

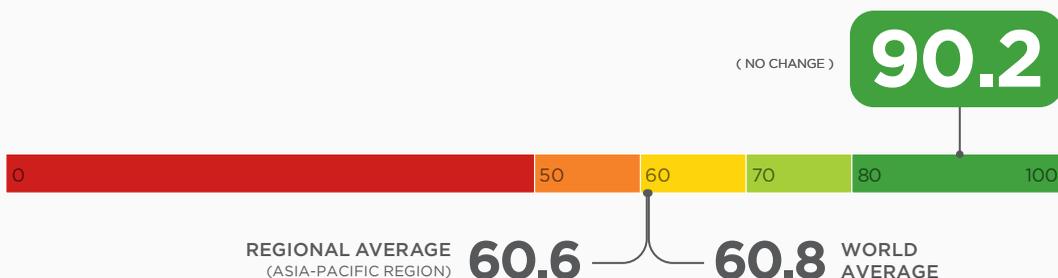
HONG KONG

Hong Kong's economic freedom score is 90.2, sustaining its status as the world's freest economy in the 2019 *Index*. Its overall score is unchanged from 2018, with increases in scores for **trade freedom**, **monetary freedom**, and **government integrity** countered by a decline in **judicial effectiveness**. Hong Kong is ranked 1st among 43 countries in the Asia-Pacific region, and its overall score is well above the regional and world averages.

Moderately looser fiscal policy encouraged economic growth in 2018, but U.S.–China trade frictions could have significant negative repercussions. An exceptionally competitive financial and business hub, Hong Kong remains one of the world's most resilient economies. A high-quality legal framework provides effective protection of property rights and strongly supports the rule of law. There is little tolerance for corruption, and a high degree of transparency enhances government integrity. Regulatory efficiency and openness to global commerce undergird a vibrant entrepreneurial climate.



ECONOMIC FREEDOM SCORE

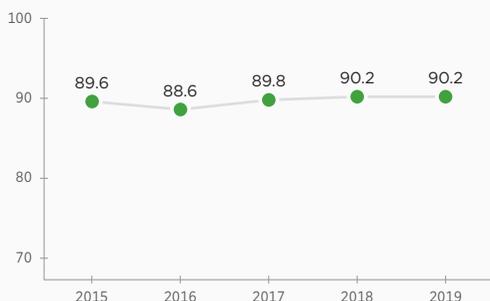


RELATIVE STRENGTHS:
Fiscal Health and Business Freedom

HISTORICAL INDEX SCORE CHANGE (SINCE 1995):
+1.6

CONCERNS:
Judicial Effectiveness and Government Integrity

FREEDOM TREND



QUICK FACTS

POPULATION:
7.4 million

GDP (PPP):
\$454.9 billion
3.8% growth in 2017
5-year compound annual growth 2.8%
\$61,393 per capita

UNEMPLOYMENT:
3.1%

INFLATION (CPI):
1.5%

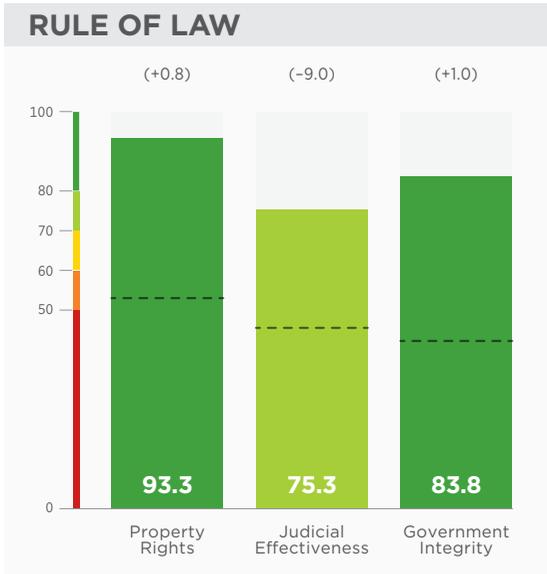
FDI INFLOW:
\$104.3 billion

PUBLIC DEBT: 0.1% of GDP

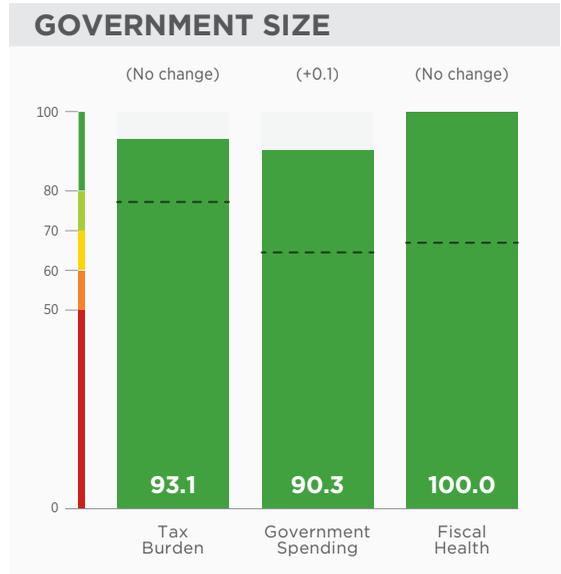
2017 data unless otherwise noted. Data compiled as of September 2018

BACKGROUND: Hong Kong became a Special Administrative Region of the People's Republic of China in 1997. Carrie Lam began a five-year term as chief executive in 2017. Under the "one country, two systems" agreement, China granted Hong Kong a high degree of autonomy in all matters except foreign and defense policy for 50 years. This policy has been strained by PRC political interference in recent years, and the Hong Kong government's decision in 2018 to ban a pro-independence party led to protests and raised concerns about future prospects for freedom of speech and association in the SAR. Despite the political unrest, Hong Kong's open and market-driven economy continues to flourish, increasingly integrated with the mainland through trade, tourism, and financial links.

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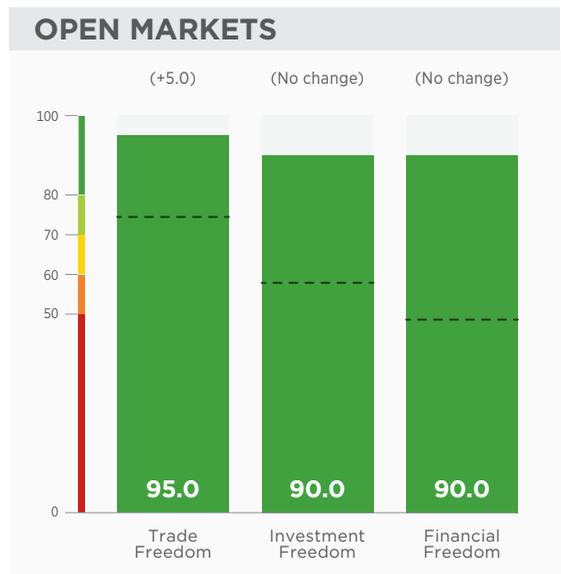
Property rights are effectively enforced and enshrined in the Basic Law, which serves in effect as the SAR's constitution. Commercial and company laws uphold the sanctity of contracts. The judiciary is independent, but Beijing reserves the right to make final interpretations of the Basic Law, effectively limiting the power of Hong Kong's Court of Final Appeal. Hong Kong has an excellent record of combatting corruption.



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. The overall tax burden equals 14.0 percent of total domestic income. Over the past three years, government spending has amounted to 17.9 percent of the country's output (GDP), and budget surpluses have averaged 3.4 percent of GDP. Public debt is equivalent to 0.1 percent of GDP.



Business freedom is well protected within an efficient regulatory framework. Transparency encourages entrepreneurship, and the overall environment is conducive to the start-up of businesses. The labor code is strictly enforced but not burdensome. Very few price controls are in place, but the government regulates residential rents and in 2018 announced that it will study possible increases in transportation subsidies.



The combined value of exports and imports is equal to 375.1 percent of GDP. The average applied tariff rate is 0.0 percent. As of June 30, 2018, according to the WTO, Hong Kong had 149 nontariff measures in force. Hong Kong is very open to global trade and investment. The financial regulatory environment focuses on ensuring transparency and enforcing prudent minimum standards. There are no restrictions on foreign banks.