

Hong Kong: Socioeconomic trends and worries

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Further economic integration: a high-risk move

The asymmetrical integration between the huge Mainland and the small open economy of Hong Kong has many consequences. Drastic economic restructuring has occurred locally: Hong Kong's manufacturing output dropped from over 20% of GDP to below 5% in about 20 years, while employment in relevant sectors fell from 900,000 to less than 200,000. With CEPA and similar measures, integration and restructuring will continue as resource flows across the border further increase. Promoting mobility and portability of supplies and demands in a situation of asymmetry is a high-risk (and hopefully high-return) move, taken apparently at the request of the HKSAR government, and the latter may not be fully aware of its implications.

Without consistent efforts in developing "local advantage" and an "optimised dual economy",¹ net outflow of high-quality factors and net inward precipitation of low-quality factors may result. Instead of "Switzerland of Asia", Hong Kong could become "Spain of Asia".

Demography

Hong Kong's "natural" population growth rate is well under replenishment level and features as one of the lowest in the world. The population will age further while demographic expansion will depend predominantly on net immigration, the share of which is predicted by the C&S Department to rise from the present share of 80% to over 90% after about ten years.² This will affect the socioeconomic composition of the local population and the labour force.

Technology

Our competitors, Singapore³ and Taiwan⁴, not to say South Korea, are taking various measures to upgrade their R&D and applied technology in a bid to alleviate the "hollowing out" effects of the rapidly emerging economic might of Mainland China. And there are of course the rising Mainland cities. Hong Kong may lose out in the longer run, given the paucity of the SAR's spending in R&D (at 0.5% of GDP compared with the average of about 2% by others, and the planned target of 4% by South Korea), the

absence of clear directions in improving its education and training system, and the reluctance of the government to provide fiscal incentives in nurturing high value-added economic “locomotives”.

The implications are daunting

There are few historical examples of the fast economic restructuring that Hong Kong has been facing. And it has already imposed huge costs on those involved, such as spending related to searching and shifting jobs, relocation costs, and acceptance of lower pays and poorer working conditions etc. They are likely to persist or intensify.

The unfolding demographic patterns would reinforce the socioeconomic repercussions, including widening income and wealth inequality, cultural conflicts, and increasing pressures on our social security and public support systems. These problems, which would lead to great need and complexity even in obscure areas such as the demand for legal aid, must be addressed to ward off potential adverse effects.

In the end, maintaining and improving Hong Kong’s economic competitiveness is a key solution to the looming problems. The directions of reforms in the SAR’s education and training systems, its R&D policies as well as the government’s stance towards technology and innovation should be changed with a view to keeping and enhancing Hong Kong’s advantage vis-à-vis other regional economies and to generating locally sufficient investment and employment (through the spillover effects on the “second sector”, i.e. the “low value-added, high employment” sector).⁵ It is time to unlock ourselves from the free-market ideologies of the past. Otherwise, unemployment in Hong Kong would become structural, yielding a vicious feedback on the trends analysed above. Social instability might result, putting even greater pressure on the public support mechanisms.

Youth problems: Achilles’ heel?

The other night I had a drink with a friend from the radical circle. He asked whether I knew what actually happened in the July 1 rally, especially in the last few hours. “I don’t honestly,” said I. “Well, we were marginalized by the main political groups. So we decided to do our propaganda work just outside the Victoria Park. And we saw that from 5pm to 8pm all the people who started out there were of the same characteristic!”

“What characteristic?” I became interested. “The crowd was full of young guys.

Tens of thousands of them streaming before us. All teenagers, twenty something.” “Were they golden-haired? Tattooed?” I asked. “I know what you mean? No, most of them were quite neatly dressed and well behaved. Bad for us,” he replied with a grin.

He had to go. And I was there in the restaurant, trying to finish my glass of red wine. But my mind was elsewhere. The demographic trends are a potential headache. Equally troublesome is the fact that despite some notable improvements in the past decade, still nearly half of the population aged 15 and above in Hong Kong have educational levels of form three or lower in secondary schooling⁶ (which makes a mockery of our self-styled “knowledge-based” economy). Youth unemployment has deteriorated drastically, that for the age group of 15 to 19 rising from the worst of over 10% in the 1980s to a ratio of above 30% after the East Asian financial crisis. It dropped markedly later, but is now in the danger of approaching 40%.

No great intellect is required for us to realise that these are ticking time bombs. In any regional economic realignment, one has the suspicion that the young will be less adapted to environmental changes. Asking them to “relocate” in the Pearl River Delta borders on being cynical, as they have not yet “located” themselves in about the only place they are familiar with.

Does Hong Kong need a HOPE (Home Ownership Plus Education) programme like Singapore’s to help the offsprings of less able families to escape the trap of poverty and resentment?⁷ Moreover, is it necessary for the SAR to have a long-term migration, manpower and development strategy? Or are we doomed to be “Spainised” (with apology to Spain⁸)?

¹ For discussions on these points, see Tsang Shu-ki, “A clarifying note on dual economy” (www.hkbu.edu.hk/~sktsang/RT_020624.doc); and “Hong Kong’s Economic Strategy Reconsidered” ([http://www.hkbu.edu.hk/~sktsang/Devt_Strategy\(e\).doc](http://www.hkbu.edu.hk/~sktsang/Devt_Strategy(e).doc)).

² See the summary of projections by the Census and Statistics Department at www.info.gov.hk/censtatd/eng/press/population/pop_proj2031/pop_proj2031_index.html.

³ For example, a report of the government’s promotion of the pharmaceuticals industry in Singapore is found in “Little Island, Big Pharma”, *BusinessWeek*, 17 February 2003, p.24.

⁴ For a recent report, see “Taiwan’s Climb Up the Tech Ladder” *BusinessWeek*, October 6, 2003 (www.businessweek.com/magazine/content/03_40/b3852171.htm). For more details on Taiwan’s policies, visit <http://investintaiwan.nat.gov.tw/moea-web/index.htm>.

⁵ Same as note 1.

⁶ See http://www.info.gov.hk/censtatd/eng/hkstat/fas/01c/cd0072001_index.html.

⁷ See the report on the HOPE programme posted at the website of Channel NewsAsia: www.channelnewsasia.com/stories/singaporelocalnews/view/46979/1/.html

⁸ This is just a comparison about developmental modes and not meant to be a negative assessment of the Spanish economy. Indeed, when I used the terms “Spain of Asia” and “Spainised” in a recent conference, I was reminded by a participant that Hong Kong could in the future fare worse than Spain. And the fashion industry in Barcelona ranks among the top in Europe. I should add that Real Madrid is the best and the richest football team in the world.