

Review of HK's Socio-Economic Progress: A Quantitative Assessment

December, 2006

List of acronyms

Als	Authorized institutions
CEPA	Closer Economic Partnership Arrangement between Mainland and HK
CN	China
CSSA	Comprehensive Social Security Assistance
FDI	Foreign direct investment
FX	Foreign exchange
GDP	Gross domestic product
GEM	Growth Enterprise Market
GNP	Gross national product
GITIC	Guangdong International Trust and Investment Corporation
HK	Hong Kong
HKC&SD	HK Census and Statistics Department
HKCSS	HK Council of Social Service
HKSARG	Government of the HK Special Administrative Region
ID	Indonesia
IMF	International Monetary Fund
IPO	Initial public offering
JP	Japan
KO	South Korea

LHS	Left-hand side
MY	Malaysia
NIE	Newly industrialized economy
NRT	Net register tonnage
NY	New York
PC	Personal computer
PH	The Philippines
PPP	Purchasing Power Parity
R&D	Research & development
RHS	Right-hand side
SARS	Severe Acute Respiratory Syndrome
SG	Singapore
TEU	Twenty-foot Equivalent Units
TH	Thailand
TW	Taiwan
UGC	University Grant Council
UK	United Kingdom
US	United States
WHO	World Health Organisation
YoY	Year-on-year

Table of content

➤ Executive summary	4
➤ Introduction	9
➤ Growth and economy	10
• Trade, banking and finance, property, information technology, innovation, public finance	
➤ Employment and society	34
• Income, poverty, social welfare, women, population, children, youth, old age, education	
➤ Health and environment	64
• Medical, mortality, pollution, energy, transport	
➤ HK and the Mainland	83
• Flow of goods, people and capital	
➤ Governance	109
• Law and order, democracy, freedom of press, election, approval rating, public confidence	
➤ Glossary of terms	116

Executive Summary

Areas that HK has done well

- HK has recovered strongly from its worst recession in 1998-2003, with many of the key economic and social indicators showing encouraging improvements since Q3/2003:
 - Real GDP growth rebounds robustly *(Slide 13)*
 - Business confidence returns while investment picks up steam *(Slide 13)*
 - Jobless rates fall across all sectors *(Slide 38)*
 - Employment earnings edge up again *(Slide 39)*
 - Education and skill levels of the work force have improved significantly *(Slide 36)*
 - Value of trade moved by air has grown substantially *(Slide 81)*
 - People's confidence in HK's future rises to record high *(Slide 115)*

- HK also continues to rank high in comparison with its neighbours:
 - HK is the premier international financial centre in Asia – the largest IPO centre in Asia in 2005 and likely to become the world's 2nd largest, if not the largest, in 2006 *(Slides 18, 20)*
 - HK, with 21.8 million visitor arrivals in 2004, was Asia's most popular tourist destination (other than Mainland China) *(Slide 17)*
 - HK, as a knowledge-based economy, has the world's highest mobile phone penetration and the 2nd highest broadband internet penetration *(Slides 26-27)*
 - HK ranks persistently as the world's freest economy by the Heritage Foundation and its scores in 2006 were the best it ever achieved *(Slide 22)*
 - HK's crime rate and corruption remain amongst the lowest in the region *(Slide 110)*
 - HK's mortality rate ranks amongst the lowest in the world *(Slides 65, 67)*

Areas that HK has not done so well

- BUT, important challenges still lie ahead for HK. While some of these challenges are more likely to be cyclical, further research is required to determine if the others are of structural nature:
 - In terms of income:
 - Per capita GDP in 2005 still lagged behind 1997, while employment earnings for lower-skilled and unskilled jobs remain below 1998 level (Slides 12, 39)
 - Household income, especially among the lower-income decile groups, recovers only slowly (Slide 40)
 - Proportion of people living in low-income households increases (Slide 42)
 - Income distribution becomes more uneven (Slide 41)
 - Socially, more children live in single-parent families that are low-income households, and domestic violence and suicide rates of the younger population are on the rise (Slides 48-49, 52)
 - Demographically, aging of the population is expected to accelerate significantly from 2013 (Slide 55)
 - Environmentally, air and water pollution, while decreasing in the last few years, remains a major cause for concern (Slides 70-71, 73)
 - Fiscal balance has been restored, but strong reliance on income from land sale and investment continues to add volatility to public finance (Slides 32-33)
 - R&D expenditure is rising from a low base, but HK still trails behind Asian neighbours in innovative capability (Slides 28-31)

HK's Interface with the Mainland

- HK is under enormous pressure to foster new modes of cooperation with the Mainland to preserve its competitive edge in view of the following developments:
 - Flow of goods:
 - Role of HK as a re-export centre for the Mainland is diminishing (Slide 87)
 - HK's container ports are losing market share to Shenzhen and other ports in Mainland (Slide 80)
 - More Mainland exports are now serviced by HK traders without the goods touching HK's ports (i.e. offshore trade) (Slide 89)
 - Flow of funds:
 - Though still the top source of FDI for the Mainland, HK's dominance has declined with further opening up of the Mainland (Slide 102)
 - HK is the top investment destination for Mainland enterprises (Slide 104)
 - Flow of people:
 - A growing number of HK people is travelling, working and settling in the Mainland (Slides 95, 97-98)
 - HK should be more aggressive in attracting Mainland talents to meet local manpower needs (Slides 99-100)

How People Rate the Government

- HK people's satisfaction with the performance of the HKSAR Government, especially in the maintenance of economic prosperity, has been rising since 2003 and reached a post-1997 high in 2005 (*Slide 114*)
- But the government receives a relatively lower approval rating in improving people's livelihood, suggesting more needs to be done to enable the lower-income population to benefit from HK's prosperity (*Slide 114*)
- Confidence in "One Country, Two Systems" has risen since 2003 and reached a post-1997 high in 2006 (*Slide 115*)
- Trust in the Central Government has also picked up following a decline in 2003 and approached the 2002 high level in 2006 (*Slide 115*)

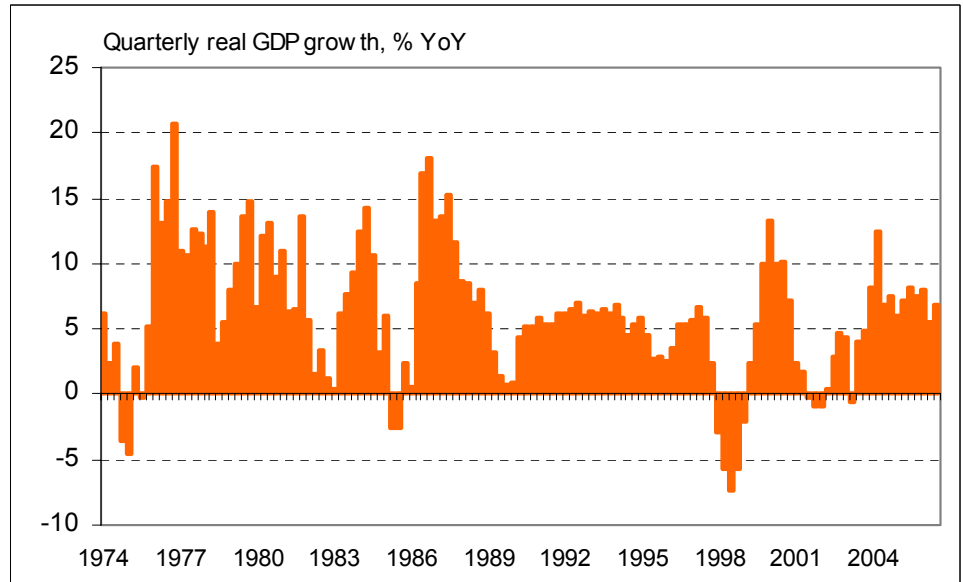
Introduction

- This study seeks to give an overview of the economic and social progress of HK over the past two decades, and to track the outstanding and emerging challenges for HK going forward. It aims at providing a balanced and objective assessment to help establish a factual context for policy-making and wider discussion.
- All the analyses in this report are based on data provided by the Census and Statistics Department of the HKSAR Government and other publicly available sources. No attempt has been made to collect data through separate surveys conducted specially for this study, which is beyond the intention of this exercise.
- For cross-sectional analysis, the following cities are used as benchmark for making comparison throughout the report where appropriate: Singapore, Taiwan and Seoul (which together with HK are collectively known as the Newly Industrialised Economies – NIEs), as well as Shanghai, Guangzhou, Shenzhen, New York, and London. In circumstances where data for individual cities are not available in published statistics, country data are sometimes used as approximation if applicable; caution should therefore be exercised in interpreting these comparisons.

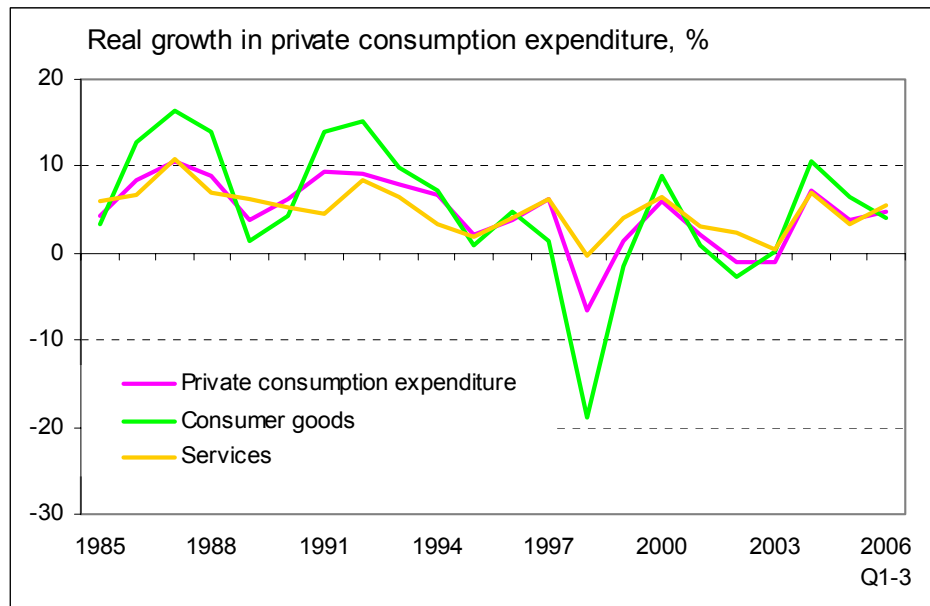
Growth and Economy

HK went through its worst recession during the past decade

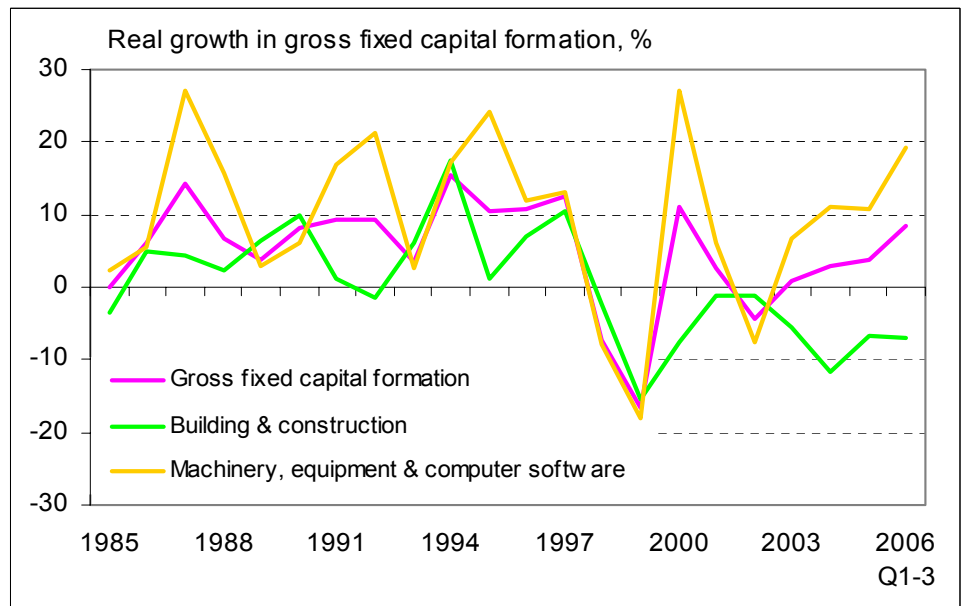
- In the wake of the Asian financial crisis which first hit HK in October 1997, real GDP contracted for the first time in 13 years in 1998 and plunged by an unprecedented 5.7%.
- The contraction was partly attributed to the negative wealth effect of plummeting asset prices which dampened consumer spending. From the peak in July 1997, stock prices fell by 55% within 12 months, while property prices declined by 45% between May 1997 and October 1998.
- Investment also fell drastically as the property market slump led to a sharp decline in construction activities. Meanwhile, business investment spending was depressed by reduced economic activity and weakened business confidence.



Source: HK Census & Statistics Dept



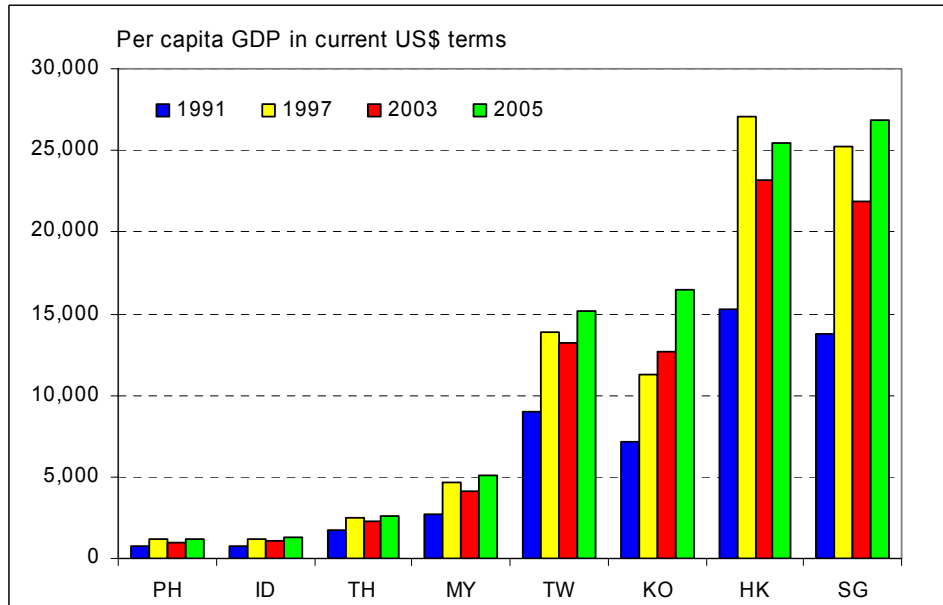
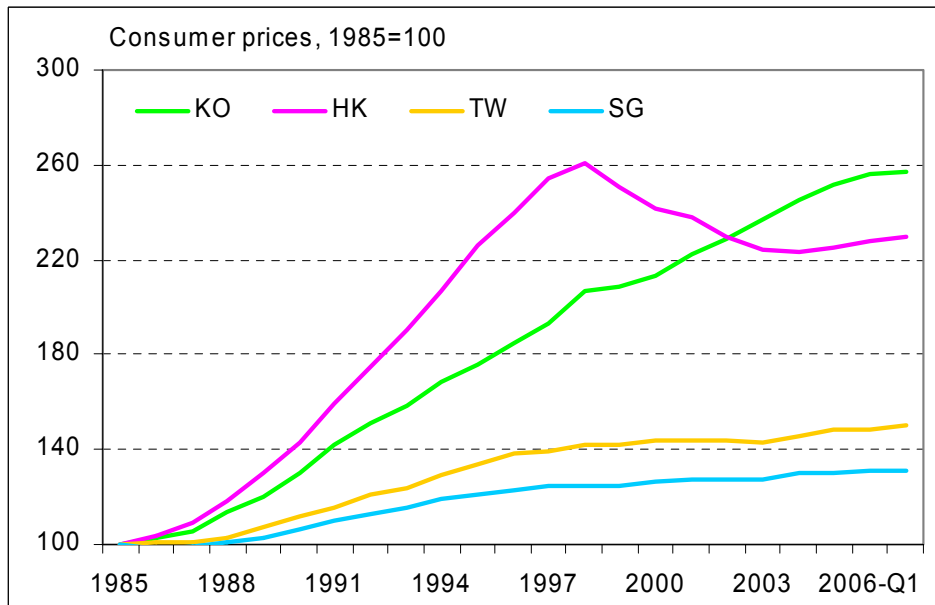
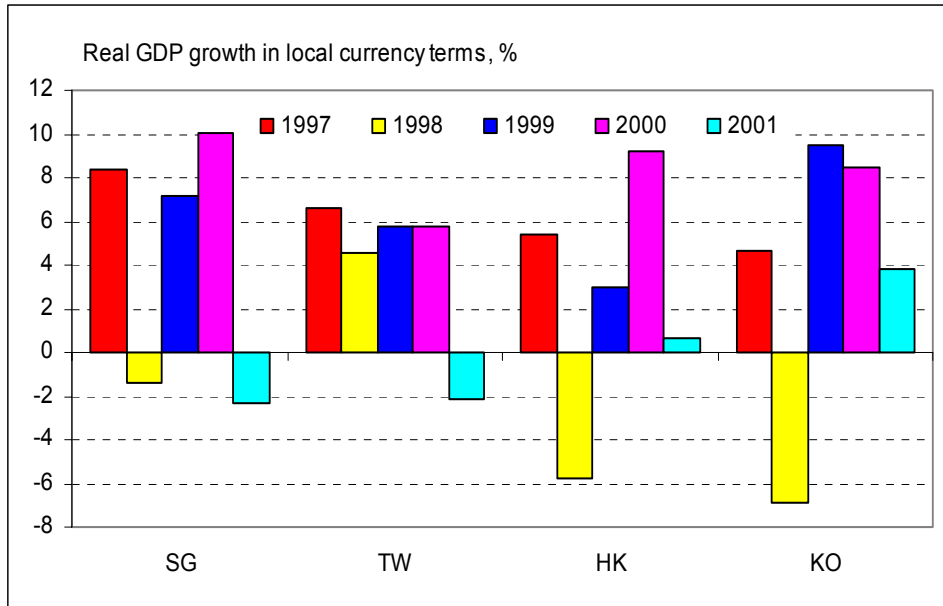
Source: HK Census & Statistics Dept.



Source: HK Census & Statistics Dept.

Nominal GDP slumped between 1997 and 2003

- The sharp contraction of real GDP made HK one of the hardest hit victims of the Asian financial crisis among the NIE benchmarks, trailing only behind South Korea which was one of the countries bailed out by the International Monetary Fund (IMF) in the midst of the crisis.
- The economic slump also dragged HK into a period of prolonged deflation which was not seen in other NIE benchmarks. During the 6 years between 1998 and 2004, HK's consumer prices dropped by a cumulative 15%.
- Hit by prolonged deflation, HK has shown little growth in nominal terms since 1997, although in [purchasing power parity \(PPP\)](#) terms, the growth of HK has kept up with the pace of recovery seen in other Asian economies.



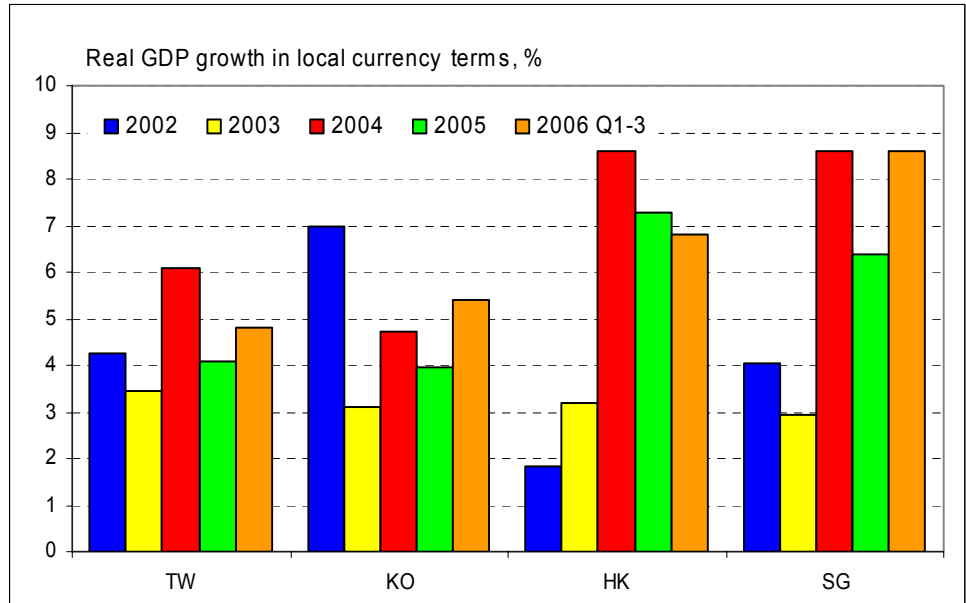
Sources: HK Census & Statistics Dept., Korea Ministry of Finance & Economy, Singapore Dept. of Statistics, Taiwan Dept. of Statistics

Sources: HK Census & Statistics Dept., Korea Ministry of Finance & Economy, Singapore Dept. of Statistics, Taiwan Dept. of Statistics

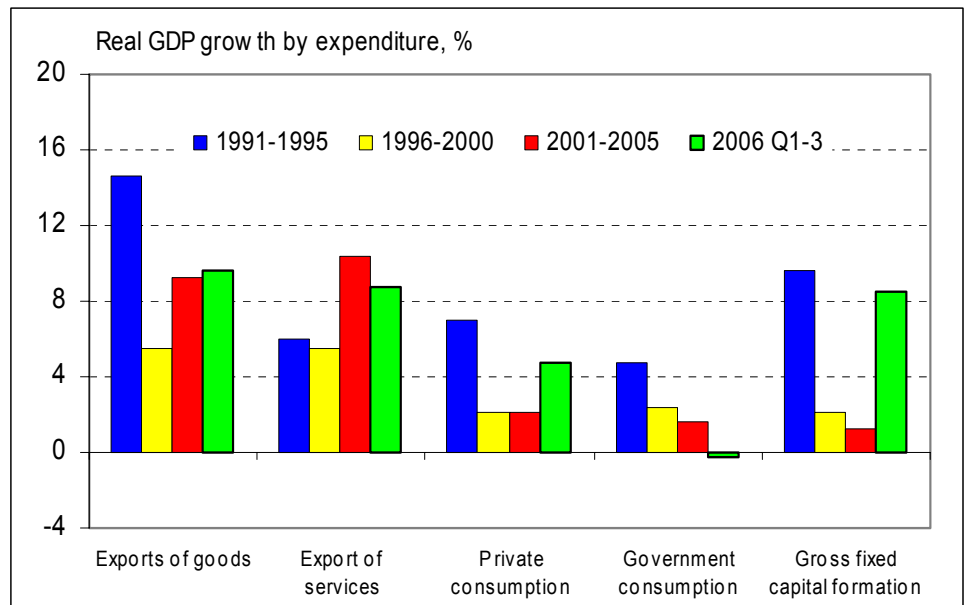
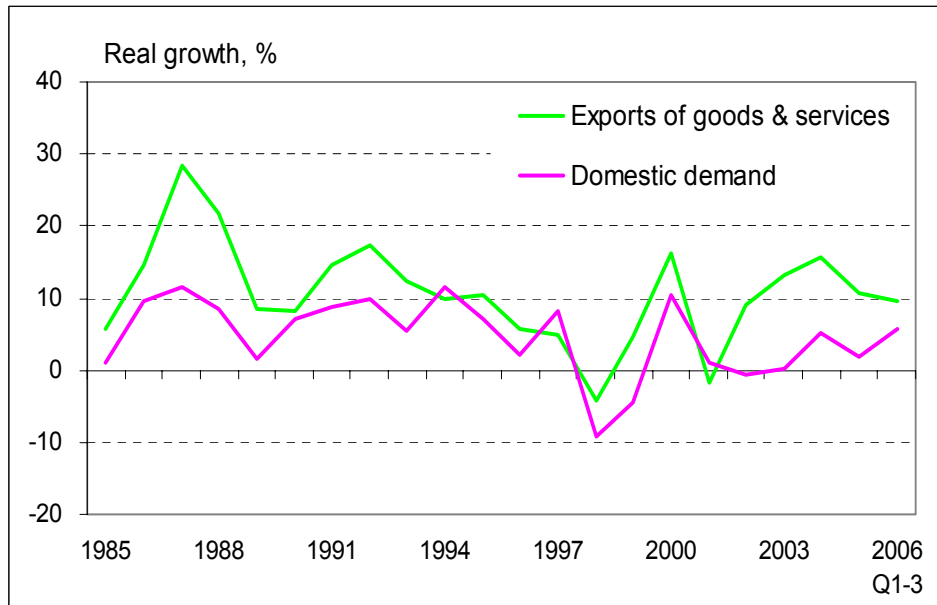
Sources: HK Census & Statistics Dept., World Bank

Economy rebounded strongly since mid-2003

- Since mid-2003, HK's economy has recovered strongly, and its growth in 2004 and 2005 were the highest among the NIE benchmarks.
- The external sector has played a key role in the recovery, while domestic demand has also picked up steam in recent quarters, contributing to a broader-based recovery.
- Benefiting continually from China's position as the world's factory, HK's exports of goods grew at an average of 9.2% in real terms between 2001-2005. Exports of services expanded at an even faster pace of 10.4%. Domestically, investment in machinery, equipment and computer software has picked up significantly since 2003, reflecting a return of business confidence.



Source: HK Census & Statistics Dept., Korea Ministry of Finance & Economy, Singapore Dept. of Statistics, Taiwan Dept. of Statistics

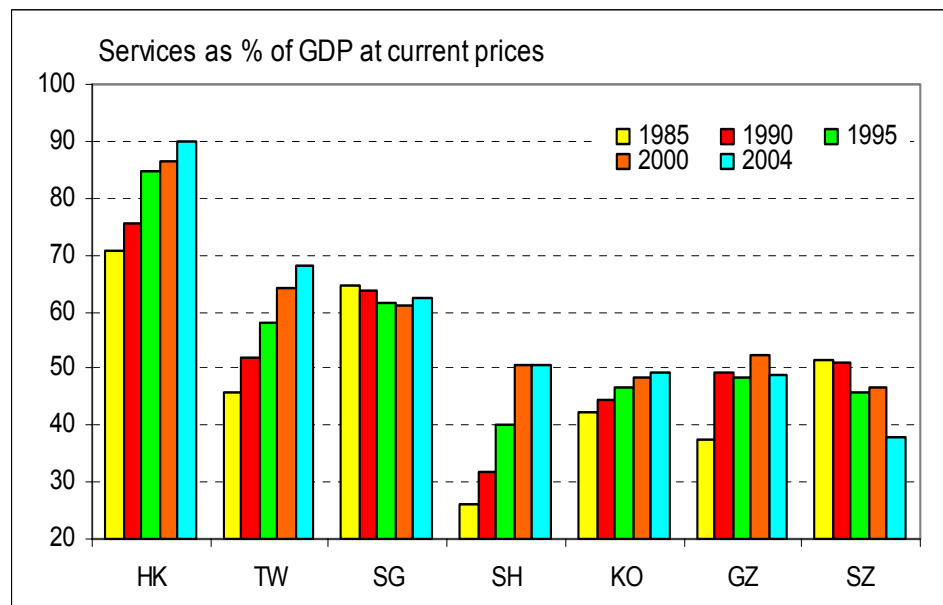
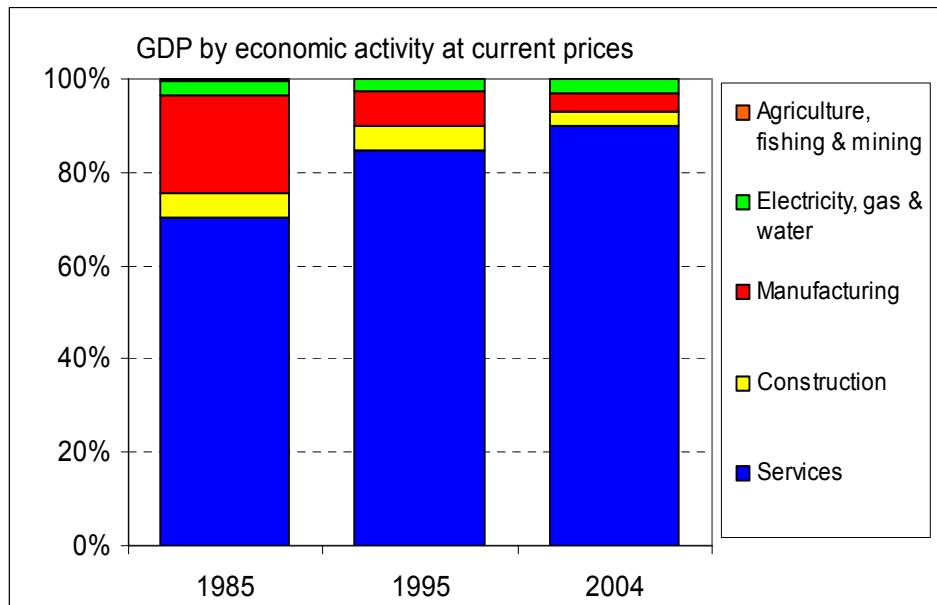
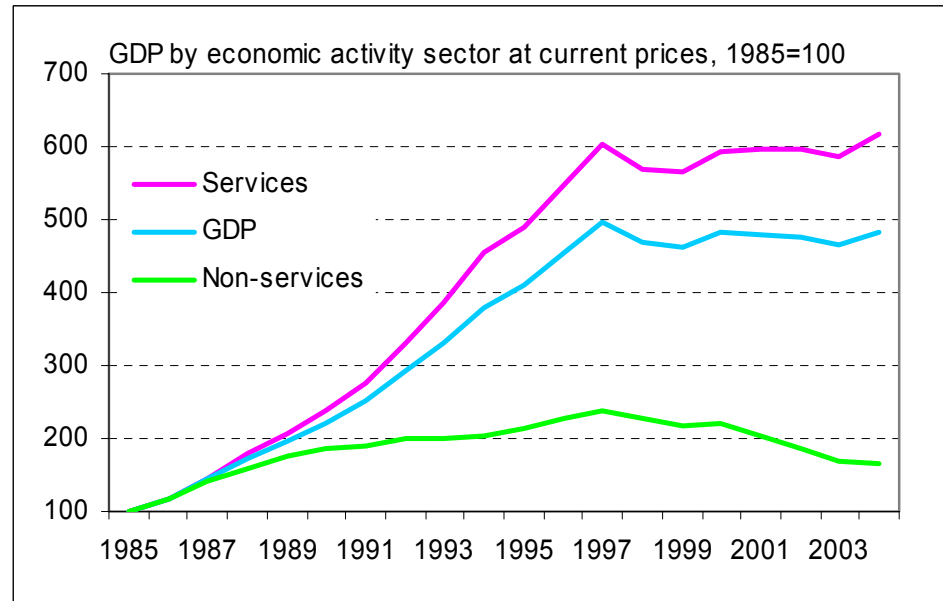


Source: HK Census & Statistics Dept.

Source: HK Census & Statistics Dept.

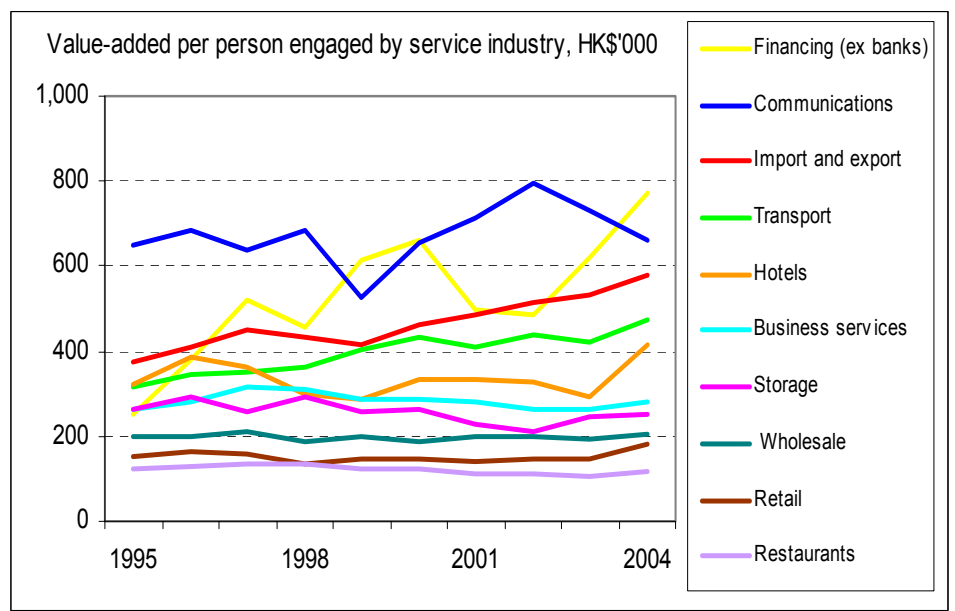
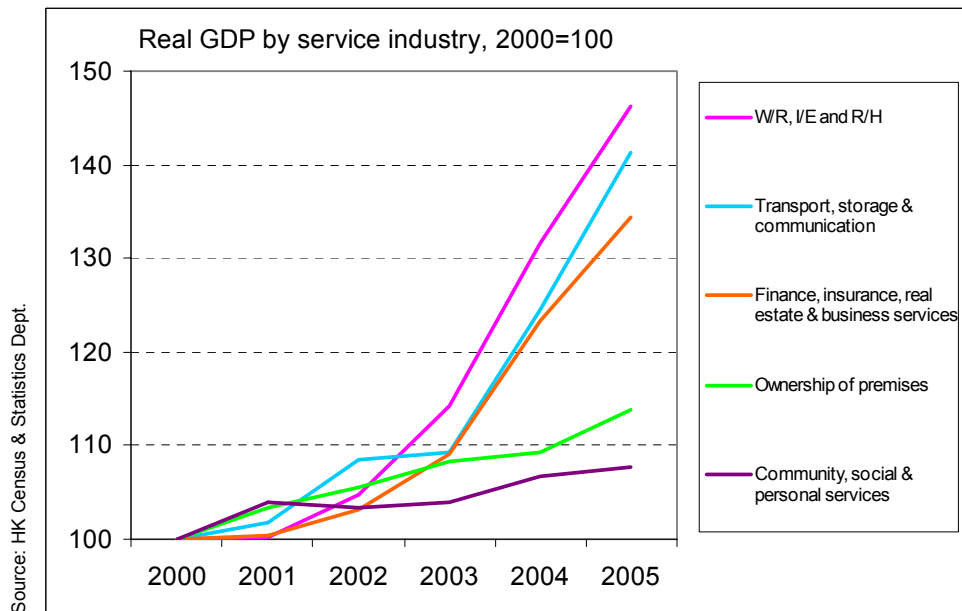
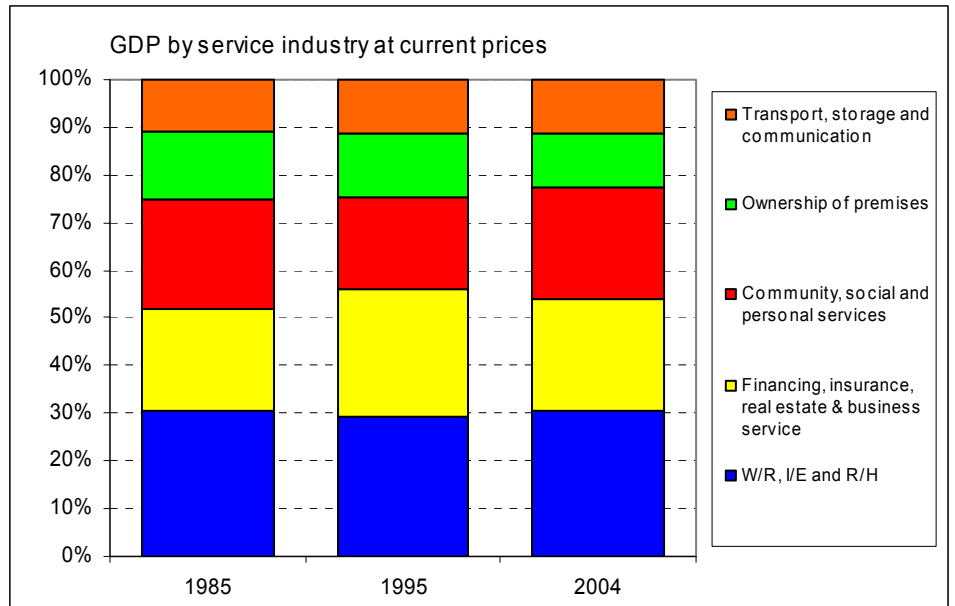
HK economy becomes increasingly service-oriented

- HK has continued to transform from a manufacturing to a service-based economy in line with increased investment and trade conducted by HK companies in the Mainland and neighbouring countries.
- Over the past two decades, the scale of HK's service industries has expanded rapidly. From sharing less than 70% of GDP in early 1980s, the service sector has grown to account for 90% of GDP in 2004. At present, more than 90% of HK's working population is engaged in service industries.
- The dominance of service industries in HK's economy is unmatched in other Asian benchmark economies where the service sector accounted for less than 70% of GDP.



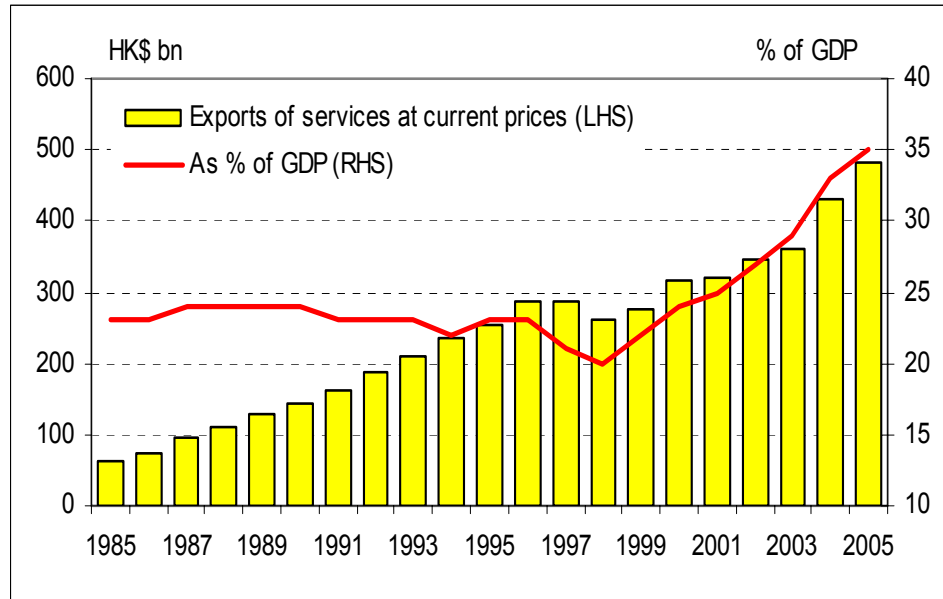
Distribution and trade-related services expand strongly

- The wholesale, retail, import/export, restaurant & hotel (W/R, I/E and R/H) industries comprise the largest segment of the service sector, accounting consistently for 30% share of the total.
- Between 2001-2005, the W/R, I/E and R/H segment has been the fastest growing component of the service sector, recording 8% growth in real terms, followed by transport, storage & communication with 7.3% growth, and finance, insurance, real estate and business services which grew 6.2%.
- In terms of productivity, value-added per person engaged in the financing industry was the highest amongst all the service industries in 2004.

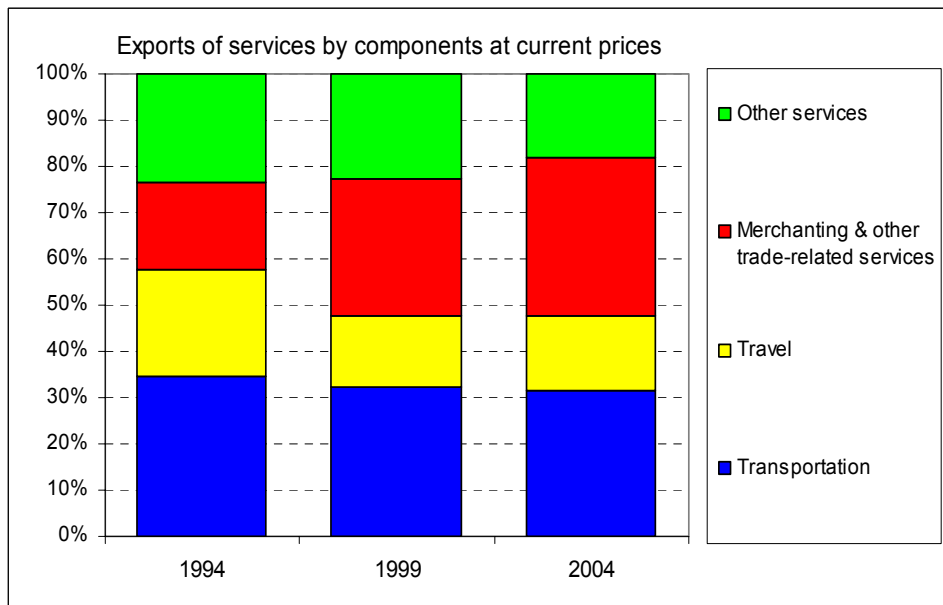
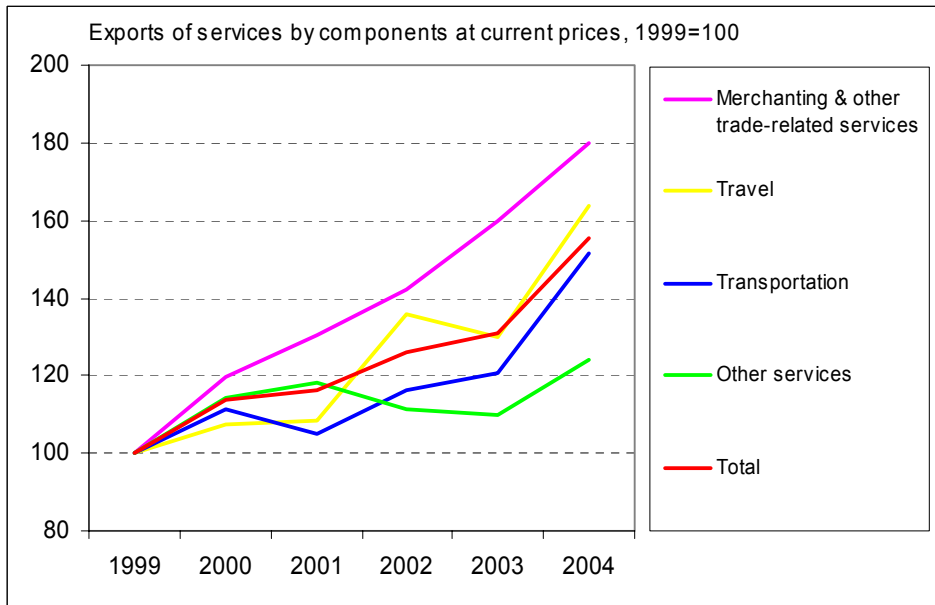


Services performed for exports grow at an accelerating pace

- Service exports has grown at a rapid rate of 10.4% in real terms over the past 5 years and accounted for more than one-third of HK's GDP since 2004.
- Reflecting HK's growing role as a trade-supporting service centre, exports of merchanting and other trade-related services expanded strongly over the past 10 years and accounted for an increasing share of HK's service exports.
- In 2004, exports of merchanting and other trade-related services comprised the largest component of service exports, accounting for 34.1% of the total, up from 19% in 1994.



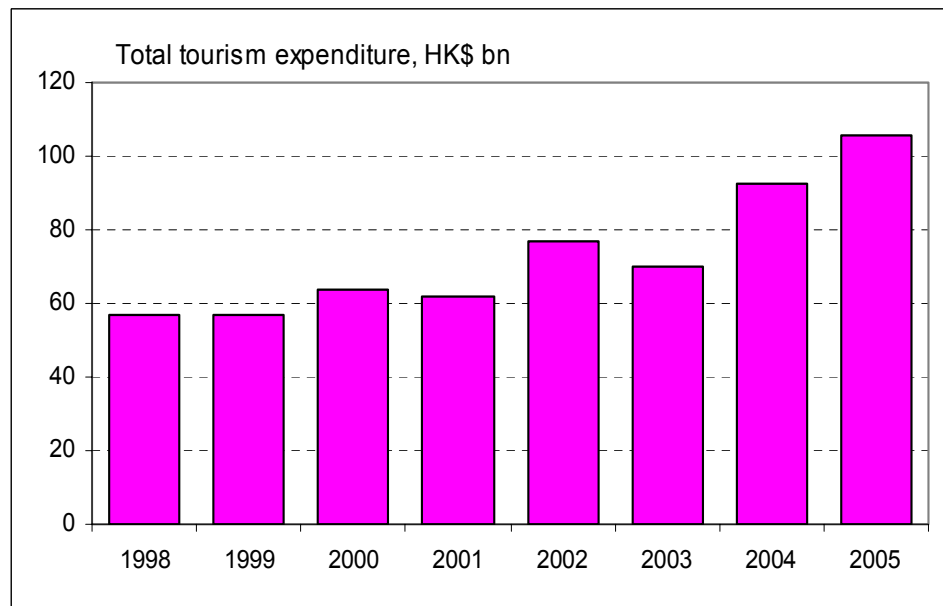
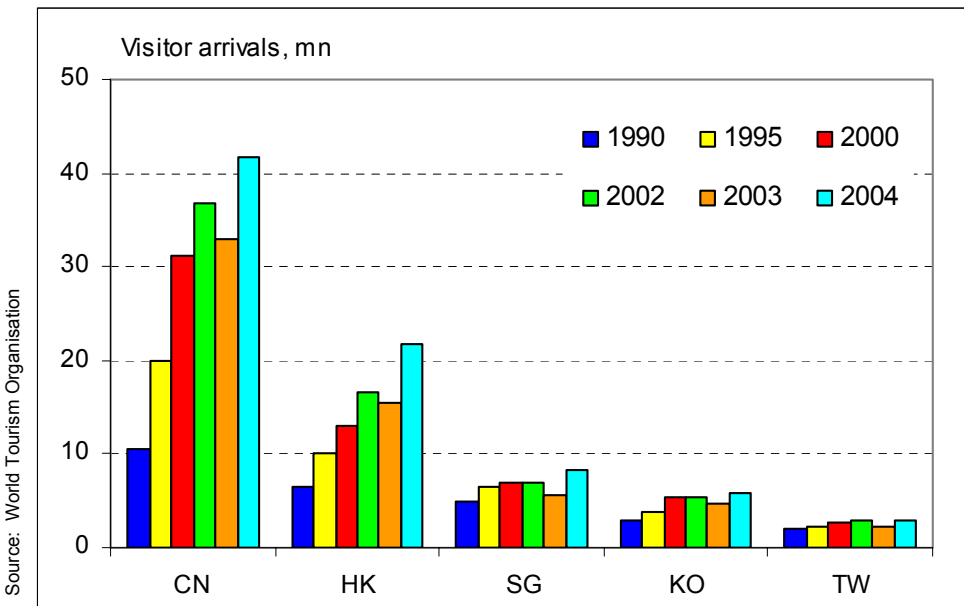
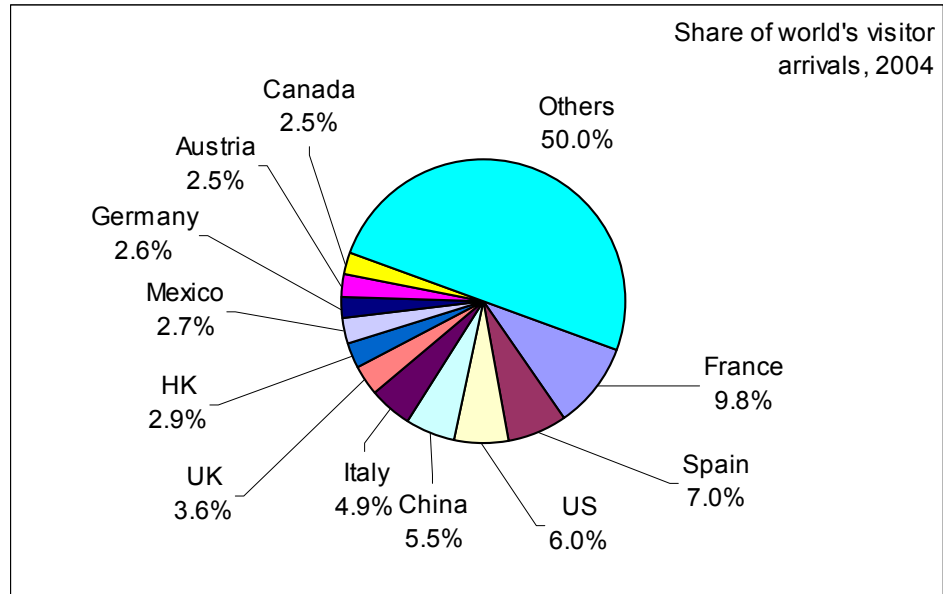
Source: HK Census & Statistics Dept.



Source: HK Census & Statistics Dept.

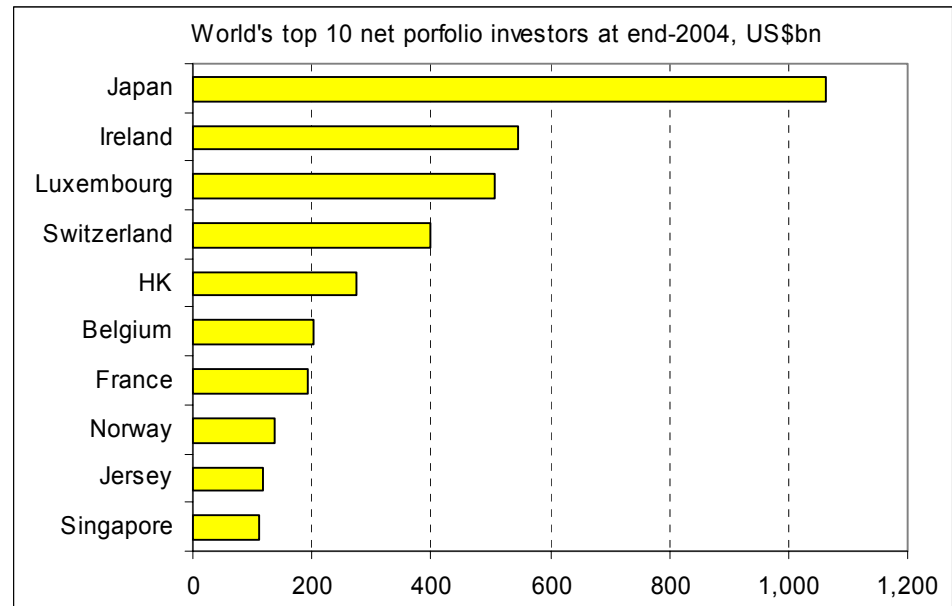
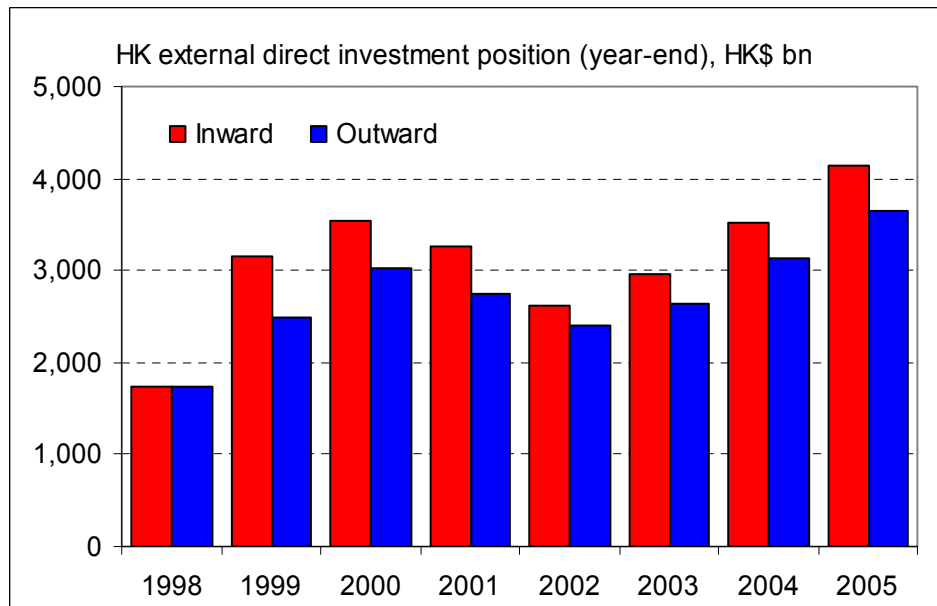
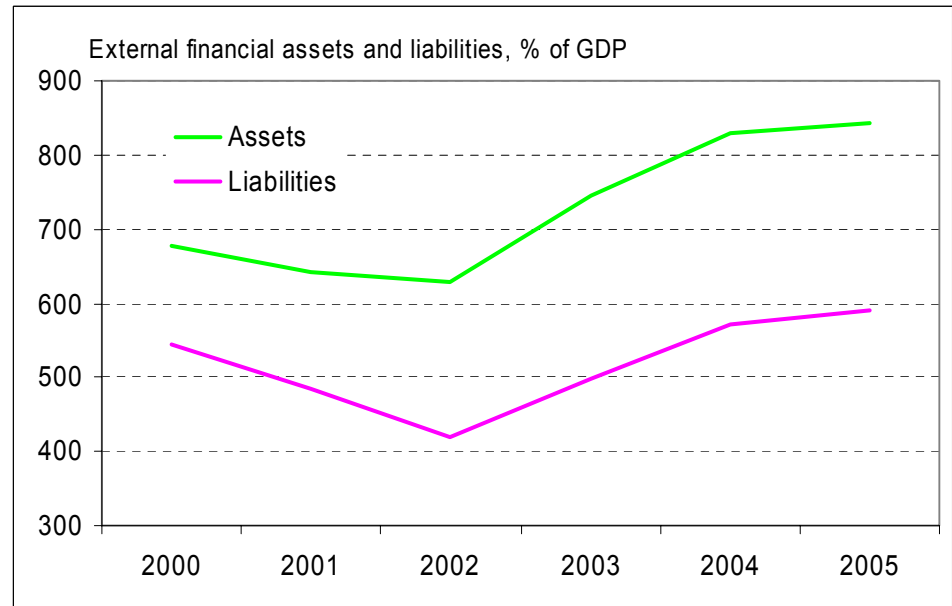
Tourism boosted by increased Mainland visitors since 2003

- HK was the world's 7th most popular tourist destination, accounting for 2.9% of the world's tourist arrivals and 14.3% of Asia-Pacific's market in 2004. Between 1995-2004, HK's visitor arrivals increased markedly by 114%, much faster than the growth in the NIE benchmarks.
- HK's total tourism expenditure increased by a substantial 31.8% in 2004 thanks to China's implementation in July 2003 of the [Individual Visit Scheme](#) for Mainland residents visiting HK. In 2004, the number of visitor arrivals from the Mainland surged by 44.6% to over 12 million.
- In 2005, HK's total tourism expenditure topped HK\$106 billion and made up a substantial 22% of service exports.



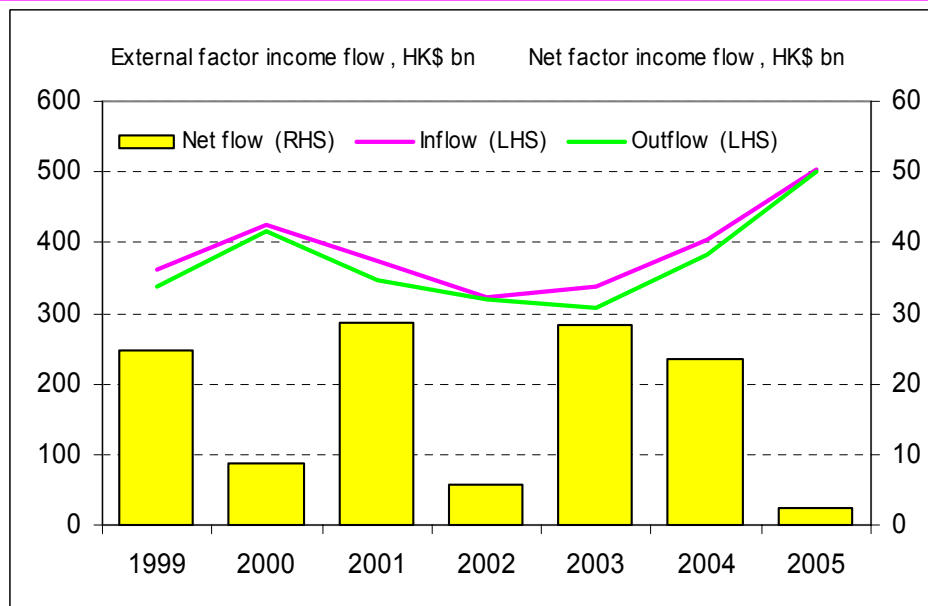
HK also thrives on an increasing flow of business and funds

- With no restrictions on capital flows into and out of HK, HK's residents have maintained a large amount of external financial assets and liabilities, which amounted to 843% and 591% of GDP respectively at end-2005.
- HK is an important centre for intermediating direct investment. It hosted the world's 6th largest stock of inward direct investment and the 2nd largest in Asia after the Mainland in 2005. In the reverse direction, its holding of direct investment assets abroad was also ranked favourably, the 6th in the world in 2004 and top in Asia.
- HK also plays a leading role in channelling equity and debt investment. It was the 5th largest net foreign portfolio investor in the world at end-2004.

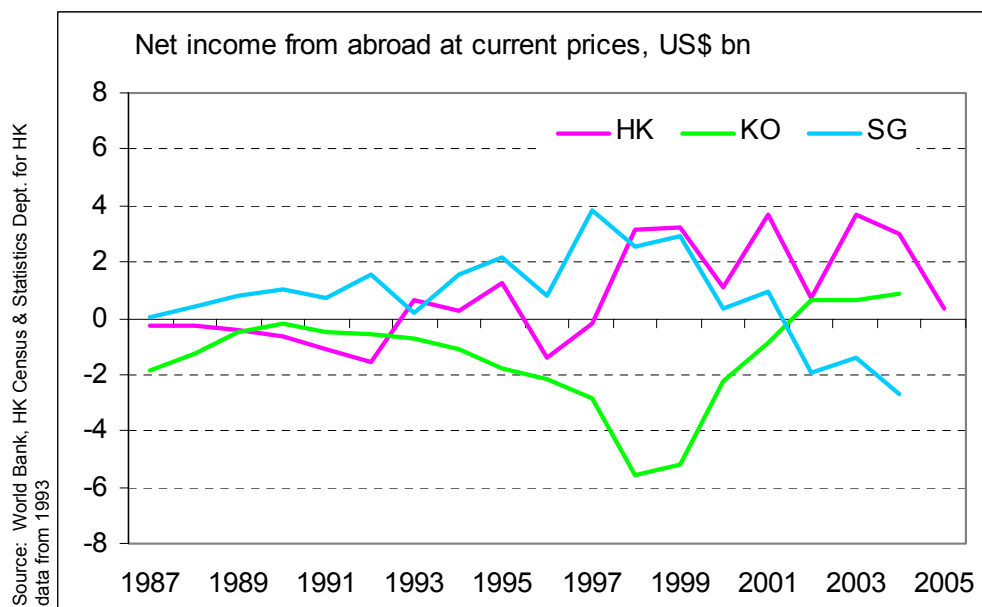


..... with significant inflow of external factor income

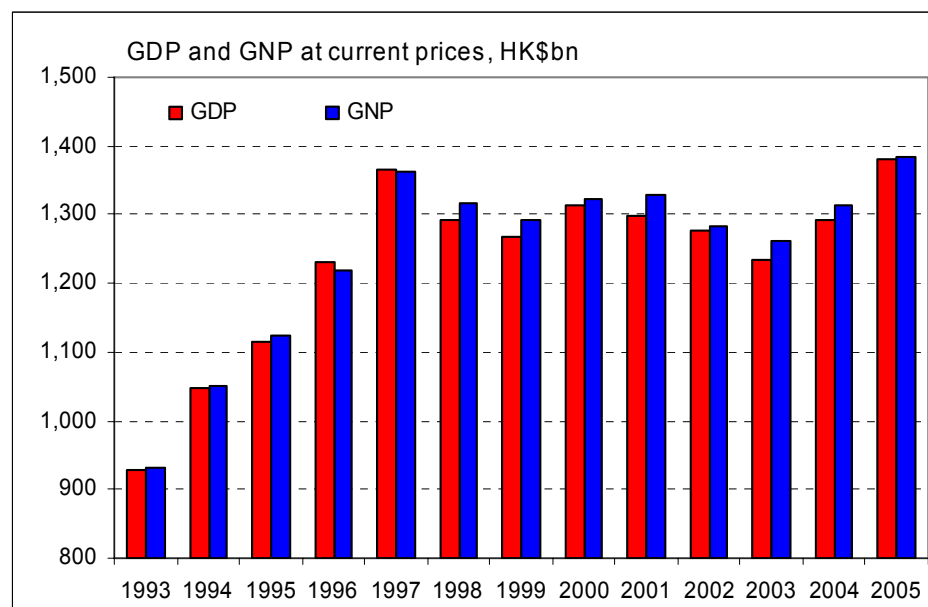
- The income associated with the international investment positions of HK is sizable. In 2005, external factor income inflow and outflow both amounted to 30% of HK's GDP, with inflows persistently surpassing outflows over the past years.
- Compared to Singapore and South Korea, HK has enjoyed higher net income inflows since 1998, with earnings from investment in overseas equity and debt securities making up the bulk of the net inflows.
- With net inflow of external income, HK's GNP has exceeded GDP in most years of the past decade.



Source: HK Census & Statistics Dept.



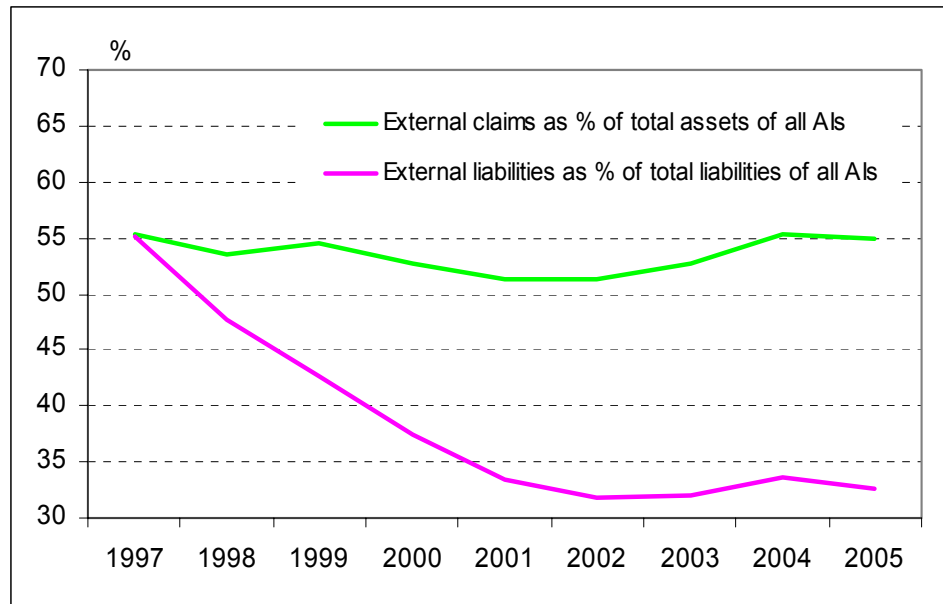
Source: World Bank, HK Census & Statistics Dept. for HK data from 1993



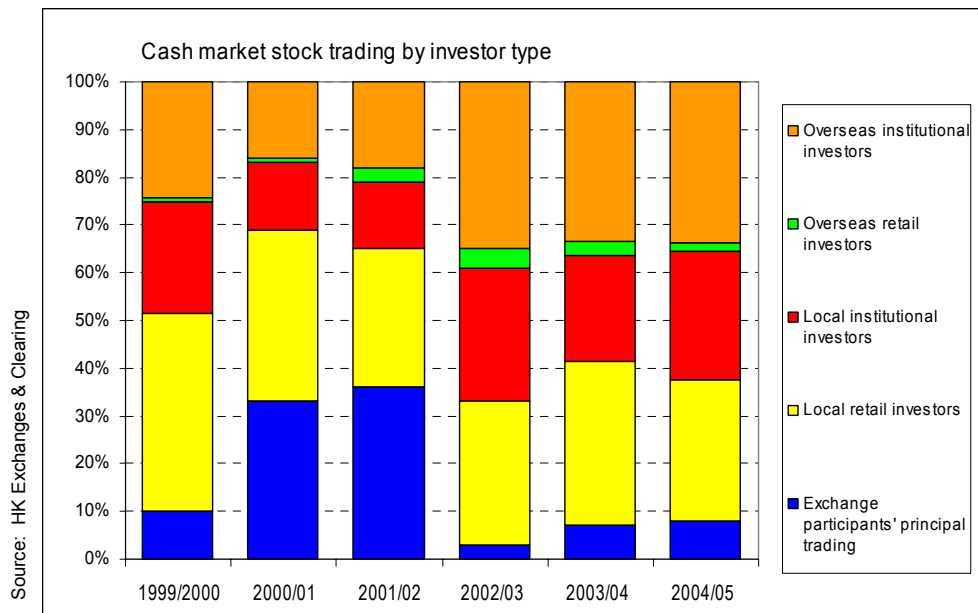
Source: HK Census & Statistics Dept.

..... supported by a world class banking and stock market

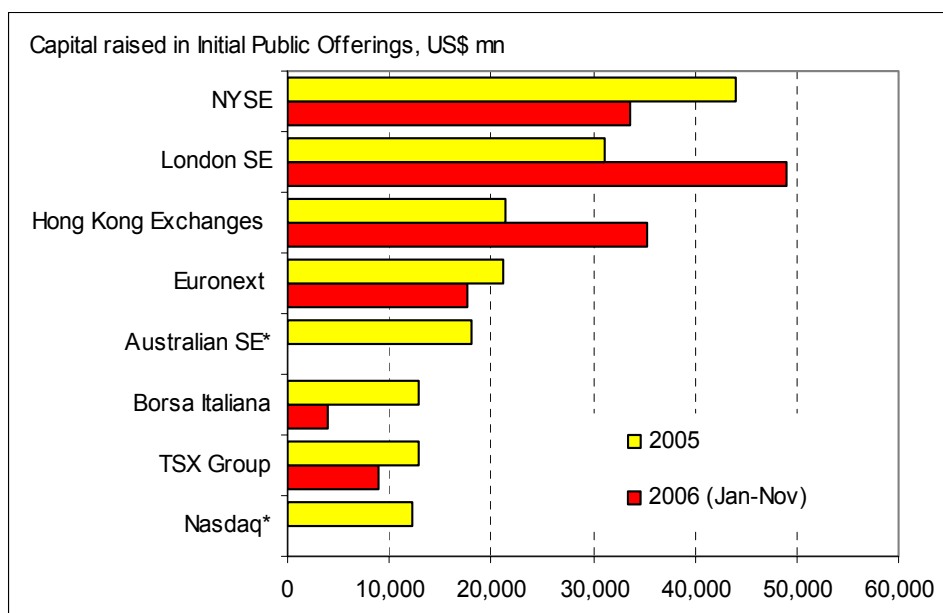
- Banks in HK play an important role in channelling funds around the world. HK was the world's 12th largest international banking centre in terms of external assets of banks in 2005. On a net basis, HK's banks have the 4th largest net external asset position in the world, highlighting HK's role in cross-border bank lending. The strength of HK's banking market has created a critical mass of the world's top financial services firms. Over 70 of the world's largest 100 banking institutions have presence in HK.
- HK is also home to Asia's 2nd largest stock market in market capitalization, with overseas investors accounting for a sizable 36% of stock market turnover in 2004/05. HK was also Asia's largest IPO centre in 2005 and is likely to become the world's 2nd largest, if not the largest, in 2006.



Source: HK Monetary Authority



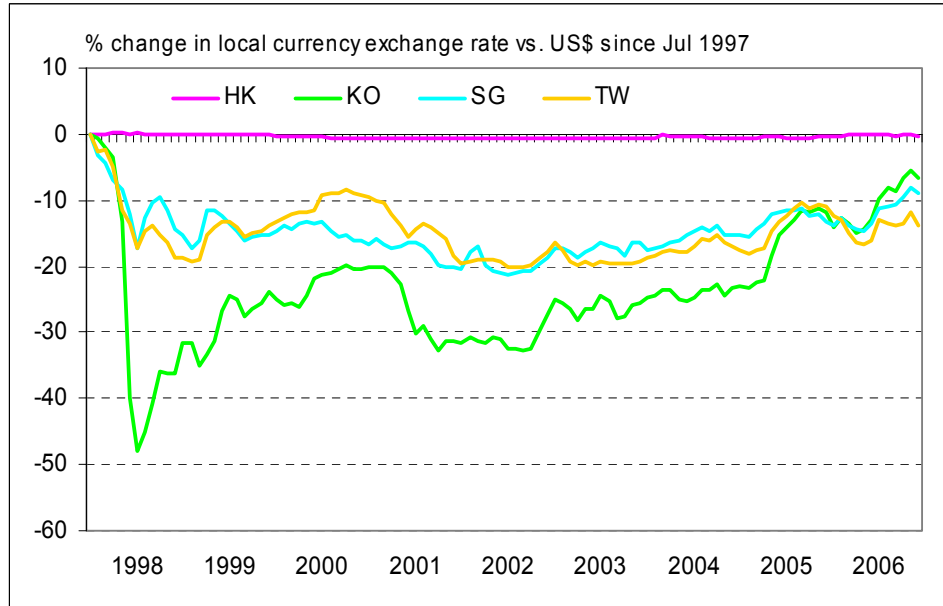
Source: HK Exchanges & Clearing



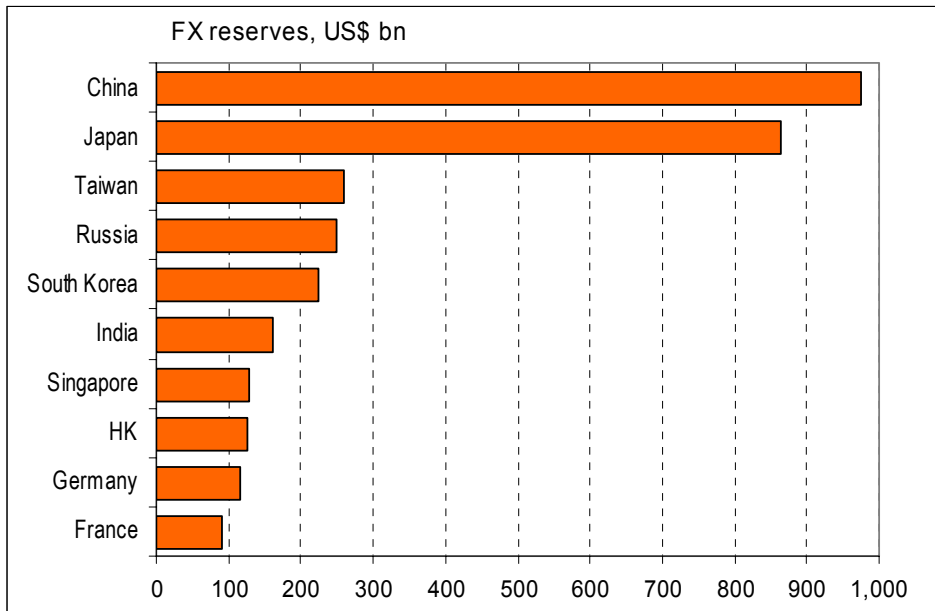
Source: World Federation of Exchanges; *Data for Australian SE & Nasdaq not yet available.

..... and a stable currency backed by sizable FX reserves

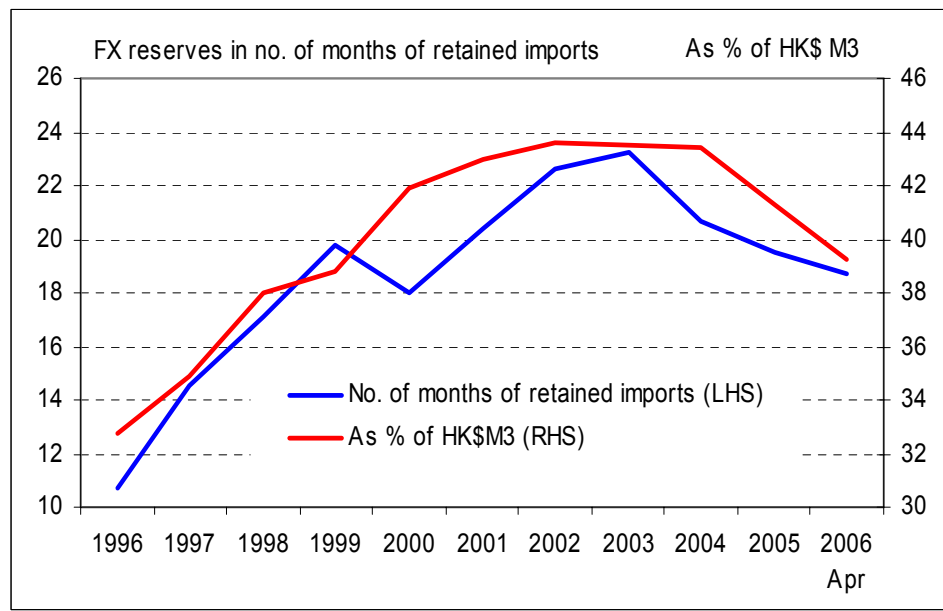
- Thanks to the linked exchange rate system pegging the HK\$ to the US\$, HK was insulated from foreign currency fluctuations that affected other Asian benchmark economies. However, the HK\$ still fluctuated against other major currencies along with the movement of the US\$.
- HK's currency stability vis-à-vis the US\$ is backed by its sizable foreign exchange reserves which stood at US\$126.6 billion at end-June 2006 and ranked the 8th highest in the world.
- At this level, HK FX reserves represent nearly 40% of HK dollar M3 and the amount is enough to support close to 20 months of HK's retained imports, both high by international standards.



Source: HK Monetary Authority, Bank of Korea, Monetary Authority of Singapore, Central Bank of Taiwan



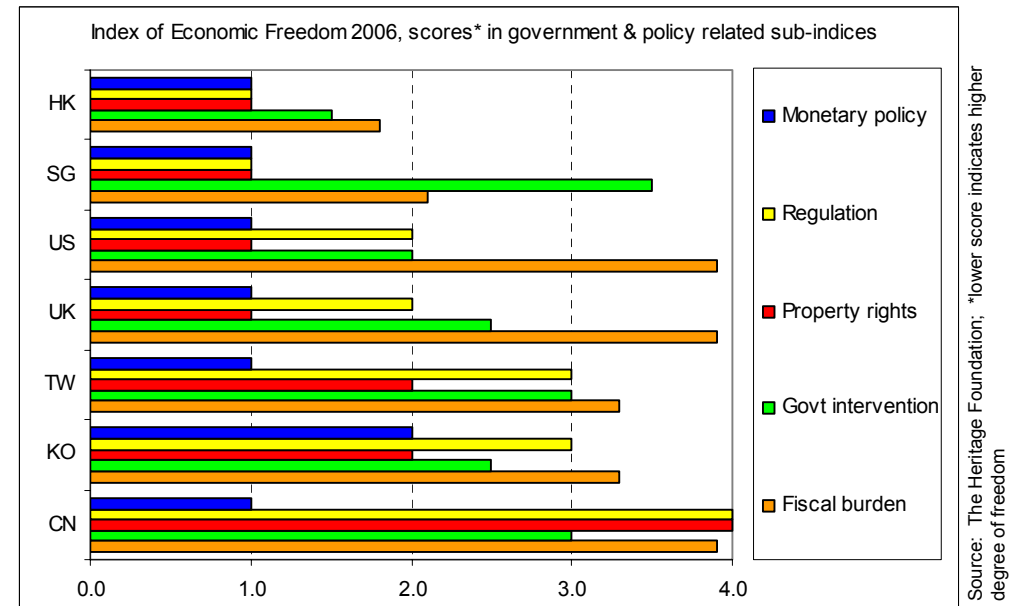
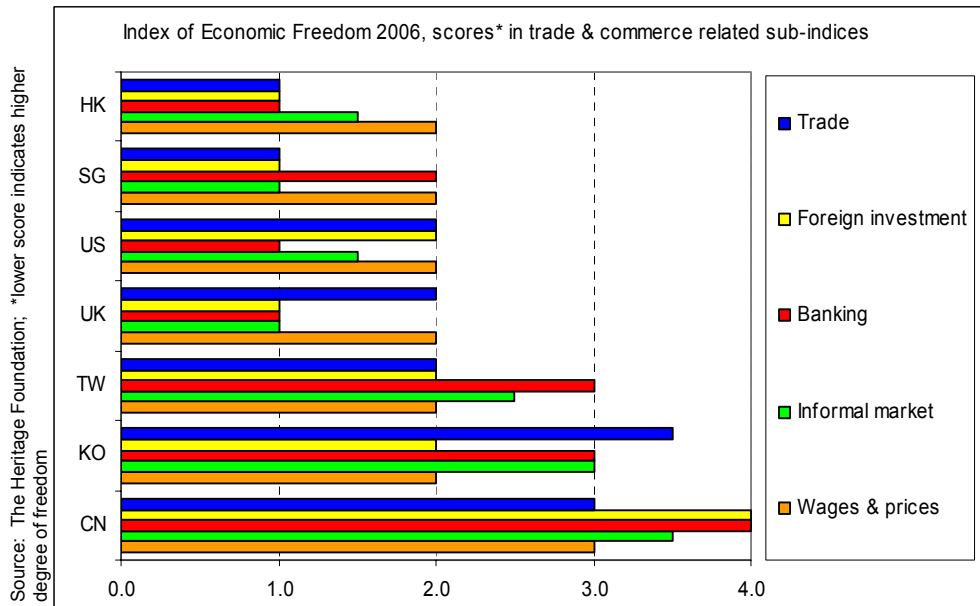
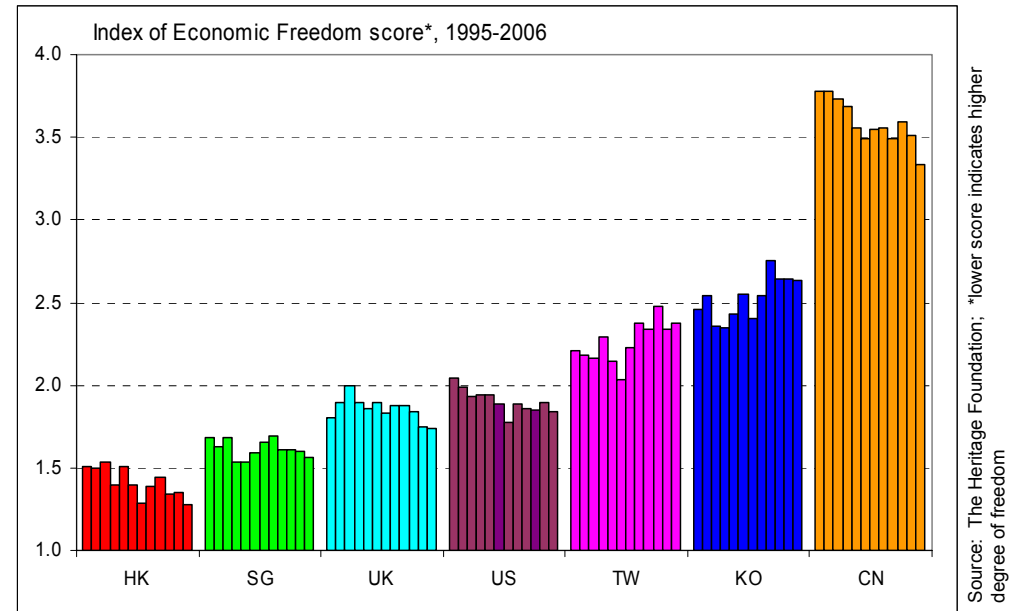
Source: HK Monetary Authority & China State Administration of Foreign Exchange; Data for Singapore, Germany and France as of May 2006, others as of June 2006



Source: HK Monetary Authority

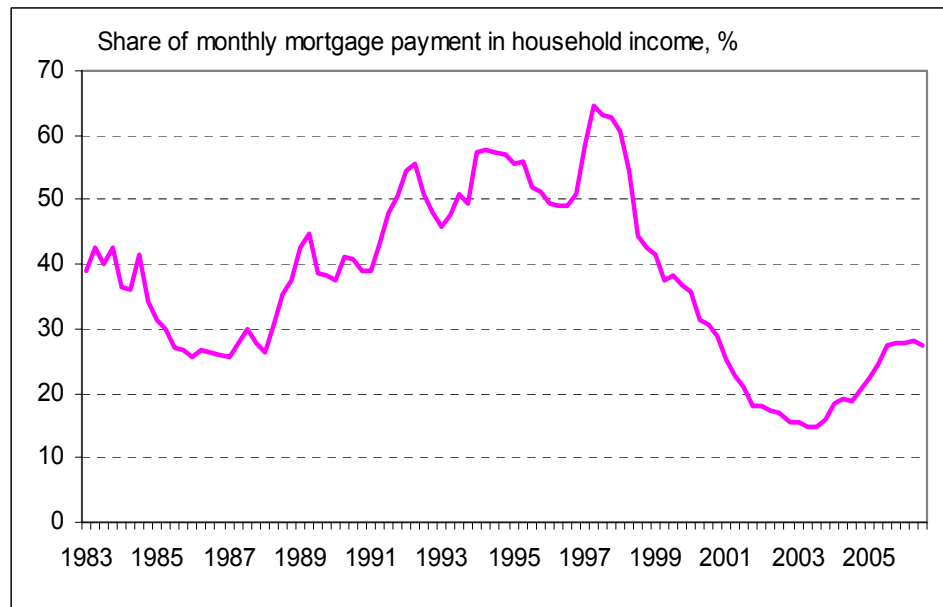
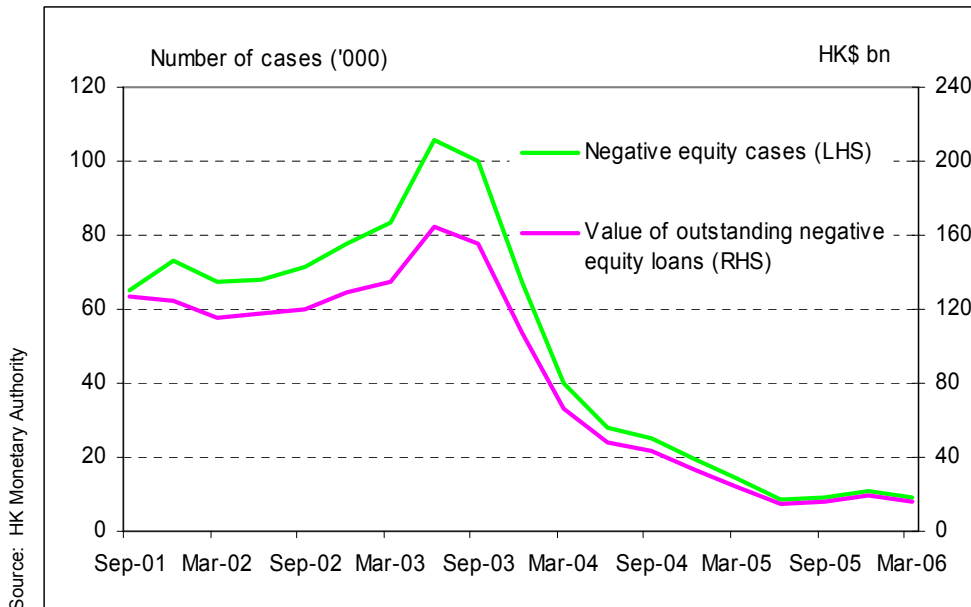
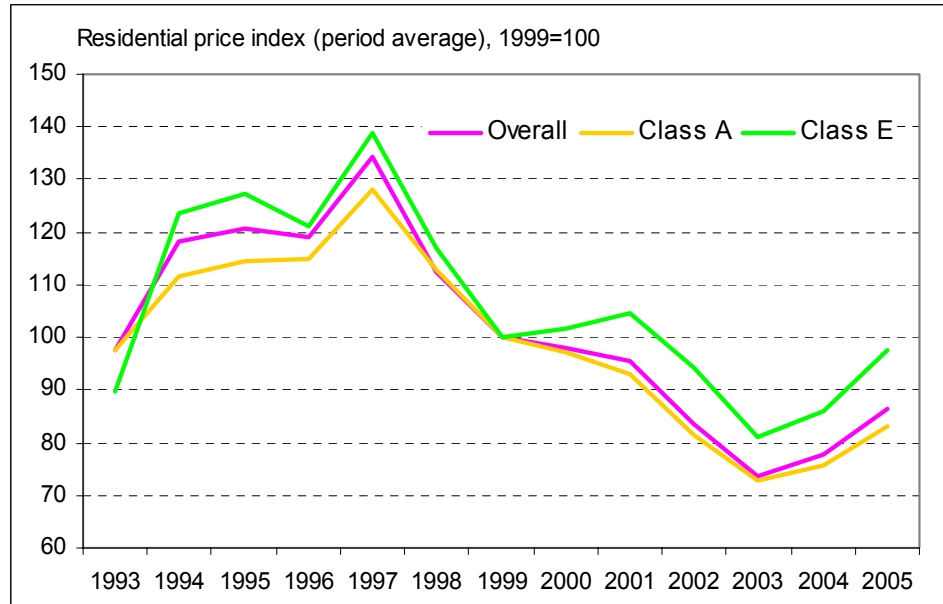
..... as well as being the freest economy of the world

- HK is the freest economy in the world. It ranks persistently at the top of the authoritative Heritage Foundation's [Index of Economic Freedom](#).
- HK scored highest in terms of freedom from trade barriers, free entry of foreign capital and repatriation of earnings, very low levels of restrictions on banking and finance, protection of property rights and regulatory environment.
- HK's score in 2006 was by far the best it achieved in the 12 years of the Foundation's survey.



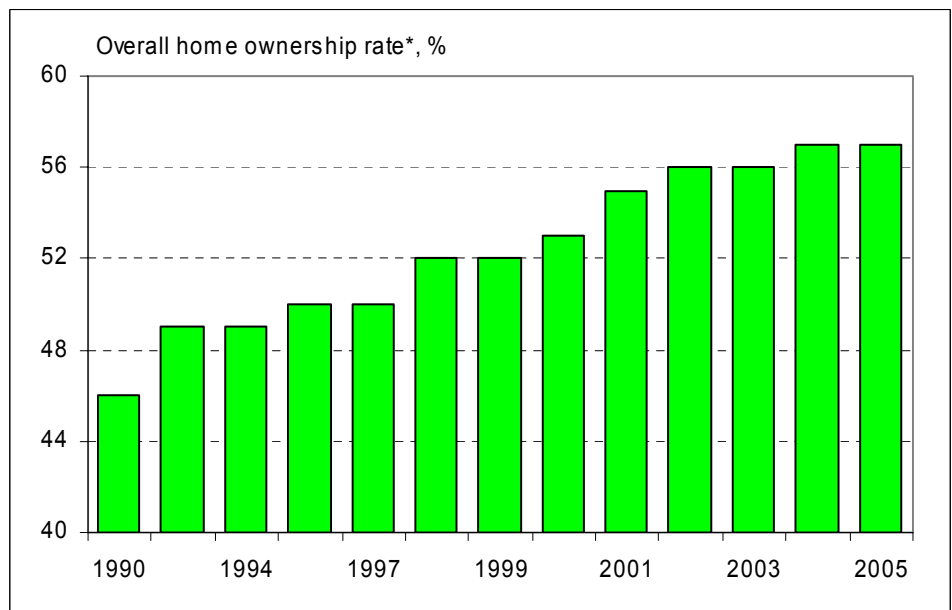
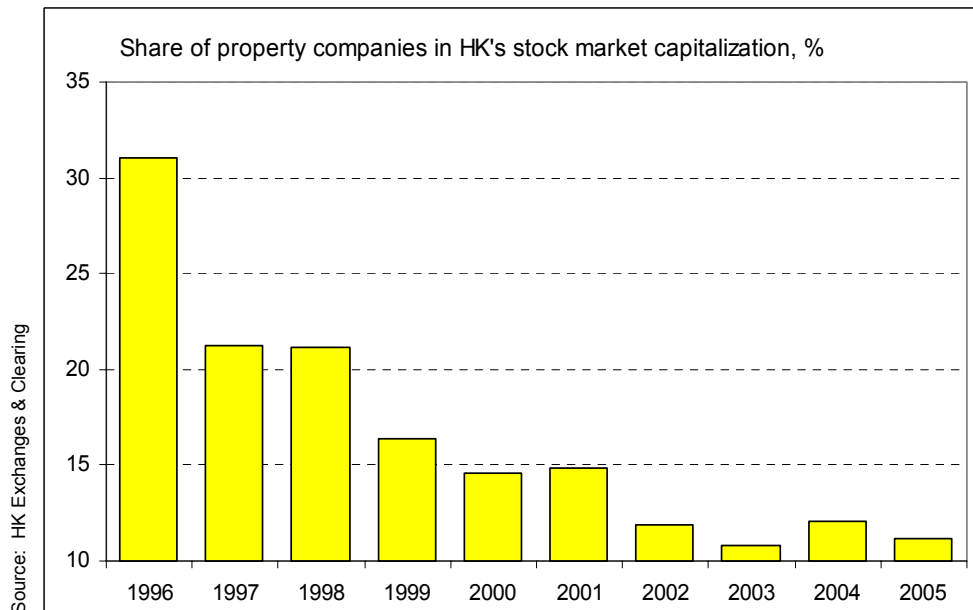
Meanwhile, property market went through a roller-coaster ride

- The property market bubble which helped fuel the peculiar economic prosperity of HK during most of the 1990s had burst following the 1997-98 Asian financial crisis. From the peak in 1997, residential prices plunged by a cumulative 68% within a period of 6 years, before bouncing back again since mid-2003 along with the recovering of the economy.
- The plunge in property prices led to a surge in the cases of negative-equity property loan with value amounting to 31% of total outstanding mortgage loans in June 2003.
- Reflecting a fall in housing prices relative to median household income since 1997 as well as a sharp reduction of mortgage interest rates, the share of monthly mortgage payment in household income has declined significantly in recent years.



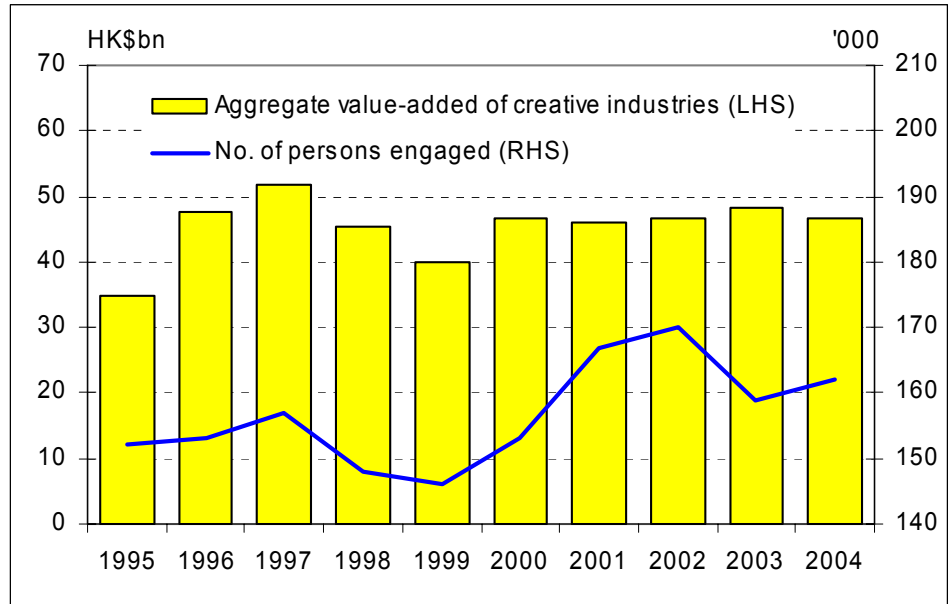
..... however, real estate remains a major form of wealth storage

- The downturn of the property market led to a sharp decline in building and construction activities. Building and construction investment as a share of gross fixed capital formation has fallen from above 50% in the late 1990s to 36.4% in 2005.
- The impact of the property slump is also evident in the falling share of property companies in HK's stock market capitalization, from over 30% in 1996 to 11.2% in 2005.
- Despite the diminished significance of property sector to the economy, real estate remains an important form of wealth storage for local residents. In 2005, 57% of occupied permanent living quarters (both private and public) were owner-occupied, up from 50% in 1997.

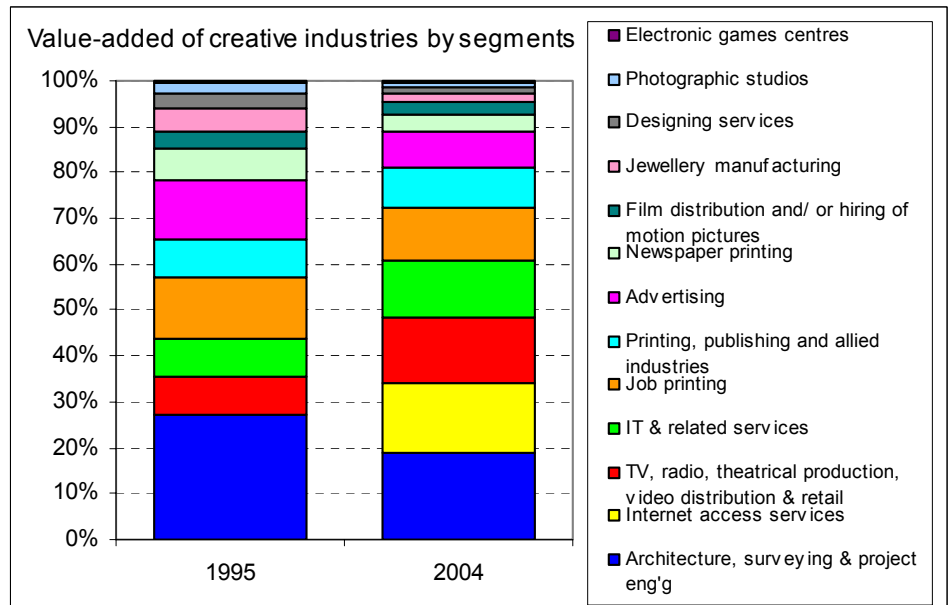
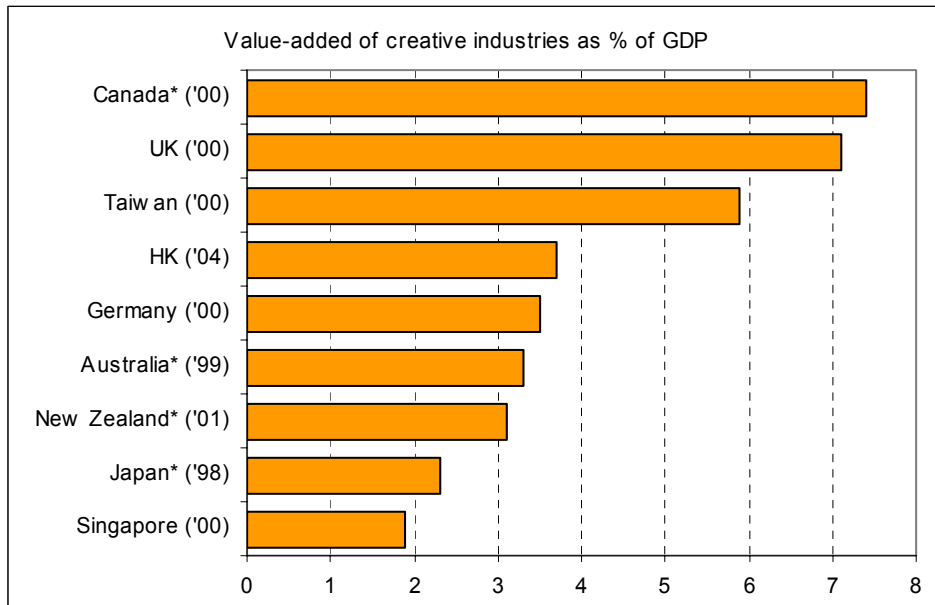


Creative industries becoming an important part of the economy

- HK is well known as a city full of innovative ideas. In 2004, creative industries, such as advertising, architecture, publishing, software and computing, etc., employed 162,000 people or 5% of HK's employed population.
- In terms of value-added, the creative industries collectively accounted for 3.7% of HK's GDP in 2004, which was on the high side compared to other benchmark economies.
- The largest segment of HK's creative industries is "architecture, surveying & project engineering", which accounted for 18.9% of the aggregate value-added of creative industries in 2004. Its significance, however, has declined over the years with the faster growth of internet and IT-related services.



Source: HK Census & Statistics Dept.

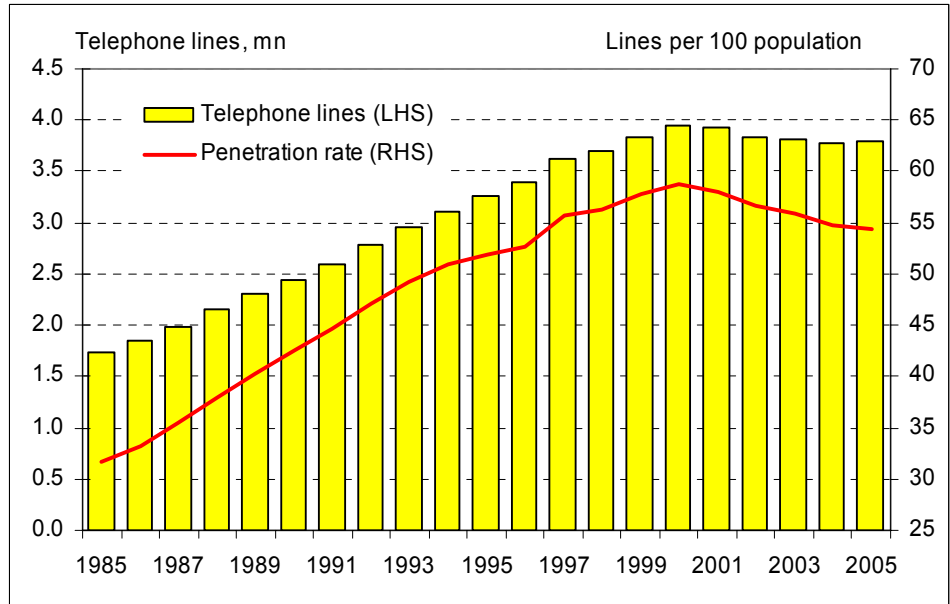


Source: HK Census & Statistics Dept.

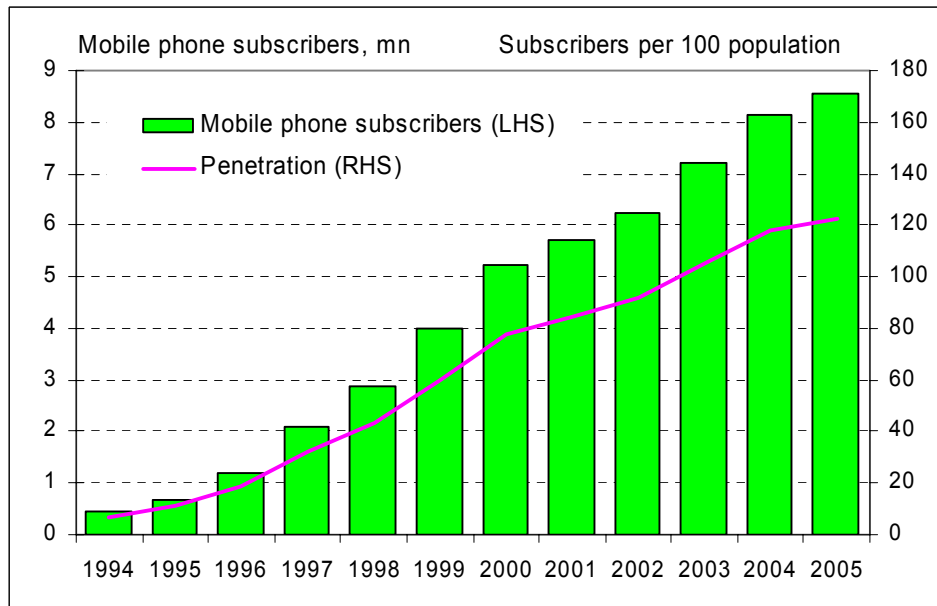
Source: International Intellectual Property Alliance "Initial Survey on the Contribution of Copyright Industries to Economic Development" (April 2005); * refer to copyright industry

HK has the highest mobile phone penetration in the world

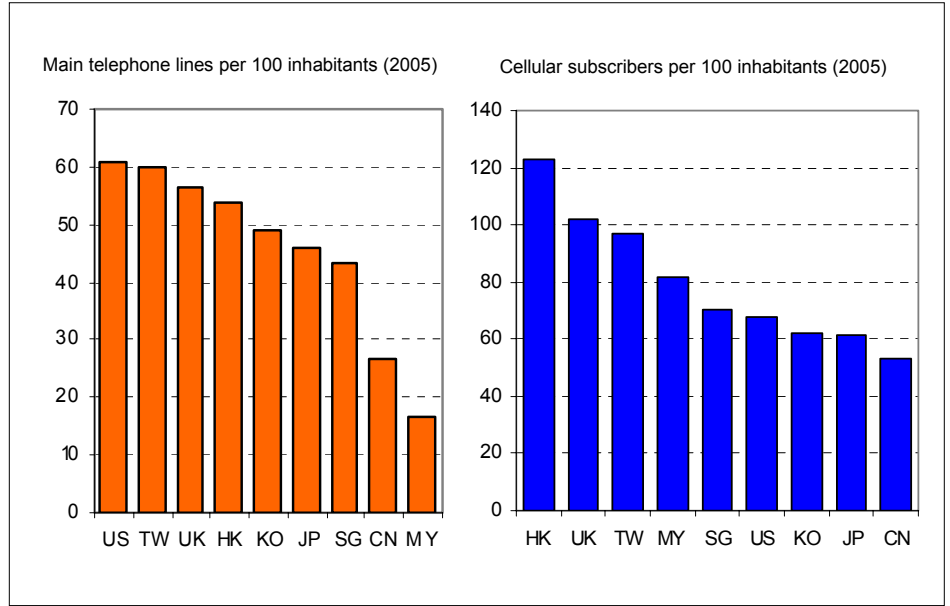
- HK's fixed line telephone penetration rate increased steadily in the 1980-90s and reached a high of 58.8 telephone lines per 100 population in 2000. As more people replaced fixed line telephones with mobile phones, fixed line telephone penetration rate declined to 54.4 in 2005, but remained one of the highest in the world.
- The number of mobile phone subscribers has shown rapid growth from less than 1 million in 1994 to over 8.4 million in 2005. At present, mobile phone penetration has already exceeded 120 subscribers per 100 population.
- HK now ranks only behind the US, UK and Taiwan in terms of fixed line telephone penetration, and tops the US, UK and Japan in terms of mobile phone penetration.



Source: Office of the Telecommunications Authority



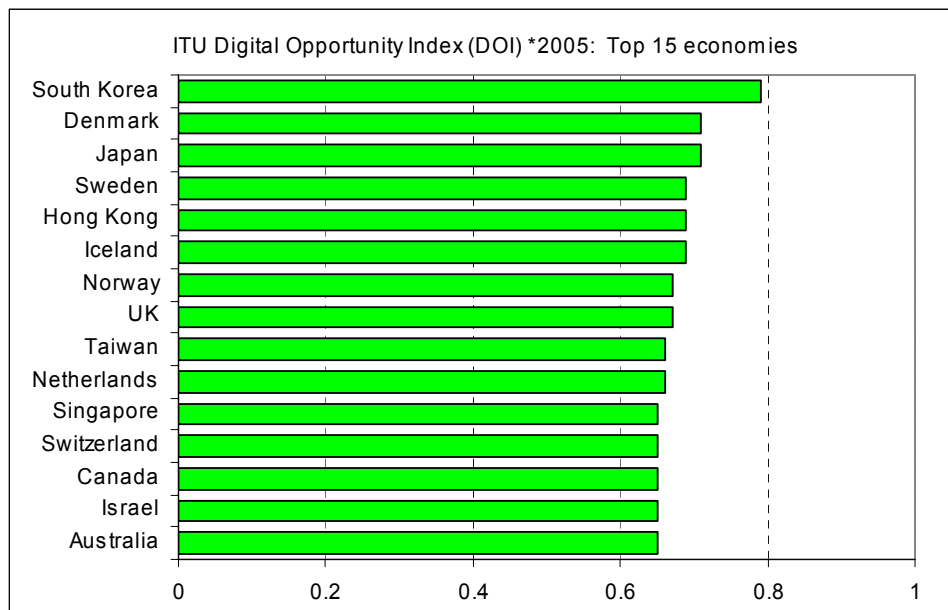
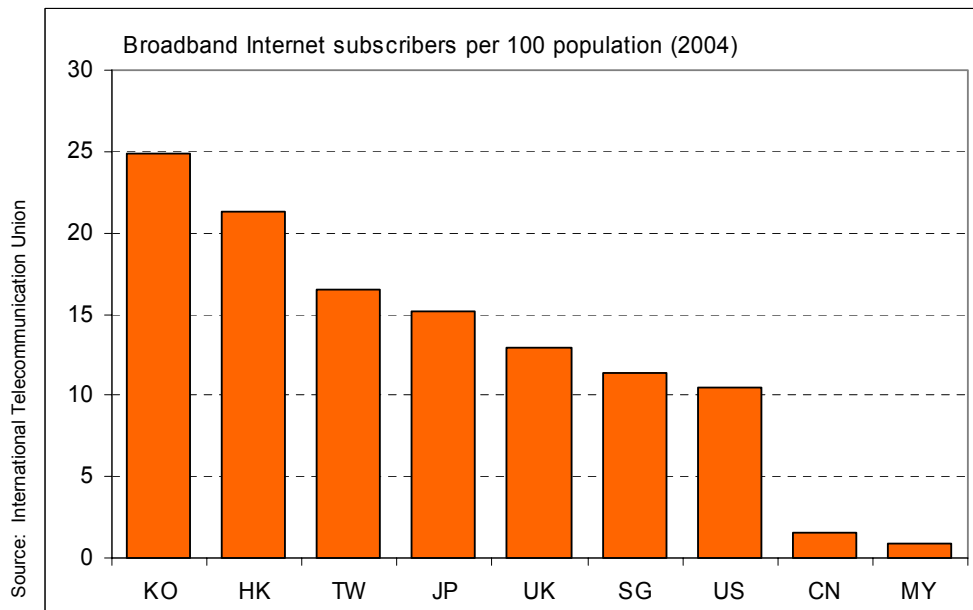
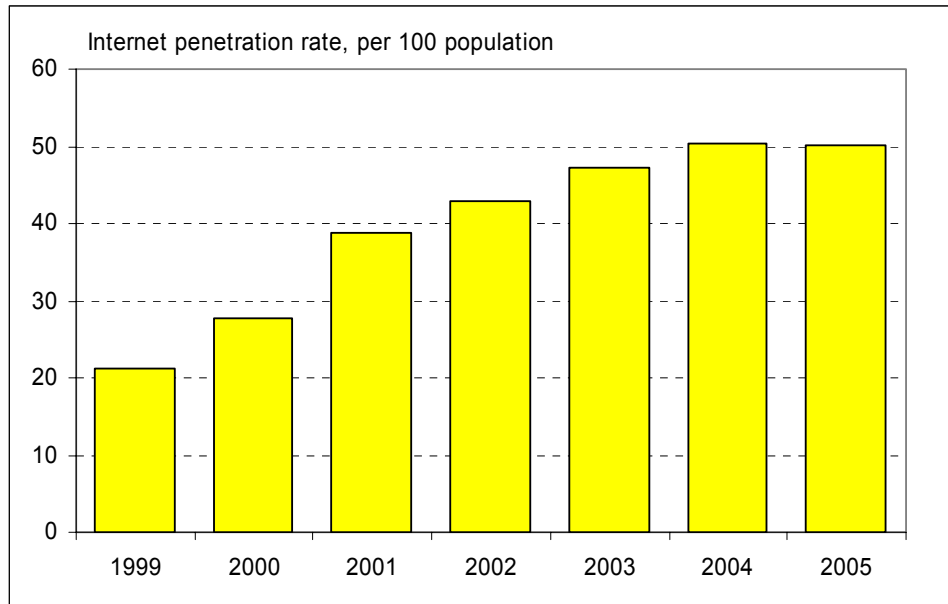
Source: Office of the Telecommunications Authority



Source: International Telecommunication Union

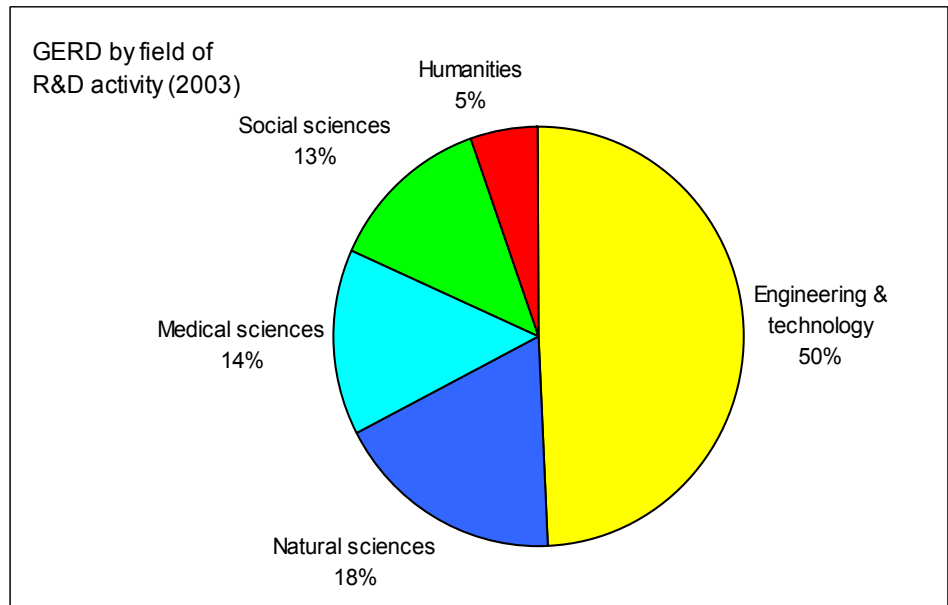
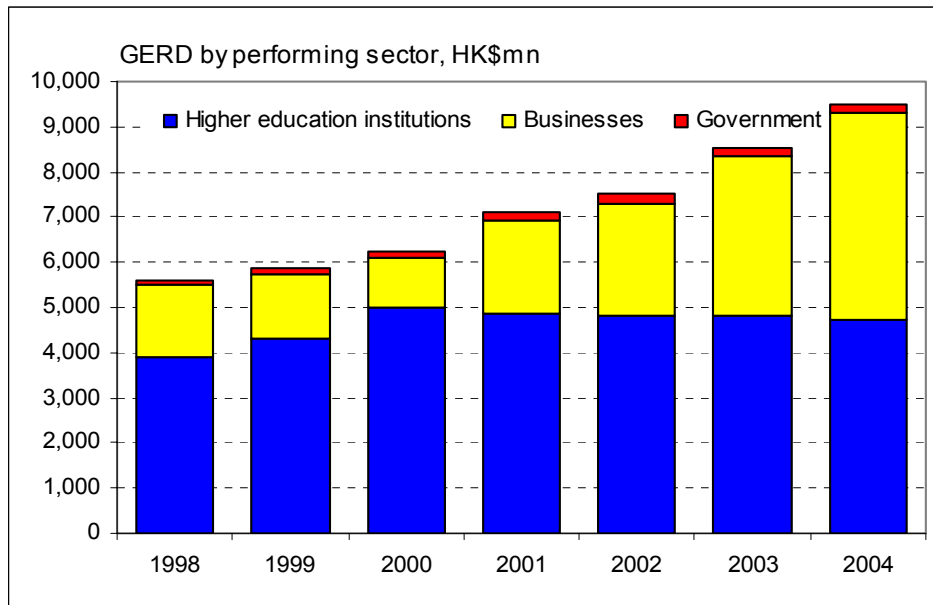
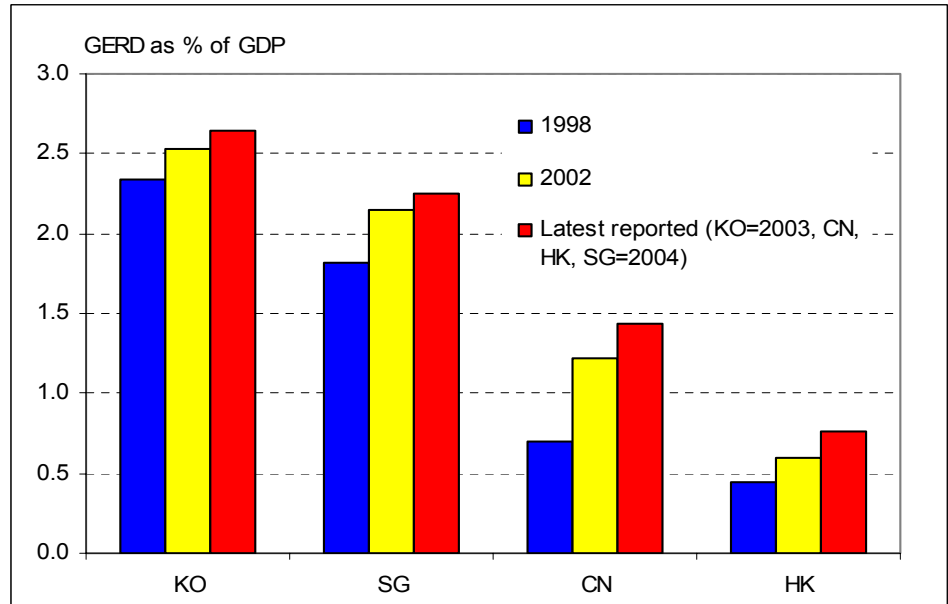
..... Internet usage is also among the world's highest

- Along with the rise in PC penetration rate to 59.3 computers per 100 population in 2005 from 30.3 in 1999, HK's Internet penetration rate also increased to 50.1 users per 100 population in 2005 from 21.2 in 1999.
- Over the years, [broadband access to Internet](#) has rapidly gained popularity in HK. In 2005, 62.7% of Internet subscribers connected via broadband, up from 14.3% in 2000, ranking HK among the top in the world.
- Based on the [International Telecommunication Union \(ITU\) Digital Opportunity Index \(DOI\)](#), which compares the information and communication technology (ICT) capabilities across economies, HK ranked the 5th highest in the world in 2005.



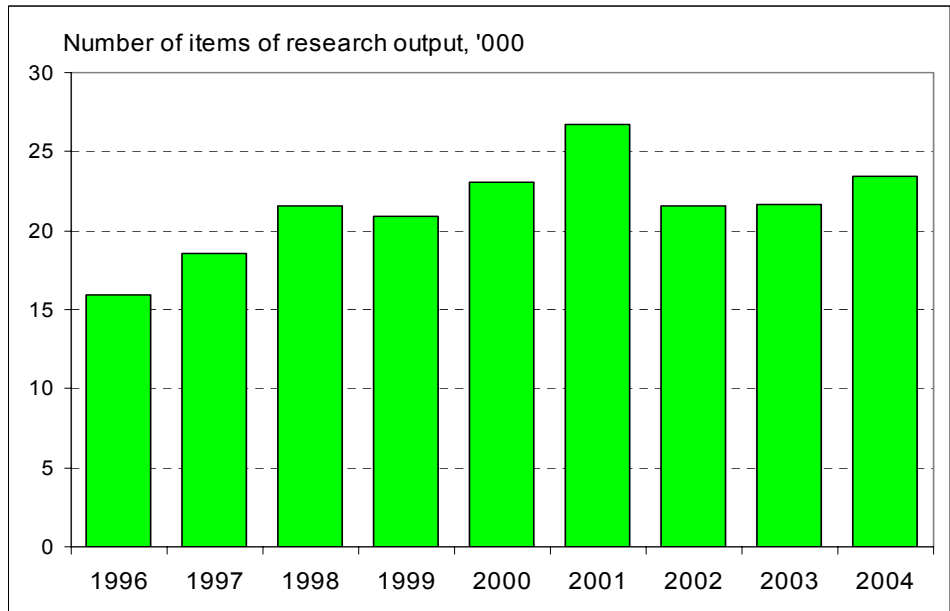
R&D expenditures rising from a very low base

- As a vital source of innovation, research and development (R&D) has been rising steadily in HK in recent years, even though HK's R&D investment is still not very impressive as compared with the Asian benchmark economies. Gross domestic expenditure on R&D (GERD) in HK rose by 72.7% from 0.44% of GDP in 1998 to 0.76% in 2004.
- While higher education institutions accounted for a leading share of GERD, the strength of the business sector in undertaking R&D has been growing, with its share in total GERD rising to 48% in 2004.
- Engineering and technology accounted for about half of the total GERD in 2003, followed by natural sciences (18%) and medical sciences (14%).

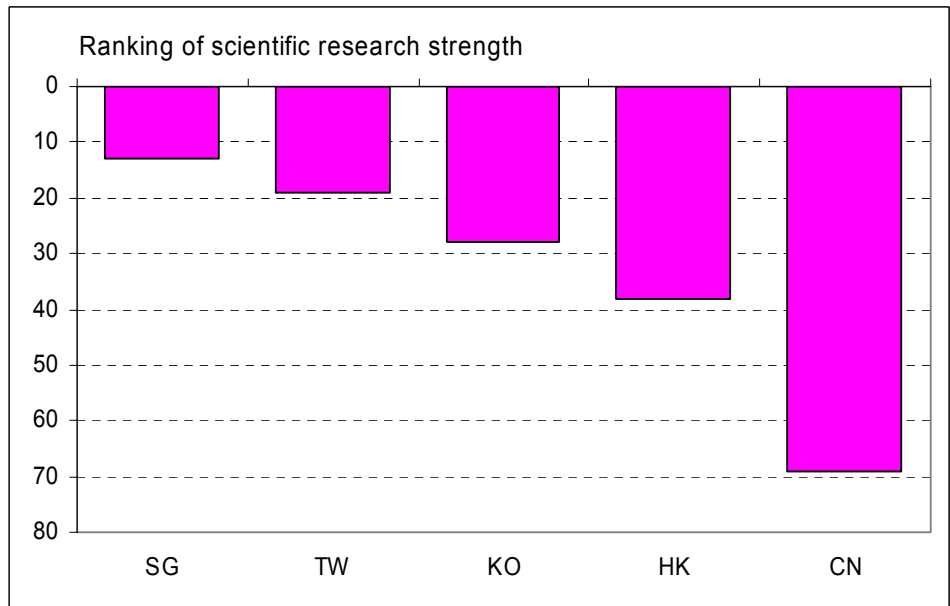
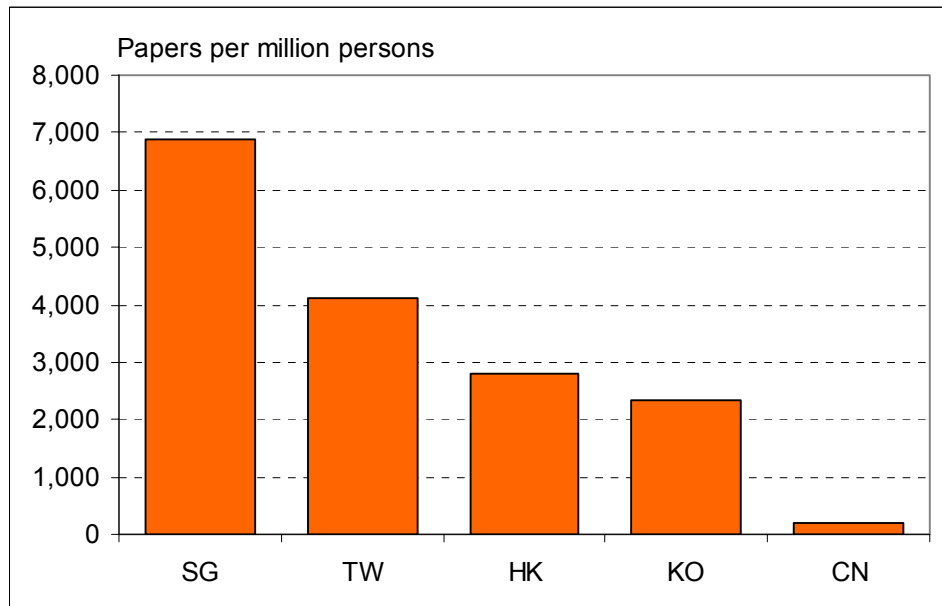


A small but vibrant research culture is emerging

- In line with the increasing emphasis on research work undertaken by the higher education sector, the total number of items of research output by the 8 higher education institutions funded through the [University Grant Council \(UGC\)](#) rose to 23,407 in 2003/04, representing a notable increase of 47% over 1996.
- Compared to the neighbouring Asian benchmark economies, however, scientific research outputs of HK are still somewhat lagging behind. According to the latest Thomson ISI's [Essential Science Indicator](#), HK still ranked behind South Korea, Taiwan and Singapore in overall scientific research strength.



Source: HK Census & Statistics Dept., fiscal year ending June, figures from 2002 onwards are not strictly comparable to those of earlier years due to new classification of research output category

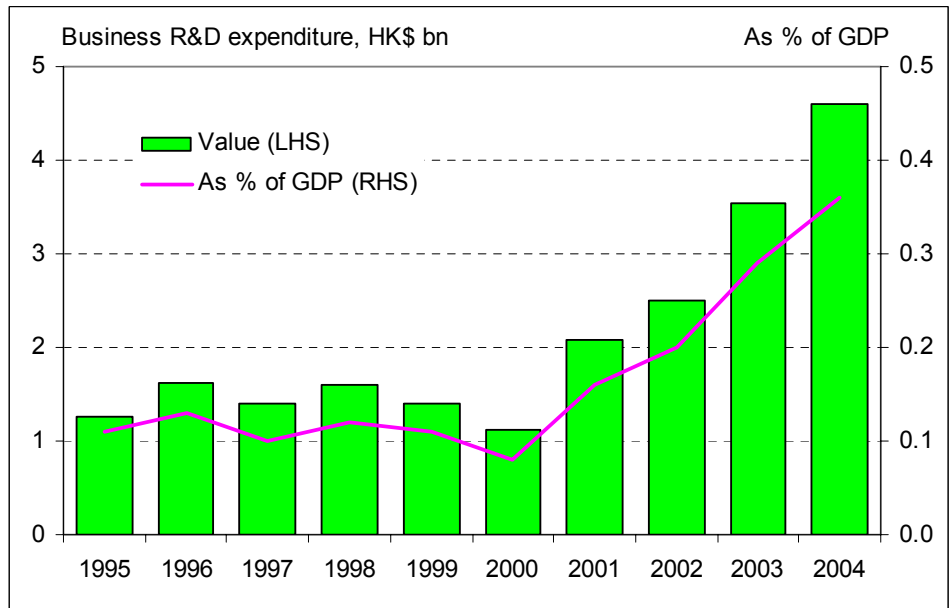


Source: Thomson ISI Web of Science, 2000-03 ranking

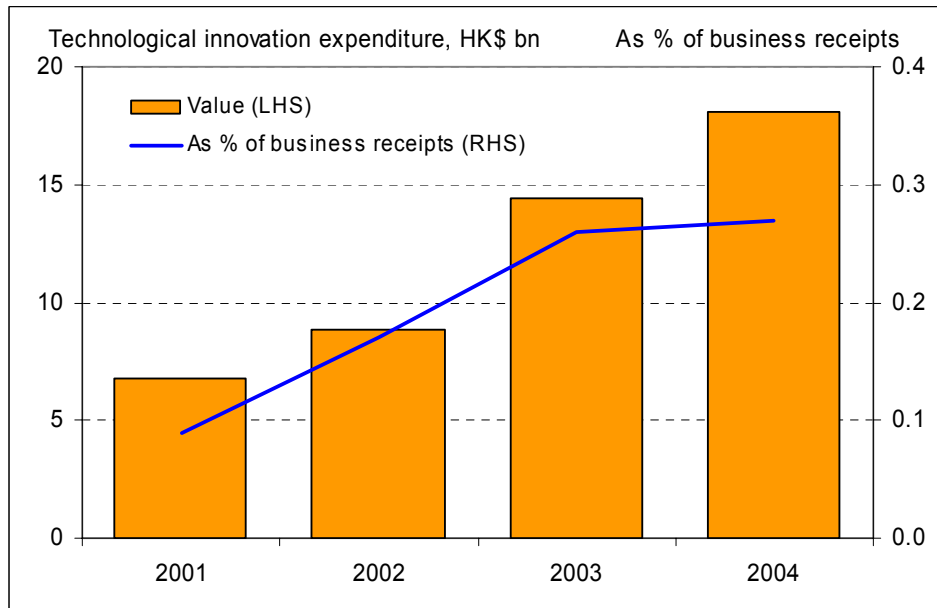
Source: Thomson ISI Web of Science, 2003 data

Business innovation has gained momentum from a low base

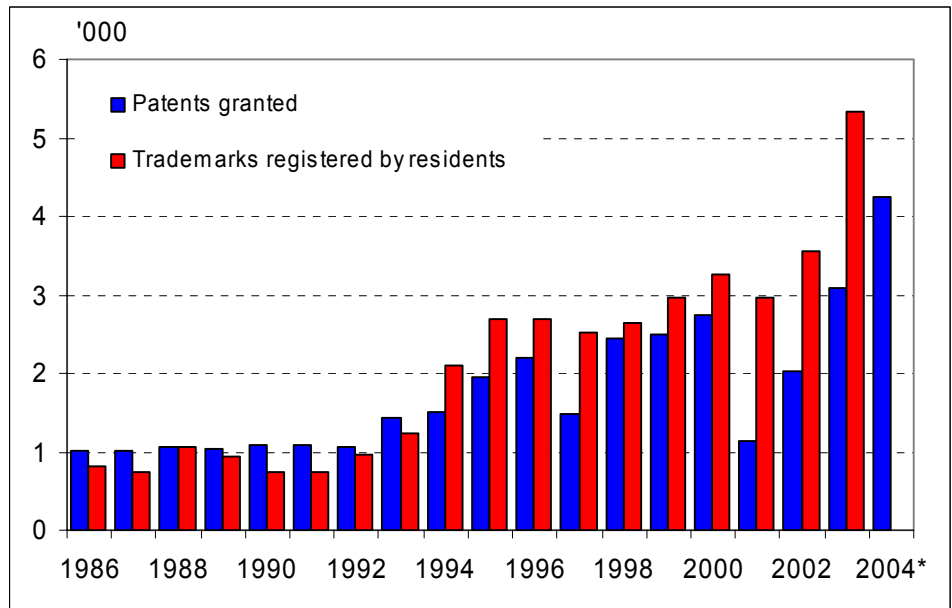
- Business R&D expenditure in HK rose to HK\$4.6 billion in 2004, representing an increase of 262% over 1995, while its ratio to GDP increased noticeably to 0.36% from 0.11%. The spending was mainly targeted at [downstream R&D](#) especially in the area of experimental development.
- Besides R&D, businesses also undertake other technological product and process innovation activities not directly related to R&D. Between 2001 & 2004, technological innovation expenditure as a percentage of total business receipts rose from 0.09% to 0.27%.
- In line with the expansion of business innovation activities, the number of patents and trademarks granted in HK have shown marked increase since 2001.



Source: HK Census & Statistics Dept.



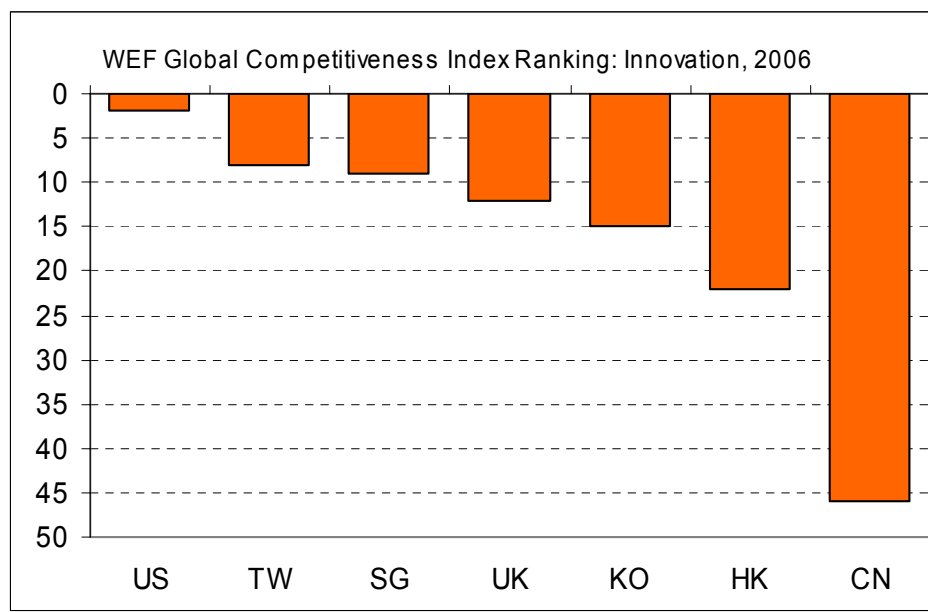
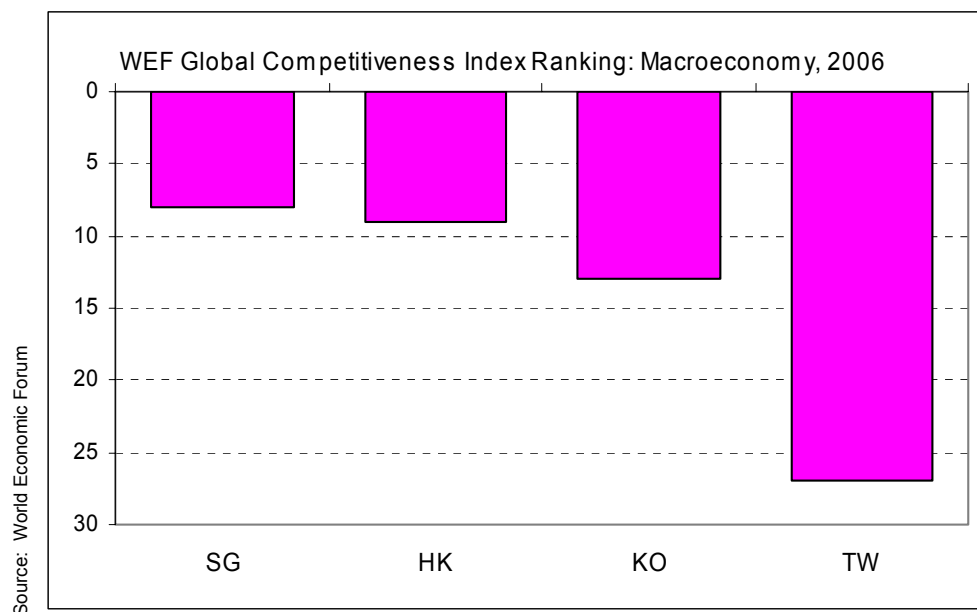
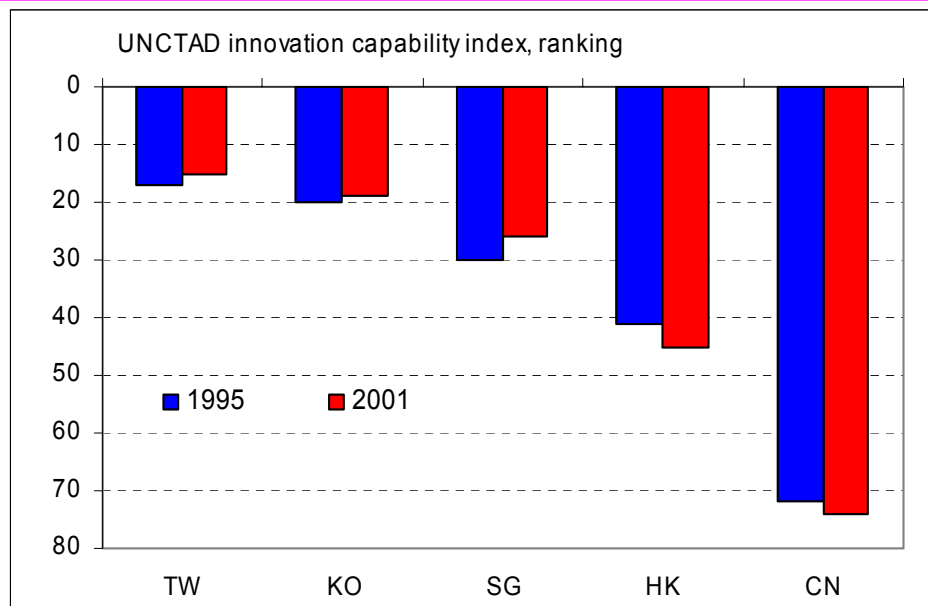
Source: HK Census & Statistics Dept.



Source: World Intellectual Property Office; *2004 trademark statistics unavailable

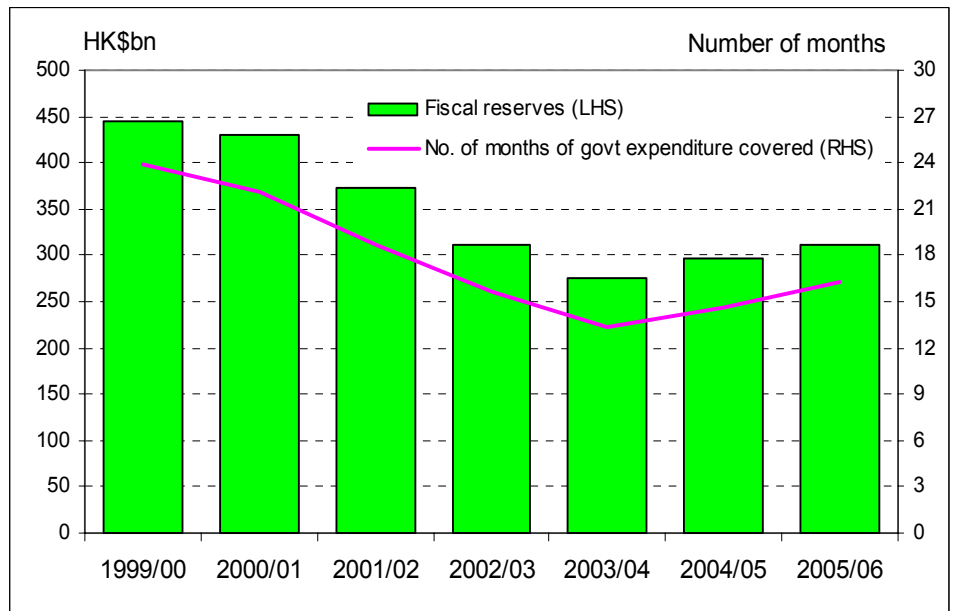
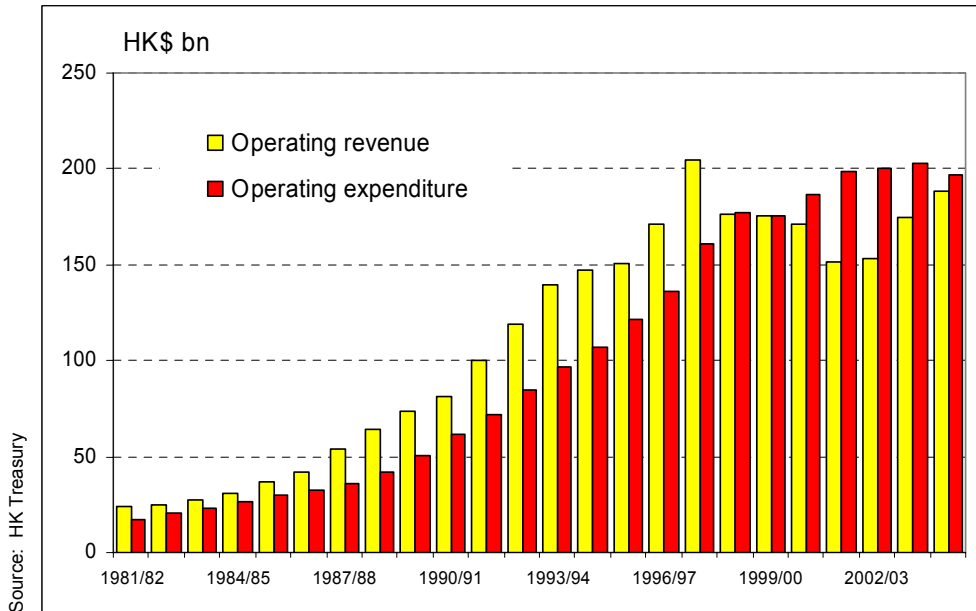
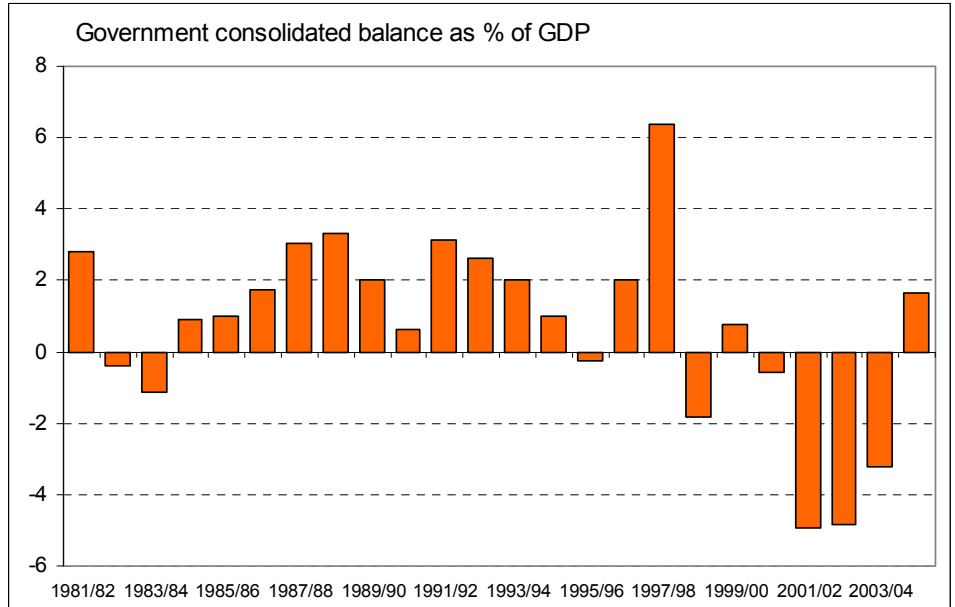
But, HK still trailing behind Asian neighbours in innovative capability

- Despite the increased focus on innovation in recent years, HK's innovation capability is still lagging behind other NIE benchmark economies. According to the [UNCTAD's Innovation Capability Index](#), HK's ranking of innovation capability slid between 1995 and 2001 from 41st to 45th, trailing behind Taiwan, South Korea and Singapore.
- More recently, the [World Economic Forum \(WEF\) Global Competitiveness Index \(GCI\)](#) showed that while HK scored high in the macroeconomy pillar of the GCI (ranked 9th) in 2006, second only to Singapore (ranked 8th) among the benchmark Asian economies, its competitiveness as measured by the innovation pillar was the lowest (ranked 22nd) among the benchmarks except China.



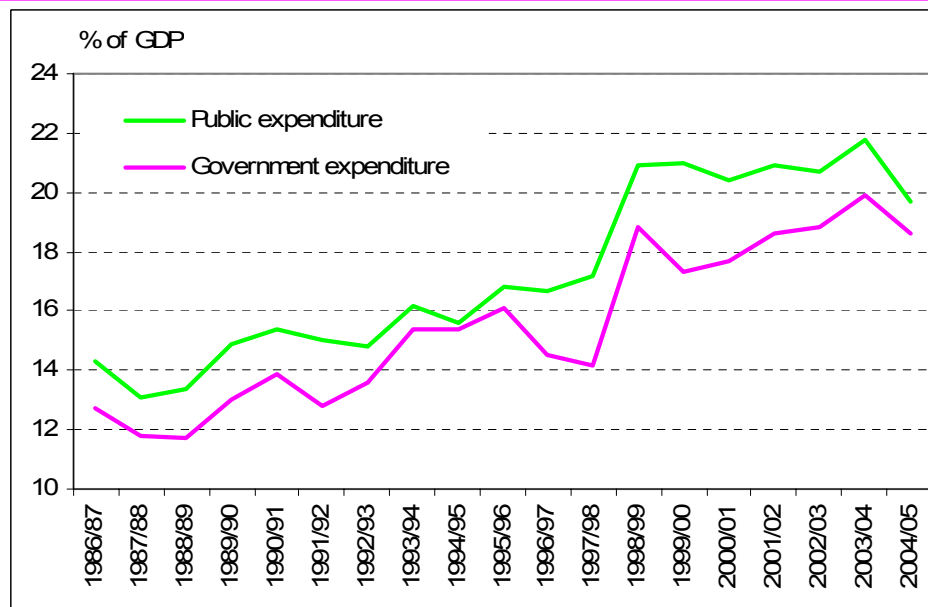
Boom and bust cycle led to large swing in public finance

- In five out of the past eight years, the HK government has run a consolidated fiscal deficit which widened to a record 4.9% of GDP in 2001/02.
- The widening of fiscal deficit was mainly attributed to a sharp decline of operating revenue against rising operating expenditure during the past economic downturns. Since 1998/99, the government has recorded a deficit in its operating account, a phenomenon not seen in the past.
- Although the government has run consecutive years of deficit, its fiscal position has remained sound. The level of the government fiscal reserve was sufficient to finance over 12 months of government expenditure even at its trough in 2003/04.

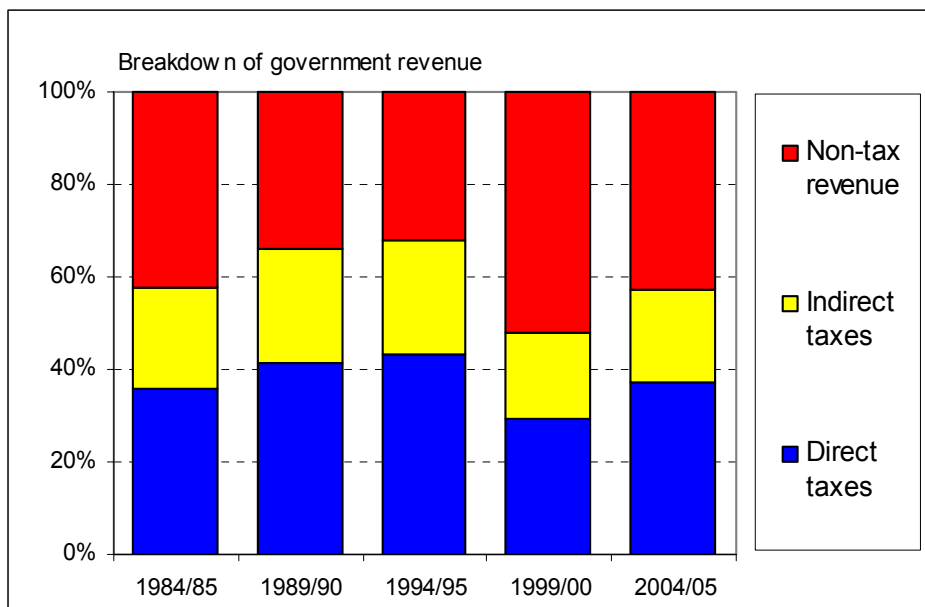


Strong efforts to control public spending

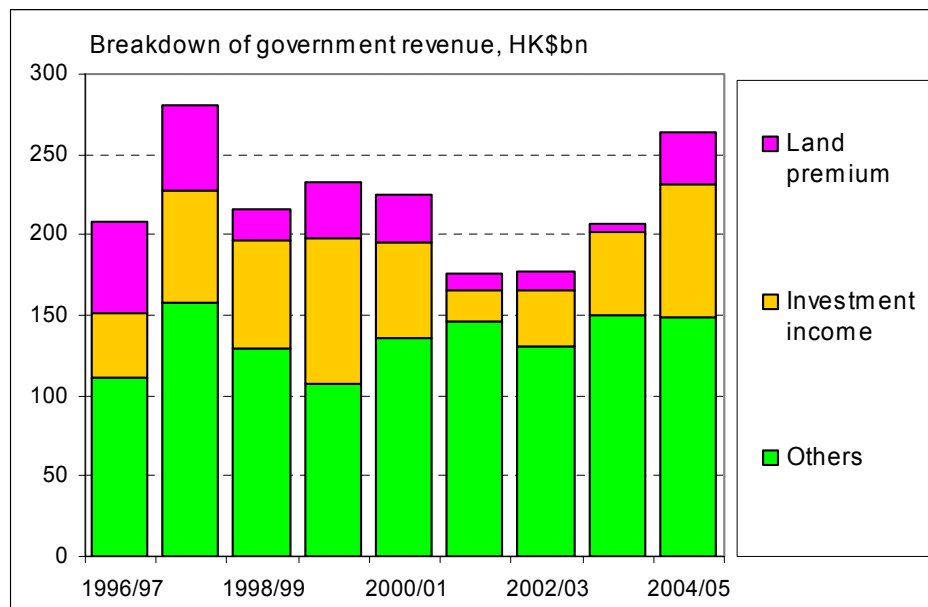
- The preservation of HK's fiscal strength is closely tied to the controlling of government expenditure. Including the spending of other public bodies, public expenditure as a % of GDP rose from around 15% in the early 1990s to over 20% since 1998/99 before falling back to 19.7% in 2004/05 thanks to government's efforts to control spending.
- The broadening of the tax base is also under consideration. HK has a narrow tax base with indirect taxes currently accounting for only 20.1% of total government revenue, while direct taxes make up 37.2% of the total.
- Incomes from land sale and investment, which feature prominently as sources of revenue, add to the volatile nature of government revenue.



Source: HK Treasury



Source: HK Treasury



Source: HK Treasury

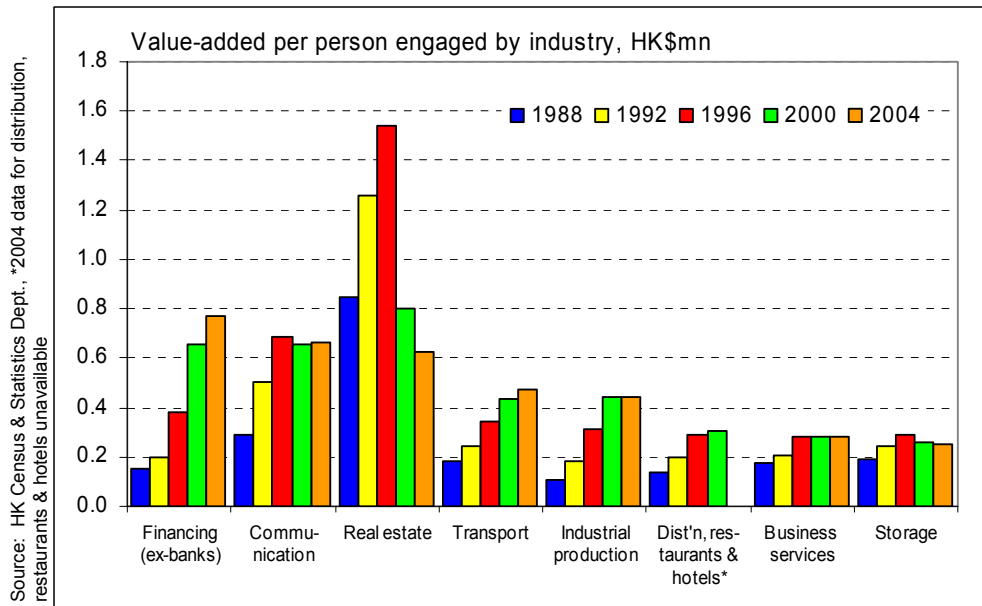
Employment and Society

Labour productivity growth has been good

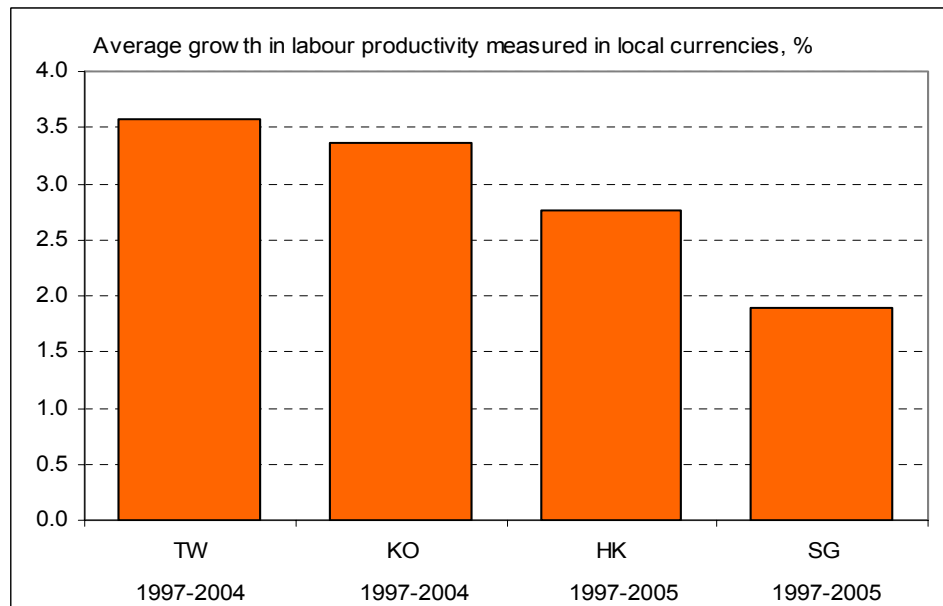
- Labour productivity in HK has improved during the past decade with annual productivity growth, as measured by the growth of real GDP per employed person, averaging about 2.8% between 1997-2005.
- With the exception of the real estate and storage sectors, value-added per person engaged in most industries has improved over the past 10 years. Labour productivity was highest and grew the fastest in the financing industry.
- Compared to the other Asian benchmarks, HK's labour productivity growth in the past decade was higher than Singapore's but trailed behind that of South Korea and Taiwan.



Source: HK Census & Statistics Dept.



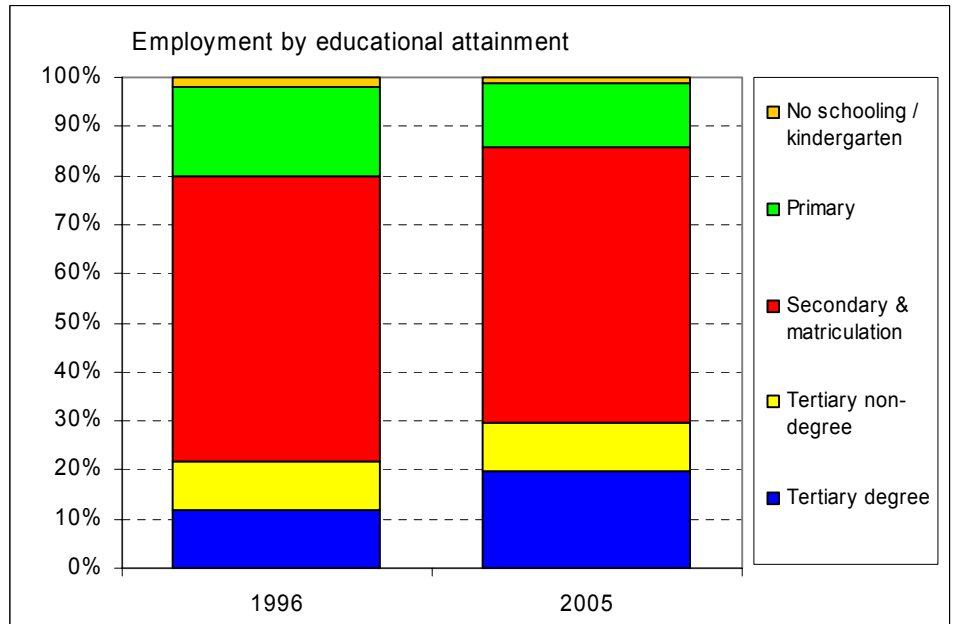
Source: HK Census & Statistics Dept., *2004 data for distribution, restaurants & hotels unavailable



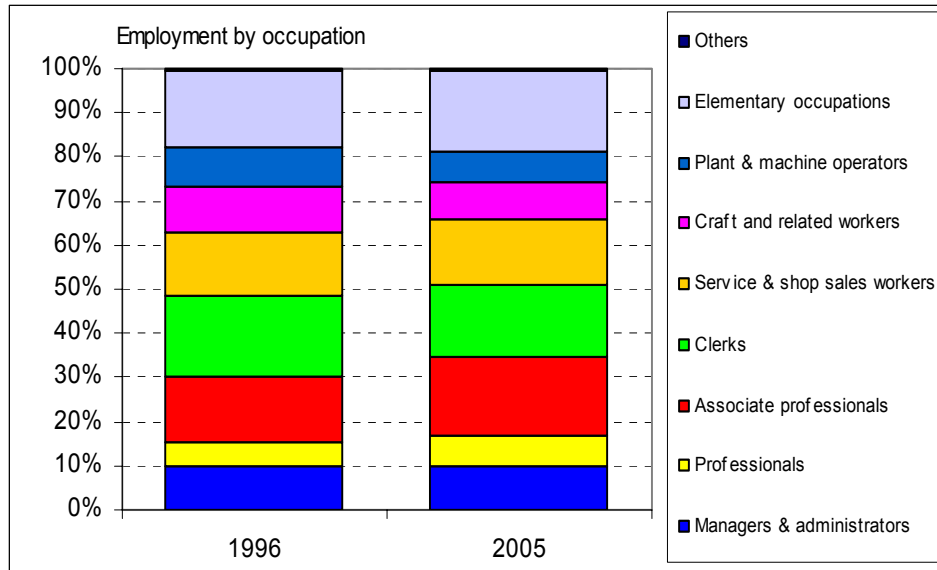
Source: HK Census & Statistics Dept., Singapore Dept. of Statistics, Groningen Growth and Development Centre and the Conference Board

Education and skill levels of the work force on the rise

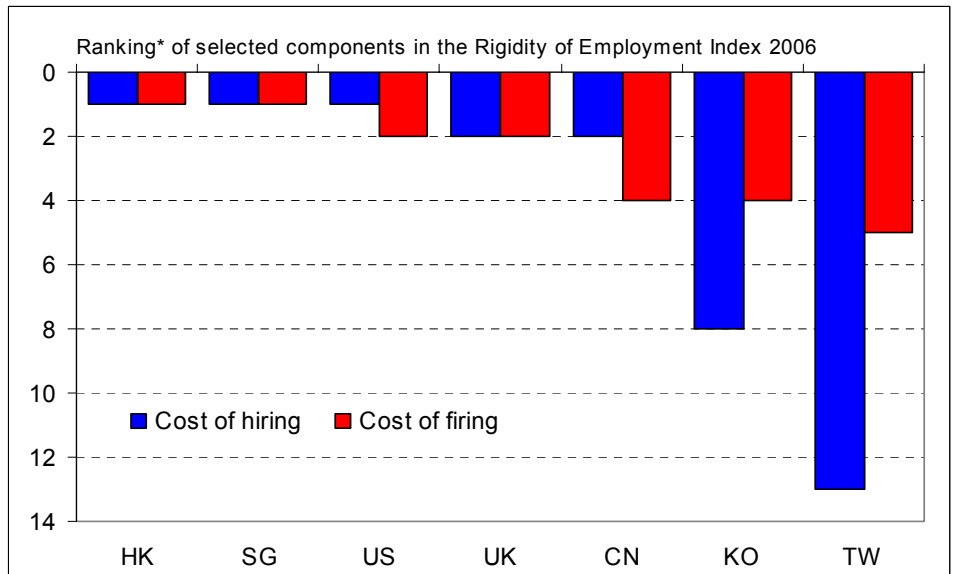
- Improved labour productivity is closely linked to the rising population of tertiary-educated workforce which is one of HK's most treasured assets. Between 1996 and 2005, the proportion of the employed population who had attended [tertiary education](#) increased from 21.7% to 29.4%.
- Thanks to constant upgrading in skills, the proportion of employed persons working at the managerial, professional or administrative level also increased from 30.4% in 1996 to 34.6% in 2005.
- Ease of adjusting the size of the work force also contributes to the productivity gain. According to World Bank's [Rigidity of Employment Index](#), hiring and firing employees in HK entail the lowest cost amongst the benchmark economies.



Source: HK Census & Statistics Dept.



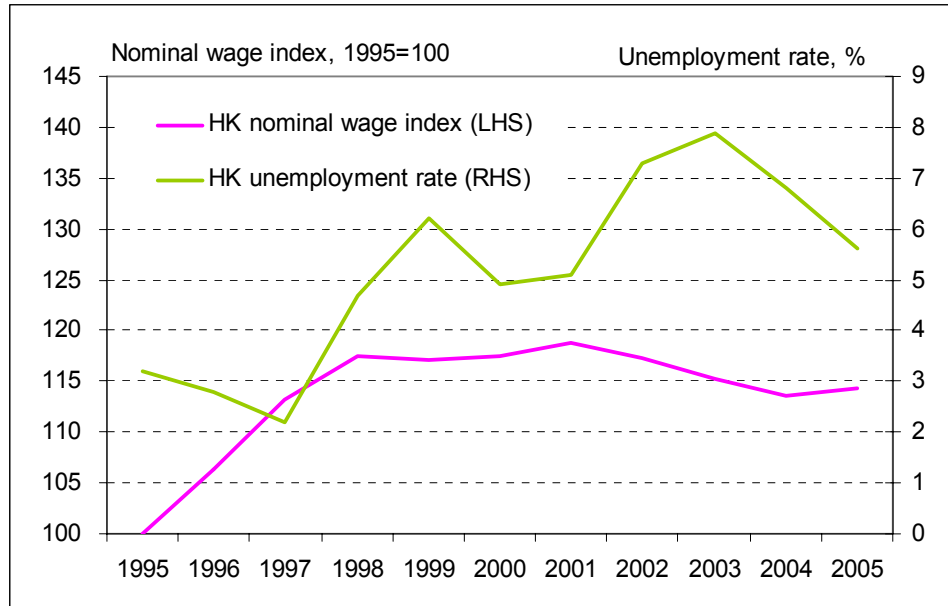
Source: HK Census & Statistics Dept.



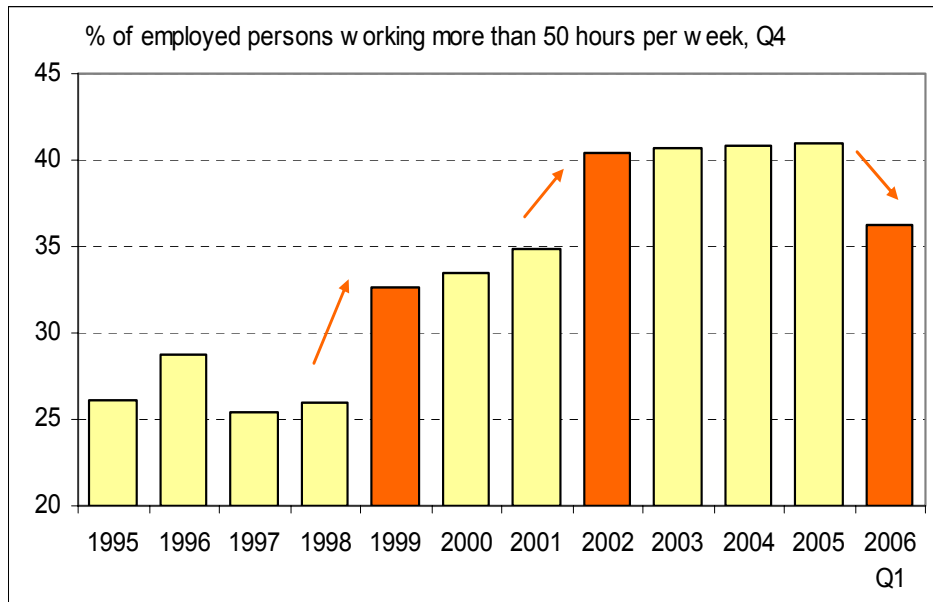
Source: World Bank's "Doing Business 2006"; *higher ranking indicates lower cost

Wages downward-sticky but labour market remains flexible

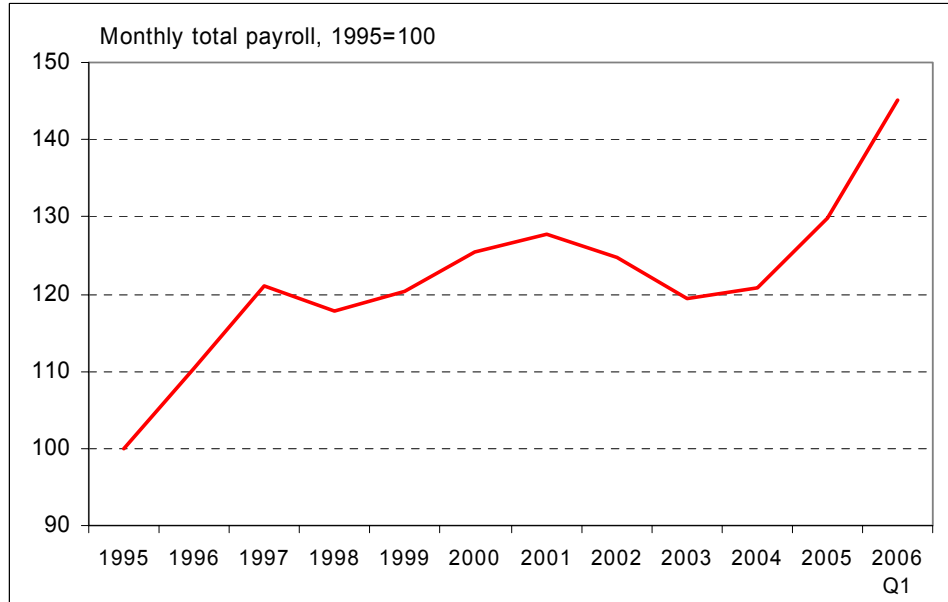
- Nominal wages in HK are downwardly sticky. Compared to Singapore, HK's nominal wages seemed to fall more slowly during the economic slump post Asian financial crisis.
- This is because the adjustment of HK's labour market during economic downturn mainly took the form of increase in layoffs and rise in work hours. Unemployment rate rose from 2.2% in 1997 to 6.2% in 1999 and further to 7.9% in 2003, while the proportion of employed persons working more than 50 hours per week increased from 25% of those still remaining employed to 33% and 41% respectively.
- As a result of increased layoffs, total payroll declined sharply in times of economic downturn even though nominal wages were only slowly declining.



Source: HK Census & Statistics Dept.



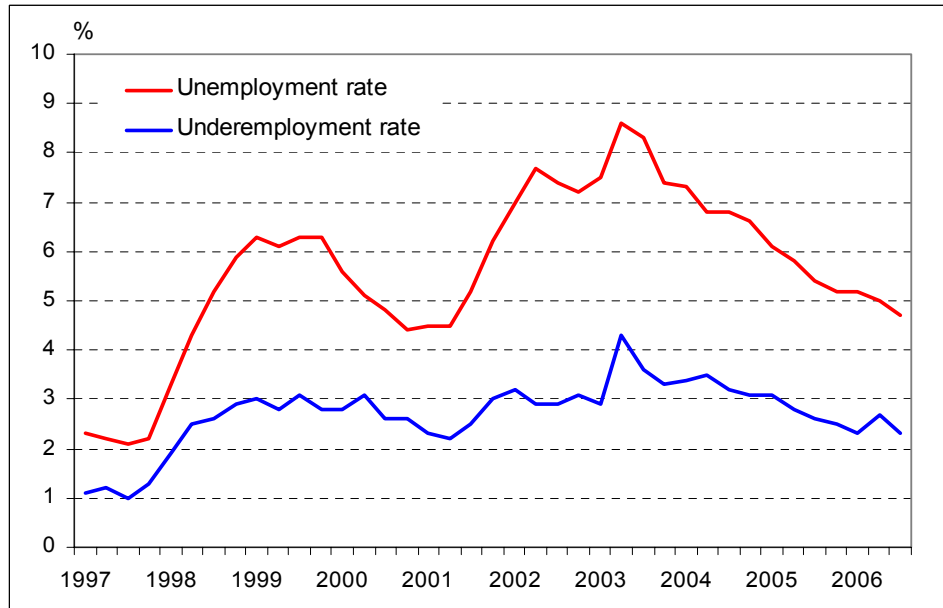
Source: HK Census & Statistics Dept.



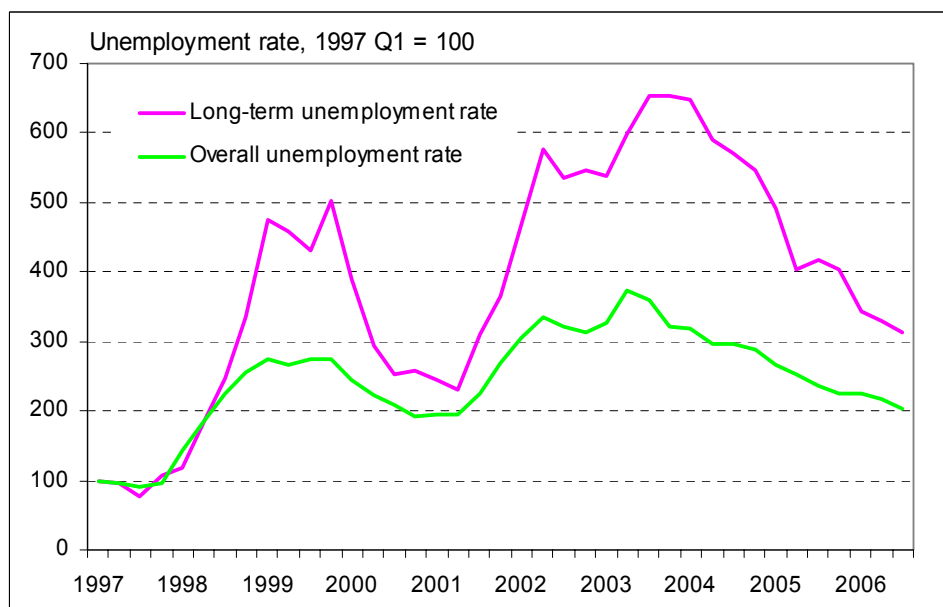
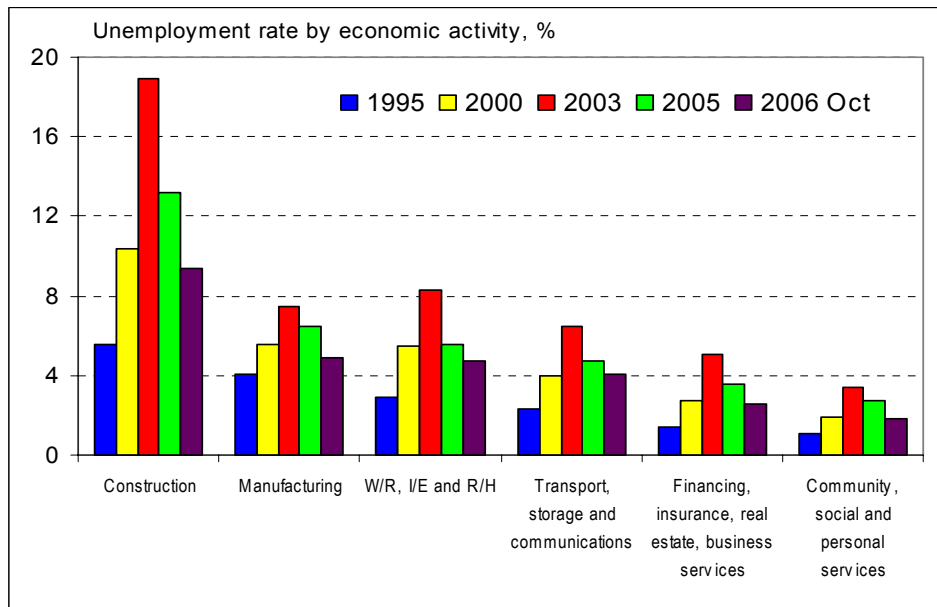
Source: HK Census & Statistics Dept.

Employment conditions improved since economic rebound in 2003

- After having risen to a high of 8.6% in the second quarter of 2003, HK's unemployment rate went down visibly as the economy rebounded. By June 2006, jobless rate was down to 5%. As unemployment rate fell, under-employment rate also edged down from 4.3% to 2.7%.
- Improvement in the employment condition is across-the-board, with the jobless rate of the wholesale/retail, import/export and restaurant/hotel sector receding most notably back to its 2000's level by 2005.
- Long-term unemployment, which rose disproportionately during the previous economic downturns, has also fallen back, from 2.6% in the third quarter of 2003 to 1.3% in the second quarter of 2006.



Source: HK Census & Statistics Dept.

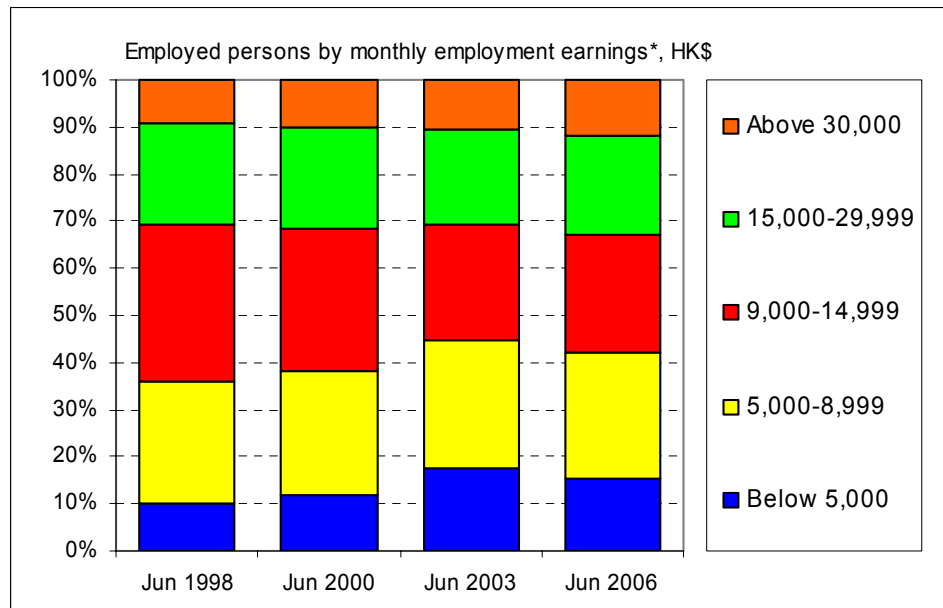
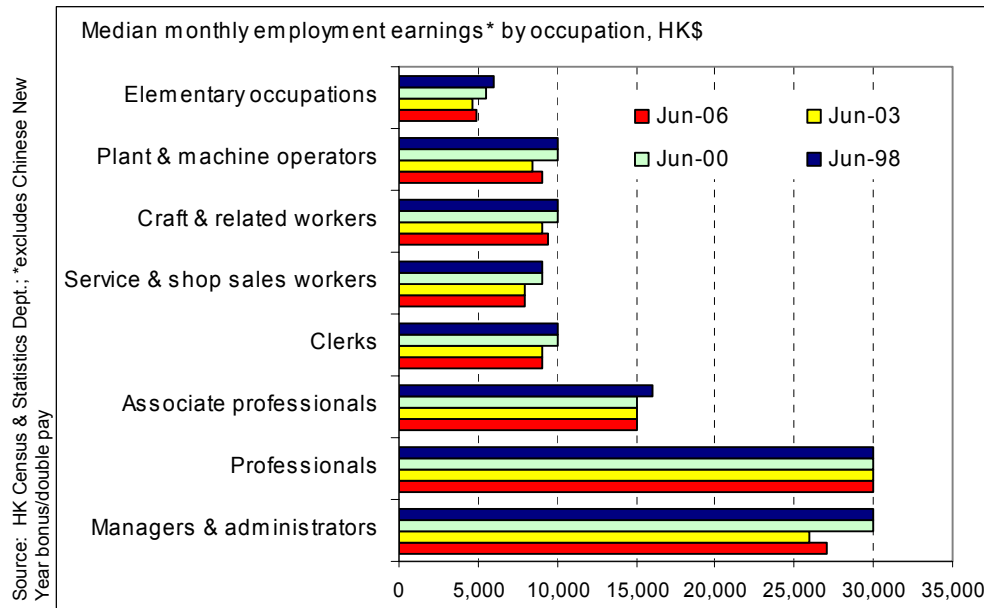
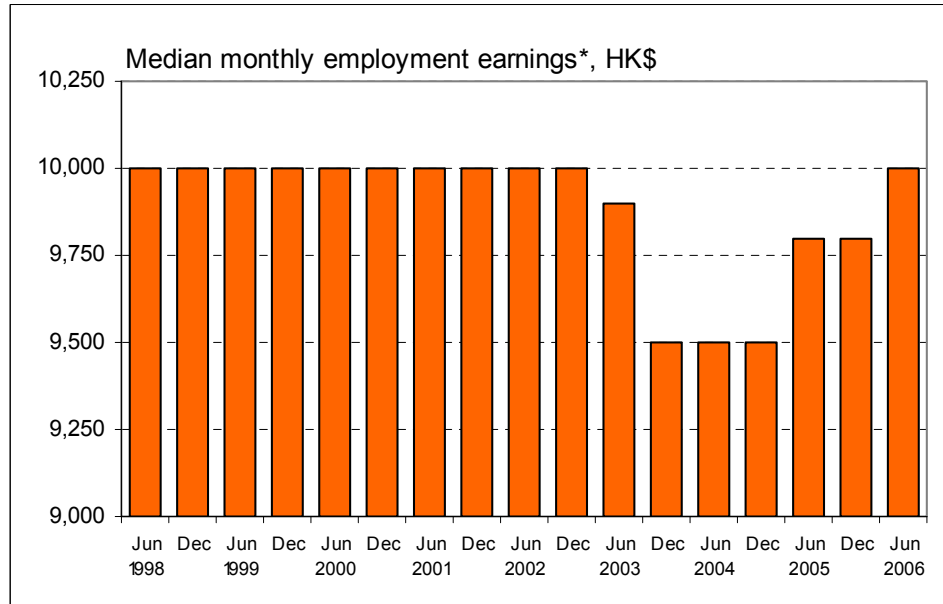


Source: HK Census & Statistics Dept.

Source: HK Census & Statistics Dept.

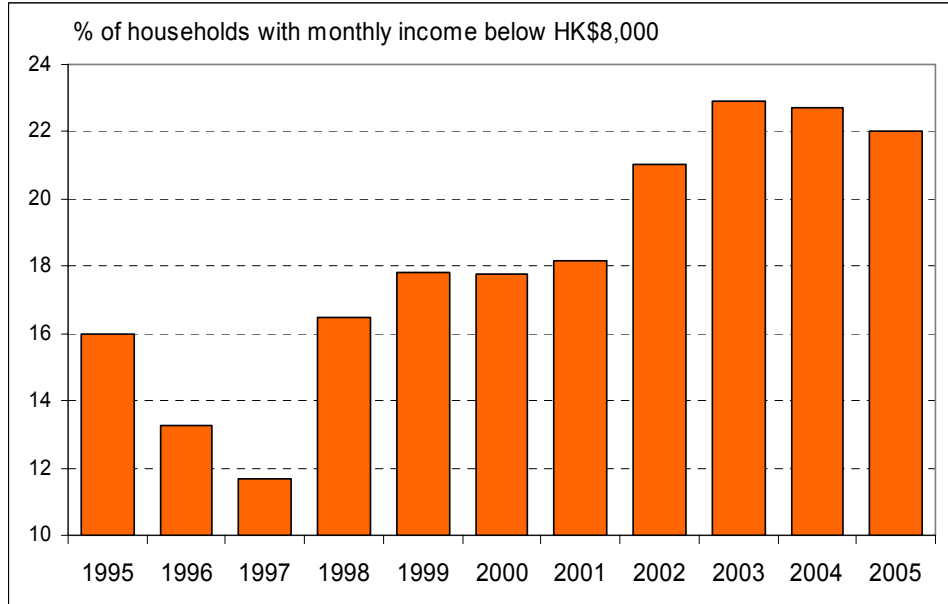
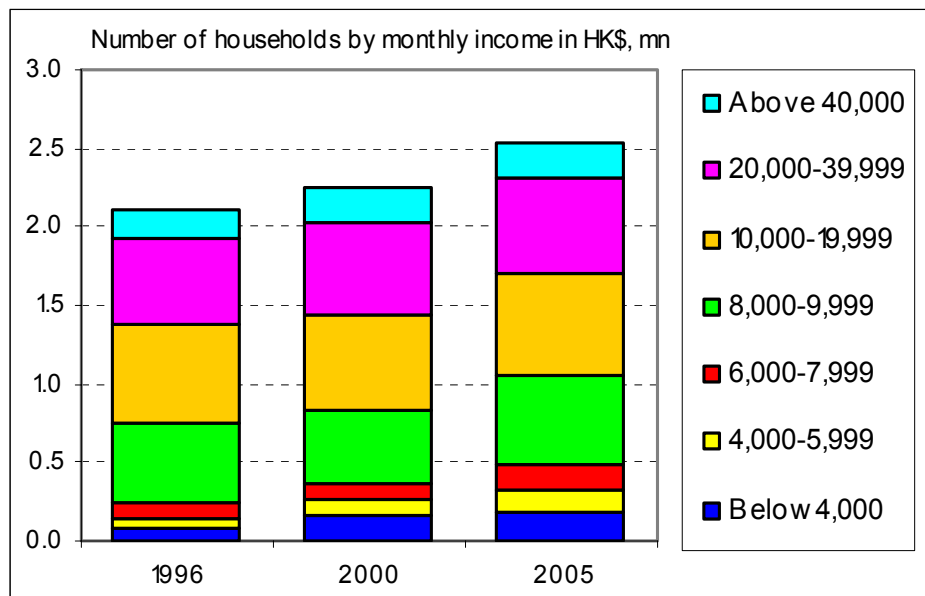
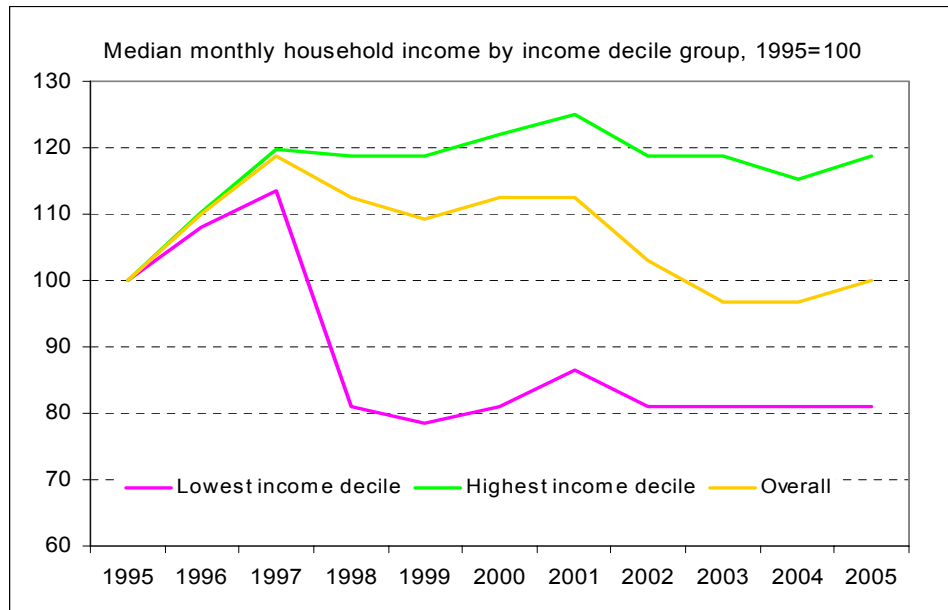
Employment earnings also edged up again since 2005

- **Monthly employment earnings** fell in the wake of the 2001-2003 economic slump, but rose back since the beginning of 2005. In June 2006, median monthly employment earnings stood at HK\$10,000, up from HK\$9,500 at end-2003.
- For all occupations, monthly employment earnings have returned to the 2003 levels if not higher. Compared to 2000, however, the earnings of the lower skilled and unskilled jobs remain 6-11% behind.
- As HK emerged from the 2001-2003 economic downturn, the share of low income earners in the work force has fallen while the share of higher income earners has risen.



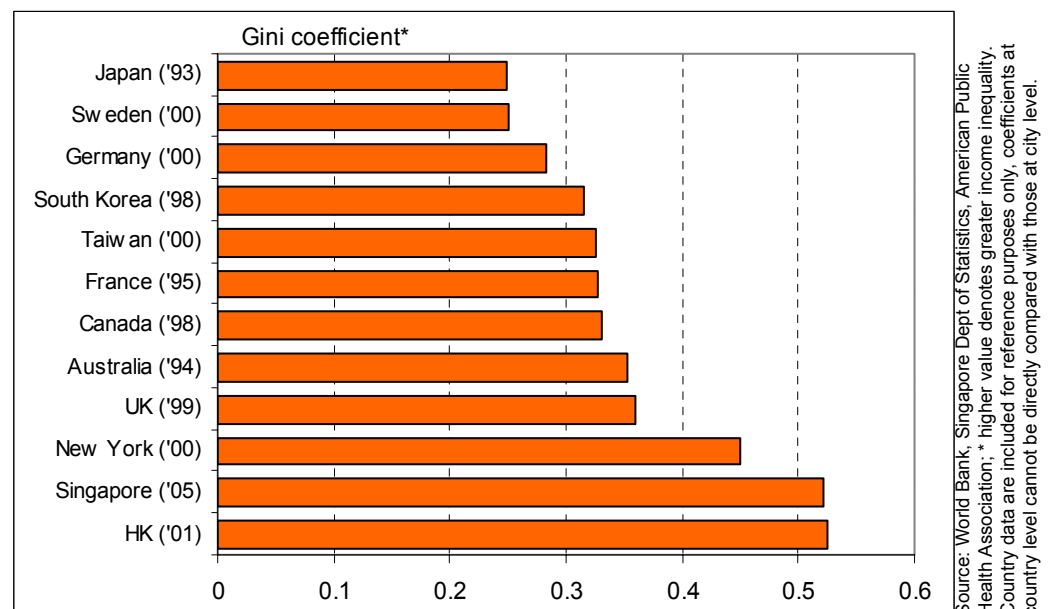
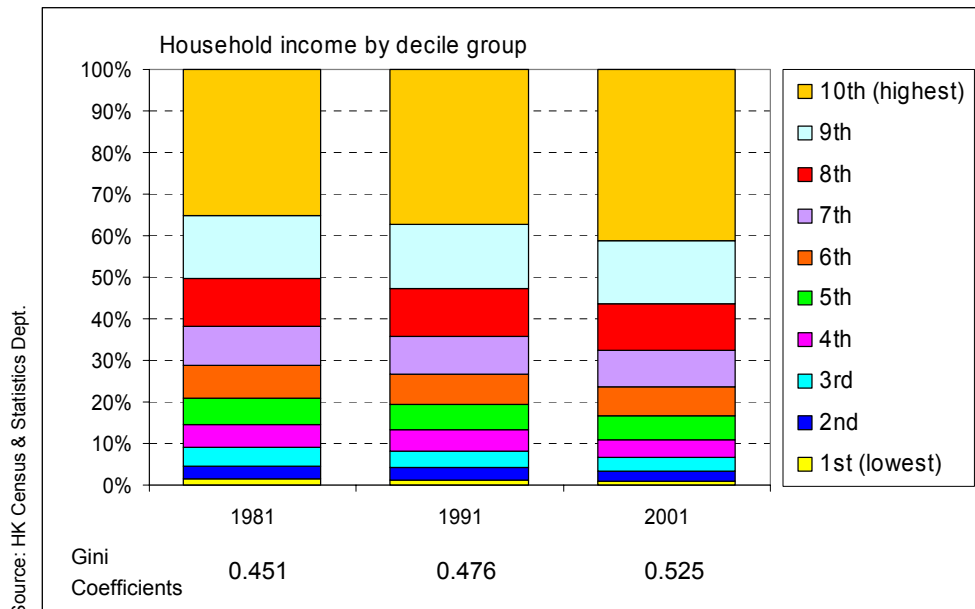
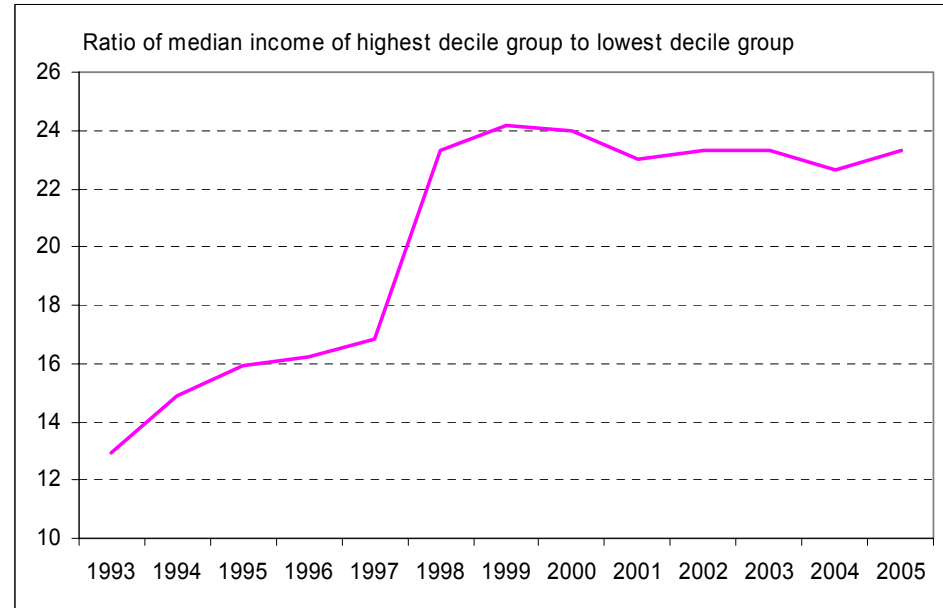
But household incomes recover more slowly

- The recovery of household income, however, took place at a much slower pace. At HK\$16,000 in 2005, overall median household income was still 11% lower than the level in 2001, and was down by 15.8% from 1997.
- The gap was wider among households with lower income. In 2005, the median income of households in the lowest income decile group was 28.6% below its 1997 peak, while that of the highest income decile group was down 0.9%.
- While income has recovered, the number of households with lower income has increased. Between 1996-2005, the number of households with monthly income below HK\$8,000 rose by 76.5% to over 500,000 and their share in the total number of households rose from 13% to 22%.



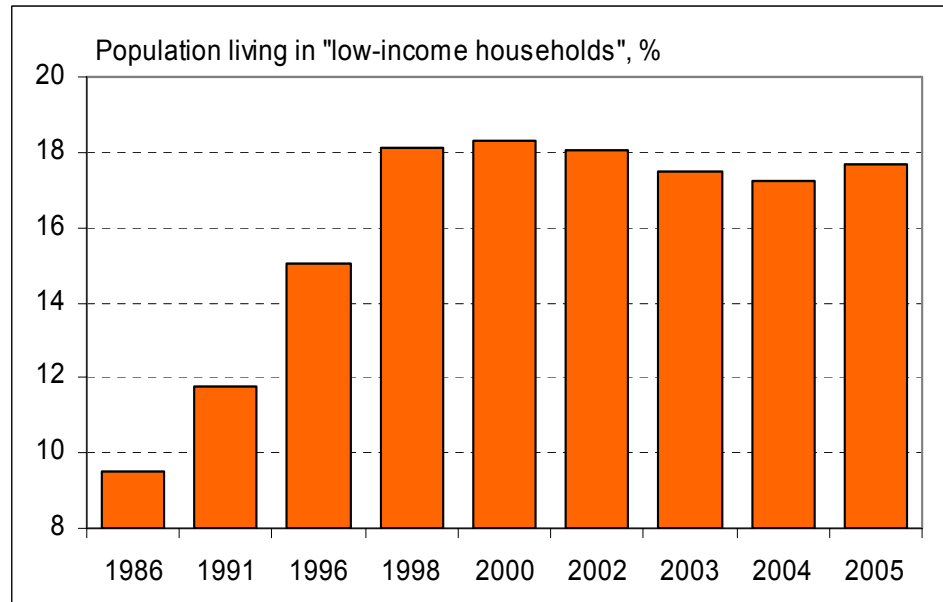
..... and income distribution becomes more uneven

- With the income of the higher income households recovering faster than its lower income counterparts, income inequality has widened in HK. In 2005, the median income of households in the highest income decile group was 23.3 times that of the income of those in the lowest income decile group, compared to a multiple of only 16.1 in 1996.
- According to latest available statistics, the share of household income earned by the bottom 50% of households fell to 16.6% in 2001, from 19.4% in 1991.
- With a [Gini Coefficient](#) of 0.525 as at 2001, income inequality in HK was most pronounced amongst the benchmark economies.

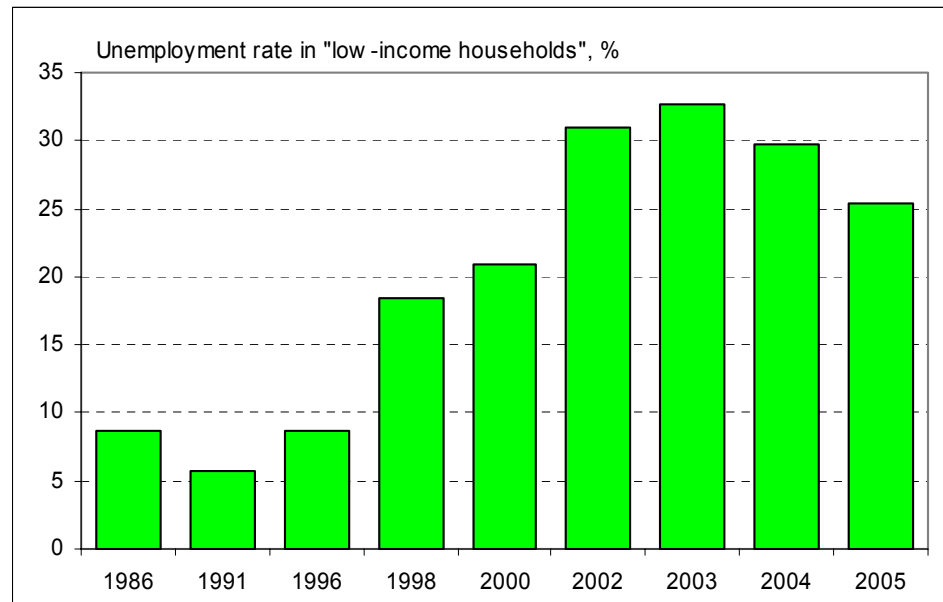
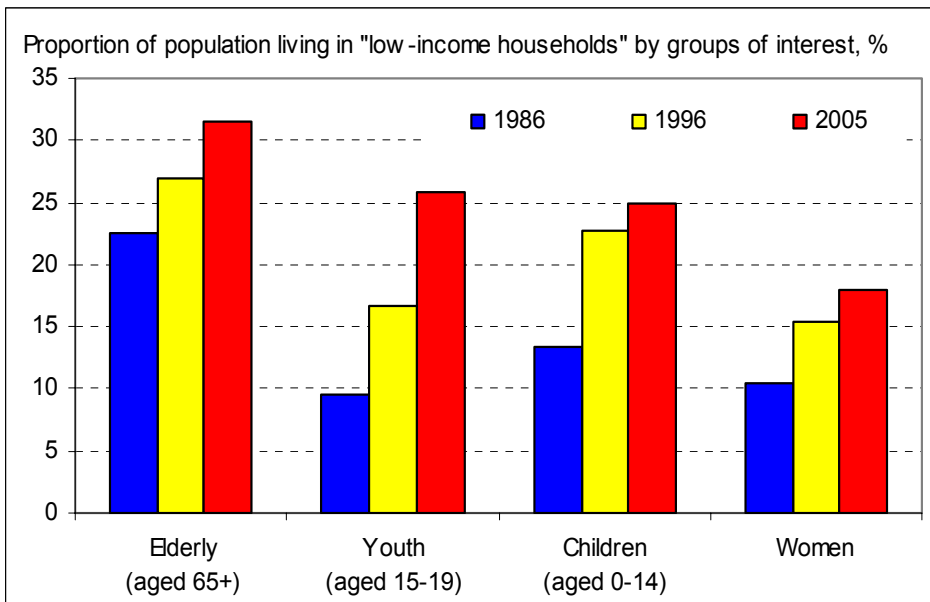


People living in low-income households increased

- The proportion of people living in “low-income households” (those with monthly income less than or equal to half of the median monthly domestic household income of the corresponding household size) in the total population has risen from 15% in 1996 to 17.7% in 2005.
- A growing share of economically inactive persons are found living in “low-income households”. In 2005, 31.5% of the elderly people aged 65 and above lived in “low-income households”, up from 26.9% in 1996; the proportion of children aged below 15 also rose to 24.9% from 22.8%.
- Among the economically active members of the “low-income households”, the share of unemployed workers has also risen, from 8.6% in 1996 to 25.4% in 2005.



Source: HK Census & Statistics Dept.

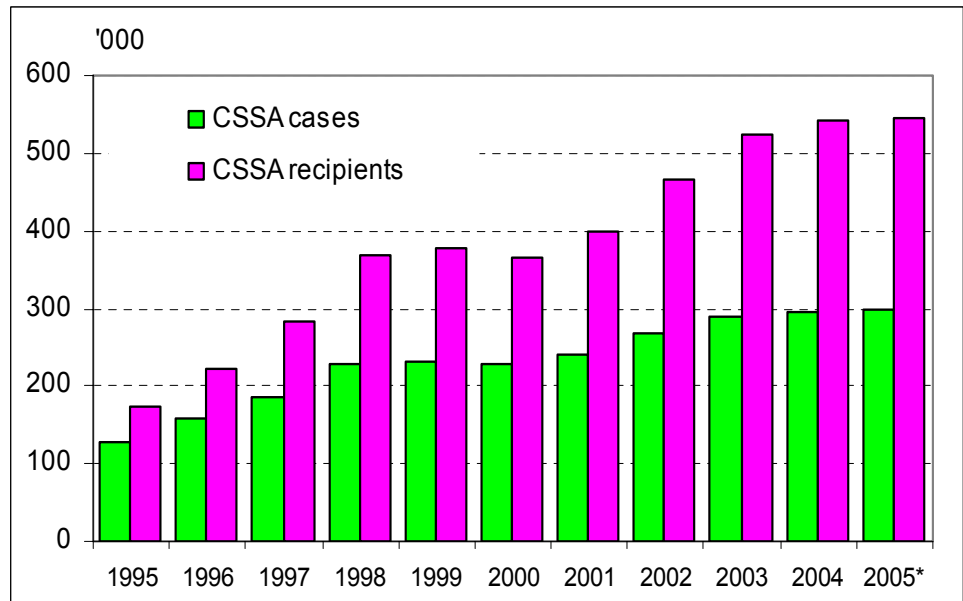


Source: HK Census & Statistics Dept.

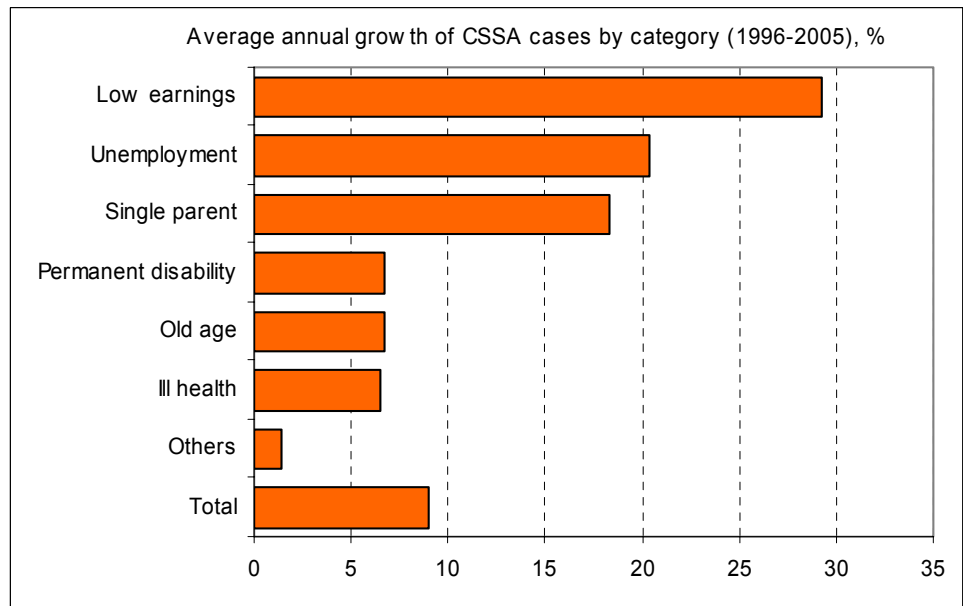
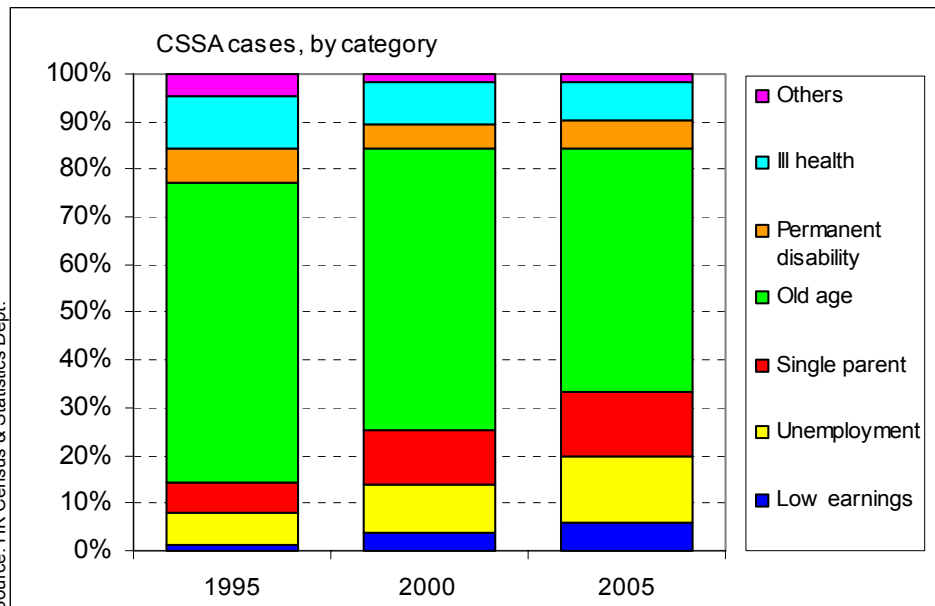
Source: HK Census & Statistics Dept.

Social safety net providing assistance to the needy

- Along with the rise of the low income population, more people have resorted to social welfare. Between 1995 and 2005, the number of Comprehensive Social Security Assistance (CSSA) cases increased over 130%, while the number of recipients tripled to more than half a million.
- 29.1% of the rise in CSSA cases during the period was accounted for by cases under the “low earnings” and “unemployment” categories.
- Between 1996 and 2005, CSSA cases under the “low earnings” category increased by an average annual rate of 29.3%, making it the fastest growing CSSA category. At the end of 2004, nearly all the “low earnings” cases were family cases with at least two recipients.



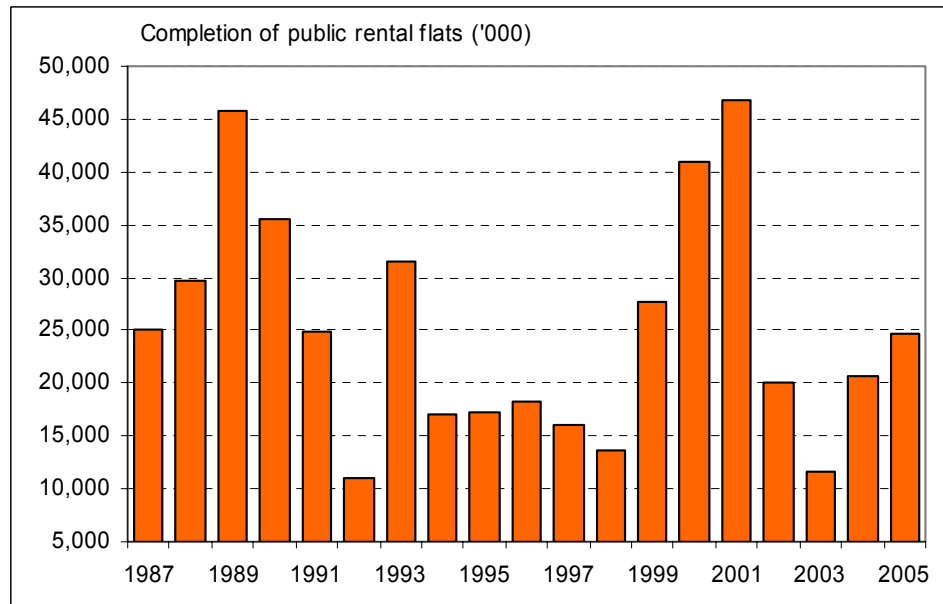
Source: HK Census & Statistics Dept.; *no. of CSSA recipients as of June 2005



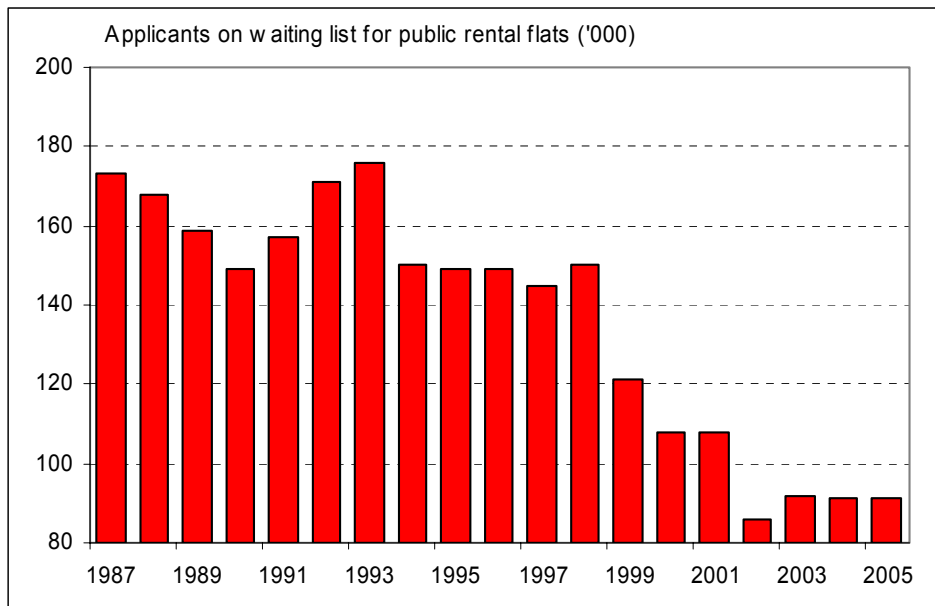
Source: HK Census & Statistics Dept.

..... and improved public rental housing has also helped

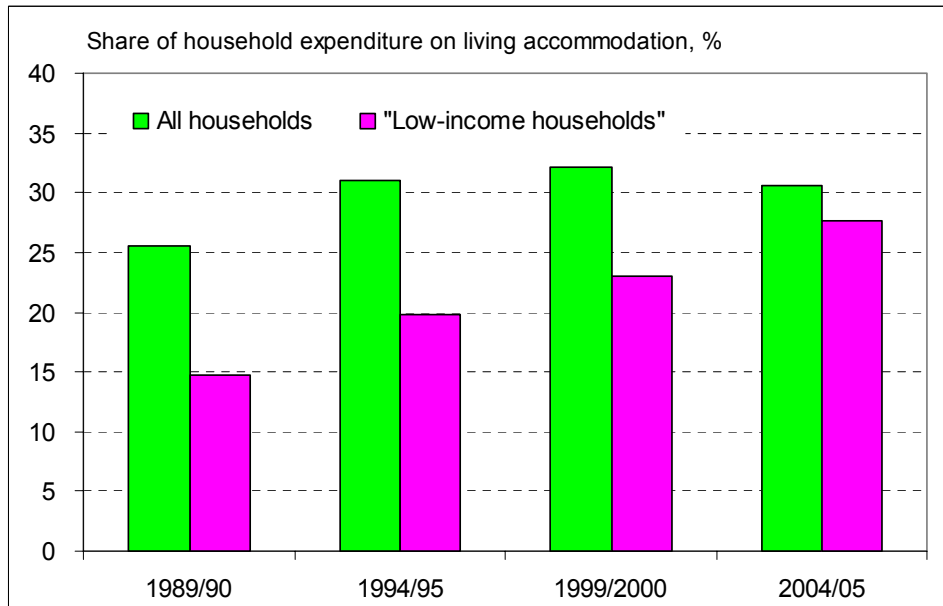
- The government also provides assistance to lower income families that cannot afford private housing by providing [public rental housing](#). Between 1996 and 2005, an average of 24,039 public rental flats were completed each year.
- Between 1999 and 2005, the average waiting time for applicants wait-listed on the public rental housing program shortened from 6.3 years to 1.8 years. There were about 91,000 applicants on the waiting list in 2005.
- Over the years, however, the proportion of household income spent on living accommodation by ["low-income households"](#) had increased steadily.



Source: HK Census & Statistics Dept., year ending March



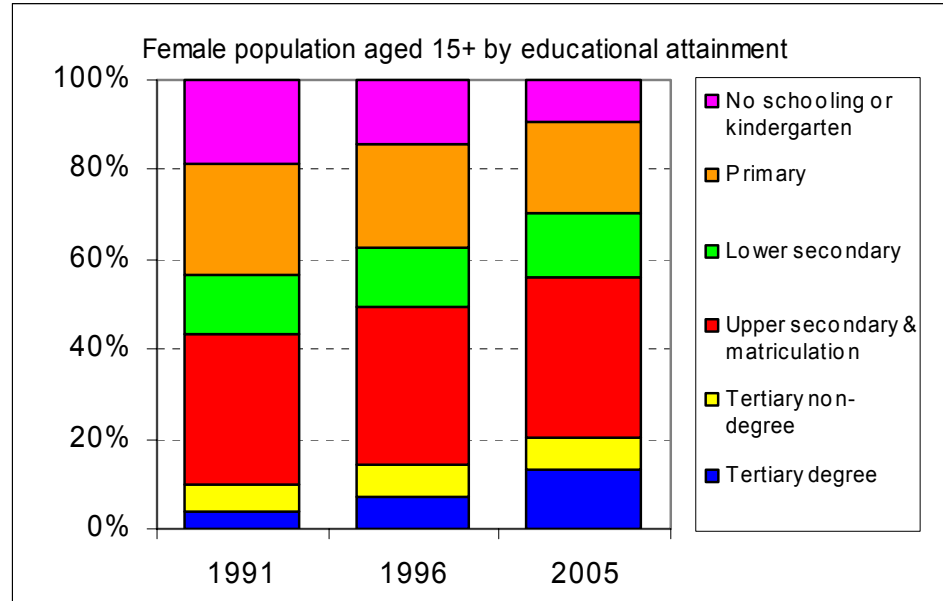
Source: HK Housing Dept.



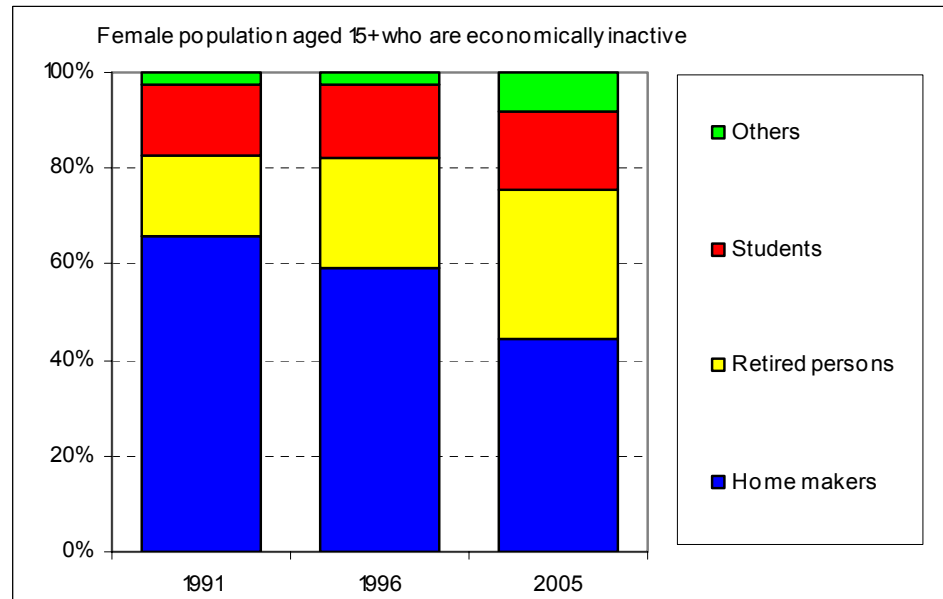
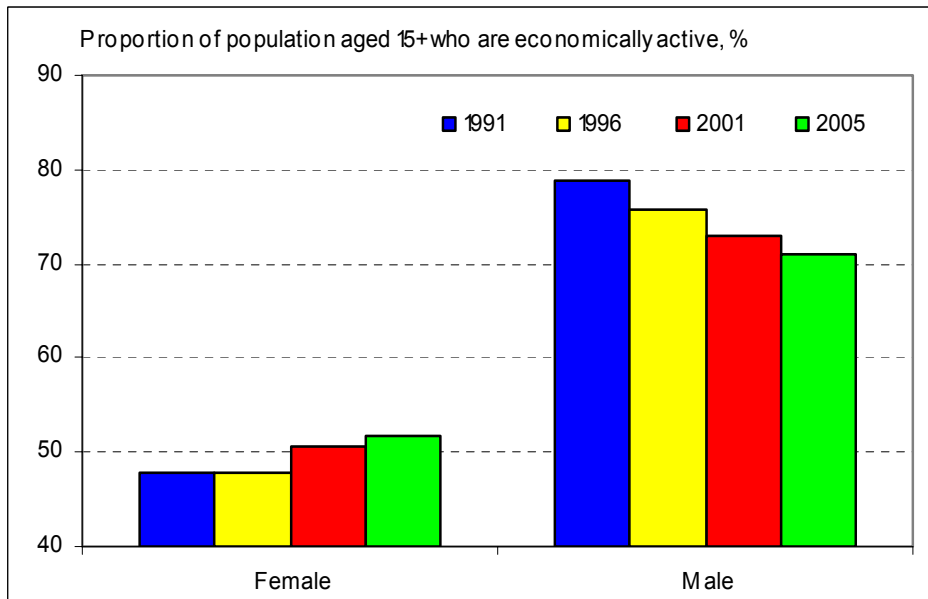
Source: HK Census & Statistics Dept.

Economically active female population on the rise

- As a result of greater education opportunity, there had been a substantial improvement in education attainment of the female population. As of 2005, 20% of HK's female population aged 15 and above had achieved tertiary education, doubling from only 10% in 1991.
- As the female population becomes more educated, more women have entered the labour force. Between 1991 and 2005, the proportion of economically active female population increased from 47.9% to 51.8%. During the period, the participation of married women in the labour force also rose from below 40% to 44.5%.
- Of the economically inactive women in 2005, 44.2% were home makers, down from 66.1% in 1991.



Source: HK Census & Statistics Dept.

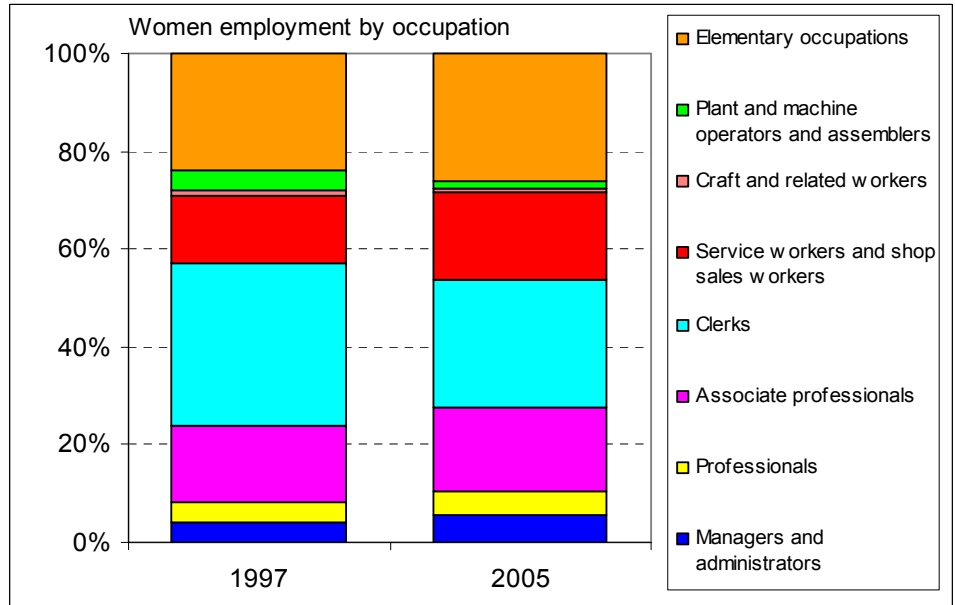


Source: HK Census & Statistics Dept.

Source: HK Census & Statistics Dept.

Women play an increasing role in the skilled work force

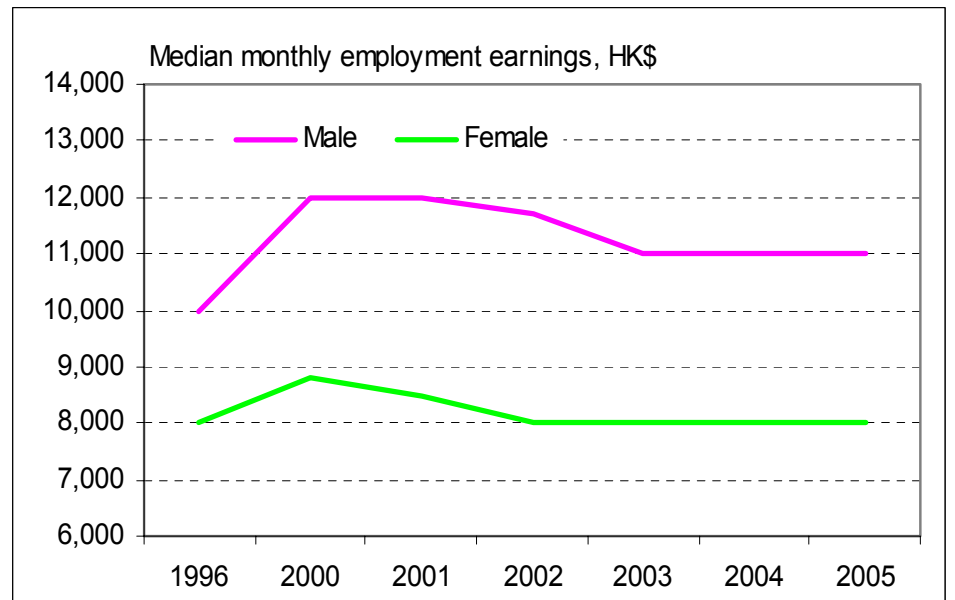
- In line with the improved education attainment of the females, the proportion of employed women working at the managerial, professional or associate professional level rose from 23.9% in 1997 to 27.5% in 2005.
- Compared to the males, female unemployment rate tended to be lower, and rose less rapidly during economic downturns. As of 2005, female unemployment rate was 4.4%, 120% higher than in 1997; this compared to 6.5% for the males which was 183% higher.
- However, female earnings are not as downwardly rigid as that of the males. Between 2000-2002, the median monthly employment earnings of the females fell by 9% while that of the males inched down by only 2.5%.



Source: HK Census & Statistics Dept.



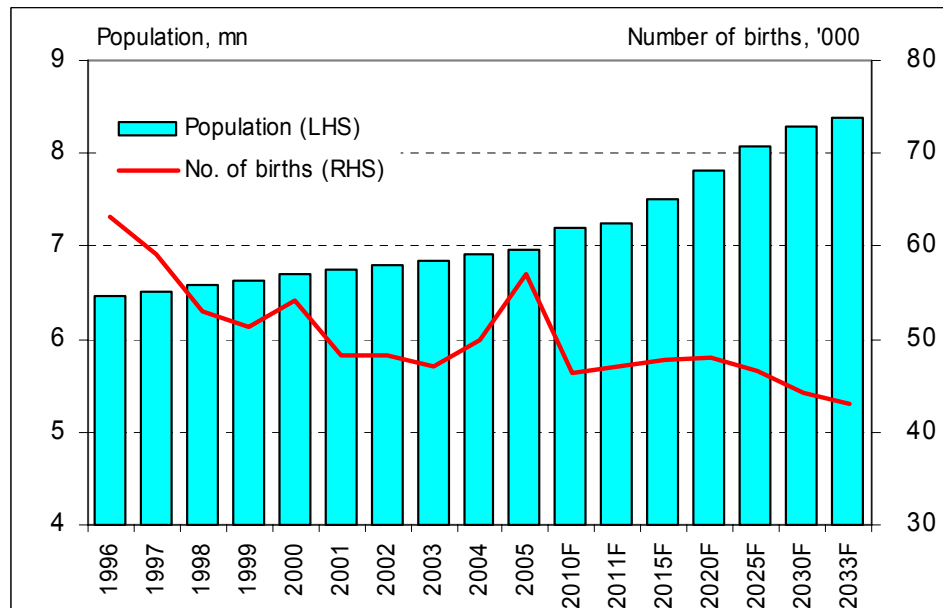
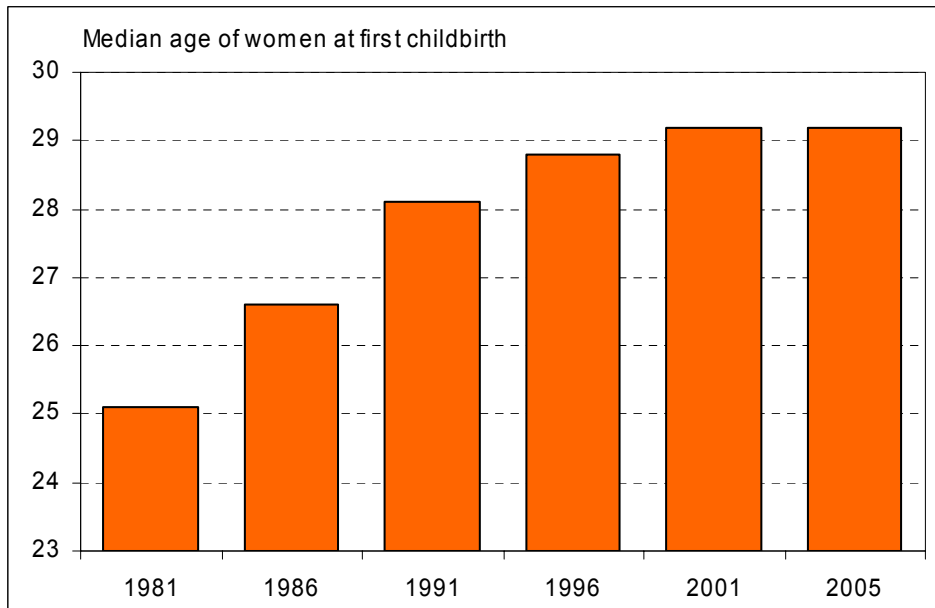
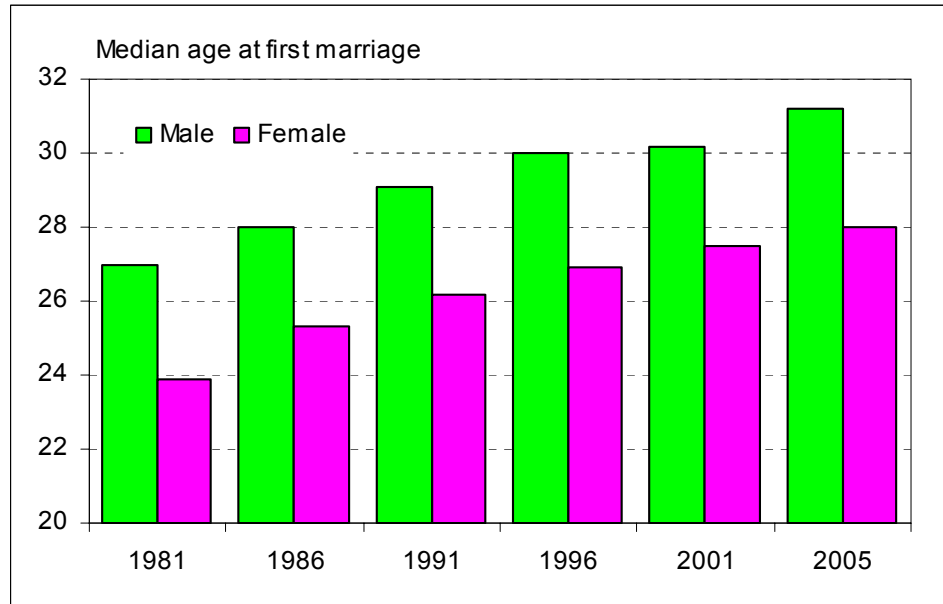
Source: HK Census & Statistics Dept.



Source: HK Census & Statistics Dept.

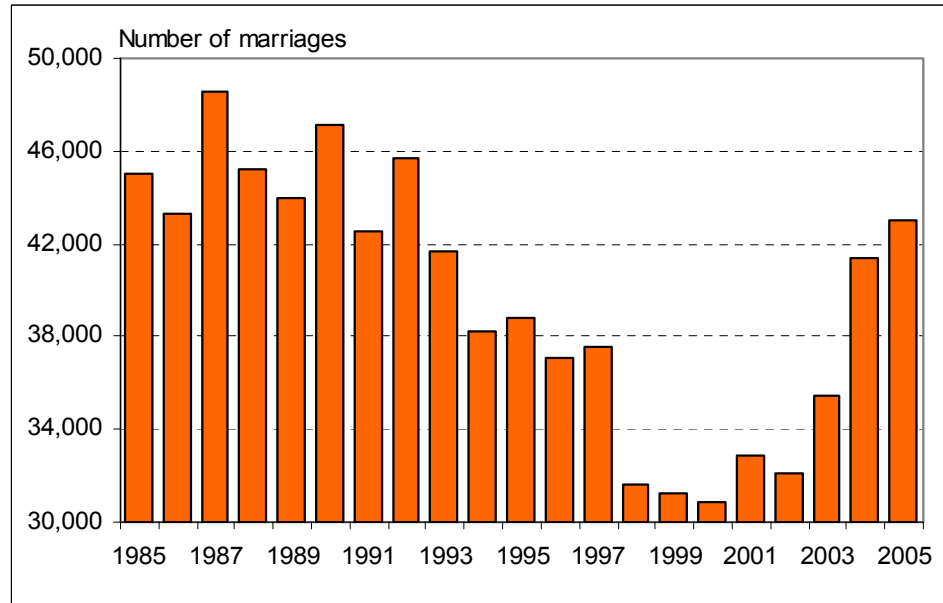
Delayed childbearing contributes to slower population growth

- As women play an increasing role in the work force, the median age for females at first marriage rose from 23.9 in 1981 to 28 in 2005.
- The rise of median age at first marriage has translated into delayed childbearing. The median age of women at first child birth rose from 25.1 in 1981 to 29.2 in 2005.
- Delayed childbearing, together with an increase in the proportion of females who have passed the optimum childbearing age, would lower the fertility rate of HK and contribute to a slowdown in HK's population growth to an average annual rate of 0.7% in 2010-2033, compared to the 1-2% annual growth experienced in the 1980s and 1990s.

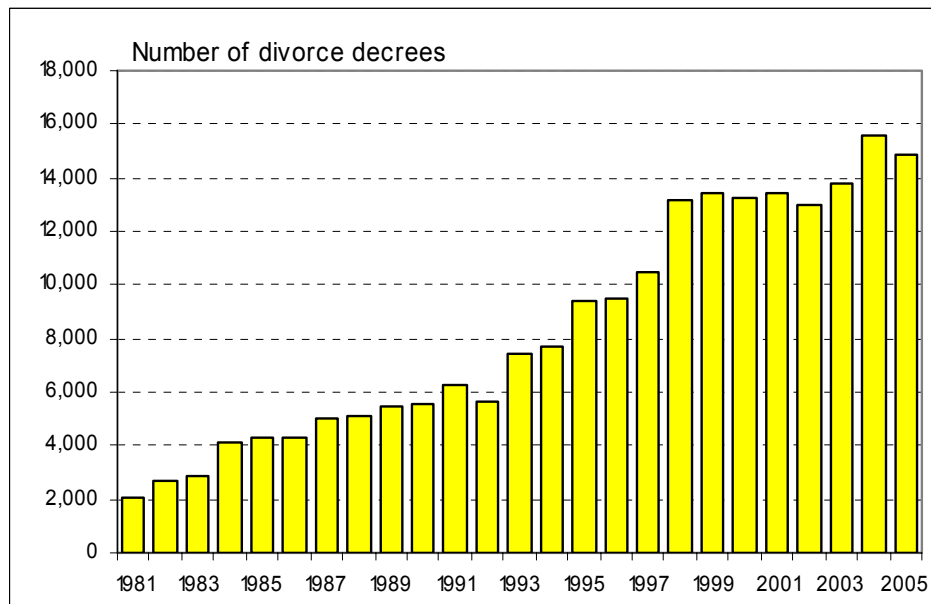


More children living in single-parent households

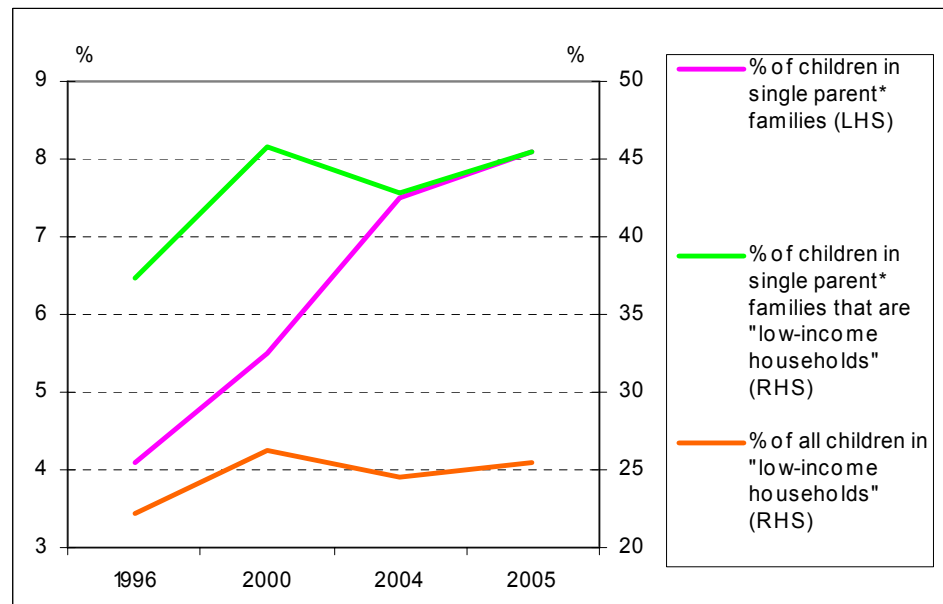
- With late marriage becoming more prevalent, the number of marriages in HK declined from 42,568 in 1991 to 30,879 in 2000 before rising slowly to 43,019 in 2005.
- Meanwhile, the number of divorce decrees more than doubled between 1991 and 2000 but increased at a more moderate pace since then.
- As the number of divorces relative to the number of marriages increased, the proportion of children aged below 15 living in single parent households doubled from 4.1% in 1996 to 8.1% in 2005. In 2005, 45% of the children in the single parent families were trapped in “low-income households”, up from 37.3% in 1996.



Source: HK Census & Statistics Dept.



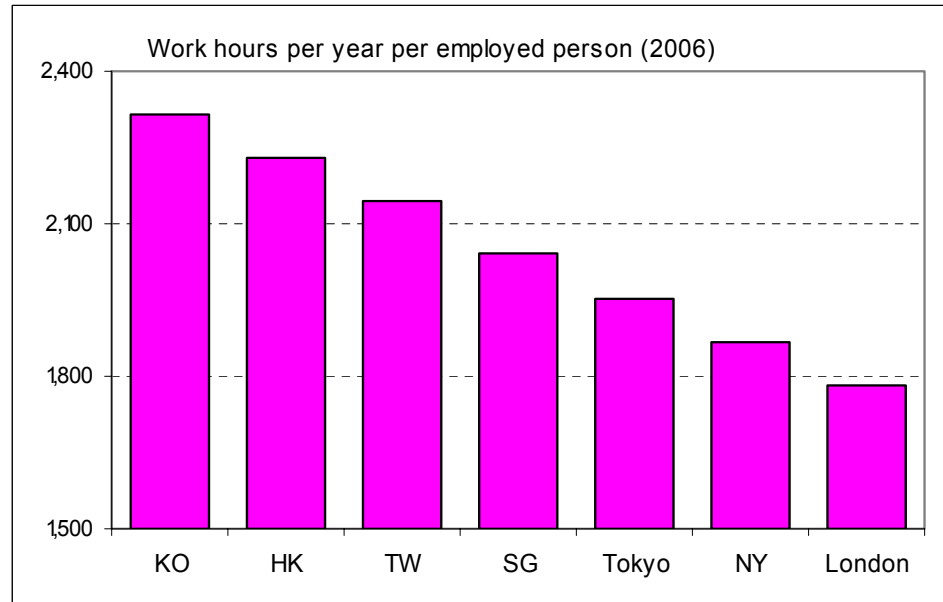
Source: HK Census & Statistics Dept.



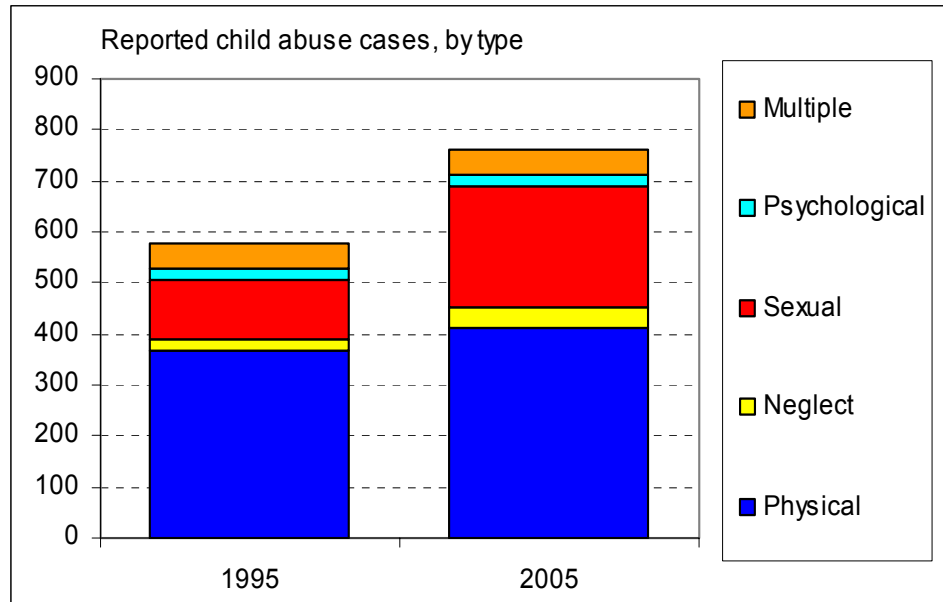
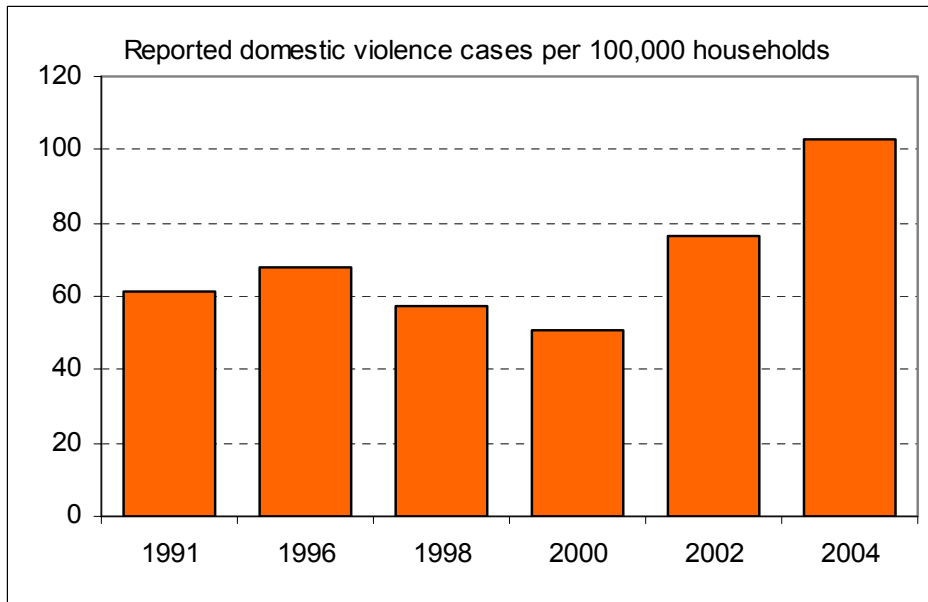
Source: HK Council of Social Service; *single parents refer to persons who are widowed, divorced or separated and living with child(ren) aged under 18 in the same households

Children living with parents who work very long hours also rise

- Compared to the benchmark cities, HK people tend to work much longer hours. This raises concern on the adequacy of time spent by parents with their children and in educating their children at home.
- According to the HK Council of Social Service (HKCSS), the number of children with both parents engaged for at least 60 hours of work per week increased from 13,400 in 1996 to 19,000 in 2005.
- Increased work pressure of the parents is believed to be one of the reasons contributing to the rise of cases related to domestic violence. Between 1995-2005, the number of child abuse cases rose 32.4%, with cases of physical abuse accounting for the bulk of the reported cases.



Source: UBS Report "Prices & Earnings 2006"

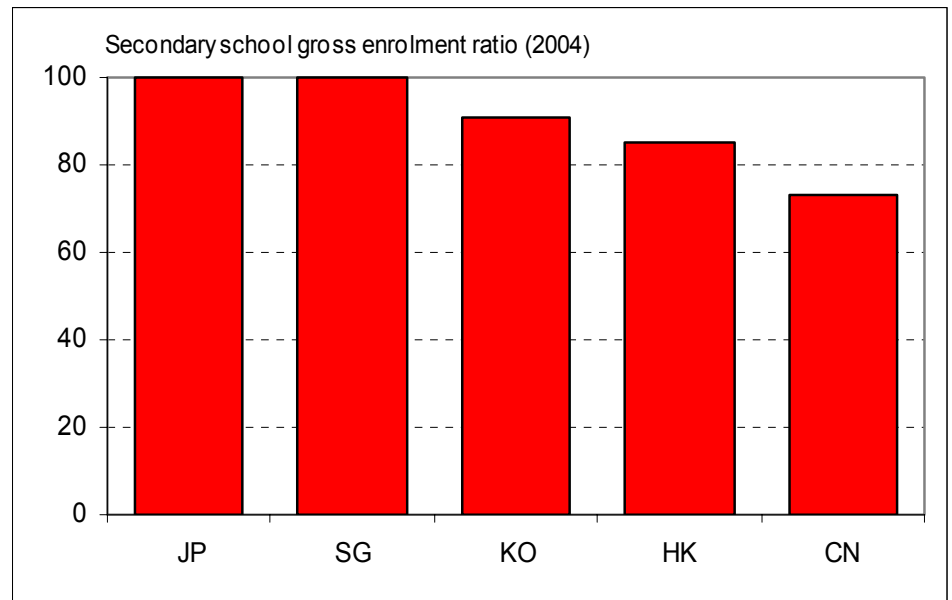
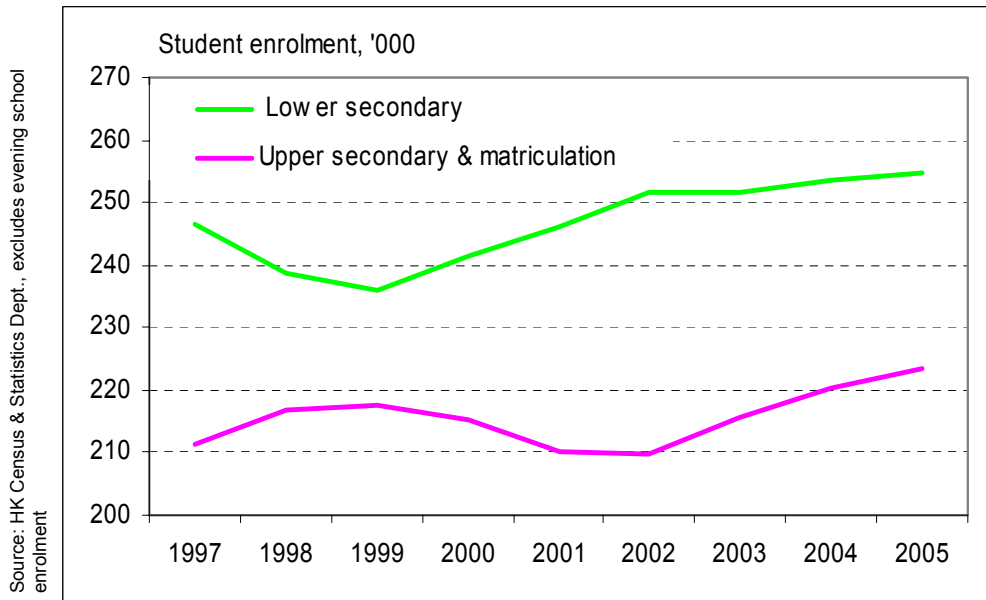
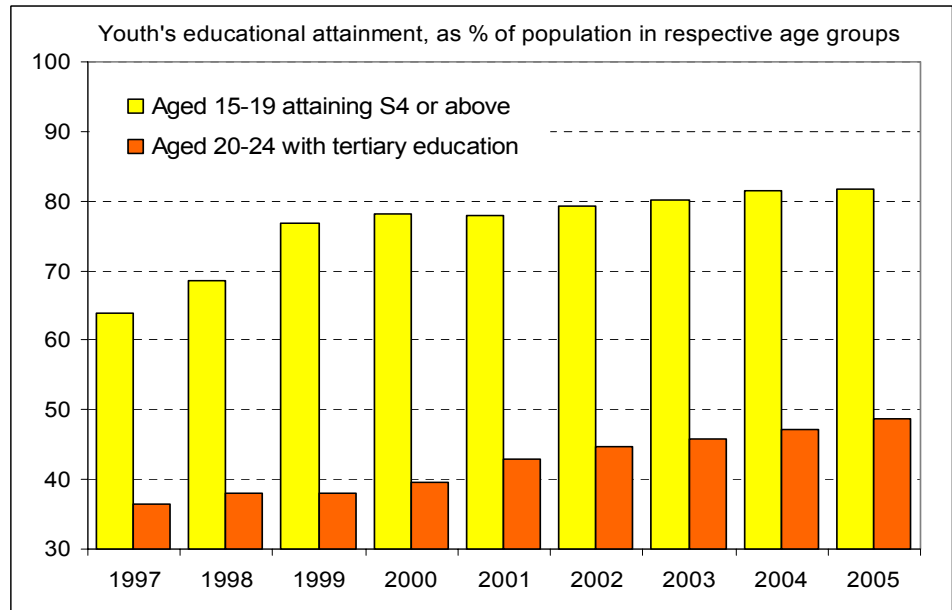


Source: HK Census & Statistics Dept.

Source: HK Council of Social Service

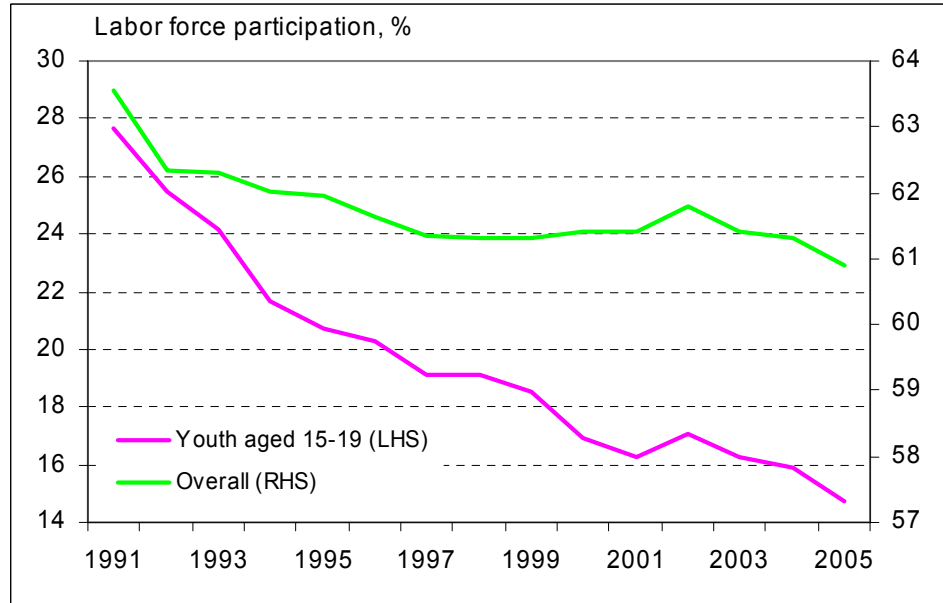
Educational attainment of youths improves

- Education attainment of the youth population in HK has improved over the past two decades. In 2005, 81.8% of youths aged 15-19 had attained Secondary 4 or above educational level, up from 76.8% in 1996 and 63.9% in 1986. The share of those aged 20-24 with [tertiary education](#) also rose from 36.5% in 1997 to 48.8% in 2005.
- Improved education level of youths is closely linked to the increase in the number of students enrolled in upper secondary and matriculation institutions, which rose from 211,405 in 1997 to 223,561 in 2005.
- Compared to Asian benchmark economies, however, HK's 85% [secondary school gross enrolment ratio](#) in 2004 still ranked behind South Korea's 91% and Singapore's 100%.

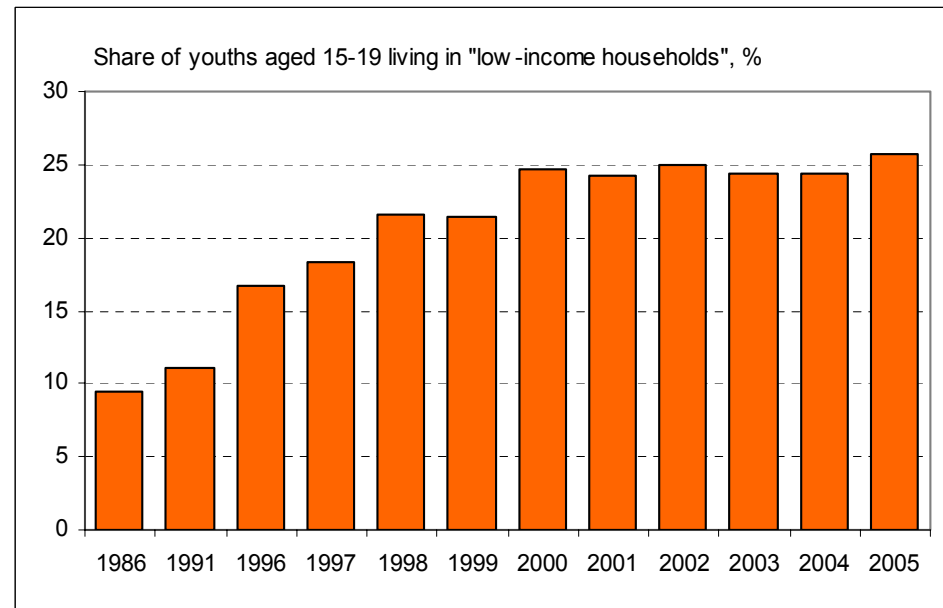
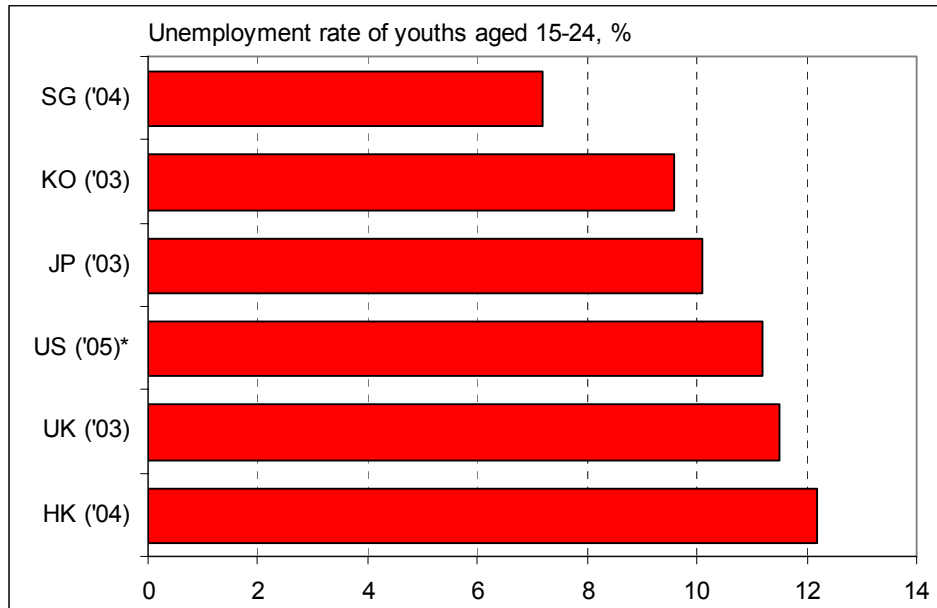


Youth employment vulnerable to economic downturns

- As a result of increased years of schooling, labour force participation rate of youths aged 15-19 declined from 27.6% in 1991 to 14.7% in 2005.
- For those youths who did enter the labour force, they had found it more difficult than the adults to secure a job, especially during economic downturns. Unemployment rate of youths aged 15-24 in HK stood at 12.1% in 2004, the highest among the benchmark economies.
- With the increase in the number of economically inactive or unemployed youths, the proportion of youths living in “low-income households” rose from 11.1% in 1991 to 25.8% in 2005.

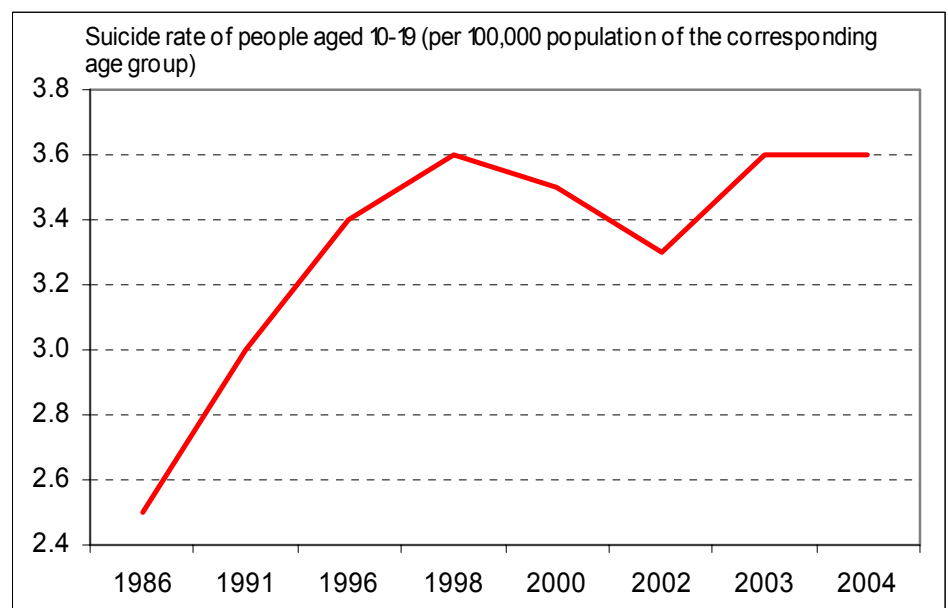
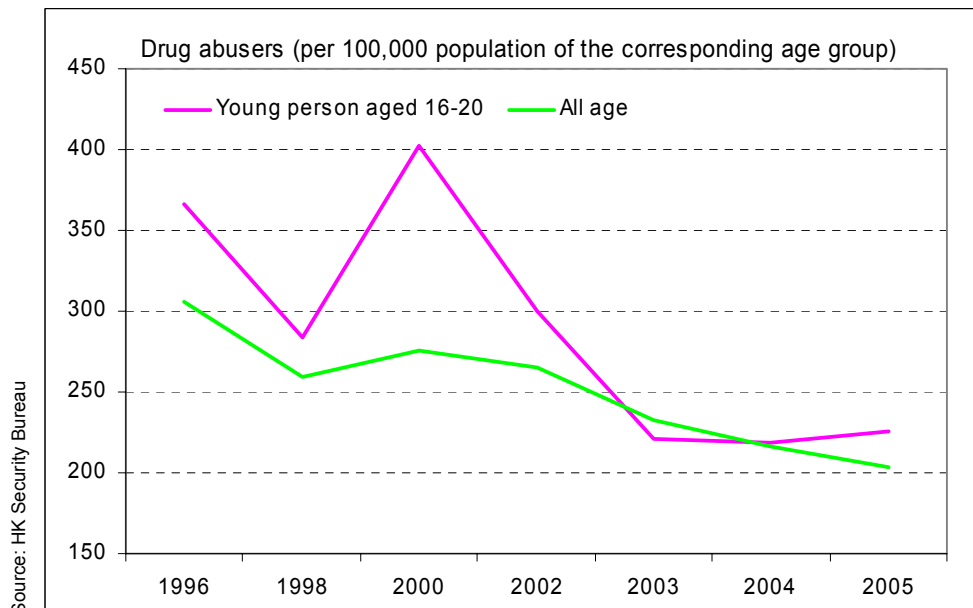
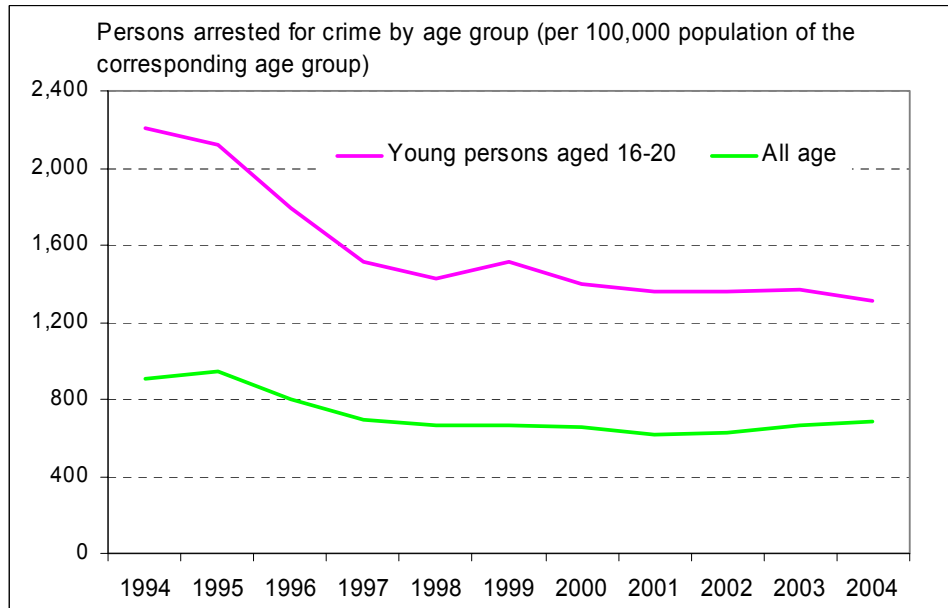


Source: United Nations, HK Census & Statistics Dept., Singapore Dept. of Statistics; *In US, youth unemployment refers to unemployment between the ages of 16 and 24.



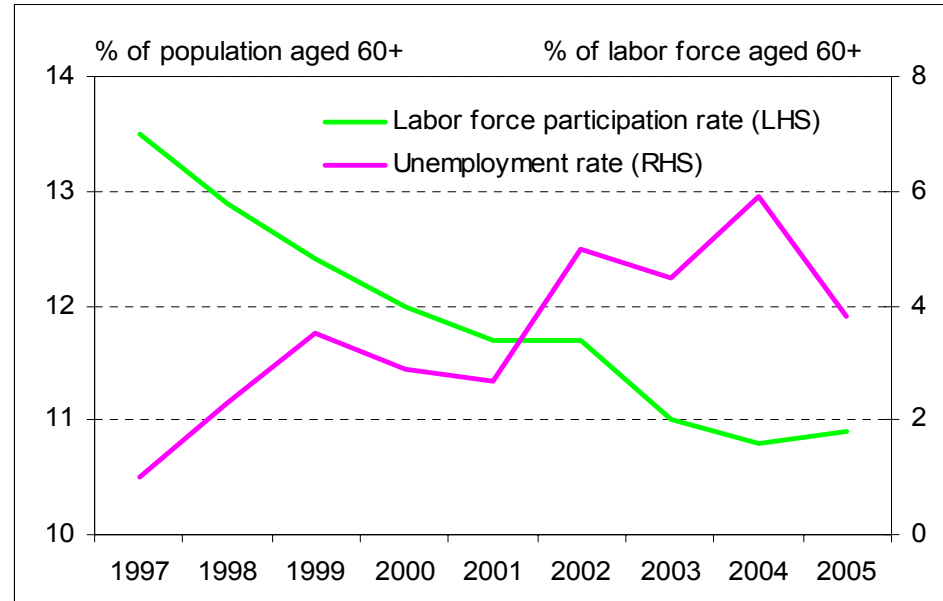
Youth problems largely contained but suicide rates on the rise

- Despite the more difficult employment and income conditions of youths, juvenile crime and drug prevalence among the younger population has remained contained.
- The number of young persons aged 16-20 arrested for crime reduced from over 2,200 per 100,000 population of that age group in 1994 to 1,308 in 2004. Drug abusers aged 16-20 also stayed steadily around 220 per 100,000 population of that age group in the past 3 years.
- While the suicide rates of the younger population aged 10-19 were lower than those of the adults in HK, the rate has been rising and exceeded 3.5 per 100,000 population of that age group since 1998 from 3 in 1991 and 2.5 in 1986. In 2004, overall suicide rate of the population was 15.3.

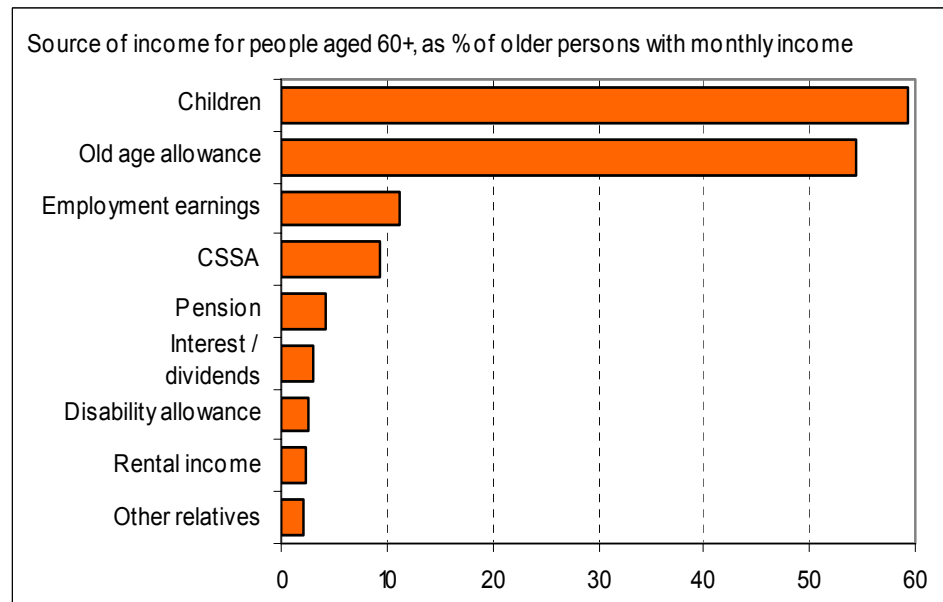
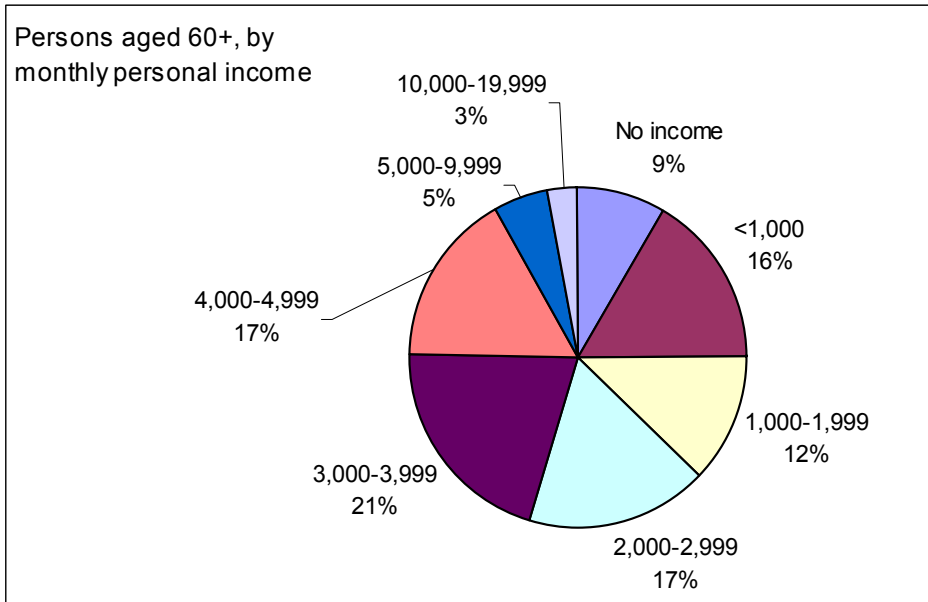


Labour force participation of the older persons declining

- A growing number of HK's older persons are economically inactive. Labour force participation of the population aged 60 and above fell steadily from 13.5% in 1997 to 10.9% in 2005. During the period, the unemployment rate of older persons in the labour force also rose from 1% to 3.8%.
- According to a government survey, 9% of HK people aged 60 and above in 2004 reported no monthly personal income, while the median monthly income for the remaining 91% of the older persons was only HK\$3,000.
- 61.2% of these older persons relied on financial support from children or other relatives as a source of income. Only 15.3% of them received employment or pension earnings, and 5.3% received investment or rental income.



Source: HK Census & Statistics Dept.

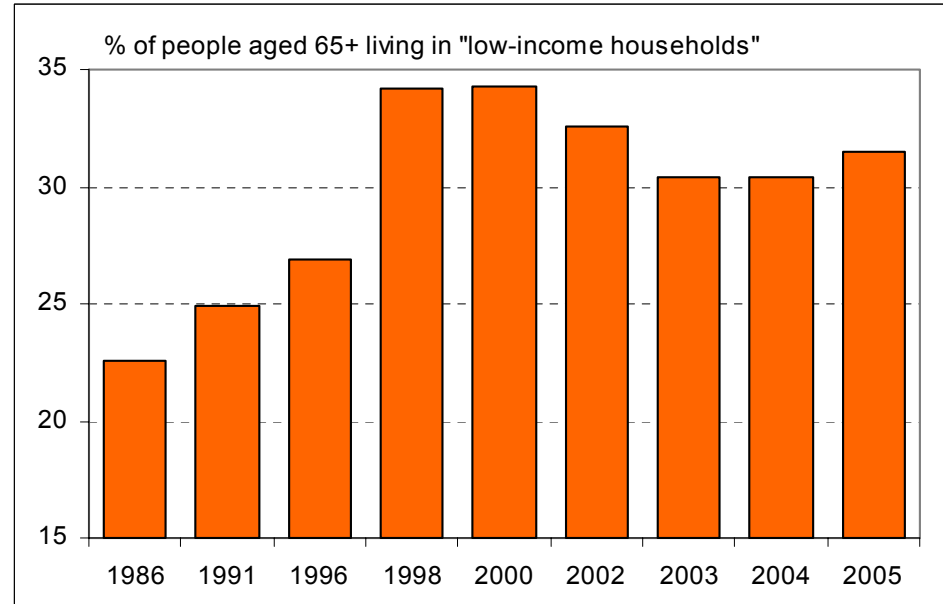


Source: HK Census & Statistics Dept.

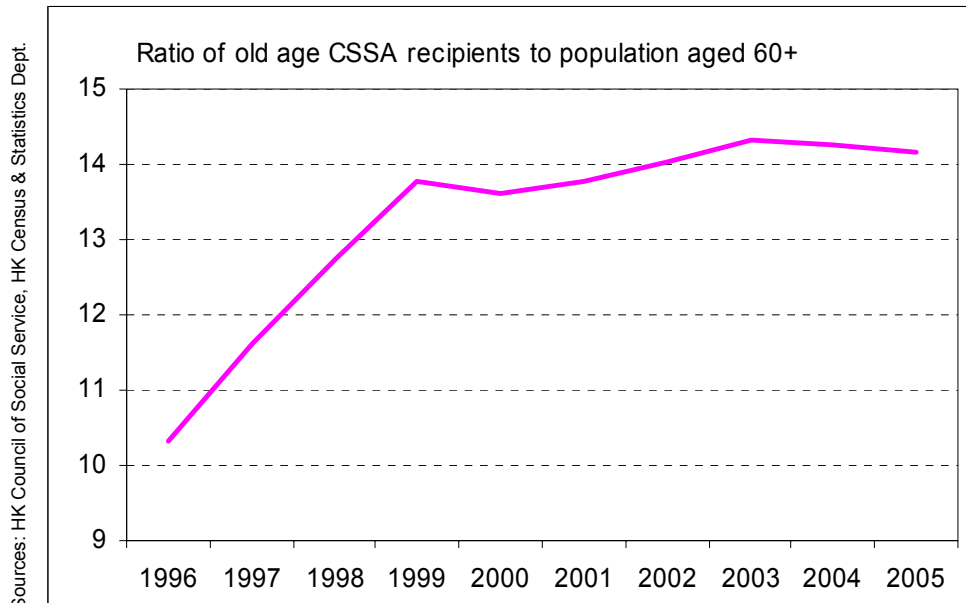
Source: HK Census & Statistics Dept.

More elderly people receiving social welfare assistance

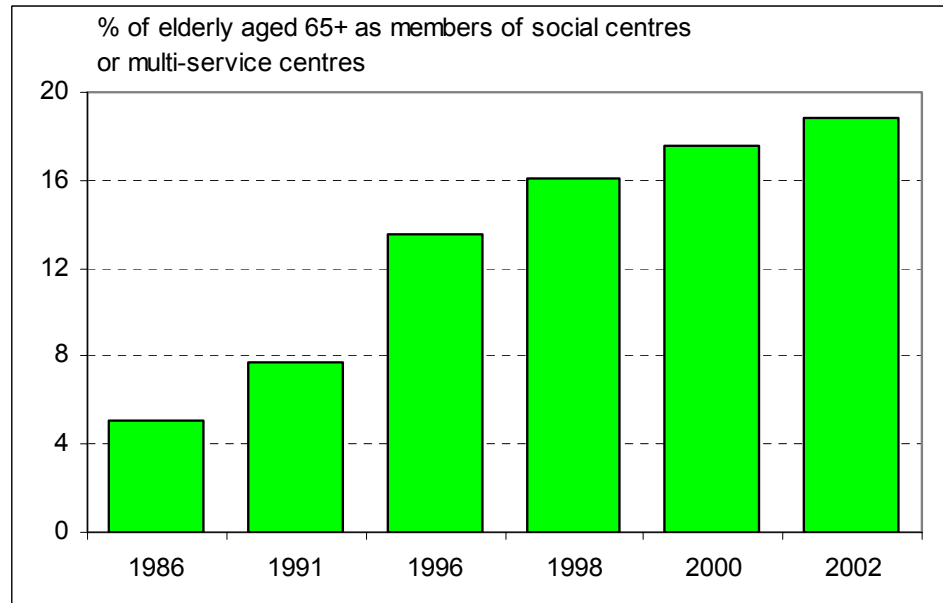
- Between 1996 and 2005, the proportion of people aged 65 and above living in "low-income households" increased from 26.9% to 31.5%. As the number of low-income elderly increased, more elderly people were receiving social welfare assistance.
- Between 1996 and 2005, the proportion of old age CSSA recipients to the population aged 60 and above went up to 14.2% from 10.3%.
- The share of the elderly aged 65 and above who were members of social centres or multi-service centres provided by the government for the elderly have also increased from 5.1% in 1986 to 18.8% in 2002.



Source: HK Census & Statistics Dept.



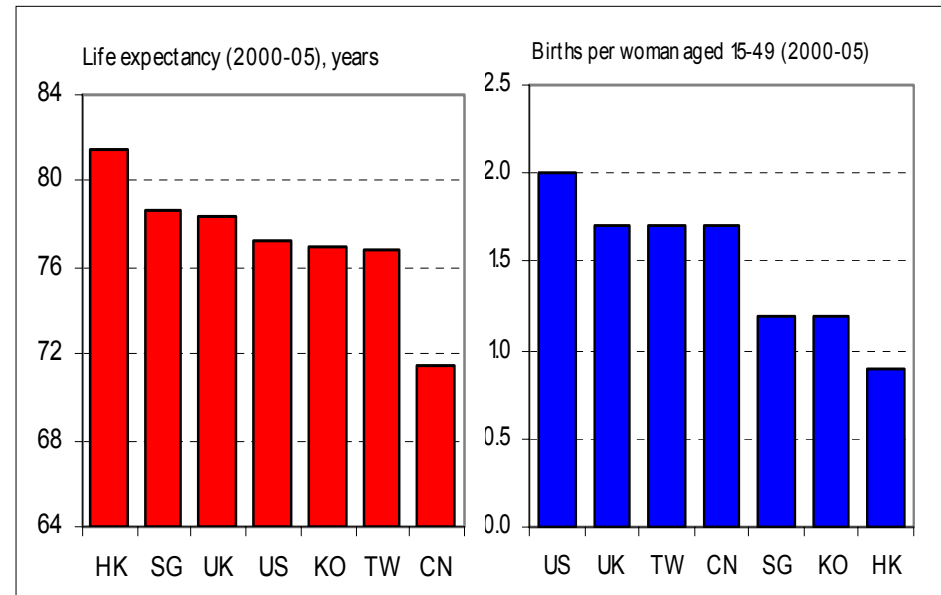
Sources: HK Council of Social Service, HK Census & Statistics Dept.



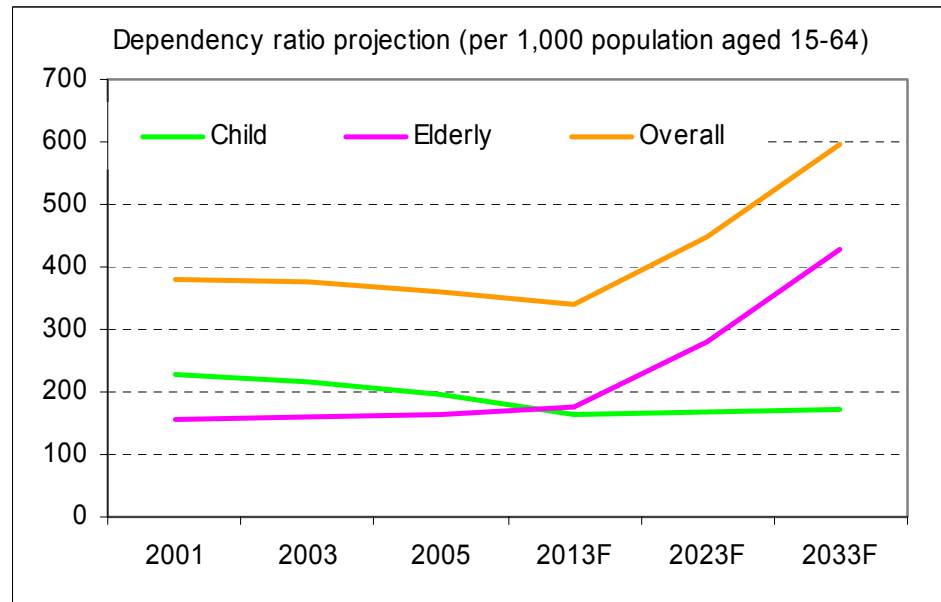
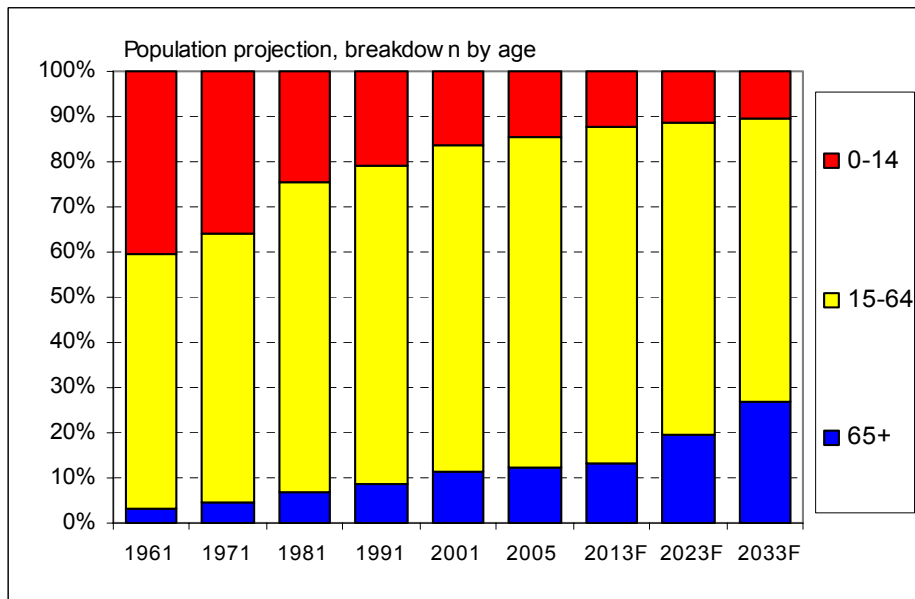
Source: HK Council of Social Service

Elderly dependency ratio will drastically increase beginning 2013

- Life expectancy in HK, which stood at 81.5 years in 2005, was the highest among the benchmark economies. The fertility rate in HK, however, was at the lowest end, falling from 3 children per woman aged 15-49 in the 1970s to less than 1 in 2005, which was far below the [requisite replacement level](#) of 2.1 children per woman.
- As the post-war baby boomers age, the share of population aged 65 and above would rise from 12% in 2005 to 13.2% in 2013, 19.4% in 2023, and further to 26.8% in 2033.
- With the proportion of persons aged 15-64 expected to decline to 62.6% by 2033 from 73.4% in 2005, the [elderly dependency ratio](#) is expected to surge to 428 from 164.



Sources: United Nations, SG & TW data from CIA World Factbook

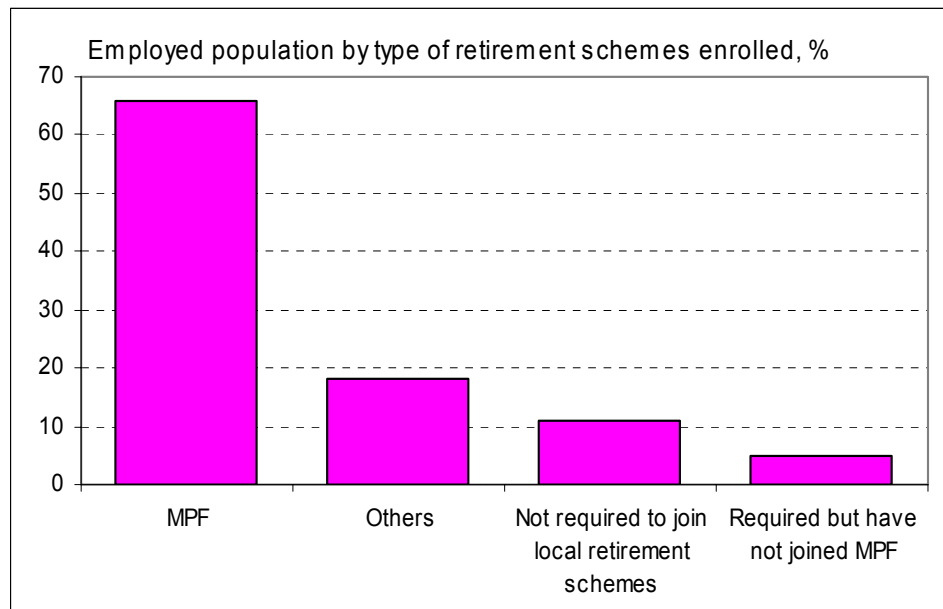
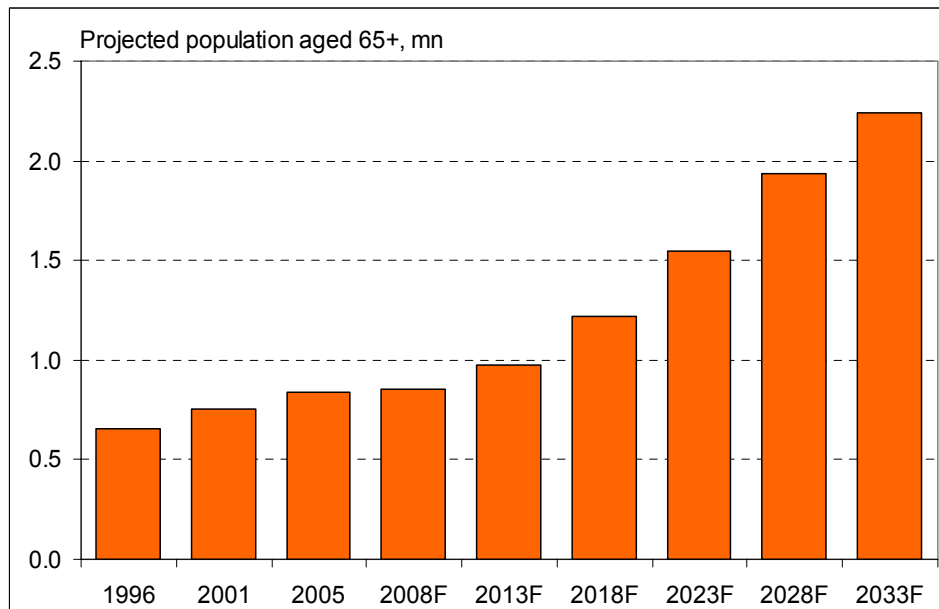
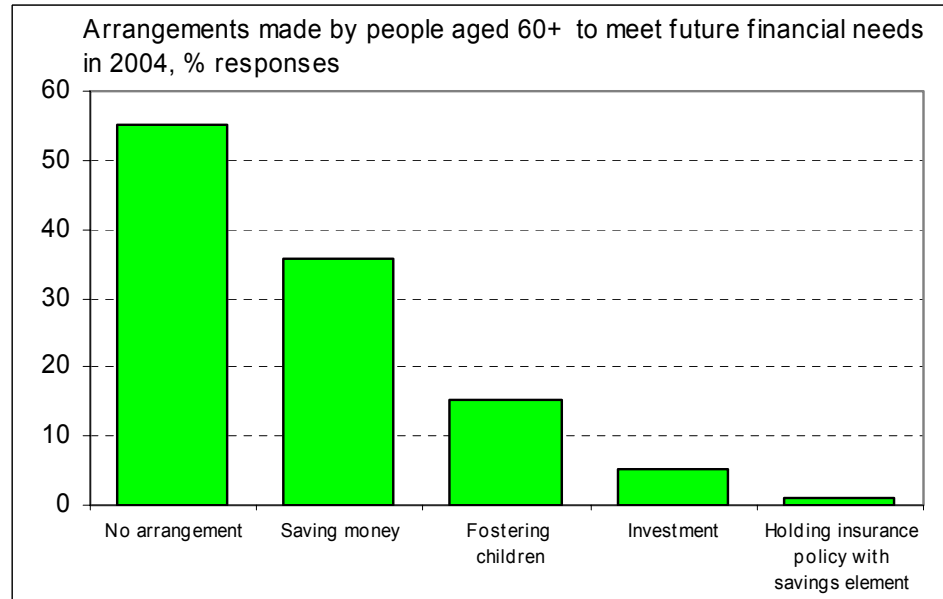


Source: HK Census & Statistics Dept.

Source: HK Census & Statistics Dept.

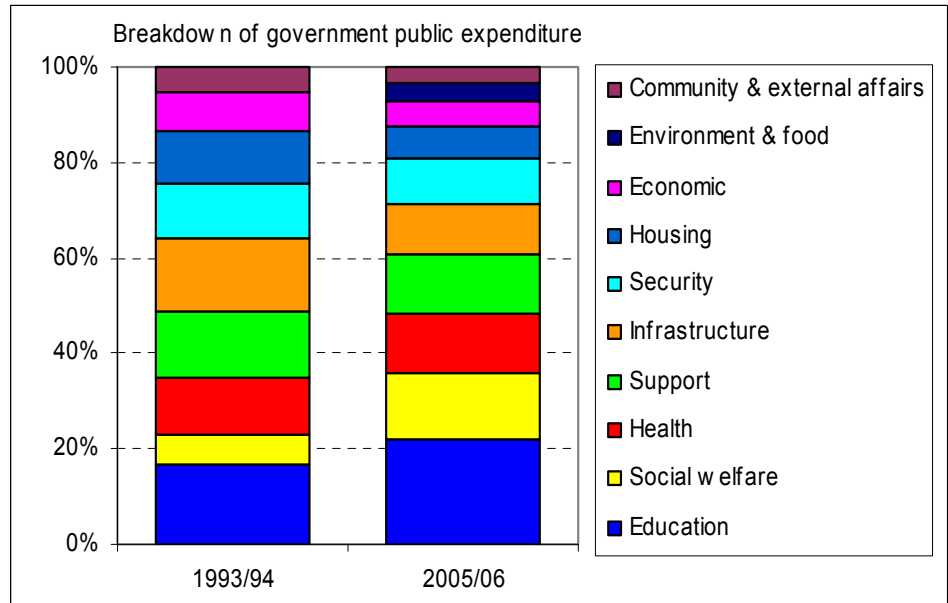
“Pay-as-you-go” retirement arrangement faces increased strain

- According to a [government survey](#), half of the HK people aged 60 and above in 2004 made no arrangement to meet future financial needs. For those who did, they relied mainly on past savings.
- There were 0.8 million people aged 65 and above in HK as of 2005. The number is expected to rise a rapid 168.2% to 2.2 million in 2033. With the expected surge in older persons, the working population of the future will have a much larger number of retirees to support if the latter do not have adequate retirement protection of their own.
- 85% of HK’s work force have some form of retirement protection now, but these arrangements are considered to be inadequate to meet HK’s retirement protection needs.

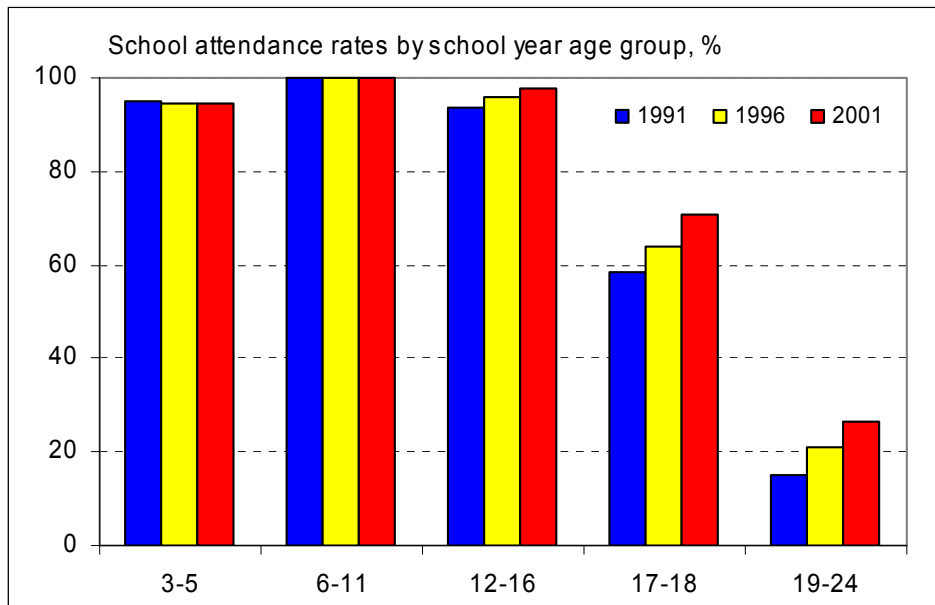


School attendance rose over the years

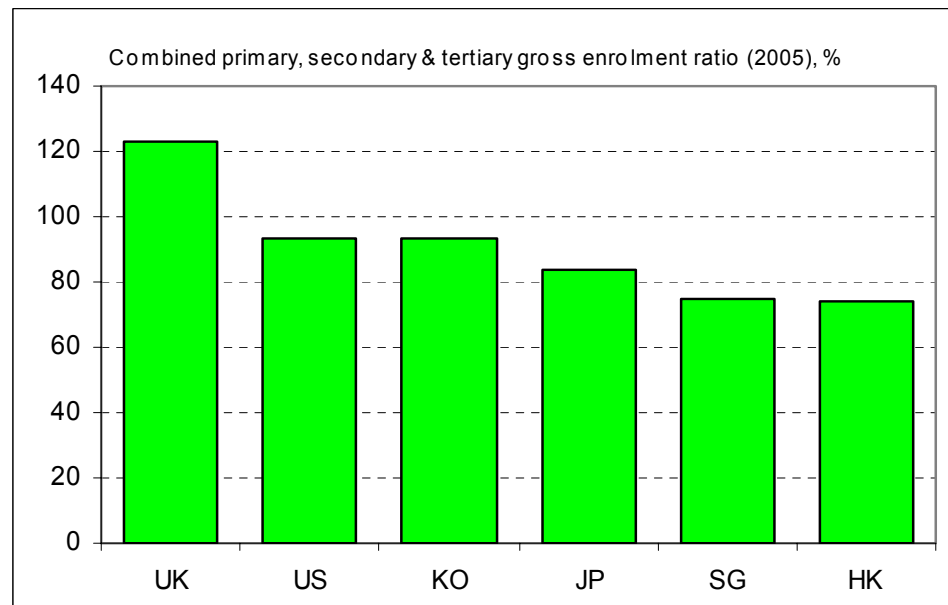
- Education has traditionally taken up the largest share of public expenditure in HK, accounting for 22.2% in 2005/06, up from 16.4% in 1993/94.
- Along with the increase in education opportunities, school attendance rates of children and teenagers aged 3-16 increased to over 95% in 2001. For teenagers aged 17-18, 71% of them were still attending school in 2001, up from less than 50% in 1981.
- In 2005, the combined gross enrolment ratio of HK at the primary, secondary and tertiary levels was 74%, comparable to that of Singapore.



Source: HK Treasury



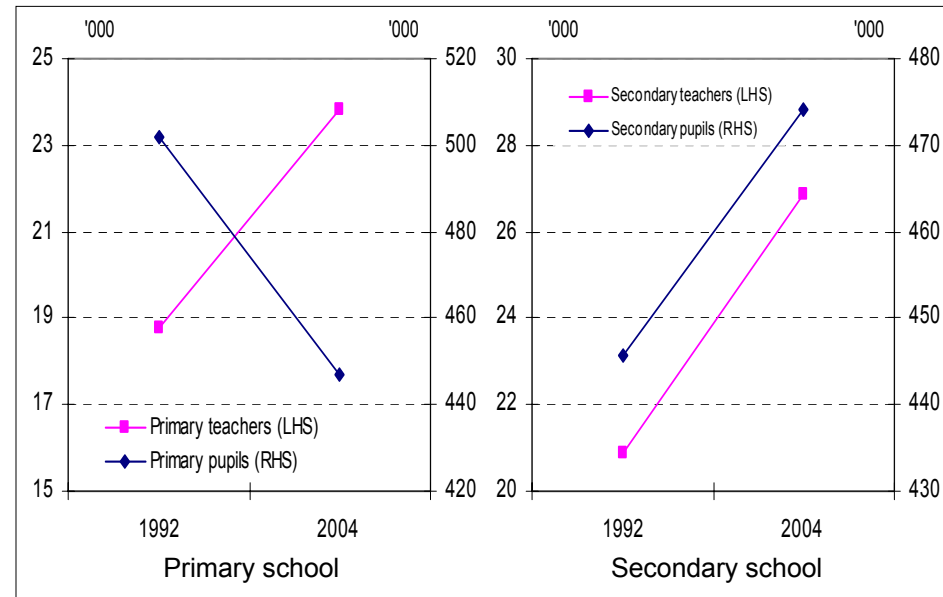
Source: HK Census & Statistics Dept.



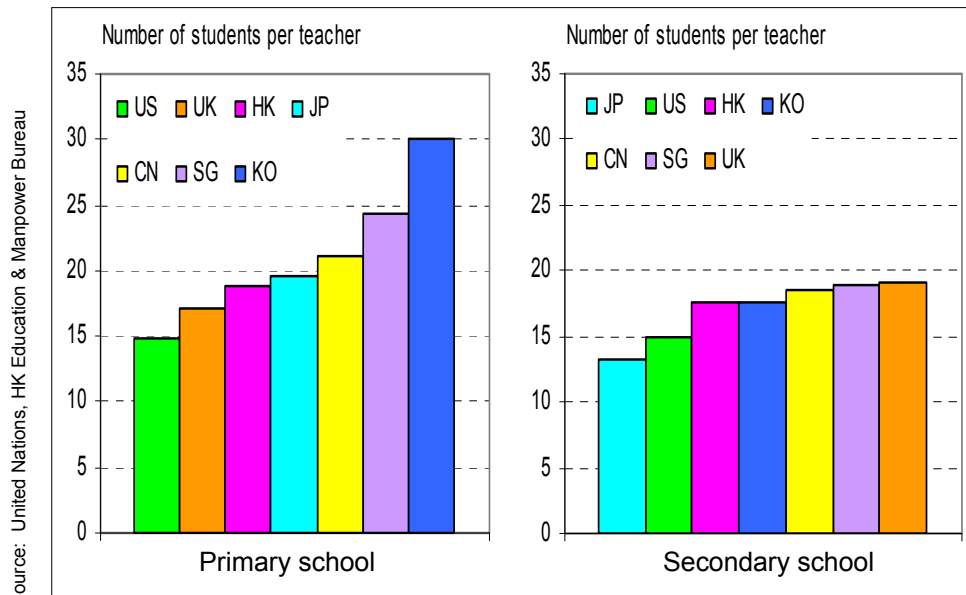
Source: United Nations

Supply of qualified teachers increases

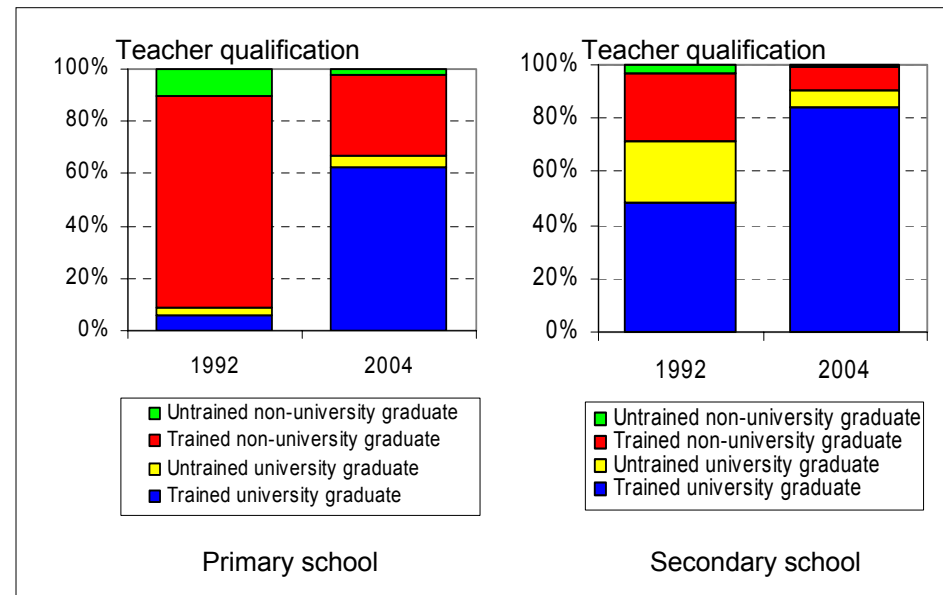
- The number of teachers at HK's schools has grown relative to the number of students. Between 1992-2004, the number of teachers in primary schools increased despite a fall in the number of pupils, while the rise in the number of teachers in secondary schools (27.4%) had outpaced that of the pupils' (6.3%).
- In 2004, the pupil-teacher ratios in HK's primary and secondary schools stood at 18.8 and 17.6 respectively, which were neither at the top nor lowest ends compared to the benchmark economies.
- Over 90% of primary school teachers are now trained and 60% have obtained their first degrees. As for secondary school teachers, 80% are both trained and degree holders.



Source: HK Education & Manpower Bureau



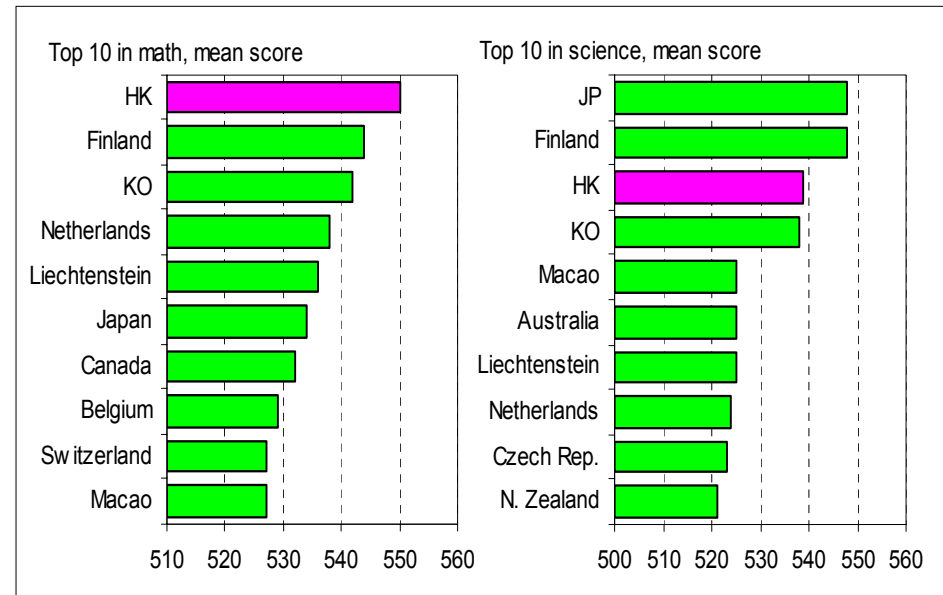
Source: United Nations, HK Education & Manpower Bureau



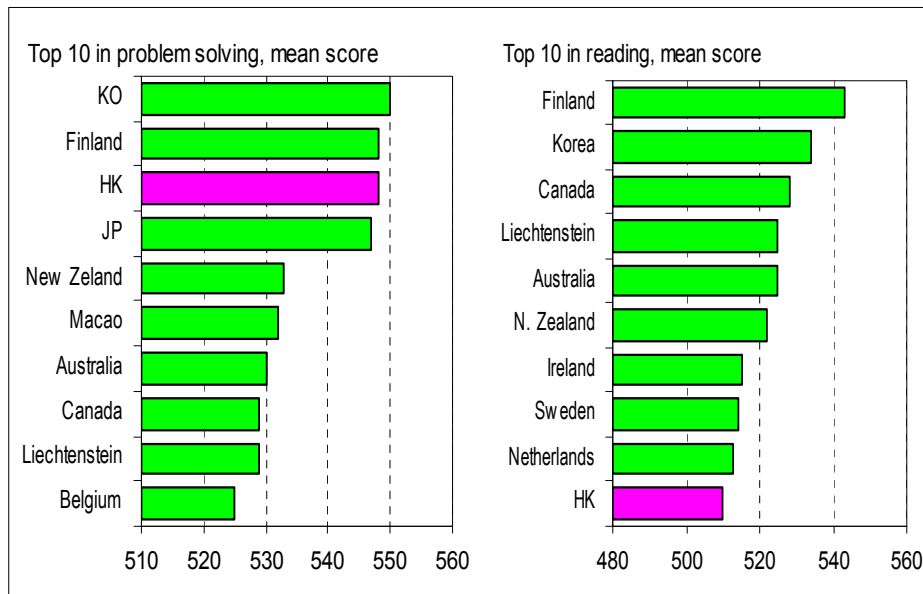
Source: HK Education & Manpower Bureau

HK ranked high in quality of basic education

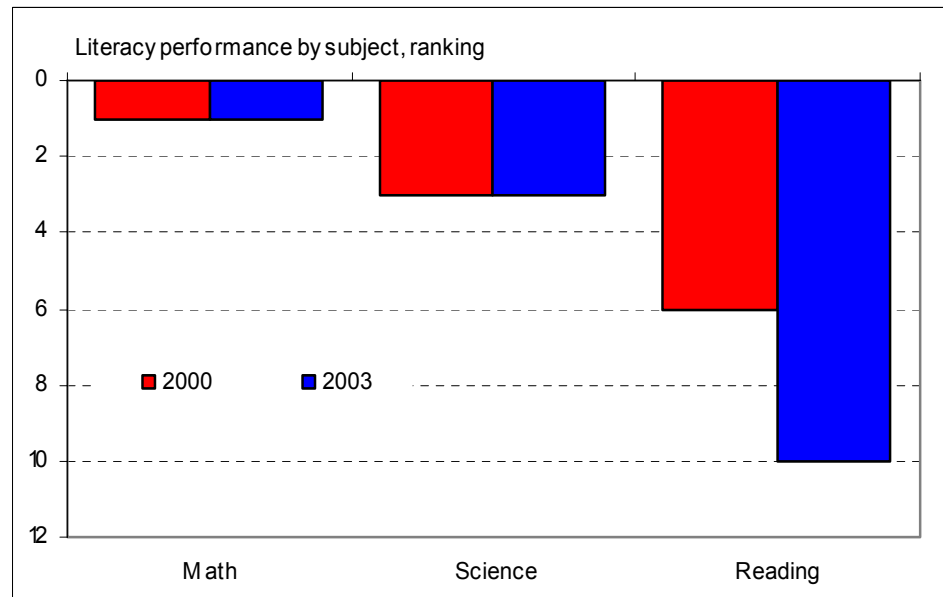
- Results of the [Programme for International Student Assessment \(PISA\)](#) conducted by the Organization for Economic Co-operation and Development (OECD) on students aged 15 can be used to gauge the quality of basic education in HK vis-à-vis others. In the second round of the PISA conducted in 2003, HK students ranked among the top 10 countries/regions in all the 4 areas of assessment including mathematics, science, problem solving and reading.
- It is worth noting though that in terms of reading, HK students did not do as well in 2003 compared to 2000. Relative to the top performing countries, HK had fewer “proficient” readers and more “less-proficient” readers.



Source: OCED PISA 2003



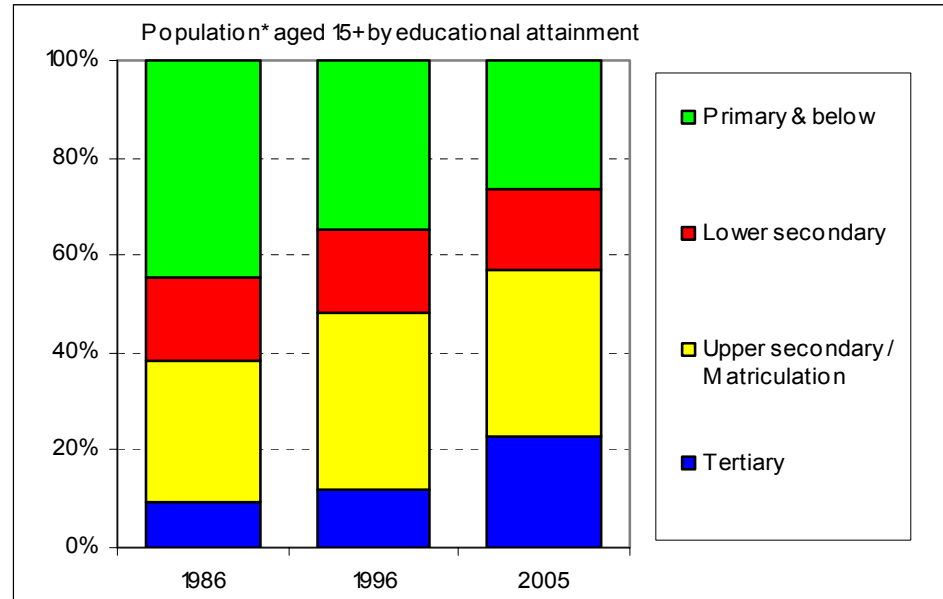
Source: OCED PISA 2003



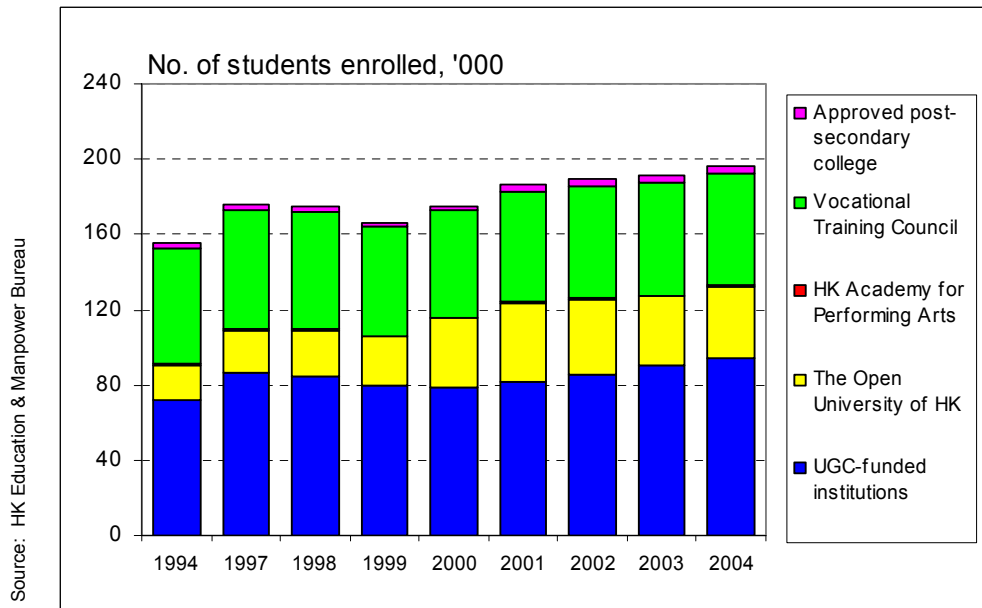
Source: OCED PISA 2000 & 2003

Number of persons with tertiary education on the rise

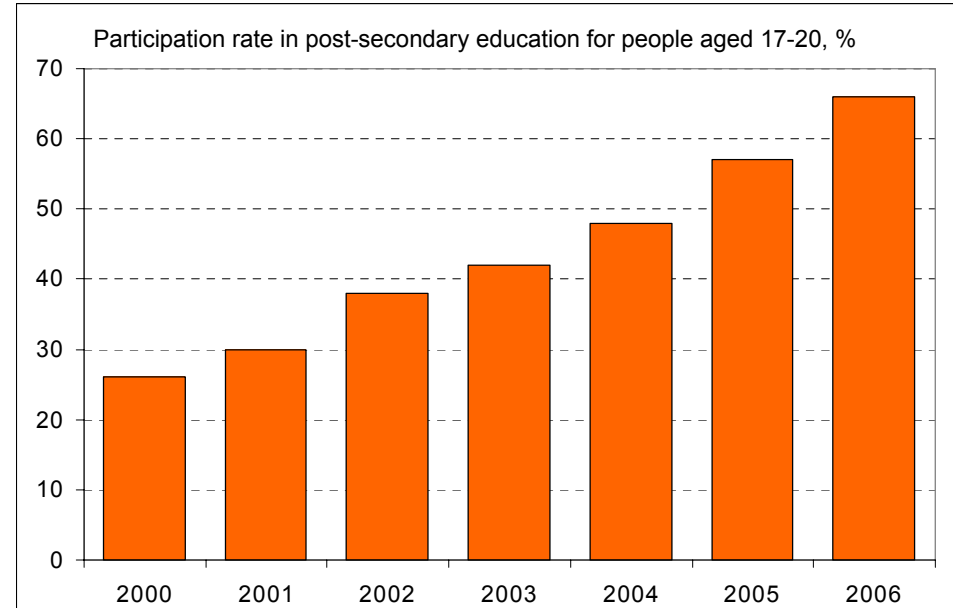
- The education level of HK's population has improved significantly. In 1996, only 44.7% of the population aged 15 and above had attended upper secondary education and above; the proportion increased to 57.1% in 2005.
- The proportion of population aged 15 and above who had attended [tertiary education](#) increased particularly from 11.3% to 22.6%. The increase was closely linked to measures introduced by the government to support post-secondary and higher education.
- Between 1999 and 2004, the number of students enrolled in tertiary studies rose 17.9% to 196,417. In 2005, the overall [participation rate in post-secondary education](#) for the 17-20 age cohort rose to 66%, up from 28% in 2000.



Source: HK Census & Statistics Dept.; *excluding foreign domestic helpers



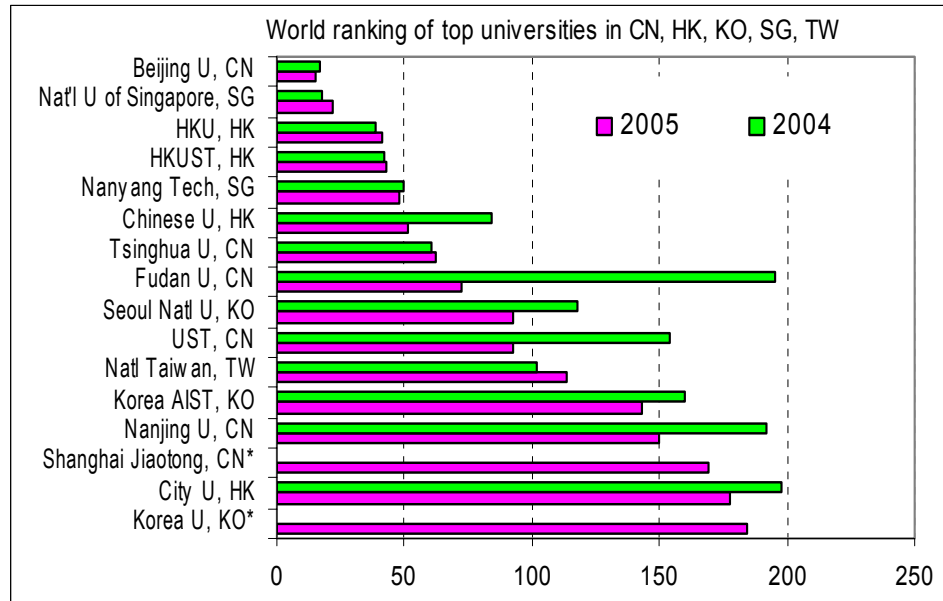
Source: HK Education & Manpower Bureau



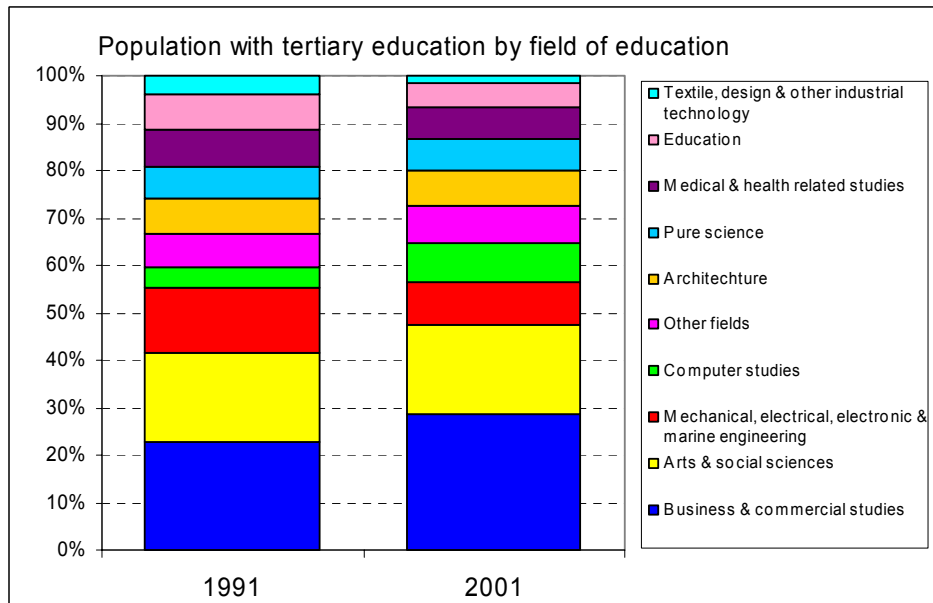
Source: HK Education & Manpower Bureau

Business remains the most popular choice of higher education study

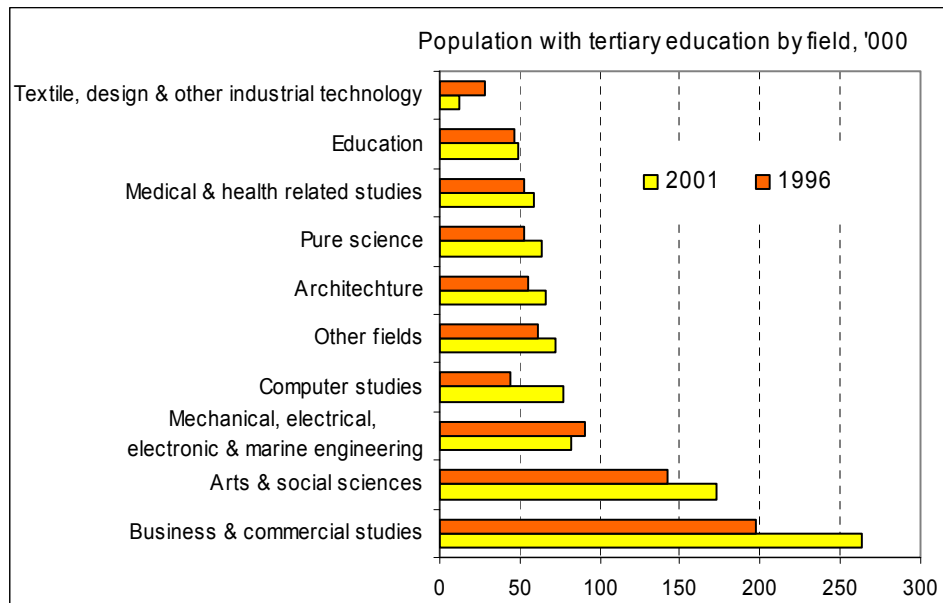
- Local tertiary education institutions assume an important role in helping HK meet its manpower challenge as its economy moves up the [value-added](#) chain. According to [Times Higher World Ranking of Universities](#), HK's universities ranked high in the world, with 4 out of the 8 [UGC-funded institutions](#) ranked among the world's top 200.
- In line with the service-oriented structure of the economy, business remains the most popular choice of study in HK's universities. In 2001, 28.7% of the population with [tertiary education](#) undertook business and commercial studies.
- Computer studies also gained popularity, with the number of people with tertiary education having studied this field reaching 76,615 in 2001, compared to only 19,687 in 1991.



Source: Times Higher World University Rankings 2005; *excluded from 2004 survey



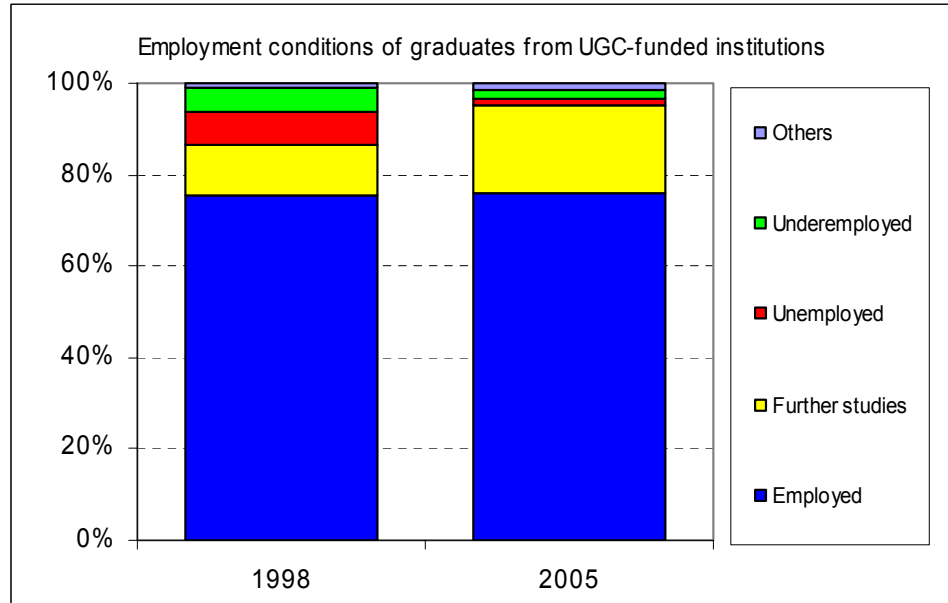
Source: HK Census & Statistics Dept.



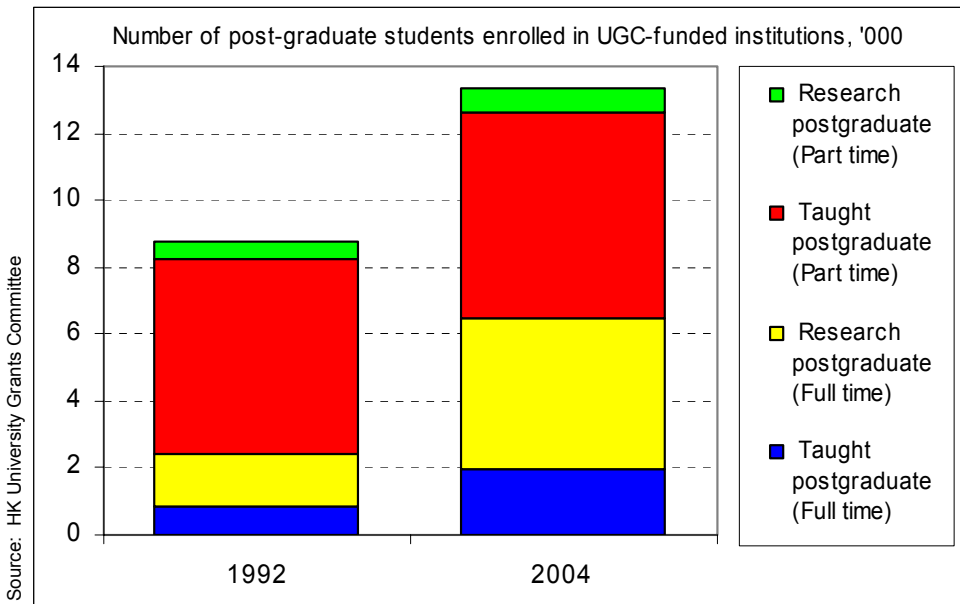
Source: HK Census & Statistics Dept.

Postgraduate education played more important role

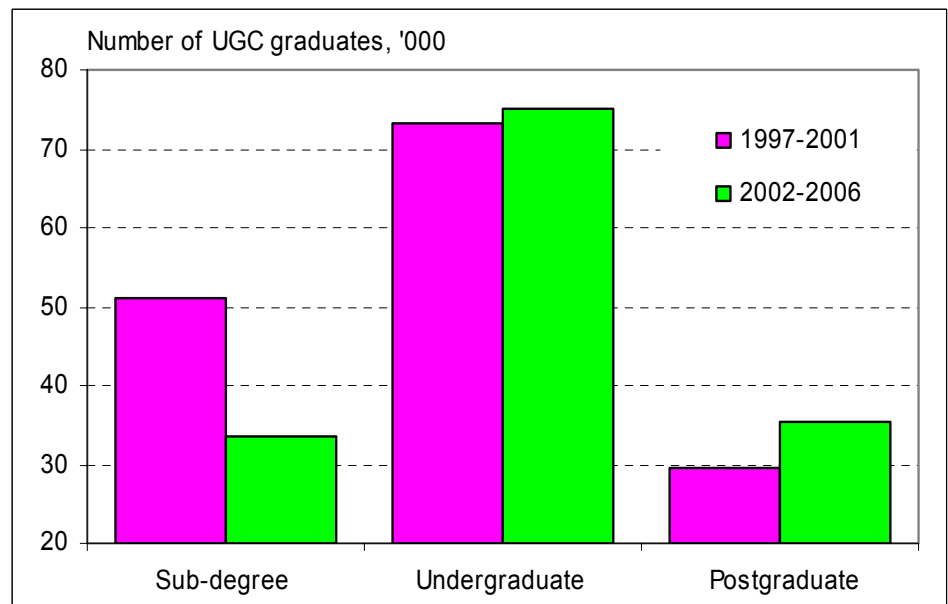
- More HK people have pursued further studies after obtaining their first degrees. The proportion of [UGC-funded institution](#) graduates who had continued with their studies rose significantly to 19% in 2005, compared to 10.9% in 1998.
- In 2004, the number of postgraduate enrolment in UGC-funded institutions rose to 13,322, up from less than 9,000 in 1992. The number of graduates from UGC postgraduate level also grew 20% in the 5 years to 2006, compared to the 1997-2001 period.
- Between 1991 and 2001, the proportion of persons with [tertiary education](#) who have attended postgraduate courses rose from 3.8% to 13.4%.



Source: HK University Grants Committee



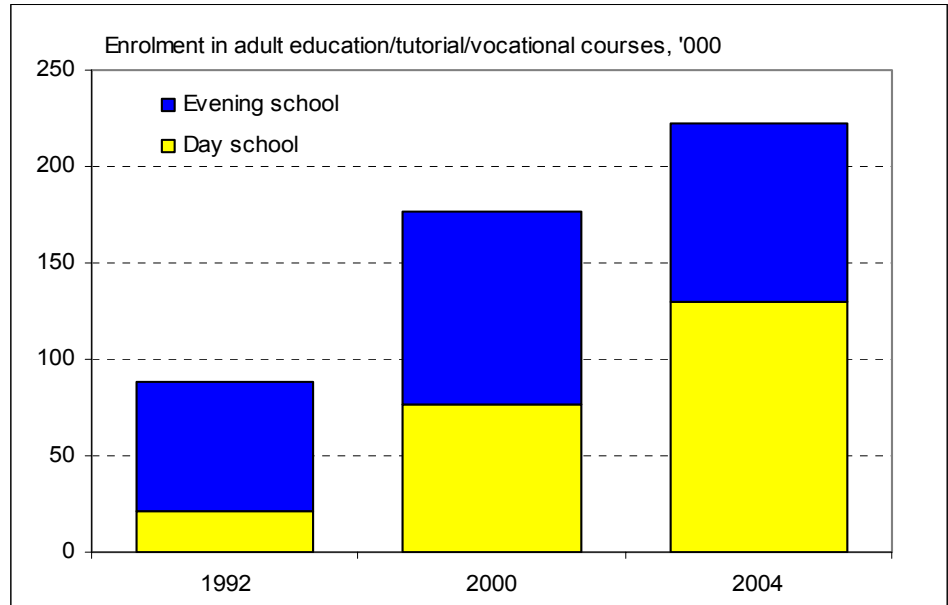
Source: HK University Grants Committee



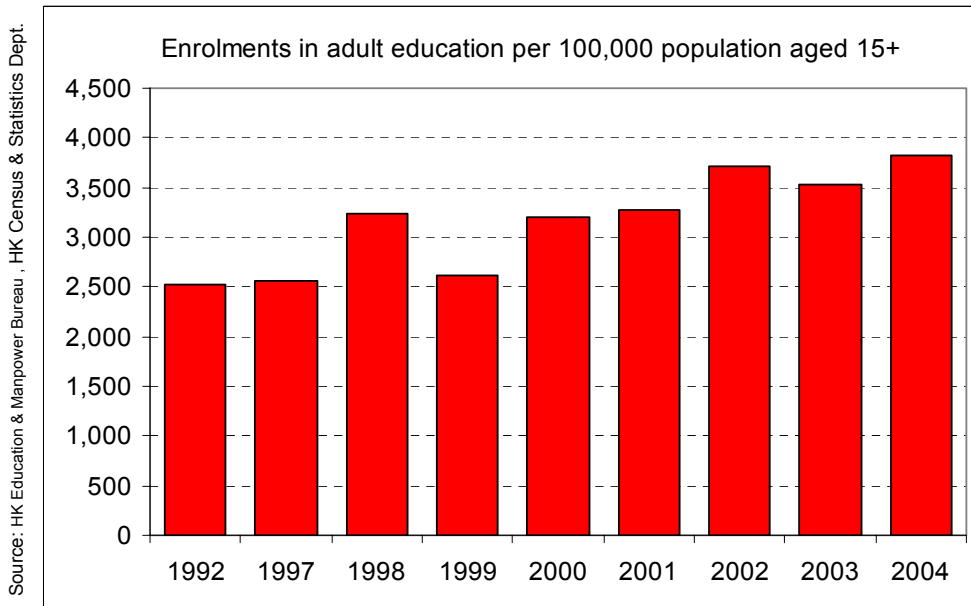
Source: HK University Grants Committee

More people enrolled in adult education

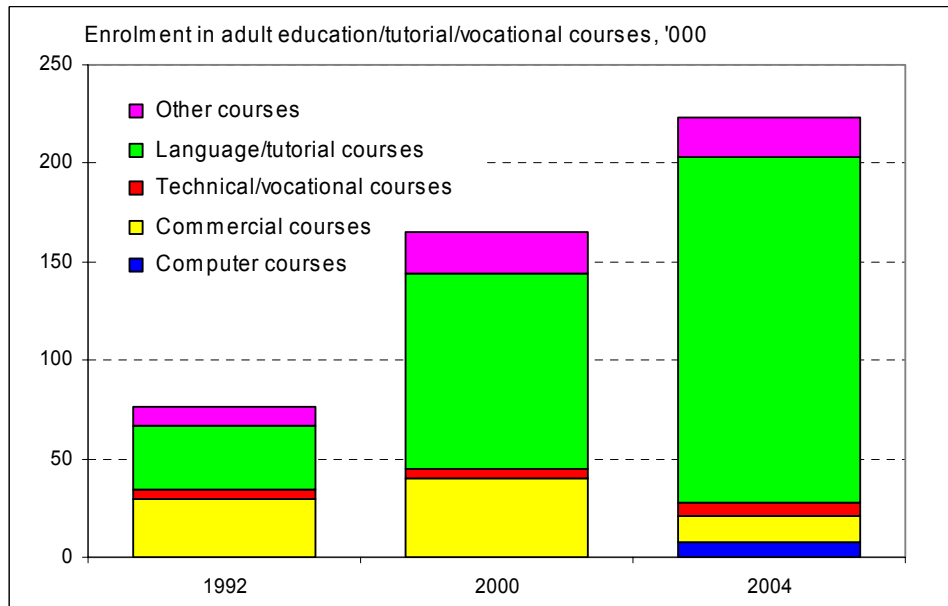
- With increased attention on providing further education for adult learners, enrolment in adult and vocational education institutions also increased. Between 1992-2004, enrolment in adult education/tutorial/vocational courses increased 153% to 222,865, with enrolment in day school surging 501% and those in evening school increasing 40.1%.
- In 2004, there were 3,814 enrolments in adult education courses per 100,000 population aged 15 and above, up substantially from 2,529 in 1992.
- In terms of adult education interests, 80% of the enrolments involved language & tutorial courses.



Source: HK Education & Manpower Bureau



Source: HK Education & Manpower Bureau, HK Census & Statistics Dept.

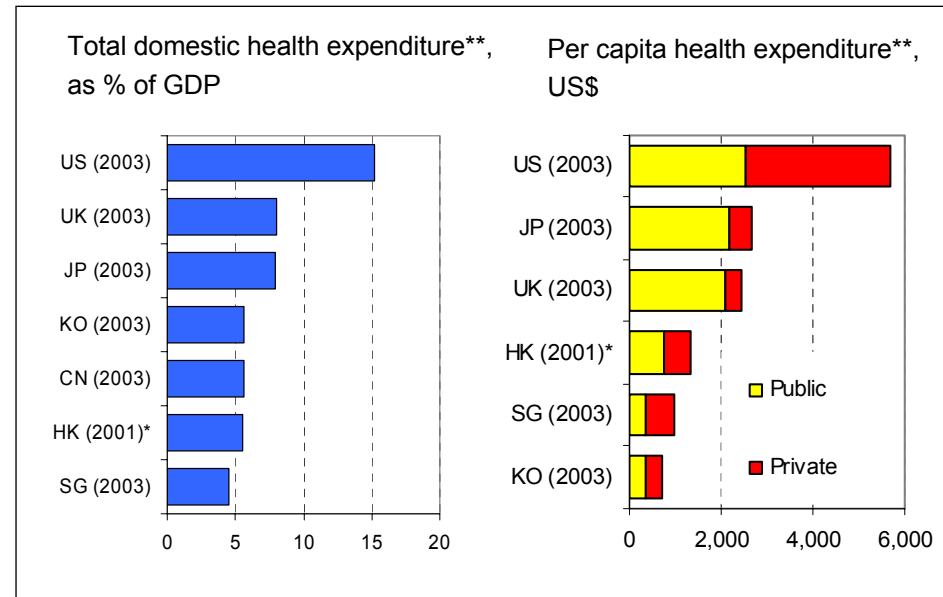


Source: HK Census & Statistics Dept.

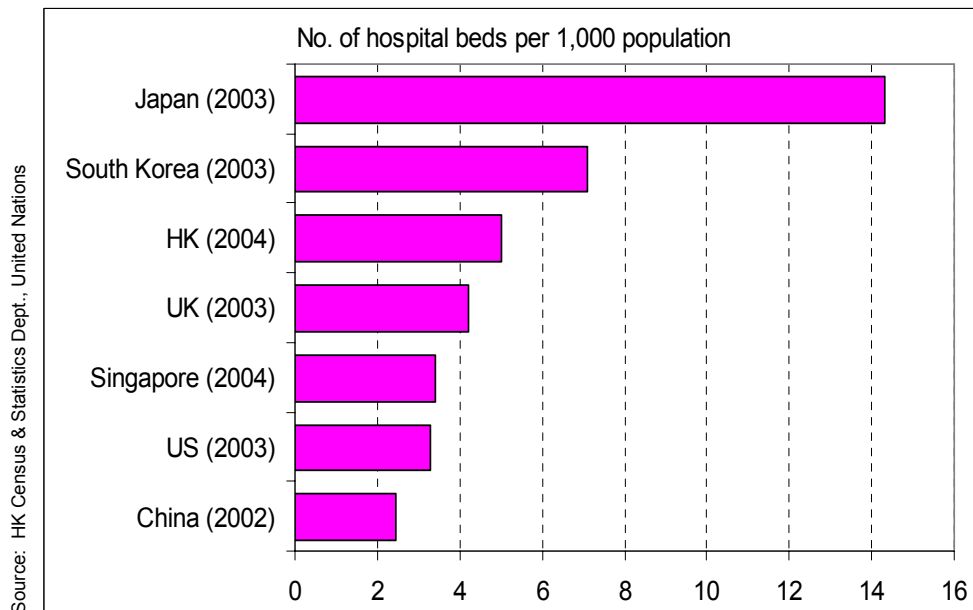
Health and Environment

Medical facilities compared favourably with developed countries

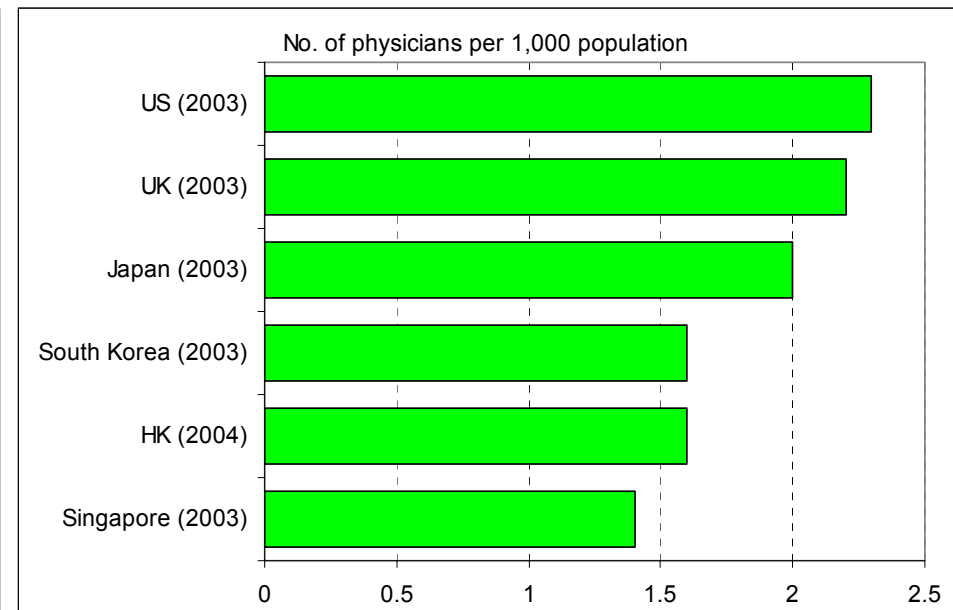
- Latest available data showed that HK's total domestic health expenditure (TDHE) grew at an annual average pace of 10.9% between 1989/90 and 2001/02 to HK\$68.6 billion, with the government accounting for 56.9% of the total. As a percentage of GDP, HK's TDHE ranked only higher than Singapore among the benchmark economies, but in per capita terms, HK ranked ahead of the other NIEs.
- The number of hospital beds per 1,000 population in HK increased from 3.9 in 1994 to 5 in 2004, ranking HK only below Japan and South Korea in Asia, but above the US and UK globally. Per 1,000 population in HK, the number of physicians increased from 1.3 in 1994 to 1.6 in 2004, closely matching the levels in South Korea and Singapore.



Source: HK Health, Welfare and Food Bureau, World Health Report, *fiscal year 2001/02. ** data for Taiwan are not available and per capita value for China is not shown as it is too low to be visible



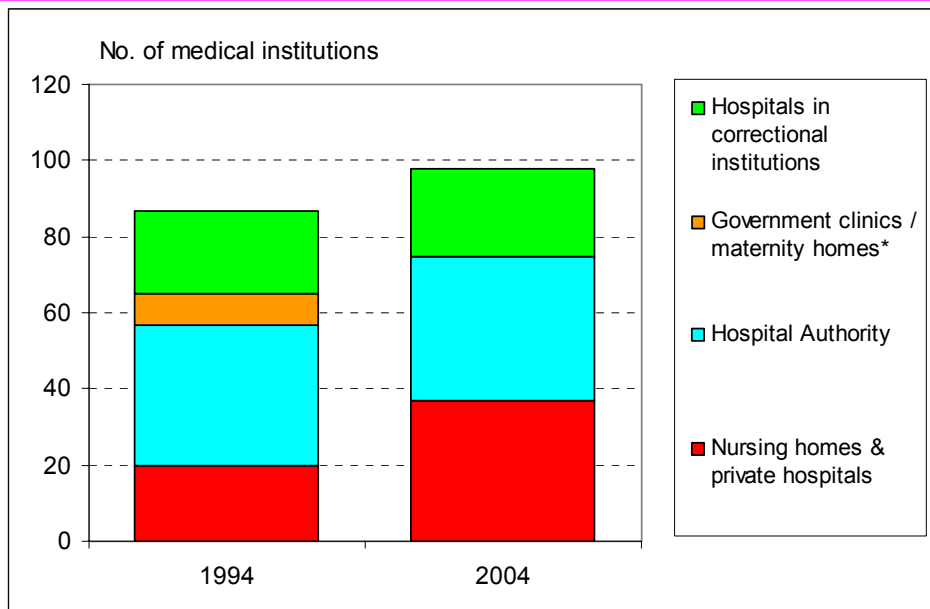
Source: HK Census & Statistics Dept., United Nations



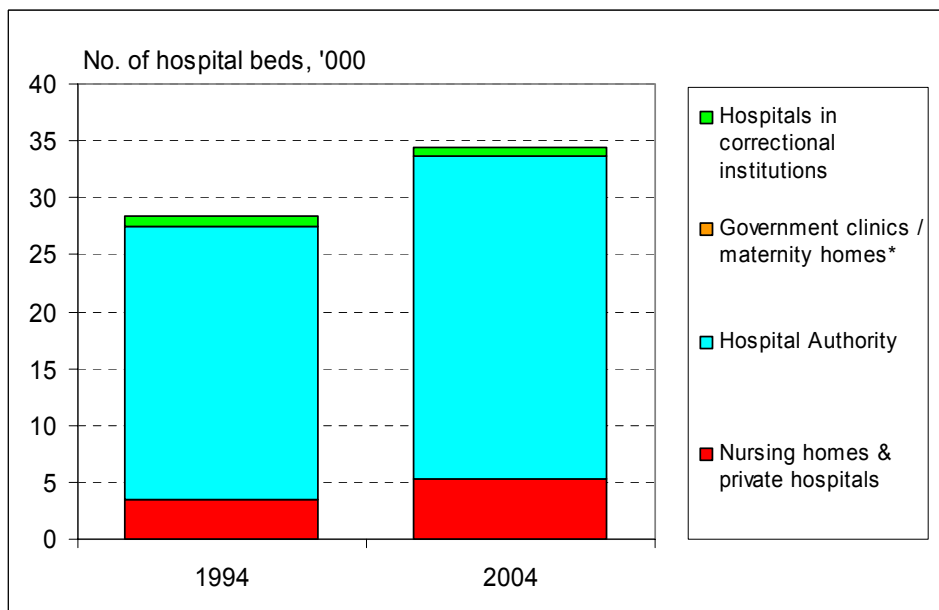
Source: HK Census & Statistics Dept., United Nations, Health Policy Monitor

Public hospitals see heavy demand while private ones under-utilised

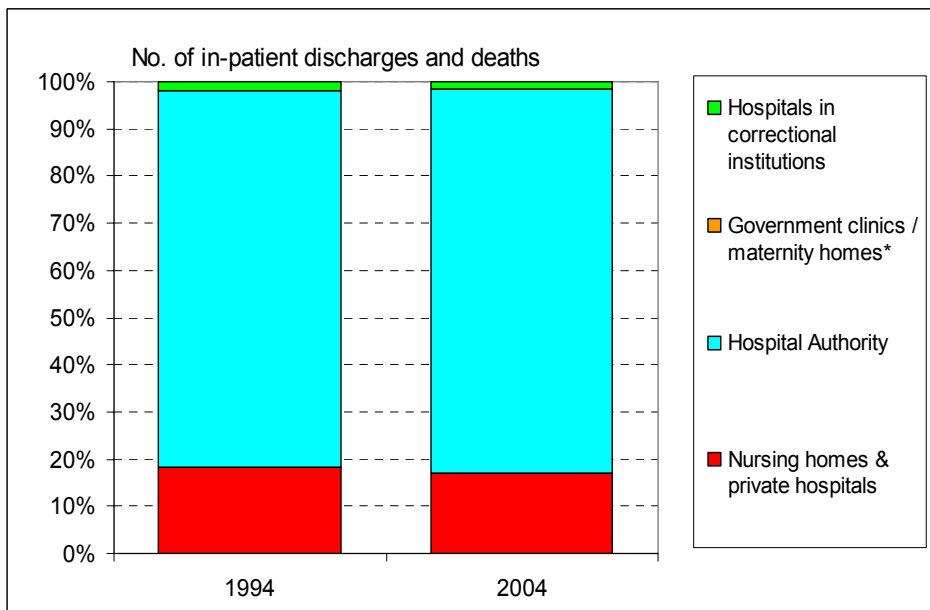
- Between 1994 and 2004, the number of nursing homes and private hospitals in HK nearly doubled from 20 to 37, while that of public medical institutions declined from 67 to 61 following the transfer of all maternity homes and public general out-patient clinics under the Department of Health to the Hospital Authority in July 2003.
- During the same period, the number of hospital beds in nursing homes and private hospitals increased strongly by 52.7%, while that of the public sector went up only 17.1%.
- Despite the increase in private-sector medical resources, the proportion of in-patients and discharges of nursing homes and private hospitals has fallen over the past decade and remained below 20% in 2004.



Source: HK Census & Statistics Dept.,* starting from July 2003, all maternity homes and clinics under the Department of Health were transferred to the Hospital Authority



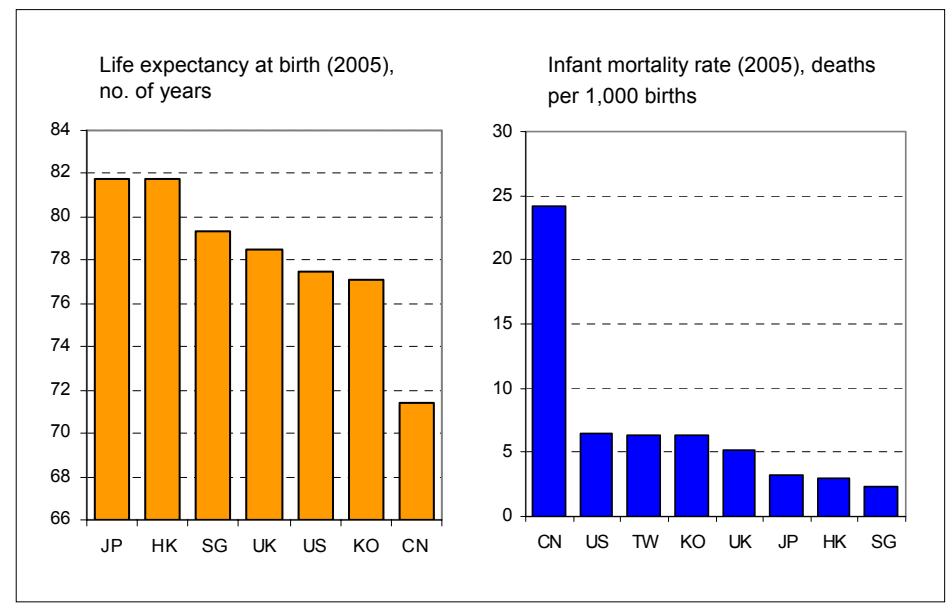
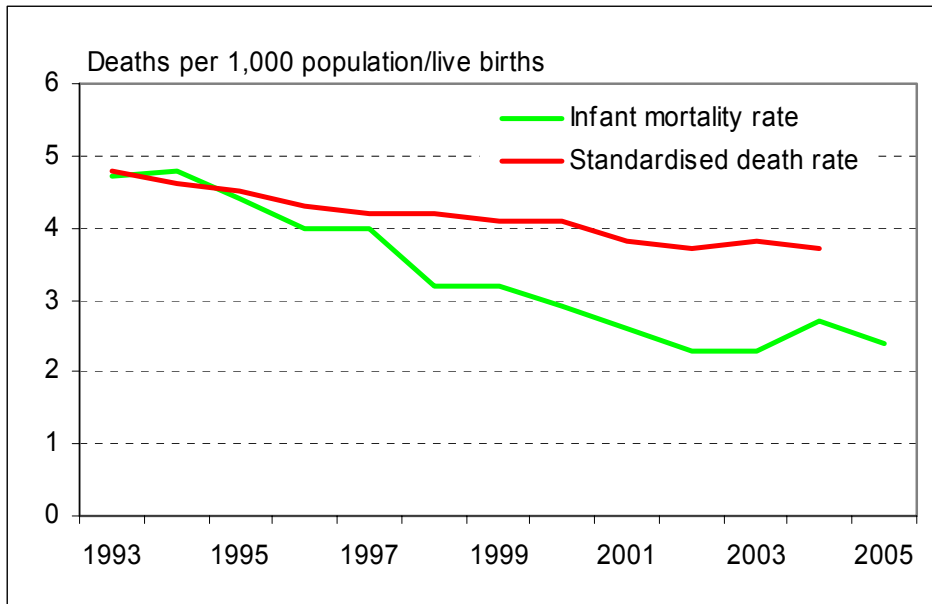
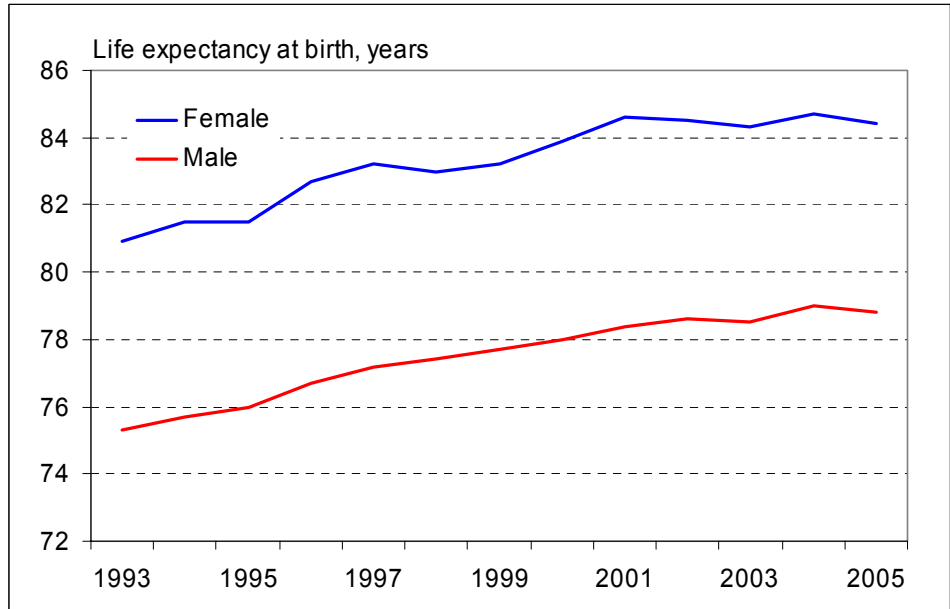
Source: HK Census & Statistics Dept.,* starting from July 2003, all maternity homes and clinics under the Department of Health were transferred to the Hospital Authority



Source: HK Census & Statistics Dept.,* starting from July 2003, all maternity homes and clinics under the Department of Health were transferred to the Hospital Authority

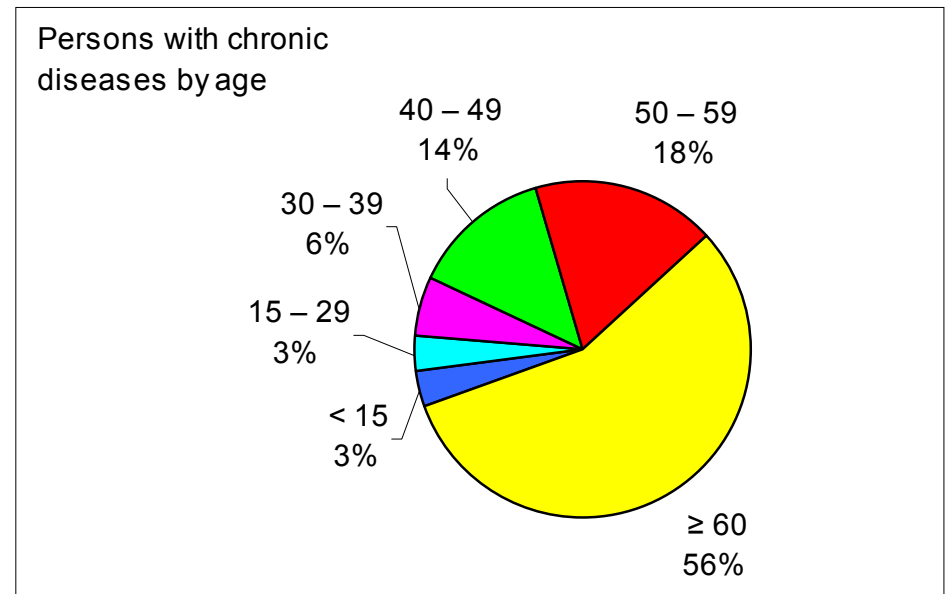
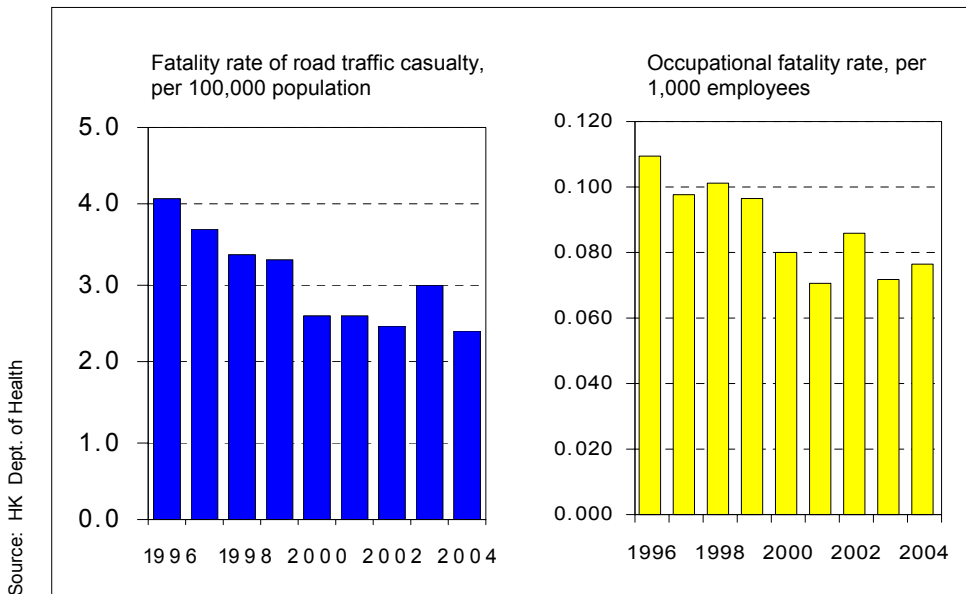
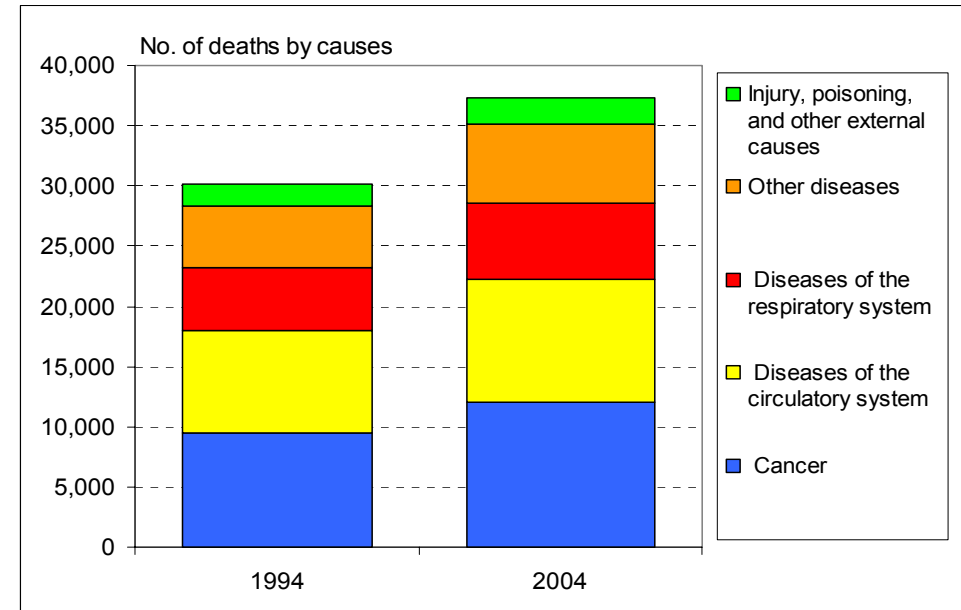
Mortality conditions of the population improve noticeably

- Thanks to advancement in medical technology, improved health education, and enhancement of living standard, mortality of HK people has continued to improve. The life expectancy of both males and females has been on the rise and edged up to 78.8 and 84.4 years respectively in 2005, up from 75.3 and 80.9 years in 1993.
- Meanwhile, the [standardised death rate](#) dropped from 4.8 per 1,000 population in 1993 to 3.7 in 2004. The greatest improvement was for infants whose mortality rate fell from 4.7 deaths per 1,000 live births in 1993 to 2.4 in 2005.
- In 2005, HK's life expectancy of 81.5 years was close to those low mortality countries like Japan, while its infant mortality rate was among the lowest in the world.



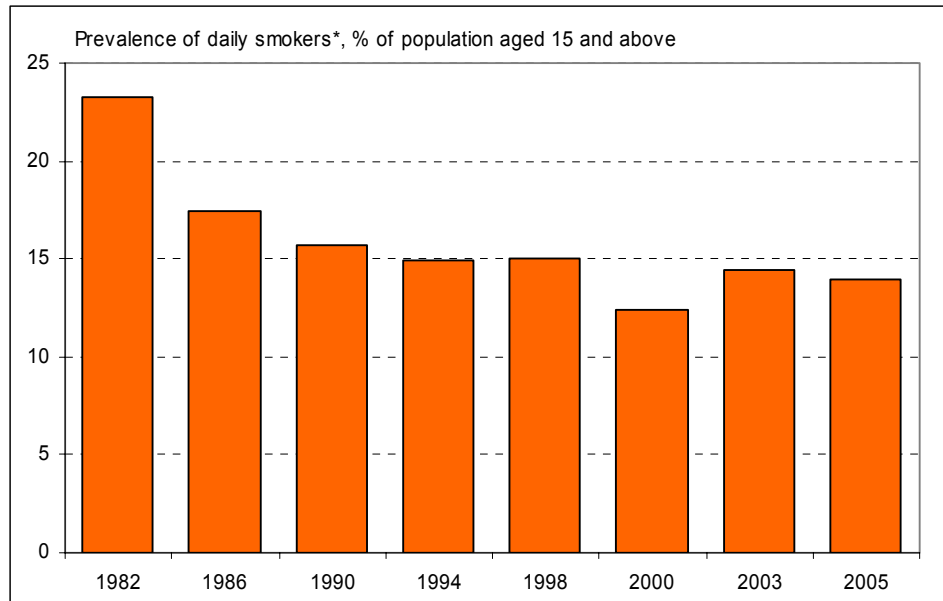
Cancer, circulatory and respiratory diseases are main causes of death

- The dominant causes of death in HK are cancer, diseases of the circulatory and respiratory systems, which accounted for 75.7% of all deaths in 2004. Injury and poisoning contributed to 6% of deaths, with road and occupational accidents among the more common causes. In 2004, deaths caused by road accidents were 2.4 per 100,000 population while occupational fatalities were 0.077 per 1,000 employees, both low by international standards.
- According to a government survey, about 13% of HK's population were found to have [chronic diseases](#) in 2000. 56.3% of these people were aged 60 and above. The most common types of chronic diseases were hypertension, diabetes mellitus and heart diseases.

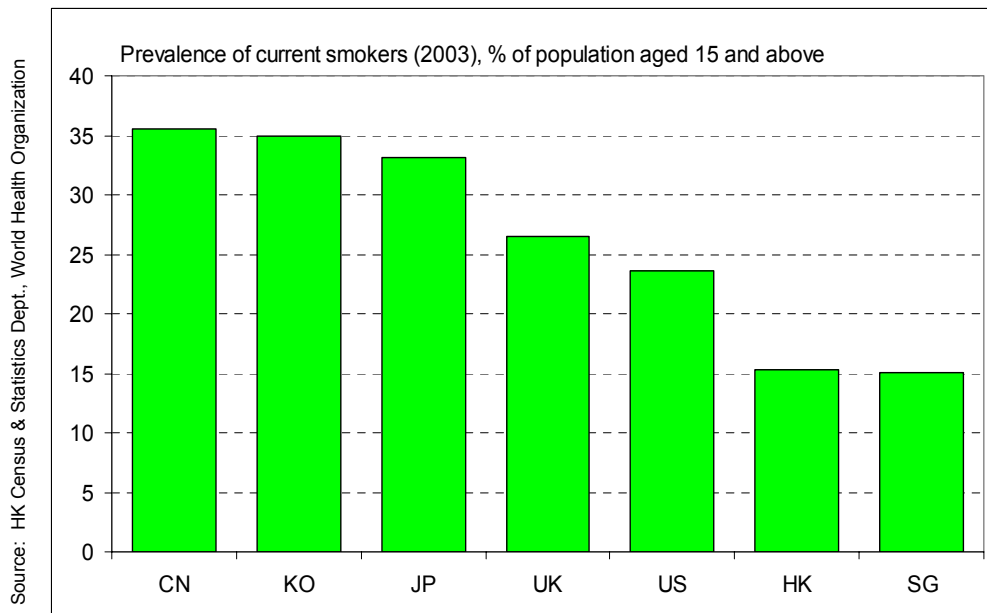


Smoking prevalence declines but alcohol use on the rise

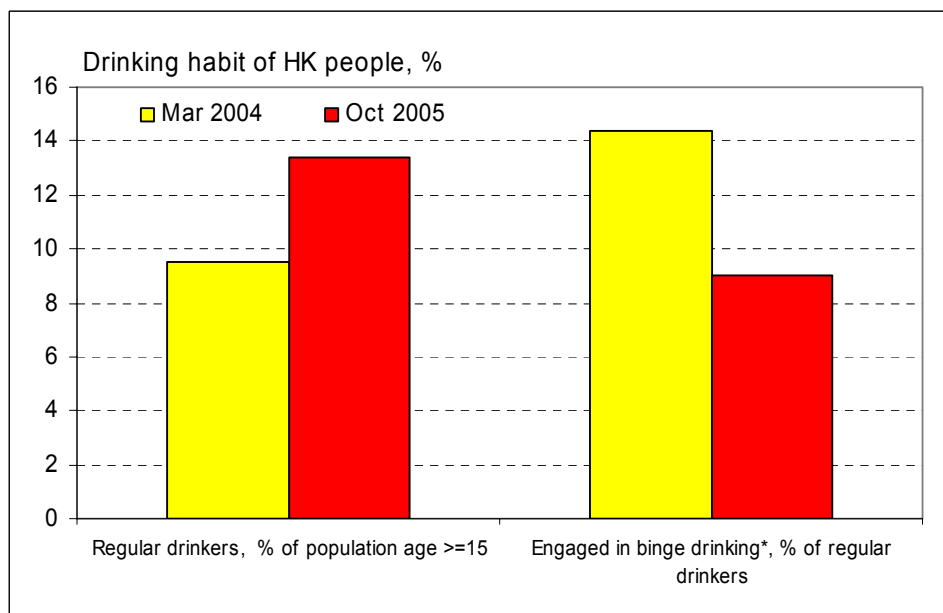
- A major cause of illness, smoking has become less prevalent in HK. The number of daily smokers decreased steadily from 23.3% of HK population aged 15 and above in 1982 to 15.7% in 1990 and further down to 14% in 2005. Compared to the benchmark economies, [smoking prevalence](#) in HK is among the lowest.
- The prevalence of alcohol use is, however, on the rise. In 2004, 9.5% of HK population aged 15 and above were regular drinkers who drank at least once a week; the ratio surged to 13.4% in 2005. [Binge drinking](#), however, was less rampant. Alcohol misuse is not only hazardous to health, but also plays a significant role in a lot of social problems, accidents and public disruptions in HK.



Source: HK Census & Statistics Dept.; *surveys from 1982 to 2000 only covered persons who smoked cigarettes



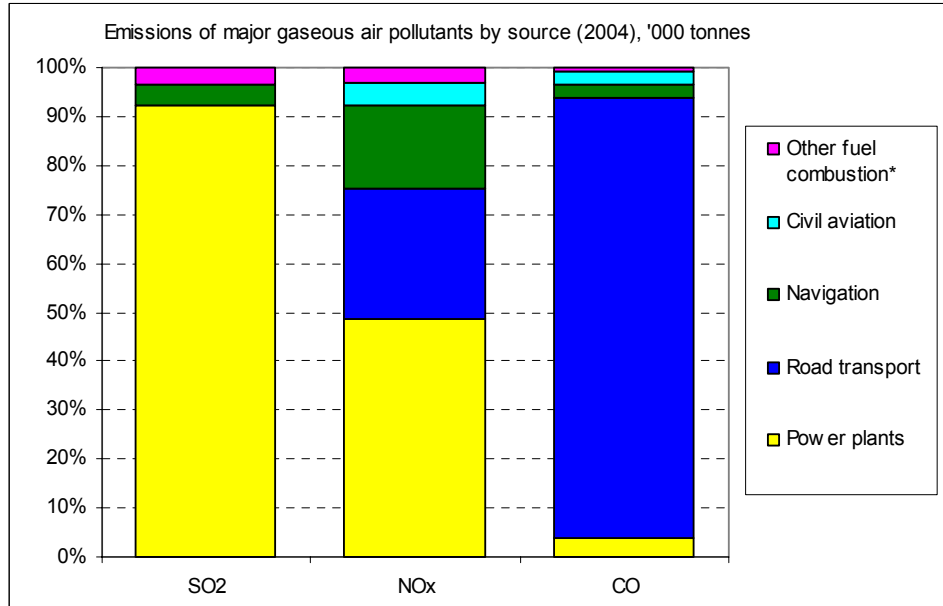
Source: HK Census & Statistics Dept., World Health Organization



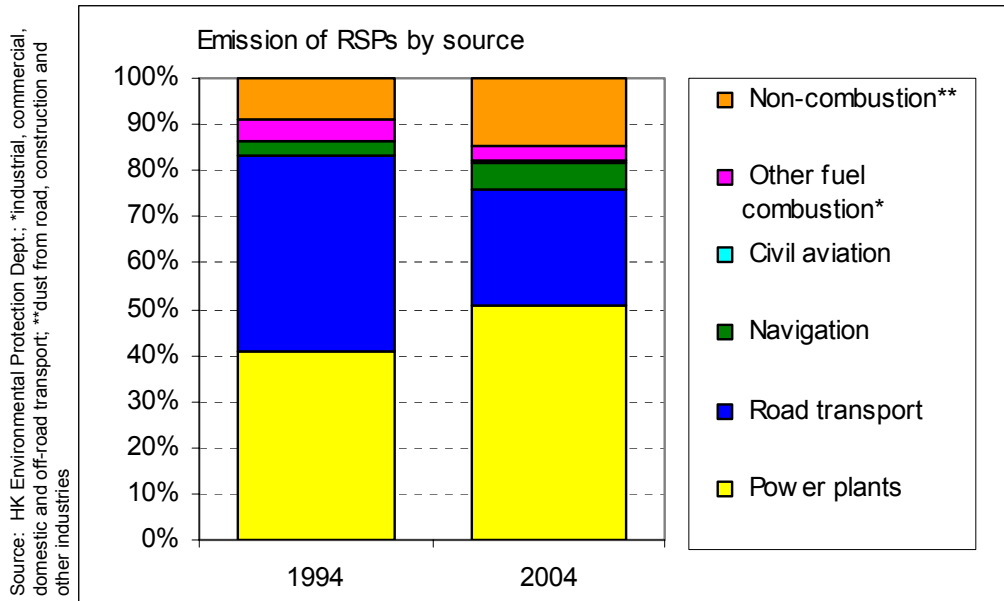
Source: HK Dept. of Health; *binge drinking refers to consumption of five or more drinks in one occasion

Air pollution remains a major cause for concern

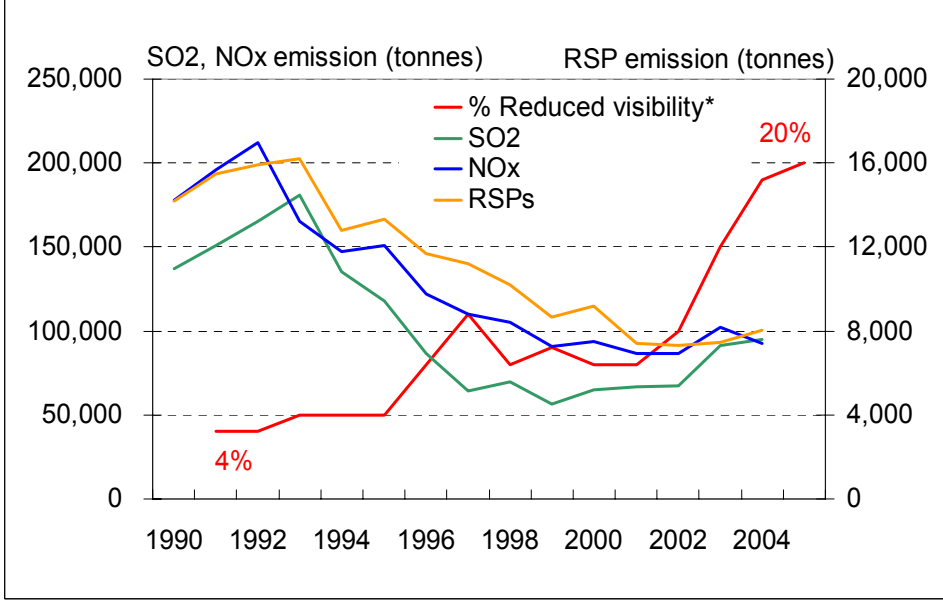
- According to Environmental Protection Department data, power plants are HK's biggest contributors to regional air pollution. In 2004, they contributed to 92% of HK's sulphur dioxide (SO₂) emissions, 51% of respirable suspended particulates (RSPs), and 49% of nitrogen oxides (NOx).
- Road transport is another main source of air pollutants in HK especially in the urban areas. In 2004, motor vehicles contributed to 90% of carbon monoxide (CO) emissions, 27% of NOx, and 25% of RSPs.
- Thanks to implementation of various control measures, emissions of gaseous pollutants have declined noticeably, but selected areas in HK continue to suffer from high level of suspended particulates which impair health and visibility.



Source: HK Environmental Protection Dept.; *industrial, commercial, domestic and off-road transport



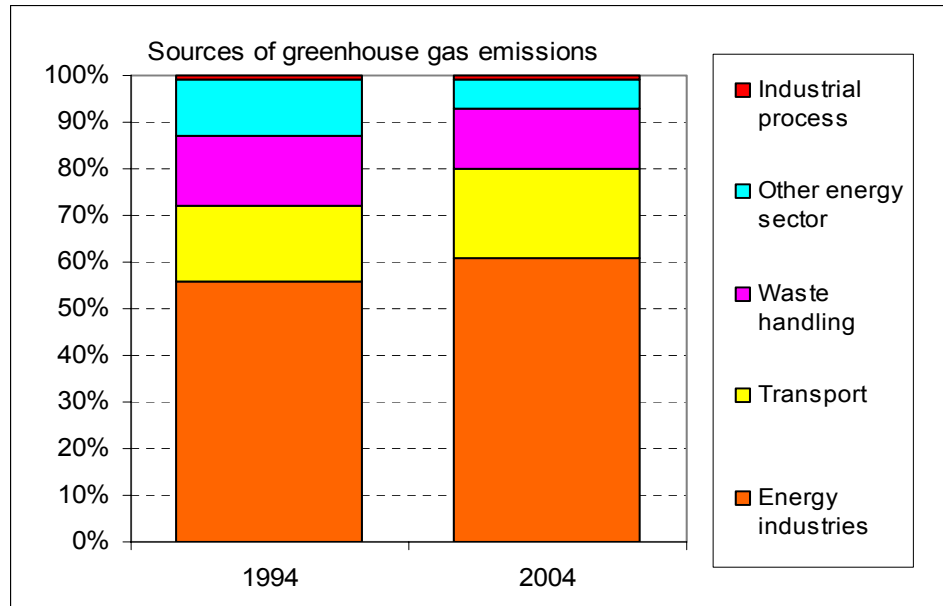
Source: HK Environmental Protection Dept.; *industrial, commercial, domestic and off-road transport; **dust from road, construction and other industries



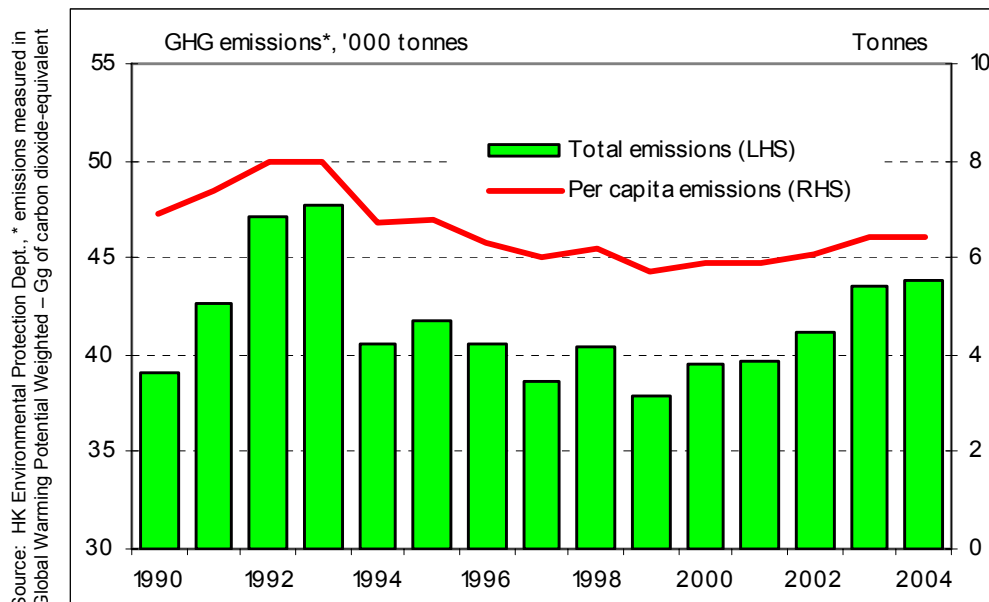
Source: HK Environmental Protection Dept.; *Refers to the time in a year with visibility less than 8 km and relative humidity not exceeding 80%

Greenhouse gas emissions on the rise but remain low internationally

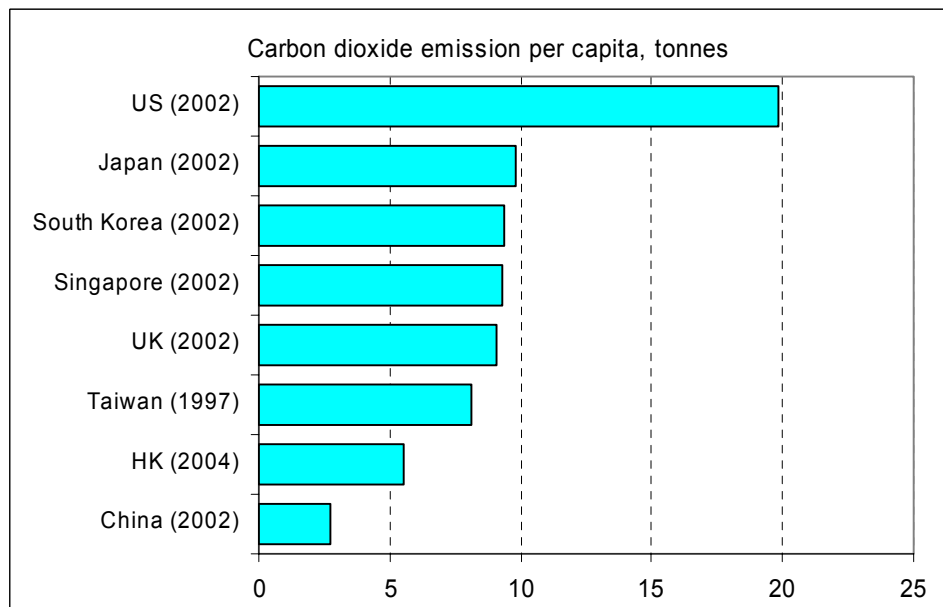
- Power plants and motor vehicles are also major sources of [greenhouse gases](#) (GHG) emissions which cause global climate change. In 2004, energy industries and transport contributed to 80% of GHG emissions in HK, up from 72% in 1994.
- GHG emissions had declined in HK during 1993-1999 but picked up again since 2000 due to rising power consumption and increased road transport.
- Carbon dioxide (CO₂) is the most significant GHG emitted in HK, accounting for 99% of the total emission in 2004. Compared to the other benchmark economies, HK's level of per capita CO₂ emission remained on the low side.



Source: HK Environmental Protection Dept.



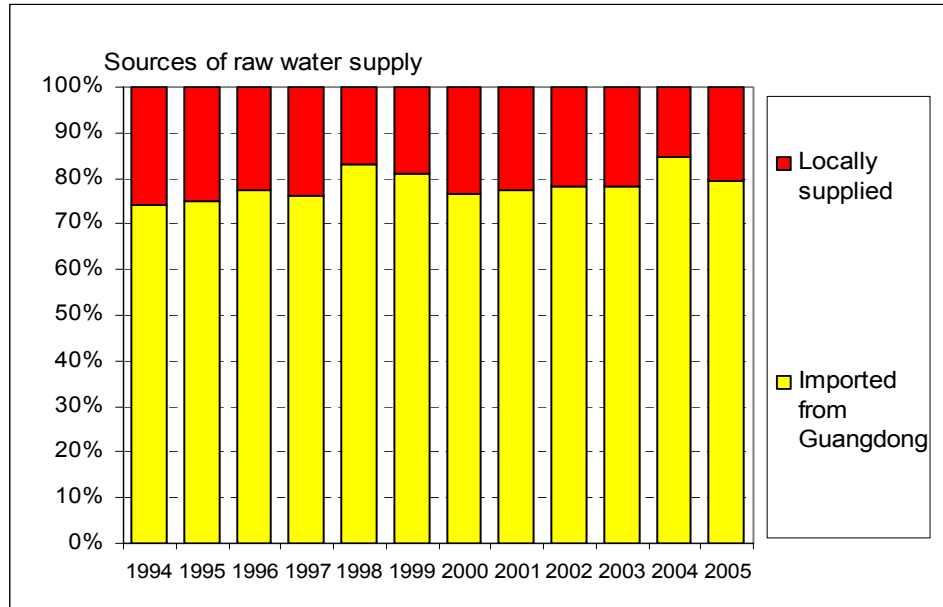
Source: HK Environmental Protection Dept., * emissions measured in Global Warming Potential Weighted - Gg of carbon dioxide-equivalent



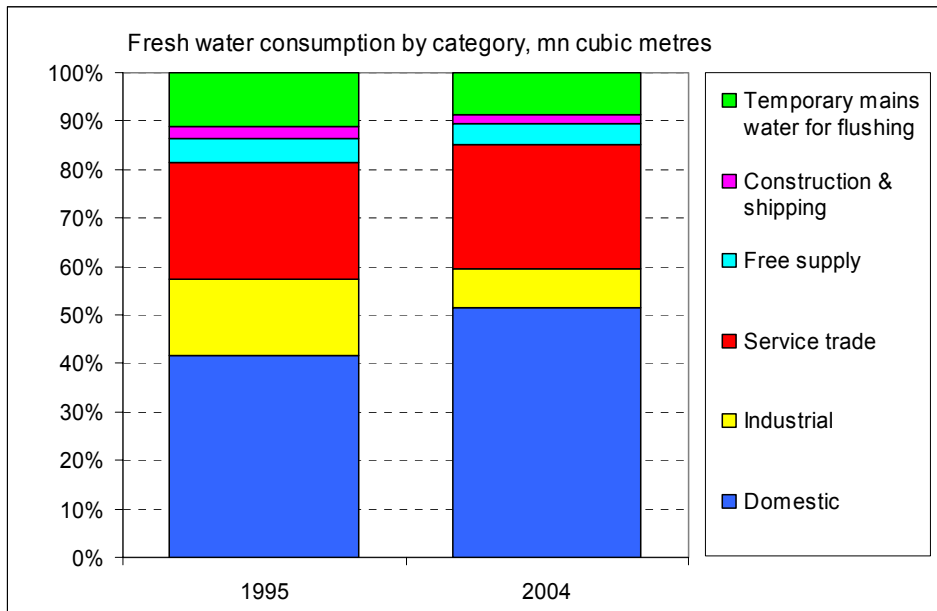
Source: United Nations

Drinking water is of high quality

- Besides air, water is also a common vehicle for the spread of health and environmental hazards, mainly through contaminated drinking water and polluted beach, river and marine water.
- HK derived about 70-80% of its raw water supply from Dongjiang (East River) in Guangdong, and the rest from rainfall collected from local water gathering grounds. In 2005, HK consumed 968 million cubic metres of fresh water, more than half of which were for domestic use.
- For a long time, the treated drinking water of HK has fully complied with the [Guidelines for Drinking Water Quality](#) set by the World Health Organization (WHO) in both the microbiological and chemical criteria.



Source: HK Water Supplies Dept.



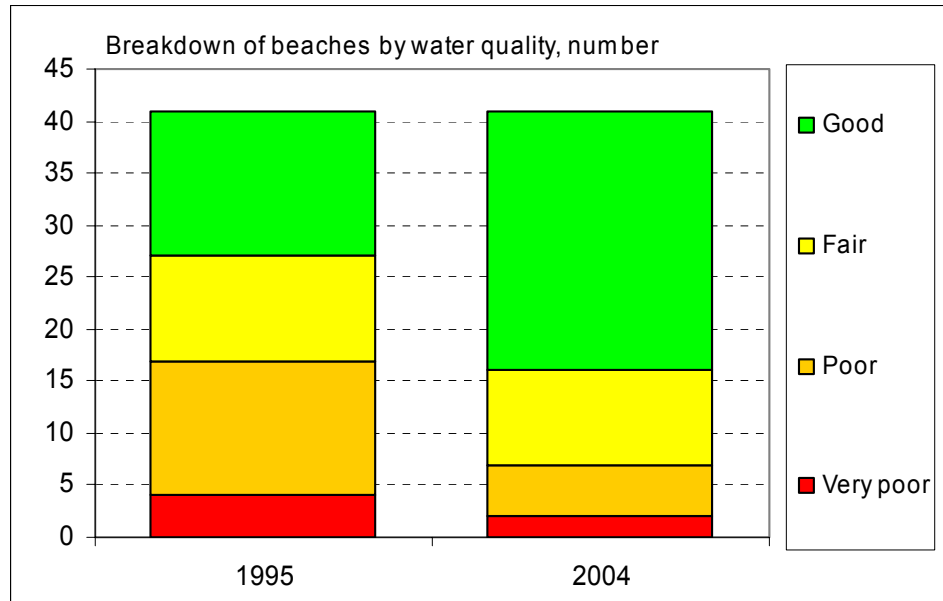
Source: HK Water Supplies Dept.

Quantity of selected* microbiological & chemical substances found in treated water	WHO Guideline Value	HK Value
Total coliforms (number per 100 mL)	0	0
Arsenic (mg per L)	0.01	0.001
Lead (mg per L)	0.01	0.00005
Chloroform (µg per L)	200	< 50

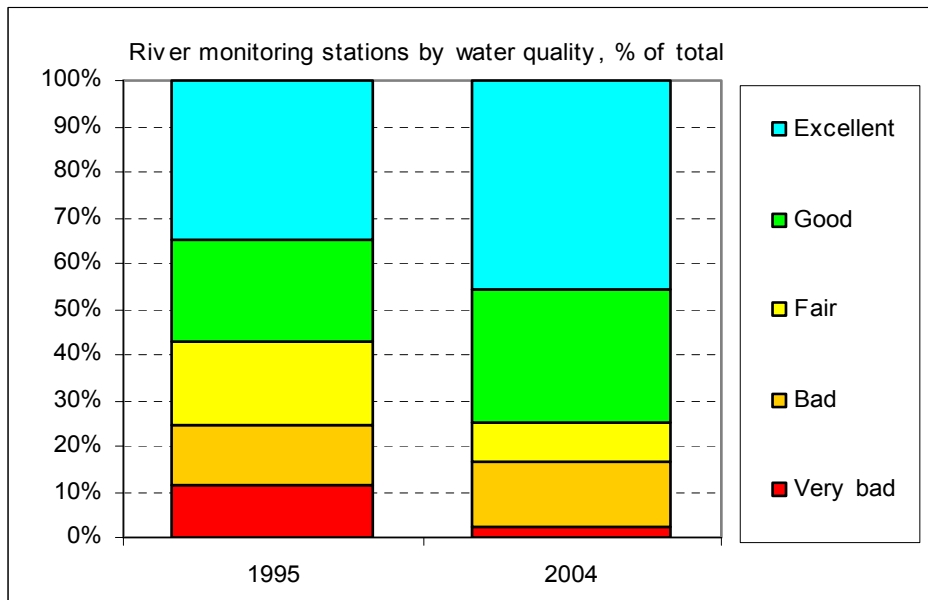
Source: HK Water Supplies Dept., *WHO Guidelines cover more than 120 microbiological, biological, chemical and radiological hazards in drinking water

Water pollution reduced but there remains room for improvement

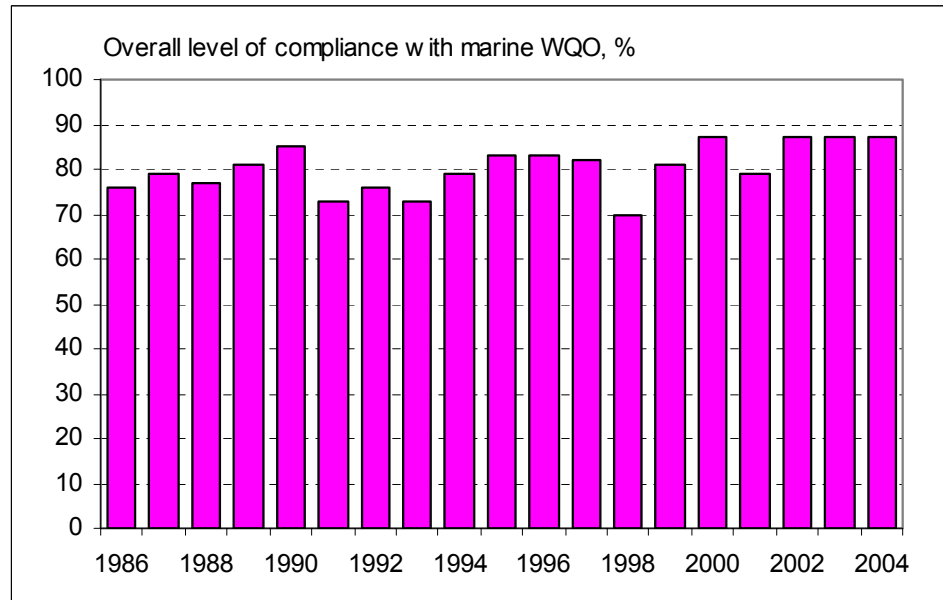
- Water pollution has improved in HK over the past decade. During 1995-2004, the number of beaches ranked as having “poor” or “very poor” water quality reduced from 17 to 7, while the proportion of river monitoring stations with “bad” or “very bad” water quality fell from 24.7% to 16.7%.
- Meanwhile, overall level of compliance with marine Water Quality Objectives (WQO) was maintained at the record level of 87% over the past 3 years. Compared to 1995, compliance level was lower only for unionised ammonia.
- In Inner Deep Bay near the Mainland, however, water quality remained poor, with low dissolved oxygen and elevated levels of nitrogen and phosphorus, highlighting the persistence of pollution problem in the bay.



Source: HK Environmental Protection Dept.



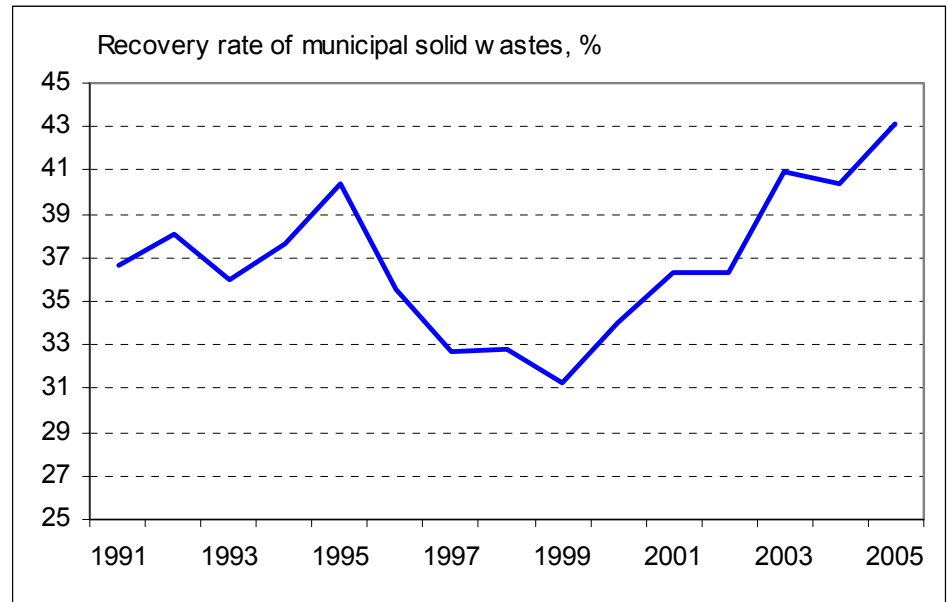
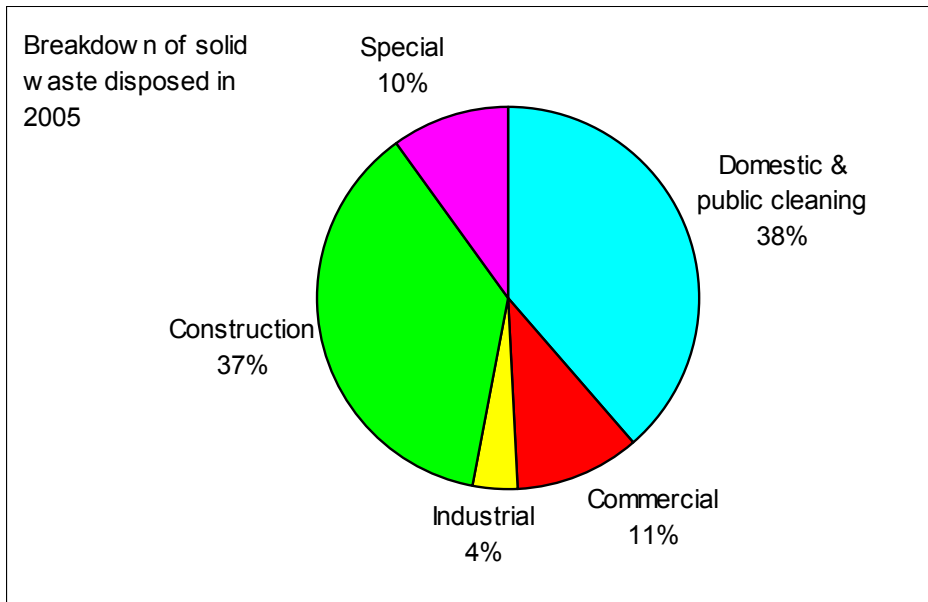
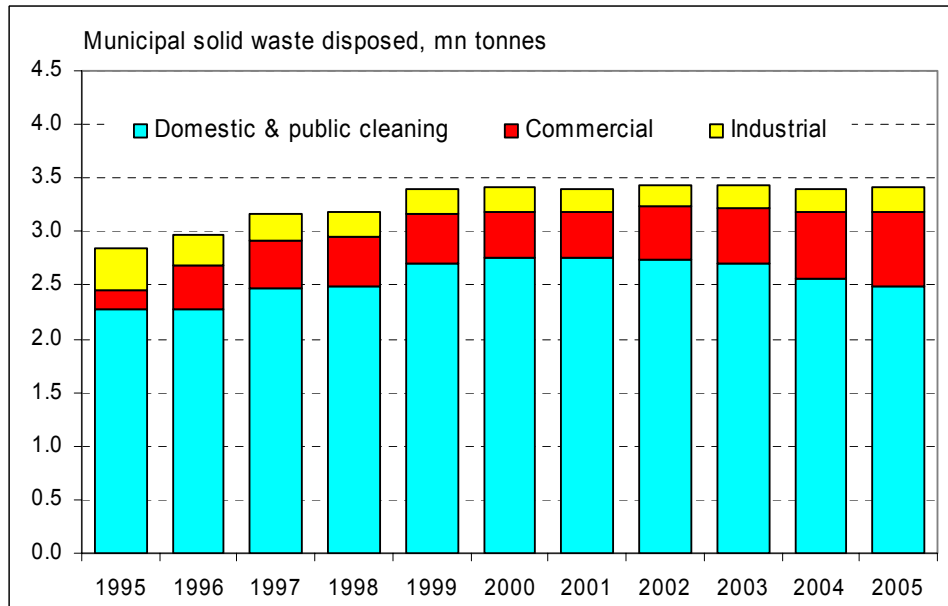
Source: HK Environmental Protection Dept.



Source: HK Environmental Protection Dept.

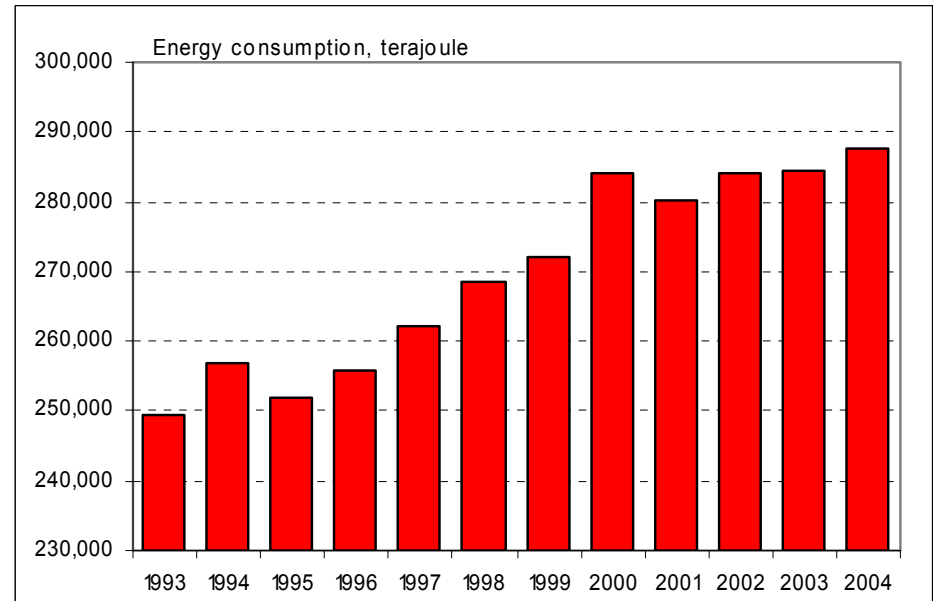
Waste recovery shows material improvement

- The amount of **municipal solid waste (MSW)**, consisting of industrial, commercial, domestic and public cleaning wastes, disposed in HK increased by an average rate of 1.8% per year from 1995 to 3.42 million tonnes in 2005, posing a lot of pressure on HK's landfill space.
- Landfills are also under tremendous pressure from construction wastes which accounted for 37% of total solid waste disposed in HK in 2005.
- Through the waste recovery system, 2.59 million tonnes of MSW were recovered in HK in 2005 giving a recovery rate of 43%, up from 31% in 1999. Of the MSW recovered in 2005, 6% was recycled locally and 94% was exported to the Mainland and other countries for recycling.

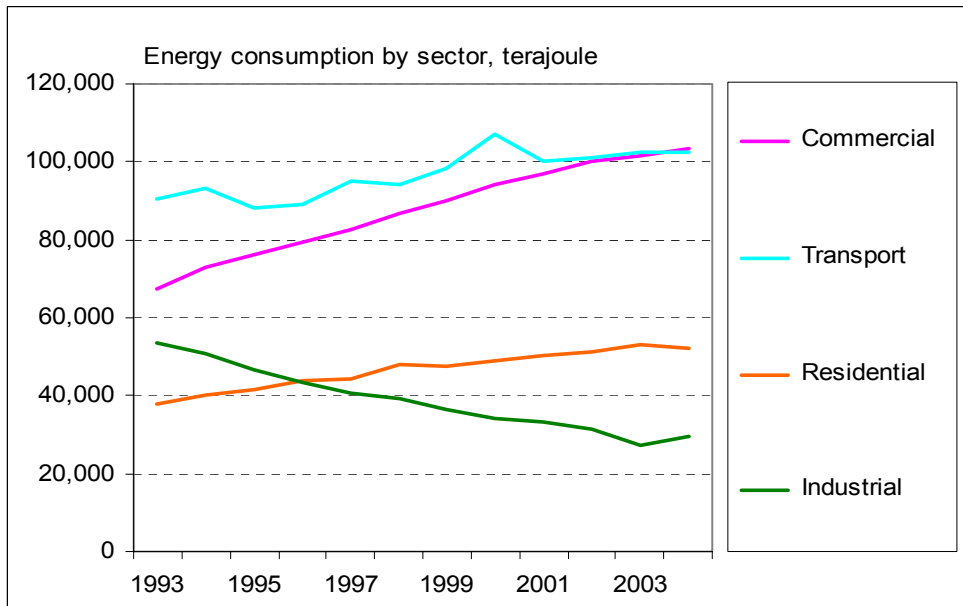


Energy usage increased strongly during the past decade

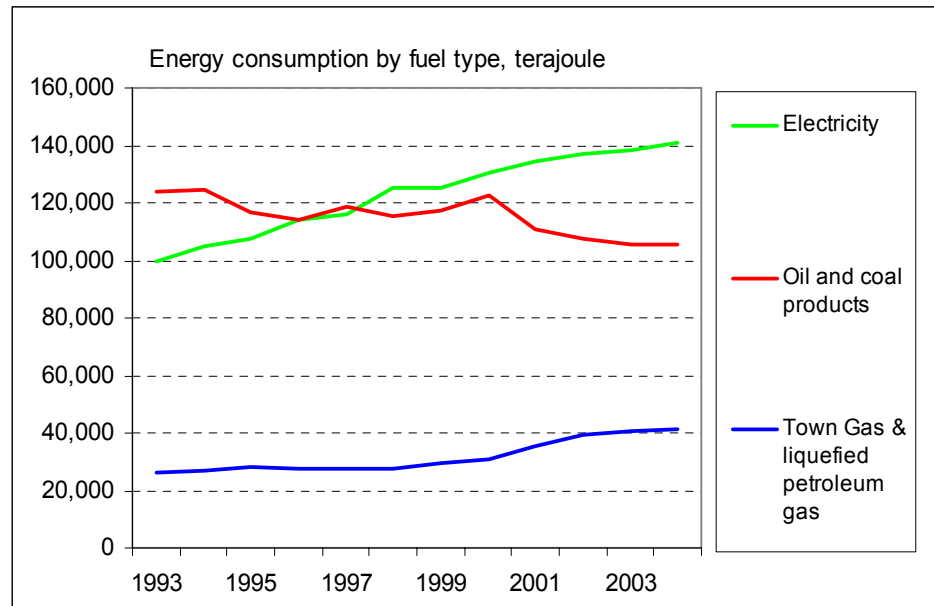
- HK has no primary energy sources, energy used is either imported or transformed from imported fuel inputs. Growth in HK's [energy consumption](#), which averaged 1.1% in 1993-2004 was comparable to the pace in mature economies.
- After successive years of rapid growth in energy usage averaging 4% per year during 1993-2004, the commercial sector became the largest energy user in HK, accounting for 36% of total energy consumption in 2004.
- With the increased usage of air conditioning and lighting, which accounted for half of the energy consumption of the commercial sector, electricity had overtaken oil and coal products to account for the largest proportion of energy consumed in HK since 1998.



Source: Electrical & Mechanical Services Dept.



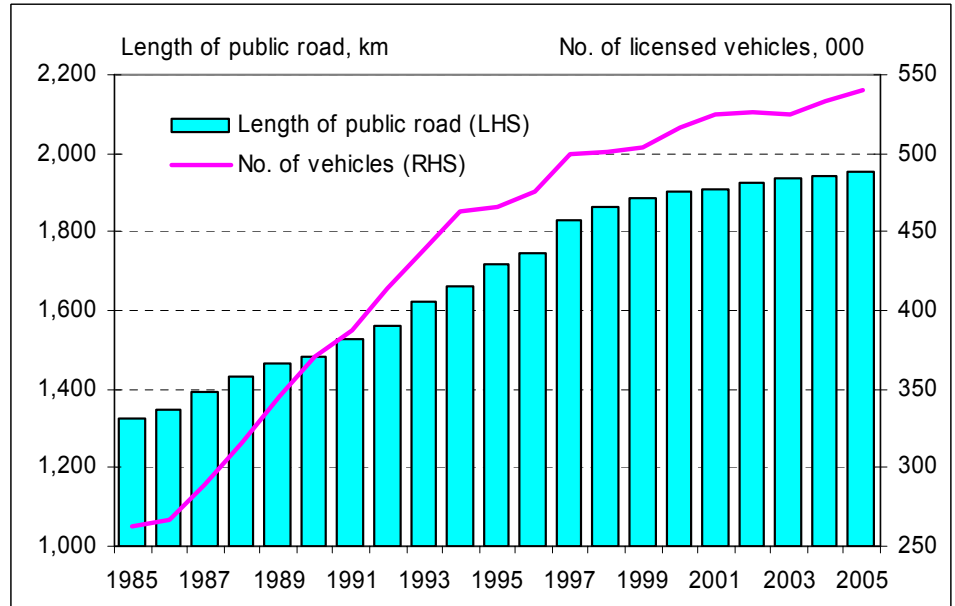
Source: Electrical & Mechanical Services Dept.



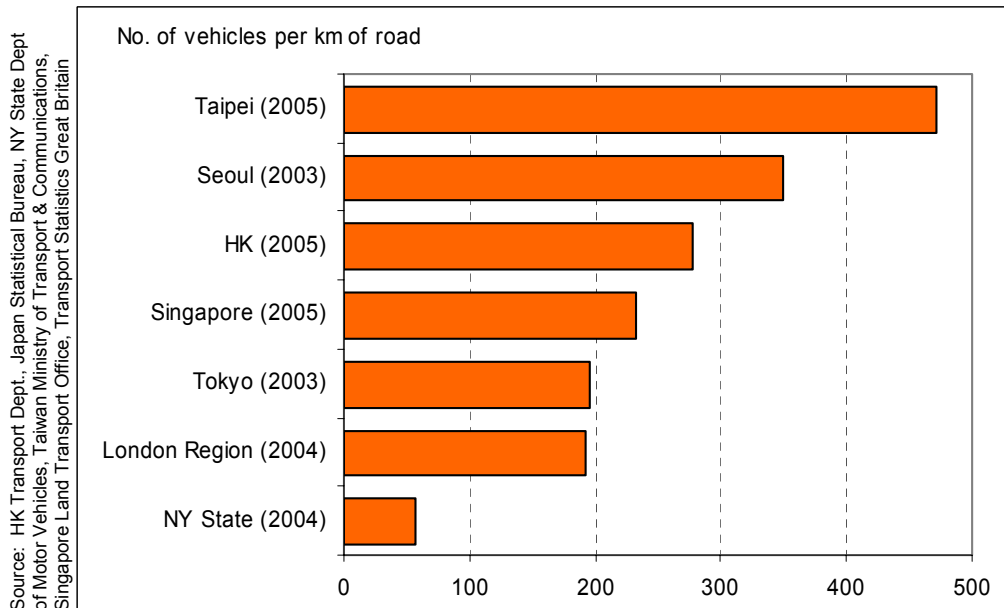
Source: Electrical & Mechanical Services Dept.

HK roads are among the busiest in the world

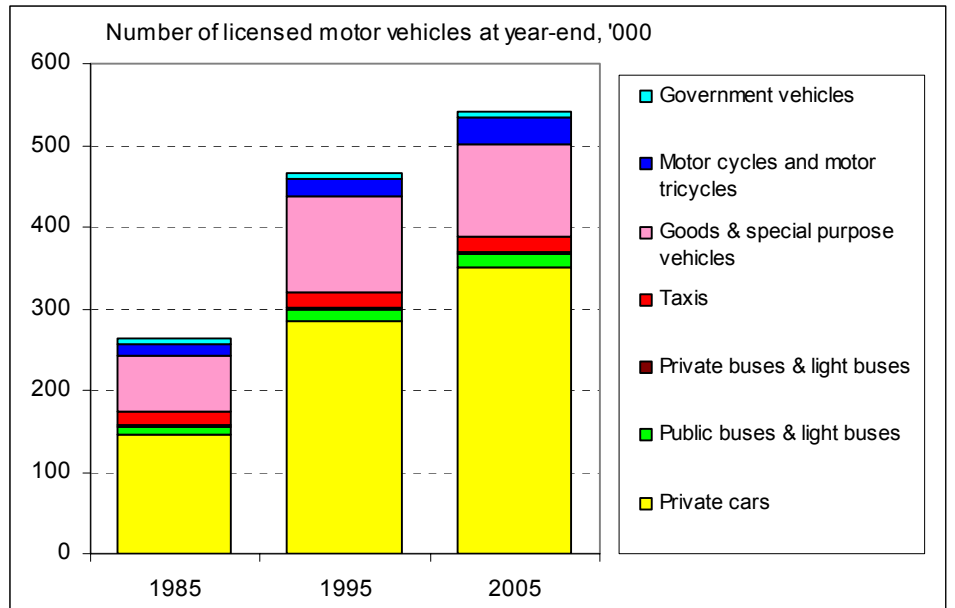
- HK's road network expanded at a relatively rapid pace with the rise of New Towns since the late 1980s. Given the limitations in its topography, however, road expansion in heavily built-up areas has become increasingly difficult. At end-2005, HK had 277 vehicles on every kilometer of road, making HK roads among the world's busiest.
- Between 1985 and 2005, the number of licensed vehicles in HK increased 105.7% to 540,641. Private cars accounted for 74.2% of the increment and in 2005 accounted for 65% of the total number of licensed vehicles.
- During the same period, the fleet of public transportation also expanded strongly, with the number of licensed public buses and light buses up by 72.8%.



Source: HK Highways Dept.



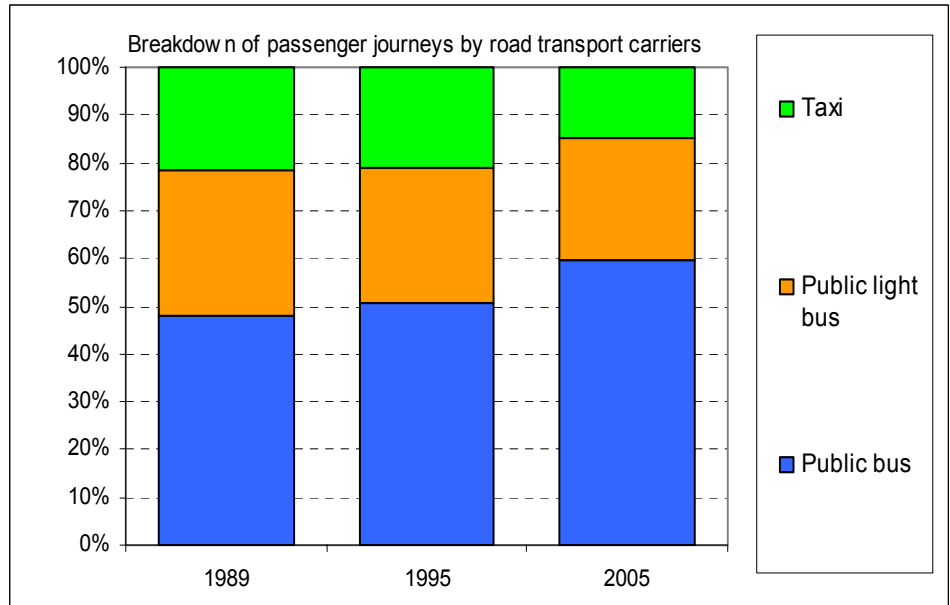
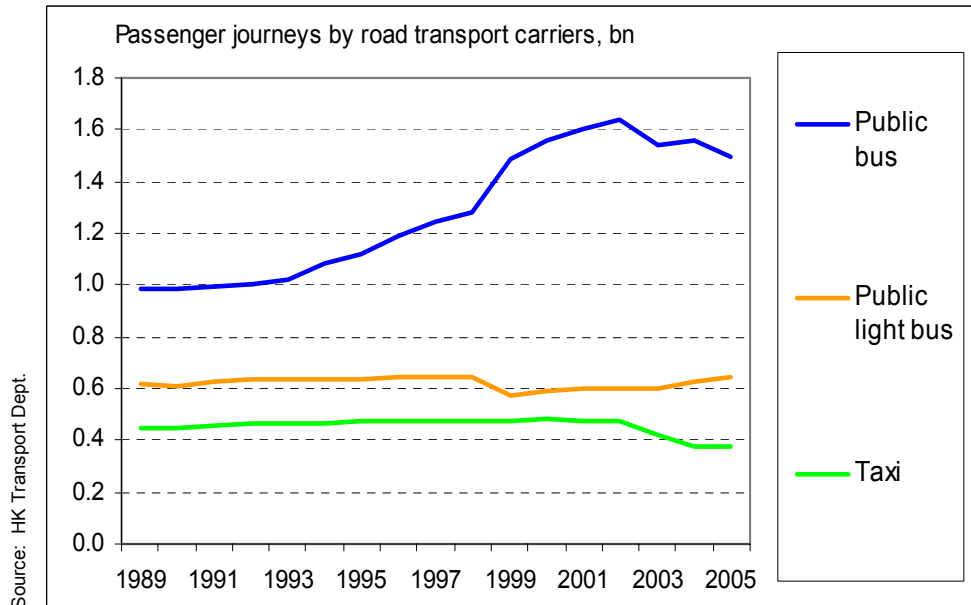
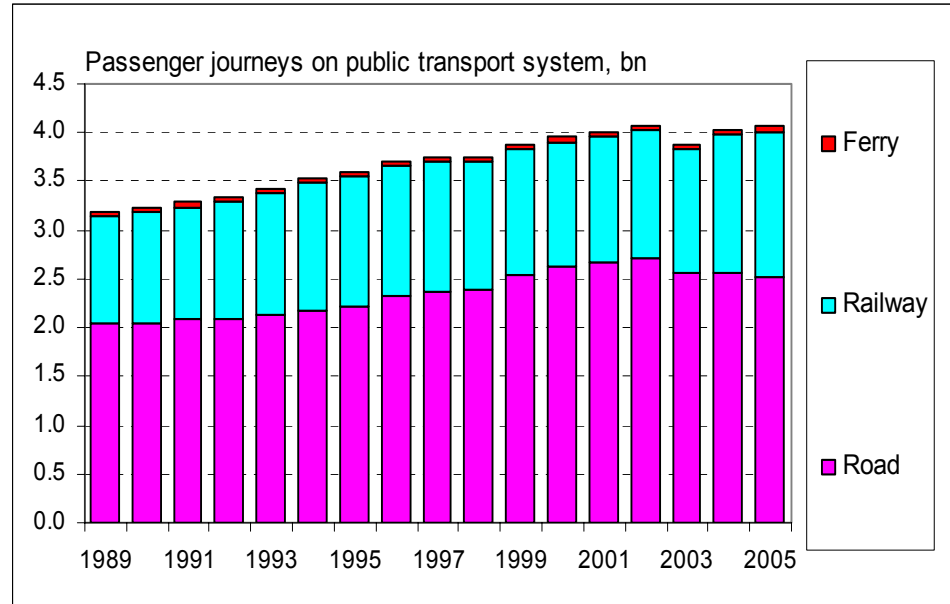
Source: HK Transport Dept., Japan Statistical Bureau, NY State Dept of Motor Vehicles, Taiwan Ministry of Transport & Communications, Singapore Land Transport Office, Transport Statistics Great Britain



Source: HK Transport Dept.

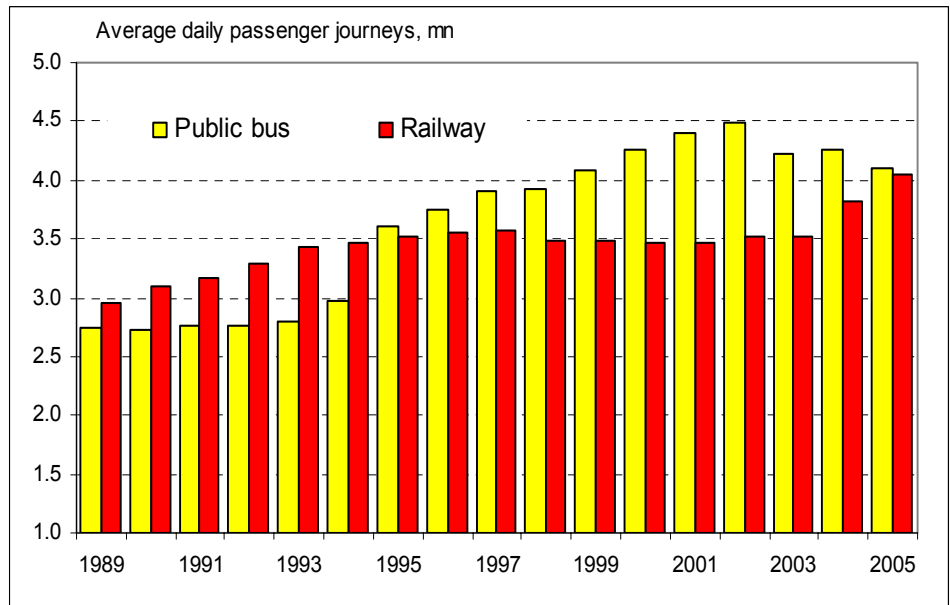
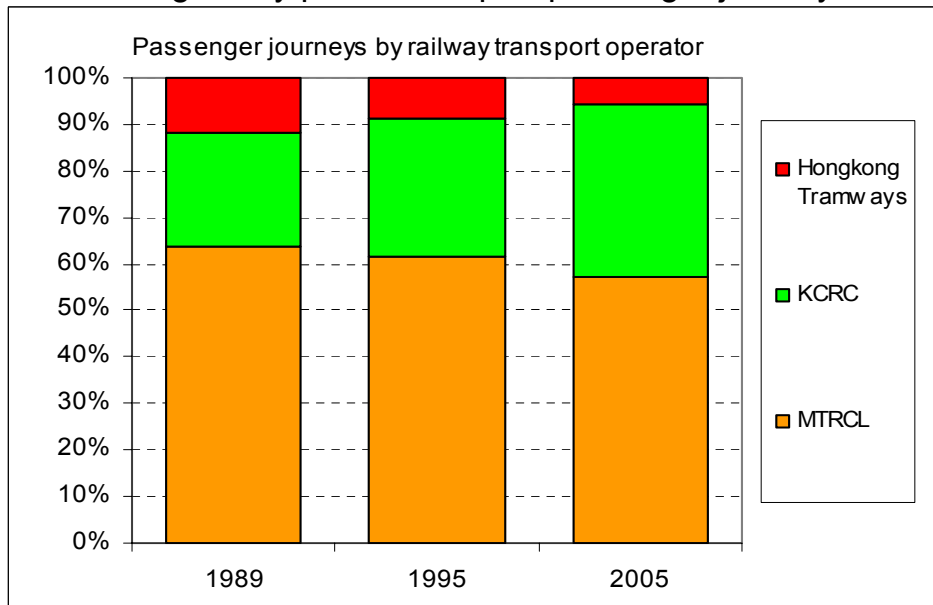
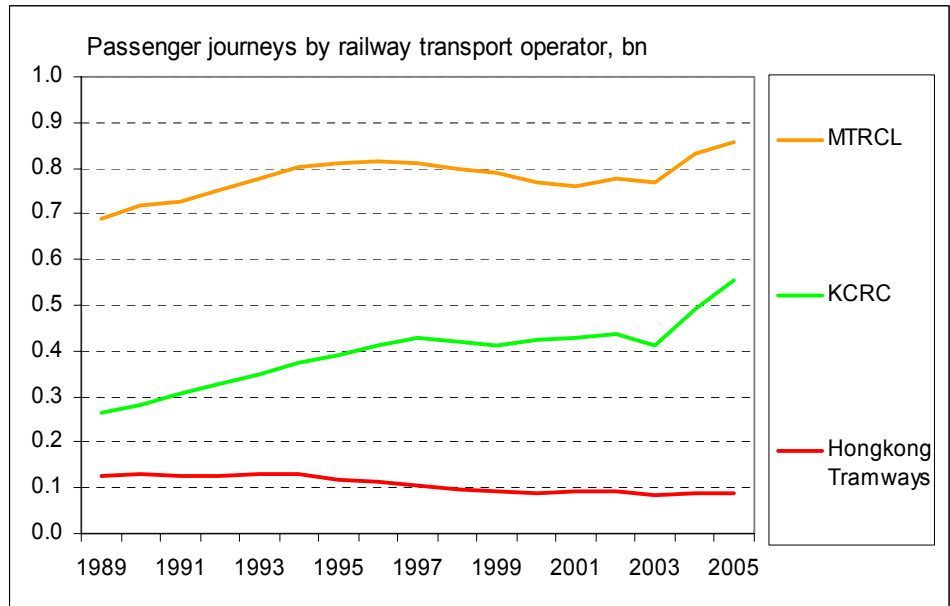
Road transport carries the bulk of public passenger journeys

- HK's public transport system consists of road, railway and ferry. In 2005, a total of 4.1 billion passenger journeys were made on these modes of transport, with road accounting for 62% of the total.
- Among the various road transport carriers, passenger journeys on public buses rose noticeably in the past decade, rising by an average 5.6% per year during 1995-2002 before declining since 2003 following the completion of new railways.
- Passenger journeys on taxis have fallen substantially in recent years, while those on public light buses (where there is a cap on the number of licences issued), have remained stable.



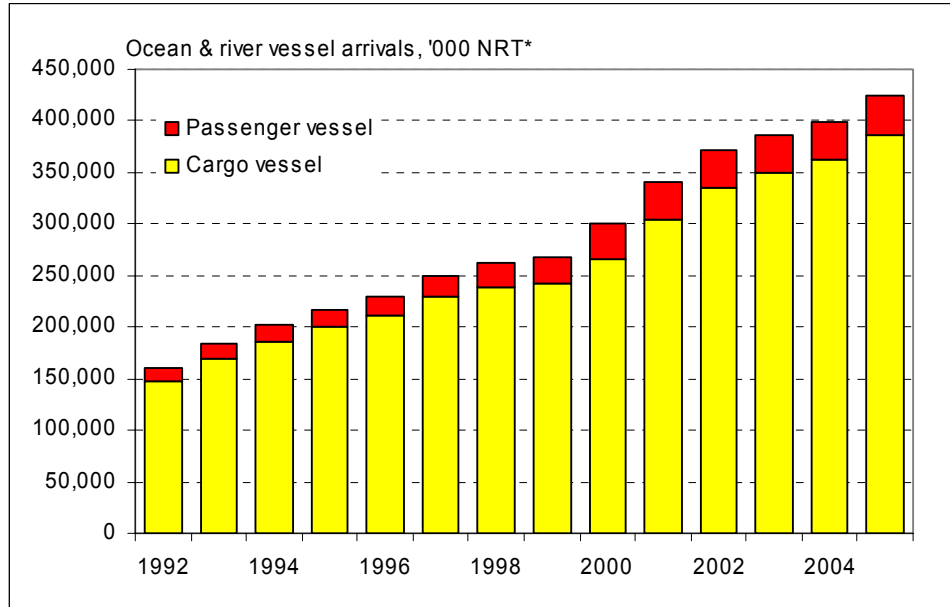
Railways have grown in importance as a means of public transport

- Railways, being the most environmentally friendly form of mass transport, have become increasingly important as a means of public transport in HK. Following the opening of [West Rail](#) in 2003, [Tsim Sha Tsui Extension](#) and [Ma On Shan Rail](#) in 2004, and [Disney Resort Line](#) in 2005, passenger journeys carried by the [MTR Corporation \(MTRCL\)](#) and [Kowloon-Canton Railway Corporation \(KCRC\)](#) collectively increased by 18.4% between 2003-2005.
- In recent years, the average daily passenger journeys by railway have increased, approaching the level carried by [public bus](#) in 2005. Including MTRCL, KCRC and Hongkong Tramways, railways accounted for 36% of the total average daily public transport passenger journeys.

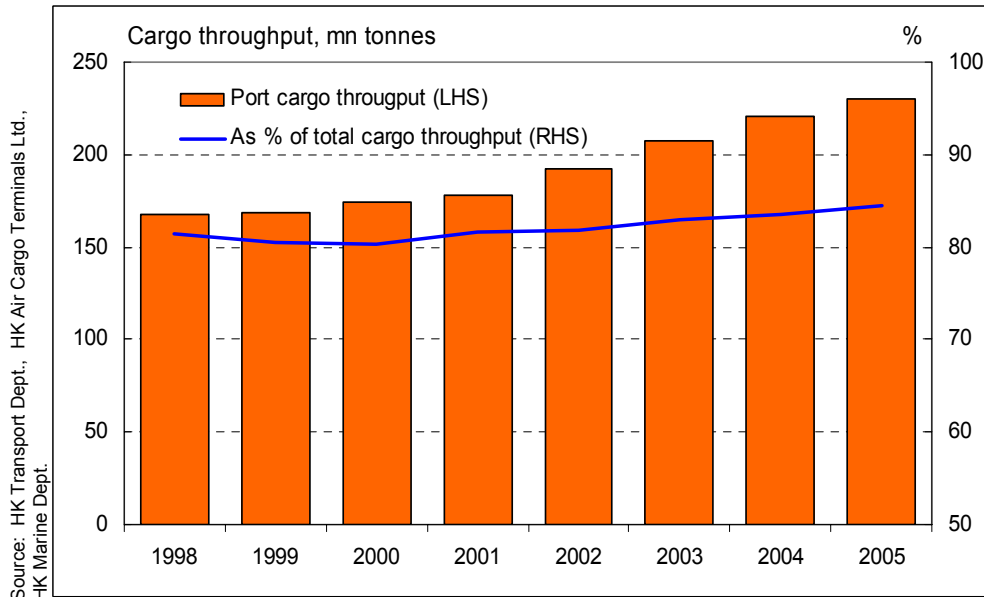


Ports handle an increasing share of HK's cargo movements

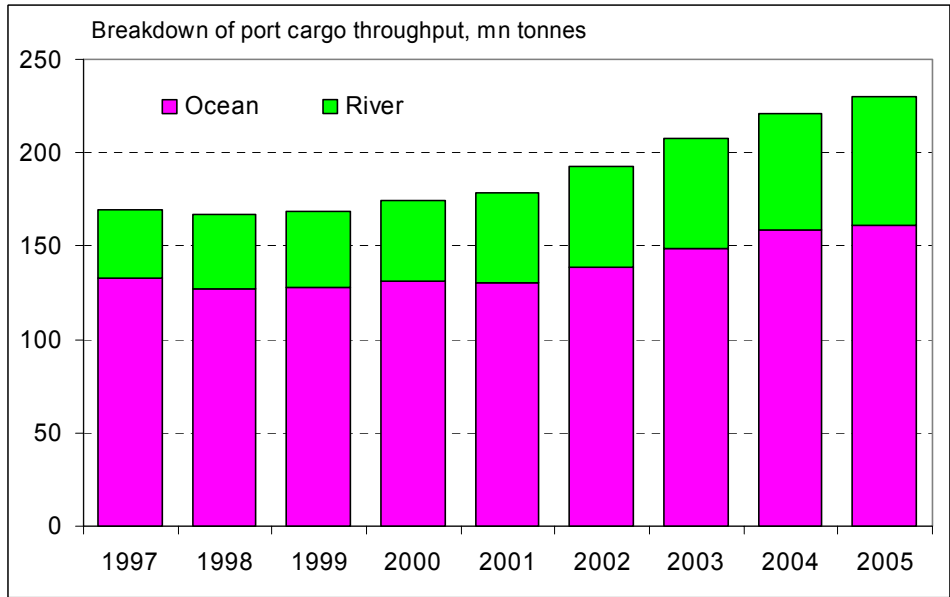
- HK is home to one of the world's busiest ports, served by some 80 international shipping lines which connect to over 500 destinations worldwide. The number of vessel arrivals recorded steady rise over the past 14 years, dominated by cargo moving vessels.
- Port cargo throughput grew at an annual average rate of 4.7% between 1998 and 2005 and consistently accounted for more than 80% of HK's inward and outward cargo movements.
- Cargo movements via ports have been dominated by ocean vessels, which accounted for 70% of the total. In the last 3 years, however, the growth of cargo movement by river vessels had outpaced that of ocean vessels.



Source: HK Marine Dept., * NRT refers to Net Register Tonnage



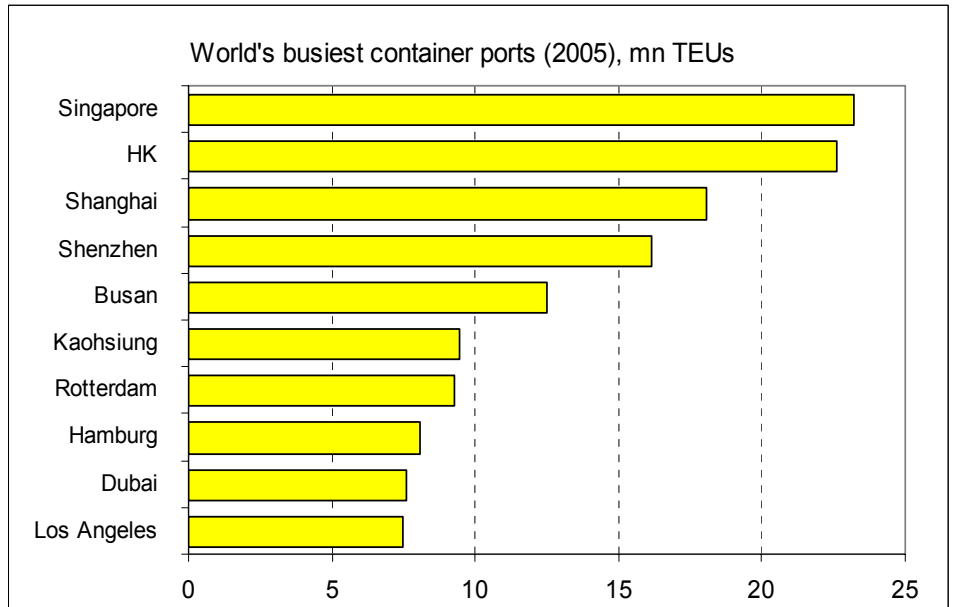
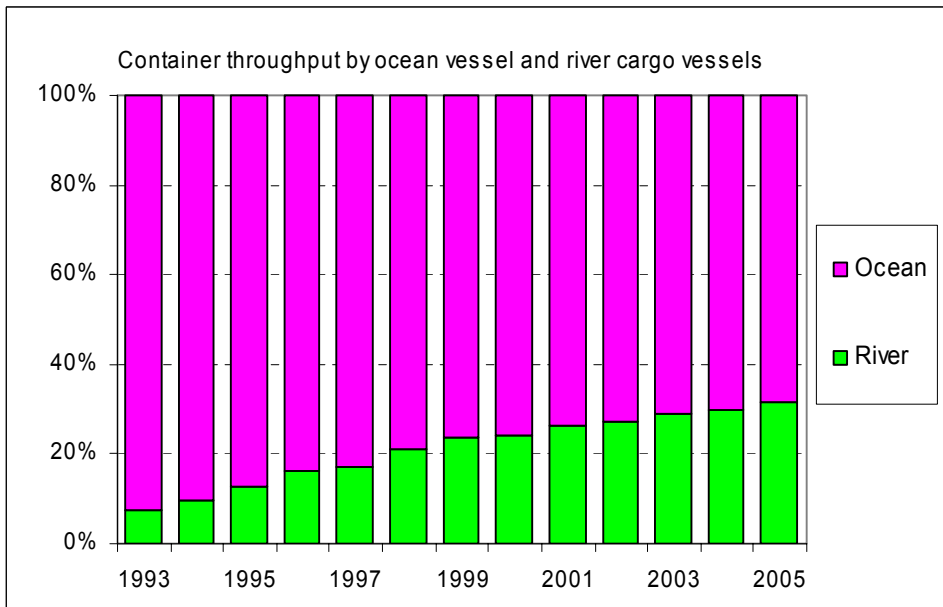
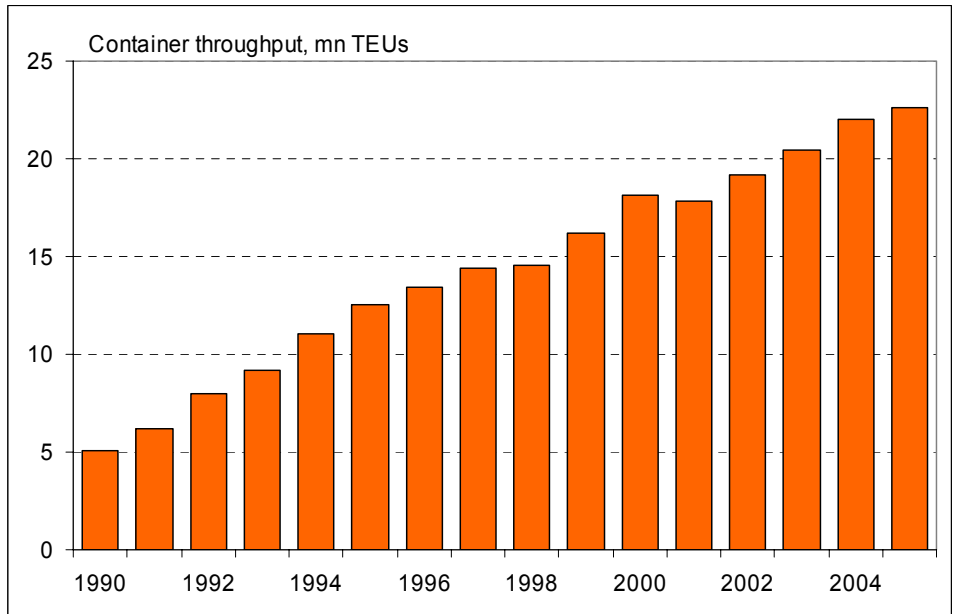
Source: HK Transport Dept., HK Air Cargo Terminals Ltd., HK Marine Dept.



Source: HK Marine Dept.

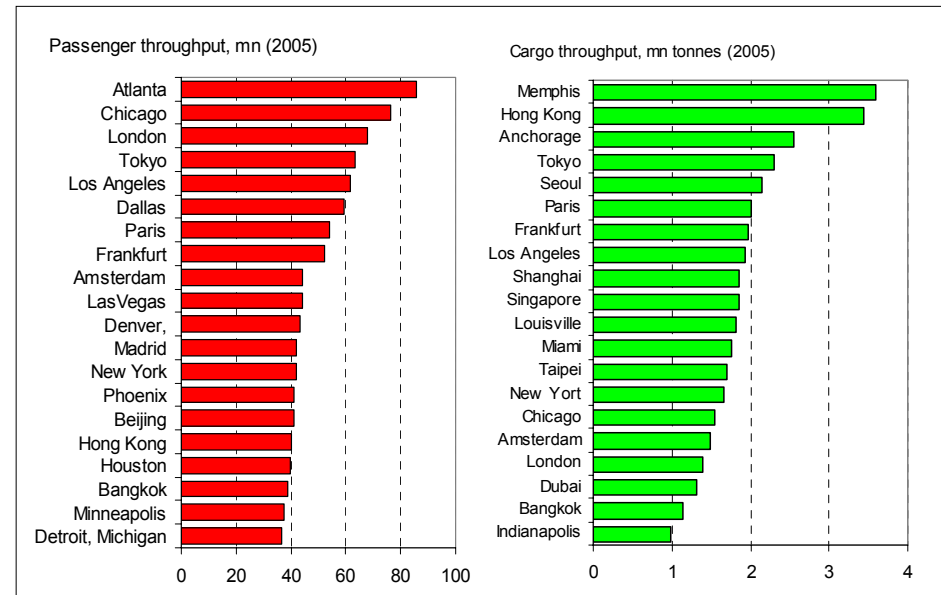
HK's position as world's busiest container port facing challenges

- HK is well-known for its efficient container handling facilities. Container throughput at HK's ports has exceeded 20 million TEUs since 2003.
- As more goods traded between HK and the Mainland are shipped in containers, more than 70% of HK's port cargo movements are now containerized. Over the years, river vessels have accounted for an increasing proportion of HK's total container throughput with its share rising to 31.4% in 2005.
- While HK consistently ranked as the world's busiest container port in 1995-2004, it has been losing market share to ports in Shenzhen. In 2005, HK's status as the world's busiest container port was overtaken by Singapore.

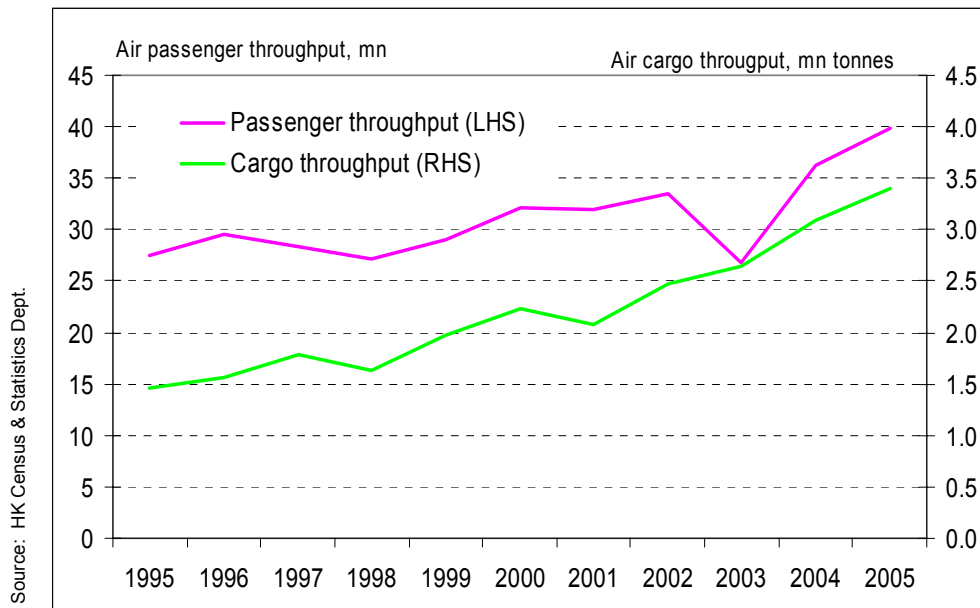


The value of trade moved by air has grown substantially

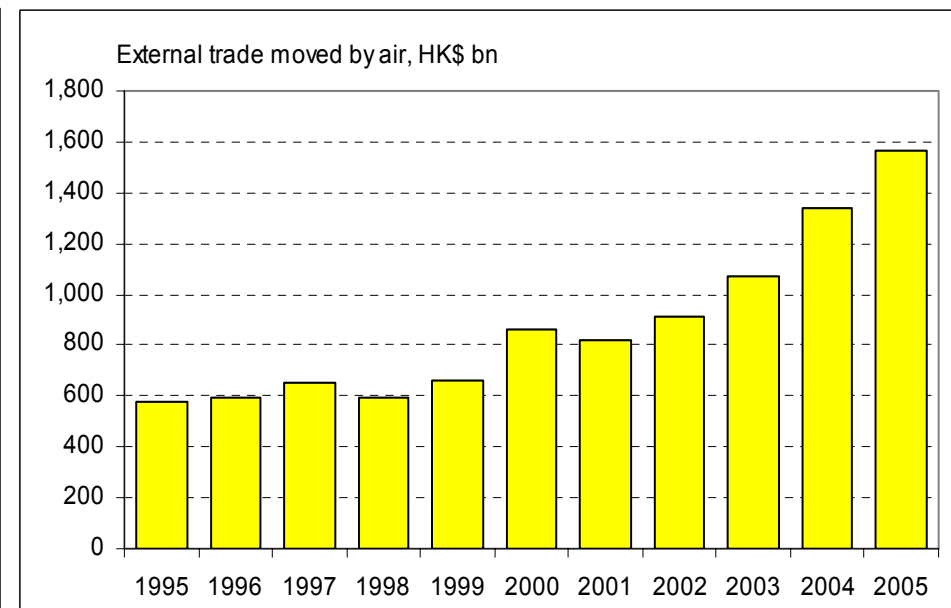
- HK's airport is a vital component of tourism and external trade, linking HK to over 100 international and 40 Mainland locations. HK's airport is now the world's 16th busiest in terms of total passenger throughput; it is also the 2nd most active air cargo operating airport worldwide.
- After a 20% fall in 2003 in wake of the SARS outbreak, air passenger throughput rebounded to 40 million in 2005. Meanwhile, air cargo throughput continued to grow and reached 3.4 million tonnes in 2005.
- Compared to 1995, the value of external trade moved by air surged 173.4% to HK\$1.6 trillion in 2005, while its share in HK's total trade value rose from 16.2% to 34.2%.



Source: Airports Council International



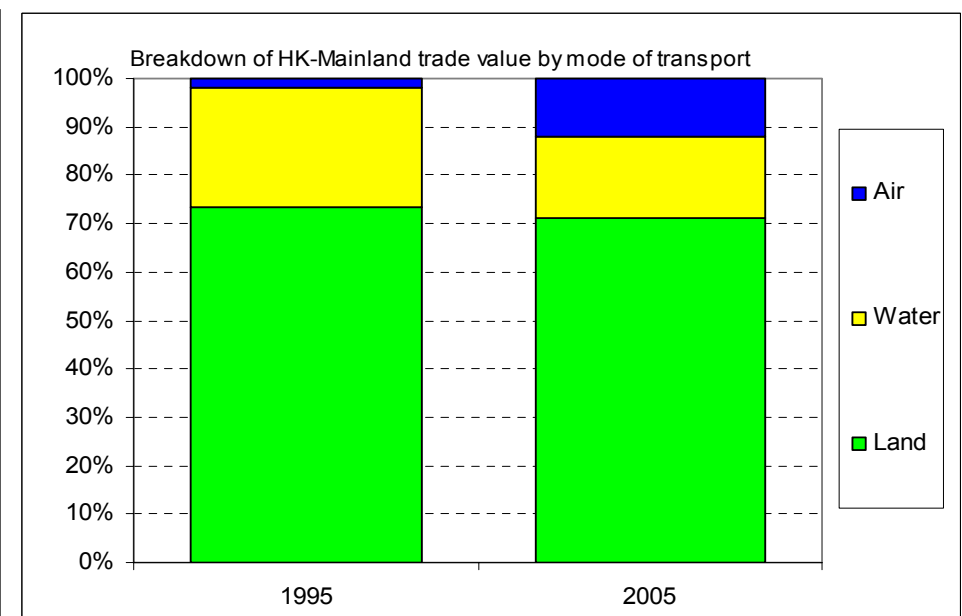
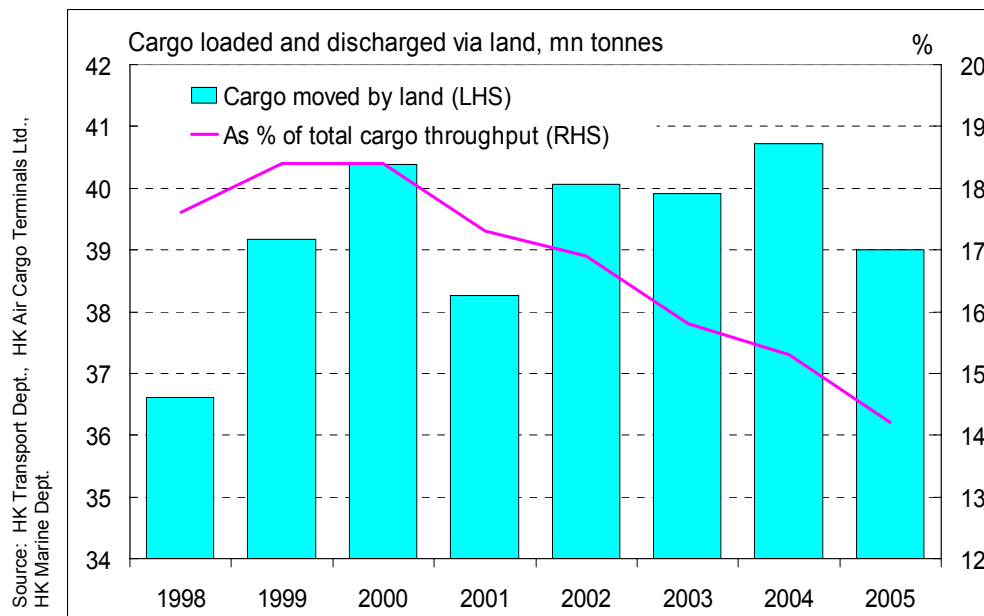
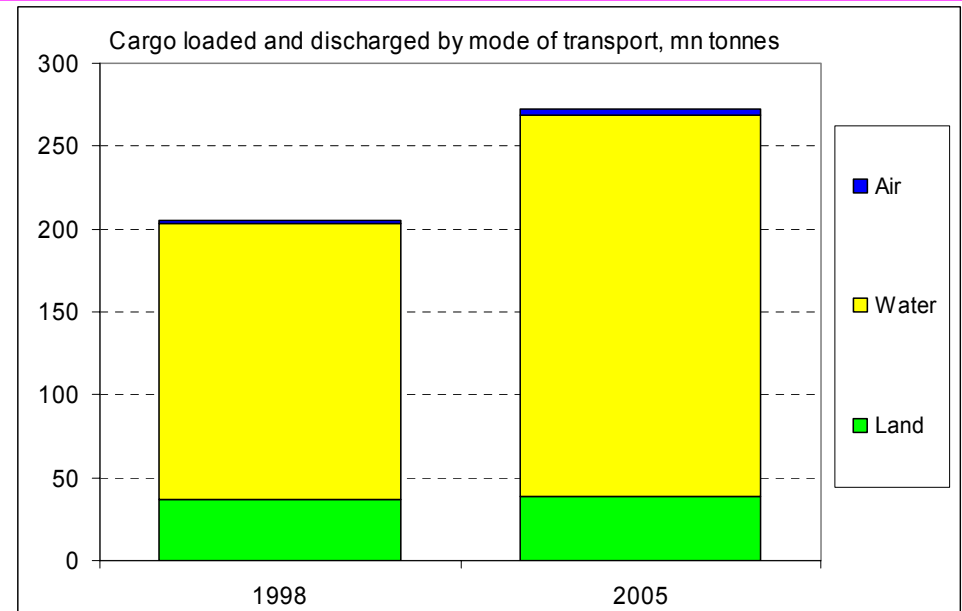
Source: HK Census & Statistics Dept.



Source: HK Airport Authority

Land remains the main transport mode for HK-Mainland trade

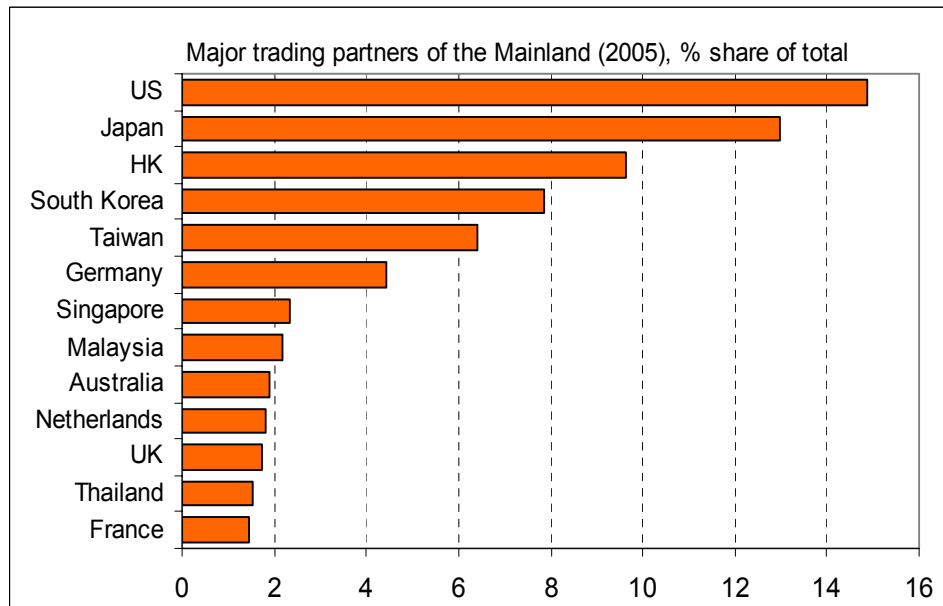
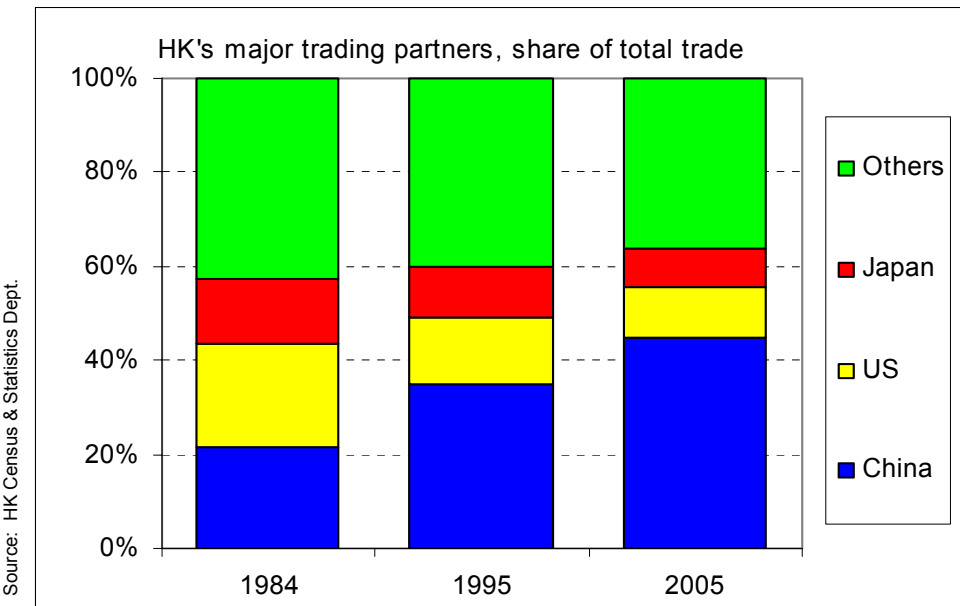
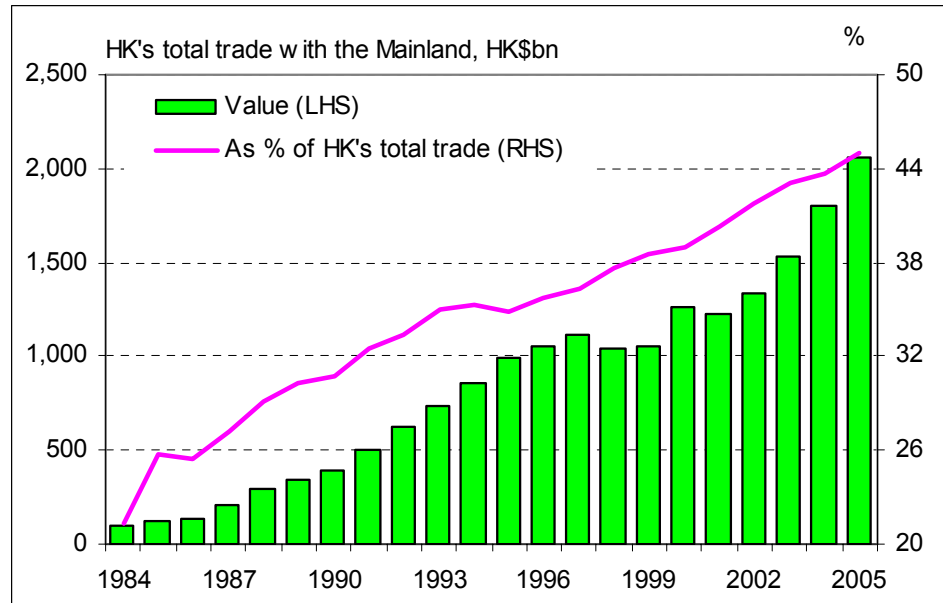
- Land is HK's second largest mode of transport for inward and outward movements of cargo after water. Between 1998-2005, movement of cargo via land stood firmly at around 38-40 million tonnes per year.
- As total cargo throughput of HK grows along with the expansion of HK's external trade, the share of cargo moved by land declined steadily from over 18% in 2000 to just above 14% in 2005.
- However, land remains the main transport mode for the movement of trade between HK and the Mainland in terms of value of goods traded. In 2005, 71.3% of the total value of HK-Mainland trade was moved via land, 16.9% via water and 11.5% by air.



HK and the Mainland

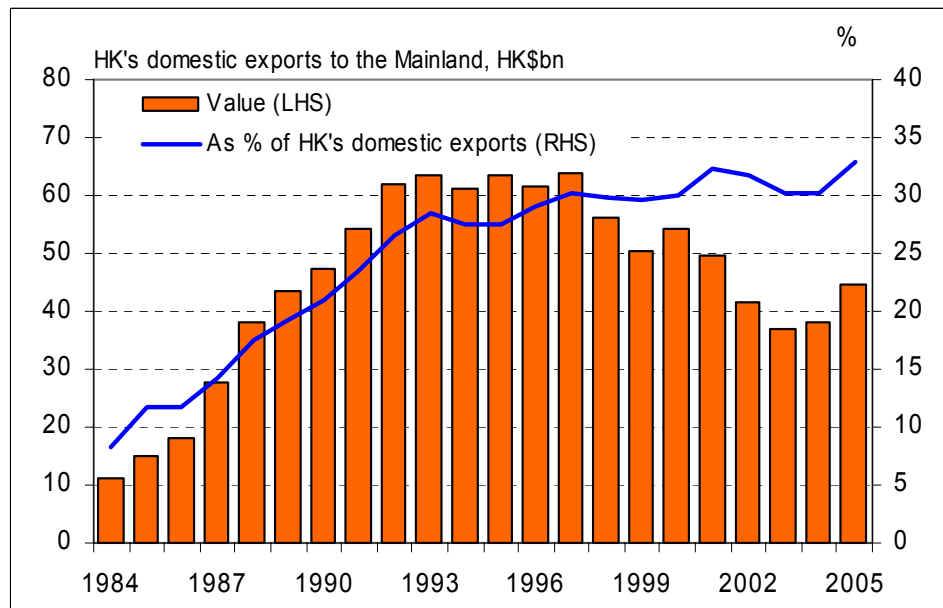
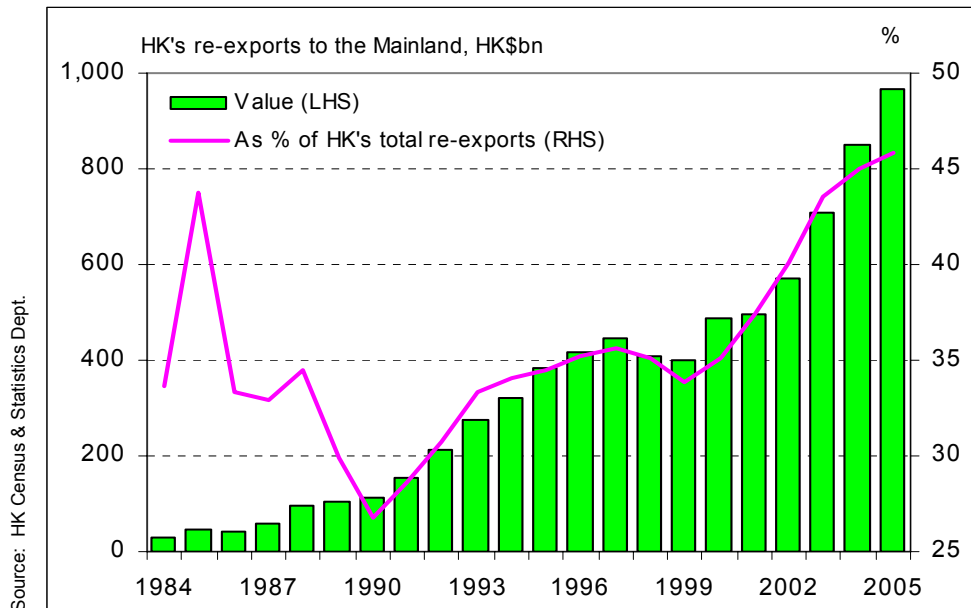
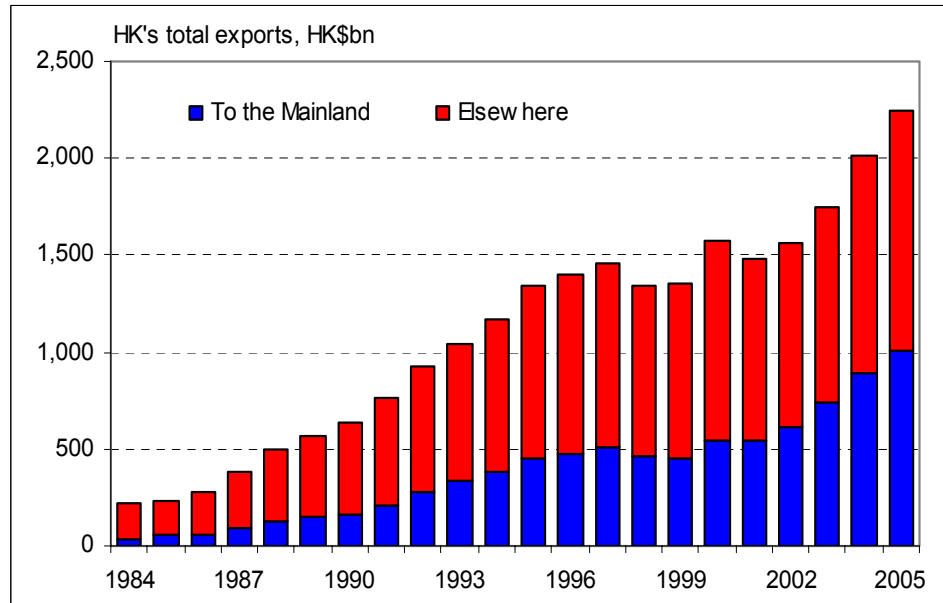
HK maintains a close trading relationship with the Mainland

- HK's merchandise trade with the Mainland grew at an annual average rate of 16% during 1984-2005, expanded by more than 10 times from \$95 billion in 1984 to HK\$1,050 billion in 1996 and nearly doubled between 1996 and 2005 to \$2,060 billion.
- Since 1984, the Mainland has been HK's largest trading partner. Its share in HK's total merchandise trade increased substantially from 21% in 1984 to 45% in 2005.
- HK also plays an important role in the external trade of the Mainland. In 2005, HK was the 3rd largest trading partner of the Mainland. However, its share in the Mainland's total merchandise trade had declined from 16.6% in 1993 to 9.6% in 2005.



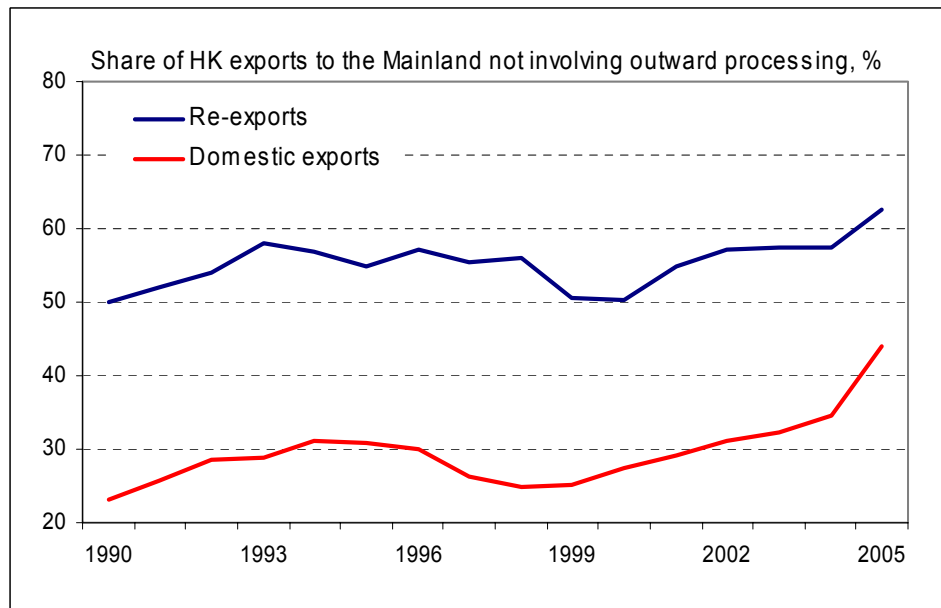
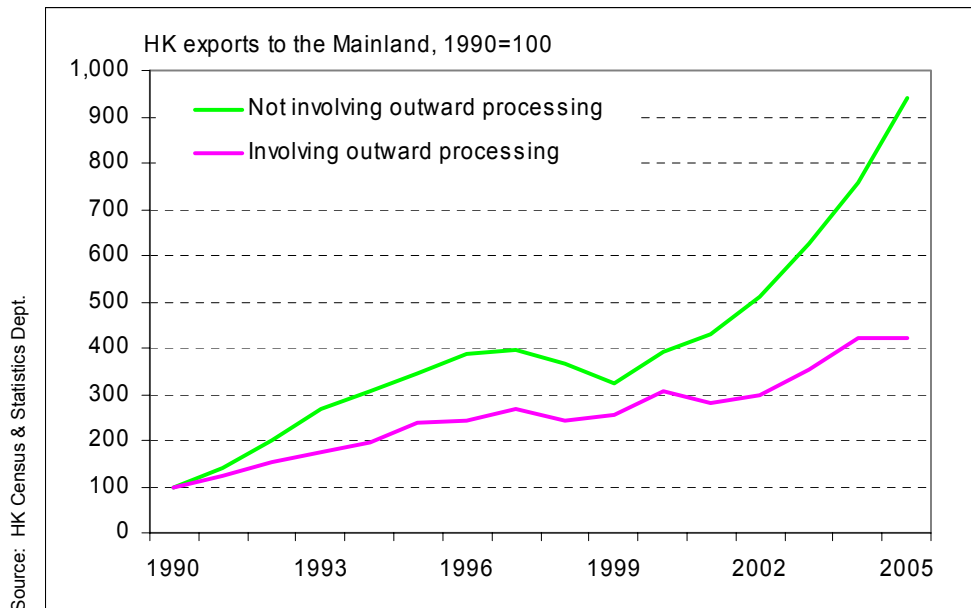
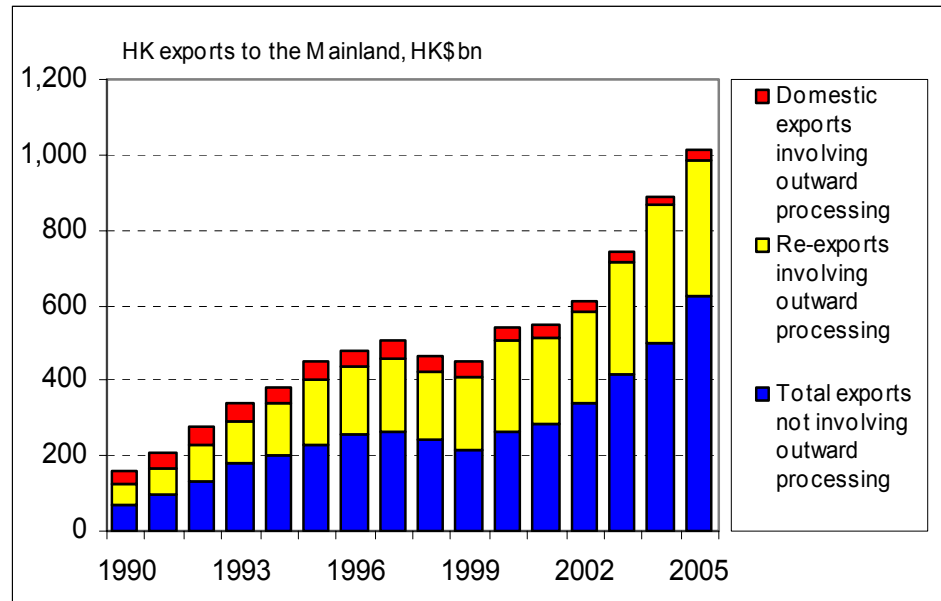
The Mainland remains HK's largest export market

- The value of HK's total exports to the Mainland increased by an average annual rate of 9% during the past 10 years and accounted for 45% of HK's total exports in 2005.
- More than 90% of the goods exported from HK to the Mainland were re-exports, and the Mainland has long been the largest re-export market of HK, accounting for 45.8% of HK's total re-exports in 2005.
- In 1993, the Mainland also overtook the US to become HK's largest domestic export market, but the value of domestic exports to the Mainland had declined since 1998. Following the implementation of [CEPA](#) in 2004 which granted zero tariff on a host of goods exported across the boundary, domestic exports to Mainland increased again.



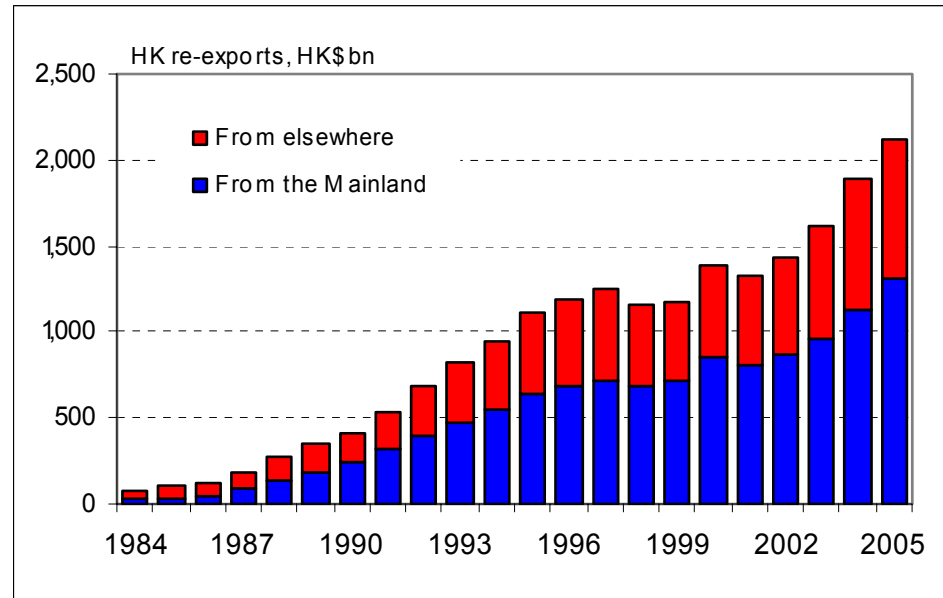
..... with more exports driven by demand across the boundary

- A sizable portion of HK's exports to the Mainland were outward processing trade which was driven by demand conditions in HK's overseas markets. Taking out outward processing trade, the Mainland accounted for only 27.7% of HK's total exports in 2005.
- As more factories in the Mainland now have direct sourcing of raw materials for production, the growth of HK's exports to the Mainland related to outward processing has slowed in recent years. Meanwhile, HK's exports to meet domestic demand in the Mainland have expanded strongly as the Chinese economy continued to prosper.
- In 2005, 62% of HK's cross-boundary exports was driven by domestic demand in the Mainland, up from 41% in 1990.

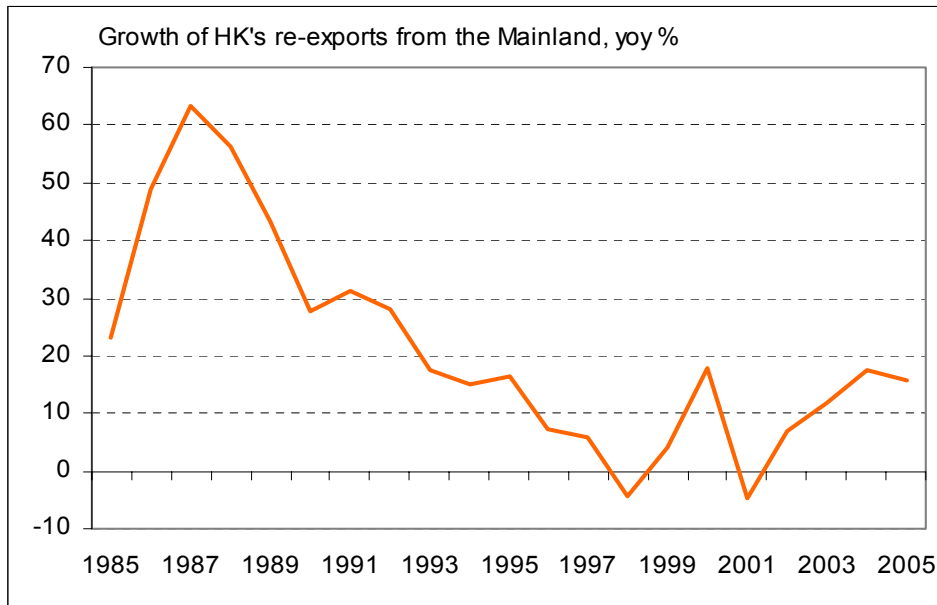


Role of HK as a re-export centre for Mainland also diminishing

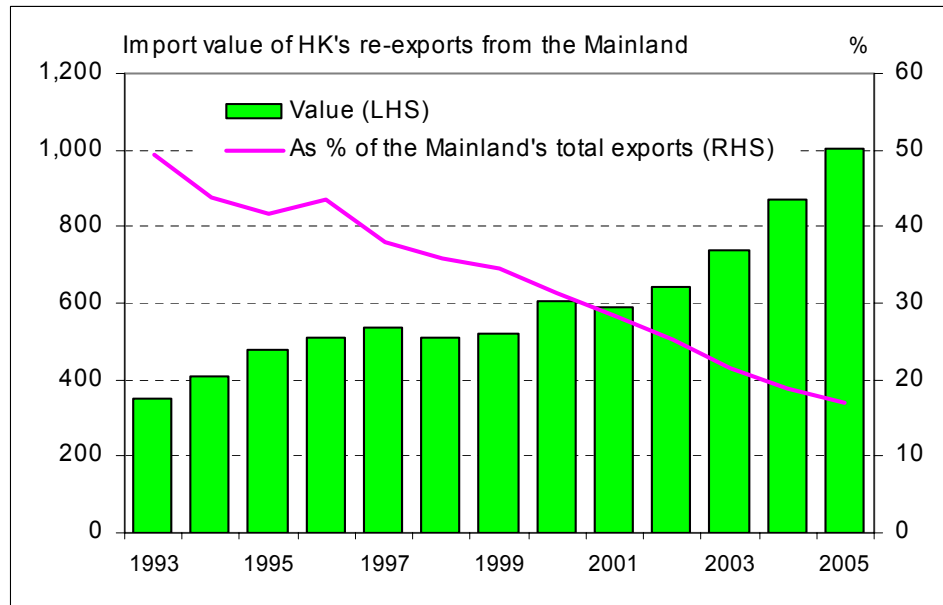
- The bulk of HK's imports from the Mainland were for subsequent re-exports after final packaging in HK. Reflecting HK's prominent role as a conduit for Mainland exports, HK's re-exports of Mainland origin expanded strongly by an average annual rate of 33.7% in 1985-1995.
- However, with the improvement of product processing capabilities across the boundary, the need for Mainland goods to be shipped to HK for final packaging has reduced, and the average annual growth of HK's re-exports of Mainland origin slowed considerably to 8.6% in 1995-2005.
- In 2005, the import value of HK's re-exports from the Mainland accounted for only 17% of Mainland's total exports, down from 49.4% in 1993.



Source: HK Census & Statistics Dept.



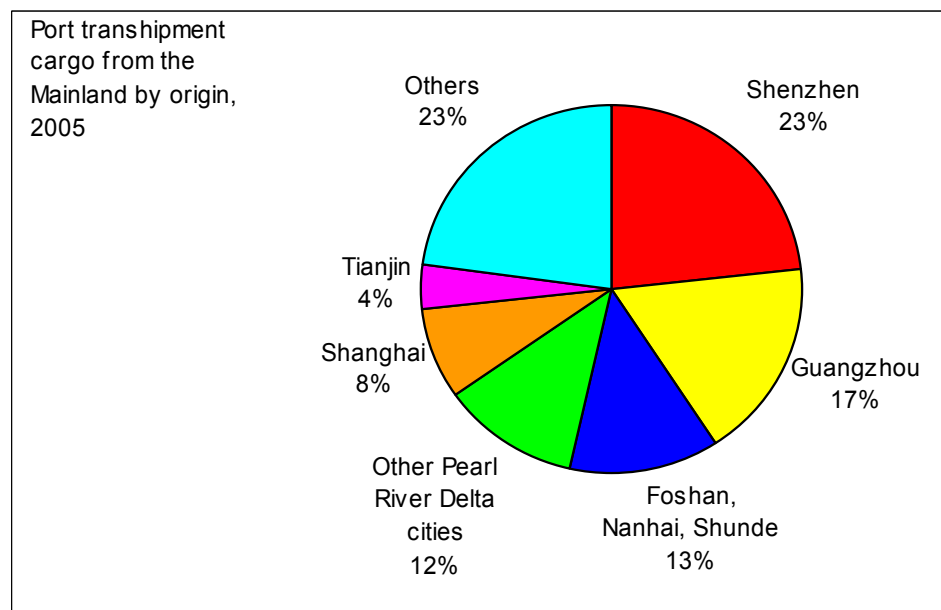
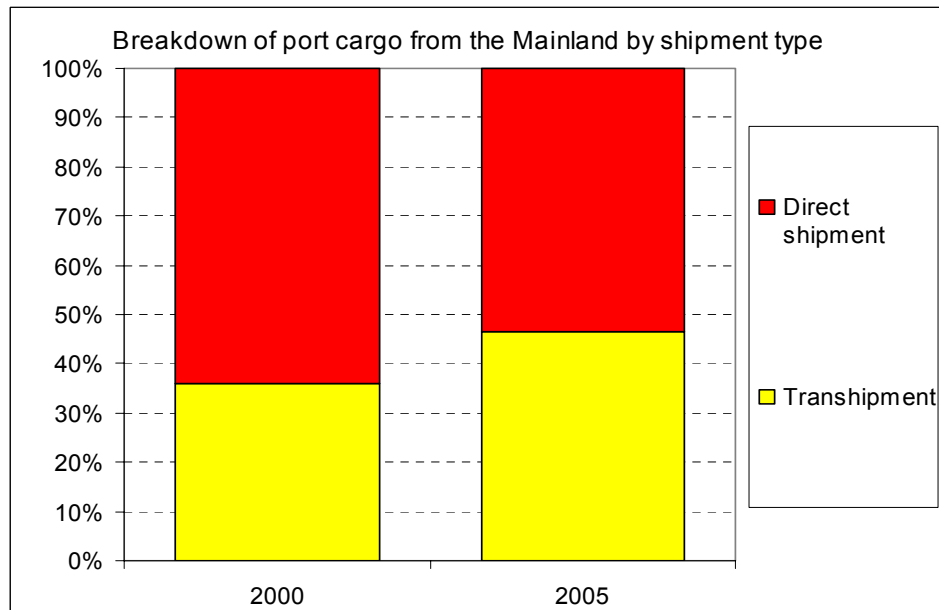
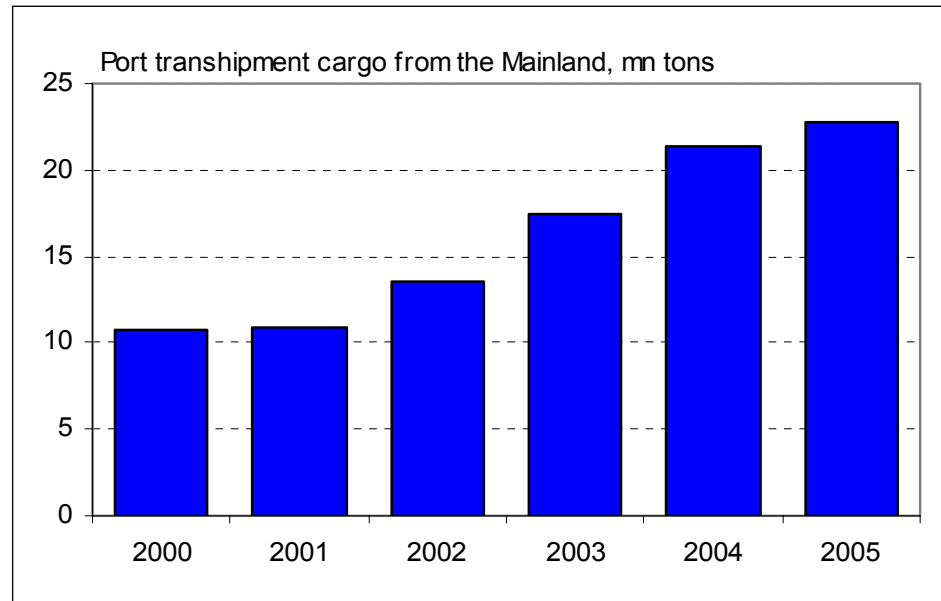
Source: HK Census & Statistics Dept.



Source: HK Census & Statistics Dept., China Customs

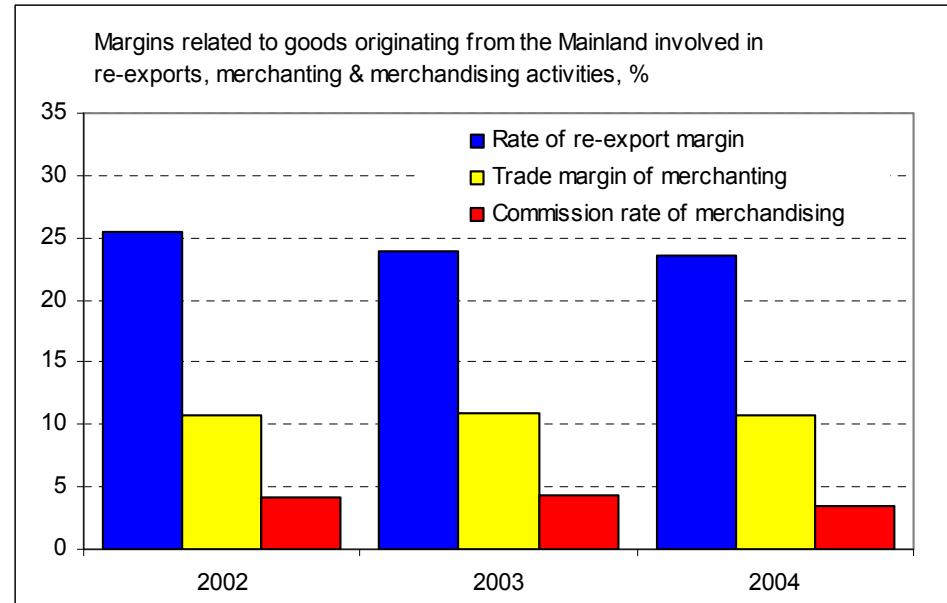
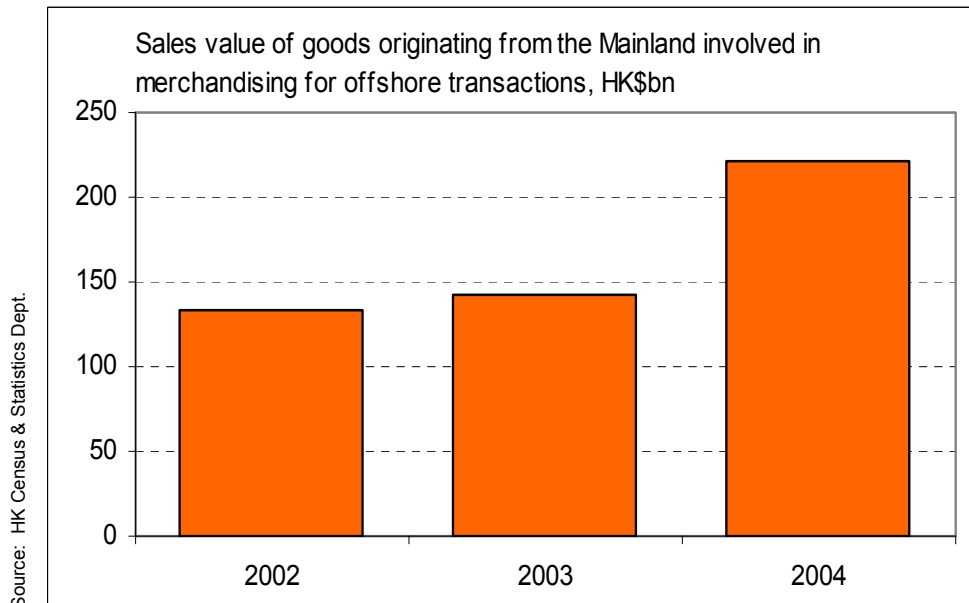
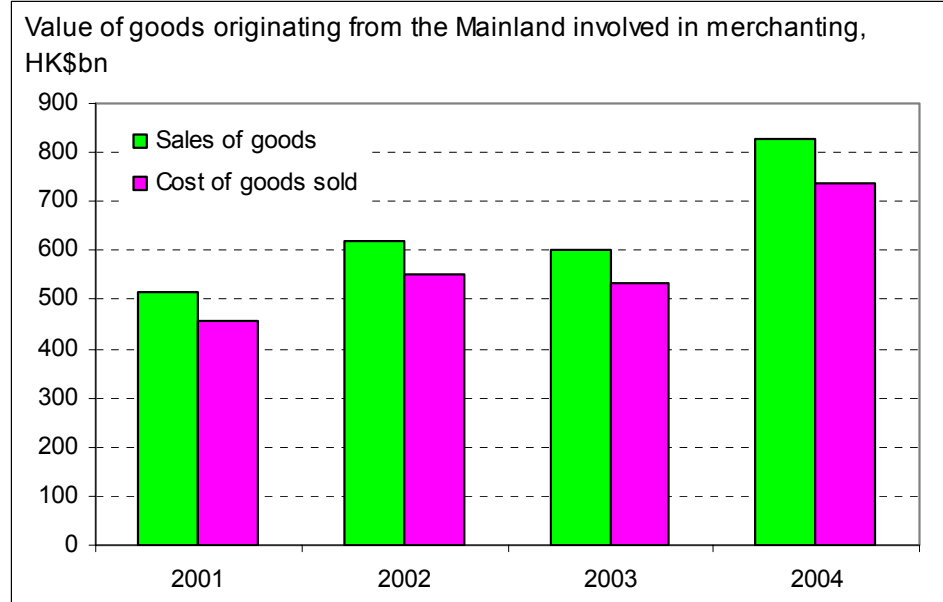
..... but more Mainland goods are transhipped through HK ports

- Given HK's natural deep water harbour and excellent port facilities, goods originated from the Mainland are still carried into HK's ports for transhipment to overseas markets.
- Between 2000 and 2005, port transhipment cargo from the Mainland increased by an average annual rate of 16.6% to 22.7 million tones, equivalent to 46.6% of all the cargo from the Mainland discharged at HK's ports. 65.2% of the transhipment cargo from the Mainland originated from the Pearl River Delta region.
- The growth of transhipment cargo from the Mainland has made up for part of the loss in HK's port cargo throughput due to the slower growth of re-exports from the Mainland.



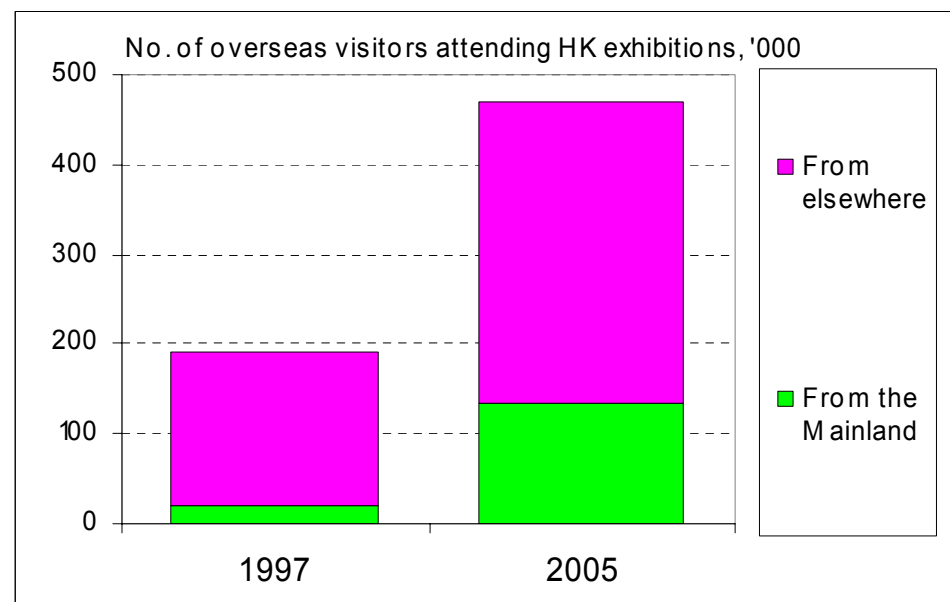
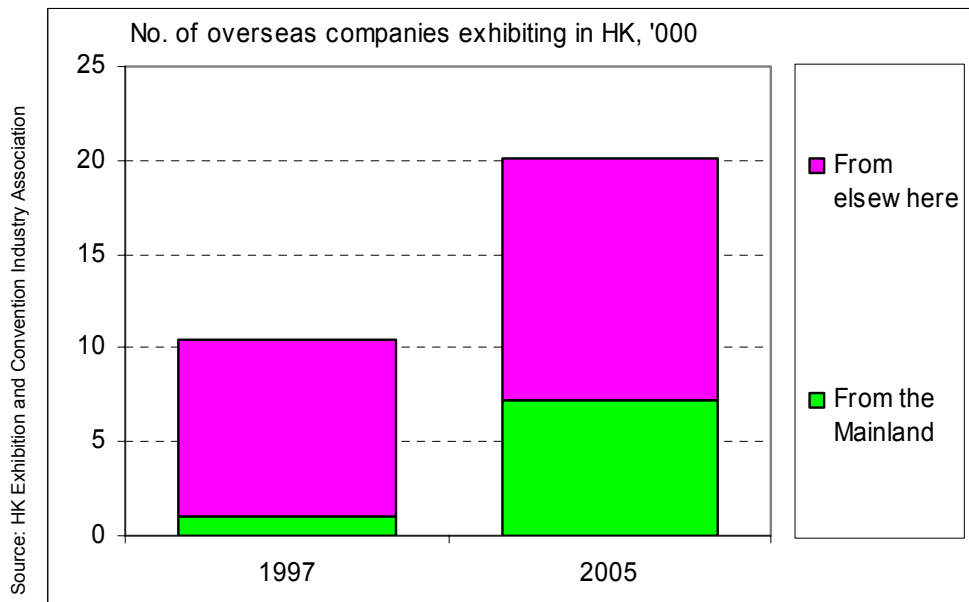
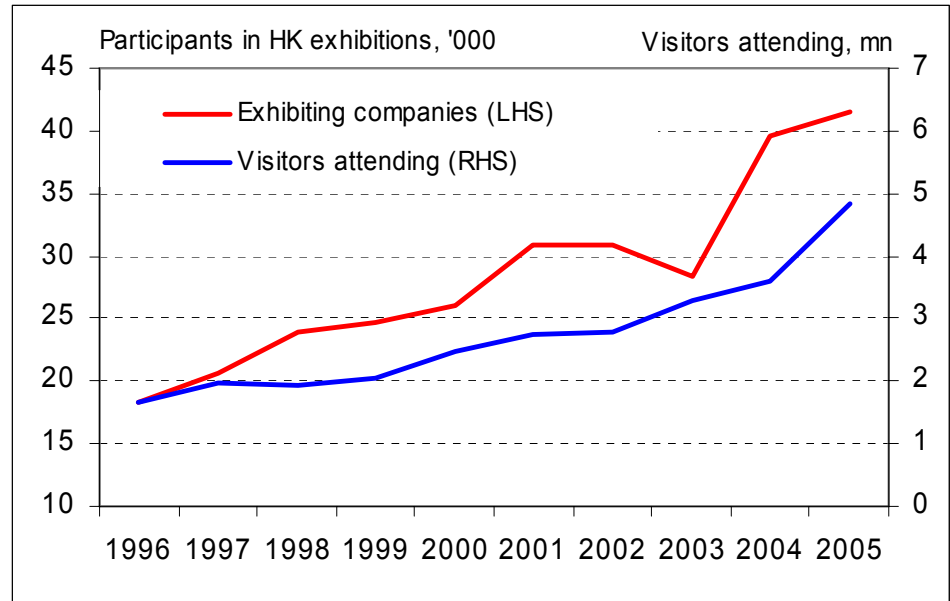
..... or serviced by HK traders without the goods touching HK

- With continuous improvement in China's port facilities, offshore trade engaged by HK involving Mainland goods has also grown in significance; more Mainland exports are now handled by HK traders by way of merchandising and merchandising without the goods ever touching HK.
- In 2004, the sales value of offshore trade involving goods from the Mainland that were serviced by HK companies increased by 41% to \$1,049 billion, equivalent to 92.4% of HK's re-exports from the Mainland, up from 76.9% in 2003.
- However, given the margin of offshore trade was less than that of re-exports, HK would have to channel more offshore trade from the Mainland to make up for the loss in income due to slower growth of re-exports from the Mainland.



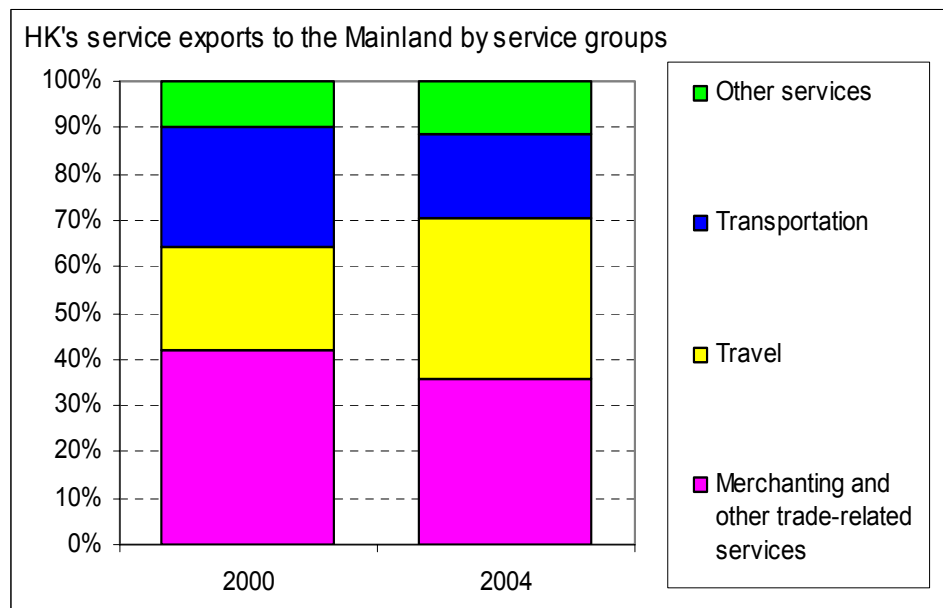
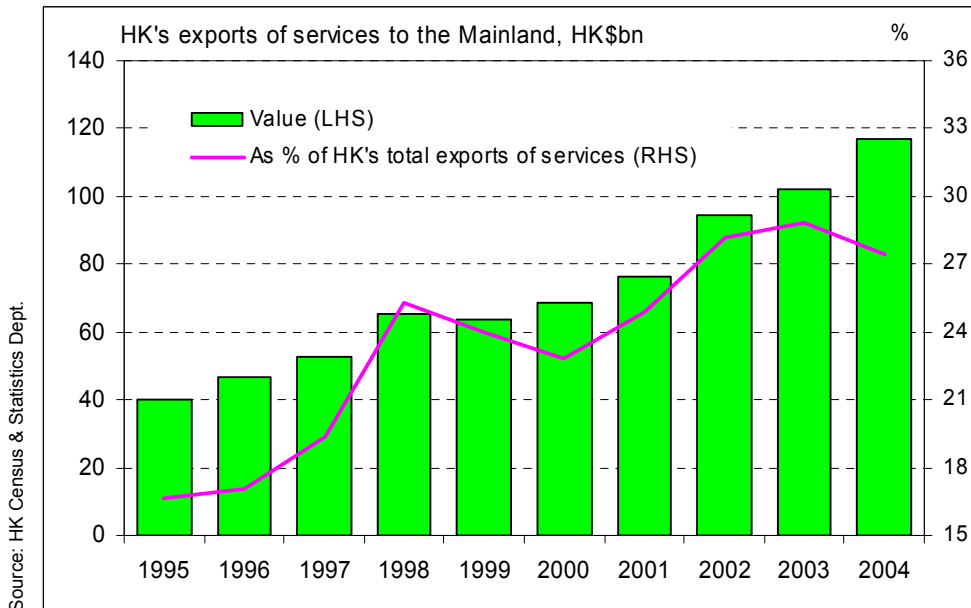
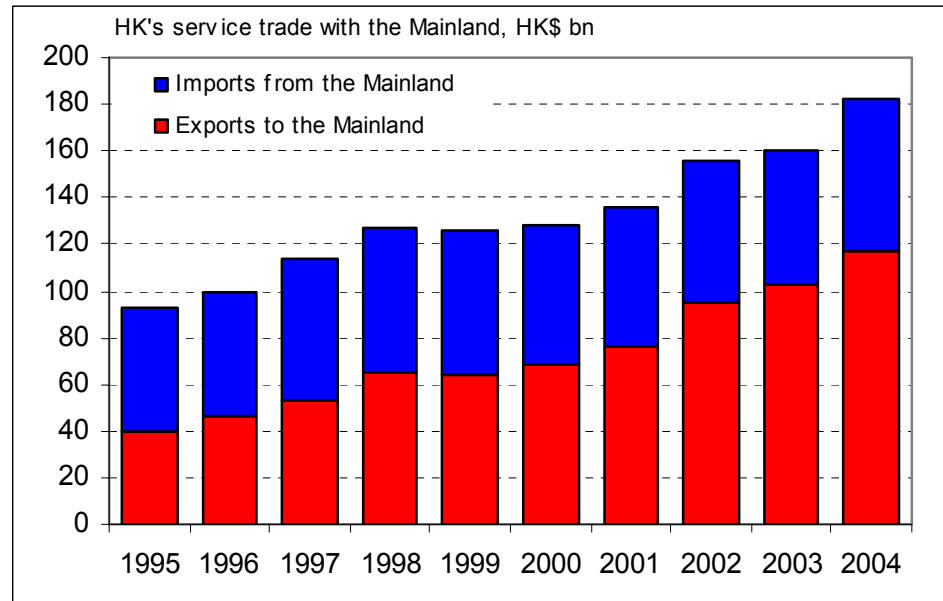
Mainland companies also use HK to showcase their products

- Strategically positioned as a gateway to the Mainland, HK has developed into a premier centre for exhibitions in the region. There were 320 exhibitions held in HK in 2004, up from 172 in 2003 and 209 in 2002.
- HK exhibitions have increasingly attracted participants from the Mainland as more view HK as a showcase for exploring business opportunities worldwide. In 2005, the number of Mainland companies exhibiting in HK rose to 7,266, or 36.1% of all overseas participants, up from 5.2% in 1997.
- The proportion of Mainland visitors attending HK exhibitions also rose to 28.5% of all overseas visitors from 9.9%, suggesting growing importance of HK as a venue for exhibitors to tap the Mainland market.



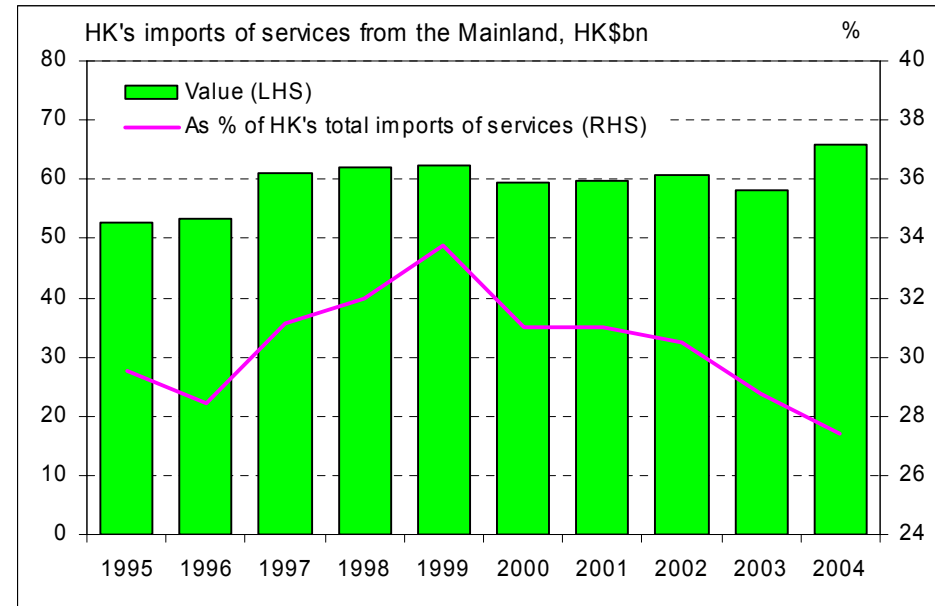
Service exports to the Mainland expand strongly

- HK's service trade with the Mainland grew at an average annual rate of 7.8% from 1995 to HK\$182.7 billion in 2004, with service exports accounting for 64% of the total.
- Between 1995-2004, HK's service exports to the Mainland grew at an average annual rate of 12.9%, and its share in HK's total exports of services rose from 16.7% to 27.4%.
- Reflecting the rising importance of [offshore trade](#) to HK, a significant 36% of HK's service exports to the Mainland were related to [merchanting](#) and other trade-related services in 2004; meanwhile, in line with the rise of visitors from the Mainland since late 2003 following implementation of the [Individual Visit Scheme](#), exports of travel services had gained much significance between 2000 and 2004.

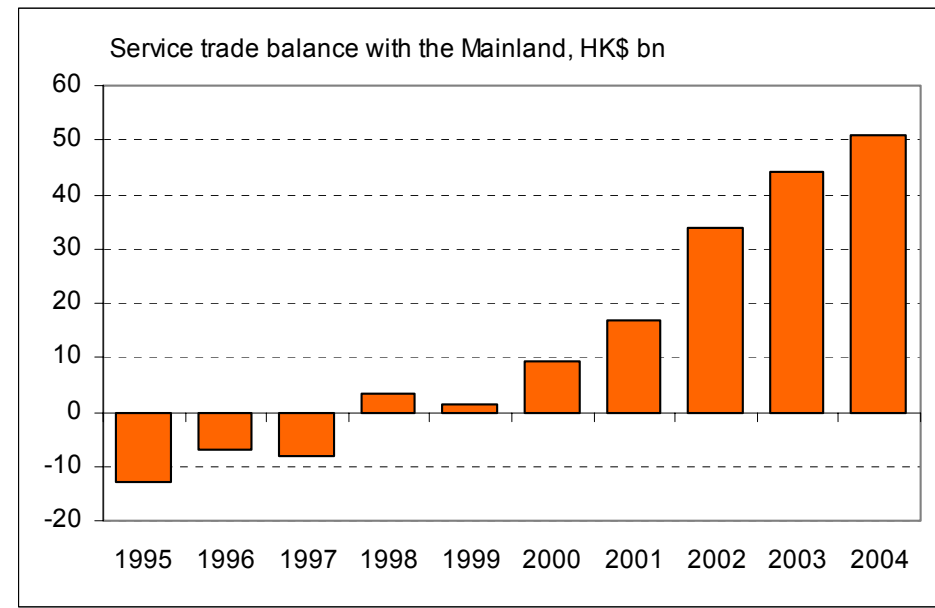
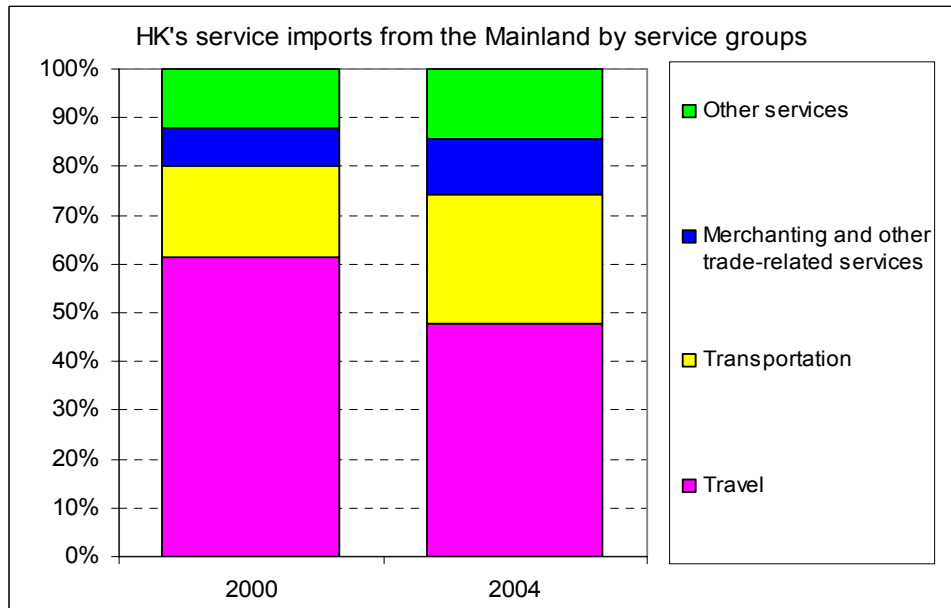


HK is a net exporter of services to the Mainland

- Compared to exports, HK's imports of services from the Mainland expanded at a much slower pace of 2.5% per year during 1995-2004, with its share in HK's total service imports declining from a peak of 33.8% in 1999 to 27.4% in 2004.
- Travel services made up the largest group of HK's service imports from the Mainland, but its value fell in 2003 following the sharp decline of HK resident departures to the Mainland in the wake of the SARS outbreak. In 2004, travel services accounted for only 47.9% of HK's total service imports from the Mainland, down from 61.3% in 2000.
- With the lagging growth of HK's imports from the Mainland over exports, HK has maintained a surplus in service trade with the Mainland which exceeded HK\$50 billion in 2004.



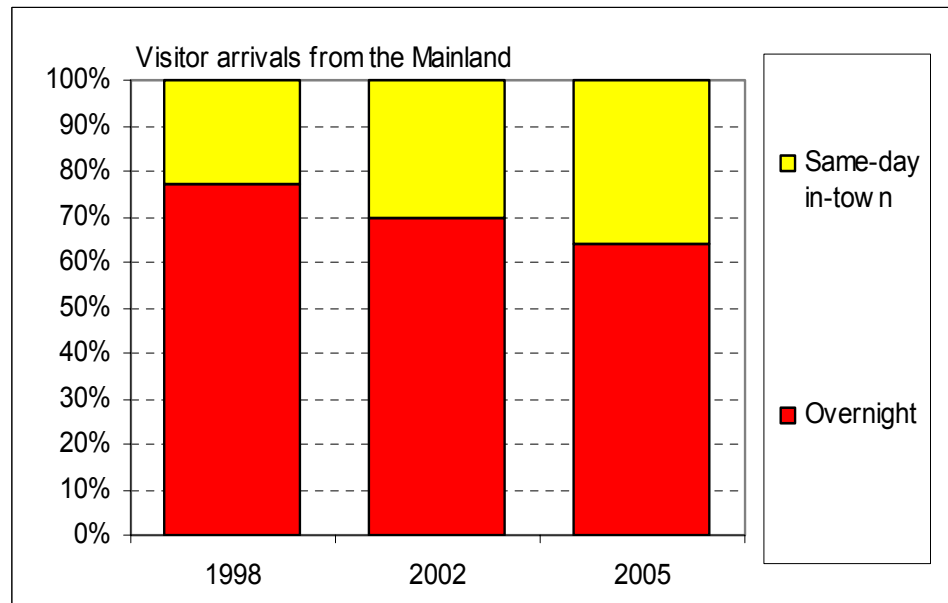
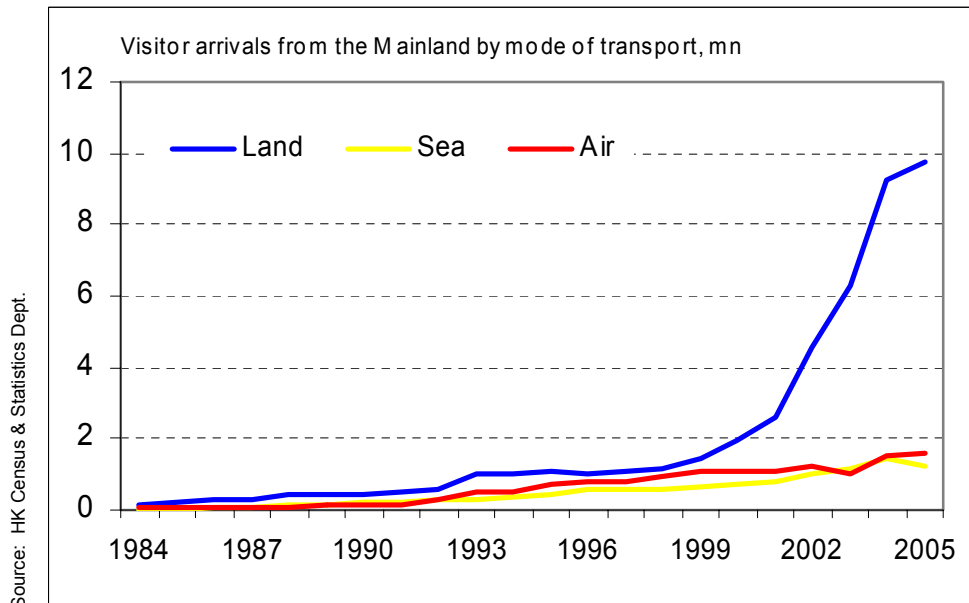
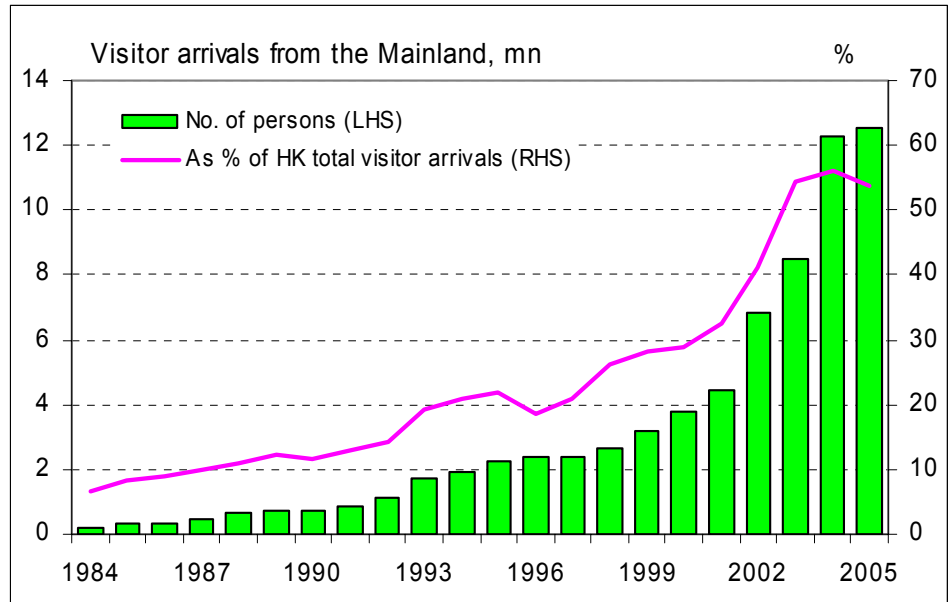
Source: HK Census & Statistics Dept.



Source: HK Census & Statistics Dept.

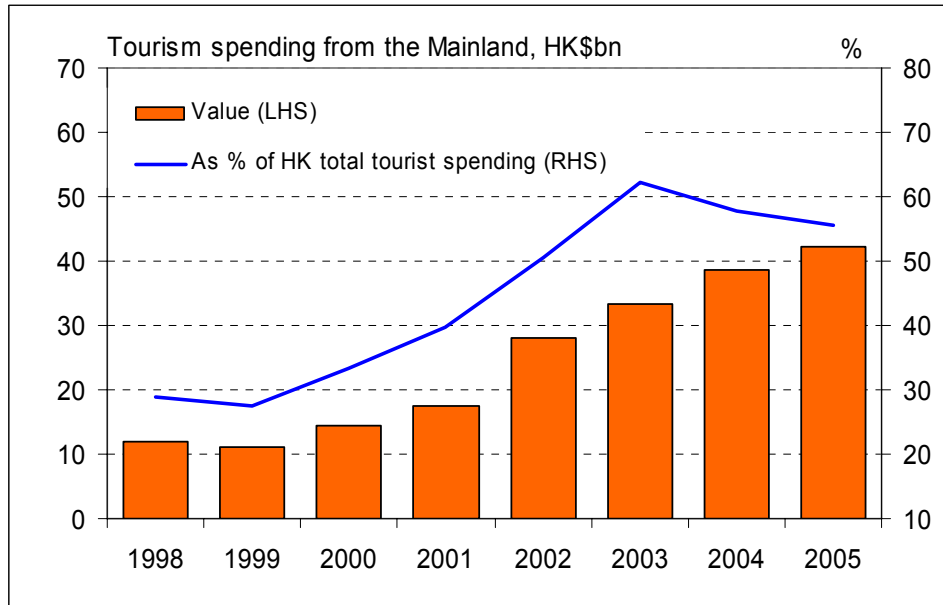
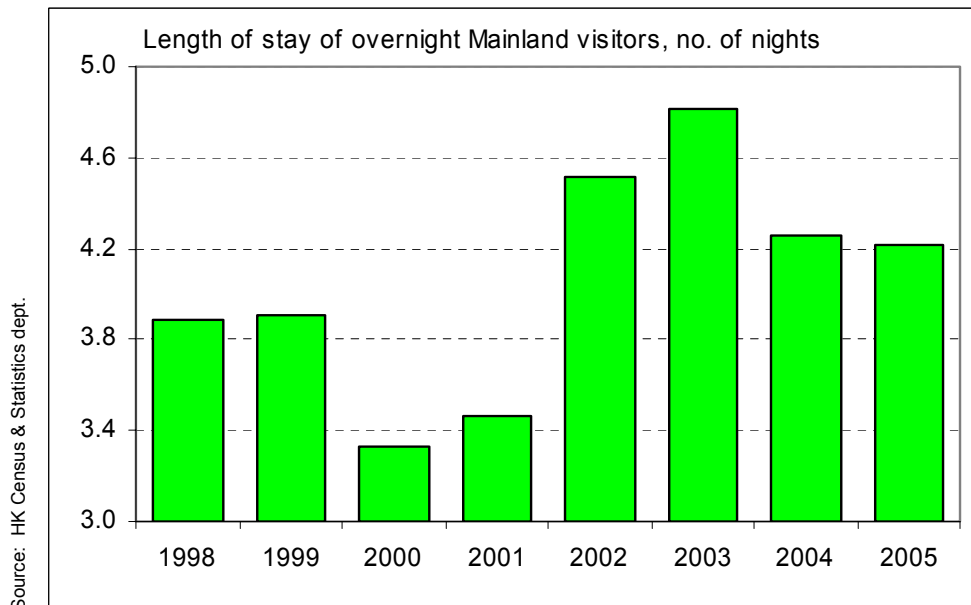
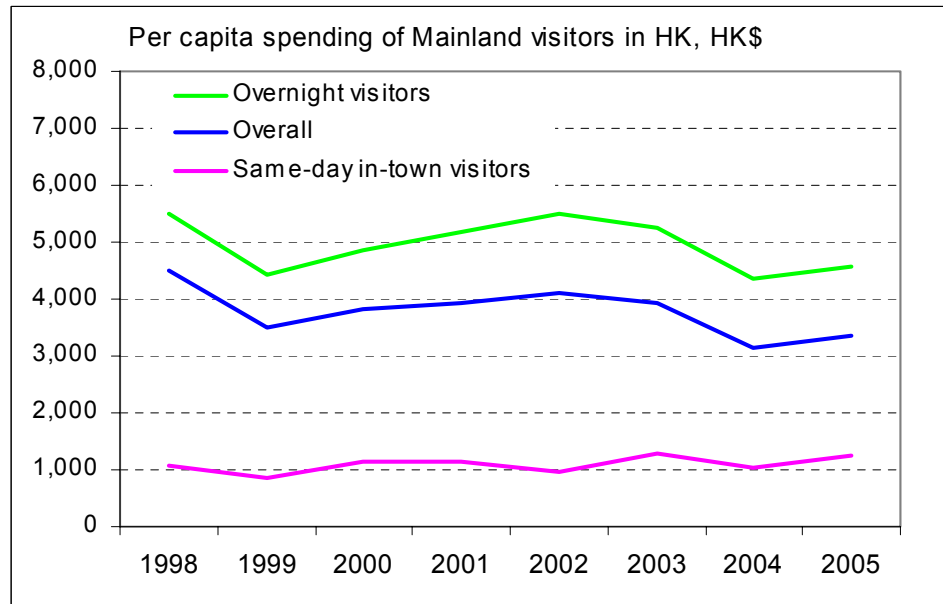
The Mainland is increasingly important as a source of visitor arrivals

- Following implementation of the [Individual Visit Scheme](#) by China in July 2003, visitors from the Mainland increased substantially and surpassed 12 million in 2004 and 2005, accounting for more than half of the HK's visitor arrivals.
- Mainland visitors who travelled to HK by land recorded substantially higher average annual growth of 40% during the past 5 years. In 2005, Mainland visitors who travelled to HK by land accounted for 77% of total Mainland visitors to HK, up from less than half in 1995.
- Overnight visitors accounted for the bulk of HK's visitor arrivals from the Mainland, but its share declined to 64% in 2005 from 77% in 1998 following the faster growth in the number of same-day in-town visitors from the Mainland.



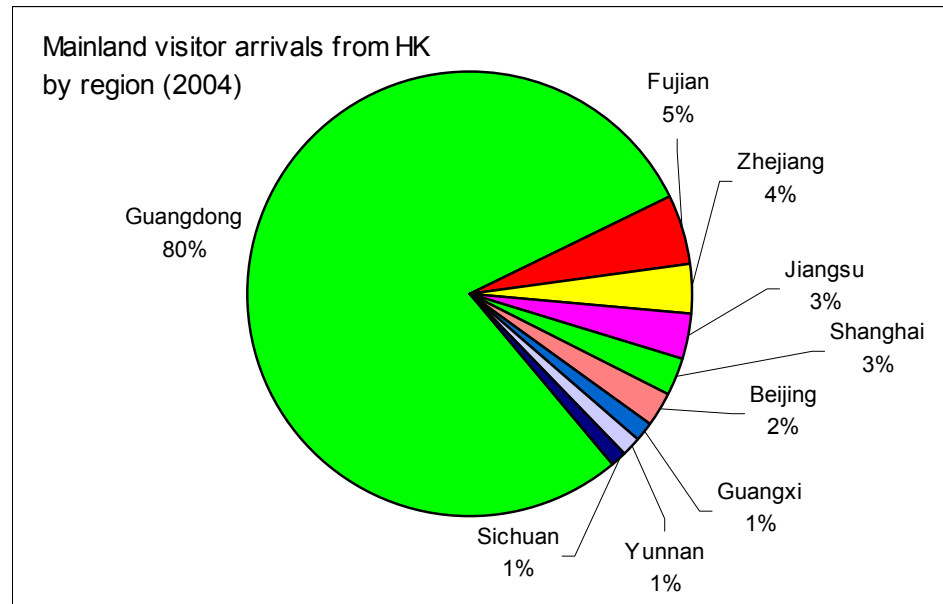
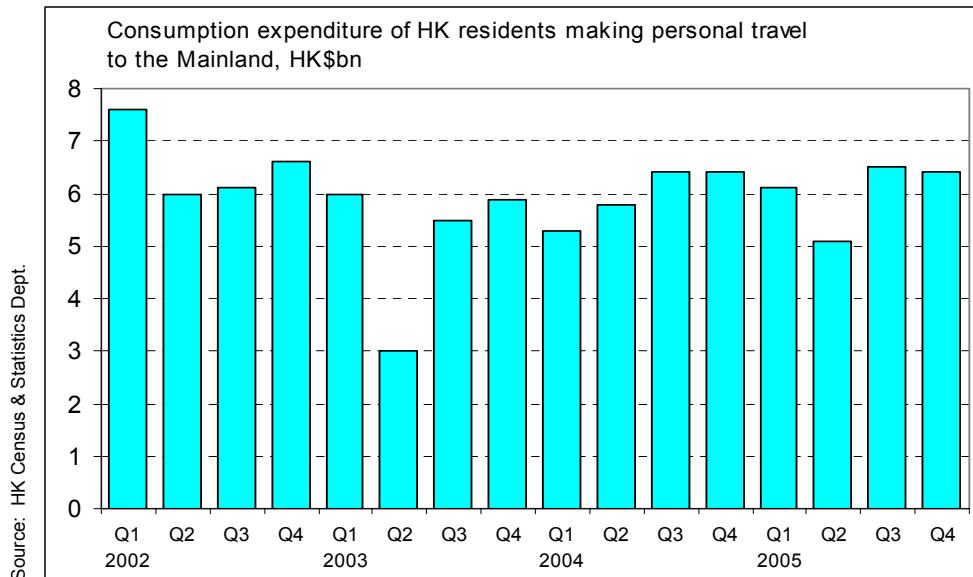
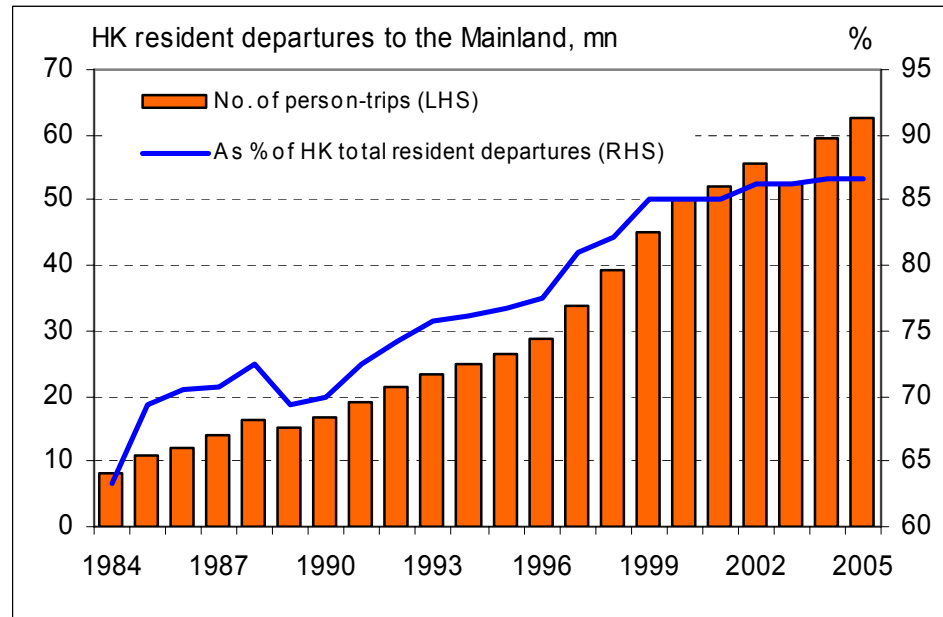
..... but per capita spending of Mainland visitors has dropped

- While per capita spending of same-day in-town Mainland visitors has risen in recent years, that of overnight visitors has fallen. Overall, per capita spending of Mainland visitors dropped by 24.9% from 1998 to HK\$3,365 in 2005.
- The fall in per capita spending of overnight Mainland visitors was despite increase in their length of stay from 3.9 days in 1998 to 4.2 days in 2005, reflecting a fall in the per diem spending of these tourists.
- As per capita spending of Mainland visitors fell, total tourist spending from the Mainland had risen at a slower pace than the growth in the number of Mainland visitors. The share of tourist spending from Mainland visitors also fell from a peak of 62.4% in 2003 to 55.7% in 2005.



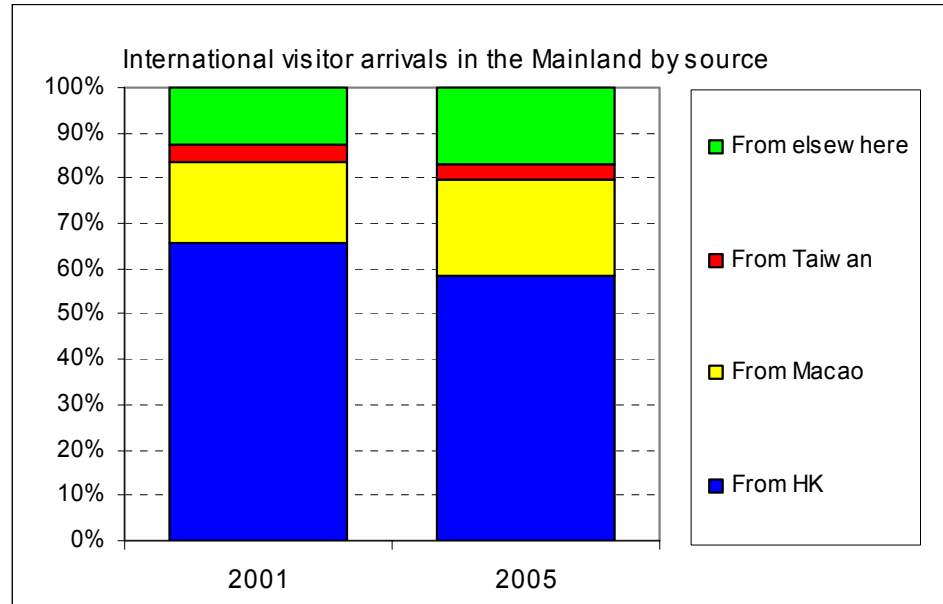
The Mainland is also a popular travel destination for HK residents

- The Mainland is likewise the most popular destination of HK residents' outbound travel, accounting for more than 80% of total departures since 1997. In 2005, HK resident departures to the Mainland stood at 62.7 million person-trips.
- About two-thirds of the trips to the Mainland were for personal purposes such as holiday-making. After a sharp decline in early 2003 in the wake of the SARS outbreak, expenditure of HK residents making personal travel to the Mainland edged up again and rose to HK\$24 billion in 2005.
- Given the geographical proximity and close socio-economic ties, a majority of HK residents travelled to the Mainland were destined for Guangdong which took up 80% of HK visitors travelled to the Mainland in 2004.

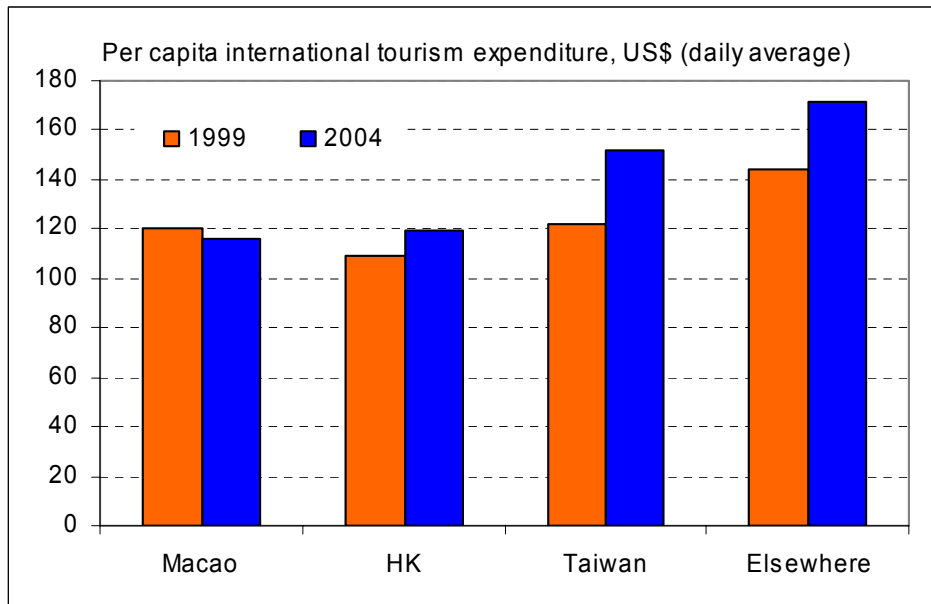


HK is the largest source of international visitors for the Mainland

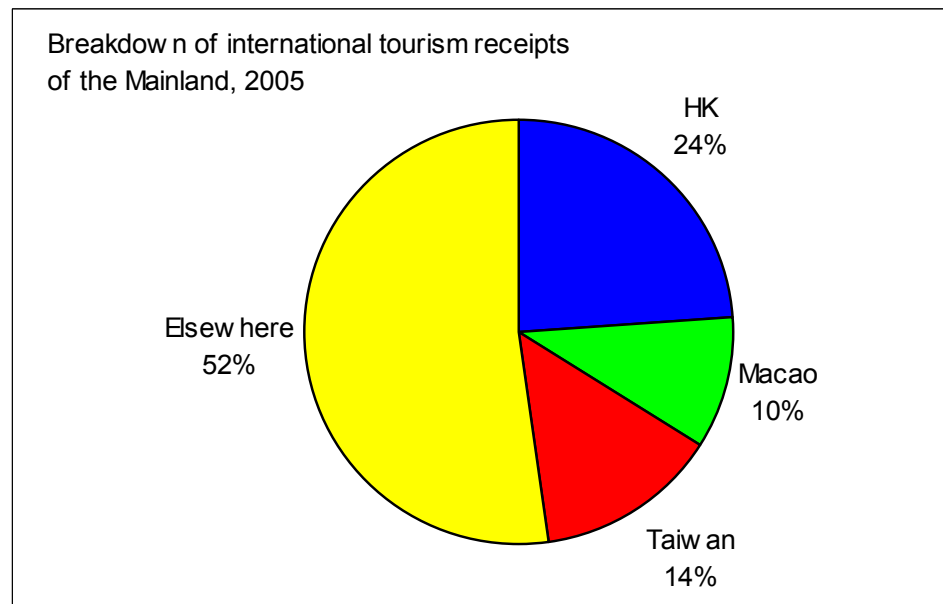
- HK also contributes significantly to Mainland's tourism industry. Although HK is not the fastest growing source of visitors for the Mainland, it accounted for a dominant 58.4% share of total international visitors received by the Mainland in 2005. On average, overnight visitors from HK stayed 2.2 nights in the Mainland in 2004.
- HK residents visiting the Mainland spent an average of US\$120 per capita per day in 2004, which was lower than that of Taiwanese and other foreign visitors.
- Accordingly, HK visitors accounted for only about a quarter of the Mainland's total international tourism receipts.



Source: China National Tourism Association



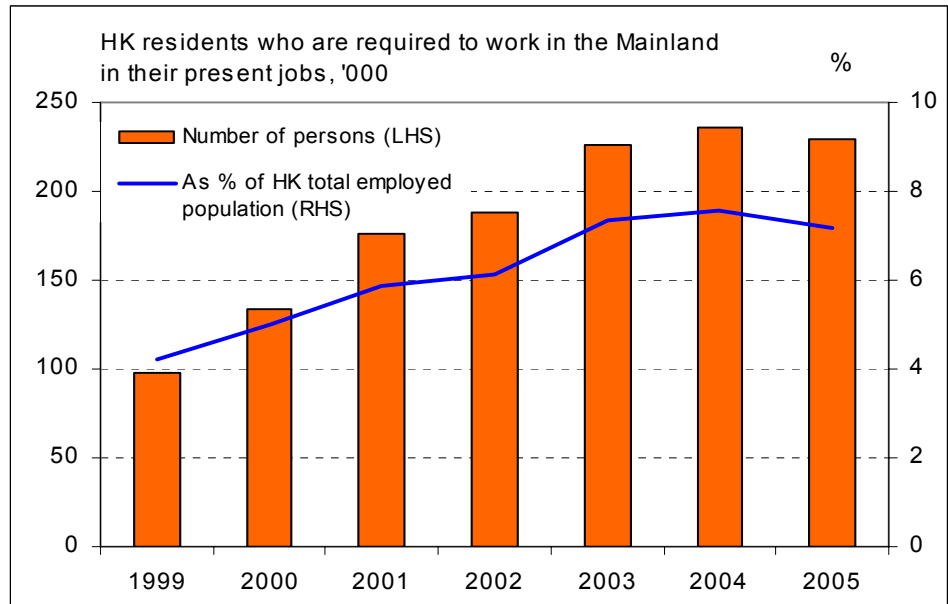
Source: China National Tourism Association



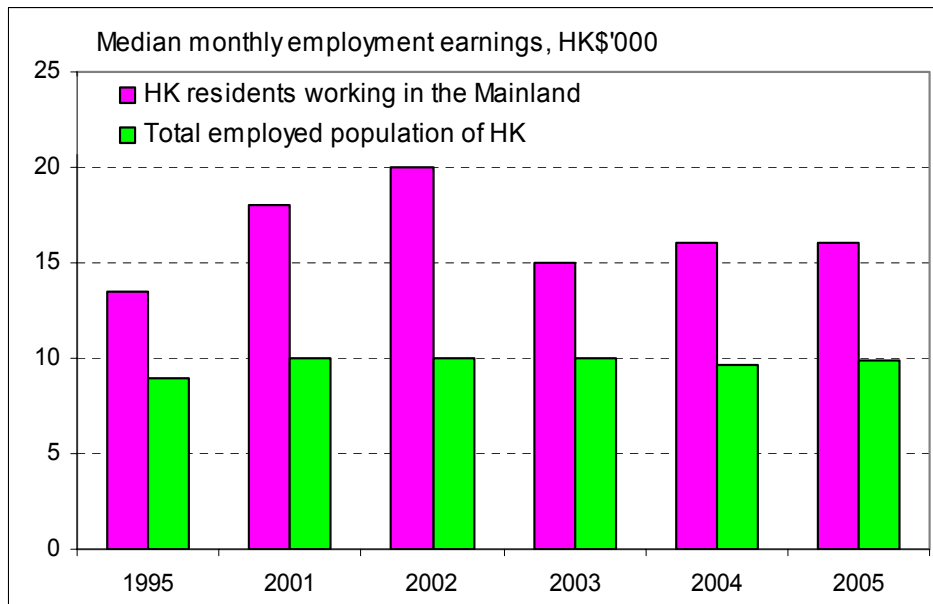
Source: China National Tourism Association

More HK residents are required to travel to work in the Mainland

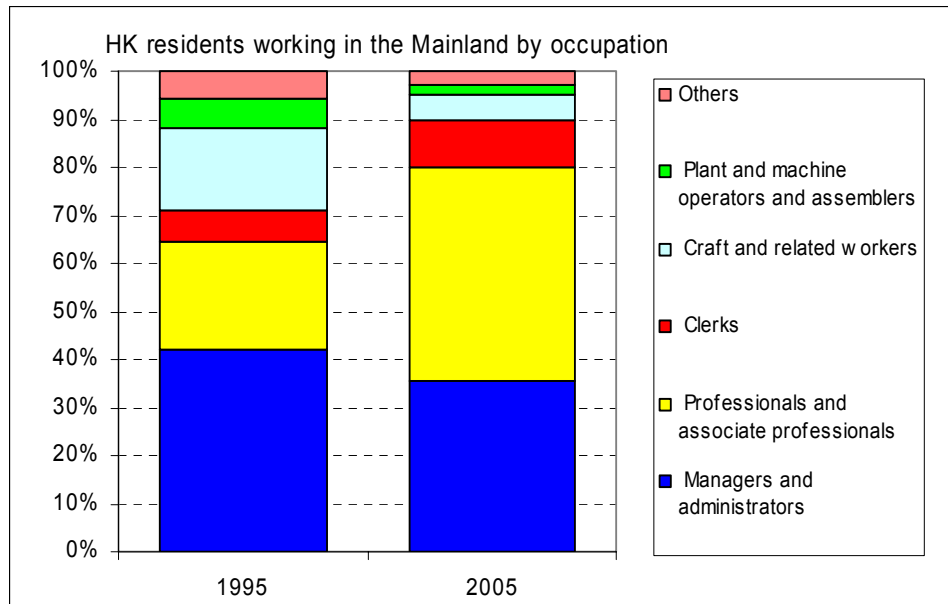
- Along with increased economic links with the Mainland, the number of HK residents who were required to travel to work in the Mainland (HKWM) increased by 135.3% between 1999 and 2005 to 228,900, accounting for 7.2% of total employed population of HK in the year. 90% of the HKWM were employed by companies in HK, and 43% of them stayed in the Mainland for an average of 1-2 days.
- The median monthly employment earnings of the HKWM rose to HK\$16,000 in 2005, 61.6% higher than that of HK's total employed population. The uptrend in earnings during 1995-2005 was in line with the increase in the number of higher skilled HK employees at the professional levels who were required to work in the Mainland.



Source: HK Census & Statistics Dept.



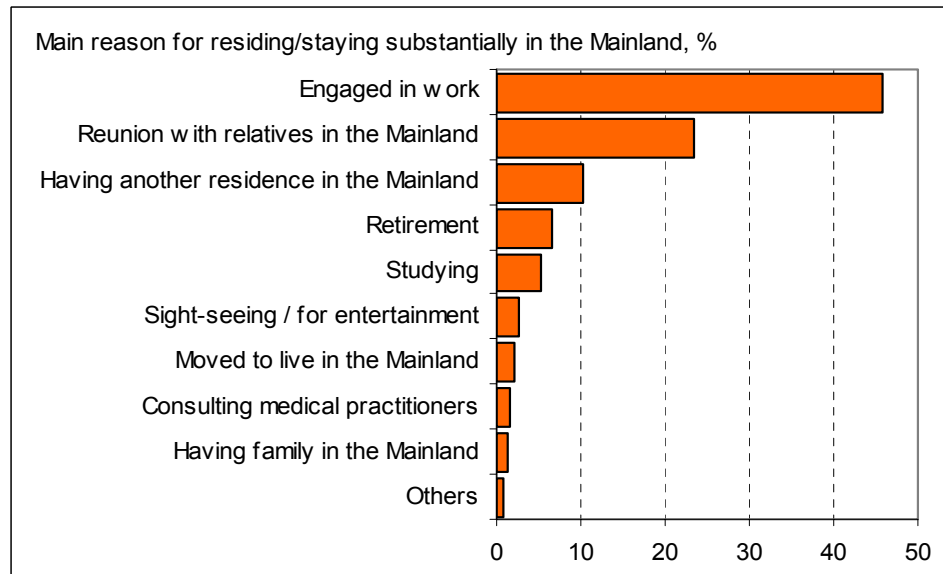
Source: HK Census & Statistics Dept.



Source: HK Census & Statistics Dept.

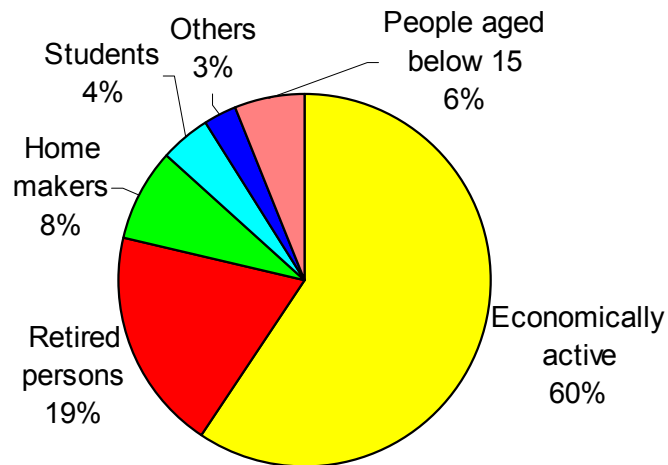
..... some even moved their residence to the Mainland

- Apart from travelling across the boundary, some HK residents have moved their residence to the Mainland either permanently or for extended periods of time. According to a [government survey](#) conducted in January 2005, an estimated total of 290,900 [HK residents have resided or have stayed substantially in the Mainland \(HKRM\)](#) for a period of at least one month in the past 6 months before the reference time-point of the survey.
- 45.8% of the HKRM cited “engaged in work” as the main reason for their relocation; accordingly, [economically active](#) people accounted for a dominant 60% share of the HKRM.
- 82% of the HKRM usually resided in Guangdong, within which Shenzhen accounted for the biggest share.



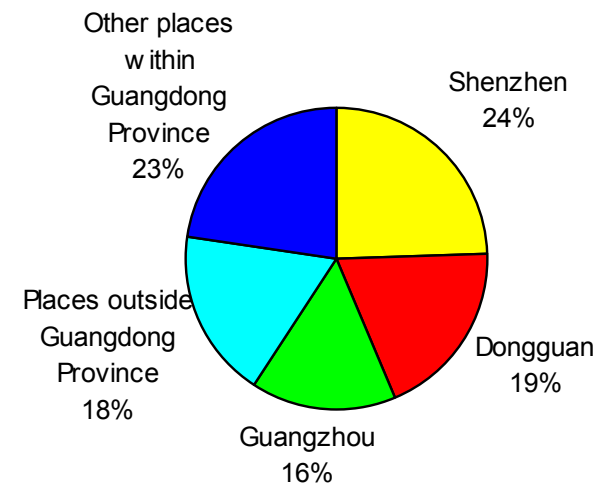
Source: HK Census & Statistics Dept.

Distribution of HKRM by economic activity status, 2005



Source: HK Census & Statistics Dept.

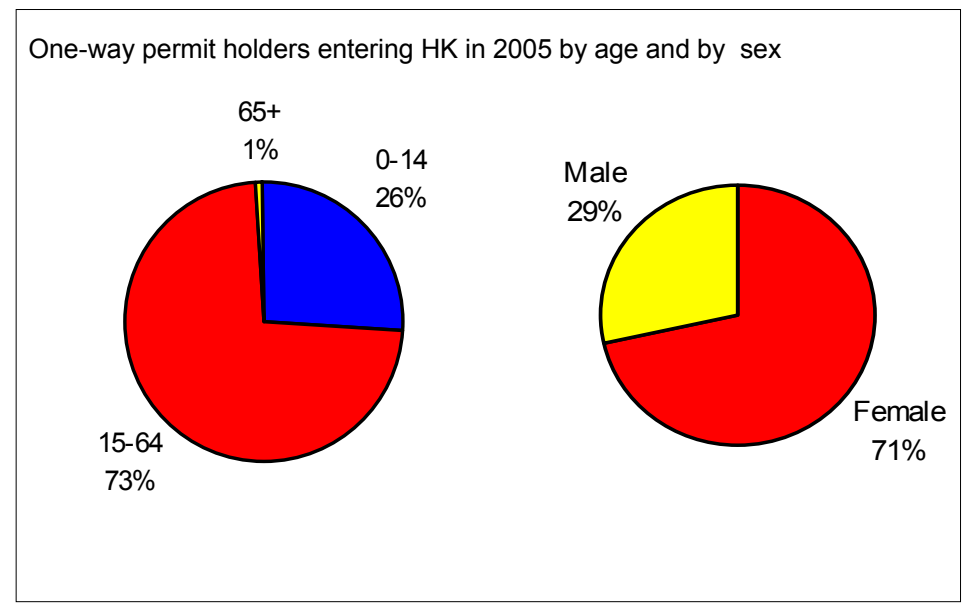
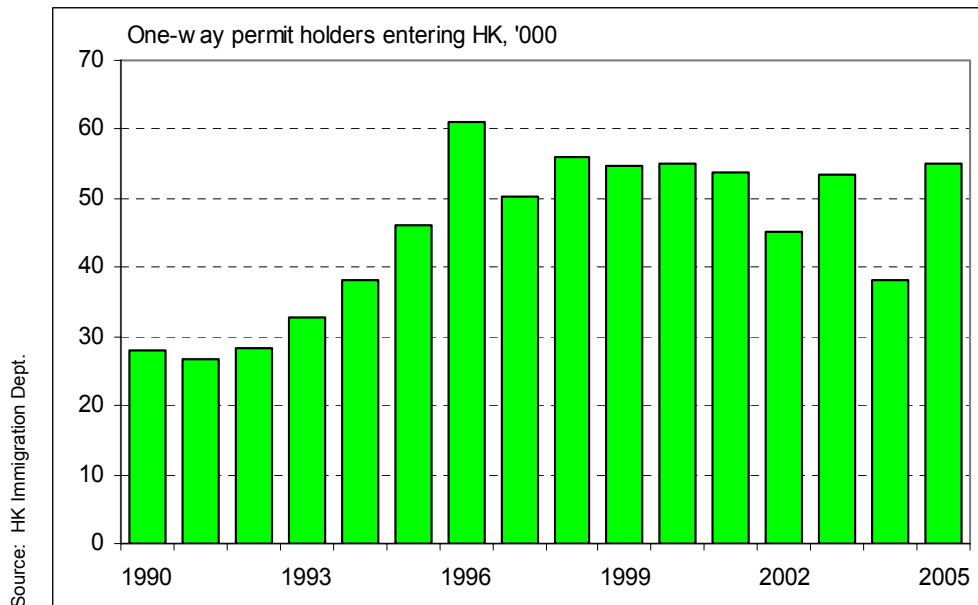
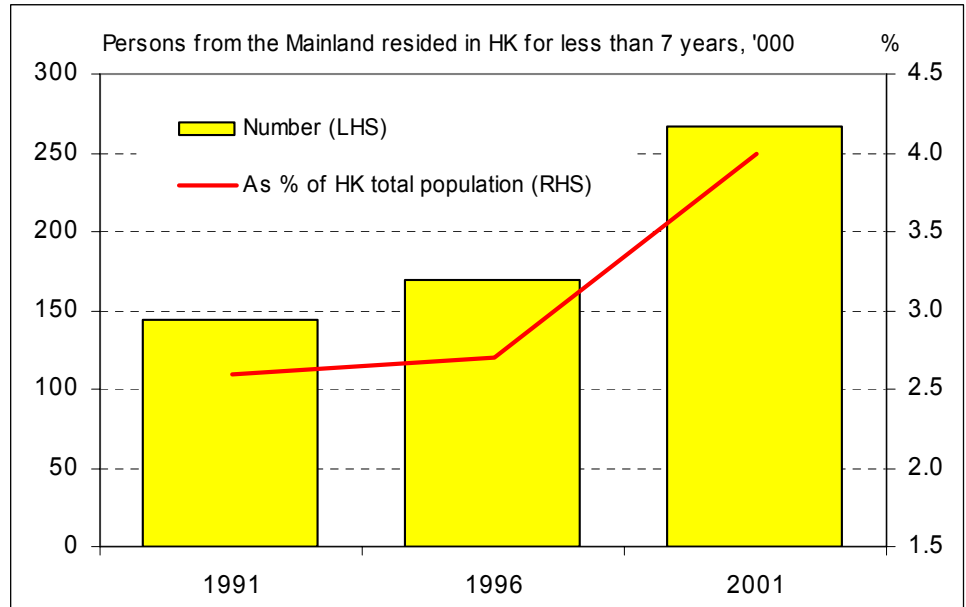
Distribution of HKRM by usual place of residence, 2005



Source: HK Census & Statistics Dept.

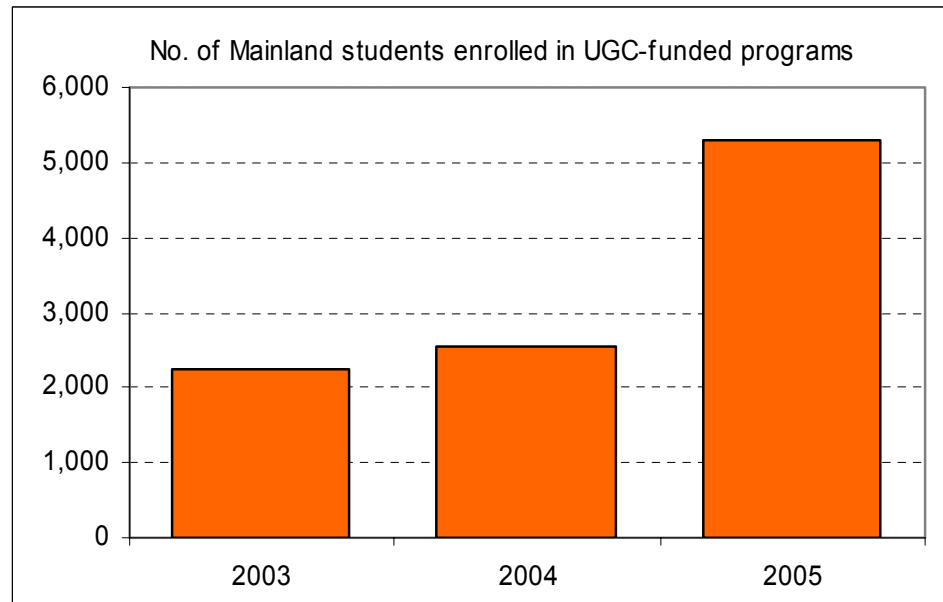
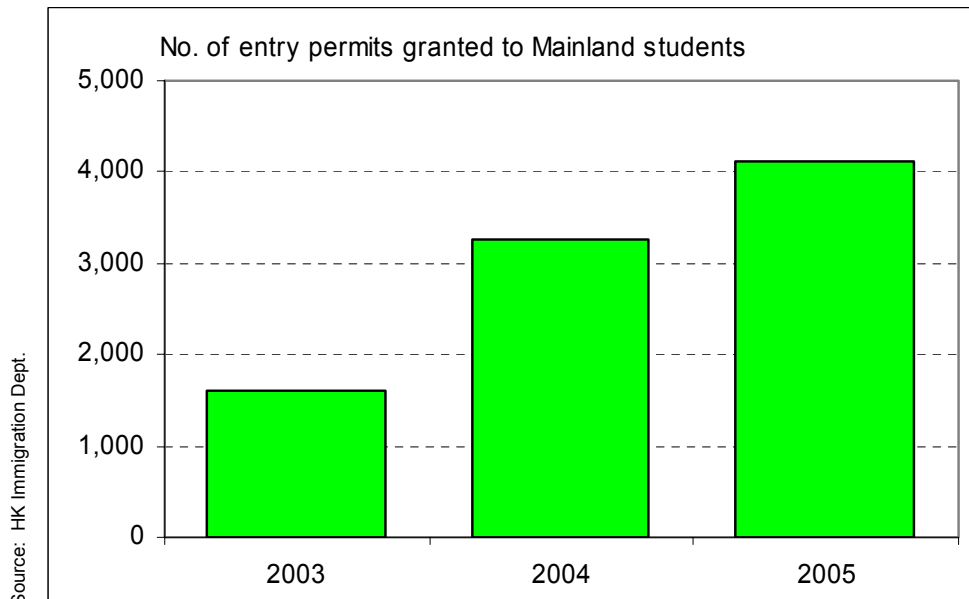
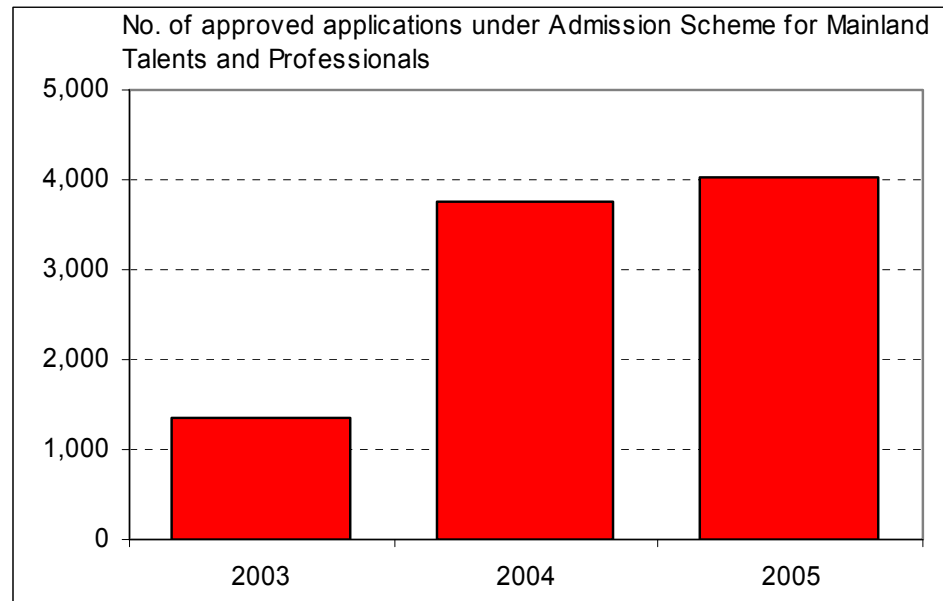
Mainland migrants are a major source of HK population growth

- According to the latest Population Census, the number of persons from the Mainland having resided in HK for less than 7 years (PMR) nearly doubled from 1991 to 266,577 in 2001, accounting for 4% of HK's total population.
- The surge was in line with the rise in the daily quota of [one-way permit holders from the Mainland](#) to 150 in 1995. In the past 10 years, an annual average of 52,270 Mainland residents had migrated to HK, making it a major source of HK population growth.
- As priority is given to eligible children and spouses applying for one-way permit, a high proportion of the PMRs were [economically inactive](#) and were dominated by students and women home makers.



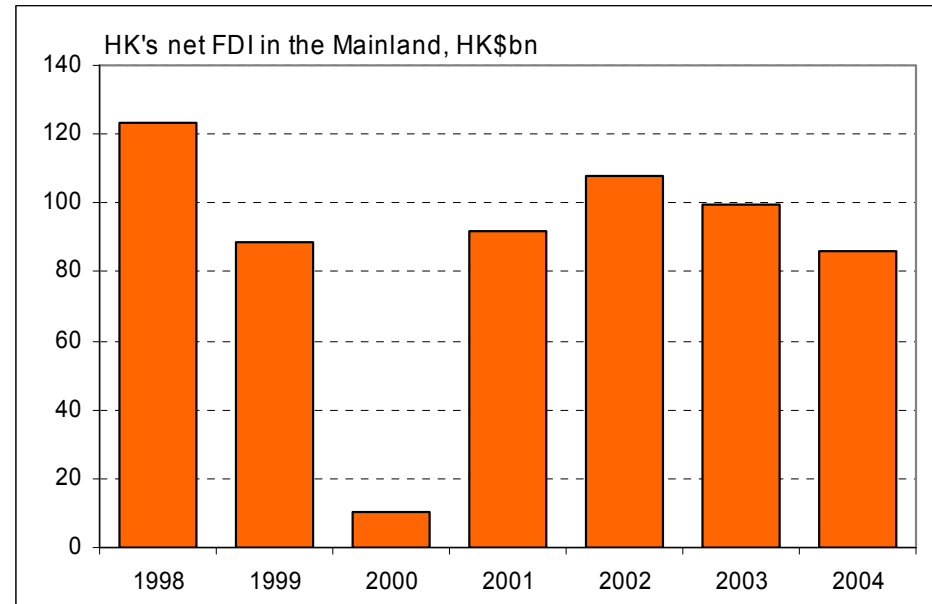
HK actively attracting Mainland talents

- Apart from entering HK for settlement, more Mainland residents have been admitted to take up employment in HK in recent years. In July 2003, the [Admission Scheme for Mainland Talents and Professionals](#) was introduced to attract qualified Mainland residents to work in HK to meet local manpower needs. At end-2005, 9,124 Mainland residents were admitted into HK under the Scheme.
- HK has also been granting an increasing number of permissions to Mainland students applying to study in HK. In 2005, the number of entry permits granted to Mainland students exceeded 4,000, up 157.8% from 2003. Between 2003 and 2005, enrolment of Mainland students in [UGC-funded institutions](#) rose 137% to 5,291.

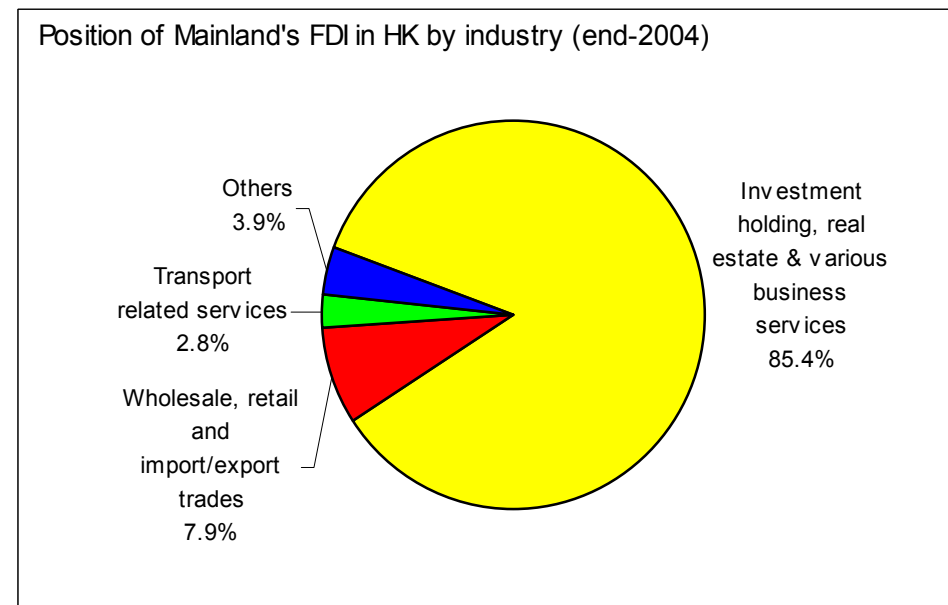
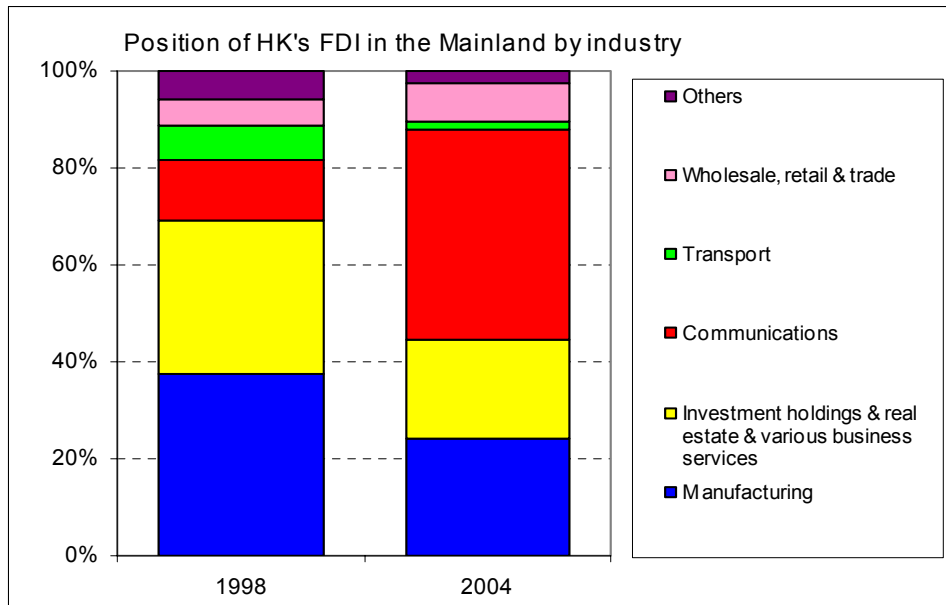


HK has been a net investor in the Mainland

- HK has been a net investor in the Mainland in terms of foreign direct investment (FDI), with net FDI in the Mainland remaining stable at around HK\$80-110 billion per year since 2001.
- HK's investment in the Mainland has become increasingly diversified. Between 1998 and 2004, the share of manufacturing in the position of HK's FDI in the Mainland dropped from 37.6% to 24.1%, while the share of communications rose from 10.7% to 40.7%.
- Mainland's FDI in HK also covered a wide range of economic activities. At end-2004, investment holding, real estate and various business services accounted for 85.4% of the position of Mainland's FDI in HK.



Source: HK Census & Statistics Dept. for data on Mainland's FDI in HK, China's Ministry of Commerce for data on HK FDI in Mainland

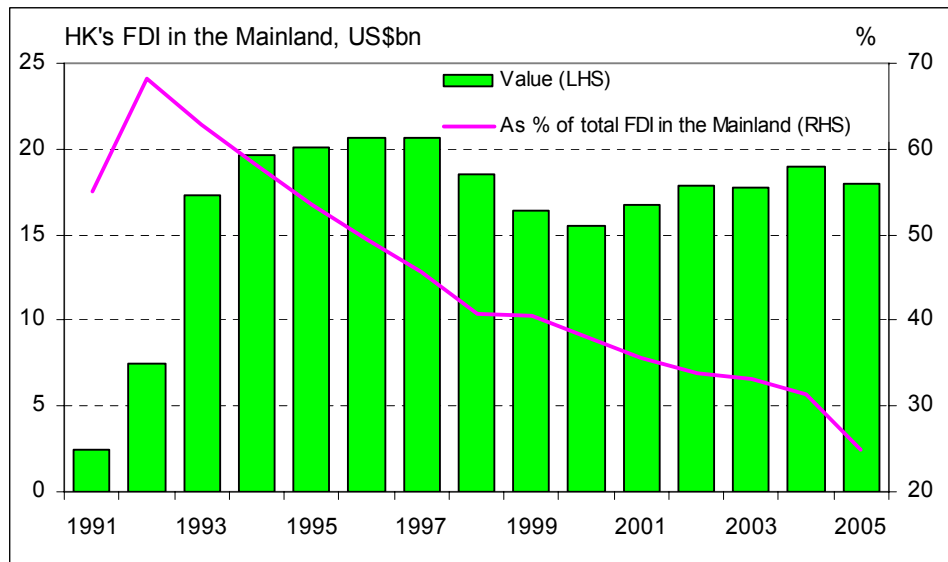


Source: HK Census & Statistics Dept.

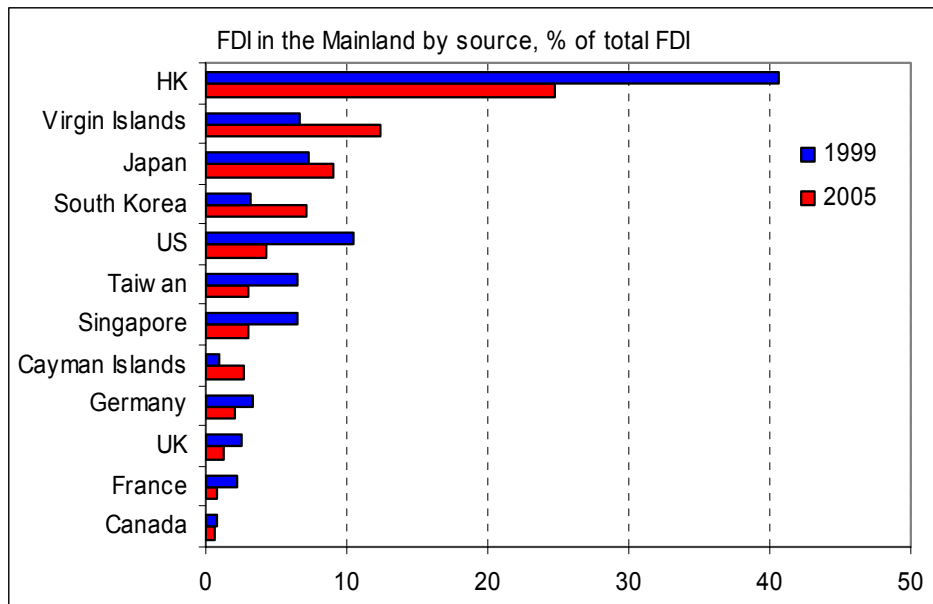
Source: HK Census & Statistics Dept.

..... it remains the largest provider of FDI to the Mainland

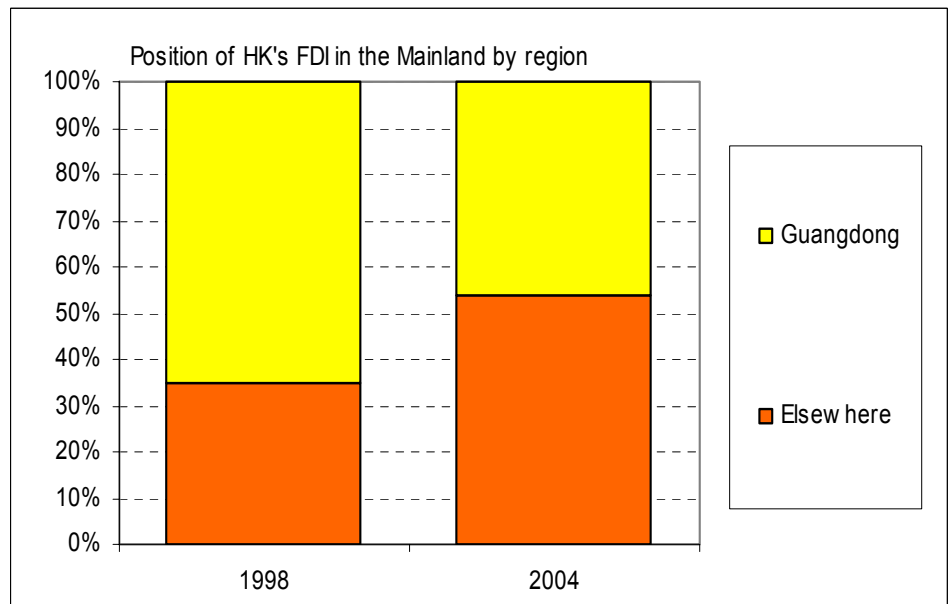
- HK has been a major source of FDI for the Mainland. HK's FDI in the Mainland grew from below US\$10 billion prior to 1993 to over US\$20 billion during 1995-1997 before stabilizing at around US\$18 billion in recent years.
- Although the wider opening of China's market has led to declining dominance of HK in Mainland's FDI inflow, HK remained the top source of FDI for the Mainland, accounting for 24.8% of the total in 2005.
- While Guangdong has traditionally absorbed the bulk of HK's FDI in the Mainland, other provinces have gained significance recently. At end-2004, provinces outside of Guangdong accounted for 54% of the position of HK's FDI in the Mainland, up from 35% in 1998.



Source: China Ministry of Commerce



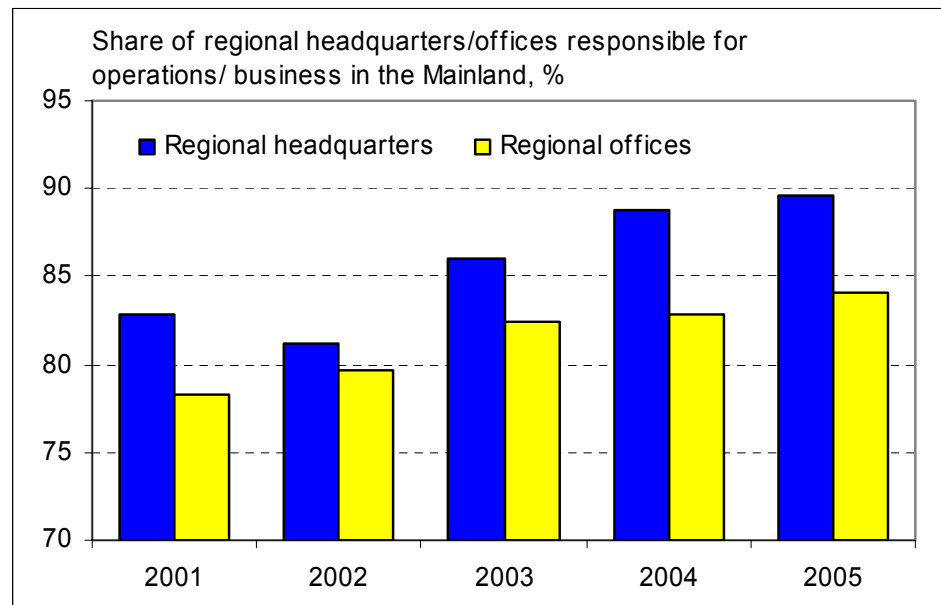
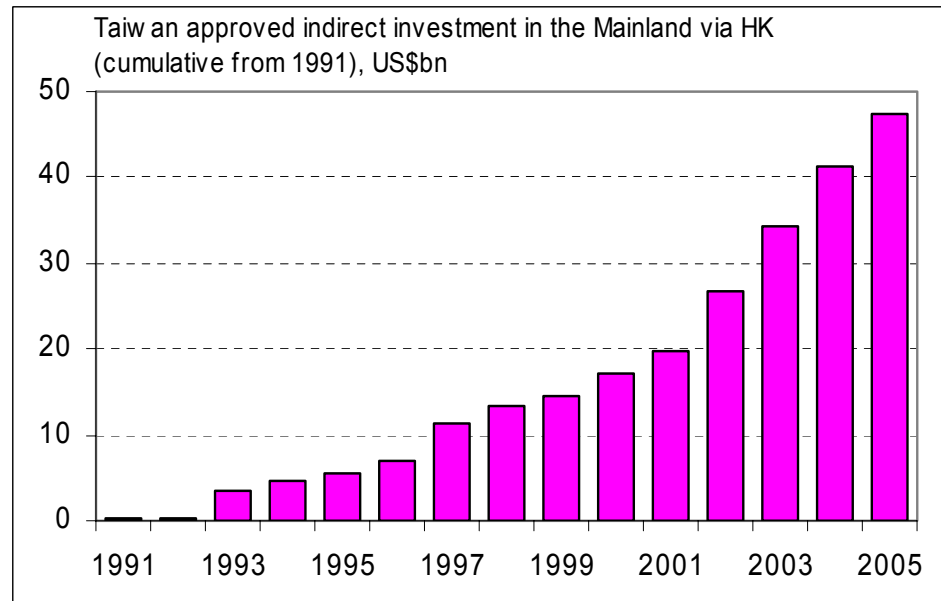
Source: China Ministry of Commerce



Source: HK Census & Statistics Dept.

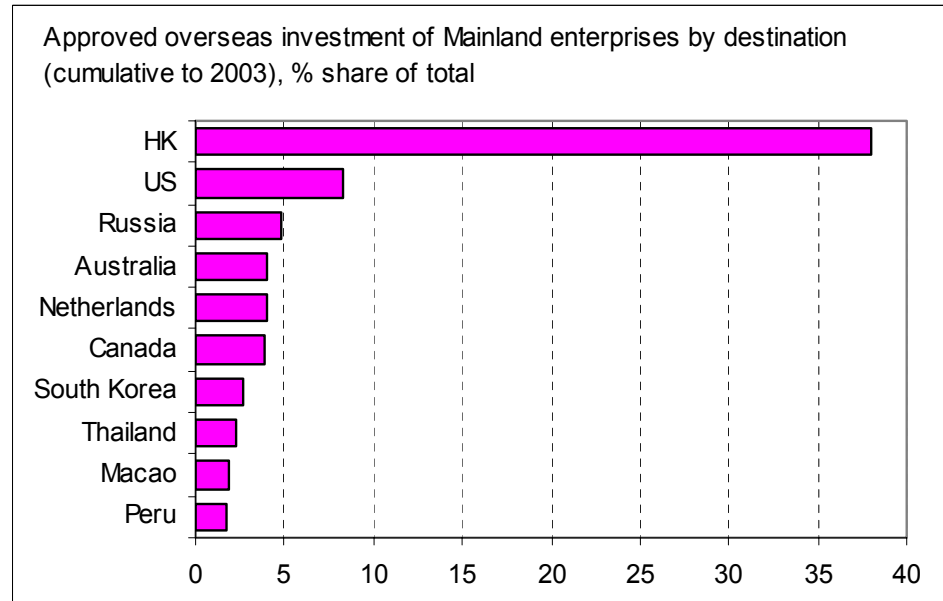
..... and a main conduit for overseas investment into the Mainland

- A significant part of HK's FDI across the boundary came from Taiwan-funded HK enterprises. Between 1991 and 2005, Taiwan's government had approved a total of US\$47.3 billion indirect investment in the Mainland via HK.
- With the implementation of [CEPA](#) in 2004, HK's attractiveness as a conduit for overseas investment into the Mainland was further strengthened. Some 40% of the companies involved in inward investment projects completed by InvestHK in 2005 said they invested in HK because of CEPA or CEPA was a contributing factor.
- In 2005, close to 90% of the regional headquarters in HK of companies incorporated outside HK were responsible for operations/business in the Mainland, up from 81% in 2002.

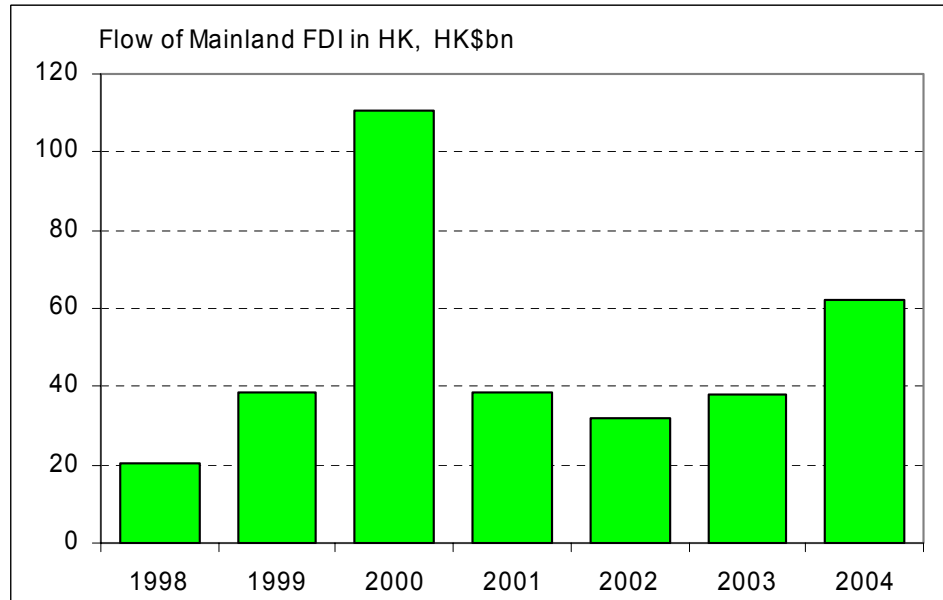
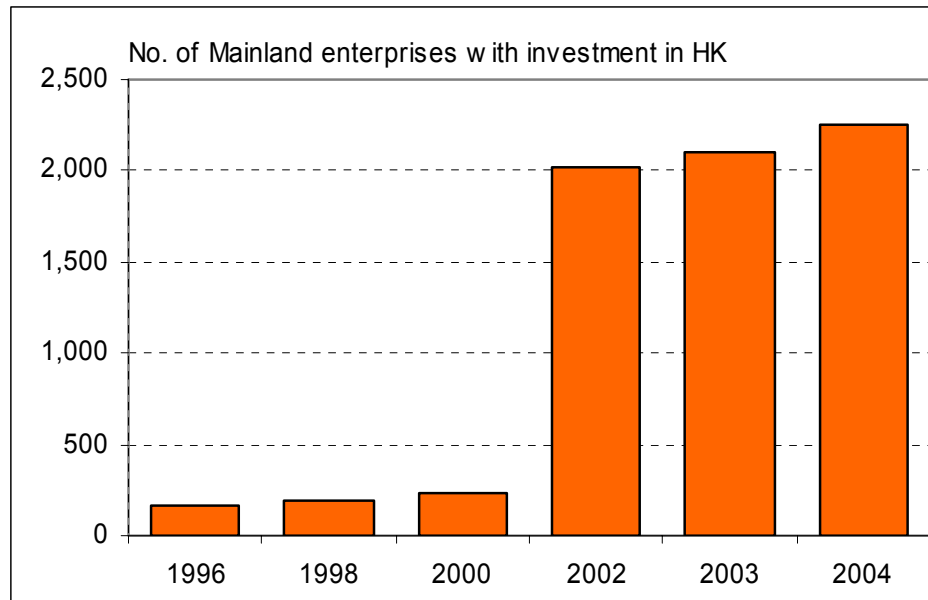


HK is also the top investment destination for Mainland enterprises

- HK is also an important location of Mainland's investment abroad. HK accounted for 38% of the approved cumulative overseas investment of Mainland enterprises at end-2003. In 2004, there were 2,258 Mainland enterprises with investment in HK, 10 times more than the number in 2000.
- Mainland's FDI in HK has been quite volatile over the past few years, fluctuating around HK\$30-110 billion between 1998 and 2004. At end-2004, the position of Mainland's FDI in HK surpassed HK\$1 trillion, accounting for 29% of the position of HK's total inward direct investment.
- With rapid growth of China's domestic savings, there will be more opportunities for HK to help the Mainland deploy its capital resources if China liberalizes its capital account.



Source: China Ministry of Commerce

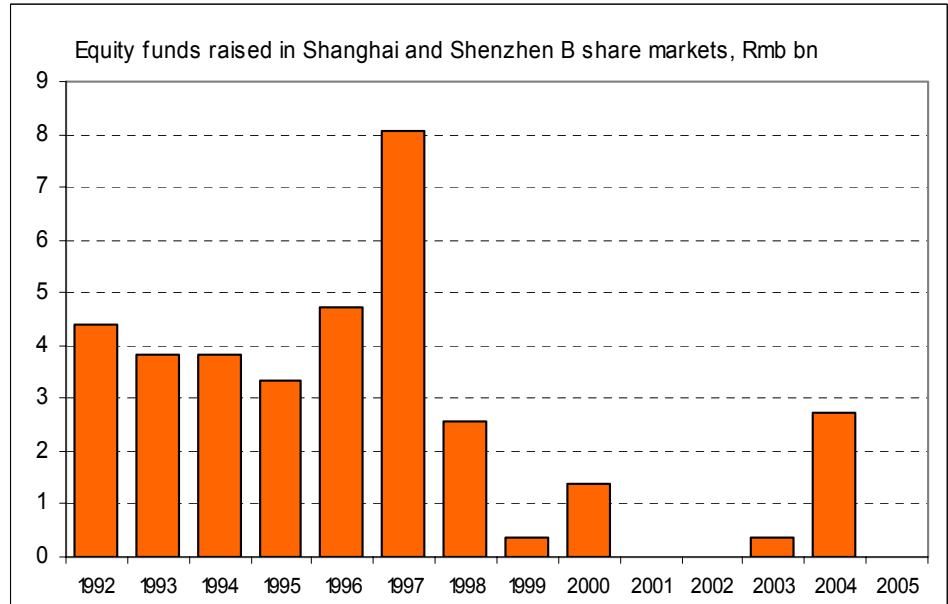
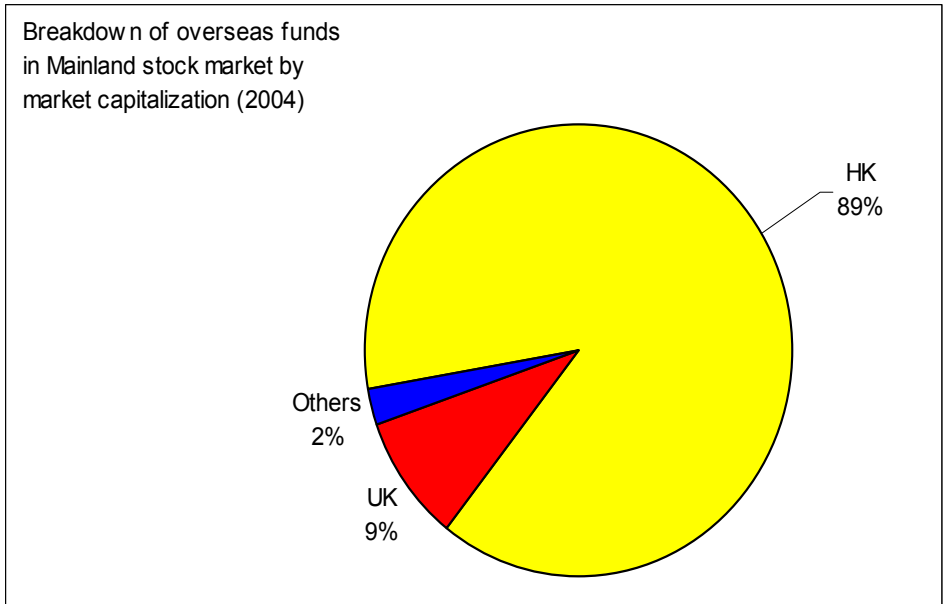
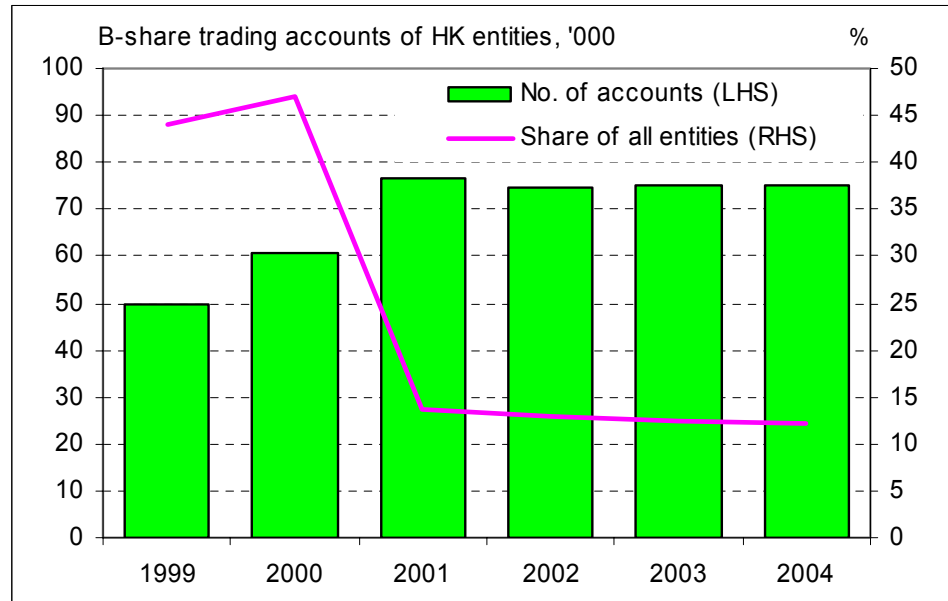


Source: HK Census & Statistics Dept.

Source: China Ministry of Commerce

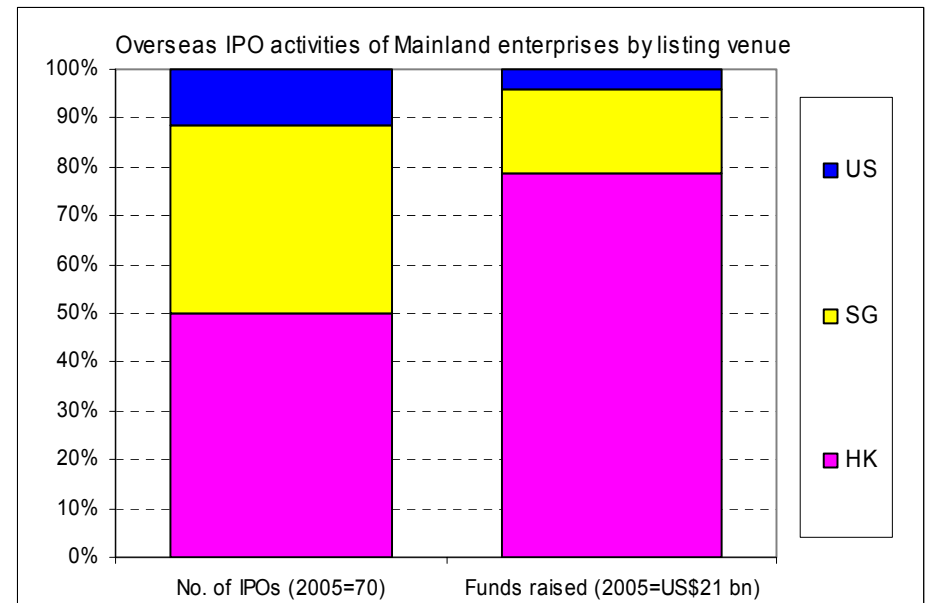
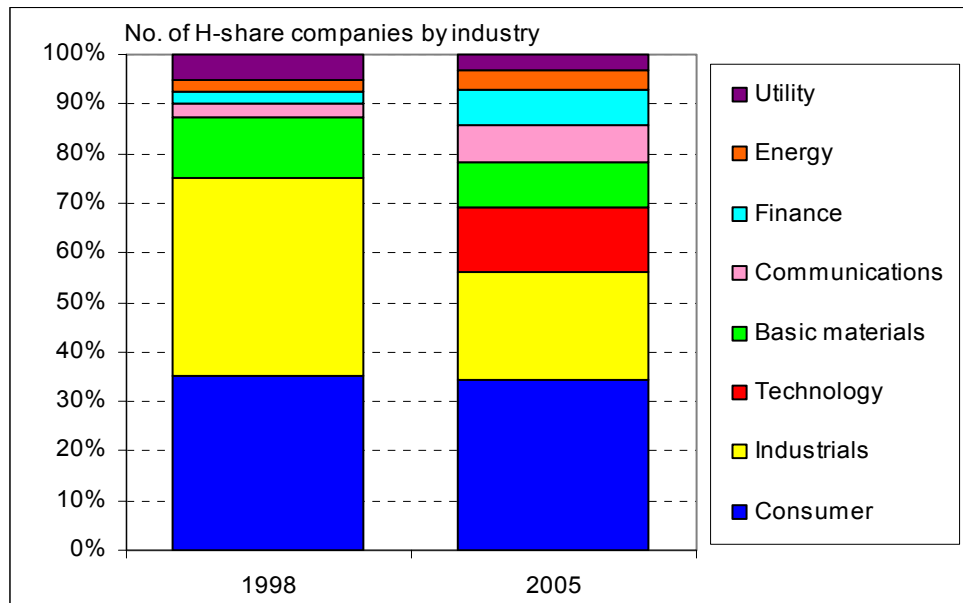
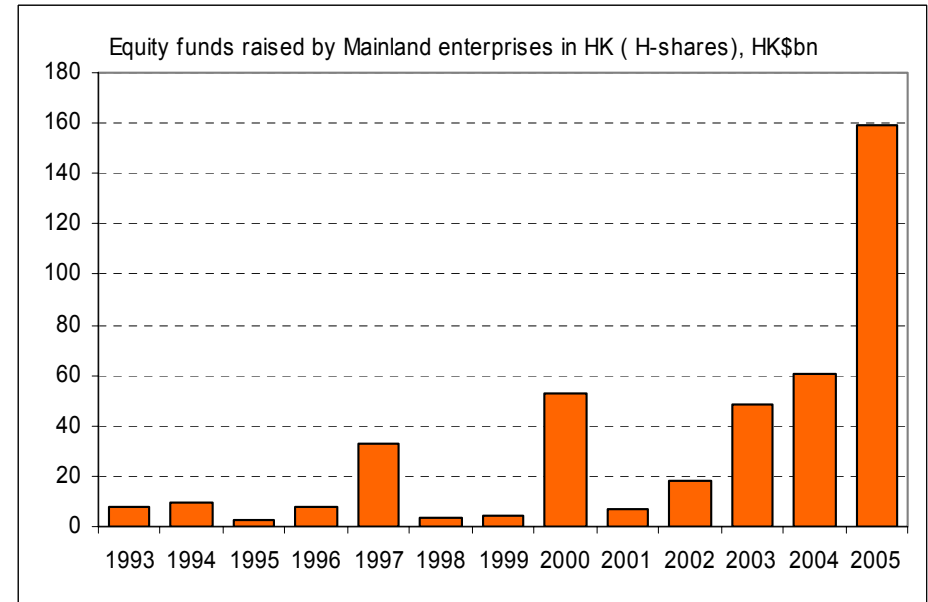
Role of HK in channeling equity capital to the Mainland strengthens

- In addition to FDI, HK is also a centre where foreign equity capital is channelled to the Mainland.
- HK-based investors had shown early interest in investing in the Mainland stock market through the purchase of B-shares which was exclusive to overseas investors until 2001. In 2000, nearly half of the B-share trading accounts were held by HK entities. In 2004, HK-based investors accounted for 89% of Mainland's total tradable market capitalization attributable to overseas investors.
- With the B-share markets becoming more inactive in the past few years, the channelling of equity funds to the Mainland through the purchase of B-shares by HK-based investors has become increasingly insignificant.



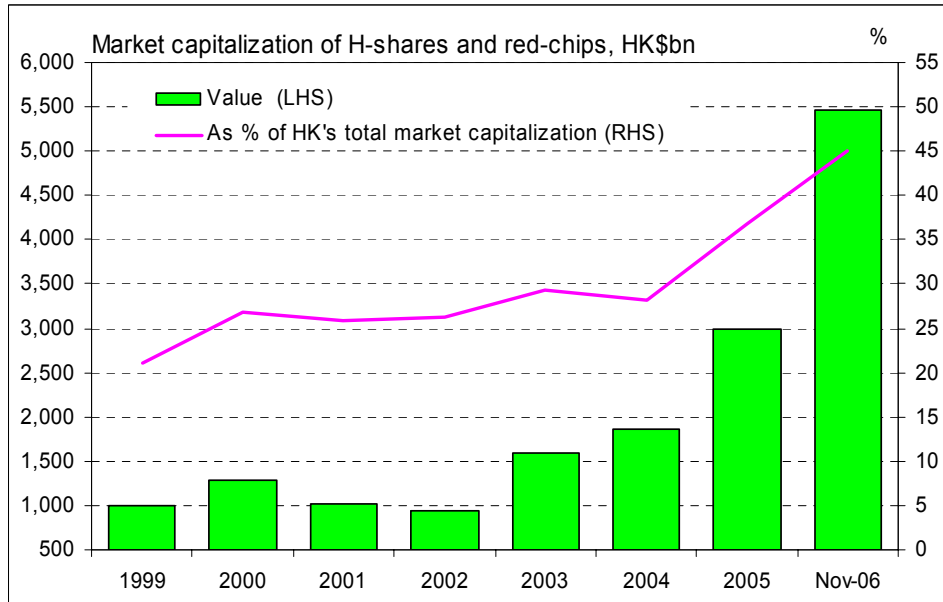
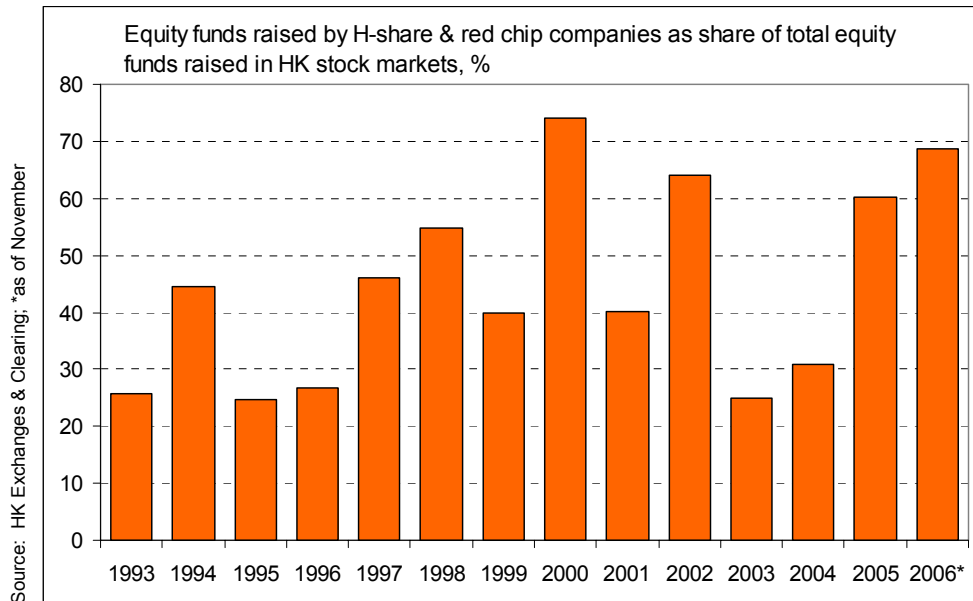
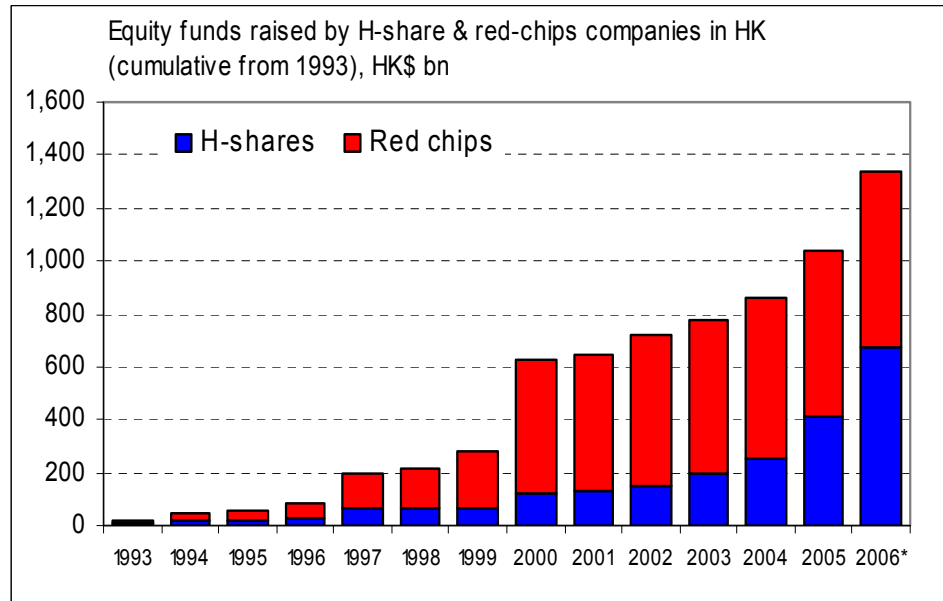
..... as fund-raising by Mainland enterprises in HK grew strongly

- Apart from issuing B-shares in the domestic market, Mainland enterprises have also been absorbing foreign equity capital through HK's stock market.
- Fund-raising by Mainland companies in HK has increased markedly recently. Between 1993 and 2005, Mainland enterprises raised a total of HK\$414.8 billion from HK's stock market through issuing **H-shares**. During the period, the proportion of H-share companies in industrial goods sector had fallen while that of technology companies had risen.
- HK is now the most preferred overseas listing venue of Mainland enterprises. In 2005, half of the 70 Mainland companies that sought overseas IPO chose to be listed in HK, and the funds raised accounted for 79% of the total.



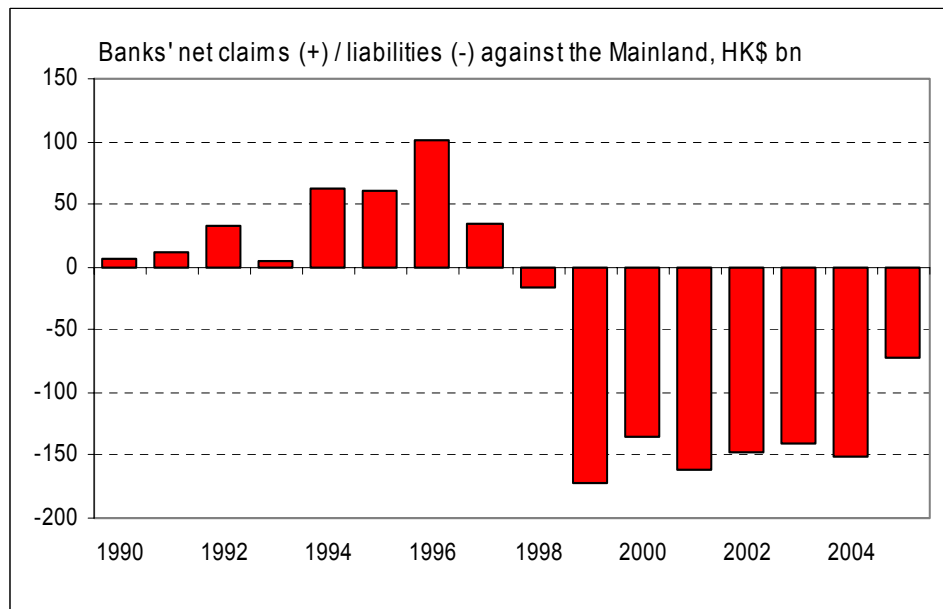
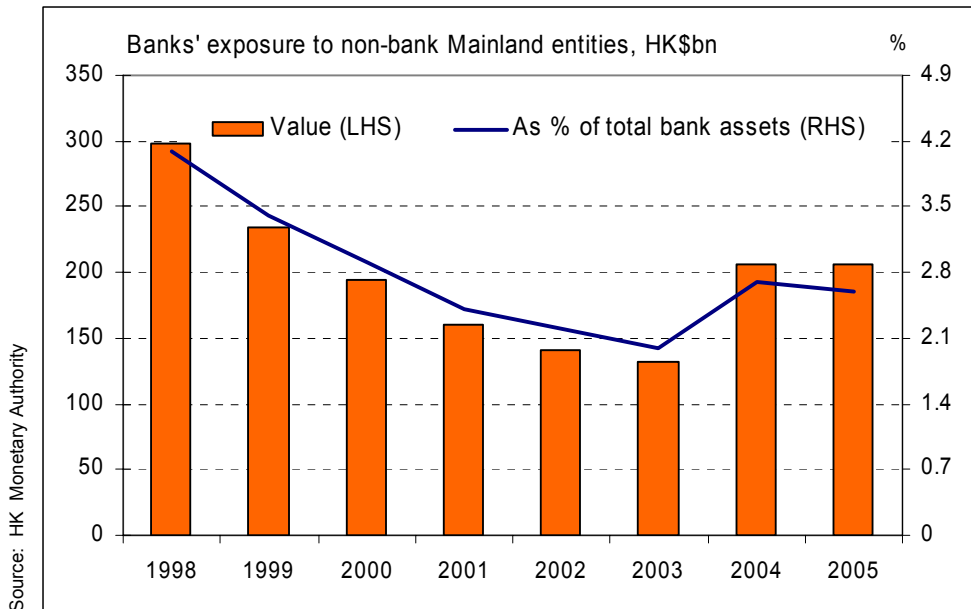
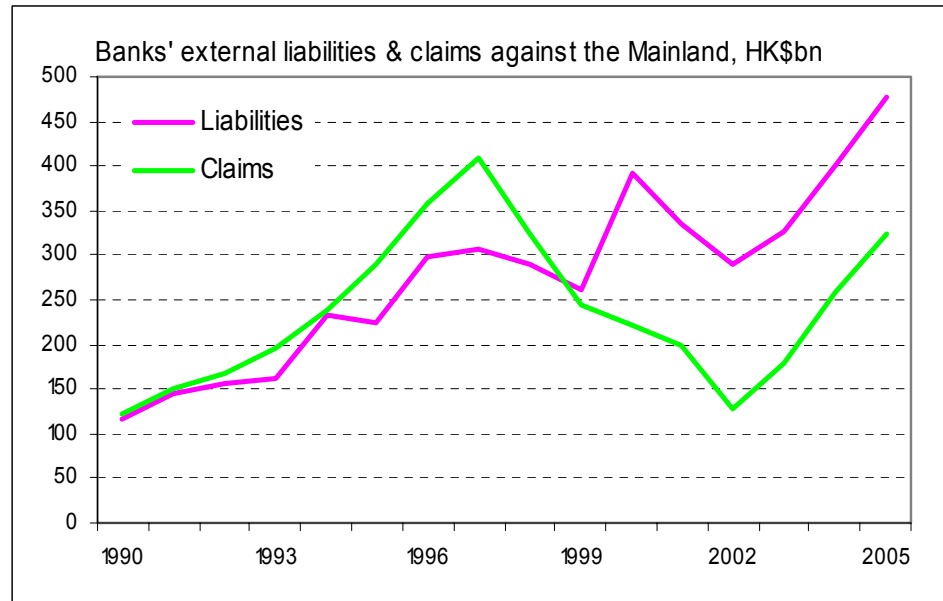
Mainland companies play an increasing role in HK stock market

- Including [H-share](#) and [red-chip companies](#), funds raised by Mainland enterprises and their HK subsidiaries in HK's Main Board and [Growth Enterprise Market \(GEM\)](#) totalled HK\$1.33 trillion between 1993 and November 2006.
- In 2000, the capital raised by H-share and red-chip companies accounted for 74% of the total equity funds raised in HK's stock markets (including both Main Board and GEM).
- As of November 2006, there were 223 H-share and red-chip companies listed on HK's Main Board and GEM, with a total market capitalization of HK\$5.5 trillion, accounting for a substantial 45% of HK's total stock market capitalization (including both Main Board & GEM).



Closer economic links boost banks' transactions with the Mainland

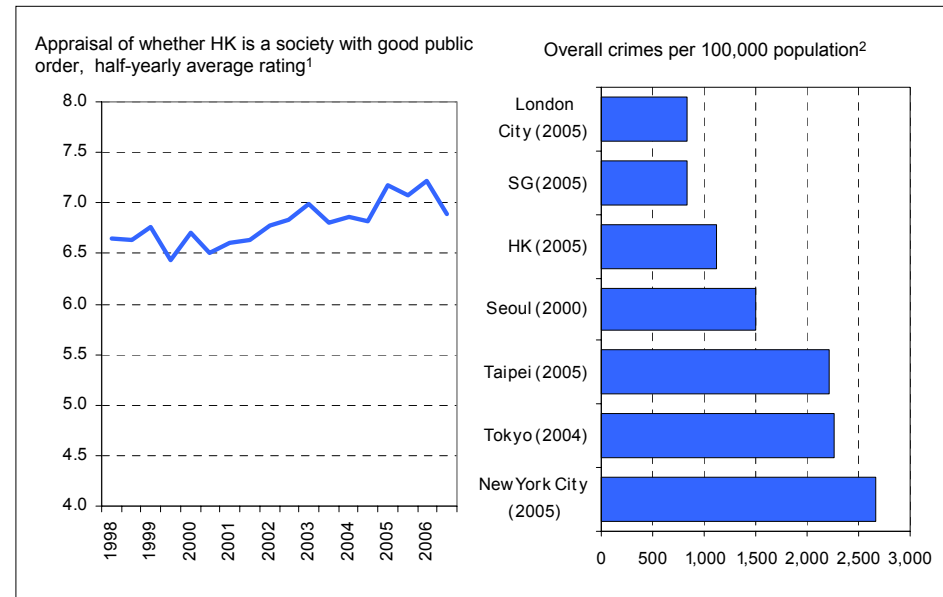
- Reflecting expanding trade and investment links across the boundary, HK banks' external claims and liabilities with the Mainland have risen steadily in recent years.
- After 5 years of successive decline amid banks' cautious lending stance following the failure of GITIC in 1998, loans to Mainland entities has regained momentum, leading to a recovery of banks' external claims with the Mainland since 2004. Meanwhile, external liabilities with the Mainland has expanded strongly, thanks in part to increased fund-raising by Mainland enterprises in HK since 2003.
- Since 1998, HK's banks have maintained a net liability position with the Mainland which became a net supplier of funds to HK banking system.



Governance

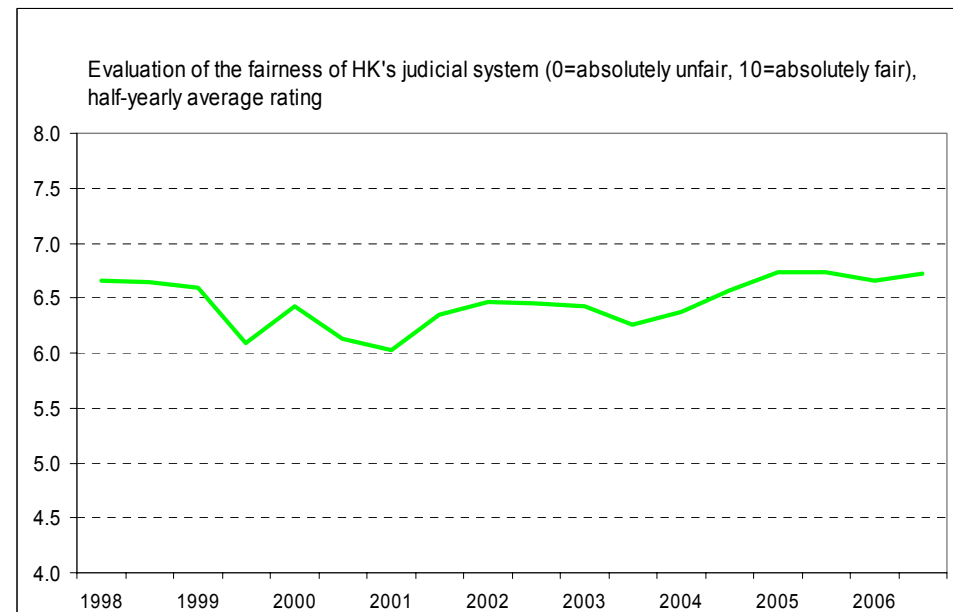
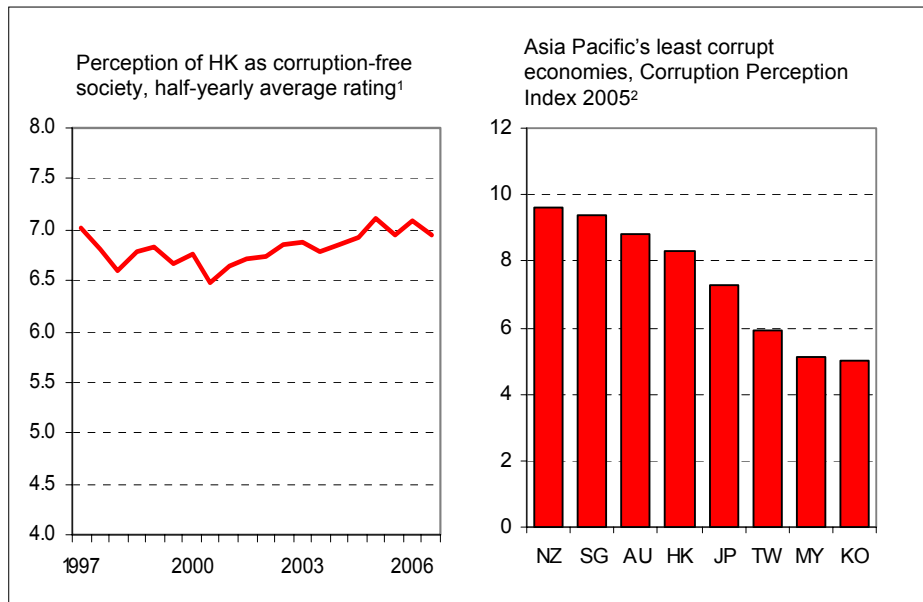
People rate highly public order, anti-corruption, judiciary system

- People's perception of public order in HK showed slight improvement from 1997. On a scale of 0-10 with 10 representing absolutely good public order, [HKU Public Opinion Programme \(HKU POP\)](#) survey respondents rated HK's public order 7 in 2005 up from 6.5 in 1997. Crime rate in HK is one of the lowest among the benchmark NIEs.
- Rating of HK as a corruption-free society was 6.9 in 2006 on a scale of 1-10 (with 10 representing absolutely corruption-free), matching that in 1997. According to the [Corruption Perceptions Index 2005](#), HK ranked among the least corrupt economies in the Asia-Pacific.
- The rating on the fairness of HK's judicial system has also stayed steady since 1997.



Source: ¹ HK Public Opinion Programme, 0=absolutely poor, 10=absolutely good;
² HK Police Force, Seoul Metropolitan Police Agency, Singapore Police Force, Taipei Yearbook, UK, Metropolitan Police Service, US Bureau of Justice

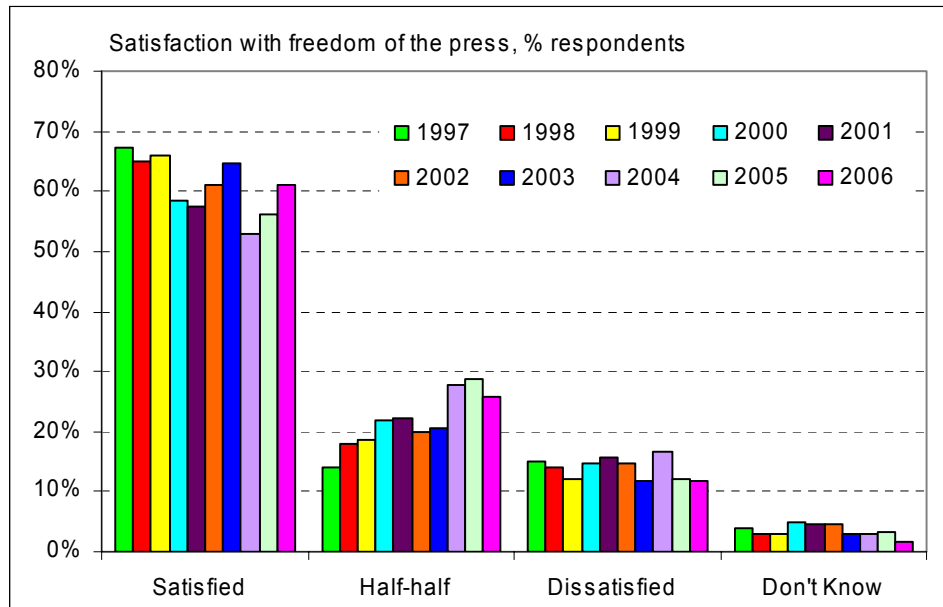
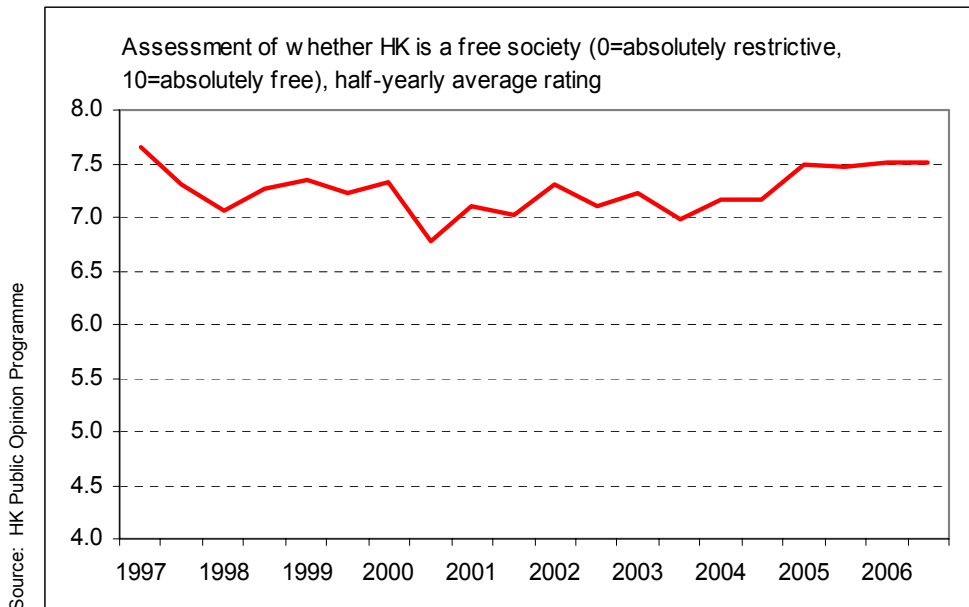
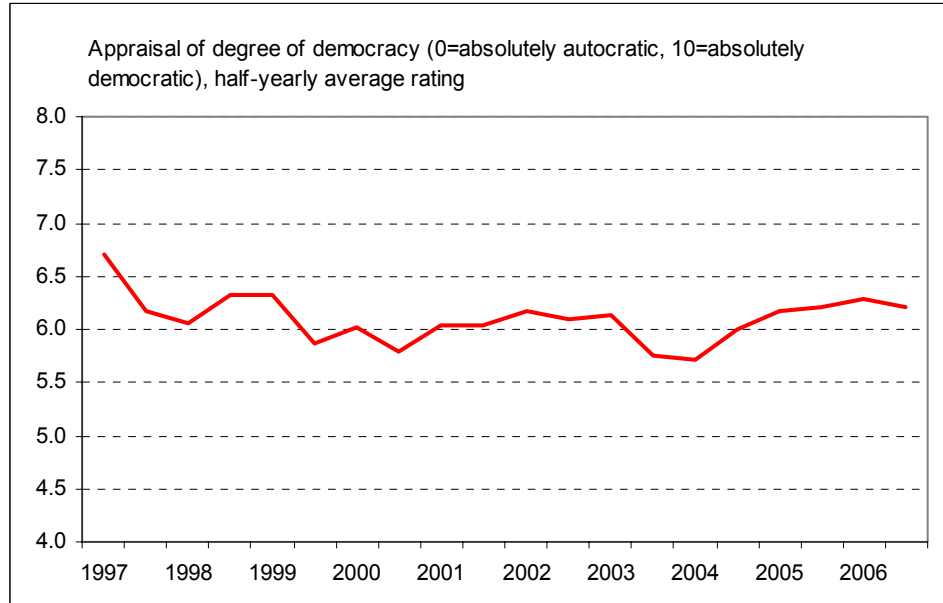
Source: ¹HK Public Opinion Programme, 0=absolutely corruptive, 10=absolutely corruption-free; ²Transparency International, higher value means less corrupt



Source: HKU Public Opinion Programme

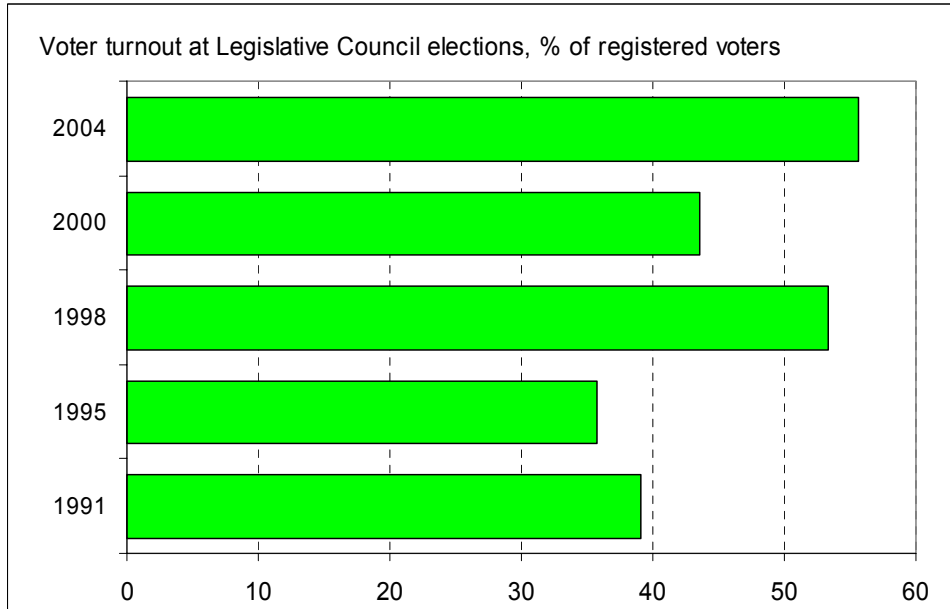
Ratings on degree of democracy and freedom remain stable

- On a scale of 0-10 with 10 representing full democracy, ratings resulting from [HKU POP](#) polls on people's appraisal of HK's degree of democracy conducted since 1997 ranged from 5.7-6.7. The most recent ratings hovered around 6.2-6.3.
- On a scale of 0-10 with 10 representing absolute freedom, ratings on people's perception of whether HK is a free city ranged between 6.8-7.7, with the most recent ratings staying high at around 7.5.
- More than half of the respondents to HKU POP polls on people's assessment of local news media conducted since 1997 expressed they were satisfied with HK's press freedom, while only less than 20% were not satisfied.

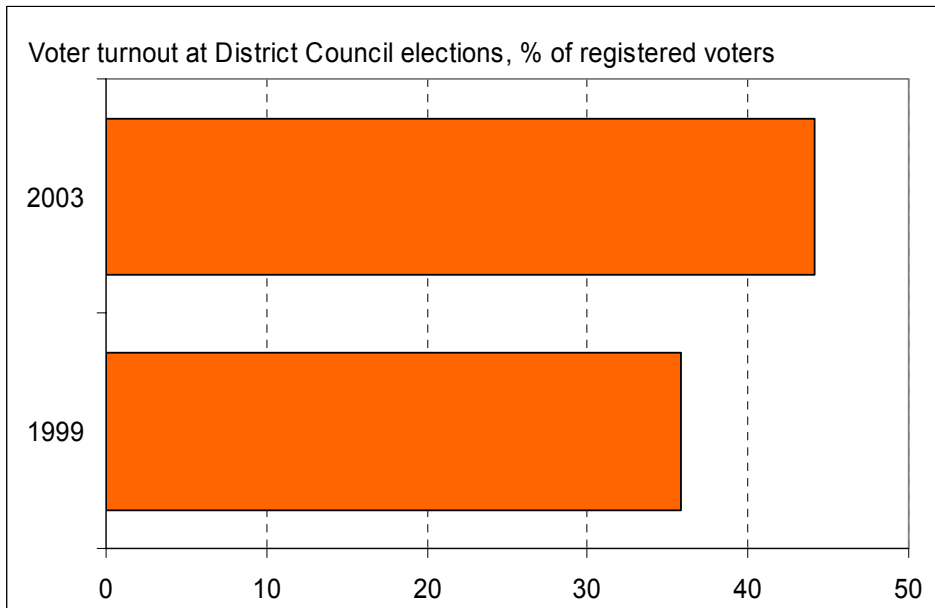


Participation in elections rose but trailed behind Asian neighbours

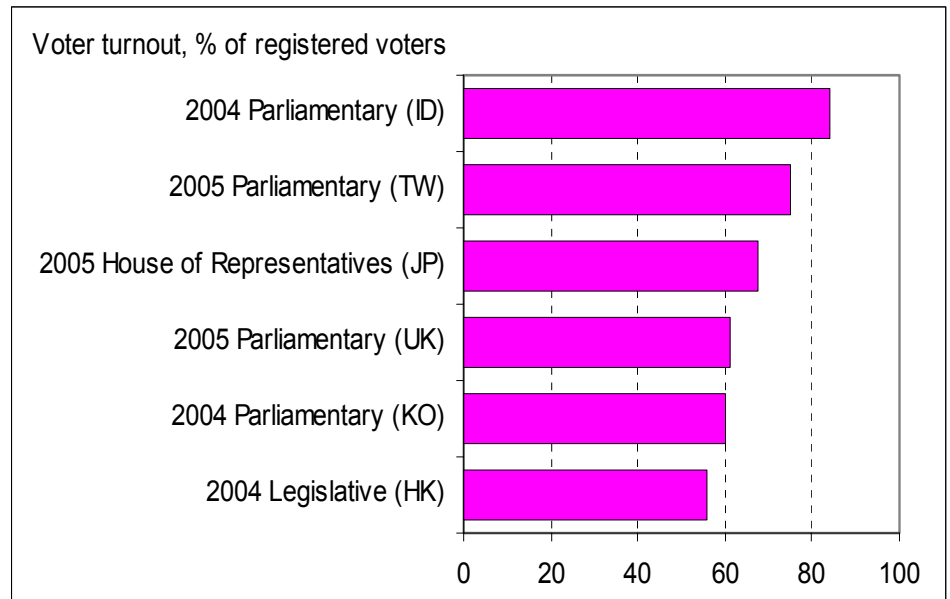
- HK's political system consists of numerous parties, and no single party dominates the [Legislative Council \(Legco\)](#), some members of which (30 out of 60 in the current term) were elected to position under general elections.
- Turnout rates of registered voters in general elections held between 1991-2004 ranged from 30% to 56%. During the latest round of Legco elections in 2004, voters' turnout rate reached a high of 55.6%.
- Compared to the most recent election exercises of the benchmark economies, however, the turnout rate of HK voters still lagged behind.



Source: HK Electoral Committee



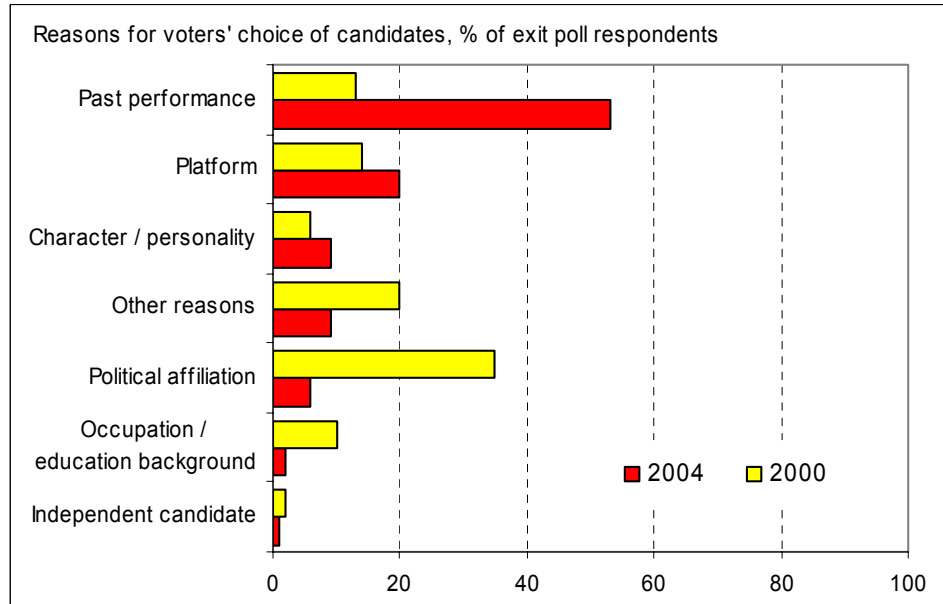
Source: HK Electoral Committee



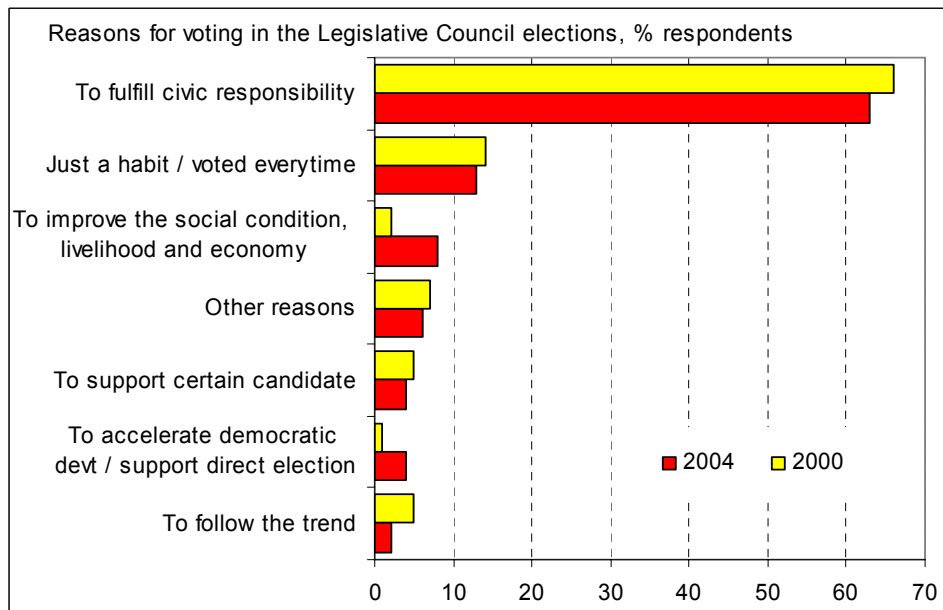
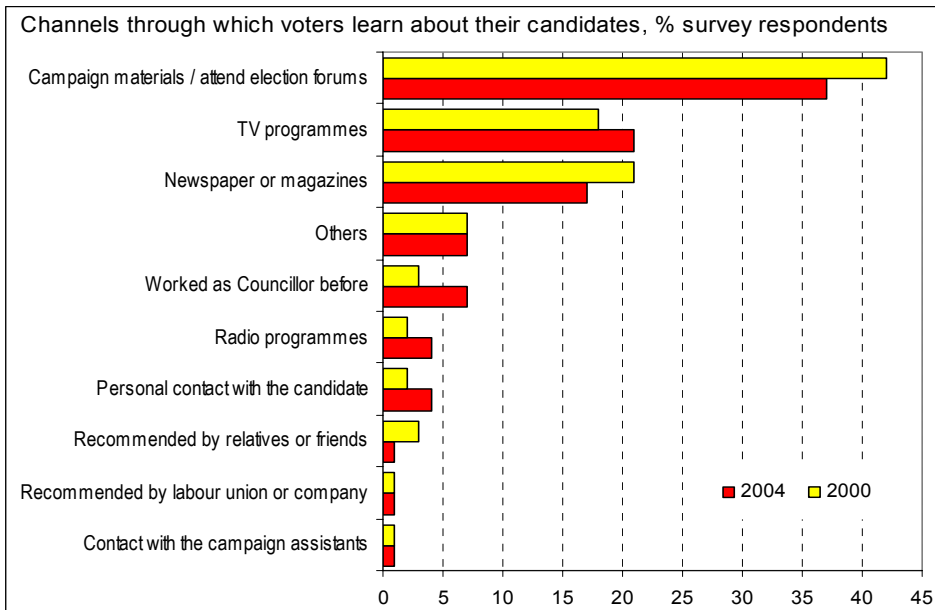
Source: HK Electoral Committee, IFES Election Guide

More voters believe their votes would make a difference

- Comparing the results of exit polls conducted by the [HKU POP](#) for the 2000 and 2004 Legco elections, the proportion of voters who supported candidates on the basis of their past performance increased substantially from 13% in 2000 to 53% in 2004. In 2004, 37% of the respondents learned about their candidates through campaign materials and attending election forums. While most voters cited “to fulfill civic responsibility” as the main reason for their participation in the past 2 Lego elections, a substantially higher share of people who voted in the 2004 elections cited “to improve the social condition, livelihood and economy” as a reason for them to vote, compared to 2000.



Source: HKU Public Opinion Programme

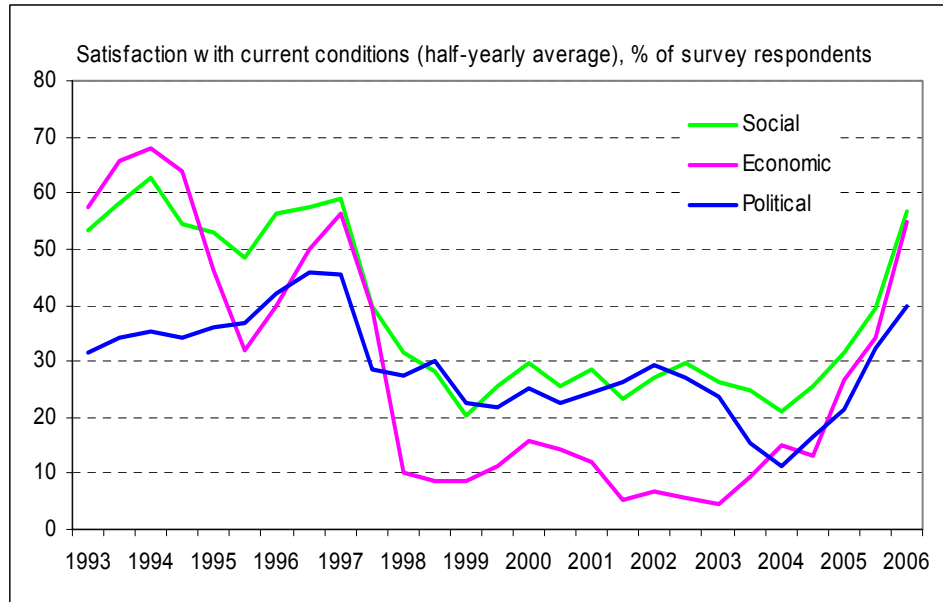


Source: HKU Public Opinion Programme

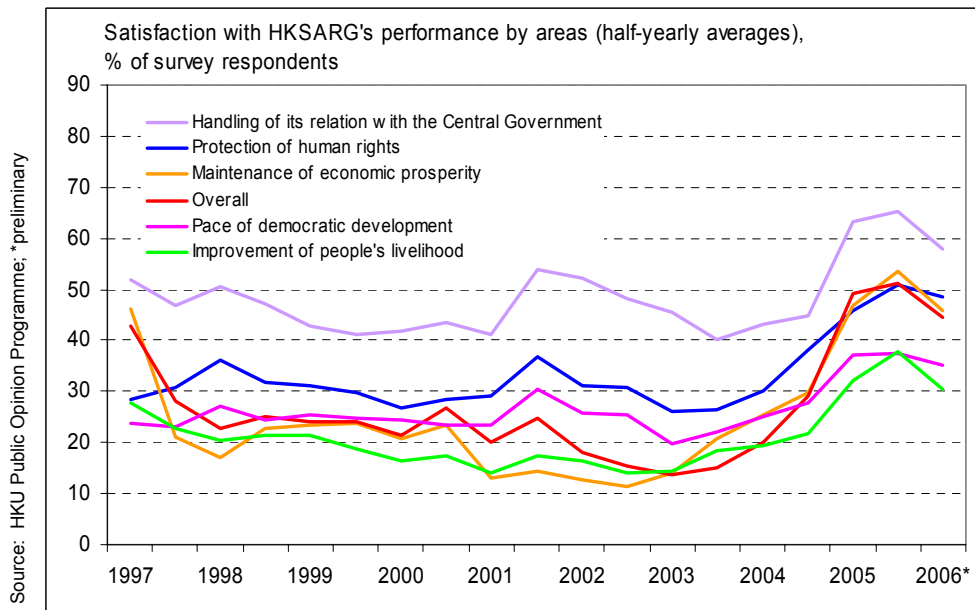
Source: HKU Public Opinion Programme

Approval ratings on the government and legislature on the rise

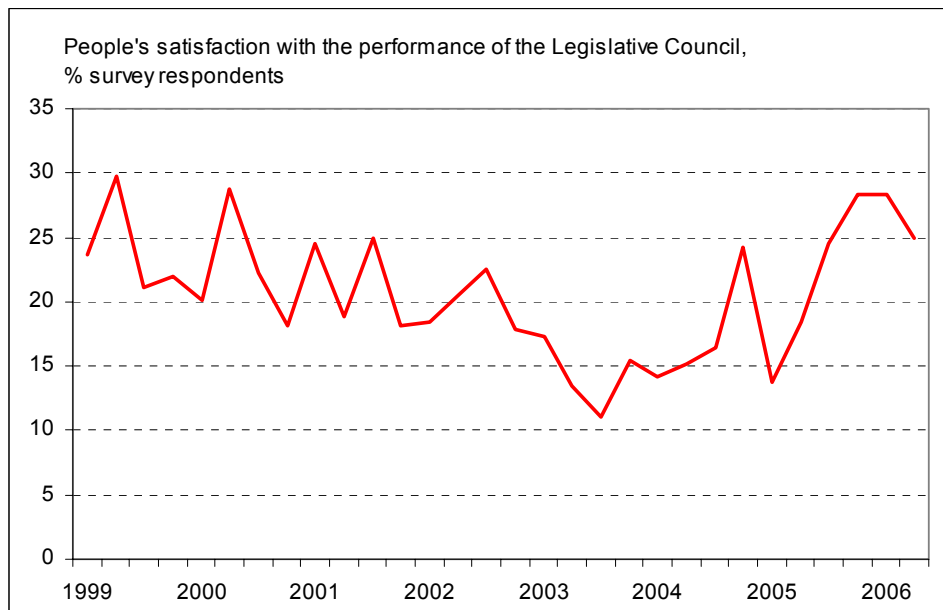
- Since 2003, public satisfaction with current conditions has picked up according to a [HKU POP](#) survey on “People’s Appraisal of Society’s Current Conditions”.
- Approval rating of the HKSAR Government (HKSARG) is also on the rise, with 53.5% of the respondents in a HKU POP survey on “People’s Satisfaction with HKSARG” in 2006 saying they were satisfied with the performance of the government in its maintenance of economic prosperity, the highest level since 1998. But the government received a lower approval rating in improving people’s livelihood.
- People’s satisfaction with the performance of the Legislative Council also picked up and reached its highest level since 2000 in early 2006.



Source: HKU Public Opinion Programme



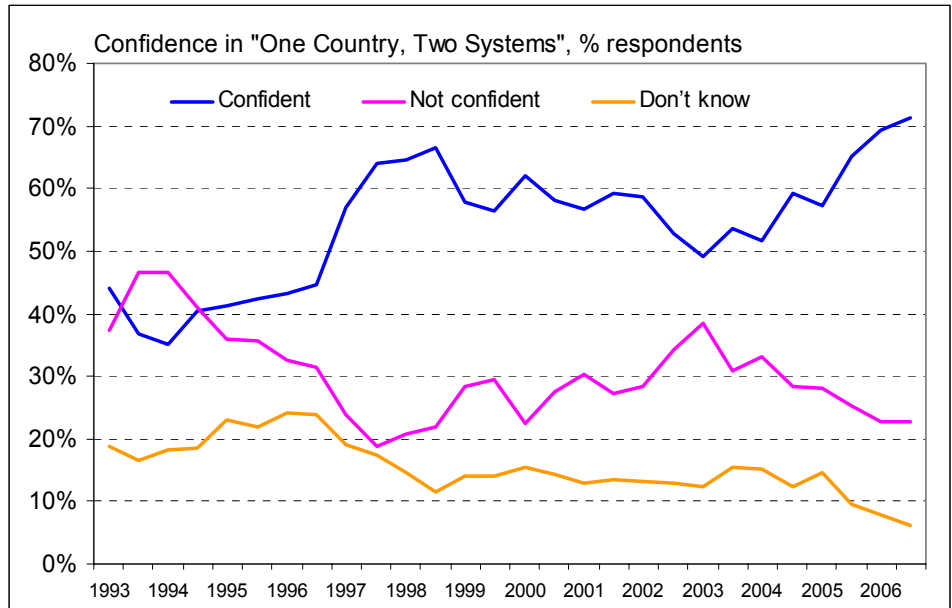
Source: HKU Public Opinion Programme; *preliminary



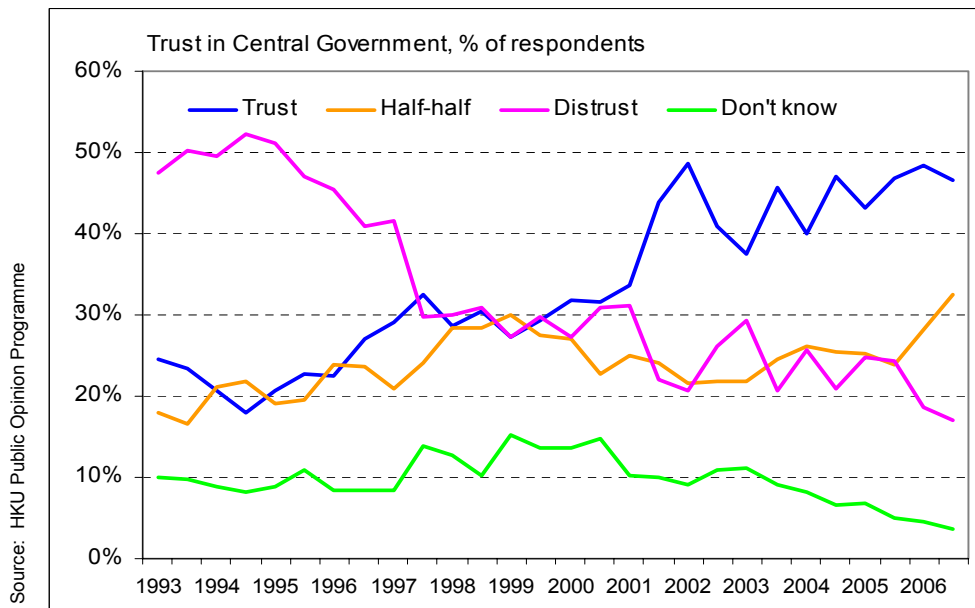
Source: HKU Public Opinion Programme

Confidence in Central Government and HK's future strengthens

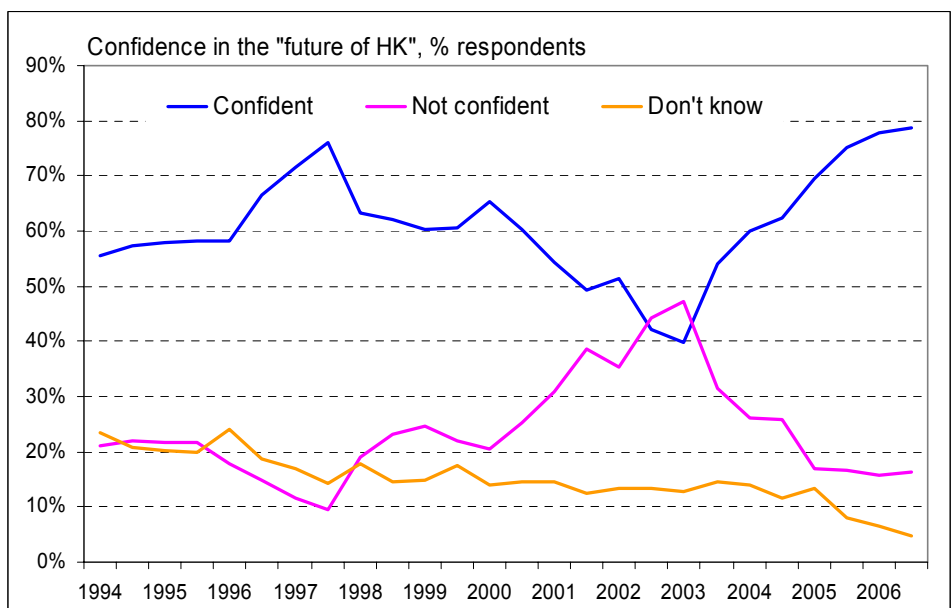
- As HK approaches the 10th year after handover to the Mainland, confidence in China has strengthened. In the latest round of survey of the [HKU POP](#) conducted in August 2006, 71.3% of the respondents expressed confidence in "One Country, Two Systems", up from around 40% prior to the handover.
- Thanks to China's role in helping the recovery of HK's economy post-SARS with the introduction of [CEPA](#) and [Individual Visit Scheme](#), people's trust in the Central Government also improved.
- With HK benefiting from the rapid growth and development of the Mainland, people's confidence in HK's future is currently the highest since HKU POP was first conducted.



Source: HKU Public Opinion Programme



Source: HKU Public Opinion Programme



Source: HKU Public Opinion Programme

Glossary of terms (1)

The **Admission Scheme for Mainland Talents and Professionals** was introduced in July 2003 to attract qualified Mainland talents and professionals to work in HK in order to meet local manpower needs and enhance HK's competitiveness in the global market.

Beaches in HK are **ranked** in four grades: good, fair, poor, and very poor based on the density of E. coli in water samples collected from each beach.

Binge drinking is defined as having at least five drinks of alcohol on a single occasion.

Broadband access to Internet is a popular form of high-speed internet access in which a wide band of frequencies is available to transmit information, so that more information can be transmitted in a given amount of time.

Carbon monoxide (CO) is a toxic gas produced from incomplete oxidation of carbon in combustion. As it is colourless and odourless, CO presence in the air is difficult to detect. A concentration of as little as 0.04% CO in the air can be fatal.

Persons with **chronic diseases** refer to those who required long-term (i.e. lasting at least 6 months) medical treatment, consultation or medication for certain types of diseases.

Closer Economic Partnership Arrangement between Mainland and Hong Kong (CEPA) is a free trade agreement under WTO rules which provides HK companies with additional and exclusive Mainland market access benefits.

Combined gross enrolment ratio refers to the number of students enrolled in primary, secondary and tertiary levels of education, regardless of age, as a percentage of the population of official school age for the three levels.

Comprehensive Social Security Assistance (CSSA) is a means-tested scheme designed to provide financial assistance to bring the income of needy individuals and families up to a prescribed level to meet their basic needs.

The **Corruption Perception Index** developed by Transparency International, an international non-governmental organisation devoted to combating corruption, rates countries in terms of the degree to which corruption is perceived to exist among public officials and politicians. It reflects the views of business people and analysts from around the world, including experts who are locals in the countries evaluated.

Creative industries refer to those industries that have their origin in individual creativity, skill and talent and which have a potential for wealth and job creation through the generation and exploitation of intellectual property.

Disney Resort Line is an extension of the MTR system, connecting the Tung Chung Line to the HK Disneyland.

Glossary of terms (2)

Downstream R&D is the stage in research and development activities closest to turning innovative ideas and scientific research results into commercial products. They involve experimental and technology development activities as well as commercialisation of research output.

Economically active persons are people of working age (15 and above) who furnish the supply of labour for the productive activities, including both employed and unemployed people.

Economically inactive persons are people of working age (15 and above) who are neither in employment nor unemployed.

Elderly dependency ratio refers to the number of persons aged 65 and over per 1,000 persons aged between 15 and 64.

Energy consumption refers to end-use energy consumed for specific purposes such as space conditioning, lighting and cooking, etc. The data set only covers internal civilian energy end-uses in HK, hence, it does not include energy exported, energy uses for transportation between HK and foreign countries, the Mainland, Macau and other related areas, and energy uses for military purposes, etc.

Thomson ISI's **Essential Science Indicator** is a compilation of science performance statistics and science trends data based on journal article publication counts and citation data from Thomson Scientific databases. The Thomson Scientific database covers a multidisciplinary selection of more than 11,000 journals from around the world which are included for ranking scientists, institutions, countries, and journals.

External factor income is mainly classified into investment income and compensation of employees. Investment income includes direct investment income, portfolio investment income, and other investment income.

The **Gini Coefficient** is a statistical indicator commonly used for measuring the degree of income disparity. A value of zero represents total equality and a value of 1 represents total inequality.

The **Government survey** about HK people aged 60 and above refers to the survey entitled “Socio-demographic Profile, Health Status and Long-term Care Needs of Older Persons” conducted by the HK Census and Statistics Department in 2004.

The **Government survey** about HK residents residing in the Mainland refers to the survey entitled “Characteristics of HK residents having resided / having stayed substantially in the Mainland” conducted by the HK Census and Statistics Department in early 2005.

Greenhouse gases (GHG) refer to carbon dioxide, nitrous oxide, methane, ozone and chloro-fluorocarbons occurring naturally and resulting from human production and consumption activities which contributed to global warming effects.

Growth Enterprise Market (GEM) is an alternative stock market established to provide growth enterprises a venue to raise capital to develop and expand their businesses.

Glossary of terms (3)

Gross domestic expenditure on R&D (GERD) is the total in-house R&D expenditure performed within a country or territory during a given period. It includes R&D activities performed within a country or territory and funded from abroad but excludes payments made abroad for R&D activities. R&D comprises basic research, applied research and experimental development.

The **Guidelines for Drinking Water Quality**, published by the World Health Organization (WHO), are used by developing and developed countries worldwide as the basis for regulation and standard setting to ensure the safety of drinking water. The guidelines provide guiding parameters for over 120 microbiological, biological, chemical and radiological hazards in drinking water.

H-shares refer to shares issued by companies incorporated in the Mainland and traded in the HK Stock Exchange.

In the context of **HK residents who were required to travel to work in the Mainland (HKWM)**, HK residents comprise “usual residents” and “mobile residents” which form HK resident population. HKWM refers to employed persons in the resident population of HK who were required to work in the Mainland in their present job, irrespective of the number of times they had travelled to work in the Mainland during the 12-month period and the duration of each stay. However, it does not include persons who went to the Mainland to conduct business negotiations and inspection of business, and/or to attend trade fairs, meetings and business-related entertainment. It should be noted that those HK permanent residents who have moved to settle in the Mainland on a long term basis and only stayed in HK for less than 1 month during the 6 months before and after the reference time-point, known as “short-stay permanent residents”, are not counted here as they are outside of HK Resident Population.

In the context of **HK residents who have resided or have stayed substantially in the Mainland (HKRM)**, HK residents comprise “usual residents” and “mobile residents” which form HK Resident Population, as well as “short-stay permanent residents” (as defined above) which are outside HK Resident Population. HKRMs refer to those HK residents as defined here who have resided or have stayed in the Mainland for a period of at least 1 month in the past 6 months before the reference time-point.

HKU Public Opinion Programme (HKU POP) was established in June 1991 to collect and study public opinion on topics which could be of interest to academics, journalists, policy makers, and the general public. The programme is under the Faculty of Social Sciences in the University of HK.

Developed by The Heritage Foundation, the **Index of Economic Freedom** measures 161 countries against a list of 50 independent variables divided into 10 broad factors of economic freedom including trade, foreign investment, banking, monetary policy, prices and wages, government intervention, property rights, regulations and informal market. Low scores are more desirable; the higher the score on a factor, the greater the level of government interference in the economy, and the less economic freedom enjoyed.

The **Individual Visit Scheme** was introduced on July 28, 2003 to allow travellers from the Mainland to visit HK and Macao on an individual basis. Prior to the Scheme, Mainland residents could only travel to HK on business visas or in group tours.

Glossary of terms (4)

The **International Telecommunications Union (ITU) Digital Opportunity Index (DOI)** is the result of a multi-stakeholder project involving the ITU, the Korea Agency for Digital Opportunity and Promotion (KADO) and the United Nations Conference on Trade and Development (UNCTAD). It is compiled based on 11 core indicators to compare the capabilities of information and communications technology (ICT) including infrastructure, access path and device, affordability and coverage, and quality across countries.

The **Kowloon-Canton Railway Corporation (KCRC)** operates railway services within and to/from HK. Its HK network consists of East Rail, Light Rail, West Rail and Ma On Shan Rail. In addition, the company jointly operates inter-city services to and from Guangzhou and other cities in the Mainland.

The **Legislative Council (Legco)** is at the central level of HK's two-tier system of representative Government. The council legislates, controls public expenditure and monitors the performance of the Administration.

Long-term unemployment refers to unemployment for more than 6 months.

Low-income households are those with monthly income less than or equal to half of the median monthly domestic household income of the corresponding household size.

M3 refers to notes and coins held by the public plus customers' deposits with all authorised institutions plus negotiable certificates of deposit issued by these institutions held outside the banking sector.

Ma On Shan Rail is an extension of the KCRC's East Rail which links Wu Kai Sha to Tai Wai.

The **MTR Corporation (MTRCL)** owns and runs the mass transit railway system of HK.

Merchandising refers to the services of arranging on behalf of buyers/sellers outside HK the purchases/sales of goods according to their specifications (including multiple sourcing, marketing, contract and price negotiation, volume and sample procurement, shipment, inspection and arrangement of follow-up order). The HK company involved in merchandising acts in capacity as an agent or broker, it has not taken ownership of the goods involved, hence earning commission or service charges as its production income.

Merchanting refers to services provided by HK companies associated with the trading of goods purchased from and then sold to parties outside HK without the goods ever entering and leaving HK. The HK company involved in merchanting acts in capacity as a trader, it has once taken ownership of the goods involved, hence earning trade margin as its production income.

Monthly employment earnings refer to earnings from all jobs, including wage, salary, bonus, commission, housing allowance, overtime allowance and attendance allowance, but excludes back pays. For those self-employed, earnings refer to amounts drawn from self-owned enterprise for personal and household use.

Municipal solid waste (MSW) includes domestic waste, commercial waste and industrial waste, but excludes construction waste, chemical waste and special waste.

Glossary of terms (5)

Nitrogen oxide (NO_x) is a mixture of nitric oxide and nitrogen dioxide, which are emitted by motor vehicles and other fuel combustion processes, causing yellowish-brown coloured smog.

Ocean vessels refer to vessels which call on ports beyond river trade limits.

Offshore trade covers the services of both merchanting and merchandising for offshore transactions provided by HK entities (i.e. establishments ordinarily operating in HK's economic territory, but excluding their affiliates located outside HK).

One-way permit holders from the Mainland refer to people from the Mainland who are issued permits to coming to HK for settlement. The daily quota of one-way permit holders from the Mainland increased from 75 in the early 1980s to 105 in 1994 and further to 150 in 1995.

Outward processing trade refers to the export (both domestic exports and re-exports) of raw materials and semi-manufactures by a HK entity to the Mainland for processing by a Mainland entity under a contractual agreement whereby the processed goods have to be returned to HK for local consumption or re-exporting to overseas countries.

Participation rate in post-secondary education refers to the proportion of people aged 17-20 who have access to university and other higher education opportunities (for example, sub-degree programs and vocational training).

Payroll includes wages and salaries, overtime pay, shift allowance, attendance and efficiency bonuses, cost-of-living or dearness allowance, food and transportation allowances, year-end and seasonal bonuses, payment in lieu of leave, etc. Employers' contribution in respect of their employees paid to social security and pension schemes and also the benefits received by employees under these schemes are excluded.

Programme for International Student Assessment (PISA) is an internationally standardised assessment that was jointly developed by participating countries of the OECD and administered to 15-year-olds in schools every 3 years since 2000. The assessment gauges how far students near the end of compulsory education have acquired some of the knowledge and skills essential for full participation in society. In 2000, the areas of assessment included reading, mathematical and scientific literacy; an additional domain of problem solving was introduced in 2003. Singapore has not participated in the programme so far, while Taiwan just started to participate in the ongoing round of 2006 assessment.

Public bus in this study refers to franchised bus and residential coach.

HK's **public rental housing** flats comprise rental flats of the Housing Authority and the Housing Society (including Senior Citizen Residences Scheme units, which are disposed of under a "long lease" arrangement).

Purchasing power parity (PPP) takes into account the relative cost of living and inflation rates between economies in calculating GDP of different countries.

Red chips refer to companies incorporated in HK but has at least 35% of its shares in aggregate held by Mainland entities and there is a strong influential presence of Mainland-linked individuals on the company's board of directors.

Glossary of terms (6)

Requisite replacement level refers to the level of fertility leading to a stable population size.

Respirable suspended particulates (RSPs) are the portion of solid matter or liquid droplets from smoke, dust, fuel ash, or condensing vapours that can be suspended in the air which are of a size smaller than 10 micrometres. They can penetrate deeply into the lungs.

The **Rigidity of Employment Index** is part of World Bank's Doing Business Indicators. It is an average of the 3 sub-indices: Difficulty of Hiring, Rigidity of Hours and Difficulty of Firing. Each index is assigned a value between 0 and 100, with higher values representing more rigid regulations.

River monitoring stations are situated in over 30 rivers and streams in HK. The Environmental Protection Department collects water samples from these stations regularly to monitor the quality of river water in HK.

River vessels refer to those travelling between HK and ports that are within the river trade limits.

Secondary school gross enrolment ratio refers to the total enrolment in secondary education as a proportion of the population of secondary school-age according to national regulations.

Single parents refer to persons who are widowed, divorced or separated and living with child(ren) aged under 18 in the same households.

Smoking prevalence refers to the proportion of population aged 15 and above that currently smokes any form of tobacco either on a daily or occasional basis.

The **standardised death rate** calculated by discounting the effect of age-sex structure of the population reflects more accurately the mortality trend. It is the overall death rate that would have prevailed in a standard population if it had experienced the age-specific death rates of the population being studied. For HK, the standardised death rate is based on world standard population published in the 1997-99 World Health Statistics Annual.

Sulphur dioxide (SO₂) is a colorless gaseous pollutant emitted primarily from industrial furnaces or power plants burning coal or sulfur-containing oil. It damages trees, plants and agricultural crops and acts as a precursor to acid rain.

Tertiary education refers to degree and non-degree courses offered by approved post-secondary colleges, Vocation Training Council, HK Academy for Performing Arts, the Open University of HK and UGC-funded institutions.

Times Higher World Ranking of Universities is a list of 200 ranked universities from around the world published by a British publication, The Times Higher Education Supplement. The list is compiled based on results of peer review by academics in various fields and opinions of world's top employers of internationally mobile graduates.

Transshipment refers to cargo that is consigned under a through bill of lading from a place outside HK to another place outside HK but is or is to be moved from one vessel (ship, vehicle, train or aircraft) and either returned to the same vessel or transferred to another vessel within HK waters. In contrast to re-exports, transshipment is not required to be reported to HK's customs so its value is not included in HK's trade statistics.

Glossary of terms (7)

Tsim Sha Tsui Extension extends KCRC's station from Hunghom to Tsim Sha Tsui East and linking MTR's Tsim Sha Tsui station.

UGC-funded institutions refer to City University of HK, HK Baptist University, Lingnan University, the Chinese University of HK, the HK Polytechnic University, the HK University of Science and Technology, the University of HK and the HK Institute of Education.

Under-employment rate refers to the proportion of employed persons who have involuntarily worked less than 35 hours a week.

The **United Nations Conference on Trade & Development (UNCTAD) Innovation Capability Index (UNICI)** is based entirely on quantitative variables directly measuring technological activity and technical human capital. The two components of the UNICI include: technology activity and human capital.

University Grants Council (UGC) is a non-statutory advisory committee responsible for advising the HK Government on the development and funding needs of higher education institutions in HK.

Value-added measures the net output of an economic activity, i.e. the value of goods and services produced less the value of goods and services used in production (e.g. purchase of materials and supplies, rental, business services). Sum of value added of all economic activities in an economy equals to GDP.

Wages refer to the amount of money paid for normal time of work and usually relates to a time unit such as an hour, a day, a week or a month. It includes, apart from basic wages and salaries, cost-of-living allowances, meal benefits, commissions and tips, good attendance bonuses, shift allowances, guaranteed year-end bonuses, and other guaranteed and regular bonuses and allowances. However, pay for overtime work is excluded.

The marine **Water Quality Objectives (WQO)** are set against a number of key parameters including the level of dissolved oxygen, ammonia, total inorganic nitrogen and E.coli. Compliance with the WQOs is assessed based on data collected in the 10 water control zones of HK's marine water monitored by the Environmental Protection Department.

West Rail refers to one of the 3 domestic passenger rail services operated by the KCRC which links Sham Shui Po in western Kowloon with Tuen Mun in the northwest New Territories.

World Economic Forum (WEF) Global Competitiveness Index (GCI) analyzes the competitiveness among countries to estimate underlying prospects for growth. The index focuses on 9 pillars that are critical to driving productivity and competitiveness, including institutions, infrastructure, macroeconomy, health and primary education, higher education and training, market efficiency, technological readiness, business sophistication, and innovation.