

# **Modeling Economic Growth in Contemporary Hong Kong**

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# **Modeling Economic Growth in Contemporary Hong Kong**

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Emerald Publishing Limited  
Howard House, Wagon Lane, Bingley BD16 1WA, UK

First edition 2021

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**British Library Cataloguing in Publication Data**

A catalogue record for this book is available from the British Library

ISBN: 978-1-83909-937-3 (Print)

ISBN: 978-1-83909-936-6 (Online)

ISBN: 978-1-83909-938-0 (Epub)



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Certificate Number 1985  
ISO 14001

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ISO 14001:2004.



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# Introduction

Through vigorous theoretical and empirical analyses, this book reviews and provides new insights on Hong Kong's major economic growth and development issues in housing, monetary and financial systems, immigration, and health care. Specific issues were investigated not only from Hong Kong's socio-economic perspectives but also from the perspective of the increasingly integrated Chinese Mainland and Hong Kong economies. This book provides a coherent view of Hong Kong's economic growth and development issues by addressing the above unique and yet interrelated topics.

Housing is the largest component of household investment in Hong Kong. Chapter 1 investigates the financial market and housing wealth effects on consumption in a sample of developed and developing economies including China and Hong Kong. Housing performs the dual functions as both a commodity providing a flow of housing services and an investment providing a flow of capital income. Using the permanent income hypothesis as a framework, the authors empirically show that a rise in housing price has both a positive wealth effect and a negative price effect on consumption.

Chapter 2 extends the analysis from Chapter 1 by examining the existence of absolute and conditional convergence in house prices among cities in China. The authors found strong evidence for conditional convergence. The findings suggest that each city possesses its own steady-state housing price to which it is converging, which depends on the city's own socio-economic characteristics. Their findings inform the kinds of interventions and resources that are most likely to be effective in reducing income disparity.

In Chapter 3, the author provides a time-series analysis on the substitution effect of Renminbi on Hong Kong dollar. Her argument is that the development of an offshore RMB market in Hong Kong will lead to a substitution of RMB for Hong Kong dollar in the long term. Factors considered include the RMB-HKD-USD exchange rates, interest rate differentials, and trade and investment flows. Her findings have implications on the role of Hong Kong in promoting RMB internationalization.

Population growth has long been a major determinant of sustainable economic growth and is particularly important to an aging economy like the one in Hong Kong. The author of Chapter 4 conducted a thorough economic analysis on the immigration of Mainland Chinese into Hong Kong. The analysis was conducted in terms of human capital and wealth transfer that interact with Hong Kong's economic growth. A major finding is that immigrants' and natives' returns to

schooling and work experience are interdependent on GDP growth, which provides practical implications for Hong Kong's immigration policies.

Public health care is known as a key element in long-term economic development. Finally, Chapter 5 provides a study on the long-term determinants of public and private healthcare expenditures in Hong Kong. The authors found that age distribution of the population rather than income is a major determinant of both public and private healthcare expenditures in Hong Kong. Moreover, a large part of the recent rise in private healthcare spending went to private health insurance, reflecting a maturing social attitude toward long-term healthcare planning.