



THE SIX-MONTHLY REPORT ON HONG KONG
1 JANUARY TO 30 JUNE 2014

Deposited in Parliament by the Secretary of State for Foreign and
Commonwealth Affairs

July 2014

FOREWORD:

This is the 35th in a series of reports to Parliament on the implementation of the Sino–British Joint Declaration on the Question of Hong Kong since July 1997. It covers the period from 1 January to 30 June 2014.

This year marks the 30th anniversary of the signing of the Sino–British Joint Declaration. This facilitated the historic handover of Hong Kong in 1997 and enshrined the commitment of the governments of the United Kingdom and the People’s Republic of China to Hong Kong’s prosperity, stability and way of life, in accordance with the ‘One Country, Two Systems’ principle. As we approach this anniversary, the UK remains fully committed to the Joint Declaration.

The future of Hong Kong is of great importance to the UK, both as a signatory of the Joint Declaration and as a country closely connected to Hong Kong by business, cultural, educational, economic and other ties. Our close history, thriving people-to-people links and the strong two-way trade and investment flows between the UK and Hong Kong mean that Hong Kong remains one of the UK’s most important international partners. It is therefore vital to us that Hong Kong continues to enjoy prosperity and stability. Hong Kong’s success is underpinned by its autonomy, rights and freedoms, which are guaranteed by the Joint Declaration.

There were significant developments during the reporting period. In January, Chief Executive Leung Chun-ying gave his second policy address. He reaffirmed the Government’s commitment to constitutional development and to selecting the Chief Executive by universal suffrage in 2017. In April, 55 Hong Kong Legislative Council members went to Shanghai to discuss constitutional reform with representatives of the Chinese Government. In May, the first stage of the Hong Kong Special Administrative Region Government public consultation on the methods for selecting the next Chief Executive in 2017 and the Legislative Council in 2016 closed, having received over 130,000 responses.

In June, the Central People's Government issued a White Paper on the practice of the 'One Country, Two Systems' model. Some commentators have suggested that this threatens Hong Kong's high degree of autonomy, though I note that both the Central People's Government and the Hong Kong Special Administrative Region Government have been explicit that the paper did not mark a change in policy.

The UK Government's position is clear: Hong Kong's unique constitutional framework has worked well. It is vital that it continues to be respected, and is seen to be respected, by all sides. The principles of 'One Country, Two Systems' and a high degree of autonomy, as enshrined in the Joint Declaration and Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China, are vital for the future prosperity and security of Hong Kong.

I have followed the constitutional reform debate closely. I believe that the best way to preserve Hong Kong's strengths is through a transition to universal suffrage which meets the aspirations of the people of Hong Kong within the parameters of the Basic Law. There is no perfect model. The important thing is that the people of Hong Kong have a genuine choice and feel that they have a real stake in the outcome.

It is welcome that a broad range of groups and individuals are involved. But it is clear that there is still some way to go for consensus to be reached. As we have noted elsewhere, what the constitutional package will ultimately look like is for the governments of the Hong Kong Special Administrative Region and the People's Republic of China, and the people of Hong Kong, to decide. I urge everyone to engage in constructive dialogue and to work for consensus that enables progress at this crucial juncture for Hong Kong.

Rt Hon William Hague MP

Foreign Secretary

INTRODUCTION

This series of Six Monthly Reports reflects the UK Government's continuing interest in developments in Hong Kong and our commitment to the faithful implementation of the 1984 Sino–British Joint Declaration on Hong Kong. In this, the Chinese Government undertook that, under the 'One Country, Two Systems' principle, the Hong Kong Special Administrative Region (SAR) would enjoy a high degree of autonomy, except in foreign and defence affairs, and that the continuation of Hong Kong's social and economic systems, lifestyles, rights and freedoms would be guaranteed.

CONSTITUTIONAL DEVELOPMENTS

Constitutional reform featured prominently on the political landscape during the reporting period. In our last Six Monthly Report to Parliament, we noted the launch of the Hong Kong SAR Government's public consultation, *Let's Talk and Achieve Universal Suffrage*. This document, published in December 2013, marked the beginning of the process of reforming the methods for selecting the Chief Executive in 2017 and for forming the Legislative Council (LegCo) in 2016. The consultation document set out the common aspiration of the Chinese Government, the Hong Kong SAR Government and the people of Hong Kong to implement the election of the Chief Executive by universal suffrage and to consider how to reform the methods of forming LegCo ahead of elections in 2016. The document also served as a reminder of the framework for constitutional reform: amendments must be made in accordance with the Basic Law (Articles 45 and 68), the interpretation of the Standing Committee of the National People's Congress (NPC) in 2004 and the decision of the Standing Committee of the NPC in 2007.

Article 45 of the Basic Law

The Chief Executive of the Hong Kong SAR shall be selected by election or through consultations held locally and be appointed by the Central People's Government. The ultimate aim is the selection of the Chief Executive by universal suffrage upon nomination by a broadly representative nominating committee in accordance with democratic procedures.

Article 68 of the Basic Law

The Legislative Council of the Hong Kong SAR shall be constituted by election. The method for forming the Legislative Council shall be specified in light of the actual situation in the Hong Kong SAR and in accordance with the principle of gradual and orderly progress. The ultimate aim is the election of all members of the Legislative Council by universal suffrage.

Responses to the consultation

During the reporting period, the Constitutional Development Task Force, headed by Chief Secretary Carrie Lam, engaged extensively with a wide range of stakeholders and interest groups using a variety of methods, including public meetings, seminars and media appearances. The consultation closed on 3 May. Around 130,000 responses were received.

The consultation prompted energetic debate, centred primarily on the election of the Chief Executive in 2017 and in particular on the nomination process for candidates. Concrete proposals for reforming the electoral method were put forward by legislators, academics, political parties and civil society. Many proposals – including those published in the previous reporting period – included an element of civic nomination, which would allow direct nomination of a Chief Executive candidate by a specified number of registered voters.

The Hong Kong SAR Government and the Chinese Government have made clear their position that civic nomination is not compatible with the Basic Law. In a statement released on 20 June, the Hong Kong SAR Government restated its position, emphasising that, according to Article 45 of the Basic Law, the power to nominate Chief Executive candidates is vested in the Nominating Committee only and noting “there are many opinions in the community, including those from legal professional groups and individuals, that ‘civic nomination’ will bypass or undermine the substantive powers of the Nominating Committee to nominate candidates and hence is, legally, highly controversial. Politically, such a proposal will unlikely be conducive to forging consensus, and operationally, the feasibility of implementation is questionable. In view of the controversies of such a proposal in the legal, political and operational aspects, the Hong Kong SAR Government believes that it is unlikely that such a proposal will be adopted.”

Some of the proposals put forward during the reporting period sought to increase public participation in the nomination process without civic nomination. A number, including the proposal by Hong Kong 2020, a civil society group led by former Chief Secretary Anson Chan, proposed adding directly elected members to the Nominating Committee. Dr Brian Fong of the Hong Kong Institute of Education and Professor Simon Young of the University of Hong Kong proposed models under which members of the public would be able to make non-binding recommendations to the Nominating Committee.

Other proposals suggested modelling the Nominating Committee more closely on the current Election Committee. Some have suggested that potential candidates should be required to get the support of the majority of the Nominating Committee, or that the Nominating Committee should act collectively in light of the requirement in Article 45 for nomination by “democratic procedures”. The Hong Kong Bar Association has rejected that interpretation of “democratic procedures”, saying this idea “runs a serious risk of limiting the free choice of voters among the variety of alternatives and undermines the requirement that Chief Executive elections shall be genuine periodic elections that guarantee the free expression of the will of the electors without unreasonable restrictions”.

Civil society activity

Civil society and the academic sector engaged intensively with the Hong Kong SAR Government public consultation on constitutional reform. The University of Hong Kong hosted a series of seminars and a conference of international experts, and various academics put forward proposals for constitutional reform.

In April, two separate groups purporting to represent financial workers and organisations based in the Central district made public statements respectively supporting and opposing the Occupy movement.

The Occupy Central campaign, which has threatened action if the Hong Kong SAR Government's proposals do not provide "genuine" universal suffrage, held a public meeting in May at which participants selected three proposals for electoral reform to be put to a poll in June.

The Occupy Central campaign's poll on methods for the 2017 Chief Executive election opened on 20 June. Members of the public were able to select one of the three proposed electoral systems, all of which included an element of civic nomination which, the Hong Kong SAR Government has made clear, is not compatible with the Basic Law. There was also an option to abstain. Despite reports of large-scale cyber-attacks against the poll's electronic platform, the number who participated far exceeded most predictions. Preliminary results, released by Occupy Central, indicated 792,000 had taken part (electronically and in person).

Some groups cast doubt on the results of the poll by questioning what safeguards were in place to prevent individuals from registering multiple times, and claimed they had managed to participate using invalid ID numbers.

The Hong Kong SAR Government said the poll had neither legal basis nor effect and could only be regarded as an expression of opinion by the general public. The Hong Kong and Macao Affairs Office (HKMAO) and the Central Government Liaison Office (CGLO) called the poll a "political farce, which demonstrated indifference and obstruction to Hong Kong citizens' pursuit of universal suffrage".

Political dialogue

One important development on constitutional reform during the reporting period was a meeting in April between the Chinese Government and members of LegCo in Shanghai. This was the first such invitation to all LegCo members to visit mainland China since 2005. LegCo President Jasper Tsang led a delegation of members from a range of political parties on a two-day programme which included meetings with senior Chinese Government officials – including Li Fei, Chairman of the Hong Kong Basic Law Committee Under the Standing Committee of the NPC; Wang Guangya, Director of the HKMAO of the State Council; and Zhang Xiaoming, Director of the CGLO in Hong Kong – to discuss constitutional reform. Some 55 legislators, including 13 of the 27 pan-democratic legislators, went to Shanghai. However, only

ten pan-democrats attended the meeting after one was turned back at Shanghai airport and two others left in support.

In general, LegCo members who attended reported that talks had been positive, although little substantive progress had been made. LegCo President Jasper Tsang acknowledged afterwards that “much distance” remained on some issues, but “it was impossible for the divide to be narrowed, or even eliminated, in a single meeting”. Following the meeting, Zhang Xiaoming said that he was willing to meet the pan-democratic legislators who had not attended the meeting in Shanghai. Since then, it has been reported that he has met a small number of pan-democratic legislators.

During the reporting period, the Hong Kong SAR Government and the Chinese Government have underscored their commitment to achieving universal suffrage by 2017, as set out in the Basic Law. In an opinion piece published in March, Carrie Lam said: “Implementing universal suffrage for the 2017 Chief Executive election is absolutely a big step forward along our road towards democracy. This is not only a solemn commitment of the Central Authorities to Hong Kong but also the aspiration shared by 7.8 million Hong Kong people.”

The UK’s position on constitutional reform remains unchanged. As we have said previously, the detail of the constitutional package is for the governments of Hong Kong and China and the people of Hong Kong to decide in line with the Basic Law and the decisions of the Standing Committee of the NPC. There is no perfect model. The important thing is that the people of Hong Kong have a genuine choice and feel that they have a real stake in the outcome. Reaching consensus will require all parties to continue to engage in constructive dialogue.

Policy developments

On 10 June, the Central People’s Government (CPG) published a White Paper entitled *The Practice of the One Country, Two Systems Policy in the Hong Kong Special Administrative Region*.

The 54-page document covered developments from the early 1980s, when Deng Xiaoping first put forward the concept of 'One Country, Two Systems', outlined the events surrounding the 1997 handover, and described the efforts made by the CPG in various fields to ensure Hong Kong's prosperity and development since then.

The paper set out the CPG view of the 'One Country, Two Systems' model in Hong Kong in the context of the current debate about constitutional reform. The paper stated that "one country, two systems' is ... the best institutional arrangement for the long-term prosperity and stability of Hong Kong" and acknowledged that "comprehensive progress has been made on all fronts in the HKSAR". It noted, however, that "One Country, Two Systems' has come to face new circumstances and new problems".

The paper stated that 'One Country, Two Systems' in Hong Kong should be set in the context of the "fundamental objectives of maintaining China's sovereignty, security and development interests". It added that the two systems "are not on a par with each other", and that Hong Kong "must fully respect the socialist system practiced on the mainland" while, in turn, the mainland should "respect and tolerate" capitalism in Hong Kong. On constitutional reform, the paper reaffirmed the CPG commitment to achieving universal suffrage, which it described as a "legal objective".

The White Paper resulted in significant media coverage and intense debate in Hong Kong. Many in the pro-democratic camp criticised the paper, arguing that it was in breach of the Joint Declaration and attempted to limit Hong Kong's autonomy. There was specific criticism from the Hong Kong Bar Association, which voiced concern that the paper appeared to categorise the judiciary as part of the machinery of government, which they described as "an error" that risked undermining judicial independence. Some also raised concern over the reiteration in the paper of the notion that those who govern Hong Kong "should above all be patriotic".

In response, both the CPG and the Hong Kong SAR government explicitly denied that it marked a change in the Chinese Government's policy towards Hong Kong. Chief Secretary Carrie Lam said the paper did not undermine Hong Kong's

autonomy (“the white paper described ‘One Country, Two Systems’ clearly, comprehensively and accurately”) while Secretary for Justice Rimsky Yuen explained that the paper neither added extra requirements nor changed any article in the Basic Law.

The UK Government’s position is clear: Hong Kong’s unique constitutional framework has worked well. The principle of ‘One Country, Two Systems’ and “a high degree of autonomy”, as enshrined in the Joint Declaration and the Basic Law of the Hong Kong SAR of the PRC, are vital for the future prosperity and security of Hong Kong.

GOVERNANCE

Policy address

On 15 January, Chief Executive CY Leung gave his second policy address, ‘Support the Needy, Let Youth Flourish, Unleash Hong Kong’s Potential’. This focused on poverty alleviation, social mobility, land supply and economic development. Economic policies focused on infrastructure and exploiting economic integration with the mainland. Substantial poverty measures, including a Low Income Working Family Allowance indexed to employment, were announced.

Relations between the administration and legislature

Relations between the administration and LegCo were difficult, posing challenges for implementation of the Government’s agenda.

Article 72 of the Basic Law refers to the President of LegCo’s powers and functions. These include presiding over meetings and deciding the agenda; giving priority to government bills for inclusion in the agenda; deciding on the time of meetings; calling special sessions during the recess; calling emergency sessions at the request of the Chief Executive; and exercising other powers and functions as prescribed in the rules of procedure of LegCo.

During April and May, some pan-democratic legislators employed filibuster tactics to delay the passage through LegCo of the Budget Appropriations Bill. Over 1,192 Committee Stage amendments were proposed to the Bill, the highest in Hong Kong SAR Government history. Most were sponsored by three radical pan-democrats. Among their demands were a government seed fund for a universal pension scheme and a cash handout for all Hong Kong people. The budget was passed after five weeks of debate on 4 June, the deadline LegCo President Jasper Tsang imposed, saying that after that date he would consider terminating legislators' right to speak if he felt it was simply a delaying tactic.

Chief Executive CY Leung called on the public to speak out against the filibuster, warning that the work of the legislature had almost ground to a halt and that government services might soon come to a standstill due to a lack of funding. Public opinion was split, with some supporting the principle of filibustering and others arguing that it was detrimental to Hong Kong's social and economic development.

Political parties

At the beginning of 2013, there were calls for greater disclosure of party political funding on the grounds that non-disclosure undermines public monitoring of elections. This debate was revived during the reporting period when it was widely reported that CGLO Director Zhang Xiaoming had contributed a gift and a performance to be auctioned at a fundraiser for the Democratic Alliance for the Betterment and Progress of Hong Kong, the largest political party in Hong Kong. Together, the gift and the performance raised over HK\$23m. This led to criticism from some quarters about the Liaison Office supporting one of Hong Kong's political parties, and it renewed interest in the issue of party funding, receiving widespread coverage, with some commentators calling for regulation of political parties, including a requirement to provide financial information.

As a general principle, both in Hong Kong and elsewhere, the UK Government believes it is important that there should be transparency about the financing of political parties.

BASIC RIGHTS AND FREEDOMS

Article 27 of the Basic Law

Hong Kong residents shall have freedom of speech, of the press and publication; freedom of association, of assembly, of procession and of demonstration; and the right and freedom to form and join trade unions, and to strike.

Throughout the reporting period, the people of Hong Kong continued to exercise their basic rights and freedoms. In our last report we noted that concerns had been raised over threats to press freedoms and freedom of expression. These concerns continued to be raised throughout the current reporting period.

Freedom of the press and freedom of expression

In January, it was announced that Kevin Lau, Editor of *Ming Pao*, a widely read daily newspaper, would be replaced. On 7 January, more than 90 per cent of *Ming Pao*'s editorial staff signed a petition demanding an explanation from management, amid fears that the newspaper's editorial independence was under threat. In response, Ming Pao Newspapers Ltd issued a statement promising that the editorial policy would remain unchanged.

On 26 February, Lau was savagely attacked by two men with machetes. Media speculation linked the attack to articles Lau had published in *Ming Pao* investigating the business affairs of senior Hong Kong SAR Government and mainland figures, and the death of dissident Li Wangyang. In March, nine suspects were arrested in Dongguan, Guangdong, in connection with the attack on Kevin Lau. They have since been released on bail.

On 19 March, the director and news controller of a new local newspaper due to be launched later in the year were beaten by masked men armed with metal bars.

These attacks were widely condemned, including by the Chief Executive and the Deputy Director of the CGLO. The Hong Kong Journalists Association and other

commentators have described these events as the latest in a long line of incidents aimed at intimidating Hong Kong journalists and contributing to a steady decline in press freedom in Hong Kong.

In January, it was reported that major advertisers in *Apple Daily* – HSBC, the Standard Chartered Bank and the Bank of East Asia – had pulled their adverts from the paper in response to political pressure. Neither HSBC nor Standard Chartered commented, but the Bank of East Asia said advertising decisions were based purely on business requirements.

During the reporting period, the organisation Reporters Without Borders released its 2014 World Press Freedom Index, which ranked Hong Kong in 61st place, a drop of three places from last year. In the accompanying report, Reporters Without Borders noted: “The Chinese Communist Party’s growing subjugation of the Hong Kong executive and its pressure on the Hong Kong media through its Liaison Office is increasingly compromising media pluralism there.”

A number of demonstrations highlighting concerns over press freedom were staged during the reporting period, including a rally organised by the Press Coalition against Violence on 2 March. The organisers said that the rally was attended by over 13,000 people, with police putting the figure at 8,600. Polling carried out for the Hong Kong Journalists Association’s first Hong Kong Press Freedom Index, released in April, showed that both the general public and journalists perceived self-censorship to be a serious problem.

Speaking on 24 April, the Chief Executive praised press freedom as a “strength”. He said that maintaining a lively and unfettered press was a top priority of the government “not just because it is a core freedom and a constitutional duty but because it is a cornerstone of a free society”.

We believe that freedom of expression, including of the press, has played an important role in Hong Kong’s success. It is one of the fundamental freedoms protected by the Joint Declaration. As such, we take seriously concerns about

press freedom, including fears about self-censorship. We welcome the Chief Executive's clear statements on press freedom and we will continue to monitor the situation closely.

Marches and demonstrations

On 1 January, organisers estimated that 30,000 people joined the annual New Year's Day rally to press for "genuine" universal suffrage in the 2017 Chief Executive election. Police said 6,100 people started the march at Victoria Park while 11,000 participants were recorded during its peak hours. Numbers were far lower than in 2013 when organisers estimated that 130,000 people participated.

Thousands of protestors gathered in Victoria Park on 1 May for the annual Labour Day march organised by the Confederation of Trade Unions. Domestic and migrant workers from a range of sectors aired a range of demands, including maximum working hours, better retirement protection and no additional import of overseas labour. At least 12 migrant worker groups were present, calling for better minimum wages for migrant workers.

A record 180,000 people were reported to have joined a candlelight vigil at Victoria Park to commemorate the 25th anniversary of the Tiananmen Square crackdown. The police put the figure at about 99,500. In general, demonstrations were peaceful. However, participants in a demonstration against 'white elephant' infrastructure projects on 4 March accused the Hong Kong police of attacking them and misusing pepper spray. On 13 June, during a protest against a new town development in the north-eastern New Territories, several demonstrators attempted to enter the LegCo building, resulting in a number of arrests. Six of those arrested, including two LegCo members' assistants, later alleged that they had been severely beaten by police during transport to Aberdeen Police Station.

During the reporting period, there were also a number of small demonstrations staged in response to concerns about the volume of Mainland visitors to Hong Kong.

We believe it is important that Hong Kong citizens' basic rights and freedoms, including of assembly and demonstration, are respected in line with Article 27 of the Basic Law. But it is equally important that any demonstrations are carried out in accordance with the law.

LEGAL AND JUDICIARY

Article 2 of the Basic Law

The National People's Congress authorises the Hong Kong Special Administrative Region to exercise a high degree of autonomy and enjoy executive, legislative and independent judicial power, including that of final adjudication, in accordance with the provisions of this Law.

In his speech at the opening of the legal year on 13 January, Chief Justice Geoffrey Ma Tao-li underlined the importance of the principle of separation of the executive, legislature and judiciary in Hong Kong. Ma said that public confidence in the judiciary's integrity rested on "a truly independent judiciary, judges who look no further than the proper application of the law, both in letter and in spirit, and the importance of ensuring transparency in all that the courts do in order to demonstrate the integrity of the law".

The Chief Executive underlined the importance of the rule of law in his policy address. He said: "The rule of law is vital for safeguarding our rights and freedoms. It is also the cornerstone for maintaining Hong Kong's status as an international financial and commercial centre." He underlined the Hong Kong Government's commitment to protecting the rule of law: "We will also uphold justice and core values such as human rights, clean governance, freedom and democracy."

Independence of the judiciary has been and will continue to be key to Hong Kong's success, in line with Article 2 of the Basic Law.

ECONOMY AND FINANCE

Economy

Figures released in February showed that the Hong Kong economy grew broadly in line with government forecasts and market expectations at 2.9 per cent in 2013. However, in the first quarter of 2014, Hong Kong's growth dipped to an 18-month low of 2.5 per cent. This was driven by moderate export growth of 3.1 per cent due to sluggish trade flows; and by decelerated domestic demand, spurred by a 1.3 per cent decline in retail sales. This decline in retail sales continued in April, when year-on-year figures showed a decrease of 9.8 per cent. This was the third consecutive drop since February and the second worst decline since February 2009. Analysts have cited a number of factors contributing to the drop, including an economic slowdown on the mainland and the changing shopping habits of mainland tourists.

Nevertheless, Hong Kong's fundamentals remain strong. In April, the Consumer Price Index was contained at 3.7 per cent and unemployment remained low at 3.1 per cent. Consequently, government and market analyst forecasts agree that Hong Kong's economy, bolstered by improving global growth conditions, will still meet government forecasts of 3 to 4 per cent across 2014.

On 8 April, the International Monetary Fund (IMF) issued its Article IV report on Hong Kong's economy. The report gave Hong Kong a broadly clean bill of health, though it noted that property remains the biggest economic risk. The IMF was supportive of government policies to cool the property market, the budget's focus on fiscal prudence (see below) and the Linked Exchange Rate System (dollar peg) as the "best arrangement for Hong Kong".

Hong Kong's property market continued to adjust – residential property prices fell 1 per cent during the first quarter as property sales transactions fell 34 per cent compared with last year. Despite the fall, March property prices still surpassed the 1997 peak by 41 per cent.

Bilateral trade

Bilateral trade between Hong Kong and the UK in goods for the period January to December 2013 was £13bn, an increase of 2.3 per cent from the previous year. During this period, exports of UK goods to Hong Kong amounted to £5.67bn, an increase of 5.6 per cent on the same period a year ago; while UK goods imports from Hong Kong decreased by -0.4 per cent to £7.3bn. In 2013, Hong Kong was the UK's 13th largest export market for goods and the second largest in Asia Pacific, after mainland China, according to the latest Office for National Statistics data.

Budget 2014

On 26 February, Financial Secretary John Tsang presented the budget for 2014, which focused on competitiveness, tackling limits to Hong Kong's potential and fiscal sustainability.

On competitiveness, Tsang announced:

- infrastructure commitments worth HK\$340bn (£42.5bn) over the next five years;
- for financial services, improved electronic payment systems; a stamp duty waiver on Exchange-traded Funds; taxes lowered on banking treasury services; and proposals concerning open-ended fund company structure; and
- targeted support for service industries, including a push on mainland market access for professional services; and increased credit support for small and medium-sized enterprises.

Tsang identified manpower, land supply and an ageing population as “major constraints to Hong Kong's future development”. To tackle these, Tsang proposed more vocational training, new health and social care spending commitments targeted at older people, and boosted land sales and site re-designation for residential purposes.

On fiscal sustainability, Tsang shared the Working Group on Long-Term Fiscal Planning's findings. The Group found that, under existing policy and economic

conditions, a structural deficit will emerge in 2018/19. The Group recommended spending controls, broadening the tax base and saving more for the future.

Financial services

On 10 April, Chinese Premier Li Keqiang announced the Shanghai–Hong Kong Stock Connect pilot. This scheme creates a link between the Shanghai and Hong Kong exchanges whereby mainland investors will be able to buy shares and stocks in eligible companies listed in Hong Kong, and vice versa. The scheme does not apply to all stocks and on implementation in October there will be daily and overall quotas regulating flows. Nevertheless, as Premier Li stated in his announcement, the scheme will “further promote two-way opening-up and healthy development of the capital markets on the mainland and Hong Kong”.

Financial markets

The offshore renminbi (RMB) market remained vibrant and robust in Hong Kong but competition from other offshore RMB centres gathered pace. According to Standard Chartered’s Renminbi Growth Index, in April 2014, Hong Kong’s share of the global RMB market dropped to 66 per cent, compared with 75 per cent in September 2013; in the same time period, London’s share rose from 12 to 15 per cent. Nevertheless, given that the market is growing at around 90 per cent year-on-year, the RMB market in Hong Kong continues to boom. Overall, Hong Kong’s position as the leading global RMB hub remains unchallenged.

UK–HONG KONG BILATERAL RELATIONS

During the reporting period, bilateral ties between the UK and Hong Kong remained strong. There were a number of high-level visits in both directions in the first half of the year: the Chancellor of the Exchequer, the Foreign and Commonwealth Office Parliamentary Under Secretary of State Mark Simmonds, the Lord Mayor of London Fiona Woolf and the All Party Parliamentary China Group all visited Hong Kong. The Hong Kong Secretary for Education, Eddie Ng, the Secretary for the Environment, Wong Kam-sing, the Secretary for Food and Health, Dr Ko Wing-man and the Under Secretary for Transport and Housing, Yau Shing-mu, all visited the UK. In addition, there were numerous exchanges of senior officials and experts on a wide range of

policy issues, including constitutional reform, climate change, the economy and education.

We have maintained a regular dialogue with the Chinese government regarding developments in Hong Kong, including through high level meetings of: the Prime Minister and Chinese Premier Li Keqiang in June; Foreign and Commonwealth Office Minister, Rt Hon Hugo Swire MP and Wang Guangya, Director of Hong Kong and Macau Affairs Office in May; Health Secretary Jeremy Hunt and Premier Li during the UK-China People to People dialogue in April; and the Foreign Secretary and State Councillor Yang Jiechi, during the UK-China strategic dialogue in February.

Youth Mobility Scheme

In January, the reciprocal Youth Mobility Scheme was launched, following a joint announcement by British Consul General to Hong Kong and Macao, Caroline Wilson, and the Secretary for Labour and Welfare, Matthew Cheung Kin-chung, in December 2013. The agreement allows 1,000 young people each year travelling on Hong Kong SAR passports to live, work or study in the UK for up to two years, with reciprocal arrangements to allow the same number of young people from the UK to come to Hong Kong. British National (Overseas) passport holders are already eligible to apply for a visa for the UK under the Youth Mobility Scheme and are not subject to any quota or sponsorship requirements. The scheme is designed to strengthen long-standing social ties between the UK and Hong Kong, and to promote greater cultural, economic and business links.

EDUCATIONAL LINKS

Educational links continued to go from strength to strength throughout the reporting period. During his visit to the UK in January, Hong Kong Secretary for Education Eddie Ng attended the Education World Forum in London, met Secretary of State for Education Michael Gove and participated in a British Council-convened ministerial roundtable with ministers from selected Asian countries and Australia.

Over the reporting period, the UK continued to maintain a strong interest in the outbound student market from Hong Kong: more than 100 UK institutions, including

schools, colleges and universities, took part in the January Education UK exhibition which was attended by more than 6,700 visitors at the Hong Kong Convention and Exhibition Centre.

In March, 'Science Alive' was jointly organised by the British Council, the Education Bureau, Hong Kong Education City Ltd and the Hong Kong Science Museum, with sponsorship from the Croucher Foundation. Various lectures, workshops, drama shows and drop-in activities were held at the Hong Kong Science Museum, attracting over 16,000 visitors. 'Science Alive' was outreached to 22 schools.

In addition, the British Council delivered programmes in English-language learning and examination services, and participated in a range of arts, education and science partnerships. From January to June 2014:

- 23,229 students took exams with the British Council;
- 10,281 learners were engaged in English-language learning services;
- 86 arts, education and science events took place; and
- 503,409 people visited the British Council Hong Kong website.

Throughout the reporting year, our engagement with Hong Kong alumni of the Chevening Scholarship programme has continued to develop. Applications for Chevening 2014/15 showed an increase in both number and quality and we hope to send another 11 students to the UK this year, in partnership with local sponsors Hutchison Whampoa and centrally with HSBC. Following a highly successful programme of events supported by the Chevening Alumni Project Fund in 2013/14, the local alumni association is looking to build on this success by focusing on further recruitment and retention of alumni.

CONCLUSION

The Foreign Secretary's Six Monthly Reports to Parliament reflect the importance that the UK Government attaches to the continued faithful implementation of the Sino–British Joint Declaration on Hong Kong.

During this reporting period, we consider that 'One Country, Two Systems' continued to work well, in general, and that the rights and freedoms enshrined in the Joint Declaration and Basic Law continued to be upheld. In those areas where concerns have been reported, we urge all relevant parties to continue to work together to find solutions acceptable to all. In light of the specific concerns over press freedom, we welcome the Chief Executive's statements during the reporting period in support of media freedom.

As we have noted previously, it is important that confidence in 'One Country, Two Systems' and in the Hong Kong SAR is safeguarded, and that Hong Kong continues to enjoy the full measure of autonomy, rights and freedoms guaranteed by the Joint Declaration. These have been and will continue to be central to its continued success, stability and prosperity, and to underpin Hong Kong's international standing.

GLOSSARY OF TERMS

Sino British Joint Declaration: is the negotiated settlement on the question of Hong Kong co-signed by the Governments of the United Kingdom of Great Britain and Northern Ireland and the People's Republic of China in 1984.

One Country Two Systems: is the principle that after Hong Kong returned to China on 1 July 1997, Hong Kong's existing social and economic systems, life-style, rights and freedoms would remain unchanged for 50 years.

The Basic Law of Hong Kong: was drafted and signed by the UK and Chinese Governments in accordance with the Joint Declaration. It stipulates the basic policies of the Chinese Government towards the Hong Kong Special Administrative Region (HKSAR). The Basic Law is the HKSAR's constitution.

The Basic Law Article 2: refers to the high degree of autonomy of the HKSAR and the right to enjoy executive, legislative and independent judicial power, including that of final adjudication, in accordance with the provisions of this Law.

The Basic Law Article 27: refers to Hong Kong people's right to freedom of speech; of the press and of publication; freedom of association, of assembly, of procession and of demonstration; and the right and freedom to form and join trade unions, and to strike.

The Basic Law Article 45: refers to the method for selecting the Chief Executive, who is elected by the Election Committee or through consultations held locally and appointed by the Central People's Government in accordance with the principles of gradual progress and democratic procedures. The ultimate aim is to elect the Chief Executive by full universal suffrage in 2017.

The Basic Law Article 68: refers to the method by which the Legislative Council (LegCo) should be formed. The ultimate aim is the election of all the members of LegCo by universal suffrage in 2020.

The Basic Law Article 72: refers to the President of the LegCo's powers and functions. These include presiding over meetings and deciding the agenda; giving priority to government bills for inclusion in the agenda; deciding on the time of meetings; calling special sessions during the recess; calling emergency sessions at the request of the Chief Executive; and exercising other powers and functions as prescribed in the rules of procedure of the LegCo.

Legislative Council (LegCo): is the Hong Kong SAR's legislature. The number of seats in the LegCo increased to 70 in 2012, with 35 seats returned by geographical constituencies through direct elections and 35 seats returned by functional constituencies.

Occupy Central: refers to a pro-democracy movement that has called for civil disobedience in the event of genuine democracy not being achieved in the HKSAR

Pan Democrats: refers to legislators from pro-democracy political parties or groups in Hong Kong.

State Council: The State Council of the People's Republic of China, namely the Central People's Government, is the highest executive organ of State power in China, as well as the highest organ of State administration.