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SUMMARY OF RECOMMENDATIONS

On 1 July 2002, the Chief Executive announced in his Inaugural Speech: “There is an urgent need for development of a comprehensive population policy, and we will work on this within this year. This population policy will be designed to fit Hong Kong’s long-term social and economic development, will complement family requirements, and will address the interests of different sectors in our community.”

2. Following the Chief Executive’s announcement, the Chief Secretary for Administration, who was tasked to oversee the development of the proposed population policy, set up a Task Force on Population Policy which he chaired with members from all relevant Bureaux and Departments.

3. Various policies impact directly or indirectly on the HKSAR’s demography. The immediate tasks of the Task Force focus on identifying the major challenges to Hong Kong arising from its demographic trends and characteristics, setting the objective of a population policy and recommending a set of coherent policy initiatives which the Administration can explore in the short and medium term. Population is a highly complex subject. The Task Force has worked to a very tight time schedule that does not allow it to delve deeply into some of the recommendations. The Task Force has identified the issues for more detailed examination under less time pressure.

HONG KONG’S POPULATION: CHARACTERISTICS AND TRENDS (CHAPTER II)

Our Population

4. In 2001, Hong Kong’s total fertility rate reached an extremely low level of 927 children per 1 000 women, well below the replacement level of 2 100 children per 1 000 women. At the same

time, life expectancy at birth is projected to reach 82 for men and 88 for women in 2031, one of the longest in the world.

5. Hong Kong's population is aging. A quarter of its population is expected to be aged 65 or above by 2031. More significantly, the size of the workforce will shrink as the prime working age population declines.

6. In terms of education attainment, some 52% of the population aged 15 and over had at least upper secondary school education, and some 13% had tertiary education in 2001.

Population Flow

Inflow

New Arrivals from the Mainland – the One Way Permit Scheme

7. From 1997 to 2001, new arrivals from the Mainland admitted under the One Way Permit (OWP) Scheme made up some 93% of our population growth. In the period between 1983 and 2001, a total of over 720 000 Mainland new arrivals were admitted under the scheme, which was equivalent to about 11% of the population of 6.72 million in 2001.

8. According to data provided by the Mainland authorities, the total number of applicants under the OWP Scheme was around 168 000 as at August 2002.

9. We do not have the details of these applications. An analysis of the profiles of new arrivals admitted from 1997 to 2001 shows that the majority of them were children with right of abode in Hong Kong and Mainland spouses. Among them, more were of working age (20-59) than aged 19 and below. The adult new arrivals were generally not well educated and possessed little working experience. On the other hand, they provide a steady supply to the labour force, contributing to some 30% of the annual growth from

between end-1999 and end-2001. They made up 2.1% of the total labour force in the third quarter of 2002. As far as the overall unemployment rate is concerned, there is little difference whether it is calculated with or without the unemployed new arrivals due to their relatively low number.

10. An academic study found that there were few significant differences in university attendance between native-born children and Mainlanders who came to Hong Kong before the age of nine. This suggests that the younger a Mainland child is admitted, the easier he or she will adapt to Hong Kong's education system.

Skilled Immigrants

11. Various schemes admit people from the Mainland and overseas. For the admission of foreign professionals, there are no quota or job sector restrictions. Successful applicants are allowed to bring along their dependants. Admission schemes for Mainlanders are more restrictive.

Transient Population: Foreign Domestic Helpers and Imported Workers Under the Supplementary Labour Scheme

12. Hong Kong has a significant transient population composed of imported workers employed predominantly as domestic helpers. The proportion of foreign domestic helpers (FDHs) in the total labour supply leaped from 1% in 1982 to 7% in 2001. There is no clear indication that the admission of FDHs has been affected by the economic downturn in the past few years.

13. A survey in October 2000 found that FDHs and local domestic helpers (LDHs) constituted two distinct markets in terms of supply and demand, with LDHs preferring part-time jobs and households requiring full-time domestic helpers preferring FDHs.

Outflow

Emigration

14. The number emigrating from Hong Kong per year has declined from 66 200 in 1992 to just 10 500 in 2002. The accuracy of these figures have to be treated with caution as an unknown but certainly significant number have since returned, and these Hong Kong residents can readily re-emigrate as they already have their foreign passports or permanent resident status elsewhere. However, the recent rising unemployment does not seem to have given rise to increased emigration.

15. A considerable proportion of the emigrants from Hong Kong was made up of the highly educated and the skilled.

Hong Kong Residents Moving to the Mainland

16. Another outflow is the growing number of Hong Kong residents living, working or retiring in the Mainland, particularly in the Pearl River Delta. But there is no evidence that retiring across the boundary has become a significant trend, although this may change in the future.

CONCERNS AND CHALLENGES (CHAPTER III)

Quantity-related Demographic Problems

17. When fertility drops to a particularly low level below replacement and the mortality rate remains low, the pace of population aging inevitably quickens. The overall dependency ratio is projected to rise from 381 in 2002 to 562 in 2031. The elderly dependency ratio is expected to increase gradually from 158 in 2002 to 198 in 2016, followed by a marked rise to 380 in 2031.

18. The Census & Statistics Department's population projections projected more deaths than births each year from 2023 onwards. The population would then experience negative natural increase (i.e. more deaths than births) and de-population would arise if there were *no net inward migration*. This scenario implies (a) an accelerated "greying" of Hong Kong; and (b) the onset in 2023 of a very painful process of de-population that could well last longer than half a century, resulting in a smaller and older population with significantly weaker economic potential.

Adverse Economic Effects of Having a Large Elderly Population Group

19. One serious economic problem caused by an accelerated increase in the number of elderly people in the population is social security payments. More than 600 000 persons aged 60 or above receive financial assistance through either the Comprehensive Social Security Assistance (CSSA) or the Old Age Allowance (OAA). Both schemes are funded entirely from General Revenue and non-contributory. Steep increases in healthcare expenditure form another serious economic problem caused by an aging population.

20. As society spends more resources on caring for its elderly population, fewer resources can be devoted to productive investment or to the younger members of society. The result will be a prolonged period of slower economic growth, frustrated expectations and declining competitiveness against other economies with younger populations.

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

21. The process of de-population implies certain significant, though not always obvious, losses of economic efficiency. It will also imply a drop in private and public investment in many markets. A shrinking population will make it difficult to accumulate certain kinds of high-end human capital that require a critical mass to be functional.

This will be much to the detriment of our efforts to nurture a knowledge-based economy.

Quality-related Demographic Problems

22. The growth of our population relies much on immigration, the bulk of which is admitted through the OWP Scheme. As a scheme mainly devised to facilitate family reunion, it is neither appropriate nor feasible to impose screening criteria. We have very little control over the quality of our intake. 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.

23. Notwithstanding vast expansions in basic and higher education, quality is also a problem for the local or indigenous population. 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.

24. Although Hong Kong adopts 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 restrictions have been blamed for the very small number of successful admissions so far.

Eligibility for Subsidized Public Services

25. Many public services in Hong Kong are heavily subsidized. While some require prospective applicants to meet a residence requirement, others do not. For public healthcare services, the heavily subsidized services are available not only to permanent residents, but also foreign domestic helpers, migrant workers and Two Way Permit holders who are spouses or children under 11 years of age of Hong Kong Identity Card holders. There is considerable discrepancy in the eligibility for various privileges among residents with different lengths of residence.

26. We need to ensure that there is a rational basis on which our social resources are allocated, in particular against our current austere fiscal situation when available resources are increasingly limited and demand is continuously rising.

Family Unity and Social Integration

27. The discrepancy in the arrival times in Hong Kong between the Certificate of Entitlement (CoE) children and their Mainland parents often gives rise to separated families. The situation has to be properly addressed. Similarly, many immigrants of non-Chinese ethnicity envisage their future and that of their families as being in Hong Kong. The Government will, in collaboration with NGOs, continue to identify and address their special needs.

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. 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.

POLICY OBJECTIVE (CHAPTER IV)

29. The report published by the Commission on Strategic Development in 2000 has articulated the vision of Hong Kong. It says : *“The implementation of Hong Kong’s long-term vision should also be guided by a number of overarching goals, including enhancing income and living standards for all members of society; ensuring that Hong Kong becomes the most attractive major city in Asia in which to live and work; developing a socially cohesive and stable society that recognises that the community’s diversity strengthens its cosmopolitan outlook; contributing to the modernisation of China while also supporting Hong Kong’s long-term development.”* The key objective of Hong Kong’s

population policy is to secure and nurture a population which sustains our development as a knowledge-based economy.

30. We believe that the proposed population policy should strive to improve the overall quality of our population to meet our vision of Hong Kong as a knowledge-based economy and world-class city. In this context, we should also aim to redress population aging, foster the concept of active and healthy aging, promote social integration of new arrivals, and most of all, ensure the long-term sustainability of our economic growth. We believe the achievement of these goals will lead to a steady improvement of the standard of living of our people.

31. We consider that any population policy for the HKSAR should move away from the idea that there is a simple optimum population both in terms of size and composition. It will be more useful to ensure that there is sufficient flexibility built into the future policy formulation and implementation processes for Hong Kong to respond quickly to changing demographic conditions and market situations. Further, policy interventions which seek to influence either the level or quality of population usually take effect over a long period. Any population policy cannot produce immediate effects.

POLICY RECOMMENDATIONS (CHAPTER V)

32. In the light of the concerns raised in Chapter III and within the limited time available, the Task Force has attempted to review all relevant policies which directly or indirectly impact on Hong Kong's demography and to recommend a number of policy measures to be taken in the short and medium term. Many of them are necessarily tentative, requiring much longer time for thorough research and refinement. Details of the Task Force's recommendations are summarised below.

The One Way Permit Scheme

Recommendations:

- ◆ To strictly enforce the allocation of the sub-quota for CoE children.

- ◆ To continue with the recently introduced improvement of allowing CoE children whose right of abode has been verified to choose when to leave the Mainland and settle in Hong Kong so that they can come to Hong Kong together with their Mainland parents if they so wish.
- ◆ To continue with the current practice of deploying unused places in the “long-separated spouses” category for spouses in Guangdong and their accompanying children.
- ◆ To continue with the current practice whereby the OWP issuing authorities in the Mainland take meticulous measures to verify the claims by OWP applicants and, if necessary, confirm with the SARG the validity of those parts of their claims involving Hong Kong residents on a case by case basis.
- ◆ To encourage the Mainland spouses to visit Hong Kong under the Two Way Permit Scheme, as soon as they have applied for an OWP, so that they may familiarise themselves with Hong Kong’s way of life and the living conditions of their Hong Kong families, thus helping them decide whether they wish to settle in Hong Kong.
- ◆ To propose to the Mainland authorities to change their relevant legislation in order to cancel the current entry category for inheritance under the unspecified sub-quota.
- ◆ To review the daily 150-OWP quota and the quota allocation among the three categories regularly with a view to reducing the quota at some stage when demand falls.

Training and Other Needs of New Arrivals

Recommendations:

- ◆ To continue to provide and develop appropriate programmes to address the training needs of new arrivals of different age-groups.
- ◆ To foster closer partnership between the Government and NGOs to identify and address the needs of new arrivals in Hong Kong.

Education and Manpower Policy

Recommendations:

- ◆ To continue to pursue extensive programmes to upgrade the educational attainment of our population at all levels.
- ◆ To promote and facilitate skills upgrading and life-long education.
- ◆ To adopt a strategic, responsive and co-ordinated approach to manpower planning and development to meet the changing demands of the economy.

Admission of Mainland Professionals and Talent

Recommendations:

- ◆ To align conditions of admission for Mainland professionals and talent with those coming from elsewhere as far as possible.
- ◆ To provide more flexibility and incentives to tertiary institutions to attract academics and students from the Mainland and overseas.
- ◆ To continue to improve arrangements for Mainland businessmen to visit Hong Kong for business-related purposes.
- ◆ To step up efforts to encourage Hong Kong people being educated overseas to return to live and work here.

Investment Immigrants

Recommendation:

- ◆ To extend the existing immigration policy to cater for persons who will make substantial investment (HK\$6.5 million) in Hong Kong but do not themselves run a business i.e. capital investment entrants, and to apply this extended policy initially to foreign nationals, residents of Macao SAR and Taiwan.

Policies Impacting on Childbirth

Recommendations:

- ◆ To continue with our current family planning programmes emphasising healthy, planned parenthood.
- ◆ To encourage the Family Planning Association of Hong Kong to change its name to better reflect its present scope of work.
- ◆ To consider granting the same level of tax deduction for all children irrespective of number.

Elderly Policy

Recommendations:

- ◆ To revisit and redefine the notion of retirement and old age.
- ◆ To continue to develop programmes that promote active and healthy aging.
- ◆ To develop a sustainable financial support system for the needy elderly.

Growing Transient Population: Foreign Domestic Helpers

Recommendations:

- ◆ To introduce a levy for the employment of FDHs, set at the same level (i.e. \$400 per month) as that imposed under the Supplementary Labour Scheme. The levy will be paid by employers and will apply to new contracts or renewal of contracts. The levy will be imposed under the Employees Retraining Ordinance. The Ordinance also stipulates that if the imported employees fail to arrive in Hong Kong having been granted visas or having arrived fail to complete their contracts of employment, there will be no refund of the levy paid, but the Director of

Immigration will take into account the relevant balance if a fresh application for an imported employee is submitted by the employer within four months.

- ◆ To reduce the minimum allowable wage of FDHs by \$400 on 1 April 2003.
- ◆ To step up enforcement action against abuse of the FDH system and to prevent exploitation of the workers.
- ◆ To promote employment opportunities for LDHs.

Eligibility for Public Benefits

Recommendations:

- ◆ To adopt the principle of “seven-year” residence requirement for providing social benefits heavily subsidized by public funds. To consider tightening up the eligibility criterion for CSSA so that such benefits should, from a future date, be available only to residents who comply with the seven-year residence rule (except for children under the age of 18; current residents in Hong Kong will not be affected by this rule).
- ◆ To apply the same principle in respect of public healthcare services to Two Way Permit holders and other visitors and to consider how this policy could apply and be implemented for the rest of the population.
- ◆ To review in the longer term access to subsidized benefits by residents absent from Hong Kong for a long period of time.

Portability of Benefits

Recommendations:

- ◆ To address, in the longer term, the issue of portability of public benefits taking into account the pace of our economic integration with the Pearl River Delta.
- ◆ To examine in detail the cost implications of portable benefits for the Government fiscal position and the local economy.

Need for Regular Review

Recommendation:

- ◆ To dedicate resources in the Administration to take forward the population policy and review annually the implementation of relevant decisions and programmes, with a view to publishing a report every two to three years.

CHAPTER I

INTRODUCTION

Background

1.1 Over the past century, Hong Kong's population has been shaped by large immigration and emigration flows, many of which were determined by forces or events beyond the Government's control. In recent years, the admission of new arrivals¹ from the Mainland and the increasingly large short-term population flows both ways across the boundary have serious implications for government planning. At the same time, Hong Kong is facing up to the challenges of global economic restructuring and, more recently, deflationary pressures. Low-skilled workers are finding it more difficult to secure employment in a labour market manifesting growing signs of skill mismatch. The economic downturn has also led to a fiscal deficit situation in the Government. All this is taking place against the backdrop of a very low birth rate and remarkable longevity of Hong Kong's population. People are beginning to question whether the emerging population profile of Hong Kong can sustain its economic vitality in the long term.

1.2 On 1 July 2002, the Chief Executive (CE) announced in his Inaugural Speech that "There is an urgent need for development of a comprehensive population policy, and we will work on this within this year. This population policy will be designed to fit Hong Kong's long term social and economic development, will complement family requirements, and will address the interests of different sectors in our community".

1.3 Following the CE's announcement, the Chief Secretary for Administration, who is tasked to oversee the development of the proposed population policy, has canvassed the views of political parties, opinion leaders, people from the academic and business sectors, and

¹ For the purpose of this report, new arrivals refer to immigrants who have resided in Hong Kong for less than seven years.

some social service groups and grassroots organisations. A majority of the interlocutors believe that there is an urgent need to develop a population policy for the Hong Kong Special Administrative Region (HKSAR). Such a policy should address at least the following concerns:

- ◆ our extremely low fertility rate;
- ◆ our progressively aging population, arising from low fertility and long life expectancy, which implies an increasing dependency of the non-working population on the working population, as well as a growing demand for services for older persons;
- ◆ the continuing influx of Mainland new arrivals and the resulting challenge of rising social expenditure and social integration;
- ◆ the changes in the pattern of manpower demand against supply in the transformation to a knowledge-based economy;
- ◆ the social and economic consequences of rapidly growing population flows between Hong Kong and the Mainland;
- ◆ the possible tension in the community among the local population and other immigrant population groups such as new arrivals from the Mainland, imported workers and minor ethnic groups; and
- ◆ the need to retain and attract talent and professional manpower globally to reinforce Hong Kong's role as a premier business hub in the region.

Task Force on Population Policy

1.4 To fulfil the CE's pledge of developing a population policy for the HKSAR, the Chief Secretary for Administration set up a Task

Force on Population Policy which he chaired (membership list at Annex I). Its terms of reference are :

- (a) to identify the main social and economic challenges to Hong Kong arising from the changes to the local population profile in the next 30 years;
- (b) in the light of (a) above, to highlight those policy areas or programmes which will require further study in the pursuit of a comprehensive population policy;
- (c) to recommend practical measures which may be taken in the short and medium term in order to pursue the principal objectives of the population policy;
- (d) to recommend a suitable mechanism and to map out a time-table for developing and implementing a comprehensive population policy for Hong Kong; and
- (e) to complete the exercise for the short-term measures identified under (c) by the end of 2002.

1.5 Population is a highly complex and multi-faceted subject. In order to fulfil the CE's pledge to develop the proposed policy by end-2002, the Task Force has worked to a very tight time schedule. The Central Policy Unit (CPU) conducted a series of studies in the past two years on the trends and problems of the HKSAR's population. Its report summarising the research findings was submitted to the Government and used by the Task Force as an authoritative reference.

1.6 Various Government policies impact directly or indirectly on the demography of the HKSAR. There is yet no overarching policy that is capable of calibrating the implications of these discrete policies on the population profile and ensuring that Hong Kong's population is able to sustain its long-term economic and social growth. More critically, there is no policy to address the growing population dependency burden resulting from aging. The Task Force focused on identifying the major challenges to Hong Kong arising from its population profile, setting the objective of a population policy and recommending a set of coherent policy initiatives which the

Administration may explore in response for the short and medium term. The time allowed did not permit the Task Force to delve more deeply into these initiatives.

CHAPTER II

HONG KONG'S POPULATION: CHARACTERISTICS AND TRENDS

Our Population

Population Projections

2.1 Hong Kong's population tripled during 1950-2001, increasing from 2.2 million to 6.7 million over the period. The rate of growth, however, has declined over the decades (see Table 2.1 below).

Table 2.1: Average annual growth rate of Hong Kong population

<u>Years</u>	<u>Average Annual Growth Rate (%)</u>
1951-1956	5.3
1956-1961	3.9
1961-1966	2.8
1966-1971	2.2
1971-1976	2.2
1976-1981	2.8
1981-1986	1.3
1986-1991	0.8
1991-1996	1.9 ²
1996-2001	0.9

Source: Demographic Statistics Section, Census and Statistics Department

² This figure is compiled based on the mid-1996 population estimate of 6.31 million under the extended de facto method.

2.2 According to the latest population projections ³ announced by the Census and Statistics Department (C&SD), Hong Kong's population is projected to increase from 6.72 million in 2001 to 8.72 million in 2031:

Table 2.2: Population projections

<u>Mid-year</u>	<u>Total number of persons</u>	<u>Average annual growth rate over the preceding ten years</u>
		%
2001	6,724,900	1.6
2011	7,527,700	1.1
2021	8,228,300	0.9
2031	8,721,500	0.6

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

These statistics reveal that over the past 50 years Hong Kong has undergone a demographic transition from a high-growth phase to a low-growth phase, and the growth rate is projected to remain low for the next few decades.

2.3 According to the Planning Department, the existing development areas in Hong Kong can, subject to certain constraints, physically accommodate a total population of 8.23 million as shown in the table below.

³ The projections are based on a set of assumptions on fertility, mortality and migration trends and on current policies. If there are changes to these assumptions and policies, the projections would need to be revised.

Table 2.3: Population capacity of existing development areas

	<u>Population level at 2001</u>	<u>Population capacity</u>
(a) Metro area	4.1M	4.59M
(b) Existing new towns	2.26M	3.24M
(c) Others	0.36M	0.40M
Total	6.72M	8.23M

Source: “Population Capacity of Hong Kong”, January 2003, Planning Department.

2.4 Moreover, with the potential development areas, again subject to certain limitations, we can further increase population capacity to 8.79 million.

Table 2.4: Estimated expansion in population capacity

	<u>Population capacity</u>
(a) Existing development areas	8.23M
(b) Potential development areas	0.56M
Total	8.79M

Source: “Population Capacity of Hong Kong”, January 2003, Planning Department.

2.5 Comparing the population projections in Table 2.2 with the estimated population capacities in Table 2.4, the existing population capacity of 8.23 million will not be reached until 2021. The existing and potential development areas taken together can accommodate a capacity of 8.79 million, which is sufficient to meet the projection of 8.72 million in 2031.

2.6 It must be emphasized that population capacities, suggested in paragraphs 2.3 and 2.4 above, are very broad-brush estimates which are subject to the following limitations:

- ◆ They are based on numerous assumptions such as the development potential of sites, flat size and average number of occupants per flat. Most of these variables are subject to market forces.
- ◆ They do not take into account major constraints such as transport and environmental issues, which will be considered under the HK2030 Study led by the Housing, Planning and Lands Bureau.
- ◆ Substantial investment will be required to realise the potential capacity for use and to redress the various constraints.

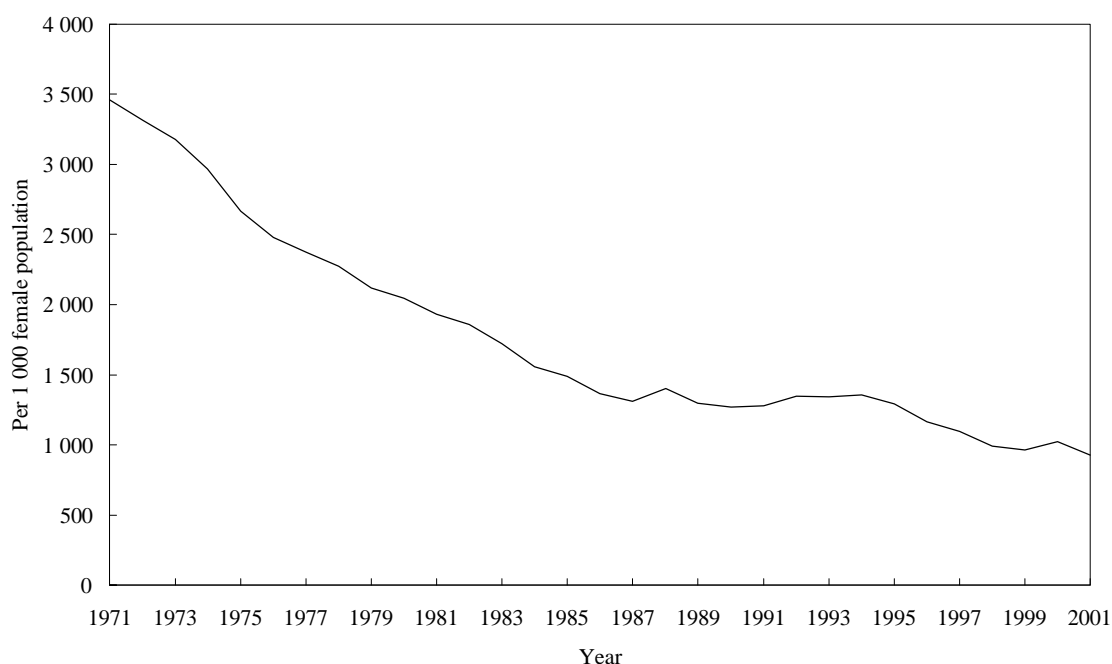
Fertility and Mortality

2.7 The total fertility rate⁴ in Hong Kong has dropped rapidly over the past three decades (see Chart 2.1 below). In 2001, it reached an extremely low level of 927 children per 1 000 women, well below the replacement level of 2 100 children per 1 000 women.⁵

⁴ The total fertility rate (TFR) refers to the average number of children that would be born alive to 1 000 women during their lifetime based on the age-specific fertility rates prevailing in a given year. In compiling the TFR for Hong Kong, all births in a year are counted, including those born in Hong Kong to women (the majority being wives of Hong Kong permanent residents) who are currently not but will in due course become members of the Hong Kong resident population. There, however, could be variant treatments of data in the computation of the TFR in dealing with such special phenomenon.

⁵ For a population to replace itself, each woman would have to produce on average a sufficient number of children. A total fertility rate of 2 100 children per 1 000 women is considered to correspond to the replacement level, allowing for factors such as sex differential at birth, mortality of infants/children and mortality of women before reaching their reproductive years. For comparison purpose, for the year 2000 countries in Asia which have TFR below replacement level include Japan (1 400), Republic of Korea (1 500), Singapore (1 500), Thailand (1 700) and China (1 800). Many European countries are in a similar situation e.g. Spain (1 100), Italy (1 200), Germany (1 300), Sweden (1 400), Switzerland (1 400), Belgium (1 500), Finland (1 600), Denmark (1 700), UK (1 700) and France (1 800). (Source: World Health Organization and United Nations Population Division)

Chart 2.1: Hong Kong's total fertility rate (1971-2001)



Source: Demographic Statistics Section, Census and Statistics Department

2.8 Academic studies⁶ have attributed the declining fertility rate to a combination of observable socio-economic phenomena including higher educational attainment of women, late marriages, higher proportion of never-married persons, and increasing female participation in the labour force. Other deep-rooted factors are also at work. For example, while increasing affluence of society from economic growth has improved the financial capacity to rear children, the modern urban life style, characterized by high pressure of work, tends to result in less time and attention being devoted to raising children. There are also living environment and other practical constraints. These factors have contributed towards a falling proportion of married women in the child-bearing age and declining fertility of married women.

2.9 At the same time, Hong Kong has been “exporting” marriages and births to the Mainland. With the flourishing social and economic links between the two places, more Hong Kong men now

⁶ ‘Barriers to Fertility’ by Paul S.F. Yip, Joseph Lee and Tai Hing Lam; and ‘The “toolbox” of public policies to impact on fertility – a global view’ by Peter McDonald of the Australian Centre for Population Research.

marry across the boundary, leading to more births attributable to Hong Kong people across the boundary. This also tends to lower the fertility rate in Hong Kong, as such births in the Mainland are not counted into Hong Kong's fertility rate. The indigenous population growth in Hong Kong is hence dampened.

2.10 There are no comprehensive or accurate statistics to reveal the extent of these marriages (or births) taking place in the Mainland. We can only deduce from the number of applications for the Certificate of Absence of Marriage Records (CAMR) obtained from the Immigration Department, but this may show only a partial picture. However, the number of successful applications for CAMRs for marriage purpose in the Mainland in 1995, 1996, 1997, 1998, 1999, 2000 and 2001, at 21 655, 23 901, 27 864, 17 729, 15 870, 15 028 and 14 847 respectively, depicts a downtrend lately. Of the CAMR applicants, some 90% were men. Statistics also indicate that while the marriage rate in Hong Kong of both men and women has declined over the last 15 years, that for women dropped by one third compared with 25% for men.

2.11 Meanwhile, the standardised death rates⁷ dropped from 7.6 per 1 000 population in 1981 to 4.9 in 2001. Life expectancy at birth in Hong Kong has thus increased considerably over the years and is one of the longest among the developed economies in the world. Our high standards of public health and the success of anti-smoking campaigns have contributed to this uptrend. For male and female residents in Hong Kong, life expectancy at birth has increased from 68 and 75 to 78 and 85 respectively in the last 30 years, and is projected to reach 82 and 88 in 2031.

2.12 Based on the demographic trends of low fertility and high life expectancy, a quarter of the population in Hong Kong in 2031 is

⁷ Crude death rate relates the number of deaths occurred during a given year to the mid-year population of that year. Differences in the age-sex composition of populations under comparison will contribute to differences to the crude death rates. To eliminate such difference in the comparison of the death rates of different populations, the age-sex composition of a standard population is chosen as a common reference. Essentially, the age-sex composition of the standard population is applied to the death rates of the corresponding age-sex groups of the populations under comparison to derive the respective "standardised death rates" of the populations. Currently, the population as at the 2001 Population Census moment is chosen as the standard population.

expected to be above the age of 65. The increase will be especially prominent for the “older” elderly, with a projected tripling of those aged 85 or over, rising from the current 67 200 to 209 000 in 2031. Table 2.5 and Chart 2.2 below show the aging trend of our population. Annex II shows the population pyramids for selected years.

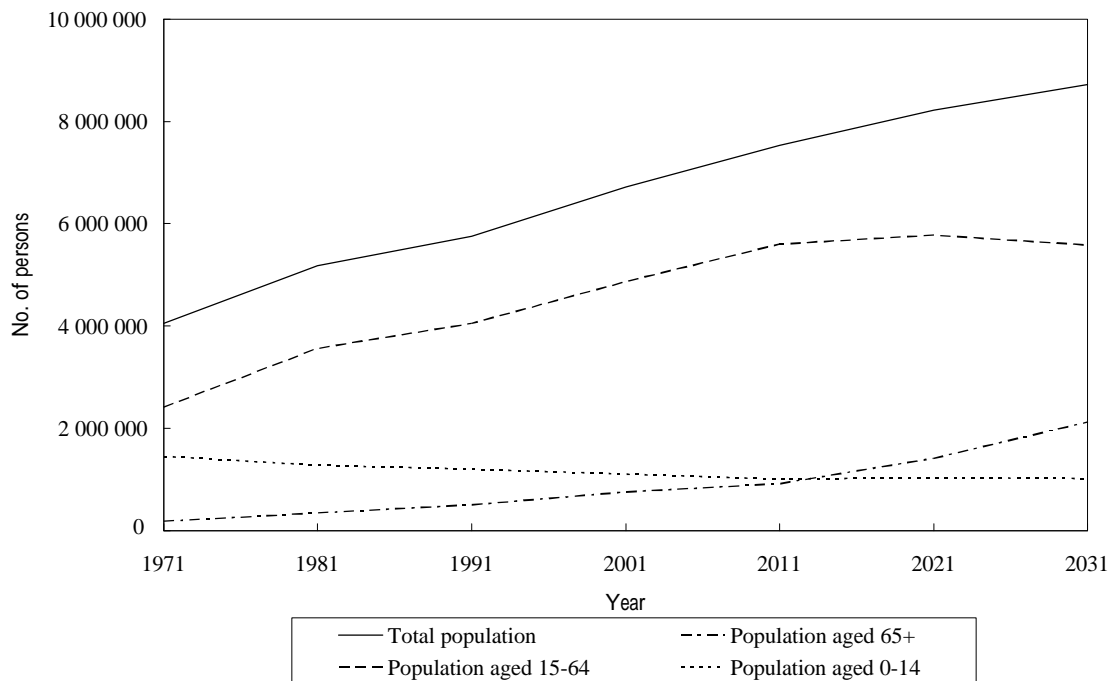
Table 2.5: Number and percentage of persons in Hong Kong by major age group

<u>Mid-year</u>	<u>Persons aged 0-14</u>		<u>Persons aged 15-64</u>		<u>Persons aged 65 & above</u>	
	<u>No. of persons</u>	<u>(%)</u>	<u>No. of persons</u>	<u>(%)</u>	<u>No. of persons</u>	<u>(%)</u>
1971	1 452 100	(35.9)	2 410 900	(59.6)	182 300	(4.5)
1981	1 277 300	(24.6)	3 561 800	(68.7)	344 300	(6.6)
1991	1 198 700	(20.8)	4 050 900	(70.4)	502 400	(8.7)
2001	1 104 100	(16.4)	4 867 200	(72.4)	753 600	(11.2)
2011	1 006 900	(13.4)	5 601 100	(74.4)	919 600	(12.2)
2021	1 036 600	(12.6)	5 777 300	(70.2)	1 414 400	(17.2)
2031	1 017 900	(11.7)	5 583 600	(64.0)	2 120 000	(24.3)

Note: Figures in brackets represent % of total population.

Sources: *Hong Kong Annual Digest of Statistics, 2002 Edition, Hong Kong Monthly Digest of Statistics, November 2002, and Hong Kong Population Projections 2002-2031, Census and Statistics Department*

Chart 2.2: Hong Kong's changing population



Sources: *Hong Kong Annual Digest of Statistics, 2002 Edition, Hong Kong Monthly Digest of Statistics, November 2002, and Hong Kong Population Projections 2002-2031, Census and Statistics Department*

Labour Force Projections

2.13 According to the latest projections, although Hong Kong's population will grow by 30% from 6.72 million in 2001 to 8.72 million in 2031, the corresponding growth in the labour force will be much slower, by only 8% from 3.43 million to 3.70 million as shown in Table 2.6, Chart 2.3 and Chart 2.4. This can be attributed to the projected increase in the proportion of elderly persons; decline in the prime working age population (aged 25-59) and decline in labour force participation in the age groups of 15-19 and 20-24 as a higher proportion of them will receive tertiary education in future. As a result, 5 million or 58% of the population in 2031 will comprise economically inactive persons, as compared to 3.3 million or 49% in 2001. Thus, using the conventional concept of dependency, 30 years from now, a much higher proportion of economically inactive people will have to be supported by the economically active population.

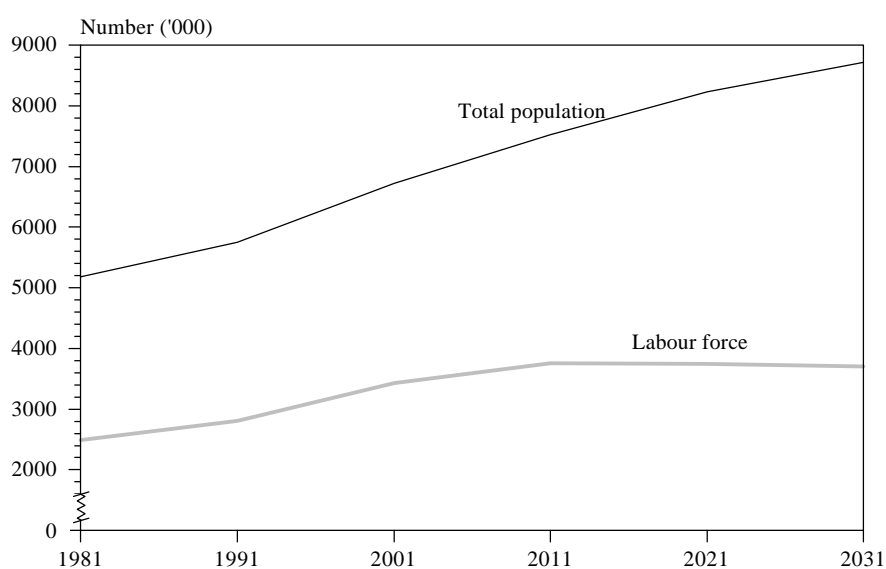
Table 2.6: Labour force projection

<u>Mid-year</u>	<u>Labour force</u>	<u>Average annual growth rate over the preceding ten years</u>
		%
2001	3 427 100	2.0
2011	3 757 200	0.9
2021	3 750 600	*
2031	3 702 200	-0.1

Note: (*) - Change of less than 0.05%.

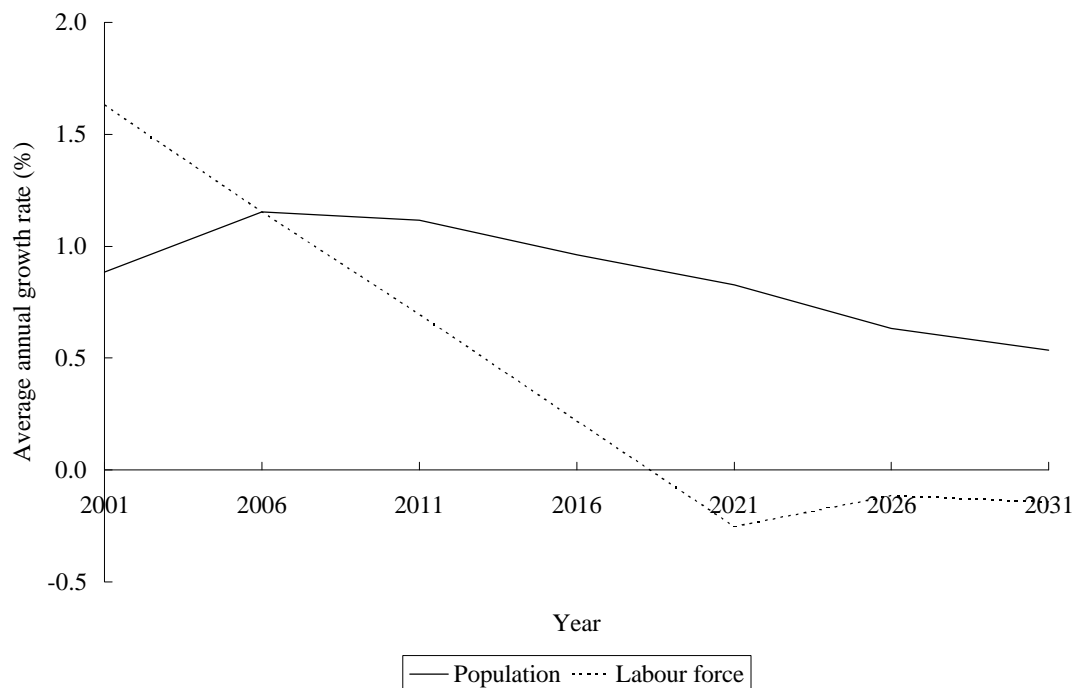
Source: *Census and Statistics Department*

Chart 2.3: Total population and labour force



Source: *Census and Statistics Department*

Chart 2.4: Growth profile of total population and labour force



Source: Census and Statistics Department

Quality of the Existing Population Stock

2.14 A key indicator of population quality is educational attainment. Over the years, there has been a continued shift in the composition of the local population towards higher education levels. The results of the population census show that, in 2001, some 52% of population aged 15 and over in Hong Kong had at least upper secondary school education, and some 13% had tertiary degree education. These much exceeded the corresponding proportions of 20% and 3% in 1971 (details are shown in Table 2.7 below).

Table 2.7: Population aged 15 and over by educational attainment
(highest level attended)

<u>Educational attainment</u>	<u>No. of persons (%)</u>			
	<u>1971</u>	<u>1981</u>	<u>1991</u>	<u>2001</u>
No schooling/ Kindergarten	574 793 (22.7)	604 623 (16.1)	557 297 (12.8)	469 939 (8.4)
Primary	1 114 464 (44.1)	1 283 393 (34.2)	1 100 599 (25.2)	1 148 273 (20.5)
Lower secondary	338 104 (13.4)	679 531 (18.1)	837 730 (19.1)	1 060 489 (18.9)
Upper secondary [^]	389 705 (15.4)	796 403 (21.2)	1 169 271 (26.7)	1 473 681 (26.3)
Matriculation*		135 556 (3.6)	214 577 (4.9)	528 090 (9.4)
Tertiary:	46 045 (1.8)			
- non-degree		123 753 (3.3)	234 912 (5.4)	209 878 (3.7)
- degree	65 615 (2.6)	125 794 (3.4)	255 979 (5.9)	708 622 (12.7)
<i>Total</i>	2 528 726 (100)	3 749 053 (100)	4 370 365 (100)	5 598 972 (100)

Notes: Figures in brackets represent % of total population.

[^] Persons who have attended the “Craft level” are included.

* Persons who have attended the “Diploma / certificate courses in Institute of Vocational Education / former polytechnics” are included.

Source: *Hong Kong Population Censuses, 1971, 1981, 1991 and 2001*
Census and Statistics Department

2.15 To meet the needs of a knowledge-based economy, the CE announced in his 2000 Policy Address that it would be the Government’s target to allow 60% of Hong Kong’s senior secondary school leavers to receive tertiary education within 10 years, as against the existing ratio of 30%. This will help improve the quality of the population in the years to come.

2.16 Population quality can also be revealed from the skill level of the workforce. The results of the population censuses also

show that skilled personnel working as administrators, managers, professionals and associate professionals rose to 32% of the total working population in 2001, distinctly up from the proportion of 23% in 1991 (details are shown in Table 2.8 below). According to the results of the “Manpower Projection to 2005”, the demand for better-educated and more skilled workers will remain strong in the coming years.

Table 2.8: Working population aged 15 and over by occupation category

<u>Occupation category</u>	<u>1991</u>		<u>1996</u>		<u>2001</u>	
	<u>Number of persons</u>	<u>% share</u>	<u>Number of persons</u>	<u>% share</u>	<u>Number of persons</u>	<u>% share</u>
Managers and administrators	249 247	9.2	369 323	12.1	349 637	10.7
Professionals	99 331	3.7	151 591	5.0	179 825	5.5
Associate professionals	279 909	10.3	369 132	12.1	498 671	15.3
Clerks	431 651	15.9	512 719	16.8	529 992	16.3
Service workers and shop sales workers	359 319	13.2	419 721	13.8	488 961	15.0
Craft and related workers	397 992	14.7	373 143	12.3	321 000	9.9
Plant and machine operators and assemblers	365 836	13.5	259 909	8.5	238 666	7.3
Elementary occupations and others	531 828	19.6	588 160	19.3	645 954	19.9
<i>Total</i>	<i>2 715 103</i>	<i>100.0</i>	<i>3 043 698</i>	<i>100.0</i>	<i>3 252 706</i>	<i>100.0</i>

*Sources: Hong Kong Population Censuses, 1991 and 2001 and Hong Kong Population By-census 1996
Census and Statistics Department*

Population Flow

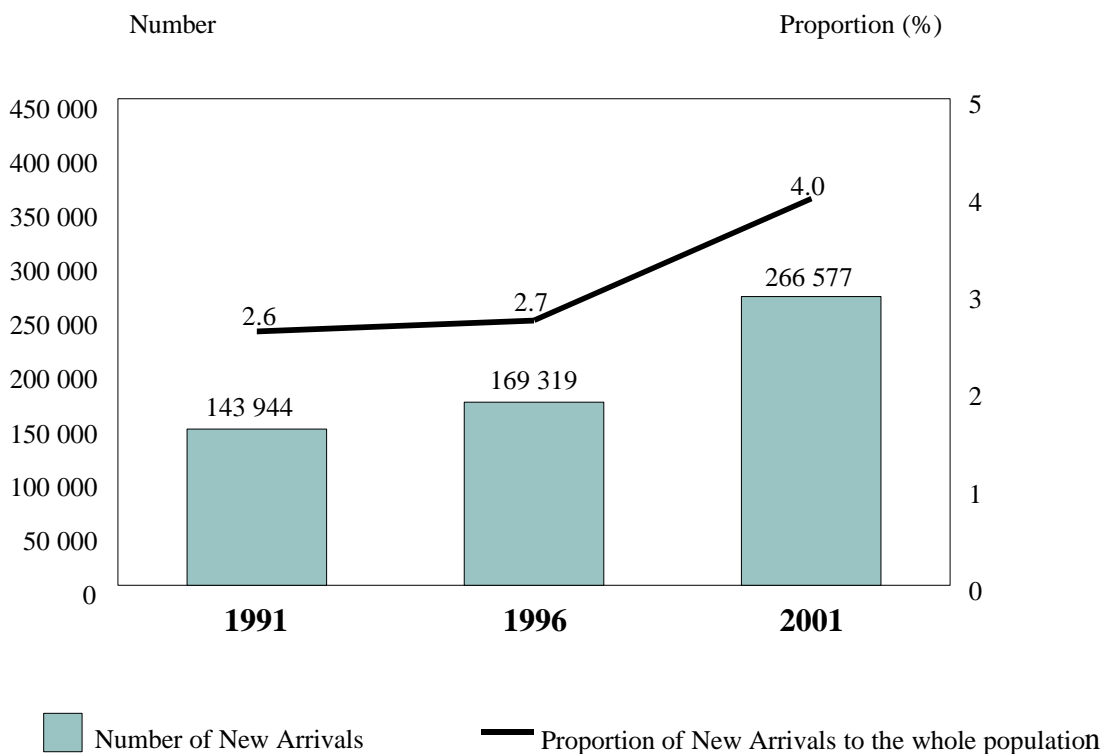
Inflow

New Arrivals from the Mainland – the One Way Permit (OWP) Scheme

2.17 The OWP Scheme has been the single most important immigration policy that shapes Hong Kong's demographic growth and composition. From 1997 to 2001, Mainland new arrivals under this Scheme were equivalent to some 93% of the population growth in Hong Kong.⁸ The OWP Scheme is a scheme devised primarily to facilitate families with immediate members (spouses and children) residing in the Mainland to be reunited in Hong Kong. OWP holders can be broadly divided into two groups: children of Hong Kong permanent residents with Certificate of Entitlement (CoE); and spouses and other dependants. The CoE children are permanent residents and have right of abode in Hong Kong. Spouses and other dependants who enter Hong Kong on OWPs are non-permanent residents but may become permanent residents after having ordinarily resided in Hong Kong for a continuous period of not less than seven years. The Scheme is operated by the Mainland authorities which govern the exit of Mainlanders to Hong Kong for settlement in accordance with Mainland laws and Article 22(4) of the Basic Law as interpreted by the National People's Congress Standing Committee (NPCSC) Interpretation dated 26 June 1999. From 1983 to 2001, there were a total of 724 259 new arrivals admitted under the OWP Scheme, which was 10.8% of the population of 6.72 million in 2001. Current policy allows some 55 000 Mainland residents to migrate to Hong Kong under the Scheme every year, i.e. 150 a day. The daily quota used to be 75 in 1982, which was subsequently increased to 105 in 1993 and further to 150 in 1995 and has remained unchanged since then. The proportion of the new arrivals in the whole population has increased steadily from 2.6% in 1991 to 4% in 2001 (Chart 2.5).

⁸ The population growth from 1997 to 2001 was 292 400, comprising natural increase (101 900) and net movement of residents (190 500). The number of births was 266 000, thus bearing a ratio of 91% to the population growth of 292 400. The inflow of One Way Permit holders was 272 100 and the corresponding ratio was 93%.

Chart 2.5: Number of New Arrivals and Proportion to the Whole Population, 1991, 1996 and 2001



*Sources : Hong Kong 1991 and 2001 Population Census,
 Hong Kong 1996 Population By-census
 Census and Statistics Department*

2.18 According to data provided by the Mainland authorities, the total number of OWP applications at August 2002 was around 168 000. Currently spouses in Guangdong have to wait seven or eight years to obtain an OWP while those in other provinces have to wait about five years. As regards CoE children, we notice from information published by the Guangdong Public Security Department that CoE children born in 2000 and 2001 were issued with OWPs to settle in Hong Kong.

2.19 With eligible children born every year through intermarriages between Hong Kong permanent residents and Mainlanders, it is likely that the OWP Scheme will continue to be a main source of population growth in Hong Kong for the foreseeable future. The socio-economic profile of OWP holders, particularly with

respect to their age and educational attainment, will have a profound impact on the quality of our population.

2.20 We have not been able to obtain detailed profiles of OWP applicants. CPU has analysed Immigration Department data on the new arrivals on OWP, at the time of arrival, from 1997 to 2001. Results of the analysis help to throw some light on the likely profile of OWP applicants in the future.

2.21 The results are summarised as follows:

- ◆ There are more new arrivals of working age (20-59) than aged 19 and below. In 1996, 48% of new arrivals were aged 19 or below. This came down to 36% in 2001;
- ◆ The sex ratio is more or less balanced among those children of Hong Kong permanent residents with CoE. Females greatly out-numbered males in the non-CoE category, the majority of them being wives of Hong Kong residents. In 2001, 65% of all OWP holders entering Hong Kong were females; and
- ◆ For those aged 20 and above, 36% had only primary education or below in 1996, but this increased to 49% in 2001, as against 31% for the Hong Kong population as a whole in 2001. The majority of persons in this age group were not working prior to coming to Hong Kong (72% in 1996 and 57% in 2001), probably because most of them were housewives of Hong Kong residents.

2.22 Based on the 2001 Population Census data, the characteristics of new arrivals who arrived in the past seven years are examined in more detail below:

- ◆ Of the total 365 999 OWP holders who arrived in the seven-year period up to March 2001, only 266 577 were still residing in Hong Kong at the time of the Census. Some 27% have left, comprising mainly women aged

30-39 and children under the age of 15. They are probably spouses and children of Hong Kong residents. Some may have chosen to move back to the Mainland for various reasons after landing in Hong Kong, while others may have emigrated to other countries.

- ◆ Of those who stayed, about 35% were children under the age of 15, 62% were 15-64 and the remaining 3% were 65 and above;
- ◆ For those aged 15 and above, only about 30% had upper secondary education or higher, which was lower than that of the 52% of the whole population aged 15 and over (Table 2.9); and
- ◆ The labour force participation rate was 44.2% compared to 61.4% of the overall population. 30.7% were service workers/retail sales workers, and 34.9% were workers in elementary occupations. The median monthly income from all employment was \$6,000, which was much lower than the \$10,000 for the overall working population.

Table 2.9: New arrivals and whole population aged 15 and over by educational attainment (highest level attended)

<u>Educational Attainment</u> (highest level attended)	<u>New arrivals aged</u> <u>15 and over</u>		<u>Whole population</u> <u>Aged 15 and over</u>	
	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
No schooling/Kindergarten	11 580	6.7	469 939	8.4
Primary	43 884	25.3	1 148 273	20.5
Lower secondary	66 431	38.4	1 060 489	18.9
Upper Secondary/Matriculation	41 438	23.9	2 001 771	35.8
Tertiary	9 879	5.7	918 500	16.4
Total	173 212	100.0	5 598 972	100.0

*Source: Hong Kong 2001 Population Census
Census and Statistics Department*

2.23 We can conclude from the above analysis that a great majority of the recent new arrivals are adults with relatively low educational attainment and relatively little working experience. Yet they have provided a steady supply to the labour force contributing to some 30%⁹ of the annual growth from 1999 to 2001.

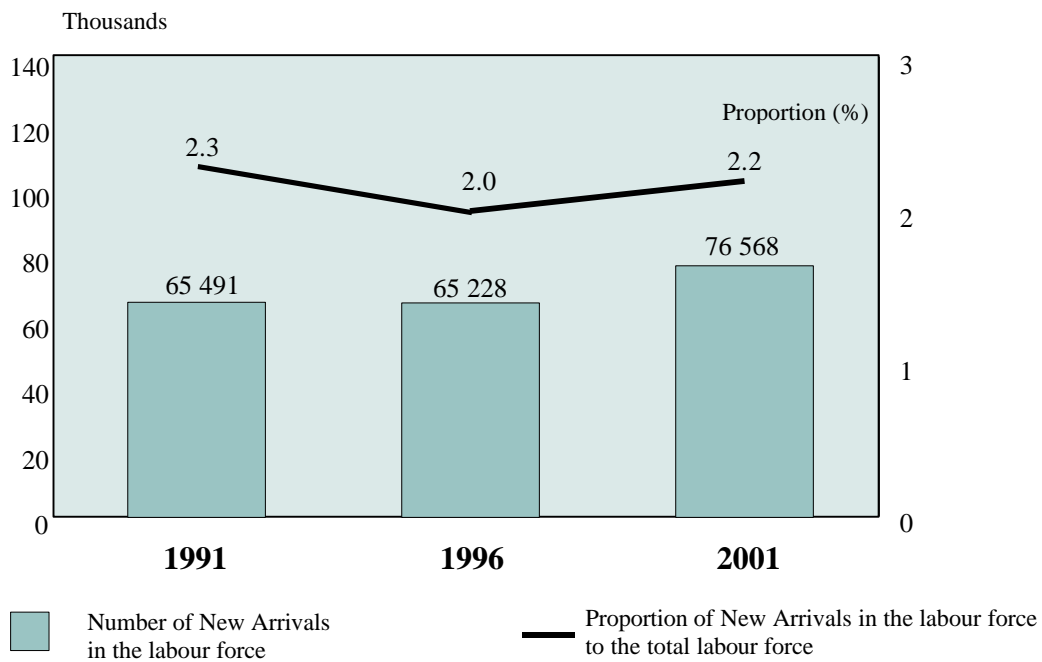
2.24 The data show that on first arrival, this lack of education and experience puts them at a disadvantage in the local labour market. The unemployment rate for new arrivals is thus disproportionately high.

2.25 A closer examination (Table 2.10) shows that the unemployment rate for those who have been in Hong Kong longer approaches that of the entire population (i.e. the unemployment rate of new arrivals decreases with their length of stay in Hong Kong). This suggests that, although the generally lower educational attainment and

⁹ The number of new arrivals entering the labour force is estimated by applying the labour force participation rates by sex in the 2001 Population Census to the new arrivals aged 15 and above coming to Hong Kong each year.

skill levels of the new arrivals tend to slow the adaptation process, with sufficient time more and more of them can be successfully integrated into the labour force. From a wider perspective, it makes little difference whether the unemployment rates were calculated with or without the unemployed new arrivals due to the small proportion of new arrivals in the total labour force (2.1% in the third quarter of 2002).

Chart 2.6: Number and Proportion of New Arrivals in Labour Force



Source: *Hong Kong 1991 and 2001 Population Censuses, Hong Kong 1996 Population By-census*
 Census and Statistics Department

Table 2.10: Unemployment rate of new arrivals by duration of residence in Hong Kong

<u>Duration of residence in Hong Kong (Years)</u>	<u>Unemployment rate* for new arrivals (%)</u>
<1	13.3
1 - <2	12.2
2 - <3	10.8
3 - <5	8.2
5 - <7	9.2
Total	10.1

Notes: Figures presented in the above table are based on small sample of observations and subject to large sampling error.

* The figures presented in the table are average of those pertaining to the 4th Quarter (Q4) 2001, Q2 2002 and Q3 2002. Figures for Q1 2002 are not available. The unemployment rate (not seasonally adjusted) for the overall population during the same period was 7.1%.

*Source: General Household Survey, 4th Quarter, 2001, 2nd Quarter and 3rd Quarter, 2002
Census and Statistics Department*

2.26 New arrivals are often found to be less choosy and more willing to accept lower wages for their jobs. Thus, the median monthly income from all employment of new arrivals with different levels of educational attainment are lower than those of the total labour force, and the gap is more noticeable for those new arrivals with higher educational attainment (Table 2.11). Also, on account of their relatively lesser education and skills and more limited local working experience, new arrivals tend to be engaged relatively more in jobs at the lower segment of the labour market.

Table 2.11: Median monthly income from all employment of working new arrivals and all working population by educational attainment (highest level attended) and sex, 2001

Educational attainment (highest level attended)	Median monthly income from all employment (\$)					
	<i>Working New arrivals</i>			<i>All working population</i>		
	<u>Male</u>	<u>Female</u>	<u>Both Sexes</u>	<u>Male</u>	<u>Female</u>	<u>Both Sexes</u>
No schooling / kindergarten	8 000	4 600	4 700	8 000	4 500	5 500
Primary	7 000	5 000	5 300	9 500	5 500	7 500
Lower secondary	7 500	5 700	6 000	10 000	6 499	9 000
Upper secondary / matriculation	8 000	6 500	7 000	12 000	9 500	10 500
Tertiary	12 000	9 500	10 000	25 000	17 000	20 000
Total	8 000	5 700	6 000	12 000	8 645	10 000

*Source: Hong Kong 2001 Population Census
Census and Statistics Department*

2.27 On the education performance of new arrivals, an academic study¹⁰ conducted on data from the population censuses has found that while children born in Hong Kong are generally more likely to attend university compared to the newly arrived children in the age 19-20 range, there are few significant differences in university attendance between native-born children and the Mainlanders who came to Hong Kong before the age of nine. It is only among the “older” Mainland children who arrived in Hong Kong after the age of nine that significant differences in university attendance exist. This suggests that the younger an OWP applicant is admitted, the easier it will be for him or her to adapt to Hong Kong’s education system.

¹⁰ David Post of the Hong Kong University of Science and Technology and the University of Pittsburgh, published in his paper “Trends in Social Selectivity in Access to Hong Kong’s Higher Education, Preliminary Results from the 1981 – 2001 Census”.

Skilled Immigrants

2.28 HKSAR welcomes talent and professionals from outside Hong Kong to work and settle here. These skilled immigrants and their dependants are non-permanent residents but may become permanent residents after having ordinarily resided in Hong Kong for a continuous period of not less than seven years. There are various admission schemes for people from the Mainland and overseas. For the admission of foreign professionals, there are no quota or job sector restrictions. Successful applicants are allowed to bring along their dependants. From 1997 to 2001, an average of about 16 700 foreign professionals have come to work in Hong Kong each year. Admission schemes for Mainlanders are much more restrictive. Since its inception in December 1999, the Admission of Talents Scheme had recorded only 256 successful applications as at 31 December 2002. The Admission of Mainland Professionals Scheme is even more restrictive. The scheme is confined to the information technology and financial services sectors and successful applicants are not allowed to bring their spouse and children. There were only 268 successful applications as at 31 December 2002 since its commencement in June 2001.

Transient Population¹¹: Foreign Domestic Helpers and Imported Workers under the Supplementary Labour Scheme

2.29 Hong Kong has a significant number of imported low-skilled workers. They have no right of abode irrespective of their length of stay in Hong Kong. They are employed predominantly as domestic helpers. Others are mainly admitted under the Supplementary Labour Scheme. The number is rather small, currently at around 1 200. As at December 2002, there was a total of 237 104 foreign domestic helpers (FDHs) in Hong Kong. The importation of FDHs in the earlier years was a response to the rapid economic development prevailing then when more local women were attracted to join the labour force. Also, it redressed a shortage of local domestic helpers. The proportion of FDHs in total labour supply leaped from

¹¹ For the purpose of this Report, transient population means migrant workers, who irrespective of their length of stay in Hong Kong, have no right of abode in the SAR.

1% in 1982 to 7% in 2001. There was no clear indication that the admission of FDHs was affected by the economic downturn in the past few years, as shown in Table 2.12 below:

Table 2.12: Total importation of foreign domestic helpers

<u>End-year</u>	<u>Total number</u>
1982	21 517
1987	36 831
1992	101 182
1997	170 971
2002	237 104

Source: Visa Control Administration Section, Immigration Department

2.30 The employment of FDHs to take care of household chores has helped improve the quality of living for Hong Kong families. The arrangement also enables children, elderly and disabled persons to live with their family. There is also evidence that hiring FDHs has boosted the percentage of double-income families as more women are able to engage in full-time work. According to the 2001 Population Census, an average FDH employer household typically comprises a married working couple with one or two children. In 2001, 61% of FDH employer households have two economically active members (other than the FDH), as opposed to the proportion of 32% for non-FDH employer households.

2.31 According to a survey by the Education and Manpower Bureau in October 2000, FDHs were more likely to be required to take care of young children and the elderly. The 2001 Population Census showed that there were 160 527 households employing FDHs, of which 113 673 working females were found in households with children (aged 14 and below) and/or elderly (aged 60 and above) that employed FDHs. The main reasons for households employing FDHs were generally lower wages for FDHs when compared to those of local domestic helpers (LDHs), their overnight stay with the employers making them more suited to households with small children or elderly, and their

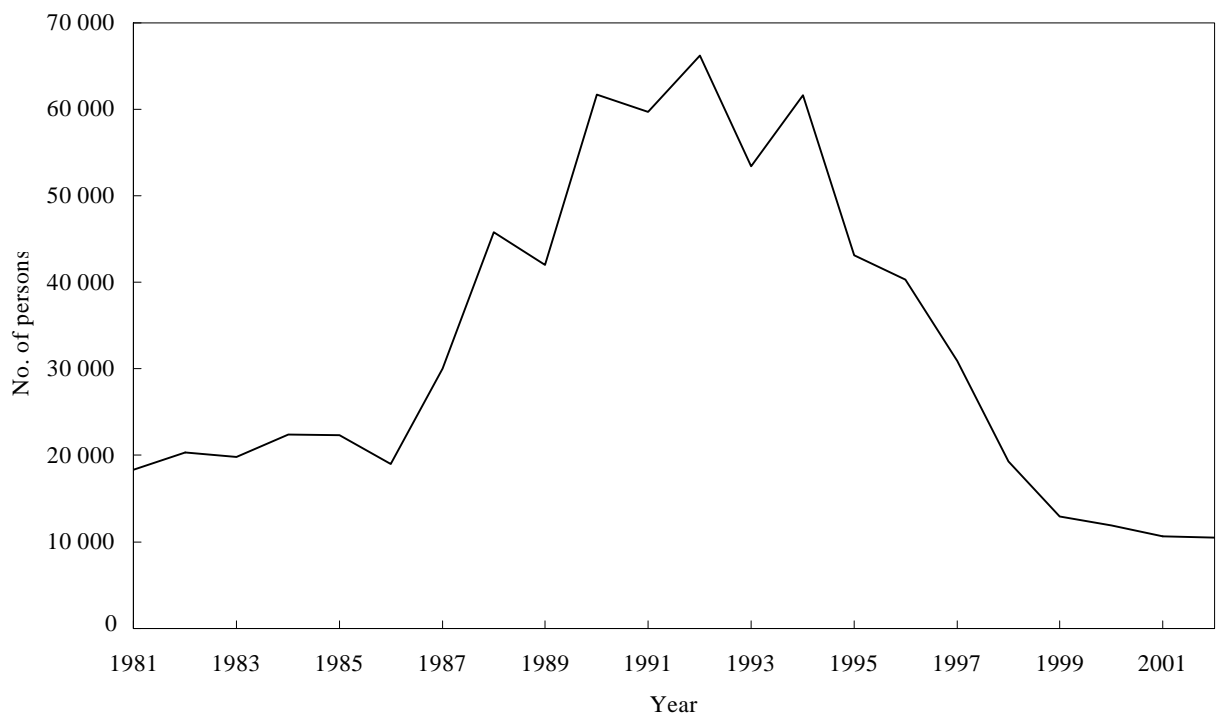
commitment to an employment contract. Households requiring services of LDHs would usually employ them on a part-time basis. In 2000 and 2001, there were 5 619 and 6 839 job-seekers registered with the Labour Department indicating a preference for LDH jobs. Yet some 40% of those registered did not indicate an interest in taking up full-time LDH jobs. We believe that out of all those interested in full-time LDH jobs, only a small percentage would be available on a live-in basis. The small number of live-in full-time LDHs available clearly falls far short of the demand for live-in full-time domestic helpers. Thus, FDHs and LDHs comprise two distinct markets both in terms of supply and demand, with LDHs preferring part-time jobs and households requiring full-time domestic helpers preferring FDHs.

Outflow

Emigration

2.32 Emigration can be an important factor that decreases the population size. But in Hong Kong, the number of emigrants has decreased significantly over the past decades as shown in Chart 2.7.

Chart 2.7: Emigration from Hong Kong (1981-2002)



Source: *Hong Kong Information Notes : Emigration – October 2002*

The number emigrating from Hong Kong each year declined from 66 200 in 1992 to just 10 500 in 2002. The accuracy of these figures has to be treated with caution since they are compiled on the basis of visa applications at local consulates complemented by the issuance of local documentation (such as certificates of no criminal conviction). Very significant emigration took place during the period 1987-1996, when perhaps a total of 503 800 Hong Kong residents left. An unknown but certainly significant number has since returned. This means that there is a large number of Hong Kong residents who can readily re-emigrate as they already have acquired their foreign passports or permanent resident status elsewhere. The number of Hong Kong permanent residents bearing foreign nationality stands at about 290 000 according to the Immigration Department. The number of persons with right of abode in foreign countries is likely to be substantially higher as many ethnic Chinese holding foreign passports prefer not to reveal or declare such possession.

2.33 The pressure or the demand to emigrate has eased in recent years. Uncertainty associated with the return of Hong Kong to China has passed and the recent economic downturn does not appear, thus far at least, to have increased the propensity to emigrate. The only factor that may change the course of emigration will be the persistently high unemployment in Hong Kong. Yet the recent high unemployment does not seem to have induced increased emigration. Whether those permanent residents with foreign nationality now choose to leave Hong Kong is difficult to determine accurately as they would appear neither in the emigration statistics of Hong Kong nor in the immigration statistics of the relevant countries.

2.34 A considerable proportion of emigrants from the HKSAR resident population are highly educated or skilled and the pattern has not changed over time. Many in the most recent, if diminished outflow, are professionals, associate professionals and administrative and managerial personnel, just as they were at the height of emigration outflow in the 1990s.

Hong Kong Residents Moving to the Mainland

2.35 Another outflow of more recent significance is the growing number of Hong Kong residents living, working or retiring in the Mainland, in particular in the Pearl River Delta (PRD). The Planning Department recently commissioned a joint survey with the Guangdong authorities of Hong Kong residents living in the PRD. The exercise is expected to be completed by mid-2003 and should provide data on this important aspect.

2.36 As far as existing data are concerned, there is no evidence that retiring across the boundary has become a significant trend,¹² although this may change in the future. According to estimates by CPU, about 15 000 persons aged 50 or above had left Hong Kong for the Mainland and Macao between mid-1996 and mid-1998 and had not returned by mid-2001. This group might have already retired there.

2.37 In 2001, there was a total of 52 million departures to the Mainland by Hong Kong residents, up from 50 million in 2000 and 29 million five years earlier. The surveys on cross-boundary travels conducted by the Planning Department indicate that on average some 333 000 trips a day (including both arrivals and departures) were made during the survey period in 2001, up by about 17% over the level in the 1999 Survey. While leisure trips still dominate, business and work trips make up some 35% of all northbound trips. Two-thirds of the southbound trips made by Hong Kong residents who usually live in the Mainland are business and work trips.

2.38 The outflow of Hong Kong people to the Mainland will erode our revenue income as Hong Kong's taxes are territorially based. However, persons whose status as Hong Kong permanent residents not affected under the law, even if they have resided outside Hong Kong for a long time, are entitled to public benefits and services on their return. This poses an additional challenge to public services which are heavily subsidized by the Government.

¹² For example, the portable Comprehensive Social Security Assistance (CSSA) Scheme for elders retiring in the Guangdong Province has not been popular since its introduction some five years ago, with only 2 800 participants, representing only 2% of all CSSA old age cases.

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

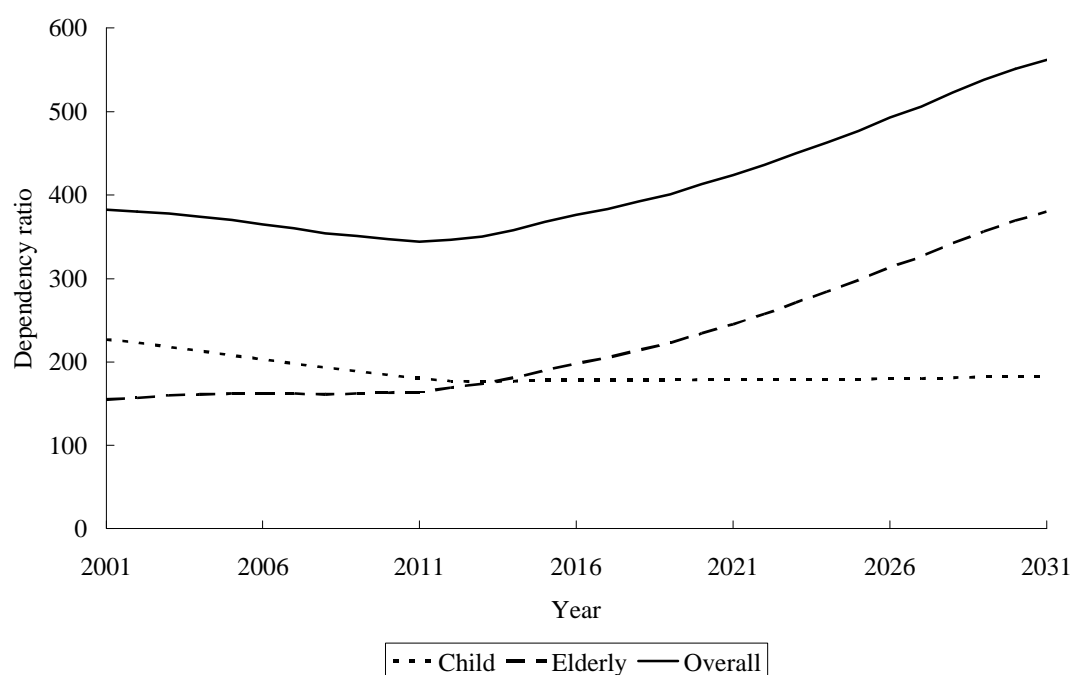
Notes: Child dependency ratio refers to the number of persons aged under 15 per 1 000 persons aged between 15 and 64.

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 projections¹³ 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 studies¹⁴ conducted on this subject show similar observations.

¹³ 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.

¹⁴ 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.¹⁵ That for CSSA on elderly cases is estimated to leap-frog to \$20.8 billion.¹⁶ 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 survey¹⁷ 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

¹⁵ 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.

¹⁶ 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.

¹⁷ 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 moves¹⁸ 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,¹⁹ others such as education and public

¹⁸ 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.

¹⁹ 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.

CHAPTER IV

POLICY OBJECTIVE

4.1 The population of a place or country is one of the major factors influencing the pace and direction of its long-term social, economic and political development. The report published by the Commission on Strategic Development in 2000 articulated the vision of Hong Kong, as follows: *“The implementation of Hong Kong’s long-term vision should also be guided by a number of overarching goals, including enhancing income and living standards for all members of society; ensuring that Hong Kong becomes the most attractive major city in Asia in which to live and work; developing a socially cohesive and stable society that recognises that the community’s diversity strengthens its cosmopolitan outlook; contributing to the modernisation of China while also supporting Hong Kong’s long-term development”*. The key objective of Hong Kong’s population policy is to secure and nurture a population which sustains our development as a knowledge-based economy.

4.2 We believe that the proposed population policy should strive to improve the overall quality of our population to meet our vision of Hong Kong as a knowledge-based economy and world-class city. In this context, we should also aim to redress population aging, foster the concept of active and healthy aging, promote social integration of new arrivals, and most of all, ensure the long-term sustainability of our economic growth. We believe the achievement of these goals will lead to a steady improvement of the standard of living of our people. Most Legislative Council Members, academics and opinion leaders whose views we have canvassed concur.

4.3 One overall conceptual question that has to be discussed before proceeding to policy formulation is whether there could be a notion of an optimum population for Hong Kong. According to the Population Research Expert Group under the CPU, the concept of an optimum population was much discussed in the 1950s and 1960s by demographers, economists, and experts in some other disciplines. All such attempts to determine the optimum population for the world or for

a particular place have essentially failed. This is because the world is in a continuous state of change and the population necessarily changes in response. To try to determine an optimum population, views or assumptions would have to be taken on a long list of parameters such as standard of living, development density and environmental quality, etc., all of which are by no means static. The result thus derived is bound to be arbitrary and subjective, and in all probability misleading.

4.4 We consider that any population policy for the HKSAR should move away from the idea that there is a simple optimum population figure. In an open economy like Hong Kong, while the HKSARG needs to formulate policies which can contribute to sustaining Hong Kong's economic development and quality of life, and influence population flows, market forces and individual choices are also at work which are largely beyond Government control. It would be more useful to ensure that there is sufficient flexibility built into the future policy formulation and implementation processes for Hong Kong to be able to respond quickly to changing demographic conditions and market situations.

4.5 Furthermore, because population policy cuts across a wide range of social and economic objectives, it would be illusory to treat the various complex issues involved simply by reference to an asserted optimum population target. Insofar as enhancement of economic development is concerned, it is more meaningful to pay regard to the quality of the population as against just the quantity. For the sake of redressing population aging, the emphasis should be on a structural shift towards the younger age groups, rather than just on an optimum population level or growth pace. On the other hand, there will still be mounting constraints on overall population growth in the long run, imposed by the very limited land mass of the territory and related environmental considerations.

4.6 During our discussions with them, many interlocutors also echo this view. They have told us firmly that many factors affect demographic change and that as the pace and scope of our integration with the Pearl River Delta change over time, some are beyond the control of the HKSAR Administration. It is thus conceptually risky to seek to work towards a pre-conceived optimum population target for

Hong Kong. Instead, it is imperative that regular revision of policy instruments should form part of the policy itself, so that it possesses a built-in flexibility to respond quickly to changing demographic conditions and market situations. Further, policy interventions which seek to influence either the level or quality of population usually take effect over a long period. At risk of stating the obvious, any report on population policy cannot produce immediate effects.

CHAPTER V

POLICY RECOMMENDATIONS

5.1 The analysis in Chapter III shows that in terms of quantity and quality, Hong Kong's population presents distinct challenges which, if not addressed promptly, will undermine the sustainability of our long-term economic and social development. Against the background of these concerns and within the limited time available, the Task Force attempted to review all relevant policies, which directly or indirectly impact on Hong Kong's demographic conditions, and to recommend a number of policy measures to be taken in the short and medium term. Many of them are necessarily tentative, requiring much longer time for thorough research and refinement.

5.2 In drawing up its recommendations, the Task Force has taken into account the following principles and considerations:

- ◆ The recommended measures should aim to improve the overall standard of living of the people of Hong Kong and ensure the long-term sustainability of our economy. Specifically, they should strive to address the challenges posed by an aging population and shrinking workforce on our economic growth;
- ◆ In terms of *quantity*, the recommended measures should help to rejuvenate our progressively aging population;
- ◆ In terms of *economic sustainability*, the recommended measures should be able to upgrade the productive efficiency and capability of our workforce. They should also be able to enhance our economic vibrancy and domestic consumption;
- ◆ In terms of *fiscal sustainability*, the recommended measures should be able to increase productivity and reduce elderly dependency. Moreover, to address the problem of rising social expenditure and limited resources, the recommended

measures should help to provide a more rational basis for the provision of subsidized benefits to the residents of Hong Kong and our growing transient population; and

- ◆ In terms of *social sustainability and integration*, the recommended measures should facilitate integration of new arrivals from the Mainland and elsewhere with the community.

Details of the Task Force's recommendations are discussed below:

The One Way Permit Scheme

5.3 Legal immigration from the Mainland under the OWP Scheme has been the main source of immigration for Hong Kong. It has also been our major source of population growth in the last two decades. We have discussed in Chapters II and III the impact which OWP holders create on the quality of our workforce and employment situation, and the pressure they exert on various subsidized social services. These drawbacks notwithstanding, OWP holders, in particular young children, have contributed significantly towards mitigating the negative effects of low fertility and population aging by replenishing the dwindling number of our younger age cohorts.

5.4 The current daily OWP quota was increased from 105 in 1993 to 150 in 1995 to facilitate the entry of long-separated spouses and the settlement of CoE children with right of abode under the Basic Law in anticipation of its implementation from July 1997. The present 150 daily quota is allocated among CoE children (60), spouses separated for over 10 years ("long-separated spouses") (30) and other categories of applicants (60), including spouses separated under 10 years, unsupported children coming to join relatives in Hong Kong, persons coming to Hong Kong to take care of their unsupported aged parents, unsupported elderly people coming to join relatives in Hong Kong and persons coming to Hong Kong to inherit legacies. Except for CoE children, the priority of an individual applicant in each category is determined by reference to a Points System, introduced by Mainland authorities in May 1997.

5.5 A total of 132 925 CoE children have been admitted under the OWP Scheme since the handover. Between 1998 and 2002, the average number of CoE children admitted was 67 a day, higher than the sub-quota reserved for this category. This was made possible by flexibly deploying quota from other categories, and led to a shortening of waiting time. Interestingly, the arrival number of adult CoE children aged 18 or above, who are accorded a lower priority than CoE children below 18, has steadily risen since 1998, from a daily number of 6 (8% of total number of CoE children) in 1998 to 39 (48%) in 2001. In 2002, an average of only 46 CoE children, 14 less than the daily quota of 60, arrived in the HKSAR everyday.

5.6 We consider that it is in the interests of the individual CoE children and their family, as well as the HKSAR, that these be admitted into Hong Kong as early as possible. This is particularly so for young CoE children. The Legislative Council Members, academics and opinions leaders we approached almost unanimously held this view. The benefits of early admission of CoE children are also borne out in academic research as pointed out in Chapter II. This objective has been largely achieved as shown by the shortening of waiting time made possible by the clearing up of the backlog of applications. In the light of this, after discussion with the Mainland authorities, we recommend that the sub-quota of 60 places should be strictly enforced and used exclusively for CoE children. Should the number of arriving CoE children continue to fall below 60 a day, the unutilised places should not be reallocated to other categories of applicants.

5.7 We welcome and recommend the new measure of giving greater flexibility to CoE children, whose claims have been verified, so that they can choose when to leave the Mainland and settle in Hong Kong. Until the end of last year, OWPs were issued to CoE children after the verification of their claims but the OWPs had to be used (i.e. the holder would have to leave the Mainland and settle in the HKSAR) within three months of issue. This exacerbated the split-family problem since often the Mainland parent (usually the mother) of the CoE child had to wait longer for an OWP. The new measure allows many Mainland families to synchronise the timing of settlement in Hong Kong of the CoE child with its parent and help alleviate the split-family problem. The new measure, which was recently introduced after our

discussion with the relevant Mainland authorities, was announced in January 2003 and put into immediate practice.²⁰

5.8 To further alleviate the problem of split families, we recommend continuing the current practice of allocating unused places under the sub-quota designated for long-separated spouses to spouses separated for a shorter period and their young accompanying children. The average daily number of long-separated spouses admitted under the OWP Scheme has dropped drastically from 46 in 1998 to only 8 in 2002. We notice that in 2001 and 2002, the unused places designated for long-separated spouses have been taken up by applicants under other sub-categories. We understand that spouses from Guangdong still have to wait for about seven to eight years before they can join their families in Hong Kong. The continued flexible deployment of unused places in the “long-separated spouses” category to spouses in Guangdong would help to align the waiting time for the latter with that for spouses from other provinces (about five years) as far as possible. After discussion with the Mainland authorities, we recommend that this practice should continue.

5.9 The Mainland authorities introduced a new measure in November 2002 to facilitate spouses to visit their families more frequently in Hong Kong. The previous restriction that spouses can apply for Two Way Permits only two times a year has been lifted and they can now apply to visit Hong Kong as and when they wish. A Mainland spouse could now stay in Hong Kong throughout the year except those days, every three months, when he or she needs to renew his or her visit endorsement in the Mainland. This will much reduce the pain of separated families. Mainland spouses will be encouraged to visit Hong Kong as soon as they have applied for an OWP so that they may familiarize themselves with Hong Kong’s way of life and the living conditions of their spouses in Hong Kong. This will help them decide whether they wish to settle in Hong Kong.

²⁰ The Mainland authorities have also introduced other improvements to the OWP Scheme with effect from January 2003 to alleviate the problem of split families. Previously a Mainland spouse issued with an OWP may bring with him/her one child aged below 14 to settle in Hong Kong. The age limit of accompanying children has now been raised to below 18. Whereas only one accompanying child was allowed previously, a Mainland spouse can now bring with him/her all children below the age of 18.

5.10 We propose to maintain the unspecified sub-quota of 60 places for other categories of applicants, i.e. spouses separated under 10 years, adult children coming to Hong Kong to take care of unsupported aged parents, non-CoE young children whose parents have moved to Hong Kong and unsupported elderly people to join their relatives in Hong Kong, except that the existing category for those coming to Hong Kong for inheritance should be cancelled. With progressive relaxation in the policy on cross-boundary travel, Mainlanders can apply for an Exit-entry Permit and a relevant visit endorsement to come to Hong Kong to claim their inheritance. There is no need for them to settle in Hong Kong to complete any formalities. Instead, they should return to the Mainland afterwards. Implementation of this measure will require legislation by the Mainland authorities. We will review the daily 150 OWP quota and the quota allocation among the three categories regularly and reduce the quota if demand falls.

5.11 Some sectors of the community have called for the HKSARG to secure the approval authority of OWP from the Mainland authorities. Under Article 22(4) of the Basic Law as interpreted by the NPCSC Interpretation dated 26 June 1999, people from other parts of China must apply to the relevant authorities of their residential districts for approval for entry into the HKSAR in accordance with the relevant national laws and administrative regulations. It is inappropriate for the approval authority to be vested in HKSARG. As at present, the OWP issuing authorities in the Mainland will continue to take meticulous measures to verify the claims by OWP applicants and, if necessary, confirm with the HKSARG the validity of those parts of their claims involving Hong Kong residents on a case by case basis. The approval system, based on points, is transparent and the Mainland public security authorities have established hotlines to deal with complaints and reports on any suspected abuse.

5.12 Some sectors of the community have also called for an adjustment of the OWP quota to facilitate admission of professionals to address the problem of manpower mismatch. We have given this matter very careful consideration. Given that the OWP Scheme is designed to facilitate reunion of families, the Task Force concludes that it is not appropriate to use this Scheme for the purpose of admission of skilled immigrants. The latter should be done via other channels.

Recommendations regarding the One Way Permit Scheme:

To strictly enforce the allocation of the sub-quota for CoE children; to continue with the recently introduced improvement of allowing CoE children whose right of abode has been verified to choose when to leave the Mainland and settle in Hong Kong so that they can come to Hong Kong together with their Mainland parents if they so wish; to continue with the current practice of deploying unused places in the “long-separated spouses” category for spouses in Guangdong and their accompanying children; to continue with the current practice whereby the OWP issuing authorities in the Mainland take meticulous measures to verify the claims by OWP applicants and, if necessary, confirm with the SARG the validity of those parts of their claims involving Hong Kong residents on a case by case basis; to encourage the Mainland spouses to visit Hong Kong under the Two Way Permit Scheme, as soon as they have applied for an OWP, so that they may familiarize themselves with Hong Kong’s way of life and the living conditions of their Hong Kong families, thus helping them decide whether they wish to settle in Hong Kong; to propose to the Mainland authorities to change their relevant legislation in order to cancel the current entry category for inheritance under the unspecified sub-quota; to review the daily 150-OWP quota and the quota allocation among the three categories regularly with a view to reducing the quota at some stage when demand falls.

Training and Other Needs of New Arrivals

5.13 Until our fertility rate rebounds significantly, we have to rely on admission of new arrivals to reduce population aging and labour force shrinkage. However, quantity alone cannot resolve the problem. Positive effects can be realised only through successful training and skills upgrading of the adult new arrivals and providing education to the younger ones.

5.14 New arrivals aged 15 or below are entitled to free compulsory education and there is adequate provision to cater for their needs. There are also free preparatory courses to help them assimilate into the school system as well as the community. However, 69.1% of those aged 16 or over, i.e. who are of age to join the labour market, have

only lower secondary education or below according to the 2001 Population Census. Their low education level would put them in a disadvantage when competing in the local labour market which favours those with knowledge and skills.

5.15 Those aged 16-19 (7.6% of the group) with the aspiration to better themselves should be encouraged to join the normal education system, or alternatively to pursue vocational education and training offered by the Vocational Training Council, the Construction Industry Training Authority or the Clothing Industry Training Authority.

5.16 Those aged 20 to 49, who make up 45% of the total Mainland new arrival population, face probably the greatest problem in finding jobs in the local labour market. However, there is no lack of upgrading opportunities for this group. In addition to the abundant self-financing training and education opportunities available, they can join the Skills Upgrading Scheme, the Continuing Education Fund and the subvented part-time courses offered by the Vocational Training Council. Those aged 30 or above may also join the full-time placement-tied training offered by the Employees Retraining Board, which aims to help the low-skilled unemployed enter the local employment market. Besides job-specific vocational training, e.g. domestic helper, security guard and property management, etc., the retraining programme covers training in general skills, language and computer to enhance the employability of the retrainees.

5.17 Apart from education and training, an effective mechanism for coordinating services for new arrivals led by the Home Affairs Bureau has been put in place over the past few years. The strategy has been to foster effective coordination within the Government and to maintain a close partnership between the Government and the non-governmental organisations (NGOs), which play a pivotal role in the provision of services to the new arrivals. The C&SD and Home Affairs Department also conduct regular surveys on the demographic characteristics of new arrivals. Also, a household survey on the needs of the new arrivals who have settled in Hong Kong in the past three years is coordinated by the Departments. Findings of the study will help better focus the various services provided for the new arrivals.

5.18 To prepare persons who are about to settle in Hong Kong, the Hong Kong Branch of the International Social Services has set up pre-migration centres in Guangdong and Fujian Provinces to help prospective new arrivals to learn more about Hong Kong's way of life.

5.19 Relevant government departments and NGOs are making concerted efforts to help new arrivals adapt to their new life after arrival in Hong Kong. At present, family life education and family education services are provided in post-migration centres. Recently, enhanced preventive and supportive services have been made available to enable early identification of problems and to provide timely service. Post-migration centres also interface with other community organisations in providing integrated services to new arrivals and promote mutual acceptance between them and other members of the community.

Recommendations regarding Training and Other Needs of New Arrivals: To continue to provide and develop appropriate programmes to address the training needs of new arrivals of different age-groups; to foster closer partnership between the Government and NGOs to identify and address the needs of new arrivals in Hong Kong.

Education and Manpower Policy

5.20 The HKSARG has invested heavily in education and training to upgrade the quality of our human capital. There are two main approaches to meeting the manpower needs of the economy, first, to upgrade the general level of education for all, and second, to promote skills upgrading and continuing education among the existing workforce.

5.21 In addition to providing adequate education opportunities, we have embarked on various initiatives to improve the quality of education for our youngsters. The objective of the education reform is to create more scope and choice for students to realise to the full their potential in accordance with their aptitude and interests.

5.22 To help ensure an adequate supply of well-educated manpower, we have laid down a target that 60% of our secondary school leavers will receive post-secondary education by 2010-11. In this respect, in 2002, about 9 000 additional places have been provided for Secondary Five and Secondary Seven graduates. The participation rate of the 17-20 age cohort in post-secondary education has increased from 38% of the previous year to 42%. We have also expanded the number of Secondary Four school places so that all students who have the capability and are willing will be able to progress beyond Secondary Three.

5.23 To help upgrade the skills of in-service workers with secondary or lower education, we launched the \$400 million “Skills Upgrading Scheme” in September 2001 to provide them with focused skills training. Courses are developed through close collaboration of employers, employees, training providers and government officials. The contents are practical and geared to the specific needs of the respective industries. As a result, they have gained increased recognition amongst employers and are popular with employees. The Scheme now covers thirteen industries. As at end-September 2002, more than 700 classes involving over 14 000 trainees had been held.

5.24 To encourage the pursuit of continuing education so as to prepare Hong Kong's workforce for the knowledge-based economy, we launched the \$5 billion Continuing Education Fund in June 2002. Hong Kong residents aged 18 to 60 without a university degree, who enroll in a ‘reimbursable course’ in specific sectors (logistics, financial services, China business, tourism, language, design and interpersonal and intrapersonal skills for the workplace), will be reimbursed 80 per cent of the course fee, or up to \$10,000, upon successful completion of the course. The response to the Fund has been encouraging. As at the end of October, there were over 14 000 applications.

5.25 We see the need for a more strategic, responsive and co-ordinated approach to manpower planning and development so as to develop a skilled and adaptable workforce that can meet the changing demands of the economy. To this end, we have recently established a Manpower Development Committee (MDC), with representation from employers, employees, training providers, academics and the Government. The MDC will provide advice to the Government on

Hong Kong's manpower needs and the promotion and regulation of the vocational, post-secondary and continuing education sectors. It will also help establish the necessary infrastructure, including proposals on a qualifications framework and quality assurance mechanism, to support the development of a life-long learning society. One of the MDC's tasks is to monitor manpower supply and demand and to propose timely intervention to minimise mismatches.

Recommendations regarding Education and Manpower

Policy: To continue to pursue extensive programmes to upgrade the educational attainment of our population at all levels; to promote and facilitate skills upgrading and life-long education; to adopt a strategic, responsive and co-ordinated approach to manpower planning and development to meet the changing demands of the economy.

Admission of Mainland Professionals and Talent

5.26 While we have introduced measures to raise the general education level of the population and promote skills upgrading and continuous education among the existing workforce, in particular the more recent arrivals, these measures take time to produce clear results. To raise the quality of our human capital, Hong Kong can no longer rely solely on the pool of home-grown talent. Hong Kong must have the capacity to draw on the best and the brightest in the region and world-wide, including the populous and fast-developing Mainland. Otherwise, our long-term economic and social development can barely be sustained, let alone achieve any growth.

5.27 China's accession to the World Trade Organisation will have far-reaching implications not only for its external trade, investment and financial flows, but also for its own domestic economic and social development. The benefits that this will bring to Hong Kong's economy will also be substantial. There will be new opportunities in areas where Hong Kong possesses an edge, such as banking and finance, logistics and sea and air transport, and professional and other business support services. The admission of Mainland professionals and talent, who possess the connections as well as understanding of the Mainland market, consumer preference and how businesses operate there, would

clearly help Hong Kong tap the vast Mainland market. Greater flexibility in admission of such personnel is essential for Hong Kong to maintain its competitiveness as a regional hub for professional and business-related services, and its supremacy among foreign investors and service providers in the Mainland market.

5.28 As discussed in Chapter II, under the current immigration policy, there are by and large no impediments for admitting overseas professionals. Generally speaking, they are allowed to come to Hong Kong provided they have scarce skills and can secure a job here with market level salary. There is no restriction on the sectors in which they can work and they can bring along their dependants.

5.29 The existing policy on entry of Mainland professionals is, by comparison, very restrictive. In the overall interests of Hong Kong, any policy to admit professionals should be standardised as far as possible. Such an approach would be more in line with Hong Kong's aspiration to be Asia's world city. Following this principle, we recommend that the conditions of admission for those admitted from the Mainland should be relaxed and aligned with those from other countries as far as possible, e.g., successful applicants should be allowed to enter with their immediate families and restrictions on specific sectors in which Mainland professionals are allowed to work should also be lifted.

5.30 There are considerable economic benefits in terms of consumption and creation of jobs, which skilled personnel could bring to Hong Kong. A C&SD statistical exercise on the economic benefits of the Admission of Talents Scheme during 2000 and 2001 shows that it created a total of 223 local jobs in the first year by admitting 83 professionals to the 57 firms polled. This represents an average of 2.7 new jobs for the importation of each talent. On average, each candidate brought about HK\$308,000 of revenue to the firm in the first year. The findings indicated that the revenue arising from the employment of each talent was expected to rise to some HK\$2,310,000 in the second and third years. Overall, skilled immigrants can help to break up "bottlenecks" in business operation and production processes. Through the transfer of skills, knowledge and experience, they can help to upgrade the capability and productive efficiency of the local workforce. They can also help to broaden and diversify the pool of

available skills in Hong Kong. All these benefits are conducive to the overall economic growth and development potential over the longer term.

5.31 Apart from economic benefits, the admission of talented Mainlanders and professionals from more diversified fields, such as arts and sports, can help generate interest and enhance the standards of arts, culture and sports in Hong Kong. As Asia's world city, Hong Kong should be able to offer a rich and vibrant cultural environment as a means of enhancing the quality of life and attracting visitors from around the world. The presence of a large pool of internationally acclaimed artists and athletes is essential to provide a rich variety of cultural and sports attractions. The Culture and Heritage Commission has proposed in its Consultation Paper 2002 that education in culture and the arts should be strengthened to enrich the cultural literacy of individuals and society as a whole. There will be a strong demand for arts educators and other related professionals. As for sports, the admission of more internationally renowned athletes and coaches will certainly help to lift the standards of our local sports talent and to build up a pool of elite athletes to excel in international sports events. Experience overseas demonstrates that successes in sports events can boost community pride and enhance social solidarity. The Mainland holds a large pool of such potential talent.

5.32 Besides the admission of professionals and talent to meet the manpower needs of the workplace, we should also attract academics and students who will help enhance our labour force with high-calibre manpower at their prime working age. The admission of top academics and researchers from the Mainland and overseas will ensure that our institutions can have access to the best people from all corners of the globe, thus raising the quality of university education and standard of research, and enhancing Hong Kong's role as a regional centre of excellence in higher education. The admission of students from the Mainland and overseas will enrich the learning experience of local students. It can create a multi-lingual and multi-cultural environment at our institutions inside and outside the classrooms, broaden the cultural horizon of local students, promote healthy competition within the campus and provide a source of intellectual stimulation and different perspectives for students, faculty members and the institutions.

5.33 At present, universities are allowed to recruit non-local undergraduates and taught postgraduate students up to 2% of the publicly funded places plus another 2% using private funding. The actual number of non-local students now is around 1.5%. In addition, non-local undergraduate students are also subject to an annual reception quota of 4% of the first-year-first-degree intake in University Grants Committee (UGC)-funded institutions (i.e. a maximum of 580). For non-local research postgraduate students, the ceiling is one third of the total number. Mainland students who graduated in 1990 onwards from full-time UGC programmes at degree level or above may apply in the Mainland for employment in Hong Kong outside the schemes for admission of Mainland talent and professionals. Following a recent review, the quotas for non-local students will be increased in the 2003 academic year to 4% of the publicly funded student places at undergraduate and taught postgraduate levels, and quotas for non-local research post-graduate students will be removed. When the 4% limit is about to be reached, consideration will be given to reviewing the 4% annual reception quota and providing further flexibility and incentive to tertiary institutions in recruiting more non-local self-financing undergraduate students.

5.34 Apart from Mainland professionals and students, many Mainlanders visit Hong Kong for business. The total number of business trips by Mainlanders to Hong Kong has increased more than seven-fold from 268 680 trips in 1999 to 2 271 000 trips in 2002. With greater economic integration between Hong Kong and the Mainland, in particular, the PRD, the trend should continue. We shall continue to devise measures for facilitating more Mainland businessmen to visit Hong Kong for business-related purposes.

5.35 Last but not least, more and more children of Hong Kong families are receiving their secondary and tertiary education overseas, particularly those who emigrated during the 1980s and 1990s. Some of these young people may not have returned to live and work in Hong Kong, even though their families have returned here to stay. These young people, with their exposure to overseas education and culture, represent an enormous asset to Hong Kong in maintaining our cosmopolitan outlook and international networks. The HKSARG should step up efforts to encourage more of these young people to return

to live and work in Hong Kong. For example, the Economic and Trade Offices should continue to closely liaise with Hong Kong students studying overseas and provide them with up-to-date information on development and opportunities in Hong Kong.

Recommendations regarding Admission of Mainland Professionals and Talent: To align conditions of admission for Mainland professionals and talent with those coming from elsewhere as far as possible; to provide more flexibility and incentives to tertiary institutions to attract academics and students from the Mainland and overseas; to continue to improve arrangements for Mainland businessmen to visit Hong Kong for business-related purposes; to step up efforts to encourage Hong Kong people being educated overseas to return to live and work here.

Investment Immigrants

5.36 Hong Kong's existing immigration policy only allows the entry of investors coming to Hong Kong to join in or set up a business, but does not cater for the entry of capital investment entrants, i.e. persons who have the financial means to make a substantial investment in Hong Kong but who do not wish to run the business themselves. This places Hong Kong at a disadvantage in the global competition for capital investment. This is also not conducive to bringing into Hong Kong new capital which could stimulate economic growth and domestic consumption.

5.37 Investment immigrants can inject new funds for investment in the economy. For Hong Kong, the funds are expected to go mostly into the stock market, mutual funds and real estate. In the process of investment, additional business will be generated for the financial services, real estate and related professional fields. Such business activities will in turn render some additional employment.

5.38 We recommend that persons with net assets under their control and disposal for investment of no less than HK\$6.5 million will be eligible for admission into Hong Kong as capital investment entrants. They will be allowed a reasonable degree of flexibility in their choice of

investments to suit their individual needs. Qualifying investment asset classes will include real estate (industrial, commercial or residential, including land and pre-completion properties in Hong Kong) and specified financial assets. Suitable arrangements will be implemented to “ring-fence” the requisite investment amount as long as the capital investment entrant is granted permission to stay here. Because the Mainland imposes foreign exchange control and exercises exit control on Mainland residents, we cannot extend the proposal to include Chinese nationals in the Mainland at this stage.

5.39 We recommend that the new policy should apply to foreign nationals (except those from a small number of countries which pose security and/or immigration risks), Macao SAR residents, Chinese nationals who have obtained permanent resident status in a foreign country, stateless persons who have obtained permanent resident status in a foreign country with proven re-entry facilities and residents of Taiwan.

Recommendations regarding Investment Immigrants: To extend the existing immigration policy to cater for persons who will make substantial investment (HK\$6.5 million) in Hong Kong but do not themselves run a business, i.e. capital investment entrants, and to apply this extended policy initially to foreign nationals, residents of Macao SAR and Taiwan.

Policies Impacting on Childbirth

5.40 The above measures to admit and attract more immigrants are partly aimed at addressing the problem of low fertility. On the issue of fertility, the Task Force has considered whether we should adopt pro-natalist policies to promote childbirth. Indeed, some countries with low fertility rates (not as low as Hong Kong) have pursued such policies, although the effectiveness of these actions is not clear. We believe it is not appropriate for the HKSARG to adopt policies to promote childbirth, a matter very much of individual choices. We should, however, review existing policies to see if they discourage childbirth.

5.41 During the 1950s and 60s, due to the population influx and baby boom, birth control and family planning were priority issues in Hong Kong. It was against this background that birth control became the core business of the Family Planning Association of Hong Kong (FPAHK). Its campaigns were so successful (e.g. “Two is Enough” in 1975) that family planning programmes have come to be perceived by the public as birth control programmes. The total fertility rate in Hong Kong decreased sharply from 3 459 children per 1 000 women in 1971 to 2 047 in 1980.

5.42 In view of changing economic and social circumstances and the declining fertility rate, FPAHK’s publicity focus has gradually shifted to other health services. Indeed, birth control has not been the Association’s promotional theme since 1986. Over the years the FPAHK has introduced new services to cover men and women, youth and adults, including pre-marital check-up, pre-pregnancy preparation, sub-fertility services, youth healthcare, gynecological check-up, menopause clinic, male health services, etc.

5.43 Our assessment is that the present activities of the FPAHK are not intended to discourage childbirth. However, its name does not reflect the full range of its activities. We shall encourage the Association to give further consideration to changing its name to better reflect its present scope of work. We shall also continue to monitor the activities of the FPAHK to ensure that they meet the needs of the community.

5.44 Overall, Hong Kong’s health care system can be said to have a positive effect on childbirth. Maternal mortality rate has been extremely low and ante-natal, childbirth and post-natal services are available from the Hospital Authority and Department of Health at very low costs. The Maternal and Child Health Service of Department of Health provides a comprehensive range of promotional and preventive health services for women of child-bearing age and children from birth to five years old, covering child health, maternal health and family planning.

5.45 A separate but related issue is our tax system. Child allowance under the present salaries tax system is granted under a “two-tier” arrangement with the first two children being granted an allowance of \$30,000 each while that for the third to the ninth child is halved. While this differential treatment is unlikely to have a significant impact on the decision of couples regarding the size of their families, the reduced tax allowance from the third child onwards may not be appropriate in the light of our very low fertility rate. We will ask the Financial Secretary to consider granting the same level of tax deduction for all children irrespective of number.

Recommendations regarding Policies Impacting on Childbirth: To continue with our current family planning programmes emphasising healthy, planned parenthood; to encourage the FPAHK to change its name to better reflect its present scope of work; to consider granting the same level of tax deduction for all children irrespective of number.

Elderly Policy

5.46 The enormous financial and social challenges posed by our aging population are described in earlier chapters. The Task Force considers that it is important for the purpose of this study that the subject of aging is viewed from a proper perspective. Notwithstanding the challenges presented by a growing elderly population, population aging represents, first and foremost, a success story for public health policies as well as social and economic development. Many of the problems associated with population aging are the result of outdated social and public policies which have not kept up with the changes in our socio-economic development and our health and demographic profile. The following are a few examples:

- (a) retirement and human resource practices that remove older people from the workforce prematurely may reduce their income and social esteem, and place them in a state of dependency. In other words, retirement creates old age dependency, particularly financial dependency.

- (b) A living environment that does not cater to people of all ages, and of different functioning abilities may discourage older people with some frailty from continuing to live at home (which is the preferred choice) and integrating with other members of the community.
- (c) A compartmentalised life-course of education when young, work in adulthood, and leisure after retirement imposes an artificial segmentation of life which does not facilitate life-long learning and the flexibility of work interspersed with periods of leisure and self-reflection.

We need to rethink our current institutions to see how they can be transformed to facilitate positive aging.

5.47 The Government is working with the Elderly Commission (EC) to promote a new awareness of the place of older persons in our society, not primarily as individuals needing help, but as people having much to offer and wanting to give. With good health, a longer life expectancy and an improved financial situation, their lifestyle and their role in society will change markedly. To this end, the Government and the EC organised a Symposium on the Challenges and Opportunities of an Aging Population in June 2002, aimed at enhancing the community's awareness of aging issues. In response to the Symposium, a number of related sectors in the community have started taking a much deeper interest in the issue of an aging population, and are considering different actions and programmes to follow up discussions on the subject.

5.48 Given the scope and complexity of the aging-related issues involved, the Government will work with the EC to consider whether and, if so, how further research on the conceptual framework and overseas experiences in meeting the challenges of an aging population should be conducted, with a view to identifying and developing those ideas which may be applied in the local context.

5.49 All in all, to meet the challenges of an aging population, the whole community needs to be more aware of the implications of aging, particularly of what it means for the individual, and for the different sectors of the community. The promotion of positive aging aims to increase the productivity and reduce the dependency of the elderly on

the community. This notwithstanding, the HKSARG as well as the community should be fully aware of the economic and social implications of meeting the financial and care needs of our aging population. The Health, Welfare and Food Bureau is reviewing the current social security schemes for the elderly with a view to developing a sustainable financial support system for the needy elderly in the light of our aging population.

Recommendations regarding Elderly Policy: To revisit and redefine the notion of retirement and old age; to continue to develop programmes that promote active and healthy aging; to develop a sustainable financial support system for the needy elderly.

Growing Transient Population: Foreign Domestic Helpers

5.50 Since its introduction in the 1970s, the policy on the admission of FDHs has by and large remained intact. As discussed in Chapter II, we have to include the FDH policy as part of this study due to the substantial size of this transient population and its continuing growth. Having reviewed the existing policy, the Task Force considers that a number of improvements should be made to enhance the integrity of the mechanism for admitting FDHs, with a view to minimising abuse and displacement of local jobs by FDHs.

5.51 We recommend that a monthly levy of the same amount (now at \$400) as that imposed under the Supplementary Labour Scheme should be introduced. This will remove the disparity of treatment between these two groups of employers. The income generated will be used for training/retraining purposes. The levy will be paid by employers and will apply to new contracts or renewal of contracts. At the current level, i.e. \$400 per month, the proposed levy will generate annual income of \$1.14 billion. The levy will be imposed under the Employees Retraining Ordinance. The Ordinance also stipulates that if the imported employees fail to arrive in Hong Kong having been granted visas or having arrived fail to complete their contracts of employment, there will be no refund of the levy paid, but the Director of Immigration

will take into account the relevant balance if a fresh application for an imported employee is submitted by the employer within four months.

5.52 The minimum allowable wage (MAW) for FDHs has not been adjusted since February 1999. It is proposed that a cut of \$400 be made to reflect downward adjustments in various economic indices since the last adjustment in 1999 (e.g. CPI(A) has fallen by around 10% since early 1999 and the median monthly employment earnings of workers in the elementary occupations by around 16%). This will take effect on 1 April 2003.

5.53 To improve the existing mechanism for admitting FDHs and to prevent exploitation of the migrant workers, the terms and conditions of the standard employment contract, including the live-in requirement, provision of adequate accommodation and MAW, will be strictly enforced by requiring both employers and FDHs to sign an undertaking to the Government when entering into new contracts. If they are found to be violating the undertaking, the employers concerned could be debarred from employing FDHs while the FDH might not be allowed to work in Hong Kong again.

5.54 To protect local employment opportunities, relevant Government departments have stepped up enforcement action to crack down on illegal employment in non-domestic work and fraudulent practices such as underpayment of wages. The Labour Department has just re-deployed resources to set up a new unit to investigate offences under the Employment Ordinance, including wage offences. As part of its effort to promote employment opportunities for LDHs, the Employees Retraining Board (ERB) has increased its training capacity for LDH courses to a total of 14 000 in 2002/03, and introduced the Integrated Scheme for LDHs in March 2002 to facilitate job matching for prospective employers and LDHs. It is worthwhile to note that the number of placements has gone up in recent months. The Labour Department has also adopted a proactive approach in developing the LDH job market. Promotional activities are launched regularly to canvass LDH vacancies and enhance public awareness of the Department's employment services for LDHs.

Recommendations regarding FDHs: To introduce a levy for the employment of FDHs, set at the same level (i.e. \$400 per month) as that imposed under the Supplementary Labour Scheme. The levy will be paid by employers and will apply to new contracts or renewal of contracts. The levy will be imposed under the Employees Retraining Ordinance. The Ordinance also stipulates that if the imported employees fail to arrive in Hong Kong having been granted visas or having arrived fail to complete their contracts of employment, there will be no refund of the levy paid, but the Director of Immigration will take into account the relevant balance if a fresh application for an imported employee is submitted by the employer within four months; to reduce the MAW of FDHs by \$400 on 1 April 2003; to step up enforcement action against abuse of the FDH system and to prevent exploitation of the workers; to promote employment opportunities for LDHs.

Eligibility for Public Benefits

5.55 Chapter III highlights the anomaly that exists in the eligibility criteria of various subsidized benefits in terms of length of residence in Hong Kong. Among the major benefits, a “seven-year” residence rule is applied to public rental housing applicants (except children under the age of 18). In the case of CSSA, a “one-year” residence rule is applied. No such rule is implemented for users of public health and hospital services; they are not even subject to means test. As pointed out in Chapter III, because of rising public expenditure in providing various highly subsidized services, the implications for public finances have become an issue of major concern to the SARG and the community. Many of our interlocutors have urged that the Task Force must urgently address this matter in the context of the population policy.

5.56 In approaching this complex issue, we have to strike a very fine balance between the interests of various sectors of the community and giving due regard to the long-term sustainability of our social services within limited financial resources. Given the complexity of the issue and our tight time-table, we have focused our deliberation on CSSA and public health and hospital services for this exercise, since together they account for some 21% of our total public expenditure in

2001/02. After careful consideration, the Task Force considers that there is a strong case for removing the anomaly that exists in the eligibility criteria for major subsidized benefits, and for applying a uniform seven-year residence rule for providing all heavily subsidized social services including CSSA and public healthcare benefits. Eligibility based on a seven-year residence requirement reflects the contribution a resident has made towards our economy over a sustained period of time in Hong Kong. A seven-year residence is also normally required for the grant of permanent resident status in Hong Kong, for which additional rights are prescribed in the laws of Hong Kong.²¹

5.57 In applying this “seven-year” rule to CSSA applicants, we believe that children under the age of 18 should be exempted as in the case of public housing. For exceptional cases, the Director of Social Welfare, of course, will have discretionary power to grant CSSA on compassionate grounds waiving the residence rule. These measures should take effect from a future date. Current residents in Hong Kong will not be affected.

5.58 We further propose that, in principle, the same residence requirement should apply to users of subsidized public health and hospital benefits. We appreciate, however, the considerable impact on a very large number of people in Hong Kong, including residents with less than seven years of stay in Hong Kong, One Way Permit holders and migrant workers. The new arrangement should apply initially to Two Way Permit holders and other visitors. The Secretary for Health, Welfare and Food would need more time to consider how this policy could apply and be implemented for the rest of the population. For workers admitted under the Supplementary Labour Scheme and FDHs, their employers are required by contract to provide them with free medical treatment in the event of illness or injury, whether or not it is attributable to the employment. We believe a more comprehensive medical insurance coverage can be devised to meet the healthcare needs of this group of workers.

²¹ Under the laws of Hong Kong, permanent residents have specific rights, including the right to vote and to stand for election under Article 26 of the Basic Law and to become the principal officials of the HKSAR in accordance with Article 61.

5.59 More and more residents of Hong Kong are moving to foreign countries or the Mainland to live and work nowadays. They probably contribute less to the local economy and are paying no local taxes. There is concern whether they should enjoy the same privileged access to subsidized public services as other residents once they return. The Task Force considers that this concern involves complex issues. Some residents, though away from Hong Kong for a long period of time, may still maintain close links with Hong Kong through property or other asset ownership, supporting the livelihood of residents (e.g. their relatives) in Hong Kong, charitable donations, etc. Time does not permit the Task Force to go into this matter in detail and come to a conclusive recommendation. We suggest that the Administration should review it later.

Recommendations regarding Eligibility for Public Benefits:

To adopt the principle of “seven-year” residence requirement for providing social benefits heavily subsidized by public funds. To consider tightening up the eligibility criterion for CSSA so that such benefits should, from a future date, be available only to residents who comply with the seven-year residence rule (except for children under the age of 18; current residents in Hong Kong will not be affected by this rule); to apply the same principle in respect of public healthcare services to Two Way Permit holders and other visitors and to consider how this policy could apply and be implemented for the rest of the population; to review in the longer term access to subsidized benefits by residents absent from Hong Kong for a long period of time.

Portability of Benefits

5.60 Chapter II highlights the growing trend of Hong Kong people living, working and retiring across the boundary. While the number of cross-boundary trips has been increasing at a dramatic speed, there is as yet no evidence to show that retiring across the boundary has developed into a significant trend. During discussions with experts and other opinion leaders, some have raised the point that with the faster pace of integration with the Pearl River Delta, more people, particularly the elderly, would prefer to live across the boundary to take advantage of the cheaper cost of living and more spacious living environment.

The Government was asked to consider whether appropriate policies could be adopted to facilitate people to live and retire across the boundary.

5.61 We consider that moving to live in the Mainland is essentially an individual's decision. Depending on the pace and scope of our integration with the Pearl River Delta, this may develop into a trend. However, the HKSARG should not adopt policies which are perceived to be coercing people, particularly the elderly, to move across the boundary. CSSA payments for the elderly were made portable to Guangdong from 1997 to provide an additional option for elderly CSSA recipients who prefer to live there. Around 2 800 elderly receive the portable CSSA.

5.62 Whether to extend the concept of portability to other public benefits, such as welfare services, housing and education, requires very careful consideration. Because these benefits are heavily subsidized, extensive cost-benefit analysis has to be conducted to weigh the net effect of such a move to the HKSARG's fiscal position. Moreover, the leakage caused to the local economy as a result of this should also be critically assessed. Given the complexity of the issue and given the Task Force's tight time-table, we recommend that this issue should be addressed in the longer term, taking into account among other things our pace of economic integration with the Pearl River Delta.

Recommendations regarding Portability of Benefits: To address, in the longer term, the issue of portability of public benefits taking into account the pace of our economic integration with the Pearl River Delta; to examine in detail the cost implications of portable benefits for the Government fiscal position and the local economy.

Need for Regular Review

5.63 Population is a highly complex issue with far-reaching implications. The Administration has only six months to work on this complex subject. In this Report, the Task Force seeks to identify the characteristics of HKSAR's population and analyse the main social and economic challenges which our demographic trends present to us. We

seek to set an objective towards which the population policy should aim to work, and to recommend a set of practical measures which should be explored in the short and medium term in pursuit of this objective. In drawing up these recommendations, we have not been able to address some of them in detail due to the constraints imposed by time. We have, nonetheless, attempted to identify all the key issues in this Report. We hope that by doing so the attention of the community can be drawn to these issues such that a fuller discussion and a more informed deliberation of them can follow.

5.64 Both experts and other parties with whom we have discussed strongly suggest that while it is important to formulate an overarching population policy for the HKSAR, it is even more important that the new policy, its instruments and measures, are subject to regular review. Reviews at regular junctures are imperative because, first, policy tools leading to demographic changes usually take effect over a long term. Secondly, many factors and conditions influencing demographic conditions are beyond the Government's control. As mentioned earlier in the Report, our growing linkages with the Pearl River Delta will have profound effects on demographic movements to and fro across the Hong Kong/Pearl River Delta boundary. These have to be monitored and assessed carefully so that timely adjustments can be made to policy measures.

5.65 In the light of these points, the Task Force recommends that there should be dedicated resources in the HKSARG to oversee the population policy, to follow up on the longer-term issues identified, to review its implementation regularly and to aim at publishing a report at regular intervals, say every two to three years.

Recommendations regarding the Need for Regular Review:

To dedicate resources in the Administration to take forward the population policy and review annually the implementation of relevant decisions and programmes, with a view to publishing a report every two to three years.

**Task Force on Population Policy
Membership List**

- Chairman: Mr. Donald Tsang
Chief Secretary for Administration
- Members: Mr. Antony Leung
Financial Secretary
- Mr. Henry Tang
Secretary for Commerce, Industry and Technology
- Mr. Michael Suen
Secretary for Housing, Planning and Lands
- Prof. Arthur Li
Secretary for Education and Manpower
- Dr. E K Yeoh
Secretary for Health, Welfare and Food
- Dr. Patrick Ho
Secretary for Home Affairs
- Mrs. Regina Ip
Secretary for Security
- Mr. Stephen Ip
Secretary for Economic Development and Labour
- Mr. Frederick Ma
Secretary for Financial Services and the Treasury
- Mr. Lai Tung-kwok
Director of Immigration
- Mr. Frederick W H Ho
Commissioner for Census and Statistics

Mrs. Pamela Tan
Commissioner for Labour

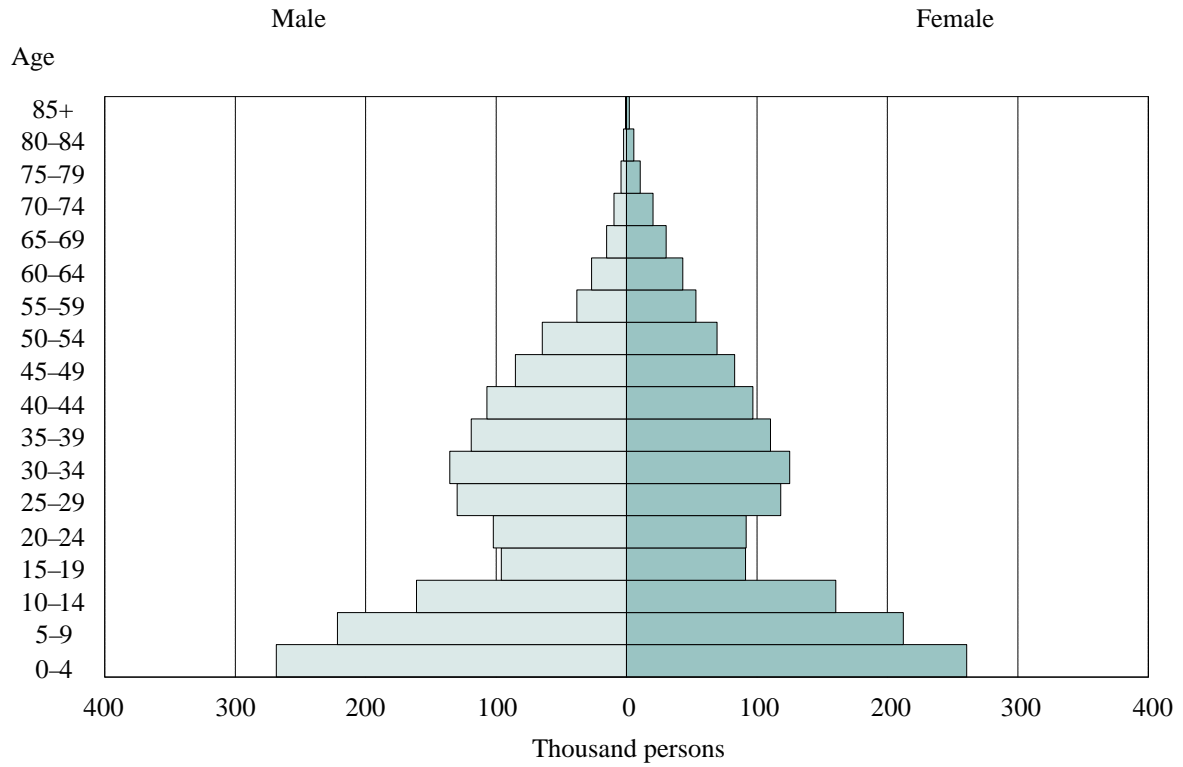
Miss Yvonne Choi
Director of Information Services

Mr. K Y Tang
Government Economist

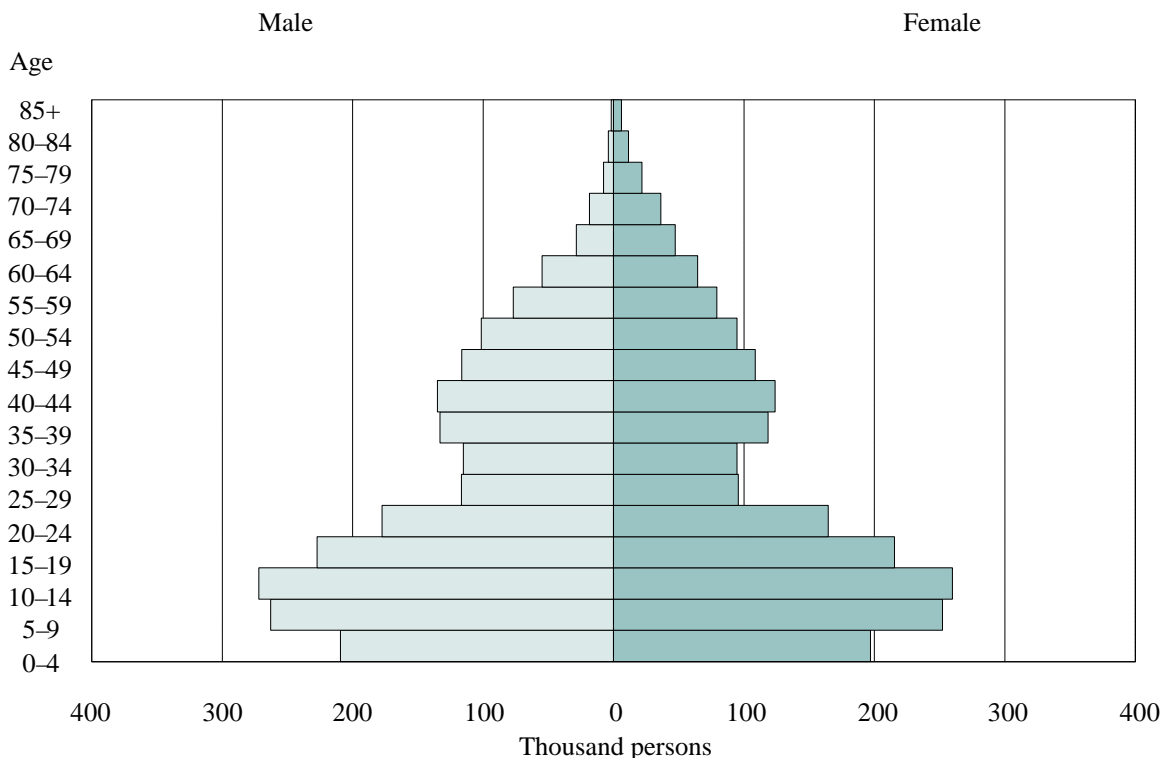
Secretary: Ms Lorna Wong
Central Policy Unit

Population Pyramids for Selected Years

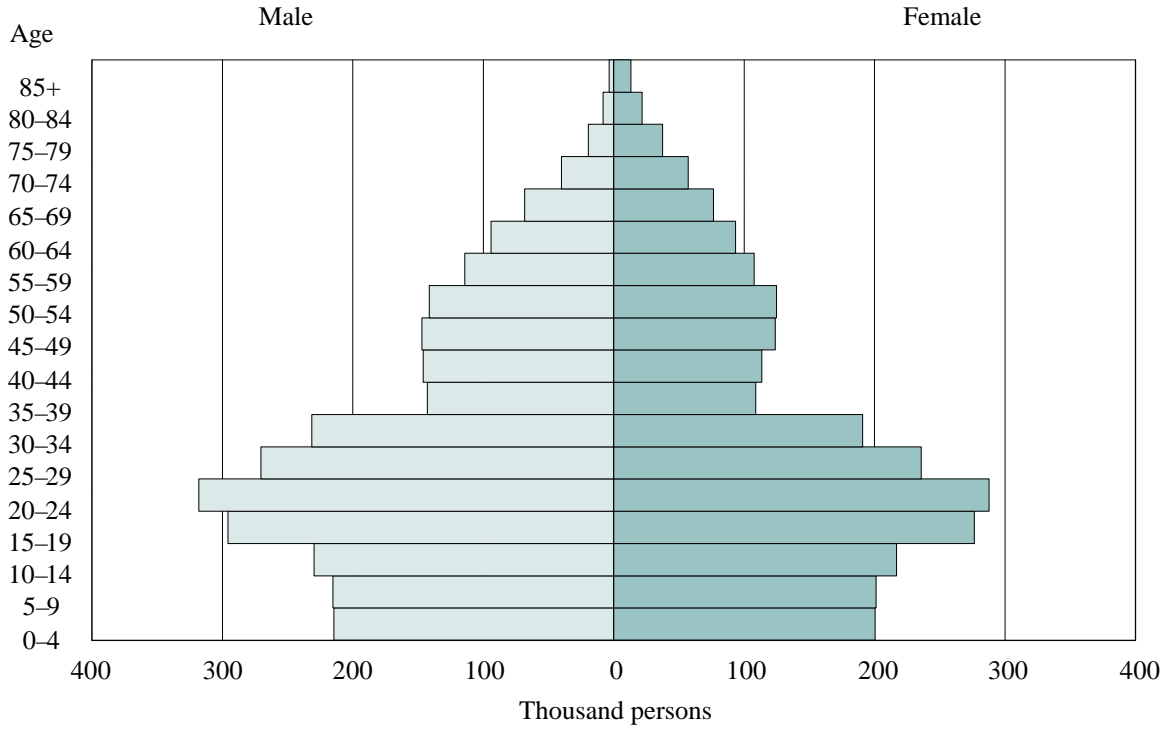
mid-1961



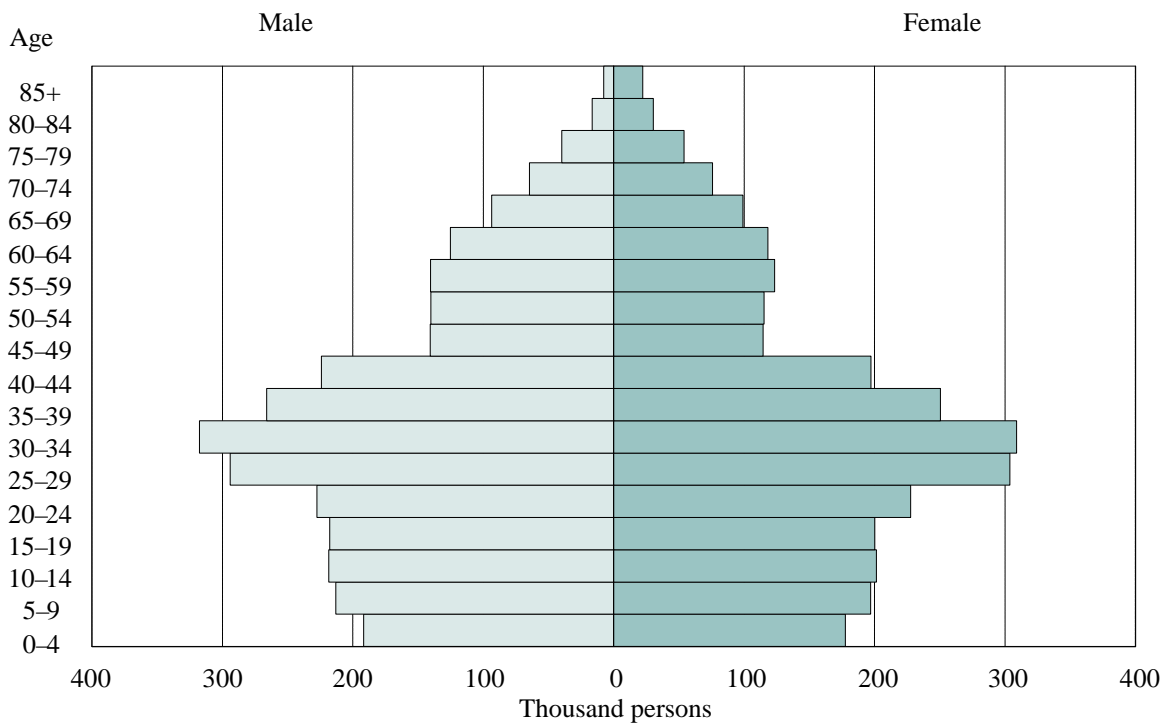
mid-1971



mid-1981

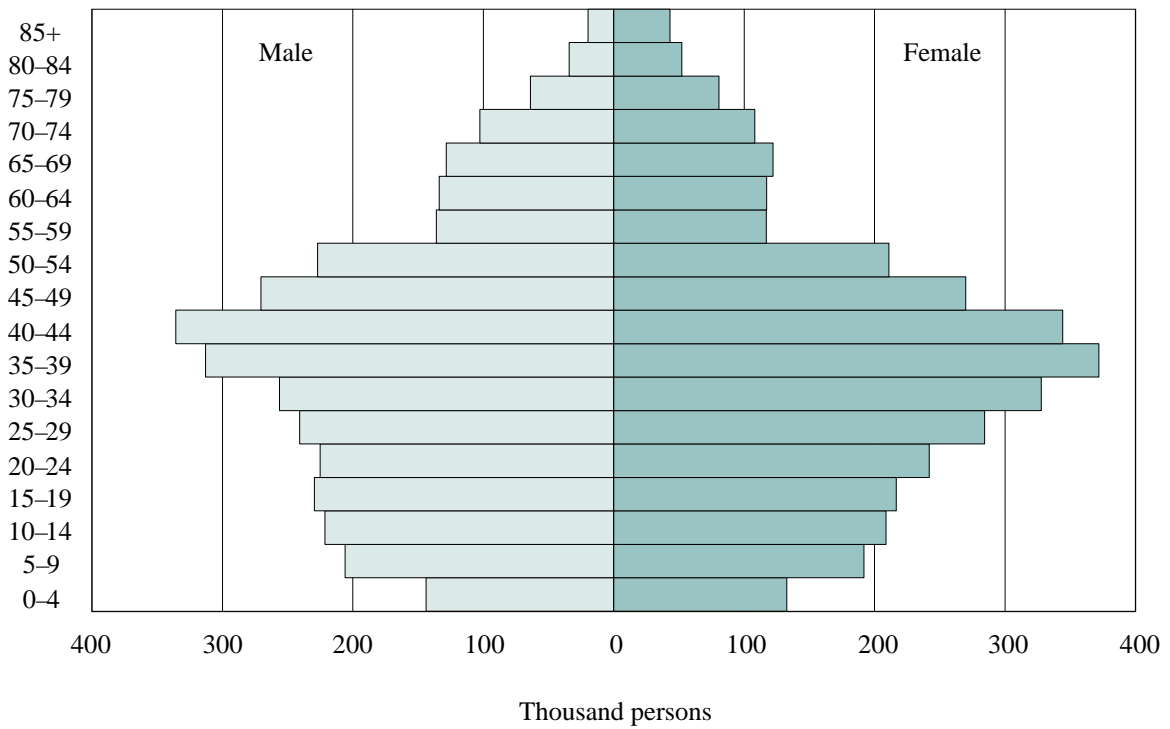


mid-1991



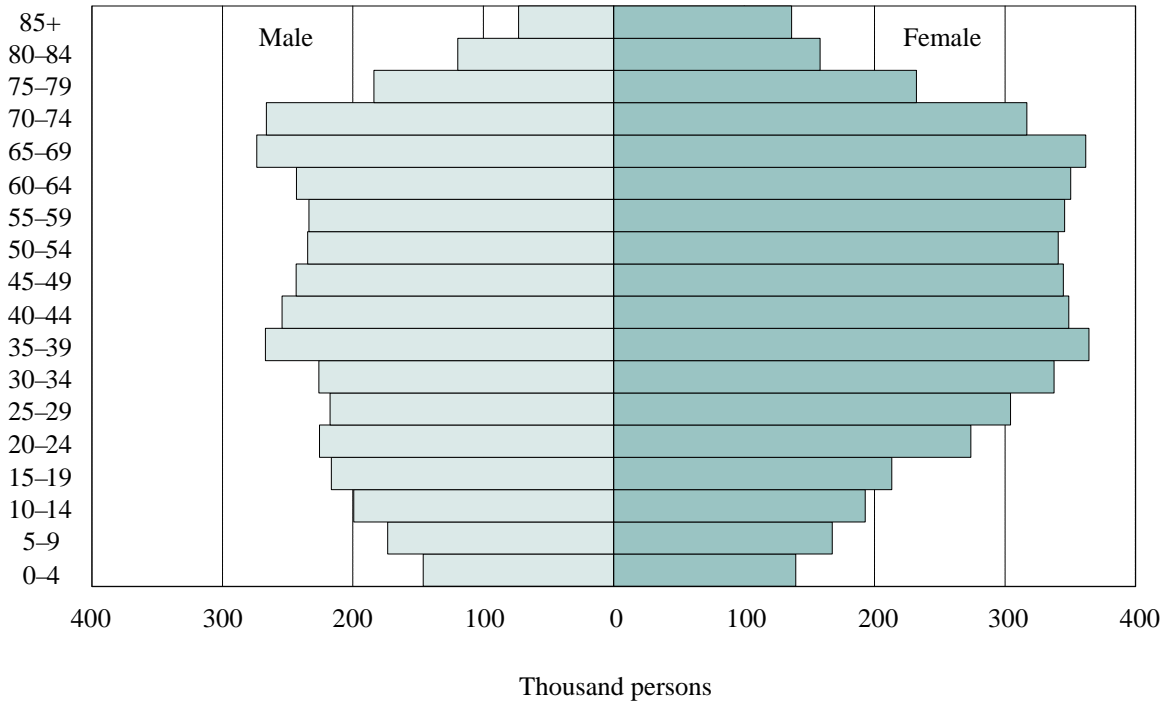
Age

mid-2001



Age

mid-2031 (projected)



Provision of CSSA to New Arrivals

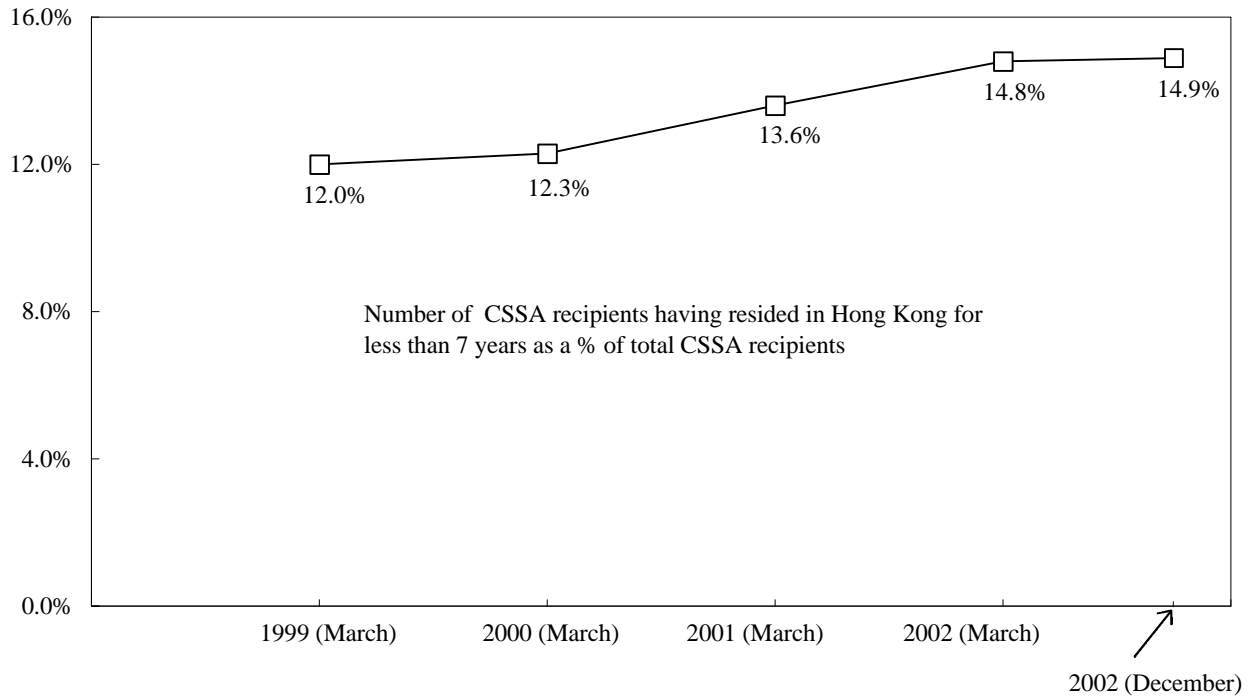
According to the records of Social Welfare Department, there were 69 345 CSSA recipients who were new arrivals in December 2002, 14.9% of all CSSA recipients,²² an increase of 2.9 percentage points from March 1999 (12%). Between March 1999 and December 2002, the number of new arrivals receiving CSSA benefits has increased from 45 945 to 69 345 (a rise of 51%), while the total number of recipients has increased from 382 454 to 466 868 (a rise of 22%).

New arrival CSSA recipients

	<u>New arrivals receiving CSSA</u>	<u>Total CSSA recipients</u>
March 1999	45 945	382 454
March 2000	45 477	370 231
March 2001	50 146	367 470
March 2002	60 982	410 995
December 2002	69 345	466 868

²² New Arrivals on CSSA benefits may include non-Mainland immigrants, though the great majority are new arrivals from the Mainland.

CSSA recipients involving new arrivals

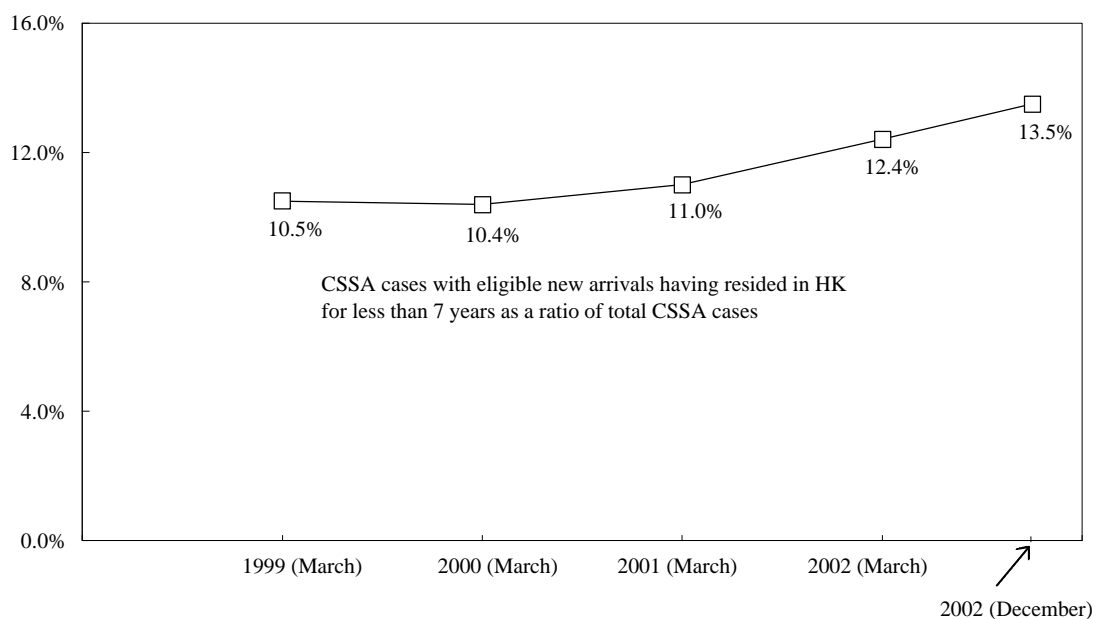


The 69 345 new arrival CSSA recipients came from 36 023 cases, which is 13.5% of the total cases in December 2002, an increase of 3 percentage points from March 1999 (10.5%). Between March 1999 and December 2002, the number of these cases involving new arrivals has increased from 24 400 to 36 000 (+48%), while the total cases have increased from 232 800 to 266 600 (+14%).

CSSA cases with eligible new arrivals

	CSSA cases with recipients Having resided in Hong <u>Kong for less than 7 years</u>	<u>Total CSSA cases</u>
March 1999	24 389	232 819
March 2000	23 708	228 015
March 2001	25 032	228 263
March 2002	30 639	247 192
December 2002	36 023	266 571

Ratio of CSSA cases involving new arrivals



Between March 1999 and June 2002, it is estimated that new arrivals on CSSA benefits rose from 14.3% to 16.6% of all new arrivals.²³ On the other hand, the rest of the population that were CSSA recipients rose from 5.4% in June 1999 to 5.7% in June 2002.

²³ The statistics should be read with caution as those new arrivals are in fact the cumulative number of OWP holders over the past five years prior to the given date. They may have included those who, despite being OWP holders, were not in Hong Kong at the given date.