CHAPTER 12: HONG KONG

Executive Summary

Beijing has dissolved the final vestiges of Hong Kong's political freedom, eliminating the last opposition party and expanding on the draconian Article 23 Ordinance to tighten its oversight of Hong Kong's legal system under an expansive definition of "national security." Civil society and free speech have followed similar fates, as authorities have largely succeeded in intimidating Hong Kong's citizens to discourage them from engaging in open opposition. The government has increased vigilance against so-called "soft resistance" at home while offering bounties on dissidents abroad. Nonetheless, attempts to assuage foreign businesses operating in Hong Kong appear initially successful, even as it is clear Beijing sees Hong Kong primarily as an extension of the Mainland's development objectives. Although Hong Kong officials maintain a pretense of independence in order to court international investment, the expansion of "national security" into all domains and pressure on private firms to operate in line with Beijing's political objectives make Hong Kong's system increasingly indistinguishable from the Mainland.

Key Findings

- As the Hong Kong government marked the fifth anniversary of the National Security Law, its ongoing crackdown has eliminated a once vibrant civil society and created an atmosphere of repression comparable to mainland China. The Hong Kong government continues to grant the Mainland authority and oversight of the city, passing legislation to award Beijing additional powers to intervene in local law enforcement via the Office for Safeguarding National Security (OSNS).
- Hong Kong security forces have expanded a campaign of transnational repression against leaders of the democracy movement who fled abroad, placing bounties on an additional 15 activists—including two Canadian citizens—canceling passports, and blocking access to their pensions. Authorities have also escalated harassment of activists' family members still in Hong Kong.
- After an exodus of foreign firms following China's imposition of the National Security Law in 2020, a concerted charm offensive to retain international business and rehabilitate Hong Kong's pro-commerce image appears to be bearing fruit. Many foreign firms remain in Hong Kong due to its proximity to mainland China.

- Hong Kong has emerged as an export controls and sanctions evasion hub, facilitating international transactions with and flows of restricted goods and advanced technology to Russia, Iran, and North Korea.
- Beijing's intervention to block CK Hutchison from selling its port investments, including in the Panama Canal, makes clear that Hong Kong firms are now subject to Chinese Communist Party (CCP) directives and that the Party will interfere in commercial transactions to advance its geostrategic objectives. For foreign firms and financial institutions operating in Hong Kong, this interference should be seen as an alarming precedent. Beijing could invoke the National Security Law to intervene in Hong Kong's civil proceedings, and the expanding reach of national security legislation could be used to interfere with transactions even with no mainland China or Hong Kong nexus.

Introduction

In June 2025, the Hong Kong government celebrated its half-decade crackdown on the once cosmopolitan city's democratic institutions and civil society with anti-foreign propaganda: an exhibit commemorating the fifth anniversary of the passage of the National Security Law called on citizens to be wary of "external forces" and "hostile countries." The demonization of imagined adversaries reflects an insecurity of Beijing's totality of control in Hong Kong, even as pro-democracy advocates have been silenced, put behind bars, or forced into exile, and the last remaining opposition party began to disband in April 2025. In parallel to mainland China's "securitization of everything," Hong Kong's government continues to increase the institutional scope of repression, as legislation in 2025 further strengthened the ability of the Beijing-controlled OSNS to intervene in local law enforcement.

Even as Beijing systematically eliminates any remaining vestiges of political autonomy, it seeks to continue reaping the economic and financial advantages of Hong Kong's reputation as a global commercial hub. Sustained efforts to woo foreign business back to Hong Kong coincide with continued plans to integrate the city into the Mainland's state-led regional development and industrial plans. For foreign businesses that choose to stay, the blocked CK Hutchison port deal is likely indicative of the future of the city's compromised economic autonomy. CCP interests will supersede efforts to rehabilitate the city's pro-business image as national security oversight extends to commercial transactions and civil proceedings.*

Crackdown Continues as Hong Kong Strengthens Tools for Repression

Despite years of cracking down on activism, stifling democracy, and narrowing the space for civil society, Hong Kong's government continues to see threats to Beijing's control of the city's civil dis-

*This chapter draws on roundtables and consultations with experts, activists, and business associations as well as open source research and analysis.

course and legal system. As the National Security Law passed its five-year mark, the initial wave of prosecutions under the law and Article 23 Ordinance is reaching its conclusion, with harsh sentences seeking to make examples of activists. For those in exile, Hong Kong's government has engaged in a campaign of international repression, issuing warrants and offering monetary rewards for information that leads to their arrests. Meanwhile, new legislation builds on the Article 23 Ordinance (aka the Safeguarding National Security Ordinance)* to further Beijing's oversight of Hong Kong's legal system and require compliance in investigations from local officials. Hong Kong authorities have continued to prosecute cases for previously protected political speech, including allegations of seditious online comments and graffiti and "insulting" the national anthem.[1] The number of publicized arrests has fallen since 2024, reflecting the government's success in stifling any public speech and opinion that could draw the ire of Beijing.[2]

Hong Kong Legislature Further Strengthens National Security Apparatus

To prevent the reemergence of pro-democracy sentiment and institutionalize the "securitization of everything," Hong Kong's Legislative Council further expanded Beijing's jurisdiction over national security cases via two new "subsidiary laws" to the Article 23 Ordinance. Enacted within 24 hours of introduction, the May 2025 legislation enhances the power of the OSNS, the body that functions as Beijing's secret police force in the city and whose leadership is appointed from the Mainland's internal security apparatus.[3] The first new law strengthens the OSNS's capacity to operate in secret, coerce both the private sector and Hong Kong's bureaucracy to cooperate with OSNS investigations, and take over "complex" cases with foreign involvement.[4] It also puts in place serious penalties for failure to comply with the OSNS and for divulging details of ongoing investigations, creating six new offenses in all. The second law designates six OSNS sites as "prohibited places" and penalizes trespassing. The prohibited sites include the OSNS's two new offices and four hotels totaling 1,709 rooms, suggesting the size of the security force stationed in the city is considerable.†[5] In June 2025, the OSNS carried out its first joint operation with city authorities under the new regulations, raiding one office and the homes of six individuals accused of "collusion with a foreign country or with external elements to endanger national security."[6]

Hong Kong's Legislative Council may still be considering further subsidiary laws to tighten Beijing's control of the legal system after the Court of Final Appeal (CFA), Hong Kong's highest court, overturned three activists' convictions in March 2025. The three members of a group known for holding vigils in remembrance of the

*The Safeguarding National Security Ordinance is the fulfilment 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.

†For comparison, the entire Hong Kong police force was about 27,000 as of June 2024. Hong Kong Police Force, *Hong Kong Fact Sheet—The Police*, August 2025.

1989 Tiananmen Square massacre were convicted for refusing to provide information to the police on the group's funding and operations. Though the group had disbanded in 2021, Hong Kong's police alleged that it had links to pro-democracy organizations abroad and accused it of being a foreign agent.[7] The CFA unanimously ruled in the defendants' favor, writing that the prosecution's evidence was insufficient due to redactions, including the names of the alleged foreign connections.[8]

Hong Kong's Once Vibrant Civil Society Choked Off

Since passage of the National Security Law, Beijing has used arrests, detentions, and long sentences for civil society advocates as a way to intimidate Hong Kong's population. The initial wave of prosecutions under the National Security Law and the Article 23 Ordinance have been reaching their conclusion four years after the arrest of many prominent leaders of the Hong Kong democracy movement.[9] According to official statements, the courts have concluded 86 percent of the over 230 ongoing "national security" cases, handing down sentences ranging from four to ten years to 45 of the "Hong Kong 47," the pro-democracy advocates arrested in 2021 for attempting to organize primary elections in 2020.[10] Because the court denied bail to 35 of the individuals during this time period, many have already served considerable portions of or completed their terms, and 11 individuals have been released from prison as of July 2025.[11]

Proceedings for high-profile cases have been especially draconian. Joshua Wong, one of the most famous leaders of the democracy movement, was hit with additional charges of collusion with foreign forces in June 2025 while still serving a sentence for subversion.[12] The charges, which have a maximum sentence of life in prison, reflect the authorities' determination to keep Mr. Wong in prison past his initial 2027 release date.[13] Jimmy Lai, owner of pro-democracy newspaper *Apple Daily*, has also been charged with collusion.[14] His trial concluded in August 2025 and a verdict is expected soon.[15] The Court of Final Appeal rejected Mr. Lai's appeal to allow his preferred lawyer to represent him, on the apparent basis that the decisions of the National Security Committee cannot be legally challenged.[16]

Exodus of Foreign Judges from CFA Undermines Image of Impartiality

The Hong Kong Court of Final Appeal was established in 1997 in order to demonstrate the city's commitment to preserving the rule of law after the handover from the United Kingdom (UK) to China. The court consists of a chief justice, three permanent judges, and up to 30 non-permanent judges from Hong Kong and other common law jurisdictions.[17] However, many in the international community see the erosion of judicial independence and fundamental rights as incompatible with Hong Kong's common law tradition, prompting an exodus of judges from other jurisdictions who do not want to be seen as endorsing Beijing's control over the city's legal system. Since the imposition of the National Security Law, the number of foreign judges has dropped from 15

Exodus of Foreign Judges from CFA Undermines Image of Impartiality—*Continued*

to six, as many have resigned or not renewed their appointments so as not to tacitly endorse Hong Kong's descent into Beijing's "rule by law," leaving ten non-permanent judges in total as of August 2025.[18] Robert French, a former chief justice of Australia's High Court, left the court in April 2025, stating that the role of foreign judges has become "arguably cosmetic."[19] Other officials have used starker terms: When two British judges left the court in 2022, then–British Foreign Secretary Liz Truss stated that foreign justices' presence on the court would "risk legitimizing oppression."[20] A new foreign judge from New Zealand joined the court in May 2025 but has drawn international criticism that he is providing credibility to a court that is repressing the freedom of the Hong Kong people.[21]

Repression of Civil Society Deepens

Hong Kong is now subjected to the same degree of repression against free speech and assembly as mainland China, with the authorities on the lookout for even subtle signs of dissent—or what they refer to as "soft resistance."[22] Accordingly, the space for Hong Kong's once vibrant civil society continues to narrow.

- *Tightened regulations target public venues and trade unions:* Police Commissioner Joe Chow stated that remaining "undercurrents" require the strengthening of Hong Kong's intelligence-gathering efforts and that many people still wished to "incite others through the media, arts and culture sectors."[23] In an apparent attempt to prevent public venues such as restaurants from displaying pro-democracy imagery, city authorities have listed 20 types of businesses whose licenses will be revoked if owners, employees, or subcontractors engage in conduct that threatens "national security."[24] A new ordinance passed in June places additional restrictions on trade unions, creating penalties for trade union officers convicted of national security violations and factoring national security into the permitting of trade unions.[25]
- *Last remaining vestiges of opposition disband:* The Democratic Party—Hong Kong's oldest pro-democracy party and its last remaining major opposition party—and the Hong Kong Public Opinion Research Institute both announced plans to disband after leaders were investigated for or found guilty of subversion.[26] As the only pro-democracy party to engage in direct negotiations with Beijing's representatives, the end of the Democratic Party demonstrates that no room exists for political expression outside of strict loyalty to Beijing.[27] The Hong Kong-based non-governmental organization China Labor Bulletin—an important resource for information on the state of labor rights in China—also closed under mysterious and concerning circumstances.[28]

- *Government encourages Hong Kong citizens to inform on each other:* Hong Kong authorities have been instilling a culture of Beijing-style surveillance and citizen-informants in everyday life by encouraging people to spy on each other, with Hong Kong Chief Executive John Lee stating that "villains fill the streets."[29] The Hong Kong police claim that their official "hotline" for reporting "national security" offenses has received over 920,000 tips since November 2020, although that number cannot be independently verified.[30] The education minister announced in April that Hong Kong's teachers would be given additional training on how to identify "soft resistance" in schools.[31]
- *Remaining Hong Kong press subject to lawfare, self-censorship:* After an exodus last year by foreign press organizations, closures of domestic outlets, and convictions of Hong Kong editors accused of sedition, a survey by the Hong Kong Foreign Correspondents Club revealed that members are self-censoring or considering leaving the city due to erosion in press freedoms.*[32] Harassment of reporters and journalists has continued, with some news outlets and reporters facing repeat tax investigations that have consumed time and resources to counter. In several instances, organizations or reporters received notices alleging underpayment and requiring a provisional payment of back taxes before the investigation was concluded.[33] Hong Kong now ranks 140th out of 180 on the World Press Freedom Index, a precipitous decline from 18th in 2002 when the first index was published.[34]

Beijing Escalates Intimidation of Hong Kong Activists Overseas

Hong Kong officials have continued their campaign of transnational repression, targeting activists abroad while escalating the harassment of their families at home.[35] The officials have framed the Hong Kong activists overseas as doing the work of "hostile foreign forces" spreading "subversion" in the city.[36] The Hong Kong government has issued arrest warrants for groups of overseas activists four times, most recently for 19 individuals in July 2025 (including four individuals who were targeted with prior arrest warrants).[37] It has placed bounties of Hong Kong Dollars [HKD] 200,000–1 million ($25,600–$128,000)† on these individuals; additionally, Hong Kong has invoked powers granted under the Article 23 Ordinance to target most of these activists, including by canceling their passports and suspending their legal licenses, removing them from company directorships, and prohibiting them from conducting financial transactions in Hong Kong.[38] Among those targeted was Chloe Cheung, who had participated in protests in Hong Kong when she was 14 and was apparently targeted for continued activism in the UK; her arrest warrant included a photo of her as an 11 year old.[39]

*For more on foreign press leaving the city, see U.S.-China Economic and Security Review Commission, Chapter 10, "Hong Kong," in *2024 Annual Report to Congress*, November 2024, 697–698.

†Unless noted otherwise, this section uses the following exchange rate throughout: $1 = HKD 7.80.

In separate cases, citizens of the UK and Australia living in proximity to overseas Hong Kong activists received anonymous letters offering rewards for information on those activists or for turning them over to the Chinese Embassy.[40] The Hong Kong government denied sending these letters, despite the fact that the letters used similar language to Hong Kong police wanted posters.[41] Hong Kong police have also continued to target the families of activists, escalating prior intimidation tactics by arresting the brother and father of overseas activist Anna Kwok in May 2025 for handling financial assets belonging to Ms. Kwok.[42]

Hong Kong's Economic Status Independent of the Mainland Continues to Shrink

As Hong Kong increasingly resembles just another mainland city, its economy is also more dependent on mainland China. In a parallel to the economic problems on the Mainland, headwinds from tepid consumption and a sustained property market downturn have deepened the city's fiscal challenges, exacerbated in Hong Kong by residual empty office buildings after an extended downturn in the city's financial sector that has only reversed this year. Meanwhile, China continues to use the city's financial infrastructure to selectively open its capital account while further integrating Hong Kong into the surrounding Pearl River Delta region. Nonetheless, Hong Kong authorities have launched a concerted messaging campaign to draw back foreign business and rehabilitate the city's image as an international financial hub. Beijing's "have your cake and eat it" approach to Hong Kong's economic autonomy is indicative of its broader strategy to the special administrative region: it seeks to cash in on the remnants of Hong Kong's status as an independent, rule of law, and pro-market jurisdiction while eliminating vestiges of independence, moving to rule by law, and ensuring its ability to intervene in and steer the commercial sphere as it does in the Mainland.

Hong Kong's Economy Falters

After rebounding from the COVID-19 pandemic, Hong Kong has since entered a prolonged slowdown that mirrors mainland China's economic challenges. (For more on the state of the Chinese economy, see Chapter 1, "U.S.-China Economic and Trade Relations (Year in Review).") Hong Kong faces slowing growth, a weak property market, and a persistent government budget deficit. These challenges stem from both the city's integration with the Mainland and the impact of Beijing's repression on Hong Kong's attractiveness to international business.

- *Slowing growth:* Hong Kong's real gross domestic product (GDP) growth slipped to 2.5 percent in 2024 from 3.2 percent the preceding year, as weak consumption dragged down growth in exports and tourism.[43] Hong Kong's economy improved marginally in the first half of 2025, driven by a boost in exports and resurgence in the city's financial sector. However, trade uncertainty is anticipated to weigh on the economy in the remainder of the year.[44] In addition to weak consumption, geopolitical tensions and mainland China's eco-

nomic slowdown have made Hong Kong's economic outlook uncertain. Foreign direct investment to mainland China via Hong Kong has slowed in recent years.[45]

- *Property market downturn:* Once among the world's most expensive real estate markets by square footage, Hong Kong's residential and commercial property prices have tumbled, erasing some HKD 2.1 trillion ($270 billion) in value from 2019 to June 2024, according to Bloomberg.[46] Residential prices were down 7.8 percent in the first quarter of 2025 from the same period the previous year and 30 percent from a 2021 peak due to higher mortgage rates, a weak overall economy, and lower demand as foreign professionals have left the city.[47] Purchases by mainland buyers, who had somewhat helped prop up prices through 2024, slowed in 2025 as the ongoing trade war introduced greater economic uncertainty.[48] Commercial real estate prices for Hong Kong's highest tier of office space have dropped 40 percent from a 2018 peak as multinational firms reduced headcount in the city.[49] Even as the exodus of foreign firms and talent stabilizes, Hong Kong faces rising challenges from regional competitors like Singapore and other cities in Southeast Asia that have constructed their own sophisticated port infrastructure and tax incentives to lure global trade, likely continuing to put downward pressure on real estate.[50]
- *Expanding budget deficit:* Tepid economic recovery and falling property prices have hurt Hong Kong's fiscal revenue, leading to persistent and growing budget deficits. At HKD 87.2 billion ($11.2 billion) and 6.2 percent of GDP, the fiscal year 2024 (ending March 2025) deficit exceeds the prior year's projections for 4.6 percent.[51] Fitch Ratings analysts anticipate Hong Kong will tap into six of its endowment funds in fiscal year 2025 to make up for the persistent shortfalls, but a one-time cash infusion will not address Hong Kong's underlying weakness in fiscal revenue.*[52] Like the Mainland, Hong Kong also has an aging population that requires increasing support from the government, worsening the outlook for Hong Kong's fiscal situation.[53]

Mainland Capital and Talent Supplants International Departures

Hong Kong and People's Republic of China (PRC) government priorities have aligned to ensure that Hong Kong's economy and its financial system increasingly serve mainland interests. Many of these priorities are supported by new regulations allowing for greater cross-border flows of capital and talent.

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*The endowment funds were set up when Hong Kong ran persistent budget surpluses and include the Research Endowment Fund, Hospital Authority Public-Private Partnership Fund, Language Fund, Student Activities Support Fund, Qualifications Framework Fund, and Gifted Education Fund. Hong Kong Legislative Council, *Item for Finance Committee: Consolidation of Financial Arrangement of Six Seed Capital Funds*, April 25, 2025; Emily Hung, "Hong Kong Budget 2024–25: City Will Return to Fiscal Balance in 2 Years by Dipping into Rainy Day Future Fund, Issuing Bonds," *South China Morning Post*, February 29, 2024.

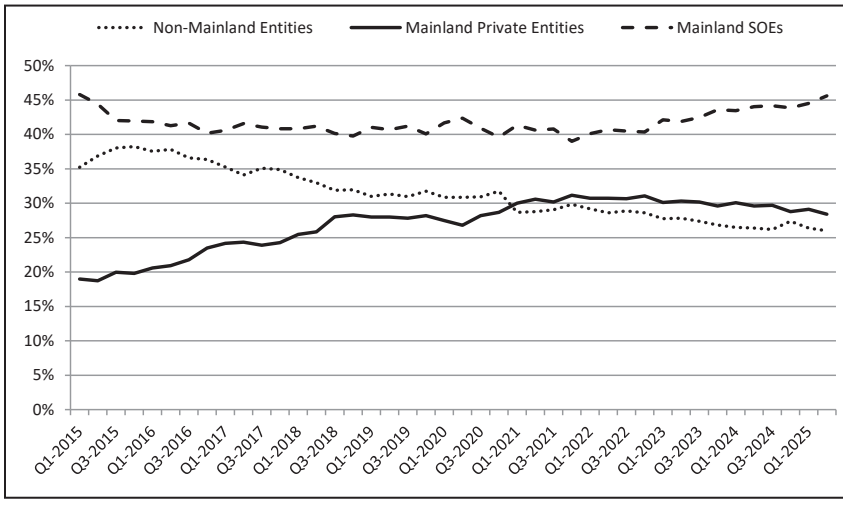
Mainland Continues to Deepen Connectivity with Hong Kong Markets

Hong Kong's financial linkages to the Mainland have deepened across the board as Chinese firms take advantage of higher valuations on the Hong Kong Stock Exchange (HKEX) and mainland borrowers look to Hong Kong banks. Each of these channels allows Beijing to selectively open its capital account where it serves its purposes, encouraging mainland Chinese to benefit from asset value appreciation in Hong Kong and more sophisticated financial markets there while maintaining controls on cross-border flows.

- *HKEX increasingly hosts initial public offerings (IPOs) and secondary listings by mainland firms, as Chinese companies forgo U.S. listings:** Hong Kong IPOs rebounded in the second half of 2024 and into the first half of 2025 by total funds raised, driven primarily by mainland Chinese firms either raising funds for international expansion or doing secondary listings.[54] Prior secondary listings in Hong Kong by Chinese firms have been interpreted as a way to reduce risk in the event they need to delist from U.S. exchanges, which has occurred in the past at the behest of both U.S. and Chinese regulators.[55] In 2024, Hong Kong's regulators streamlined the process for secondary listings for Mainland-listed firms.[56] Hong Kong's IPO applicant list reveals a strong pipeline from mainland artificial intelligence (AI), biotech, and battery companies—all strategic sectors for Beijing.[57] Chinese firms listing on the HKEX are likely to make it the best-performing exchange for IPOs in 2025 by total funds raised.[58]
- *Hong Kong lending to the Mainland increasingly serves Chinese borrowers over foreign borrowers:* Hong Kong banks' lending to mainland China grew in the first two quarters of 2025, marking the first quarters of growth since 2023.[59] Most of this growth was attributed to lending to Chinese entities, while the total volume of loans to foreign entities in mainland China continues to trend downward.[60] The percentage of total lending from Hong Kong banks to private entities in mainland China peaked at the end of 2021.[61] Since then, lending to state-owned entities has climbed to its highest percentage of total lending to the Mainland since 2015.[62]

*Listing on U.S. stock exchanges, while not impossible, has become increasingly burdensome for Chinese companies who must meet the U.S. Public Company Accounting Oversight Board's (PCAOB) stringent audit conditions and receive approval from Chinese regulators, an opaque and lengthy process. Despite this, small-cap Chinese firms continued to IPO on U.S. markets to take advantage of a closing timeframe for small listings, but there have been no blockbuster listings since ride-hailing app Didi Chuxing in 2021. George Steer, "Surge in Chinese Listings Drives Boom for US Small-Cap IPO Market," *Financial Times*, May 13, 2025; U.S.-China Economic and Security Review Commission, *Chinese Companies Listed on Major U.S. Stock Exchanges*, March 7, 2025, 1–3; Kane Wu et al., "Red Tape Clogs China's Offshore IPO Pipeline Even as Markets Recover," *Reuters*, June 2, 2024.

Figure 1: Hong Kong Loans to the Mainland by Borrower Type, Q1 2015–Q2 2025 (percent of Total Lending to the Mainland)



Source: Hong Kong Monetary Authority, "*Hong Kong: Mainland-Related Loans: Mainland State-Owned Entities, Mainland Private Entities, NonMainland Entities*," via Haver Analytics, September 3, 2025.

- *Hong Kong provides a route for mainland investors seeking to diversify concentrated onshore portfolios:* Inflows from mainland investors into Hong Kong equity markets through the Stock Connect hit a record annual high in July 2025, already surpassing full-year 2024 inflows, with mainland technology firms and new listings in particular benefiting from the inflow.*[63] The Connect programs, launched beginning in 2014, allow investors broad cross-border access to stocks and exchange-traded funds (ETFs) and have since been expanded to cover bonds and some derivatives.[64] One estimate attributes 25 percent of daily trading activity on the Hong Kong exchange to mainland Chinese investors, an increase from below 10 percent on average in 2019.[65]
- *Pilot programs and measures arranged by the Hong Kong Monetary Authority (HKMA) and People's Bank of China (PBOC) facilitate greater economic linkages between Hong Kong and the Mainland:* The HKMA has established programs promoting cross-border investment by making it easier for Mainlanders to invest via Hong Kong, easing access to credit data on mainland small businesses to facilitate credit from Hong Kong and allowing cross-border remittances for the purchase of residential real estate and other onshore services by Hong Kongers in the Greater Bay Area.[66] Other measures promulgated by the HKMA and the PBOC increase Hong Kong's role in promoting renminbi (RMB)-denominated trade and finance.[67]

*The Stock Connect links Hong Kong to mainland stock exchanges, enabling overseas investors to participate in mainland equities markets and vice versa. "Our Connect Story: A New Chapter Begins …" *Hong Kong Exchanges and Clearing Limited*, October 2022, 1–3.

Firms and Migrants from the Mainland Fill Foreign Void in Hong Kong's Workforce

As foreign firms continue to retreat, Chinese firms are providing a greater portion of professional services necessary to sustain Hong Kong's position as a financial services center. Although Western banks still lead in mergers and acquisitions, Chinese investment banks have dominated IPO underwriting since 2020.[68] Chinese banks have hired foreign professionals laid off by Western banks as they have downsized their presence in the city.[69] A similar trend is occurring in law firms, as Western law firms leave the city and mainland Chinese firms hire their lawyers.[70] Audit firm PwC has reportedly seen a wave of senior departures in Hong Kong after Chinese regulators fined the firm's Chinese affiliate and temporarily suspended its operations for earlier auditing work on now-bankrupt property developer Evergrande.[71] The loss of major client relationships by foreign firms could open an opportunity for Chinese auditors to increase their presence in the city.[72]

Hong Kong's workforce has also swelled with Mainlanders through its talent-based visa program. Over 90 percent of Top Talent visa applicants are mainland Chinese seeking work and a path to permanent residence in the city.[73] Mainland students represent a large and growing proportion of total foreign students at Hong Kong's universities, rising from 70 percent to 72 percent in the 2024–2025 schoolyear.[74] The volume of foreign students, primarily from mainland China, has driven a trend of converting underutilized hotels into student housing.[75]

Hong Kong Aligns Itself with Mainland Economic Priorities

As part of China's bid to use Hong Kong's attributes to serve the Mainland, Chinese policy seeks to integrate Hong Kong into regional development plans and dissolve distinctions between its borders and commercial environment and those of neighboring Shenzhen and the surrounding Pearl River Delta region. General Secretary of the CCP Xi Jinping stated that Hong Kong under "one country, two systems" should further the construction of a "strong country" and "national rejuvenation."[76] According to members of the Chinese People's Political Consultative Conference, Hong Kong should play a role as a "super-connector" between the Mainland and the global market, aligning regulatory environments and supporting mainland finance, trade, and shipping.[77] Notably, Hong Kong's development priorities are set by Beijing from the Hong Kong and Macau Work Office under the Central Committee, further suppressing Hong Kong's autonomy.[78]

Northern Metropolis and Greater Bay Area to Integrate Hong Kong into Surrounding Region

Like other Chinese policies, plans for Hong Kong aim to bolster the role of Chinese state-owned enterprises (SOEs) and advance technological development priorities. For example, financing from the Hong Kong government has funded billions in contracts to Chinese SOEs to develop the "Northern Metropolis," a technology hub spanning Shenzhen and Hong Kong's less developed New Territories.[79] The Northern Metropolis is a manifestation of Hong Kong's

strategic vision to build a "South-North dual engine," with Hong Kong's southern financial center serving as one engine and the under-construction "innovation and technology" metropolis serving as the second engine in the north.[80] These plans reflect Beijing's larger ambitions to use Hong Kong's status as a global financial hub to attract capital that will fund Beijing's technology ambitions.[81] The Hong Kong government is proactively quashing any criticism of the development, with the Secretary for Development stating that projects such as the Northern Metropolis are targets of "soft resistance" from environmental activists and displaced land owners and that the Development Bureau must "think from the national security perspective."[82]

The Northern Metropolis mirrors the Greater Bay Area plan, Beijing's sweeping vision launched in 2019 aiming to build an innovation cluster akin to Silicon Valley by leveraging Hong Kong's legal environment and financial markets and the technological and manufacturing capabilities of nearby mainland cities.[83] In March 2025, Hong Kong and mainland China effected an upgrade to their free trade agreement, the Closer Economic Partnership Agreement (CEPA), to deepen integration between institutions by expanding cross-border coverage to more service sectors.[84] The upgrade also extended the ability of Hong Kong-based firms and individuals in the Greater Bay Area (GBA) to use Hong Kong's legal system for mainland business, making incremental steps toward fulfilling plans for the GBA.[85]

Hong Kong's Separate Status Provides Continued Advantages for China

Despite its own internal plans and extensive efforts to integrate Hong Kong, China seeks to keep international partners from viewing them as one unit so as to take advantage of the perception of Hong Kong's separate voice. China's Ministry of Commerce has advocated for Hong Kong to maintain its separate customs status, and at least one Chinese official has called for Hong Kong to join regional trade agreements, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Digital Economy Partnership Agreement (DEPA).[86] Hong Kong is also far along in discussions to join the Regional Comprehensive Economic Partnership (RCEP), a free trade agreement with mainland China, ASEAN, Japan, South Korea, Australia, and New Zealand.[87] These trade agreements do not include the United States but do include important U.S. allies and partners, which would allow Beijing to leverage Hong Kong's separate status. Hong Kong's membership in international organizations like the WTO has afforded it representation it uses to support China's agenda, effectively giving China two voices in those organizations.[88]

While the United States revoked Hong Kong's special trade status in 2020 and the European Parliament recently backed a resolution calling for the same outcome, in 2022 the WTO ruled in Hong Kong's favor in a dispute over whether it can continue labeling goods as "made in Hong Kong," even for goods shipped to the United States.[89] On Hong Kong's National Security Day, Chief Executive Lee delivered a speech that criticized the United States for imposing tariffs

on Hong Kong at the same rate as levies on mainland China, referencing Hong Kong's status as a "zero-tariff free port."[90]

Beijing Pressures Local Firms to Support Its Foreign Policy Aims, Including Turning on Hong Kong Tycoon

Twenty twenty-five may go down as the year Beijing's civil and political takeover of Hong Kong took firm hold in its economy, as well. China's State Administration for Market Regulation intervened to halt Hong Kong conglomerate CK Hutchison's sale of overseas ports on dubious antitrust grounds, then pressured the firm to include state-owned China COSCO Shipping Corp (COSCO) in the deal, highlighting the potential for further regulatory intervention by Beijing in Hong Kong's commercial sphere. In March 2025, CK Hutchison announced it had reached an agreement to sell its overseas port operations, including two ports at each end of the Panama Canal, to a group of investors that included U.S. asset manager BlackRock and a subsidiary of Italian shipping conglomerate Mediterranean Shipping Co.[91] Soon after, reports emerged that Chinese regulators were examining the sale for potential antitrust violations, despite the deal itself having no immediate nexus to either Hong Kong or mainland China.[92] While negotiations are still ongoing, Panama itself has launched legal challenges against the current contract governing the port's operations, throwing the transaction's outcome further into doubt.[93]

China's stated antitrust rationale for blocking the transaction provides thin cover for its larger strategic and political considerations. CK Hutchison is incorporated in the Caribbean, and only 12 percent of its business is in mainland China and Hong Kong; none of the ports for sale are in China.[94] U.S. officials have expressed concerns over Chinese control of ports critical to commercial shipping and in a strategic location in the case of conflict.* Statements from Chinese leaders expressed displeasure over their perception that CK Hutchison was caving to U.S. demands, but their actions appear to validate U.S. concerns that Beijing would seek to leverage control by Chinese entities of these strategic ports.[95]

China has taken further steps to retain influence over the ports. In July, the *Wall Street Journal* reported that Chinese officials had threatened to block the sale unless COSCO, China's largest shipping company, was included in the deal.[96] COSCO has reportedly requested partial ownership in the new entity and veto rights over decision-making involving the Panama ports, arguing that these rights are necessary to protect China's interests.[97] China has also ramped up pressure on the CEO of CK Hutchison, Hong Kong-based billionaire developer Li Ka-shing. After CK Hutchison announced the proposed deal, Beijing directed state-owned Chinese firms to avoid any new business transactions with the Li family; Mr. Li's son

*Panama's ties to China have deepened since it switched recognition from Taiwan to Beijing in 2017. Although China promised extensive infrastructure investment under the Belt and Road Initiative, much of this investment was ultimately canceled, and annual U.S. investment in Panama is triple China's. However, Chinese control over key logistics hubs and port terminals has caused growing concern over the canal, which sees 40 percent of U.S. container ship traffic pass through annually. The Administration has emphasized the threat posed by Chinese influence in Panama. Associated Press, "China and the U.S. Clash at the U.N. over the Panama Canal," *NPR*, August 12, 2025; Jenny Duan, "Great-Power Competition in the Panama Canal," *International Institute for Strategic Studies*, April 15, 2025.

was in the process of applying for a license to operate his insurance business in the Mainland, but the licensing process is reportedly stalled.[98] Attacks from both mainland and Hong Kong state media have criticized Mr. Li for his lack of patriotic spirit, with one source claiming he will "go down in infamy in history."[99] While Mr. Li once had close ties to Beijing's top leaders and was welcomed for investing in the Mainland, his recent fall from favor marks a sharp reversal from how Hong Kong firms have operated for decades based on commercial incentives and free markets.[100]

Messaging to the business community from Chinese officials and Hong Kong's leaders emphasizes that firms remain free to make their own decisions, as long as those decisions support the PRC's vision for Hong Kong. In November 2024, Head of the Office for Hong Kong and Macau Affairs Xia Baolong met with members of the Hong Kong business community in Shenzhen to remind them of their role in preserving the international image of the city, among other things.[101] Mr. Xia's comment that local entrepreneurs who betrayed the national interest would "meet a grim fate and bear the curse of history" has concerned observers, who increasingly feel that Hong Kong businesses must act like mainland firms and serve the interests of the Party above profit motivations.[102] Despite Chief Executive Lee reiterating that Hong Kong's "enterprises can make their decisions," in the same breath, he made a not-so-subtle statement: "The key point is how much you love this place and how much you think you should contribute."[103] The CK Hutchison experience makes clear that moving forward, Hong Kong firms will need to more seriously consider Beijing's foreign policy priorities.

Hong Kong's Business Environment Poses Risks for U.S. and Other Foreign Firms

The decision of mainland Chinese regulators to intervene in the operations of firms based in Hong Kong over concerns related to national security and other mainland priorities raises serious questions about the integrity of Hong Kong's international business environment. While these actions have primarily impacted Hong Kong domestic firms to date, foreign firms operating in Hong Kong should be wary of relying on Hong Kong as an independent business jurisdiction with the protections of rule of law.

The Hong Kong government has launched a concerted campaign to assuage foreign business concerns over the national security regime, with some success. The city's highest-ranking officials have appeared at Hong Kong, mainland, and international business conferences to deliver the message that Hong Kong's economy is open for foreign investment.[104] A Hong Kong delegation that included Chief Executive Lee visited Qatar and Kuwait as part of efforts to encourage investment and greater linkages and participation in the GBA.[105] A blueprint for tourism development launched in December 2024 by Hong Kong's Culture, Sports, and Tourism Bureau aims to increase the number of conferences and events in the city.[106] Over the last year, a number of foreign professional services and cultural companies have expanded or set up new offices in the city, with the United States still among the largest countries of origin, according to Hong Kong's official investment promotion agency.[107]

Most U.S. businesses polled by the American Chamber of Commerce in Hong Kong (AmCham HK) indicated that they have not experienced an erosion in operating conditions due to Hong Kong's national security laws. In the 2025 Business Sentiment Survey, 70 percent of respondents reported that their companies' operations in Hong Kong had not been negatively impacted by the National Security Law, similar to the 2024 figure.[108] The proportion of respondents confident in Hong Kong's rule of law rose to 83 percent from 79 percent last year.[109] Whether or not these survey responses are skewed—as firms most impacted by the laws have left the city—is unclear. Operators of shipping vessels flagged in Hong Kong, wary of what they view as Hong Kong's potential to requisition ships for Beijing's maritime militia in case of a conflict, are leaving the city for other global flag centers like Singapore and the Marshall Islands.[110] Chinese-operated ships are replacing them.[111]

Other indicators of worsening business sentiment in Hong Kong have emerged as Hong Kong passes laws to tighten its national security regime. Thirty-three percent of respondents to AmCham HK's 2025 survey expressed doubts over Hong Kong's ability to retain its position as a competitive arbitration center due to concerns over the long-term strength of the rule of law, especially regarding the fairness of arbitration involving Hong Kong or PRC parties.[112] Hong Kong is still a favored destination for transactions involving mainland China, in particular because it allows parties to apply for interim relief for an ongoing arbitration and mutual enforcement in mainland China, which Singapore does not.[113] In a separate annual survey on the state of international arbitration, in 2025 Singapore remained in the top five seats for each of the six world regions polled, whereas Hong Kong was only in the top five for respondents in Asia.*[114] In the 2021 survey, Hong Kong was in the top five most preferred seats for five of six regions.[115]

Cyber Regulations Pose Risk for Foreign Firms

Hong Kong continues to tighten control over digital infrastructure, exposing businesses to regulatory risks as Hong Kong's digital governance converges with the Mainland's. A new cybersecurity law passed in March 2025 requires operators of critical infrastructure (CIOs) to strengthen cyber defenses on computer systems, report cybersecurity incidents, and perform security risk assessments and audits on a recurring basis.[116] The law is vague on what constitutes a CIO, subjecting firms to regulatory uncertainty and increased compliance costs.[117] The design of the law generally follows the design of China's domestic digital regulation, minus onerous data transfer restrictions.[118] Intelligence firm Control Risks assessed that the law may presage tighter controls on personal information.[119] While this new law follows many jurisdictions in tightening oversight of cybersecurity and critical infrastructure, laws that would not be concerning in "rule of law" jurisdictions can become tools of government coercion and abuse under the Mainland's "rule by law" system.

*The six regions are Africa, Asia-Pacific, Caribbean/Latin America, Europe, Middle East, and North America. "2025 International Arbitration Survey: The Path Forward: Realities and Opportunities in Arbitration," *White & Case*, 6.

Hong Kong's Connectivity Facilitates Sanctions Evasion

Hong Kong remains a center for money laundering tied to sanctions evasion, corruption, and organized crime. According to researchers at the University of Sussex, Hong Kong has become one of the world's foremost centers for money laundering, following on a long history of disguising illicit flows to and from mainland China and Macau.[120] Hong Kong's historically vibrant commercial environment and connectivity as a global financial hub, along with its reputation for high regulatory standards, have made the city a key conduit for skirting economic restrictions.[121] Moreover, Hong Kong has refused to comply with some U.S. economic restrictions, with Chief Executive Lee stating that Hong Kong would not implement U.S. sanctions on Russia in 2022.[122]

Transshipment and export control evasion through Hong Kong has supported destabilizing actions by Iran, North Korea, and Russia. In the first three quarters of 2025 alone, the United States has sanctioned 64 Hong Kong entities for helping facilitate sales of Iranian oil, including to independent refineries in China.[123] Hong Kong trade data also reveal a significant flow of dual-use electronics to Russia, including communications equipment, computers and other data processing machines, and integrated circuits.[124] Russia's Consul General in Hong Kong acknowledged the importance of the city as a trade connector for Russia and China, including the use of offshore RMB to facilitate trade.[125] While Hong Kong's total exports to Russia fell in 2024 year-over-year, exports of foundational semiconductors to Russia continued to rise and shipments of advanced chips remained elevated.[126] A report by the German Foreign Ministry found that China, including Hong Kong, was responsible for 80 percent of Russian sanctions circumvention.[127]

Cryptocurrency has played a role in the facilitation of these crimes, including by receiving funds from victims via virtual wallets that are then accessed and stolen by criminals (for more on China's regulation of cryptocurrency, see Chapter 1, "U.S.-China Economic and Trade Relations (Year in Review)").[128] Cryptocurrency has also been linked to money laundering operations by perpetrators of organized crime in Southeast Asia, creating added risks for Hong Kong's decision to pursue a role as the world's preeminent center for virtual assets.*[129]

Despite Hong Kong's central role in evading sanctions on Russia and Iran, Hong Kong authorities are cracking down on money laundering rings linked to financial crimes against Chinese citizens. Hong Kong regulators and law enforcement have coordinated with mainland authorities to uncover fraud schemes targeting mainland Chinese through Hong Kong's financial system.[130] In April 2025, the Hong Kong Monetary Authority, along with the Hong Kong Police Force and Hong Kong Association of Banks, announced new mea-

*Hong Kong's regulators have implemented a new licensing process for digital asset exchanges as part of the city's push to expand its presence in the cryptocurrency industry. Mainland firms have received approval to provide digital currency trading services in the city, despite a ban on cryptocurrency trading in mainland China itself. Hong Kong has exhibited fast growth in the market for digital assets and has attracted interest from fintech companies seeking to raise funds. For more on Hong Kong's cryptocurrency industry, see U.S.-China Economic and Security Review Commission, Chapter 10, "Hong Kong Nascent Cryptocurrency Sector Faces Mainland Prohibitions" in *2024 Annual Report to Congress*, November 2024, 704–705. Matthew Fulco, "Hong Kong's Crypto Bet Is Starting to Pay Off," *Jamestown Foundation*, August 7, 2025.

sures to identify, halt, and prevent fraud and money laundering.[131] Hong Kong authorities' deliberate response and coordination with the Mainland on crimes targeting China stands in stark contrast to their inaction to address rampant sanctions evasion, including UN sanctions on North Korea that China claims to follow. (For more on Hong Kong's role in sanctions and export control evasion, see the Commission's staff research report on "China's Facilitation of Sanctions and Export Control Evasion.")

Implications for the United States

China has completely reneged on its promise to preserve a significant degree of autonomy for Hong Kong under "one country, two systems," leaving the remnants of rule of law and judicial independence as a thin veneer. The fate of Hong Kong less than three decades since its handover should cast doubt on any commitments China might make with regard to a similar solution for Taiwan. Because of China's complete political control over Hong Kong and its regulatory environment, U.S. firms face considerable risks by continuing to do business in Hong Kong. Although these risks have primarily affected local Hong Kong firms so far, foreign companies with Hong Kong-based subsidiaries should not assume they are immune to coercion or pressure from Hong Kong authorities. U.S. citizens based in or transiting through Hong Kong are also at risk as Hong Kong's government races to make the city as tightly controlled as the Mainland and blames any dissent on foreign infiltration.

In recent years, Congress has provided the executive branch considerable direction and authority to respond to the dismantling of Hong Kong's freedom, autonomy, and rule of law. Under the Hong Kong Human Rights and Democracy Act, the Administration in 2020 found that Hong Kong no longer maintained sufficient autonomy from the Mainland to warrant treatment as a separate territory under U.S. law. Nonetheless, the Hong Kong Economic and Trade Offices continue to exist in the same manner as when Hong Kong was considered autonomous, with their own special diplomatic privileges, exemptions, and immunities in the United States separate from the PRC.[132] The 2020 Hong Kong Autonomy Act provided additional authorities to impose sanctions on individuals and entities that materially contribute to China's failure to preserve Hong Kong's autonomy. **There is significant room for policy and coordination with allies and partners, especially the UK, to protect Hong Kong activists overseas from China's unlawful extraterritorial attempts to impose warrants on and silence its critics.** Likewise, firms operating in the city remain at risk of regulatory overreach under China's "rule by law" system, enabled by Hong Kong's outdated image as a reputable global financial center.

At the same time, Hong Kong's role as an instrument of China's geostrategic aims heightens challenges to U.S. market integrity and the efficacy of U.S. foreign policy. **Hong Kong continues to play a role in sanctions and export control evasion, serving as a lifeline for Iran and Russia and providing Beijing a tool to support revisionist autocratic regimes.** U.S. and international

firms selling controlled items to recipients or distributors in Hong Kong have limited control over where these goods end up and may be at risk of facilitating the violation of sanctions and export controls. The Chinese government is taking on major money laundering risks for Hong Kong through its efforts to transform Hong Kong into a global cryptocurrency hub.

Recommendations

The Commission recommends:

- Given Hong Kong has become a central global hub for sanctions evasion that supports Russia, Iran, and North Korea, Congress pass legislation to:
  - Condition Hong Kong's continued status as an official offshore U.S. dollar (USD) clearing center on compliance with U.S. sanctions, including by providing U.S. authorities full visibility into transactions conducted through Hong Kong's USD Clearing House Automated Transfer System (USD CHATS);
  - Direct the U.S. Department of the Treasury to assess the extent to which transactions in Hong Kong via USD CHATS are facilitating evasion of sanctions or export controls and determine the feasibility of replacing it with the Clearing House Interbank Payments System (CHIPS);
  - Authorize secondary sanctions for the facilitation of sanctions and export control violations by Chinese and Hong Kong financial institutions, including codifying authorities established by executive order to impose secondary sanctions on Chinese and Hong Kong financial institutions facilitating evasion on behalf of Russian, Iranian, and North Korean entities;
  - Direct the U.S. Department of Commerce, Bureau of Industry and Security (BIS) to require heightened due diligence for sales of any Common High Priority List (CHPL) items to China or Hong Kong, given China's role as primary provider of such items to Russia;
  - Provide additional resources, technology, and staff to BIS and the Treasury Department's Office of Foreign Assets Control (OFAC) for enforcement of export controls and sanctions related to Hong Kong; and
  - Create a new standing cross-agency enforcement task force with respect to sanctions and export control evasion through Hong Kong, including enforcement personnel relating to money laundering, financial sanctions, and export controls, to enhance overall enforcement efforts to shut down illicit evasion networks running through Hong Kong.
- Congress codify Executive Order 13936 on Hong Kong Normalization that was issued on July 14, 2020, along with the Secretary of State's 2020 certification as required under the United States-Hong Kong Policy Act, to ensure the continued implementation of U.S. policy in response to Beijing's dismantling of Hong Kong's autonomy and the erosion of fundamental freedoms. The Executive Order determined that the Special Admin-

istrative Region of Hong Kong is no longer sufficiently autonomous to justify differential treatment in relation to the People's Republic of China under U.S. law. The legislation should include the following provisions:

- Permanently authorize all provisions of the Executive Order, including sanctions on individuals and entities responsible for undermining Hong Kong's autonomy;
- Suspend Hong Kong's special trade preferences; and
- Continue reporting requirements on the status of human rights and rule of law in Hong Kong.

Codification would protect these measures from potential reversal by future administrations without congressional input, send a strong bipartisan signal of support for the people of Hong Kong, and reinforce U.S. commitment to upholding international obligations under the Sino-British Joint Declaration.

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