



# HONG KONG ECONOMIC POLICY CHALLENGE 2023

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More babies please...with other country specific evidence

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# HONG KONG: THE EXODUS

## ECONOMICS

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- **Top 5 most expensive city** to live in according to World Economic Forum
- **Lowest birth rate** at 0.75, compared to Japan 1.3, Singapore 1.1 and South Korea 0.78
- **Lowest public expenditure** on family/child benefits at 1.07% of total government budget

- **Higher women's participation** in the labour market due to greater educational opportunities, thus opportunity costs.
- **High median age of marriage** at 30.6 in Hong Kong compared to 29.4 in Japan.
- As a result, **high median age of women at first childbirth** at 32.2 compared to 30.7 in Japan.
- **No gender equality** when it comes to childrearing and is very much a mother's role.
- **No policies for the role of fathers** in caring.
- Baby boomers have been retiring in the last several years, contributing to a decline in Hong Kong's workforce

- The **imposition of National Security Law** in year 2020 and **strict quarantine measurement** during the pandemic years has caused voluntary brain drain in Hong Kong
- Locals and foreigners moved abroad to seek better quality of life and freedom of movement
- MNCs are on a wait-and-see approach due to **political uncertainty**

City	Geography	WCOL index	Rank
Tel Aviv	Israel	106	1
Paris	France	104	2
Singapore	Singapore	104	2
Zurich	Switzerland	103	4
Hong Kong*	China	101	5

# POLICY #1: EXPANSION OF CHILDCARE SERVICES FOR ALL

## THE SITUATION

- The objectives of child care services targets low-income families and is usually **means-tested**
- The current child care services are insufficient and cannot meet the demands:
  - **Lack of availability:** Not all districts in Hong Kong have government-subsidised places or have very limited service.
  - **Lack of accessibility:** The demand for places is much higher in the New Territories than in the overall Hong Kong situation.
  - **Lack of affordability:** Parents pay 80% of the costs for aided child care centres (CCCs) and 100% for non-aided CCCs

## THE OUTCOME

- Since 2021, the Government offered a new non-means tested subsidy “Child Care Centre Parent Subsidy” at HKD600 monthly to parents whose kid is under 3 years old.
- The Government also offers occasional child care service and extended hours services.

## THE OBSTACLE

- Most people **do not use the daycare services** because of their employment status, locations of the centres, the quality of the services and the lack of information on the availability of services.

## THE SOLUTION

- **Free** child care services

## THE EVIDENCE

- Child care fee has been **waived** for
  1. pre-school child care/education in recognized facilities for children aged between 3 and 5, and
  2. day care services for low income-families with children under 3 years old.

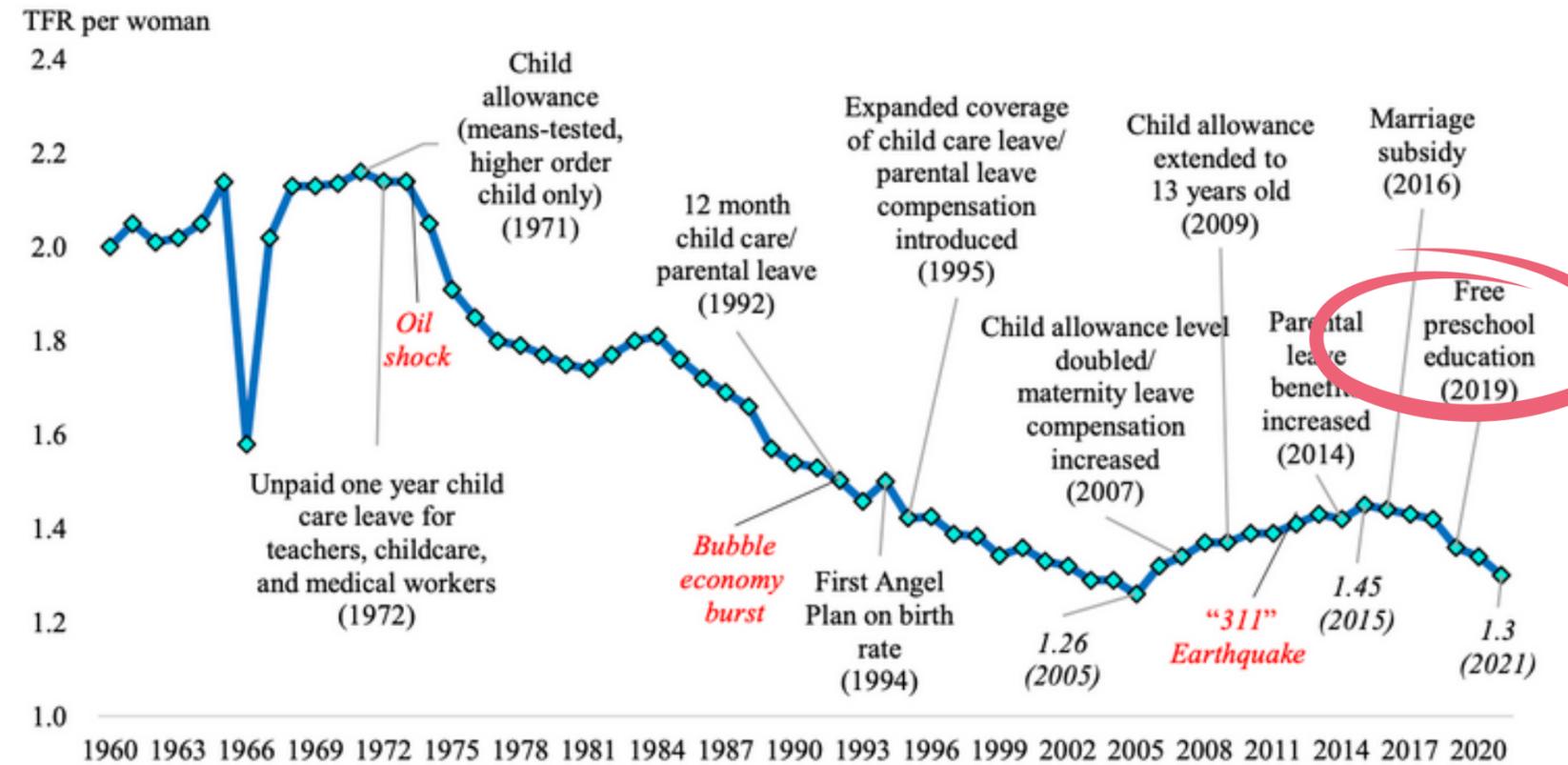


**JAPAN**

# POLICY FRAMEWORK: JAPAN'S SUCCESS

- The Japanese government has been boosting child care supply, **especially in metropolitan regions** where there is high **female labor participation rate**.
- The number of day care places has increased by 19% between 2013-2019 and more places are being planned as more mothers join the workforce.
- The free child care programme costs ¥776 billion (HKD42 billion) per year, which is funded by part of the extra revenue from the consumption tax rate hike from 8% to 10% since 2019.
- The availability of childrearing support has contributed to a **more stable fertility trend** in Japan.
- In addition, there are noticeable variations of fertility rates across prefectures in Japan, e.g. Okinawa had the highest TFR (1.82 in 2019), dropping to lower rates for metropolitans like Osaka (1.31) and Tokyo (which had the lowest figure, at 1.15).

**FIGURE 1: CHILDCARE POLICIES IN JAPAN**



Source: Compiled by Research Office.

# POLICY #2: PROVIDE PAID PATERNITY LEAVE

## THE SITUATION

- Child care responsibility mostly on women.
- Paid paternity leave only introduced in 2020 at 5-days compared to 4 weeks in Japan

## THE OUTCOME

- No social policy that advocates participation of fathers to care for their children

## THE OBSTACLE

- Higher gap of gender inequality in the workplace

## THE SOLUTION

- Strengthen father's participation by **increasing** paid paternity leave

## THE EVIDENCE



- Iceland establish a 'use or lose' paid one-month paternity leave scheme, referred to as the 'daddy month' where fathers have 2 weeks' paid paternity leave.
- In 2000, both parents have paid parental leave and each parent has an independent right to maternity/paternity leave of up to 3 months.
- While on leave, parents are entitled to a monthly payment that equals 80 percent of each parent's average income over the previous two years.



# POLICY FRAMEWORK: ICELAND'S SUCCESS

- Icelandic fathers take a larger share of the total days available in paid parental leave than fathers in the other countries.
- This scheme contains one of the **most generous “father-targeted” leave entitlements** so far developed in modern economies in terms of both time and economic compensation.
- Furthermore, studies show that **Icelandic parents are dividing paid work and the care** of their young children more equally.

TABLE 1: PARENTAL POLICIES IN ICELAND

Type of leave/period	Age of child	Payment
3 months maternity leave;	0–18 months*	For parents participating in the labour market 12 months before birth: 80% of total pay**
3 months paternity leave;		For other parents: flat rate payments
3 months divided as the parents choose		
13 weeks for mothers	18 months – 8 years	No payments
13 weeks for fathers		

# EVALUATION OF POLICIES FOR HONG KONG

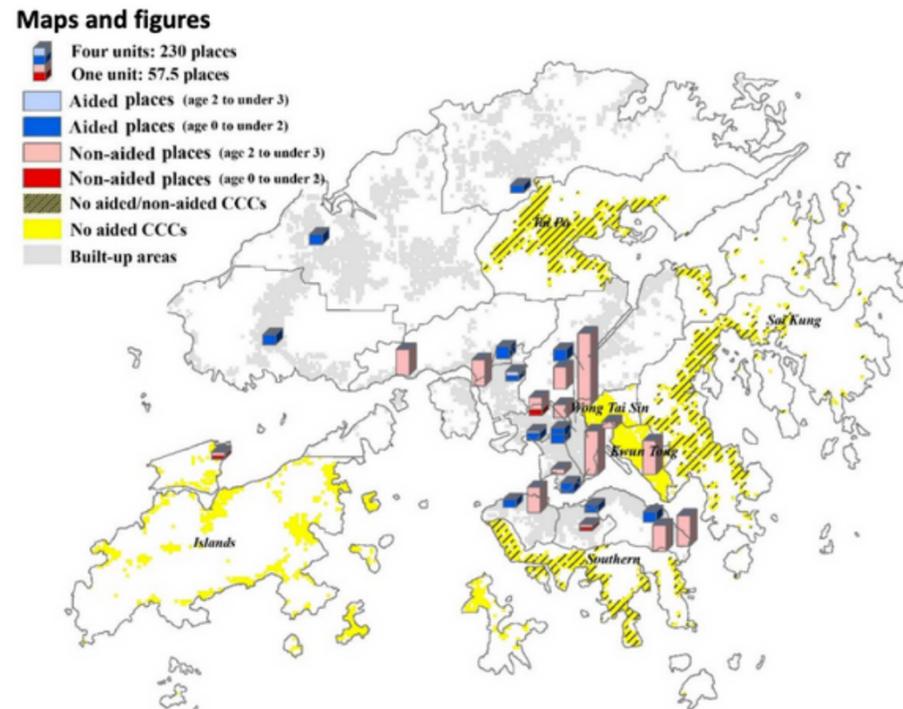
## FREE CHILD CARE

- Free child care services will help to **relieve the stress of working parents** by **providing both academic and child care elements**.
- There are very few aided CCCs and fairly more non-aided CCCs as shown in Figure 2.
- There are barely any CCCs once out of central Hong Kong and Kowloon region as shown in dark yellow color.
- The government can increase resource allocation or investment in CCCs in more areas to increase coverage.

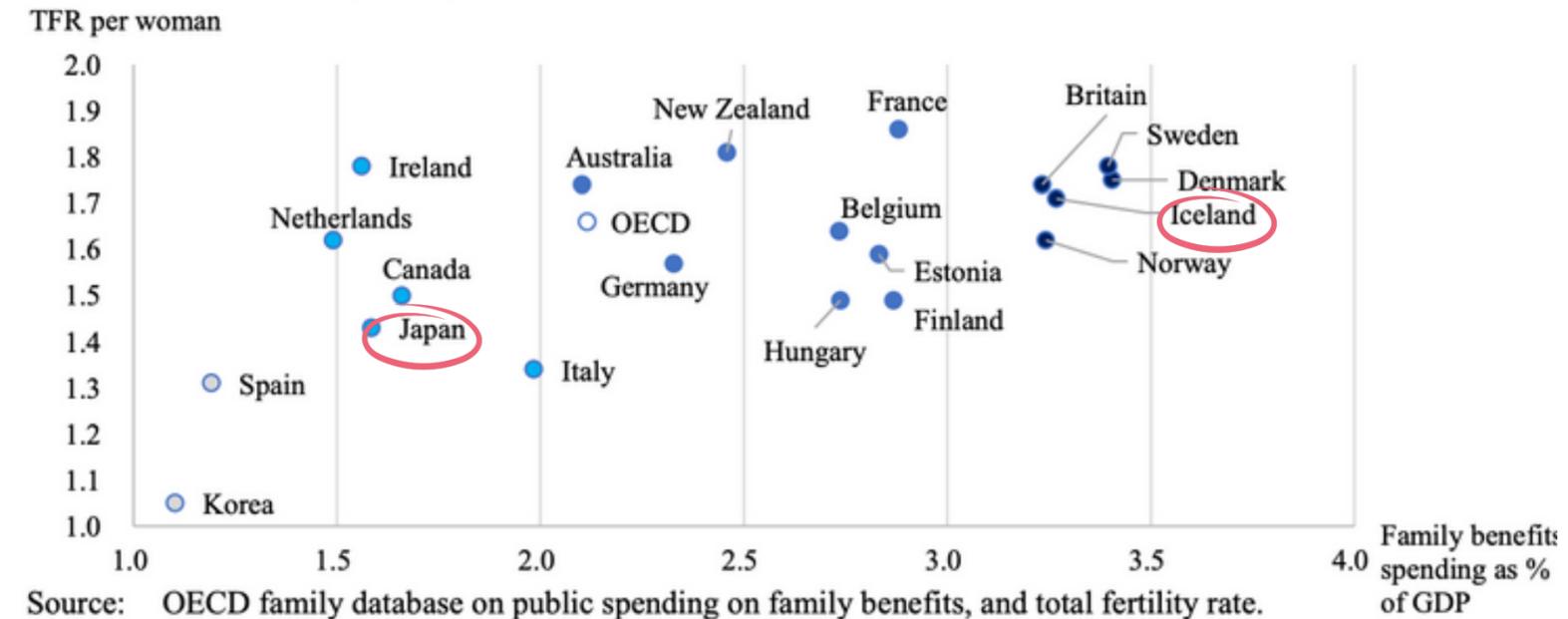
## PAID PATERNITY LEAVE

- Participation of fathers is crucial in care of children to ensure kid's best interest and promote gender equality.
- As shown in Figure 3, Hong Kong has **very low expenditure on spending on family benefits**
- The government can increase public spending on father's benefit to value participation of both parents in fulfilling childcare responsibilities.

**FIGURE 2: DISTRIBUTION OF CHILD CARE SERVICES IN HONG KONG**



**FIGURE 3: PUBLIC SPENDING ON FAMILY BENEFITS**



# INCENTIVE SCHEMES FOR MNC

## (1) LOW INTEREST LOAN

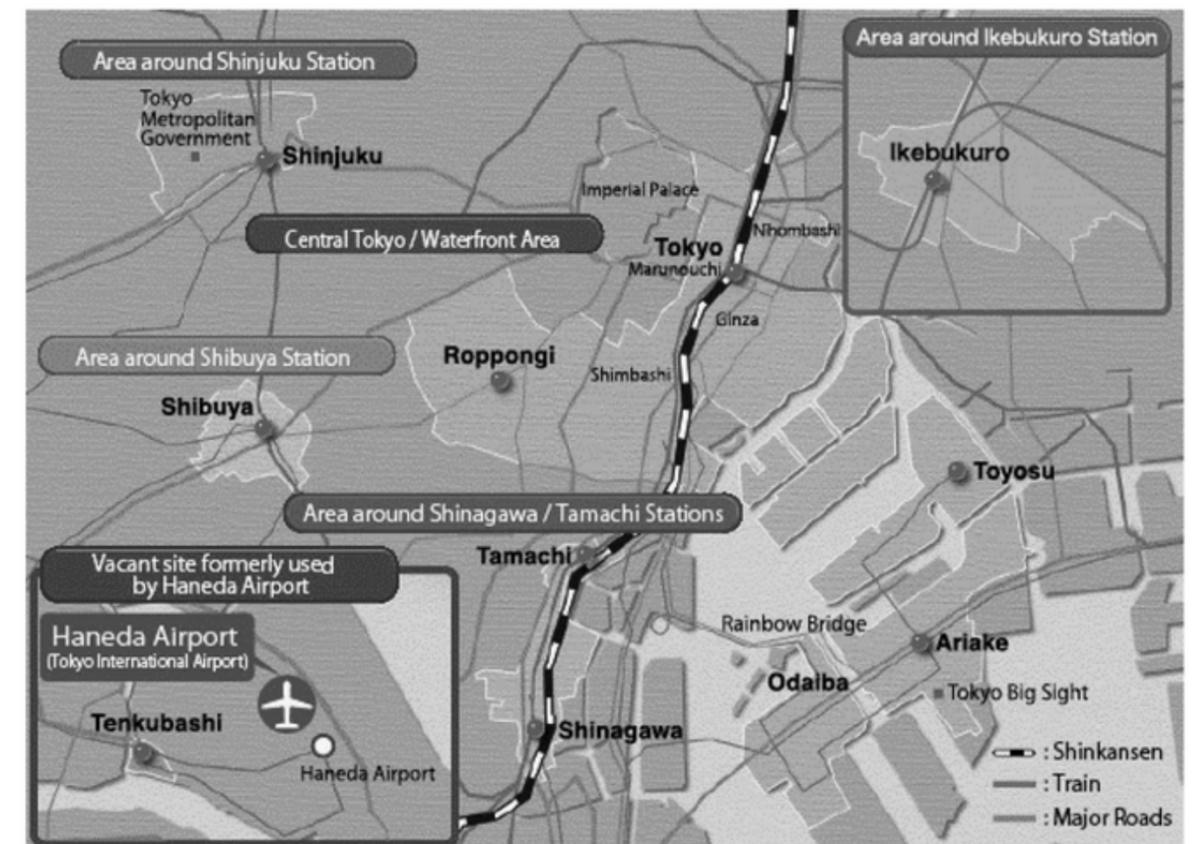
### THE DETAILS

- Low interest loan can be provided to MNCs to set up headquarters in Hong Kong
- The companies would be allowed to receive HK government subsidy on loan interest when getting loans from HK financial institutions

### THE EVIDENCE (TOKYO)

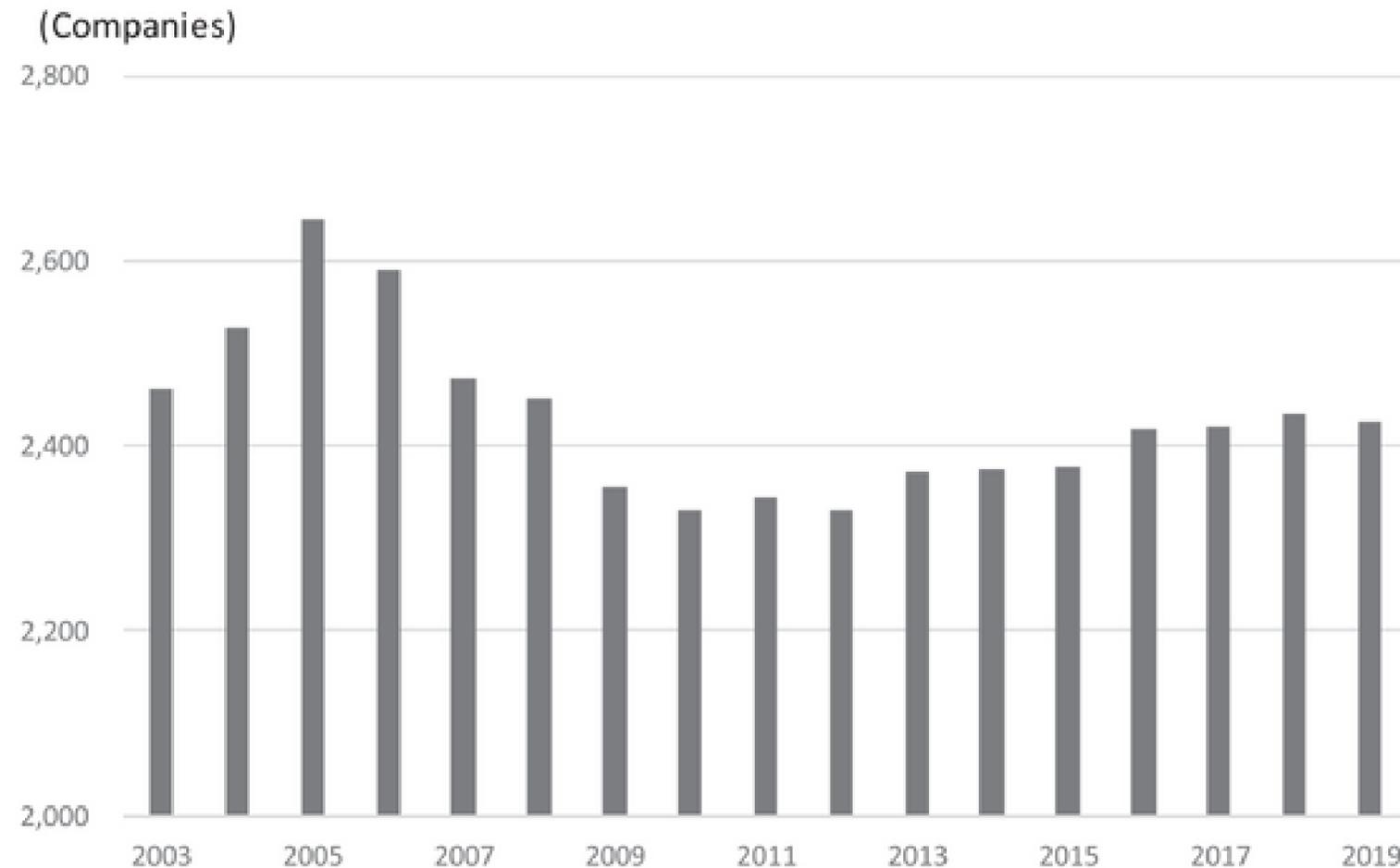
- Tokyo established an incentive for MNCs in 2011:
  - If a foreign company is **setting up new business (Asian regional headquarters/R&D center)** within the Tokyo Special Zone and **takes out a loan** from a **designated financial institution** in order to implement business according to the special zone project, **the financial institution will receive a subsidy** from the national government **equal to a portion of the interest.**
- That means the foreign companies will actually be receiving a **low-interest loan.**

FIGURE 4: DESIGNATED AREAS OF SPECIAL ZONE



# EVIDENCE (CON'T)

**FIGURE 5: NUMBER OF FOREIGN COMPANIES IN TOKYO**



- Before 2011, the number of foreign companies in Tokyo kept decreasing.
- After the publish of Tokyo's incentive scheme from 2011, the **number of foreign companies in Tokyo's prefecture kept increasing from 2011 to 2019**. This shows that foreign companies are attracted to set their business in Tokyo.

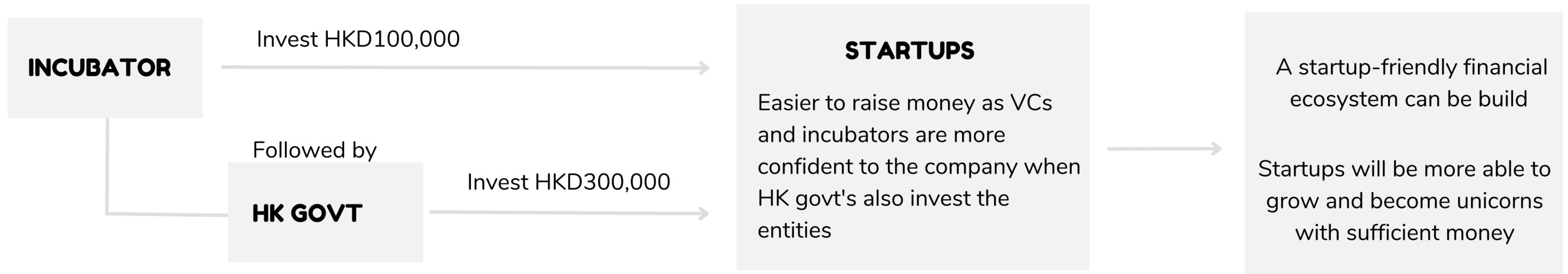
- HK government can set **threshold** for the incentive to make the incentive **exclusive for MNCs** that have headquarters in HK.

# INCENTIVE SCHEMES

## (2) DIRECT INVESTMENT

### THE DETAILS

- HK government can provide direct investment to tech startups by adding on venture capitals' and incubators' investment
- For example, for every investment of a HK incubator has made, HK government can invest the entity using three times of money that the incubator has invested without giving additional requirements if the entities decided to set headquarters in HK



# EVIDENCE (ISRAEL)

Country	Number of Unicorns	Total Value (\$ billion)
United States	644	\$2,074
China	172	\$669
India	70	\$202
United Kingdom	46	\$207
Germany	29	\$80
France	24	\$58
Israel	22	\$48
Canada	19	\$49

Israel is **#1 in the world**  
for the **most unicorns** per capita

updated by 2023

- For **every dollar that incubators invest in startups** (usually between \$700,000 and \$2 million) **Israel government adds six times** the amount
- The government has **no equity or active role** in the companies funded, only the financing to make sure they get a strong chance at success
- The funding has to be returned by the company as **royalty of sales**. So until there are sales, the startups **are not required to return**.

# INCENTIVE SCHEME EVALUATION

1. Create dedicated arm to attract foreign companies by providing financial support

It is possible for more American and European MNCs to set up RHQ in HK as HK is a gateway to GBA market but with a more comfortable environment for raising money.

2. Engage innovation through direct government investment

Tech companies would be more willing to come to HK as HK private incubators would be more confident to invest tech companies with the backup of HK government.

3. HK can re-build strong financial and trust connections with MNCs through these 2 incentives

HK may receive larger economic return in the future brought by MNCs even the current incentives will be using money to attract MNCs.



# IN SUMMARY

## **Recommended Policies:**

1. Free child care services for all income groups
2. Provide paid paternity leave

Low child birth is a result of an interconnectedness between economic and socio-cultural factors and there needs to be a multidimensional approach to the problem. The two recommended policies must be seen as an investment for the future of Hong Kong's population rather than an expenditure.

## **Incentive Schemes:**

1. Low interest rate loan
2. Government direct investment

Hong Kong has always had a strong presence in the world. MNCs are taking the stance of wait-and-see approach due to the political uncertainty. With strong incentive schemes in place, Hong Kong will bound to rise up and outperform its competitors.





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