Economic Analysis

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Job-market enabler

Hong Kong has long been an export-led economy, with growth in external trade driving both domestic-sector expansion and job creation.

In the past, the external and domestic sectors worked in concert, with the former generating investment dollars and jobs for the latter. No longer. While exports continue to climb, job creation is not keeping pace with the growth in the labour force, resulting in rising unemployment.

This trend emerged as the make-up of our external trade shifted increasingly toward higher value added services. These services now tend to produce fewer jobs than our economy did in the past. A drop in investment inflow into Hong Kong has further exacerbated the problem.

Exporters create fewer jobs

In the 1990s, the very robust growth in export services stimulated job creation. From 1991 to 1998, employment in the transportation and export/import sectors grew by 57%, or 260,000, in tandem with the growth in service exports. This helped to compensate for job losses in the manufacturing sector, keeping unemployment at a low level. However, this pattern of job creation has since slowed. From 1998 onwards, the number of jobs in transportation and trade services has remained stagnant, despite the persistent growth in the value of services trade. Employment fell by 4% while service exports rose by 34% between 1998-2002.

Source: Census and Statistics Department

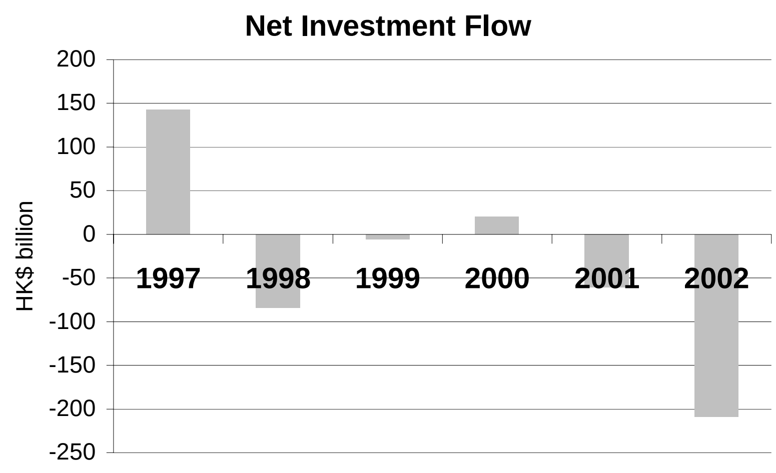
This fall-off in employment, even as the value of exports continued to rise, occurred alongside the growing use of airfreight by local and regional exporters to meet the demand for "just-in-time" delivery of products such as computer components. Airfreight merchandise exports have risen 42% since 1997, compared to flat growth in other trade modes. However, airfreight merchandise trade creates less employment per dollar value compared to land and sea trade. Employment in the air transportation sector has risen by a mere 5% since 1997, failing to match the robust increase in trade volume.

We also see an increasing portion of container traffic bypassing Hong Kong ports, as Hong Kong traders take advantage of the improvement in the Mainland's port facilities. Even as these traders' merchandising and sourcing activities have expanded, their reliance on Hong Kong's container facilities has waned. Offshore trade has grown significantly in recent years, overtaking onshore trade and accounting for 50% of trading activities in 2000, compared to 34% in 1991.

Similar to the experience of the airfreight sector versus the port sector, offshore trade produces fewer local jobs than onshore trade.

Less investment flow into Hong Kong

To make matters worse, investment inflows into Hong Kong have dropped since 1997. In particular, local exporters with Mainland operations are bringing fewer earnings back into Hong Kong. The stream of earnings from the Mainland operations of Hong Kong entrepreneurs is estimated to be HK$160-250 billion annually. The buoyant economy before the Asian Financial Crisis succeeded in attracting and retaining investment in Hong Kong, and the capital was channelled into the real economy through the then robust property market. Following the meltdown of the property market, however, fewer investment dollars are flowing into Hong Kong.



Source: Census and Statistics Department

Meanwhile, the upsurge of investment opportunities in the Mainland has siphoned off investment from Hong Kong to expanding Mainland trade operations. As such, fewer and fewer real investment dollars are being pumped into our economy. Our balance-of-payments registered net investment outflows in four of the past five years. This has significant negative bearing on the domestic economy and hence on unemployment.

New objective for government policy

As the development in Hong Kong's external trade is centered on airfreight and offshore trading, and the inflow of capital is constrained by the paucity of business opportunities locally, job creation might be slow. This is a structural issue, and an upturn in the economic cycle would not automatically solve the problem. High unemployment will remain with us in the near term, even if the external environment rebounds.

Persistent high unemployment will have a significant bearing on the government's fiscal position, as joblessness will result in higher spending on social measures and welfare. Furthermore, the general sense of job insecurity will be a drag on the economy, sapping consumer confidence and fostering a reluctance to make long-term commitments, such as childbearing and property ownership.

The government is now under increasing pressure to find ways to solve this problem. Apart from creating a business-friendly environment, the government has become involved in nurturing new economic frontiers in the hope that they will produce businesses and jobs. We believe this is the rationale behind the concept "proactive market enabler" advocated by the Financial Secretary in the 2002/03 Budget. The largest such initiative undertaken to date is the Disneyland project, which, it is estimated, will create about 35,800 jobs. In addition, the project also creates new investment opportunities in Hong Kong, in the hotel, entertainment and restaurant sectors to name but a few. The latest move to develop creative industries in Hong Kong, and efforts to foster greater integration within the Pearl River Delta, are also aiming at creating more business and employment opportunities.

Conclusion

Responding to the higher unemployment rate in longer term, the government is taking a more active role in exploring new economic opportunities, and hopefully, the bigger economic pie will create more job positions. The dual objectives of nurturing new business frontiers and creating employment pose unprecedented challenges on the government. Since these initiatives will necessarily involve the aid of policy changes and resources re-deployment, any misallocation will cost dearly the public money and send the market force in disarray.

As the government is not known for its ability to steer through unpredictable market changes, the new mandate has put it into uncharted territory. The matter of concern is not only how much resource the government will be spending on the economy, but also how capable it will be in generating viable business solutions for the future economy. Broader involvement of the business community in the planning of these initiatives will be crucial.

Furthermore, at a time when the public calls for a smaller government and fiscal deficit reduction, a more active role of the government in the economy appears to be in contradictory. It is important for the government to reduce its existing involvement in the economy through privatization and downsizing to create room for the new projects and initiatives. In short, the government must evolve to become a more dynamic institution before it can introduce new dynamics to the economy.

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