

# Economic Analysis

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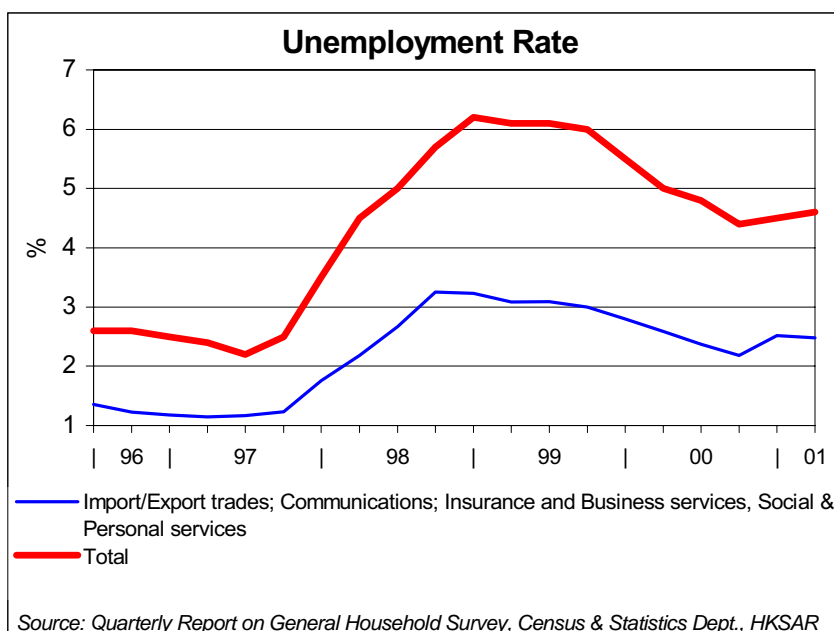
## Labour Market – New Prospects

### Introduction

Unemployment has been a headline topic in Hong Kong since the onset of recession in 1998. An increase in the relocation of support services across the border and a wave of company restructuring announcements, coupled with the US economic downturn, have dampened the near-term employment outlook. However, looking further down the road, employment should pick up. Demand for high-end business services will remain solid. Furthermore, the Mainland job market shows tremendous potential. The expected widening management gap in the Mainland will provide plenty of quality employment opportunities for the Hong Kong workforce. However, in order to take maximum advantage of this opportunity, our labour force must be more flexible.

### Restructuring and Relocation

Since 1998, the overall unemployment rate has remained stubbornly high. However, the impact has been felt unevenly. Import/export trades, communications, insurance and business services, and social and personal services, together employing almost half of Hong Kong's working population, have maintained a combined (weighted average) unemployment rate under 3.3% throughout the economic downturn. Meanwhile, although wage cuts have become increasingly common, the economy still produces a significant number of new high-income jobs. Since 1997, the number of wage earners with an income of over \$20,000 per month has increased by 73,000<sup>1</sup>. Otherwise, downturn in retail and property markets would have been even sharper in the past few years.



The economic slowdown in the US came at a time when Hong Kong was only starting to emerge from recession. The impact of the US slowdown is now certain to prolong the process of consolidation and recovery in the local economy. Two trends have emerged in recent months, and these have already contributed to a renewed rise in unemployment. Firstly, company restructuring is on the increase. Companies that earlier avoided or delayed reductions of employment have been forced to take action in light of the current economic downturn. The reality is that, even after 3 years of deflation and a 60% drop in property prices, Hong Kong is still one of the most expensive cities in the world in which to live and do business. Since general wage reductions similar to the one adopted in Singapore may not be possible, a higher level of unemployment due to restructuring and downsizing is the inevitable market response.

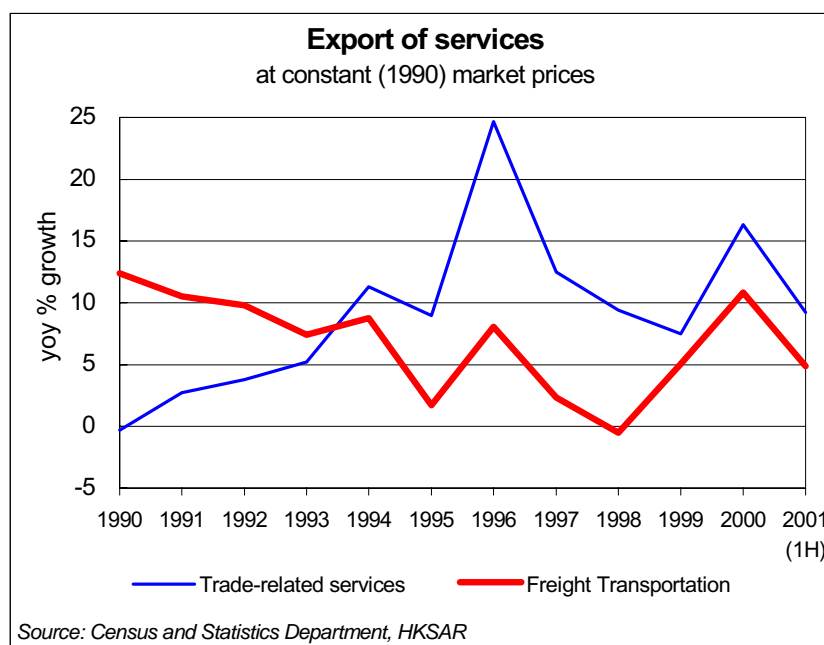
Secondly, as the infrastructure in the Mainland improves, more companies are taking advantage of the new options available to them to enhance their cost competitiveness. For instance, trading companies have increased the use of Mainland ports, such as Yantian, Shenzhen, to transport goods to and from China. As a result, the percentage share of China's trade going through Hong Kong has dropped substantially. This trend has a marked impact on Hong Kong's employment outlook, as freight transport was one of the key growth areas of Hong Kong's economy in the first half of the 1990s, with employment rising by over 20% between 1992 and 1996.<sup>ii</sup> While the 1998-99 recession hit specific domestic sectors, the impact of restructuring and relocation this time is likely to be more widespread.

## Opportunities Ahead

The near-term outlook for the Hong Kong labour market is increasingly gloomy, as the US economy is likely to decelerate sharply in coming months. However, further down the road, China's entry to the WTO offers new hope on at least two fronts.

Firstly, demand in the Mainland for sophisticated business services, such as financial, legal, trading and logistics services, will rise as economic reform in China accelerates. Expertise in these areas probably cannot be developed fast enough to meet the surge in demand. For example, although there are now more than 110,000 lawyers and 60,000 chartered accountants working in the Mainland<sup>iii</sup>, it may take time to bring the Chinese legal and accounting systems to international standards. Clearly, there is a gap to be filled by Hong Kong, with our efficient legal and financial systems, close China connections, dynamic business community and international vision.

Hong Kong's particular skill is its ability to provide high value-added services efficiently. For example, while much cargo handling is diverted to Mainland ports, trade management services, such as merchandizing, sourcing, quality control and marketing, are still retained by Hong Kong businesses. Receipts of trade-related services and their employment have increased by around 50% and 25%, respectively, since 1996<sup>iv</sup>.



Secondly, Hong Kong's labour force can leverage its unique knowledge of practices and markets in both the West and the Mainland. Foreign firms aiming to develop new businesses and expand in China require a management team that can not only communicate well with the home office, but also interacts comfortably with the Mainland social and business community. For private firms in the Mainland, there is an urgent need to upgrade staff with western management skills, in order to defend against the intensifying foreign competition. This will lead to a great demand for people with China experience and modern management expertise over the coming decade. These skills are in short supply in the Mainland, offering an opportunity for Hong Kong workers who have long been trained to bridge the gap between East and West.

To capitalize on these opportunities, Hong Kong workers must make an effort to build upon and refine their strengths. This may start with accepting an assignment that requires travelling to or stationing in the Mainland, followed by cultivating relationships with local business contacts and learning the Mainland social and business culture.

Unfortunately, our record in this regard has not been good to date. Instead of visualizing the Mainland as a land of opportunities, many Hong Kong workers are more mindful of the hardship of working away from home. The opportunities are there, but our workforce has not responded well so far. The opportunities, as well as our competitive edge, may be slipping away from us. In pursuing quality employment, Hong Kong workers should not miss the rich potential of the Mainland market.

## **Conclusion**

We believe a robust China will offer many quality employment opportunities to the local workforce and high-end business services will flourish in Hong Kong. Indeed, these two development trends will reinforce each other.

A ‘Made in Hong Kong’ manager is likely to draw on his connection back home. He would make professional services available in Hong Kong more accessible to Mainland firms, forging closer economic integration between Hong Kong and China. Economic activities here would remain vigorous, as the success of Hong Kong professionals in the Mainland would create demand for services in our city and, in turn, generate additional job opportunities. The situation is similar to the last economic restructuring, where the successful relocation of our manufacturing facilities has brought numerous trade-related business opportunities to Hong Kong.

Hong Kong has built its success on bringing ‘Made in China’ products to the West. Workers put in a diligent effort to serve our foreign customers, including learning foreign cultures, languages and ways of doing business. The future success of Hong Kong weighs on its ability to bring the business expertise learned into the Mainland. We should work as hard as before to serve our Mainland customers. This is where our labour force should place its priorities to carry Hong Kong to the next peak.

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<sup>i</sup> Quarterly Report on General Household Survey, Census and Statistics Department, HKSAR

<sup>ii</sup> Hong Kong Annual Digest of Statistics, Census and Statistics Department, HKSAR

<sup>iii</sup> “China’s WTO Accession – Implications for Hong Kong as an International Business Centre”, Hong Kong Trade Development Council

<sup>iv</sup> Hong Kong Annual Digest of Statistics, Census and Statistics Department, HKSAR

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