

HONG KONG

World Rank: **1**

Regional Rank: **1**

Hong Kong's economic freedom score is 89.9, making its economy the freest in the 2012 *Index*. Its overall score is 0.2 point higher than last year, with improvements in freedom from corruption and the control of government spending partially offset by a small decline in monetary freedom. Hong Kong is ranked 1st out of 41 countries in the Asia-Pacific region.

Hong Kong has demonstrated a high degree of resilience during the ongoing global turmoil and remains one of the world's most competitive financial and business centers. The high-quality legal framework, which provides effective protection of property rights and strong support for the rule of law, continues to be the cornerstone of strength for the dynamic city economy. There is little tolerance for corruption.

Regulatory efficiency and openness to global commerce strongly support entrepreneurial dynamism, while overall macroeconomic stability minimizes uncertainty. Economic interaction with China has become more intense and sophisticated, chiefly through strengthened financial linkages, and financial markets are extremely well capitalized. Although Hong Kong maintains its ranking as the world's freest economy, policies proposed or implemented since the second half of 2010, particularly the establishment of a minimum wage, have moved the economy modestly in the direction of greater regulation.

BACKGROUND: The Special Administrative Region of Hong Kong is part of the People's Republic of China but is self-governing on a day-to-day basis and enjoys a wide range of freedoms under a mini-constitution known as the Basic Law. The local government has promised democratic reforms, but implementation has been continuously delayed. Hong Kong boasts one of the world's most prosperous economies, thanks to small government, low taxes, and light regulation. Major industries include financial services and shipping; manufacturing has largely migrated to the mainland. Concerns include cronyism in policymaking, state control of land, and restrictions on the free flow of information.

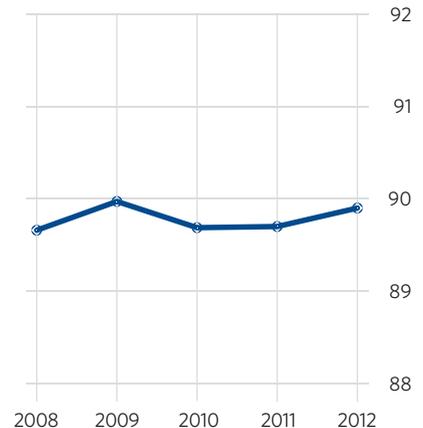
How Do We Measure Economic Freedom?

See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

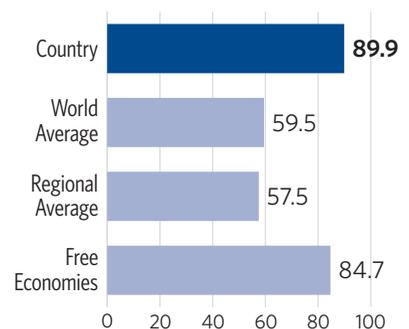
Economic Freedom Score



Freedom Trend



Country Comparisons

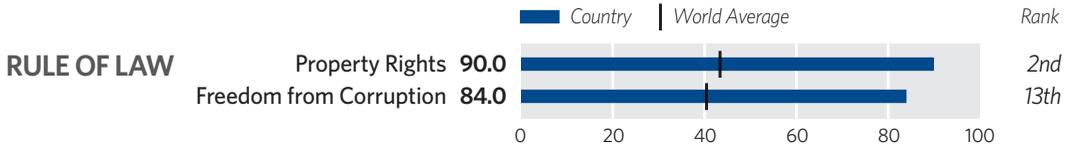


Quick Facts

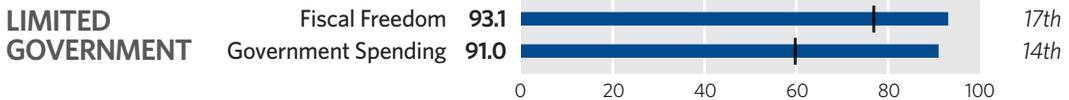
Population: 7.1 million
GDP (PPP): \$325.8 billion
 7.0% growth in 2010
 5-year compound annual growth 3.9%
 \$45,736 per capita
Unemployment: 4.4%
Inflation (CPI): 2.4%
FDI Inflow: \$68.9 billion
Public Debt: 0.6% of GDP

2010 data unless otherwise noted.
 Data compiled as of September 2011.

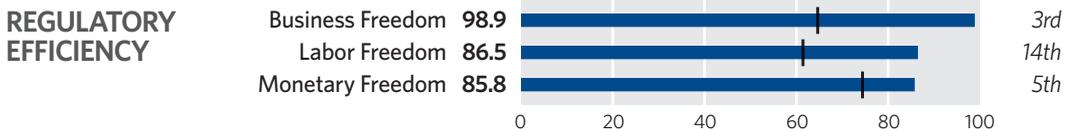
THE TEN ECONOMIC FREEDOMS



The legal system’s efficiency encourages respect for the rule of law. The constitutional framework, provided by the Basic Law, protects private property rights and freedom of exchange. The judiciary is independent of influence from the executive and legislative branches. A strong tradition of minimum tolerance for corruption, further institutionalized by effective anti-corruption measures, promotes government integrity.



The standard income tax rate is 15 percent, and the top corporate tax rate is 16.5 percent. The tax system is simple and efficient, and the overall tax burden is low at 13.9 percent of total domestic output. Government spending is equivalent to 17.3 percent of GDP. The budget balance has recorded large surpluses, which the government has chosen to reduce through per capita cash payments and tax rebates. Public debt is low.



The regulatory environment is highly supportive of business efficiency. With no minimum capital required, launching a business takes only three days. The impact of installing a statutory minimum wage has been relatively subdued, with labor productivity far exceeding the low minimum wage rate enforced in 2011. Monetary stability is well maintained, although inflationary pressures have increased. The government controls all land.



The trade regime is one of the world’s most competitive and efficient, with a zero tariff rate and minimal non-tariff barriers. A robust and transparent investment framework, in place for many years, continues to attract foreign investment. Hong Kong has further solidified its competitive status as a dynamic international financial center with a high degree of transparency and prudent regulatory enforcement.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.2	Business Freedom	+0.2	Trade Freedom	0
Freedom from Corruption	+2.0	Government Spending	+1.4	Labor Freedom	+0.3	Investment Freedom	0
				Monetary Freedom	-1.3	Financial Freedom	0