

*International Labour Migration
The Case of Hong Kong*

Lok-sang Ho
Pak-wai Liu
Kit-chun Lam

香港亞太研究所

Hong Kong Institute of Asia-Pacific Studies
The Chinese University of Hong Kong
Shatin, New Territories
Hong Kong

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Lok-sang Ho

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Kit-chun Lam

Hong Kong Institute of Asia-Pacific Studies
The Chinese University of Hong Kong
Shatin, New Territories
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About the authors

Lok-sang Ho is a Lecturer in the Department of Economics, The Chinese University of Hong Kong.

Pak-wai Liu is a Reader in the Department of Economics, The Chinese University of Hong Kong.

Kit-chun Lam is a Lecturer in the Department of Economics, Hong Kong Baptist College.

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International Labour Migration: The Case of Hong Kong

Abstract

This paper traced the labour flows in and out of Hong Kong since the second world war using a human capital theory framework. It is shown that most of Hong Kong's history was marked by an inflow of economic migrants. Even as a wave of politically induced emigrants emerged in the 80s the inflow of economic migrants and workers on employment visas continued, underlining Hong Kong's increasing prosperity and contributing toward that prosperity at the same time. Because of changes in immigration regulations the number of immigrants from China dropped drastically in 1980 and further in 1983. Together with underlying demographic trends and emigration, these changes precipitated the serious labour shortage that emerged after 1987. Recently the government has relaxed its restrictions on importing labour. Yet the current labour importation scheme is fraught with many pitfalls. A per-head levy on imported labour, plus a more flexible immigration policy, are found to offer a far better longer-term solution to the secular labour shortage problem in Hong Kong.

THE task of this paper is to provide a theoretical framework for interpreting population and labour migration that is both valid and comprehensible to policy makers, to apply this framework to the experience of migration in and out of Hong Kong since 1950, and to address some of the policy issues that currently beset Hong Kong. Section I will discuss the theoretical aspects of migration and will propose a simple framework based on human capital theory for analysing migration trends and policies. Section II applies the framework to the Hong Kong experience. Section III, IV, and V will examine, in turn, recent developments in Hong Kong with regard to labour shortage, emigration, and immigration. In Section VI we will analyse the issues and policy alternatives in greater detail. Finally, Section VII will conclude the paper and summarize the policy recommendations.

Section I: Theoretical Framework

1.1 Human Capital Theory of Migration

One of the earliest theoretical studies on the subject of labour migration is Sjaastad's study (1962). In this seminal work, he pioneered to "treat migration as an investment increasing the productivity of human resources," (p. 83) and thus laid the ground work for what is now known as the human capital theory of migration. The potential migrant is seen to compare the full, capitalized costs and benefits of migration, whether these costs and benefits are pecuniary or "psychic." Sjaastad proceeded further to argue that there could be discrepancies between private and social costs and returns to migration, with the result that migration could diverge from what is socially optimal. Seven years later, Todaro (1969) explicitly incorporated expectations into a similar model and applied it to rural-urban migration:

$$\frac{\dot{s}}{s}(t) = F \left\{ \frac{V_u(t) - V_R(t)}{V_R(t)} \right\}, F' > 0$$

where $\frac{\dot{s}}{s}$ is the rate of expansion of the urban labour force due to migration and is a function of the percentage difference between expected urban real wages (fully discounted and net of the "initial fixed cost of migration and relocation in the urban area") and expected rural real wages (again fully discounted).

There are, obviously, other approaches to modelling migration,¹ such as the gravity model and various geographical mobility studies attempting to explain migration by reference to the personal attributes of the potential migrant. Among the many studies on migration, Lowry's work (1966) is of particular interest. It suggested that the decision to migrate and the choice over the destination of migration should be separately modelled. According to this hypothesis, the "latter day" emigrant from Hong Kong can be seen as having made the emigration decision, and then deciding where to emigrate. We do not, however, find this approach convincing. In particular, the wave of emigration certainly

would not have occurred if Canada, Australia, the U.S., etc., were not seen to be more politically stable and to be more steadfast in their adherence to democratic principles and personal freedom than Hong Kong into the next century.

Because of the simplicity of the human capital theory framework and its consistency with mainstream economics, and particularly because of its usefulness in highlighting the key factors determining migration, we have chosen to focus on this framework and to interpret data in its light.

1.2 Implications

Following the human capital theory framework we postulate that, for any individual pondering over the migration decision, the decision to emigrate from *i* is based on a simple criterion:

$$\text{Max}_j f(X_{j1} - X_{i1}, X_{j2} - X_{i2}, \dots, X_{jn} - X_{in}) > C$$

where each of the *X*'s is a decision-relevant variable, appropriately discounted given the potential migrant's time horizon and subjective assessment of risks, and *C* is the total costs which must be overcome in the migration process. The potential migrant is assumed to compare the highest value of *f* among the different possible destinations and will migrate to the location *j** where *f* is maximized provided $f(j^*) > C$. From this we can derive the following propositions:

(1) Out-migration will increase if the real cost of resettlement declines. Similarly if the real cost of moving and resettling in Hong Kong declines, immigration into Hong Kong will rise.

(2) Out-migration will increase if, other things being equal, real wages in Hong Kong decline relative to real wages elsewhere. But if the risks of a significant drop in real incomes (a composite measure of various factors of value) in Hong Kong after some future date ("date of predicament") increase, then it is possible for emigration to increase notwithstanding the rise in relative real incomes.

(3) Out-migration will increase as "the date of predicament" draws

near due to the increasing weighting of expected, lower future incomes after the date of predicament.

(4) Younger people have a higher probability of emigration in the face of a “date of predicament” because of their relatively higher weighting of post-predicament-date incomes.

(5) People whose post-predicament-date incomes are likely to decline the most are more likely to emigrate than those who expect a smaller decline, or even no decline, in incomes.

Similarly, we postulate that an immigrant from j to i must expect to achieve at i higher real income than at j and higher real income than anywhere else:

$$g(Y_{i1} - Y_{j1}, Y_{i2} - Y_{j2}, \dots, Y_{in} - Y_{jn}) - C_{ji} > \\ g(Y_{r1} - Y_{j1}, Y_{r2} - Y_{j2}, \dots, Y_{rn} - Y_{jn}) - C_{jr} > 0 \text{ for all } r \neq i$$

The Y 's are decision-relevant variables. Someone immigrating to i considers the discounted values of the various utility-relevant factors. The summary gain in real income minus the cost of migration and resettlement must not only be positive, but be larger than that achieved elsewhere. We can therefore conclude that immigration from j to i will increase if:

(1) Other things being equal, the cost of migration and resettlement to i , C_{ji} , declines relative to that of other destinations.

(2) Other things being equal, if wages in i rise relative to that in j .

(3) Other things being equal, if wages in i rise relative to that in other destinations.

(4) Other things being equal, if attractiveness of i in terms of other aspects rises relative to j or other destinations.

(5) If there exists a “date of predicament” such that real income achieved at i is expected to be lower after that date, then the nominal gap (undiscounted) between utility relevant factors between i and j must be wider in order to attract the same number of immigrants, or C_{ji} must decline. As the “date of predicament” approaches these requirements are expected to intensify.

Section II: The Hong Kong Experience

2.1 Overview

Table 1a and Table 1b present the population and the breakdown of population increase between natural increase and the balance of arrivals and departures from 1948 to 1960 and 1961 to 1990 respectively. Table 1a has been calculated from statistics published in *Hong Kong Statistics 1947-1967* while Table 1b was supplied by the Census and Statistics Department in February 1991. We propose to divide the period 1945 to 1990 into five periods, each dominated by a theme unique to the period:

(1) the politically induced immigration phase, 1945-58;

(2) the economically induced immigration phase, 1959-62;

(3) the emigration wave of the 60s, 1963-69, predominantly economically driven;

(4) the economically induced immigration wave of the 70s, 1970-80;

(5) the economically induced immigration wave of the 80s in concurrence with a politically induced wave of emigration as 1997 approaches.

2.2 Phase I (1945-58)

Statistics on migration in and out of Hong Kong, other than the overall balance of arrivals and departures, are generally unavailable prior to 1980 and even after 1980 are available only in very aggregate numbers. Still it is possible to discern a phase of politically induced immigration during 1945 to 1958. The government's annual report on Hong Kong (1990) had the following to say about the immediate post World War II developments:

Following the Japanese surrender, Chinese civilians — many of whom had moved into China during the war — returned at the rate of almost 100,000 a month. The population, which by August 1945 had been reduced to about 600,000, rose by the end of 1947 to an estimated 1.8 million. Then, in the period

1948-49, as the forces of the Chinese Nationalist Government began to face defeat in civil war at the hands of the communists, Hong Kong received an influx unparalleled in its history. Hundreds of thousands of people — mainly from Guangdong Province, Shanghai, and other commercial centres — entered the territory during 1949 and the spring of 1950. By mid-1950, the population was estimated to be 2.2 million. (1990:356)

Table 1a: Population Growth and Balance of Arrivals & Departures, 1948-60

Year	Mid-Year Estimates (in '000's)	Total Increase	Natural Increase*	Net Immigration
(Prior mid-year to current mid-year)				
1948	1,800	50,000	31,642	18,358
1949	1,857	57,000	36,264	20,736
1950	2,237	380,000	40,311	339,689
1951	2,015	-222,000	45,028	-267,028
1952	2,126	111,000	51,219	59,781
1953	2,242	116,000	54,881	61,119
1954	2,365	123,000	60,639	62,361
1955	2,490	125,000	67,733	57,267
1956	2,615	125,000	74,441	50,559
1957	2,736	121,000	77,960	43,040
1958	2,854	118,000	82,270	35,730
1959	2,967	113,000	85,199	27,801
1960	3,075	108,000	37,925	70,075

* Mid-year to mid-year estimates based on average of adjacent calendar years.

Source: *Hong Kong Statistics, 1947-1967*.

Note: All numbers exclude Vietnamese boat people.

Table 1b: Population Growth and Balance of Arrivals & Departures, 1961-90

Year	Estimated Population (Mid-year)	Balance of Arrivals and Departures	Legal Immigrants from China
1961	3,168,100	-15,374#	N.A.
1962	3,305,200	+81,260	N.A.
1963	3,420,900	-558	N.A.
1964	3,504,600	-5,737	N.A.
1965	3,597,900	-2,638	N.A.
1966	3,629,900	-18,638	N.A.
1967	3,722,800	+13,271	N.A.
1968	3,802,700	+20,598	N.A.
1969	3,863,900	-1,602	N.A.
1970	3,959,000	+30,151	N.A.
1971	4,045,300	+40,701	N.A.
1972	4,123,600	+29,787	N.A.
1973	4,241,600	+88,977	N.A.
1974	4,377,800	+42,619	N.A.
1975	4,461,600	+4,043	N.A.
1976	4,518,000	-5,711	N.A.
1977	4,583,700	+23,809	N.A.
1978	4,667,500	+76,117	N.A.
1979	4,870,500	+147,388	N.A.
1980	5,024,400	+91,708	55,452
1981	5,163,100	+39,422	54,249
1982	5,253,200	+23,683	53,848
1983	5,332,000	+990	26,701
1984	5,385,300	+2,690	27,475
1985	5,445,400	+20,991	27,285
1986	5,524,300	+42,977	27,111
1987	5,605,400	+26,229	27,268
1988	5,663,400	+12,292	28,137
1989	5,713,700	+ 5,645	27,263
1990*	5,745,900	+11,581	27,976

From 7.3.1961 to 31.12.1961.

* Provisional.

Source: Demographic Statistics Section, Census and Statistics Department, February 1991; Immigration Department.

Note: All numbers exclude Vietnamese boat people.

In terms of our model, the returning migrants from China face a relatively low cost in resettling in Hong Kong because they had lived in Hong Kong before and there was hardly any impediment against their re-entering Hong Kong. The Japanese surrender removed the major political disincentive for coming back. Other immigrants to Hong Kong in the 1945-49 period could also count on Hong Kong's political stability relative to China, which was still civil-war-ridden at the time.

After the Communist take-over of China, a relatively steady stream of migrants continued to come to Hong Kong, and this is reflected in the net balance of departures and arrivals averaging about 50,000 per year from 1950 to 1958. The stream of political immigrants from China tapered off after 1953-54. Although the exact numbers of Chinese immigrants are not available, the balance of departures and arrivals by 1958-59 had shrunk by more than 55 per cent from the peak of some 62,000 in 1953-54.

2.3 Phase II (1959-62)

The immigrants from China during the fifties came to Hong Kong mostly for family reunion or for political reasons. In the early 1950s Hong Kong's economy was still mostly very backward. An unskilled worker in Hong Kong probably would not fare much better than one in China. This changed in 1958. The Great Leap Forward and the collectivisation movement in agriculture led to widespread starvation in China. According to one estimate, grain output was down 15 per cent in 1959, another 16 per cent in 1960, and did not recover to the level of 1952 until 1962. An estimated 27 million people died (Lin, 1990). A rapid surge in immigration from China resulted. Between 1959 and 1962, Hong Kong's net balance of arrivals and departures totalled some 136,000. As of 1961, 50.5 per cent of Hong Kong's population had been born in China (Table 2).

Table 2: Place of Birth of Population (%)

Place of Birth	Year					
	1961	1966	1971	1976	1981	1986
Hong Kong	47.7	53.8	56.4	58.9	57.2	59.3
China	50.5	N.A.	41.6	38.6	39.6	37.1
Elsewhere	1.8	N.A.	2.0	2.5	3.2	3.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: 1961 Census and Hong Kong By-Census, 1966, 1976 and 1986.
N.A. = Breakdown not available.

2.4 Phase III (1963-69)

By 1963, the economic situation in China had stabilized. A strong economic recovery was underway. Economic migration into Hong Kong continued but at a much subdued pace. The stream of politically motivated emigrants into Hong Kong dropped to a trickle. From Hong Kong, however, a wave of emigration had begun. This wave was to continue until the early seventies, when many overseas countries drastically curtailed immigration. The 60s as from 1963 is a unique period for Hong Kong in that the balance of arrivals and departures was generally negative — the exceptions being only 1967 and 1968, when political turmoil in China caused a large surge of Chinese immigrants, mainly via Macau.

The early emigrants from Hong Kong were mainly restaurant workers mostly settling down in Britain. Most of these workers were from the New Territories, where life was hard and prospects for economic improvement remained quite grim notwithstanding fairly strong growth in Hong Kong's overall economy. The 1965 Hong Kong Report had the following to say about these emigrants:

Chinese restaurants in Britain and other countries provided employment for waiters and cooks at attractive wages. There are now about 2,000 Chinese restaurants in Britain employing some 30,000 Hong Kong workers, the majority of whom are from the New Territories During 1965, postal and money

orders to the value of \$27,104,646 were cashed at N.T. post offices. In addition money remitted through banks is likely to total as much again. (1965:19)

Another group of emigrants were students going abroad to further their studies, as competition for local higher education was extremely keen. Hong Kong did not collect statistics on these migrants. It is not known what proportion of these students eventually settled down in their host countries, but certainly a significant number did stay behind. For them the cost of migrating had become a “sunk cost,” while the cost of settling down in the host countries had diminished significantly given the years they had spent living there. It should also be remembered that economic prospects for these young people in Hong Kong during the sixties were not particularly exciting relative to those presented elsewhere. From the 1968 Hong Kong Annual Report is the following passage:

The pattern of emigration to the U.S.A., Canada, and to a lesser extent, Britain and elsewhere, continued at a brisk rate, and clearly much of the youth of the Colony is anxious for an education abroad. (1968:169)

2.5 Phase IV (1970-80)

Table 3 lists out data on illegal immigrants from China since 1970. During the period 1970-80, there were two major changes in policy. The first was in 1974, when the practice of admitting all visitors from China, legal and otherwise, was ended. From then on, distinction was made between illegal immigrants caught at the border and those who evaded capture and successfully reached the urban areas of Kowloon and Hong Kong. Only the latter were permitted to stay. The second change in policy took place on October 23, 1980, when this “reach base” policy gave way to a policy of immediate repatriation regardless of circumstances.

Table 3: Illegal Immigration from China, 1970-90

Year	Arrest Upon Entry	Evader ¹	Total
1970		3,416 (9.36)	3,416 (9.36)
1971		5,062 (13.87)	5,062 (13.87)
1972		12,958 (35.50)	12,958 (35.50)
1973		17,561 (48.11)	17,561 (48.11)
1974 ²	235 (0.64)	19,565 (53.60)	19,800 (54.25)
1975	1,150 (3.15)	7,100 (19.45)	8,250 (22.60)
1976	828 (2.27)	7,226 (19.80)	8,054 (22.10)
1977	1,815 (4.97)	6,546 (17.93)	8,361 (22.90)
1978	8,205 (22.48)	11,233 (30.78)	19,438 (53.25)
1979	89,940 (246.41)	102,826 (281.72)	192,766 (528.13)
1980 ³	82,125 (225.00)	67,964 (186.20)	150,089 (411.20)
1981	7,530 (20.65)	1,690 (4.63)	9,220 (25.26)
1982	8,676 (23.77)	2,484 (6.80)	11,160 (30.58)
1983	4,671 (12.80)	2,933 (8.04)	7,604 (20.83)
1984	9,653 (26.45)	3,090 (8.47)	12,743 (34.91)
1985	12,616 (34.57)	3,394 (9.30)	16,010 (43.86)
1986	16,832 (46.12)	3,707 (10.16)	20,539 (56.27)
1987	22,425 (61.43)	4,282 (11.73)	26,707 (73.17)
1988	13,581 (37.11)	7,227 (19.74)	20,808 (56.85)
1989	5,452 (14.94)	10,389 (28.46)	15,841 (43.40)
1990	9,592 (26.28)	18,234 (49.96)	27,826 (76.24)

1 Evaders are illegal immigrants caught beyond the first net of apprehension. Prior to 1974 no distinction between evaders and those arrested upon entry was made.

2 Implementation of the so-called “reach base policy.”

3 Ending of the so-called “reach base policy” in October.

Brackets indicate average number per day.

Source: Immigration Department.

It can be seen that the number of illegal immigrants from China rose rapidly from 1970, reaching a peak of 19,800 in 1974. The change of policy brought down the numbers significantly for three years, but the number suddenly accelerated again in 1978, further multiplying ten times in 1979, and would definitely have risen further in 1980 had it not

been for the implementation of the new policy in October.

The surge in illegal immigration from China in 1978 and particularly in 1979 and 1980 coincided with the adoption of an open door economic policy in China. While this policy produced clear economic improvement on China's economic landscape it also dispelled much illusion about socialism and kindled awareness about Hong Kong's prosperity. The social and political control at the local level which had hitherto been very tight and effective in restricting mobility of the population was eroded. What followed was a massive influx of illegal immigrants into Hong Kong. At the height of this immigration wave, in 1979, an average of 528 people crossed the border illegally per day. In addition, legal immigrants from China totalled 55,452 in 1980, or 152 per day.

While immigration from China continued the mid-1970s saw the start of a new wave: the importation of foreign domestic helpers (Table 4). The numbers of these workers were quite modest at first, but rapidly surged reflecting the growing affluence of Hong Kong and the improvement in legislation delineating the rights of employers and employees.

2.6 Phase V (1981 - now)

The 1980s in a sense are a continuation of the 1970s. Hong Kong continued to draw economic immigrants from neighbouring countries, but there was also an upsurge of outward migration, prompted largely by the uncertainty over the reversion of Hong Kong to Chinese sovereignty. The stream of immigration comprises both legal and illegal immigrants. Table 3 shows that 27,826 illegal immigrants from China were apprehended in 1990, representing an increase of more than 75 per cent over the 1989 level. Apart from those caught on their journey into Hong Kong, about half were caught on construction sites. In order to discourage illegal immigration, the penalty imposed on construction companies was raised to three years' imprisonment and \$250,000, up from one year's imprisonment and \$50,000. Illegal immigrants are also subject to a maximum fine of \$10,000 and a 15-month jail term. Notwithstanding these stiff penalties, illegal migration is still a problem. For smugglers of illegal immigrants it is a big and profitable business. They seem to be particularly adept in spreading rumours about imminent

amnesties, and they have been found to be quite unscrupulous in exposing illegal immigrants to the dangers of suffocation in hidden compartments in their boats.

Table 4: Number of Foreign Domestic Helpers in Hong Kong, 1974-90

As at	Philippines	Others*	Total
31-12-74	787	94	881
31-12-75	1,184	166	1,350
31-12-76	1,781	296	2,077
31-12-77	3,013	444	3,457
31-12-78	4,783	528	5,311
31-12-79	7,298	673	7,971
31-12-80	10,085	946	11,031
31-12-81	14,500	1,144	15,644
31-12-82	20,120	1,397	21,517
31-12-83	24,716	1,598	26,314
31-12-84	22,989	1,601	24,590
31-12-85	24,955	1,691	26,646
31-12-86	27,029	1,922	28,951
31-12-87	34,433	2,398	36,831
31-12-88	41,700	3,454	45,154
31-12-89	52,868	5,103	57,971
31-12-90	63,643	6,692	70,335

* This includes Thailand, Indonesia, and India, among other Asian developing countries but conspicuously leaving out China.

Source: Immigration Department.

Among legally admitted foreign workers the largest group is from the Philippines. Filipino maids now make up more than 90 per cent of all foreign-hired domestic helpers (Table 4). Many of these maids have a good education, but they can only earn 1/4 to 1/3 of their Hong Kong wages at home. Because of the wide wage gap which is very much the result of government-imposed minimum wages, there has always been an

excess supply of willing prospective workers in the labour-sending countries, allowing middlemen to impose large fees on applicants for Hong Kong jobs in the sending countries, thereby capturing the economic rent. This middleman fee appears to be much higher in Thailand than in the Philippines.

According to a report, Philippine officials found many domestic workers were forced to pay illegal service fees to some recruiters, "sometimes as high as 45,000 pesos (HK\$12,857), or the equivalent of about four months' wages" (*South China Morning Post*, May 26, 1991). Placement fees are even higher in Thailand, where it is reported they average about 50,000 bahts (HK\$15,000) (*Ming Pao*, April 8, 1991). According to one survey, 45.2 per cent of the total remittances from overseas Thai workers were spent on the repayment of loans taken out to finance their overseas employment (Thosanguan, 1991, p. 3a). The wide divergence in placement fees among labour-sending countries (Abella, 1988) probably reflects the divergent degrees of competitiveness in the placement agency business and the uneven flow of information in different countries. Abrera-Mangahas (1989) found the Philippines to have the lowest average placement expenses borne by workers among the labour-sending countries. This, however, has not deterred the Philippine Government from deciding to take over the placement business as a way of stemming exploitation, which it claims was due to small, unscrupulous agencies (*South China Morning Post*, May 26, 1991). Whether the new policy will benefit the job applicants is uncertain, because corrupt bureaucrats may yet pocket the rent which otherwise would accrue to private agencies. The new policy will, however, almost certainly slow down the processing of applications as the Department of Labour and Employment is overwhelmed by the mountain of additional work.

In addition to foreign-hired domestic helpers, Hong Kong has always permitted local employers to hire certain categories of skilled personnel. As Table 5 indicates, the importation of skilled personnel and middle-managers has been rising rapidly since 1982. Actually, the number of foreign-hired personnel is likely to exceed the Table 5 figures, because former residents of Hong Kong who are entitled to live in Hong Kong would not need a visa to work here. British nationals working in Hong Kong also do not need an employment visa. Table 6 shows that the

foreign population in Hong Kong has been rising rapidly in the 80s. Table 5 and Table 6 suggest that the labour force of Hong Kong is becoming more internationalized.

Table 5: Importation of Labour, 1982-90 (Yearly flow)

Occupation	1982	1983	1984	1985	1986	1987	1988	1989	1990 (Jan-Sep)
Technician	1,046	846	986	1,224	1,042	1,276	1,261	1,709	1,848
Construction Workers	86	187	46	10	45	15	94	125	6
Restaurant Workers	103	100	98	136	114	130	190	209	292
Domestic Workers	6,457	7,456	6,499	8,454	8,845	11,792	14,735	18,870	16,025
Other Professionals & Middle Managers	1,734	1,747	2,024	2,612	2,893	3,281	3,895	4,569	3,579
Others*	1,722	2,235	2,148	2,049	2,322	2,589	3,260	3,242	2,293
Total	11,148	12,571	11,801	14,485	15,261	19,083	23,435	28,724	24,043

- Notes:
- (1) The above statistics do not include
 - (a) British Citizens/United Kingdom belongers,
 - (b) Dependents from Vietnam, Laos and Kampuchea,
 - (c) Persons from China, and
 - (d) Persons from China via Macao unless the applicant had settled in Macao by 14 January 1979.
 - (2) * including representatives of overseas companies, other occupations like sales, trainee, sports and entertainment etc.
 - (3) Labour importation = Entry arrivals with employment visas + Change of status approvals.
 - (4) The Immigration Department referred to figures in this Table as "total immigrants arrived in Hong Kong with employment visa" and advised that most "workers" are professionals or personnel, as distinct from "labour" imported under the labour importation schemes announced in 1989 and 1990.

Source: Immigration Department.

Table 6: Foreign Population in Hong Kong, 1982-90

Year	Total	U.S.A.	Australia	Canada
1982	149,000	12,400	7,900	N.A.
1983	150,000	12,700	7,600	N.A.
1984	155,000	14,000	7,700	N.A.
1985	162,000	15,100	8,000	7,100
1986	168,000	14,000	8,300	8,100
1987	172,000	14,600	8,700	9,000
1988	186,000	16,300	9,700	10,000
1989	206,000	17,600	10,600	11,400
1990	227,556	19,300	12,000	13,000

Source: Immigration Department.

Note: From 1982 to 1984, Canada was not among the top ten nations in foreign population ranking in Hong Kong.

Foreign population excludes visitors and its estimate is based on entry and exit statistics for foreign passport-presenting travellers, and includes Hong Kong believers travelling with foreign passports.

The inflow of workers during the 1980s is a reflection of the rapid economic growth that Hong Kong achieved through 1988. While Hong Kong was fast catching up with the more advanced economies, however, an exodus of highly skilled personnel started. Many of these people earn only a fraction of their former incomes in such host countries as Canada and Australia.² This phenomenon cannot be explained except in the light of a human capital theory framework. With the approach of 1997 — the date of transition to Chinese sovereignty — the risk of a sudden decrease in real income, which includes the psychic income of living in a free society, has increased. The present value of life income in Hong Kong is much less than is implied by the current incomes being earned by Hong Kong's emigrating professionals. This exodus of human capital is threatening the economic viability of Hong Kong but the problem is to an extent alleviated by an incoming stream of expatriates and returning migrants. For example, Table 6 shows that Canada and Australia, the two most popular emigration destinations for Hong Kong people, show a rate of increase in foreign population in Hong Kong well above the average

for all countries, giving credence to the suggestion that a fraction of the former residents of Hong Kong are returning to Hong Kong to work after they have obtained foreign passports.

Table 7: Hong Kong Residents Working in China by Age and Sex

Sub-Group	Oct – Dec 88			Oct – Dec 89		
	No. ('000)	%	Rate*	No. ('000)	%	Rate*
Persons who had worked in China during the past 12 months	52.3	100.0	1.9	45.6	100.0	1.6
Age						
15 – 19	0.4	0.8	0.3	0.2	0.5	0.2
20 – 29	12.7	24.3	1.4	10.6	23.2	1.2
30 – 39	20.8	39.8	2.6	16.4	35.9	2.1
40 – 49	11.9	22.8	2.6	11.8	25.9	2.5
50 and over	6.5	12.3	1.3	6.6	14.5	1.4
Sex						
Male	46.8	89.5	2.6	39.7	86.9	2.3
Female	5.5	10.5	0.5	5.9	13.1	0.6
Persons who were still working in China	42.3	100.0	1.5	37.0	100.0	1.3
Age						
15 – 19	0.1	0.3	0.1	0.1	0.3	0.1
20 – 29	10.0	23.6	1.1	8.3	22.5	0.9
30 – 39	16.7	39.6	2.1	13.8	37.4	1.7
40 – 49	10.0	23.6	2.2	9.8	26.4	2.1
50 and over	5.5	12.9	1.1	5.0	13.4	1.1
Sex						
Male	37.9	89.6	2.1	32.6	88.1	1.9
Female	4.4	10.4	0.4	4.4	11.9	0.4

* As a percentage of the labour force in the respective sub-groups.

Source: Census and Statistics Department.

Apart from a shortage of professionals, Hong Kong in recent years is facing a severe shortage of labour in general. This has prompted a surge

in outward-processing activity, particularly in neighbouring China, which is favoured because of its locational proximity, abundant labour supply, and absence of language barriers. The Hong Kong Federation of Industries has found that, among 411 firms surveyed in 1990, 160 firms (39%) have operations outside Hong Kong, almost all in China. This outward-processing activity helps to relieve the pressure of labour shortage on the Hong Kong economy, but it also brings a significant number of Hong Kong belongers into China to work in various capacities. Table 7 shows that an estimated 45,600 people had worked in China in the 12-month period previous to the survey in late 1989. This was down from 52,300 in the previous year, reflecting the short-term tightening of the labour market in Hong Kong in 1989.³ As the tightness is alleviated by the economic slowdown and outward processing further intensifies, it is expected that the number of Hong Kong citizens working in China will increase again.

The labour shortage naturally also gave rise to a demand for the freer importation of labour. To this we will now turn.

Section III: Hong Kong's Labour Shortage

3.1 Trend

One of the current major trends in the labour market of Hong Kong is the persistent shortage of labour. The shortage of labour first emerged as a problem in 1987 which worsened in 1988. The economic slowdown which began in mid-1989 has continued until today offering only a slight reprieve. In the first quarter of 1991 the unemployment rate rose to 1.8 per cent, up from 1.4 per cent in the previous quarter. But this was still very low by historical standards.

The shortage manifests itself in rising vacancy rates across different sectors of the economy. Table 8 shows that vacancy rates of the various sectors were very low in 1985, a year of recession. They began to rise in 1986 as the economy recovered. The increase in vacancy rates across all sectors was substantial in 1987. The pressure of the demand for labour was so strong in this year that employers found it difficult to retain workers and to recruit new workers to fill vacancies. Vacancy rates

increased further in 1988. Industrialists and employer organisations began to put pressure on the Hong Kong Government to relax its hitherto highly restrictive policy on importing labour. Vacancy rates fell slightly in 1989 following the slowdown in the economy of Hong Kong triggered by the June 4th crackdown in Beijing but rose again in 1990. Throughout this period all industries were affected by the shortage but to different extents. The worst affected industries were metalworks, construction, retail, electrical appliances and electronics, printing, restaurants and hotels in order of severity.

Table 8: Vacancy Rates (%)

	1985	1986	1987	1988	1989	1990
Manufacturing	1.75	2.89	4.59	5.83	4.37	4.77
Wholesale, retail, import/export, restaurants & hotels	0.91	1.72	3.53	4.38	3.38	4.32
Transport, storage and communication	0.60	0.97	2.09	3.12	3.38	3.66
Financing, insurance, real estate & business services	1.28	1.67	3.14	4.32	3.96	3.99

Source: *Hong Kong Annual Digest of Statistics* (4th quarter figures).

A more aggregate indicator of the tightness of the labour market is the unemployment rate (Table 9). The unemployment rate dipped below 2 per cent in 1987, the first time since annual unemployment statistics were collected in 1975. It remained below 2 per cent for four years from 1987 to 1990. The latest figure is 1.8 per cent in January - March 1991.

The emergence of the labour shortage problem in Hong Kong is all the more remarkable considering the dramatic increase in outward processing in the last decade. Since China opened her door to foreign investment in 1978, Hong Kong manufacturers, traders and hoteliers have been moving their operations across the border to take advantage of the abundant supply of low-cost labour in China. Recent estimates suggest that as many as 3 million workers in the Pearl River Delta region in Guangdong Province are now employed in enterprises which are either

solely or jointly owned by Hong Kong entrepreneurs. In comparison, the labour force in Hong Kong is only 2.76 million. During the 1980s, there was a steady winding down of labour-intensive manufacturing production in Hong Kong. Many manufacturers set up their production facilities

Table 9: Labour Force in Hong Kong

Year	Labour Force	Growth Rate (%)	Labour Force Participation Rate	Unemployment Rate
1975	1,964,000	N.A.	65.9	9.0
1976	1,895,300	-3.50	63.3	5.1
1977	1,927,100	1.70	62.2	4.2
1978	2,021,300	4.90	62.5	2.8
1979	2,141,000	5.90	62.0	2.9
1980	2,323,400	8.50	63.3	3.8
1981	2,489,500	7.10	66.3	3.9
1982	2,498,100	0.30	64.7	3.6
1983	2,540,500	1.70	64.5	4.5
1984	2,606,200	2.60	65.5	3.9
1985	2,626,900	0.80	64.8	3.2
1986	2,701,500	2.80	65.1	2.8
1987	2,736,000	1.30	64.8	3.2
1988	2,778,600	1.60	64.5	1.4
1989	2,778,500	-0.00	63.5	1.1
1990	2,777,900	-0.00	63.0	1.3
1991:1	2,816,700	1.50*	63.2	1.8

Source: *Annual Digest of Statistics and Monthly Digest of Statistics.*

* First quarter 1990 to first quarter 1991.

in South China. Design, marketing, servicing, shipping and sourcing of raw materials continue to be based in Hong Kong while processing and actual production are relocated in South China. This outward processing is reducing the demand for operatives and production workers in Hong Kong. All the same, Hong Kong's labour shortage has persisted.

It should be clear from the previous discussion that the labour shortage problem in Hong Kong is growing into a secular phenomenon. It is surely not cyclical, although a cyclical downturn of the economy would help to alleviate the pressure. We have seen that the present slowdown of the economy has so far brought little relief. This suggests that secular, long-term causes are behind the current labour shortage problem.

There are four secular factors that underpin the present shortage. The first major factor is the secular decline in fertility in Hong Kong which, *inter alia*, had led to a slow-down in the growth of the labour force.

Table 10: Demographic Background for Labour Shortage in Hong Kong

Year	Rate of Natural Population Increase (per '000)	Crude Birth Rate (per '000)	Potential Workforce (age 10-19)	Potential Retirees (age 55-64)
1977	12.4	17.5	1,077,800	356,700
1979	11.7	16.8	1,059,300	383,800
1981	12.0	16.8	1,014,100	408,300
1983	10.6	15.6	952,700	433,500
1985	9.3	14.0	907,300	457,500
1986	8.3	13.0	892,900	470,200
1987	7.7	12.5	878,900	481,900
1988	8.4	13.3	864,900	491,500
1989	7.2	12.2	855,200	496,900
1990	6.8	11.8	853,300	498,200

Source: Demographic Statistics Section, Census and Statistics Department.

Note: All numbers exclude Vietnamese boat people and differ slightly from *Annual Digest of Statistics* numbers.

Table 10 shows a steady secular decline of the crude birth rate per thousand and the rate of natural population increase per thousand. As a result of this drop in fertility, the 10-19 age group which provides manpower for the workforce for many years to come has shrunk from

over a million in 1977 to about 850,000 in 1990. At the same time, the 55-64 age group which is due to retire from the labour force has grown in size. These demographic shifts have the combined effect of reducing the labour supply. It occurred at a time when there was a growing demand for labour as the economy expanded rapidly in the 1970s and 1980s.

The second major factor is a decline in the labour-force participation rates (Table 9). The declining pattern was temporarily reversed in 1981 due to a massive influx of illegal immigrants from China in 1978-80 who by self-selection were mostly potential participants in the labour force. The general downward trend resumed in 1982 and has persisted until today. The recent fall in the labour force participation rate from an average of 65.1 per cent from 1981 to 1987 to an average of 63.0 per cent in 1990 has been 2.1 percentage points. This magnitude of fall has translated into a significant reduction in the size of the labour force (about 92,600 in 1990).

The demographic and labour participation factors outlined above are not the only reasons behind the secular slowing down growth of Hong Kong's labour force. Shifts in the pattern of migration are also producing a significant impact on the labour force. With the year 1997 getting nearer everyday and developments in China giving little ground for optimism, the flow of emigrants accelerated in 1987. By 1990, the number of emigrants was almost triple the baseline numbers of the early 1980s. In 1988, 22,500 members of the labour force were issued visas by various destination countries to emigrate. This represents 0.8 per cent of the labour force.

The reduction of the flow of immigrants due to government controls is yet another reason behind the current labour shortage. Throughout the history of Hong Kong, China has been the major source of immigrants. As discussed earlier, there have been several major inflows of immigrants in this century. The last major influx which took place in 1978-80 is the most relevant to the current labour shortage problem.

The 1981 census captured the massive influx of the previous years. It showed that as many as 468,000 immigrants entered Hong Kong during 1976-81, about half of whom were illegal. By 1981 almost one out of every ten Hong Kong residents was a recent immigrant who had arrived within the last five years. The bulge of population increase during

1978-80 is evident from Table 1b.

Three years after the abolition of the "reach-base" policy in October 1980, the flow of legal immigrants from China was further reduced dramatically by an agreement between China and Hong Kong that only one-way permit holders would be allowed to take up residence in Hong Kong. Table 1b shows that legal immigration since 1983 has been halved to around 27,000 a year, corresponding roughly to the quota of 75 immigrants a day.

The massive influx of the late 1970s had the effect of postponing the labour shortage crisis for several years. With the Hong Kong dollar depreciating along with the U.S. dollar after 1985, an export boom took off, leading to a double-digit growth of the economy in 1986 and 1987. The severe tightening of the labour market would have been worse had it not been for the world-wide stock market crash in October causing tremendous uncertainty and a temporary slowing down in exports. When it became clear that no real damage had been done to the world economy the labour market tightened further. The unemployment rate was down to 1.1 per cent in 1989. Because of acute overseas competition eroding profit margins, however, the tightness of the labour market in the manufacturing sector tended to stimulate more outward-processing activity rather than a rapid surge in wages. Table 11 shows that wages in various services as well as in the construction industry are rising much faster than in manufacturing. It also reveals that real wages hardly showed any growth in the early 1980s, despite fairly strong economic growth during this period, a legacy of the massive immigration in the late 70s.

To summarise, a declining natural population growth, a falling labour force participation rates, a rising emigration and a slowdown in immigration are the four basic factors that shape the labour force. All of them work in the direction of limiting the expansion of the labour force in Hong Kong in the 1980s.

Table 11: Growth Rate of Real Wages by Selected Major Economic Sectors, 1983-90

Year	Manufacturing	Wholesale/Retail, Import/Export Trades, Restaurants and Hotels	Business Services	Construction
1983	-2.53	-4.07	-2.54	-6.0
1984	0.83	-0.66	1.72	-5.5
1985	2.89	1.74	4.67	0.9
1986	3.18	2.28	5.86	3.8
1987	3.08	4.21	2.85	15.4
1988	0.92	4.63	8.40	16.3
1989	1.70	3.33	7.43	11.5
1990	2.02	2.49	5.36	5.9

Source: *Quarterly Report of Wages, Salaries, and Employee Benefits Statistics*, Vol. 1. Wages and Labour Costs Statistics Section, Census and Statistics Department.

Table 9 shows a rapid expansion of the labour force in 1978-80, the years of massive immigration. This was followed by slow growth in the labour force for the rest of the 1980s. This slow expansion could not cope with the increase in demand brought on by the rapid economic growth for most part of the decade. The growth of the labour force in the last few years has been especially slow.

3.2 Policy Response

The Hong Kong Government has long had a policy of importing foreign workers, but this policy has always been very restrictive. In the past only highly skilled technicians, professionals and managers sponsored by their employers would be issued employment visas to enter Hong Kong to work (Table 5). The only exception to this restrictive policy has been the importation of domestic workers (Table 4). Domestic workers are generally hired on two-year renewable contracts and are subject to a minimum wage fixed and revised annually by the Labour Department. They have played an important role in supporting female labour force

participation in Hong Kong in the early 1980s.⁴

In response to pressure from industrialists and employer organisations which clamoured for an extensive importation of labour, the Hong Kong Government decided to relax its hitherto restrictive policy by widening the definition of skilled labour. In May 1989, the Government announced a quota of 3,000 foreign workers and invited employers in seventeen industries worst hit by labour shortage to apply. Only skilled workers would be approved under this quota. Semi-skilled and unskilled workers would not be approved. Employment contracts would be for two years, and under normal circumstances they would not be renewable. Employers would pay wages and benefits comparable to local workers of the same skill and in addition would be responsible for lodging and travelling costs. An enterprise would not be allowed to import more than 20 per cent of its work force. Initial applications outstripped the quota of 3,000, but at the end only about 2,000 approved cases proceeded to the final stage of applying for employment visas, representing a take-up rate of about 66 per cent.

A year later in 1990, the Hong Kong Government further relaxed the skill restriction on imported foreign workers and set a quota of 14,700 with the following breakdown:

2,700	technicians, skilled workers;
10,000	experienced operatives;
2,000	reserved quota assigned to construction workers for the airport and port development project.

Operatives are considered skilled if they have one year of work experience. For all practical purposes, the Government has opened the door to importing unskilled workers as long as they have one year of work experience. The Government has also abolished the restriction on enterprises on importing no more than 20 per cent of their workforce. As a means of protecting local workers from possibly suffering a fall in wage due to competition from cheap imported labour, the Government required that imported workers be paid the median wages of their job categories.

The initial response of the employers was again enthusiastic as in the

first exercise in 1989. Applications were more than double the available quota. However, in January 1991 when these applications proceeded to the final stage, only about 3 per cent or about 380 of the approved cases made applications for employment visas. The initial poor response was attributed to the uncertainty brought on by the Gulf crisis. A speaker from the Immigration Department told the authors in May 1991 that virtually all the quota of 12,700 have eventually been taken up since then. Another policy initiative that may be related to the labour shortage problem was the decision to allow, as of September 28, 1990, mainlanders who had resided overseas in excess of two years to apply for admission to work in Hong Kong. These people are also allowed to live permanently in Hong Kong upon completing seven years of residence in the territory. It is estimated that over 100,000 mainlanders are currently living overseas in various capacities, mostly students. However, because they must have a job offer before they can apply and must meet a number of stringent requirements, only 495 applications have been filed with the Immigration Department as of mid-May 1991.

Still another policy initiative that might have helped relieve the labour shortage problem was the opening up of the refugee camps in late 1988. The Vietnamese boat people who had been granted refugee status were allowed to seek work freely in Hong Kong. They were initially assisted by the Job Placement Unit run by the Hong Kong Christian Aid to Refugees. This unit was eventually closed in 1990 as the refugees mastered the ins and outs of the Hong Kong job market. Currently, approximately half of the total of about 8,000 refugees, comprising all adults and teenagers, are employed, mostly in unskilled jobs in the manufacturing sector. The Hong Kong Christian Aid to Refugees also runs a Work and Training Program which provides services to boat people considered to be non-refugees. In early 1991 some 2,400 were in various training programs while about 2,800 were in the work program. The work program brought work to the detention camps, mostly in workshop assemblies set up by contractors serving as agents for manufacturers. Various service-type jobs such as cooking, interpreting, and cleaning are also available. Obviously boat people working in these jobs will not help relieve the labour shortage problem that Hong Kong faces.

Section IV: Emigration from Hong Kong

4.1 Trend

Emigration is not a new phenomenon in Hong Kong. There has always been a steady outflow of emigrants over the years. People left Hong Kong for a variety of reasons, such as studying abroad, family reunion, looking for better paid jobs, etc. What are new in the current wave of emigration are (a) its magnitude; and (b) its political underpinning.

Table 12: Estimated Emigrants and Visas Issued by Destination Countries

Year	Total Emigrants	Immigration Visas Issued by Countries		
		Canada	U.S.A.	Australia
1980	22,400	5,718	N.A.	N.A.
1981	18,300	5,593	N.A.	N.A.
1982	20,300	6,311	N.A.	N.A.
1983	19,800	7,015	N.A.	N.A.
1984	22,400	7,576	N.A.	N.A.
1985	22,300	6,446	N.A.	N.A.
1986	18,989	8,803	7,473	N.A.
1987	29,998	22,097	8,517	7,846
1988	45,817	21,843	11,394	10,609
1989	42,000	22,130	11,032	14,218
1990	62,000	22,566	11,639	17,589
1991*	58,000	N.A.	N.A.	N.A.

* Provisional estimate.

Sources: Total emigrant numbers supplied by Government Secretariat. Visa numbers courtesy of the Consulates of U.S.A. and Australia, and Commission for Canada.

Table 12 shows that from 1980 to 1986 there had been a steady annual flow of 18,000 to 22,000 emigrants from Hong Kong. The outflow accelerated in 1987 and reached a peak of 62,000 in 1990. The three major destination countries are Canada, the U.S.A. and Australia fol-

lowed by Singapore, New Zealand and other countries.

There are two main reasons why the emigration trend rose sharply after 1986. The size of a migration flow is determined by two factors on the supply and demand side; the number of individuals applying for emigration and the intake quota set by the destination countries. On the supply side, as 1997 approached, Hong Kong people in the early 1980s became increasingly concerned with the political future of Hong Kong. At first, most people adopted a wait-and-see attitude about the negotiation that was going on between Britain and China on the future of Hong Kong before committing themselves to plans of emigration. The outflow of emigrants remained steady in those years. The Sino-British Joint Declaration on the future of Hong Kong was signed in 1984. The initial euphoria over the Joint Declaration quickly gave way to skepticism and doubts. People's confidence was shaken by developments in China suggesting continued disrespect for the rule of law and several incidents hinting that China would not respect public opinion and keep its hands off Hong Kong. A surge of applications for emigration appeared. The process of application taking about a year to complete the increase in outflow was not visible until 1987.

On the demand side, two major destination countries, Canada and the U.S.A. changed their immigration policies and quotas at around this time, thereby providing more opportunities for Hong Kong applicants. In 1986, Canada activated the "Independent Selected Worker" category which had been frozen for some years. This opened the way for professionals and managers in Hong Kong who had no family connections in Canada to apply for emigration. Canada's "global planning level" for migrant intake was also raised from 105,000-115,000 in 1986 to 165,000-175,000 in 1990. The intake from Hong Kong was increased substantially as a result. The U.S.A. also revamped its immigration policy and as part of the revision annual quota for migrants born in Hong Kong was raised from 600 to 5,000 from October 1, 1987.

On the assumption that immigration policies and quotas of major destination countries remain broadly the same, the Government projects that the trend will level out at about an annual outflow of 60,000.

4.2 Profile of Emigrants

Emigrants are not representative of the general population in their background. They are a selected and self-selected group. On the one hand, as immigrants they are selected by the destination countries. The selection criteria of two of the three major destinations, Canada and Australia, are based on point systems which favour applicants who are young, well-educated, English-speaking, who are employed as professionals, technicians or managers and who have the financial means of either supporting themselves or starting a new business (if they are admitted under the business migration programmes) in the destination countries.⁵ On the other hand, individuals select themselves for emigration. According to the human capital theory reviewed earlier, individuals who are young, adaptable to a new culture and who are internationally employable because they possess skills and qualifications that are transferrable to other countries are more likely to migrate. Taking these two considerations, it is not surprising to find that Hong Kong emigrants are more likely to be in the 25-44 age group, hold an academic degree and are employed as a professional, administrator or manager (Table 13).

Table 13: Characteristics of Emigrants and the Hong Kong Population in 1989

	Emigrants	Population (%)
Age		
0 – 24	13,900 (33.1%)	38.4
25 – 34	11,300 (26.9%)	21.2
35 – 44	9,200 (21.9%)	14.6
45 – 54	3,600 (8.6%)	8.7
55 – 64	2,600 (6.2%)	8.6
65 and above	1,400 (3.3%)	8.5
	42,000 (100.0%)	100.0
Occupation		
Professional, technical administrative & managerial	9,800 (23.3%)	5.3
Other workers	13,000 (31.0%)	42.4
Economically inactive	19,200 (45.7%)	52.3
	42,000 (100.0%)	100.0
Education*		
First degree/Postgraduate	6,100 (14.5%)	5.6
Post-secondary	4,100 (9.8%)	2.9
Matriculation (F.6 – F.7)	2,500 (5.9%)	7.1
Secondary (F.1 – F.5)	18,900 (45.0%)	46.6
Primary & below	10,400 (24.8%)	37.8
	42,000 (100.0%)	100.0

* The percentages for the population are 1986 figures from the 1986 Census.
Source: Government Secretariat, *General Household Survey 1989, 1986 By-Census Main Report*.

4.3 Effects on Economy

The large outflow of these highly skilled workers has a serious impact on the economy for the following reasons (Kwong, Liu, and Tang, 1989).

a. Efficiency Loss

The highly skilled emigrants contribute to the economy by providing professional and managerial services. These services cannot be easily substituted by capital investments or automation. Businesses and professions hit by the wave of emigration try to cope with the problem by promoting junior staff to take up the positions vacated by the departing emigrants. In many instances, the junior staff have neither the training nor the experience for the higher positions of responsibility but they have to be promoted anyway because of the critical shortage caused by emigration. The quality of service and operational efficiency suffer as a result. This has an adverse effect on Hong Kong's competitiveness in the international market and the growth of its economy as a whole.

b. Productivity of Subordinates

Besides the direct loss in efficiency caused by the departure of senior and experienced staff, there is also an indirect loss. Professionals, administrators and managers play a leading role in business and public organisations. They usually have under their supervision a number of services, sales, clerical or production workers. Their supervisory functions are complementary to the productive activities of their subordinates. When they leave Hong Kong, the productivity of their subordinates who remain will be affected. The economy will suffer an indirect loss of output.

c. Loss of Human Capital

Emigrants are better educated than the population in general. Besides having a high level of educational attainment, they have also acquired special skills through professional training and on-the-job training over many years after completing formal education. Their departure represents a massive loss of human capital to the economy, the replacement of which will be very costly in terms of both resources and time. It has been estimated that due to the departure of emigrants who are degree holders, not taking into account the loss to society in on-the-job training, the cumulative loss in human capital from 1987 to 1989 is equivalent to about

74,400 years of university training (Kwong, 1990).

d. Outflow of Capital

Not only do emigrants carry with them their human capital when they depart, they also transfer their wealth overseas. Business migrants, in particular, will remit substantial amounts to the destination countries to qualify for immigration. For instance, each business migrant family destined for Australia is expected to transfer a minimum of 3 million Hong Kong dollars for the purpose of investment and resettlement. Emigrants who qualify under independent or family reunion categories must also bring enough funds with them to resettle in the destination countries. It has been estimated that in 1990, Hong Kong emigrants and investors transferred HK\$6 billion to Australia and HK\$24 billion to Canada.⁶

These are the main macro impacts of emigration on the economy. There are other effects on more specific sectors. For instance, consumption will be adversely affected as potential emigrants save for their emigration and as middle-to-upper income families leave Hong Kong; property prices may also be affected by reduced demand for housing, etc.

In contrast to all these negative effects, there is at least one positive aspect of emigration. Emigration internationalises Hong Kong's linkages with countries like Canada, U.S.A., Australia, United Kingdom and New Zealand. Emigrants usually maintain their contacts with Hong Kong. Through family and kinship ties, emigrants establish a global network of Hong Kong Chinese communities through which they do business with each other and with their old ties in Hong Kong. In the long term Hong Kong may benefit economically from this network. The rising number of expatriates who take the place of emigrating professionals, as well as the rising inflow of foreign capital to fill the vacuum left behind by emigrating capitalists, also make Hong Kong increasingly an international city. This could make it more likely for the Sino-British Joint Declaration to be observed.

4.4 *Response to the Brain Drain Problem*

The crux of this brain drain problem is a lack of confidence in the future

of Hong Kong. Confidence takes time to build up but can be shattered overnight by a political upheaval like the crackdown in Beijing in June 1989. Although the confidence of the Hong Kong people depends crucially on political developments in China, the course of which is outside their control, a display of good will and understanding between the Hong Kong Government and the Chinese Government during the transition towards 1997 will help to allay the community's worst fears. Unfortunately the Hong Kong-China relationship has been damaged in the aftermath of the June 4 crackdown and much work needs to be done to re-establish trust and co-operation. In the final analysis, the confidence of the Hong Kong people will see-saw with political swings in China and there is not much one can do in Hong Kong in this regard.

There is, nevertheless, a number of stop-gap measures that the Hong Kong Government, the private sector and the international community can use to cope with the brain drain. These measures centre on retention, return migration, replacement and retraining.

a. Retention

Some of the manpower will be retained if individuals are given "political insurance" through arranged immigration schemes. Under these schemes, Hong Kong people, without having to leave Hong Kong, secure the right to enter and reside in another country at some future time, either without a deadline or with a very liberal time limit. There are now a number of these schemes; some of them are designed at the request of Hong Kong Government while others are organised independently by other countries. The most important scheme is the U.K. nationality package which plans to provide full British passports to 50,000 heads of households (up to 225,000 people) without requiring the beneficiaries to reside in the United Kingdom. France has offered passports to about 100 employees of French companies in Hong Kong without residence requirement. Under two schemes, one for professionals and the other which will benefit 25,000 household heads who are technicians, Singapore offers Hong Kong applicants permanent residence which they can take up within five years, or ten years upon extension. More recently, under the provisions of the Immigration Act of 1990, the U.S.A.

has increased Hong Kong's visa quotas from the current 5,000 to 10,000 in each of the next three years, and starting in 1994 the quota will be further raised to 20,000. In addition to those visas, 12,000 visas will be granted in each of the next three years to Hong Kong residents who are managers and executives of U.S. companies in Hong Kong. (There are about 800 American companies based in Hong Kong.) An important provision of the Act permits Hong Kong residents to use their visas any time through the year 2001. All these schemes have the combined effect of a safety net which retains manpower at least in the short term since they provide qualified individuals with insurance policies. They are assured they can leave at any time and that makes immediate departure unnecessary.

b. Return Migration

Hong Kong Government tries to lure emigrants who have fulfilled the residence requirements of the destination countries to return to Hong Kong. Up-to-date information on the situation and job opportunities in Hong Kong is disseminated to overseas Hong Kong Chinese in cities with large migrant communities through overseas offices of the Hong Kong Government, advertising campaigns, and visits and presentations by government officials. In order to ease the problem of re-entry of emigrants with regard to educational opportunities for their children, the Government welcomes proposals to establish more international schools in Hong Kong which, besides serving the expatriate community, will also serve the educational needs of the children of returning emigrants who have been abroad for a number of years. The recently implemented Direct Subsidy Scheme will benefit for the first time students of international schools by subsidising their school fees; this also helps to reduce the educational costs of returning emigrants.

As for the private sector, some large companies have made arrangements for their staff to gain foreign passports overseas and then return to Hong Kong to work. They send their key personnel overseas to work in subsidiaries to qualify them for residence in the destination countries before transferring them back to Hong Kong.

Some companies moved the operation of an entire department to a destination country so that staff of the department could all qualify for residence without leaving the organisation. Notable examples are Cathay Pacific and the Royal Hong Kong Jockey Club which moved their computer departments to Australia to have their software developed in Australia while their computer analysts complete the residence requirement for Australian citizenship. These measures, of course, are possible only for large companies with international connections.

There are no reliable statistics on the number of returnees because they can re-enter Hong Kong using Hong Kong identity cards without having to show the foreign passports they have acquired. The Government estimates that about 10-15 per cent of those who emigrated in the early 1980s have returned.⁷ This percentage has been disputed as too optimistic. However, it is expected that the number, if not the percentage, of returnees will increase over the next few years. Emigrants who departed in the upswing of the emigration wave in the late 1980s will have satisfied citizenship requirements of the destination countries over the next few years and those who intend to return will be coming back. In the near term the return flow is also likely to be larger as a result of the recession in all the major destination countries, i.e., the U.S.A., Canada and Australia.

c. Replacement

A disproportionately large fraction of the emigrants are degree holders. Only 5.6 per cent of the population have degree-level educational attainment in contrast to 14.5 per cent among emigrants. In order to replace those who leave and in anticipation of a slowdown in the return of Hong Kong students who have completed their studies abroad, the Government plans to increase the provision of first-degree places in local tertiary institutions by more than doubling the first year intake from 7,000 to 15,000 a year by 1995. The projected numbers of new first-degree graduates are as follows:

1987	3,000
1991	5,900
1996	17,000

The expansion of tertiary educational opportunities is, by any standard, rapid.

Besides increasing the production of graduates, the Government has also relaxed its restrictions on the importation of skilled and experienced workers to fill manpower gaps as discussed earlier. As well, it has begun to issue employment visas to nationals of mainland China who have been overseas for at least two years. The private sector has also responded to the shortage caused by emigration by employing more expatriates from overseas.

d. Retraining

The last but not the least, retraining and upgrading of existing staff to take up the positions of those who emigrate are an important strategy. In fact, a survey of the Institute of Personnel Management in 1990 indicates this is the most common method companies use to cope with the situation. The second most commonly used method is to raise salary and improve benefits to retain employees, followed by employment of returnees.

Section V: Inflow of Labour through Immigration

The major source of immigrants to Hong Kong has always been China. As we have mentioned earlier, throughout the history of Hong Kong, there have been waves of migration from China, the most recent one being in 1978-80. Since the abolition of the “reach-base” policy in 1980, illegal immigration has been largely contained. Beginning in 1983, the Hong Kong Government further tightened its control on migration from China. Hitherto holders of two-way permits issued by mainland Chinese authorities who could return to China on those documents were allowed to take up residence in Hong Kong upon entry. In 1983 this policy was changed so that only holders of one-way permits who were officially approved to emigrate by Chinese authorities were allowed to enter Hong

Kong to take up residence. About 75 were daily admitted at the border on a first-come-first-serve basis. What is unique about this immigration arrangement is that Hong Kong has no control over whom to admit for residence. Because Hong Kong is not recognized as a sovereign state by China, Hong Kong cannot screen and select applicants for immigration from China as most countries do. The selection and approval for issuing one-way permits are entirely the business of China. Hong Kong just admits whoever holds the one-way permit, subject to a daily quota of 75.

Since Hong Kong has no control over the composition of immigrants from China, it is important to analyse the characteristics of these immigrants in order to assess the contribution of immigration to the labour force in Hong Kong. The 1986 By-Census contained information on recent immigrants from China who had arrived in Hong Kong within the previous five years. These immigrants arrived after the abolition of the “reach-base” policy and for all practical purposes were legal immigrants. The number of illegal immigrants who responded to the By-Census survey in 1986 was probably negligible.

5.1 Sex, Age and Education

In comparison to local residents who comprise both the native-born and immigrants who had been in Hong Kong for more than five years, there was a higher percentage of females among recent Chinese immigrants (54.8% vs. 48.5%, see Table 14). There was also a higher percentage of school-age children than the local residents. 21.9 per cent of recent immigrants were in the age group 0-14 in comparison with 18.3 per cent for the local residents. The percentage beyond the age of 60 (retirement age) was, however, smaller (6.3% vs. 9.3%). The educational background of the recent immigrants and the local residents were rather similar. The percentages with no schooling, primary and secondary education were about the same. A higher percentage of the local residents had post-secondary education mainly because it is a unique feature of the Hong Kong educational system. If we combine the categories of post-secondary and university, the percentages for local residents and for recent immigrants were about the same.

Table 14: Sex and Age of Recent Immigrants and Local Residents, 1986 (%)

	Recent Immigrants	Local Resident
Sex		
Male	45.2	51.5
Female	54.8	48.5
Age		
0 – 9	9.9	10.3
10 – 14	12.0	8.0
15 – 19	9.5	7.1
20 – 24	8.8	10.5
25 – 29	11.5	15.2
30 – 34	11.4	13.4
35 – 39	10.5	9.5
40 – 44	6.8	4.7
45 – 49	6.3	4.4
50 – 54	4.3	4.0
55 – 59	2.9	3.5
60 – 64	2.4	3.0
65 – 69	1.6	2.4
70 or above	2.4	3.9
Total	100.0	100.0
Education		
No schooling/Kindergarten	11.8	12.2
Primary	36.9	35.9
Secondary	44.2	44.4
Post-secondary	1.9	4.1
University	5.3	3.4

Source: 1986 By-Census.

5.2 Employment and Labour Force Participation

The labour force participation of female immigrants was slightly lower than that of the female local residents but the participation of male immigrants was substantially higher (60.7% vs. 49.5%, see Table 15).

Table 15: Labour Force Participation (%)

	Recent Immigrants	Local Residents
Labour force participation		
Overall	55.6	56.3
Male	60.7	49.5
Female	41.5	43.0
Economically inactive		
Overall	44.4	43.7
Male	39.3	50.5
Female	58.5	57.0

Source: 1986 By-Census.

The higher participation rate among male immigrants is typical of most migrant communities as immigrants usually have to work to support themselves and their families in the destination countries. In fact they tend to work longer hours at lower pay. Because the immigrant pool in Hong Kong was predominantly female, the overall participation rate turned out to be slightly lower than that of the local residents.

Table 16: Activity Status (%)

	Recent Immigrants	Local Residents
Outworker	0.9	1.2
Employee-government	0.9	4.9
Employee-private	48.1	41.7
Self-employed: hawker	0.5	0.9
Self-employed: others	1.2	2.2
Employer	0.6	2.4
Unemployed	3.4	3.1
Home-maker/Housewife	11.3	12.9
Full-time student	26.1	23.3
Retired	3.3	4.8
Others	3.7	2.8
Total	100.0	100.0

Source: 1986 By-Census.

Compared to the local residents, immigrants were more likely to be employed in the private sector and less likely to be an employer or to be self-employed (Table 16).

5.3 Industry and Occupation

Immigrants were heavily concentrated in the manufacturing industries. Due to a lack of skills (language, social and technical), relative to local residents, they were seldom employed in retail, service and finance industries (Table 17).

Table 17: Employment by Industry (%)

	Recent Immigrants	Local Residents
Agriculture, fishing, mining, quarrying	1.2	0.6
Manufacturing	61.6	36.4
Electricity, gas, water	0.2	0.8
Construction	4.0	6.6
Wholesale, retail, hotel	20.8	21.8
Transport, storage, communication	2.6	8.2
Finance, insurance, business service	1.8	6.6
Services	7.9	19.1
Total	100.0	100.0

Source: 1986 By-Census.

Most of the immigrants were employed as production workers. Compared with the local residents, only a small percentage held professional, technical or managerial jobs (Table 18).

It should be clear from the comparisons that as a source of labour, immigration is mainly beneficial to the manufacturing industries as most recent immigrants become production workers in these industries. Male immigrants have a much higher labour force participation rate than local residents. Thus admitting more male immigrants from China will have a greater impact in alleviating the labour shortage situation.

Table 18: Occupational Distribution

	Recent Immigrants (%)	Local Residents (%)
Professional, technical, administrative & managerial worker	6.6	13.9
Clerical & related worker	5.8	15.1
Sales worker	7.0	11.2
Service worker	15.8	16.3
Agricultural, animal husbandry worker & fisherman	1.3	0.6
Production & related worker	63.4	42.9
Total	100.0	100.0

Source: 1986 By-Census.

A discussion on immigration in Hong Kong is not complete unless the issue of illegal immigration is dealt with. When the Hong Kong Government abolished the "reach-base" policy, it strengthened the border patrol and required Hong Kong residents to carry identity cards which must be produced for inspection upon demand by policemen. Illegal immigrants may be arrested upon entry or in the urban areas if they evade arrest at the border (evaders). Arrested illegal immigrants are repatriated to China as soon as possible. The influx of illegal immigrants was reduced by these policies but not stopped entirely.

There is only information on the number of illegal immigrants arrested each year. In recent years it fluctuated in the range of 15,000-28,000. No statistics on the number of illegal immigrants who evade arrest and who are in hiding are available. The indication is that the number is substantial and possibly larger than the number arrested. There are also no data on how many of the illegal immigrants are in the labour force. We only know that over 50 per cent of the illegal immigrants arrested in the urban areas are working in construction sites or restaurants. When they work, they receive wages lower than those of the local residents in the same jobs. While data are not available, it is fair to say that the contribution of the illegal immigrants to the labour force is not negligible.

Section VI: Issues and Policy Evaluation

The critical issue in the labour market that Hong Kong now faces is one of general shortage coupled with an acute shortage in specific job categories such as accountants, nurses, etc. The general shortage is caused by a declining fertility, a falling labour force participation rates, the accelerating outflow of emigrants and the slowdown in the inflow of immigrants. The acute shortage in specific categories, on the other hand, is largely the result of the massive outflow of emigrants of particular occupations with skills demanded by the destination countries.

The economy of Hong Kong is going through the longest period of slowdown since 1966 when GDP statistics became available. The growth rates for 1989 and 1990 were 2.3 per cent and 2.4 per cent respectively. The forecast for 1991 is 3.5 per cent. If this forecast is not far off the mark, this will be the first time in Hong Kong since data are available that the GDP growth rate falls below 4 per cent for three years in a row. In all previous slowdowns or recessions, the period of slow growth never extended beyond two years. What is peculiar about the present extended period of slowdown is that the unemployment rate has dropped to a record low and has hovered well below 2 per cent for a number of years (1987-present). This suggests that if the economy of Hong Kong recovers, the unemployment rate may fall even further and the labour shortage will become even more acute.

The shortage of labour will impose a constraint on how fast the economy can grow. In order to maintain the trend growth rate in Hong Kong, capacity constraints caused by the labour shortage must be relaxed. If this problem is not addressed, Hong Kong will no longer be able to continue to grow at the high rates which it experienced in the last two decades. Instead Hong Kong will settle into a prolonged period of slower growth in the 1990s.

Another serious macroeconomics problem caused by the persistent labour shortage is inflation. Despite the fact that the economy has slowed down for three years in a row, the inflation rate remains stubbornly high at the double digit level (Table 19).

Table 19: GDP Growth and Inflation (%)

Year	GDP Growth Rate	Inflation Rate	
		CPI (A)	Hang Seng CPI
1976	17.10	3.41	4.20
1977	12.50	5.85	5.17
1978	9.49	5.95	5.64
1979	11.67	11.63	12.52
1980	10.87	15.51	14.83
1981	9.41	15.37	14.40
1982	3.02	9.32	12.71
1983	6.50	9.98	10.29
1984	9.48	8.13	9.09
1985	-0.11	3.15	5.35
1986	11.89	2.80	3.95
1987	13.94	5.65	6.80
1988	7.19	7.48	8.72
1989	2.30	10.06	10.95
1990	2.40	9.80	11.20

Source: *Hong Kong Annual Digest of Statistics*.

As is apparent from the table, Hong Kong is presently going through a period of stagflation caused mainly by labour supply constraints. The labour shortage bids up wages and raises costs to producers. This is aggravated by persistent supply shocks caused by emigration. The outcome is rather peculiar, we have high inflation, slow growth but over full employment. This can only be the result of the very slow expansion of the labour force which cannot cope with the labour demand even at such a low rate of growth.

It is sometimes argued that the Government should not intervene in the labour market and that it should allow the economy to seek its equilibrium growth rate with stable prices. The economy of Hong Kong, proponents of this argument point out, has always been flexible in adapting to changes. The argument that the economy will adapt under the market mechanism is valid, but this does not imply that an autarchic

labour market is necessarily in the best interest of Hong Kong or that of its neighbours. The excellent infrastructure and rich capital endowment of Hong Kong mean that imported labour can be many times more productive than labour tied to its homeland. Constrained by the labour supply bottleneck, the Hong Kong economy would adjust and settle into a long period of low growth and high inflation.

Among arguments against the Government actively seeking to expand the labour supply, one reason is that expanding the labour supply will only discourage producers from investing in labour-saving technology and thus will hinder the restructuring of the economy of Hong Kong towards more capital-intensive production. This argument is flawed in that it ignores the vast pool of cheap labour across the border in China, which is readily available to manufacturers who adopt outward processing. The attractive alternative of outward processing must have discouraged labour-saving investment even before the Government decided to import labour in 1989. In any case “industrial restructuring” should mean the economy responding to changes in the market, capitalizing on its emerging comparative advantages, *not* restructuring for its own sake.

Another argument against increasing labour supply is based on equity considerations. It is argued that workers who are close substitutes to the imported workers become worse off because imported workers take away job opportunities and depress wages. The experience of the 1978-80 period shows that wages could indeed fall despite strong economic growth if there is a large influx of immigrants boosting the labour supply. While there are merits to this argument, it should be noted that workers who are competing with low-cost labour in China and elsewhere cannot expect much real wage increase any way. Moreover, a widespread labour shortage could backfire not only because of intensified outward processing, but also because the economy could stagnate and suffer high inflation.

In any case the macroeconomics objectives of moderate growth at low rate of inflation should be overriding. This means that the Hong Kong Government must intervene to address the problem of slow growth of the labour force. Three policies are possible: importing labour, slowing down emigration and increasing immigration. Of the three, the Government has in fact no effective means of slowing down the outflow

of emigrants as we have discussed earlier. Our discussion, therefore, will focus on the other two policies.

6.1 Foreign-worker-levy Scheme

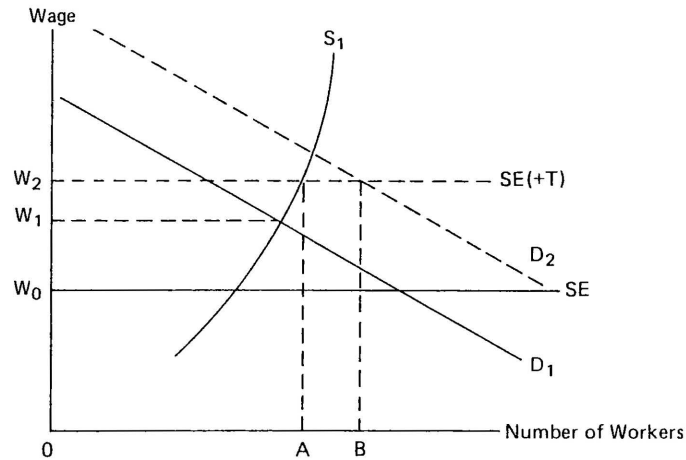
The current policy of importing labour with quotas and minimum wages is highly unsatisfactory for several reasons. First, it requires much bureaucratic support. The quotas need to be revised regularly according to changes in economic conditions, and the authorities have to oversee employers' compliance with the minimum wages. Secondly, notwithstanding good intentions, the determination of quotas for the different categories of labour will inevitably be arbitrary, unlikely to correspond closely to the actual requirements of the economy. Thirdly, requiring employers of imported workers to pay wages at or above the median wage for each labour category ignores the likely lower productivity of imported workers. The result would be a low take-up rate for the available quotas. The low take-up rate witnessed in the latest labour importation effort probably reflects this more than it reflects the economic slowdown. On the other hand, there are good reasons for Hong Kong to opt for a foreign-worker-levy scheme as currently adopted in Singapore, where an estimated 200,000 foreign workers are employed in the manufacturing and construction industries. In August 1990 Singapore relaxed its labour importation policy to admit service workers.

The main advantage of a foreign-worker-levy scheme is that, provided the levy is right, there is no need to make a discretionary decision about labour importation, nor a distinction between skilled worker and unskilled worker in a labour importation programme. There is also no need to restrict artificially the number of foreign workers hired by any firm. The market will decide when and how much labour is to be imported, while the interest of local workers can also be adequately protected. Indeed it may even be enhanced.

Let D_1 and S_1 in Figure 1 be the existing demand curve and supply curve for labour. In the absence of any importation of labour the wage rate is W_1 . Suppose SE is the supply curve of foreign workers. It is assumed to be a horizontal line, implying that at wage W_0 an unlimited supply of foreign workers is available. Evidently, if the government

allows labour to be imported unconditionally, local wages will fall to W_0 , adversely affecting the welfare of local workers. However, if a foreign-worker-levy is imposed, SE will be shifted up to $SE(+T)$. This means that the cost of hiring a foreign worker becomes W_2 , which is even higher than W_1 . Provided this is the case local workers need not worry about suffering a decline in wages.

Figure 1



It may be questioned why under such a heavy “head tax,” employers may still hire foreign workers. The answer to this paradoxical question is that the inelasticity of local labour supply has discouraged investment, thus keeping the labour demand at a low level (such as at D_1). If labour importation is permitted, then even though the gross cost of hiring foreign workers is W_2 , employers nevertheless are assured of an adequate labour supply and are therefore more interested in investment. With high investment, demand for labour shifts to D_2 . Local wage rate rises to W_2 . The employment of local workers rises to OA while the employment of foreign workers is AB .

Under such a scheme it is not necessary to distinguish between

skilled and unskilled worker. In general, all workers impose the same burden on the infrastructure of the economy. The “external cost” on society is the same. Moreover, because unskilled workers are paid a lower wage, a uniform levy implies that proportionately they are taxed more highly. There is thus a built-in mechanism to discourage importing labour of low social value. On the other hand, with the economic development of Hong Kong local workers have become highly skilled. Unskilled workers may well be the most lacking. Given the high land cost of Hong Kong, low-value-added industries relying on labour-intensive operations by unskilled workers can hardly survive. There is therefore no need to fear that allowing the importation of labour will slow down the industrial transformation of Hong Kong. On the contrary, some importation of unskilled workers may provide support to both our technology-intensive industries as well as our rapidly growing service industries.

6.2 Increase in Immigration Intake

Another major policy which Government could adopt to address the problem is to expand the intake of immigrants from China. The present intake of 75 a day falls far short of replacing the emigrants in number, let alone in quality. Just to replace the emigrants in number, the intake has to be more than doubled.

One major hitch with this policy is that the Government has no control over the quality and composition of the intake. At present the majority of the intake are females who have a lower labour force participation rate than local female residents. The Government cannot target its immigrant intake to match Hong Kong’s manpower needs as most receiving countries do through their structured immigration programmes. This reduces the effectiveness of using immigration as a means to address the labour shortage problem. It is, therefore, important for the Hong Kong Government to negotiate with the Chinese Government the expansion of the immigration quota and the control over the composition. For instance, Hong Kong could request the Chinese Government to allow Hong Kong to screen and select immigrants from China to fill half of the expanded quota while the Chinese Government would determine who

fills the rest. Such negotiation has a better chance of success if there is a friendly, cooperative and trusting relation between the two governments which unfortunately is lacking at the moment. However, the issue is of such significance that the Hong Kong Government must convince the Chinese Government of the importance of an expanded intake of suitable immigrants for the future prosperity and stability of Hong Kong.

6.3 Policy Comparisons and Policy Mix

Let us compare the two policies of importing labour and increasing immigrant intake as measures which address the labour shortage problem. Each policy has its advantages and disadvantages. An analysis of the strengths and drawbacks of the two policies will assist in deciding on which policy to choose or whether a mix of the policies should be adopted.

The policy of importing labour has several advantages over the policy of increasing immigrant intake. First, importing labour can be specifically aimed at skills that are in short supply rather easily, unlike increasing immigrant intake. This is because Hong Kong has no control over the composition of the intake. Under labour importation, firms apply to import the workers they want. Labour importation, therefore, is quicker and more effective than enlarging immigration in addressing the labour bottlenecks that confront Hong Kong. Secondly, every person imported is an able-bodied worker who participates in the labour force to work full-time or even over-time. In contrast, not every immigrant will become a member of the labour force. Some immigrants are retired individuals. Moreover, immigrants usually bring their families. While their children will contribute to the labour force when they grow up, their spouses may not participate in the labour market at all. Hence importing labour places less strain on society's infrastructure and social services. Finally, importing labour can be adjusted more flexibly to business cycles. If the economy goes into a recession, guest workers can be first repatriated without causing unemployment among the local population. This, however, is not an important advantage in the present Hong Kong circumstances where there is full employment even in an economic downturn.

The policy of increasing immigrant intake also has several advantages over importing labour. Imported workers are typically unskilled or semi-skilled. Neither they nor their employers have any incentive to invest in training given the short-term nature of their contracts. The value added per imported worker to production is relatively small. By contrast, immigrants do invest in further training. After adjusting to Hong Kong, some of them may become highly skilled technicians and professionals while others may develop into entrepreneurs and industrialists. Indeed over the history of Hong Kong many successful industrialists and entrepreneurs were immigrants from China. In short, the value added per immigrant is potentially much larger than that of an imported worker. Secondly, even though on a short-term basis importing workers with the right skills is an effective stop-gap measure to relieve labour bottlenecks, in the long run, immigration is more flexible in addressing long-term manpower needs of the economy. This is because immigration increases the population base forever. In the long-term working members of the population will always respond to economic incentives which induce them to invest in human capital and take up specific jobs. The labour market, using wage as a signal, will match workers of a certain skill with employers who demand that skill, thus solving the manpower problem. Finally, immigrants from China readily adapt and integrate into the community whereas imported workers tend to form enclave communities of their own which could lead to social conflict, discrimination and exploitation. Immigrants have a much stronger sense of belonging to their new home countries while guest workers are sojourners. In terms of community building and identity, immigration is preferable to importing labour.

Section VII: Summary and Conclusions

We have proposed to use a human capital theory framework to look at international labour migration and have shown that it is highly relevant to the Hong Kong experience. As 1997 approaches, Hong Kong will continue to lose proportionately younger, better-educated people even though they may be earning higher incomes in Hong Kong than in

various popular destination countries. As 1997 approaches, Hong Kong will also need to offer increasingly attractive remuneration packages in order to lure expatriates and returning emigrants to work in Hong Kong. Coupled with the loss of efficiency due to adjustments required as experienced personnel are replaced by expatriates or promotees, the cost of running businesses will become higher, eroding profits and undercutting economic growth. Given Hong Kong's secular labour shortage problem, Hong Kong's economic growth seems to be severely constrained in the run-up to 1997. From a broader perspective, this is really very unsatisfactory. Because Hong Kong is blessed with so many favourable factors, including its unique location in relation to China, its rich experience as an open, export-oriented economy, its excellent infrastructure, and its reputation as a dynamic financial centre, the same labour if employed in Hong Kong can be much more productive than if it is employed elsewhere. For this reason, importing labour is economically efficient. If the imported workers cause a negative externality in the form of "congestion" in various "impure public goods," a levy reflecting that externality can be imposed, and then these workers will only be hired as long as their productivity can cover their wages and the external costs. We have also argued that admitting more immigrants into Hong Kong is in the long-term interest of Hong Kong in light of swelling emigration and the tiny rate of natural increase of the population. Again drawing on human capital theory, immigrants take a longer view than guest workers. They are more apt to invest in skills development and are potential entrepreneurs.

It is sometimes argued that the importation of labour will slow down Hong Kong's transition into an economy specialising in technology- and capital-intensive products. Abella (1990, pp. 4-5) suggested that the restructuring of the Hong Kong economy could have been more rapid in the absence of the massive immigration prior to 1982. While there is some truth to this argument, it must be remembered that massive immigration had fuelled the territory's economic growth and had enabled Hong Kong's manufacturing firms to accumulate profits and the Hong Kong government to accumulate large fiscal reserves. It was with these savings that Hong Kong built up its attractive infrastructure. Manufacturing firms have also used their retained earnings to improve their

products. Actually, industrial structuring is a gradual process, and must be built on a strong capital base — both human and non-human. Now that Hong Kong does have a strong capital base, it is attracting high-technology firms, mostly foreign, to invest in its industrial estates. In recent years, more multinational firms have chosen Hong Kong as their regional headquarters⁸ and Hong Kong is booming as an international financial centre. To the extent that wages and salaries are higher in these industries, traditional industries are finding it increasingly difficult to survive in Hong Kong. They are under pressure to set up operations in China, where both wages and land costs are much cheaper. Given the current linked exchange rate system, the importation of labour will not adversely affect the "sun-rise" industries. To adversely affect these industries the Hong Kong dollar need to rise in response to rising exports of labour-intensive goods. That is the way the law of comparative advantage works. The importation of labour, especially with a per-head levy, will only relieve investors' concern over an excessive labour turnover and provide the needed complementary input to improve further Hong Kong's infrastructure.

In conclusion, importing labour is an effective short-term solution to clear bottlenecks in the labour market. It is swift and specific in meeting the needs of employers. On the other hand, immigration expands the population base and therefore accelerates the growth of the labour force in the long run. It is an appropriate policy if an economy is beset with secular stagnation in the growth of its labour force caused by structural factors. In Hong Kong a mix of the two policies offers the best solution to the problem we now face. In the long run the labour force must grow faster. In the face of declining fertility, the most effective way of increasing population is immigration. Even over the longer run, however, a labour-importation scheme based on a per-head levy represents a flexible approach addressing short-term shortages that are bound to occur from time to time, as the economy responds to changes in world economic conditions.

Notes

1. For an excellent survey see Mueller (1982).
2. A recent survey conducted by the Hong Kong Personnel Management Association found that many immigrants in Canada originating from Hong Kong experienced very sharp income losses. Among those with an annual salary in excess of HK\$390,000, the salary cut often exceeded 50 per cent (see *Ming Pao*, April 26, 1991). While some people do experience a rise in income, "the majority were dissatisfied with both their jobs and their incomes."
3. The unemployment rate averaged 1.1 per cent in 1989.
4. 47.4 to 49.1 per cent in the 1981 to 1986 period, cf. 43.8 to 45.3 per cent in the 1977 to 1980 period.
5. The U.S. immigration policy, in contrast, is more oriented towards family reunion.
6. *Oriental Daily*, 13 June 1990 from Reuter, circa 12 June 1990.
7. The figure was given by Mike Rowse, deputy information coordinator of the Hong Kong Government. See *South China Morning Post*, 22 April, 1990.
8. According to the Industry Department, from 1985 to 1989, an average of 59 multinational firms per year set up regional headquarters in Hong Kong.

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勞動人口之跨國移徙： 香港個案之研究

何灝生 廖柏偉 林潔珍著
(中文摘要)

本文採用人力資本理論分析勞動人口自戰後以來進出香港的趨勢，發現多年來香港對經濟移民的吸引力從未間斷。即使於80年代不少港人受政治前景困擾外移，經濟移民和勞工仍不斷湧入。此趨勢一方面反映本港經濟蓬勃，一方面亦助長了本港的發展。然而，自從1980年及1983年香港收緊移民規例後，來自大陸的經濟移民大幅減少，加上人口結構的變化及移民外流，勞工短缺問題由一九八七年起日益嚴重。港府近年雖然一再放寬入口勞工政策，所採取的措施卻仍多缺陷。本文建議港府一方面對入口勞工徵收一項人頭稅，同時亦採用靈活的移民政策，作為解決勞工短缺問題的長遠對策。