NPCSC decision was widely considered to be more restrictive than expected, and unduly so according to opposition groups. The Hong Kong Bar Association described it as ‘unreasonably restrictive.’ The government and the Legislative Council President argued that the NPCSC decision still contained many areas of flexibility that could be exploited to enhance the democratic character of the election system.

The most significant reaction to the NPCSC decision was a campaign by various student groups and other pro-democracy activists that started in September. From 27 September, activists blocked key traffic arteries in Hong Kong and protestors surrounded the buildings of the legislature and main government buildings. Police use of teargas on 28 September, on a scale that was widely seen as disproportionate, galvanised a massive demonstrator turnout, which reached an estimated 100 000 at its peak. Despite isolated incidents of violence, the demonstrators were overwhelmingly peaceful and police use of force minimal. The demonstrations gradually dwindled in the face of mounting public disapproval. Following court rulings, the road blocks were successively cleared, the last one on 15 December.

The government was slow in engaging with the protestors and in trying to reach a compromise. During the demonstrations, several international leaders, including the UN Secretary-General Ban Ki-moon, UK Prime Minister David Cameron and EU High Representative Catherine Ashton issued statements urging both sides to exercise restraint and seek to resolve the political stand-off peacefully.

While political in origin, the demonstrations laid bare important socio-economic grievances. Underlying these grievances were livelihood issues and a sense, especially among the young, of being economically disenfranchised by a political system believed to favour the interests of the business elite, whose primary interest is to preserve good relations with the central government.

Academic research has shown that young people in Hong Kong identify strongly with Hong Kong rather than China as a whole, and that they fear that China is encroaching on Hong Kong’s rule of law, rights and freedoms. On 7 January 2015, the Hong Kong SAR government published a report, outside the ‘five-step process’, reflecting the opinions and aspirations of people in the period 31 August to 15 December 2014. The report was a government concession to the student demonstrators, but they criticised the government for failing to address their core concerns.

Legislative Council

Relations between the executive and the legislature became increasingly strained in 2014, with opposition legislators staging a non-cooperation campaign and using filibustering tactics to delay government initiatives. On several occasions, the Legislative Council President exercised his discretionary power to end debates; in a legal challenge to this, the court found in the President’s favour. Legislative Council debates could benefit from clearer written rules on conducting debates.

In April, the President of the Legislative Council led a delegation of legislators to Shanghai to meet senior central government officials to discuss legislative reform. In June and November, radical protestors stormed the Hong Kong Legislative Council complex, causing injuries to some Legislative Council staff and damage to parts of the complex.

Rule of law and the judiciary

The rule of law was generally respected and the judiciary maintained its high standards in 2014. On several occasions, parties filed for court rulings with significant political implications, but the courts continued to function independently and professionally and were not influenced by extraneous factors or political considerations. High-profile examples included various court injunctions requested by economic operators who were successful in challenging the legality of the road blocks during the September-December demonstrations. The courts followed the correct procedural steps — there was equal access to the court for both parties, legal aid was provided, the proceedings were public, and the court's ruling was published and complied with. The convictions on corruption charges, of a former government chief secretary and a real estate tycoon, both of whom remained in prison pending their appeals, also testify to the impartiality of Hong Kong's judiciary.

The World Economic Forum's Global Economic Competitiveness Report 2014-2015 ranked Hong Kong fifth among 144 jurisdictions and first in Asia for judicial independence. Some issues still need to be resolved, such as difficulty in recruiting judges, the shortage of support staff in the courts and the low fees paid to lawyers in legal aid cases, especially criminal cases. Maintaining judicial independence and full respect for the rule of law are vital to upholding Hong Kong's democratic credentials, its standing as an international business centre and its rising role as an international centre for arbitration and mediation.

Law enforcement

Law and order in Hong Kong improved overall in 2014 with a 7.1 per cent decrease in the number of crimes compared to 2013, according to the Commissioner of Police Andy Tsang. The crime rate continued to fall — from 72 911 to 67 740 cases, the lowest figure since 1997.

During the period of civil disobedience, police operations continued to be highly transparent and, bar a few notable exceptions, police conduct was professional and the use of force proportionate. Exceptions included the excessive use of tear gas on 28 September, and the beating, on 15 October, of a protestor by seven police officers, an incident that was recorded by a local television station. The trial of the seven police officers is pending.

A total of 955 people were detained for various offences over the protest period. The police aimed to complete all investigations within three months. To date, 30 protest leaders have been arrested and then released pending investigation.

The Complaints Against Police Office received 1 972 complaints, of which only 106 were found to be admissible (the remaining complaints mostly being filed by members of the

public on the basis of media reports or footage). Members of the Independent Police Complaints Council observed the investigations, including the one into the beating of a protestor.

Anti-corruption

Corruption, including in the civil service, was generally deemed to be well under control. The anti-corruption system remained vigorous and resilient, even though Hong Kong slipped two places to 17th out of 175 countries in the Transparency International's Corruption Perceptions Index 2014.

According to this survey, conducted by an independent survey firm, only 1.5 % of respondents indicated that they had encountered corruption in the past 12 months. 81 % of respondents considered the Independent Commission Against Corruption (ICAC) effective and 97 % believed it deserved their support. In 2014, the ICAC investigated 222 people in 114 cases. The person-based conviction rate increased from 78 % to 85 %, while the case-based conviction rate rose from 81 % to 87 % compared to 2013. Of all corruption complaints received in 2014, 63 % concerned the private sector, 30 % related to government departments and 7 % involved public bodies.

The ICAC is investigating several high-profile complaints. One of them concerns alleged illegal political donations by the owner of Next Media, Jimmy Lai to several pan-democracy parties and politicians. Another complaint concerns the alleged receipt by Chief Executive Leung Chun-ying of an illegal and undeclared payment from a private sector firm after he took up office as Chief Executive, even though the service concerned occurred beforehand. The Secretary for Justice delegated authority to the Director of Public Prosecutions to handle this complaint, to avoid any public perception of bias or partiality in the handling of the case. Another investigation concerns an allegation against former Chief Executive Donald Tsang, dating back to 2012. These cases will test the capability of the ICAC and the judiciary to investigate and try high-profile corruption cases independently, impartially and free of political considerations. The convictions, on 23 December, of a former government chief secretary and a real estate tycoon suggest that the ICAC and the judiciary are discharging their anti-corruption duties without fear or favour.

Equal Opportunities

On 8 May 2014, the United Nations Committee on Economic, Social and Cultural Rights expressed concerns and gave recommendations about: (i) the absence of comprehensive Human Rights institutions and legislation; (ii) an increase in immigration issues and the absence of protection for refugees, asylum seekers and migrant workers; and (iii) the shortage of public housing, and growing social and economic disparities among Hong Kong people.

The Equal Opportunities Commission (EOC) received 100 000 submissions in response to a public consultation on the review of discrimination legislation. The EOC will submit a report with recommendations to the government by the second half of 2015. The EOC will also make recommendations on promoting equal opportunities for LGBTI lesbian, gay, bisexual, transgender and intersex (LGBTI) persons, through legislation as well as practical measures.

The review of Hong Kong's legislation on same-sex marriage and marriages involving trans-gender persons is ongoing.

A positive step was made when, following long-standing demands from ethnic minority advocacy groups, the government introduced special arrangements to the school curriculum for non-native speakers of Chinese. Thus, starting in the 2014/2015 school year, the government implemented a Chinese as a Second Language curriculum in primary and secondary schools with supporting learning materials and assessment tools.

On 23 October, the United Nations Committee on the Elimination of Discrimination against Women recommended that Hong Kong should strengthen the Women's Commission's mandate and boost the representation of women in public and political life. The UN committee also called for increased efforts against the root causes of trafficking in women and girls and for the adoption of anti-trafficking legislation. It also recommended that foreign female domestic workers should be better protected against discrimination and abuse by employers, and recruitment and placement agencies.

Concrete steps were made to improve gender equality by requiring all government departments to apply the gender mainstreaming checklist when formulating government policies. The government also committed itself to raising the representation of women in advisory and statutory bodies from 30% to 35%. On 18 December, the Legislative Council adopted an amendment to the Employment Bill, entitling private sector male employees to paternity leave of up to three days.

Media

Hong Kong's first Press Freedom Index was published on 23 April. It showed that journalists rated press freedom in Hong Kong at 42 out of 100, while the public rated it slightly better at 49.4. Self-censorship continued to be of major concern. Journalists rated self-censorship at 6.9 on a scale of zero to 10 (10 signifying 'very common'); the public rated it at 5.4. Journalists rated pressure from owners or management at 6.5, compared with a public rating of 6.2.

In July 2014, the Hong Kong Journalists Association published its 21st annual report, entitled 'Press Freedom Under Siege — Grave Threats to Freedom of Expression in Hong Kong'. According to the report, 2014 had been the darkest year for press freedom for several decades. Journalists had been attacked several times, including a brutal attack in February on Kevin Lau, the former Chief Editor of the Ming Pao Daily News, some journalists had been sacked while others with critical views had been moved to less sensitive areas; this placed pressure on the editorial integrity of publications. The Association recorded 24 attacks on journalists between 22 September and 29 October and accused the police of excessive use of force and media obstruction. On 26 October, the Chief Executive and the Hong Kong Government strongly condemned an incident in which unknown assailants attacked journalists. Opposition media owner, Jimmy Lai, was the victim of several attacks, including arson, in late 2014.

Serious concerns were voiced over the freedom of the electronic media, following the Hong Kong Government's decision not to award a free-to-air TV licence to one of the most innovative applicants, the Hong Kong Television Network.

International groups also reported a decline in Hong Kong's press freedom. Reporters Without Borders ranked Hong Kong 61st worldwide on press freedom, compared with 58th in 2013 and 18th in 2002. It noted that 'China's growing economic weight is allowing it to extend its influence over the media in Hong Kong, Macau and Taiwan ... Media independence is now in jeopardy in these three territories.'

Although the Hong Kong media continued to operate freely and give voice to a great diversity of views, political and economic pressures could pose a risk to editorial independence. Also, the various acts of aggression against journalists, some of them severe, are a cause for concern and require continued close attention by the authorities.

ECONOMIC DEVELOPMENTS

Hong Kong continued to prosper as an international finance and trade centre in East Asia, riding on the back of the fast-developing Chinese and Asian economy. Hong Kong remained among the world's leading markets in stock trading, private equities, asset management and foreign exchange. By the end of 2014, Hong Kong's stock market was ranked as the third largest in Asia and the seventh largest in the world in terms of market capitalisation. Hong Kong was the second largest private equity centre in Asia, managing about 21 % of the total capital pool in the region at the end of September 2014. According to a triennial survey by the Bank for International Settlements, Hong Kong was the world's fifth largest foreign exchange market, with the net daily turnover of forex transactions reaching USD 275 billion in 2013. A flurry of deals towards the end of the year propelled Hong Kong into second place after New York in terms of capital-raising (Initial Public Offerings) in 2014.

Hong Kong is also one of the largest recipients and sources of foreign direct investment (FDI) worldwide. According to the World Investment Report 2014 by the United Nations Conference on Trade and Development, Hong Kong was the second largest recipient of FDI in Asia after China and the third largest source of FDI in Asia, after Japan and China. Its institutions, location and expertise in the services sector, underpinned by the rule of law, all contributed to its success. 2014 saw closer economic integration with the mainland, with the ongoing development of offshore RMB business, the linkage of the Hong Kong and Shanghai stock exchanges and considerable investment in Hong Kong by mainland Chinese enterprises. Hong Kong maintained its high scores in many of the global surveys measuring economic freedom and competitiveness.

Hong Kong's GDP expanded by 2.3%¹ in real terms in 2014, after increasing by 2.9 % in 2013. The growth was mainly driven by domestic consumption and services exports. The labour market was resilient with the unemployment rate remaining at 3.3 % or below for most periods during the year. Consumer price inflation rose by 4.4% in 2014. Total exports of goods grew by 3.2% year on year in 2014, after expanding by 3.6% in 2013. Total visitor arrivals rose 12 % to 60.8 million in 2014. Claims that the Occupy Central movement had affected the economy were not borne out by the economic data, although companies located

¹ Unless otherwise stated, all economic indicators pertaining to the Hong Kong economy were sourced from the Hong Kong Census and Statistics Departments.

within the protest zones did suffer. The retail sector had slowed down long before the demonstrations — tourist purchases of popular luxury items (such as jewellery and watches) recorded double-digit contraction due to the slowdown in the Chinese economy and the anti-corruption drive on the mainland.

The economic relationship between Hong Kong and mainland China continued to deepen through trade and cross-border investment and the development of Hong Kong as an offshore RMB centre. The SAR hosted the largest pool of RMB deposits outside China, exceeding CNY 1 trillion in 2014. In November 2014, following consent from the central government, the Hong Kong Monetary Authority scrapped the daily conversion cap of RMB CNY 20 000 for Hong Kong residents. This regulatory change paved the way for a freer flow of RMB between the onshore and the offshore markets, and is expected to facilitate broader growth in the offshore RMB foreign exchange market. While Hong Kong enjoys a major ‘first-mover’ advantage, competition is increasing as the central government has gradually been opening up RMB business in other financial centres.

Hong Kong remained a testing ground for China’s capital market reform. The Shanghai-Hong Kong Stock Connect was launched on 17 November 2014. The pilot scheme is a mutual market access programme through which investors in Hong Kong and mainland China can trade and settle shares listed in each other’s market via an exchange and clearing house in their own local market. Despite trade being slow in the initial period, it can be expected that, as the pilot scheme develops and matures, it will boost Chinese investment in Hong Kong and vice versa. It is also expected to lead to increased integration of China’s capital markets into the global economy. The scheme confirmed Hong Kong’s leading role as an offshore RMB centre.

In addition to financial cooperation, Hong Kong and China signed a subsidiary agreement under the Closer Economic Partnership Arrangement (CEPA) on 18 December, to liberalise the trade in services between Guangdong Province and Hong Kong. The agreement was presented as a model for the basic liberalisation of trade in services for the whole of China.

The Central Government announced in 2011 the objective of basic liberalisation of trade in services between the Mainland and Hong Kong by the end of the National 12th Five-Year Plan period, in 2015.

As regards external relations, Hong Kong played an active role in the World Trade Organisation (WTO) and remained committed to liberalising global trade. In this connection, Hong Kong was the first WTO Member to notify the WTO of the designation of all provisions in Section I of the Trade Facilitation Agreement as Category ‘A’ commitments. Hong Kong also took part in negotiations on the expansion of the Information Technology Agreement, Trade in Services Agreement and the Environmental Goods Agreement. To complement its existing network of Free Trade Agreements (FTAs), Hong Kong started FTA negotiations with ASEAN in July 2014.

The Hong Kong Government vowed to maintain sustainable economic growth as a prerequisite for tackling its housing, poverty, ageing population and environmental problems. After the release of its first poverty line data in 2013, which indicated a poverty rate of

15.2%, the government's policy objective was to boost employment and improve the social security welfare system. Concrete poverty alleviation measures in 2014 included a Low Income Family Allowance scheme,² and a one-off subsidy for low income groups. The Elderly Health Care Voucher Pilot Scheme was doubled to HKD 2000 in 2014, and elderly citizens were granted new discounts on public transport. The government purchased residential care places in Shenzhen, and was discussing similar arrangements elsewhere on the mainland.

The notion of a 'Future Fund' to finance infrastructure at times of sustained deficits was first raised by Financial Secretary, John Tsang, in his 2014-15 budget. Traditionally, Hong Kong has enjoyed a strong fiscal position (with a balanced budget) and deep reserves.³ Mr Tsang, however, sounded a cautionary note about long-term fiscal stability. He warned that Hong Kong might run into structural deficits in 7-15 years' time when the economy reached a mature state, slowed by an ageing population. The government has started to explore options to deal with an ageing population, such as retirement protection and a voluntary health insurance scheme.

Hong Kong's residential property prices have been rising relentlessly for five years, making them among the highest in the world. Demand has been driven by a combination of low interest rates and currency stability while the supply of land, which the government controls, gradually diminishes. A series of administrative measures, including stamp duty on property transactions, were introduced in 2010-13 to dampen demand. Nevertheless, in 2014 residential property prices kept rising, even if at a slower pace.⁴ House prices are still out of reach for most young people. The rapid rise of property prices has also helped to widen the wealth gap. The government rolled out the new Long Term Housing Strategy aimed at helping all those needing access to affordable housing. Over the next 10 years, the government aims to provide 470000 new units, with public housing accounting for 60 per cent of all housing.

Innovation and technology were highlighted as pillars for promoting economic development in the fields of financial services, tourism, trading and logistics, professional services and other producer-related services. The government supported them by nurturing a business-friendly regulatory environment and investing in infrastructure. There was heavy investment in transport networks, including the Hong Kong-Zhuhai-Macao Bridge, the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the extension of the mass transit railway system within the city.

While Hong Kong remains highly competitive within its core areas, it is facing increased competition from mainland cities such as Shanghai and Shenzhen, and from other

² Adopted by the Finance Committee of the Legislative Council on 15 January 2015.

³ As of February 2014, the Hong Kong Government projected that fiscal reserves would reach HKD 755 billion, or 34 % of its GDP, by the end of March 2015.

⁴ According to the Credit and Valuation Department of the Hong Kong Government, the price index of private domestic property rose to 278.2, up 13.5 % year on year in December 2014. The index surged from 206.2 in 2012 to 242.4 in 2013, up 17.6 % year on year.

international financial centres. The limited supply of land, infrastructure constraints and rising labour costs mean that it is even more vital for Hong Kong service providers to compete on parameters such as quality, speed and innovation. On the regulatory side, Hong Kong has made efforts to maintain a fair and competitive environment for business. 2014 saw a number of regulatory developments, namely the implementation of the Competition Ordinance, new announcements on taxation and efforts to counter money laundering.

Hong Kong's first comprehensive competition law was passed by the Legislative Council in 2012. In 2013, the Hong Kong Competition Commission was set up and provisions relating to the Competition Tribunal came into force. In 2014, the Hong Kong Competition Commission and the Hong Kong Communications Authority published draft guidelines for implementing the Competition Ordinance.

In September 2014, Hong Kong announced its alignment to the new global standard on the automatic exchange of information for the purpose of enhancing tax transparency and combating cross-border tax evasion. The Hong Kong Government stated that the first exchange of tax information could be implemented by the end of 2018, subject to the passage of the related bill by the legislature by 2016.

Hong Kong continued to review its legal and regulatory requirements in the field of anti-money laundering. As a member of the Financial Action Task Force (FATF), Hong Kong is due to be scrutinised in 2018. In the last evaluation in 2008, Hong Kong was rated as being partly compliant with the task force's standards, leaving room for improvement. However, in October 2012, the FATF stated that Hong Kong 'had made significant progress in addressing the deficiencies identified'. The FATF considered that Hong Kong's anti-money-laundering supervision was effective for banking, insurance and securities, but weak or non-existent for many non-financial sectors, such as property.

EU-HONG KONG BILATERAL RELATIONS AND COOPERATION

In 2014, the EU and Hong Kong continued to develop and strengthen their bilateral relations. The EU remained Hong Kong's second largest trading partner after mainland China,⁵ while Hong Kong continued to play an important role as a trading hub and key conduit for two-way trade and investment flows between the EU and mainland China.

Bilateral trade in goods between the EU and Hong Kong dropped mildly by 1 % to reach EUR 45.3 billion in 2014, with the EU enjoying a trade surplus of EUR 24 billion.⁶ The EU has remained the largest source of foreign companies in Hong Kong, with a total of 1 937

⁵ The ranking is based on trade statistics released by the Hong Kong Census and Statistics Department.

⁶ Source: Eurostat: Comext database.

companies.⁷ EU businesses are active in a wide variety of sectors, mainly financial and business services, trading, logistics, construction and retailing. EU companies are key players in Hong Kong's banking, insurance and securities sectors. As a result, a large number of Europeans live and work in Hong Kong, with UK and French nationals being the most numerous.

Relations between the EU and Hong Kong have continued to prosper on the investment front. In 2013 EU FDI outflows to Hong Kong amounted to EUR 10 billion; FDI inflows from Hong Kong to the EU reached EUR 3.9 billion. At the end of 2013, FDI stock held by the EU in Hong Kong was EUR 88.5 billion and FDI stock held by Hong Kong in the EU during the same period was EUR 46.2 billion.

Hong Kong remains a key conduit for EU-China trade and investment, and as such presents EU economic operators with high-value opportunities. With a sizable number of EU companies registered as 'Hong Kong service suppliers' under the Hong Kong-Mainland China Closer Economic Partnership Arrangement (CEPA), the EU is the leading source of foreign companies utilising CEPA. Given the potential of CEPA, the EU and Hong Kong will engage in regular exchanges on CEPA developments and explore ways to maximise the opportunities for EU companies and investors.

The eighth EU-Hong Kong structured dialogue meeting took place in Brussels on 11 November 2014 in the framework of official bilateral relations. The main topics on the agenda were economic policy, the regulatory regime for the financial sector, strengthening intellectual property protection and Hong Kong's decision to implement the new global standard on the Automatic Exchange of Financial Information in Tax Matters. The parties also held discussions on new medium-term objectives in order to take the relationship forward.

2014 saw a number of high-level visits from EU institutions to Hong Kong. European Commissioner Michel Barnier (Internal Market and Services) visited in January and European Commissioner Algirdas Semeta (Taxation, Customs, Statistics, Audit and Anti-Fraud) in May. The latter visit contributed to positive developments in Hong Kong on two fronts: the automatic exchange of financial information in tax matters and on customs cooperation, and IPR enforcement issues. A delegation of Members of the European Parliament visited Hong Kong in January.

The Chief Executive of the Hong Kong SAR, Leung Chun-ying, visited Brussels in May and met with European Council President Herman Van Rompuy and European Commission President José Manuel Barroso. The Education Secretary, Mr Eddie Ng Hak-kim, and the Secretary for Financial Services and the Treasury, Professor KC Chan, also visited Brussels in 2014 and met with their EU counterparts.

⁷ Source: 2014 Annual Survey of Companies in Hong Kong Representing Parent Companies Located outside Hong Kong, Hong Kong Census and Statistics Department.

The EU and Hong Kong agreed to work towards an action plan with the goal of further developing customs cooperation to tackle international trade in IPR-infringing goods throughout the supply chain.

EU business interests in Hong Kong are primarily represented by the European Chamber of Commerce (ECC). The ECC is a ‘chamber of chambers’, its membership comprising 14 European chambers based in Hong Kong and one in Macao, along with five sectoral ‘business councils’. In cooperation with the European Union Office to Hong Kong, the ECC carried out a large number of activities to facilitate dialogue with the government and promote EU business and industry. The ECC was also the successful bidder for the next phase of the European Union Business Information Programme, which aims to strengthen economic partnership and business cooperation with Hong Kong and Macao and ensure a stronger and better coordinated representation of EU business and its interests in Hong Kong and Macao.

In 2014, the EU and Member State diplomatic missions in Hong Kong continued to work together to raise the EU’s profile in Hong Kong. To this end, the EU Office to Hong Kong continued to organise meetings between EU heads of missions, senior members of the Hong Kong Government, the Legislative Council and judiciary, and other leading figures.

The EU diplomatic missions and cultural institutes worked together with local partners on many people-to-people activities. Flagship events included the EU Film Festival, the European Higher Education Fair, the EU Cooking Competition, the EU Day of Languages and a schools calendar competition. In addition, the EU and Member States cooperated with the EOC and the Chinese University of Hong Kong on Hong Kong’s first international symposium on promoting LGBTI rights. The EU hopes to build on this momentum to continue its work with the government, civil society and business in promoting exchanges on rights and freedoms.

The EU Academic Programme Hong Kong (EUAP), a consortium comprising the Hong Kong Baptist University, the University of Hong Kong, the Chinese University of Hong Kong and Lingnan University, continued to strengthen EU-Hong Kong relations through academic work and network-building with local, regional and European partners. In 2014, the EUAP launched a series of events presenting European approaches to urban development. The EUAP successfully hosted the Model EU, a simulation in which students play the roles of heads of state and government of the EU Member States meeting in the European Council.