From the Global Financial Tsunami to the Property Bubbles in Asia
The Need for a New Discipline on Macroeconomic Management

PAUL YIP Sau-Leung
Nanyang Technological University, Singapore
### CONTENTS

*Preface*  
*About the Author*  

**Part I Three Important Sets of Theoretical Framework**  

**Chapter 1 Important Theoretical Backgrounds for the Analysis of the Asset Bubbles in Asia**  

1.1 Impacts of US's QE  
1.2 The Characteristics of Major Urban Property Markets in Asia  
   1.2.1 Significant Differences between the Asian and Western Property Markets  
   1.2.2 High Wealth and Income Inequality in Asia  
   1.2.3 The Market Structure Problem and the Indicator Effect  
   1.2.4 Role of Government Supply in Providing the Necessary Competition in the Above Asian Property Markets  
1.3 Characteristics of the Various Stages of an Asset Bubble  
   1.3.1 The Seeding Stage  
   1.3.2 The Development Stage  
   1.3.3 The Final Stage  
   1.3.4 Two Types of Bursting  
   1.3.5 Policy Implications
Part II  The Asian Property Markets since the Global Financial Tsunami  

Chapter 2  The Formation of Property Bubbles in Some Asian Economies since the Global Financial Tsunami  

2.1 The Formation of a Huge Property Bubble in Hong Kong  
2.2 The Surge in Property Prices in Singapore  
2.3 The Rise in Property Prices in Some Other Asian Economies  
   2.3.1 India  
   2.3.2 Taiwan  
   2.3.3 Malaysia  
   2.3.4 Indonesia  
   2.3.5 Other Asian Economies  

Part III  Two Extreme Examples on the Curbing Measures Against Property Bubbles in Asia  

Chapter 3  Lessons from the Surge in Property Prices and the Curbing Measures in Singapore  

3.1 How the Theories Could Help Pre-empting and Containing a Property Bubble: An Application to the Case of Singapore  
   3.1.1 It is Possible to Anticipate the Risk of a Bubble at the Seeding Stage  
   3.1.2 The Best Time to Pre-empt the Bubble is the Seeding Stage  
   3.1.3 Once at the Development Stage, Waves of Severe Curbing Measures are Needed to Stop the Bubble from Growing  
   3.1.4 Once on a Bubble Path, Curbing Demand Should be the Key Measure  
   3.1.5 Role of Government Supply of Affordable Public Flats During the Bubble Period  
   3.1.6 Some Major Changes in Singapore’s Bubble-fighting Strategy  
3.2 Lessons from the Nine Rounds of Curbing in Singapore
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.2.1 The Relative Ineffectiveness of the First Two Rounds of Curbing</td>
<td>59</td>
</tr>
<tr>
<td>3.2.2 Why the Third and Fourth Rounds of Curbing were not Powerful Enough</td>
<td>61</td>
</tr>
<tr>
<td>3.2.3 The Fifth Round of Curbing Had At Least Temporarily Stopped the Property Prices from Rising</td>
<td>65</td>
</tr>
<tr>
<td>3.2.4 What was Wrong, the Fifth Round or the Sixth Round of Curbing?</td>
<td>66</td>
</tr>
<tr>
<td>3.2.5 The Seventh Round of Curbing</td>
<td>68</td>
</tr>
<tr>
<td>3.2.6 The Effectiveness of the Seventh Round of Curbing</td>
<td>70</td>
</tr>
<tr>
<td>3.2.7 The Eighth Round of Curbing: The TDSR</td>
<td>72</td>
</tr>
<tr>
<td>3.2.8 The Ninth Round of Curbing</td>
<td>76</td>
</tr>
<tr>
<td>3.2.9 Outlook and Policy Recommendations</td>
<td>78</td>
</tr>
<tr>
<td>3.3 Important Lessons from Singapore’s Experience</td>
<td>82</td>
</tr>
</tbody>
</table>

### Chapter 4 Lessons from the Formation of Property Bubble and the Curbing Measures in Hong Kong  

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1 Lessons from the Inaction and then Insufficient Curbing in Hong Kong</td>
<td>86</td>
</tr>
<tr>
<td>4.1.1 Lessons from the Inaction between April 2009 and August 2010</td>
<td>86</td>
</tr>
<tr>
<td>4.1.2 Lessons from the First and Second Rounds of Curbing</td>
<td>87</td>
</tr>
<tr>
<td>4.1.3 Lessons from the Third Round of Curbing</td>
<td>90</td>
</tr>
<tr>
<td>4.1.4 The Inauguration of the New Chief Executive</td>
<td>91</td>
</tr>
<tr>
<td>4.1.5 The Fourth and the Fifth Rounds of Curbing</td>
<td>93</td>
</tr>
<tr>
<td>4.1.6 The Sixth Round of Curbing</td>
<td>95</td>
</tr>
<tr>
<td>4.2 The Need for a Bubble-Squeezing Strategy for Hong Kong</td>
<td>97</td>
</tr>
<tr>
<td>4.2.1 High Likelihood of an Eventual Bursting of Hong Kong’s Property Bubble</td>
<td>97</td>
</tr>
<tr>
<td>4.2.1.1 The effect of a rise in Hong Kong’s mortgage rate</td>
<td>98</td>
</tr>
<tr>
<td>4.2.1.2 The effect of a rebound in the US dollar and Hong Kong dollar</td>
<td>100</td>
</tr>
<tr>
<td>4.2.1.3 Cumulated rise in other asset prices was also gigantic</td>
<td>100</td>
</tr>
</tbody>
</table>
4.2.2 Risk of Further Rise in Hong Kong’s Property Prices before the Eventual Bursting 101

4.2.3 The External Economic Environment was Not Yet Ripe for a Major Correction 102

4.3 Policy Recommendation: The Bubble-Squeezing Strategy 103

4.3.1 An Outline of the Strategy 103

4.3.2 Implementation Details 104

4.3.2.1 Existing curbing measures not powerful enough to squeeze the bubble 105

4.3.2.2 Subsequent interest rate hike would be sufficient to trigger a disastrous correction 106

4.3.2.3 Additional safeguards and designs to ensure a gradual and safe squeezing of bubble 107

4.4 Property Price Movements between June 2014 and May 2018 111

4.4.1 Insufficient Time to Squeeze the Property Bubble to a Safe Enough Level 111

4.4.2 The Surge between June 2014 and September 2015: Another Mistake by the Hong Kong Government 113

4.4.3 The Correction between September 2015 and March 2016 115

4.4.4 The Brexit Referendum and the Surge between June 2016 and May 2108 116

4.5 Proposed Policy Measures after the Bursting of the Property Bubble 118

4.5.1 Lessons from the US Experience During the Global Financial Tsunami 118

4.5.1.1 The effect of TARP and its potential application in Hong Kong 119

4.5.1.2 The temporary change in the use of mark-to-market rule and its potential application in Hong Kong 122

4.5.1.3 The stress test on banks and the associate encouragement of capital injection 123

4.5.1.4 A minor reform in Hong Kong’s currency board system to allow for the possibility of a mini QE 124
Contents

4.5.2 Lessons from Singapore's Experience during the Asian Financial Crisis in 1997–1998 125
   4.5.2.1 The significant difference in macroeconomic management between Singapore and Hong Kong at that time 125
   4.5.2.2 Modified policy measures that could be useful to Hong Kong 127

4.5.3 A Summary of the Proposed Policy Measures 129

Part IV Further Discussions on the Housing Policies in Asia 133

Chapter 5 Further Discussions on the Property Markets and Housing Policies in Asia 135

5.1 Inequality and Uneven Distribution of Properties 135
   5.1.1 High Potential Capital Gain of Property Ownership in Asia 135
   5.1.2 Property Price will Rise to Such A Level where A Significant Portion of Households Could Not Afford to Own their Homes 136
   5.1.3 Vicious Cycle between Inequality and Uneven Distribution of Properties 138

5.2 Is the Quantity of Housing Less than Social Optimal? 138

5.3 Negative Effect on Business Ventures, Innovation and Business Ethic 139
   5.3.1 Negative Effect on the Start-up Cost and Risk of New Business Formation 139
   5.3.2 Negative Effect on Business Ventures and Innovation 141
   5.3.3 Negative Effect on Business Ethic 143

5.4 Further Discussions on the Role of Public Flats 145
   5.4.1 Core Design of the Proposal Made in 2007 146
   5.4.2 Good Proposal Wasted by Ignorant and Corrupted Officials 147
   5.4.3 Further Details of the Design 148
   5.4.4 Final Comment: Scale Matters 151
Chapter 6  Some New Research Results on Long-term Housing Policies in Asia  153

6.1 The Role of Inequality and Market Structure Problem in Asia’s Property Markets  154
   6.1.1 Results for the Case of a Collectively Profit-maximizing Price  157
      6.1.1.1 Simulation results for the benchmark case: Different inequality but same mean of wealth  157
      6.1.1.2 Simulation results for the case of Asia over time: Economic growth with rising inequality and rising mean of wealth  159
   6.1.2 Results for the Case with Other Gross Profit Margins  161
      6.1.2.1 Combinations of high gross profit margin and high inequality  162
      6.1.2.2 Impacts of the inequality problem  163
      6.1.2.3 Impacts of the market structure problem  163
      6.1.2.4 Impacts of economic growth  164
      6.1.2.5 Always a certain percentage of very poor households who cannot afford housing: Need for low-rental housings  165
      6.1.2.6 Policy implications  165

6.2 Long-term Policy Proposal: The Case for Affordable Public Flats and Low-rental Flats  166
   6.2.1 The Case with no Profit from the Affordable Public Flats to Subsidize the Low-rental Flats  166
      6.2.1.1 The simple case in which the minimum characteristic-adjusted sizes of public flats are the same as that of private flats  166
      6.2.1.2 The potential benefits of offering affordable public flats and low-rental flats of smaller minimum characteristics-adjusted sizes  169
   6.2.2 The Case with Profits from the Affordable Public Flats to Subsidize the Low-rental Flats  170

6.3 Directions for Further Research  174
6.4 Conclusions and Remarks on Long-term Housing Policies  175
Part V  The Need for a Proper Selection Procedure and a New Discipline on Macroeconomic Management  179

Chapter 7  Selecting the Right Officials and the Need for a New Discipline on Macroeconomic Management  181

7.1 Importance of Having the Right People in Key Macroeconomic Positions  181
  7.1.1 Importance of Selecting Well-trained Economists with Outstanding Policy Insight in Key Economic Positions  182
  7.1.2 Importance of a Proper Selection Procedure  186
    7.1.2.1 The adverse selection and moral hazard problems in macroeconomic management  186
    7.1.2.2 A proper selection procedure to solve the adverse selection problem and mitigate the moral hazard problem  189

7.2 Some More Lessons for Macroeconomic Management  192
  7.2.1 Importance of Further Theoretical Development and Practical Studies on Asset Inflation, Bubbles and Crises  192
    7.2.1.1 Policies used during the bubble and crisis periods should be qualitatively different from those used during the normal period  193
    7.2.1.2 The bubble and crisis periods are much longer and more common than the general perception  194

7.2.2 Many Crises and Bubbles Could be Anticipated Well Before Their Occurrence  196

7.2.3 The Importance of Clearing Internal Weaknesses before it is Too Late  199

7.2.4 Macroeconomic Management Requires a Proper Forward-looking Assessment of the Subsequent Economic Condition  201

7.2.5 Ways to Avoid or Reduce the Consequences of Assessment Error  203

7.3 The Need for a New Discipline on Macroeconomic Management  205

Short References  207