



HIGH REPRESENTATIVE
OF THE UNION FOR
FOREIGN AFFAIRS AND
SECURITY POLICY

Brussels, 8.5.2019
JOIN(2019) 8 final

JOINT REPORT TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Hong Kong Special Administrative Region: Annual Report 2018

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HONG KONG SPECIAL ADMINISTRATIVE REGION: ANNUAL REPORT 2018

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) 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 21st report, covering developments in 2018. The EU adheres to its 'one China' policy and supports the 'one country, two systems' principle and its implementation.

2018 was yet another challenging year for Hong Kong. Political developments prompted the Spokesperson of the High Representative Vice-President (HRVP) to issue statements on three separate occasions: regarding restrictions of the right to stand for election, the banning of a political party, and a politically motivated refusal to renew the work visa of a foreign journalist.

Most aspects of the 'one country, two systems' principle continue to work well. However, concerns about the erosion of this principle, which is the cornerstone of Hong Kong's economic success, have increased over the past year. There is a clear negative trend with respect to the erosion of civil and political rights. This trend gives rise to legitimate concerns about whether Hong Kong's high degree of autonomy and its attractiveness as an international business centre will continue to be upheld in the long term. The business community has been following these developments and in 2018 several chambers of commerce made public statements to express their concerns.

Freedom of speech and freedom of information are generally respected in Hong Kong. However, the freedom of expression is facing unprecedented challenges, particularly with regard to sensitive political topics.

The unusually high number of questions and recommendations addressed to Hong Kong during the United Nations' universal periodic review (UPR) of China carried out in November 2018 also reflects the international community's concerns regarding the deterioration of civil and political rights in Hong Kong in recent years. Improving the protection of other human rights, such as the rights of migrant workers, children, and LGBTI people, was also the subject of recommendations for further action under the UPR.

Despite several politically-sensitive cases, the rule of law generally prevailed and the judiciary continued to demonstrate its independence and its consistent adherence to due process.

The rule of law, the transparent regulatory framework, very low corruption levels and crime rates, along with an efficient public administration and an independent judiciary, contributed to preserving and fostering the favourable investment climate that lies at the heart of Hong Kong's success. Hong Kong remained a competitive international business and financial centre, the world's premier hub for business with mainland China, and an important hub for the Asia-Pacific area. Hong Kong is now home to over 2 200 EU companies, around half of which are using Hong Kong as their regional headquarters or regional offices.

Two major infrastructure projects connecting Hong Kong to the mainland were inaugurated in 2018: a high-speed rail link connecting Hong Kong to the mainland's 25 000 km railway network, and the Hong Kong-Zhuhai-Macao Bridge. Both the rail link and the bridge have increased the connectivity of the cities of the Greater Bay Area and will contribute to a greater integration with the mainland, presenting both new opportunities and new challenges.

Though the process seems to be indefinitely stalled, the EU encourages the Hong Kong SAR and the central government authorities to resume the electoral reform as enshrined in the Basic Law, and reach an agreement on an election system that is democratic, fair, open, and transparent. Universal suffrage would give the government greater public support and legitimacy to reach Hong Kong's economic objectives and tackle its socio-economic challenges.

Political developments

2018 was a politically eventful year. Hong Kong faced new challenges to fundamental rights and freedoms, such as the right to stand for elections and freedom of expression or association. The Spokesperson issued three statements¹ in less than a year, which was unprecedented.

The space for political opposition in Hong Kong is narrowing. Several opposition candidates, including Agnes Chow and former lawmaker Lau Siu-Lai, were barred from running in the Legislative Council (LegCo) by-election because of their political affiliation or views. These decisions were taken by the returning officer appointed by the Electoral Affairs Commission, and were subsequently defended by the government. The legal community in Hong Kong challenged their legality and constitutionality. In December, current LegCo member Eddie Chu was barred from running in a rural representative election due to his political stance.

Rejected candidates can file an election petition and ask for a judicial review but this may take years and thus does not provide an efficient legal remedy. The right to stand for election without unreasonable restrictions is guaranteed by the Hong Kong Bill of Rights and in the International Covenant on Civil and Political Rights (ICCPR) which Hong Kong has ratified. The EU calls on the Hong Kong SAR to uphold these rights.

In the last couple of years, Hong Kong has seen the emergence of a localist movement calling for self-determination or even independence. Although pro-independence voices have very limited support in society and no international backing, they raise questions about the border between legitimate freedom of expression and seditious incitement. These are yet to be legally clarified. In the last year, the Hong Kong SAR government, encouraged by the central government, adopted a new zero-tolerance policy towards any mention of 'self-determination' or 'independence', on grounds of national security and contravention of the Basic Law.

¹ 1) [29 January 2018 statement on the decision to bar Agnes Chow from running for a Legislative Council by-election](#)

2) [24 September 2018 statement on the decision to ban the Hong Kong National Party](#)

3) [8 October 2018 statement on the refusal to renew a visa for a foreign journalist in Hong Kong.](#)

On 24 September, the Secretary for Security prohibited the operation or continued operation of the Hong Kong National Party (HKNP). HKNP advocated for Hong Kong's independence through peaceful means such as the distribution of leaflets, the holding of public discussions, and silent sit-ins. Its membership was very small. It is the first time that a political party has been banned in Hong Kong. Hong Kong's legal community questioned the decision as lacking legal grounds, disproportionate, and not in line with international jurisprudence on such matters. The decision will, in all likelihood, have a wider chilling effect on freedom of expression and association and on political activity.

On 5 October, the government refused to renew the work visa for Victor Mallet, Financial Times Asia Editor and Vice-President of the Foreign Correspondent Club. Mallet had chaired a talk by pro-independence activist Chan Ho-tin of the above-mentioned HKNP in August when the party was not yet banned. In the absence of a credible alternative explanation, the decision appears politically motivated. Such pressure on journalists is unprecedented in Hong Kong and causes serious concerns about the exercise of freedom of the press. There are growing concerns that journalists are practising self-censorship. Hong Kong prides itself on being an open international city where freedom of expression is not put in doubt and freedom of the press and information is fully respected. Restriction of the work of journalists, including that of foreign journalists, would gravely damage Hong Kong's reputation and its credentials as a financial and business hub.

Furthermore, on 8 November Victor Mallet was denied a tourist entry visa into Hong Kong. This was the second time in a year that Hong Kong refused entry to an EU citizen, apparently on political grounds (after Benedict Rogers in October 2017).

The **rule of law** is still quite robust, judicial procedures and due process are fully respected. The independence of the judiciary is not in doubt. There have been a number of politically sensitive cases in recent years, and some are still ongoing.² In several instances in 2018, the Court of Final Appeal overruled jail sentences related to participation in protest actions. In December, the Court lifted restrictions imposed on a popular demonstration area outside the government's headquarters (known as Civic Square), reminding the government of the importance of freedom of assembly.

However, active prosecution efforts by the government and its toughened stance on protest-related offences, such as illegal assembly, are already having chilling effects on civil society, political activism and ultimately on the democratic process.

Some politicians questioned the role of foreign judges in Hong Kong's courts, arguing that they may endanger national security. However, the Chief Executive came out strongly to defend the practice as beneficial for Hong Kong's rule of law.

By-elections to replace five of the six disqualified lawmakers took place on 11 March and 25 November. The elections proceeded without major incident. The pan-democrats won back only two seats. The pro-establishment lawmakers retain their control over the legislature.

The **controversial high-speed railway co-location arrangement** was approved by LegCo and entered into force in 2018. The high-speed railway link to China started running in

² For example, the trial of the nine Occupy Central leaders charged with incitement to public nuisance and similar charges finished in December; the judgment is expected in April 2019.

September 2018. The railway will improve connectivity between Hong Kong and China but the co-location arrangement itself is controversial. The mainland has been given almost exclusive jurisdiction in a designated area of SAR territory, called the Mainland Port Area. Several judicial reviews challenged the legality of this co-location arrangement and its compatibility with the ‘one country, two systems’ principle and the provisions of the Basic Law. On 12 December, the Court of First Instance ruled that the arrangement is constitutional and can remain in operation; the ruling is likely to be appealed.

The Consulates General of EU Member States in Hong Kong were formally notified about the new arrangements regarding consular assistance and protection in the Mainland Port Area only on 3 April 2019³.

In 2017, Gui Minhai, a Swedish citizen and the last of the ‘missing’ booksellers, (whose cases have not yet been satisfactorily clarified), was released by mainland authorities following his disappearance in 2015. However, he was detained again in January 2018. On 24 January 2018, the HRVP’s Spokesperson issued a statement⁴ demanding his immediate release. Gui Minhai remains in detention. Senior EU representatives raised his case with the Chinese authorities on a number of occasions.

Equal opportunities, rights and freedoms

Hong Kong enjoys a high degree of freedom. Freedom of expression, media freedom and freedom of information under the ‘one country, two systems’ principle are essential components of Hong Kong’s strength and success as a global business centre.

Even though the **media** still enjoy a high degree of freedom, issues have been accumulating for several years. International press freedom watchdog Reporters Without Borders ranked Hong Kong 70th out of 180 in 2018, and highlighted the growing interference of the Chinese authorities in the media. In its 2018 Annual Report, the Hong Kong Journalist Association said that the majority of journalists considered that press freedom was worse than in 2017. The most damaging issue for press freedom was the decision of the Hong Kong government not to renew the working visa of the Financial Times Asia editor (see above).

There are indications of increasing self-censorship, for example the decision by an arts centre to cancel the participation of exiled Chinese writer Ma Jian in a literary festival because of his political views. Although the centre later reversed its decision, the incident is symptomatic of the new restraint and self-censorship that can be detrimental to the freedom of expression.

Some political subjects, in particular self-determination and independence, seem to have become taboo without a proper legal framework to clarify the restrictions. This also extends to academic discussions. By and large, Hong Kong continued to enjoy academic freedom but there are clear signs of increasing political encroachment within university campuses.

Hong Kong received unprecedented attention during the UN’s **universal periodic review** (UPR) of China, carried out in November 2018. 12 countries used the UPR hearing to

³ On 31 January 2019 the Ministry of Foreign Affairs of the People’s Republic of China sent a note verbale to the embassies of Member States in Beijing informing them of the new arrangements.

⁴ https://eeas.europa.eu/headquarters/headquarters-homepage_en/38678/Statement%20on%20the%20detention%20of%20Gui%20Minhai.

highlight their concerns about human rights in Hong Kong. Questions/recommendations related to: (i) implementing the ‘one country, two systems’ principle; (ii) the case of Gui Minhai; (iii) challenges to the freedom of expression, the press and association; (iv) the rights of LGBTI people, migrant workers and children. Five EU Member States raised questions or recommendations about Hong Kong. A number of Hong Kong NGOs formed a coalition in preparation for the UPR to raise issues in a more efficient way.

For **LGBTI rights**, Hong Kong does not have a comprehensive anti-discrimination law that would cover discrimination on the grounds of sexual orientation or gender identity. However, three landmark cases in favour of LGBTI equality in 2018 may well lay the ground for such legislation. On 4 July, the Court of Final Appeal ruled that immigration authorities must grant spousal visas to same-sex partners. Two other cases are still pending.

Trafficking in human beings remains a concern. In recent years, Hong Kong’s government has stepped up efforts to address the issue, namely through the recent adoption of an action plan.

In March 2018, a high-level inter-bureau/departmental steering committee chaired by the Chief Secretary for Administration endorsed an action plan to tackle trafficking in people and improve the protection of foreign domestic workers in Hong Kong. The plan outlines a package of measures which cover victim identification, protection and support, investigation, enforcement, prosecution and prevention as well as partnership with different stakeholders. The action plan is a welcome step but cannot replace a comprehensive legal framework.

The EU is committed to continuing its cooperation with Hong Kong to fight trafficking in human beings. In 2018, the EU Office, in cooperation with the Office of the Secretary for Security of Hong Kong, organised a third workshop on preventing and combating trafficking in human beings and protecting its victims.

Foreign domestic workers, who number around 370 000 in Hong Kong, continued to suffer from a lack of adequate labour- and social protection. Two existing laws are of particular concern, namely the live-in requirement and the ‘two-week’ rule, under which foreign domestic workers must find work within two weeks following expiry of their contract or face deportation. The government has taken steps to crack down on debt bondage and malpractices by employment agencies. The above-mentioned action plan to tackle trafficking in human beings and improve the protection of foreign domestic workers should provide a framework for addressing the issue of the rights of foreign domestic workers. For example, in December 2018 the Labour Department set up a dedicated hotline to provide support for foreign domestic workers regarding their employment rights and obligations, requests for assistance or complaints. The hotline operates 24 hours a day and interpretation services are available.

Poverty and social inequality: despite Hong Kong’s prosperity and significant budget surplus, around 1.37 million people, one in five residents, are now officially classified as poor by the government’s Poverty Commission. Poverty has been steadily increasing over the last 10 years, as has the number of the ‘ultra-rich’. As a result, Hong Kong is one of the most unequal cities in the world (as measured by its Gini coefficients). The gap is widening, with the richest 10 % of households earning 44 times more than the poorest 10 %.

The **anti-corruption** system remained vigorous and resilient. Hong Kong boasts very high standards of transparency and anti-corruption measures. The authorities and political and

business leaders recognise that transparency is vital to maintaining Hong Kong's strong position as an international business centre.

Relations between Hong Kong and mainland China

Through initiatives such as the Greater Bay Area, Belt and Road, the high speed railway, the new bridge and many other economic and social initiatives, Hong Kong is ever more integrated into the national development of the People's Republic of China. It seems that, after the 19th Congress of the Chinese Communist Party (2017), a new understanding emerged of the 'one country, two systems' principle, Hong Kong's high degree of autonomy and the principle of 'Hong Kong administered by Hong Kong people'. The notions of 'comprehensive jurisdiction', and 'shared governance', together with a greater focus on red lines with regard to national security and territorial integrity, make certain parts of Hong Kong society worry about the future.

China's policy paper on the European Union published on 18 December 2018 states that 'the central government of China supports and encourages the governments of the Hong Kong Special Administrative Region and the Macao Special Administrative Region in developing mutually beneficial and friendly cooperation in such areas as economy, trade, culture and tourism with the EU and its member states in accordance with the principle of 'one country, two systems' and provisions of the two Basic Laws. Given that Hong Kong and Macao are China's special administrative regions, their affairs are part of China's internal affairs and should not be interfered in by the EU side.'

There are recurrent tensions between Hong Kong citizens and mainland visitors, with resulting protests, for example following the influx of mainland tourists after the opening of the Hong Kong-Zhuhai-Macao Bridge. In September, more than 400 uniformed Chinese People's Liberation Army soldiers were sent to Hong Kong Country Park to help remove trees felled during the typhoon. Pan-democratic lawmakers and parts of Hong Kong's society expressed concern about this action as yet another sign of the erosion of the 'one country, two systems' principle.

Economic developments

At the macro-economic level, Hong Kong's economic momentum is slowing down. Its economic foundations remain solid. The labour market remained at full employment, with an unemployment rate of 2.8 % in the last quarter of 2018 the lowest level in more than 20 years. Inflation pressure remained moderate. Underlying consumer price inflation was 2.4 % in 2018.

Yet the economic momentum significantly slowed during the year. The economy grew by 3% in 2018 (compared to 3.8% in 2017) and recorded a gradual slowdown from 4.6% in the first quarter of the year to only 1.2% in the fourth. This shift mainly reflects an ongoing slowdown in mainland China coupled with the effects of the escalating US-China trade war. Both factors weigh on the external sector and negatively impact business and consumer confidence. Retail sales momentum slowed markedly, external trade in goods turned negative toward the end of the year and the housing market cooled in the second half. The stock market posted losses during most of 2018, but has started recovering in early 2019.

Government initiatives for economic development: In her 2018 Policy Address, Chief Executive Carrie Lam reiterated the government's commitment to a diversified economy,

announcing further significant funding for research, while at the same time expediting re-industrialisation (subsidising smart manufacturing facilities), promoting technology transfer and launching pro-innovation government procurement policies. The government is determined to improve Hong Kong's status as an international commerce and trading centre by signing more bilateral and multilateral agreements. It believes that participation in China's Belt and Road Initiative and the Greater Bay Area development offers opportunities to give new impetus to the economy.

Property market and housing: Fuelled by low interest rates, excess liquidity, strong demand from investors and limited supply, the property market reached record highs in 2018. In particular, for the first 9 months of the year private residential property prices rose by roughly 14 % compared with 2017, making Hong Kong one of the world's most expensive housing markets. The property market cooled off at the end of the year, offsetting all of the 2018 increase. Nevertheless, Hong Kong remains the world's least affordable urban centre for home buyers. Flats in new buildings have been getting smaller on average to make them more affordable for new home buyers. As residential prices and rents in the private sector continued to soar, demand for public housing increased more than ever. The average waiting time for public rental housing has lengthened to 5.3 years.

In 2018, the Hong Kong authorities introduced a set of initiatives to improve the situation and to increase housing supply. These include estate redevelopment, the reallocation of private housing sites for public housing, and the introduction of a special rate on vacant first-hand private residential units.

International businesses cite high property prices as the main reason behind Hong Kong's loss of competitive edge and attractiveness.

Environment protection policy: Environmental protection remains a substantial challenge for Hong Kong. It started receiving political attention only recently. In this year's Policy Address, air pollution was mentioned only in relation to traffic, and the announced measures focus exclusively on reducing roadside concentrations of key air pollutants. To improve waste management, a significant and urgent challenge, a scheme charging for solid waste has been proposed. The government also announced some measures to reduce plastic waste, albeit only in government premises. To support the development of renewable energy, the government implemented a feed-in tariff scheme, announced the launch of large-scale renewable energy projects and is planning to relax restrictions on the installation of solar photovoltaic systems

Research, development & innovation: In her 2018 Policy Address, Chief Executive Carrie Lam pledged to develop Hong Kong as an international innovation and technology hub, setting out an array of measures to spur development in the innovation and technology and creative industries. The government also set a goal to double R&D expenditure as a percentage of GDP from 0.73 % to 1.5 %. The 2018 Policy Address renewed commitment to these goals and announced additional funding for research and development, as well as for re-industrialisation and technology transfer. The approach to innovation, however, seems to focus exclusively on technological advances and would benefit from a more holistic and integrated approach.

Economic relations with mainland China

Hong Kong is an important entrepôt for the mainland: in 2018, 57 % of Hong Kong's re-exports originated in mainland China, and 55 % were destined for the Chinese mainland.

Hong Kong is the largest source of overseas direct investment in China, as well as the leading destination for China's outflow of foreign direct investment (FDI). By the end of 2018, 46.3 % of all the overseas-funded projects approved in mainland China were tied to Hong Kong interests. In turn, by the end of 2017, the stock of China's FDI going to Hong Kong totalled US\$ 981 billion, or 54.2 % of total FDI outflow. A non-negligible proportion of this investment is investment in technology: Hong Kong was the 7th largest source of technology imports for China in terms of contract value (US\$ 879 million), accounting for 2.9 % of the total (2016 data).

Hong Kong is a key offshore-capital-raising centre for Chinese companies. As of December 2018, 1137 mainland companies were listed in Hong Kong, with total market capitalisation of around US\$ 2.6 trillion, or 68 % of the market total.

Hong Kong further developed its relation with the mainland under the China-Hong Kong Comprehensive Partnership Agreement (CEPA). On 14 December 2018, Hong Kong and China signed an **Agreement on Trade of Goods under CEPA**. Starting from 1 January 2019, goods of Hong Kong origin imported into the mainland will benefit from zero tariffs. The new agreement also introduces further commitments to facilitate trade with the mainland and a new chapter specifically on trade facilitation measures in the Guangdong-Hong Kong-Macao Greater Bay Area. Two new measures for **trade in services** were also announced under CEPA, and will be implemented as of 1 March 2019.

The **Guangdong-Hong Kong-Macao Greater Bay Area** (GBA) continued to be raised prominently. The long awaited GBA Blueprint was finally released in February 2019 and identified Hong Kong as one of the four core cities in the region (together with Shenzhen, Guangzhou and Macao). Hong Kong is to play a key role in the development of the GBA through consolidation of its position as an international financial, transportation and trade service centre; the establishment of the city as the centre for international legal and dispute resolution services; the strengthening of its status as a global offshore Renminbi hub; and the development of innovation and technology. Some impressive infrastructure projects connecting GBA cities were completed. 2018 saw the inauguration of the high-speed rail link with mainland China and the 55 km-long Hong Kong-Zhuhai-Macao Bridge, the longest sea-crossing bridge in the world.

Trade policy

In November 2018, Hong Kong underwent its **Trade Policy Review at the WTO**. There was unanimous recognition that Hong Kong remains one of the most open, outward-looking and liberal economies in the world, with some of the highest rankings in world indicators for economic freedom, competitiveness and ease of doing business. Hong Kong's business-friendly investment climate, its location, experienced service providers, rule of law, light regulatory environment and unique position under the 'one country, two systems' principle were seen as the source of its success and the key to its competitiveness in the future.

Hong Kong has been pursuing further free trade and investment agreements, **concluding a record five free trade agreements in the last 18 months**. In 2018, Hong Kong signed a free trade agreement with Georgia in June, and concluded negotiations with the Maldives and Australia in November. Hong Kong has six **investment promotion and protection agreements** for which negotiation is completed and signature is pending (Australia, Bahrain, Maldives, Mexico, Myanmar, and the UAE). In addition, negotiations with Russia and Iran are underway.

EU-Hong Kong bilateral relations and cooperation in 2018

According to the latest survey carried out by the Hong Kong SAR government (2018), over 2 200 EU companies have set up their businesses in Hong Kong and around half of them are using Hong Kong as their regional headquarters or regional offices. The EU's business presence covers a large variety of sectors, mainly financial and business services, trading, logistics, construction and retailing. EU companies are key players in a range of sectors of the Hong Kong economy, including banking, insurance and securities.

Hong Kong was the EU's 20th largest **trading partner in goods** in 2018 and ranked as the EU's 8th trading partner in Asia. EU exports of goods to Hong Kong amounted to EUR 36.6 billion while imports from Hong Kong amounted to EUR 9.9 billion (a 10.7 % decrease year-on-year), resulting in a sizeable surplus of EUR 25.8 billion, for the EU, its fourth-highest bilateral trade surplus. The main EU exports of goods to Hong Kong comprise machinery and equipment, jewellery, clothing, luxury goods, food, wine, and cars.

In 2018, the EU maintained its position as Hong Kong's second-largest trading partner after mainland China. The EU was Hong Kong's second-largest export destination and fourth-largest import supplier during the year.

Hong Kong is an important entrepôt for trade between China and the EU: in 2017, nearly EUR 10 billion of the mainland's imports from the EU were routed through Hong Kong, while re-exports of mainland-origin goods to the EU totalled EUR 33 billion.

Hong Kong is the EU's fifth-most important **trading partner in services** in Asia, after China, Japan, Singapore and India. In 2017 (the most recent year for which data are available), bilateral trade in services amounted to EUR 26.6 billion. EU imports of services from Hong Kong reached EUR 13.2 billion, while exports to Hong Kong reached EUR 13.4 billion, resulting in an EU surplus of EUR 233 million.

Two-way investment flows between the EU and Hong Kong have significantly increased:

According to Eurostat, in 2017, Hong Kong was the third-most popular FDI destination for the EU (with EUR 17.9 billion). Hong Kong statistics show that, excluding offshore centres, the EU is the second-largest foreign investor in Hong Kong (after mainland China), totalling EUR 149 billion and contributing 10 % of total FDI stock by the end of 2016 (latest available). The presence of high-quality service providers and Hong Kong's predictable regulatory environment and rule of law are among the main reasons for this.

In turn, Hong Kong became in 2017 the largest source of FDI into the EU⁵ (with EUR 51.6 billion). Hong Kong's prominent position in investment relations with the EU is partly due to the fact that a sizeable proportion of what is recorded statistically as 'Hong Kong FDI' in fact originates from the mainland. Indeed, according to the Hong Kong Trade Development Council more than 60 % of outbound Chinese investment is directed to or channelled through Hong Kong. Likewise, a significant percentage of EU FDI into China transits via Hong Kong.

The **12th EU-Hong Kong annual Structured Dialogue** meeting took place in Brussels on 7 December 2018. The EU and Hong Kong agreed to strengthen their cooperation within the

⁵ Excluding offshore centres.

WTO, pledging to work together and support ongoing efforts to reform the organisation. There were also constructive discussions on removing obstacles to bilateral trade. Both sides took stock of progress under the ongoing EU-Hong Kong Action Plan on Cooperation in the Customs Enforcement of Intellectual Property Rights and looked forward to potential further collaboration under the initiative. A technical exchange on financial services took place in the margins of the Structured Dialogue. This year, for the first time, a dedicated exchange on the circular economy also took place. Looking ahead, the EU and Hong Kong identified the circular economy (including plastic waste) as an important area for future cooperation. The EU welcomes the new initiatives of the Hong Kong government in this domain and encourages Hong Kong to consider a more ambitious and comprehensive approach to environmental matters. Cooperation on the circular economy could be a positive contribution in this area.

During 2018, the EU and Hong Kong continued to work together in the field of **customs**, under an action plan to improve IPR protection financed through the IP Key framework. This year, for the first time, an exchange of visits by customs officials took place. In terms of seizure value, in the 2017 EU Report on the customs enforcement of IPR (issued in 2018) Hong Kong is still the number one provenance of IPR infringing goods. Both sides are reflecting on how to further improve cooperation in this field.

In October 2018, the Hong Kong authorities published a new call for funds to support **Horizon 2020** participants from the Special Administrative Region (SAR). Researchers, companies, research institutions and universities from the SAR can team up with European partners to participate in projects under Horizon 2020 and make best use of the EU's opportunities in research and innovation. A total budget of HK\$9 million (circa EUR 1 million) is reserved for the 2018/2019 exercise. Both basic and applied research projects of high academic merit will be considered.

During 2018, the EU monitored the implementation of commitments undertaken by Hong Kong in 2017, on the basis of which the Council of the European Union agreed not to consider Hong Kong as a **non-cooperative jurisdiction for tax purposes**. In particular, the EU welcomed the extension by the People's Republic of China of the Convention on Mutual Administrative Assistance in Tax Matters to Hong Kong SAR and the activation of the necessary agreements on exchange of information by Hong Kong SAR. The EU endorsed the OECD's assessment concerning three regimes (Corporate Treasury Centres, Offshore Reinsurance and Offshore Captive Insurance) following amendments to these regimes by Hong Kong SAR to comply with OECD requirements. In February 2019, Hong Kong amended the two remaining regimes for Offshore Funds and Offshore Private Equity Funds in order to address concerns of the Council of the European Union over their ring-fencing features. On this basis, the Council of the European Union agreed in March 2019 that Hong Kong had completed its commitments on tax good governance.

The EU and Hong Kong continued working together to increase **people-to-people contacts**, notably in the areas of academic cooperation, student mobility, culture and creative industries.

The **European Union Office to Hong Kong and Macao, EU diplomatic missions and cultural institutes worked together** to raise the EU's profile and engaged with local partners on many people-to-people activities. Examples include the EU Film Festival, the EU's participation in the Hong Kong Book Fair for the second time, the EU Day of Languages, an EU-themed short film competition with local schools, a month-long human

rights campaign to celebrate the 70th anniversary of the Universal Declaration of the Human Rights and several human rights-focused seminars. The EU hopes to build on this momentum to continue its work with Hong Kong's government, civil society and business to promote exchanges on rights and freedoms.

The first official visit of Chief Executive Carrie Lam to Brussels took place in June 2018. The Chief Executive had productive discussions with President of the European Commission Jean-Claude Juncker, High Representative Vice-President Federica Mogherini, and Commissioner Cecilia Malmström.

There were several **high-level visits** from the EU institutions and Members of the European Parliament to Hong Kong in 2018. Visits by the Chair of the European Securities and Markets Authority Mr Steven Maijor representing the EU at the Asia Financial Forum and by the Tourism and Transport Committee of the European Parliament in October are particularly noteworthy. On 11 July, the European Parliament adopted a report on the state of EU-China relations which contains a part on Hong Kong. The European Parliament reiterates its full support to the principle of 'one country, two systems' and shares the assessment of the EU's 2017 annual report about its gradual erosion.