

## **CHAPTER III**

### **CONCERNS AND CHALLENGES**

3.1 Chapter II examined Hong Kong's population in terms of the quantitative and qualitative aspects of our demographics. The analysis has highlighted challenges and concerns for Hong Kong. Aside from the indigenous demographic issues, there are other concerns such as our increasingly large transient population and the difficulties with which different population groups relate and interact with one another. These concerns, if not promptly addressed, will undermine the sustainability of Hong Kong's long-term social and economic developments.

#### **Quantity-related Demographic Problems**

3.2 The implications of Hong Kong's extremely low fertility have been the subject of a growing number of studies. When fertility drops well below replacement level and the mortality rate remains at a low level, the pace of population aging will naturally be very fast. This is particularly so in the case of Hong Kong as it enjoys one of the longest life expectancies in the world.

3.3 Table 3.1 and Chart 3.1 show the projections in the dependency ratio in the next three decades when the population is expected to age at a faster pace.

Table 3.1 Dependency ratio, 2002 - 2031

<u>Year</u>	<u>Child</u>	<u>Elderly</u>	<u>Overall</u>
2002	223	158	381
2006	203	162	365
2011	180	164	344
2016	178	198	376
2021	179	245	424
2026	180	313	493
2031	182	380	562

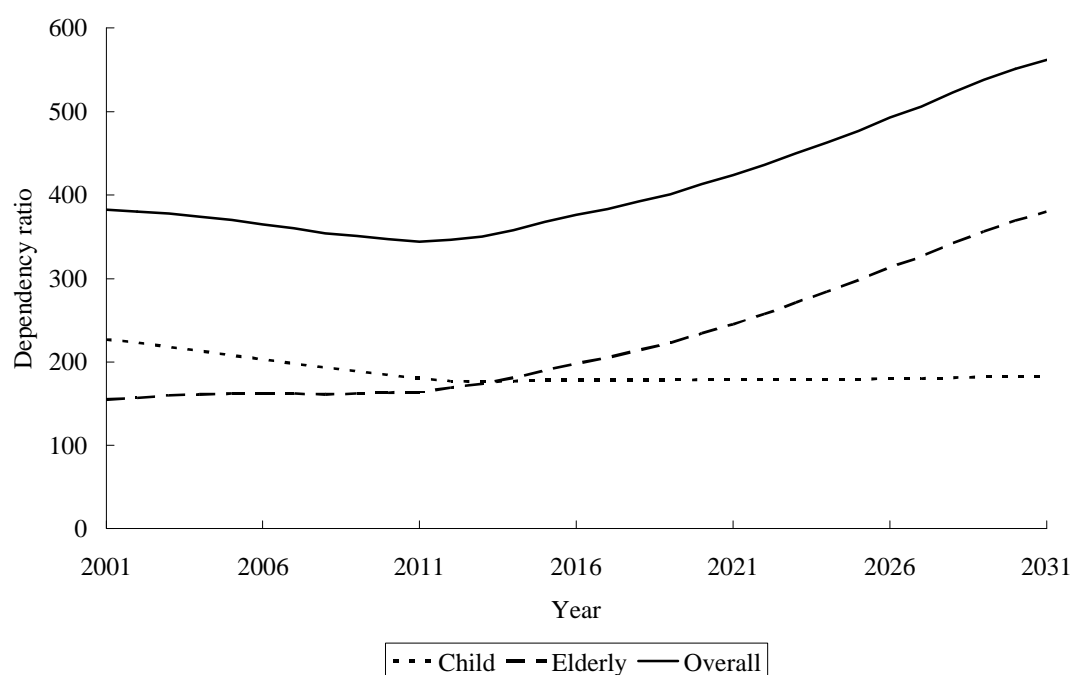
Notes: Child dependency ratio refers to the number of persons aged under 15 per 1 000 persons aged between 15 and 64.

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

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

Source: *Hong Kong Population Projections, 2002 – 2031*  
Census and Statistics Department

Chart 3.1: Dependency Ratio, 2001–2031



Source: *Hong Kong Population Projections, 2002 – 2031*  
Census and Statistics Department

The above figures show that the child dependency ratio will decline from 223 in 2002 to 182 in 2031. However, the elderly dependency ratio is expected to increase gradually from 158 in 2002 to 198 in 2016, and then rise markedly to 380 in 2031, as the post-war baby-boomers (those born in the 1950s and the early 1960s) join the “old-age” group in the latter period.

3.4 The C&SD’s population projections<sup>13</sup> show there will be more deaths than births each year from 2023 onwards. The natural increase of the population (i.e. births less deaths) will become negative. If there were no net inward migration, de-population and rapid population aging would occur. Under a hypothetical *no net inward migration* scenario test conducted by C&SD, the proportion of population aged under 15 would drop significantly from 16.4% in 2001 to 9.1% in 2031, while that of the population aged 15-64 would decline by 12 percentage points from 72% to 60% over the same period. On the other hand, the proportion of older persons (aged 65 and over) would rise significantly from 11% in 2001 to 31% in 2031. The median age of the population would thus be 51 in 2031, much higher than that of 37 in 2001 (see Table 3.2 below). Two academic studies<sup>14</sup> conducted on this subject show similar observations.

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<sup>13</sup> Based on the life expectancy at birth of 81.5 for men and 87.1 for women and a total fertility rate of 1.117 by 2023.

<sup>14</sup> Paul S.F. Yip, Joseph Lee, Beda Chan and Jade Au, “A study of demographic changes under sustained below-replacement fertility in Hong Kong SAR” in *Social Science & Medicine* 53, 2001, pp. 1003-1009 and Edward Jow-ching Tu, “Replacement migration in low fertility populations: Hong Kong and Taiwan”, presentation to Duke University seminar in 2001.

Table 3.2 Dependency Ratios computed under the Population Scenario Test in 2031

	Mid-2001 <u>population</u>	Mid-2031 population <u>projection</u>	Mid-2031 <i>no net inward migration scenario</i>
Population (in million)	6.72	8.72	6.71
Proportion of population			
Aged below 15	16.4%	11.7%	9.1%
Aged 15-64	72.4%	64.0%	60.2%
Aged 65 and over	11.2%	24.3%	30.7%
Dependency ratio:			
Child dependency ratio	227	182	151
Elderly dependency ratio	155	380	511
Overall dependency ratio	382	562	662
Median age	37	46	51

*Source : Census and Statistics Department*

3.5 These figures imply (i) an accelerated “greying” of Hong Kong: the elderly dependency ratio would start to increase now and triple from 155 to 511 over the period; and (ii) the onset in 2023 of a painful process of *de-population* that could well last longer than half a century, resulting in a smaller and older population with significantly weaker potential. The economic consequences of these long-term demographic trends or events are well known and serious.

### ***Adverse Economic Effects of Having a Large Elderly Population Group***

3.6 One serious economic problem caused by an accelerated increase in the number of elderly people in the population is social security payments. The Government is committed to providing financial assistance to elderly people in need. More than 600 000 persons aged 60 or above receive financial assistance through either the CSSA or the Old Age Allowance (OAA). This represents 61% of the

population aged 60 or above. Total Government expenditure in financial assistance for elders is estimated to be \$11.8 billion in 2002-03, accounting for 5.4% of recurrent public expenditure and representing an increase of 50% when compared to the \$7.8 billion paid out in 1997-98. The CSSA and OAA Schemes are funded entirely from General Revenue and are non-contributory. Should the rate of payment and eligibility for the OAA remain unchanged, it is estimated that by 2031, the total payment for OAA alone will rise to \$10.4 billion.<sup>15</sup> That for CSSA on elderly cases is estimated to leap-frog to \$20.8 billion.<sup>16</sup> Neither the younger generation nor the Government should shy away from shouldering the costs of taking care of our elderly population. It is a duty, but it is essential for us to look far ahead to find feasible and practical ways to address the implications of an expanding aging population.

3.7 Another serious economic problem caused by an aging population is steep increases in healthcare expenditure. A C&SD survey<sup>17</sup> reveals that 49% of the people aged 60 or over, as well as 18% of people in the 45 to 59 age group, suffer from one or more chronic diseases such as diabetes and heart disease and requiring long-term (i.e. lasting at least 6 months) medical treatment, consultation or medication. Chronic diseases are notoriously more expensive to treat. Thus, with a quickly greying population and a higher incidence of chronic diseases among older people, Hong Kong will have to devote an ever higher fraction of its Gross Domestic Product (GDP) to healthcare. This would not only bring personal hardship for individuals whose families have elderly people, but would also impose a severe fiscal burden on the

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<sup>15</sup> Normal Old Age Allowance (NOAA) is payable to Hong Kong residents aged 65 to 69 and is subject to asset and income limits, while Higher Old Age Allowance (HOAA) which is payable to those aged 70 or above is not subject to means test. The estimate of total payment in 2031 is derived based on the projected population of 65 and above in 2031 and the current ratios of elderly applying for NOAA and HOAA at about 46% and 65% respectively.

<sup>16</sup> CSSA is payable on a household basis and CSSA on grounds of old age is payable to those aged 60 and their family members meeting the income and asset tests. The estimate of total payment in 2031 is derived based on the projected population of 60 and above in 2031 and the current expenditure on CSSA old age cases at \$7.8 billion. The effect of Mandatory Provident Fund and Occupational Retirement Schemes on CSSA elderly take-up rates has not been factored in. Moreover, it should be noted that since CSSA is granted on a household basis, CSSA old age cases include a proportion of non-elderly recipients.

<sup>17</sup> C&SD, General Household Survey Special Topics Report No. 28 "Persons with disabilities and chronic diseases" August 2001.

Government, if it were to provide medical care according to existing policies.

3.8 Furthermore, this increase in resources that must be devoted to the healthcare of the elderly would be occurring at the same time as the elderly dependency ratio is increasing. The smaller number of working-age persons would directly feel the extra burden of having to contribute to the support of a relatively larger number of elderly people requiring more healthcare. Similarly, the Government would be in the difficult position of having to rely on revenue from a smaller pool of working people to fund its increasingly costly healthcare programmes.

3.9 Of course, we must accept on equity and moral grounds that in an inter-generational context, the elderly fully deserve sound medical care in their old age because they have contributed to the upbringing, education and acquisition of productive power of the entire younger generation. But we must also accept that, as society spends a higher proportion of its resources on the healthcare of an elderly population, fewer resources could be devoted to productive investment or to the younger and more productive members of society. The result would be a prolonged period of slower economic growth, frustrated expectations and declining competitiveness against other economies with a younger population.

3.10 Healthcare is only one kind of expenditure that would have to expand disproportionately with an aging population and in so doing divert resources away from use by the younger and more productive generation. Other factors being equal, such expenditure can slow economic growth. In differing degrees, the same would be true for all other kinds of expenditure.

### ***Economic Adversities Likely to Arise in a Process of De-population***

3.11 If there were *no net inward migration*, admittedly an improbable scenario, there would be a scaling down in both the overall productive capacity and the aggregate demand. Economic growth will taper down and possibly turn negative. More seriously, if

de-population occurs at the same time as our population ages, the overall productive capacity will likely contract by more than aggregate demand, thereby throwing the economy out of balance at the same time as the overall downsizing. The consequence will be a rise in dependency burden (see Table 3.2), contraction of demand, and ultimately to a general lowering of average income and living standard. There will be harder adjustment for those who are less economically productive, and those who are more dependent on support. The following paragraphs illustrate this point.

3.12 If the shrinkage in the population were fastest among very young children, demand for consumption goods and services (such as education) for such children would be the first to reduce, and some suppliers of such goods and services – a group of people of working age that by assumption has a slower rate of shrinkage – would be forced to switch their productive resources elsewhere, causing long periods of unemployment and sectoral disinvestment.

3.13 This example can easily be generalised to many other sectors of the economy. Even more damaging: where the investment resources for such markets come partially or wholly from overseas, a shrinkage in job market will bring with it a loss of jobs for local people.

3.14 With a shrinking population, the benefits of economies of scale will dwindle. This may impact on major territorial and regional infrastructure projects. On transport infrastructure, for example, larger-scale operations are able to engender lower unit cost and better system networking, both being commensurate with an expanding rather than a shrinking patronage.

3.15 For a cosmopolitan city, a greater variety of creative activities, be they for business innovation, R&D, culture, arts, entertainment and personal development, will flow more readily from a population which is large and affluent. The scale factor could better facilitate clustering and interactions, so important to creative industries and knowledge economies. A gathering of talent tends to attract even more foreign interests and talent in the respective fields to come and add to the activity mass. An opposite, adverse trend would develop with a diminishing population and community size.

## Quality-related Demographic Problems

3.16 As explained in Chapter II, the growth of our population does rely, apart from births, on immigrants the bulk of whom are admitted through the OWP Scheme. As a scheme mainly devised to facilitate family reunion, it is neither appropriate nor feasible to impose screening criteria such as educational attainment, qualifications or work experience. Thus we have very little control over the quality of our intake. Indeed, some of the new arrivals from the Mainland have done remarkably well in schools and business. Unfortunately, during the past decade or more, the average level of skill or education possessed by our new arrivals upon their admission into Hong Kong has been below that of the indigenous population and it continues to fall. While the new arrivals who have come serve the very important function of providing vital support to our economy in terms of quantity, and bring with them some quality advantages as well (such as relative youthfulness), we ought to find ways to improve their overall average quality, with a special emphasis on the level of marketable skills, through good education and training.

3.17 For school-age OWP new arrivals, education will be provided in line with our policy of offering universal nine-year compulsory subsidized schooling, so that their future educational and skill levels ought not to be a concern. As regards adult OWP new arrivals, their profile indicates that the majority have only lower secondary education or below with little work experience. A considerable number of them are housewives. For males, a higher proportion of them join the labour market in low skilled jobs, as described in Chapter II. Thus many of them do not acquire much additional human capital after settling in Hong Kong. Compared with locals, adult OWP new arrivals left to themselves would suffer a long-term labour market disadvantage. The task of training and upgrading the skills of adult new arrivals to meet the demand of our economy poses a serious challenge for Hong Kong.

3.18 Quality is also a problem for the local or indigenous population. Notwithstanding the enormous expansion of basic and higher education opportunities in the late seventies and early nineties



respectively, 48% of those aged 15 and over have an educational level of Secondary Three or below, and only 26% have attained post-Secondary Five qualifications. Although the educational attainment profile is expected to improve in the future, any setback or loss of steam will adversely affect Hong Kong's productivity.

3.19 With the advent of a knowledge-based economy, ensuring that Hong Kong's human capital can meet the changing needs of the economy is key to Hong Kong's future success. However, as described above, both our local population and new arrivals may fail to meet these challenges. Indeed, there is evidence of an increasing mismatch between job requirements and the qualifications of the workforce. In a manpower projection survey published in 2000, we predicted a surplus of over 136 000 low-skilled workers with educational attainment of lower secondary and below, and a potential unmet demand for over 110 000 workers with post-secondary and higher education by 2005. A new manpower projection survey based on results of the 2001 Population Census is being conducted.

3.20 At present, the local labour market already faces an excess supply of lower-skilled workers, which will take some time to be fully absorbed. The additional labour supply stemming from inflow of low-skilled new arrivals aggravates the situation. Local workers, particularly those at the lower end of the labour market, can thus be expected to face greater competition for jobs and pressure for lower wages. This will bring about other social and welfare ramifications.

3.21 Compared to the inflow of lower-skilled workers, the quest for skilled immigrants presents a different set of problems for Hong Kong. As the process of globalisation intensifies, and as most developed countries are moving towards a predominantly knowledge-based economy, the quest for talent and skills becomes a primary factor in determining the economic success of a place or country. Major developed countries like Canada, the United States and, increasingly, European countries, have all set out specifically to target skilled independent immigrants. These countries all have established immigration policies, which are designed to select from among the "best and brightest" of those who apply. Other countries such as Singapore, Australia and Japan are also stepping up the admission of skilled

immigrants. In the Mainland, it is known that major cities like Beijing, Shanghai, Guangzhou and Shenzhen have taken aggressive moves<sup>18</sup> to attract talent from other parts of the country and from overseas. Hong Kong faces tough competition in its quest for talent.

3.22 For Hong Kong to sustain and raise its level of income and living standards, the quality of our human capital must be able to meet evolving manpower demand as Hong Kong seeks to transform itself into a knowledge-based economy. Even though Hong Kong has adopted an open door policy towards talent and professionals from overseas, our policy on the entry of Mainland talent and professionals is still rather restrictive. The current policy stipulates that successful applicants under the Admission of Mainland Professionals Scheme are not allowed to bring in their dependants, and the scheme is restricted to applicants in the information technology and the financial services sectors. The Admission of Talents Scheme requires applicants with a good education background, to be engaged in high value-added, high-tech or knowledge intensive activities. The restrictions have been blamed for the very small number of successful admissions so far.

## **Eligibility for Subsidized Public Services**

3.23 The Government heavily subsidizes many public services in Hong Kong. These subsidized services include welfare, public health, security, judicial and legal aid services, infrastructure, environment, recreation and culture, etc. While some of them, such as housing and social security payments, require prospective applicants to meet a residence requirement,<sup>19</sup> others such as education and public

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<sup>18</sup> According to a special study by “One Country Two Systems Research Institute” on “Management of household registration, policies on admitting immigration population, and administrative measures on mobile population in major Mainland cities”, measures such as relaxed household registration schemes for talent, professionals and private enterprise owners, albeit with different requirements, have recently been put in place in these cities.

<sup>19</sup> On subsidized housing, one of the eligibility criteria for the allocation of public housing is that at the time of allocation, at least half of the family members included in the application must have lived in Hong Kong for seven years and are still living in Hong Kong. All children under the age of 18, regardless of their place of birth, will be deemed as having satisfied the seven-year residence rule provided that one of their parents has lived in Hong Kong for seven years. New arrivals are not eligible to apply for CSSA during their first year of stay unless under exceptional circumstances.

health do not. For public healthcare services, the heavily subsidized services are available not only to the general population, but also to the transient population that includes foreign domestic helpers and migrant workers and to Two Way Permit holders who are spouses or children under 11 years of age of Hong Kong Identity Card holders. Furthermore, for those services that stipulate a residence rule, the length of residence required varies from one year, in the case of CSSA, to seven years in the case of public rental housing. In sum, while people living in Hong Kong generally enjoy the same fundamental political and human rights, there is considerable discrepancy in the eligibility for various privileges among residents with different lengths of residence.

3.24 At Annex III is an analysis of the effect on public expenditure arising from the provision of CSSA to new arrivals. This example illustrates that in the case of CSSA proportionally more resources are allocated to new arrivals than to the rest of the population. In formulating a population policy for the HKSAR, we need to take the opportunity to consider critically the privileges of Hong Kong's residents in terms of their eligibility for subsidized services. We need to ensure that there is a rational basis on which our social resources are allocated, particularly in times of tight fiscal situation when available resources are increasingly limited and demand is continuously rising.

## **Family Unity and Social Integration**

3.25 Under Article 24(2)(3) of the Basic Law as interpreted by the NPCSC Interpretation dated 26 June 1999, Mainland children born to Hong Kong permanent residents have the right of abode in Hong Kong provided that at least one of their parents have obtained permanent resident status by birth or residence at the time of birth of the children. In anticipation of the implementation of the Basic Law, the daily OWP quota was increased from 105 to 150 in 1995 to facilitate the entry of these children. The remaining places are allocated to Mainland spouses and other OWP applicants with no right of abode who generally have to wait for a longer time before they can settle in Hong Kong. Currently, spouses in Guangdong have to wait for about seven to eight years.

3.26 The discrepancy in the times of arrival in Hong Kong between the CoE children and their Mainland parents often gives rise to separated families. Concern has been expressed in the community about the various problems that are believed to have resulted from this situation, problems such as inadequate parental care, economic hardship if the Hong Kong parent has to give up a job to look after the children, adverse impact on family relationship, etc. As the number of new arrivals from the Mainland continues to grow, the problem of split-families also grows. Many Legislative Council Members, academics and opinion leaders whom we approached have made the point strongly that the situation has to be properly addressed and that a proper balance has to be struck between orderly admission of new arrivals from the Mainland, both children and spouses, and upholding family unity.

3.27 Apart from new arrivals from the Mainland, there are other immigrants of non-Chinese ethnicity who have come from other places to settle in Hong Kong. They envisage their future and that of their families as being in Hong Kong. They form an integral part of the Hong Kong community and have for long made considerable contributions to the local economy. Their position is similar to that of new arrivals from the Mainland. Many non-Chinese new arrivals e.g. those from South and Southeast Asia, face the same adaptation difficulties as do ex-Mainlanders. They too are concerned about schooling for their children, training for the unskilled, employment for adults, and access to such public services as welfare, healthcare, and housing. Special programmes in collaboration with the NGOs have been developed to address their needs.

3.28 From a wider perspective, the growing proportion of immigrants born outside Hong Kong will inevitably have a profound impact on the social and economic structure of Hong Kong. While new immigrants may add to the cultural diversity of our population, it also means that joint efforts have to be made by the Government and the indigenous community to facilitate acceptance of these new immigrants and to integrate them into society. In view of our extremely low fertility rate, the wider community should better realise the value and contributions of the new immigrants in mitigating the problems of an aging or even shrinking population and helping to sustain our long-term

economic growth. It is imperative that efforts be made not only by the Government, but also by every quarter of the community, to promote closer integration of new immigrants into society, so that Hong Kong will thrive not just as an economically vibrant, but also a socially harmonious community.