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# Commentary

**Title:**

*"Hong Kong's Protests Are About  
Economic Freedom and  
Opportunity"*

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## Hong Kong's Protests Are About Economic Freedom and Opportunity

Hong Kong is known for its laissez-faire economic system and exceptionally high levels of economic freedom. It has less political freedom than economic freedom, but even this is still good compared to mainland China. Since early spring of 2019, protests have roiled Hong Kong over fears that the mainland government is encroaching on the territory's autonomy, which has been guaranteed until 2047 by an agreement preceding the 1997 change of sovereignty. These protests have been reported by the western media as opposition to a feared loss of political freedom. Although this may be true, the protests have an even deeper root in economic freedom and opportunity.

The protests began in opposition to a proposed law that would allow suspects of crimes to be extradited on a case-by-case basis at the discretion of the territory's government to foreign countries without an extradition agreement with Hong Kong. Alarming for the protesters, extradition to mainland China would have been a possibility. There are already suspected instances in which the mainland authorities have secretly renditioned people from Hong Kong to the mainland with political motivation.<sup>1</sup>

The impetus for the proposed law was the case of Chan Tong-kai, a Hong Kong resident who traveled to Taiwan, killed his pregnant girlfriend who was also from Hong Kong, and returned home. He admitted to the murder but could not be extradited without an agreement. Notably, Taiwanese authorities, who wanted to prosecute Chan, also opposed Hong Kong's proposed law and vowed not to seek his extradition if the bill were passed, fearing that Taiwanese citizens could eventually be sent to mainland China via Hong Kong.<sup>2</sup>

The text of the bill, which has seldom been covered by the media, shows very little risk to most Hong Kong residents not involved in serious crimes. There is almost no risk whatsoever to foreigners passing through Hong Kong's busy airport. The bill explicitly prohibits extradition for politically motivated prosecutions.<sup>3</sup> In response to the protests, the bill was suspended.

The protests continued and grew and have continued into the late summer of 2019 and are not showing signs of letting up. Recently, the protests have gone as far as to impede operations at the territory's airport.<sup>4</sup> Without the threat of the extradition bill becoming law, one might question the reason for the ongoing protests. Generally, people protest because they want something. If the protesters' goal was just to avoid the possibility of extradition to the mainland, they got it.

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<sup>1</sup> <https://www.theguardian.com/world/2016/feb/12/britain-accuses-china-of-serious-breach-of-treaty-over-removed-hong-kong-booksellers>

<sup>2</sup> <https://www.hongkongfp.com/2019/05/10/taiwan-wont-ask-murder-suspect-hong-kong-passes-politically-motivated-extradition-law/>

<sup>3</sup> <http://www.hklii.hk/eng/hk/legis/ord/503/index.html>

<sup>4</sup> <https://www.scmp.com/news/hong-kong/politics/article/3021412/hundreds-flights-cancelled-leaving-travellers-facing-chaos>

The protesters live in what is regarded as the freest economy in the world by the Heritage Foundation and the Fraser Institute's Economic Freedom of the World Index.<sup>5</sup> Their political freedoms, while not as extensive as in the west, are far better than the mainland and many other places in Asia. It is worth questioning whether Hong Kong's society is a favorable environment for the protesters and what could cause their discontent.

Economist Andy Xie, in an interview with CNBC, said that rich tycoons were the problem behind the protests.<sup>6</sup> Since 2003, Hong Kong's wages have remained stagnant but housing prices have increased threefold and it is now the most expensive city in the world for buying a home. The massive wealth disparity has led to social discontent, in Xie's view, and it was just a matter of time before something caused it to boil over. It is simplistic to say that real estate prices are the sole cause of the discontent, but they are a major part of it.

Wealth and income inequality naturally happen in all societies, both with and without economic freedom; Hong Kong is not unique in this regard. If it is so economically free, one might reasonably question how problematic inequality is, if people are free to better their situations through economic activity. Perhaps Hong Kong's economic freedom is not as high as the indices lead us to believe.

Along with its first-place rankings in economic freedom in two major indices, Hong Kong also ranks first in the crony capitalism index published by *The Economist*. This odd pair of first-place rankings has been noted by the Seven Pillars Institute, which examines the components of both to explain these results. Cronyism is collusion between the private and public sectors. When cronyism is prevalent, economic freedom is diminished in practice because those who are not politically well-connected lack economic opportunity, even if statutory law superficially guarantees economic freedom.

The *South China Morning Post* reports on this and discusses cronyism and property prices in Hong Kong, reporting that "In a nutshell, the public bidding and procurement process [for land leases] is not designed to encourage competition, but to address public accountability concerns and minimise the failure risk. Industry cartelization and bid rigging result from this, making it difficult for new and small businesses to enter the game."<sup>7</sup> The article goes on to discuss other rules on property renovation and government monopolies, which are pervasive in Hong Kong. The government's practices allocate property noncompetitively to wealthy, politically connected individuals and families through 50-year leases on large plots that must be paid upfront. Small buyers are priced out, and the wealthy buyers have more of an incentive to leave it undeveloped to raise the value of their existing developed properties.<sup>8</sup> Outside of housing, many markets are

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<sup>5</sup> <https://www.heritage.org/index/>  
<https://www.freetheworld.com>

<sup>6</sup> <https://www.cnbc.com/2019/08/15/hong-kong-protests-economist-says-tycoons-are-the-problem.html?recirc=taboolainternal>

<sup>7</sup> <https://www.scmp.com/business/article/1967952/hong-kong-king-crony-capitalism-and-should-be-worry-competition-commission>

<sup>8</sup> <https://www.scmp.com/magazines/hk-magazine/article/2038011/monopoly-city-companies-own-everything-hong-kong>

not competitive. It may be easy to start a business in a few sectors, but the noncompetitive sectors (utilities, transportation, many food products, real property) are the things that impact people daily in a very material way.

The protesters claim to want freedom. Although the protests began over an extradition law that may not have had much of an impact, the discontent was deeper than just a feared loss of political freedom. Economic freedom is lacking in Hong Kong in the ways that matter most for the younger generation, who are the overwhelming majority of the protesters. Without the ability to establish themselves financially in life, they may not sense a very bright future. In Hong Kong, the labor market is unregulated, sound money policies prevail, foreign investment is welcomed, international trade is free and open, and the legal system is perceived to be reliable and fair. Despite these favorable laws, the reality on the ground is different for many people. Specific regulations and uncodified government practices, and an all-too-close relationship between the government and a small group of wealthy individuals and families, curtail economic freedom for many.

Fixing cronyism is no easy task and even that will not solve all of Hong Kong's ills. The protesters want the freedom and opportunity that they currently lack. Even when the perceived threat to political freedom (which may have been rather minuscule) was eliminated, the protests continued. Although it cannot be conclusively proven, it seems reasonable that the protesters did not feel that they had much economic freedom or opportunity. Hong Kong's cronyism problem provides a reasonable explanation: Hong Kong is not economically very free. The ability for average people to profitably engage in economic activity is low. Economic freedom is not constrained by laws that make engaging in economic activity difficult, but rather by practices that grant it only to a small wealthy group that is close to the government. Although Hong Kong may eventually lose political freedom, the pressing issue now is the existing lack of economic freedom for many of its people, especially the rising generation.