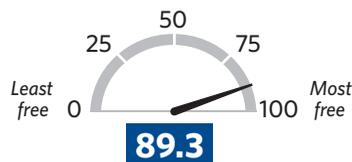


HONG KONG

World Rank: **1**

Regional Rank: **1**

Economic Freedom Score



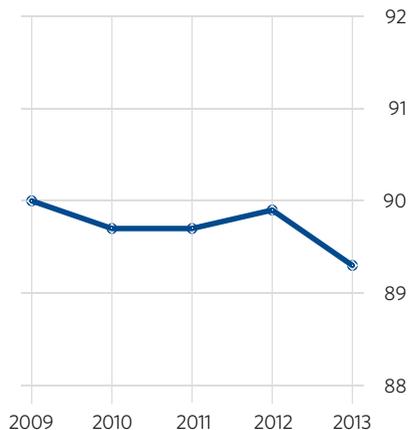
Hong Kong's economic freedom score of 89.3 keeps it atop the *Index* rankings for the 19th consecutive year. Its overall score is 0.6 point lower than last year, mainly due to increased government spending relative to GDP and an increase in inflation. Hong Kong is ranked 1st out of 41 countries in the Asia-Pacific region and 1st in the world.

Hong Kong's highly competitive regulatory regime, coupled with an efficient and transparent legal framework, sustains vibrant engagement in global trade and investment. The highly motivated and skilled workforce is a cornerstone of strength for the dynamic economy. There is little tolerance for corruption. Economic interactions with China have become more intense and sophisticated, and trade and financial linkages with the mainland have grown significantly.

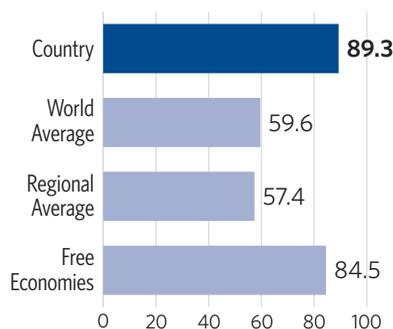
Hong Kong continues to demonstrate a high degree of economic resilience and remains one of the world's most competitive financial and business centers. Although Hong Kong remains number one in the *Index* rankings, the uniqueness of its commitment to economic freedom has eroded in recent years, and any further implementation of populist policies that empower the bureaucracy or undermine the principle of limited government could threaten its standing in the future.

BACKGROUND: The Special Administrative Region of Hong Kong has been part of the People's Republic of China since 1997 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 delayed. Chief Executive Leung Chun-ying, who took office July 1, 2012, was chosen by a 1,200-member Election Committee and then appointed by the government of China. Hong Kong has one of the world's most prosperous economies, thanks to a commitment 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.

Freedom Trend



Country Comparisons



Quick Facts

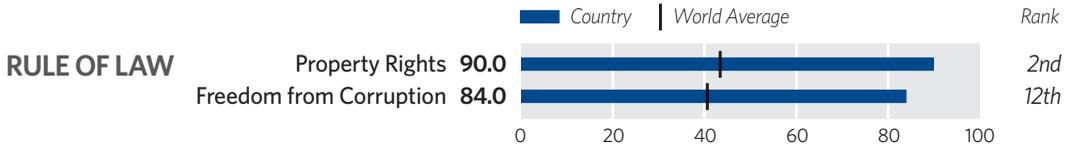
Population: 7.1 million
GDP (PPP): \$351.1 billion
 5.0% growth in 2011
 5-year compound annual growth 3.6%
 \$49,137 per capita
Unemployment: 3.4%
Inflation (CPI): 5.3%
FDI Inflow: \$83.2 billion
Public Debt: 33.9% of GDP

How Do We Measure Economic Freedom?

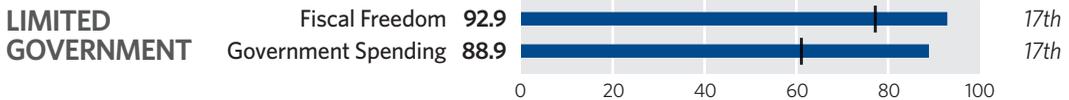
See page 477 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2011 data unless otherwise noted.
 Data compiled as of September 2012.

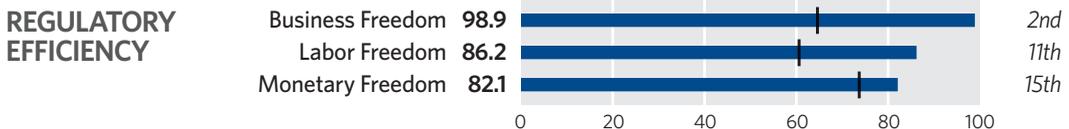
THE TEN ECONOMIC FREEDOMS



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 14.5 percent of GDP. Government spending is equivalent to 19.2 percent of GDP. Public debt is low, and a budget surplus has been maintained even in light of increased government spending and tax rebates.



The overall entrepreneurial environment remains one of the world’s most transparent and efficient. The business start-up process is straightforward, with no minimum capital required. A statutory minimum wage has been in place since 2011, although its impact on the labor market has been relatively muted. Overall monetary stability is well maintained, but inflationary pressures continue. The government controls all land.



The trade regime remains 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’s first competition law, enacted in June 2012, is expected to be implemented in phases. The financial sector remains highly competitive and well capitalized, serving as a leading global hub.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.2	Business Freedom	0	Trade Freedom	0
Freedom from Corruption	0	Government Spending	-2.1	Labor Freedom	-0.3	Investment Freedom	0
				Monetary Freedom	-3.7	Financial Freedom	0