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Hong Kong's Business Environment

Name : _____

Class : _____ ()



Revision notes

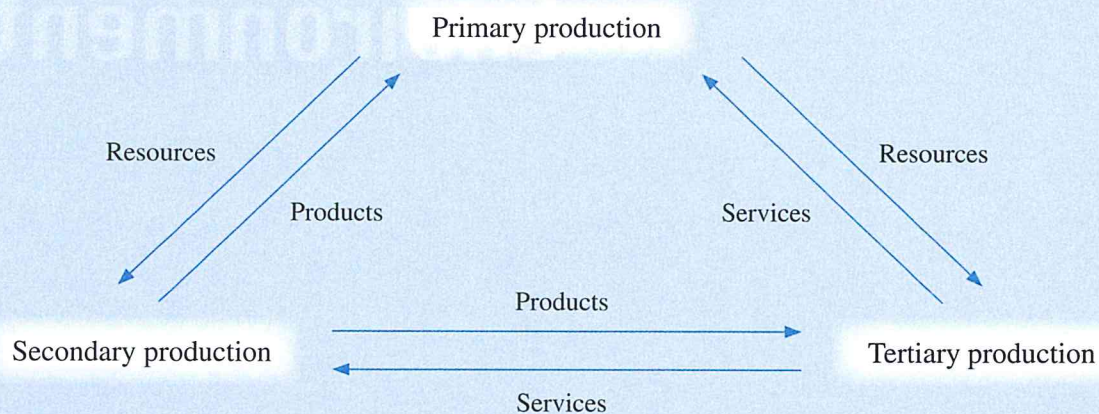
Structure of the Hong Kong Economy

There are three types of economic activities: primary production, secondary production and tertiary production.

- **Primary production** refers to the economic activities involved in extracting natural resources. Examples include fishing, agriculture and mining.
- **Secondary production** refers to the economic activities which turn raw materials into semi-finished or finished products. Construction and manufacturing are examples of secondary production.
- **Tertiary production** refers to the economic activities of providing services to customers. The tertiary sector is also called the service sector. Hotel services and the wholesale and retail trades are examples of tertiary production.

Interdependence of sectors

The three production sectors are interdependent.



Contribution of the three sectors to the Hong Kong economy

- There are two indicators that measure the relative importance or contribution of the three sectors to an economy:
 - (i) the percentage share of gross domestic product produced by the sector
 - (ii) the percentage share of employment by the sector
- Hong Kong's primary sector is insignificant because it lacks arable land and natural resources.
- Hong Kong relied on the secondary sector in the early 1980s. Since then, the contribution of the secondary sector to Hong Kong's GDP has declined as more and more factories have relocated to the Mainland.
- Since the early 1980s, Hong Kong economy has transformed itself from a manufacturing centre into a service-oriented economy.
- Now, the service sector is very important to Hong Kong.

Hong Kong's Economic Development

From 1841 – 1950

- Hong Kong was originally a fishing village with only a few thousand people and later became an entrepôt between China and Western countries.
- With its natural deep water harbour, Hong Kong became a trading port for the import, export, collection and distribution of goods.

First transformation: From an entrepôt to a manufacturing centre (1950–1978)

- The outbreak of the Korean War in 1950 triggered the first transformation of the Hong Kong economy.
- The embargo imposed by the United Nations on China forced Hong Kong to shift its reliance from entrepôt trade to manufacturing.
- The transformation was facilitated by the inflow of labour, capital and entrepreneurship from the Mainland.
- During this period, Hong Kong's manufacturing industry expanded quickly.
- Hong Kong exported many products to other countries.

Second transformation: From a manufacturing centre into an international financial and services centre (1978–1997)

- The Mainland of China adopted its open-door policy in 1978. The Chinese government implemented measures to attract foreign investment.
- As a result, many Hong Kong factory owners relocated their factories to the Pearl River Delta to save production costs.
- This relocation transformed Hong Kong from a manufacturing centre to an international services and financial centre.
- During this period, Hong Kong also served the Mainland as a vital intermediary by helping it to raise capital and import technology.

Third transformation: Evolving into a knowledge-based economy (From 1997 onwards)

- Hong Kong became a Special Administrative Region (SAR) of the People's Republic of China and its status as a colony ended in 1997.
- After the handover, many events affected Hong Kong's economy, such as the Asian Financial Crisis (1997), the September 11 terrorist attack (2001), and the SARS outbreak (2003).
- The Hong Kong government decided to move in a new direction and develop high value-added industries.
- With the implementation of CEPA (Mainland and Hong Kong Closer Economic Partnership Arrangement), Hong Kong's business relationship with the Mainland has become closer.
- In recent years, the Hong Kong government has identified four industries as its 'Four Pillar Industries', namely, financial services, tourism, trading and logistics, and producer and professional services. These four industries employ around half of Hong Kong's total workforce in 2006.

Characteristics of the Hong Kong economy

A free market economy

Laissez-faire policy

- The Hong Kong Government pursues a laissez-faire policy, which promotes a free market and free trade.
- People can exchange goods and services freely in the market.

Principle of 'Big market, small government'

- The Hong Kong government uses the term 'big market, small government' to describe its economic policy.
- The government plays an active role in facilitating the functioning of the market and enabling the free market to allocate resources efficiently.
- The government minimises its intervention in the market.

Role of the government

The government is mainly responsible for developing a favourable business environment.

An externally-oriented, open economy

- The Hong Kong government does not impose any trade barriers on imported goods.
- There are no foreign exchange controls.
- There is no control on the inflow and outflow of capital.
- The Hong Kong government encourages talent from the Mainland and other countries to study and work in the territory.
- A free flow of information also helps Hong Kong maintains its competitiveness in the world.

Productive manpower

- Hong Kong's labour force is hardworking, skilful and can adapt to changes.
- Labour relations in Hong Kong are good and serious labour disputes are rare.
- There is a strong spirit of entrepreneurship in Hong Kong which helps promotes economic growth.

Upholding the rule of law

- Hong Kong's legal system is based on the common law system.
- Hong Kong continues to uphold the rule of law and judicial independence.
- Business contracts are protected and enforced by the legal system.

Protecting private property rights

- Private property rights refer to the exclusive rights to use, earn income from and transfer the property.
- Private property rights are protected and respected by law in Hong Kong.
- This facilitates business activities and promotes economic development in Hong Kong.



Demo Question

Read the news article below and then answer the questions.

Call centres are moving back to Hong Kong

A few years ago, many call centres in Hong Kong moved to the Mainland for cost reasons. Surprisingly, however, some of them have returned recently, as shown by statistics from the call centre industry. The situation is becoming more extreme, since some entrepreneurs believe that the enactment of a new labour law in 2008 will affect their operations. Under the new law, companies have to pay high compensation to dismissed staff. In addition to the unfavourable regulation, soaring property prices in the Mainland have forced many companies to close their operations.

The call centre industry involves many industries, like the telecommunications industry, banking and the finance industry, the IT industry and so on. Some specialise in sales hotlines which promote products or services over the phone, while others focus on service helplines which handle customer service duties.

Some practitioners in the industry have commented that this trend will continue in the coming years.

Jan 2008

- (a) Explain the factors for the relocation of call centres from Hong Kong to the Mainland in past years. (4 marks)
- (b) What are the reasons why some call centres are returning? (4 marks)



Troubleshooter

- 1 Questions related to the relocation of companies or a particular department of the company are common in examinations. Whatever industries are involved in the question, students are asked similar questions, such as the reasons for relocation.
- 2 Students have to think about the characteristics of the industry in the question. For call centres, students may consider their people-oriented nature, since workers are the core of their services. In answering this question, students may compare the salaries of Hong Kong workers with those of Mainland workers. If the question asks about the publishing industry, students may mention freedom of the press.
- 3 Factors in the relocation of companies include: high rent, high salary, high operational cost, and difficulty in complying with the law etc.



Answers

(a) Costs are the main consideration in relocation. Reasons for relocation include:

- To reduce the rent (1 mark)
- To lower labour costs: Labour costs are usually one of the major expenses of a call centre. Adequate manpower is needed to provide quality services to customers. (1 mark)
- To facilitate the recruitment of overseas employees, since the living conditions in Hong Kong are not attractive, such as poor air quality conditions, etc. (1 mark)
- With the advance of technology, a company can easily control the operations and site of an overseas call centre. Relocation is no longer impossible. (1 mark)

(b) Reasons why some call centres are returning:

- The costs of doing businesses in the Mainland of China are increasing. Salary and rent are two of the most important costs for a call centre. In some developing cities, like Shenzhen and Guangzhou, rents have increased significantly in recent years due to increasing property prices. (2 marks)
- Also, in recent years, the salary level in the Mainland has increased significantly. In 2008, a new labour law was also enacted that protects the labour force. Companies have to pay high compensation to staff if they are dismissed. As a result, some call centres found that the cost of running their operations in Hong Kong was more acceptable and moved back to Hong Kong. (2 marks)

(Any other reasonable answers)



Revision Exercises

Multiple Choice Questions

(2 marks for each question)

- 1 After 1997, the Hong Kong economy faced a number of crises which are shown chronologically as follows:
- A. Asian Financial Crisis, recession after September 11 terrorist attacks, SARS outbreak and US Subprime Crisis
 - B. Asian Financial Crisis, SARS outbreak, recession after September 11 terrorist attacks and US Subprime Crisis
 - C. SARS outbreak, recession after September 11 terrorist attacks, Asian Financial Crisis and US Subprime Crisis
 - D. SARS outbreak, Asian Financial Crisis, recession after September 11 terrorist attacks and US Subprime Crisis
- 2 What conditions facilitated the transformation of the Hong Kong economy shortly after the Chinese Communist Party took over in 1949?
- (i) Inflow of labour
 - (ii) Inflow of technology
 - (iii) Inflow of capital
 - (iv) Inflow of entrepreneurs
 - (v) Inflow of raw materials
- A. (i), (ii) and (iii)
 - B. (i), (iii) and (iv)
 - C. (ii), (iv) and (v)
 - D. All of the above
- 3 Which of the following information about CEPA is wrong?
- A. CEPA provides a lot of economic benefits to Hong Kong as Hong Kong firms can enter the Mainland market.
 - B. It was implemented after the outbreak of SARS in Hong Kong.
 - C. It has not had any effect on Hong Kong's tourism industry.
 - D. Both Hong Kong and the Mainland of China can benefit from CEPA.
- 4 Which of the following factors is not the reason that multinational corporations have located their Asian headquarters in Hong Kong?
- A. Hong Kong is close to the Mainland of China.
 - B. Hong Kong has a good communications network.
 - C. Hong Kong is a source of cheap labour.
 - D. Hong Kong's tax rate is low.

- 5 Which of the following statements are correct about the importance of the business sector to Hong Kong economy?
- (i) Provides employment opportunities.
 - (ii) Provides foreign exchange to pay for Hong Kong imports.
 - (iii) Provides income to Hong Kong people
 - (iv) Provides help to non-governmental organisations.
- A. (i) and (iv)
B. (i), (ii) and (iii)
C. (ii), (iii) and (iv)
D. All of the above
- 6 Which of the following is not a characteristic of the Hong Kong economy?
- A. The government encourages the admission of talent from the Mainland of China only, not from other countries.
B. Hong Kong is technologically weak in producing capital goods.
C. Hong Kong has no foreign exchange control policy.
D. Hong Kong needs to import fuel from other countries.
- 7 The pure form of market economy has the following characteristics except that
- A. resources are mostly owned by private individuals.
B. producers produce goods and services based on customers' needs.
C. resources are allocated by a few individuals.
D. consumers who are willing and able to pay market prices can get what they want.
- 8 Which of the following descriptions about the Hong Kong economy is false?
- A. Hong Kong does not control capital inflow but it limits capital outflow to keep the stock market stable.
B. The government pursues a laissez-faire policy in general, except for some public services.
C. The Hong Kong government has embraced a policy of 'big market, small government' in recent years.
D. The economic policies of the government aim to encourage entrepreneurship and fair competition in Hong Kong.
- 9 Which of the following is not a characteristic of the Hong Kong workforce?
- A. The Hong Kong workforce can adapt to market changes.
B. The Hong Kong workforce is hardworking.
C. Labour relations in Hong Kong are poor because Hong Kong workers often strike for better compensation.
D. The Hong Kong workforce is skilful.

- 10 Which of the following statements regarding Hong Kong's first transformation is false?
- A. There were inflows of capital and labour from the United Kingdom.
 - B. It was facilitated by the inflow of labour, capital and entrepreneurs from the Mainland of China after the Chinese Communist Party takeover.
 - C. The major products exported at that time were textiles and clothing, electronic products and plastic products.
 - D. It refers to Hong Kong's transformation from an entrepôt into a manufacturing centre.
- 11 Which of the following industries is not included in the 'four pillar industries' advocated by the former Chief Executive Tung Chee Hwa?
- A. Trading and logistics
 - B. Tourism
 - C. Creative industries
 - D. Financial services
- 12 Which of the following descriptions regarding the roles of Hong Kong is false?
- A. Many foreign firms regard Hong Kong as a stepping stone to the Mainland of China.
 - B. Foreign investors like investing in Hong Kong as there are no foreign exchange controls.
 - C. Hong Kong helps many private and state-owned enterprises in the Mainland of China raise capital.
 - D. The Hong Kong government has to submit tax to the Chinese government annually.
- 13 Which of the following statements regarding Hong Kong's situation in 1841 is false?
- A. Fishing was one of the major industries.
 - B. Its deep water harbour was one of Hong Kong's important resources.
 - C. Farming was one of the major industries.
 - D. Mining was one of the major industries.
- 14 Which of the following statements regarding Hong Kong's second economic transformation (i.e., from a manufacturing centre into an international financial and services centre) is false?
- A. It was triggered by the outbreak of the Korean War.
 - B. It started shortly after the introduction of the open-door policy in China.
 - C. Many manufacturing companies relocated their plants to the Zhujiang Delta.
 - D. During the second economic transformation, there was widespread speculation in the property and stock markets.

- 15 Which of the following statements regarding Hong Kong's third economic transformation (i.e., evolving into a knowledge-based economy) is false?
- A. Property prices increased drastically during this period.
 - B. Since the 1990s, many Western countries have begun developing their creative industries. Hong Kong has followed in their footsteps.
 - C. CEPA started during this period.
 - D. Shortly after the return of Hong Kong's sovereignty to China, the Asian Financial Crisis began.
-
- 16 Which of the following descriptions of a market economy are correct?
- (i) Resources are mostly owned by private individuals.
 - (ii) Resources are allocated by the market mechanism.
 - (iii) Consumers who are willing and able to pay market prices can get what they want.
 - (iv) A market economy is also called a capitalist economy.
- A. (i) and (ii)
 - B. (i), (iii) and (iv)
 - C. (ii), (iii) and (iv)
 - D. All of the above
-
- 17 Which of the following descriptions are correct about a planned economy?
- (i) A planned economy is also called a command economy.
 - (ii) Resources are owned by the government.
 - (iii) People have to follow the government's plans to produce and consume goods and services.
 - (iv) A planned economy allocates resources and distributes output by central planning and command.
- A. (i) and (ii)
 - B. (i), (iii) and (iv)
 - C. (ii), (iii) and (iv)
 - D. All of the above
-
- 18 Which of the following are characteristics of the Hong Kong government's economic policy?
- (i) The government promotes free trade.
 - (ii) The government embraces the principle of 'big market, small government'.
 - (iii) The government maintains fiscal prudence.
 - (iv) The government always obtains economic support from the Mainland of China, as written in the Basic Law.
- A. (i) and (iv)
 - B. (i), (ii) and (iii)
 - C. (ii), (iii) and (iv)
 - D. All of the above
-

19 Which of the following statements regarding the interdependence of sectors are correct?

- (i) The secondary and tertiary sectors rely on the primary sector to provide resources to produce goods and services.
- (ii) The tertiary sector supplies products to the primary sector.
- (iii) The secondary sector supplies services to the primary sector
- (iv) The secondary sector provides products to the primary sector.

- A. (i) and (ii)
- B. (i) and (iv)
- C. (ii) and (iii)
- D. All of the above

20 Which of the following statements regarding the roles of the Hong Kong government in developing a favourable business environment are correct?

- (i) The government maintains a low tax system.
- (ii) The government provides infrastructure.
- (iii) The government provides training and education to Hong Kong people.
- (iv) The government promotes fair competition in the market.

- A. (i) and (ii)
- B. (i) and (iv)
- C. (ii) and (iii)
- D. All of the above

21 Which of the following descriptions about private property rights in Hong Kong are correct?

- (i) Nobody can take away the property of others without their consent.
- (ii) Individuals can earn income from their property only if they obtain the government's permission.
- (iii) The government is not allowed to take away any property of its citizens without paying fair compensation.
- (iv) Land is private property.

- A. (i) and (ii)
- B. (i) and (iii)
- C. (ii), (iii) and (iv)
- D. All of the above

- 22 Which of the following statements about the service industry in Hong Kong are correct?
- (i) It contributes more than 90% of Hong Kong GDP.
 - (ii) It includes the construction industry.
 - (iii) It promotes the economic growth of Hong Kong.
- A. (i) and (ii)
B. (i) and (iii)
C. (ii) and (iii)
D. All of the above
-
- 23 Which of the following are sources of the Hong Kong government revenue?
- (i) Profits tax
 - (ii) Sales tax
 - (iii) Stamp duties
 - (iv) Salary tax
- A. (i) and (iv)
B. (ii) and (iii)
C. (i), (iii) and (iv)
D. All of the above
-
- 24 Which of the following restrictions are implemented in Hong Kong?
- (i) Trade quotas
 - (ii) Foreign exchange controls
 - (iii) Tariffs
 - (iv) Embargoes
- A. (i) and (iii)
B. (i) and (iv)
C. (ii) and (iii)
D. None of the above
-
- 25 Which of the following statements about the Hong Kong legal system is/are correct?
- (i) Hong Kong practises common law.
 - (ii) The Chief Executive can overturn judges' decisions.
 - (iii) Hong Kong practises the Basic Law.
 - (iv) The law practised in Hong Kong is the same as that in the Mainland.
- A. (i) only
B. (i) and (iii)
C. (ii) and (iv)
D. (i), (iii) and (iv)
-

Short Questions

- 1 Assume that you are the CEO of a US-based insurance company, which only operates in the US. Recently, the company's board of directors has told you that they are going to set up a regional office in Hong Kong. Considering the characteristics of Hong Kong's economy, explain three factors in support of the decision. (6 marks)

- 2 (a) Explain the three types of production? Give two examples of each. (6 marks)

- (b) Explain the interdependence of the three production sectors using oil as an example. (6 marks)

3 Jeff lives in Mongkok with his parents. He bought an apartment in Tuen Mun three months ago. Property prices in Tuen Mun have been increasing steadily because of the extension of the West Rail Line.

(a) Define private property rights. (2 marks)

(b) Based on your answer in (a), explain how Jeff can exercise his private property rights with his apartment in Tuen Mun. (6 marks)

(c) Assume that the Hong Kong government plans to redevelop some parts of Tuen Mun, where Jeff's apartment is located. Could the government simply take away Jeff's apartment? Explain your answer. (2 marks)

4 Explain why Hong Kong economy transformed

(a) from an entrepôt into a manufacturing centre (3 marks)

(b) from a manufacturing centre into an international financial and services centre (3 marks)

(c) into a knowledge-based economy

(3 marks)

5 Explain whether the following statements correctly describe the Hong Kong economy.

(a) Hong Kong is a pure market economy because the Hong Kong government pursues a laissez-faire policy. (2 marks)

(b) In order to protect local industries, the Hong Kong government imposes a tariff on imported goods. (2 marks)

(c) The Hong Kong government has launched programmes to attract talent from the Mainland and other countries and to allow them to remain in Hong Kong as long as they like. (2 marks)

(d) TV programmes which criticise the Hong Kong government are prohibited in Hong Kong. (2 marks)

6 Read the following news articles and then answer the questions.

Five HK reporters detained in Xinjiang

The syringe attack turmoil not only triggered ethnic unrest in Xinjiang but also resulted in violence against Hong Kong reporters. In early September, three TVB reporters, who were filming the protests, were beaten up by paramilitary officers.

A few days later, another five reporters from different Hong Kong media were detained. The Mainland police claimed that the presence of the five reporters at the scene would further provoke the protestors.

7 Sept 2009

Information on riots filtered on Internet

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While the Government media released information on the Urumqi riots in a timely and frank manner, unofficial channels of information were restricted. For example, a number of websites were shut down. Any posts on Internet forums which contained materials regarding the riot were also deleted. Searches for sensitive keywords such as Xinjiang was disabled or filtered by Mainland search engines.

The official spokesman responded that these measures were used to stop terrorists from spreading evil-harmful information.

7 July 2009

(a) Based on the news above, describe the differences between Hong Kong and the Mainland in terms of the flow of information. (4 marks)

(b) Explain two reasons why the free flow of information is important to Hong Kong. (6 marks)

- 7 The following paragraph regarding the Hong Kong economy is found on Wikipedia:

Hong Kong has been ranked as the world's freest economy in the Wall Street Journal and Heritage Foundation's Index of Economic Freedom for 15 consecutive years, since the inception of the index in 1995. The index measures restrictions on business, trade, investment, finance, property rights and labour. It also considers the impact of corruption, government size and monetary controls in 183 economies. Hong Kong is the only one to have scored 90 points or above on the 100-point scale.

(Source: Wikipedia)

Based on the above paragraph, explain any three features of a free economy. Illustrate your answer with Hong Kong as an example. (9 marks)

- 8 The following article was extracted from the website of Invest Hong Kong. Read it carefully and then answer the questions.

Hong Kong is one of the most open and externally-oriented economies in the world. The city has prospered as a trading hub and service centre, where an understanding of international markets as well as the Mainland gives it a unique and versatile economic role as the Mainland has opened up.

The economy is robust enough to have weathered economic shockwaves and recovered to new heights. Over the past two decades, the Hong Kong economy has more than doubled in size, with GDP growing at an average annual rate of 5% in real terms.

Since land supply is tightly controlled, the property market is often regarded as an indicator of the economy's health. The land increases on the horizon are widely regarded as an economic positive. The unemployment rate has stabilised at around 5% and the composite price index is now hovering around positive.

(Source: Invest Hong Kong)

(a) Explain the characteristics of the Hong Kong economy mentioned in the above text. (10 marks)

(b) Why is the property market regarded as an indicator of Hong Kong's economic health? (4 marks)

Answers

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Chapter 1 Hong Kong's Business Environment

Multiple Choice Questions

(2 marks for each question)

- 1 A
- 2 B Shortly after 1949, the inflow of labour, capital and entrepreneurs to Hong Kong led to its economic transformation. However, there were no inflows of technology and raw materials at that time. Therefore, industries focused on low-end production in which less sophisticated goods were produced. Textiles and plastics were among the major industries.
- 3 C
- 4 C Hong Kong's wages are among the highest in Asia and high labour costs are one of the major reasons for companies' relocation.
- 5 B Not every company in the business sector provides help to non-governmental organisations.
- 6 A
- 7 C In a pure market economy, resources are allocated by the market mechanism or the price system, rather than by a few individuals.
- 8 A
- 9 C
- 10 A
- 11 C
- 12 D Answer D is false. The Hong Kong government is not required to pay taxes to the PRC government, according to the Basic Law.
- 13 D Answer D is false. Hong Kong has never produced raw materials locally, since it lacks natural resources. Mining has never been an industry at any time in Hong Kong.
- 14 A
- 15 A
- 16 D
- 17 D
- 18 B
- 19 B
- 20 D
- 21 B Although companies and individuals can buy land from the government, they only have the right to use it. The land is still owned by the government.
- 22 B
- 23 C
- 24 D
- 25 B After the handover in 1997, Hong Kong has continued to uphold judicial independence. In other words, judges' decisions are respected in Hong Kong. The Executive Council, the Legislative Council or any senior officials in the government cannot overturn judges' decisions at will.

Short Questions

1 Three factors in support of the decision:

- Hong Kong is regarded as a free market economy with little government intervention. The government pursues a laissez-faire policy, which promotes a free market and free trade. The US-based company can freely start its business in Hong Kong.
- The government does not impose any trade barriers, such as tariffs or quotas, on imported goods. There are no foreign exchange controls. In other words, the US-based company can transfer capital in or out of Hong Kong as it wishes.
- The government encourages talent from the Mainland or other countries to work in Hong Kong. This allows the US-based company to recruit suitable workers overseas.
- Hong Kong upholds the rule of law and judicial independence. Under the Hong Kong legal system, business contracts are protected and enforced. Therefore, the US-based company's interests are protected when it operates in Hong Kong.
- Private property rights are protected in Hong Kong. The US-based company can use and earn income from its property, and transfer it freely in Hong Kong. Nobody can use or take away the company's properties without its consent. The government is not allowed to take away its properties without paying fair compensation.
- Hong Kong has a pool of productive workers who can adapt to changes. They are hardworking and capable. The government and universities also provide continuous education and training programmes for local workers so as to further enhance their skills. While labour in Hong Kong is competitive, labour relations are good and serious labour disputes between employers and employees are rare.

(Any other reasonable answers)

(Any three of the above, 2 marks for each point)

- 2 (a)
- Primary production refers to the economic activities involved in extracting natural resources. (1 mark)
 - Examples of industries in the primary sector are fishing, agriculture and so on. (1 mark)
 - Secondary production refers to economic activities which turn raw materials into semi-finished or finished products. (1 mark)
 - The construction and manufacturing industries are examples of the secondary sector. (1 mark)
 - Tertiary production refers to the economic activities of providing services to customers. (1 mark)
 - Hotel services and business services are examples of this type of production. (1 mark)
- (b) The three types of production are interdependent.
- The primary sector produces resources for the secondary sector to produce goods and the tertiary sector to provide services. The secondary sector uses resources from the primary sector and services from the tertiary sector to produce goods. The tertiary sector uses resources and goods provided by the primary and secondary sectors to provide services for all three sectors. (3 marks)
 - For example, oil workers drill for oil in an oil field (primary production). The oil refinery then transforms the crude oil into petroleum which can be used in industry and as fuel for vehicles (secondary production). Staff at a petrol station sell the petroleum to drivers (tertiary production). Drivers rely on petroleum to provide transportation services (tertiary production). (3 marks)

- 3 (a) Private property rights refer to the exclusive rights to use, earn income from and transfer the property. (2 marks)
- (b) Jeff may exercise his private property rights as follows:
- The right to use: Jeff may move to the apartment in Tuen Mun and live there. (2 marks)
 - The right to earn income from: Following the increase in property prices, rents in Tuen Mun would also increase. Jeff may rent out the apartment and earn a stable income from it. (2 marks)
 - The right to transfer: Jeff may sell the apartment to anyone for an agreed price. (2 marks)
- (c) No, the government could not take away Jeff's apartment because it is Jeff's private property. The government is not allowed to take away any private property without paying fair compensation. (2 marks)
- 4 (a) Because of the embargo imposed by the United Nations on China, Hong Kong's entrepôt trade was severely affected. Hong Kong's economy then was transformed from an entrepôt into a manufacturing centre. The transformation process was facilitated by the inflow of labour, capital and entrepreneurs from the Mainland after the Chinese Communist Party takeover. (3 marks)
- (b) Due to the open door policy adopted by the Mainland of China in 1978, many factory owners in Hong Kong relocated their production bases to the Zhujiang Delta to save on production costs. As a result, Hong Kong had to reposition itself and transformed itself into a financial and services centre. (3 marks)
- (c) The Asian Financial Crisis triggered an economic downturn in Hong Kong. The September 11 terrorist attacks in 2001 and the outbreak of the SARS epidemic in 2003 further hampered the Hong Kong economy. Hong Kong suffered a recession and experienced a period of deflation and a high unemployment rate. The government realised that it could no longer rely on the property and stock markets to create wealth. This forced Hong Kong to find new way to boost the economy. (3 marks)
- 5 (a) False. Although the Hong Kong government pursues a laissez-faire policy, Hong Kong is a mixed economy, rather than a pure market economy. While most resources and goods and services in Hong Kong are allocated by the market mechanism, some industries (e.g., electricity supply and railway services) are regulated by the government. (2 marks)
- (b) False. The Hong Kong government does not impose any trade barriers on imported goods. Instead, it allows the free flow of goods in and out of the territory. (2 marks)
- (c) False. Only people who meet certain requirements are qualified for the Schemes. Not everyone from the Mainland or other countries can settle in Hong Kong. (2 marks)
- (d) False. The Hong Kong government allows the free flow of information. The media enjoy a high degree of freedom. They can disseminate any kind of information against the government. (2 marks)
- 6 (a) • As shown in the news, the Mainland restricts the flow of information. Reporters cannot collect information freely and the dissemination of 'sensitive' information on the Internet is also strictly controlled. (2 marks)
- Hong Kong allows the free flow of information. The media enjoy a high degree of freedom. They can obtain information from any source and disseminate information through various means. For example, the media can criticise government departments through legal means if the departments make mistakes. (2 marks)
- (b) • The media enjoy a high degree of freedom. In general, they can collect and disseminate information without getting approval from the government. Therefore, the media can distribute important information as soon as they obtain it. Because of its proximity to the Mainland and the existence of a free press, Hong Kong serves as a regional communications and information centre. (3 marks)

- The free flow of information allows companies to obtain instant information about changes in the business environment so that they can make timely decisions. For example, when a Hong Kong toy manufacturer knows that one of the raw materials it used has been banned in the US, the company may recall the products in the US immediately. (3 marks)

(Any other reasonable answers)

- 7 • A free economy should have investment freedom. While the government should encourage foreign investment, there should be no strict restrictions on the transfer of properties or ownership of businesses. (1 mark)

In Hong Kong, foreign investments and domestic investments are treated equally. On the stock market, investors can buy or sell companies' shares freely. In general, there are no limits on the transfer of business ownership. (2 marks)

- In a free economy, trade freedom should be protected. It should allow the free flow of goods and capital in and out of the territory. (1 mark)

As in Hong Kong, there are no trade barriers such as tariffs or quotas imposed on imported goods. Companies in Hong Kong can export their products and services anywhere. There is also no foreign exchange control in Hong Kong. The government does not control capital inflow and outflow. (2 marks)

- A free economy should ensure that private property rights are protected. That is, an individual can use, earn income from, and transfer one's properties as he/she likes. (1 mark)

In Hong Kong, private property rights are protected. People can freely buy or sell property in the market. The government is not allowed to take away their properties without paying fair compensation. Contracts are strongly protected in Hong Kong. The government also puts an effort into protecting the intellectual property rights of producers. (2 marks)

- In a free economy, people should be able to enjoy business freedom. They should be allowed to do business in their own ways provided that they comply with the laws. People should have the right to exchange goods and services freely in the market. (1 mark)

In Hong Kong, anyone can start a business, except for some industries providing public services. Compared with other countries or territories, it is also simpler for an individual in Hong Kong to start a business and to obtain the necessary licenses. (2 marks)

- A simple and low tax system should be adopted in a free economy. In other words, people in a free economy can enjoy fiscal freedom. (1 mark)

Hong Kong's tax rates are among the lowest in the world. The low tax rate also implies higher profits for companies in Hong Kong. This encourages companies to invest more and for individuals to consume more. (2 marks)

- In a free economy, there should be little government intervention. The government should not disturb the market and over-regulate business practices. Companies should be allowed to make business decisions on their own without being interfered with by the government. (1 mark)

In Hong Kong, the government pursues a laissez-faire policy, which promotes a free market and free trade. It plays a role as a proactive market enabler. Instead of regulating the market directly, the government facilitates the functioning of the market and enables the free market to allocate resources efficiently. (2 marks)

- A free economy should have labour freedom which benefits both employers and employees. While labour regulations should be able to protect employees' interests, they are also required to enhance productivity. They should be strictly enforced. (1 mark)

There have been only a few serious disputes between employers and employees and they are resolved quickly. Companies can recruit any kind of workers and can arrange work schedules for their workers. On the other hand, employees can choose their jobs. They can decide whether to leave their jobs. In general, both employers and employees comply with labour regulations. (2 marks)

(Any other reasonable answers)

(Any three of the above)

- 8 (a)
- Hong Kong is an externally-oriented and open economy. As there are no trade barriers and foreign exchange controls, foreign companies may set up their offices in Hong Kong.
 - Hong Kong promotes economic development of the Mainland. It serves as a vital intermediary between the Mainland and the outside world by helping the Mainland enterprises raise capital. It also imports technology to the Mainland. For example, many private and state-owned enterprises in the Mainland list on the Hong Kong's stock market to raise capital.
 - Hong Kong is an international trading hub and services centre.
 - Hong Kong has a fast growing economy. Over the past two decades, Hong Kong's economy has more than doubled in size, along with its GDP.
 - Hong Kong's land supply is tightly controlled.
 - Hong Kong's unemployment rate has stabilised at low level.

(Any five of the above, 2 marks for each point)

- (b)
- Transactions in the property market are determined by buyer's purchasing powers and their willingness to invest. The increase in property transactions means that the buyers (Hong Kong people) have more money and confidence in the property market and in Hong Kong's economic environment. (2 marks)
 - A flourishing property market encourages property developers to invest more. They are more willing to take part in land auction. This implies that they are confident about the property market and Hong Kong's economic environment. Property developers can also provide many job opportunities when they undertake project development. Property development as a business sector also promotes Hong Kong's economic growth and improves the living standards of Hong Kong people. (2 marks)

(Any other reasonable answers)