LABOR FORCE CRISIS @HK:
Policies for
Fertility Rate & Net Migration
Team 5
Background

Declining Fertility Rate

The fertility rate (children per woman) has been declining in Hong Kong.

1960: 5.1  1990: 1.3  2020: 0.9

Rising Emigration Rate

Numbers of residents leaving Hong Kong:

Mid-2020 – Mid-2021: 89200
Mid-2021 – Mid-2022: 113200 (27% ↑)

(See W., 2022)

Result

Labor Force Crisis

The labor force in Hong Kong has been fading since 2018
Factors

1. Cost of Living

A) Price of Housing
World average property price:
1\(^{st}\) HK USD1,254,442
2\(^{nd}\) Munich USD 1,000,000
3\(^{rd}\) Singapore USD 915,601 (CBRE)

B) Cost of Raising Babies
~HK$980,000 (subsidised education)
~HK$5.5 million (private school) (CSD, LCS)

2. Industrial Diversity

Especially Tech-Companies
Most profitable firms are tech-companies:
1\(^{st}\) Apple Inc. USD 99.8B
2\(^{nd}\) Microsoft Corp. USD 69.79B
3\(^{rd}\) Alphabet Inc. USD 66.99B (Investopedia)

3. Other Factors
Covid policies
Livability ...

How can we address these factors?
Policy 1: Home Buyer’s Plan

Canada’s Case

Imposition time: 1992

Overview:
First-time homebuyers are allowed to withdraw from their Registered Retirement Savings Plan (RRSP) to put towards a down payment on a home. Applicants must repay in 15 years. Hence, more residents can afford housing units.

Effectiveness:
Research has shown a correlation between lower housing prices and higher total fertility rates (Yi & Zhang, 2010).

The fertility rate in Canada remained stable for the next 20 years (1.7 → 1.6, 5.88% ↓) compared to the world (3.0 → 2.5, 16.67% ↓).
Implementation in Hong Kong

Similar to Canada’s RRSP, Hong Kong requires most residents to make mandatory contributions of income to their Mandatory Provident Fund (MPF).

HK citizens may withdraw a portion of their MPF funds without incurring any tax penalties to use towards a down payment on their first home.

Benefits

1. Higher **fertility rate**
More citizens consider starting a family.

2. **No financial burden on the government**
Applicants are required to repay the funds to their MPF account.
   To rephrase, **borrow money from themselves**.

3. Asset **diversification**
Global investment environment is volatile. 1 trillion of total MPF has lost since 2008. [Hui, 2021]

4. **Easy implementation**
Optional, citizens have the right to choose.
Concern and Solutions (1)

Rise in Housing Price

Number of potential buyers increases.

Increase in demand for housing would drive up housing prices.

The housing crisis in HK could become even more serious.

Solutions

1. **Limits on withdrawal amount**

Appliers cannot withdraw too much; the property market would not be overheated easily.

Canada’s RRSP: CAD 35,000

2. **Repayment requirements**

Appliers must consider risks and would not purchase properties impulsively.

Canada’s RRSP: 15 years
**Concern and Solutions (2)**

**Failure to repay**
MPF ensures citizens’ living standard after retirement. If appliers are unable to repay,

1. living standard might not be maintained;
2. government transfer payment in the future would increase.

**Solutions**

1. **Credit assessment**
   Consider appliers’ credit scores and income before granting permission

2. **Automatic repayment**
   To ensure the retirement savings are not permanently depleted
Policy 2: E-Residency

Estonia’s Case

Imposition time: 2014

Overview:

E-Residency is a government-issued digital identity that allows global entrepreneurs and employees remotely access the country’s digital services and establish and manage business.

Global firms, especially tech companies, can conduct business in Estonia without physical offices.

Effectiveness:

- Attract entrepreneurs and investors to Estonia

  100000+ E-Residency ID cards being used from 170+ countries

- Establish the country as a hub for tech start-ups in Europe

  Create new job opportunities, particularly in fintech and other digital services
  → Industry diversity

- The plan has then been adopted by Portugal, South Africa, Brazil, etc.
Implementation in Hong Kong

1. Establish a E-Residency program office
2. Develop a user-friendly digital platform and provide access to Hong Kong's digital infrastructure
3. Promote the program and offer incentives

Benefits

1. Promote industrial diversity
   Lower cost (no rents for physical office)
   More firms, especially tech companies can be established (start-ups); and managed (unicorns).

2. Attract local talents
   More and wider range of job opportunities
   Higher demand and wages

3. Boost HK’s GDP and competitiveness
Concern and Solutions (1)

Rise in Expenditure

Cost involved in the program:
Setting up cost + Maintenance cost + Marketing Cost

Solutions

1. Tax revenue
   Increase in salaries tax and profits tax could offset the costs in long run
   More companies and revenue, High fixed cost and low marginal cost of technology

2. Charge fees
   Licensing of companies
   Registration of E-Residency cards
Reference List


