

**Commission on Strategic Development  
Committee on Economic Development and  
Economic Cooperation with the Mainland**

**Creation of Employment**

**I. Purpose**

This paper reviews the development of Hong Kong's labour market and the current employment situation, and the policy measures taken by the Government to address the unemployment and underemployment problems; and invites Members to share their views on strategies to improve the employment situation.

**II. Background**

2. Hong Kong has enjoyed significant economic growth and social development in the past few decades. In recent years, globalization and development in information technology have brought revolutionary changes to the business environment and job market worldwide. Hong Kong is not an exception. Moreover, like other developed economic entities, Hong Kong is now undergoing a rapid economic restructuring and transformation into a knowledge-based and higher-value added economy. Despite the fact that we have a highly adaptable workforce, we are constantly faced with great challenges.

3. This paper briefly reviews the major developments in Hong Kong's labour market in the last 10 years or so, making reference where necessary to the trends in some overseas economies. This is followed by a review of the current unemployment and underemployment situation and a summary of remedial policy measures adopted recently by the Government. Finally, the paper invites Members to discuss the strategic direction and possible additional measures for the future.

### III. Overall Unemployment Situation Since the 1990s

4. The Hong Kong economy underwent tremendous gyrations during the past decade, caused mainly by external shocks such as the Asian financial crisis in 1997, the global economic slowdown in 2001, and the spread of the Severe Acute Respiratory Syndrome (SARS) in early 2003. Against this backdrop, annual real GDP growth fluctuated widely between -5.5% in 1998 and 10.0% in 2000. Although the Hong Kong economy, being highly flexible and resilient, has by now shrugged off most of the earlier sluggishness, such vicissitudes still have some lingering effects on investors and consumers. Until most recently, local employers generally have remained rather stringent about staffing. This is a major reason behind the still rather higher unemployment now than in the pre-crisis years (*Table 1*).

**Table 1 – Labour market indicators and GDP growth**

	Unemployment	Underemployment	Real GDP
	<u>rate (%)</u>	<u>rate (%)</u>	<u>growth (%)</u>
1990	1.3	0.9	4.0
1991	1.8	1.6	5.7
1992	2.0	2.1	6.5
1993	2.0	1.6	6.3
1994	1.9	1.4	5.6
1995	3.2	2.1	3.9
1996	2.8	1.6	4.2
1997	2.2	1.1	5.1
1998	4.7	2.5	-5.5
1999	6.2	2.9	4.0
2000	4.9	2.8	10.0
2001	5.1	2.5	0.6
2002	7.3	3.0	1.8
2003	7.9	3.5	3.2
2004	6.8	3.3	8.6
2005	5.6	2.8	7.3
2006 Q1	5.2*	2.3	8.0
Q2	5.0*	2.7	5.2
Q3 <sup>#</sup>	<b>4.7*</b>	<b>2.3</b>	<b>N.A.</b>

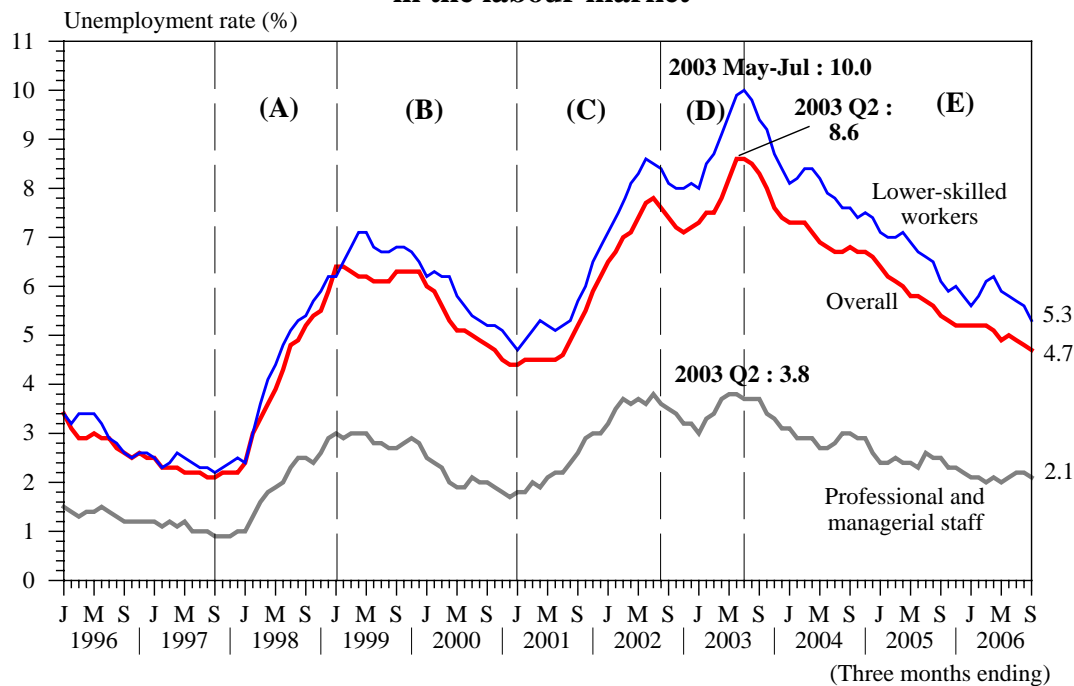
Notes: (\*) Seasonally adjusted unemployment rate is used.

(#) Provisional figures.

N.A. Not available.

5. More specifically, following the onset of the Asian financial turmoil, the sharp contraction in labour demand led to a marked surge in both unemployment and underemployment. The seasonally adjusted unemployment rate jumped from 2.1% in Q3 1997 to a high of 6.4% in November 1998 – January 1999, while the number of unemployed persons likewise almost tripled from 69 600 to 194 600 (*Zone A, Chart 1*). Concurrently, the underemployment rate and the number of underemployed persons leapt from 1.0% and 32 500 to 3.1% and 101 800 respectively.

**Chart 1 : Economic upturn leading to broad-based improvements in the labour market**



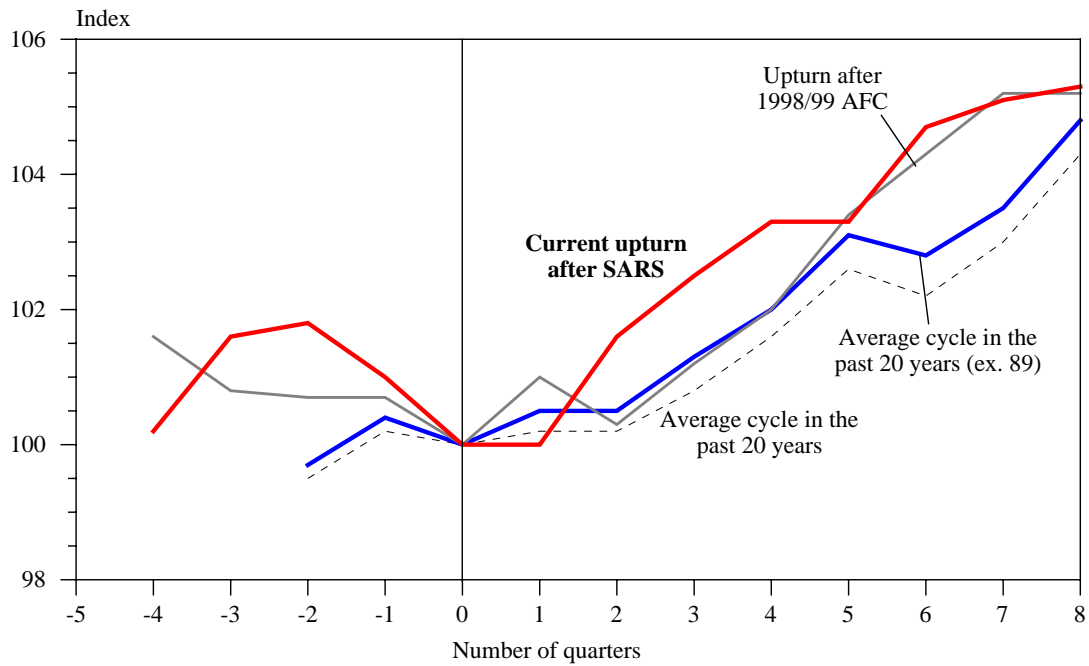
6. Nevertheless, in 1999 and 2000 there was a rapid economic rebound which transpired into some improvement in labour market conditions. The seasonally adjusted unemployment rate, whilst still hovering above 6% for most of 1999, eased back during the course of 2000 to 4.4% at the year-end (*Zone B, Chart 1*). During that two-year period, the underemployment rate also came down, albeit less visibly, to 2.5-2.6%.

7. However, consequential to the global economic downturn which was further aggravated by the 9-11 incident in 2001, the Hong Kong economy soon entered into another doldrums. Labour market conditions worsened, with the seasonally adjusted unemployment rate rising sharply from 4.4% in Q4 2000 to a fresh high of 7.8% in mid-2002 (*Zone C, Chart 1*). Meanwhile, the underemployment rate showed more volatile movements, fluctuating between 2.6% and 3.2%.

8. Then the Hong Kong economy and labour market suffered a further setback in early 2003, consequent upon the outbreak of SARS. The seasonally adjusted unemployment rate surged, within a very short period of time, to an all-time high of 8.6% in Q2 2003 (*Zone D, Chart 1*). So did the underemployment rate, to 4.3%. By mid-2003, there were more than 300 000 persons unemployed and around 150 000 persons underemployed. Workers with lesser skills and lower educational attainment were the hardest hit.

9. Yet thanks to the robust economic revival after SARS, the employment situation has since shown a marked turnaround. Comparing the latest period with the trough in mid-2003, more than 300 000 jobs have been created so far (*Zone E, Chart 1*). Thus the current economic recovery is not a jobless one as alleged by some commentators in the past couple of years. In terms of the job creation capability, the current recovery compares favourably with the past economic cycles in the 1980s and 1990s (*Chart 2*). Although only 37% of the newly created jobs belong to the lower-skill category, the unemployment situation of workers at the lower segment has still displayed a substantial improvement, as the growth in the respective labour demand was faster than that in labour supply. By comparison, the higher-skilled workers tend to benefit much more from the job creation process, with some professions now facing a supply shortage (*Chart 3*). Also, there has been a clear tendency among the workforce towards skills upgrading in recent years (*Chart 4*). These developments can be seen as a reflection of the ongoing adjustment in the local labour force to the structural transformation of Hong Kong into a knowledge-based economy.

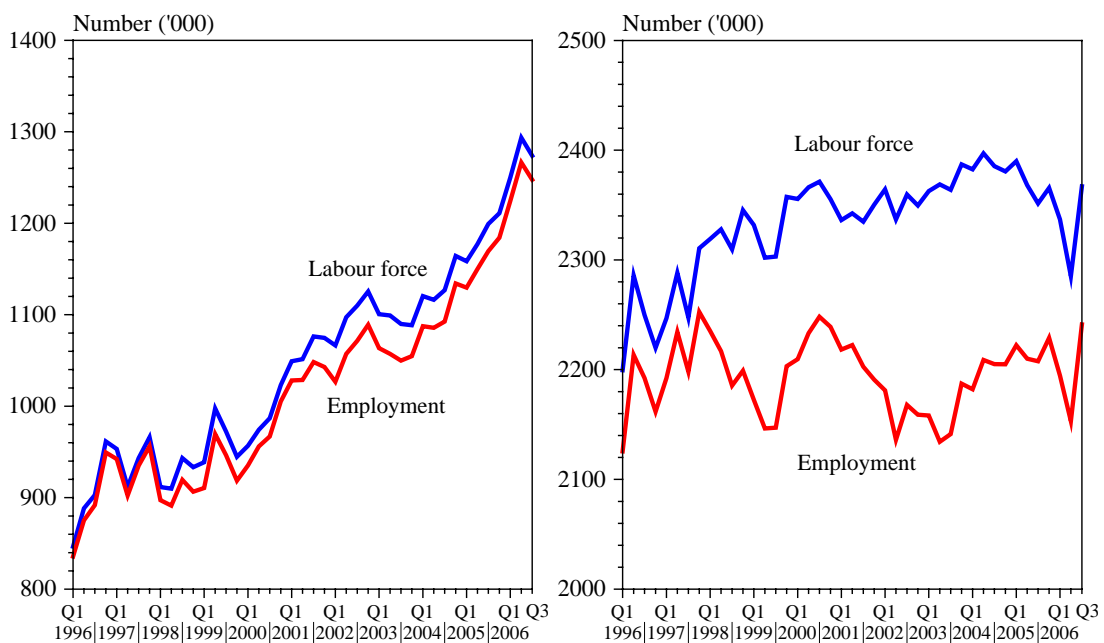
**Chart 2 : Time path of total employment in current upturn  
of an average economic cycle in the 1980s and 1990s**



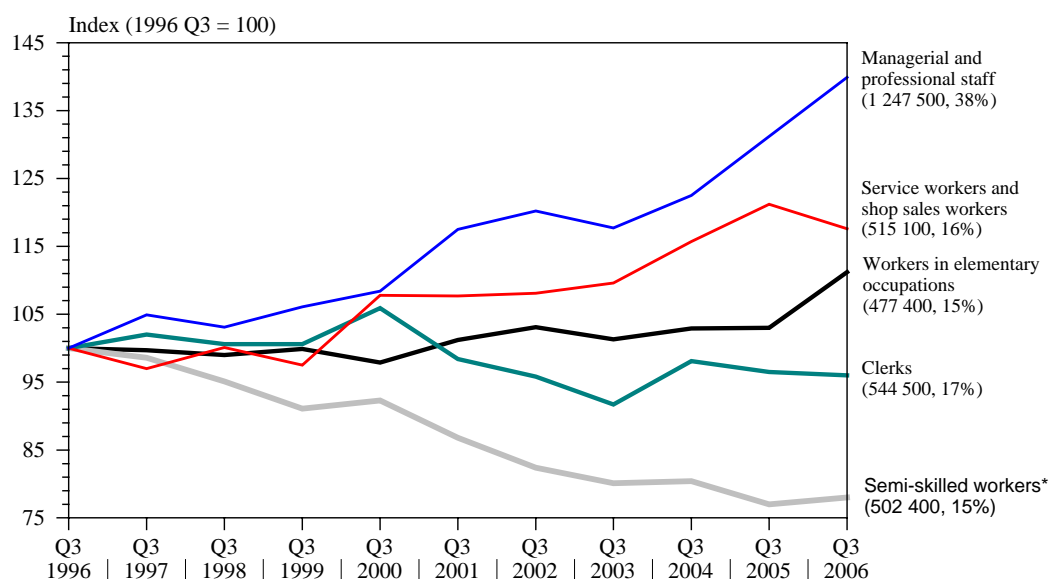
**Chart 3 : Employment and labour force trends since 1996**

(a) High-skilled workers

(b) Lower-skilled workers



**Chart 4 : Substantial job upgrading**



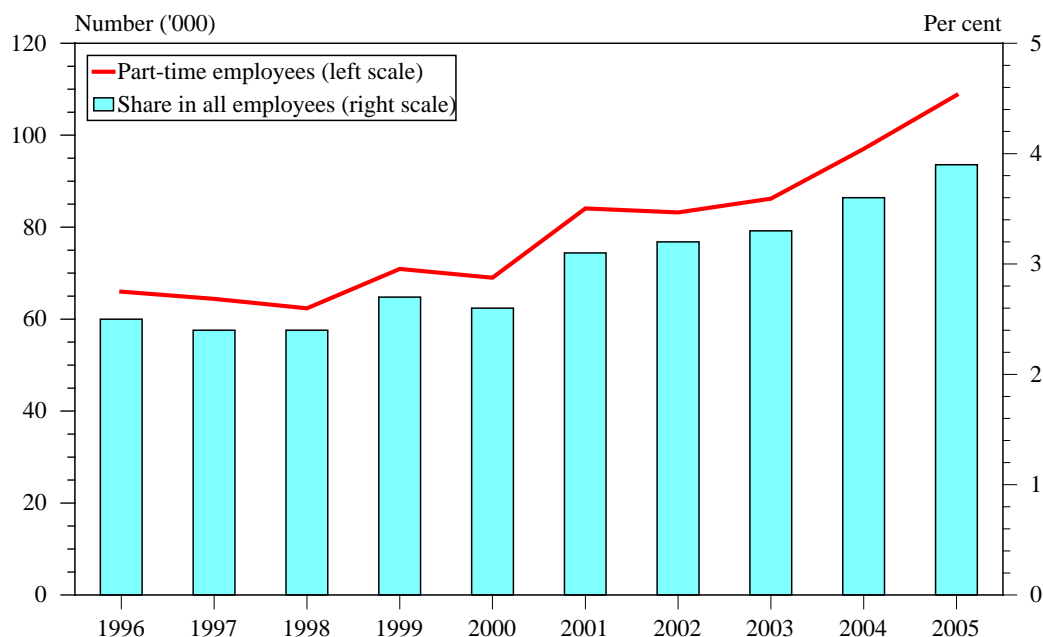
Notes : Figures in brackets represent the number of employed persons (excluding foreign domestic helpers) in Q3 2006, and the percentage shares refer to the proportion of employed persons engaged in the respective occupations.

(\*) Semi-skilled workers include craft and related workers, and plant and machine operators and assemblers.

10. Also noteworthy is that among the local employees (which accounted for 87% of all employed persons in 2005), the proportion of those working part-time<sup>(1)</sup> has been on the rise in the more recent years, as employers have generally opted for more flexibility in work arrangements in face of the ups and downs in the economy (*Chart 5*). Some employees, especially those females, may like to work part-time in order to supplement family income. Among the various age groups, part-time workers are found to be in greater proportion at either end of the age spectrum, i.e. those persons aged 15-19 and aged 60 or above, as well as among those with lower education level. Moreover, a sizeable proportion is also observed among middle-aged women. Relative to the other groups of workers, these particular groups tend to have higher job turnover rate. Analysed by sector, community, social and personal services, and the wholesale, retail and import/export trades, restaurants and hotels are the ones with larger shares of part-time workers. Consistent with this sectoral pattern, workers in elementary occupations, and service workers and shop sales workers are more likely to engage in part-time jobs.

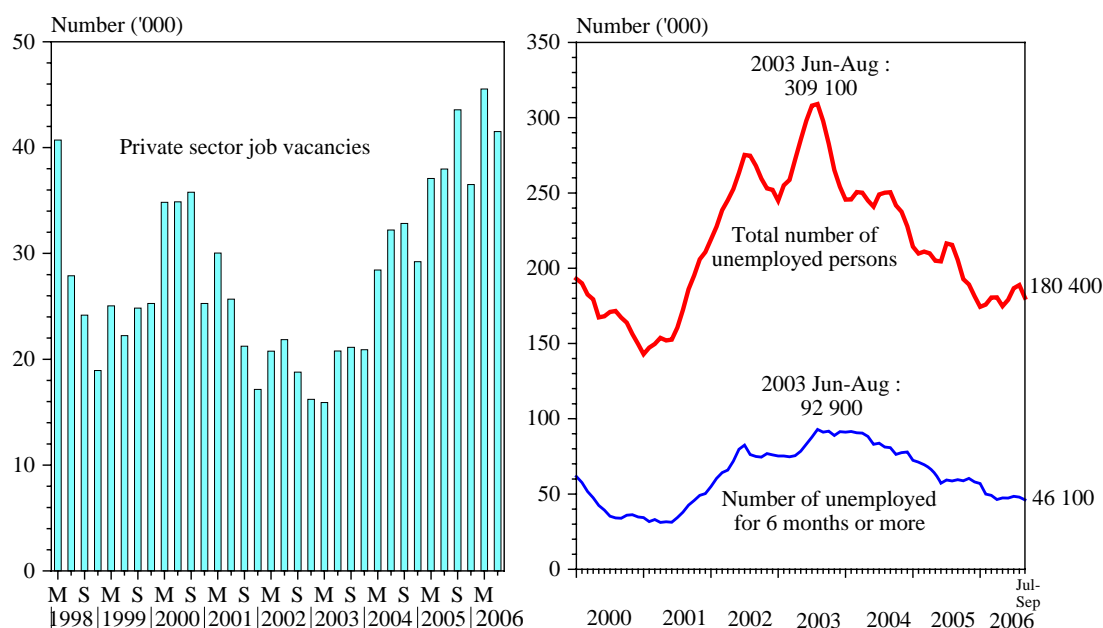
<sup>(1)</sup> Part-time employees refer to those working less than 35 hours during the 7 days before the enumeration, but excluding those working shorter hours due to vacation/holidays and the underemployed.

**Chart 5 : Number and share of part-time employees**



11. As an additional indicator of the recent robust labour demand, job vacancies in private sector establishments also rose appreciably by 9.3% over a year earlier to some 40 000 vacancies in June 2006. This was in fact the highest level recorded for the month of June since 1997. At the same time, the number of long-term unemployed persons (i.e. for six months or longer) went down markedly to 46 100, less than half the level in mid-2003. Thus, unemployment eased not only in scale but also in intensity (*Chart 6*).

**Chart 6 : Job vacancies rising solidly; long-term unemployment down significantly**



12. Even so, the latest unemployment rate (at 4.7%) and the numbers unemployed and underemployed (at 180 400 and 86 200 respectively) are still fairly high by Hong Kong's historical standard. This is often cited as a manifestation of significant skills mismatch in the local labour market. A simple correlation analysis suggests that, during 1996-2005, both the unemployment rate and the underemployment rate bore a somewhat looser relationship with overall economic activity (as proxied by preceding year's real GDP growth to reflect that labour market indicators normally lag business cycle movements), as compared to that seen in the previous decade. Meanwhile, the overall labour market conditions appeared to have responded visibly more to the productivity-adjusted cost of hiring, viz the real unit labour cost (RULC)<sup>(2)</sup> (*Table 2, Charts 7 and 8*). As shown in *Chart 8*, RULC rose notably during the years of economic downturn (1997-2001), mainly due to the slowdown in labour productivity and output. This can rather be regarded as a signal of the need for wage cut and staff retrenchment, which usually come with time lag, to restore competitiveness, thereby yielding a positive relationship between RULC and unemployment/underemployment rate.

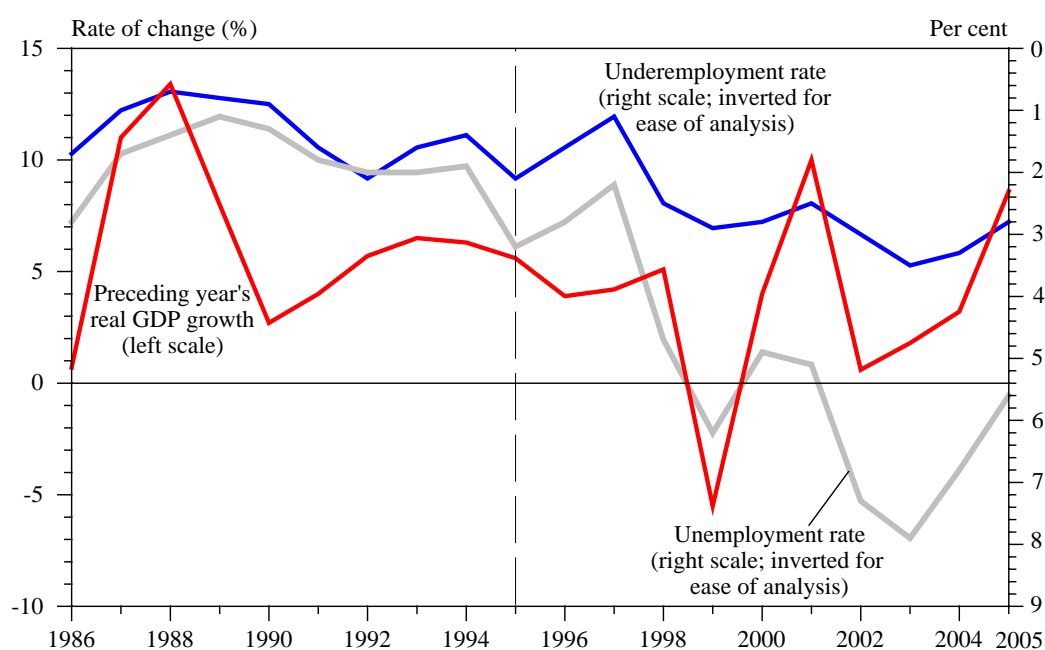
<sup>(2)</sup> Here real unit labour cost (RULC), which is proxied by the share of Compensation of Employees (CoE) in total GDP at factor cost, can be defined as the average annual staffing cost per unit of output. RULC can also be interpreted as a measure of productivity-adjusted labour cost. Normally, an increase in RULC tends to lift both the unemployment rate and underemployment rate.



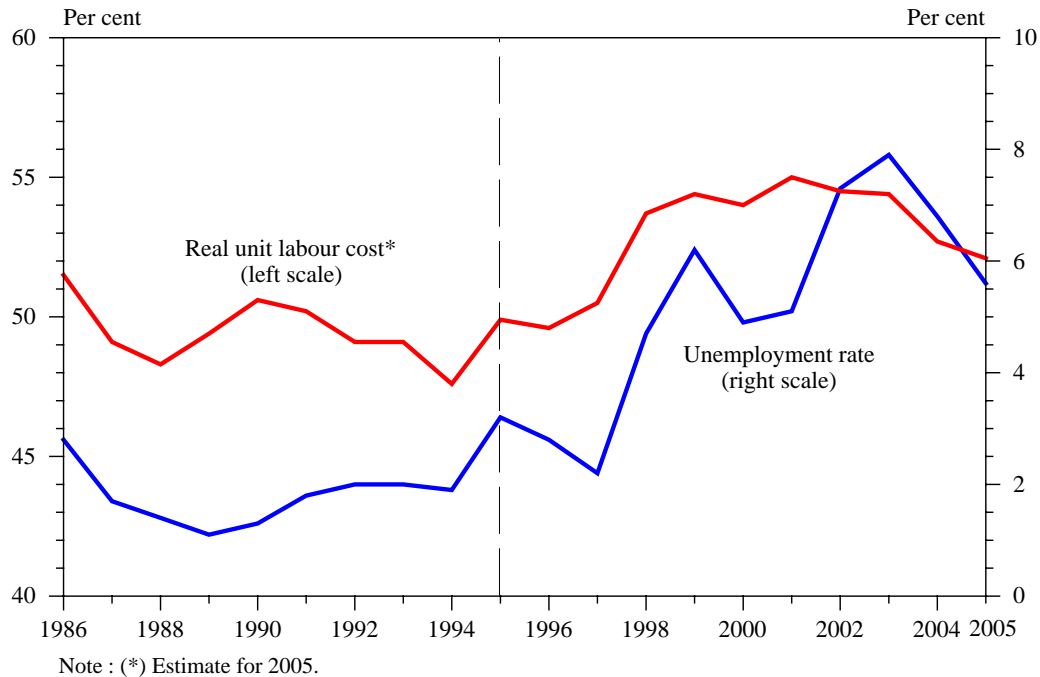
**Table 2 – Correlation between major labour market indicators, economic growth and real unit labour cost**

	<u>Unemployment rate</u>		<u>Underemployment rate</u>	
	<u>Real GDP growth</u> <sub>t-1</sub>	<u>Real unit labour cost</u>	<u>Real GDP growth</u> <sub>t-1</sub>	<u>Real unit labour cost</u>
1986-1995	-0.432	0.153	-0.523	0.091
1996-2005	-0.326	0.860	-0.248	0.862

**Chart 7 : Real GDP growth, unemployment rate and underemployment rate**



**Chart 8 : Real unit labour cost and unemployment rate**



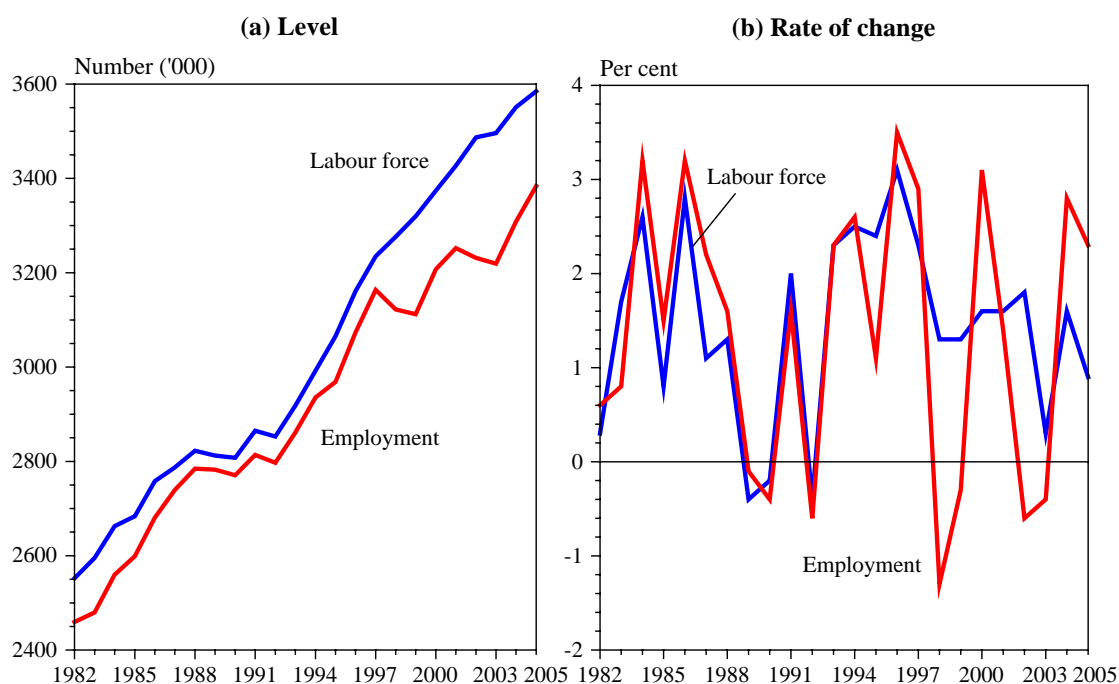
13. This notwithstanding, the pace of employment creation is still critically linked to the pace of economic expansion. An analysis of the developments since the early 1990s indicates that around 3% growth in real GDP is required to generate 1 % growth in total employment (**Table 3**). Thus, if the economy were to slip into recession as that experienced in the aftermath of the Asian financial turmoil, employment would naturally falter in tandem, thereby widening the gap between labour demand and labour supply and causing the unemployment rate to surge as a result. Conversely, for the unemployment rate to fall, the economy would need to expand at above-trend growth in order to generate sufficient employment growth that would more than cover the natural increase in labour supply (1% in recent years) but also absorb the surplus labour (i.e. unemployed workers) into the market (**Chart 9**).

**Table 3 – Economic growth and total employment growth**

	<u>Average annual growth (%)</u>		
	<u>Total employment</u>	<u>Real GDP</u>	<u>% growth in employment per 1% growth in real GDP</u>
1991-1996	1.7	5.4	0.32
1996-2005	1.3	3.9	0.34
2004-2005	2.5	7.9	0.32
Q3 2003 to Q3 2006*	3.0	8.3	0.37

Note: (\*) Real GDP for Q2 2003 and Q2 2006 are used.

**Chart 9 : Employment and labour force trends since the early 1980s**



14. Over the years, the Government has been striving to improve the employment situation through promoting overall economic development and growth. Apart from reducing trade barriers and facilitating business activities in the local economy, measures have also been implemented to promote economic cooperation with the rapidly growing Mainland economy. In this connection, the major policy initiatives adopted in recent years include the Closer Economic Partnership Arrangement (CEPA), the Individual Visit Scheme (IVS), and the Pan-PRD Regional Co-operation Framework. An assessment done in early 2005 indicated that CEPA I was expected to create about 29 000 jobs in the first two years of its implementation, with over half or some 16 000 attributable to IVS. Promotion of the labour-intensive inbound tourism industry would thus go a long way to generate new employment opportunities for lower skilled workers. The subsequent implementation of CEPA II & III and further extension of IVS over the past year or so should have helped create additional jobs for the local workforce.

15. Further analyses on sectoral unemployment in the latter part of this paper reaffirm the point that whilst economic growth is still a key factor affecting the overall employment situation, the sources and pattern of growth also matter. Also, it is noted that certain factors of cyclical nature have recently been at work to hold back the improvement in unemployment. In this sense, while structural factors are indeed important in pushing the unemployment rate higher in recent years, their significance should not be

overstated, especially if the cyclical perspective of the issue is also taken into account.

#### **IV. Current Unemployment and Underemployment Situation**

16. Clearly, the labour market conditions have been steadily improving in recent years, in tandem with the recovery in economic activity. The seasonally adjusted unemployment rate fell to a 62-month low of 4.7% in Q3 2006. Workers at all levels have benefited from this favourable development. In particular, the lower-skilled workers<sup>(3)</sup>, who accounted for nearly two-thirds of the local workforce, saw a visible decline in their unemployment rate from 10.0% to 5.3% over the period. But this was still distinctly higher than that for high-skilled workers<sup>(4)</sup> at 2.1% (*Chart 1*).

17. From time to time, there have been debates about what the Government should do for the lower-skilled workers or those who have benefited little from the economic recovery. They are the ones having great difficulty in adapting to the ongoing structural transformation towards higher value-added and knowledge-based activities (please see later sections for details).

#### **V. Unemployment Trends in Selected Overseas Economies**

18. Due to differences in data definition and coverage, it is difficult to analyse and compare unemployment figures across different economies, not to mention the complications stemming from their multifarious economic structures. Moreover, the varying size of the public sector in different economies means that the effectiveness of Government's job creation programmes will have very different impacts on the overall employment situation, thereby bringing about additional difficulties in interpreting such a cross-economy comparison.

19. Despite these technical limitations, the unemployment trends of several developed economies (viz Australia, Germany, Japan, Republic of Korea, New Zealand, Singapore, the United Kingdom and the United States) since the mid-1980s have been briefly reviewed. Several salient observations can be deduced: (1) thanks to vibrant global economic growth,

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<sup>(3)</sup> Including low-skilled workers such as clerks, service workers and shop sales workers, and workers in elementary occupations, as well as semi-skilled workers like craft and related workers, and plant and machine operators and assemblers.

<sup>(4)</sup> Including managers and administrators, professionals and associate professionals.

unemployment rate in most of the selected economies have come down by varying extent in the more recent years, except in Germany, the United Kingdom and the Republic of Korea where economic growth was either moderating or lagging behind in the global business cycle; (2) same as in Hong Kong, the current unemployment rate in the selected Asian economies is generally higher now than in the early 1990s, conceivably partly reflecting the lingering effect of the Asian financial turmoil; and (3) whilst the much elevated unemployment rate in Germany after 1991 was due in a large part to the unification, this also signified the need for further structural reforms to reduce rigidities in Germany's labour market (*Table 4*).

**Table 4 – Unemployment rate in selected developed economies**

	<b>Hong Kong</b>	Australia	Germany <sup>#</sup>	Japan	Korea	New Zealand	Singapore	U.K.	U.S.
1986	<b>2.8</b>	7.9	7.9	2.8	3.8	4.1	N.A.	11.3	7.0
1987	<b>1.7</b>	7.9	7.9	2.8	3.1	4.1	3.9	10.9	6.2
1988	<b>1.4</b>	7.0	7.8	2.5	2.5	5.6	2.6	8.9	5.5
1989	<b>1.1</b>	6.0	7.1	2.3	2.6	7.1	1.8	7.3	5.3
1990	<b>1.3</b>	6.7	6.4	2.1	2.5	7.8	1.8	6.9	5.6
1991	<b>1.8</b>	9.3	5.7	2.1	2.4	10.3	1.8	8.5	6.8
1992	<b>2.0</b>	10.5	8.1	2.2	2.5	10.3	1.8	9.8	7.5
1993	<b>2.0</b>	10.6	9.6	2.5	2.9	9.5	1.7	10.5	6.9
1994	<b>1.9</b>	9.5	9.3	2.9	2.5	8.1	1.7	9.8	6.1
1995	<b>3.2</b>	8.2	9.9	3.2	2.1	6.2	1.8	8.8	5.6
1996	<b>2.8</b>	8.2	10.8	3.4	2.1	6.1	1.7	8.3	5.4
1997	<b>2.2</b>	8.3	11.7	3.4	2.6	6.6	1.4	7.2	4.9
1998	<b>4.7</b>	7.7	10.8	4.1	6.9	7.4	2.5	6.3	4.5
1999	<b>6.2</b>	6.9	10.3	4.7	6.6	6.8	2.8	6.1	4.2
2000	<b>4.9</b>	6.3	9.3	4.7	4.4	5.9	2.7	5.6	4.0
2001	<b>5.1</b>	6.8	9.6	5.0	4.0	5.3	2.7	4.9	4.7
2002	<b>7.3</b>	6.4	10.2	5.4	3.3	5.1	3.6	5.2	5.8
2003	<b>7.9</b>	6.0	10.5	5.2	3.6	4.6	4.0	5.0	6.0
2004	<b>6.8</b>	5.5	10.9	4.7	3.7	3.9	3.4	4.8	5.5
2005	<b>5.6</b>	5.1	11.2	4.4	3.7	3.7	3.1	4.7	5.1
2006 Q1*	<b>5.2</b>	5.2	11.3	4.2	3.5	3.9	2.6	5.2	4.7
2006 Q2*	<b>5.0</b>	5.0	10.8	4.1	3.5	3.6	2.8	5.5	4.6
2006 Q3*	<b>4.7</b>	4.8	10.6	N.A.	3.5	N.A.	N.A.	N.A.	4.7

Notes: (#) Data for West Germany are used for years before 1992.

(\*) Seasonally adjusted unemployment rate is used.

N.A. Not available.

Sources: Datastream, CEIC.

20. In order to have a better understanding of the factors underlying the recent unemployment trends in the selected economies, the movements in their employment and labour supply growth during 2001-2005 are analysed

and depicted in *Table 5*. Japan and Germany were the only economies having a contraction in total employment during that period, yet in the former the concurrent shrinkage in labour supply had helped to contain the overall unemployment rate, whereas in the latter the expansion in labour supply had exerted additional upward pressure on the unemployment rate. On the other hand, Singapore had the highest growth in both employment and labour supply, conceivably reflecting its more liberal policy towards admission of foreign workers<sup>(5)</sup>.

**Table 5 – Employment and labour force growth in Hong Kong and selected overseas economies**

	Average annual rate of change during 2001-2005 (%)	
	<u>Total employment</u>	<u>Total labour force</u>
<b>Hong Kong</b>	<b>1.1</b>	<b>1.2</b>
Australia	2.2	1.9
Germany	-0.2	0.3
Japan	-0.3	-0.3
Republic of Korea	1.6	1.4
New Zealand	3.1	2.6
Singapore	3.2	3.3
United Kingdom	0.9	0.8
United States	0.9	1.2

Sources: Datastream, ILO Database, CEIC.

## **VI. Analysis of Current Unemployment Situation in Hong Kong**

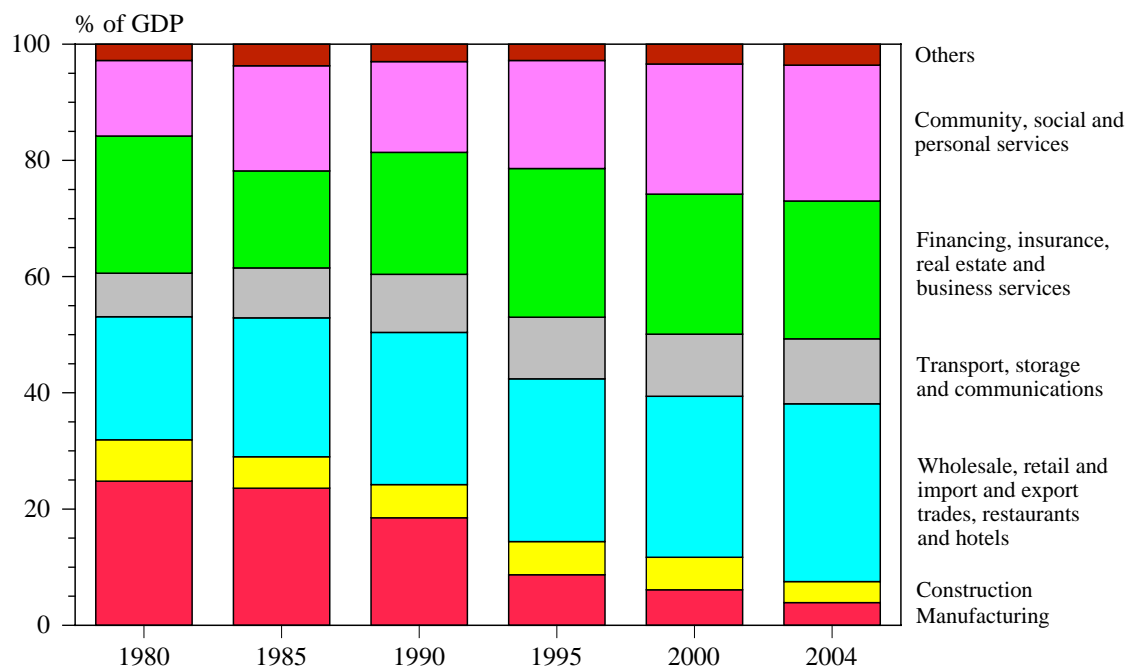
21. Back in Hong Kong, concomitant with the increasing service orientation of the economy<sup>(6)</sup> in the past two decades, there has been a progressive shift in labour demand from blue-collar workers in the manufacturing and construction sectors to white-collar workers in the service sectors (*Chart 10*). The further restructuring towards a knowledge-based economy in the more recent years has also generated rising demand for higher-skilled workers such as professionals and managerial staff. In response to these developments, local businesses and workers have adjusted themselves through continuous upgrading (*Paragraph 9 and Chart 4*) and lifelong learning. Following the Government's vast investment in higher

<sup>(5)</sup> According to "Manpower Statistics in Brief, 2006" published by Singapore's Ministry of Manpower, foreign workers constituted 28.9% of Singapore's total employment as at December 2005.

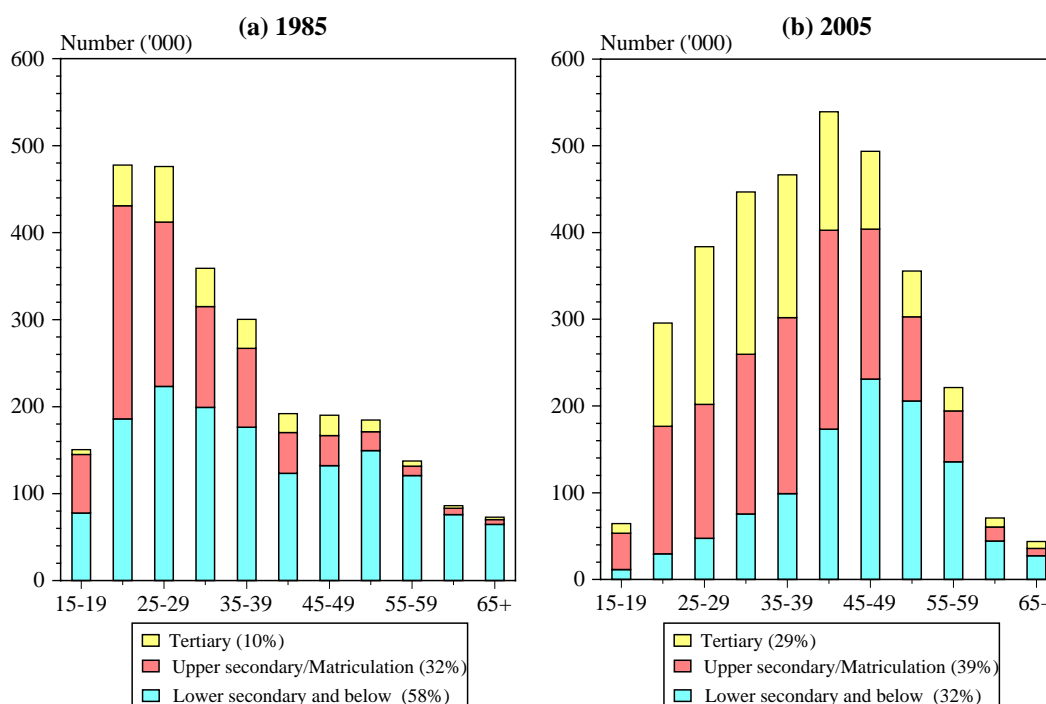
<sup>(6)</sup> In 2004, all service sectors taken as a whole accounted for 90% of GDP.

education, there has also been a substantial improvement in the educational attainment of the local workforce over the years (*Chart 11*).

**Chart 10 : Structural transformation of the Hong Kong economy**

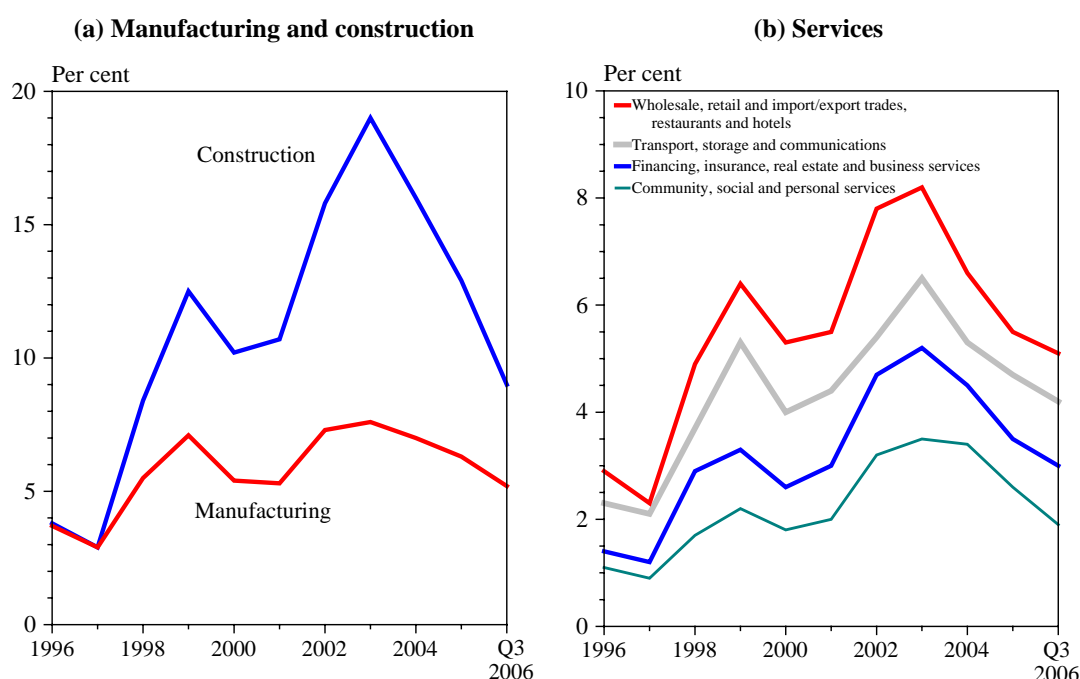


**Chart 11 : Labour force by age by educational attainment**



22. A more detailed analysis of the unemployment figures by economic sector shows that the current economic recovery has brought about considerable declines in unemployment across many different businesses, industries and trades. Yet among all the sectors, manufacturing and construction are the ones facing relatively higher unemployment rates, although both showed noticeable improvements in the more recent period (**Chart 12**). Take construction for illustration, the unemployment rate is estimated at 9.0% in Q3 2006, corresponding to some 28 000 unemployed persons. When both the manufacturing and construction sectors are taken together, the numbers unemployed are above 40 000, accounting for more than one-fifth of the total unemployed population. On the other hand, the unemployment rates in the service sectors, except restaurants and the retail trade, are generally lower. Financing and certain community, social and personal services even have unemployment rates as low as around 2%.

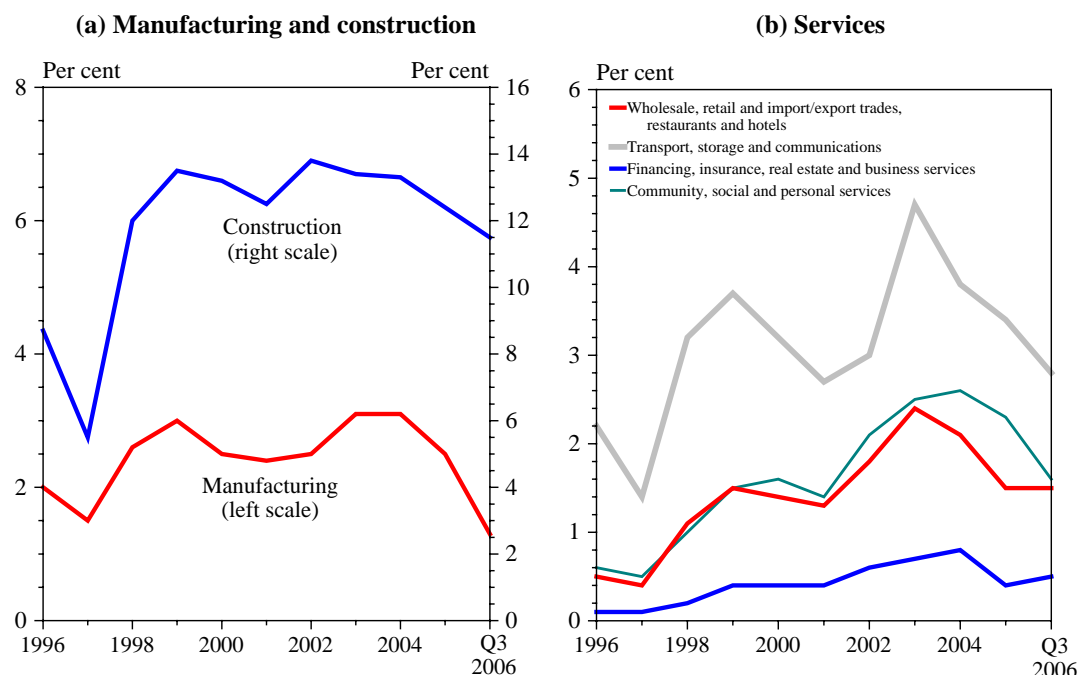
**Chart 12 : Unemployment rate by economic sector**



23. On underemployment, the overall situation has likewise improved significantly since mid-2003. This notwithstanding, construction is again the sector with the highest rate of 11.5% in Q3 2006. In absolute terms, the numbers underemployed in this sector are around 36 000, accounting for 42% of the total underemployed population (**Chart 13**). Other sectors with relatively lower, yet still above-average, underemployment rates are amusement and recreational services (4.3%), sanitary services (3.9%), transport (3.0%), and restaurants and hotels (2.6%).

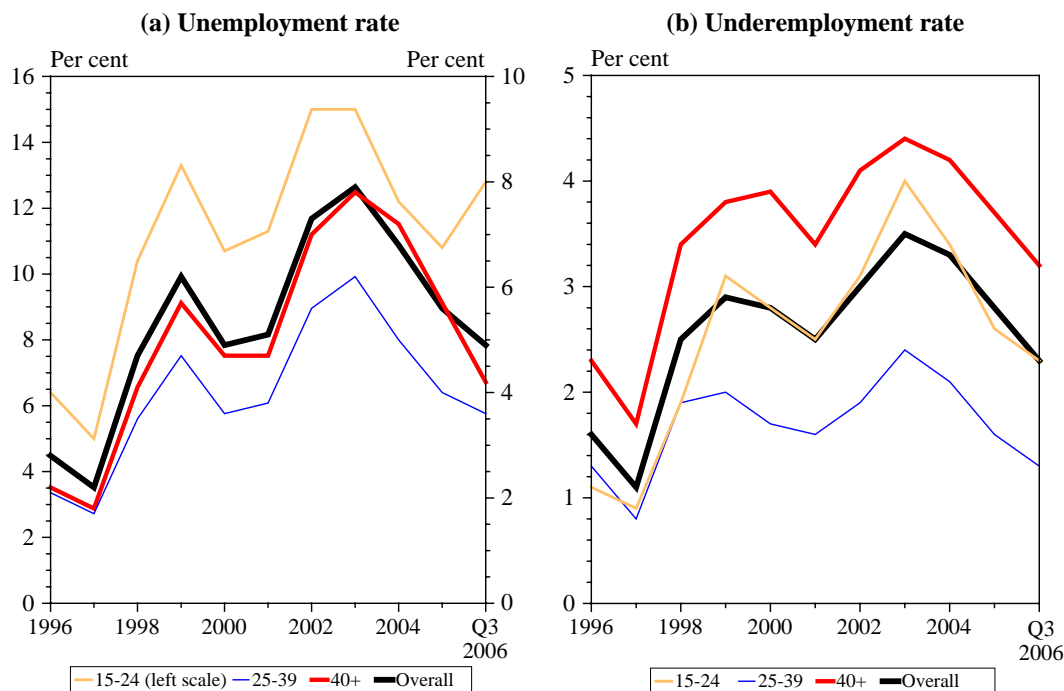


**Chart 13 : Underemployment rate by economic sector**



24. Analysed by age group, people of different ages have all benefited from the recent improvement in the unemployment situation (**Chart 14**). However, younger workers aged 15-24 are still facing a relatively high unemployment rate at 12.8% in Q3 2006, compared to the economy-wide average of 4.9% (not seasonally adjusted). This above-average rate, though partly due to the seasonal influence of fresh graduates entering the workforce in the summer months, is actually in line with the experience of many overseas countries, where job-seekers of younger age are found to have encountered difficulties in finding or securing employment due to their limited working experience and high turnover rate (**Table 6**). As for the middle-aged workers (aged 40 and above), they currently account for the largest share of the total numbers unemployed in Hong Kong (at around 78 000 or 43%). A significant proportion of these unemployed people are less educated and possess limited skills in coping with the work requirements in the rapidly changing environment. It is important to provide them with suitable training and retraining to help enhance their employability and regain employment when opportunities arise.

**Chart 14 : Unemployment rate and underemployment rate by age group**



**Table 6 – Comparison of overall and youth unemployment rates  
in Hong Kong and selected countries in 2005**

	<u>Overall Unemployment Rate</u>	<u>Youth Unemployment Rate</u>
<b>Hong Kong</b>	<b>5.6</b>	<b>10.8</b> <b>(aged 15-24)</b>
United States	5.1	11.3 (aged 16-24)
United Kingdom	4.7	11.8 (aged 16-24)
Japan	4.4	8.7 (aged 15-24)
Australia	5.1	10.8 (aged 15-24)
New Zealand	3.7	9.4 (aged 15-24)
Ireland	4.3	8.3 (aged 15-24)

Source: OECD Employment Outlook, 2006.

25. As to underemployment by age group, there has also been an across-the-board decline in recent years. The problem, though reduced, is however far from completely resolved. Among all the age groups, the middle-aged workers are again the hardest hit group, accounting for more than two-thirds (58 500 persons) of the total number of underemployed persons.

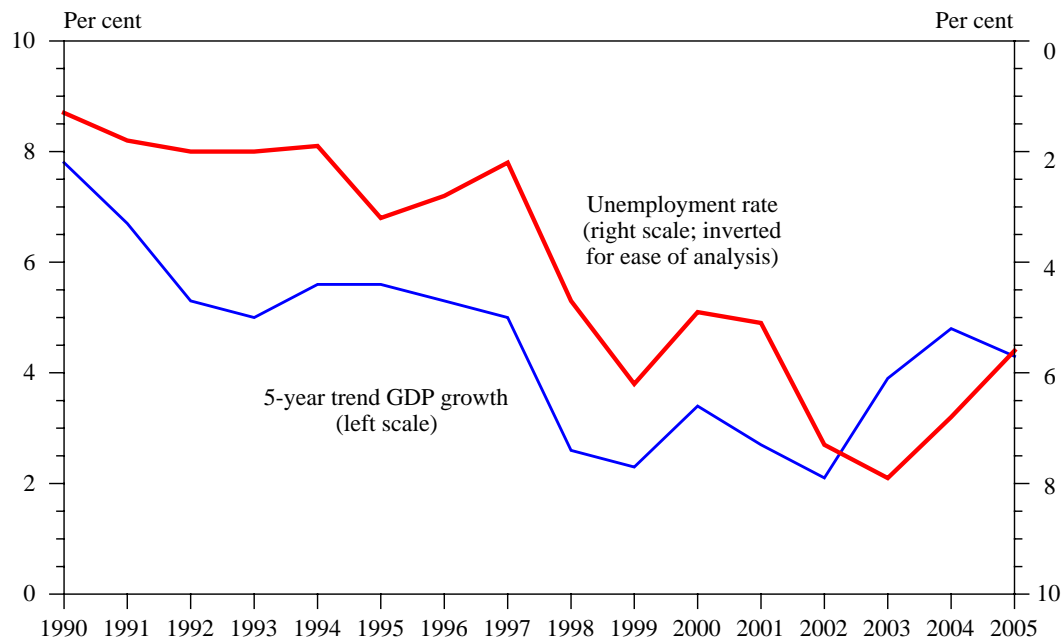
## **VII. Cyclical/Structural Factors Influencing the Sectoral Pattern of Unemployment in Hong Kong**

26. No doubt the unemployment figures now are well below their peaks in 2003, but they are still high by the historical standard. One major factor usually cited is the economic restructuring process which has lifted the “natural rate of unemployment” in Hong Kong in recent years. An earlier exercise done by the Economic Analysis and Business Facilitation Unit (EABFU) of the Financial Secretary’s Office shows that the “natural rate of unemployment” or “non-accelerating inflation rate of unemployment (NAIRU)” in Hong Kong has risen from an average of 2.6% in the early 1990s to around 3.7-3.8% in recent years<sup>(7)</sup>. But other factors may have also been at work. For instance, notwithstanding the sharp rebound over the past two years, real GDP growth averaged at only 3.6% per annum between 1997 and 2005, substantially lower than the 5.3% registered in the early 1990s. This economic slowdown, leading to relatively weaker labour demand, is another reason for the higher unemployment post-1997 (*Chart 15*).

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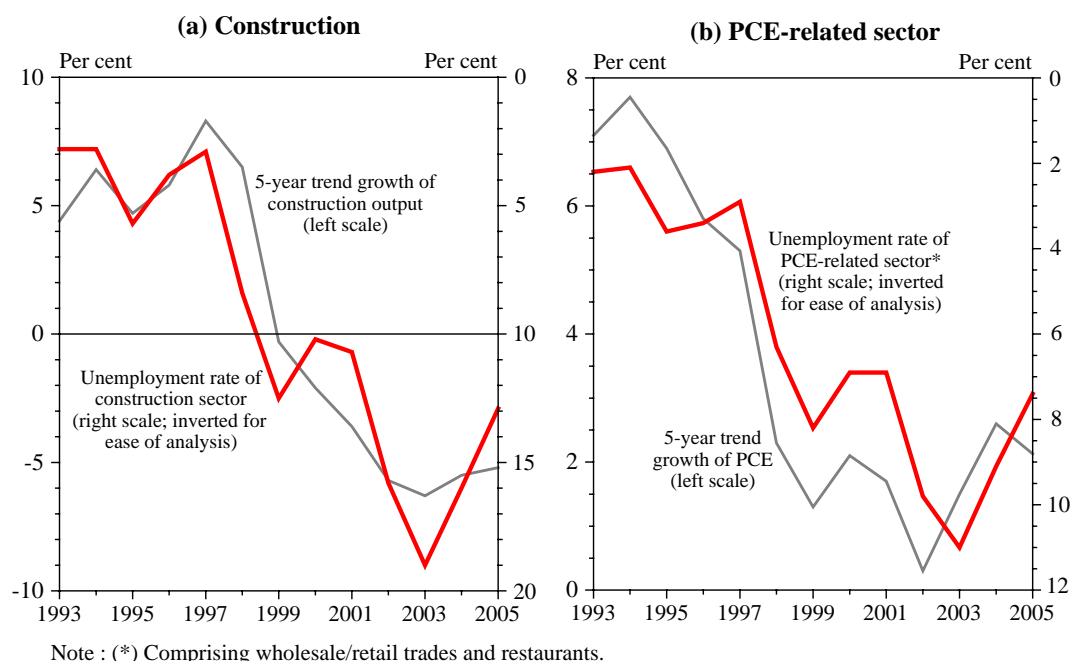
<sup>(7)</sup> Factors contributing to the increase in NAIRU include, *inter alia*, increased skills mismatch brought about by the economic restructuring, geographical mismatch, more generous CSSA payment, and the introduction of MPF Scheme. Yet it is also found that enhancement in labour productivity tends to reduce the natural rate of unemployment, thereby pointing to the importance of continued investment in education to raise the quality of the local workforce.

**Chart 15 : Significant dip in GDP trend growth was a major cause of high unemployment post-1997**



27. In addition, two factors mainly of cyclical nature are thought to have held back the improvement in unemployment in the recent period. First, despite the strong economic upturn since mid-2003, construction investment has been mainly on the decrease, and this is the sector where a large proportion of unemployment (around 15% of the total) can be found. Excluding the construction sector, the unemployment rate (not seasonally adjusted) would have been 0.4 of a percentage point lower. Thus, it can be expected that as and when construction investment turns around, there will be room for unemployment to fall further (*Chart 16a*).

**Chart 16 : Persistent weakness in construction and consumption had affected the employment conditions of the lower-skilled workers**



28. Secondly, consumer spending weakened substantially during the property slump period of 1997 – 2003. For 1997-2005 as a whole, growth was slow at an annual average of only 1.4%. This explains why the unemployment rates in the consumption-related sectors, including the retail trade and restaurants, have been much above the economy-wide average and also higher than their corresponding levels in the early 1990s (**Chart 16b**).

## VIII. Employment Outlook for the Short to Medium Term

29. Looking ahead, the employment situation can be expected to improve further in the near term, on the back of sustained growth in local economic activity and labour demand. More specifically, whereas growth momentum in some developed economies overseas is projected to slow down, this may be partly cushioned by the continuing vibrant Mainland economy. Our merchandise trade is thus likely to continue to grow, though at a pace not as strong as in the preceding year. By comparison, domestic demand may increase in relative importance as an engine of economic growth, with consumer spending in particular being supported by the recent pause in the US interest rate up-cycle and the generally sanguine local consumer sentiment. Under such a scenario, total employment is expected to expand further in the rest of the year, possibly with larger gains in the consumption-related sectors such as the retail trade, restaurants, and certain

personal services. Employment in financing, banking and insurance services may also increase.

30. In the medium term, the employment outlook will still depend crucially on the overall economic performance, in terms of not only growth pace but also development pattern, in view of the wide variations in the capacity of creating jobs among the different trades, industries and services. For instance, an expansion in the external trade (comprising mainly re-exports and offshore trade) tends to generate fewer employment opportunities than the growth in the tourism industry. Besides economic performance, the skills level and employability of the labour force is also a determining factor. In this connection, it is noted that in an earlier projection exercise for the medium term, the manpower resource balance in respect of workers with tertiary education is projected to be in deficit but those with secondary education or below in surplus. It is also pointed out that while the overall employment is projected to remain on the increase alongside the continued economic growth (with impetus mainly coming from the strategic sectors), there is a need to upgrade the skills of the local workers to enable them to capture the employment opportunities arising in a knowledge-based economy.

## **IX. Policy Measures Currently Taken by the Government**

31. The Government is concerned with the employment situation. It has been taking multi-pronged policy measures to improve the employment situation in Hong Kong, including increasing education and competitiveness of the workforce, promoting employment opportunities and enhancing employment services. These measures are detailed in the ensuing paragraphs.

### **(A) Promotion of Employment Opportunities and Enhancement of Employment Services**

32. The Labour Department (LD) provides free employment services to help job-seekers find jobs and employers recruit staff. It also administers a number of employment programmes in order to enhance the employability of different target groups.

#### **(a) *Special Employment Programmes***

##### **(i) *For the Vulnerable Groups***

33. For the middle-aged unemployed, the LD launched the Employment Programme for the Middle-aged in May 2003 to enhance their employability and employment opportunities. Under the Programme, employers engaging job-seekers aged 40 or above in full-time permanent jobs with on-the-job training will receive a training allowance of \$1,500 per month, for up to three months per trainee. As at end-August 2006, the Programme has achieved 24 848 placements.

34. The Work Trial Scheme, launched in June 2005, aims to assist job-seekers having special difficulties in finding jobs. During the one-month work trial, participants will be arranged to work in jobs offered by participating organisations. Upon satisfactory completion of the trial, each participant will be paid an allowance of \$5,000, of which \$500 is contributed by the participating organisation. As at end-August 2006, 856 job-seekers have been placed into work trial.

35. For disabled job-seekers, the Work Orientation and Placement Scheme has been launched in April 2005 to help them secure jobs in the open market. The Scheme features a short pre-employment training programme for each participating disabled job-seeker as well as a financial incentive to the participating employers for each disabled person engaged (half-month's wages or \$3,000, whichever is the less) for up to three months. As at end-August 2006, the Scheme has provided pre-employment training to 484 disabled participants and achieved 449 work placements.

*(ii) For the Youth*

36. Two training and employment programmes for youths have been launched. The Youth Pre-employment Training Programme (YPTP) aims to enhance the employability and competitiveness of school-leavers aged 15 to 19 through various employment-related modular trainings. The Youth Work Experience and Training Scheme (YWETS) provides employment in the form of on-the-job training to young people aged 15 to 24 with educational attainment below degree level. Over the years, some 117 000 youths have been trained under the two programmes, amongst which 73 000 received training under the YPTP and another 44 000 found employment under the YWETS.

*(b) Enhanced Employment Services*

37. The LD currently operates 12 Job Centres including two new ones in Yuen Long and Sheung Shui opened in September 2006 with the aim to strengthen the employment services in remote areas. Through the free

placement service and facilities of Job Centres, job-seekers can complete the whole job-hunting process at one stop. In the first eight months of 2006, the LD achieved 79 754 placements (up 12.5% over the same period last year) and received 327 794 vacancies from the private sector (up 19.8% over the same period last year).

38. Job-seekers can gain on-line access to LD's huge vacancy database for job applications through the Interactive Employment Service (iES) website. It also has dedicated webpages on employment information of topical interest (e.g. summer jobs) and "dos and don'ts" for employment in Mainland China and the Macau SAR. Being the most popular government website, the iES recorded 664 million page views in the first eight months of 2006 (averaging 2.7 million per day).

39. To help job-seekers secure employment speedily, the LD regularly organises large-scale job fairs at various prominent locations and district-based job fairs at its Job Centres. In the first eight months of 2006, 10 large-scale and 51 district-based job fairs were staged, attended by over 65 000 job-seekers.

(c) *Others*

40. To help the unemployed enter/re-enter the labour market and to meet operational needs, a number of temporary jobs in the public sector have been created by the Administration. In 2007/08, the Government will extend and regularise some of these jobs.

41. The Special Incentive Allowance Scheme for local domestic helpers (LDHs) was introduced in June 2003 to address the geographical and time mismatch of the LDH market. Each recipient is entitled to a maximum allowance of \$7,200 over a period of two years. As at end-August 2006, a total of 8 152 applications were approved. Most of the recipients are lower-skilled women. Over the years, both the number of registered vacancies and the number of vacancies filled enjoyed healthy growth.

(B) Education and Increasing Competitiveness of the Workforce

42. The Government has actively promoted the concept of lifelong learning in the community and launched or supported a wide range of education and training schemes/programmes aiming at enhancing the employability and competitiveness of our workforce. These programmes are designed to meet the specific needs of the different segments of our



working population and those of the industries. Key initiatives on training and retraining for the unemployed or the more disadvantaged groups which are launched under the purview of Education and Manpower Bureau are set out below.

*(a) For the Unemployed*

43. The Employees Retraining Scheme (ERS) run by the Employees Retraining Board (ERB) is targeted at unemployed persons and displaced workers who are aged 30 and above with no more than junior secondary education. Retraining courses and services are provided to help them acquire new or enhanced skills in order to adjust to economic restructuring and re-enter the labour market. Since its inception in 1992, the ERB has provided over 980 000 retraining places as at end of August 2006.

44. The ERB offers both full-time placement-tied skills courses to retrain the unemployed and help them rejoin the workforce, as well as part-time general skills courses to enhance their employability. Each year, over 100 000 retraining places are provided under the ERS covering a wide range of industries (about half are full-time placement-tied courses). Apart from skills training, the ERB also provides placement follow-up services to help graduates of full-time or placement-tied courses to find jobs, with an average placement rate of some 80% over the past few years.

*(b) For the In-Service Workers*

45. A \$400 million Skills Upgrading Scheme (SUS) was launched in 2001 to help low skilled in-service workers to upgrade their skills so as to adapt to the changing economic and industrial landscapes. The Scheme provides subsidized skills upgrading training in 23 selected industries with economic contributions and prospect and a large number of workers requiring such training. So far, over 8 100 classes and over 165 000 training places have been offered under the Scheme.

*(c) For the Youth*

46. Project Yi Jin (PYJ) was introduced in October 2000 to provide an alternative educational pathway for school leavers and adult learners who wish to obtain a qualification for further study or employment purposes. Upon successful completion of PYJ, students will be awarded a certificate which has been assessed by the Hong Kong Council for Academic Accreditation to be comparable to five passes in the Hong Kong Certificate

of Education Examination. Over 25 000 students have benefited from the programme since its introduction.

47. A \$50 million Youth Sustainable Development and Engagement Fund (YSDEF) was set up in 2004 to fund pilot projects that could motivate non-engaged youths (NEYs) for re-engagement or prepare them for training or employment opportunities in certain industries. As at end of August 2006, a total of 18 pilot projects have been launched, offering about 4 200 training opportunities to NEYs. Independent researchers have also been commissioned to study problems related to NEYs and evaluate existing training and pre-employment programmes for them.

(C) Evaluation of the Effectiveness of Current Policy Measures

(a) *Promotion of Employment Opportunities and Enhancement of Employment Services*

48. The employment programmes are well received by participants, social partners and employers, and have effectively assisted the served target groups in securing employment. For instance, independent consultancy studies by the Centre for Social Policy Studies of the Hong Kong Polytechnic University have affirmed the effectiveness of the YPTP and the YWETS in enhancing the employability of young people.

49. The Special Incentive Allowance Scheme for LDHs helps mitigate the mismatch in supply and demand of the LDH market arising from geographical locations and working hours. It is useful in stimulating the growth of the LDH market and effective in alleviating lower-skilled workers', in particular women's unemployment. The Scheme has been well received by LDH retrainees and employers and received firm backing from NGOs, unionists and pro-labour legislators.

50. The LD will continue to adopt a market-oriented approach to enhance its employment service and implement the ongoing employment programmes in order to help job-seekers secure employment.

(b) *Education and Increasing Competitiveness of the Workforce*

51. The overall objective is to promote and support continuing education, training and retraining so as to provide a trained workforce equipped to meet the needs of a knowledge-based economy. A wide range of training, retraining, skills upgrading and continuing education initiatives are being introduced and such initiatives are kept under constant review to ensure that

they remain relevant to the changing needs of the economy. Assessment of the overall effectiveness of the schemes/programmes outlined in Section IX (B) above is given below.

52. In addition to providing and subsidizing retraining programmes, the ERB has devoted substantial resources to identifying new job types which are suitable for the unemployed and those who are displaced due to economic restructuring. These include local domestic help, foot reflexology and health massage, post-natal care, baby-sitting, elderly care and hotel housekeeping. ERB's performance is evaluated through a combination of placement-tied benchmarks and job retention rates. Against a benchmark of 70%, about 83% of the retrainees in the 2005-06 financial year were able to find employment within three months upon their completion of placement-tied retraining courses. Job retention rate after six months for all placements is maintained at about 67%.

53. According to a recent survey conducted by an independent consultant, about 97% of the SUS trainees found the courses useful in enhancing their vocational skills and 90% indicated that they could apply knowledge and skills learned at work. The majority of direct supervisors of the trainees (74%) considered that the Scheme had helped improve the overall performance of their staff. The Government considers that skills upgrading is instrumental to maintaining the employability of our labour force and hence the competitiveness of our industries. More should be done to encourage the employers to sponsor and release their staff for skills upgrading training.

54. PYJ is well received by students, parents and employers and has become an increasingly popular alternative educational pathway for school leavers. The enrollment figure for the programme reached a record high of over 7 000 in the 2006-07 school year. The Government's plan is to continue (but revamp) the PYJ upon the implementation of the new senior secondary curriculum.

55. On NEY services, the Education and Manpower Bureau has commissioned researchers to evaluate various personal development and training programmes currently provided by the Government and other organisations (including the pilot projects funded by the YSDEF) and make recommendation on improvement measures. The findings are expected to be available in the latter half of 2007. The Task Force on Continuing Development and Employment-related Training for Youth will submit to the Government its recommendations on how to deal with the NEY issue in early 2008.

56. For the longer term, the Government hopes the implementation of the Qualifications Framework, supported by our Continuing Education Fund, could encourage and facilitate more of our younger generation to pursue life-long learning and skills upgrading. This is instrumental to maintaining the employability of our population in a knowledge-based economy.

## **X. Strategic Issues for Discussion**

57. Against the above background and information, Members are invited to consider the following strategic issues:

- (a) Is unemployment in Hong Kong mostly structural or cyclical? If it is the former, what should be our overall economic strategies in resolving this issue?
- (b) Will Hong Kong be saddled with a relatively high unemployment rate at least in the medium term? If yes, how should the Government handle it?
- (c) For the current policy measures in improving the employment situation in Hong Kong, are they in the right direction, in proper balance and effective?
- (d) In what ways could the private sector and non-government organizations contribute more towards improvement in the employment situation?

Economic Analysis and Business Facilitation Unit  
Economic Development and Labour Bureau  
Education and Manpower Bureau  
Secretariat to the Commission on Strategic Development

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