

Citizenship, Economics and Society
(Secondary 1-3)
Support Resources
Secondary 2

Module 2.4
Economic Performance and
Human Resources of Hong Kong
Part 1:
Economic Performance of Hong Kong

Personal, Social and Humanities Education Section
Curriculum Development Institute
Education Bureau



Introduction

- The “Citizenship, Economics and Society (Secondary 1-3) Support Resources” covers the essential learning contents of Strands 1, 5 and 6 in the Personal, Social and Humanities Education Key Learning Area. It is designed to support the implementation of the Citizenship, Economics and Society curriculum.
- The support resources provide diversified learning activities to help students acquire knowledge and understand concepts, develop skills and nurture positive values and attitudes. In addition, they offer teaching guidelines and suggestions on learning and teaching activities for teachers’ reference. Further, they provide reading materials to enhance students’ interest in reading.
- “Module 2.4 Economic Performance and Human Resources of Hong Kong Part 1: Economic Performance of Hong Kong” for Secondary 2 was developed by the Personal, Social and Humanities Education Section, Curriculum Development Institute of the Education Bureau. Part of the contents are based on the learning and teaching materials developed by the Business School of the Chinese University of Hong Kong and Hong Kong Effective Teaching Association, commissioned by our section in 2019 and 2014 respectively.

Module 2.4 Economic Performance and Human Resources of Hong Kong
Part 1: Economic Performance of Hong Kong
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Introduction to the Resource:

This resource aims at introducing the basic knowledge of some common economic indicators and industrial structures to students. Through studying the changes in and trends of the Hong Kong economy in the past decade with the use of case studies, students will understand the overall economic situation of Hong Kong and realise that Hong Kong is an open and highly externally oriented economy, and that the stability of the Hong Kong economy is related to economic security. As Hong Kong is part of our country, students should understand that Hong Kong's economic development is closely connected with the development of our country, as well as how Hong Kong has seized the opportunities brought by the economic reform and opening-up of our country and at the same time contributed to its development, so as to enhance students' sense of belonging towards our country and national identity.

Prior Knowledge:

At the primary level, students have acquired a basic understanding of the major characteristics and development of the Hong Kong economy. Relevant learning contents in General Studies include “different occupations in the local community”, “major economic activities in Hong Kong”, “factors affecting the economic development in Hong Kong”, “major and emerging industries in Hong Kong”, as well as trade between Hong Kong, the Mainland and other parts of the world. Regarding mathematical skills, students have learned to collect and process data, and known how to use appropriate graphs to show the data and extract information from graphs.

Teaching Objectives:

- To gain knowledge about economic performance
- To develop and cultivate relevant generic skills, values and attitudes

Learning Points:

- Recognise some common economic indicators
- Recognise the classification of industrial structures (including the definition of primary, secondary and tertiary industries)
- Recognise the characteristics of the Hong Kong economy as being highly externally oriented and open, identify some major economic events in the past which had caused ups and downs in the Hong Kong economy (e.g. “Asian Financial Crisis”, “Global Financial Crisis”) and understand their impacts on the Hong Kong economy
- Understand that Hong Kong's economic development is closely connected with the development of our country, as well as how Hong Kong has seized the opportunities brought by the economic reform and opening-up of our country and at the same time contributed to its development, so as to develop students' sense

of belonging towards our country and national identity

Suggested Number of Lessons:

- 9 lessons (40 minutes each)

Teaching Design

Topic:	Economic performance of Hong Kong	
Duration:	9 lessons	
Learning Objectives:	<ul style="list-style-type: none"> • recognise some common economic performance indicators; • recognise the classification of industrial structures (including the definition of primary, secondary and tertiary industries); • recognise the characteristics of the Hong Kong economy as being highly externally oriented and open, identify some major economic events in the past which had caused ups and downs in the Hong Kong economy (e.g. “Asian Financial Crisis”, “Global Financial Crisis”) and understand their impacts on the Hong Kong economy; • understand that the economic development of Hong Kong is closely connected with the development of our country, as well as how Hong Kong has seized the opportunities brought by the reform and opening up of our country and at the same time contributed to its development, so as to develop students’ sense of belonging towards our country and national identity 	
Lesson 1 to 5 (Economic performance indicators and classification of industrial structures)		
Lesson 1		
		Suggested lesson time
Enquiry Process:	1. Set: <ul style="list-style-type: none"> • The teacher briefly introduces the contents of the nine lessons and uses the “Lead-in Activity: Hong Kong in 2020” to help students learn about the daily life phenomena and indicators that can reflect the economic situation. 	10 minutes
	2. Interactive teaching: <ul style="list-style-type: none"> • The teacher makes use of “Knowledge Content: Economic performance indicators (1)”, with the support of data, graphs and formula, to help students understand the two commonly used economic performance indicators, GDP and GDP per capita. And then the teacher asks students to work in 	20 minutes

	<p>pairs to do Questions 1 and 2 in “Worksheet 1: Calculation of Gross Domestic Product (GDP) and Gross Domestic Product per capita (GDP per capita)”. Students then share their answers and the teacher explains according to their answers.</p>	
	<p>3. Debriefing:</p> <ul style="list-style-type: none"> The teacher summarises the lesson and briefly explains the homework (Questions 3 and 4 in Worksheet 1). <p><i>(Remark: Depending on students’ interest, ability level and prior knowledge, the teacher may show students how to search for the GDP per capita rankings of different countries on the website of International Monetary Fund and remind students of the organisations that can offer reliable data and information for reference.)</i></p>	10 minutes
Homework:	Students finish Questions 3-4 in Worksheet 1: Browse the website of International Monetary Fund and list out the five countries/regions with the highest GDP per capita.	
Extended Activity:	Students conduct search on the Internet and based on information collected from relevant websites, analyse Hong Kong’s GDP data for the past 15 years, calculate the year-on-year percentage change of GDP and plot a graph in excel.	
Learning and Teaching Resources:	Worksheet 1	

Lesson 2		
		Suggested lesson time
Enquiry Process:	1. Set: <ul style="list-style-type: none"> • The teacher checks the answers of Questions 3 and/or 4 in Worksheet 1 with students. 	5 minutes
	2. Interactive teaching: <ul style="list-style-type: none"> • The teacher makes use of “Knowledge Content: Economic performance indicators (2)” to explain the definition and formula of unemployment rate. With the use of unemployment rate data of the HKSAR from 2000 to 2020, the teacher explains to students that the HKSAR’s unemployment rate is generally relatively lower compared with other countries or cities and asks students to calculate the unemployment rates of Hong Kong in the three quarters of 2020. Students then share their answers and the teacher explains according to their answers. <i>(Remark: Depending on students’ interest, ability level and prior knowledge, the teacher may help students understand “average wage” and Indices of Payroll of Hong Kong in recent years.)</i> 	30 minutes
	3. Debriefing: <ul style="list-style-type: none"> • The teacher revises the lesson contents by asking students questions. 	5 minutes
Learning and Teaching Resources:	Worksheet 1	

Lesson 3		
		Suggested lesson time
Enquiry Process:	1. Set: <ul style="list-style-type: none"> • The teacher gauges students’ prior knowledge by asking them if they have heard of terms like inflation and consumer price indices. 	5 minutes
	2. Interactive teaching: <ul style="list-style-type: none"> • The teacher makes use of “Knowledge Content: Economic performance indicators (3)” to explain to students that the inflation rate and consumer price indices reflect the general price level and cost of living; and the year-on-year percentage change in consumer price index can be used to measure inflation rate/deflation rate. Then students calculate the inflation rate of Hong Kong from 2016-2019. Students then share their answers and teacher explains according to their answers. 	25 minutes
	3. Debriefing: <ul style="list-style-type: none"> • The teacher revises the commonly used economic performance indicators with students by asking them questions. The teacher then asks students to view the video “Introduction to Economic Concepts: GDP, Unemployment and Inflation “to revise the relevant concepts. 	5 minutes

Lessons 4 to 5		
		Suggested lesson time
Enquiry Process:	1. Set: <ul style="list-style-type: none"> The teacher asks students to give some examples of different industries. 	5 minutes
	2. Interactive teaching: <ul style="list-style-type: none"> The teacher makes use of “Knowledge Content: Primary, Secondary and Tertiary industries” to introduce the classification and definitions of primary, secondary and tertiary industries. Then the teacher asks students to work in pairs to complete Question 1 in “Worksheet 2: Primary, Secondary and Tertiary industries”. Students then share their answers and the teacher explains according to their answers. 	35 minutes
	3. Interactive teaching: <ul style="list-style-type: none"> The teacher asks students to work in pairs to complete Questions 2-3 in Worksheet 2, and further explains based on students’ answers. 	
	4. Debriefing: <ul style="list-style-type: none"> The teacher revises the learning contents with students by asking them questions. 	10 minutes
Homework:	Students finish “Worksheet 3: Economic performance of Hong Kong and events that have significant impact on the Hong Kong economy”	
Learning and Teaching Resources:	Worksheets 2 and 3	

Lessons 6 to 9 (The characteristics of the Hong Kong economy as being highly externally oriented and open)		
Lesson 6		
		Suggested lesson time
Enquiry Process:	1. Set: <ul style="list-style-type: none"> The teacher makes use of the diagrams in “Worksheet 3: Economic performance of Hong Kong and events that have significant impacts on the Hong Kong economy” to help students understand and describe the trends of Hong Kong’s GDP and unemployment rate in the past 20 years. The teacher then reviews the events that have significant impacts on Hong Kong’s economy from 2000-2020 with students. 	5 minutes
	2. Interactive teaching: <ul style="list-style-type: none"> Students work in pairs to discuss and answer Question 1 to understand that Hong Kong is an open and highly externally oriented economy; and therefore external events or economic fluctuations will affect trade with other countries or regions and investment in Hong Kong and the Hong Kong economy. The teacher revises the key points in the “Knowledge Content: Hong Kong is an open and highly externally oriented economy” with students, and help students understand that the stability of the Hong Kong economy is related to economic security. 	25 minutes
	3. Preparation for case study and debriefing: <ul style="list-style-type: none"> The teacher asks students to guess which types of industries were more seriously affected by the COVID-19 pandemic and the 2008 Global Financial Crisis. The teacher asks students to read Supplementary Information 1 and the website of the Investor and Financial 	10 minutes

	<p>Education Council as homework, to gain more understanding of events that have significant impacts on Hong Kong's economic development.</p> <ul style="list-style-type: none"> • The teacher concludes what students have learned in class and explains the requirements of homework briefly. 	
Homework:	<p>Students revise what they have learned and read “Supplementary Information 1: Significant events in Hong Kong's economic development” and the website of the Investor and Financial Education Council to gain more understanding of the 2008 Global Financial Crisis.</p>	
Learning and Teaching Resources:	<p>Worksheet 3</p>	

Lesson 7		
		Suggested Lesson Time
Enquiry Process:	<p>1. Set:</p> <ul style="list-style-type: none"> The teacher makes use of Internet information to revisit the event of COVID-19 pandemic with students (e.g. number of confirmed cases and number of deaths in countries around the world and help students think about the impact of the event on the Hong Kong economy. 	5 minutes
	<p>2. Interactive teaching:</p> <ul style="list-style-type: none"> The teacher makes use of “Case study 1: Impact of the COVID-19 pandemic on the Hong Kong economy” and asks students to work in pairs to read Sources 1-4 and finish Questions 1-3, and then check answers together. This part helps students understand the impacts of the event on different major industries; and provides data to show the impacts of the event on retail, accommodation and food services, and that tourism was most hard hit by the event. <p><i>(Depending on students’ interest, ability level and prior knowledge, the teacher may ask students to finish the challenge Question 4. Students share their answers and views. This part allows students to understand the retail sales, including local residents’ consumption and overseas visitors’ consumption.)</i></p>	25 minutes
	<p>3. Debriefing and conclusion:</p> <ul style="list-style-type: none"> The teacher uses “Know More: Four Pillars and Six Industries” to explain the contribution of the four pillar industries to the local GDP and employment. The teacher asks students questions to understand their career aspirations and introduce the Higher Education Employment Information e-Platform developed by the Labour Department so 	10 minutes

	<p>that they can understand more about the labour market and the most updated employment information.</p> <ul style="list-style-type: none"> • The teacher consolidates what students have learned and briefly explain the requirements of homework. 	
Homework:	<p>Students revise what they have learned and browse the Higher Education Employment Information e-Platform developed by the Labour Department to understand the most updated employment information:</p> <p>https://www2.jobs.gov.hk/0/en/jobseeker/jobsearch/quickview/hee/?utm_source=fb&utm_medium=recruitfb&utm_campaign=news</p>	
Learning and Teaching Resources:	Case study 1; Appendix 1	

Lesson 8		
		Suggested Lesson Time
Enquiry Process::	<p>1. Set:</p> <ul style="list-style-type: none"> The teacher searches information on the Internet and briefly reviews the 2008 Global Financial Crisis with students (e.g. the causes, process and the impact) and asks students to guess its impacts on the Hong Kong economy. 	5 minutes
	<p>2. Interactive teaching:</p> <ul style="list-style-type: none"> The teacher uses “Case Study 2: Impact of the 2008 Global Financial Crisis on the Hong Kong Economy” and asks students to work in pairs to read Source 1 and finish Questions 1 and 2, and then check answers together. After that, the teacher asks students in pairs to finish Questions 3 and 4 to understand that the financial and tourism industries were most hard hit by the event. With the support of data, students will understand that Hong Kong is a highly externally oriented economy and it will be affected by global financial fluctuations. <p><i>(Remark: Depending on students’ interest, ability level and prior knowledge, the teacher may go through Source 3 (Trend of the Hang Seng Index in 2000-2019) with students and work with them to finish challenge Question 5 together. This question helps students understand the basic concept of Hang Seng Index and the impact of the 2008 Global Financial Crisis on the share market.)</i></p>	25 minutes
	<p>3. Interactive teaching and conclusion:</p> <ul style="list-style-type: none"> The teacher uses “Extended Case Study: Trading and logistics services industry of Hong Kong” and asks students to work in pairs to read Source 1 and 2 and finish Questions 1 and 2, and then check answers together. This part focuses on the economic contribution of the trading and 	10 minutes

	<p>logistics services industry; and the percentage of value of imports from and exports to the Mainland to Hong Kong's total imports and exports respectively. It helps students understand the importance of the relevant industries to the Hong Kong economy and Hong Kong's trade is closely connected with the development of our country.</p> <p><i>(Remark: Depending on students' interest, ability level and prior knowledge, the teacher may decide whether or not to go through this extended case study.)</i></p> <ul style="list-style-type: none"> • The teacher asks students to read Supplementary Information 2 at home to prepare for the coming lessons. • The teacher consolidates what students have learned and briefly explains the requirements of homework. 	
Homework:	<ul style="list-style-type: none"> • Students read Source 3 of the "Extended Case Study" to understand Hong Kong's advantage as an entrepot centre. • Students read "Supplementary Information 2: Hong Kong's Transformation after WWII". 	
Learning and Teaching Resources:	Case Study 2; Extended Case Study; Supplementary Information 2	

Lesson 9		
		Suggested Lesson Time
Enquiry Process:	<p>1. Set:</p> <ul style="list-style-type: none"> The teacher uses a video, for example, “Concepts in Liberal Studies - Reform and Opening-up: The Economy” (in Cantonese) developed by the Academy of Chinese Studies: https://www.youtube.com/watch?v=XOE-1EQC0Io, to briefly introduce the reform and opening-up of the Mainland to help students have a basic understanding of reform and opening-up. ° 	5 minutes
	<p>2. Interactive teaching:</p> <ul style="list-style-type: none"> The teacher asks students to read “Knowledge Content: Economic links between Hong Kong and the Mainland” to help students understand that Hong Kong and the Mainland have grown together and benefited each other since the reform and opening up of our country. The teacher also makes use of the changes in total trade of goods between Hong Kong and the Mainland in the past 20 years to help students understand the role of the Mainland as a production hinterland and the interlocking and close connection of the production network in Asia. Then the teacher reviews and tests students’ understanding by asking questions. 	25 minutes
	<p>3. Conclusion and debriefing :</p> <ul style="list-style-type: none"> The teacher briefly consolidates the Knowledge Content and introduces “Extended Learning: Reform, opening-up and economic development and Hong Kong’s contribution to the motherland’s economic reform” (Chinese only), especially in promoting the establishment of the new positions in science and technology, cooperating and achieving a win-win outcome in the development of the Guangdong-Hong Kong-Macao 	10 minutes

	<p>Greater Bay Area and the possible contribution to “Belt and Road”, etc.</p> <ul style="list-style-type: none"> • The teacher asks students to read “Knowledge Content: China’s reform and opening-up” and contents in the “Extended Learning” as homework. • The teacher consolidates what students have learned in class and briefly explain the requirements of homework. 	
Homework:	Students read “Knowledge Content: China’s reform and opening-up” at home.	
Learning and Teaching Resources:	Video “Concepts in Liberal Studies - Reform and Opening-up: The Economy”; Knowledge Content: Economic links between Hong Kong and the Mainland; Extended Learning: Reform, opening-up and economic development and Hong Kong’s contribution to the motherland’s economic reform	

Module 2.4 Economic Performance and Human Resources of Hong Kong
Part 1 : Economic Performance of Hong Kong
(Lessons 1 to 5)
Learning and Teaching Materials

Lead-in Activity
Hong Kong in 2020

The Government forecasts the economy to contract by 6.1% for the year. It will be the worst economic performance on record, even worse than that during the 2008 Global Financial Crisis and the 1997-98 Asian Financial Crisis.



Like many other stores, we have offered discount, yet there are still not many customers. What can I do?

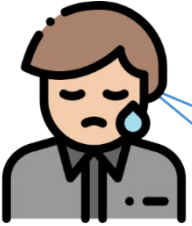


Restaurant owner



I have planned to expand my business, but it is better to be conservative now.

Businessperson



Travel agency employee

I have been on unpaid leave for several months due to the epidemic. I know some people in the industry have had their salaries cut or even fired.

1. Based on the Source above, what was Hong Kong's economic performance at that time?

Hong Kong's economic performance was poor.

2. From the pictures on the previous page, can you identify some characteristics of Hong Kong's economic performance at that time?

- *The Gross Domestic Product (GDP) decreased;*

- *Many people were unemployed / couldn't find a job;*

- *Wages fell;*

- *The price level was reduced;*

- *The desire for investment and consumption decreased.*



Economic Indicator (1): Gross Domestic Product (GDP)

How can we measure the economic performance of a place? Different indicators can help us measure and understand the economic situation of a place. These indicators are usually some statistics. **Gross Domestic Product (GDP)** and **Gross Domestic Product per capita (GDP per capita)** are two common indicators that measure economic performance.

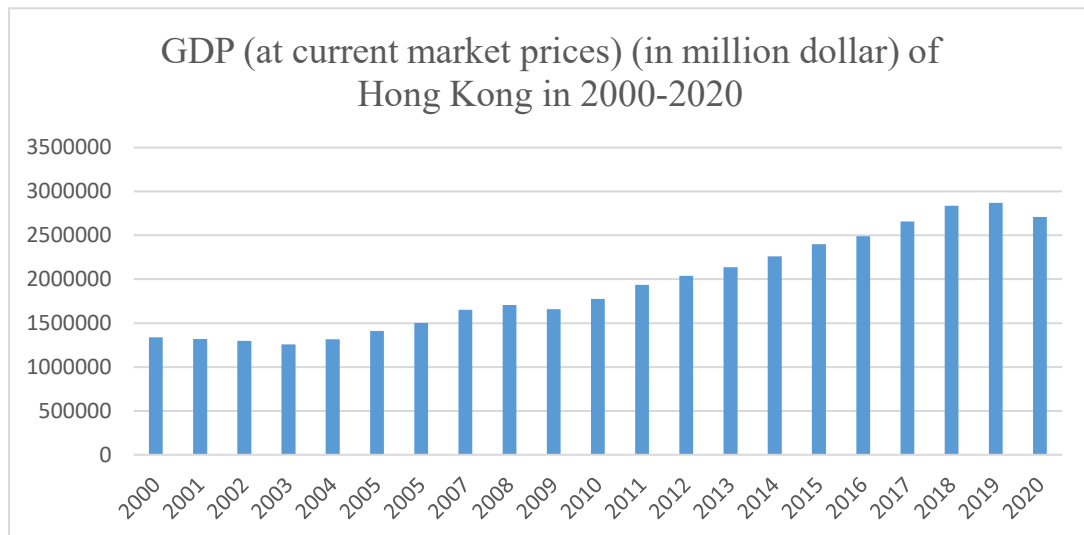
Gross Domestic Product (GDP)

“Gross Domestic Product”, or GDP for short, which is the total value of goods and services produced in a country or region in a specified period. GDP is a commonly used indicator that measures the economic situation of a place. Generally speaking, if the GDP or the GDP growth rate is high, it means that the economy of that country or region is doing well.

Reference: Curriculum Development Institute, EDB (2019). "3-minute Concept" Animated Video Clips Series (6) "Economic Performance Indicators": https://emm.edcity.hk/media/1_tnf7hg2q

Note: According to the Census and Statistics Department, GDP is a measure of the total value of production of all resident producing units of an economy in a specified period (typically a year or a quarter). For simplicity's sake, the concept of “resident producing units” is not included in this resource.

According to the data from 2000 to 2020, there was a general upward trend in GDP of Hong Kong, though with minor fluctuations. However, the Hong Kong economy is hit by the COVID-19 pandemic in 2020, and its GDP in 2020 dropped compared with that in 2019.



Source: 2020 Gross Domestic Product, Census and Statistics Department https://www.censtatd.gov.hk/en/data/stat_report/product/B1030002/att/B10300022020AN20C0100.pdf

GDP per capita

"Gross domestic product per capita", that is, "GDP per capita" for short, is calculated by dividing the GDP by the total population:

$$\text{GDP per capita} = \frac{\text{GDP}}{\text{Total Population}}$$

Though GDP per capita can reflect the average income level of the people in a country, it does not imply that all residents can enjoy the same level of living standard. For example, in some places where income disparity is large, the living standard among residents can vary a lot.

Worksheet 1: Calculation of Gross Domestic Product and Gross Domestic Product per capita

1. The following table shows the GDP and population figures of Hong Kong from 2016-2020. Please calculate:

(i) The year-on-year percentage change in GDP in each year from 2018 to 2020

$$\left(\text{Formula : } \frac{\text{GDP in a particular year} - \text{GDP of the previous year}}{\text{GDP of the previous year}} \times 100\% \right)$$

(ii) GDP per capita of Hong Kong in each year from 2018 to 2020

Year	GDP (million HK\$)	(i) GDP year-on-year percentage change (%)	Population	(ii) GDP per capita (HK\$)
2015	2,398,280	---	7,291,300	328,924
2016	2,490,598	e.g. $\frac{(2,490,598 - 2,398,280)}{2,398,280} \times 100\%$ = 3.8%	7,336,600	339,476
2017	2,659,611	6.8%	7,393,200	359,737
2018	2,835,429	6.6%	7,452,600	380,462
2019	2,868,843	1.2%	7,507,900	382,110
2020	2,675,341	-6.7%	7,481,000	357,618
2021	2,861,620	7.0%	7,413,000	386,027

Source:

2021 Gross Domestic Product, Census and Statistics Department

https://www.censtatd.gov.hk/en/data/stat_report/product/B1030002/att/B10300022021AN21C0100.pdf

Census and Statistics Department

https://www.censtatd.gov.hk/tc/web_table.html?id=1A#

2. When a country's / region's GDP per capita increases, does it mean all of its residents' income increase too?

No. "GDP per capita" is calculated by dividing the GDP by the total.

population For example, if some people's incomes increase and some others'

incomes remain unchanged, the GDP per capita for the place will still.

increase

3. Visit the International Monetary Fund website

(<http://www.imf.org/external/datamapper/NGDPDPC@WEO/OEMDC/ADVEC/WEOWORLD>) and list out the five countries / regions that are ranked top five in terms of GDP per capita:

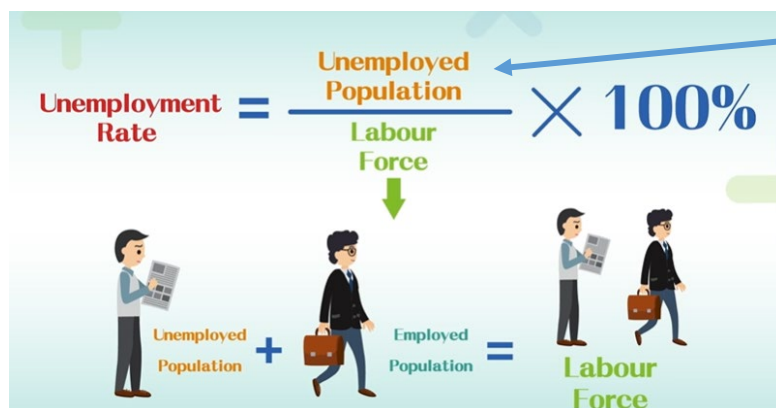
Ranking of GDP per capita	Country / Region
First	
Second	
Third	
Fourth	
Fifth	

4. (Extended question) Visit the Census and Statistics Department website and find the data of Hong Kong's GDP over the past 15 years. Calculate the year-on-year percentage change of GDP and plot a graph in excel.

Economic Indicator (2): Unemployment Rate

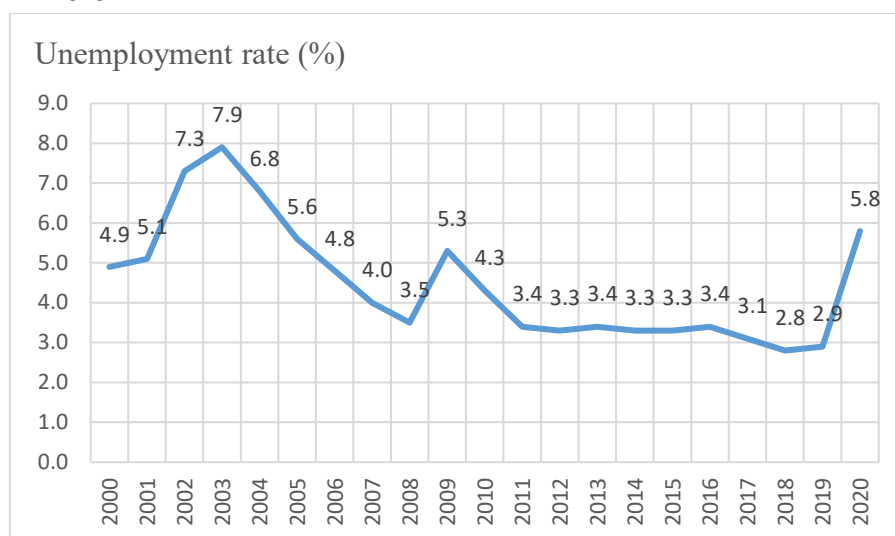
Unemployment Rate

The unemployment rate refers to the proportion of unemployed population in the labour force, which can reflect the labour market situation and economic performance of a place.



In Hong Kong, the unemployed population refers to those people aged 15 and over, who are willing and able to work, but cannot find a job.

If the unemployment rate rises, it means that it is harder for workers to find jobs and the economic situation is unsatisfactory. The following graph shows the unemployment rate of Hong Kong between 2000 and 2020. Compared to other countries or regions, the unemployment rate of the HKSAR was quite steady and relatively low in general. However, in 2003, the Hong Kong economy was adversely affected by the SARS epidemic and the unemployment rate once rose to 7.9% and fell afterwards. In 2020, due to the impact of the COVID-19 pandemic, the unemployment rate of Hong Kong increased to 5.8%.



Source: Census and Statistics Department
https://www.censtatd.gov.hk/en/web_table.html?id=6

The following table shows the figures of Hong Kong's labour force and unemployed population of the first three quarters of 2020. Calculate the unemployment rates in the respective periods.

Period	Labour force ('000)	Unemployed population ('000)	Unemployment rate (%)
01/2020-03/2020	3 902.8	163.7	4.2
04/2020-06/2020	3 881.1	242.5	6.2
07/2020-09/2020	3 875.2	255.4	6.6

Source: Census and Statistics Department:
https://www.censtatd.gov.hk/en/web_table.html?id=6

Online Learning

1. You may watch the following video to revise what you have learned about economic indicators:



**"3-minute Concept" Animated Video Clips Series (6)
 "Economic Performance Indicators**
https://emm.edcity.hk/media/1_tnf7hg2q

2. Students may visit the website of the Census and Statistics Department – Hong Kong in Figures to get the most updated statistics:

<https://www.censtatd.gov.hk/en/EIndexbySubject.html?scode=460&pcode=B1010006>



Based on students' interest, ability level and prior knowledge, the teacher may decide whether or not to explain the content of this section "Enrichment: Average wages (payroll)" to students.

Appendix 1



Know More: Average wages (payroll)

Apart from GDP, GDP per capita and unemployment rate, we may also understand Hong Kong's economic performance by referring to the information on the earnings of Hong Kong residents.

The wage indices reflect changes in the price of labour for workers up to supervisory level. The wage indices, rather than actual wages, are generally used to reflect the wage levels. The Indices of Payroll per Person Engaged measure changes in average employment earnings of personnel at all levels.

Average wages (payroll)

Based on the average wages, we can understand the income levels of people in Hong Kong and indirectly understand the living environment and quality of life of Hong Kong residents.

Average wage is derived by dividing the total payroll by the total number of persons engaged in the corresponding period. The changes in average wage are measured by the Census and Statistic Department of Hong Kong in nominal terms and indices and indices for all the selected industry sections. However, "index" is a difficult concept to students. Therefore, it is can be simplified and explained with the following table to help students understand this concept. If the average wage was \$100 in 1999, then the average wage for 2016 was \$118.1 and that for 2021 is \$124.0.

Indices of Payroll Per Person Engaged by all Selected Industry Sections (2016-2021)

	1st quarter 1999 = 100					
	2016	2017	2018	2019	2020	2021
Indices of Payroll Per Person Engaged by all Selected Industry Sections	118.1	121.1	122.4	121.6	124.5	124.0

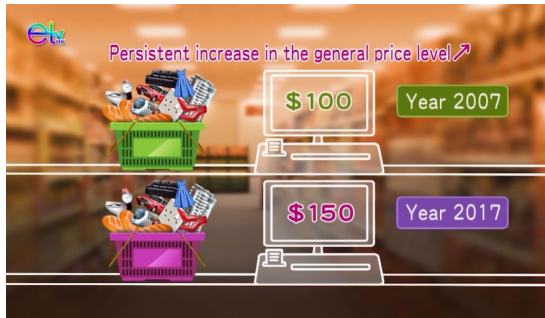
Source: Hong Kong Annual of Digest of Statistics

https://www.censtatd.gov.hk/en/data/stat_report/product/B1010003/att/B10100032022AN22B0100.pdf

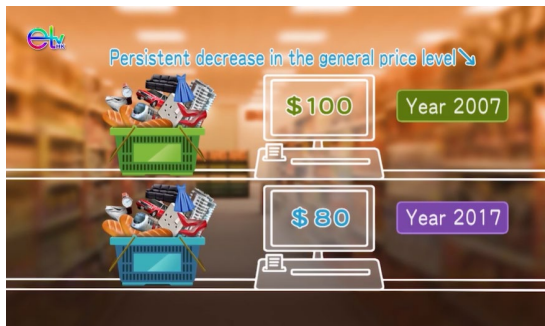
Economic Indicator (3): Inflation Rate

Inflation Rate

Inflation refers to the phenomenon of a persistent **increase** in the general price level.



Deflation refers to the phenomenon of a persistent **decrease** in the general price level.



Consumer Price Index (CPI) is one of the commonly used tools to measure the general price level. It provides a measure to reflect changes in the price level of consumer goods and services. When the price index increases, it means the general price level and cost of living increase, and vice versa.

The year-on-year percentage change in consumer price index can be used to measure the **inflation rate / deflation rate**. This index can reflect the change in the general price level as well as the cost of living. For example, the inflation rate of 2020 can reflect the change in the price level in 2020 as compared with 2019:

$$\text{Inflation rate} = \frac{P_{2020} - P_{2019}}{P_{2019}} \times 100\%$$

P_{2019} : **CPI in 2019**

P_{2020} : **CPI in 2020**

In reality, there are different kinds of CPIs. For simplicity's sake, we only use the Composite CPI in this resource.

The following table shows the Composite CPI of Hong Kong in 2017-2021. Calculate the inflation rate in each year from 2018 to 2021.

Year	Composite CPI	Inflation rate (%)
2017	94.6	-
2018	96.8	2.3
2019	99.6	2.9
2020	99.9	0.3
2021	101.4	1.6

Source: Census and Statistics Department:
https://www.censtatd.gov.hk/en/web_table.html?id=52

(Challenge question) When wage increases, will people's living standard necessarily improve during inflation? (Hints: How will price level affects people's purchasing power?)

When wage increases, if the percentage increase in the general price level is higher than the rate of increase in the wage, people can buy less of goods and services with the increase in nominal income. So when wage increases, people's living standard may not increase.

Online Learning

1. Students may watch the following video to revise what they have learned.



Introduction to Economic Concepts: GDP, Unemployment and Inflation

https://emm.edcity.hk/media/Introduction%20to%20Economic%20Concepts%3A%20%20GDP%2C%20Unemployment%20and%20Inflation/0_pbign93

Primary, Secondary and Tertiary Industries

Production activities can be classified into three stages:

1. Primary production

Primary production refers to production activities that involve direct extraction of natural resources or production activities utilising natural resources. Agriculture, fishing and mining are examples of primary production. People who engage in primary production, for example, farmers and fishermen are known as primary producers.



2. Secondary production

Secondary production refers to production activities that involve processing of raw materials and converting them into semi-finished products or finished products. Manufacturing and construction industries are both examples of secondary production, and workers like textile workers and construction workers are known as secondary producers.



3. Tertiary production

Tertiary production refers to the provision of all kinds of services. For example, retail, tourism, education are all examples of tertiary production. Salespersons, tour guides and teachers are all known as tertiary producers.



Primary, secondary and tertiary industries refer to the industries that are associated with the corresponding stages of production.

Worksheet 2: Primary, secondary and tertiary industries

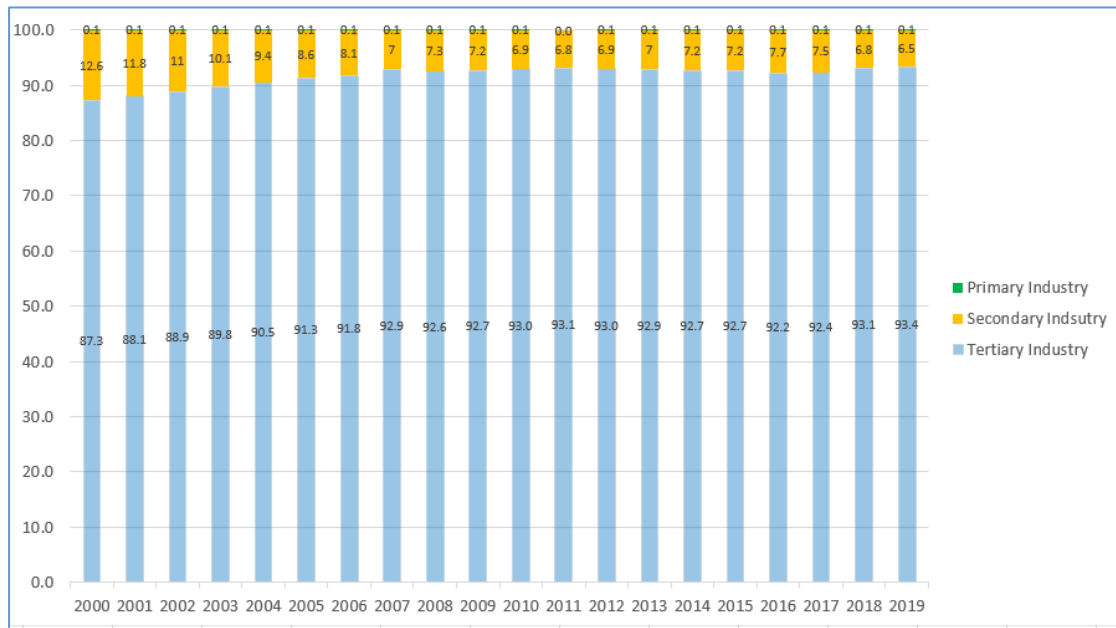
1. According to the definitions above, name the industries (primary, secondary or tertiary industry) that the following people engage in.
- a. Waiter b. Farmer c. Garment worker d. Insurance broker
 e. Construction worker f. Fisherman g. Courier

Primary Industry	Secondary Industry	Tertiary Industry
<i>b, f</i>	<i>c, e</i>	<i>a, d, g</i>

Source 1: The proportion of total employment in Hong Kong in primary, secondary and tertiary industries from 2000 to 2019



Source 2: The contribution of primary, secondary and tertiary industries to GDP of Hong Kong from 2000 to 2019



Source: Census and Statistics Department:
https://www.censtatd.gov.hk/en/web_table.html?id=36

2. According to Sources 1 and 2, describe the changes in different types of production in the past two decades.

According to Sources 1 and 2, tertiary production contribution to employment and GDP of Hong Kong generally increased in the past two decades.

On the other hand, secondary production has a decreasing trend in both aspects. And primary production continues to contribute very little (almost zero) to both the employment and GDP of Hong Kong.

3. According to Sources 1 and 2, what are the characteristics of the industrial structure of Hong Kong?

According to Sources 1 and 2, the contribution of tertiary production to Hong Kong's employment and GDP has been more than 80% for the last 20 years. Its contribution to both employment and GDP were around 90% or more in recent years. The remaining share is generally contributed by secondary production, with almost zero contribution from primary production.

Online Learning

Types of Production



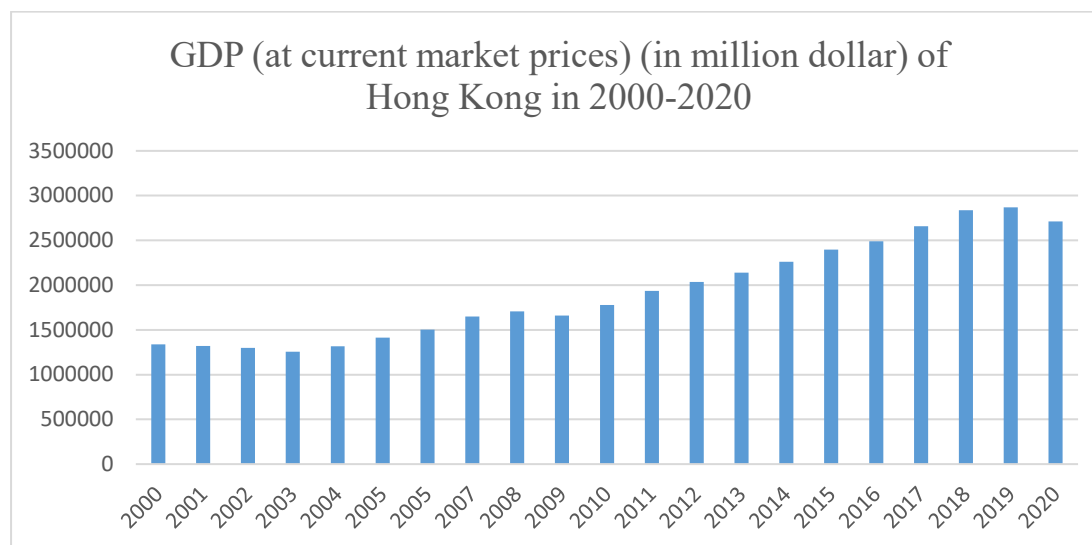
Types of Production

[https://emm.edcity.hk/media/\(13\)%20Production%20\(%E2%80%9CFlippin g%20the%20Economics%20Classroom%E2%80%9D%20Educational%20a nimated%20videos\)/1_4yyqfuaj/276656873](https://emm.edcity.hk/media/(13)%20Production%20(%E2%80%9CFlippin g%20the%20Economics%20Classroom%E2%80%9D%20Educational%20a nimated%20videos)/1_4yyqfuaj/276656873)

Module 2.4 Economic Performance and Human Resources of Hong Kong
Part 1 : Economic Performance of Hong Kong
(Lessons 6 to 9)
Learning and Teaching Materials

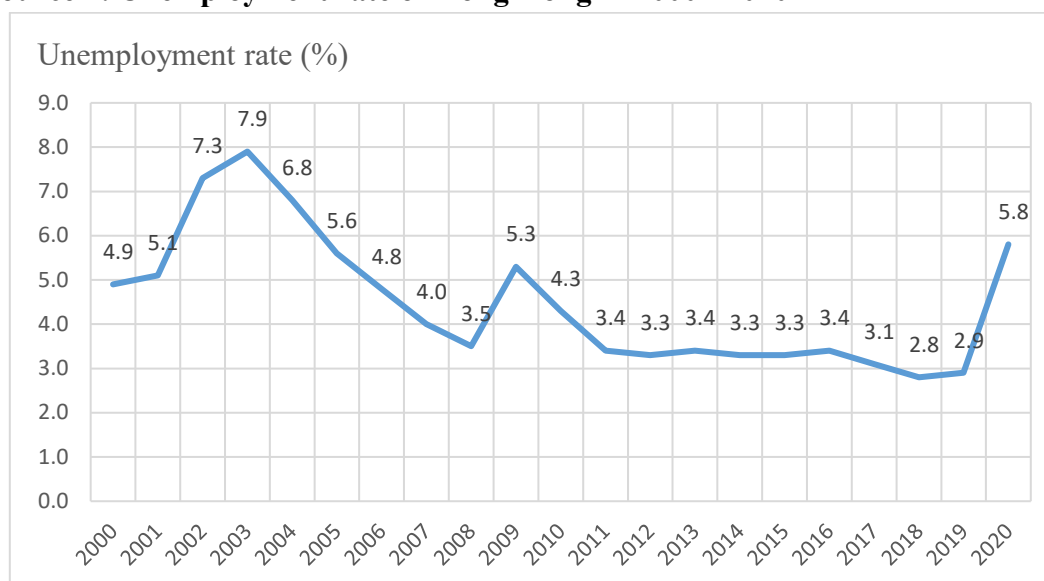
Worksheet 3: Economic performance of Hong Kong and events with significant impacts on the Hong Kong economy

Source 1



Source: GDP 2010, Census and Statistics Department:
https://www.censtatd.gov.hk/en/data/stat_report/product/B1030002/att/B10300022020AN20C0100.pdf

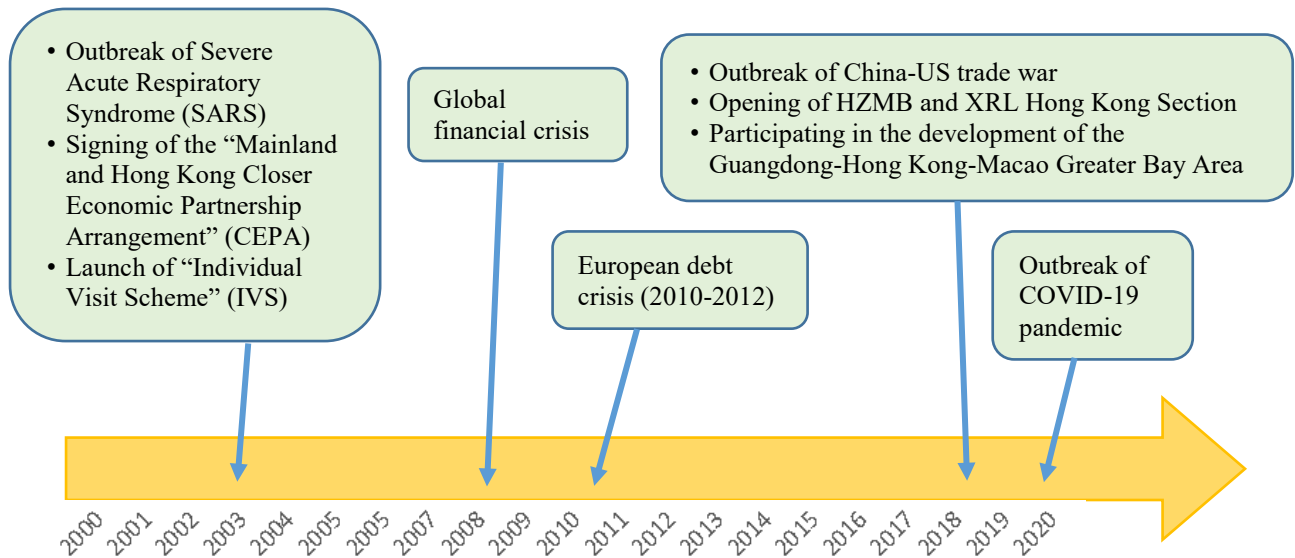
Source 2: Unemployment rate of Hong Kong in 2000 - 2020



Source: Census and Statistics Department:
https://www.censtatd.gov.hk/hkstat/sub/sp200_tc.jsp?subjectID=200&tableID=006&ID=0&productType=8

For detailed information on major economic events in Hong Kong, please refer to Supplementary Information 1.

Source 3: Review of events with significant impacts on the Hong Kong economy in 2000-2020



Complete the following question based on Sources 1-3. Delete the option as appropriate.

1. Do you think what happened to Hong Kong’s GDP and unemployment rate during the following periods?

Period	GDP	Unemployment rate
2003 (Outbreak of SARS)	Rise / Fall	Rise / Fall
2004-2008	Rise / Fall	Rise / Fall
2009 (a year after the 2008 Global Financial Crisis)	Rise / Fall	Rise / Fall
2020 (Outbreak of COVID-19 pandemic)	Rise / Fall	Rise / Fall

Lagged economic indicators: When measuring the economic performance with related indicators, we should note that the indicators or data may not immediately reflect the actual situation of the current economy, because economic indicators may not promptly reflect economic changes. For example, wages of workers may be protected by employment contracts, so it takes time to adjust wages.



Hong Kong as a highly open and externally oriented economy

In many cases, economic fluctuations in Hong Kong are closely tied to events happening in other places, as Hong Kong is an open and highly externally oriented economy.

Hong Kong as a highly externally oriented economy

Over the past two decades, the total value of Hong Kong's external trade (including goods and services) has been more than twice the GDP (even as high as 400% of the GDP in 2021). It shows how Hong Kong's major economic activities are closely related to other regions. When there is an economic downturn in overseas markets, Hong Kong economy will also be badly hit since our exports of goods and services will drop accordingly.

Hong Kong as a highly open economy

Hong Kong is highly open economy. There are no restrictions imposed on non-residents who wish to engage in economic activities in the city, including spending, investment and trading, and there is free flow of goods, funds and talents.

Trades between Hong Kong and other territories and their investments in Hong Kong will be affected by events or economic fluctuation in these territories as Hong Kong is an open and highly externally oriented economy. The Hong Kong economy will then be affected to a certain extent. For example, the Asian Financial Crisis in 1997-98 and the Global Financial Crisis in 2008 caused impacts on the development of the Hong Kong economy, led to slower economic development of the city and dragged it into recession. The CEPA signed between Hong Kong and the Mainland in 2003 provides greater market access for Hong Kong merchants to the Mainland market. It was a favourable factor for the economic development of Hong Kong and it has brought economic growth to Hong Kong in the subsequent years.

The stability of the Hong Kong economy is related to economic security

Economic security includes the security of the economic system, the security of economic order, the security of economic sovereignty, and the security of economic development. It is the foundation of national security and development.

Economic security is the foundation of national security and development. Stable and steady economic development provides a material basis for national military and homeland security, a safeguard for the people's livelihood and good conditions for political security. Given the complicated international environment and relations in the new era, economic competition has become the main battle ground for competitions among great powers, and the economic war without smoke of gunpowder is often more dangerous than a full-blown war of fire. A stable and safe business environment is of paramount importance to Hong Kong as an international financial and business hub.

After its return to the motherland, Hong Kong has experienced a number of economic crises, including the Asian Financial Crisis in 1997-98*, the bursting of the dot-com bubble in 2000, the "Severe Acute Respiratory Syndrome" outbreak in 2003, the Global Financial Crisis in 2008 and the most recent COVID-19 pandemic in 2019, which have had a significant impact on Hong Kong's economic stability and seriously jeopardised economic security.

Source of information: National Security Education Day website
https://www.nsed.gov.hk/national_security/index.php?a=national_security_main_focus&l=en

*Teachers can use the “Asian Financial Crisis” as an example to briefly describe that Hong Kong’s financial market was impacted by the event and the HKSAR government had taken measures to defend the economy at that time. As the case study involves complicated economic knowledge (e.g. the operation of the Hong Kong’s Linked Exchange Rate System), teachers can adopt a narrative method to briefly explain the event based on students’ abilities. Teachers should not include economic concepts and theories which are beyond students’ abilities and the scope of the curriculum

Reference:

1. A blog post, Asian Financial Crisis: Difficult Decisions in the Disposal of Shares After Stock Market Operation, written by Mr Norman Chan Tak-lam, former Chief Executive of the HKMA
<https://www.hkma.gov.hk/eng/news-and-media/insight/2019/09/20190911/>
2. A speech delivered by Mr Joseph Yam Chi-kwong, former Chief Executive of the HKMA, at the “Inside Asia Lecture 1998” organised by The Australian, Sydney on 23 November 1998 ([link to the article](#))
<https://www.info.gov.hk/gia/general/199811/23/1123182.htm>

Case Study

Based on the two case studies below, that is, “COVID-19 pandemic” and “2008 Global Financial Crisis”, we will understand the characteristics of the Hong Kong economy as being highly open and externally oriented, and how these international events affect the Hong Kong economy and individual industries.

1. Which industries do you think are the most affected by the COVID-19 pandemic? Why?

With the outbreak of the COVID-19 pandemic, anti-epidemic measures, such as travel restrictions, temperature checks and border closures, are imposed in many places, which has greatly affected the number of visitors to Hong Kong. Therefore, tourism and/or consumption-related industries are greatly affected.

(Other reasonable answers)

2. Which industries do you think were most affected during the 2008 Global Financial Crisis*? Why?

The 2008 Global Financial Crisis was caused by investment banks and subprime mortgages. So financial-related industries were probably most affected.

*2008 Global Financial Crisis (also known as the 2008 Financial Tsunami): Lehman Brothers, once the fourth largest investment bank in the United States, filed for bankruptcy due to losses in US subprime mortgages (i.e. housing loans issued to borrowers with low credit ratings). This was the start of the global financial crisis. As a result, many large financial institutions went bankrupt or were taken over by governments, triggering a global financial crisis.

(Refer to: <https://www.ifec.org.hk/web/tc/blog/2016/12/black-swan.page> (in Chinese))

Case Study 1: Impact of COVID-19 pandemic on the Hong Kong economy

Source 1: About the COVID-19 pandemic

In response to the global COVID-19 pandemic, many countries or regions have imposed certain anti-epidemic measures, including travel restrictions, temperature checks, border closures, and restrictions on the business hours and modes of operation of restaurants. A large number of international and domestic flights have been suspended. And some countries have taken actions to evacuate their nationals in overseas places which have signs of an outbreak or which have imposed travel bans.

As of 31 December 2020, more than 82 million confirmed cases have been reported in about 220 countries and regions around the world, and more than 1.8 million patients have died. The ongoing pandemic of COVID-19 affects the global oil market, stock markets, international cruises, sports events, film markets, etc., plunging the world into an economic crisis.

Source: BBC Chinese website (11 February, 2021), World Health Organisation website (2021)

Source 2

Visitor arrivals to Hong Kong		
Period	Jan. to Apr. 2019	Jan. to Apr. 2020
Arrivals	23,811,581	3,493,335

Source: Hong Kong Tourism Board (2020). *Visitor Arrival Statistics: April 2020*.

Source 3: Impact of the COVID-19 pandemic on major industries in Hong Kong

Unemployment rate	Import/export trade and wholesale	Retail, accommodation and food services	Transportation, storage, postal and courier services, information and communications	Financing, insurance, real estate, professional and business services
May to July 2019	2.5%	4.3%	2.8%	2.3%
May to July 2020	5.1%	10.8%	5.8%	3.7%

Note: The retail, accommodation and food services industries as a whole is generally referred to as the consumption- and tourism-related segment.

Census and Statistics Department, HKSAR (2020). *Labour Force*.
<https://www.censtatd.gov.hk/hkstat/sub/sp200.jsp?tableID=009&ID=0&productType=8>

Source 4

Total retail sales		
Period	May 2019	May 2020
Value (HK\$ million)	39,931	26,788

Source: Census and Statistics Department, HKSAR (2020). *Report on Monthly Survey of Retail Sales*, April 2020 and June 2020.

Answer the following questions based on Sources 1-4 above.

1. State the changes in the unemployment rates in major industries in May to July 2020 compared with May to July 2019. Which major industry was most affected?

Unemployment rates in all major industries rose during the period.

The unemployment rate in retail, accommodation and food services rose the most, from 4.3% to 10.8%.

2. Based on Source 2, calculate the change in visitor arrivals to Hong Kong in January to April 2020 compared with January to April 2019. Do you think the COVID-19 pandemic has a serious impact on the travel industry?

Visitor arrivals to Hong Kong fell by 20,318,246 [3,493,335 (arrivals)

- 23,811,581 (arrivals) = -20,318,246 (arrivals)], or 85.3%

($\frac{3,493,335 - 23,811,581}{23,811,581} \times 100\%$). It shows that the COVID-19 pandemic has

greatly reduced the number of visitors and severely hit the travel industry.

3. Based on the Sources 1-4 above, explain why the major industries in Question 1 are the most affected.

Many countries or regions have imposed anti-epidemic measures, including travel restrictions, temperature checks, border closures, and restrictions on the business hours and modes of operation of restaurants. Foreign visitors are almost kept out. And local people also spend and eat out less often. Therefore retail, accommodation and catering businesses have been hard hit and the unemployment rate has risen the most

4. (Challenge question) Compare the percentage of variation in visitor arrivals in Question 2 with that in total retail sales in Source 4. Explain the difference between the two.

Visitor arrivals have dropped by 85.3%, but the total retail sales fell by only 32.9%. Retail sales include consumption by local residents and that by overseas visitors. While visitor arrivals have fallen sharply, there is still a certain demand for retail goods locally.



Know more: Four Pillars and Six Industries

The four pillar industries, comprising trading and logistics, financial services, professional and producer services, and tourism, have been a driving force of Hong Kong's economic growth for years.

They together contributed about 60% of Gross Domestic Product ("GDP") and almost half of the total employment in 2018. While the trading and logistics services industry is the largest among the four pillars, the past decade has seen diminishing importance of the industry in terms of GDP contribution and job creation.

		2008	2013	2018
Trading & logistics	GDP share	25.6%	23.9%	21.2%
	Employment share	23.4%	20.6%	18.6%
Financial services	GDP share	17.1%	16.5%	19.8%
	Employment share	5.9%	6.2%	6.8%
Professional services & other producer services	GDP share	12.2%	12.4%	11.9%
	Employment share	13.0%	13.3%	14.2%
Tourism	GDP share	2.8%	5.0%	4.5%
	Employment share	5.6%	7.3%	6.6%
Total	GDP share	57.7%	57.8%	57.4%
	Employment share	47.9%	47.4%	46.2%

Information and table source: Research Publications, Legislative Council - Four pillar industries in Hong Kong:
<https://www.legco.gov.hk/research-publications/english/1920issh32-four-pillar-industries-in-hong-kong-20200703-e.pdf>

The HKSAR government adopted the recommendations of the Task Force on Economic Challenges in 2009 to develop the Six Industries that Hong Kong enjoys clear advantages to promote Hong Kong's economic development. The **Six Industries** are education services, medical services, testing and certification services, environmental industries, innovation and technology and cultural and creative industries.

If you want to know more about the above industries, please visit the following websites:

- Higher Education Employment, Labour Department
https://www2.jobs.gov.hk/0/en/jobseeker/jobsearch/quickview/hee/?utm_source=fb&utm_medium=recruitfb&utm_campaign=news
- Research Publications, Legislative Council - Four Pillars and Six Industries in Hong Kong: review and outlook
<https://www.legco.gov.hk/research-publications/english/1415rb03-four-pillars-and-six-industries-in-hong-kong-review-and-outlook-20150209-e.pdf>

Case Study 2: Impact of the 2008 Global Financial Crisis on the Hong Kong Economy

Source 1: Some newspaper headlines during the 2008 Global Financial Crisis



Source: Hong Kong Monetary Authority (2008). Annual Report 2008
Hong Kong Economic Times (19 July 2019). *What Are Subprime Mortgages?* (in Chinese)

Answer the following questions.

1. State how the 2008 Global Financial Crisis affected the Hong Kong economy.

Due to the economic turmoil, the US reduced the purchase of goods from other places, and Hong Kong's export performance was severely affected. Reduced external demand greatly reduced Hong Kong's export growth. Faced with the harsh economic environment, many companies laid off employees, which further pushed up the unemployment rate and affected household consumption. The US financial market slumped, and global (including Hong Kong) stock markets and property markets were affected. Asset prices dropped and many people lost their jobs. As a result, the growth of household consumption expenditure reduced and private investment decreased. All those factors caused the GDP to fall and the unemployment rate to rise.

2. Based on Source 1 and Question 1, describe the characteristics of the Hong Kong economy. Explain your answer.

Hong Kong is a highly externally oriented and open economy. External trade and investment account for a large part in Hong Kong's economy. Therefore when the global economic environment is not good, investments in and exports from Hong Kong will decline and in turn affect the economic performance of Hong Kong.

Source 2: Contributions of the four key industries to GDP

Value added of the four key industries	2007	2008	2009
	HK\$ Million	HK\$ Million	HK\$ Million
Financial services	322,600	277,100	235,600
Tourism	54,000	44,700	50,900
Trading and Logistics	408,900	414,700	373,400
Professional Services and Other			
Producer Services	181,800	197,600	202,800
GDP	1,605,200	1,620,000	1,550,900
Total of the four key industries	967,400	934,100	862,600

Source: Census and Statistics Department, HKSAR

3. According to Source 2, which two industries were the most seriously affected during the 2008 Global Financial Crisis? Why?

According to Source 2, the value added of financial services and tourism to the GDP significantly dropped in 2008, indicating that these two industries were the most seriously affected. The 2008 Global Financial Crisis was triggered by the collapse of the subprime mortgage market in the US, which caused turbulence and instability in the global financial market. As a result, the financial services industry was greatly affected. In addition, the poor economic situations in other places severely affected the income of their residents. The number of tourists coming to Hong Kong for consumption was also greatly reduced. Therefore, the revenue of the tourism industry fell.

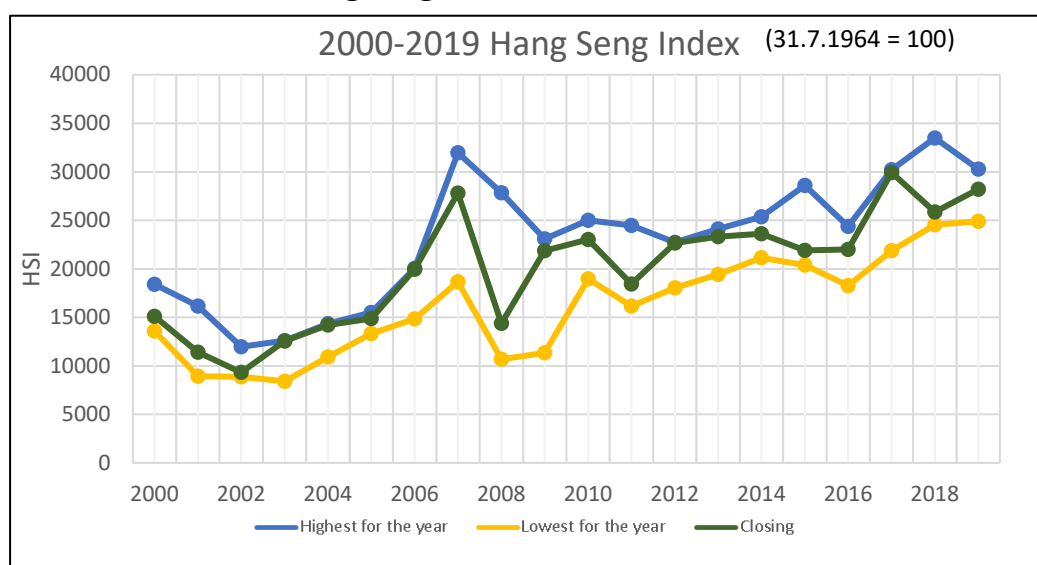
4. Why was Hong Kong's economy hit hard within a short period of time during the 2008 Global Financial Crisis? In addition to the 2008 Global Financial Crisis, cite another similar example. (Hint: What are the characteristics of the Hong Kong market?)

The Hong Kong market is characterised by being externally oriented and open. Other markets are also closely related to the local one. Therefore, fluctuations in the global economy will reflect the Hong Kong economy. Other examples include the Asian Financial Crisis in 1997-98, and the bursting of the dot-com bubble in 2000.



Teaching tips: The Hang Seng Index chart in Source 3 is relatively complicated. The teacher should make appropriate adjustments based on students' ability level.

Source 3: Trend of the Hang Seng Index in 2000-2019



Source: Census and Statistics Department, HKSAR. *Hong Kong Annual Digest of Statistics, 2007 Edition; Hong Kong Annual Digest of Statistics, 2013 Edition; Hong Kong Annual Digest of Statistics, 2020 Edition.*

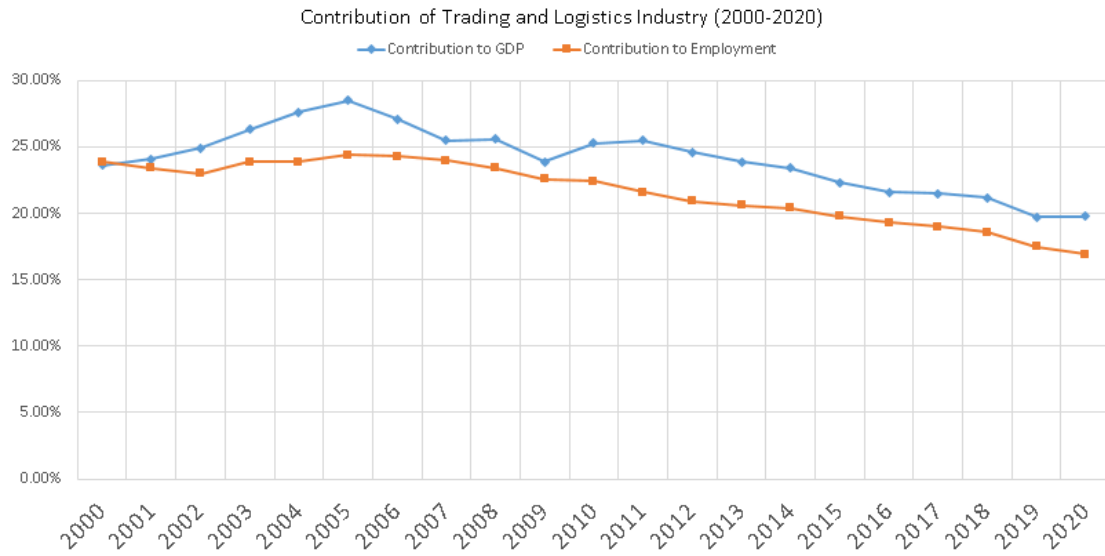
Note: The Hang Seng Index reflects the general trend of price changes in the stock market.

5. (Challenge question) Based on Source 3, briefly describe the impact of the 2008 Global Financial Crisis on the Hong Kong stock market.

According to Source 3, the Hang Seng Index once surpassed 30,000 points in 2007. But then due to the Global Financial Crisis, it plunged to a low point in 2008, with the lowest being only about 10,000 points, falling by about 66% within a year.

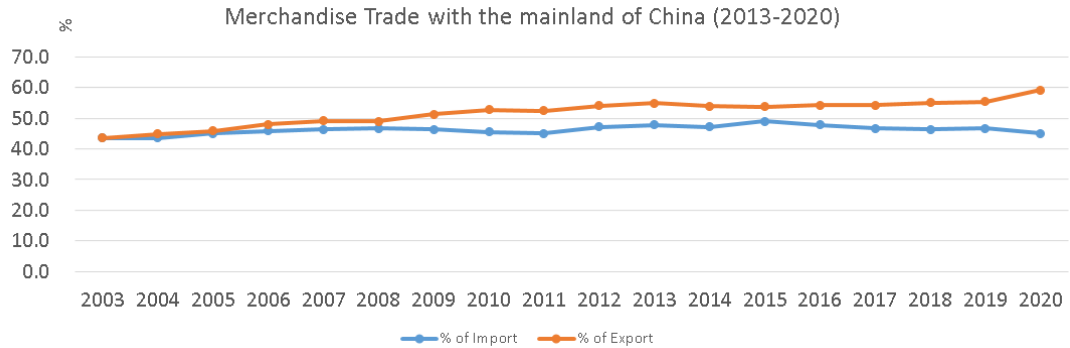
Extended Case Study: Trading and logistics services industry of Hong Kong

Source 1:



Source: Census and Statistics Department

Source 2:



Source: Census and Statistics Department

Answer the following questions based on the Sources above.

1. Based on Source 1, describe the importance of the trading and logistics services industry to the Hong Kong economy, and predict the future trends.

According to Source 1, the trading and logistics services industry has always accounted for 20-30% in terms of the contribution to Hong Kong's GDP and the employment rate. It shows the importance of the industry to the Hong Kong economy. However, related figures were on a slight decline between 2000 and 2020. It can be seen that the relative importance of the trade and logistics services industry to the Hong Kong economy has slightly reduced. And it is expected to decline slowly in the future.

2. Based on Source 2, describe the importance of the Mainland to Hong Kong's trading and logistics services industry.

According to Source 2, the percentage of value of imports from and exports to the Mainland was on a constant rise between 45% and 55% from 2003 to 2020. In other words, about half of Hong Kong's import/export values are contributed by the Mainland. And the rise in the percentage of overall export value is slightly larger than that of overall import value. It can be seen that the Mainland is very important to Hong Kong's trading and logistics services industry.

Source 3: Hong Kong's advantage as an entrepot centre

Hong Kong makes diverse contributions to our country's economy, including providing important entrepot services for our country's foreign trade. According to the descriptions by the Trade and Industry Department of the HKSAR, Hong Kong plays an important entrepot role for the trade between the Mainland and the rest of the world for three reasons, namely its strategic geographical location, well-developed infrastructure and international communication network. In 2019, the value of goods re-exported through Hong Kong from and to the Mainland was HK\$3,476.9 billion, accounting for 88.2% of Hong Kong's total re-export trade value.

Reference: Trade and Industry Department, HKSAR. *Hong Kong and Mainland of China: Some Important Facts.*

3. Classify the following descriptions about Hong Kong.

	Strategic geographical location	Well-developed infrastructure	Good international communication network
Hong Kong's well-developed transportation infrastructure allows the city to connect with the world smoothly.		✓	✓
Hong Kong International Airport has five first-tier air cargo handling facilities, with over 7 million tonnes of annual handling capacity.		✓	
Endowed with a deep-water natural harbour (Victoria Harbour) strategically located along a major sea route and with the Mainland providing a huge cargo base, Hong Kong has become a sea transport hub in Asia.	✓		
As one of the regional hubs for Asia, Hong Kong has good connections with most Asian urban centres and half of the world's population is within 5 hours' flight time.	✓		
Lok Ma Chau, Man Kam To, Sha Tau Kok, Shenzhen Bay and Hong Kong-Zhuhai-Macao Bridge are the five road-based land boundary crossing points between Hong Kong and the Mainland.		✓	
Hong Kong has nine container terminals for sea transport, comprising 24 container berths capable of handling up to 20 million TEUs (Container of twenty-foot Equivalent Unit) a year in total.		✓	

Reference: Melissa Ho. *Logistics Industry in Hong Kong*.



Note: For the history of Hong Kong's industrial development after the Second World War, please refer to “Supplementary Information 2: Hong Kong's Economic Transformation after WWII”.

Economic ties between Hong Kong and the Mainland

Hong Kong has undergone several changes in its economic development over the past decades, transforming from an entrepot to an industrial base, and then to an international financial centre today. The economic development of Hong Kong and the development of our country have always been inseparable.

The opportunities afforded by the reform and opening-up of the Mainland since 1978 have allowed Hong Kong to develop close ties with the Pearl River Delta (PRD). With the relocation of manufacturing activities to the PRD, the “front shop, back factory” model of division of work between the two places gradually took shape. Since then, the development of light industry in the PRD has grown exponentially, and the region has become the most important base of export trade in our country. Meanwhile, Hong Kong has resumed its traditional trading role, providing high value-added, production-oriented services for industries in the Mainland, particularly those in the PRD, and developing gradually into a major international financial, maritime and trade centre.

As shown in the historical development above, economic restructuring and division of work between Hong Kong and the Mainland have been essential to the sustained growth of both places over the past three decades. In the process of the Mainland’s reform and opening-up, the PRD has played the role of a “testing field” for exploring new directions for economic development and acting as a positive role model for the rest of our country.

Source: The Greater Pearl River Delta Business Council. *Hong Kong’s Roles and Positioning in the Economic Development of the Nation*.

https://www.cmab.gov.hk/doc/report_20100919_en.pdf



The Academy of Chinese Studies: *Concepts in Liberal Studies*
- *Reform and Opening-up: The Economy* (in Cantonese)

<https://ls.chiculture.org.hk/tc/concept/0051>

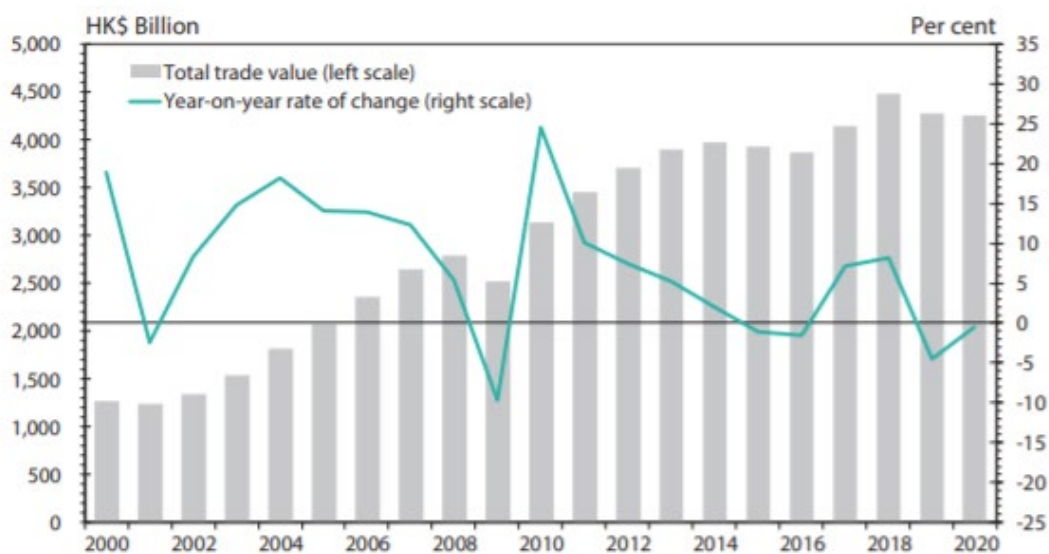
Economic Links between Hong Kong and the Mainland

(Extracted from “Hong Kong Yearbook 2020”

<https://www.yearbook.gov.hk/2020/en/pdf/E03.pdf>)

The flow of goods, services, people and capital between the two places, and between the Mainland and the world through Hong Kong, have been flourishing alongside the continued reform and opening up of the Mainland. The vibrant activities have brought significant mutual benefits to both Hong Kong and the Mainland. With its total merchandise trade surging from US\$474 billion in 2000 to US\$4.7 trillion in 2020, the Mainland plays a prominent role in driving global economic growth. Hong Kong has benefited substantially from the Mainland’s phenomenal external trade growth. In 2020, visible trade between Hong Kong and the Mainland was more than three times that of 20 years ago, representing growth of 6% per annum in value terms.

Goods Trade between Hong Kong and Mainland



The Mainland has long been Hong Kong’s largest trading partner, contributing to more than half of the city’s total merchandise trade value in 2020. At the same time, the HKSAR was the Mainland’s fourth largest trading partner in 2020 after the United States, Japan and Korea, accounting for about 6% of the Mainland’s total trade value. More than half of Hong Kong’s exports to the Mainland, which were mainly re-exports, involved raw materials and semi-manufactures, reflecting the Mainland’s role as a production hinterland and the highly integrated production network within Asia.

Meanwhile, the Mainland economy's increasing emphasis on high-quality development and greater roles for domestic consumption and services in driving economic growth have unleashed enormous demand for various services. Hong Kong, being highly competitive in many high-end services, has risen with the tide. Indeed, its exports of services to the Mainland had grown rapidly and more than double between 2009 and 2019. The Mainland was the largest market for Hong Kong's exports of services in 2019, accounting for around 38% of the total. The Agreement Concerning Amendment to the Mainland and Hong Kong Closer Economic Partnership Arrangement Agreement on Trade in Services was implemented from 1 June 2020. It further liberalises the Mainland market for Hong Kong's service suppliers in a number of important sectors, including financial services, legal services, construction, testing and certification, television, motion pictures and tourism.

Hong Kong has always been a principal gateway to and from the Mainland for tourism. However, the COVID-19 pandemic has severely disrupted the flow of people between Hong Kong and the Mainland. In 2020, foreign visitors only made 0.2 million trips through Hong Kong to the Mainland, and the number of trips by Mainland residents to or through Hong Kong also dropped markedly to only 2.7 million. However, Hong Kong still remains the largest external investor in the Mainland. According to the Mainland's statistics, the cumulative value of realised direct investment in the Mainland from Hong Kong exceeds US\$1 trillion, more than half of the total.

Over the years, financial links between Hong Kong and the Mainland have strengthened substantially, thanks to the increasing cross-boundary economic activities and the Central People Government's policy to enhance Hong Kong's position as an international financial centre. As a major funding centre for Mainland enterprises, Hong Kong had 1,319 Mainland enterprises listed on its stock market as at end-2020. Of these, 112 were listed in 2020, raising more than \$390 billion of funds through IPOs.

China's Reform and Opening-up

In the 1970s, before the start of the economic reform and opening-up, China implemented a command or planned economy. Domestic production, resource allocation and consumption were centrally planned and economic development was slow. The Third Plenary Session of the Eleventh Central Committee of the CPC in December 1978 established the policy of “China’s **Reform and Opening-up**”. It means socialist modernization and economic system reform as internal goals, and opening-up to the world in a planned and step-by-step manner. It was a new stage of China’s industrialization and modernization.

The policy of reform and opening-up has the following characteristics:

- Reform measures are first piloted in some regions and economic sectors. And they would be gradually implemented throughout the country if they succeed.
- China implemented reforms in non-state-owned sectors first, allowing the establishment of market-oriented enterprises to promote economic growth.
- Reforms were first implemented in coastal areas, especially special economic zones. The nation allowed some people and regions to “get rich first”, with the ultimate goal of common prosperity.
- Reforms are conducted in a mainly pragmatic and effective approach (rather than based on political ideology). Policies were result oriented. Deng Xiaoping once said: “It doesn’t matter if a cat is black or white, as long as it catches mice.” To develop productivity (“catch mice”), one should be open-minded, brave to reform and not be limited to any specific form (“if a cat is black or white”) (economy before politics).

With the reform and opening-up, the nation has made remarkable historic achievements in its economic development. In 1978, China’s GDP was only 367.9 billion yuan, and in 2017 it reached 82,712.2 billion yuan, ranking second in the world. At the beginning of reform and opening-up, our country’s foreign economic activities were very limited. In 1978, the total value of imports and exports of goods stood at only US\$20.6 billion. In 2017, that figure reached US\$4.1 trillion, increasing by 197.9 times over 1978 and ranking first in the world. In addition, people’s lives have undergone tremendous changes. One-fifth of the world’s population has moved from having inadequate food and clothing to the overall well-off. In 1978, the national per capita disposable income of residents was only 171 yuan. In 2017, the figure reached 25,974 yuan, with an actual increase of 22.8 times over 1978, or an average annual increase of 8.5%, after deducting price factors.

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Extended Learning

- Reform, opening-up and economic development (Chinese Only)
<https://ls.chiculture.org.hk/tc/idea-aspect/42>
- Hong Kong's contribution to the motherland's economic reform (Chinese Only)
<https://ourhkfoundation.org.hk/innotechexpo2018/gaigeikaifang-xiangganggongxian>

改革開放香港貢獻

國家實施改革開放，香港成為第一波參與推動的地區，提供了重要貢獻。綜合各項發展元素，香港的貢獻範疇主要包括：

1978年
 第一波港商開拓內地市場，陸續設立工廠。

1980年
 第一家港資內地合資企業——廣州日立電器廠。

1983年
 廣州與港合資建設第一廣州日報印刷廠。

1997年
 中國經濟特區——海峽西區。

改革開放香港貢獻

- 率先積極支持參與，為其後引進各種新技術。
- 1980年代中期，港資投入比率高達2016年，實際使用外資總計9100億元。
- 香港擁有優良法律體系，是內地「牛軋站」及窗口。
- 輸入先進技術人才及市場理念、文化。
- 商業發展：1980年代中期起，拓展廣州、上海及廣東項目，推動國家發展。
- 企業發展：聯交作為內地最大海外投資中心，躍升。

打造珠三角「世界工廠」

1979年實施改革開放後，港商開始於珠三角地區投資設廠，初期以生產製成電器海產品為主，包括食品、飲料、玩具及服裝等。到1990年代初，發展高科技電子設備機械、化學製藥等。

高峰時期，按2002年數據，以香港為基地的製造業和出口公司，約有63,000家在內地製作生產，估計是等工廠及其他合同形式的港資企業開辦逾1100萬內地勞工，直接促成了珠三角地區成為「世界工廠」。

2003年
 內地的港資工商項目

2003年
 港資企業僱用內地工人數目

「前店後廠」互惠互利
 1980至90年代，港商在珠三角投資設廠，兩者經濟關係發展為「前店後廠」形式，前店為港資訂單、技術、銷售及銷售，後廠為內地提供生產加工服務。

1978至90年代
 港商引入先進設備，提升內地生產技術。

成就國家金融體系現代化

香港一直是內地與國際市場聯繫的重要橋樑，也是最大的對外金融窗口。隨著國際貿易、投資活動增加，國家金融體制需要面向國際，過程中，香港的金融體系發揮作用，為國家金融發展作出重大貢獻。

1994年國家銀行改革，原有銀行轉為商業銀行，需要與國際市場聯繫，結果四大銀行先後於香港上市，籌集數以百億美元資金，成功轉型。至2017年底，內地公司於香港上市1,061家，市值28,800多億美元。

香港成為國家集資中心
 1993年
 廣東證券交易所率先在香港上市，香港成為內地最大集資中心。

資本市場互聯互通
 過去十年，香港和內地資本市場互聯互通的擴大，先後啟動「滬港通」、「深港通」、「債券通」。目前在香港上市的企业中，逾35%是內地企業，佔港交所市值6成。

2005年起
 內地四大銀行相繼在香港上市，全國銀行便利國際聯繫。

2014年起
 廣發「債券通」、「債券通」，促進內地與香港聯繫。

2017年
 香港與內地證券市場互聯互通。

2018年
 自1993年內地企業於香港上市，至今共籌集資金超過7,000多億美元。

幫助人民幣走向國際
 國家積極推進人民幣國際化，2019年開展境內人民幣結算，香港成為全球最便利的離岸人民幣業務中心，日清佔全球人民幣結算活動的76%，推動人民幣走向世界。

2017年人民幣支付佔全球總額 75.7%

Supplementary Information 1:

Significant Events in Hong Kong's Economic Development

Year	Significant Events in Hong Kong's Economic Development	Details
2003	Severe Acute Respiratory Syndrome (SARS)	<p>With the spread of Severe Acute Respiratory Syndrome (SARS), retail, tourism, restaurants and hotels and other sectors were severely hit. An abrupt downturn was witnessed in the economy under the impact in the second quarter. Yet overall economic activity staged a speedy and broad-based recovery in the third quarter after the waning of SARS.</p> <p>(Reference: https://www.statistics.gov.hk/pub/B6XX00032003AN03E0100.pdf)</p>
2003	Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA)	<p>The Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) opens up huge markets for Hong Kong goods and services. For example, Hong Kong service suppliers enjoy preferential treatment in entering into the Mainland market in various service areas. Professional bodies of Hong Kong and the regulatory authorities in the Mainland have also signed a number of agreements or arrangements on mutual recognition of professional qualification. CEPA greatly enhances the already close economic cooperation and integration between the Mainland and Hong Kong. And it provides a window of opportunity for Hong Kong businesses to gain greater access to the Mainland market.</p> <p>(Reference: https://www.tid.gov.hk/english/cepa/cepa_overview.htm)</p>
2003	Launch of "Individual Visit Scheme" (IVS)	<p>Implemented since July 2003, the IVS was one of the measures under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA). The challenge of SARS in 2003 led to a sluggish economy in</p>

		<p>Hong Kong. In that year, Mainland tourists visited Hong Kong and generated spending under the IVS. This played a significant role in Hong Kong's economic recovery.</p> <p>(Reference: https://www.tourism.gov.hk/resources/english/paperreport_doc/misc/2014-01-17/Assessment_Report_eng.pdf)</p>
2008	Global Financial Crisis	<p>Lehman Brothers, once the fourth largest investment bank in the United States, filed for bankruptcy due to losses in US subprime mortgages (i.e. housing loans issued to borrowers with low credit ratings). This was the start of the global financial crisis. As a result, many large financial institutions went bankrupt or were taken over by governments, triggering a global financial crisis.</p> <p>(Reference: https://www.ifec.org.hk/web/tc/blog/2016/12/black-swan.page) (in Chinese)</p>
2010	European Debt Crisis	<p>Some European governments owed large amounts of foreign debts beyond their repayment capabilities. Eventually they were unable to repay their debts or had to postpone the repayment. As a result, the market lost confidence in European companies and economies. Countries such as Greece, Portugal, Italy, Ireland and Spain needed to seek assistance from the European Union or international organisations. The crisis sent tremendous waves to global finance and economy.</p> <p>(Reference: https://service.hket.com/knowledge/2135317/%E4%BD%95%E8%AC%82%E6%AD%90%E5%82%B5%E5%8D%B1%E6%A9%9F%EF%BC%9F (in Chinese) https://www.info.gov.hk/gia/general/201206/27/P201206270394.htm)</p>
2018	Outbreak of China-US trade war	<p>In April 2018, the Office of the United States Trade Representative (USTR) announced a proposed list of products imported from China that could be subject to intended tariff increases. The list contained 1,333 product lines, including colour televisions, machine and electrical parts, and motor and vehicles. In May 2018, the Trump administration announced that the US would impose an</p>

		<p>additional 25% tariff on US\$50 billion (HK\$390 billion) of imported Chinese goods. China also announced a retaliation plan in April 2018 and countermeasures in June 2018. The China-US trade war had a negative impact on Hong Kong as an entrepot for merchandise trade between the two countries.</p> <p>(Reference: https://www.legco.gov.hk/research-publications/english/1718in14-trade-conflict-between-china-and-the-united-states-and-its-impact-on-hong-kongs-economy-20180717-e.pdf)</p>
2018	Commissioning of HZMB	<p>The Hong Kong - Zhuhai - Macao Bridge (HZMB) brings the three cities of Hong Kong, Zhuhai and Macao within an hour's commute and most major towns and cities of the western Pearl River Delta (PRD) within a 3-hour commute of Hong Kong. Since its commissioning, HZMB has brought enormous opportunities for the connectivity within the Greater Bay Area and its overall development. For example, the 'Northbound Travel for Hong Kong Vehicles' scheme has been implemented since July 1, 2023. Eligible Hong Kong private cars can travel between Guangdong and Hong Kong via the HZMB without needing to obtain a regular quota. This provides a convenient way for Hong Kong citizens to self-drive to Guangdong for business, visiting family, or sightseeing on a short-term basis.</p> <p>(Reference: https://www.hzmb.gov.hk/en/index.html https://www.bayarea.gov.hk/en/connectivity/key.html*)</p>
2018	Opening of XRL Hong Kong Section	<p>The Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (XRL) connects with the national high-speed rail network and greatly shorten the traveling time between Hong Kong and Shenzhen, Guangzhou, and other cities in the PRD. It consolidates Hong Kong's position as a regional transport hub, promoting economic, social and cultural exchanges. The XRL Hong Kong Section also connects Hong Kong with the Capital Economic Circle and Yangtze River Delta Region through the Beijing-Guangzhou Passenger Line and the Hangzhou-Fuzhou-</p>

		<p>Shenzhen. It strengthens synergy among the regions, creating more development opportunities.</p> <p>(Reference: https://www.bayarea.gov.hk/en/connectivity/key.html https://www.news.gov.hk/eng/2018/09/20180922/20180922_172537_067.html https://www.thb.gov.hk/eng/policy/transport/issues/cbt_4.htm)</p>
2018	Participating in the development of Guangdong-Hong Kong-Macao Greater Bay Area	<p>The development of the Guangdong-Hong Kong-Macao Greater Bay Area is accorded the status of key strategic planning in the country’s development blueprint. The objectives are to further deepen cooperation amongst Guangdong, Hong Kong and Macao, fully leverage the composite advantages of the three places, facilitate in-depth integration within the region, and promote coordinated regional economic development, with a view to developing an international first-class bay area ideal for living, working and travelling.</p> <p>Being the most open and international city in the Greater Bay Area, Hong Kong is known for its status as international financial, transportation, trade centres and aviation hub as well as its renowned professional services. Enjoying the dual advantages of "one country, two systems", Hong Kong plays an important role in the Greater Bay Area Development. On the one hand, Hong Kong will facilitate and support the economic development of the region, with a view to enhancing the role and functions of the Greater Bay Area in the country’s two-way opening up (not only the “going global” of Chinese funds, investments and infrastructure, but also the inflow of foreign ones into Mainland China via Hong Kong). On the other hand, we will facilitate the development of industries in which Hong Kong’s strengths lie in the Greater Bay Area, capitalising on Hong Kong’s strengths to serve the country’s needs.</p> <p>(Reference: https://www.bayarea.gov.hk/en/about/overview.html https://www.news.gov.hk/tc/record/html/2017/09/20170904_191604.shtml (in Chinese))</p>

Supplementary Information 2:

Hong Kong's Economic Transformation after WWII

Influx of industrialists, funds and an immense pool of labour from the Mainland

After the end of World War II in 1945, many factory owners returned to Hong Kong to restart production. At the same time, the drastic changes in the Mainland in the few years after the war led to an influx of Mainland residents into Hong Kong. There were industrialists from Shanghai (the nation's industrial centre before the war), as well as experienced industrial workers from commercial ports such as Guangzhou and Shantou in Guangdong province. After arriving in Hong Kong, some of those who had been employees switched to start their own small-scale factories. They started up cottage industries, resulting in that a large number of small and medium enterprises was a feature of Hong Kong's manufacturing industry. Many of the new arrivals from the Mainland, however, were unskilled labourers, whose one hope in reaching Hong Kong was to find work and survival, regardless of how poor the factory conditions or how long the working hours are. These people had been the pillar of Hong Kong's industries. All those factors helped promote the development of Hong Kong's manufacturing industry.



From entrepot trade to industrial production due to international embargo on China

The international scenarios also had significant impact upon Hong Kong's industry. The Korean War broke out in 1950. In the next year, the United Nations imposed a trade embargo on China, and Hong Kong adopted the UN's resolution by restricting the export of most materials through Hong Kong to the Mainland. The value of Hong Kong's exports to the Mainland fell from 1.6 billion in 1951 to 0.182 billion in 1955. The percentage in the total export value also plummeted from 36.2% to 7.2%. The embargo hit Hong Kong's economy very hard, the worst hit being the wharfing, cargo transportation, banking and insurance sectors. It is said that some people engaged in the re-export trade were knowledgeable about markets that supplied raw materials and markets that demanded consumer products. They turned to manufacturing as an alternative economic opportunity, which rapidly promoted the industrial growth in Hong Kong.

Hong Kong's industry after the war

The types of industries after the war differed significantly from before. With the progress of technology and changes in lifestyle, the production of rubber products, torches and patent medicines which had dominated before the war gradually declined, and industries

such as textiles, garments, plastics, watches and electronics took their places as pillars of the manufacturing sector. Some of the Shanghai industrialists established textile factories in Hong Kong, bringing with them new technologies in spinning and as a result, weaving, dyeing and finishing as well as garment-making also developed quickly. Textile industry had since become the leading force of the local manufacturing sector. Plastics was a new raw material widely researched during the WWII and after the war, chemical enterprises in Europe and America supplied it to Hong Kong leading to the rise in the production of plastic toys, flowers, articles of everyday use, etc. When Switzerland and Germany relaxed the export of watch movements in the 1950s, a new line in the assembling of watch parts was born; in addition, the production of watch bands and watch cases took off as a result. In the 1960s, with a good number of American and Japanese companies setting up factories producing semiconductor radios, televisions, communication equipment and compact electronic parts in Hong Kong, the electronics industry blossomed.

Relocation of Hong Kong production lines to PRD and YRD regions

By the 1970s, with the skyrocketed land prices, a shortage of labour and the industrialisation of nearby countries, labour-intensive industries were facing fierce competition. SMEs, in particular, found themselves in a grave business environment. In the late 1970s, the Mainland actively attracted investments from Hong Kong. Local industries began to move north in order to enjoy cheaper land and labour. And for language and cultural reasons, Hong Kong capitalists concentrated their operations in the Pearl River Delta (PRD), with Shenzhen and Dongguan being the favourite localities. “Custom manufacturing with materials, designs or samples supplied” and “compensation trade” were the dominated investment modes. Hong Kong operators provided raw materials, equipment, technology and management while Mainland operators provided land and labour. Finished products were taken back to Hong Kong for packing and export.

Factory operations in Hong Kong shrank throughout the 1990s, and workers were disbanded. The firms kept their offices in Hong Kong to receive orders and take care of banking, accounting, logistics and legal matters. In order to reduce costs, even some of these services were later moved north. The number of Hong Kong staff that was stationed on the Mainland grew year on year. Starting in 2000, as the operation costs in the Pearl River Delta region continued to rise, the more labour-intensive operations were in turn moved to other provinces, with the Yangzi River Delta (YRD) being the main destination.

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