

# **A Fragile Prosperity: Government Policy and the Management of Hong Kong's Economic and Social Development**

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## **Summary**

Hong Kong has remained committed to an open economy, offering neither trade protection nor investment incentives and with only minimal government regulation of business. This paper argues that this state of affairs is not an historical accident but a matter of deliberate choice. It explains how Hong Kong's colonial officials ignored the interventionist policies that came into fashion after World War II and why China's leaders have preserved *laissez-faire* traditions after the British departure. The analysis shows that this non-interventionism was based on pessimism about population pressures, which was not dispelled by sustained, high-speed economic growth. A total rejection of Keynesianism and the continuing but unacknowledged influence of Malthus and John Stuart Mill created a culture that was opposed to both statism and welfarism.

The paper examines the impact of these 'ideological' preconceptions on government policies both during and after the colonial era. It demonstrates that Hong Kong's prosperity was never as fragile as officials claimed and that their flawed understanding of how Hong Kong's financial system functioned added to their sense of economic vulnerability. The analysis identifies significant costs, particularly for social policy, of this flawed perception of Hong Kong fundamentals. But adherence to *laissez faire* also benefitted Hong Kong because, unlike most colonies, it was not integrated into the United Kingdom economy. It evolved its own, 'non-British' system of economic administration which has considerable survival potential in the post-colonial era.