What are the indicators on economic performance of Hong Kong? What are the changes of these indicators in the past decade?

What are the ties between the Hong Kong economy and events happened in the mainland and overseas?

What is the role of Hong Kong Government in stabilising and developing the Hong Kong economy?

Should government intervene the economy?
Read the following pictures and complete the table below.

**Hong Kong in 2002**

<table>
<thead>
<tr>
<th>Concerned about the problem of rising unemployment workers</th>
<th>Gross Domestic Product (GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solve the unemployment problem</td>
<td></td>
</tr>
<tr>
<td>Preserving Jobs</td>
<td></td>
</tr>
<tr>
<td>Against unemployment</td>
<td></td>
</tr>
</tbody>
</table>

**McDonalds Family Restaurant**

- Recruit hourly wage
  - $15
- There are 100 applicants even for a $15 hourly paid job!
- Life is so difficult nowadays!

**Goodview Properties**

- Close down
- Big Sale
- 50% off

**SOSO Fashion**

- Clearance Sales
- 50% off

**Supermarket**

- Sigh! Prices are lower, but we have to think twice before buying! Our incomes are shrinking now!
- There is a substantial drop in prices compared to the last two years!
1. With reference to the pictures, describe the economic performance of Hong Kong at that time.

   Hong Kong economy was in a recession with poor economic performance.

2. With reference to the situation in the pictures, what were the characteristics of the economic indicators of Hong Kong?

   Rising unemployment rate; many people were finding jobs

   Price level had dropped

   Wages had dropped

   GDP had dropped

   Incentive on investment and spending had dropped

Reference for teachers: The wage indices reflect changes in the price of labour for workers up to supervisory level, by which the change in wages are reflected in indices but not actual value. The indices of payroll per person engaged measure changes in average employment earnings of personnel at all levels.

Knowledge Content: Indicators on Economic Performance of Hong Kong

Indicators on Economic Performance of Hong Kong and their changes and trends

The economic performance of Hong Kong can be reflected in the data from the Census and Statistic Department of Hong Kong. The widely used data to reflect the income, employment situation and overall situation of economy are average salaries, household income, unemployment rate and gross domestic product.
Average salary (payroll) and Household income

Based on the information of personal income and household income of Hong Kong residents, we can have a better understanding of the living environment and quality of life of Hong Kong residents.

Average salary is derived by dividing the total payroll by the total number of persons engaged in the corresponding period. The changes in average salary 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 explain with table 1 as follows to help student to understand this concept. If the average salary was $100 in 1999, sthe the average salary for 2007 was $105.7 ... and for 2010 is $107.6.

In addition to average salary, household income may also be used to understand the income level of Hong Kong residents. Household income level refers to the total cash income received in a particular month by all members of the household. Between 1989 and 2009, the growth rate of the average income of high-income households was higher than that of the low-income households, leading to a widening gap between the two groups. The average income of the low-income households remained a drag on growth between 1994 and 2009 when the average income of the high-income households was a rising trend.

Table 1 : Indices of Payroll Per Person engaged by all selected Industries Sections

| Indices of Payroll Per Person Engaged by all selected Industries Sections | 1st Quarter 1999=100 |
|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| Indices of Payroll Per Person Engaged by all selected Industries Sections | 96.0 | 99.8 | 105.7 | 103.4 | 104.4 | 107.6 |

Source : Hong Kong Annual Digest of Statistics 2011, p.43

Extended learning (Challenge): Does a rise in salaries always mean a rise in living standard of the people? How will price level affect the growth rate in real salary?

As “nominal wage” simply refers to the amount of money that a worker may get from their employers and the factor of change in prices is not considered, the economic concept of “real wage” is applied to reflect the wage after making an allowance for a rise in prices.
**Unemployment rate**
The unemployment rate refers to the proportion of unemployed persons in the labour force. We can have an understanding of the situation of labour market and economic development of Hong Kong through the study of unemployment rate. A rise in unemployment rate which suggests difficult employment conditions may reflect an economic downturn. The table below shows the ups and downs of the unemployment rate of Hong Kong between 2000 and 2010. Generally, the unemployment rate of Hong Kong remains low, compare with that of other countries or cities, except for that in 2003 when it rose to 7.9% due to the impact of SARS.

<table>
<thead>
<tr>
<th>Year</th>
<th>Unemployment rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>4.9</td>
</tr>
<tr>
<td>2003</td>
<td>7.9</td>
</tr>
<tr>
<td>2006</td>
<td>4.8</td>
</tr>
<tr>
<td>2009</td>
<td>5.4</td>
</tr>
<tr>
<td>2010</td>
<td>4.4</td>
</tr>
</tbody>
</table>

Source: The Census and Statistics Department of Hong Kong (2011)

**Gross Domestic Product (GDP)**
GDP refers to a measure of the total value of production of all resident producing units of a country or territory in a specific period. We can have an understanding of the situation of economic development through the study of GDP. Higher GDP means a better economic development of a country or territory. The GDP of Hong Kong between year 2000 and 2010 shows a stable rise and it implies that Hong Kong maintains a steady economic growth.

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP (At current market prices)(HK$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>1,337,501</td>
</tr>
<tr>
<td>2004</td>
<td>1,316,949</td>
</tr>
<tr>
<td>2007</td>
<td>1,650,756</td>
</tr>
<tr>
<td>2010</td>
<td>1,777,720</td>
</tr>
</tbody>
</table>

Source: The Census and Statistics Department of Hong Kong (2011)
**Article 112 of the Basic Law**
No foreign exchange control policies shall be applied in the Hong Kong Special Administrative Region. The Hong Kong dollar shall be freely convertible. Markets for foreign exchange, gold, securities, futures and the like shall continue.

The Government of the Hong Kong Special Administrative Region shall safeguard the free flow of capital within, into and out of the Region.

**Article 114 of the Basic Law**
The Hong Kong Special Administrative Region shall maintain the status of a free port and shall not impose any tariff unless otherwise prescribed by law.

**Article 115 of the Basic Law**
The Hong Kong Special Administrative Region shall pursue the policy of free trade and safeguard the free movement of goods, intangible assets and capital.
1. Describe the changes and trends of Hong Kong’s GDP in these years.

Skills for Answering Question:
1. Describe the overall trend reflected in the data.
2. Show the years with the highest and lowest GDP

- Between 1997 and 2011, there had been a rise in Hong Kong’s GDP with minor fluctuations.
- During the period, the lowest GDP was recorded in 2003, that was $1,234,761 million.
- The highest GDP was recorded in 2011 with a value of $1,896,695 million.

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Domestic Product (GDP) ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>1,365,024</td>
</tr>
<tr>
<td>1998</td>
<td>1,292,764</td>
</tr>
<tr>
<td>1999</td>
<td>1,266,668</td>
</tr>
<tr>
<td>2000</td>
<td>1,317,650</td>
</tr>
<tr>
<td>2001</td>
<td>1,299,218</td>
</tr>
<tr>
<td>2002</td>
<td>1,277,314</td>
</tr>
<tr>
<td>2003</td>
<td>1,234,761</td>
</tr>
<tr>
<td>2004</td>
<td>1,291,923</td>
</tr>
<tr>
<td>2005</td>
<td>1,382,590</td>
</tr>
<tr>
<td>2006</td>
<td>1,475,357</td>
</tr>
<tr>
<td>2007</td>
<td>1,615,574</td>
</tr>
<tr>
<td>2008</td>
<td>1,677,011</td>
</tr>
<tr>
<td>2009</td>
<td>1,622,516</td>
</tr>
<tr>
<td>2010</td>
<td>1,741,564</td>
</tr>
<tr>
<td>2011</td>
<td>1,896,695</td>
</tr>
</tbody>
</table>
2. Work out the year-on-year (yoy) percentage changes of GDP between year 1998 and 2011. Complete the table below.

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP ($ million)</th>
<th>(year-on-year percentage change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>1,365,024</td>
<td>NA</td>
</tr>
</tbody>
</table>
| 1998 | 1,292,764       | Example: \[
\frac{1,292,764 - 1,365,024}{1,365,024} \times 100\% = -5.29\%\] |
| 1999 | 1,266,668       | -2.02%                           |
| 2000 | 1,317,650       | 4.02%                            |
| 2001 | 1,299,218       | -1.40%                           |
| 2002 | 1,277,314       | -1.69%                           |
| 2003 | 1,234,761       | -3.33%                           |
| 2004 | 1,291,923       | 4.63%                            |
| 2005 | 1,382,590       | 7.02%                            |
| 2006 | 1,475,357       | 6.71%                            |
| 2007 | 1,615,574       | 9.50%                            |
| 2008 | 1,677,011       | 3.80%                            |
| 2009 | 1,622,516       | -3.25%                           |
| 2010 | 1,741,564       | 7.34%                            |
| 2011 | 1,896,695       | 8.91%                            |
3. Based on the answer for the above question, sketch the year-on-year percentage changes of GDP in the diagram below. Give it an appropriate title.

**Title**: Year-on-year percentage changes of GDP of Hong Kong between 1998 and 2011

**Source 2**: Unemployment rates of Hong Kong between 1996 and 2011

**Source**: The Census and Statistics Department of Hong Kong
4. Describe the changes and trends of Hong Kong’s unemployment rate in these years.

The unemployment rates of Hong Kong had shown a marked fluctuation between 1996 and 2011. The lowest unemployment rate (only 2.2%) was recorded in 1997, while higher unemployment rates were recorded in 1999 (6.2%), 2003 (7.9%) and 2009 (5.3%).

Source: The Census and Statistics Department of Hong Kong (2012)

Note: The wage indices reflect changes in the price of labour for workers up to supervisory level.
5. Describe the year-on-year percentage changes and trends of the average salary in Hong Kong in these years.

The average salary in Hong Kong increased for 2005 to 2008, and accelerated to a growth of around 4.5% in September 2008 from 1% in March 2005. However, the average salary in Hong Kong registered a much slower growth in December 2008 (only 1%). The average salary further registered a negative growth (i.e. a decline) between March and September 2009. The average salary in Hong Kong steadied from March 2010, followed by a substantial rise in average salary during 2011.

Tips for teaching:
The chart in Source 3 is quite complicated. For students who do not understand the information, teachers may guide them with the following questions to help them to grasp the key points of the information.
1. If the yoy percentage change is positive (negative), i.e. the bar in the chart is above (below) the horizontal axis, was the average salary increased or decreased for the year?
2. Compare the yoy percentage changes of average salary in 3/2011 and 3/2012. Which period saw a greater increase in average salary?

Source 4: Newspaper reports in Hong Kong

Early 1998
Asian Financial Crisis dragged HSI to 9000 points

2003
SARS outbreak in Hong Kong

2007
Hong Kong economy surged after the signing of CEPA with the mainland

Early 2009
Global Financial Crisis thanks to Lehman Bro’s bankrupt last year, Hong Kong suffers severe blow in stocks and properties
1. With reference to Source 1 to Source 4 and your knowledge, how would the following economic indicators changes in these years. Comment on the economic performances of Hong Kong during these years.

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP</th>
<th>Unemployment Rate</th>
<th>Average Salary</th>
<th>Economic Performance of Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>Dropped</td>
<td>Rose</td>
<td>Dropped</td>
<td>Poor</td>
</tr>
<tr>
<td>2003</td>
<td>Dropped</td>
<td>Rose</td>
<td>Dropped</td>
<td>Poor</td>
</tr>
<tr>
<td>2007</td>
<td>Rose</td>
<td>Dropped</td>
<td>Rose</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>2009</td>
<td>Dropped</td>
<td>Rose</td>
<td>Dropped</td>
<td>Poor</td>
</tr>
</tbody>
</table>

2. Do you think Hong Kong is a highly externally oriented economy? Analysis with the information above.

Yes. It is because there had been marked fluctuations in the economic performances of Hong Kong when these incidents in Source 4 occurred. For example, Hong Kong registered a marked decline in its economic performance after the financial crisis in 2008, with a decline in GDP, a rise in unemployment rate and a drop in average salary, which indicated an economic downturn. The outbreak of SARS in Hong Kong in 2003 that led to a substantial drop in leisure and business tourists and interruptions of trades between Hong Kong and overseas countries/territories had also caused a sharp decline in economic performance of Hong Kong. These examples show that Hong Kong is a highly externally oriented economy.
Why did the economic impacts brought by the financial crisis in 2008 can only be reflected in the economic of indicators till 2009?

It is because when there is a recession facing the general public and firms, there would not be an immediate change in the spending and production patterns. For example, the wages of labours are subject to contracts and employers cannot make salary adjustment to their salaries or dismiss the labours because of the prevailing economic condition. It usually takes 3-6 months for making such adjustments. There is time lag for the economic indicators to reflect the economic performance of a place.

Characteristics of Hong Kong economy

Economic fluctuations in Hong Kong closely tied to events happened in the mainland and overseas as Hong Kong is an open and highly externally oriented economy. Hong Kong is a highly externally oriented economy because its main economic activity is external trade, which include trade of products and services with a total value that is over 2 times the GDP. Hong Kong economy will be badly hit by an economic downturn in overseas markets when exports of goods and services to Hong Kong dropped. In addition, Hong Kong is a highly open economy as there is no restriction imposed on non-residents who wish to engage in economic activities in the city in spending, investment, trading and other aspects. With free flow of goods, funds and talents, Hong Kong is highly externally oriented in terms of its economic activities.

Challenge:

Characteristics of Hong Kong as an open and highly externally oriented economy
Trades between Hong Kong and other territories 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 1998 and the global financial crisis in 2008 caused impacts to 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 into the mainland market. It is a favourable factor for the economic development of Hong Kong and it has brought economic growth to Hong Kong in the subsequent years.

Worksheet 2: Measures taken by and the role of the Hong Kong Government in stabilising and developing the economy

What measures have been taken by the Hong Kong Government in stabilising and developing the economy? Read the following information and answer the questions.

Source 1

The Hong Kong economy was badly hit by the outbreak of SARS in 2003. Consumer confidence has fallen to a new low. As tourism is one of the pillar industries of Hong Kong, the HKSAR Government has reached an agreement with the Central People’s Government to implement an “Individual Visiting Scheme” in July 2003 for boosting the local economy. The scheme allows mainland residents to visit Hong Kong as individual visitors. The large number of individual visitors has brought tremendous job and business opportunities to Hong Kong’s tourism. Meanwhile, it has also boosted the development of other industries such as retail, catering and hotel.
In 2007, former Chief Executive Mr. Donald Tsang stated in his Policy Address that the government would promote a number of infrastructure projects, which include developments of new railways and new development areas. These projects would bring an output value of over HK$100 billion to the Hong Kong economy and create over 250,000 career posts in a year. In addition, infrastructure development would provide a better living environment, enhance the sustainable development of the city and its competitiveness in the long run.

In a globalized economy, the government has to work continuously to enhance its international competitiveness and build a favourable business environment for attracting investors from all parts of the world. Therefore, the government announced its proposal in 2009 to promote the development of some advantaged industries such as cultural and creative industries and innovation and technology industries. The government would provide assistances and concessions to investors in these industries for attracting investment of foreign enterprises. Meanwhile, the government has been working in improving the living quality in Hong Kong so as to attract international talents.

In the ups and downs of the global economy, assistance from the government is vital to the small and medium enterprises (SMEs), tax concessions can help to maintain their confidence. The government had proposed a one-off tax reduction of 75 per cent for profits tax in 2011-12. All (about 120,000) Hong Kong companies liable to profits tax could benefit from the proposal. The government had also proposed to waive the business registration fee and halve the import and export declaration charges for 2012-13. These measures aim to reduce the business costs for the import and export trade.

Source: Xinhuanet; Policy Address by Chief Executive of the HKSAR (2007) and integrated news report
1. With reference to Source 1 to Source 4, what are the measures taken by the government in developing the Hong Kong economy? Explain how these measures stimulate the Hong Kong economy.

<table>
<thead>
<tr>
<th>Source</th>
<th>Measures taken by the government</th>
<th>How does it stimulate the Hong Kong economy</th>
</tr>
</thead>
</table>
| 1      | Implement the Individual Visit Scheme (IVS) with the mainland China | ➢ Boosts the tourism industry  
➢ A large number of IVS visitors brings higher revenues for the local retail and service sectors  
➢ Provides a lot of job opportunities |
| 2      | Develop infrastructure | ➢ Enhances Hong Kong’s competitiveness  
➢ Provides a lot of job opportunities |
| 3      | Create a business-friendly environment | ➢ Enhances Hong Kong’s economic competitiveness  
➢ Attracts local and foreign investors  
➢ Attracts talents from overseas to work in Hong Kong |
| 4      | Provide tax concessions | ➢ Reduces the operating costs for the SMEs  
➢ Maintains investment confidence of the SMEs |
2. Among these measures taken by the government as mentioned in Source 1 to Source 4, which is for stabilizing the economy and which is for developing the economy? Explain your answers with one example for each of them.

Implementation of IVS is a measure of stabilising the economy. The outbreak of SARS in Hong Kong in 2003 had led to economic downturn and higher unemployment rate. Meanwhile, IVS allowed more mainland visitors to spend in Hong Kong and brought in higher revenues for local industries, created more jobs and led to higher GDP of the city. The measure helped Hong Kong to recover from economic downturn. On the other hand, the government proposed a number of infrastructure projects in the Policy Address 2007, which included the development of new railways. These projects can help enhancing Hong Kong’s competitiveness in terms of transportation and in the long run. This is a measure of developing economy.

Read the following information and answer the questions.

Financial Secretary takes measures to cool down the property market

The continuous influx of capital from the mainland has led to the continuous rise in property prices and the price per sq ft has hit record high. Meanwhile, the Hong Kong government has noticed the risks of property bubbles. The difficulty of purchasing flats in Hong Kong has become an important social issue. Therefore, the Financial Secretary, Mr. John C Tsang, in his annual Budget for 2011-12 had proposed a number of measures to cool down the property market. These measures included:
1. Maintain the stamp duty rate increase in 2010, by which the stamp duty rate for property transactions valued more than $20 million shall be 4.75% and deferred payment of stamp duty for those transactions is not allowed;

2. Increase housing land supply to provide an estimate of 30,000 to 40,000 residential flats, exceeding the annual performance indicator of 20,000;

3. New Public Rental Housing production: the PRH flat production forecast for 2012-2013 will be about 30,000 flats;

4. The government will continue to implement the My Home Purchase Plan (MHPP) and flats will be made available for the general public to “rent-and-buy”;

5. Allocate about $300 million to explore the feasibility of reclamation outside Victoria Harbour and rock caverns development to increase the supply of land in the long run.

Source: Integrated news report (2011); Annual Budget for 2011-12

1. According to the information above, what is the economic problem facing Hong Kong? What is the effect on the general public?

The information reflected the continuous influx of capital from the mainland that has led to the continuous rise in property prices and the risks of property bubbles. The general public cannot afford to buy a flat and their quality of life is affected.

2. What are the measures taken by the Hong Kong Government in addressing the above economic problem?

The Government has taken a number of measures to stabilise the property price, including an increase in stamp duty and land supply. Meanwhile, it continues to build Public Rental Housing (PRH) flats and to implement the MHPP. The government is also seeking to increase the supply of land in the long run through reclamation outside Victoria Harbour and rock caverns development.
3. Why these measures can attain the expected targets?

An increase in stamp duty for luxury flats would help reducing speculation in residential properties. Meanwhile, an increase in the supply of land, reclamation outside Victoria Harbour and rock caverns development would help alleviate the impact of high land price. On the other hand, building PRH flats and implementing the MHPP would help people who cannot afford to own a private flat.

4. What are the effects of these measures on affluent persons, middle-income persons and low-income persons and the gap between the rich and the poor in Hong Kong?

The affluent persons have to pay more tax following an increase in stamp duty for luxury flats. An increase in supply of land would increase the supply of flats and alleviate the upward pressure of property prices so that more middle income persons can buy their flats. An increase in the supply of PTH flats would help low-income persons to solve the problem concerning accommodation and reduce the rent payment. These may reduce the gap between the rich and the poor.
5. In summary, what is/are the role(s) of the government in implementing these policies? Explain your answer.

The role in stabilising the market: an increase in stamp duty for luxury flats would help curb speculation in residential properties while an increase in supply of land would curb the rise in property price; re-distributing income (promote social equity), for the reasons stated above. The role in developing the economy: an increase in production would create job opportunities; a decrease in property prices and rents would reduce the operation costs for enterprises and help enhancing Hong Kong’s competitiveness.

The role of the government in stabilising and developing the Hong Kong economy

Increasing economic interdependence among economies and the inter-connection among economic problems in different places have led to frequent economic fluctuations. On the other hand, vulnerable groups with lower competitiveness are living a difficult life as they always work for a low income or become unemployed as a result of economic development. We cannot solve all economic problems through the market. Therefore, the Hong Kong government has to play a role in ensuring a stable economic development so that the general public can benefit from the economic development of Hong Kong.

Role of the government in stabilising the economy of Hong Kong

The Hong Kong economy is vulnerable to external factors as it is open and externally oriented. Therefore, the government has to play a role in stabilising the Hong Kong economy to ensure social stability. For example, the government had mentioned the risk of asset-price bubbles facing Hong Kong in the Annual budget for 2011-12. Accordingly, the government had taken a number of measures, which include the introduction of special stamp duty, an increase in the supply of land and
the implementation of the MHPP in stabilising the local property market.

Role of the government in dealing with issues concerning people’s livelihood

Changes in external economic environment will have a direct effect on the Hong Kong economy as it is externally oriented. Therefore, the Hong Kong Government has to implement appropriate measures to solve the problems concerning the livelihood of Hong Kong people. For example, the government has introduced measures such as waiving the rent payment for public housing tenants, electricity charge subsidy and rates concession to address the problem of inflation.

The role of the government in developing the Hong Kong economy

The government has also launched a number of proactive measures for local economic development. For example, it had proposed a number of measures in the Policy Address in 2009/10, which include the development of the advantaged industries (education services, innovation and technology, testing and certification services, environmental industries and cultural and creative industries), furthering regional co-operation, investing in infrastructure and enhancing business environment. All these measures provide direction for the economic development, improve the local conditions and support the development of enterprises and community with practical measures.
Worksheet 3: Advantages and disadvantages of government intervention in the economy

The following are the opinions of different stakeholders on government intervention in the housing market. Read the following information and answer the questions.

Students may have an understanding of the advantages and disadvantages of government intervention in the economy by reading the opinions of the following stakeholders.

**Grassroots**

We are just grassroots and simply cannot afford a private flat as the price is getting higher and higher. I think the most effective government measure is an increase in the supply of public rental housing flats and a reduction in the waiting time for public rental housing so that citizens in need can live in the public housing and solve their housing problem as soon as possible.

**Middle class household without property**

The property price has been rising and most property developers have been focusing on the development of luxury houses to attract people with high consumption power. As a result, we, middle class people without properties, cannot afford a private flat. Therefore, I think the government should take measures to curb the rise in the property price and speculation in residential properties. The government should also assist the general public to buy private flats. For example, the government should resume the construction of Home Ownership Scheme (‘HOS’) flats and provide home starter loan to assist the middle-income class to buy their flats.

**Middle class household with property**

I think the government should not intervene the housing market! Hong Kong has been upholding the principle of “big market, small government” to maintain our strength of a high degree of economic freedom. For many middle class households that own properties, buying home means both housing and investment. Many households buy their homes on mortgage loans provided by banks. Government intervention in the housing market would lead to a fall in property prices. The flat would worth less than the value of the mortgage loan. A number of owners would be subject to the risk of “negative equity”.

Hong Kong is a city that enjoys economic freedom, and transaction in property market is a type of economic activity. Therefore, I think government intervention in the property market should not be encouraged. If the government chooses to “control” the property price, the Hong Kong economy would suffer and consumer confidence would be badly hit. I think the best government measure is to cool down the property market by increasing the supply of land. I believe that more people would benefit from this measure.

Source: Integrated local news reports (2012)

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Opinions on government intervention in housing market</th>
<th>Reason(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grassroots</td>
<td>Pros, Cons</td>
<td>• Grassroots cannot afford a private flat.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• They believe that the government should increase the supply of PRH flats to solve their housing problem.</td>
</tr>
<tr>
<td>Middle class household without property</td>
<td>Pros, Cons</td>
<td>• The property price is too high that the middle class cannot afford to buy a flat.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• They believe that the government should assist the middle class. For example, the government should resume the construction of HOS flats to help them to buy a private flat.</td>
</tr>
</tbody>
</table>
### Middle class household with property

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Government intervention in the property market would lead to a drop in property prices. As a result, many middle class households that own properties would suffer losses from their investments and face the risk of “negative equity”.</td>
</tr>
<tr>
<td></td>
<td>Hong Kong has been upholding the principle of “big market, small government”. Hong Kong should maintain the strength of a high degree of economic freedom to attract foreign investors.</td>
</tr>
</tbody>
</table>

### Property developer

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Against:</td>
</tr>
<tr>
<td></td>
<td>• Hong Kong is a city that enjoys economic freedom and government intervention in the property market should not be encouraged.</td>
</tr>
<tr>
<td></td>
<td>• In addition, a drop in property price would affect the overall economic performance of Hong Kong.</td>
</tr>
</tbody>
</table>

|      | For: |
|      | • An increase in the supply of land may release more sites for residential development and help property developers to reduce production costs. |
Advantages and disadvantages of government intervention in the economy

Advantages of government intervention in the economy

There are many situations that the market cannot solve the economic problems and government intervention is required. For example, as the market emphasizes personal interests, it is rare for a market to address social issues. The government may also provide direction and force for economic development to promote the overall economic development. An example is to provide concession for the development of advantaged industries.

Generally speaking, government intervention can improve the living standard of the less advantaged groups and the grassroots. Through government intervention, people who cannot benefit from the operation of market may acquire basic necessities for their daily life.

Disadvantages of government intervention in the economy

Government intervention in the market may lead to lower market efficiency and disrupt the market operation. For example, the government had implemented an electricity subsidy for the general public. However, it could lead to higher power consumption, which resulted in a waste of resources and more air pollution. In addition, some economists believe that certain measures of intervention such as excessive social welfare spending would make people less willing to work and could hinder creativity and innovation. As the government will take more time for decision-making and has limited market information compared to private sector, the industries supported by the government may not be cost-effective. For example, some groups had urged the government to retain the lands in New Territories for agricultural use, but such suggestion may not be in line with Hong Kong’s competitive advantages.
Economic Performance of Hong Kong -- Concept Map

Economic performance of Hong Kong

Characteristics

Open and highly externally oriented economy

Indicators

Average salary, unemployment rate and GDP

(including changes and trends)

Role of the government in the Hong Kong economy

Appropriate response given by the government regarding the economic performance of Hong Kong

Target

Stabilising and developing the Hong Kong economy

Advantages and disadvantages of government intervention in the economy

Result

Advantages

Disadvantages

May handle problems that cannot be solved in the market with the use of abundant resources

May lead to lower market efficiency

Advantages and disadvantages of government intervention in the economy

Average salary, unemployment rate and GDP

(including changes and trends)

Role of the government in the Hong Kong economy

Appropriate response given by the government regarding the economic performance of Hong Kong

Economic performance of Hong Kong