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An Assessment of How Hong Kong Labor Has Fared under Economic Restructuring

Brian Quinn McDonnell

Introduction

Since the early 1980s the structure of Hong Kong’s economy has undergone rapid and quite notable transformations. A burgeoning service-oriented economy has emerged to replace the traditional manufacturing sector. While restructuring has slowed a bit since the early 1990s, residual effects from the changes are still reverberating through Hong Kong. For this reason, the domestic labor force is still considered to be in a period of transition. It is my intention to determine the impact that recent structural shifts have had on the lives and work of the Hong Kong populace.

I begin by examining economic restructuring. This includes analyzing the forces that have led to the rise and fall of manufacturing in recent decades. Next, I investigate how the process of economic restructuring has affected various labor market indicators, such as income and employment. In the third part of the paper I discuss the social and human consequences of economic restructuring by establishing who are the real winners and losers in the rapidly evolving labor market. Has a particular segment of society disproportionately borne the brunt of economic restructuring? Lastly, I assess how well the working population – both blue and white collar – has adapted to the changing economy.
The Rise and Fall of Hong-Kong-Based Manufacturing

Manufacturing in Hong Kong developed from modest origins. For the first century of the colony’s existence, the economy was focused largely on the trading sector, while manufacturing was confined to a few hundred small factories. By the 1940s only about 90,000 out of a population of 1.6 million were engaged in manufacturing. (Davies, p. 43)

Manufacturing began to grow in strength only from a lack of alternatives. For instance, the US/UN embargo on China after the Korean War largely prevented the colony’s return to entrepot\(^1\) trade, an area in which it had earlier excelled. Similarly, agricultural development was hindered by the colony’s hilly terrain. Moreover, mineral resources were deficient, and a limited local market restricted the possibilities for domestic manufacturing. (Davies, p. 43)

Thus, localized manufacturing for export offered the only remaining option for Hong Kong. In particular, it was low-tech and labor-intensive manufacturing that provided the catalyst for growth for Hong Kong’s economy from the 1950s until the early 1980s. At its peak in 1981, manufacturing employment exceeded 900,000. (Davies, p. 44)

Hong Kong-based manufacturing began to decline as a major source of employment in the early 1980s, following the decision of the Communist Party leader Deng Xiaoping to infuse Western-style capitalism into an otherwise stagnant state-run economy. Initiating sweeping and unprecedented reforms for economic liberalization, Xiaoping implemented special economic zones (SEZs) throughout major Chinese cities and provinces so that capitalist experiments could be practiced under greater autonomy. Beijing designated Guangdong province as the pioneer for China’s "Open Door Policy."\(^2\) (Sung, p. 16) More specifically,

\(^1\) An entrepot is a place for the storage of goods in transit, particularly goods intended for reshipment or re-export.

\(^2\) An historical policy initiative begun in 1979 by the Communist Party leader Deng Xiaoping intended to revive the ailing economy by opening China to foreign investment and by offering cheap land and tax concessions for joint ventures and foreign-owned enterprises.
many of China’s economic reforms first started as experiments in the Pearl River Delta, in cities such as Shenzen, a SEZ which is just north of Hong Kong yet within the larger Guangdong province. These reforms had the immediate effect of opening the mainland to foreign investment, particularly from Hong-Kong-based manufacturing concerns. Howard Davies, an authority in this field of labor economics, notes that Hong Kong's manufacturers responded eagerly to the market signal that lower-cost labor was available across the border by quickly transferring production into China, concentrating on the Pearl River Delta in particular. (p. 44)

Another expert, the economist Yun-Wing Sung, emphasizes that labor costs in Guangdong province are lower than that of Thailand and Malaysia, and are about one eighth that of the four "Asian Dragons."³ (p. 110) Sung also reports that the productivity of mainland Chinese workers can be at least as high as that of Hong Kong workers. (p.110) In addition to these advantages, the "Open Door Policy" has offered cheap land and tax concessions for joint ventures and foreign-owned enterprises. Hong Kong entrepreneurs were easily lured to the region for these reasons. By 1993 the mainland was host to more than 100,000 Hong Kong-invested enterprises. (Davis, p. 44) Guangdong province alone provided the location for more than 40,000 of them, employing about six million workers, more than double Hong Kong's workforce. (Davies, p. 44)

**Specific Industries Impacted by Structural Transformation**

Hong Kong investment in the Pearl River Delta has targeted the following industries: electronic equipment, electronic machinery, food, textiles, machinery, chemicals and clothing. Investment in light, labor-intensive industries have outweighed investment in heavy and skilled

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³ Hong Kong, Singapore, South Korea, and Taiwan have been given this description for their economic prowess in recent years.
industries, such as machinery and chemicals. (Sung, p. 98) While these above-mentioned industries expanded greatly across the border, they experienced significant declines in Hong Kong.

Focusing New Realities

By the middle of the 1980s Hong Kong was no longer able to claim comparative advantage in terms of cheap labor in light of its new mainland competitor. As a result, Hong Kong manufacturers were compelled to take stock of their economic strengths and the availability of resources. Rather than stand in the way of the deluge of manufacturing jobs streaming across the border, Hong Kong positioned itself accordingly to capitalize on the new demands that accompanied this dramatic shift.

According to Howard Davies, "The reallocation of Chinese labor from low productivity agriculture into Hong-Kong-managed light industry produced huge increases in the mainland's outputs and exports." (p. 44) For example, between 1990-1992 the Pearl River Delta's exports grew at an average annual rate of 28.6 per cent. (Sung, p. 3) Such an enormous upsurge in exports, however, triggered a simultaneous demand for trade-related services in Hong Kong, for the service industries in the Delta were seriously underdeveloped.

It should be noted that Hong Kong has always been the easiest point of entry into China. Its deep and protected harbor affords convenient access for the shipment of goods and services traveling to and from the West. Consequently, as Hong Kong came to rely on the cheap land and labor of the mainland for its manufacturing needs, China reciprocated by depending on Hong Kong for its export/import capacity involving the harbor. The more Hong Kong manufacturing jobs fled north across the border to tap into the readily available and cheap labor force that numbered in the millions, the more Hong Kong was prompted to enhance.
its own comparative advantage in terms of infrastructure. As the historian Robert E. Gamer has observed, "To adapt to this new role as China's financier, marketer, raw materials supplier, quality controller, packager, and shipper, Hong Kong's government has invested heavily in developing harbor and airport facilities, office and convention space, education, housing, and health care." (p. 150)

This overhaul in trade-related services, though, was done at the direct expense of manufacturing interests in Hong Kong. With the proliferation of service-oriented jobs in Hong Kong came a commensurate demand for skilled white-collar workers in lieu of the traditional semi-skilled blue-collar workers. This replacement continued unabated until there was a complete restructuring of the economy.

**Restructuring by the Numbers**

Statistical evidence is very helpful in revealing the pace and scope of restructuring since the early 1980s. For instance, in 1982 the Hong Kong government's *Annual Digest of Statistics* indicated that 847,194 people were engaged in manufacturing, whereas only 386,331 were engaged in trade-related services. Of this latter group, only 132,629 persons were in imports/exports and only 166,124 persons were involved in finance, insurance, real estate, and business services combined. However, by 1997 there was a stark reversal in the composition of workers employed in both the manufacturing and service sectors from the earlier data. For this year the *Digest* records that 288,887 people worked in manufacturing, whereas over 1 million had trade-related services jobs. Also, by 1997 the import/export sector had increased to include over 500,000 people. Finance, insurance, real estate, and business services also continued to grow between 1982 and 1997, employing over 410,000 people in 1997. (Davies, p. 45) It is

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4 Trade-related services are comprised of the following sectors: imports/exports, transport, storage and communications, finance, real estate, and business services.
critical to note that the years of greatest change correspond with the effects of economic liberalization taking place on the mainland and rippling through Hong Kong. According to the latest data available from Hong Kong's Census and Statistics Department, the manufacturing sector employed fewer than 210,000 people in 2001. ("Hong Kong Statistics") In short, since its peak in 1981 the manufacturing industries have shed over 690,000 jobs in Hong Kong. (Suen, p. 8)

As stated in the 1991 census, some 41 percent of manufacturing workers were female. (Chui and Lee, p. 8) Manufacturing has traditionally been a major source of employment for working women in Hong Kong. In both the 1988 and 1996 Report of Employment, Vacancies, and Payroll Statistics, female employment exceeded that of men in garments and electrical and electronic machinery. Furthermore, in the manufacturing of wearing apparel in 1987, women outnumbered men by over 100,000. (Chui and Lee, p. 9) The disproportionate number of women vis-a-vis men in many of the local manufacturing industries most affected by restructuring, such as garments and electronics, is an important fact to keep in mind when considering who has borne the brunt of economic restructuring.

**Occupational Upgrading**

Another revealing aspect of economic restructuring is the overall change in the occupational structure. With the changing nature of work, there has been an increase in the proportion of white-collar occupations. Between 1976 and 1991 the proportion of the labor force comprised of managers and administrators increased by 4 percentage points, the number of professionals and associate professionals rose by nearly 8 percentage points, and the number of clerical workers climbed by 6 percentage points. (Chan and Suen, p. 64)
While the distribution of white-collar occupations varies across industries, it is important to note that the increase in the proportion of managerial and administrative workers is higher in the manufacturing sector than in any other sector. Yet while the proportion of managers and administrators in the manufacturing sector increased substantially between 1976 and 1991, the proportion of direct production workers in the labor force fell by 22 percent. (Chan and Suen, p. 63). Clearly, then, the manufacturing jobs that have remained in Hong Kong are in the clerical and administrative end of manufacturing rather than in the direct production of goods. This observation suggests that the degree of de-industrialization in Hong Kong is actually greater than initially recognized. These figures also reinforce the impression that many local manufacturers have moved their production facilities to places like Shenzhen and use Hong Kong primarily as a distribution and control center for their regional operations. As such, Southern China is commonly referred to now as the "factory floor," while Hong Kong represents the "administrative hub." (Chan and Suen, pp. 63-64)

The Income and Distributional Effects of Economic Restructuring

Having traced the process of manufacturing from its rise to its ongoing collapse, I now turn to the impact that de-industrialization has had on income and employment levels in Hong Kong. For instance, how do wages compare in the financial sector with those in manufacturing? A common stereotype is that service workers are low paid and relatively unskilled, and that they work under undesirable conditions. Here one has to draw a distinction between personal services and financial services, for the two areas differ considerably in terms of wages and working conditions.

Economists emphasize that fewer than a quarter of the service jobs in Hong Kong are in restaurants or the retail sector, areas where critics may suspect poor working conditions, job
insecurity, and low pay. (Chan and Suen p. 65) Also important to note is that the fastest growing sectors, in terms of the number of jobs, are in business and financial services rather than personal services. Additionally, payroll data from 1993 demonstrates that 68 percent of all service workers earned higher wages than the average manufacturing wage. (Chan and Suen, p. 65) Thus, as Hong Kong workers increasingly move away from lower paying manufacturing and personal service sectors towards the higher paying financial services sector, labor incomes will continue to increase generally.

**Earnings Inequality**

Although the structural transformation of the Hong Kong economy has brought about significant increases in wages and income, there is evidence that it has also resulted in growing earnings inequality. De-industrialization was in large part accompanied by, if not caused by, technological innovations that enabled machines to do the work of low- and semi-skilled labor more efficiently and cheaply. At the same time, the increasing use of physical capital and mechanization has meant that the demand for skilled labor to manage and co-ordinate the new production processes has increased. The rise in the demand for skilled labor relative to that for unskilled labor has also been reflected in an increase in demand for education and in an increase in relative wages for skilled workers. As a result, real wage growth for operatives has clearly lagged behind wage growth for non-production workers and for managers and professionals. (Chan and Suen, p. 66) Because wage levels of operatives were below those of non-production workers to begin with, the rise in demand for skilled labor has only exacerbated the pre-existing wage inequality.
The Impact of Economic Restructuring on Employment

Concern over sectoral shifts in Hong Kong has also centered on the problem of unemployment stemming from tensions that exist in a labor market during periods of rapid transition. For example, as a result of manufacturing jobs relocating across the border to China, the number of manufacturing workers in Hong Kong now exceeds the number of manufacturing jobs available. Consequently, some segments of the manufacturing sector face unemployment in the short run until the labor market regains equilibrium. Also, adjustments will have to be made by both employers and employees before worker skills can be sufficiently matched with the demands of the new service oriented economy. For these reasons, restructuring invariably causes some disruptions in the labor market, such as quits and layoffs. Restructuring can also cause more extensive job search because workers are not as familiar with the new industries. (Chan and Suen, pp. 68-69) Yet, what exactly are the measurable impacts of sectoral shifts on unemployment?

Surprisingly, the unemployment rate in Hong Kong throughout the 1990s has rarely exceeded 2 percent, remaining below 5 percent even during the Asian Financial Crisis of 1997. Such a low unemployment rate suggests a very flexible labor force. However, before accepting such a frictionless portrayal of employment and restructuring generally, one has to delve deeper into the complexities of the issue.

Economists William Chan and Wing Suen have constructed an economic model to determine if a correlation can be found between the rate of restructuring and unemployment. (p. 69) Chan and Suen plotted the aggregate unemployment rates from 1982 to 1996 against an index of sectoral shifts based on 46 industries. Interestingly, their results do not suggest a positive relationship between the rate of sectoral shifts and the unemployment rate during this
time. However, it is important to note that Chan and Suen’s findings focus solely on aggregate unemployment. An overall clean bill of health may obscure pockets of hardship experienced in some industries. Furthermore Chan and Suen caution that "since mid-1989 there appears to be an increasing prevalence of long term unemployment in synchrony with the accelerating restructuring of the Hong Kong economy, even when the overall labor market was very tight in the late 1980s and early 1990s." (p. 71)

A common explanation for the low reported unemployment figures is that the restaurant business and the retail sector absorbed a disproportionate share of manufacturing workers who were displaced during restructuring. (Suen, p. 8) For instance, jobs in personal services tend to require less education and training and so are compatible with the skills of a manufacturing worker who has lost his or her job. The simultaneous growth of the restaurant and retailing industry during structural transformation helped maintain a strong demand for labor despite a declining manufacturing sector.

Yet, these personal service jobs were lower paying than the financial and business service jobs. In addition, personal service jobs do not offer the same degree of job security as those in the financial and business sector because of the former's dependence on consumer spending. The slightest slowdown in retail sales and restaurant revenues would make it substantially harder for displaced manufacturing workers to find employment. This is precisely the condition that characterizes today’s unemployment problem in Hong Kong. While consumer spending was robust throughout the early-to mid-1990s and so maintained full employment, this has certainly not been the case in recent years nor in the present global slowdown. Recently, the Hong Kong labor market has continued to slacken further as many economic activities, especially those related to travel, tourism, and external trade, were hit hard
by the repercussions of September 11th in the United States. The unemployment rate has soared to nearly seven percent in Hong Kong, up two full percentage points since May 2001.

The low unemployment rate reported during the height of restructuring in the late 1980s and early 1990s underestimates the actual vulnerability of the working class’s position in Hong Kong’s new service economy. Without a strong personal services sector during these crucial transition years, the unemployment rate would certainly have been significantly higher. The high unemployment figure in 2001-2002 also illustrates that shock waves from earlier restructuring are still reverberating through Hong Kong’s labor market. The fact that the personal services sector has suffered a serious decline in the past few years and therefore has not been able to alleviate the unemployment problem remains a grave concern for today’s manufacturing worker.

Who Has Borne the Brunt of Economic Restructuring?

Although the Hong Kong labor force has been relatively flexible in adopting to structural transformation, as attested to by the low aggregate unemployment rates in the early and mid-1990s, there are still some workers today who, having lost their jobs in the declining industries, are experiencing substantial difficulties in finding satisfactory employment. Even if they are able to find a job in one of the expanding industries, these displaced workers are likely to have to accept a substantial pay cut, for skills required in different sectors tend to be very different. Manufacturing workers have found that the specific human capital they have accumulated in their previous employment does not have the same value to employers in the service industries. (Chan and Suen, p. 73)
Age Differences

Age also has become a contributing factor in the ability of displaced workers to find satisfactory employment. For instance, human capital theory suggests that older segments of the population generally incur larger psychic costs during the education process than younger cohorts because learning becomes more arduous with age. (Ehrenberg and Smith, p. 300) Thus, the willingness and ability of older segments of the workforce to learn new skills and adapt to the ever-changing labor market is greatly diminished compared to younger workers. Advanced age also reduces the incentives to acquire new sector-specific skills, for the period over which the returns from such an investment can be reaped before retirement is now shorter. (Ehrenberg and Smith, p. 307) With their skills perhaps becoming obsolete and having little incentive to invest in new ones, older workers are susceptible to having to settle for relatively low-paid and unskilled service jobs. (Chan and Suen, p. 73) Thus, older manufacturing workers, particularly those with fewer human resources and lower skills, are more likely than other groups to disproportionately bear the brunt of economic restructuring.

Gender Differences

Human capital theory posits that women tend to have more interruptions in their careers than men because of family decisions such as having and raising children. This leads women to enter and exit the labor force more frequently. Yet when this stage of the woman's life is over, women tend to seek employment on a more permanent basis. (Ehrenberg and Smith, p. 309) Chan and Suen make the case, however, that when the industrial structure in Hong Kong was more stable, securing a satisfactory job was relatively easier than the situation that women face today. (p. 72) Because of the rapid pace of economic restructuring over the past two
decades, women increasingly find that there are fewer market opportunities for them to return to.

To repeat a point made earlier, while an occupational upgrading accompanied the restructuring generally, the increase in the proportion of managerial and administrative workers was highest in the manufacturing sector than in any other sector. Because men have traditionally had more educational opportunities than women in Hong Kong, men were at an advantage in gaining promotion to the greater number of administrative positions within the manufacturing sector. Many women, on the other hand, did not have the necessary education to compete with men for these white-collar jobs and were thus confined to low-skilled and semi-skilled physical production jobs. Yet these were the exact types of jobs that migrated most to southern China and were increasingly unavailable in Hong Kong. Thus, when between 1976 and 1991 the number of managerial workers in the manufacturing sector increased substantially while the number of direct production workers declined, women, unlike men, were on the losing end.

Reports from Employment, Vacancies, and Payroll Statistics confirm that women were more likely to be adversely affected by restructuring than their male colleagues were. For instance, from the end of 1987 to the end of 1995, the number of female employees in manufacturing fell from 430,376 to 164,248, a drop of 61 percent. By contrast, the number of male employees had dropped from 437,571 to 211,518, or 52 percent. (Cited in Chui and Lee, p. 8)

**Educational Opportunities**

Education is instrumental in determining the degree of mobility that workers possess. Having traditionally been denied the same educational opportunities as men, many women in
Hong Kong have not gained the general skills that would have allowed them to move from the manufacturing to the financial sector with the same degree of ease. For instance, it is part of traditional Chinese culture that males should receive more education than females. (Lui, p. 102) While this custom is less adhered to today than in the past, it has had an enduring effect, particularly among older generations of women workers. Thus, older women in the declining manufacturing sector have borne the brunt of economic restructuring because of their immobility, lower educational levels, and disincentives to invest in human capital. Consequently, they are the most likely group of manufacturing workers to be pushed down the occupational ladder, if not out of the labor force entirely.

While older women have faced barriers, both in education and in the job market, it is important to note that the economic status of younger women in Hong Kong is rising, albeit modestly. For instance, although there is a female-male earnings gap, it has narrowed in recent years. Also, the female labor force participation rate has risen in the past two decades. Unsurprisingly, the principal momentum behind the scene was the rising educational attainment of the more recent generation of Hong Kong women. (Lui, p. 100)

Interestingly, by 1991 the educational advantage enjoyed by men in earlier years was reversed. On average a young working woman had 9.6 years of education, which was 0.4 years higher than that of the average working man in Hong Kong. (Lui, p. 103) Human capital theory suggests that a worker's earnings are positively related to his or her investment in education. (Ehrenberg and Smith, p. 305) As more young women take advantage of the government's provision of free and compulsory education up to the lower secondary level and then go on to universities, one would expect the wage gap to narrow further. Also, with increased levels of education young women entering the labor market today are better prepared
for the demands of the new service-oriented economy. In this regard, it is important to
distinguish the experiences of older women workers from those of their younger daughters.
The two groups differ considerably in terms of educational opportunities and consequently do
not face the same barriers in the labor market.

Conclusion

Since the early 1980s Hong Kong's economy has undergone a rapid process of
restructuring, from a manufacturing-based to a service-based economy. This restructuring has
affected the lives and work of all its residents. The transformation began as an immediate
reaction to economic liberalization and unprecedented openness to foreign investment in China.
The movement of manufacturing jobs to China and the simultaneous boom of the financial
sector drastically increased the demand in Hong Kong for higher-skilled and white-collar
workers at the direct expense of lower skilled blue-collar workers.

The effect of this rapid shift on Hong Kong's economy was marginal in terms of
aggregate unemployment throughout the early-to-mid 1990s, indicating a high degree of worker
flexibility and mobility. However, in more recent years unemployment has become a
considerable problem in Hong Kong, exposing the economy's over-dependence on the personal
service sector and consumer spending.

Groups that have borne a disproportionate share of the burden are those workers in the
decaying manufacturing industries who were not equipped with the necessary skills and
incentives to invest in human capital to improve their situation. Older women workers, in
particular, have faced greater barriers of mobility than have their younger, male and female
colleagues in the manufacturing sector. Yet, with increasing education opportunities and re-
training programs sponsored by the government, the displaced worker problem should become less serious in the future.
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