



## Hong Kong's Miraculous Progress

BY RICHARD W. RAHN

ECONOMIC FREEDOM HAS MADE A TINY SEAPORT INTO A FINANCIAL GIANT

### Hong Kong

How did this small city-state of 7.3 million people go from having a per-capita income of only a few hundred dollars per year to a per capita income that is equal to that of the United States in only 50 years? The simple answer is they had the British common law legal system, strong private property rights, competent, honest judges, a non-corrupt civil service, very low tax rates, free trade and a minimal amount of economic regulation. There was no big brother government looking after the people, so they had to work hard, but they could keep the fruits of their efforts.

Hong Kong became a British colony in 1842, and the adjacent "New Territories" were leased for 99 years in 1898. In 1997, Hong Kong was returned by the British to China, with an

agreement that it would become a special administrative region — "one country, two systems." Hong Kong retained the British legal system, most individual liberties, and a high degree of local autonomy, except for foreign policy and defense. The amount of democracy has been limited — with the British serving as the ideal benevolent dictator and the Chinese as a somewhat less benevolent dictator for the past 17 years.

Hong Kong is about as close to the ideal free-market capitalist model that you can find on the planet — which came about largely by accident. The Japanese had captured Hong Kong in World War II, but when the British regained control after the war, they were in no position to provide much in the way of economic assistance. The British basically left Hong Kong to fend for itself under a British governor with only a tiny military contingent. Hong Kong has virtually no natural resources other than an exceptionally fine harbor.

As China turned communist, many poor refugees fled to Hong Kong, seeking freedom. There was no foreign aid and no welfare state — but there was a competent government that kept the peace, ran an honest court system with the rule of law, provided some basic infrastructure, and little more. Also, Hong Kong had economic freedom — for the last several decades, Hong Kong has been ranked as the freest economy in the world (according to Economic Freedom of the World Index). Economic freedom allowed the people to create an endless number of productive enterprises, and because they had free trade, they could import necessary goods and services to fuel these enterprises. Initially, Hong Kong had the comparative advantage of low-cost labor for manufacturing and textiles, but as it became richer, it started producing more and more sophisticated goods and services. Now it is a major financial center with a very robust high-tech service economy.

My first trip to Hong Kong was more than 30 years ago. Even though by then Hong Kong had made considerable progress, there were still many with low incomes. Real per capita income was about half that of the United States and still well below that of France. Today, average real income has gained parity with the United States, and it

will probably be double that of France in a couple of years. Along with Japan and Singapore, Hong Kong enjoys the highest life expectancy in the world, and comes out at or near the top on most indexes of human development.

The accompanying chart shows the growth in per capita income in Hong Kong, France and the United States. Each country pursued very different economic models. France greatly enlarged government (56 percent of gross domestic product) along with very high taxes and extensive regulation, while the U.S. somewhat increased the size of government and the regulatory state. (To illustrate the virtues of small government, please watch a very short and fun video "Hotnomics: Government Knockout" produced by Emerald Robinson and available on the websites of [The Washington Times](#) and of [the Center for Freedom and Prosperity Foundation](#).)

Hong Kong proves that you do not need to have democracy for prosperity and economic (and most individual) freedoms. In fact, democracy is often an impediment to economic prosperity because people tend to vote themselves benefits (which must be paid by someone else) rather than working for benefits as most people do in Hong Kong. A problem with the Hong Kong governance model is that the benevolent dictator tends to become less benevolent over time, and as the people become richer, they want their individual freedoms enlarged, not curtailed. The demands for more freedom and democracy in Hong Kong are growing, and the Chinese are resisting. However, those in the Chinese government, having achieved rapid economic growth by copying much of the Hong Kong model, also realize that their own people, as they get richer, will be demanding more freedom and more democracy. We all watch with fascination as the dance continues.

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