

LABOR FORCE CRISIS @HK:

Policies for Fertility Rate & Net Migration

Team 5

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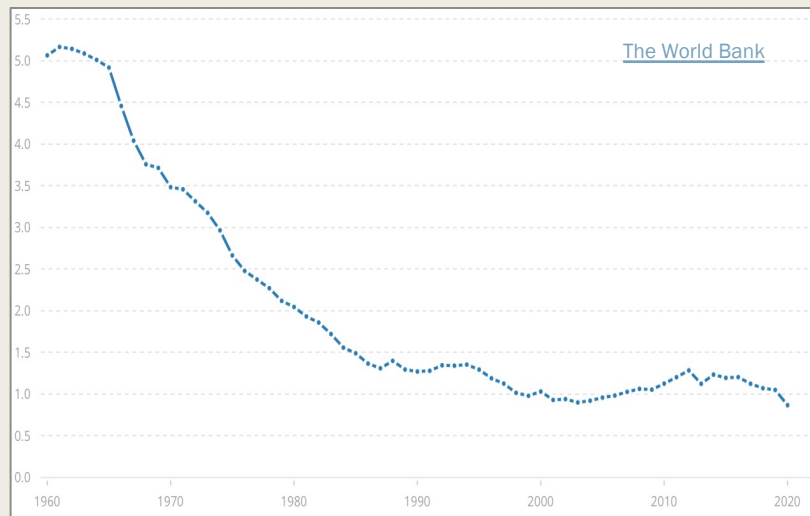


Background

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

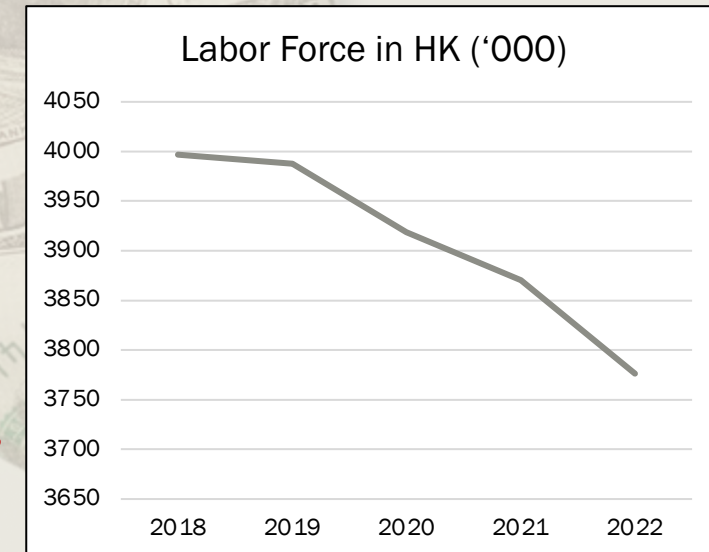
Mid-2021 – Mid-2022 :

113200 (27% ↑) [\(Yiu W., 2022\)](#)

>>> 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 <small>(CBRE)</small>

B) Cost of Raising Babies

~HK\$980,000 (subsidised education)

~HK\$5.5 million (private school) (C&SD, 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 <small>(Investopedia)</small>

3. Other Factors

Covid policies

Livability ...

>>> How can we address these factors?

Policy 1 : Home Buyer's Plan

Canada's Case

Imposition time: 1992

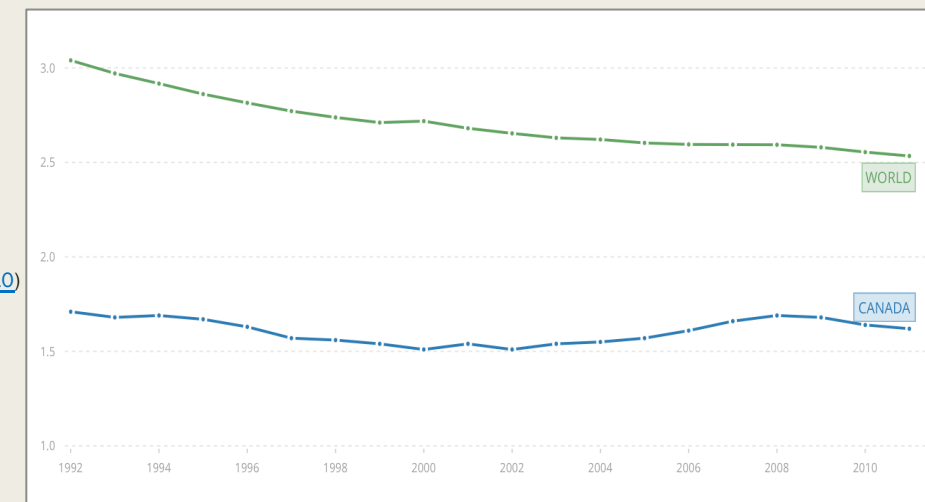
Overview:

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 ($1.7 \rightarrow 1.6$, 5.88 % \downarrow) compared to the world ($3.0 \rightarrow 2.5$, 16.67% \downarrow).



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

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

Canada's RRSP: CAD 35,000

2. Repayment requirements

Applicants 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.

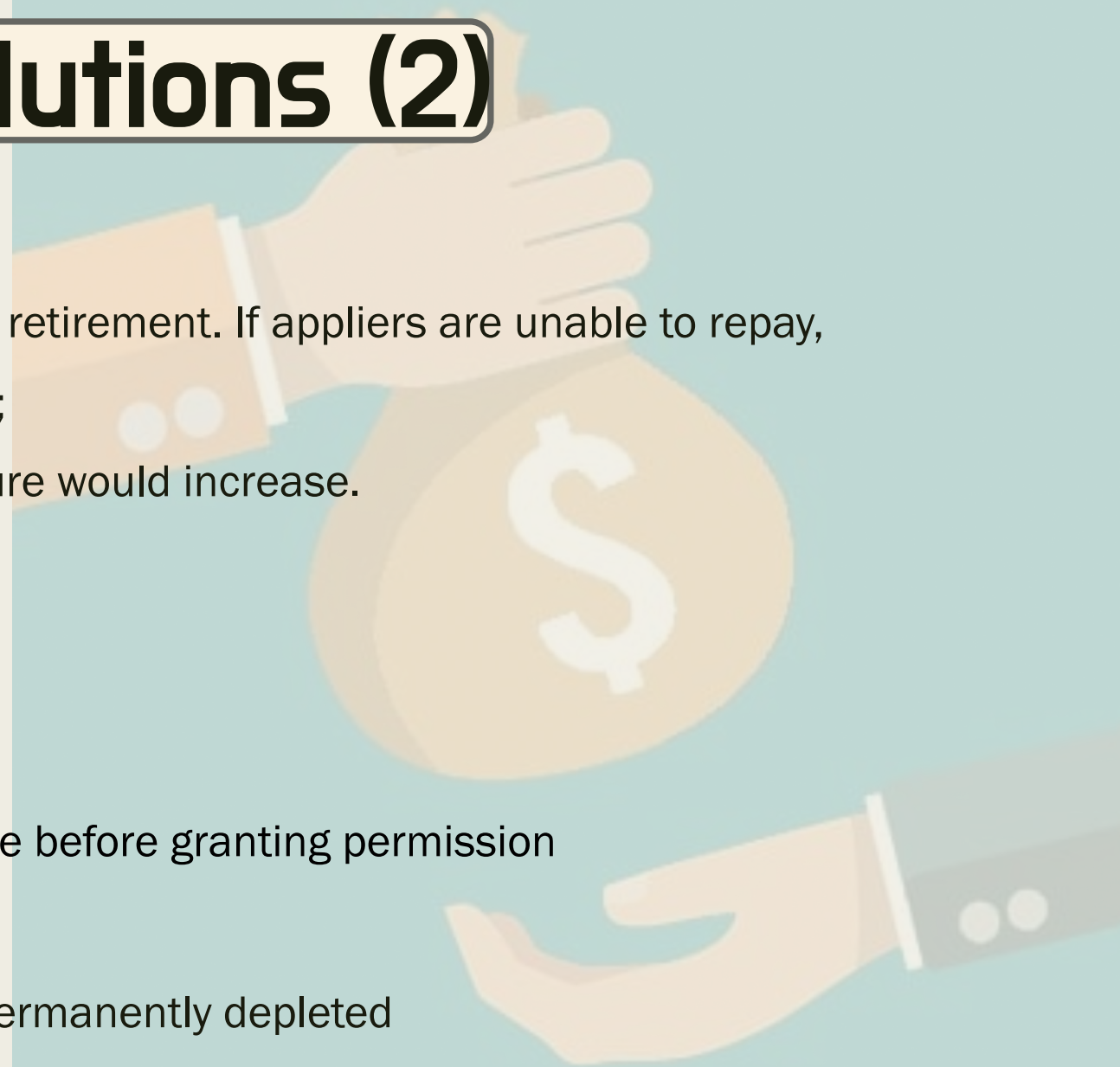
Solutions

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** ([GOVEST](#))
- 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:

Setup cost + Maintenance cost + Marketing Cost

Solutions

1. Tax revenue

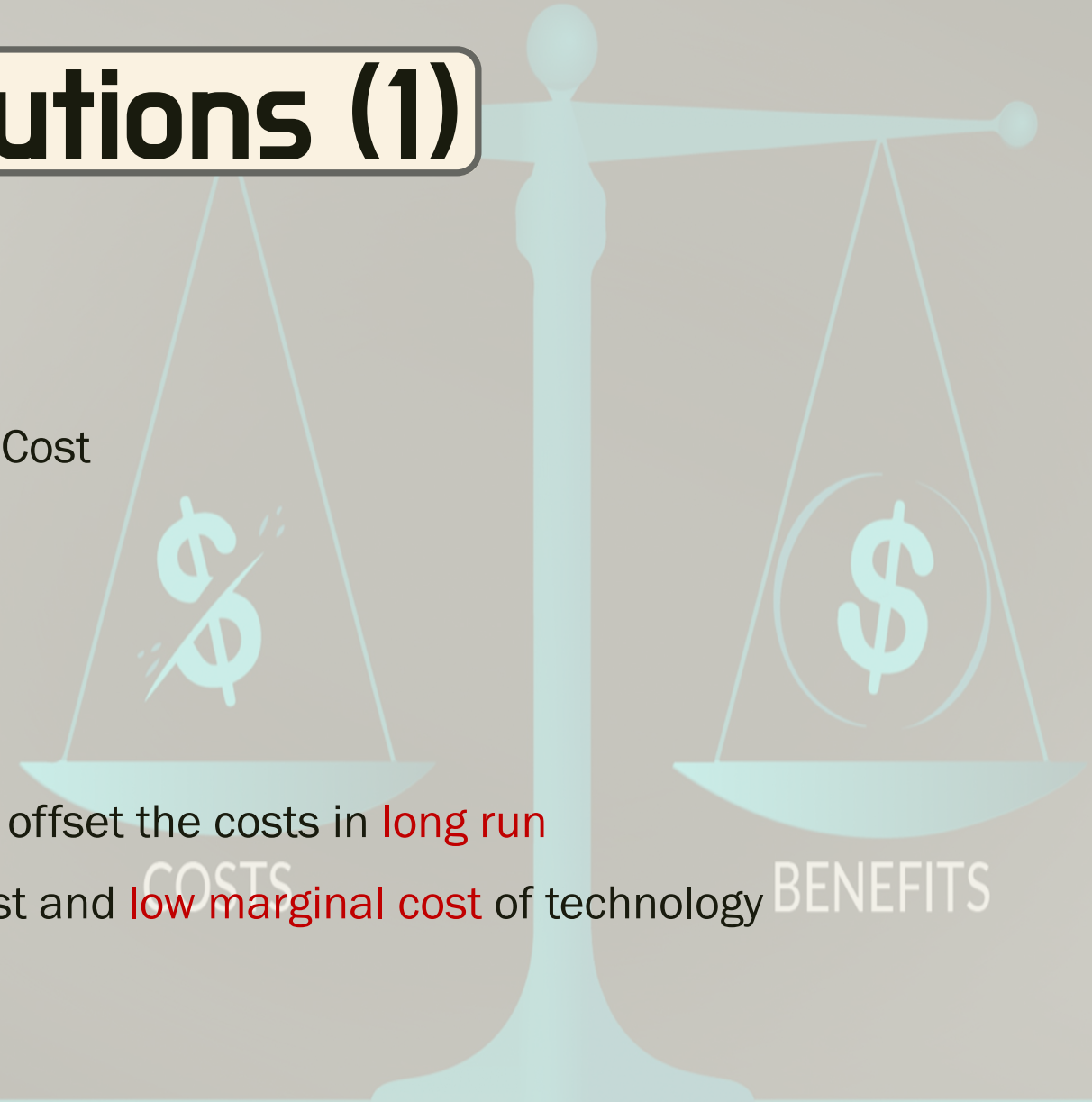
Increase in salaries tax and profits tax could offset the costs in long run

More companies and revenue, High fixed cost and low marginal cost of technology

2. Charge fees

Licensing of companies

Registration of E-Residency cards



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