



Chapter 3

Hong Kong as Asia's World City

(script written by the Bauhinia Foundation Research Centre)

The successful implementation of the Basic Law in Hong Kong is best seen in the sustained economic vitality and resilience of the city 15 years after reunification. Despite cyclical ups and downs, the economy remains as dynamic and vibrant as ever. As a strategic gateway to China and in a time zone that bridges Asia and Europe, Hong Kong has long been a preferred hub for business activities and foreign investments. Its enduring advantages have much to do with its world-class infrastructure, efficient and skilled workforce, entrepreneurship, business-friendly environment, low and simple tax regime as well as free movement of people, goods, information and capital.

The Basic Law guarantees that the capitalist system will remain unchanged in Hong Kong for at least 50 years after reunification. This has provided a firm basis for the operation of a free market economy and a constitutional framework for Hong Kong to leverage on its fundamental strengths and advantages to successfully develop into an international business city and Asia's world city.

Guaranteeing market economy

Article 5 guarantees that the market economy will be maintained in Hong Kong, while Article 6 provides that “the Hong Kong Special Administrative Region (HKSAR) shall protect the right of private ownership of property in accordance with law”. Together they underpin the fundamentals of Hong Kong as a capitalist society.

Free and lawful competition and acquisitions are protected by Article 105, which provides that “the HKSAR shall, in accordance with law, protect the right of individuals and legal persons to the acquisition, use, disposal and inheritance of property and their right to compensation for lawful deprivation of their property”. Under this legal framework, the Hong Kong Government is responsible for providing a free and stable environment to facilitate economic activities.

Article 105 also provides that “the ownership of enterprises and the investments from outside the Region shall be protected by law”. This clear objective of protecting foreign investments in Hong Kong is of utmost

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importance to the city, which is famous for being a global business hub and home to a strong community of multinational corporations with huge investments in the local economy.

Free from foreign exchange controls, the Hong Kong dollar is fully convertible. The operation of the markets for foreign exchange, gold, securities, futures and the like have also remained intact since the reunification. All these financial policies, as enshrined in the Basic Law, have facilitated the unrestricted flow of capital within, into and out of Hong Kong and maintain Hong Kong's capitalist market system.

Indeed, Hong Kong's market economy has been consistently ranked the

Around 400 guests attended a seminar organised by the Hong Kong Government in conjunction with the Chinese General Chamber of Commerce, the Chinese Manufacturers' Association of Hong Kong, the Federation of Hong Kong Industries and the Hong Kong General Chamber of Commerce. ©



The Chief Executive of Hong Kong Exchanges and Clearing Limited, Mr Charles Li, presents a HKEx vest to the Director of the Hong Kong and Macao Affairs Office of the State Council, Mr Wang Guangya.



freest in the world by different international institutions. These accolades bear testimony to the highly autonomous administration of Hong Kong and the successful implementation of the “One Country, Two Systems” principle.

Independent finances and taxation

In accordance with Article 106 “the HKSAR shall have independent finances”. The finances of Hong Kong are not incorporated into the finances of the State and the Central People’s Government (CPG) does not levy taxes in Hong Kong. Hong Kong is thus able to use its revenues exclusively for its own purposes, striving to achieve fiscal balance by keeping expenditure within the limits of revenues when drawing up its budget.



The Financial Secretary, Mr John C Tsang, attends a television panel discussion programme on the 2011-12 Budget at Central Government Offices.

Article 108 provides that “the HKSAR shall practise an independent taxation system. The HKSAR shall, taking the low tax policy previously pursued in Hong Kong as reference, enact laws on its own concerning types of taxes, tax rates, tax reductions, allowances and exemptions, and other matters of taxation”. This provision enables Hong Kong to maintain a low tax regime, which is essential for attracting investments and enhancing the city’s economic competitiveness.