

CHAPTER 10: HONG KONG

Abstract

Under the influence of China's central government, Hong Kong has installed General Secretary of the Chinese Communist Party (CCP) Xi Jinping's view of "holistic" national security, weakening the city's once vibrant institutions, civil society, and business environment. Hong Kong has experienced a serious erosion in its autonomy from the Mainland, although the manifestation of this erosion to date has been far more prominent in civil rights compared with the business environment. Hong Kong's new national security legislation, often called the Article 23 Ordinance, introduces new and ambiguous offenses that target all remnants of resistance to Beijing's control over the city's political, religious, and civil society organizations. The continued implementation of the mainland National Security Law (NSL) and the imposition of the Article 23 Ordinance, which has already been invoked to make new arrests, have diminished the former distinctiveness of Hong Kong. The vaguely defined offenses in both national security laws create an atmosphere of fear and uncertainty, intended to coerce Hong Kongers to self-censor or face legal repercussions. Beijing's heavy-handed control over the city has led many Hong Kongers, including activists, families, and business professionals, to leave. Consequently, Hong Kong's status as an international business hub has deteriorated, and its economy has lost significant ground since the passage of the NSL in 2020. The seven million residents of Hong Kong continue to enjoy greater freedoms than those living on the Mainland—including a freely convertible currency and comparatively uncensored internet and media—but only so far as they refrain from violating the CCP's broad and opaque conceptions of political dissent. Although notable pockets of society, including the business community, remain sanguine about Hong Kong's status as a regional financial and trade hub, that status was based on a set of freedoms and the rule of law, which Beijing is actively eroding.

Key Findings

- Imposition of the Article 23 Ordinance further equips Hong Kong's government with legal tools to oppress any vestiges of dissent. Hong Kong's robust civil society, which once set it apart from the Mainland, is being eroded and replaced with a society where individuals, religious organizations, and the press must censor themselves or face possible criminal prosecution for activities that were previously protected by law.
- The rule of law in Hong Kong is under threat. Hong Kong's courts no longer maintain clear independence from the government and are being weaponized as the Article 23 Ordinance is

enforced. The court's verdict in more than a dozen of the Hong Kong 47 cases to convict pro-democracy advocates for offenses that allegedly threatened national security, and subsequent resignations by international jurists in protest, illustrate the degradation of the city's judicial integrity.

- Imposition of the Article 23 Ordinance introduces uncertainty for businesses in Hong Kong. Firms and business professionals could potentially face criminal conviction for conducting normal business activity, including research, international collaboration, and due diligence.
- Hong Kong's repressive new security regime not only threatens Hong Kong residents but also can endanger foreign business professionals in Hong Kong and be wielded as a cudgel to repress the overseas activist community, including in the United States, through its extraterritorial application.
- Chinese nationals and businesses have flooded Hong Kong's labor force and economy, advancing Beijing's ambitions to integrate Hong Kong along with Macau and nine nearby mainland Chinese cities into the Greater Bay Area (GBA) economic hub.
- Hong Kong has become a key transshipment node in a global network that assists Russia and other adversaries in evading sanctions and circumventing export controls. This diminishes the efficacy of U.S. and allied government efforts to advance important national security interests, and it exposes Western investors, financial institutions, and firms to financial and reputational risks when they do business in Hong Kong.

Recommendations

The Commission recommends:

- Congress require the Administration to produce a determination whether reasonable grounds exist for concluding that the Hong Kong Special Administrative Region should be designated as a Primary Money Laundering Concern (PMLC) jurisdiction under Section 311 of the Patriot Act due to its growing role as the central sanctions evasion hub and transshipment center for illicit finance and technology to Russia, Iran, and North Korea.
- Congress direct the U.S. Department of the Treasury, in coordination with the U.S. Departments of State and Commerce, to provide the relevant congressional committees a report assessing the ability of U.S. and foreign financial institutions operating in Hong Kong to identify and prevent transactions that facilitate the transfer of products, technology, and money to Russia, Iran, and other sanctioned countries and entities in violation of U.S. export controls, financial sanctions, and related rules. The report should:
 - Evaluate the extent of Hong Kong's role in facilitating the transfer of products and technologies to Russia, Iran, other adversary countries, and the Mainland, which are prohibited by export controls from being transferred to such countries;

- Evaluate Hong Kong’s role in facilitating trade and financial transactions that violate U.S. sanctions on Russia, Iran, and other countries and entities subject to U.S. financial sanctions;
- Examine whether Hong Kong’s National Security Law has limited the ability of financial institutions to adhere to global standards for anti-money laundering and know-your-customer procedures; and
- Describe the level of cooperation between Hong Kong and U.S. authorities in enforcing export controls and sanctions regimes.

Introduction

The people of Hong Kong experienced another dire year under the control of China’s central government. What was once a thriving civil society with independent institutions and an international business hub continues its transformation into another mainland-style city. Beijing continues to accelerate its takeover of the city. Despite promising Hong Kong a “high degree of autonomy” in the Sino-British Joint Declaration through 2047, under General Secretary Xi’s leadership Beijing has accelerated its erosion of that commitment.¹ China has betrayed its promise of “one country, two systems” by rolling back longstanding policies, basic freedoms, and privileges that made the city distinct from the Mainland.² Through the imposition of the Article 23 Ordinance, officially titled the Safeguarding National Security Ordinance,* the Hong Kong government has sent another clear warning signal to activists in Hong Kong and dissidents outside of the city that any behavior it deems a threat to national security is a violation of criminal law. Along with the 2020 NSL passed by China’s central government, the Article 23 Ordinance has again moved the red lines on what the government will permit, and it has expanded the definitions of criminal offenses in ways that pose an extraterritorial threat. Hong Kong’s legal system provides increasingly fewer protections for civil liberties—like freedoms of expression, assembly, and religion—that were once the bedrock of the city and distinguished it from the Mainland. The intervention into Hong Kong’s elections, judiciary, and education systems and attacks on its civil society illustrate the lengths to which Beijing will go to tighten its control over the city.

Hong Kong’s businesses also face a vague and contradictory legal environment under the Article 23 Ordinance, which may severely inhibit the ability of firms to conduct normal business operations, including pursuing needed research and due diligence. At the same time, Hong Kong’s broader economy faces headwinds, including slow economic growth and a sluggish market, while a steady flight of multinational firms scale back their operations or leave the city altogether. In their place, Hong Kong government initiatives encouraged by the Mainland have infused Hong Kong with an influx of mainland businesses and workers and enhanced links between

*The Safeguarding National Security Ordinance is the fulfillment of requirements under Article 23 of Hong Kong’s Basic Law, essentially its mini constitution. In the vernacular, the Article 23 Ordinance is sometimes just referred to as Article 23, which was the provision of the Basic Law that required Hong Kong to pass national security rules. Ricardo Barrios, “Hong Kong Adopts New National Security Ordinance: Article 23,” *Congressional Research Service* CRS IN12341, April 1, 2024; Greg Torode and Jessie Pang, “Article 23: What You Need to Know about Hong Kong’s New National Security Laws,” *Reuters*, March 19, 2024.

Hong Kong and the surrounding Greater Bay Area (GBA).^{*} Hong Kong's dwindling international status is also reflected in its slipping role as a shipping hub, which continues to decline compared to peer Asian neighbors and increasingly serves Beijing's goals in sanctions evasion. This chapter details Hong Kong's recent political and economic developments, attacks on its rule of law and basic freedoms, and the implications for the United States. It is based on consultations with U.S. and foreign nongovernmental experts as well as open source research and analysis.

Hong Kong's Safeguarding National Security Ordinance (Article 23 Ordinance)

Overview of the Article 23 Ordinance

Hong Kong's Article 23 legislation went into effect on March 23, 2024, and introduced severe measures that will further target dissidents, undermine civil liberties, and minimize Hong Kong's distinctiveness from the Mainland.³ While already eroded by the 2020 NSL, the vestiges of Hong Kong's independent institutions and open business environment deteriorate even further under the Article 23 Ordinance.⁴ The Article 23 Ordinance also threatens to further repress dissidents overseas, and it creates more uncertainty among civil society and the business community regarding their future in Hong Kong.⁵

Background

Under Article 23 of Hong Kong's Basic Law, the Hong Kong government is required to introduce legislation 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."⁶ The Hong Kong government first tried to introduce Article 23 legislation in 2003. At that time, Hong Kong, only a few years removed from British rule, still had vocal independent institutions and civil society.⁷ That attempt to introduce a local national security law was met by 500,000 protestors, which ultimately led the government to abandon its proposal.⁸

In 2020, the central government in Beijing introduced the NSL,[†] directly applying it to Hong Kong and subjecting Hong Kong—for the first time since the handover from British rule—to legal limitations on political activity similar to the Mainland.⁹ Four years of NSL implementation has significantly narrowed political freedom in Hong Kong, transforming Hong Kong's civil society, gutting electoral opposition, and paving the way for passing the Article 23 Ordinance in Hong Kong's own law.¹⁰

^{*}The cities in the GBA are linked by transportation networks and common business policies. China considers the cities within the GBA to be industry leaders in high technology, advanced manufacturing, logistics, and financial services. Guilherme Campos, "Greater Bay Area—China's Booming Southern Mega Region," *China Briefing*.

[†]For more on the mainland National Security Law imposed in 2020, see U.S.-China Economic and Security Review Commission, Chapter 5, "Hong Kong," in *2020 Annual Report to Congress*, December 2020.

The NSL required Article 23 legislation to be completed as soon as possible.¹¹ On January 30, 2024, Hong Kong's government began a consultation period for the Article 23 Ordinance that lasted one month.¹² The government claims that 99 percent of submissions during this period were supportive of the proposed legislation, and “anti-China” foreign groups were attempting to smear the legislation and provoke discontent.¹³ During the National People's Congress in March in Beijing, Hong Kong officials were instructed by Politburo member and head of the Central Leading Group on Hong Kong and Macau Ding Xuexiang to pass the legislation as quickly as possible.¹⁴ Lawmakers moved to pass the legislation within two weeks.¹⁵

New Offenses under the Article 23 Ordinance

The Article 23 Ordinance introduces a series of new offenses that undermine the civil and legal rights of individuals, businesses, journalists, civil society groups, and international organizations in Hong Kong and overseas, reflecting the wide reach of Xi's vision for “holistic” national security.*¹⁶ These include:

- *Broadly defining acts of seditious intention:* Expanding upon the NSL, the Article 23 Ordinance defines a “seditious intention” offense to include intentionally causing “hatred or enmity amongst different classes of residents of the [Hong Kong Special Administrative Region] or amongst residents of different regions of China.”¹⁷ Maximum penalties for having “seditious publication[s]” were also increased to three years.¹⁸
- *New crimes to prevent coordinated activity:* Concealment of others' activities deemed treasonous under the national security law, also referred to as misprision of treason, was codified as a crime in the Article 23 Ordinance.¹⁹ Failure to report someone who is planning to commit treason could result in up to 14 years in jail.²⁰
- *Expanding the definition of espionage to erode free speech and association:* The Article 23 Ordinance expands the definition of espionage to include “collusion with ‘external forces’ to publish false or misleading statements” with intent to endanger national security.†²¹ External forces could refer to any foreign government, agency, individual, political party, or international organization.²² Under this definition, “collusion with external

*On April 15, 2014, General Secretary Xi Jinping introduced his concept of “holistic” national security. The concept emphasizes “mega security” encompassed in 20 different sectors, including political, military, economic, cultural, and data security, among others. The Government of Hong Kong translates the Chinese term “总体” as “holistic,” while the Commission translates this as “comprehensive” national security. For more on Xi's comprehensive national security concept, see Chapter 7, “China's New Measures for Control, Mobilization, and Resilience.” Government of Hong Kong, *A Holistic Approach to National Security* (总体国家安全观), April 15, 2024. Translation.

†Certain provisions of the National Security Law contain a *mens rea* element that the prohibited act must be performed “with intent to endanger national security” to constitute an offence. In practice, this intent element may not offer much protection to alleged violators given the broad scope of “national security” and that trials will be before judges especially appointed by the Beijing-friendly Hong Kong chief executive to oversee NSL cases. Eric Y.H. Lai, “Implications of Article 23 Legislation on the Future of Hong Kong,” *Jamestown Foundation*, March 1, 2024; Safeguarding National Security Ordinance (Hong Kong Special Administrative Region), 2024; The Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region, 2020.

forces” could potentially be applied to a broad variety of conduct that otherwise would generally not be considered criminal or even harmful.²³ For example, this could be applied to a Hong Kong resident who spoke to a foreign journalist, exchanged information with a foreign researcher, or posted on social media a foreign think tank’s report critiquing Hong Kong’s technology sector.²⁴

- *Supporting external “intelligence organizations”*: The Article 23 Ordinance expands the definition of espionage to include the new offense of “participating in or supporting external intelligence organizations or accepting advantages from them.”²⁵ Under the Article 23 Ordinance, an “external intelligence organization” may include “an organization established by an external force.”²⁶ The ambiguity of the term leaves China’s National Administration for the Protection of State Secrets to determine whether an organization is considered a foreign intelligence organization.²⁷ Potentially, a foreign nongovernmental organization (NGO) might be deemed an intelligence organization.²⁸
- *Broadening the scope of “external interference” to cover routine political activity*: The Article 23 Ordinance introduces “external interference” as a new criminal offense and defines it as the intent, in collaboration with an external force, to bring about an interference effect, which refers to any attempts to influence mainland or Hong Kong government officials, election outcomes, judicial procedures, or the Hong Kong-Mainland relationship.²⁹ This criminalizes a broad range of political activity.
- *“Endangering national security” through an electronic system or computer*: This new offense expands the broad definition of an “offense endangering national security” to include activities related to computers or other electronic systems.³⁰ This vague definition could potentially encompass Hong Kongers using a foreign virtual private network or electronic communication apps, for instance, to share content that allegedly endangers national security.³¹
- *Expanding the scope of state secrets*: The Article 23 Ordinance imports Beijing’s vague definition of state secrets, which can be broadly applied to information relating to a variety of sectors, like scientific research, the external affairs of Hong Kong, and economic development.³² According to analysis by the China Strategic Risks Institute, a global policy think tank, the arbitrarily defined scope of state secrets could apply to “normal business activities, including auditing, economic and financial analyses, and due diligence.”³³

The first conviction under the Article 23 Ordinance came in September 2024, when a Hong Kong man pled guilty to sedition for wearing a shirt with the slogan “Liberate Hong Kong; revolution of our times.”³⁴

Hong Kong's Political and Judicial Systems Subjugated by Authoritarian Overreach

Blurring Political Lines between Beijing and Hong Kong's Electoral Systems

China promised that Hong Kong could maintain its distinctiveness for at least 50 years under the model of “one country, two systems” after returning to mainland control.³⁵ Contrary to these commitments, the Chinese government’s overhaul and politicization of Hong Kong’s electoral system has weakened its legitimacy, resulting in a significant decline in political participation.³⁶ In 2023, Hong Kong reduced the number of directly elected district council seats by 80 percent* and implemented new rules requiring candidates to prove their patriotism and be screened by government committees, mostly composed of pro-Beijing appointees, in order to secure nominations.³⁷ Hong Kong’s district council elections in December 2023 reflected the government’s changes, which resulted in low turnout and the arrests of members of one of the only pro-democracy parties in the city.³⁸ Only 27.5 percent of Hong Kong voters participated in the district council elections, marking the lowest turnout in these polls since 1997 when Beijing took control of the city.†³⁹ Despite the record low turnout, Hong Kong Chief Executive John Lee Ka-chiu claimed the elections demonstrated voters’ support for the process and referred to previous district councils as “destructive” before the change in rules.⁴⁰ Members of the League of Social Democrats (LSD), one of Hong Kong’s only remaining pro-democracy parties, were also arrested ahead of the December elections for their plans to stage a protest to the electoral rule changes.⁴¹ Hong Kong police arrested three LSD members for inciting others to disrupt or intervene in the district council elections.⁴² Thomas Kellogg, executive director of Georgetown University’s Center for Asian Law, emphasizes the dire state of Hong Kong’s political environment, saying “pro-democratic political activity in Hong Kong is over and likely will remain off-limits for years to come.”⁴³ Others, like former U.S. Consul General in Hong Kong and Macau Hanscom Smith, argue that a delineation can still be made between the Mainland and Hong Kong. Mr. Smith suggests that “despite an erosion in autonomy, [Hong Kong] is not the Mainland.”⁴⁴ A May 2024 report by the Center for Strategic and International Studies suggests more broadly that some vestiges of autonomy remain in Hong Kong.⁴⁵ The report also notes that while Hong Kong is “qualitatively different than in other mainland Chinese jurisdictions,” the overall trend is “clearly in the direction of further erosion of autonomy across nearly all domains—the legal and political system and civil society, as well as the climate for companies and investors.”⁴⁶

*As of 2024, only 88 out of 470 district council seats are directly elected. Nectar Gan, “Hong Kong Voters Turn Their Backs on ‘Patriots Only’ Election with Record Low Turnout,” *CNN*, December 11, 2023.

†Following months of protest in 2019, there was a historic turnout of 71 percent in Hong Kong’s elections. Nectar Gan, “Hong Kong Voters Turn Their Backs on ‘Patriots Only’ Election with Record Low Turnout,” *CNN*, December 11, 2023.

Hong Kong's Judicial Independence Undermined

Judicial independence in Hong Kong continues to be undermined by government overreach. Prolonged national security cases, such as the trials of Jimmy Lai and the Hong Kong 47,* illustrate the lack of judicial integrity in Hong Kong's courts, where trial hearings can be delayed by months and bail can be arbitrarily denied.⁴⁷ Procedural delays in the legal process meant that many of the Hong Kong 47 were held for over two years awaiting trial.⁴⁸ On May 30, 2024, a Hong Kong court finally announced its verdict in 16 cases of the Hong Kong 47 trial, the landmark national security case that began in February 2023, bringing the total time since their initial arrest to nearly three and a half years.⁴⁹ The court found 14 of the defendants guilty and acquitted two—although the prosecution has announced plans to appeal the acquittals.[†]⁵⁰ Many of the 47 advocates have been detained for more than three years due to severe bail thresholds, during which time 31 of the accused pled guilty.⁵¹ The 16 that pled not guilty could face up to life in prison.⁵² Jean-Pierre Cabestan, senior research fellow at the Asia Centre, suggests that the major message from the trials to Hong Kong's society is “either you toe the line, you support the Communist party, or you are excluded from political life.”⁵³

The Article 23 Ordinance further erodes the legal rights of defendants, allowing detention for up to 16 days (previously two days) without charges, restricting access to certain lawyers, and tightening national security trials, bail, and parole.⁵⁴ More specifically, in the first 48 hours after someone is arrested, they can be blocked from consulting any lawyer and then denied a chosen lawyer while they remain in detention.⁵⁵ In addition, the Article 23 Ordinance also grants discretionary powers to the chief executive to issue binding certificates to courts and make subsidiary legislation at any time if it is related to “safeguarding national security.”⁵⁶ Due to the broad scope of the Article 23 Ordinance offenses, Hong Kong's Beijing-appointed chief executive has ample opportunity to introduce arbitrary laws.⁵⁷

*Known as the “Hong Kong 47,” the group comprises activists, politicians, legislators, and civil society leaders who were opposed to the central government's overreach into Hong Kong's electoral process. They were arrested and accused of holding primary elections in 2021, a historically common event ahead of elections, in order to help elect candidates who could challenge pro-Beijing candidates in the main election. Helen Davidson and Verna Yu, “Hong Kong 47: Trial of Dozens in Pro-Democracy Movement Set to Begin under National Security Laws,” *Guardian*, February 4, 2023.

†Prior to the NSL, the trial would have been before a jury, not judges picked by the Hong Kong chief executive, and prosecutors would not have been able to appeal an acquittal. The NSL allowed national security cases to be tried by a panel of three national security judges instead of a jury. The NSL also directed the chief executive to appoint certain judges to handle national security cases. In 2023, the Hong Kong Department of Justice proposed an amendment that would break from prior practice, allowing prosecutors to appeal an acquittal under the NSL by High Court judges on the basis of legal error. The amendment was ultimately adopted. These new judicial processes were implemented in the case of the Hong Kong 47. Jessie Yeung, Nectar Gan, and Chris Lau, “Hong Kong Democracy Leaders Convicted in Most Significant Verdicts since Beijing's National Security Crackdown,” *CNN*, May 30, 2024; China Strategic Risks Institute, “Analysis of the Business and Legal Risks Associated with the HKSAR Safeguarding National Security Ordinance (Article 23),” April 2024, 3, 7; Hong Kong Special Administrative Region Criminal Procedure (Amendment) Ordinance 2023, July 14, 2023; Lydia Wong, Thomas E. Kellogg, and Eric Hanho Lai, “Hong Kong's National Security Law and the Right to a Fair Trial: A GCAL Briefing Paper,” *Georgetown Law Center for Asian Law*, June 28, 2021; Jeffie Lam, “Hong Kong Prosecutors Will be Allowed to Appeal against Acquittals in Some National Security Cases in Court of First Instance under Proposed Change,” *South China Morning Post*, April 21, 2023. The Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region, 2020.

The Hong Kong government has also been slow to fill open judicial positions within the Hong Kong courts system, further prolonging some trials and undermining the integrity of the courts.⁵⁸ Consequently, the number of people held in Hong Kong jails continues to increase and their futures remain unclear given the backlog in cases being heard.*⁵⁹ Alvin Cheung with the U.S.-Asia Law Institute explains that “this shortage is plainly appalling in terms of how it prolongs legal limbo for defendants.”⁶⁰ Amid the lack of appointments, the number of filled judicial positions in the first half of 2024 hovered at just over 160 out of 211 total positions, including national security judges, with the High Court having a higher vacancy rate than other Hong Kong courts.⁶¹ Despite the shortage, no new judges have been appointed to the High Court since 2021.⁶² Underscoring the impact of the NSL and increasing role of Beijing in the process, Chief Executive Lee only appointed three out of the six potential High Court judges nominated by the Judicial Officers Recommendation Commission (JORC) in 2021.⁶³ Of the other three put forward by the JORC, one failed to pass a national security background check and another candidate backed out of the process over concerns around the impact of the 2020 NSL on Hong Kong’s legal landscape.⁶⁴ Additionally, the JORC has not made any new recommendations for full-time judges in the last three years.⁶⁵

Legal professionals have been hesitant to risk reputational and career damage by serving as a judge on the Hong Kong courts.⁶⁶ In June 2024, after the prior month’s verdict convicting 14 Hong Kong activists and politicians of national security violations, three non-permanent foreign judges announced their resignations from positions on Hong Kong’s Court of Final Appeal.⁶⁷ Jonathan Sumpston, one of the former judges and a British citizen, published an opinion piece in the *Financial Times* identifying a “growing malaise in the Hong Kong judiciary” and claiming that Hong Kong “is slowly becoming a totalitarian state.”⁶⁸ An additional two foreign non-permanent judges have declined to renew their appointments to the Court of Final Appeal as well this year.⁶⁹

To deter civil servants and judges from helping implement Hong Kong’s national security laws, some U.S. lawmakers have introduced legislation calling for sanctions on members of the Hong Kong legal system involved in enforcement of the NSL.⁷⁰ Some Hong Kong dissidents and activists applaud these sanctions, arguing that they stand to have a deterrent effect on judges and prosecutors in the city.⁷¹ Sanctions on these individuals would prevent them from interacting with a range of financial institutions and severely constrict the ability of these individuals to make international payments.⁷² Former Hong Kong Chief Executive Carrie Lam indicated that U.S.-led sanctions placed on her for her role in crackdowns on democratic protests have already caused personal financial hardships.⁷³ As evidence of the sensitivity of individual sanctions, the Chinese and Hong Kong governments have issued strongly worded objections whenever sanctions have been imposed, including in 2020 and 2021.⁷⁴

*As of September 2023, the number of people held in jail has reached a ten-year high, causing one Hong Kong detention center to operate at around 104 percent capacity. Siyan Cheung, “Hong Kong Detention Center Overflowing as Thousands Serve Time for Protests,” *Radio Free Asia*, September 6, 2023.

Hong Kong's Extraterritorial Application of the National Security Law

The Hong Kong government continues to extend its reach by adopting an extraterritorial approach to enforcement of its national security laws. Since July 2023, Hong Kong's National Security Police have placed bounties on 13 overseas pro-democracy activists, questioned their family members, and attempted to intimidate them.⁷⁵ These Hong Kong activists include: Nathan Law, Elmer Yuen, Dennis Kwok, Kevin Yam, Anna Kwok, Mung Siu-tat, Finn Lau, Ted Hui, Frances Hui, Joey Siu, Jonny Fok, Tony Choi, and Simon Cheng.⁷⁶ All of the activists targeted live outside of Hong Kong as dissidents in the United States, Australia, and the United Kingdom (UK).⁷⁷ Hong Kong police have accused these activists of “collusion with foreign country or external elements,” “incitement to secession,” and “incitement to subversion.”⁷⁸ The bounties issued by police are worth approximately \$128,000 (Hong Kong Dollars [HKD] 1 million) for information that may lead to their arrest; if caught, activists could receive sentences of up to life in prison.^{*79} The family members of Hong Kong dissidents are also targeted and harassed for their relatives' pro-democracy work abroad.⁸⁰ For instance, the mother of U.S.-based activist Frances Hui was taken to a police station and questioned in January 2024 after authorities issued a bounty for her daughter's arrest.⁸¹ The Article 23 Ordinance also provides a legal basis for requiring financial institutions to deny overseas activists access to their bank accounts.⁸²

Draconian Laws Threaten Civil Liberties

Academic Freedom

Four years into implementation of the NSL, academic freedom in Hong Kong has dwindled as educators face pressure to politicize their curriculum and abide by national security requirements, including the Article 23 Ordinance.⁸³ The Patriotic Education Law † officially took effect on January 1, 2024, and, according to the Hong Kong government, aims to “strengthen patriotic education... [and] inherit and promote the spirit of patriotism.”⁸⁴ The government also established a new Working Group on Patriotic Education to integrate patriotic education, national security education, and Chinese culture education.⁸⁵ Ahead of Hong Kong's National Security Education Day (April 15),‡ primary and secondary school teachers were provided a script to read to students that explains General Secretary Xi's approach to national security and describes the Article 23 Ordinance as creating a “safety barrier” for the city.⁸⁶ Teachers

* Unless noted otherwise, this section uses the following exchange rate throughout: \$1 = HKD 7.79 as of September 17, 2024.

† The Patriotic Education Law, passed in October 2023, sets requirements for patriotic emphasis in areas of education including ideology and politics, history and culture, constitution and law, and national security. *Reuters*, “China Passes Patriotic Education Law for Children, Families -State Media,” October 24, 2023; Government of Hong Kong Special Administrative Region News, *Patriotic Education Law Welcomed*, October 24, 2023.

‡ April 15 is also National Security Education Day in mainland China. Arran Hope, “Learning from National Security Education Day,” *Jamestown Foundation*, April 26, 2024.

were instructed to host activities for students to teach them how to protect national security in their daily lives.⁸⁷ Hong Kong is also sending secondary school principals, teachers, and students to mainland China for “national security education study tour[s].”⁸⁸ For example, in April 2024, more than 70 educators and students traveled to Beijing, Shanghai, and Hangzhou, where they visited sites like the Museum of the Communist Party of China and the National Security Education Exhibition Hall.⁸⁹

University leadership also faces pressure to make their institutions conform not to standards of academic freedom but to standards of thought approved by Beijing. According to Carsten Holz, a social science professor at Hong Kong University of Science and Technology, the Hong Kong government expects professors and academic leadership to police their institutions, so “it is no surprise that at least four vice-chancellors of Hong Kong’s seven [publicly funded] universities recently resigned.”⁹⁰ After facing years of criticism by pro-Beijing policymakers and news outlets, vice-chancellor of the Chinese University of Hong Kong (CUHK) Rocky Tuan announced that he would resign from his post effective January 2025.⁹¹ Mr. Tuan has been targeted by pro-Beijing lawmakers and others since 2019 for his support of student protestors.⁹² Since then, CUHK has been singled out for the first audit of a university in Hong Kong by the city’s Audit Commission, which was described as “a form of harassment” by one CUHK academic.⁹³ Former CUHK council member Tik Chi-yuen also argued that CUHK was targeted by the Hong Kong legislature, and Tuan’s management of the university was scrutinized politically.⁹⁴ The university should remain free from political interference, Tik Chi-yuen said.⁹⁵

Hong Kong’s schools are also politicizing their curriculum and struggling to maintain enrollment numbers among local students. As enrollment from Hong Kong’s local students declines, some Hong Kong institutions are replacing them with mainland and international students.⁹⁶ Chief Executive Lee announced in an October 2023 speech that the quota of overseas and mainland students at Hong Kong’s public universities was set to increase from 20 percent to 40 percent as a part of the government’s push to make the city an “international hub for education and a center for innovation.”⁹⁷ CUHK, for instance, increased its annual enrollment quota for mainland students from 300 to 400 students for this year.⁹⁸ In 2018, mainland students accounted for 50 percent of nonlocal students at Hong Kong’s universities, but that number has risen to more than 70 percent in the last six years.⁹⁹ According to Hong Kong’s University Grants Committee, at the city’s main public universities, there are 14,756 nonlocal undergraduate students, of which 10,358 are from the Mainland.¹⁰⁰ In an effort to attract more international students to Hong Kong, the grants committee is giving nearly \$4 million to eight of Hong Kong’s top public universities to promote their programs overseas and attract new students.¹⁰¹

As a result of the emigration wave and declining birthrates, applications for Hong Kong kindergartens decreased by a third from

*In the 1996–1997 school year, there were just five mainland Chinese enrolled in Hong Kong undergraduate programs. *South China Morning Post*, “Public Universities in Hong Kong Target Foreign Students as Mainland Chinese Numbers among Undergrads Soar,” February 11, 2024.

last year's numbers.¹⁰² Vice-chair of the Hong Kong Federation of Education Workers Nancy Lam Chui-ling does not expect the emigration wave to stop and notes in an interview that the application numbers are likely even lower than those that are reported because parents will typically submit multiple applications before choosing a school in which to enroll their child.¹⁰³

Freedom of Press

Despite being enshrined in Hong Kong's Basic Law, freedom of the press* continues to be limited by the imposition of Hong Kong's draconian security laws. The 2020 NSL is used to suppress journalists on claims of combating "subversion," "secession," and "collusion with foreign forces."¹⁰⁴ The ambiguous definitions of these terms in the NSL allow it to be applied broadly to independent voices residing inside and outside of Hong Kong.¹⁰⁵ Similar to the NSL, the Article 23 Ordinance is vaguely worded, allowing judges to apply the law arbitrarily.¹⁰⁶ As discussed above, the Article 23 Ordinance introduces new crime categories, including "theft of state secrets," "external interference," and "espionage," which have been weaponized in the Mainland against press freedom.¹⁰⁷ The Article 23 Ordinance also extends the penalty for "sedition" from a maximum of two years to up to ten years in prison.¹⁰⁸ Merely possessing publications, such as old copies of the independent newspaper *Apple Daily*, founded by pro-democracy advocate Jimmy Lai, is also punishable under the new law and can carry a three-year jail term.^{†109} In August 2024, two editors from the now shuttered pro-democracy media outlet Stand News were found guilty of sedition.¹¹⁰ The editors were charged before the imposition of the Article 23 Ordinance under a colonial-era sedition law that has been used in recent years to crack down on press viewed as critical of the Hong Kong government.¹¹¹ In an atmosphere of worsening press freedom, the Article 23 Ordinance gives Hong Kong and mainland authorities even greater powers to punish members of the media viewed as supporting pro-democracy activities.

As Hong Kong's press freedom is further repressed, more news outlets and journalists are leaving the city, and others are blocked from even entering. After almost three decades of operating in Hong Kong, and shortly after the Article 23 Ordinance was enacted, Radio Free Asia (RFA), a U.S. government-funded private nonprofit news corporation, closed its bureau in the city and will no longer have full-time personnel in Hong Kong due to concerns with the worsening press freedom landscape.¹¹² RFA president Bay Fang noted that Hong Kong authorities' reference to RFA as a "foreign force" has raised "serious questions about [RFA's] ability to operate in safety with the enactment of Article 23."¹¹³ Several weeks after RFA's de-

*Hong Kong is ranked 135 out of 180 countries in the Reporters Without Borders (RS) 2024 World Press Freedom Index. As of July 9, 2024, ten journalists are detained in Hong Kong. Reporters Without Borders, "2024 World Press Freedom Index—Journalism under Political Pressure," 2024.

†The crackdown on press deepens the threat to free speech. In 2020, Hong Kong passed a law criminalizing insulting the Chinese national anthem. In July 2024, a man was found guilty of this crime from an incident in 2023 where he covered his ears during the anthem at a sports match and instead sang "Do You Hear the People Sing" from the musical *Les Misérables*. Hillary Leung, "Hong Kong Man Found Guilty of Insulting Chinese Anthem at Volleyball Game," *Hong Kong Free Press*, July 22, 2024.

parture, on April 10, 2024, a Reporters Without Borders (RSF) representative was detained and deported out of Hong Kong because of plans to meet with journalists and monitor a hearing in Jimmy Lai's national security trial.¹¹⁴ In a statement about the incident, RSF described it as "a new decline in the already poor press freedom climate in the territory."¹¹⁵ In April 2024, the Hong Kong-based *South China Morning Post* (SCMP), which is owned by Chinese technology giant Alibaba, joined its mainland counterparts in withdrawing its membership from the Society of Publishers in Asia (SOPA) and limited its submissions for the society's regional journalism awards.¹¹⁶ Among the SCMP's finalist SOPA entries this year is an entrant for "excellence in photography."¹¹⁷ The SCMP, like many other Chinese publications, had faced criticism from the Mainland for its investigations and research in the Mainland, including investigations critical of the Chinese government.¹¹⁸

The *Wall Street Journal* also announced it would move its regional headquarters to Singapore, and it laid off editors and reporters at its Hong Kong bureau in May 2024.¹¹⁹ Selina Cheng, one of the remaining staff reporters after the *Wall Street Journal's* initial round of layoffs, claims the *Wall Street Journal* reversed course and fired her in July after she was elected chair of the Hong Kong Journalists Association (HKJA).¹²⁰ HKJA advocates for press freedom, including releasing an annual report on the state of freedom of expression in Hong Kong and raising concerns during the Article 23 Ordinance public consultation period.¹²¹ Chinese state media has denigrated HKJA and its members for "badmouthing" China.¹²² This incident highlights the pressures on foreign media to self-censor in line with the CCP's requirements on media, and it calls into question claims that foreign businesses have been unaffected by the new atmosphere following the passage of the NSL and Article 23 Ordinance.

Growth of the Surveillance State in Hong Kong

As Hong Kong's governance continues to converge with the Mainland, the city is increasingly adopting the methods of a surveillance state. In February 2024, the Hong Kong government announced plans to install 2,000* more cameras across the city in partnership with the Hong Kong police, raising privacy concerns among the public about how the technology may be used to surveil Hong Kongers.¹²³ Hong Kong Police Commissioner Raymond Siu Chak-ye claimed the cameras would be used to combat crimes and ensure residents' safety, but he also noted that the police force would not rule out using facial recognition technology in its surveillance system.¹²⁴ In addition to the new cameras, last year Hong Kong's police force requested funding to upgrade bodycams and related technologies by building a new 5G system.¹²⁵ While police bodycams have garnered support from civil

*The government of Hong Kong does not maintain a count of the number of public surveillance cameras deployed in the city by various government agencies, although the police force claims that these 2,000 cameras are the total amount of cameras they will have deployed. Estimates from Comparitech put the total number of CCTV cameras in Hong Kong at just below 55,000. Hong Kong Police Force, *Territory-Wide CCTV Installation Scheme*; Irene Chan, "Hong Kong to Install 2,000 More CCTV Cameras in 2024, Top Official Says Total Number in City 'Relatively Small,'" *Hong Kong Free Press*, January 19, 2024; Paul Bischoff, "Surveillance Camera Statistics: Which Are the Most Surveilled Cities?" *Comparitech*, May 23, 2023.

Growth of the Surveillance State in Hong Kong—*Continued*

society under certain conditions in free countries like the United States, against an increasingly authoritarian trend in Hong Kong, this effort raised concerns that Hong Kong's digital surveillance network may become more like China's facial recognition system Skynet, which is used to squash political opposition.¹²⁶ Executive Director of the Japan Hong Kong Democracy Alliance Alric Lee notes that the combination of new surveillance cameras with the "suite of new 'national security' offenses" in the Article 23 Ordinance could enable Hong Kong's police to monitor people remotely.¹²⁷ Mr. Lee further explains that "used in conjunction with the Article 23 legislation, [surveillance cameras] could become a new tool for prosecutions."¹²⁸ Additionally, the Hong Kong police budget for fiscal year 2024–2025 will reach \$3.6 billion (HKD 27.8 billion), up 9.2 percent over the prior year.¹²⁹ The budget includes a 16.7 percent increase for "rewards and special services" that will cover bounties and payments to informers.¹³⁰

Freedom of Assembly and Association

Freedoms of assembly and association face further assault in Hong Kong this year. Under the Article 23 Ordinance, exercising freedoms of assembly and association can be criminalized. Peaceful civil society activism can be subject to heavy-handed penalties, including long prison sentences.¹³¹ Protests in 2019 involved occupying roads and stalling traffic, which under the new law could result in up to 20-year prison sentences for activities that "weaken" public transportation, infrastructure, or offices.¹³² The Article 23 Ordinance may also place constraints on civil society organizations by criminalizing "external interference," including "improper means" to collaborate with external political organizations or international organizations that are seen as "bring[ing] about an interference effect."¹³³ In practice, this could criminalize actions such as criticizing the Hong Kong government's human rights record or calling on foreign governments to hold the Hong Kong government accountable for protecting human rights.¹³⁴ Additionally, the Article 23 Ordinance imposes severe sentences for peaceful civil society activities, such as up to a 14-year prison sentence and a maximum fine of \$130,000 for managing a prohibited organization or up to ten years in prison and a fine of \$32,000 for participating in a meeting with a banned organization.¹³⁵ Amnesty International's China Director Sarah Brooks explains that this legislation "could lead to the prosecution of activists for their exchanges with foreign actors, framed as 'endangering national security.'"¹³⁶

Hong Kong police conducted their first arrests under the Article 23 Ordinance in May 2024 for alleged acts of "seditious intent" to incite people to unlawfully assemble on a "sensitive date."¹³⁷ One of the individuals arrested, Chow Hang-tung, was already serving a more than 30-month jail sentence for charges of "unauthorized assembly" for organizing a vigil to commemorate the Tiananmen Square massacre.¹³⁸ According to several news reports, her most recent arrest in May 2024 was linked to a Facebook group page ti-

tled “Chow Hang-tung Club” that had asked members to share their experiences with past Tiananmen vigils.¹³⁹

Freedom of Religion

International experts on freedom of religion have also expressed concerns with how the Article 23 Ordinance will impact religious freedom in Hong Kong. While Hong Kong’s religious communities do not yet face the same degree of persecution as those in the Mainland, religious leaders face pressure to promote Beijing’s priorities, including the sinicization of religion.¹⁴⁰ Those who do not comply face legal consequences. Cardinal Joseph Zen, a senior Roman Catholic cleric in Hong Kong and a critic of the CCP and outspoken advocate for human rights, was arrested and fined in 2022 for failing to register a humanitarian fund that provided financial aid to those arrested in the 2019 pro-democracy protests.¹⁴¹ Then United States Commission on International Religious Freedom* Commissioner Frank R. Wolf cited this as another example of how Hong Kong is “devolving into an increasingly repressive society where no one resisting government tyranny is safe, including religious leaders and communities.”¹⁴² A January 2024 report by the Committee for Freedom in Hong Kong Foundation describes the deterioration of religious freedom in Hong Kong and “warning signs of what’s to come,” including the intimidation of clergy, self-censorship, and direct attacks on religious practices.¹⁴³ Hong Kong’s religious leaders are increasingly making visits to the Mainland to meet with religious and other leaders approved by Beijing. For instance, in August 2023, a delegation of Islamic leaders from Hong Kong visited Xinjiang, where they met with the Islamic Association of China and at least one voiced support for the situation there, which includes harsh measures restricting the practice of Islam.¹⁴⁴ During the visit, the chairman of the Islamic Union of Hong Kong contributed to Party propaganda in an interview with Chinese state media by claiming that his “compatriots living in Xinjiang are very happy and joyful, fully enjoying religious freedom and are well-respected.”¹⁴⁵ In April 2024, Catholic Cardinal Stephen Chow visited the Mainland for the second time since Beijing and the Vatican jointly appointed him a bishop of Hong Kong in 2020.†¹⁴⁶ During his visit, he met with dioceses in Guangzhou and Shantou—cities in Southern China in fairly close proximity to Hong Kong—which both have bishops approved by Beijing and the Vatican.¹⁴⁷ Cardinal Chow’s remarks during his engagements reportedly emphasized respect for different customs and cultures.¹⁴⁸ Comparing the church in Guangdong to the church in Vietnam, Cardinal Chow even noted that both churches have remained under communist rule for many years and are functioning well.¹⁴⁹

In March 2024, more than a dozen activists and religious freedom experts expressed “profound and grave concerns” about the effects

*The United States Commission on International Religious Freedom stated in its *2024 Annual Report* that increased political pressure after the imposition of the NSL has led to self-censorship among religious leaders in Hong Kong. United States Commission on International Religious Freedom, *2024 Annual Report*, May 2024, 23.

†In 2018, China signed an agreement with the Vatican to allow Beijing a role in the appointment of Catholic bishops. Aleteia, “Cardinal Stephen Chow, a Bridge between Beijing and Rome,” September 29, 2023; Jason Horowitz and Ian Johnson, “China and Vatican Reach Deal on Appointment of Bishops,” *New York Times*, September 22, 2018.

of the Article 23 Ordinance, specifically how it will impact the Sacrament of Penance, also known as Confession.¹⁵⁰ According to Hong Kong's Secretary for Justice Paul Lam Ting-kwok, under the Article 23 Ordinance, a person can receive up to 14 years in prison for failing to disclose the commission of treason by others.¹⁵¹ This means that under the law, a priest could be forced to share what has been disclosed to them during Confession, a direct violation of the Universal Declaration of Human Rights.¹⁵² As the statement made by a group of advocacy organizations notes, the Article 23 Ordinance has "grave implications for the confidentiality of Confession in the Catholic Church and other Christian traditions."¹⁵³

Economics and Trade

Beijing's influence over Hong Kong's economic, trade, and financial sectors has intensified. The Hong Kong government's implementation of the Article 23 Ordinance has called into question many of the distinctive features that allowed Hong Kong to flourish as a regional business hub. Under the provisions of the Article 23 Ordinance, foreign businesses in Hong Kong could be severely limited in routine business activities such as accessing data, contacting overseas counterparts, and conducting due diligence.¹⁵⁴ Some businesses have begun proactively separating their Hong Kong operations from other global offices or asking staff to use burner phones as a precautionary measure while visiting the city.¹⁵⁵ This is the latest step in Hong Kong's forced integration with the Mainland, as the Hong Kong business environment increasingly resembles other large Chinese cities.¹⁵⁶ Cross-border commerce and migration boost these ties, as Hong Kong is now a central node in China's Greater Bay Area (GBA), an initiative by China to combine Hong Kong with surrounding Chinese cities to form a single economic and business hub.¹⁵⁷ Faced with Hong Kong's dwindling international stature, slumping markets, and constrictive legal environment, some U.S. firms and other multinationals continue to depart the city, while those that remain face an uncertain business environment.¹⁵⁸ Meanwhile, Hong Kong aids China in utilizing Hong Kong's port to evade sanctions and serves as a key node in a transshipment network of illicit goods to Russia, while the Hong Kong Economics and Trade Offices act as a conduit of mainland interests.¹⁵⁹

Hong Kong Economy, Markets Remain Sluggish

Hong Kong's economy has been sluggish in recent years as it emerged from a period of social unrest and COVID-19 lockdowns, which contributed to the city's contracting gross domestic product (GDP) in three of the four years from 2019 to 2022.¹⁶⁰ Natixis estimates that the city's strict COVID-19 measures alone, which lasted into early 2023, cost the city \$27 billion in growth.¹⁶¹ Hong Kong experienced weak cumulative GDP growth of only 5 percent over the five years from 2019 to 2023.*¹⁶² In contrast, the five-year period from 2014 to 2018 saw GDP grow over 24 percent.¹⁶³ Although the Hong Kong economy grew moderately in 2023 and the first half of 2024, posting growth rates of 3.2 percent and 3.0 percent, respec-

* Hong Kong's real GDP contracted during this time period. World Bank, "GDP (Constant 2015 US\$)—Hong Kong SAR, China."

tively, compared with the same periods in the prior year, weakness persists in some segments.¹⁶⁴ Youth labor force participation rates fell from 40 percent in 2018 to 30 percent in 2023, while young people face uncertainty about their futures in Hong Kong.¹⁶⁵ (For more on youth unemployment in China, see Chapter 1, “Economics and Trade (Year in Review).”) Businesses are not flocking to Hong Kong as they once were. While Hong Kong attracted 497 foreign companies in 2019, it drew in only 255 overseas companies in 2023.¹⁶⁶ Meanwhile, regional competitor Singapore, which once had a GDP per capita equal to Hong Kong’s in the early 2000s, surpassed Hong Kong’s GDP in real terms in 2016 and now has a GDP per capita about 70 percent higher than Hong Kong’s as of 2023.¹⁶⁷

Amid its slowing economy, Hong Kong faces a budget shortfall of \$13 billion (HKD 101.6 billion) for the 2023–2024 fiscal year, nearly double the government’s initial projections.¹⁶⁸ This is the second year in a row the Hong Kong government is facing a sizeable deficit.¹⁶⁹ Despite this shortfall, the Department of Finance continues to use fiscal policy and subsidies to try to stimulate demand, particularly in the housing market.¹⁷⁰ There has been a steady rise in unsold housing in Hong Kong, an issue that emerged in part due to a wave of departures from Hong Kong following the introduction of national security legislation.*¹⁷¹ Compared with pre-COVID, Hong Kong’s labor force was 4 percent lower at the end of 2023, and the number of foreign firms had declined by 5.2 percent as of mid-2023.¹⁷² As of June 2024, 150,400 Hong Kongers, or about 2 percent of the population, had left the city for the UK alone under the British National (Overseas) visa scheme.†¹⁷³ Data from Jones Lang LaSalle now show that residential units available in the primary market increased 6 percent to 91,300 units in the fourth quarter of 2023.¹⁷⁴ This is a 74 percent increase in empty Hong Kong apartments since 2020.¹⁷⁵ As of the end of 2023, Hong Kong housing prices were down 20 percent from their 2021 peak, with financial services company UBS projecting another 10 percent decline in 2024.¹⁷⁶ Burgeoning difficulty in the housing market poses particular problems for the Hong Kong government, as land sales contribute around one-fifth of its fiscal revenue.¹⁷⁷ In his budget rollout speech, Finance Secretary Paul Chan announced measures to address the housing market slump, including the removal of longstanding real estate restrictions aimed at curbing speculation and preventing property bubbles.¹⁷⁸ In February 2024, Hong Kong eliminated a 7.5 percent stamp tax on second home purchases, a 7.5 percent stamp tax on nonpermanent residents buying property, and a 10–20 percent stamp tax on those selling their homes within two years of purchase.¹⁷⁹ The government also relaxed lending policies and introduced further stimulus to boost housing demand.¹⁸⁰ While the efficacy of these stimulus

*Although Hong Kong’s population rose 0.4 percent in 2023, some of the increase was due to mainland Chinese entering Hong Kong on a variety of government schemes to attract new talent, *Reuters*, “Hong Kong’s Population Edges up to 7.5 Mln, Second Year of Post-COVID Growth,” February 20, 2024.

†Hong Kongers born before the 1997 handover can apply for a British National (Overseas) (BNO) passport, which grants them the ability to move to the UK. For more on the BNO passport scheme and efforts by the Hong Kong government to restrict it, see U.S.-China Economic and Security Review Commission, Chapter 5, Section 3, “Hong Kong,” in *2023 Annual Report to Congress*, November 2023, 660–661. Claire Ballentine, “Hong Kongers Fleeing to UK Leave \$3.8 Billion Trapped Behind,” *Bloomberg*, July 18, 2024.

efforts has yet to be borne out, these efforts also face market impediments, including elevated interest rates in Hong Kong.¹⁸¹

China's actions to undermine Hong Kong's autonomy, including the passing of the Article 23 Ordinance, have eroded Hong Kong's status as a global financial center. Hong Kong's Hang Seng Index has plunged under tighter mainland rule, falling below 15,000 on January 22, 2024, marking less than half of its peak of 33,154.1 in January 2018 before the introduction of the Beijing-backed national security legislation.¹⁸² Illustrating the stark economic reality since mainland China assumed control of Hong Kong, the Hang Seng Index in January 2024 declined below 16,365 points, lower than its value on July 1, 1997, the day China took over Hong Kong.¹⁸³ During the same time period, Hong Kong's GDP more than doubled from \$177 billion to \$382 billion, while investors in the S&P 500 saw their stock investments grow more than four times.¹⁸⁴

The decline of Hong Kong's stock markets in recent years is admittedly difficult to disentangle from their close alignment with mainland markets and Hong Kong's stringent COVID restrictions. Hong Kong's COVID pandemic controls included mandatory testing and quarantines for positive cases and international travelers.*¹⁸⁵ Hong Kong relaxed its strict travel controls in 2022 in attempts to boost economic growth and attract foreign business back to the city, but the economy still contracted that year.¹⁸⁶ In recent years, the close integration between financial markets in Hong Kong and the Mainland has been detrimental due to broader challenges in the Chinese economy. (For more on China's economic challenges, see Chapter 1, "Economics and Trade (Year in Review).") Since China's opening to foreign trade and investment in the late 1970s, Hong Kong's markets have been closely aligned with the Mainland economy as part of China's strategy to attract foreign capital.¹⁸⁷ Mainland Chinese companies by 2023 accounted for 76 percent of the index's market capitalization.¹⁸⁸ Many major firms are dual-listed on both Hong Kong and mainland exchanges.†¹⁸⁹ These dual listings align with Beijing's objective of integrating Hong Kong's markets with the Mainland and are complimented by Beijing's promotion of the Connect programs.‡¹⁹⁰ The first of these, the Stock Connect, linked Hong Kong to mainland stock exchanges beginning in 2014.¹⁹¹ The program enabled overseas investors to participate in mainland stock and, starting in 2022, exchange-traded fund (ETF) markets via Hong Kong and allowed mainland investors to participate in Hong Kong's market.¹⁹² In 2017, the Bond Connect was introduced, expanding the program to fixed income products.¹⁹³ The

*Hong Kong's strict COVID controls were reportedly used as a form of political repression. Business owners with vocal pro-democracy viewpoints claimed their businesses were unfairly targeted for violating COVID safety measures. Emergency lockdowns in 2020 were also extended one day past the anniversary of the June 4, 1989 Tiananmen Square massacre despite low case levels in Hong Kong at that time. Lok-kei Sum, "Hong Kong's 'Yellow' Companies See Persecution in COVID Crackdown," *Al Jazeera*, August 31, 2022; Marc A. Thiessen, "Opinion: China Is Using Covid-19 to Throttle Hong Kong's Pro-Democracy Movement," *Washington Post*, May 21, 2020.

†For more on dual listings on the Hong Kong and Chinese market, see U.S.-China Economic and Security Review Commission, Chapter 5, Section 3, "Hong Kong," in *2023 Annual Report to Congress*, November 2023, 669–670.

‡For more on the Hong Kong-China Swap Connect programs, see U.S.-China Economic and Security Review Commission, Chapter 5, Section 3, "Hong Kong," in *2023 Annual Report to Congress*, November 2023, 668–669.

latest program, Swap Connect, launched in 2023, enables overseas investors to participate in the Mainland's financial derivatives market through interest rate swaps.¹⁹⁴ An announcement in 2024 by the China Securities Regulatory Commission (CSRC) seeks to further broaden the Stock Connect program to include real estate investment trusts and yuan-denominated stocks listed in Hong Kong while expanding access to ETFs between Hong Kong and the Mainland.¹⁹⁵

Analysts have attributed Hong Kong's market downturn to China's increased control over Hong Kong. Stephen Roach, senior fellow at the Paul Tsai China Center at Yale Law School and former chair of Morgan Stanley Asia, indicates that a major catalyst of Hong Kong's prolonged market slump was the city's political crackdowns of 2019–2020, which “shredded any remaining semblance of local political autonomy. The 50-year transition period to full takeover by the People's Republic of China had been effectively cut in half.”¹⁹⁶ Victoria Tin-bor Hui, a political science professor at the University of Notre Dame, also implicates the recent national security measures in Hong Kong's diminished status, saying, “Beijing's ideal scenario is to keep Hong Kong as a financial center without all the freedom. But it seems that you really cannot maintain Hong Kong's international financial standing while stifling its freedom.”¹⁹⁷ Analysts estimate that Chinese and Hong Kong markets collectively lost a staggering \$6 trillion since 2021.¹⁹⁸ While the top 300 companies in the Shanghai and Shenzhen stock exchanges declined by more than 40 percent from January 2021 to January 2024, shares of Chinese stocks listed in Hong Kong fared even worse, plummeting by over 50 percent during the same period.¹⁹⁹ The Hang Seng Index declined by 44–45 percent as well.²⁰⁰ This decline has harmed business operations in Hong Kong, including among law firms, which have sold off office space amid a lack of initial public offerings (IPOs), mergers, and acquisitions these firms typically work on.²⁰¹ (For more on foreign businesses in Hong Kong, see “Foreign Businesses Limit Activity, Take Protective Steps” in this chapter.)

Hong Kong Nascent Cryptocurrency Sector Faces Mainland Prohibitions

Hong Kong is pushing to become a hub for digital assets and cryptocurrency, viewed as a means to attract both capital and financial firms back to the city.*²⁰² In 2022, the Hong Kong government formalized a process to license cryptocurrency platforms to operate in Hong Kong.²⁰³ Two crypto exchanges were licensed under a previous voluntary licensing process and hold full permits to operate in Hong Kong.²⁰⁴ Eleven more firms were “deemed to be licensed” as of June 2024, meaning they can operate while the Hong Kong Securities and Futures Commission performs an ongoing review of their compliance procedures.²⁰⁵ The city aims to be a “global hub” for the cryptocurrency sector, according to the chief executive of the city's

*For more on Hong Kong's approach to cryptocurrency, see U.S.-China Economic and Security Review Commission, Chapter 5, Section 3, “Hong Kong,” in *2023 Annual Report to Congress*, November 2023, 671.

Hong Kong Nascent Cryptocurrency Sector Faces Mainland Prohibitions—*Continued*

financial regulatory agency, the Hong Kong Monetary Authority (HKMA).²⁰⁶ Previously, the HKMA has reportedly pressured lenders—including HSBC and Standard Chartered—to take on crypto exchanges as clients.²⁰⁷

Hong Kong's ambitions to become a global cryptocurrency hub are tempered, however, by mainland restrictions, where trading in cryptocurrency is strictly prohibited.²⁰⁸ China outlawed cryptocurrency trading and payments in 2013, but it intensified its crackdown on the industry in 2021, targeting domestic mining operations and foreign firms that were providing services to mainland Chinese.²⁰⁹ Mainland regulators appear to be intent on keeping Hong Kong's burgeoning cryptocurrency ambitions away from mainland users; a June notice from financial regulators in Shenzhen, just north of Hong Kong, offered stern warnings to overseas crypto platforms and Chinese residents, reiterating that cryptocurrency-related activities remain illegal in mainland China.²¹⁰ New regulations in Hong Kong require cryptocurrency exchanges licensed in the city to commit to not serving Chinese nationals—not only those trading in China but trading in any region.²¹¹ This regulation was criticized by Legislative Council (LegCo) member Duncan Chiu as “impossible for traditional offshore exchanges to meet” and for having “shaken the confidence of market participants.”²¹² In light of these restrictions barring Mainlanders from accessing cryptocurrency platforms, an additional 11 crypto firms withdrew their applications to operate in Hong Kong, some of which were originally affiliated with operations in mainland China that departed after the 2021 crackdown.²¹³ Bybit, a crypto firm headquartered in Dubai and one of the firms that withdrew its application, later announced it would allow Chinese citizens who live outside of the country to trade crypto on its platform.²¹⁴

Beijing in the past has appeared to quietly back Hong Kong's cryptocurrency ambitions, with representatives from the central government's Liaison Office attending several Hong Kong conferences on cryptocurrency in the city.²¹⁵ Although the People's Republic of China has not publicly voiced support for Hong Kong's experimentation with cryptocurrency, according to one industry participant, it may view Hong Kong as a way to test the functionality of digital assets in a limited fashion.²¹⁶ However, as Beijing still tightly restricts mainland Chinese from trading or using cryptocurrency, Beijing's motives for allowing Hong Kong to play a key role in cryptocurrency networks may also be related to crypto's role in sanctions evasion. Settlements for illicit Russian commodities trade made in cryptocurrency have been routed through Hong Kong.²¹⁷ (For more on Hong Kong's role in sanctions evasion and transshipment, see the textbox “Hong Kong Serves as Key Hub for Transshipments and Support to Russia” in this chapter).

The Article 23 Ordinance Continues to Weigh on International Business

Due to the imposition of the Article 23 Ordinance and the broader NSL, U.S. firms operating in Hong Kong are now grappling with a complex and unsettling regulatory environment. Thomas Kellogg, executive director of Georgetown University's Center for Asian Law, cautioned in an interview with *Bloomberg News* that these laws introduced uncertainty for Hong Kong business and the city's status as a financial hub.²¹⁸ This includes provisions in the Article 23 Ordinance that could significantly restrict the ability of chambers of commerce, think tanks, and economic analysts to freely discuss and share information.²¹⁹ Dennis Kwok, a lawyer and past member of the Hong Kong LegCo, echoed these concerns, emphasizing that the broad language in the Article 23 Ordinance regarding "external forces" and "external interference" could be applied against a wide range of business activity, including "against the normal advocacy, lobbying, academic research and reporting activities of any foreign business headquartered overseas, as well as [against] NGOs that engage with foreign governments."²²⁰ A local barrister warned that the vague definition of state secrets means people risk violating the law by merely commenting on the state of Hong Kong's economy.²²¹

The ability of investors to conduct due diligence on Chinese and Hong Kong firms also risks being restricted under the Article 23 Ordinance.²²² The ordinance's strict language on data flows and cooperating with "foreign forces" may block due diligence firms from accessing needed business information and making disclosures regarding Hong Kong and Chinese companies.²²³ The Chinese government had already raided the operations of U.S.-based due diligence and consulting firms on the Mainland before expanding the definition of espionage under a parallel legal authority.²²⁴ Legal experts have raised concerns that the rules under the Article 23 Ordinance could impact an existing agreement between China and the United States that allows the U.S. Public Company Accounting Oversight Board (PCAOB) to conduct inspections in Hong Kong of Chinese accounting firms that have audited firms publicly traded in the United States.²²⁵

Reflecting the unprecedented scope of the Article 23 Ordinance, in September 2024 the U.S. Departments of State, Treasury, Agriculture, Commerce, and Homeland Security jointly released an updated Hong Kong Business Advisory highlighting potential reputational, regulatory, financial, and legal risks to U.S. companies in Hong Kong.*²²⁶ These new risks are a result of the erosion of Hong Kong's autonomy from the Mainland and the criminalization of many activities that were previously considered routine business activities.²²⁷ The advisory also calls out Hong Kong's growing role in sanctions and export control evasion.²²⁸ (For more on Hong Kong's role in sanctions and export control evasion, see "Hong Kong Serves as Key Hub for Transshipments and Support to Russia" in this chapter.)

*This business advisory updated a 2021 Hong Kong Business Advisory jointly issued by the U.S. Departments of State, Treasury, Commerce, and Homeland Security in the wake of the imposition of the NSL. The 2021 business advisory highlighted risks associated with the NSL, data privacy, access to information, and exposure to sanctioned entities or individuals. U.S. Department of State, *Risks and Considerations for Businesses Operating in Hong Kong*, July 16, 2021.

Foreign Businesses Limit Activity, Take Protective Steps

The Article 23 Ordinance poses significant practical challenges for business and legal activity that is routine in a market economy under the rule of law. As an example, after the implementation of the Article 23 Ordinance, which includes restrictions on database access, law firm Latham & Watkins reportedly took measures to safeguard its data from Hong Kong's authorities.²²⁹ The move by Latham & Watkins, the world's second-highest-grossing law firm, is viewed as aligning the firm's Hong Kong data security regulations with those of its operations on the Mainland.²³⁰ Under the new changes reportedly announced in February 2024, Latham & Watkins' Hong Kong-based staff would require specific permission to access international databases.²³¹ This decision effectively severs unrestricted access for its Hong Kong-based lawyers to international databases in the United States, Europe, and the rest of Asia.²³² Instead, under Hong Kong's increasingly strict data regime, the firm is reportedly combining its Hong Kong database with the Mainland under the umbrella of "Greater China," a segment of Latham & Watkins operations that will be siloed off from the rest of the firm's global research.²³³ In an interview with the *Financial Times*, two individuals familiar with Latham & Watkins' decision explained that this action aims to limit data access in the event of a raid by Hong Kong authorities under the NSL.²³⁴ During such a raid, Hong Kong authorities would only be able to access the firm's China and Hong Kong databases.²³⁵ Meanwhile, a wave of U.S.-based firms in the legal sector continues to pull back from Hong Kong, with several citing the city's diminishing role as a major legal market among other challenges; as of August 2024, law firms that have pulled back from or closed their Hong Kong offices include Mayer Brown; Addleshaw Goddard; Winston & Strawn; Orrick, Herrington & Sutcliffe; DLA Piper; Dechert; and Baker Botts.²³⁶ Through May 2024, overall mergers and acquisitions activity in Hong Kong was at its lowest level since 2012, which has contributed to the exodus of law firms, as they earn high fees from this activity.²³⁷ Law firms have also been wary of working on deals involving Chinese state-owned companies because of due diligence or security concerns.²³⁸ The net number of new members joining Hong Kong's Law Society in 2023 declined 83 percent compared with 2020, while new law school graduates have reportedly experienced difficulty securing jobs.²³⁹

Hong Kong's focus on national security continues to be panned more generally by the U.S. business community in Hong Kong.²⁴⁰ According to the American Chamber of Commerce (AmCham) in Hong Kong's Business Sentiment Survey 2024, 67 percent of AmCham members identified "reduced rhetoric on national security" as the most effective measure to enhance U.S.-Hong Kong relations, making it the top choice among all survey participants.²⁴¹ The same survey, which was conducted prior to the passage of the Article 23 Ordinance, found that 31 percent of recipients felt operations had been negatively impacted by the NSL, mostly indirectly but some through departures of employees, lower staff morale, or extra resources spent on compliance.²⁴²

Erosion of the Rule of Law: Legal Rulings Target Foreign Firms

Hong Kong's LegCo introduced the Article 23 Ordinance within two months of the effective date of legislation permitting the enforcement of mainland Chinese court rulings in Hong Kong for civil and commercial disputes.*²⁴³ This development underscores concerns about the erosion of Hong Kong's independent legal system, which has long been valued by international businesses.²⁴⁴ It further exacerbates fears of the diminishing distinction between Beijing's and Hong Kong's legal frameworks, raising apprehensions that Hong Kong's common law tradition firmly grounded in the "rule of law" concept is increasingly being overshadowed by the Mainland's "rule by law" system, which treats law as an instrument of Party control.[†]²⁴⁵ The U.S. Department of State's *2023 Investment Climate Statements: Hong Kong* echoes this view, warning that "while Hong Kong's legal system had been traditionally viewed as a bastion of judicial independence, authorities have over the past year continued to place pressure on the judiciary in some cases. Rule of law risks that were formerly limited to mainland China have now increasingly become a potential concern in Hong Kong."²⁴⁶

Already, politically charged legal rulings in Hong Kong are weighing on the activities of foreign tech companies. In May 2024, the Hong Kong Court of Appeals sided with the Hong Kong government in ruling that the protest anthem "Glory to Hong Kong" should be removed from digital platforms, including those from U.S.-based firms Alphabet (Google and YouTube), Apple, Meta (Facebook and Instagram), and Spotify.²⁴⁷ This is the latest push by the Hong Kong government to influence the activity of U.S. digital platforms in the city, inflaming tensions that date back to 2020, when most major U.S. companies announced they would pause processing data requests from the Hong Kong government while they assessed the NSL.²⁴⁸ Since that announcement, some U.S. firms have resumed processing requests from the Hong Kong government on a case-by-case basis.²⁴⁹ In the last six months of 2023, Meta received 29 requests from the Hong Kong government to obtain user data, and it answered one.²⁵⁰ In the first six months of 2023, Google complied with 82 of the Hong Kong government's requests to remove items from their services out of 162 filings, although Google specified that it chose not to remove two YouTube videos and one Google Drive file related to "Glory to Hong Kong."²⁵¹ However, under a court order granted in May 2024, some platforms have begun to comply, including YouTube, which promptly blocked access to "Glory to Hong Kong" for its Hong Kong users.²⁵²

Foreign Firms Continue to Pull Back

While the full impact of the Article 23 Ordinance on business in Hong Kong is yet to be determined, businesses continue to depart Hong Kong, with the city's sluggish economy increasingly subsumed under the Mainland's authoritarian government.²⁵³ Business oper-

*The ruling allows for reciprocal recognition and enforcement between mainland China and Hong Kong rulings, ostensibly to reduce the need for parallel litigation through both court systems.

†For more on China's rule by law legal system, see U.S.-China Economic and Security Review Commission, Chapter 2, Section 1, "Rule by Law," in *2023 Annual Report to Congress*, November 2023, 175–206.

ations in Hong Kong used to be “a fairly risk-free matter,” Simon Cartledge, a research and publishing executive, told the *Wall Street Journal*, but now “there are question marks over everything.”²⁵⁴ The number of global companies with regional headquarters in Hong Kong has fallen 8.4 percent from 2019 to 2023, according to government data, while the number of staff retained by these global firms in Hong Kong has dropped 30 percent.²⁵⁵ During the immediate months preceding the implementation of the Article 23 Ordinance, several global entities that were weighing Hong Kong for their Asia headquarters—including Canadian pension fund manager Alberta Investment Management Corp. (AIMCo), U.S. tech company Vantage Data Centers, and the Cayman Islands government—all announced their intention to instead place their Asia headquarters in Singapore.²⁵⁶ AIMCo’s CEO referenced geopolitical risks in an interview around the decision, while Vantage Data Centers is reportedly looking to sell their data centers in Hong Kong after the imposition of the Article 23 Ordinance.²⁵⁷ Financial services companies in particular have looked to other regional finance hubs like Singapore for a more stable business environment, according to AmCham Hong Kong.²⁵⁸ The number of European firms has also declined in Hong Kong, with an increase in the percentage of firms reporting they have decided to shift or have already shifted existing investments out of China toward Southeast Asia and other locations.²⁵⁹

Even as some U.S. and international firms avoid Hong Kong, mainland Chinese companies continue to enter the city.²⁶⁰ In 2022, Chinese companies for the first time outnumbered U.S. firms with regional headquarters in Hong Kong.²⁶¹ InvestHK, the Hong Kong government’s bureau responsible for attracting foreign direct investment (FDI), noted in its annual report that of the firms for which it helped open operations in Hong Kong in 2023, 136 came from mainland China while only 34 came from the United States.*²⁶² From 2020 to 2023, the total number of nonlocal firms with regional headquarters in Hong Kong has now declined by 168, or 11 percent, with U.S. firms declining the most.²⁶³

Hong Kong remains the largest source of FDI into mainland China. However, a large portion of FDI that appears to flow from Hong Kong to mainland China actually originates in mainland China itself.²⁶⁴ Mainland Chinese firms take advantage of tax breaks and other financial incentives to set up offices in Hong Kong that manage their investments in the Mainland.²⁶⁵ As firms from other countries pull back from investing in China, the share of FDI roundtripped through Hong Kong has increased.²⁶⁶

Tourists Avoid Hong Kong

Once a vibrant international tourist destination, Hong Kong is failing to attract visitors, having yet to attain pre-COVID levels. Hong Kong eased its COVID restrictions early in 2023, allowing a total of 34 million tourists to visit throughout the year; however, by December, monthly tourist numbers had reached just 65 per-

*This included the launch of businesses like the Hong Kong office of FTI Capital Advisors, a boutique investment bank focusing on mergers and acquisitions, capital raising, and financial advisory services. Government of Hong Kong Special Administrative Region of the People’s Republic of China, *InvestHK Annual Report 2023*, February 1, 2024, 15; FTI Consulting, “FTI Capital Advisors Strengthens Positioning in Asia with Hong Kong Expansion,” March 8, 2023.

cent of pre-COVID levels.²⁶⁷ As of the most recent data through July 2024, total year-to-date visitors were still only at 70 percent of pre-COVID levels.*²⁶⁸ The number of mainland tourists, who make up the bulk of total arrivals, was around 69 percent of the pre-pandemic level as of year-to-date July 2024.²⁶⁹ Tourism from the United States and Europe also lags significantly.²⁷⁰ The number of U.S. tourists visiting Hong Kong as of year-to-date July 2024 was only 67 percent of the comparable figure for 2018, while the number of UK tourists was only 49 percent.²⁷¹ Tourism from these countries is unlikely to rise in the near term, as the United States has joined other democracies like Canada and Australia in issuing travel advisories characterizing Hong Kong's ongoing implementation of its national security laws as "broad" and "arbitrary."²⁷² Following the passage of the Article 23 Ordinance, the Australian government expanded its advisory to warn that Australians in Hong Kong "could be detained without charge for up to 16 days and denied access to a lawyer for up to 48 hours" should they violate the ordinance's broadly defined national security offenses.²⁷³ With the drop in Western tourists to Hong Kong, the Hong Kong tourism office is doubling down on efforts to draw in mainland tourists in a bid to boost retail and consumption.²⁷⁴ The 2024–2025 Hong Kong budget included \$141 million (HKD 1.1 billion) for tourism promotion activities.²⁷⁵ Hong Kong businesses are adapting as well, promoting their stores on Chinese social media apps and ensuring websites are available in Mandarin to appeal to mainland tourists.²⁷⁶

Hong Kong Increasingly Integrated with Mainland

Increasingly, people move between Hong Kong and mainland China. These changes reflect, in part, economic incentives. Rising living costs continue to burden working-class Hong Kongers, who increasingly seek economic opportunities in mainland China.²⁷⁷ As Hong Kongers shop and travel more frequently across the border, mainland Chinese talent continues to flow into Hong Kong.²⁷⁸ The movement of individuals between Hong Kong and the Mainland is facilitated by the completion of cross-border infrastructure, including a high-speed train system, which has halved travel time between Hong Kong and some Chinese cities.²⁷⁹ Additionally, consumer goods are generally cheaper across the border than in Hong Kong.²⁸⁰ In February 2024, more Hong Kongers traveled to neighboring Shenzhen than any prior February since recordkeeping began in 1984.²⁸¹ Economists at Natixis estimate that Hong Kongers will spend approximately \$10.8 billion (HKD 84 billion) in Guangdong Province this year, with a significant portion allocated to food, retail sales, and other commercial activities.²⁸² Moreover, according to an annual survey performed by the Hong Kong Institute of Asia-Pacific Studies at the Chinese University of Hong Kong, the percentage of Hong Kongers who would emigrate to the Mainland if given the opportunity has risen from 9.5 percent in 2020 to 20.3 percent in 2023.²⁸³

*The year 2018 is used as the pre-COVID year of comparison, as 2019 tourism figures were negatively impacted by pro-democracy protests. *BBC*, "Hong Kong Protests: How Badly Has Tourism Been Affected?" August 12, 2019.

Mainland Chinese talent also continues to pour into Hong Kong, dominating a new government visa program intended to attract foreign workers.²⁸⁴ The Top Talent Pass Scheme, launched in 2022, offers visas of up to two years to foreign workers earning more than \$320,000 (HKD 2.5 million) or graduates of the world's top universities.*²⁸⁵ Despite Hong Kong authorities promoting openness to a wide range of foreigners, approximately 95 percent of applicants have been mainland Chinese.²⁸⁶ Since the scheme's inception, roughly 55,000 mainland Chinese individuals have been granted extended visas in Hong Kong, many of whom have secured positions in finance, IT, and commercial services.²⁸⁷ Workers entering under the scheme earn a median income over twice that of the average Hong Kong worker, adding many highly skilled Chinese workers to the Hong Kong labor force.²⁸⁸ Moreover, the Hong Kong government has taken steps to further boost short-term business from the Mainland. In April 2024, government authorities announced that the limit for stays for visa holders from mainland China visiting Hong Kong would double to 14 days.²⁸⁹ This move complements the expansion of another talent program in 2024, which now permits residents of Beijing, Shanghai, and the Greater Bay Area to apply for multi-entry visas to Hong Kong that allow stays of up to 30 days if the applicant specializes in certain sought-after industries.²⁹⁰ This inflow of Chinese workers is also important to Hong Kong's demographic makeup, which continues to shed young people, declining from 21.3 percent of the population to 16.3 percent between 2014 and 2023.²⁹¹ The Hong Kong population, which fell in the years after protests rocked the city in 2019, finally grew in 2022 and 2023.²⁹² However, growth in 2023 was fueled by a special permit issued to 40,800 mainland Chinese allowing them to reside in Hong Kong permanently.²⁹³

Recruitment efforts by the Hong Kong government to attract lower-skilled laborers from the Mainland have encountered more mixed success and faced pushback from working-class Hong Kongers.²⁹⁴ The low-skilled labor market in Hong Kong currently faces a shortage of approximately 30,000 workers, particularly in roles such as cooks and warehouse workers, as highlighted by LegCo member Peter Shiu.²⁹⁵ However, Hong Kong companies find it expensive to sponsor foreign low-skilled workers due to requirements mandating that these workers be housed either in Hong Kong or mainland China at the company's expense.²⁹⁶ To address the workforce gaps, the Hong Kong government is taking steps to attract mainland Chinese individuals to take up positions in certain blue-collar industries in Hong Kong, eliciting resistance from local communities.²⁹⁷ For instance, CityBus, a transit company grappling with a shortage of drivers, announced plans to recruit 20 mainland Chinese drivers at salaries less than two-thirds of their Hong Kong counterparts.²⁹⁸ This decision drew criticism from the CityBus Union, which raised concerns not only that the influx of mainland workers would depress the salary prospects of local Hong Kong drivers but also that

*The program does not require applicants to have received a local job offer prior to applying for the visa. Applications for the visa are made directly to the Hong Kong government. As long as the applicant meets the eligibility requirements, they can stay up to two years while they search for work in Hong Kong. Hong Kong Immigration Department, *Top Talent Pass Scheme*, June 18, 2024.

it would threaten safety due to mainland drivers being accustomed to driving on the opposite side of the road and adhering to different traffic regulations.²⁹⁹

Views toward Mainland China

Despite these growing links, most Hong Kongers still perceive mainland China with distrust, as evidenced by a December 2023 Pew poll revealing that nearly half of Hong Kong adults perceive Chinese power and influence in Hong Kong as a significant threat.³⁰⁰ Notably, this sentiment surpasses concerns about the United States by 11 percent.³⁰¹ However, a substantial majority of Hong Kongers, 74 percent, express emotional attachment to China, underscoring a complex relationship.³⁰² While persistent tensions remain over Beijing's political crackdown and economic domination of Hong Kong, a majority of adults surveyed identify themselves as both Hong Konger and Chinese.³⁰³ However, this sentiment varies across demographics, dissipating among the younger generation.³⁰⁴ Among individuals under 35 years old, who were a driving force behind the 2019 Hong Kong protests, skepticism toward Chinese influence is pronounced, with 57 percent considering China a major threat.³⁰⁵ Notably, less than half of this demographic group claims any Chinese identity, highlighting a growing disconnect between young Hong Kongers and China despite a growing number of this demographic being born in Hong Kong after its 1997 handover to China.³⁰⁶

Hong Kong Investment Fund Furthers China's Innovation and Military Aims

Hong Kong takes advantage of its historical reputation as an adherent to international norms and rule of law to attract investment that furthers China's security aims.³⁰⁷ The Hong Kong Investment Corporation (HKIC) sovereign wealth fund, created in October 2022, will oversee the allocation of almost \$8 billion to promote industrial and economic development in four target areas, including fintech, artificial intelligence, biotechnology, and high-end manufacturing.³⁰⁸ Hong Kong's role in the GBA is to serve as a bridge between the nine mainland Chinese cities in the GBA and the world, attracting talent, capital, and innovation.³⁰⁹ Given China's military-civil fusion strategy, however, these efforts will inevitably support China's military.³¹⁰ For example, semiconductors are one of the technologies the GBA has emphasized through the establishment of government innovation zones.³¹¹ This is an area where the United States and allies are actively working to prevent China's advancement because of the military implications.³¹² Despite this, the zone has attracted investment from a leading Swiss semiconductor company.³¹³ Hong Kong's ability to attract Western investment is particularly concerning given the larger military connotations of the GBA. According to China's official policy, the nine GBA cities should promote "the innovative development of civil-military integration."³¹⁴ Smart-More, a company dual-headquartered in Hong Kong and Shenzhen and developing artificial intelligence solutions for manufacturing, and Shanghai-based GeneSense, an artificial intelligence-enabled gene sequencing company, both received investments from HKIC

in 2024.³¹⁵ HKIC has announced plans for additional investments in biotechnology to support industrial, environmental, agricultural, and medical applications.³¹⁶ HKIC also recently announced an investment in a Beijing-based humanoid robot company in another example of how Hong Kong's investment efforts serve mainland China's innovation aims.³¹⁷ (For more on China's mission to develop advanced humanoid and quadruped robots, see Chapter 3, "U.S.-China Competition in Emerging Technologies.")

Hong Kong Slips as International Shipping Hub

While Hong Kong's infrastructure integration with the broader GBA has deepened through expanded infrastructure projects and people-to-people exchanges, its status as an international shipping hub continues to diminish.³¹⁸ The total container volume passing through Hong Kong's port plummeted to 14.3 million twenty-foot equivalent units (TEUs) in 2023, marking a significant 21.6 percent decline from 2019.³¹⁹ Even after the city lifted its COVID-19 lockdowns and resumed international travel, data for the fourth quarter of 2023 reveals a further contraction in container transit, with port cargo throughput decreasing by 8.8 percent compared to that quarter the previous year.³²⁰ Hong Kong fell out of the world's top ten busiest container ports in 2023 for the first time, exemplifying the city's waning stature in international business.³²¹ Meanwhile, several mainland Chinese ports continue to outrank Hong Kong as shippers bypass Hong Kong and ship directly into and out of the Mainland.³²² The ports of Shanghai, Ningbo, Qingdao, Shenzhen, Guangzhou, and Tianjin now outrank Hong Kong in terms of container throughput as of 2024.³²³ This decline emphasizes Hong Kong's diminishing advantages over other mainland cities compared to its historical prominence as the world's leading container port for the majority of the years between 1987 and 2004.³²⁴

Hong Kong Serves as Key Hub for Transshipments and Support to Russia

Despite its diminished status as a central shipping hub, Hong Kong continues to play a crucial role as a node for illicit transshipments to Russia in violation of U.S. and allied sanctions, with cryptocurrency payments facilitating this illicit trade.³²⁵ Bad actors are taking advantage of Hong Kong's robust business environment to evade sanctions by quickly dissolving firms targeted by Western export controls and reforming new firms just days later.³²⁶ According to the Silverado Policy Accelerator, a bipartisan think tank, exporters from China and Hong Kong shipped 85 percent of the semiconductors imported by Russia between March 2022 and September 2023, a trend that appears to have continued in 2024.³²⁷ In 2022 alone, Hong Kong ranked as Russia's second-largest semiconductor import partner, shipping approximately \$400 million worth of semiconductors during the first year of Russia's invasion of Ukraine.³²⁸ Exporters in Hong Kong play a key role in shipping many other components to Russia as well, including other small elec-

Hong Kong Serves as Key Hub for Transshipments and Support to Russia—*Continued*

tronic components that are used by the Russian military to manufacture weapons and communication systems.³²⁹

A 2023 report from the Carnegie Endowment for International Peace identifies Hong Kong as a “transshipment hub for diverting Western-made microelectronic components to companies affiliated with the Russian military.”³³⁰ This includes the diversion of chips from top U.S. chipmakers such as Intel, Advanced Micro Devices, and Texas Instruments to Russia.³³¹ Hong Kong-based companies have also been implicated as suppliers of these high-end technologies to Russia.³³² For instance, Pixel Devices, based in Hong Kong, shipped at least \$210 million in electronics to Russia from April 2022 to May 2024, according to the U.S. Department of the Treasury.³³³ U.S. Secretary of State Antony Blinken in May 2024 expressed significant concerns about Chinese support for Russia, emphasizing that “Russia would struggle to sustain its assault on Ukraine without China’s support.”³³⁴

In response to these transshipment activities, Hong Kong companies, including Pixel Devices, were among the 20 additional Chinese and Hong Kong companies named in U.S. sanctions for aiding the development of Russia’s industrial and military base in May 2024.³³⁵ Other Hong Kong-based firms also sanctioned for supplying high-end technologies to Russia include Tulun International Holdings, which is involved in procuring unmanned aerial vehicles, and CFU Shipping, a logistics firm that is alleged to have delivered liquefied natural gas modules to support Russia’s leading natural gas company.³³⁶

Hong Kong Organizations Lobby Overseas

Hong Kong’s international representative offices, outposts founded before China’s takeover of Hong Kong, promote the goals of the Mainland and the Beijing-backed Hong Kong government abroad.³³⁷ Central to these efforts are the Hong Kong Economics and Trade Offices (HKETOs), identified by the Hong Kong Democracy Council (HKDC), a Washington, DC-based activist group, as a pivotal player in influencing U.S. policy toward Hong Kong and China through an extensive lobbying campaign.³³⁸ Importantly, the HKETOs are not official diplomatic outposts of the Chinese government.³³⁹ The HKETOs were established before the handover of Hong Kong to China and granted immunities and diplomatic protections in June 1997, a time when political agreements between the UK and China guaranteed that the HKETOs and broader Hong Kong interest groups would maintain autonomy from the Chinese government’s goals.³⁴⁰ The HKETOs have conducted public and private engagements in Washington, DC, and other U.S. cities that echo Beijing’s positions on Hong Kong’s political and legal systems.*³⁴¹ The ac-

*In 2022, the Commission recommended that Congress, pursuant to the Hong Kong Human Rights and Democracy Act, amend the International Organization Immunities Act to remove Hong Kong Economic and Trade Offices as a covered organization, thereby eliminating diplomatic privileges enjoyed by such offices and their employees in the United States. This amendment

tions of the HKETOs have further faced scrutiny globally, including in the UK, where a staffer of the London HKETO was arrested for allegedly violating the UK National Security Act and assisting foreign intelligence services between December 2023 and May 2024.³⁴² The HKETO allegedly made bank payments from HKETO accounts to individuals to help track Hong Kong activists who are living in the UK.³⁴³ In Germany, a former employee of the local chapter of the Hong Kong Trade Development Council, a separate Hong Kong trade promotion body, was also arrested and accused of carrying out industrial espionage for Chinese intelligence services.³⁴⁴

Implications for the United States

Under Beijing's authoritarian control, the freedoms of press, speech, and assembly that differentiated Hong Kong from mainland cities are being eroded. Robust enforcement of the National Security Law and the promulgation of the new Article 23 Ordinance are intended to coerce the public, instill uncertainty and fear, and create an environment of self-censorship, which serves as a form of lawfare. Local and foreign tourists, students, and residents in Hong Kong can no longer be certain that their freedoms and rights will be upheld by Hong Kong's legal system or law enforcement.

The extraterritorial application of Hong Kong's national security laws also stands to threaten dissidents, naturalized citizens living abroad, and other foreigners who sympathize with Hong Kong, including those in the United States. These individuals face harassment and coercion despite residing in open democracies. Specifically, the Article 23 Ordinance targets activists overseas by denying them access to their financial assets and allowing for the revocation of passports and professional licenses, among other things. The Article 23 Ordinance's new offense of "external interference," paired with the threat of extreme sentencing, also intends to punish Hong Kongers and dissidents abroad for their interactions with foreigners. The Hong Kong government also targets the families of Hong Kong dissidents who still reside in the city. This relational repression, along with the transnational repression of Hong Kongers overseas, will continue to worsen as the Article 23 Ordinance is enforced, and it creates a potential legal conflict between the United States and Hong Kong.

Amid the atmosphere of oppression created under the Article 23 Ordinance and Beijing's sustained crackdown, firms operating in Hong Kong face an increasingly restrictive business environment that is reflective of conditions on the Mainland. This includes the possibility of restrictions on research and due diligence and the looming threat that standard business operations by foreign firms in Hong Kong will risk accusations of collaboration with "external

could be reversed under one of the following conditions: China negotiates an agreement with the United States to have Hong Kong Economic and Trade Offices considered an official part of the People's Republic of China's mission to the United States and subject to the same requirements; or China alters its treatment of Hong Kong to allow for sufficient autonomy and abides by "one country, two systems," as enumerated by the Hong Kong Policy Act. In September 2024, the U.S. House of Representatives passed the Hong Kong Economic and Trade Office (HKETO) Certification Act, which would allow the U.S. president to remove HKETO privileges if Hong Kong does not maintain a significant degree of autonomy from China. Hong Kong Economic and Trade Office (HKETO) Certification Act, H.R.1103, February 17, 2023; U.S.-China Economic and Security Review Commission, *2022 Annual Report to Congress*, November 2022, 735-736.

forces,” involve “state secrets,” or otherwise violate the Article 23 Ordinance and the NSL. Even if the Hong Kong government does not explicitly punish fact-based reporting of Hong Kong’s economic conditions seen as “harmful” to China, self-censorship and a lack of transparency among auditors, press, firms, and other industry participants pose risks to investors. These risks are compounded by Hong Kong’s increasingly apparent role as a regional hub for sanctions and export control evasion. Meanwhile, Hong Kong continues to see its international status dwindle, with the city slipping as a shipping hub and its markets increasingly dominated by mainland rather than international firms. As the city continues to draw closer to its mainland neighbors both politically and economically, it remains unclear how much distinctiveness and autonomy Hong Kong can truly maintain.

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