SECTION 4: CHINA AND HONG KONG

Key Findings

- Beijing's statements and legislative actions continue to run counter to China's promise to uphold Hong Kong's "high degree of autonomy." At the 13th National People's Congress in March 2018, China's legislative body passed an amendment to its constitution waiving presidential term limits, allowing Chinese President and General Secretary of the Chinese Communist Party Xi Jinping to serve beyond two five-year terms. Given the steady erosion of Hong Kong's autonomy under President Xi's leadership, the move has alarmed the territory's prodemocracy legislators, civil society groups, and legal community.
- In a troubling case of Beijing's direct involvement in U.S.-Hong Kong affairs that went against Beijing's commitments under the "one country, two systems" policy, the Hong Kong government rejected a U.S. fugitive surrender request at Beijing's insistence for the first time since the 1997 handover of Hong Kong from the United Kingdom. Beijing also denied a U.S. Navy ship a routine port call in Hong Kong for the first time in two years.
- In 2018, challenges to freedom of speech and assembly in Hong Kong continue to increase as Beijing and the Hong Kong government closed down the political space for prodemocracy activists to express discontent. For the first time, the Hong Kong government banned a political party (the Hong Kong National Party, which advocates for Hong Kong's independence from China), raising concerns that it may lead to the passage of national security legislation that would allow the government to further silence prodemocracy organizations and supporters. The Hong Kong government also denied a visa renewal to the vice president of the Hong Kong Foreign Correspondents' Club without explanation; observers believe the denial was in retaliation for the club's August 2018 event hosting the head of the Hong Kong National Party. Self-censorship has become increasingly prevalent in Hong Kong among journalists and media organizations due to mainland China's rising presence in the territory.
- China's central government took additional steps toward undermining Hong Kong's legal autonomy. For example, Beijing facilitated a controversial rail terminal project that for the first time institutes mainland law in a small portion of the territory. Beijing also passed a National Anthem Law that makes disrespecting China's national anthem a criminal offense, and compelled Hong Kong to pass similar legislation.

- Beijing and the Hong Kong government's harsh criticism and attempted silencing of a prominent Hong Kong academic for expressing his views on potential futures for the territory marked an expanded effort to prevent the open discussion of ideas. The response also raised fears among prodemocracy advocates and academics that freedom of speech is increasingly at risk.
- Hong Kong continues on the path of greater economic integration with the Mainland. The Hong Kong government has sought to position Hong Kong as a regional hub for China's Belt and Road Initiative and a key node of the Guangdong-Hong Kong-Macau Greater Bay Area integration project, Beijing's plan to establish a globally competitive advanced manufacturing, finance, and technology center.

Recommendations

The Commission recommends:

- Congress direct the U.S. Department of Commerce and other relevant government agencies to prepare an unclassified public report, with a classified annex, examining and assessing the adequacy of U.S. export control policy for dual-use technology as it relates to U.S. treatment of Hong Kong and China as separate customs areas.
- Congressional interparliamentary groups engage parliamentarians from the United Kingdom, EU, and Taiwan in a biennial review of China's adherence to the Basic Law, with specific attention to rule of law, freedom of speech and assembly, and press freedom, and issue a report based on its findings after each review.
- Members of Congress participate in congressional delegations to Hong Kong and meet with Hong Kong officials, prodemocracy legislators, civil society, and business representatives in the territory and when they visit the United States. In meetings with Hong Kong and Chinese officials, they should raise concerns about Beijing's adherence to the "one country, two systems" policy and China's promise to allow Hong Kong a "high degree of autonomy." They should also continue to express support for freedom of expression and rule of law in Hong Kong.

Introduction

Since the 19th National Congress of the Chinese Communist Party (CCP) convened in October 2017—during which Beijing emphasized the CCP's control over Hong Kong—China has further curbed the territory's autonomy and freedoms guaranteed under the "one country, two systems" policy* and the Basic Law, Hong Kong's

*The "one country, two systems" policy, which has guided Beijing's relationship with Hong Kong since 1997, is a measure the People's Republic of China adopted following the establishment of Hong Kong and Macau as Special Administrative Regions. The framework grants Hong Kong and Macau the right to self-govern their economies and political systems to a certain extent, excluding foreign affairs and defense. Beijing has promised the policy will remain intact until 2047. China's State Council Information Office, *The Practice of the "One Country, Two Systems" Policy in the Hong Kong Special Administrative Region*, June 10, 2014.

mini constitution.* Beijing's promise to allow Hong Kong a "high degree of autonomy" under this policy is due to end in 2047, and Hong Kong democratic activists are urgently demanding that China keep its commitments. However, the CCP interprets such demands as stemming from "separatist forces" bent on derailing the peaceful integration of Hong Kong with the Mainland under the CCP's authority. Beijing has also been increasingly assertive in obstructing, suppressing, and silencing Hong Kong's prodemocracy legislators and civil society groups.

China's encroachment on the territory's political system, rule of law, and freedom of expression is moving Hong Kong closer to becoming more like any another Chinese city rather than a special administrative region with a "high degree of autonomy." Moreover, Beijing is degrading the territory's democratic institutions of free speech and rule of law that make it a valuable partner for the United States and an important international financial hub. Beijing's increasingly assertive behavior toward Hong Kong, in words and in actions, has negative implications for the interests of the United States and its allies and partners in the Indo-Pacific.

This section examines Hong Kong's recent political developments, its weakening rule of law and freedom of expression, economic relations with mainland China, and the implications of these developments for the United States. It is based on consultations with U.S. and foreign nongovernmental experts and open source research and analysis.

Hong Kong Political Developments

Since Chinese President and General Secretary of the CCP Xi Jinping took office in 2012, Beijing has ramped up its interference in Hong Kong's affairs using various tools and practices, including implementing legal and economic measures, encouraging self-censorship, and manipulating Hong Kong's political system.† Through these methods, Beijing has steadily degraded Hong Kong's "high degree of autonomy" as guaranteed under the Basic Law. Following the Occupy Central prodemocracy protests in 2014, Beijing has continued to deny Hong Kong citizens the right to elect their chief executive by way of universal suffrage as promised under the Basic Law.‡ Under the Xi Administration's watch, China has engaged in illegal cross-border law enforcement and the apparent abduc-

*In 1990, China's NPC adopted the Basic Law for Hong Kong, which was then introduced following the handover of Hong Kong to China on July 1, 1997. Macau, the other special administrative region of the People's Republic of China, has a similar provision in its Basic Law and it passed and adopted related legislation in 2009. Congressional-Executive Commission on China, *Macau Special Administrative Region National Security Law*, July 20, 2009; The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China, *Chapter II: Relationship between the Central Authorities and the Hong Kong Special Administrative Region, Article 23* (Adopted at the Third Session of the Seventh National People's Congress on April 4, 1990).

†For a brief overview of each of these tools, see U.S.-China Economic and Security Review Commission, *2017 Annual Report to Congress*, November 2017, 439.

‡The Occupy movement (also referred to as Occupy Central with Love and Peace, the "Umbrella Movement," or the "Umbrella Revolution") advocated for true universal suffrage according to international standards in future Hong Kong elections. The largely nonviolent protests lasted 79 days and concluded in December 2014, but the prodemocracy activists' proposals were rebuffed. For more information on the 2014 prodemocracy protests and the subsequent decisions by the Hong Kong and mainland governments on electoral reform, see U.S.-China Economic and Security Review Commission, *2014 Annual Report to Congress*, November 2014, 523–527; U.S.-China Economic and Security Review Commission, *2015 Annual Report to Congress*, November 2015, 534–536.

tions of Hong Kong booksellers banned in the Mainland.[1] Beijing has also extended its reach into the Legislative Council (LegCo), Hong Kong's legislature. China's National People's Congress (NPC) Standing Committee's interpretation of the Basic Law in 2016 resulted in new legal requirements for determining LegCo candidates' ability to run for office; this requirement is heavily biased toward pro-Beijing (also called pro-establishment) candidates, as it involves judging whether candidates will follow the Basic Law and "bear allegiance to the Hong Kong Special Administrative Region of the People's Republic of China." The interpretation also instituted new standards for elected candidates' oath of office before serving in the legislature.*[2]

At China's annual legislative session in March 2018, the 13th NPC† passed an amendment to China's constitution waiving presidential term limits, allowing President Xi to serve beyond two five-year terms.[3] Given the steady erosion of the territory's democratic freedoms under President Xi's watch, the move created a chill among Hong Kong prodemocracy (also called pandemocratic) legislators,‡ civil society groups, and the legal community.[4] Former Hong Kong Chief Secretary for Administration Anson Chan Fang On-sang—who served as Hong Kong's most senior government official below the chief executive from 1993–2001, just before and after the 1997 handover of Hong Kong to China—said,

> *I fear that with the institutional safeguard [of term limits] removed and the fact that [President Xi] can serve indefinitely, he will tighten his grip over Hong Kong and continue to undermine the rule of law, our core values and way of life. Universal suffrage will recede even further into the future.*[5]

Beijing's High-Level Political Pressure on Hong Kong Escalates

High-level CCP and central government officials' statements and omissions of certain language in work reports during two recent important meetings signaled an increased emphasis on Beijing's political control over the territory.

- *19th National Congress of the CCP:* The 19th Party Congress work report highlighted the need to understand and protect China's "comprehensive jurisdiction" over Hong Kong, marking Beijing's highest-level use of the term in recent years.[6] The term "comprehensive jurisdiction" was first used in Beijing's 2014 white paper on the "one country, two systems" policy, causing much consternation among prodemocracy advocates at the

*For more information on Beijing's interpretation of the Basic Law concerning oaths and legislative candidates, see U.S.-China Economic and Security Review Commission, *2017 Annual Report to Congress*, November 2017, 418–421.

†The NPC is widely viewed as a rubber stamp legislature for policies predetermined by the CCP. The 13th NPC comprises 73 percent CCP delegates, while the other delegates are divided between the eight "democratic" parties and those unaffiliated with a party (for practical matters, subordinate to the CCP). Nonetheless, content of work reports can provide important indicators of the near-term political and economic priorities of China's senior leadership. *NPC Observer*, "Exclusive: Demographics of the 13th NPC (UPDATED)," March 11, 2018; *Economist*, "What Makes a Rubber Stamp?" March 5, 2012; *BBC*, "How China Is Ruled."

‡In this section, "prodemocracy" is defined broadly as Hong Kong supporters of preserving the territory's democratic freedoms, while "pandemocratic" is defined as LegCo members who have a spectrum of views within the prodemocracy camp.

time.[7] According to Zhang Xiaoming, director of the State Council's Hong Kong and Macau Affairs Office, the term's use was directed at a "very small number of people" who "resist or reject" Beijing's authority to exercise its power and openly challenge the "one China" principle.[8] Suzanne Pepper, Hong Kong-based American writer and close observer of Hong Kong politics, assesses the "comprehensive jurisdiction" concept is "meant to impress upon all concerned that Hong Kong enjoys only as much autonomy as Beijing is willing to grant."[9] This is an underlying message Beijing has worked to reinforce in recent years as it extends its reach into the territory's political life.

- *13th National People's Congress:* Hong Kong legislators and prodemocracy advocates perceived the omission of certain language in important reports of the 13th NPC as a purposeful signal to degrade Hong Kong's autonomy. In his annual work report to China's legislature, Chinese Premier Li Keqiang omitted the phrases "Hong Kong people governing Hong Kong" and "high degree of autonomy," which were both mentioned in 2017.[10] In addition, then Politburo Standing Committee member and Chinese People's Political Consultative Conference (CPPCC) Chairperson Yu Zhengsheng left out the term "one country, two systems" in his work report.[11] This marked the first time since 2015 this term was left out of such a work report.[12] While Chinese officials and pro-establishment Hong Kong lawmakers dismissed the omissions as not signaling any changes in the Mainland's thinking on its ties with Hong Kong, pandemocrats, political observers, and rights activists in the territory expressed alarm.[13] Pandemocratic lawmaker Andrew Wan said,

> *If words are missing from the work reports for the CPPCC and the NPC, this doesn't happen accidentally. This is a warning signal … telling us that the high degree of autonomy of Hong Kong people in administering [the territory] is now less important to the central government than it was.*[14]

LegCo By-Election Further Constrains Prodemocracy Political Voices

In March 2018, Hong Kong held a LegCo by-election to fill seats previously occupied by four of the six elected pandemocratic legislators who had their seats vacated for deviating from the official script of their oath of office.* The by-election involved continued political interference from the Hong Kong authorities and resulted in further disillusionment among prodemocracy political parties and post-Occupy activist groups. In the lead-up to the by-election, Hong Kong election officials barred three pandemocrats from running, including heavily favored Demosistō candidate Agnes Chow Ting, who sought

*Following the 2016 LegCo election, when the elected legislators recited their oaths of office, some deviated from the official script of the oath of office to express their views and policies, as had been done in the past. Two were supporters of independence for Hong Kong, used profanity, and displayed pro-independence banners. They were subsequently barred from retaking their oaths and eventually had their seats vacated from LegCo. For more information on the controversy, see U.S.-China Economic and Security Review Commission, *2017 Annual Report to Congress*, November 2017, 418–421.

to retake then Demosistō Chairman Nathan Law Kwun-chung's vacated seat.[15] The stated reason for banning Ms. Chow's candidacy was her support (and that of her party) for "self-determination"—the idea that Hong Kong citizens should have a choice over their future in 2047. Beijing instituted legal requirements in late 2016 that set preconditions for all LegCo candidates requiring they uphold the Basic Law and pledge allegiance to China.[16] Observers across Hong Kong civil society, foreign democracy advocates, and foreign governments expressed their concerns about Hong Kong's constrained political rights and the erosion of freedom of expression in the territory.[17]

The decision to ban Ms. Chow effectively ended the legislative ambitions of Demosistō, one of the most prominent post-Occupy political parties composed of former student protest leaders, including its secretary general, Joshua Wong Chi-fung. In May 2018, then Chairman Law stepped down from his position to take a break from politics.[18] His replacement, Ivan Lam Long-yin, said instead of fielding candidates for LegCo the group would focus its energy on social activism, targeting pending national security legislation outlined in Article 23 of the Basic Law, which Beijing requires LegCo to eventually pass.[19] Prodemocracy advocates fear passage of the controversial and long-delayed legislation would further degrade the territory's autonomy.[20]

The 2018 by-election resulted in the prodemocracy camp regaining only two of the four seats that originally belonged to pandemocratic legislators prior to the oath controversy. Edward Yiu Chung-yim, one of the six LegCo members who had his seat vacated,* lost to pro-establishment opposition by just over 1 percent of the vote.[21] Some observers asserted that lower voter enthusiasm and lack of robust campaigning, among other factors, were at play in the pandemocrats' loss of one of the two geographic constituency seats.[22] Nonetheless, the results undermined the prodemocracy camp's bid to demonstrate Hong Kong's rejection of Beijing's interference in the territory's political system, and solidifying the pro-establishment group's filibuster-proof advantage among the geographical constituency seats (with pro-establishment legislators now holding 17 seats to the 16 seats held by pandemocrats).†[23] This advantage allows the pro-Beijing camp to push through legislative rules and actions it favors, including priorities mainland leadership have long pressed Hong Kong to implement, such as Article 23 and "patriotic" education.‡

*LegCo is composed of 40 seats elected directly by Hong Kong voters—35 in the geographic constituency and 5 through the District Council—and 30 functional constituency seats picked by electors composed of business groups and a variety of interest groups and organizations.

†For a motion, bill, or amendment to proceed in LegCo, it requires majority support from both the geographic and functional constituencies. In the functional constituency, the pro-establishment bloc has 21 seats, while the pandemocrats have 9. With one pandemocrat still appealing his vacated seat and an additional by-election pending in November 2018 to replace one of the other vacated seats, LegCo consists of 42 in the pro-establishment camp and 26 in the prodemocracy camp. Alvin Lum, "Disqualified Lawmaker Lau Siu-lai Calls for Democrats to Show Unity as Hong Kong By-Election Is Set for November 25," *South China Morning Post*, June 27, 2018; Kris Cheng, "Hong Kong Democrats Win 2 of 4 Seats in Legislative By-Election, as Ousted Lawmaker Edward Yiu Fails to Regain Seat," *Hong Kong Free Press*, March 12, 2018.

‡In an attempt to strengthen Chinese identity in Hong Kong, Beijing has called for more "patriotic" education, including a national curriculum that is supportive of the CCP's views. In 2012, the Hong Kong government tried to implement a national education program for all public schools, but withdrew the plan following protests and opposition. Peace Chiu, "Is Chinese Nation-

Article 23 of the Basic Law: Fears Mounting over Controversial Measure

Article 23 of Hong Kong's Basic Law states:

> *The Hong Kong Special Administrative Region shall enact laws on its own to prohibit any act of treason, secession, sedition, subversion against the Central People's Government, or theft of state secrets, to prohibit foreign political organizations or bodies from conducting political activities in the Region, and to prohibit political organizations or bodies of the Region from establishing ties with foreign political organizations or bodies.*[24]

Since late 2017, mainland officials have repeatedly pressured the Hong Kong government to implement Article 23,[25] prompting growing concerns among prodemocracy supporters.[26] In 2003, the last time the Hong Kong authorities moved forward such a bill, close to 500,000 people marched in opposition to the proposed legislation, which led to its shelving due to insufficient support.[27] Should LegCo pass related legislation, it could grant the Hong Kong government broad power to detain or prosecute individuals deemed a threat to Beijing and shut down any nongovernmental organization (NGO) or body with foreign ties.

Banning of Political Party Raises Concerns

In September 2018, the Hong Kong government for the first time banned a political organization, the Hong Kong National Party.[28] The party is a fringe pro-independence organization formed in 2016, and has few supporters.* The territory's law enforcement found the party's statements could motivate supporters to "cause violence and public disorder" and that its actions violated the Societies Ordinance, an obscure colonial-era law.[29] Beijing previously altered the ordinance in 1997 to allow for banning any civil society organization on "national security" grounds, and it had not been used since the handover of Hong Kong to China.[30] In response to the decision, Beijing and pro-establishment lawmakers applauded it, while the United States, the United Kingdom, and EU issued statements expressing their concerns with the move.[31] A spokesperson for the U.S. Consulate in Hong Kong said, "The decision of the Hong Kong government to ban a political party is inconsistent with [the] important shared values … [of] freedom of expression and association."[32] According to Jason Y. Ng, a columnist and member of the Progressive Lawyers Group (a Hong Kong organization promoting democracy and rule of law), Beijing may be "[testing] the temperature of the public to see how they would react to legislation being enacted based on national security grounds" as a precursor to Article 23 legislation.[33] After the proposed ban announcement in July 2018, over 60 Hong Kong civil

al Education Set to Make a Comeback in Hong Kong? It's Not If, but How, Experts Say," *South China Morning Post*, August 4, 2017.

*Andy Chan Ho-tin, founder and convener of the party, tried to run for a seat in the 2016 LegCo elections, but the Electoral Affairs Commission invalidated his candidacy due to his pro-independence views. Emily Tsang and Elizabeth Cheung, "Hong Kong National Party Convener Disqualified from Running in Legislative Council Polls," *South China Morning Post*, July 30, 2016.

society groups signed a petition criticizing the move as violating freedom of association.[34]

Following the early August 2018 announcement that the Hong Kong Foreign Correspondents' Club, a prominent journalist association, would host a speech several weeks later by Andy Chan, founder and convener of the Hong Kong National Party, Beijing executed an ultimately unsuccessful pressure campaign to compel the club to cancel the talk.[35] China's Ministry of Foreign Affairs, Hong Kong Chief Executive Carrie Lam, and former Chief Executive Leung Chun-ying (2012–2017)—now vice chairman of Beijing's top advisory body, the CPPCC—denounced the club's decision to host Mr. Chan.[36] Vice Chairman Leung wrote a series of Facebook posts condemning the move, suggesting the association probably would not "draw any line against [inviting] criminals and terrorists," and implying the Hong Kong government should consider evicting the club from their property.[37] The club stated that it regularly hosts speakers with differing views and stressed the importance of allowing open debate in Hong Kong, which safeguards freedom of speech.[38] Despite the public criticisms of the club, the event went ahead as scheduled,* but faced forceful denunciations by Beijing and the Hong Kong government.[39] The significant pressure campaign led by Beijing raised concerns among Hong Kong prodemocracy organizations and international journalist groups about the growing threat to freedom of speech in the territory.[40]

Rule of Law at Risk

Under Article 18 of the Basic Law, Hong Kong is guaranteed the ability to maintain and enforce local law separate from those governing mainland China.[41] However, in recent years, Beijing has continued to apply pressure on Hong Kong's legal autonomy, drawing concerns among the territory's legal community and prodemocracy advocates. This trend could create a disturbing precedent for future, farther-reaching measures moving rule of law in Hong Kong closer to that applied in the Mainland.

Hong Kong Train Terminal Co-Location Project Draws Concerns

In July 2017, the Hong Kong government announced a proposal for implementing Hong Kong and mainland China customs, immigration, and quarantine procedures at a new terminal under construction that would serve as a high-speed rail link connecting Hong Kong with the neighboring mainland cities of Shenzhen and Guangzhou in Guangdong Province. The proposal included allowing mainland security agents to enforce laws that apply to mainland China in part of the terminal that is inside Hong Kong and under Hong Kong jurisdiction. This area would be designated the "Mainland Port Area," comprising about one-quarter of the terminal.[42] In this segment of the terminal, for example, a person could be charged with "undermining public order" and face up to five years in a mainland prison, despite Hong Kong law having no comparable

*Public television broadcaster RTHK decided not to broadcast the event, citing concerns about providing a public platform for a supporter of Hong Kong independence. Rights groups asserted that RTHK was complicit in self-censorship. Phoenix Un, "RTHK Banned from Live Broadcasting FCC Speech," August 10, 2018.

provisions.[43] After the project was introduced, the Hong Kong legal community, pandemocrats in LegCo, and prodemocracy groups expressed their concerns, including those regarding potential breaches of "one country, two systems" and the possibility that mainland law could be enforced more widely in Hong Kong in the future.[44]

Despite vocal opposition, Beijing, the Hong Kong government, and pro-establishment legislators pushed forward with the proposal. In late 2017, the mainland and Hong Kong governments signed an agreement on the project, and the NPC Standing Committee adopted a decision to approve the agreement confirming the project was consistent with Beijing's constitution and the Basic Law.[45] In response, Martin Lee Chu-ming, barrister and former member of the Basic Law Drafting Committee, said, "You cannot allow any area within [Hong Kong] to be an exception [to Article 18 of the Basic Law] because the protection promised to Hong Kong people is everywhere within the [territory]."[46] The Hong Kong Bar Association said the NPC's decision is the "most retrograde step to date in the implementation of the Basic Law and severely undermines public confidence in 'one country, two systems' and the rule of law in [Hong Kong]."[47] In June 2018, pro-Beijing lawmakers passed a bill through LegCo clearing the final hurdle for approving the project.[48] To pass the legislation, lawmakers used tactics that had not been previously employed, which further constrained the democratic legislative process and generated fear that these tactics could be used to pass future controversial legislation.* In September 2018, Beijing and Hong Kong officially commissioned the Mainland Port Area, and the terminal began operations.[49]

Beijing Passes National Anthem Law

In September 2017, the NPC Standing Committee passed a National Anthem Law, allowing the authorities to detain individuals up to 15 days or hold them criminally liable for disrespecting China's national anthem. In November 2017, the lawmaking body increased the maximum punishment to three years imprisonment.[50] The NPC Standing Committee also passed a change to the Basic Law, requiring Hong Kong to pass its own similar legislation and decide on a punishment for violating the law.[51] Since the Occupy protests, Hong Kong fans have regularly booed China's national anthem—which is also Hong Kong's—at the territory's international soccer matches in protest of Beijing.[52] In response to the Anthem Law amendment, 38 Hong Kong civil society groups and political parties issued a joint statement urging the Hong Kong government to withdraw consideration of a legislative outline in LegCo for a similar law in Hong Kong. The letter stated, "The National Anthem Law imposes an ideology on Hong Kong citizens by requiring them to respect the national anthem to an extent that will 'promote patriotism; and to cultivate and practice the core values of socialism.' This clearly violates freedom of thought."[53]

*The pro-establishment lawmakers submitted a bill with limited details, ensured pro-Beijing members had full control of the committee overseeing the bill's passage, restricted debate and cut amendments proposed by prodemocracy members, and barred protesting pandemocrats from key meetings. Critics fear similar tactics could be used in passing Article 23 and patriotic education legislation. Kris Cheng, "Explainer: How Hong Kong's Controversial Rail Link Law Was Pushed through Using Four Unprecedented Tactics," *Hong Kong Free Press*, June 16, 2018.

Update on Hong Kong Booksellers Detained in 2015

In 2015, mainland agents apparently abducted five Hong Kong sellers of political gossip books connected to Causeway Bay Books that were banned in mainland China, causing alarm across Hong Kong that continues to reverberate in the territory. One of the incidents reportedly involved Beijing engaging in illegal cross-border law enforcement, which disregards Article 22 of the Basic Law maintaining that only Hong Kong's law enforcement agencies may enforce laws and take related actions within the territory. Lam Wing-kee—one of the booksellers who escaped Beijing's custody after months of detention in the Mainland—had planned to reopen Causeway Bay Books in September 2018 in Taiwan to raise awareness of the CCP's growing control over Hong Kong and its rising influence in Taiwan, but he says he has encountered interference from China.*[54]

While four of the booksellers have been released, one of them—Gui Minhai, a Swedish national—remains in custody in the Mainland after going missing in October 2015 from his Thailand vacation home.[55] In October 2017, mainland authorities apparently released Mr. Gui after he served a two-year sentence for an alleged 2003 drunken driving death in mainland China, but he remained in the Mainland and was forced to report to law enforcement regularly.[56] Then, in January 2018, as Swedish consular officers accompanied Mr. Gui on a train to Beijing for medical tests at the Swedish Embassy, plainclothes police officers boarded the train and took him away.† In response, Swedish Foreign Minister Margot Wallström said the incident was "in contravention of basic international rules on consular support" and demanded Mr. Gui's release.[57] The U.S. Department of State also issued a statement "call[ing] on Chinese authorities to explain the reasons and legal basis for Mr. Gui's arrest and detention, disclose his whereabouts, and allow him freedom of movement and the freedom to leave China."[58]

Declining Freedom of Expression

All Hong Kong residents are guaranteed civil liberties under Chapter III of the Basic Law—freedom of speech, assembly, and the press, as well as academic freedom.[59] Since President Xi took office, challenges to these freedoms have continued to increase as Beijing seeks to move the territory closer to the Mainland. During Carrie Lam's tenure as Hong Kong Chief Executive, which began in July 2017, further curbs on Hong Kong civil society and prodemocracy voices have resulted in persistent challenges to freedom of expression, speech, and assembly.

*In August 2018, Mr. Lam told Taiwan media that his Taiwan and Hong Kong investors withdrew their funding for the bookstore, which he contends was due to Beijing's interference. Zhong Lihua, "Red Influence Blocks, Hong Kong's Causeway Bay Bookstore Opening in Taipei Is Halted," *Liberty Times*, August 9, 2018. Translation. *http://news.ltn.com.tw/news/focus/paper/1223047.*

†Chinese officials reportedly told Swedish diplomats that Mr. Gui "was suspected of sharing secret information with Swedish diplomats and of meeting them illegally." Chris Buckley, "Chinese Police Seize Publisher from Train in Front of Diplomats," *New York Times*, January 22, 2018.

Prodemocracy Activists and Civil Society Face Mounting Legal Challenges

Increasing constraints on prodemocracy activists are tightening space to express discontent with Beijing and the Hong Kong government. According to Hong Kong activist and writer Kong Tsung-gan, as of October 2018, the Hong Kong government has, since the 2014 Occupy protests, brought 45 legal cases against 29 prodemocracy leaders, including legislators and activists holding top positions in prodemocracy organizations.[60] Most of the cases have been initiated since late 2016, prompting concern from Hong Kong observers and rights organizations about a targeted campaign designed to silence activists.*[61] In August 2017, Joshua Wong, Nathan Law, and Alex Chow Yong-kang (student leaders during the Occupy protests) were jailed for their role in the protests.†[62] All three appealed their sentences, and the Hong Kong Court of Final Appeal granted them leave to appeal and bail pending appeal after several months in jail.[63]

In February 2018, Messrs. Wong, Law, and Chow won their appeal, and the Court of Final Appeal nullified their jail terms (while reinstating their non-custodial sentences), technically allowing the three to run for a LegCo seat in the future.‡[64] However, the court set an important precedent with its judgment that has significant repercussions for future criminal cases involving protestors and acts of civil disobedience. The judges agreed with the lower court's ruling that convictions of unlawful assembly involving violence, even at the low end, should receive prison sentences.[65] Further, the judges said the argument that any sentence should be lenient due to acts of civil disobedience carried "little (if any) weight" when the acts broke criminal law and involved violence (which they said, by definition, was not "civil disobedience").[66] Mr. Wong called the ruling "a harsh judgment," and Mr. Law said that "Hong Kong's democratic movement has lost a battle."[67] Meanwhile, senior counsel and member of the Hong Kong government's cabinet Ronny Tong Ka-wah said, "[The judgment makes clear that] when those who exercise their freedom use violence, no matter how noble their intentions are, that can no longer be a mitigating factor."[68] According to prodemocracy advocates, the judgment could have a chilling effect on future protests and pose challenges for freedom of assembly and civil disobedience, which many view as key components of Hong Kong's political life.[69]

The June 2018 sentencing of Hong Kong prodemocracy and once pro-independence activist Edward Leung Tin-kei to six years in prison for his involvement in the 2016 Mong Kok clash with police also

*For more information on the arrests of prodemocracy legislators and activists in 2017, see U.S.-China Economic and Security Review Commission, *2017 Annual Report to Congress*, November 2017, 428–429.

†Joshua Wong has faced a de facto travel ban since January 2018, when his passport was confiscated following his three-month prison sentence for "contempt of court" stemming from the Occupy protests. In September 2018, the Hong Kong High Court denied his request to review his bail conditions, preventing Mr. Wong from regaining his passport until his hearing for the case in April 2019. *Radio Free Asia*, "Activist Joshua Wong Banned from Travel, Four Years after Democracy Movement Began," September 28, 2018.

‡Under Hong Kong law, individuals convicted and sentenced to jail for longer than three months are banned from seeking public office for five years. Jasmine Siu, "Joshua Wong Seeks to Change Hong Kong Laws that Ban Former Convicts from Elections for Five Years," *South China Morning Post*, November 14, 2017.

has troubling implications for freedom of assembly in the territory.[70] Mr. Leung was convicted of one count of rioting, a common law offense that was codified by the former 1970 Public Order Ordinance when Hong Kong was under British rule.[71] Lord Chris Patten, the last British governor of the territory before the 1997 handover of Hong Kong to China, tried to reform the ordinance because it contains vague language concerning rioting offenses and does not conform to UN standards on human rights.[72] After the ruling against Mr. Leung, Lord Patten said, "It is disappointing to see that the legislation is now being used politically to place extreme sentences on the pan-democrats and other activists."[73]

Press Freedom under Duress

In a chilling development for press freedom, in October 2018 the Hong Kong government denied the visa renewal of *Financial Times* journalist Victor Mallet without explanation—reportedly the first such expulsion of a foreign journalist since the handover of Hong Kong to China.[74] Mr. Mallet, who serves as the vice president of the Hong Kong Foreign Correspondents' Club, chaired the controversial event in August 2018 with Mr. Chan, the founder of the pro-independence Hong Kong National Party, which Beijing and the Hong Kong government had pressured the club to cancel.[75] Many journalists and human rights groups believe Mr. Mallet's visa denial was in retribution for the event. Maya Wang, a senior China researcher for Human Rights Watch, said, "This is unprecedented. We expect foreign journalists to have this kind of visa rejection happen in China, but it has never happened in Hong Kong because Hong Kong has a tradition until recent years of respect for free speech."[76] Indicating the broader significance of the decision, the American Chamber of Commerce in Hong Kong issued a formal statement that said,

> *[The move] sends a worrying signal. Without free press, capital markets cannot properly function, and business and trade cannot be reliably conducted. Any effort to curtail press freedom in Hong Kong could damage Hong Kong's competitiveness as a leading financial and trading center.*[77]

While press freedom is protected in the Basic Law, nonprofit watchdog organization Reporters Without Borders and Hong Kong journalists observed Beijing's increased interference in Hong Kong media, continuing a trend that has accelerated under President Xi. However, these observers disagreed slightly on the trajectory of overall press freedom in the territory.

- *Reporters Without Borders:* According to Reporters Without Borders' 2018 World Press Freedom Index, Hong Kong improved three places to 70th out of 180 countries and territories measured (with 180 representing the place with the least press freedom).[78] The reasoning for the organization's assessment was the growth of independent online media outlets and the Hong Kong government's allowance of these organizations to attend government press conferences and official events. Despite the improved ranking, Reporters Without Borders noted growing interference by Beijing and increased difficulty in covering stories on governance.[79]

- *Hong Kong Journalists Association:* In 2017, the Hong Kong Journalists Association's annual survey on press freedom in Hong Kong found the public's perception dropped to a new low of 47.1 (out of 100) since it began conducting the surveys in 2013.[80] The NGO, which was formed to enhance press freedom and improve working conditions for local journalists in Hong Kong, reported that 70 percent of journalists in its poll believed press freedom had declined compared to the previous year.[81] Polling data from the general public and journalist respondents indicated a perceived increase in pressure from Beijing as damaging to press freedom in the territory.[82]

Politically Motivated Self-Censorship

According to the Hong Kong Journalists Association, self-censorship remains a significant problem for journalists. In its 2017 survey, the association found that self-censorship was the most important factor in journalists' assessment of media freedom in the territory.[83] In December 2017, Hong Kong media outlet HK01 published two reports using newly released UK declassified documents about the 1989 Tiananmen Square massacre, but quickly removed the articles from its website and later reposted them with content altered.[84] The Hong Kong Journalists Association issued a statement that said, "[The organization] is extremely concerned that the suspension of publication of the reports is tantamount to self-censorship in view of political sensitivity."[85] The watchdog organization also found that a second set of reports was planned for the following day, but they were not published.[86] In response, HK01 denied the allegations, stating the removal of the initial articles was due to editorial problems and accusing the watchdog of interference in its editorial independence.[87]

Academic Freedom

In recent years, Hong Kong universities and secondary schools have been under growing pressure from Beijing to avoid discussions touching on Hong Kong independence and to institute patriotic education.[88] In 2018, Beijing and the Hong Kong government demonstrated an expanded effort to silence the open discussion of ideas and raised fears among observers that freedom of speech is under mounting threats.[89]

In March 2018, Hong Kong University professor and one of the Occupy movement protest leaders Benny Tai Yiu-ting, speaking at a forum in Taiwan, said Hong Kong could consider independence or join a federation or confederation of Chinese states if China were to democratize in the future.[90] In response, the Hong Kong government, pro-Beijing LegCo members, and mainland China launched a public campaign criticizing Professor Tai's comments.[91] A Hong Kong government spokesperson said, "[We are] shocked by the remarks made by [Professor Tai] that Hong Kong could consider becoming an independent state, and strongly condemn such remarks."[92] The spokesperson also said that "any advocacy of 'Hong Kong independence' runs against 'One Country, Two Systems' and the Basic Law as well as the overall and long-term interest of society of Hong Kong."[93] Mainland China's Hong Kong and Macau Affairs Office spokesperson supported the Hong Kong government's denunciation of Professor Tai's remarks and

said that "some in Hong Kong were colluding with outside forces and openly promoting independence. They are trying to split the country in violation of Hong Kong's Basic Law … and are challenging the bottom line of 'one country, two systems.'"[94] Hours after Beijing's official response, 41 pro-establishment LegCo members issued a joint statement denouncing Professor Tai's remarks.[95]

Rights advocates in Hong Kong said the pressure campaign waged against Professor Tai showed that academic freedom and freedom of expression in the territory were under increased threat and could lead to further self-censorship. In the view of the Hong Kong-based rights group Scholars' Alliance for Academic Freedom, "[T]his incident is a blatant violation of citizens' rights and freedoms which must be strongly protected and respected in order for Hong Kong to remain a free and open society."[96] Some scholars, along with Professor Tai, fear the incident could prompt mainland and Hong Kong authorities to push forward on passing Article 23.[97] Although Hong Kong government officials denied the speculation, mainland officials and Chinese state-run media commentaries suggested the need for Hong Kong to pass the national security law.[98] Professor Tai said,

> *If the new baseline now is that even if it may not involve violence, even if it may not involve other criminal actions, just merely speech will be sufficient for people to have [committed] those offenses, then that would be something [the] Hong Kong people must seriously consider.*[99]

Taiwan Scholars Barred from Traveling to Hong Kong

Since the major 2014 prodemocracy protests in Hong Kong (Occupy Central) and Taiwan (Sunflower Movement), both sides have seen increased sharing of ideas among democracy activists to counter Beijing's rising pressure. However, growing numbers of Taiwan activists and lawmakers have been barred from entering Hong Kong in recent years, particularly around sensitive events, a trend that seems to be expanding to include scholars.[100] In December 2017, Wu Rwei-ren and Wu Jieh-min, academics critical of Beijing based at the Taiwan think tank Academia Sinica, were due to speak at a conference in Hong Kong but had their visa applications denied.* Dr. Wu Rwei-ren asserts Beijing is seeking to block dialogue between Taiwan and Hong Kong political groups "to isolate its civil society and render it helpless."[101] Since Taiwan President Tsai Ing-wen took office in 2016, Beijing has been increasingly sensitive to exchanges between Hong Kong and Taiwan activists.[102] Beijing fears collusion between "separatist forces" in Taiwan and Hong Kong that could seek independence and violate China's national sovereignty.[103] (China's relations with Taiwan are discussed in greater detail in Chapter 3, Section 3, "China and Taiwan.")

*The barring of these academics came in the wake of Hong Kong's refusal in October 2017 to allow UK Conservative Party activist and deputy chair of its human rights commission Benedict Rogers to enter the territory for an unofficial visit. Since then, the Hong Kong authorities have denied entry to the territory to other foreign politicians and civil society groups that support Hong Kong pro-democracy activists. Kris Cheng, "Hong Kong Denies Entry to Japanese City Councilor Months after Beijing Attacked Him for Supporting Democrat," *Hong Kong Free Press*, August 10, 2018; Kris Cheng, "Hong Kong Bars UK Conservative Party Activist Benedict Rogers from Entering City," *Hong Kong Free Press*, October 11, 2017.

Economic Relations with Mainland China

Hong Kong remains important to Beijing as an economic conduit to the rest of the world and as a testing ground for financial reforms.[104] China's general respect for the independence of Hong Kong's financial and commercial sector suggests Beijing may now only feel the need to apply its "one country, two systems" formulation to Hong Kong's economic sphere. For decades, Hong Kong's economic dynamism and commercial rule of law have ensured its status as a global financial hub and the leading gateway to China.* According to the Global Financial Center Index, Hong Kong is the third-leading global financial center after London and New York.† In 2017, 3,752 multinational companies had regional headquarters or regional offices in Hong Kong, of which 76 percent were responsible for business in mainland China.[105]

In 2017, Hong Kong's gross domestic product (GDP) grew 3.8 percent in real terms, up from 2.2 percent in 2016, spurred by robust domestic demand and a strong external environment.[106] In the second quarter of 2018, Hong Kong's economy grew 3.5 percent from a year ago, down from 4.6 percent in the first quarter.[107] The Hong Kong government forecasts GDP growth between 3 and 4 percent for 2018.[108] Strong domestic demand and a recovery in tourist arrivals should continue to support growth in 2018, although growth is expected to moderate amid rising trade tensions between the United States and mainland China and higher interest rates.[109] Hong Kong's economy is highly dependent on international trade‡ and finance and is increasingly integrated with the Mainland through trade, investment, financial, and tourism links.§

Trade and Investment Links

Mainland China has been Hong Kong's largest trading partner since 1985, accounting for 50 percent of total trade in 2017.[110] Hong Kong is mainland China's third-largest trading partner (after the United States and Japan), accounting for 7 percent of China's total trade in 2017.[111] Hong Kong is also a key intermediary for China's trade with the rest of the world. According to Hong Kong government statistics for 2017, 58 percent of Hong Kong re-exports

*For the 24th successive year, Hong Kong remained the world's freest economy based on the strength of its rule of law, regulatory efficiency, economic openness, and government size, according to an index prepared by the Heritage Foundation. According to the Switzerland-based International Institute for Management Development's 2018 world competitiveness ranking, Hong Kong placed second among the world's most competitive economies, behind the United States and ahead of Singapore. In 2018, Hong Kong ranked fifth in the World Bank's ease of doing business index, behind South Korea and ahead of the United States. Heritage Foundation, "2018 Index of Economic Freedom: Hong Kong," 2018; IMD, "The United States Overtakes Hong Kong at First Place among the World's Most Competitive Economies," May 2018; World Bank, "Doing Business 2018: Reforming to Create Jobs," October 31, 2017, 4.

†The Global Financial Centers Index is a biannual ranking of the competitiveness of financial centers published by London-based commercial think tank Z/Yen Group and the China Development Institute, a Shenzhen-based think tank. The ranking is based on five factors of competitiveness: business environment, human capital, infrastructure, financial sector development, and reputation. China Development Institute and Z/Yen Group, "The Global Financial Centers Index 23," March 2018, 4, 8.

‡The value of total goods and services trade for Hong Kong was 375 percent of GDP in 2017, compared to 38 percent for mainland China. World Bank, "Trade (% of GDP)." *https://data.worldbank.org/indicator/NE.TRD.GNFS.ZS*.

§Although Hong Kong is part of China, it has separate legal structures and is treated as "overseas" for the purposes of most regulations governing the ability of mainland Chinese to travel, transfer funds, and conduct other transactions. Hong Kong Trade Development Council, "Economic and Trade Information on Hong Kong," June 14, 2018.

(i.e., goods imported and then exported in the same state as previously imported) were from mainland China and 54 percent were destined for mainland China.[112]

According to UN data, in 2017 Hong Kong received over $104 billion in foreign direct investment (FDI), making Hong Kong the second-largest recipient of FDI in Asia after China ($136 billion).[113] These inflows are seldom destined solely for Hong Kong, as many foreign investors use Hong Kong as a transit point into China. Consequently, Hong Kong has consistently been China's largest source of FDI, with cumulative inflows from Hong Kong totaling $1 trillion at the end of 2017, or 53.2 percent of all inflows.[114] In turn, mainland China was Hong Kong's second-largest source of FDI (after the British Virgin Islands) at the end of 2016, accounting for about 26 percent, or $418 billion, of the total stock of Hong Kong's FDI that year.[115]

Financial Links

Hong Kong has been the main conduit for Beijing's moves to increase foreign access to its financial markets, notably with the July 2017 launch of the China-Hong Kong Bond Connect—which allows international investors access to China's bond market via Hong Kong—and the launch of the Shenzhen-Hong Kong Stock Connect and Shanghai-Hong Kong Stock Connect in 2016 and 2014, respectively.*

Over the past year, Beijing has moved to expand trading through the stock connects in preparation for global index publisher MSCI's two-stage inclusion of Chinese large-cap stocks in its emerging markets index in June and September 2018, which is expected to draw more foreign capital into China's equity markets.[116] In April 2018, mainland China's securities regulator announced it would quadruple daily quotas for both the Shanghai and Shenzhen stock connects.† However, market reactions to the expansion have been muted as bilateral capital inflows depend on the profitability of each respective equity market; before the trading quota expansion, only a small fraction of daily quotas was used.[117] In July 2018, investors used an average of just 1.7 percent of the daily quota for northbound trading of the two stock connects, while 1.3 percent was used for southbound trading.[118]

At present, the Bond Connect only allows for northbound trading, which means foreign investors can purchase Chinese bonds via Hong Kong, but Chinese investors cannot access the Hong Kong bond market under this channel.‡ Aggregate flows from this chan-

*For more on the Shenzhen-Hong Kong Stock Connect and China-Hong Kong Bond Connect, see U.S.-China Economic and Security Review Commission, *2017 Annual Report to Congress*, November 2017, 437–438. For more on the Shanghai-Hong Kong Stock Connect, see U.S.-China Economic and Security Review Commission, *2016 Annual Report to Congress*, November 2016, 421–422.

†The daily quota of mainland China-listed shares that can be bought in Hong Kong via the Shanghai and Shenzhen stock connect schemes was boosted to $7.9 billion (RMB 52 billion) each, from $2 billion (RMB 13 billion). Daily southbound quotas were increased to $6.3 billion (RMB 42 billion), up from $1.6 billion (RMB 10.5 billion). *Reuters*, "China to Sharply Boost Daily Stock Connect Quotas from May 1," April 10, 2018; Emma Dunkley, "China Boosts Mainland-Hong Kong Stock Connect Quotas," *Financial Times*, April 11, 2018.

‡At the launch ceremony for the Bond Connect in July 2017, People's Bank of China Deputy Governor Pan Gongsheng and Hong Kong Exchange Chief Executive Charles Li Xiaojia both said southbound trading would be introduced when there is sufficient market demand, but did not provide a timeline. Hong Kong's bond market has been challenged by low interest rates and bond

nel have been limited and small relative to the size of China's bond market.[119] China attracted $52 billion (renminbi [RMB] 346 billion) in foreign funds into its domestic bond market in 2017, a 41 percent increase from 2016, according to People's Bank of China data; about one-third of inflows since July 2017 came through the Bond Connect.*[120] As of July 2018, foreign investors held $204 billion (RMB 1.35 trillion) in onshore Chinese bonds, less than 2 percent of the total market.[121]

Hong Kong remains the world's largest offshore RMB clearing center: according to global payments processing network SWIFT, Hong Kong's share of global RMB payments exceeded 70 percent in 2017.[122] Hong Kong's status as an offshore RMB center has been bolstered by the launch of the China-Hong Kong Bond Connect and by an expansion of Hong Kong's RMB Qualified Foreign Institutional Investor quota,† which allows foreign investors to participate further in China's bond and equity markets through Hong Kong.[123] Additionally, increased regional and international cooperation under the Belt and Road Initiative (BRI) is expected to boost the role Hong Kong plays in the offshore RMB business.[124]

Finally, Hong Kong is one of the top global initial public offering (IPO) markets. The Hong Kong stock exchange came in third place (behind New York and Shanghai) based on listing proceeds, raising $16.3 billion through 161 new listings in 2017.[125] In April 2018, in a bid to enhance Hong Kong's competitiveness for technology and other new economy company listings, the Hong Kong Exchanges and Clearing changed its listing rules to allow biotech companies without revenue and companies with share structures providing weighted voting rights to list; the Hong Kong bourse has long been dominated by financial and property sector listings.‡[126] The decision to allow the listing of pre-revenue biotech companies is aimed at attracting early-stage biotech firms.§[127]

Weighted voting rights structures allow companies with multiple classes of stocks to raise capital.¶ The structure is favored by technology companies like Facebook and Google as they allow founders and management to maintain control of the company even after a public listing.[128] Many technology companies—including, most no-

yields. Invesco, "Bond Connect: Linking China's Onshore and Offshore Bond Markets," November 2017; Enoch Yiu, "Bond Connect a One-Way Street until Southbound Trade Opens," *South China Morning Post*, July 3, 2017.

*Unless noted otherwise, this section uses the following exchange rate throughout: $1 = RMB 6.62.

†In July 2017, China's State Council expanded Hong Kong's RMB Qualified Foreign Institutional Investor quota to $76 billion (RMB 500 billion), from $41 billion (RMB 270 billion). *China Daily*, "State Council Raises Hong Kong RQFII Quota to 500 Billion Yuan," July 5, 2017.

‡According to the Hong Kong Exchanges and Clearing, in 2017 just 3 percent of all Hong Kong-listed stocks, by market capitalization, were from new economy sectors. In comparison, listings from new economy firms made up 60 percent of all listed stocks on Nasdaq and 47 percent for the New York Stock Exchange. Julie Zhu and Alun David John, "Hong Kong Scrambles for Talent in the Battle for Nasdaq's Biotech Crown," *Reuters*, April 29, 2018.

§According to Hong Kong Exchanges and Clearing, the biotech sector was selected because biotech companies "make up a majority of companies in the pre-revenue stage of development seeking a listing" and "the activities undertaken by biotech companies tend to be strictly regulated under a regime that sets external milestones on development progress." Hong Kong Exchanges and Clearing, "HKEX Proposes Way Forward to Expand Hong Kong's Listing Regime," December 15, 2017.

¶The most common type of multiclass stock is the dual-class structure typically with two classes of stock: one common stock is offered to the general public and carries one vote per share, while the class available to a company's founders and executives carries multiple votes and often provides for majority control of the company. Pamela Ambler, "Why 2018 Will Be a Renaissance Year for Asia Tech IPOs, Undercutting New York," *South China Morning Post*, January 14, 2018.

tably, Chinese e-commerce giant Alibaba—have opted to list in New York over Hong Kong precisely because the United States allows for weighted voting rights.[129] As a result of the change, Hong Kong expects to attract a number of rising Chinese technology companies that have expanded and are close to going public.[130] However, some in Hong Kong's financial community fear the change may lead to less rigorous corporate governance, arguing that unequal voting rights could allow management to override the best interests of majority shareholders.[131]

Tourism Links

Mainland China is Hong Kong's largest source of tourists, accounting for 76 percent of total arrivals in 2017.[132] Hong Kong has long been a popular travel destination for Chinese tourists because of its proximity and tax-free shopping.[133] Chinese tourists are estimated to contribute 39 percent of Hong Kong's total retail sales.[134] Hong Kong's retail and tourism sectors had been hit by anti-Mainland sentiment, a weaker RMB, and China's anticorruption campaign, which analysts say led to declines in Chinese visitors in 2015 and 2016.[135] Mainland tourist arrivals began to recover in 2017, increasing 3.9 percent year-on-year, driven by recent political tensions between Beijing and neighboring countries popular with Chinese tourists, like Japan and South Korea.[136] However, as more Chinese tourists travel to long-haul destinations like Europe, they are increasingly treating Hong Kong as a short-haul destination, with nearly 60 percent of Chinese tourists to Hong Kong staying for one day.[137]

Hong Kong's Key Role in the Belt and Road Initiative

The Hong Kong government has sought to brand Hong Kong as a "super-connector" for BRI.[138] According to Norman Chan, chief executive of the Hong Kong Monetary Authority, Hong Kong's strengths in financial and professional services make it "well-positioned to play an unparalleled role in intermediating infrastructural investment and financing" for BRI.[139] In June 2016, the Hong Kong government set up a steering committee tasked with formulating strategies and policies for Hong Kong's participation in BRI, along with a Belt and Road Office to coordinate BRI-related work among government departments.[140] The Hong Kong Monetary Authority set up an Infrastructure Financing Facilitation Office in July 2016 to facilitate BRI infrastructure investments and their financing.[141] In December 2017, Hong Kong signed an agreement with China's National Development and Reform Commission to expand Hong Kong's role in BRI.[142] The agreement outlines six focus areas for Hong Kong's participation: finance and investment; infrastructure and maritime services; economic and trade facilitation; people-to-people bonds; the Greater Bay Area initiative; and collaboration on project interfacing and dispute resolution services.[143] (For an in-depth assessment of BRI, see Chapter 3, Section 1, "Belt and Road Initiative.")

Hong Kong is a key node of the Guangdong-Hong Kong-Macau Greater Bay Area, Beijing's plan to develop a world-class city cluster at the start of BRI's Maritime Silk Road that rivals the Tokyo and

San Francisco bay areas.* [144] The Greater Bay Area is a regional development initiative linking nine cities in Guangdong Province with Hong Kong and Macau to establish a globally competitive hub for advanced manufacturing, finance, and technology, drawing on each city's economic strengths.† China aims to turn the Greater Bay Area into the world's largest bay area by GDP by 2030; the economies in the Greater Bay Area had a combined GDP of $1.58 trillion in 2017 and a total population of 68 million.[145] The July 2017 framework agreement signed between National Development and Reform Commission, the Guangdong provincial government, the Hong Kong government, and the Macau government identified several areas for cooperation, including "promoting infrastructure connectivity; enhancing the level of market integration; building a global technology and innovation hub; [and] building a system of modern industries through coordinated development."[146] Beijing is expected to release a more detailed implementation plan later in 2018.[147]

So far, the infrastructure component of the initiative has been the most visible, with several major projects, such as the Guangzhou-Shenzhen-Hong Kong express rail link and the Hong Kong-Zhuhai-Macau bridge, completed or near completion.[148] The initiative faces significant practical difficulties merging three jurisdictions and their respective political and legal systems, and will have to resolve differences in border controls, environmental protection, currency, legislation, taxes, and investment rules, among other issues.

Although Hong Kong and Chinese officials say the three major cities in the Greater Bay Area—Hong Kong, Guangzhou, and Shenzhen—are complementary, some Hong Kong lawmakers have expressed concerns that the initiative may fuel intercity competition. Starry Lee Wai-king, chairman of Hong Kong's largest pro-establishment party, the Democratic Alliance for the Betterment and Progress of Hong Kong, noted that unlike in the case of the San Francisco Bay Area—where San Francisco, Oakland, and San Jose had clear roles as California's financial, manufacturing, and innovation hubs, respectively—"there are multiple financial, logistics and technology centers in the Greater Bay Area."[149] "If there is no appropriate division of labor … these cities could become a source of internal conflict," she said.[150] Some Hong Kong observers also worry that closer economic integration with the Mainland through the Greater Bay Area runs the risk of diluting Hong Kong's rule of law and professional standards.[151]

Implications for the United States

U.S. policy toward Hong Kong, as outlined in the U.S.-Hong Kong Policy Act of 1992, underscores U.S. support for Hong Kong's human rights, democratization, and autonomy under the "one country, two systems" framework.[152] The preservation of Hong Kong's way of life

*Several earlier regional integration schemes—such as the Pearl River Delta and Pan-Pearl River Delta initiatives—predate the Greater Bay Area. He Huifeng, "New York, Paris … Greater Bay Area? Beijing's Big Idea to Transform Southern China," *South China Morning Post*, June 16, 2018; *Xinhua*, "Greater Bay Area New Highlight in China's Economy," March 26, 2017.

†Hong Kong, Shenzhen, and Guangzhou are the Greater Bay Area's three core cities, with their respective strengths in financial and professional services, technology, and manufacturing. Peter Sabine, "Can China's Greater Bay Area Initiative Really Work?" *South China Morning Post*, May 28, 2017; PricewaterhouseCoopers, "New Opportunities for the Guangdong-Hong Kong-Macau Greater Bay Area," 19.

and maintenance of its status as a global financial and business hub help facilitate U.S. interests. U.S. considerations regarding the export of sensitive U.S. technology to Hong Kong are also predicated on the territory's separation from the Mainland. In this light, the ongoing decline in rule of law and freedom of expression due to Beijing's increasing encroachment on Hong Kong's autonomy is a troubling development.

Beijing's continued interference in Hong Kong's internal affairs outside the areas of foreign policy and defense—which are protected under the "one country, two systems" policy and Basic Law—serves as a cautionary example for the Indo-Pacific region, including close U.S. partners.[153] The Xi Administration's failure to abide by its commitments sends a strong message to Taiwan that Beijing would do the same in a similar arrangement with Taipei. More broadly, it signals to Taiwan citizens that China's promises cannot be trusted.[154]

Despite negative trends in Hong Kong's legal, media, and speech freedoms, the territory's system of legal protections, economic freedom, and transparency and openness make it an important destination and partner for U.S. trade and investment. In 2017, Hong Kong was the ninth-largest importer of U.S. goods ($40 billion), and the United States retained its largest trade surplus globally with Hong Kong ($32.5 billion).[155] U.S. FDI in Hong Kong was sixth in the world at $40.4 billion (HK$ 313.7 billion) as of year-end 2016.[156] Further underscoring the United States' significant economic ties with Hong Kong, more than 1,300 U.S. companies operate in Hong Kong, including 283 regional headquarters and 443 regional offices as of 2017, the highest number of any other foreign presence.[157] Hong Kong also plays a valuable role in international economic organizations, such as the Asia-Pacific Economic Cooperation, Financial Action Task Force, Financial Stability Board, and World Trade Organization.

As a key transshipment hub for mainland China, Hong Kong is an important partner in ensuring robust protections against unauthorized shipments of controlled U.S. items to the Mainland. Pursuant to the Hong Kong Policy Act, the United States treats Hong Kong as a separate customs territory and maintains unique export control agreements with Hong Kong distinct from those with mainland China.[158] In 2017, the United States and Hong Kong strengthened export control cooperation, introducing new documentation requirements on controlled exports and re-exports to Hong Kong.* The requirement is intended to strengthen existing regulations by requiring those wishing to export or re-export these items to first receive a Hong Kong import license or other written authorization from the Hong Kong government as proof of compliance.[159] However, the State Department's annual Hong Kong Policy Act report, published in May 2018, noted that U.S. officials "continue to raise concerns about the diversion of controlled items, including during its annual bilateral discussion about strategic trade controls."[160]

In September 2018, Beijing denied a U.S. Navy ship (the *Wasp*) a routine port call in Hong Kong planned for October—the first such

*The U.S. rule covers items subject to the Export Administration Regulations and controlled on the Commerce Control List for national security, missile technology, nuclear nonproliferation, or chemical and biological weapons. U.S. Department of Commerce, International Trade Administration, *Hong Kong-Macau-U.S. Export Controls*, June 26, 2017.

official refusal since 2016.[161] China made the decision shortly after the United States imposed sanctions on China's Central Military Commission Equipment Development Department and its director for procuring arms from Russia.[162] Since Hong Kong's 1997 handover from the UK to China, China has refused U.S. port visits on at least four other occasions.[163]

In contrast to all the problems documented in this section, the State Department's May 2018 report assesses Hong Kong "generally maintains a high degree of autonomy under the 'one country, two systems' framework in most areas—more than sufficient to justify continued special treatment by the United States for bilateral agreements and programs per the Act."* [164] The United States has interests in upholding its longstanding policies toward Hong Kong and strengthening bilateral relations, but Beijing's cooperation in upholding its commitments regarding Hong Kong is essential to facilitate a positive U.S.-Hong Kong relationship. However, the report also noted a troubling case of Beijing's direct involvement in U.S.-Hong Kong affairs—beyond China's increasing encroachment on Hong Kong's freedoms—that went against Beijing's promise to allow Hong Kong a "high degree of autonomy": for the first time since the 1997 handover of Hong Kong to Beijing, the Hong Kong government in October 2017 rejected a U.S. fugitive surrender request at the insistence of Beijing (the detainee was released to mainland authorities for a supposed separate criminal investigation).[165]

Some Hong Kong and foreign observers have expressed concern that the territory is becoming more like any other Chinese city and losing the unique characteristics and legal protections that make it an important partner for the United States and others.[166] Given the pace at which Beijing is eroding Hong Kong's autonomy, U.S. NGOs and media organizations may be under mounting pressure to seek alternative locations for their regional operations in the years ahead.[167] As Beijing continues to increase its control over Hong Kong, the territory also faces growing economic competition from mainland cities, which receive increasing investment and incentives, and over the long term could diminish Hong Kong's standing as a global business center.[168]

*The "special treatment" afforded to Hong Kong is codified under the U.S.-Hong Kong Policy Act of 1992, which directs the United States to treat Hong Kong as a separate customs territory and as a World Trade Organization member. United States-Hong Kong Policy Act of 1992, Pub. L. No. 102–383, 1992.

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