

Hong Kong`s Free Economy: At the Crossroads?

The case discusses the challenges faced by Hong Kong, touted as the freest economy in the world, due to the interference and restrictions imposed by China. Hong Kong achieved the position of being the freest economy due to its low tariffs, high amounts of trade (FDI flows), efficient regulations, and low government intervention. Despite the difficulties during the regional and global economic slowdown, Hong Kong fared well, and it remained one of the most open, most welcoming, and freest economies in the world. Hong Kong's rule of law, together with the independent judiciary and the transparency of its legal system, reassured companies seeking to set up their businesses in the city. At the same time, Hong Kong was ranked as one of the most expensive cities in the Cost of Living survey, with the widest income inequalities in the developed world. Being a global financial and shipping center, Hong Kong's economic linkage with the mainland was most evident in the finance and trading sectors. As the Asian economy continued to grow along with China's economy, it was expected that there would be more opportunities for Hong Kong in the financial services sector, where it was well positioned as one of the largest finance hubs in the world. But, the mainland's continuing interference despite its "One Country, Two Systems" pledge, was a cause for concern for the citizens of Hong Kong. China's heavy-handedness with Hong Kong spurred tension in the city and citizens complained about the deteriorating rule of law and human rights environment. This raised several questions – in the absence of political freedom, can Hong Kong remain the freest economy in the world? Will the Hong Kong free market model with wealth disparities survive in the long run? Should Hong Kong give up its capitalist economy on which its prosperity was built?.

Issues

The case is structured to achieve the following teaching objectives:

Understand the traits of a free economy

Examine the hindrances to a free economy

Analyze the factors leading to a free economy.

Examine whether a free economy can be really free with internal disturbances and external interference

INTRODUCTION

In 2018, for the 24th year in a row, Hong Kong was ranked at the top position as the world's freest economy in the Heritage Foundation's Economic Freedom Index. The Index ranked Hong Kong high on parameters like a transparent legal system, simple tax code, and a straightforward business start-up process. Hong Kong remained the most open and free economy in the world, supported by its low tariffs, high quality legal framework, little tolerance for corruption, high degree of transparency, and low government intervention. All these factors played a major role in improving the government integrity. Economic freedom drove Hong Kong to its optimum level of growth. Hong Kong's prosperity was also attributed to its proximity to the mainland China..

BACKGROUND: HONG KONG ECONOMY

During the first Opium War fought between China and Britain (1839-42), Hong Kong ceded to the British Empire. Over time, the British government established a free-enterprise economy on the island and this later turned into a major trading center in Asia. In 1984, the Chinese and British governments signed a 'Joint Declaration' on the transfer of Hong Kong's sovereignty to China with effect from July 1, 1997. A Special Administrative Region (SAR) was established in 1997 under the "One Country, Two Systems" principle. The Basic Law allowed Hong Kong SAR to enjoy a high degree of autonomy and an independent executive, legislature, and judiciary. It was allowed to forge external relations in certain areas – including trade, communications, tourism, and culture using the name "Hong Kong, China," while Beijing maintained control over the region's foreign and defense policy. ..

FREE MARKET ECONOMY

Hong Kong's free economy began with John James Cowperthwaite (Cowperthwaite), a British civil servant who was commissioned as colonial Hong Kong's Financial Secretary from 1961 to 1971. Cowperthwaite took the initiative to draft a radical laissez-faire policy for Hong Kong known as positive non-interventionism, which would minimize taxes and eliminate all market regulations. Following its independence from British colonial rule, Hong Kong retained the characteristics of a free-enterprise economy, as specified in the 'Joint Declaration'. The Chinese government committed itself to protecting Hong Kong's "capitalist system and way of life" and granted it "a high degree of autonomy," .

FREE ECONOMY FEATURES

Although Hong Kong was technically a Special Administrative Region of China, the territory stood on its own as an independent free market. Its capitalist features such as free and open trade, light regulation, simple and low tax system, and a level playing field, among others, made the region one of the world's most attractive markets. The expansion of the economy was attributed to buoyant stock market, increased trade, hot property sector, growing employment, and a positive global outlook. .

ECONOMIC FREEDOM RANKING

Hong Kong, described by an American economist Milton Friedman (Friedman) as "the world's greatest experiment in laissez-faire capitalism" , had introduced a number of regulations during

Cowperthwaite's period (from 1961 to 1971). It was considered as the world's freest economy for the 24th consecutive year on the Heritage Foundation's 2018 Index of Economic Freedom report. Hong Kong had ranked at the top every year since the inception of the Economic Freedom Index in 1995..

HONG KONG's ECONOMIC WOES

Though Hong Kong remained the world's most dynamic and freest economy, the political conditions went from bad to worse over the years. While many people in Hong Kong did not have confidence in the local economy, its ties to the "mostly unfree" mainland stunted its economic performance. With the mature Chinese economy and cities in the country flourishing as global hubs of their own, Hong Kong's economic relevance came into question. .

POLITICAL UNREST

Hong Kong's growing resentment toward the mainlanders continued to increase, primarily due to Beijing's political interference. In the Basic Law governing the city, China had promised to honor Hong Kong's historical liberties under the "One Country, Two Systems" concept. Under the arrangement, Hong Kong would become a part of China, while continuing to have its own constitution, political system, and civil liberties. But after 21 years of independence, Hong Kong was facing a critical situation with its autonomy and core values in serious danger and with no sign of the promised democratic development of the region.

CHALLENGES FOR ECONOMIC FREEDOM

Hong Kong had been lauded for decades by economists for its free economy, which had few regulations of any kind and no sales tax or capital gains tax. At the same time, the greatest challenge to its unique economic model was the prevalence of income inequality. According to Richard Florida, director at the Martin Prosperity Institute in Toronto

THE ROAD AHEAD

Though Hong Kong ranked consecutively among the top in the world in economic freedom, with the threat to its position looming large, its pro-democracy agitations continued to spread across the territory. Andy Kwan Cheuk-chiu (Kwan), director of the ACE Center for Business and Economic Research , noted that political controversies in the territory, including the disappearance of the Hong Kong book publishers, could harm its position as a country where freedom prevailed. .