

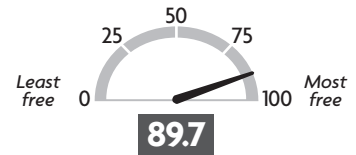
HONG KONG



World Rank: **1**

Regional Rank: **1**

Economic Freedom Score



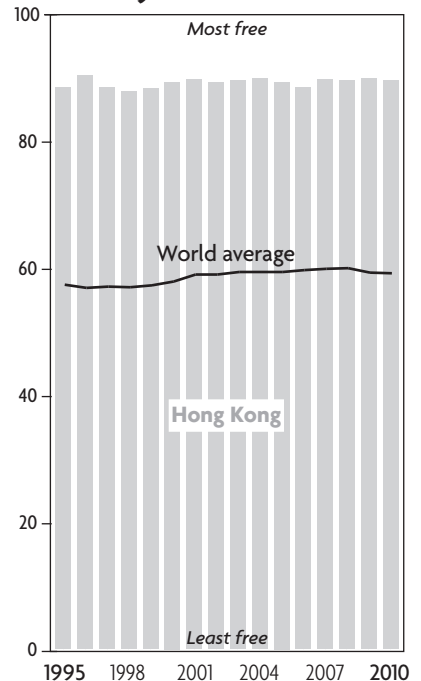
Hong Kong's economic freedom score is 89.7, making its economy the freest in the 2010 *Index*. Its score is 0.3 point lower than last year, reflecting increases in business and labor freedom that were offset by modest declines in several factors, particularly trade freedom, monetary freedom, and freedom from corruption. Hong Kong is ranked 1st out of 41 countries in the Asia-Pacific region.

Hong Kong's competitive tax regime, respect for property rights, and flexible labor market, coupled with an educated and highly motivated workforce, have stimulated an innovative, prosperous economy. Hong Kong is one of the world's leading financial and business centers, and its legal and regulatory framework for the financial sector is transparent and efficient. Business regulation is straightforward. Despite the global economic slowdown, Hong Kong has maintained its status as Asia's second-largest destination for foreign direct investment, attracting over \$60 billion in 2008.

Even in an economy as free as Hong Kong's, threats to freedom can arise. Though the introduction of competition legislation was postponed in April 2009, a minimum wage bill was introduced in June, with implementation forecast for late 2010 or early 2011. The government has also set out strategies to promote development in six specific industrial and services sectors, a priority-setting exercise for which the free market would seem better suited.

BACKGROUND: The Special Administrative Region of Hong Kong is part of the People's Republic of China, but it governs its own affairs on a day-to-day basis and enjoys a wide range of freedoms under the territory's mini-constitution, the Basic Law. The government has promised to advance universal suffrage but so far has not delivered. 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, while manufacturing has migrated largely to the mainland. Ongoing concerns include cronyism in government policy-making and self-censorship in media and restrictions on the free flow of information.

Country's Score Over Time



Quick Facts

Population: 7.0 million
GDP (PPP): \$306.5 billion
 2.4% growth in 2007
 5.7% 5-year compound annual growth
 \$43,924 per capita

Unemployment: 3.5%

Inflation (CPI): 4.3%

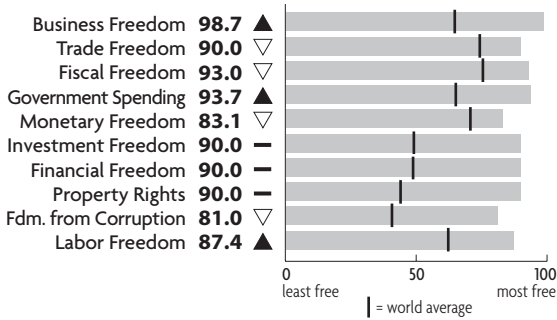
FDI Inflow: \$63 billion

2008 data unless otherwise noted
 Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

HONG KONG'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 98.7

The overall freedom to start, operate, and close a business is well protected under Hong Kong's regulatory environment. Starting a business takes six days, compared to the world average of 35 days, and obtaining necessary licenses takes less than the world average of 218 days.

TRADE FREEDOM — 90

Hong Kong's weighted average tariff rate was 0 percent in 2008. Some import taxes, restrictive pharmaceuticals regulation, market access restrictions for some services, food and energy labeling regulations, and issues involving the enforcement of intellectual property rights add to the cost of trade. Ten points were deducted from Hong Kong's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 93

Hong Kong's effective tax rates are among the lowest in the world. Individuals are taxed either progressively, between 2 percent and 17 percent on income adjusted for deductions and allowances, or at a flat 15 percent of gross income, depending on which liability is lower. The top corporate income tax rate is 16.5 percent. Excise duties on beer and wine were removed in 2008. In the most recent year, overall tax revenue as a percentage of GDP was 14.2 percent.

GOVERNMENT SPENDING— 93.7

Total government expenditures, including consumption and transfer payments, are low. In the most recent year, government spending equaled 14.5 percent of GDP. Disciplined fiscal management has helped Hong Kong to weather the global downturn. The government has made efforts to maintain a balanced budget. State ownership is mostly limited to transportation.

MONETARY FREEDOM — 83.1

Inflation has been relatively low, averaging 3.5 percent between 2006 and 2008. Since the Hong Kong dollar maintains a fixed exchange rate with the U.S. dollar, interest rates and currency movements follow trends in the United States. Hong Kong has efficient clearing and settlement systems. China's rapid food inflation in 2008 affected Hong Kong, as the mainland is the leading source of food imports. The rise in private rental prices is moderating

because of the weakening economy. The government regulates the prices of public transport and electricity and some residential rents. Five points were deducted from Hong Kong's monetary freedom score to adjust for measures that distort domestic prices.

INVESTMENT FREEDOM — 90

Foreign capital receives domestic treatment, and foreign investment is strongly encouraged. There are no limits on foreign ownership and no screening or special approval procedures to set up a foreign firm except in broadcasting, where foreign entities may own no more than 49 percent of the local stations, and certain legal services. There are no controls or requirements on current transfers, access to foreign exchange, or repatriation of profits. Bureaucracy is efficient and transparent.

FINANCIAL FREEDOM — 90

Hong Kong is a global financial center with a regulatory and legal environment focused on enforcing prudent minimum standards and transparency. At the end of 2008, there were 201 authorized banking institutions, including 122 incorporated outside of Hong Kong. Banks are overseen by the independent Hong Kong Monetary Authority. Credit is allocated on market terms. There are no restrictions on foreign banks, which are treated the same as domestic institutions. The Hong Kong Stock Exchange is one of the world's 10 most capitalized, but it felt the effects of the global financial crisis. The Hang Seng Index fell almost 50 percent in 2008, and the number of successful initial public offerings decreased significantly. Overall, however, the financial system has weathered the global financial turmoil relatively well, and banks remain well capitalized.

PROPERTY RIGHTS — 90

Contracts are strongly protected. Hong Kong's legal system is based on common law, and its constitution strongly supports private property and freedom of exchange. Despite government public awareness campaigns, pirated and counterfeit products such as CDs, DVDs, software, and designer apparel are sold openly. The government controls all land and, through public auctions, grants renewable leases that are valid up to 2047.

FREEDOM FROM CORRUPTION — 81

Corruption is perceived as minimal. Hong Kong ranks 12th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Giving or accepting a bribe is a criminal act.

LABOR FREEDOM — 87.4

Labor regulations are flexible. The labor code is strictly enforced but not burdensome. The non-salary cost of employing a worker is low, but dismissing an employee can be relatively costly. Regulations on work hours are flexible.