

HONG KONG

World Rank: **1**

Regional Rank: **1**

Hong Kong's economic freedom score is 89.6. Its overall score has declined by 0.5 point since last year, reflecting a higher level of perceived corruption that outweighs small improvements in business freedom, labor freedom, and fiscal freedom. Hong Kong continues to be the top-rated economy in the *Index*.

Hong Kong, a global free port and financial hub, continues to thrive on the free flow of goods, services, and capital. As the economic and financial gateway to China, and with an efficient regulatory framework, low and simple taxation, and sophisticated capital markets, the territory continues to offer the most convenient platform for international companies doing business on the mainland. An impressive level of resilience has enabled it to navigate global economic swings and domestic shocks.

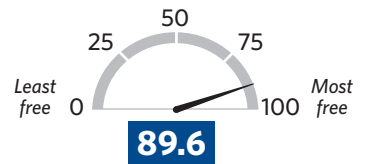
However, the economy's institutional uniqueness, enshrined in its exceptional commitment to economic freedom and a high degree of autonomy pledged by the mainland, has faded a bit. Although Hong Kong maintains the features of an economically free society, economic decision-making has become somewhat more bureaucratic and politicized, and the government's administrative scope and reach have expanded. Recent political events appear to have undermined public trust and confidence in the administration.

BACKGROUND: Hong Kong became part of the People's Republic of China in 1997, but under the "one country, two systems" agreement, China promised not to impose its socialist policies on Hong Kong and to allow Hong Kong a high degree of autonomy in all matters except foreign and defense policy for 50 years. The critical issue today is the shape and form that "universal suffrage," promised for 2017 by Chinese authorities, will take. Although the government controls all land in Hong Kong, the economy has benefited from its commitment to small government, low taxes, and light regulation. Major industries include financial services and shipping; manufacturing has largely migrated to the mainland. Hong Kong's economy has become increasingly integrated with China through trade, tourism, and financial links.

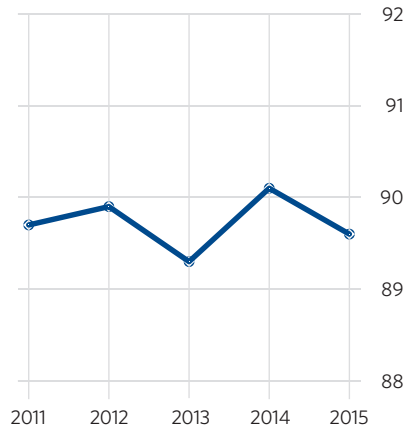
How Do We Measure Economic Freedom?

See page 475 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

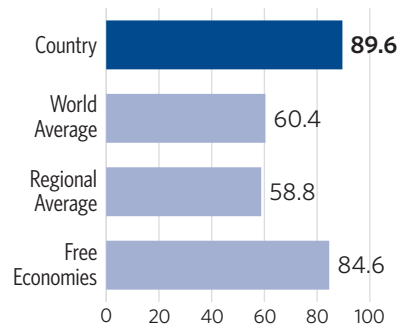
Economic Freedom Score



Freedom Trend



Country Comparisons

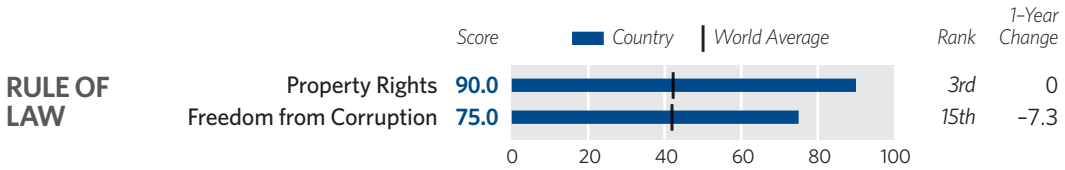


Quick Facts

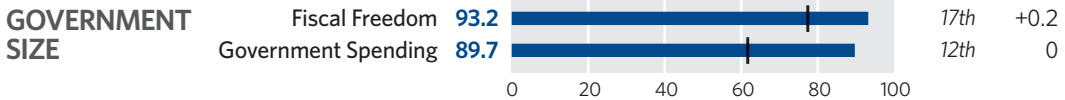
Population: 7.2 million
GDP (PPP): \$381.9 billion
 2.9% growth in 2013
 5-year compound annual growth 2.7%
 \$52,722 per capita
Unemployment: 3.3%
Inflation (CPI): 4.3%
FDI Inflow: \$76.6 billion
Public Debt: 0.5% of GDP

2013 data unless otherwise noted.
 Data compiled as of September 2014.

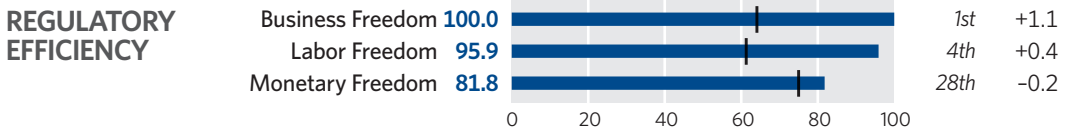
THE TEN ECONOMIC FREEDOMS



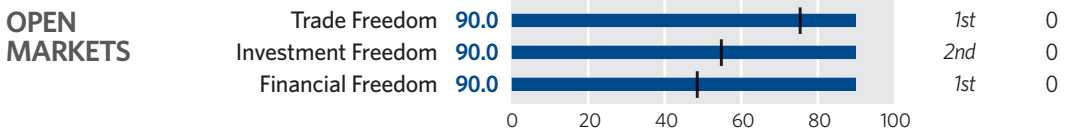
Hong Kong continues to enjoy relatively low rates of corruption, although business interests exercise a strong influence in the unicameral legislature and executive branch. Beijing’s heavy-handed efforts in 2014 to assert greater control from the mainland have galvanized pro-democracy sentiments. The rule of law is respected, and the efficient and capable judiciary remains independent. Property rights are well protected.



The standard income tax rate is 15 percent, and the top corporate tax rate is 16.5 percent. The overall tax burden equals 13.7 percent of domestic income. Government expenditures amount to 18.5 percent of gross domestic product. Public debt is low, and a budget surplus has been maintained, but population aging and greater spending on social programs have increased fiscal pressures.



The competitive and transparent regulatory framework supports dynamic business formation and operation. The labor market is vibrant, with flexible and well-enforced labor codes. Working hours and wages are largely determined by the market. Monetary stability is maintained through the exchange-rate peg to the U.S. dollar. The government provides some low-cost housing and green energy subsidies.



Hong Kong has a 0 percent average tariff rate and remains one of the world’s most open economies for international trade and investment. The highly developed and prudently regulated financial system offers a wide range of innovative financing options. The banking sector is dynamic and resilient. The large and growing financial exposure to the mainland continues to deepen.

Long-Term Score Change (since 1995)

| RULE OF LAW | | GOVERNMENT SIZE | | REGULATORY EFFICIENCY | | OPEN MARKETS | |
|-------------------------|-------|---------------------|------|-----------------------|------|--------------------|-------|
| Property Rights | 0 | Fiscal Freedom | +0.2 | Business Freedom | 0 | Trade Freedom | 0 |
| Freedom from Corruption | -15.0 | Government Spending | -3.8 | Labor Freedom | +9.4 | Investment Freedom | 0 |
| | | | | Monetary Freedom | +1.0 | Financial Freedom | +20.0 |