

HONG KONG

World Rank: **1**

Regional Rank: **1**

Hong Kong's economic freedom score is 90.1, making it the top-rated economy in the *Index* for the 20th consecutive year. Its overall score is slightly better than last year due to improvements in government size and regulatory efficiency that offset a decline in freedom from corruption. Hong Kong is ranked 1st out of 42 countries in the Asia-Pacific region and 1st in the world.

Throughout the 20-year history of the *Index*, Hong Kong has been rated the world's freest economy, but its strong commitment to economic freedom has become somewhat less exceptional as average world economic freedom has advanced. This year, Hong Kong recorded its second highest economic freedom score ever. In recent years, populist policies that increase spending and empower the administrative bureaucracy, as well as an increasing level of perceived corruption, have held back Hong Kong's overall rating.

Yet the territory has effectively navigated global booms and busts, recording an overall score improvement of 1.6 points over the past two decades. A high degree of market openness, as measured by trade freedom, investment freedom, and financial freedom, has been complemented by a transparent regulatory environment and competitive tax regime. A highly motivated workforce and a high level of labor freedom have added to Hong Kong's economic dynamism and resilience.

BACKGROUND: The Special Administrative Region of Hong Kong is part of the People's Republic of China but self-governing on a day-to-day basis, and its people enjoy a wide range of freedoms under its Basic Law. Implementation of promised democratic reforms, including universal suffrage, has been slow. Chief Executive Leung Chun-ying, who took office in 2012, was chosen by a 1,200-member Election Committee and formally appointed by the mainland government. 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. Current concerns include cronyism in policymaking, state control of land, and restrictions on information flows.

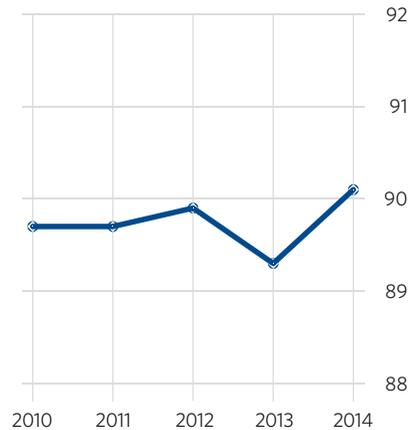
How Do We Measure Economic Freedom?

See page 471 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

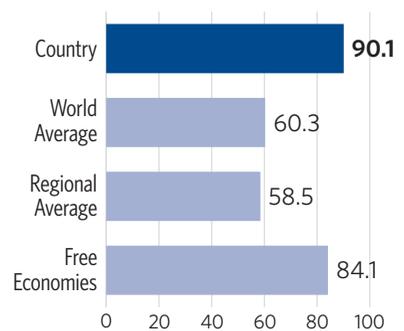
Economic Freedom Score



Freedom Trend



Country Comparisons

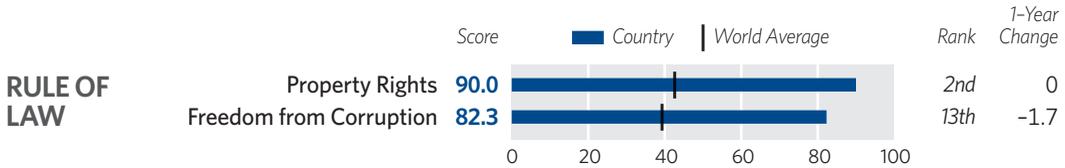


Quick Facts

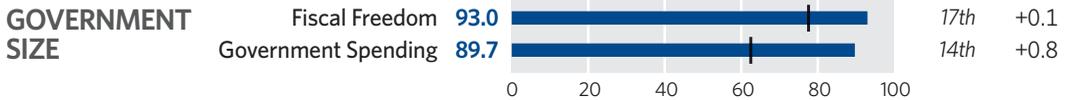
Population: 7.2 million
GDP (PPP): \$369.4 billion
 1.4% growth in 2012
 5-year compound annual growth 2.5%
 \$51,494 per capita
Unemployment: 3.3%
Inflation (CPI): 4.1%
FDI Inflow: \$74.6 billion
Public Debt: 0.5% of GDP

2012 data unless otherwise noted.
 Data compiled as of September 2013.

THE TEN ECONOMIC FREEDOMS



Hong Kong enjoys low rates of corruption, although business interests exercise a strong influence in the unicameral legislature and executive branch. The judiciary is efficient and independent, and the rule of law is respected. Property rights are well protected, and the government devotes significant attention and resources to enforcement of intellectual property laws.



The standard individual 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 around 14 percent of GDP. Government spending remains equivalent to slightly under one-fifth of the domestic economy. Public debt is virtually nonexistent, and a budget surplus has been maintained even in light of increased government spending and tax rebates.



The competitive regulatory regime aids business formation and innovation. The process for launching a business is straightforward, and no minimum capital is required. The impact of the recently introduced statutory minimum wage on the labor market has been relatively subdued. Monetary stability is maintained through the exchange-rate peg to the U.S. dollar. The government partially subsidizes small and medium enterprises.



Hong Kong is very open to international commerce, with a 0 percent average tariff rate and few barriers to foreign investment. A robust and transparent investment framework, in place for many years, continues to attract foreign investment. The financial sector remains highly competitive and well capitalized, serving as a leading global hub. There are no restrictions on foreign banks, which are treated the same as domestic banks.

Long-Term Score Change (since 1995)

RULE OF LAW		GOVERNMENT SIZE		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	0	Business Freedom	-1.1	Trade Freedom	0
Freedom from Corruption	-7.7	Government Spending	-3.8	Labor Freedom	+9.0	Investment Freedom	0
				Monetary Freedom	+1.2	Financial Freedom	+20.0