

Modeling Economic Growth in Contemporary Hong Kong

Entrepreneurship and Global Economic Growth

Series editor: Bruno S. Sergi, Harvard University, USA

Entrepreneurship and Global Economic Growth is Emerald's cutting-edge Global Economic Growth book series, presenting modern examinations of economic growth at national, regional, and global levels. Each book in this series discusses different dimensions of the changing economic and industrial contexts, and examines in detail their impact on the nature of growth and development. For academics and senior practitioners, this series puts forward significant new research in the global economic growth field, opening discussions regarding new topics and updating existing literature.

Published titles in this series:

Modeling Economic Growth in Contemporary Russia, edited by Bruno S. Sergi

Modeling Economic Growth in Contemporary Belarus, edited by Bruno S. Sergi

Forthcoming titles in this series:

Modeling Economic Growth in Contemporary Malaysia, edited by Bruno S. Sergi and Abdul Rahman Jaaffar

Modeling Economic Growth in Contemporary Greece, edited by Bruno S. Sergi, Aristidis Bitzenis and Vasileios Vlachos

Modeling Economic Growth in Contemporary Hong Kong

EDITED BY

MICHAEL K. FUNG

Hong Kong Polytechnic University, Hong Kong

BRUNO S. SERGI

Harvard University, USA and University of Messina, Italy



United Kingdom – North America – Japan – India – Malaysia – China

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

First edition 2021

Copyright © 2021 by Emerald Publishing Limited.

Reprints and permissions service

Contact: permissions@emeraldinsight.com

No part of this book may be reproduced, stored in a retrieval system, transmitted in any form or by any means electronic, mechanical, photocopying, recording or otherwise without either the prior written permission of the publisher or a licence permitting restricted copying issued in the UK by The Copyright Licensing Agency and in the USA by The Copyright Clearance Center. Any opinions expressed in the chapters are those of the authors. Whilst Emerald makes every effort to ensure the quality and accuracy of its content, Emerald makes no representation implied or otherwise, as to the chapters' suitability and application and disclaims any warranties, express or implied, to their use.

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)



ISOQAR
REGISTERED

Certificate Number 1985
ISO 14001

ISOQAR certified
Management System,
awarded to Emerald
for adherence to
Environmental
standard
ISO 14001:2004.



INVESTOR IN PEOPLE

Table of Contents

List of Contributors	vii
About the Contributors	ix
Introduction	xi
Chapter 1 The Wealth Effects of Housing and Stock Markets on Consumption: Evidence across Nations Including China and Hong Kong	1
<i>Michael K. Fung and Arnold C. S. Cheng</i>	
Chapter 2 Housing-price Convergence among Cities in China: Absolute or Conditional?	11
<i>Michael K. Fung and Arnold C. S. Cheng</i>	
Chapter 3 Analysis of the Substitution Effect of RMB to Hong Kong Dollar	23
<i>Lu Yang</i>	
Chapter 4 Immigration and Economic Growth in Hong Kong	47
<i>Michael Chi-man NG</i>	
Chapter 5 Long-term Determinants of Healthcare Expenditure in Hong Kong	71
<i>Eddie C. Cheung and Yiu C. Ma</i>	
Index	89

This page intentionally left blank

List of Contributors

<i>Arnold C. S. Cheng</i>	Hong Kong Polytechnic University, Hong Kong
<i>Eddie C. Cheung</i>	Open University of Hong Kong, Hong Kong
<i>Michael K. Fung</i>	Hong Kong Polytechnic University, Hong Kong
<i>Yiu C. Ma</i>	Open University of Hong Kong, Hong Kong
<i>Michael Chi-man Ng</i>	Open University of Hong Kong, Hong Kong
<i>Lu Yang</i>	Hong Kong University, Hong Kong

This page intentionally left blank

About the Contributors

Arnold C. S. Cheng is an Expert in economic policy, real-estate economics, banking, and financial derivatives. He graduated with a PhD degree in Finance from London School of Economics and Political Science in 1993 and has published extensively in leading journals including *The Economic Journal*, *Journal of Business Finance & Accounting*, *International Journal of Finance & Economics*, *Applied Financial Economics*, and *Pacific-Basin Finance Journal*. Dr Cheng is a Fellow of the Royal Asiatic Society of Great Britain and Ireland (FRAS) and a Fellow of the Royal Society for the Encouragement of Arts, Manufacturing, and Commerce (FRSA). He joined Hong Kong Polytechnic University in 1999 as an Assistant Professor and served as a Programme Leader of BBA (financial services) at the University.

Eddie C. Cheung is an Assistant Professor in Economics and Research Fellow of the Public and Social Policy Research Centre at the Open University of Hong Kong. His research interest lies in macroeconomic policy. He has previously published in the *Economic Record*, the *Journal of Asian Economics*, and *The Chinese Economy*.

Michael K. Fung is currently an Associate Professor of Economics at the School of Accounting and Finance, Hong Kong Polytechnic University. His interdisciplinary research interests span over economics, finance, accounting, and operation research.

Yiu C. Ma is an Assistant Professor in Economics and Research Fellow of the Public and Social Policy Research Centre at the Open University of Hong Kong. His research interests include corporate governance and public policy. He has previously published in *Journal of Behavioural and Experimental Economics* and *The Chinese Economy*. He was also a Co-investigator of the project “Feasibility Study of Old Age Pension Scheme in Hong Kong: An Employee’s Perspective,” a Central Policy Unit funded research.

Michael Chi-man Ng is Associate Professor of Economics, Department Head of Social Sciences, Deputy Director of Public and Social Policy Research Centre at the Open University of Hong Kong.

Lu Yang obtained her Master’s degree from Adam Smith Business School, University of Glasgow, and now she work and study in Hong Kong University.

x About the Contributors

Her fields of research include economic development and currency dynamics. She published on RMB internationalization, including a recent paper entitled “Analysis of Factors Affecting the Internationalization of RMB – From Perspective of the Bond Market” at China International Business in 2019.

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.