

City of Opportunities?!

Research Report on the Shrinking Middle Class in Hong Kong

The Professional Commons
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Short Version

I. Introduction

1. In recent years, the organizations representing the middle class in Hong Kong have proactively expressed their views on current affairs as well as their concerns. Given that their concerns have been widely recognized by the local community, it seems that a sense of dissatisfaction or even instability has been flourished among the middle class. Even so, the general public in Hong Kong as a whole has pragmatic expectation to enter the middle class sector, or to maintain a middle class lifestyle. The Hong Kong SAR Government (hereafter the Government) should take into account the general expectation for upward social mobility which should be of an equal status as the improvement of the livelihood of the underprivileged

2. Currently, the pressure of inflation has spread over Hong Kong, exacerbating the conflicts over the distribution of economic benefits. As the Government has failed to strike a fair deal for all, it has resulted in the falling of its ratings in the latest polls.
 - The economy of Hong Kong has rebounded and the Gross Domestic Product (hereafter GDP) rose drastically for four consecutive years. On the other hand, the gross average return on the employed persons of Hong Kong rose between 1.5 and 4.5 between 2001 and 2006, which is significantly lower than the GDP growth rates. The gross average return on capital is also significantly higher than the average growth rate of gross return of employed persons, with the former even reached double-digits growth in 2004 and 2005.
 - Although the average gross rate of return of the employed persons has been on a rising trend, it is, however, in parallel with the trend of the unemployment rate. This has suggested that the rise of the gross rate of return for the employed persons in specific years is the result of downsizing of the work forces from businesses. For example, while the GDP growth in 2003 only stood at 3%, the gross average return of the employed persons rose by 4.5% when compared to the figures in 2002, but the unemployment rate also stood at the highest level recorded in recent years—7.9%. This has

compellingly illustrated the fact that the growth in the average gross return of the employed persons is the indirect result of the lowering of the base number of employed persons.

3. The provision of a fair return would be in adherence to social justice. The facilitation of social mobility would bring about hope for the people. It should be the responsibility of the Government to create a vision for the people and facilitate the general public to embrace their wishes. Social mobility is a deeply embedded problem and is fundamental for the healthy development of the society. To enable a higher degree of upward mobility, the determination of the Government in making fundamental changes in respective policies would be of vital importance.

II. Background

4. In the past few years, the middle class population of Hong Kong is indeed facing a range of challenges, including serious economic crisis and identity crisis. Their adverse situation appeared to be a syndrome not restricted to an individual class, as the middle class is already the sector which is more resourceful in fighting against adverse situations. Against this background, the underprivileged is expected to suffer more.
5. According to the figures of the 2006 By-Census, the number of households earned less than HK\$10,000 rose significantly from 442,000 units in 1996 to 620,000 units in 2006, and its proportion to the total number of households as a whole rose from 23.9% to 27.9% during the same period. The proportion of those earning a middle range of income between HK\$10,000 and HK\$40,000 to the total number of households dropped from 61.2% to 55%. Those who earned a high level of income of HK\$40,000 or over, however, rose from 15% to 17%. These figures have aptly reflected a reverse trend in social mobility. On one hand, the population in the lower sectors has grown significantly and the size of the population in poverty has increased tremendously. On the other hand, the middle class has experienced “downsizing” rather than the “up-streaming” over the years.
6. A local study examining the perception of class identity of Hong Kong people indicated that those who perceived themselves as the upper, middle and middle-lower classes, when compared with the same set of figures in 1997,

has dropped by 1.9%, 7.3% and 1.5% respectively, while those perceived themselves as the lower class rose significantly by 10.3% during the same period.

7. In the perspectives of social mobility, the shrinking of the middle class is highly illustrative on the difficulties and underachievement in which this particular sector is facing. It would be of equal importance to note that the lower class has neither the means nor the ability for achieving upward social mobility to refill the gap.

III. Plight of Students Enrolling in Associate Degree Programmes

8. The costs of post secondary education are very expensive in Hong Kong. The Associate Degree programmes are particularly problematic in respect of existing student financing schemes and the “low returns” for these courses. Should associate degree students pay the costs through the means of loans, they would need to take up substantial pressures for as long as ten years after graduation. Their salaries level of is comparatively low, with an average monthly salary in their first job amounted to HK\$9,100 only. They might face a heavy financial burden on the repayments of loans exceeding HK\$1,000 or above. Although these highly-educated persons are not facing the issues of hunger and absolute poverty, the issue is more on how much disposable income left to these graduates. To be specific, it would be important to appropriately delineate the level of personal responsibility on education investments against prospective income returns, and whether these “pre-middle class” is capable to live in a middle class lifestyle de jure.
9. In some cases, the expenses of associate degree programmes might be assumed by the parents of the students. It is likely to happen in middle class families. A three-member family who are earning HK\$19,000 per month or with an annual income of HK\$200,000 is not qualified for the application of grants and low interest loans. These students might depend on their families for financial support. The learning and living expenses of associate degree students are closed to HK\$80,000 per year. It would add burden to families with a monthly income of HK\$20,000-30,000

**IV. The Three Disadvantaged Groups:
The Youth, the New-arrivals and the Ethnic Minorities**

10. Despite the fact that many low-educated youths, the new arrivals and the ethnic minorities are suffering from high unemployment rate, low wages, living in poverty and some of them even rely on the Government for relief, they are in better position and with higher capabilities when compared with the elderly and the disabled persons. Therefore, it would be important to enable them to struggle with a brim of hope and eradicate poverty with a strong sense of self-motivation through enchanting them with the possibility of upward social mobility.

A. The Youth

11. Although a substantial GDP growth has been recorded in the past few years, the unemployment rate for the age group 15-19 still stood at 19.8% in 2007 and that for the age group 20-29 is 1% higher than the overall unemployment rate. The youths who have left school and are awaiting for employment maintained at the level of 20,000 in the years between 2001 and 2006.
12. As for those who are employed, their wage levels stood in a very low level. Over 80,000 persons in the age group 15 and 24 received a monthly income of less than HK\$4,000 from their main employment, doubling the figures in 1996. Whether they could achieve economic independence with that level of income will be worrisome. The low salaries of these young people are attributed to their nature of work. Most of them were engaging in low-end service work, including working as “service workers and shop sales workers” or in “elementary occupations”
13. In a nutshell, the chance of upward social mobility for the low-educated youths are getting narrower and narrower. In view of the challenges of globalization and a knowledge-based economy, the demand of academic abilities has been exacerbated further. Driven by this global trend, local school system has become more “academic oriented” and “career oriented.” Although the Government has promised to provide a twelve-year free education for all, and provided many choices in career training in the senior secondary level, these measures may not be able to meet the needs of the students with low academic abilities. These schools place a lesser degree of

attention on the incubation and developments of non-academic potential of students which might open an alternative career path for these students. Even worse, many parents generally hold that these non-academic skills would not add value to their career prospects. They are also concerned that greater effort on non-academic activities would further dampen the academic performance of their children and could not be able to make both ends meet.

B. The New Arrivals

14. It is important to note that many persons from the Mainland having resided in Hong Kong for less than 7 Years (hereafter the “new arrivals”) are supporting their families from their hard work, and are willing to sustain in hardships. However, their salary level is far below the overall working population of Hong Kong.
 - In 2006, 70.5% of the new-arrivals has a main employment income of less than HK\$8,000, while only 35.3% of the overall working population in Hong Kong stood at that level of salaries.
 - In terms of the median monthly income from main employment, the new arrivals stood at HK\$6,000 in 2006, which was far below than the overall figure of the entire working population which was amounting to HK\$10,000.
 - There is no strong correlation between the growth of the salary level of the new arrivals and their length of residence in Hong Kong. In 2006, as many as 71.4% of new immigrants who stayed in Hong Kong between five years and less than seven years had a monthly salary of less than HK\$8,000. The proportion is higher than those who stayed here between one and three years in a narrow margin, but lower than those who stayed for three to five years.
 - Similar to the local youths, many new arrivals engaged in work requiring a lower level of skills, including “service workers and shop sales workers” and “elementary occupations”, which accounted for 30% of the employment of the new-arrivals respectively.
15. It could be problematic for some new-arrivals in seemingly “simple matters” like language communications. The results from a survey conducted by the Government in 2006 concerning about the needs of the new-arrivals indicated that as many as 23.8% of the respondents only understood “a bit” or had no knowledge of Cantonese.

C. The Ethnic Minorities

16. The underprivileged sectors among the ethnic minorities in Hong Kong are primarily of Pakistani and Nepalese origin. Many of them shared the problem of language communications. Only 13.5% of the Nepalese and 22.4% of the Pakistani population have adopted either Cantonese or English as their “usual language”, according to 2006 Population By-Census figures. This cast concerns of their ability to communicate with others in Hong Kong.
17. The ethnic minorities studying in publicly-funded schools or schools under the Direct Subsidy Scheme appeared to receive lesser opportunities in studying in local institutions of higher education. In the academic year of 2006/07, only six students of ethnic minorities studying in these schools were awarded places in the first year undergraduate programmes funded by the University Grants Council. According to the report from Unison Hong Kong, students from the ethnic minorities are facing tremendous difficulties in dealing with the Chinese language courses, which discouraged them from learning and subsequently resulted in their low enrollment rate in post-secondary educational institutions.

V. Difficulties of the Creation of Businesses and the Plight of SMEs

18. Whether local business environment is favourable to the establishment of new businesses and the sustainability of the small and medium-sized enterprises (hereafter SMEs) also affect the scope of social mobility. Various indications have suggested that the business environment and prospects for the SMEs is deteriorating. More strikingly, it has been suggested that many government policies have been the main culprit leading to the difficulties faced by the SME currently.
19. It is widely noted that the mentality and thinking of “facilitate a more convenient means of management” and “management supremacy” has been prevailing in recent government policies. Moreover, the emerging new public management model attaches greater importance on economic efficiency and adopts the values and means in the business and market arenas in public administration. The importance of management has been over-emphasised as the key of success for dealing with different issues. Under the influence of such model, the tasks of public policy has been forcefully simplified and in

many cases being over-riden by the means of management.

A. Rental policies of the business properties of the Housing Authority

20. The performance of the Housing Authority in the management of business properties has been subject to criticisms for years. It has attempted to improve the means of management recently. Under the influence of the new management mode of the newly built business properties, the rental policy of shopping centres in public housing has undergone following changes, including:

- “One shop for each type in each estate”: In principle, there is only one shop for each types of shops, most of them are running as a monopoly;
- “One shop fits all”: Opening of large-sized or even “super-sized” shops which occupied 30 to even 70 percent of the total floor area of the shopping centres;
- The wet market stalls were excluded in the shopping centres. Hence, the supply of freshwater fish, meat and vegetables were monopolized by the supermarkets;
- The new shopping centres are lack of small-scaled shop spaces;
- The chain stores and business conglomerates have monopolized the supply of basic needs of the public, including supermarkets, fast food restaurants and convenience stores.

21. In a nutshell, the negative impacts of the new business model of the Housing Authority in running business properties can be illustrated in three aspects:

- High level of spending: The spending level on goods and services of residents in public housing estates in basic needs is forced to be the same as other classes of the population, hence they could not save on living expenses.
- Lack of job opportunities in the surrounding areas near the housing estates, except those in the shopping centres, led to a relatively low wages for those jobs, and subsequently a low salary level of the residents.
- The monopolization of business spaces by the large-scale conglomerates in those shopping centres has reduced the chances for creating small businesses to the minimal and adversely affected the means of social mobility.

B. Hawkers Policy

22. It has been a longstanding policy in restricting the development of hawkers.

Although the hawkers policy is now under review, the Government insisted that the overall number of hawker licences would be maintained at the current level and the banning of mobile hawkers would not be reviewed. The issue lies on the fact that there were merely 248 and 261 fixed hawkers and mobile hawkers in the New Territories respectively.

23. Putting the principle of “management supremacy” to the maximum extent would result in a banishment of anything that do not concur with the theme of “facilitation to management”. Such a move would result in the “bleaching of the streets”. Rather than forcing the general public to rely on social security, the Government refused to relax its stringent policy measures in hawkers management. Under the policy-making system based on a fragmented means of governance, the governing principle of “for the People” has lost its edge and overshadowed by the lower level principle of “management supremacy”. The grand vision once highlighted by the Government is nothing but “all talk and no action”.
24. Another set of examples include:
 - The licensing system of private driving instructors. The Government has not conducted any qualifying examination for private driving instructors since 2002.
 - The Urban Renewal Authority is not concerned whether the business operators operating in the redeveloped areas could be reopened for businesses. It seemingly does not mind the fading away of the traditional sectors operating in the redeveloped areas.

VII. Recommendations

Basic Principles

25. We believe that social mobility is conducive to the healthy development of the community and the Governments is capable of creating an environment favourable for the creation of social mobility. We therefore recommended the Government to take into consideration of the following principles in mapping out the future of Hong Kong:
 - Facilitating the opportunities for the young people, the grassroots and even the underprivileged for upward social mobility;
 - Relieving the burden for personal and family on education for the

- accumulation of wealth;
- Creating a favourable environment for SMEs so that less educated people can have an alternative means of wealth creation.

Comprehensive Review of the Policy on Subsidies to Associate Degree Programmes

26. It should be alerted that the qualification of associate degree might not bring a drastic increase in salary but the education expenses will incur a tremendous financial burden to many students and their families. There are other criticisms against the subsidy policies related to associate degree programmes including:

- Only 18% of the university places receive government subsidies while the associate degree programmes self-finance courses. It is unfair to those attending self-finance courses;
- The high costs in higher education are forcing the students to sought to lending to cover the expenses, which in turn incurs a significant financial burden in the long run;
- Not only would the facilitation of higher education could add value for the students personally, it would also enhance the competitiveness of the human resources of Hong Kong as a whole. The Government therefore shall bear the responsibility to cover some costs.
- The Government always claimed that “education is a form of investment”, but mere talk is cheap. The Government should act what it is preaching, and to support the students to raise their academic qualifications through the provision of tangible measures.

27. We are of the view that the Government should review the policy on subsidies to associate programmes in the near future. The specific areas for reviews are as follows:

- To increase the areas of subsidies to the institutions of post-secondary education, so as to raise its effectiveness on teaching;
- To rebate half of the fees for the graduates of associate degree programmes, as a affirmation and responses for their pursuit of self value-adding exercises. The rebate could be provided in the form of repayment of loans in the name of the Government. This could relieve their pressure for repayment.

28. As a full review would be an enduring process, the Government shall provide relief measures in the near term to alleviate the financial burden of associate

degree students and their families. receiving post-secondary education. Below is a set of short-term measures that would only incur a small financial burden to the Government:

- Waive the interest arising from the use of risk adjusted factor in non-means test loans, these amount accounts for HK\$50 million of interest collected;
- Provide a tax allowance, namely the “Post Secondary Education Allowance”, which amounted to HK\$80,000 per student, to the parents having children studying in self-finance post-secondary programmes, but are ineligible in receiving post-secondary education grant. Should the Government provide a full scale of subsidies to the students, the Government can abolish such tax allowances
- Exempt the interest for non-means test loans while the students are studying s. The starting time for the calculation of loan interests shall only commence after the student graduates. In order to encourage an earlier repayment of loans, we do not oppose to raise the annual interest rate gradually towards the market level. This relief measure would cost the Government HK\$50 million of interest collected.¹
- Waive the processing fee for the application of non-means test loan.

“One Person, One Sports, One Fine Arts”

29. “One Person, One Sports, One Fine Arts” means the building of interests and aspirations towards one sports activities and one fine arts subject. It is by no means a new conception and the education sector is well informed about it. Unfortunately, such important aspect of learning is merely confined in the form of extra-curricular activities. We are of the view that through the implementation and incorporation of “One Person, One Sports, One Fine Arts” Scheme in the school curriculum of Hong Kong schools, it would help incubate multi-dimensional talents, and possibly facilitate an alternative career path for those who may not reach their potential in the traditional academic training. Other than the advantages in education and personal development, the crux of success of the policies lies on the fulfillment of sustainability, specifically, whether it would be possible to ensure the students for the achievement of “making both ends meet” through the pursuit of a career in sports and fine arts.

¹ In accordance with the regulations on the three non-means test loan schemes, it would not be necessary for the lender to pay interests in their loans, but the calculation of the interests will be started as soon as the study period commence. See “LCQ14: Non-means tested loan schemes”, Press Release, 23 April 2008.

- The scheduling, design and organization of the training of sports and fine arts is undertaken by the school administration. Skill training should mainly be outsourced to professional coaches or teachers in sports and fine arts in the community. As the size of the student body has dramatically increased, the demand for coaches and teachers in the two fields would be significantly increased. Today's students could be tomorrow's coaches and teachers in sports and fine arts. They would be an important sector in Hong Kong.
- When individuals build up an interest in a particular means of sports and arts activities, they would incur consumption in sports and arts activities. In the long term, it would facilitate the development of both the sports and the fine arts sectors in Hong Kong.
- It would also facilitate the creation of talent pools for the sports and the fine arts sector, and would in turn create job opportunities as a result. Upon the implementation of "One Person, One Sports, One Fine Arts" scheme, it will facilitate the opening of a multi-faceted career path, and to realize the potential of youngsters in fine arts and in sports. This scheme could also enable students to explore personal careers beyond the academic arena, and indirectly create a ladder for upward social mobility for them.

Chinese Language Policy of Non-Chinese Speaking Students

30. Basically we shared the views of the Unison Hong Kong concerning the provision of a tailor-made Chinese language curriculum for non-Chinese speaking students. Details of their proposition are as follows:
- The Education Bureau should formulate a language education policy of "Chinese as a second language", for the formulation of a specific Chinese language programme for non-Chinese speaking students;
 - Designing a stage-by-stage evaluation and benchmarks for assessment for non-Chinese speaking students;
 - The Education Bureau should sponsor in writing and publish language textbooks and teaching materials targeting the ethnic minorities;
 - The provision of additional support in finance and human resources for all schools enrolling non-Chinese speaking students.

Designation of Class in accordance with Ability in Chinese Language

31. The provision of new Chinese language curriculum should be complemented with a flexible designation of classes in accordance with the language ability

of students in ethnic minorities. Specialized timetables for Chinese language lessons shall be designated in a way similar to the practice of “remedial” classes of placing students with poorer abilities in individual subjects. It is simply more flexible but could take care of the differences in the language ability of the students. Should the Government insisted on adopting “integrated education model” allowing students in ethnic minorities in spreading to the grammar schools throughout Hong Kong, it would be necessary to have the Chinese language class for the students of ethnic minorities in small class. However, such an arrangement is more demanding in resources which requires the Government to inject more funding in the remedial work. The Government would have no excuse in not to provide additional resources.

32. The Government could consider the adaption of “affirmative action” to facilitate the students of ethnic minorities in their applications to universities.

“Reception Policy” of the New Arrivals

33. Many new arrivals and ethnic minorities face similar difficulties, including their obstacles in language communications, as they are not proficient or even unable to understand basic Cantonese and English. Some of them face difficulties in their daily lives, as they are not familiar with local situation and are lack of practical information and network as well. In view of these situations, we recommend the Government to designate policies on the reception of the new arrivals, it should assign specialized organizations to follow up the adaptation process of new arrivals on an a case-by-case basis at their initial period of arrival, It would be of utmost importance to provide language and adaptability courses for all adult new arrivals too. The specific arrangements shall be:

- Language training: Promoting the uses of the Continual Education Fund for taking courses in either Cantonese or English;
- Adoptability courses: To invite related social welfare organizations to participate in course preparations, marketing and delivery. The contents should include the basic information on Hong Kong, public services information and the practical information on their areas of residence.

Improving the Business Environment for SMEs

34. Market forces would necessarily benefit to big business and conglomerates

bearing rich financial resources and bargaining power. At present, the market environment is getting increasingly unfavourable for the development of SMEs. The Government has to take action before the market condition worsens to the extent of an oligopolistic environment. However, it is a well-acquainted fact that the excessive management of the Government has imposed a negative impact on the business environment for SMEs. Hence, we are in view that for the improvement of the business environment in SMEs as an objective for the review of public policies, the Government should critically review its over-emphasis towards management in economic-related policies, and place social objectives in policy making as an equally important status. These reviews should abide by the following principles:

- To rectify the attitudes and modes “managerial supremacy”, “for the facilitation of convenience in management”, and its overriding status in public policy management,
- Promoting the use of public information for the promotion of different sectors and of the SMEs;
- The clearing of obstacles on the business environment through cross-departmental cooperation and collaboration;
- Provision of “SME-friendly” measures.

35. We defined “SMEs” as all small and medium scale enterprises, as well as sole proprietorship. In this research paper, we only made a few recommendations for the reference of the Government, in anticipation for the Government could identify other policy measures that could facilitate the development of SMEs. The specific recommendations are listed as below:

a. Rental policies of the business properties of the Housing Authority

- Review of the leasing policies, composition and structure of the shopping centres in public housing estates, especially the necessity on the justification of a “super-sized” shop. Through the appropriate shrinking of the dimension of a supermarket space, there will be freed up space for the opening of shops of other categories;
- Provide smaller sized shopping space in public housing centres for the lowering of opening and operating costs for the opening of businesses;
- Restoring wet markets to facilitate a favourable environment for the opening of individual businesses from the low skilled, low-educated individuals.

b. Hawkers Policy

- Replacement of territorial-wide policy with regional policy. Currently most of the permanent hawkers operate in the urban areas. The Government should consider to re-issue hawker licenses and designate new hawkers permitted areas in the New Territories;
- It would be advisable to consider designing hawker permitted areas in the public housing estates, or designating a fixed area for short –term retail stalls in public estates.
- The Government should also consider adjusting its “one size fits all” policy in the issuance of hawker licenses. We do not agree on the re-issuance of cooked food hawkers licenses, but for the licenses for selling other items such as clothing and other amenities, they should be re-issued, subject to appropriate regulations.
- To realize the spirit of strong governance, there should be better coordination between relevant departments (including the Food and Environmental Hygiene Department, the Housing Department, the Lands Department, the Transport Department and the Home Affairs Department) in the management of the hawkers.

c. Resumption of the Examination for Becoming Private Driving Instructors

- The hosting of the examinations for the qualification of private driving instructors shall be resumed. It does not involve with any aspect of policy changes, and could be proceed immediately.

d. Review of urban renewal policy

- During the resumption of the ownership of land under the reconstruction process, the Urban Renewal Authority should consider the possibilities of re-placement of traditional sectors and small scale shops to other areas.

e. Legislation on Fair Competition

To facilitate the growth of the Small and Medium Sized Enterprises, the Government should **launch the legislative process on the fair competition law** as soon as possible.

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