

HONG KONG

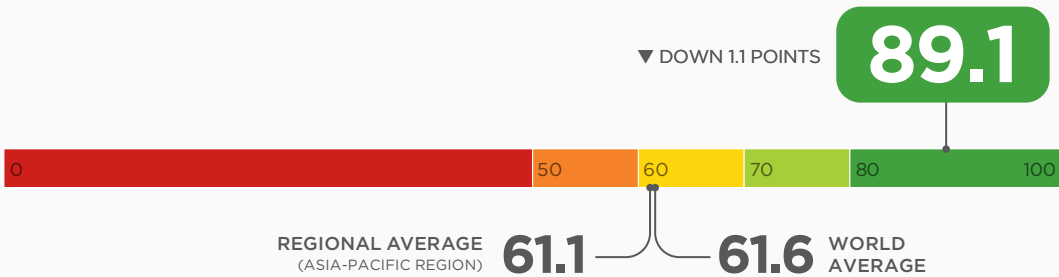
Hong Kong's economic freedom score is 89.1, making its economy the 2nd freest in the 2020 *Index*. Its overall score has decreased by 1.1 points due primarily to a decline in the **investment freedom** score. Hong Kong is ranked 2nd among 42 countries in the Asia-Pacific region, and its overall score is well above the regional and world averages.

Hong Kong's economy was rated the freest in the world from 1995 through 2019. The ongoing political and social turmoil has begun to erode its reputation as one of the best locations from which to do business, dampening investment inflows.

GDP had been growing steadily over the past five years, but the territory fell into recession in 2019. Hong Kong's traditionally open and market-driven economy has become increasingly integrated with the mainland through trade, tourism, and financial links. Risks to Hong Kong's economic freedom have grown correspondingly.

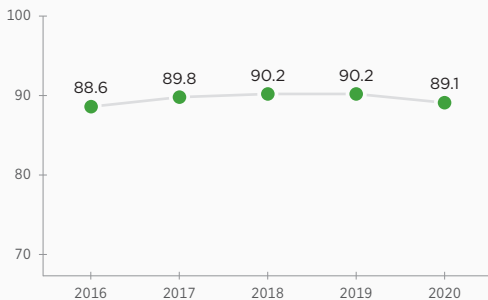


ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1995): +0.5

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
7.5 million

GDP (PPP):
\$480.5 billion
3.0% growth in 2018
5-year compound annual growth 2.8%
\$64,216 per capita

UNEMPLOYMENT:
2.8%

INFLATION (CPI):
2.4%

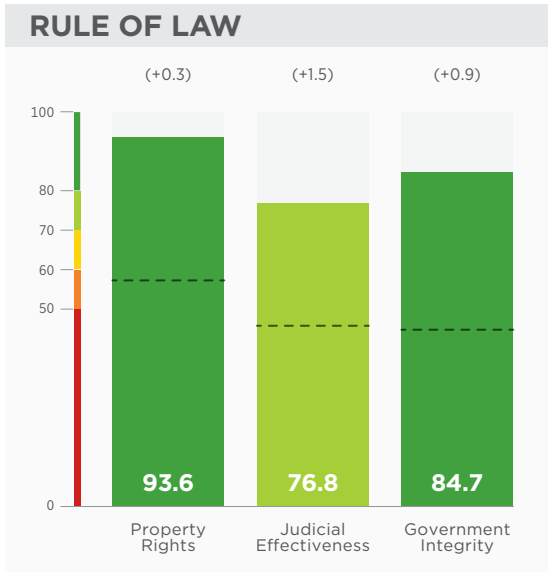
FDI INFLOW:
\$115.7 billion

PUBLIC DEBT: 0.1% of GDP

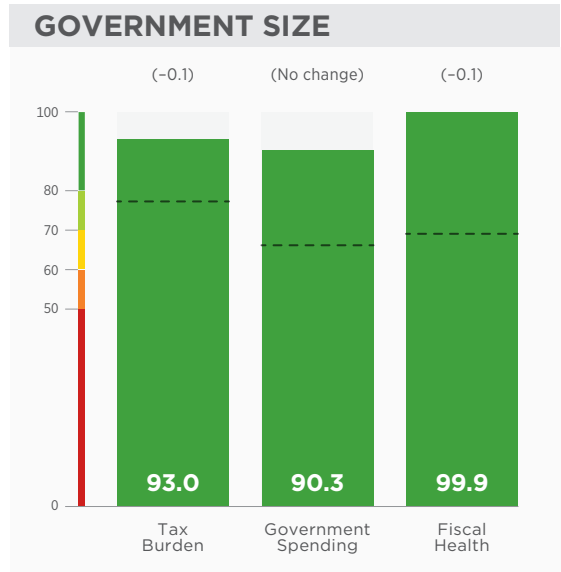
2018 data unless otherwise noted. Data compiled as of September 2019

BACKGROUND: Hong Kong became a Special Administrative Region of the People's Republic of China in 1997. 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. The political, social, legal, and economic tensions inherent in such an arrangement bubbled over in 2019, triggered by a government proposal that would have facilitated extradition from Hong Kong to the mainland. The massive demonstrations that ensued have been followed by months of political unrest and violence that have impeded economic activity and heightened fears of mainland interference. Despite its recent troubles, however, Hong Kong remains one of Asia's most important financial and trading centers.

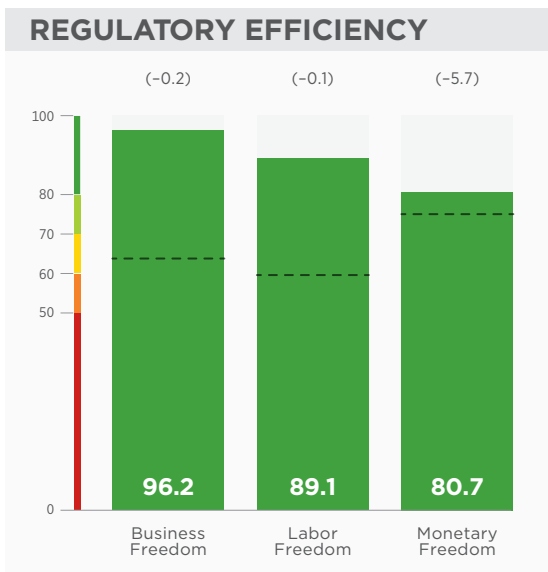
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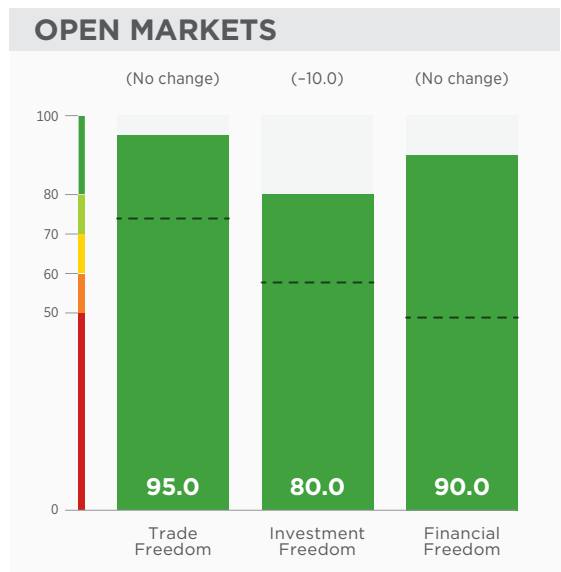
Property rights are recognized, and contracts are enforced. The independence of Hong Kong’s judicial system was seriously imperiled in 2019 by a government proposal for an extradition law (since withdrawn) that could have permitted political dissidents to be arrested and transferred to the mainland. Although rates of corruption are generally low, Hong Kong residents perceive the government as lagging in the fight against corruption.



The standard personal 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 14.1 percent of total domestic income. Government spending has amounted to 18.0 percent of the country’s output (GDP) over the past three years, and budget surpluses have averaged 4.0 percent of GDP. Public debt is equivalent to 0.1 percent of GDP.



Traditionally, Hong Kong’s business environment has been among the best in the world. The services sector contributes more than 90 percent of GDP. Prudent administration of minimum wage regulations has reduced any potentially negative impacts on employment. Hong Kong has a variety of subsidy programs in areas such as business development, housing, and energy, and implemented a new public transport subsidy in January 2019.



The total value of exports and imports of goods and services equals 376.0 percent of GDP. The average applied tariff rate is 0.0 percent, and 149 nontariff measures are in force. Intensifying uncertainties related to security issues have undermined an otherwise favorable investment climate. The territory remains a dynamic global financial center with a high degree of competitiveness and openness, but the sense of risk is also heightened.