

# **A Comprehensive Jobs Strategy?**

An Exploratory Study on Policies  
Tackling Unemployment in Hong Kong

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# **CHAPTER 1**

## **INTRODUCTION**

From the 1980s to mid-1990s, Hong Kong was virtually working under a full employment economy, enjoying an unemployment rate of 2-3%. Yet, after the financial crisis of 1997, the issue of unemployment was brought to light. In 1997, the seasonally adjusted unemployment rate was only 2.2%. In 1998, it rose to 4.7%; in 1999, 6.2%; in 2000, the unemployment rate slightly dropped to 4.9%; yet it rose again to 5.1% in 2001 and 7.3% in 2002. In 2003, the average unemployment rate was 8.6%. The rapid rise of unemployment rate has become one of the most critical problems in Hong Kong.

The Hong Kong government is not insensitive to such alarming problem, and many policy measures were made and designed to curb the rising trend of unemployment. To name but a few, there are job referral and counselling services, training and retraining programmes, district employment programme for the middle-age, youth pre-employment training programme, self-employed business start-up programme. Since 1997, the government has committed billions of dollar, however, it seems that the money spent has not stopped the rise of unemployment rate. Furthermore, it seems that unemployment will become a staying problem, and the government has to work on long-term commitments to bring the labour economy back to order.

What are the causes of such changes? There is a common understanding that Hong Kong is undergoing a structural change in the economy, and the knowledge economy has led to a process of de-industrialization. Industrial plants and factories had moved out to low cost labour intensive areas while new technology-intensive service industries had not been fully established. Consequently, the industrial shift has germinated new problems in the labour market, and there is a serious mismatch of labour quality for the new economy. Due to gaps in technological sophistication, workers with traditional knowledge and skills are thus left unprepared to meet the new challenges, and they are casted out by the harsh reality of the changing labour market. The major, if not the only, solution to alleviate the problem of unemployment is to upgrade the education and skills level for them to be more competitive and marketable.

To the present researcher, such orientation is too simplistic, because it believes that if the supply side of the labour market is improved, the problem of unemployment will be alleviated, if not totally solved. The major blind spot of this policy orientation is that it

neglects the demand side of the labour market, as there has been a sea change in this area. The internal labour market is complicated by new ideas of downsizing and reengineering, “doing more with less” with enhanced productivity, outsourcing, technological replacement and flexible specialization etc. These new ideas lead to structural changes in the employment structure, and they are hampering job security and the healthy development of the labour market<sup>1</sup>. Furthermore, under a globalized international economy, the demand side is in a better position to control opportunities for workers to enter into the labour market, and the traditional analysis of supply-side rigidity created from the labour unions no longer stands. Thus, the analysis on unemployment shall not be confined to the supply side, but also to the demand side as well. Policy makers have to be particularly critical to, and also go beyond, the simplistic supply-side policy orientation and they have to think with a multi-dimensional and comprehensive mindset.

In making policies on unemployment, have the policy makers in Hong Kong grasped a comprehensive understanding of the causes of unemployment, or are they simply confined to simplistic supply-side interpretations? Do policy makers have a comprehensive plan to tackle the sophisticated nature of this new phenomenon of unemployment? If they do, what are the policy strategies and priority considerations involved? Are policies coordinated and monitored in a manner that both the demand side and the supply side of employment are addressed in a comprehensive manner? Or do the policy makers have the will power to exercise the policies in a determined and persistent way?

It is the aim of this study to try to address the aforementioned problems and questions, and to see whether the policy makers in Hong Kong understand the new and complex phenomenon involved in unemployment. The present study is not an evaluative study on the effective performance of employment services, but a study of the general understanding and interpretations of policy makers on the causes of unemployment, the comprehensiveness of policy strategies involved, and also the effectiveness of policy mechanism to arrive at such resolution. The detail objectives of the study include:

1. To review literature on the problem of unemployment, and also policy strategies involved in tackling different types of unemployment,
2. To take stock of existing policy measures so as to provide a foundation for analysis,
3. To understand how policy makers in Hong Kong interpret the problem of unemployment in the present economic conditions of the SAR,
4. To study whether there is a comprehensive approach in tackling unemployment and also possible policy gaps,

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<sup>1</sup> ILO (1984) World Labour Report, ILO, Geneva, p.42

5. To examine the strategic focuses, priorities and policy considerations in the design of unemployment policies,
6. To study how policies on unemployment are related, coordinated and monitored, and
7. If possible, to propose recommendations in tackling the problem of unemployment.

## **CHAPTER 2**

### **METHODOLOGY**

#### ***2.1. Introduction***

The present study is a study at the policy making level, about how policy makers interpret the problem of unemployment in the context of socio-political and socio-economic changes, the basic considerations involved, their responses to the problem, and also the design of policy strategies and institutional arrangements to execute such strategy. The study does not deal with particular policies or services; rather, it is an interpretive study aiming at exploring and understanding the policy makers' perceptions, ideas and judgments on unemployment, especially the difficulties involved in the making of policy decisions. The significance of the study is to reveal and understand the set of questions asked by policy makers themselves, so that we can put all these questions under a comprehensive framework and provide an overall policy direction in solving the problem of unemployment.

Since the aim of the study is concerned with policy formation and policy design, the object of study is confined to those involved in the policy process. As such, the methodology of the present study is a qualitative study of the ideas and interpretations of policy makers and does not aim at making a study claiming precision and statistical representativeness in Hong Kong.

#### ***2.2. Methodology***

##### ***2.2.1. Sampling***

The methodology of the present study is mainly focused on the use of in-depth interview with policy makers relating to unemployment. The term "policy maker" in the Hong Kong SAR context refers to government officials and legislative councillors, who are given the responsibilities to read policy documents and make decisions about the direction and design of policies. It also refers to those in advisory or consultative bodies like the Task Force on Employment, a high-level special body chaired by the Financial Secretary in charge of formulating and designing policies on employment<sup>2</sup>.

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<sup>2</sup> The Task Force on Employment was formed in 1998 under the Financial Secretary. By January 2004, the government merged the 4 bodies: Task Force on Employment (TFA), Investment Promotion Strategy Group

To be more specific to the problem of unemployment, the selection criterion was confined to some of the government officials and Legislative Council members of the Task Force on Employment, which was a body comprising about 10 to 15 members appointed by the government. Further, in order to get a balanced view, members from three major interest sectors – government officials, the business and industrial sector, and labour bodies – were interviewed.

Since September 2003, in-depth interviews were arranged to visit government officials as well as legislative councillors who were either members of the Task Force on Employment, or party spokesman on labour and related topics. At the onset, the study aims at interviewing as many policy makers as possible so as to solicit the views and ideas of different policy makers, thus invitations were sent to government officials, legislative councillors involved in commerce and industries, and also from the labour unions. However, government officials from related policy bureaux declined the invitation as they considered that the interview did not fall upon their jurisdiction. Furthermore, changes in posts due to re-designation of certain officials also led to the decline of invitations. The interview for government officials was finally narrowed down to one top policy maker in the Education and Manpower Bureau.

Interview invitations of the industrial and commercial sector also suffered a setback. At the onset, invitations were sent to The Chinese Manufacturers' Association of Hong Kong and some leaders in the commercial and industrial fields, and it seemed likely that at least two would respond positively. Yet, due to the clash of time and also due to other urgent commitments, some members withdrew from the interview. Only one member from the industrial sector accepted the invitation to be interviewed.

Nonetheless, interviews from the labour side received more favourable responses. Most of the legislators from the labour sector agreed to the interview. Furthermore, one legislator from a political party, who served as the spokesman of labour affairs, also agreed to be interviewed. One member from the union sector, who was an ex-member of the then Task Force on Employment, also accepted the invitation.

In the final outcome, seven policy makers accepted the invitation to be interviewed. There was one respondent from the government, one from the industrial sector, three legislative councillors from the labour sector (two of them in the Task Force), one from a

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(IPSG), Business Advisory Group (BAG) and Economic Advisory Committee (EAC) and established the Economic and Employment Council (EEC) to oversee matters relating to economic and employment problems.

political party (a newly recruited member for the Economic and Employment Council), and also a union leader who is an ex-member of the Task Force. Most of the interviews were conducted in the chamber rooms of the Legislative Council.

The limitations of the present study are clear. Firstly, since the sample in the study is a small one, it does not claim representativeness for the general views of members in the Legislative Council, nor for the Task Force. It only represents the opinion of a small group of policy makers. Secondly, since most of the respondents come from the labour sector, it may be biased towards one side of the argument, and neglects a comprehensive concern on the problem of unemployment.

Yet, it is interesting to note that, as shown in the findings, the respondents presented balanced views on the problem of unemployment. Their positions as top-level policy makers provided them with exposures and opportunities to understand the problem with multi-dimensional perspectives and reduce biases on employment issues. The informality of qualitative open-ended interview also provided an atmosphere in which they could share their dilemmas and also self-reflections in the policy making process. Hence, the study can claim that it reveals a certain level of insightful in-depth understanding, into the mind of some policy makers about the problem of unemployment.

### **2.2.2. Questionnaire**

Since it is difficult to arrange pre-tests to understand the thoughts and perceptions of policy makers, two pre-tests were conducted with labour unions to understand the general labour problems in relation to unemployment. The first pre-test was conducted in August 2003, with three labour unions giving opinions on problems of the labour market. Another pre-test was conducted in seeking the opinion of a union leader who was a legislative councillor and also a member of the Task Force.

It is understood that policy makers, as informed opinion leaders, have their own concerns with policies on employment. Hence, the questionnaire of the present study is designed in an open-ended way to allow room for deviations and digression, and questions are drawn up to demarcate the scope of study in the research. Questions in the study cover the following areas (appendix 1):

1. Conceptions and appropriateness of policies on unemployment
  - a. To understand how policy makers interpret the major causes of unemployment, e.g. structural unemployment, business unemployment and enterprise downsizing.



- b. To explore whether the government has designed appropriate policies to curb problems arising from different forms of unemployment
- 2. On the comprehensiveness, continuity and linkages of policies tackling unemployment
  - a. To study whether there is a comprehensive and continuous policy approach, and whether there are policy gaps in the making of unemployment policies
  - b. To study whether there are clear-cut policy strategies and priorities to achieve optimal effects
  - c. To study whether policies are coordinated effectively
  - d. To study their expectations on the performance of the Task Force on Employment
- 3. On particular policies
  - a. To study whether the government shall, and is also capable to, create jobs
  - b. The short-term and long-term policies on unemployment
  - c. How the social security system links with the problem of unemployment

## **CHAPTER 3**

### **A REVIEW ON THE PROBLEMS AND POLICIES ON UNEMPLOYMENT**

#### ***3.1. Introduction***

There are numerous definitions, classification and theories of unemployment, and the present study will not dwell into the sophisticated academic arguments concerned. However, it is still necessary to propose a theoretical classification so as to highlight the strategic focuses and priorities of the policies involved. The present study tries to simplify the problem by adopting certain definitions and classification from the Oxford Dictionary of Economics<sup>3</sup>. Thus, the problem of unemployment is roughly classified into four major types: classical unemployment, frictional unemployment, business cycle unemployment and structural unemployment. Each type of unemployment has a specific policy focus.

#### ***3.2. Classification of Unemployment and Policy Strategies***

##### **3.2.1. Classical Unemployment**

A condition in which unemployment is caused by wages being too high relative to productivity, so that firms cannot profitably employ all the labour on offer at these real wages. There is a gap between wage and productivity, and it is caused either by inelasticity in the wage structure, or by inelasticity in productivity. It is believed that employment rigidity and wage elasticity are consequences of defensive actions of labour unions, leading to the closure of employment opportunities against newcomers. The people suffering from unemployment are victims of rational decisions of employers due to wage inelasticity, or those who are outsiders unable to enter into the “internal markets” due to the strong protection of labour unions<sup>4</sup>.

The major policy focus on classical unemployment is on wage and employment

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<sup>3</sup> John Black, (1997) Oxford Dictionary of Economics, Oxford/New York: Oxford University Press.

<sup>4</sup> Gunther Schmid et al (1996) “Theory and Methodology of Labour Market Policy and Evaluation: An Introduction”, in Gunther Schmid (ed.) International Handbook of Labour Market Policy and Evaluation. UK: Edward Elgar

distortions in the labour market, and the principal policy solution is to minimize such distortion. This requires the rearrangement of policies to release labour from rigid institutions, e.g. union protection against dismissal, wage councils and rigid wage schedules, and heavy social security contributions. Policies have to be made to counteract the institutional rigidity so that governments can deregulate employment protection to allow free entry, to allow price mechanism to work without rigid wages imposed by labour unions, and to reduce the contribution burdens of employers in the social security system.

For example, the United Kingdom suffered heavily from wage rigidity caused by wage councils, and since 1979, it used many deregulatory measures to stimulate labour elasticity. In 1993, the Trade Union and Employment Rights Acts were enacted to abolish wage councils and their power to determine minimum levels of pay. In 1994, the Deregulation and Contracting-Out Act was designed to minimize the role of the government in terms and conditions of employment<sup>5</sup>. In Germany, more flexible working hours were made to enhance wage elasticity. Wage reduction was also initiated in France, Britain, Spain and Norway. Furthermore, some policy measures were designed to lower statutory charges on labour in France, Britain and Spain, e.g. contributions to unemployment insurances and pension<sup>6</sup>.

In Hong Kong, it is found that critics on labour inelasticity are missing the point. In the Hong Kong market economy, there are very few socio-political mechanisms distorting the wage levels of workers or prohibiting the free entry of workers into an occupation in the private sector. There are no wage councils to negotiate wages, no minimum wage, and no legislations on collective bargaining. It can be said that union-led wage rigidity and employment protection is minimized. Further, there are very few contributory social insurance, and the Mandatory Provident Fund is only established since the year 2000 with minimal income redistribution effects. The Comprehensive Social Security Assistance system, which is non-contributory and is funded by general revenue, does not impose direct financial burdens on employers. It is evident that, in the private sector, there are very few institutional mechanisms that cause rigidity in the labour market. The problem of employment rigidity mainly lies in the public sector and related public services, and at present this sector is under contraction as the government is using various measures like contracting-out, open bidding, and hiving-off. The problem of “labour rigidity” does not lie in the internal demand for economic redistribution in the economy, but in the comparative wage differentials between the labour force in Hong Kong and an excessive supply of cheap labour across the border in the Mainland.

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<sup>5</sup> 呂學靜 (2000) 各國失業保險與再就業。北京：經濟管理出版社。

<sup>6</sup> Hugh Compston (1997) *The New Politics of Unemployment*, London and New York, Routledge

### 3.2.2. Frictional Unemployment

Frictional unemployment is considered the most common cause of unemployment, and it is related with the time gap in entering the labour market. It is caused by the time-adjustability of workers, and also the lack of information and network in job seeking. Since the labour market is in a fluid condition, a frictional unemployment rate of 2-3% is considered normal and acceptable. The people who suffer most from frictional unemployment are those from-school-to-work first-time job seekers, since they do not have working experiences and they lack networks for job referral and matching. The principal policy solution lies in the strengthening of labour market efficiency through lowering the cost of market information and mobility to help to shorten the time of job seeking. Effective, accessible and client-centred job matching service is considered as the principal solution to curb frictional unemployment.

Frictional unemployment becomes a serious problem only when there is an economic downturn, as school leavers have to compete for fewer opportunities and jobs in the labour market. The problem goes far beyond the question of job matching, information and accessibility. Firstly, there is a “crowding out” effect as those with higher educational level begin to take up jobs with lower status and income, thus crowding out those with lower education level. This leads to a negative accumulative effect in the hierarchy of jobs, and low educated youths are trapped at the bottom of the employment hierarchy<sup>7</sup>. Secondly, in the economic downturn, housewives have to get jobs for additional income, and youths are facing increasing competition from job-seeking female adults, especially in the service industries<sup>8</sup>. In the information economy which requires high labour quality, frictional unemployment for the secondary labour market is drastically re-shaped by the crowding out effect and increasing female participation, thus creating and perpetuating a large pool of youth unemployment.

In meeting such changes, there are two principal policy strategies for this specific age cohort. The first is to raise labour quality, and there are reforms in curriculum and schooling so that education is more “vocation-oriented” and also “employer-friendly”, attempting to link employers’ hiring decisions to academic grades of students<sup>9</sup>. Other upgrading programmes through in-service training and assisted job search are also used to

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<sup>7</sup> Paul Ryan and Christopher F. Buchtemann (1996) *The School-to-Work Transition*, in Gunther Schmid (ed.) *International Handbook of Labour Market Policy and Evaluation*. UK: Edward Elgar

<sup>8</sup> Lynne Poole (2001) “Germany: a conservative regime in crisis?” in Allan Cochrane (eds.) *Comparing Welfare States*. London/Newbury/New Delhi: SAGE Publications

<sup>9</sup> US NCES (1993) *Education in States and Nations*, Washington, D.C.: US Department of Education, National Centre for Education Statistics.

facilitate entry into the labour market. However, the abundant supply of quality labour with fewer job opportunities will perpetuate the vicious cycle of crowding-out the lower-educated, therefore the second policy is also used. Job creation programmes are launched either through direct hiring by public agencies or subsidized employment in the form of apprenticeship schemes. The major policy objective is to help young people to get into their first job, so that they can have direct access to the job market.

In Hong Kong, the problem of from-school-to-work unemployment receives much of social attention, as the percentage of unemployment is exceptionally high in the age cohort of 15-19. In 1997, the unemployment rate for this cohort was only 9.7%; however, it leaped to 25.1% in the 3<sup>rd</sup> quarter in 1998. Since then, the unemployment rate in this age cohort remained more than 30%. The problem of from-school-to-work unemployment is at present one of the top agenda items of unemployment in Hong Kong. Realising the seriousness of the problem, the government has tried its best to adopt varied methods to handle the problem. The conventional policies of matching, information and accessibility are less emphasized, while new ones like job creation programmes, labour quality upgrading training, apprenticeship, assisted job-search and also vocation-oriented medium of instruction in the education system are given higher priority.

### **3.2.3. Business Cycle Unemployment**

Business cycle unemployment is caused by a particular depression phase of the business cycle, when high rate of unemployment coexists with economic depression due to a serious deficiency of demand in the economy. Since the market is in serious disequilibrium, the problem of unemployment is not confined to low skilled and low education workers, but also to the general public. Generally, employment at all levels, including the managerial level, is also affected by economic depression. Thus, business cycle unemployment creates a condition of mass unemployment due to job loss, and it differs sharply with classical unemployment and frictional unemployment in which only particular sectors are involved.

Under such condition, the role of the government also differs. It has to take up an active role to stimulate effective demand so as to restore economic order. The principal policy is not confined to labour elasticity and education reform, but is more concerned with the use of fiscal and monetary policies to create effective demand for jobs in the labour market.

However, questions are raised about the effectiveness of demand management policy, because some economists believe that the labour market will be under serious distortion as

the state intervenes and provides unnecessary jobs. Nonetheless, it is still recognised that demand management policies, in the form of direct job creation or subsidised employment, are useful as an antidote to provide instant pain-relief for those in need for a job.

While some countries are more in favour of using a minimalist intervention approach; still, there are many countries continue to adopt demand management as one of their principal policy strategies in employment. An Organisation for Economic Co-operation and Development (OECD) study in 2000 notes that, although this policy strategy is gradually losing its popularity, it is still significant in providing quick relief in the job market. Among the 26 countries in the OECD, 13 countries had increased their expenditure in the direct creation of jobs in the public sector from 1985 to 1996, while there were also 13 countries reducing their commitment to job creation<sup>10</sup>.

Job creation is not antithetical to market mechanism, and many governments use it to stabilise the labour market and also stimulate economic growth. In Hong Kong, the 1997 Asian financial crisis, the 9.11 incident, and the SARS incident had led to an accumulative damaging effect in the economy, thus aggravating the problem of unemployment. Though adhering to the laissez faire ideology, the Hong Kong government decided to undertake job creation policies to control the damages inflicted by these incidents. In fact, since 1997, the government has already embarked on a mild job creation policy strategy to provide instant pain relief to unemployment. Public works programmes were hastened, and small-scale subsidised employment programmes were also made for some targeted unemployment cohorts. Nevertheless, it is uncertain whether job creation policy can remain or develop into one of the principal policies in the government's attempt to contain the level of unemployment in Hong Kong.

#### **3.2.4. Structural Unemployment**

A condition in which unemployment is caused by a change of economic and industrial demand, leading to the rise of new technology and the decline of industries previously provided jobs for the labour force. Due to changes in industrial structure, product structure and regional structure, there exists a knowledge and skills gap of different types of industrial workers lead to a serious problem of “non-transferability”, i.e. labour mobility from one industry to another industry is far more difficult and with longer duration. However, technological progress does not necessarily lead to structural unemployment if the elasticity of employment demand is high. When the new technology produces a multiplier effect on

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<sup>10</sup> John P. Martin (2000) What Works among active labour market policies: evidence from OECD countries' experiences. Paris: OECD

the provision of jobs, the phenomenon of structural unemployment may not cause serious damage on the labour force. It is only when technological advancement, coupled with capital and industrial shift to other countries, cause critical damages on the local labour market<sup>11</sup>. The people directly suffering from structural unemployment are those with low skilled and low education levels.

There are various policy strategies to deal with structural unemployment, and most notable are the active labour market policies (ALMPs) in the European countries. Active labour market policies consist of industrial policies and job creation policy so as to maintain enough job provision at the demand side, while pre-employment guidance, general technical training, low cost human investment plans are made at the supply side of labour<sup>12</sup>.

On the demand side, the role of the government is to develop its industrial policies, or to stimulate the market to move towards a certain direction of industrial focusing and upgrading. The active involvement of the government at the demand side helps to upgrade the quality of the labour force relevant to the changing market demand. On the supply side, the government tries to help to strengthen the productivity of workers through training and retraining, so that they are more able to enter the changing labour market. Furthermore, other policy areas like population and immigration policy, from-school-to-work linkage, and job placement for the hard-to-place workers etc. are needed to take into consideration. There are also policies on job searching and matching, and the government needs to subsidise the negative externalities of information gap and also reduce cost of search<sup>13</sup>.

It is commonly recognised that Hong Kong is suffering from structural unemployment; yet some consider that capital shift is the main cause as there was an exodus of manufacturing industry from Hong Kong to mainland China in the past twenty years. The labour force in the manufacturing industry dropped from 940,000 in the early 1980s to less than 178,000 in 2003, and the tertiary sector is now occupying a major position in the provision of jobs. Experiences in other countries show that there is a need for active labour market policies, and the Hong Kong government has to stimulate the market towards certain direction, as well as upgrading labour quality through training and retraining. These measures have to be carried out in an integrated and comprehensive way. However, as the findings in the following chapters reveal, although job creation policies and training and retraining programmes are carried out in the past few years, the government has not yet

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<sup>11</sup> Frobel, Folker, Jurgen Heinrichs and Otto Kreye (1980) *The New International Division of Labour*. Cambridge: Cambridge University Press.

<sup>12</sup> OECD (1996) *The OECD Jobs Strategy: Pushing Ahead with the Strategy*, unemployment in the OECD area, 1950-1997. Paris: OECD.

<sup>13</sup> Hugh Compston (1997) *The New Politics of Unemployment*. London/New York: Routledge

developed its piecemeal measures into an integral and comprehensive active labour market policy. Furthermore, although policy makers are not unaware of the complexity of the problem of unemployment, they also failed to generate a comprehensive approach to solve the problem of unemployment.

The reasons of the lack of an integrated and comprehensive policy in Hong Kong will be addressed in the following chapters.

### ***3.3. Summary***

It is reviewed that there are four categories of unemployment, and each category requires a principal policy strategy to curb with the problem. Classical unemployment is concerned with price inelasticity of labour, frictional unemployment mainly deals with the time-adjustability problem in job-seeking, business unemployment refers to the loss of jobs due to business downturn, while structural unemployment focus on technological displacement and industrial shift.

In the local labour market in Hong Kong, there are very few institutional mechanisms imposing labour rigidity against market elasticity. However, the cheap labour market across the border leads to capital shift and causes serious threats on the employment conditions in Hong Kong. As job opportunities are reduced, the crowding out effects and increasing competition lead to the formation of a large cohort of youth unemployment. The long capital and industrial shift, however, is exacerbated by short-term business downturn, causing a protracted effect on the size of the problem.

It is observed that the problem of unemployment in Hong Kong is multi-dimensional, and problems are intermingled together. Therefore, it is argued that an integrated and comprehensive policy approach is needed, and policy makers have to be alert to the multi-dimensionality of the problem of unemployment, and design the policies in relation to the complexity of the problem involved.



## CHAPTER 4

### EMPLOYMENT CONDITIONS AND POLICIES IN HONG KONG

#### 4.1. *Employment Conditions*

##### 4.1.1. Profile of Unemployment in Hong Kong

In the post-1997 era, there was a slight increase in the size of the labour force, rising from 3.234 million to 3.505 million in the first quarter of 2004, with an increase of 8% in 7 years. At present, there are approximately 60,000 people entering into the labour force every year. However, the labour force is characterized by a sharp rise in unemployment rate, rising from 2.2% in 1997 to 7.9% in 2003. The number of unemployed increased from 71,200 to 255,500, more than triple in 7 years' time. The underemployment rate was also increased, rising from 37,100 to 105,200 in 2003. Both the unemployment rate and underemployment together constituted more than 10% of the labour force (Table 1).

**Table 1: Labour force, unemployment and under-employment**

Period	Labour force		Unemployed (‘000)	Unemployment rate in % (without seasonal adjustment)	Under- Employed (‘000)	Rate of under- employment in %
	No. (‘000)	(%) of change				
1997	3234.8	2.3	71.2	2.2	37.1	1.1
1998	3276.1	1.3	154.1	4.7	81.8	2.5
1999	3319.6	1.3	207.5	6.2	96.9	2.9
2000	3374.2	1.6	166.9	4.9	93.5	2.8
2001	3427.1	1.6	174.8	5.1	85.5	2.5
2002	3487.1	1.8	255.5	7.3	105.2	3.0
2003	3500.9	0.4	277.6	7.9	123.5	3.5
1-3/04#	3505.0	na	249.0	7.1	119.0	3.4

# provisional figures

Source: Census and Statistics Department

The age profile of unemployment shows the features of unemployment (Table 2). Out of a total population of 80,000 to 90,000 people in the age cohort of 15-19 years-old school leavers, the rate of from-school-to-work unemployment was as high as 35.1% in 2002. Young people with low education level suffered from high unemployment rate. Yet, in terms of its relative significance in the unemployment population, it constituted only 10.9% among the 267,200 unemployed. In terms of absolute figure, the major age cohort of unemployed

persons was 20-29 (72,144), and it could be attributed to the frictional unemployment of graduates from tertiary education, and also the high turnover rate due to short-term contracts of first-job employees. Another age cohort 40-49 (65,464) suffering from unemployment presents another scenario of industrial mismatch, and if the age cohort of 50 and over was also included, the percentage of education and training non-transferability constituted 19.9%, which was about one-fifth of the whole unemployment population.

**Table 2: Unemployment persons by age, (July to September, 2002)**

Age cohort	% of unemployed persons (no.)	Unemployment rate in the cohort
15-19	10.9 (29,124)	35.1
20-29	27.0 (72,144)	9.2
30-39	19.8 (52,856)	5.1
40-49	24.5 (65,464)	6.6
50-59	15.8 (42,217)	8.7
60 and over	2.1 (5,611)	4.6
Overall (N)	100.1 (267,200)	7.6

Source: Census and Statistics Department (2002d)

Based on the Manpower Projection Report in 2003, it is evident that the conventional analysis on the cause of unemployment – technological displacement and industrial shift – is justified. The primary sector (agricultural and fishing) employs only about 11,000 employees in 2001, but by 2007 the projected manpower requirement is 8,400 and there will be about 2,600 jobs loss. The secondary economic sector will also shrink, with 53,300 jobs loss from 2001 to 2007. There will be a heavy blow to the manufacturing industry (-61,300 jobs) though a small increase in the construction industry (+9,100 jobs) is projected. The tertiary industry provides most of the jobs. In 2007, the wholesales, trading and tourist sector will be the largest sector of the labour force, providing 33.6% (1,084,300) jobs in the labour market; whereas community, social and personal services the second (20.4% with 655,900 jobs); financing, insurance, real estate and business services the third (18.2% with 585,500 jobs) and transport, storage and communication the fourth (12.9% with 417,100 jobs). However, within the tertiary sector, there is also an occupational shift. The financial and business services are estimated to absorb the bulk of unemployment needs, providing 95,500 additional employment opportunities in the labour market. The community, social and personal services rank second (+64,300 jobs), followed by transport and storage (+54,700 jobs), while wholesale and trades only provide an addition of 34,600 jobs.

**Table 3: Projected Manpower Requirement by Economic Sector**

Economic sector	Actual employment in 2001 (no. and % share)	Projected manpower requirement in 2007 (no.)	Change in 2007 over 2001 (no. and % change)	
<b>Primary</b>				
Agricultural and fishing	11,000 (0.4)	8,400 (0.3)	-2,600	-23.4
<b>Secondary</b>				
Mining and quarry	200 *	100*	-100	-60.2
Manufacturing	212,500 (7.0)	151,200 (4.7)	-61,300	-28.9
Electricity, gas and water	13,600 (0.4)	12,600 (0.4)	-1,000	-7.2
Construction	298,500 (9.9)	307,600 (9.5)	9,100	3.0
<b>Tertiary</b>				
Wholesale, retail and import/export trades, restaurants and hotels	1,049,600 (34.6)	1,084,300 (33.6)	34,600	3.3
Transport, storage and communication	362,400 (12.0)	417,100 (12.9)	54,700	15.1
Financing, insurance, real estate and business services	489,900 (16.2)	585,500 (18.2)	95,500	19.5
Community, social and personal services	591,600 (19.5)	655,900 (20.4)	64,300	10.9
All economic sectors	3,029,400 (100)	3,222,700 (100)	193,300	6.4

Source: Report on Manpower Projection to 2007, Economic Analysis Division, Financial Service and the Treasury Bureau, HKSAR government, June 2003, p.9

\* Share being less than 0.05%

Nevertheless, other than the objective indicators, the subjective perception of workers on the threats to employment has to be taken into account. As shown in Table 4, workers in the manufacturing sector are threatened by challenges in business contraction (40.6%) and corporate downsizing (30.6%). Employees in construction sector are concerned with business contraction (40.8%) and cost reduction (38.2%). Labour in wholesale and retail sector are worried by contraction of business (41.1%) and keen competition (33.7%). Workers in the transport sector are concerned with business contraction (37.1%), corporate downsizing (32.8%) and keen competition within sector (32.6%). In the financing and insurance sector, keen competition (42.3%) and corporate downsizing (42.1%) are highlighted. In the community, social and personal sector, cost reduction (34.6%) and corporate downsizing (33.5%) are the most serious challenges. Although there are different levels of significance in the factors concerned, it is clear that industrial shift and technological replacement do not exert direct threats on the workers. They are worried about keen competition, business contraction and the behaviour of enterprises as immediate factors affecting their dismissal from work. The problem of unemployment, as perceived by workers themselves, is directly related with the law of the jungle in the business environment.

**Table 4: Employed persons by major challenge/problem being faced by the economic sector in which they were engaged and by economic sector**

<b>Major challenge/problem being faced by the economic sector engaged</b>					
	Corporate downsizing	Contraction of business	Cost reduction, including salary/wage cut	Keen competition within sector	All persons in the economic sector
Economic sector	No. of persons ('000)				
Manufacturing	112.3 (30.6%)	148.9 (40.6%)	82.4 (22.4%)	92.9 (25.3%)	367.3
Construction	102.8 (33.0%)	127.2 (40.8%)	119.1 (38.2%)	77.8 (25.0%)	311.8
Wholesale, retail and import/export trades, restaurants and hotels	258.4 (32.0%)	331.6 (40.8%)	207.6 (25.7%)	272.0 (33.7%)	807.9
Transport, storage and communication	124.5 (32.8%)	140.8 (37.1%)	104.5 (27.6%)	123.5 (32.6%)	379.2
Financing, insurance, real estate and business services	171.6 (42.1%)	77.3 (19.0%)	106.0 (26%)	172.3 (42.3%)	407.4
Community, social and personal services	264.7 (33.5%)	70.9 (9.0%)	264.2 (33.4%)	108.3 (13.7%)	790.9
Others	5.2 (33.5%)	3.5 (22.8%)	5.3 (34.6%)	3.0 (19.6%)	15.4
Overall	1039.6 (33.8%)	900.3 (29.2%)	889.1 (28.9%)	849.9 (27.6%)	3079.8

Source: Report on Manpower Projection to 2007, Economic Analysis Division, Financial Service and the Treasury Bureau, HKSAR government, June 2003, Annex 24

As is noted earlier, business cycle unemployment affects all, and this is further supported by the findings in Table 5. From 2001 to 2003, the problem of corporate restructuring cuts across managerial grades (26.8%), clerks (27.2%), service workers and shop sales workers (25.8%), craft and related workers (29.6%), plant and machine operators and assemblers (28.4%), and elementary occupations (19.1%).

**Table 5: Percentage distribution of employed persons by whether having been affected by the prevalence of corporate restructuring (CR) since 2001 and by occupation category**

Occupation category	Affected by CR	Not affected by CR
Managers and administrators, professionals and associate professionals	73.2%	26.8%
Clerks	72.8%	27.2%
Service workers and shop sales workers	74.2%	25.8%
Craft and related workers	70.4%	29.6%
Plant and machine operators and assemblers	71.6%	28.4%
Elementary occupations	80.9%	19.1%
All employed persons	74.5%	25.5%

Source: Report on Manpower Projection to 2007, Economic Analysis Division, Financial Service and the Treasury Bureau, HKSAR government, June 2003, Annex 28

The problem of unemployment is also linked with changes in the employment conditions of the labour force. Employers exert additional demands on the existing labour force and their cost-saving behaviour lead to fewer employment opportunities. On the one hand, the problem of unemployment is aggravated; on the other hand, the existing labour force is exhausted. As is demonstrated in Table 6, most of the employees face the problem of heavier workload. About 48.8% of managers and administrators envisage challenges of heavier workload, and 33.3% are also with longer working hours. This also happens to clerks, as 49.7% are facing heavier workloads, and they are facing salary cut (28.7%), longer working hours (26.7%) and higher job requirements (25.1%). There are also 43.1% service workers facing heavier workload and also 37.5% fear that they will be confronted with salary cuts. Among all the occupation categories, about 1.348 million people (43.8% of the workforce) are facing the problem of heavier workload, 985,900 workers (32.0%) on salary cuts, 848,200 (27.5%) have to meet the challenges of working longer hours, and 560,600 (18.2%) have to meet higher job requirements from their employers.

**Table 6: Employed persons by major challenge/problem being faced by the occupation category in which they were engaged and by occupation category**

<b>Major challenge/problem being faced by the occupation category engaged</b>					
	Heavier workload	Salary/wage cuts	Longer working hours	Higher job requirements	All persons in the economic sector
Occupation category	No. of persons ('000)				
Managers and administrators, professionals and associate professionals	479.5 (48.8%)	274.1 (27.9%)	327.9 (33.3%)	254.8 (25.9%)	983.3
Clerks	276.4 (49.7%)	160.0 (28.7%)	148.3 (26.7%)	139.6 (25.1%)	556.5
Service workers and shop sales workers	186.9 (43.1%)	163.2 (37.6%)	110.8 (25.5%)	68.1 (15.7%)	433.9
Craft and related workers	98.9 (36.2%)	117.7 (43.1%)	55.6 (20.4%)	36.8 (13.5%)	273.0
Plant and machine operators and assemblers	76.3 (36.3%)	84.5 (40.2%)	75.3 (35.8%)	11.4 (5.4%)	210.2
Elementary occupations	229.3 (36.9%)	186.5 (30.0%)	129.3 (20.8%)	49.3 (7.9%)	620.9
Others	1.1 (49.5%)	# (*)	1.1 (49.5%)	0.5 (25.1%)	2.1
Overall	1348.4 (43.8%)	985.9 (32.0%)	848.2 (27.5%)	560.6 (18.2%)	3079.8

Notes: # (number being less than 50), \* (share being less than 0.05%)

Source: Report on Manpower Projection to 2007, Economic Analysis Division, Financial Service and the Treasury Bureau, HKSAR government, June 2003, Annex 25

## ***4.2. Policies Tackling Unemployment***

As is noted earlier, there are many policy strategies on unemployment, and the present report tries to narrow down its study on two principal policies in handling unemployment caused by business cycle and industrial shift: job creation and active labour market policies in Hong Kong.

It is unfair to say that the Hong Kong SAR government is not concerned with the problem of unemployment. In the past years, the government had designed a lot of policy measures and also allocated a huge amount of funds to tackle the problem. Jobs were created out of public expenditure, and many training programmes were carried out to upgrade the educational level of job seekers. However, employment policies were announced sporadically in the Policy Address of the Chief Executive, and also press statements from the Task Force on Employment. There are no policy papers providing detailed analysis, or public consultation papers providing options or proposals for change. In the minds of the public, there is a lack of concerted effort to delineate the complexity of the problem, not to say to produce a coherent and comprehensive policy to solve the problem.

### **4.2.1. Policies on Demand Management**

A report from the World Bank and Asian Development Bank on the unemployment policies in Korea reports three types of job creation strategies: (1) maintaining employment through subsidies to keep firms from massive layoffs, (2) supporting new business start-ups, and (3) temporary work opportunities through public works programmes<sup>14</sup>. Employment maintenance, new business start-ups and short-term relief are the three main instruments in the job creation policy. According to a report on job strategy by the OECD, job creation policy can be future divided into two streams: the traditional type and the entrepreneurial type. The traditional job creation policy is conducted in the form of public works programmes, and it serves the purpose of stimulating immediate effective demand, thus it helps to stabilize the sense of insecurity in the labour force. However, its dependency on public funds creates heavy burden on the government, and it is not sustainable in the long run. The entrepreneurial type, as new job creation policy, has to encourage entrepreneurship in the private sector, especially for small to medium size enterprises, so that the jobs can be more sustainable in the long run<sup>15</sup>.

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<sup>14</sup> Hanam S. Pang (1999) *Employment Policies in Korea After the Crisis*, Asia Development Bank and the World Bank (Draft Paper from the Research Planning and Coordination, Korean Labour Institute, Ministry of Labour, Republic of Korea)

<sup>15</sup> OECD (1996) *The OECD Jobs Strategy: Pushing Ahead with the Strategy*. Paris: OECD

In Hong Kong, the policy strategy of creating a business-friendly atmosphere is consonant with the laissez faire economic ideology of the SAR government, thus it is given full recognition as a policy for economic recovery. In 1997, the Chief Executive Mr. Tung Chee Hwa proposed the launching of an economic programme to provide \$500 million for loan guarantee to small and middle size enterprises (SMEs)<sup>16</sup>. Aiming at stimulating economic recovery, the government continued to embark on providing financial support to SMEs, and in 1998, a \$2.5 billion Special Finance Scheme was launched to alleviate the difficulties of small and medium size enterprises. The government frankly admitted that the loan guarantee could only serve temporary effects in preventing unemployment in going worse<sup>17</sup>. Thus the loan guarantee can be interpreted as serving the function of employment maintenance, and not a policy directly aiming at stimulating the provision of jobs. It can only indirectly create a support condition in which enterprises are less inclined to lay-off its workers and staff.

Since the loan guarantee was not effective in providing direct impact on the rise of unemployment, the government decided to take on more active measures to use public works as the major strategy to provide jobs as unemployment rate rose from 2.2% to 4.7% in 1998. The Chief Executive announced that the government was to embark on a \$240 billion venture to provide about 100,000 jobs in the successive year 1999<sup>18</sup>. He promised to provide 80,000 jobs in the private sector, 9,000 jobs in the non-government sectors, and 11,000 jobs in the government sector. The bulk of jobs included \$230 billion infrastructure projects lasting for 5 years, and 40,600 jobs were to be created in the succeeding 18 months. Construction projects like the KCR West Rail and East Rail extension to Ma On Shan; the MTR Tseung Kwan O Extension; the Science Park; Routes 7, 9 and 10 were launched. In the 89,000 jobs provided in the private and non-government sector, about 25% were permanent jobs (22,000) while the remaining 75% jobs (67,000) were employed on temporary basis. Many of the jobs were employed in infrastructure projects lasting for a short period of 18 to 20 months (Table 7). Though it was soon revealed that most of the promises were nothing more than already designated public programmes, it seemed that the SAR government was at least ideologically less repugnant to take up a job creation policy strategy to curb the problem of unemployment.

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<sup>16</sup> The 1997 Policy Address, para 22

<sup>17</sup> The 1999 Policy Address, para. 23-24

<sup>18</sup> The 1998 Policy Address, 1998

**Table 7: Employment Policy in 1998**

Plans	Financial implications	Jobs to be provided	Remarks	Source of information
Overall Additional jobs including		80,000 (private sector), 9,000 (non-govt. sector), 11,000 (govt. depts.)	In the private and NGO sectors, 22,000 are permanent jobs, while 67,000 are temporary jobs	Government Press Release, 03/06/1998
a. Infrastructure projects (5 years)	\$235.0 billion	40,600 (non-government sector in 1 1/2 years)		
b. Small-scale repair	\$518 million	1000	For 6 months	
c. Public works	\$1.3 billion	530	For 2 to 5 months	
d. Environmental improvement	\$250 million	200		
e. Expansion of job matching	\$33 million	22		
f. Building Route 5, 9, 10 and 16		10,500	2000 to 2004	Annual Policy Address

In the 1999 Policy Address, there was nothing new about the policy on job creation. The government reiterated that the amount of \$240 billion was still available, and the number of jobs provided for the next 15 months was about 46,000. In 2000, the policy of short-term job provision still continued. Tung Chee Hwa reported that 15,000 jobs were provided in the previous year, and from 2001 to 2003, another 30,000 jobs were to be offered in the ongoing infrastructure works. However, other than infrastructure works, an additional 15,000 jobs was offered for the next two years, and temporary jobs were created on anti-smoking campaigns, environmental hygiene, community building, patient services and also services for women, new immigrants and single parents etc. An additional fund of \$618 million was used in the expansion of job opportunities in public and social services (Table 8).

**Table 8: Additional jobs from 2000 to 2001**

Programmes	Funds	Jobs provided	Remarks
Anti-smoking and Healthy Living Campaign	\$30 million	15,000 jobs for 2 years, and in 2000 7,000 jobs were to be provided	All jobs were to last only for 2 years
Environmental hygiene	\$94 million		
Community building	\$50 million		
Improving patient services	\$243 million		
Improving services for women, new immigrants, single parents and disabled	\$228 million		

As the SAR government was quite passive in employment maintenance and business start-up programmes, the policy strategy of job provision through public works and services



became the major strategy in job creation. In 2001, another additional 33,730 jobs were promised, and the government continued to employ workers on environmental hygiene, patient and community services, public security, renovations in public facilities, and also welfare employment for the disabled.

**Table 9: Additional jobs from 2001-2002**

Programmes	Jobs provided
1. Implement environmental protection, education, sanitation, medical and health and welfare services	8,000
2. Improving public security and administrative personnel	4,000
3. Renovations of public utilities	20,000
4. Additional day care services and supplementary employment for the disabled	1380
5. Experimental project on employment for the disabled	350 per year

The relief orientation of job creation policy reached its climax in 2003 as the Severe Acute Respiratory Syndrome (SARS) gave a serious blow to the Hong Kong economy. The SAR government was forced to embark on a crisis-intervention approach of directly providing jobs for the unemployed. The crisis intervention approach consisted of two measures, the first was the provision of a 2-month training programme, and the second was to provide immediate short-term jobs against the damages inflicted by the economic depression. Altogether, 30,550 jobs were created under the threat of SARS.

**Table 10: Additional jobs in 2003**

Training and employment for the unemployed influenced by SARS		Funds	Beneficiaries /jobs	Remarks	Source of policy
May	Skills enhancement programme	\$150 million	10,000	Only last for 2 months	Government press release (20/05/2003)
	Short-term jobs	\$282 million	11,500		
July	Skill training	\$715 million	13,000		Government press release (26/08/2003)
	Short-term jobs		19,050		
Total		\$114.7 million	30,550		

In short, the government at first attempted to use an employment maintenance and entrepreneurial approach through supporting the SMEs, hoping that it could lead to economic recovery and consequently stabilized the growth of unemployment. However, the passive strategy of loan guarantee did not produce direct results on the problem of unemployment. Since 1998, the government began to use public works and public services

to create jobs, and these programmes provided an instant but short-term cure to the problem of unemployment, but they were not sustainable in the long run. All in all, the major policy strategy in job creation is made as damage control sedatives to cool down frustrations of unemployment.

The OECD Jobs Strategy Recommendations suggest that the major policy in job creation is to set macroeconomic policy such that it will both encourage growth and, in conjunction with good structural policies, makes it sustainable. Programmes to foster entrepreneurship and small business shall become an integral part of local development strategies because geographically targeted, area-based policies appear to produce more effective performance. The key to successful enterprise development strategies lies in the effective implementation of policy package among ministries and greater coordination between national bodies and local agencies<sup>19</sup>. Without a set of structural macroeconomic policies, the simple provision of loans and jobs in the public sector can only achieve short-term alleviation effects that are, though necessary, unable to achieve long-term and sustainable results.

#### **4.2.2. Policies on Labour Supply**

Policies of upgrading the quality of labour to curb problems of unemployment fall into two main streams. The first stream is the linkage of formal schooling with employment, so that blockages in the from-school-to-work process are removed, or at least reduced. This stream is closely related with the human capital theory of sustaining long-term competitive capabilities of workers to withstand changes in the economy. Other than reforming the formal education system to link up formal schooling with employment, other programmes like on-the-job training, apprenticeship and informal training in the workplace are also used as linkages. The second stream is remedial in nature, aiming at providing re-entry opportunities for dismissed workers and disadvantaged groups into the labour market. Vocational training, adult education and self-directed training are the salient features in this stream.

From 1997 onwards, the Hong Kong government continues to stress the significance of raising the quality of labour as a major strategy to curb unemployment. The upgrading of the schooling system is needed, and in 1998, the government reserved \$630 million for information technology equipments and the training of teachers, hoping that they could provide the basis of quality upgrading of workers.

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<sup>19</sup> OECD (1996) The OECD Jobs Strategy: Pushing Ahead with the Strategy: Unemployment in the OECD area, 1950-1997. Paris: OECD.

The formal body providing the education and employment linkage is the Vocational Training Centre (VTC), the training body offering pre-vocational, in-service training and development programme for young people of different ages and academic standards. Pre-vocational training courses are offered through the Hong Kong Institute of Vocational Education (IVE), VTC School of Business and Information System (SBI), training centres such as the Chinese Cuisine Training Institute (CCTI), Hospitality Industry Training and Development Centre (HITDC) and the Plastics and Tooling Technology Development Centre (PTTDC). For vocational training programmes, the VTC offers different practical skills training courses for S.3 and S.5 leavers through its 20 training and development centres. Certificates, diploma and high-dip programmes are offered, aiming at equipping young labour with specific occupational skills.

However, the rapid rise of youth unemployment rate in the post-1997 period alerts the government about the inadequacy of formal schooling, and the formal pre-vocational and vocational training is also far from enough. The bulk of from-school-to-work unemployment is mainly concentrated in the age cohort of 15-19 years' old, a disadvantaged age-cohort with low education level as well as low social skills and inadequate social networks to enter the labour market. The unemployment rate in this age cohort is over 30%, and the government has to put in more resources to cope with the problem. Additional training programmes, like the get-start programmes and in-service training, are particularly needed for young people to enter the labour market.

Get-start programmes are specially offered to help those who are at the lower end of the education system. In 1998, the Youth Pre-employment Training Programme (YPTP) was launched by the Labour Department, and the programme aimed at enhancing the employability and competitiveness of school leavers aged between 15 and 19. The programme was mainly focused on the upgrading of general and social skills for young people to enhance the employability of young people through increasing their confidence and improving their interaction skills in dealing with people. It consisted of 4 modules: (1) leadership, discipline and team building training; (2) job search and interpersonal skills training; (3) computer application training; and (4) job-specific skills training. The programme also provided workplace attachment training to strengthen learning-by-doing. The traditional syllabus-oriented learning model was transformed into a multi-dimensional model aiming at facilitating young people to get their first job.

The learning-by-doing method was strengthened in 2002 as the Labour Department established the Youth Work Experience and Training Scheme (YWETS). As the problem of first-job attainment is not simply confined to secondary school leavers, the programme aims

at enabling non-degree school leavers in tertiary education to obtain on-the-job training and related job skills. This 2-year programme combines the training of working skills, interpersonal skills, working experiences, and case management by social workers. It provides employment subsidy for young people aged 15 to 24 with a 6-12 months in-service training programme. In 2002, an amount of \$400 million was set up to provide 10,000 job opportunities for this age cohort.

In 2003, the YWETS was extended to university students, and the Graduate Employment Training Scheme (GETS) was also launched. Subsidies to employers are granted when they employ university degree holders with a maximum 6-months on-the-job training, and employers are encouraged to offer long-term employment to the graduates upon their satisfactory completion of the training programme.

The YPTP, YWETS and GETS are supplementary programmes to formal schooling helping to bridge the linkage in the from-school-to-work process. They have made improvements to break the barriers of syllabus-oriented teaching and provide opportunities for young people to obtain their first job through the development of social skills and job-related skills.

Other than providing training opportunities for young people, adult education is also stressed, and the Employees Retraining Board (ERB), an organization established since 1992, provides retraining to eligible workers for the age of 30 or above to equip them with new or enhanced skills to adjust to changes in the economic environment. A variety of full-time, part-time courses are being offered. These include core course on job search skills; job-specific skills courses, such as hospitality service and housework assistance; and general skills, language and computer courses. In 1999, \$500 million was allocated to the Employees Retraining Board to help older workers to enhance their skills. In 2000, the SAR government injected \$1,600 million with an additional fund of \$400 million for recurrent expenditure to accommodate the need for 100,000 workers.

Under the structural changes in the economy, older workers with low education and skills levels are unable to adjust to the new economic environment. Yet, the problem of older workers' unemployment did not appear in the policy agenda until 2000 when social discussion began to centre on their difficulties of re-entry into the labour market. The government soon realized that the traditional syllabus-oriented training programmes were far from adequate in meeting the variety of demands from different types of unemployed workers. Other than the traditional training programmes, more tailor-made demand-focused training programmes were conducted in the ERB, e.g. task-based training courses for

salesmanship and promotion, dessert-dressing assistants, garbage packaging and estate sales-agents. Furthermore, locally based home-helper training programmes for women workers were also launched in 2002 to meet the growing problem of feminisation of unemployment. The training programmes were directly linked with employers' demands, and job-matching measures were also conducted so that the training-job linkage was strengthened.

Training is not enough to help older workers, and job creation programmes in the form of employment subsidy have to be strengthened. The Re-employment Training Programme for the Middle-Aged (RTPMA) was launched to assist job-seekers aged 40 or above through targeted employment assistance and on-the-job training. Employers providing job opportunities and in-service training can receive a small subsidy for 3 months. In 2001, a sum of \$72 million was allocated for the purpose<sup>20</sup>, and another \$50 million was also granted in 2003<sup>21</sup>.

Further, training courses are offered to the unemployed adult who wants to start their own business. A Self-Employment Business Start-up Programme was launched from 2001 to 2003, aiming at providing training courses on management skills for those who want to apply for the Self-Employment Business Start-up Fund (SEBSF). Still further, the ERB also took up re-training programmes during the SARS attack period to release the pressure of unemployment. The total amount of public funds spent on different types of employment training and re-training cost about \$1 billion per year<sup>22</sup>.

In meeting the needs of upgrading the quality of labour, the Hong Kong government has designed many training programmes to adjust to the needs of employers and employees. The programmes, though operate on short-term basis, provide immediate support to workers to enter the labour market. However, their effectiveness needs to be assessed so that they can be improved to produce optimal effects. An OECD report states that training programmes produce different effects on the unemployed. Formal classroom training appears to help adult unemployed women, on-the-job training appear not to help prime-age men, and training and employment subsidies also appears not to help disadvantaged youths<sup>23</sup>. The report recommends three crucial features in effective design of training programmes: (1) the need for tight targeting on participants; (2) the need to keep the programmes relatively small in scale; and (3) the need to have a strong on-the-job component in the programme. It is

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<sup>20</sup> The 2001 Financial Budget

<sup>21</sup> Government Press Release, 13/03/2003

<sup>22</sup> The 2003 Financial Budget

<sup>23</sup> John P. Martin (2000/1) What Works Among Active Labour Market Policies: Evidence from OECD Countries' Experiences. OECD Studies, no. 30, 2000/1

necessary for the government to gear its training programmes towards these recommendations.

### ***4.3. Summary and Concluding Remarks***

Since 1997, unemployment and underemployment rates continue to rise, and unemployment will become a staying problem. The three major age cohorts suffering under unemployment are 15-19, 20-29 and 50-59 years' old.

Although technological displacement and industrial shift is the major cause of unemployment, workers are more concerned with the direct unemployment threats imposed by business contraction, corporate downsizing, salary cuts, and keen competition within sectors. Furthermore, they are worried about the changes in employment conditions – heavier workload, longer working hours, higher requirements, and salary cuts.

The Hong Kong government uses two principal policies to deal with unemployment. From the demand side, the government tries to strengthen the small and medium size enterprises through loans, yet it does not provide direct effects on unemployment. Afterwards, public works projects are hastened to provide jobs, while small-scale additional public services are also used to provide immediate alleviation to the problem. Yet, these job creation programmes are less able to stimulate entrepreneurship in the private sector, thus they are less sustainable in the long run.

In labour supply policies, it is observed that there are a lot of improvements made in the past years. Other than formal schooling for the unemployed, there are many new programmes specifically catered for targeted cohorts, for example, youth and older workers. Get-start programmes are made, in-service training are subsidised, and teaching methods are also improved. However, it is difficult to judge whether these programmes can achieve stated effectiveness, and they need to be assessed to produce optimal effects.

## **CHAPTER 5**

### **VIEWS OF POLICY MAKERS**

#### ***5.1. Introduction***

This chapter will present the findings in the interviews with policy makers, and it is mainly divided into three sections. The first section is about the causes of unemployment perceived by policy makers. The second is on whether there is a comprehensive policy strategy as well as policy priorities on unemployment. The third is an evaluation on the effectiveness of the Task Force on Employment, a public body that has a specific function to deal with the rise of unemployment rate.

However, before going into the findings, there is one caution about the identity of the policy makers in the interview. In order to protect the confidentiality of the respondents, their identity and gender characteristics are concealed. In the following presentation, the policy makers are given common forenames randomly chosen by the Oxford Dictionary; furthermore, their gender characteristics are also concealed through arranging their appearances in consecutive order in the report.

Adrian: Government Official, member of the Task Force on Employment (TFE)  
Brenda: Legislative Councillor, industrial/commercial sector  
Charles: Legislative Councillor, labour sector  
Daisy: Legislative Councillor, labour sector, member of the TFE  
Eric: Legislative Councillor, labour sector, member of the TFE  
Fiona: Legislative Councillor, political party  
George: Unionist, member of the TFE

#### ***5.2. How Did They Interpret the Causes of Unemployment?***

Did policy makers adhere to a narrowly focused labour supply theory and believe that once labour quality is raised, the level of unemployment will be dropped? Did they believe that structural unemployment is the only, or the major, reason of unemployment, and feel powerless in handling such problem? Or had policy-makers grasped hold of the multi-dimensional aspects of structural unemployment, and demand for a package of

policies to alleviate the problem?

### **5.2.1. Structural Unemployment and Business Cycles**

When asked about the causes of unemployment for Hong Kong, most of the policy makers acknowledged the significant impact of technological shift and structural unemployment. Virtually all of them recognized that there were skills-gaps existing in the economy, leading to serious mismatch of labour.

However, Adrian, the policy maker from the government, was particularly aware of the existence of business cycle unemployment in Hong Kong. He claimed that structural unemployment was a long-term process in which sunset industries were gradually replaced by new ones. However, there were also short-term business cycles and political problems that led to unemployment, and he considered the Asian Financial Crisis, the 9.11 incident and SARS as immediate problems leading to widespread, short-term yet damaging unemployment in the economy. These incidents caused contraction in social consumption, thus triggering off unemployment at all levels. He said that it was very difficult to distinguish business cycle unemployment and structural unemployment, because both of them led to industrial and occupational shifts. However, he used the weather as a metaphor to illustrate the relation between the two, structural unemployment could be described as the low pressure in the whole region, whereas unemployment caused by business contraction was like typhoons that caused serious damages in the economy. Instant relief and long-term recovery were both needed in the policy strategies.

If technological shift requires long-term labour supply policies to upgrade labour quality to solve structural unemployment, the solution to business cycle unemployment requires the government to provide sufficient and effective stimulation from the demand side to meet the needs of the unemployed. In fact, most of the respondents were more concerned with the demand side rather than the supply side of labour, and job creation programmes were needed as immediate solution to the lack of effective demand for jobs.

### **5.2.2. Industrial Performance and its Multiplier Effect on Employment**

The policy maker from the industrial sector, Brenda, strongly commented on the lack of demand side policies on unemployment, especially on the macro relation between industrial performance and unemployment. She criticized vehemently that the government did not understand the importance of manufacturing industry, as she believed that it produced a “multiplier effect” on job provision of which the service sector was less able to do so.



Brenda said that, in the past, the Hong Kong economy depended on four major industries (textile, plastic, electronics and metallic), and these industries employed a huge volume of workers. However, from the 1980s onwards, the 900,000 workers in these industries were displaced and reduced to less than 200,000 in 2003. Though the government had proposed a new four pillars of economic growth (tourism, finance, transportation, and commercial support), Brenda considered that these were not enough to provide jobs. She thought that the export of tangible goods was the life-blood of the economy, because it led to multiplier effects in the provision of jobs for the labour market. As she said, “tourism only occupies 6% of the GDP, transportation employs about 4.5% to 5% workers, the financial sector employs about 12%, and lastly support services for commerce and trade are also not suitable. They do not have added values (on employment). I can earn money from these businesses, yet the public cannot obtain benefits from them”. It can be said that, if the economy is without the foundation of manufacturing industries, the service sectors are built on thin air and they are easily susceptible to economic contraction.

Furthermore, she criticized that there was a misguided understanding about hi-tech and added-value industries. To her, hi-tech industries required technicians as well as front-line workers. High level and sophisticated jobs were created for university graduates, yet secondary school leavers could also work in simple and yet specialised jobs. Hi-tech jobs would not necessarily erase lower level jobs; rather, they might lead to expansion of jobs for the latter. She quoted the example of the Xijun Technology Park in Taiwan, in which a multiplier effect was created, as it comprised of 100,000 technicians in the “inside” and also 300,000 workers at the “outside”.

She did not accept the idea of raising the quality of labour supply as an antidote for unemployment, because she thought that service industries were like castles in the air and they depended on manufacturing industries for firm support. She strongly said that, “it is manufacturing industries that propels economic development, not technology”. Technological changes could only serve as an intermediate factor, not the major factor, of economic growth. She reiterated several times that the government had made wrong policies on unemployment, and considered that the economy was not propelled by talents, but by industrialists. The supply side of the labour market could not produce jobs.

However, it is clear that manufacturing industries have already moved out from Hong Kong since the 1980s, therefore when the interviewers asked her about the feasibility of rebuilding the manufacturing industry in Hong Kong, Brenda acknowledged that there were barriers of the high land price and labour cost, and also the competitiveness from mainland China. However, she still quoted examples in other countries, like the United States, UK,

Switzerland and Japan that were still strongly in support of making industrial policies. She criticized that the government was handcuffed by its ideology of non-intervention, and the competitive edge of Hong Kong was losing rapidly under the economic principle of laissez faire.

Other than dissatisfaction from the industrialists, the unionists were also concerned about the lack of industrial performance in the creation of jobs, and it seemed that there were no contradictions between them. Most of the policy makers were strongly disturbed by the problem of “no-job growth” in a recovering economy, and they demanded for an industrial policy, or at least some stimulation on certain industries, to provide jobs for the unemployed. Charles and Eric, both legislative councillors from labour unions, were eager to expand the arena of job provisions. Eric tried to advocate for the strengthening of community economy, the cultural industry and the environmental industry to absorb excessive labour. He said that we had to learn lessons from other place, notably from Japan, USA and mainland China. He quoted the examples of Red Indian minorities who were given logistic support in the making of Alca cookies in New Jersey, the fishermen docks in San Francisco, and also the flower city of Rotterdam in Holland. He was optimistic that, if the government was determined to help the unemployed, markets could be created to solve the problem.

However, Adrian, the government official, was not so optimistic about the positive impact of manufacturing industries on job creation. He quoted an example of the devastation of technological replacement on jobs in the construction industry, and said, “Though there may be a lot of capital, it does not mean that jobs are available. The example is with the construction industry. In the past, when the economy booms, the construction industry employed a lot of workers. Yet, at present, the construction industry is a highly devastated area in employment. Why so? There are now more than 60,000 people out of job. The government has pumped in more than \$20 billion. Though the money is there, the industry cannot employ many workers because most of the work procedures have already been mechanised. Many of the construction products are finished products made in other places, and they are sent through the border by containers, and are jig-sawed together by some adhesive glue. The construction industry is now like LEGOS played by children. So, even if you can make a profit out of the construction industry, this does not mean that there are more jobs available.”

Jobs loss due to technological replacement is not merely confined to manufacturing industry. Adrian also stressed that the information technology had led to a revolution in office management, and logistic jobs were also displaced. He said, “...from 2004 to 2007, about 70,000 clerical jobs will be displaced due to the technological revolution in office

management. The information technology revolution of voice mail, IDD, fax, Internet and email are virtually destroying the clerical occupation, and the jobs can hardly return. Other than industrial products, services for data collection and rearrangement are also displaced by technological advancement”.

Structural unemployment due to technological replacement is exacerbated by the problem of outsourcing, i.e. transferring capital investment to other regions with cheaper labour. Adrian was worried about the fact that the service industry was also outsourced to China, a phenomenon worth particular attention and there were potential dangers that the service industries in Hong Kong were also treading on thin air. “In the past, manufacturing industries were moved back to the mainland, causing thousands of workers out of job. At present, service industries like printing and banking are also moving inland, and this imposes a serious challenge on the provision of jobs for the labour force”.

### **5.2.3. Labour Market Elasticity and Unemployment**

Many economists believe that labour market inelasticity is the major cause of unemployment, and there is a need to keep the labour market as elastic as possible. In their opinion, the “iron rice bowl” has to be smashed, employment conditions to be kept as flexible as possible, and wages have to adjust to market prices.

George, a unionist, provided an overall remark on the question of labour market flexibility. He argued that employers in Hong Kong are “spoiled”, and they were virtually permitted to do anything on their workers. Labour elasticity was evident in three major areas – job duration, working hours, wage levels – and they caused serious distortion in the employment structure, further aggravating the problem of unemployment.

#### **5.2.3.1. Employment Duration**

Most of the policy makers from the labour sector were concerned with the impact of short employment duration on the level of unemployment. George believed that labour casualization, in the form of short-term or temporary jobs, created high levels of job insecurity and unemployment. He said, “We have been working in employment training for more than ten years, and we know that we can help the unemployed to get a job. Yes, they can get a job under the help of our training programme. But the problem is what happens afterwards. Jobs are provided, yet these jobs are never secure. Our training programmes can achieve 70% employment rate in the past, yet the real problem is that the unemployed work for several months, they lose their jobs, and get unemployed again. Afterwards they again

reapplied for training. So this is the problem.... Usually very few unemployed cannot find a job, unless they have particular physical problems or sickness. Very few workers have a diehard attitude refusing to change jobs, or attached firmly to the faded glory in the past. These people are extremely rare”.

Without strong union protection, the labour force in Hong Kong is already very flexible. Workers are very mobile moving in and out of jobs. When asked about the amount of flexible mobility of workers from their jobs, George was unable to provide statistical figures to show the impact of such flexibility on unemployment. Yet, he said that, according to his impression, downsizing and short-duration probably cause one-half of unemployment. Such impressionistic comment, though crude and imprecise, is worthy of attention for further policy exploration on the impact of short-term job duration on the problem of unemployment.

#### **5.2.3.2. Working Hours**

For George, the problem of over-time working hours without pay was an “accomplice” of unemployment. According to him, there was a concomitant rise of unemployment rate and working hours among workers, and he interpreted that jobs were not lost but were simply transferred to the hands of another worker. He said, “I have recently gone to Korea for a meeting, and I feel that the capitalists in Hong Kong are really spoiled, and they are free to do whatever they like. In Korea and in other Asian countries, workers enjoy over-time pay as a protection in employment. Yet, in Hong Kong, workers have to work longer hours without over-time pay, and in this way, more jobs are cut”. On the one hand, workers have to work over-time without remuneration; on the other hand, there are people desperately in need of a job. There is a loss-loss condition at both sides of the employed and unemployed.

Daisy, another unionist, pointed out that over-time work imposed heavy burden on the raising of labour quality. She said, “In mainland China, workers work 5 days a week. Our labour union advocates for the 3-8s system (researcher’s note: 8 hours work, 8 hours recreation, 8 hours rest) but no one listen. The government is talking about added value in skills, yet our workers have no leave for re-training. How can we have time to add our values?”

However, Charles, another policy maker from the labour unions, was somehow pessimistic about strengthening labour elasticity in Hong Kong. Since there was a huge cheap labour market across the border, he believed that employers would try every possible

means of cost cutting, and there were a lot of exploitative means to squeeze every drop of sweat from workers. As he said, “the wage level is relatively low at present, and in a meeting with workers, I asked them about a theoretical question – (at present you are working 8 hours a day) even if you work 12 hours a day, do you think wages will stop to drop?”

Adrian, the government official, was more optimistic in interpreting the problem of no pay overtime work. He said, “I know people are not happy, and workers are very disgruntled. Though they maintain a job, they receive less income, they have no choice and no bargaining power, and they feel disempowered. Yet, since they can still maintain a job, they shall not complain any longer on their pay and working hours. When the economy recovers, some employers may employ more workers, and they may also employ workers for longer durations, or pay them overtime pay .... some may pay OT, some may not.... we shall not neglect the emotional feelings of workers under this condition. Anyhow, we are quite effective in handling the employer-employee relation, and there is a 65% success rate in labour dispute..... (Q: it is now a buyers’ market) the low pressure is overwhelming in the labour market, yet we have to wait for the dissipation of the thick clouds... it takes a long time for that...(Q: how long?) may be 3 years, some say 4, some say 5, and some say 7 years.... I don’t think it is important, and people have to change... if they can no longer be retrained, they have to move out of the labour market and become self-employed.... doing some small business... or work at home ”.

#### **5.2.3.3. Wages**

Traditionally it is believed that when the economy prospers, the problem of unemployment will be reduced since wealth earned from the top will trickle down to the bottom. However, most of the policy makers did not believe in this economic assumption. Adrian, the government official, thought from the demand side and said that contracting-out was one of the factors that kept down wages. He cited the case of housekeeping in hotels. Employers wanted to be “highly efficient”; therefore rooms would be cleansed and kept tidy only when they were expecting guests. If there were insufficient guests, floors would be closed. To keep cost down, workers were to be employed on a piece-rate basis, and fewer workers were employed if business was not good. In Hong Kong, wages were kept down to a minimum of \$19 per room. Wages were flexibly tied not to the performance level of workers, but were directly related with the periodic assessment on profits earned by the hotel.

Daisy was more concerned with the “crowding out” effect of low wages on the

disadvantaged groups, as there was a large pool of high educational level students looking for jobs. She depicted a scenario for us, “When university students look for jobs, they are paid with secondary school leavers income. Secondary school leavers may earn the wages of primary school leavers, and those older workers without education will find themselves have nothing to do”.

Adrian, the government official, repeated exactly the same logical analysis of Daisy on the “flexibility” of the labour market. He said that in Hong Kong there was a shortage of university graduates, yet there was already a satiated labour market for secondary school leavers. With the expansion of tertiary education in the coming years, the phenomenon of “crowding out” would likely to occur, with university graduates earning lower wages to crowd out matriculation level students, matriculation students crowding out secondary 5 students, and secondary 5 students on secondary 3 students. Adrian, the government official, was also clear that a new class of working poor was in the making.

### ***5.3. Were there Comprehensive Policy and Strategic Priorities on Unemployment?***

#### **5.3.1. Was there a Comprehensive Policy on Unemployment?**

When asked whether the government had a comprehensive policy to tackle the problem, it was rather disappointing to learn that all of the policy makers, including government officials, replied in the negative. Although they understood that there was a wide spectrum of causes leading to unemployment, virtually all of them observed that the government was “groping the stone while crossing the river”, and handled the problem on a reactive basis. Virtually, most policy makers, despite their positions of industrialists or unionists, were unanimous about the problem of lack of comprehensive plans. New and old members of the Task Force on Employment were also in agreement that policies were made on a piecemeal and makeshift fashion.

Why were policies on unemployment made on a piecemeal way? Adrian, the government official, said that it was not due to governmental failure or a lack of concern. Instead, he relegated the cause of such piecemeal reaction to three major economic shocks – the Asian Financial Crisis, the 9.11 Incident, and the SARS attack. They were unpredictable accidents in the business cycle, leading to serious disruption in tourism, retail and service industries. There were no precedent cases to help the government to meet such economic shocks; therefore, the government was left with a position of damage control rather than

taking active and comprehensive measures to treat the shock of unemployment.

However, others policy makers did not agree with such interpretation, and they considered that it was due to the problems in the government. Daisy was disgruntled about the lack of sensitivity of the government in facing the problem of structural unemployment as early as in the 1990s. She said that labour unions are particularly aware of such problems, and they had filed complaints and suggestions to the government highlighting the difficulties of workers in looking for jobs. She said, “Eleven years, eleven years ago, we are witnessing a structural change in the economy, and we demanded for the establishment of an authority subsidizing the training needs of workers. However, the Education Authority considered our proposal as unrealistic and not feasible. And when the rate of unemployment was raised, the government hastily formed the temporary body handling retraining as a cushion to calm down social conflicts. The government does not have any foresight and there is a lack of policy orientation. So long as you keep on pressuring the government, she will do something to respond to the noises of the people. It depends on the loudness of the noises to get heard!”

According to her, the political structure and bureaucratic system were the major reasons for such insensitivity. To her, the political system was not favourable for long-term planning, because the term of office of most top officials were limited to four years, and they were not prepared to take up long-term solutions. Policies were thus lacking continuity, and there was a lack of vision and foresight for change. Furthermore, bureaucratic rigidity was also a major problem against the making of comprehensive policies.

Eric, a unionist legislative councillor, was indignant about the use of piecemeal and short-term policy measures in meeting the challenges of structural unemployment. He said that the ameliorative policies were made just to “keep our mouths shut”, because members in the legislative council did not really know about the “reality of labour”. He thought that the question of free market ideology was the main obstacle to devise a comprehensive approach on unemployment. The government was narrowly focused on the recovery of the economy, believing that once the economy was revitalized, the problem of unemployment would be under control. However, as a unionist, he was sceptical about such assumption. Further, he believed that job creation could help to solve the problem of unemployment, but to his dismay, the government was paying very little attention to his proposals. He said, “I feel that... if the SAR government can listen to my proposals and do some experimentation, I think the problems can be solved one by one. However, the non-intervention ideology of the government, coupled with the support of the commercial sector, controls the scene. They talk of macro things, and not the small things related with people...”.

Charles, another unionist legislative councillor, also echoed Eric's grievances about the ideological straitjacket that binds the creativity of the government in handling the problem of unemployment. He said, "...no, the government has no ideas. It depends on the recovery of the economy, and when it recovers, the government thinks that the problem of unemployment will be reduced. (Q: is it too simple-minded?) Yes, it is so simple-minded, and it is waiting, waiting for recovery. (Q: do you think it works?) I don't really know!" He further said, "...the ideological propensity of the government is small government, and as a small government, effective demand at the public service will be reduced. However, the market is also not helpful to job creation. That's why I am against small government... However, the government is run by financial echelons, so this be the case!"

Other than the comprehensiveness of policy measures on unemployment, some policy makers also thought that the government was less ardent in the making of effective policies. George, a unionist in the TGU, complained that the government had lost its impetus in solving the problem of unemployment. Previously, it was quite active in the first two years of the economic crisis, activating the VTC and ERB to provide training opportunities. However, after the first two years of damage control, it seemed that the government had reduced its concern and policies on unemployment were gradually becoming routines. As he said, "... but I think that, for the first two years, the government did not want to slow down its commitment (to alleviate unemployment). It seems that it was more determined to help, and there were draconian measures to reform the counselling service of the Labour Department. Furthermore, there were also many measures like e-services, simplification of administrative procedures... a lot of things like that. Yet, in these two years, the tone has changed. The government, feeling that it cannot solve the problem of unemployment, has already given up, and turned its tone to alleviate the problem, rather than solving it."

Charles also shared George's observation and said that the government had lost its impetus in solving the problem of unemployment. He said that the government did not think of anything new in meeting employment needs; rather, it believed in the economic miracle arising from the Closer Economic Partnership Arrangement (CEPA) that might finally create jobs for Hong Kong. However, Charles was not optimistic, believing that CEPA would ultimately create jobs in China rather than in Hong Kong. The waiting for an economic recovery, without further strengthening local industries, would lead to dead weights in the employment structure of Hong Kong.

### **5.3.2. Policy Strategy and Priorities**

It was surprising that, although all of the policy makers arrived at the same conclusion



that there was no comprehensive policy for the complicated problems in the labour market, many of them did not think that the piecemeal and temporal measures were entirely useless. In fact, many of them considered that the short-term measures were necessary to provide instant and tangible solution to the problem of unemployment.

The government official, Adrian, was frank in admitting that it was difficult to have a comprehensive policy in a turbulent economic environment. However, there were priorities of concern. He said, “(since unemployment is instigated by external factors) we have to know clearly how government shall handle the problem. If we say that the government can solve this problem, we must be lying to you. Yet, the government has the duty to do two things. The first is to provide a condition so as to activate commercial activities and the market.... The second is to alleviate the problem on a short-term basis to equip workers for the market. In the long run, the government should have a package of policies to provide better conditions for the market to create jobs”. The short-term measures could at least achieve the functions of pain relief for those unemployed. In his words, short-term measures were pain relieving prescriptions of panadol pills specially targeted for people hard-hit by unemployment, e.g. youth unemployment or older workers. Without the tranquillising effects of the medicine, the problem of unemployment would have gone worse, or even led to uncontrollable socio-political events.

Adrian further illustrated the problem by using the SARS issue. He said, “Do you know why the strategy of subsidized employment was used in the first two years, and it is now being used again just recently? It is because of SARS, many people, especially older workers, become unemployed. The government instantly provided 50,000 jobs, those short-term jobs related with retraining. The significance of providing short-term jobs is to control the condition of unemployment from spreading... The government cannot simply employ people for the sake of employment; there shall be a reason for doing so. Ultimately, jobs have to be provided by the commercial and private sector”.

Interestingly, unionists also supported Adrian’s views in using short-term and targeted measures on unemployment. George annoyingly stated that if unemployment policies were made merely to alleviate the problem, the government had achieved its purpose. The re-employment training schemes, according to him, could help to relieve the emotional stresses for adult workers. He said, “... this relief function is the largest function, otherwise it may lead to riots or more suicidal attempts. Many applicants of the training schemes face real difficulties, and even though many of them are capable to find jobs on their own, they feel entirely exhausted and in a *cul de sac* condition... the re-employment training schemes of ours are different from that of the VTC, because we really care for their difficulties and

give them spiritual and emotional support... the re-employment training scheme is really doing a big favour to the government". Charles also agreed that the government could help to manage the problem from getting worse; and if the unemployment problem were not handled flexibly, the unemployment rate would have gone much higher. They were both unhappy about the lack of a comprehensive perspective, yet they recognized the contributions of the government to contain the problem with a lot of contingency measures for different target groups.

Though pain-relieving functions of targeted priorities and temporary measures were accepted, the unionists demanded for more long-standing measures from the government. Charles hoped that he could raise the issue to use financial policies, in the form of expenditure procurements, in buying services in Hong Kong. He said, "Another point I wish to make is on the public sector, I am trying to persuade government, but not very successfully... I think that government procurement can create jobs, but most of these procurements are buying services in China. For example, government uniforms are made in China. I do not know whether printing services are also outsourced to China or not, I have to check it out.... But it is not surprising that the service is outsourced... even the leaflets and T-shirts of political parties for elections are also made in China.... It is cheap out there." In order to maintain high efficiency, the Hong Kong government, like its commercial counterpart, was also buying services in China, and consequently it perpetuated the vicious circle of unemployment in Hong Kong.

More long-term strategies were needed to keep the labour force stable. George was worried about the endless rotation of short-contract workers in and out of the labour force. Re-training was useful only as a tool of re-entering into the labour force, yet it was not something that can keep workers from being dismissed. Dismissal was more concern with market instability like enterprise reengineering and downsizing, cost reduction measures, and keen competition among enterprises. It was not difficult for workers to obtain a job after retraining, what was more important was the elastic labour market that employed workers on a temporary or part-time basis. Workers had to face challenges not due to their own competence, but to the economic viability of the company or shop, and they had to cope with anxieties about another period of unemployment. The short-term strategies were only effective in preventing the problem of unemployment from getting worse, and there was a need for more long-term policies to keep employment more stable and settled.

Hence, there is a demand for a policy package so that there will be less inconsistency among policies. Daisy, as a unionist legislative councillor, said that labour was now "sandwiched" by a lot of social factors, and she called for a policy package not simply

comprising of policies on import labour, employment conditions, tax exemption, labour quality upgrading through training and retraining etc., but also extended to policies relating with social security, minimum wage and user pay for social services (e.g. medical service). Under the rapid changing economy, the multi-dimensional problems of labour and employment had to be addressed under a comprehensive policy package.

#### ***5.4. Were Policies well co-ordinated? How did the Task Force on Employment Perform?***

Since there was no comprehensive policy, there could hardly be any concerted and coordinated effort to maintain consistency among policies on unemployment. As a matter of fact, it was evident that there were a lot of contradictions among the different policy measures. George, the unionist, criticized that the government was trying to help workers to look for jobs on the one hand, while on the other hand creating unemployment through trimming down the size of the public service. Other policy contradictions also appeared as to the sharp drop of wages in comparison to the CSSA, a phenomenal condition in which the welfare poor might fair better than the working poor. The lack of incomes policy created heavy burden on the welfare system. Fiona, a legislative councillor and also the labour spokesman from a political party, stressed that a certain kind of policy package was needed so that training of labour could be geared towards a set of industrial policies like tourism and information technology. George considered that there should be a determined implementation of employment norms, e.g. overtime-working hours with pay, to maintain more jobs in a recovering economy. Without a comprehensive perspective and coordinated policy package, the success in one area might lead to failure in other area. Therefore, the function of the Task Force on Employment, led by the Financial Secretary, became the focal point of social expectations.

According to Adrian, the government official, the function of the Task Force on Employment was not meant to be a body to coordinate services, but to provide ideas for policy makers to design employment policies. The Task Force worked as a think tank with consultative functions rather than as a comprehensive planning body with monitoring and executive functions. It was high-power in the sense that its recommendations could be heard at the upper echelon, yet it had no power to instruct government departments to execute policies according to its recommendations. It was not a place to design a comprehensive policy package, but a problem-solving body to alleviate the problem of unemployment. Under such mechanism, members included academics, union members, industrialists and businessmen, and also members of political parties.

However, the problem-solving think tank did not meet the expectations of unionists who were more concerned with the multi-dimensional problems of unemployment. To them, unemployment was a labour issue linking with problems like working conditions like employment duration, working hours and wages. Without a labour focus, unemployment only became a group of statistical figures of supply and demand matching without paying considerations to the daily reality of labour. They felt that their concerns were not addressed properly in the Task Force.

Daisy, a legislative councillor and also a member of the Task Force, was very critical about the nature of the Task Force. To her, the Task Force was just a discussion group without any significant power. The narrowly focused problem-solving approach was vividly demonstrated by Daisy's comment. She said, "Compared to the Transport Advisory Committee (TAC), it is less respected by the government. The TAC deliberates recommendations and proposes to the Executive Council (EC), and the EC listens carefully. But the Task Force is different... it is just an idea-gathering meeting of the Financial Secretary, with people talking to themselves only... (Q: does the Task Force have any money on its own?) No. (Q: can it study a particular problem, say, old unemployed workers?) No, no. (Q: can it commission academics in universities to conduct researches and make proposals?) No, no, it is just a discussion group. (Q: discussion group?) Yes, I say that it is just like a seminar meeting... (Q: but if a member has conducted a study, and says that there is a serious problem of youth unemployment in a certain occupation, is it possible to demand for policy measures to cope with the problem?) Yes. For example, some unions have conducted researches and presented their opinions, or some political parties demanded that a certain amount of investment has to be allocated to environmental industries to create jobs ... these may create certain pressures on the Task Force, and the Secretary of Economic and Labour Bureau may say that there will be some follow-up actions, and people who are interested may come together to talk about it. After that, the large seminar meeting becomes a smaller seminar meeting to propose ideas to solve the problem".

George, a member of the Task Force, was also dissatisfied because the labour focus was offset by the presence of other non-labour sectors. He said, "Industrialists do not treat unemployment as a problem. There was once that the industrialists are quite frank and honest in the Task Force. They admitted that when unemployment rate was only 2-3% in the past years, they were very depressed because there were very few choices for them (to select candidates). Yet, when unemployment rate is high, they feel that they are able to gain from it in selecting more suitable workers for their jobs. Academics are more concerned with the general economic system, and they proposed that the government should refrain from doing too much so that the market is not distorted by government intervention. Furthermore, they

even say that the existence of short-term jobs is not an issue in employment, so long as enough jobs are available in society. These academics praise the government, and said that the existing measures are sufficient already. For the sake of long term development, they said that nothing more should be done.” Without a labour focus in the Task Force, members did not feel the need to initiate a policy package to address a whole set of labour issues relating with unemployment.

Charles, the unionist legislative councillor, also shared George’s concern. Without a labour focus, academics were more concerned with the overall functioning of the economic system, and industrialists were preoccupied with doing business, then finally new ideas came up to a stalemate. To him, academics were not stakeholders, therefore they should act as research consultants rather than participating as a full member. He felt that it was to no avail to use the Task Force as a platform on labour issues, and he chose to approach directly the Chief Secretary or the Financial Secretary and propose policy measures on specific problems.

Fiona, the labour spokesman of a political party, further enquired into the position of the Labour Department (LD), whether the LD should work under the Economic Development and Labour Bureau (EDLB). If unemployment is considered as a problem of labour quality, then the LD should be associated with the Education and Manpower Bureau (EMB) so as to achieve policy consistency. In the United Kingdom, labour is closely related with the education system rather than with the Bureau of Industry. So, it is useless to position the Labour Department under the EDLB if the bureau’s work does not have any implications on employment. If employment is linked with economic and industrial development, more work is needed to match demand with supply. As she said, “the guy from Invest Hong Kong came to the Task Force and introduced a lot about how to attract foreign investment. After that, I asked him, hey, how many jobs are created from all these statistics? My God! The figures are far too low to mention! The promotion of foreign investment may only mean buying some flats in Hong Kong, yet they have no implications on job creation, as they do not create factories and firms. All of us were so disappointed that we put a “fail” mark on his performance. An academic in the Task Force was extremely outrageous. He said that after using so much money in promoting for foreign investment, all we have in return is a small amount of jobs. It’s serious wastage!”

All in all, it could be said that the Task Force was narrowly focused on the problem of unemployment without taking a labour focus into perspective. The government hoped that it could serve as a think tank to produce new ideas. Union legislators expected it to produce a package of labour-focused employment policies including labour casualization, wages,

working hours and employment-related matters. They hoped that, under a new structural change in the economy, the problem of labour and employment could be dealt with in a comprehensive way. The government was not insensitive to such demands, yet it took a long period to build up a concerted effort on the problem of unemployment. In January 2004, the government established the Economic and Employment Council (EEC), and it comprised of 4 major bodies: Task Force on Employment (formed in 1998), Investment Promotion Strategy Group (formed in 2000), Business Advisory Group (formed in 1996), and the Economic Advisory Committee (formed in 2001). The merging of all these bodies signified that the government began to pay more concern to the macro level demand side of employment rather than the supply side of labour. The future of employment policy, however, remained to be seen in the coming years.

### ***5.3. Summary and Concluding Remarks***

In analysing the causes of unemployment, virtually all of the policy makers interviewed were concerned with the problems of demand due to economic depression, technological replacement, outsourcing, the lack of multiplier effects on jobs, job casualization, and the length of working hours. Very few policy makers believed that there was an inelastic labour force in Hong Kong.

The findings pointed to the direction of policy intervention to analyse the demand side as a priority concern, with a corresponding analysis on the supply side to match with the demand. It requires the government to explore into the entry barriers at the demand side so as to help the unemployed to gain access to their jobs. It requires the government to have a multi-dimensional analysis not simply on the macro flow of workers, but also enterprise behaviour and working conditions of workers so that a more comprehensive policy can be made to handle the problem of unemployment.

The passive policy orientation of “let the market works”, together with pain-relieving short-term measures, characterises the policy strategy of unemployment. In answering the question of policy comprehensiveness, all of the policy makers (including government official) shared the view that there was a lack of comprehensive policy, and the major debate was on the causes that lead to the piecemeal responses on unemployment. The government relegated the problem to economic conditions external to Hong Kong, while other policy makers believed that ideological straitjacket, coupled with economic insensitivity and bureaucratic inertia, made the government less enthusiastic in handling the problem of unemployment.

The Task Force on Employment, as perceived by policy makers, was not very useful. The Task Force, taking up a problem-solving approach for targeted groups of unemployed, worked on piecemeal solutions. As members of the Task Force came from different sectors, it lacked a labour-focused policy identity, thus it was unable to form a coherent and comprehensive approach in solving the multi-dimensional problems of unemployment, e.g. employment durations, working hours and wages. Unionists and labour-oriented legislators criticized that, without a labour-focused policy identity, there was virtually no principal policy concern. Furthermore, the consultative function of the Task Force also denied it the opportunities of agenda setting in the making of comprehensive policies on unemployment.

In January 2004, the Economic and Employment Council (EEC) came into being, and the Task Force was integrated with investment and business promotion policies. Such integration was noteworthy, because it signified that there was a shift of principal policy and the government began to pay more concern to the demand side of employment, whereas in the past few years the supply side was emphasized. It seemed that job creation through market expansion has become the principal policy of unemployment, supplemented by quality upgrading of workers under training and retraining. However, whether the government has the political will and economic strength to maintain such policy change is a question remains to be answered.

## CHAPTER 6

### SUMMARY AND RECOMMENDATIONS

#### *6.1. Introduction*

The present study aims at studying how policy makers in Hong Kong interpret the problem of unemployment in the present economic conditions of the SAR. It begins by providing a framework of analysis, demarcating different types of unemployment and relevant policy strategies. Afterwards, the overall employment conditions and policy strategies in Hong Kong are also studied. The final part provides the interpretations of policy makers on the causes of unemployment, whether the government has a comprehensive policy strategy, and also whether policies are coordinated under the Task Force on Employment.

#### *6.2. Summary of the Study*

At a start, the research classified unemployment into four categories: classical unemployment, frictional unemployment, business cycle unemployment and structural unemployment. Each category is related with a major cause, leading to the making of a principal policy orientation. Classical unemployment deals with distortion of price level, frictional unemployment relates with job matching, business cycle requires stimulation of effective demand, and structural unemployment involves the use of active labour market policies. It is observed that the problem of unemployment in Hong Kong is multi-dimensional, and problems are intermingled together. Therefore, it is argued that an integrated and comprehensive policy approach is needed, and policy makers have to be alert to the multi-dimensionality of the problem of unemployment, and design its policies in relation to the complexity of the problem involved.

The conditions of unemployment in Hong Kong are explored. Classical unemployment is not significant, as there are very few mechanisms that distort the wage levels of workers in the private sector, and there are very few contributory social insurance programmes that impose direct financial burdens on employers. The problems of wage and employment inelasticity do not arise from institutional rigidity, but from a huge and cheap labour market across the border. The major causes affecting unemployment in Hong Kong is with the



performance of the economy, as well as capital shift and changes in industrial structures. The two causes accumulate together and create unfavourable conditions against two major cohorts: youths with low skills level and older workers with low education level. The education hierarchy crowds out the low skill youths, and industrial shifts narrow down job opportunities for older workers. Active labour market policies and job creation policies are needed as antidotes to alleviate the problems of these two major cohorts of unemployment in Hong Kong.

Other than the conventional analysis of structural unemployment, the research also explores into the demand side by looking at the worries of workers in their jobs. It is found that business contraction and corporate downsizing are two major concerns in unemployment. Corporate behaviour during economic depression, particularly restructuring behaviour, leads to a wide impact on unemployment other than special cohorts, e.g. managers, clerks, service workers, plant and machine operators, crafts workers and elementary occupations. Besides the problem of unemployment, workers are also worried about heavier workload, salary cuts and longer working hours in their work. The demand side is also active in raising the intensity of work, thus further aggravating the problem of unemployment.

Unemployment policies in Hong Kong are also examined. It is recognised that the Hong Kong government has carried out many policy initiatives to tackle the problem of unemployment, and it is unfair to say that the government is unconcerned. Other than the conventional job placement programmes, the government has taken up job creation policies and re-training policies to curb the unemployment problem. However, the job creation policies merely serve as alleviating measures rather than stimulating entrepreneurship, thus their effects are limited and less sustainable in the long run. The training programmes have moved from syllabus-oriented approach towards tailor-made programmes for employers as well as student-oriented in-service training. There is a need to investigate into the form of training so as to further enhance the effectiveness of training programmes on unemployment.

The findings of interviewing policy makers reveal that they were more concerned with the demand side, rather than the supply side, of unemployment. It is pertinent to note that policy makers were not blind to the multi-facet problems of unemployment, and they pointed to the various causes – the performance of the economy; industrial performance; labour market elasticity in terms of employment duration, working hours and wage levels; and the quality of labour – and raised questions for the need of a comprehensive policy, or a package of policies for employment.

Although policy makers generally agreed that there was a lack of comprehensive policy in Hong Kong, they still acknowledged the usefulness of short-term palliative measures to alleviate the problem of unemployment that were made by the government. They knew that, if the short-term measures were lacking, the problem would have gone worse. However, many of them were still dissatisfied with such immediate pain-relieving measures without any long-term commitment to the betterment of labour in the new economy.

The Task Force on Employment, functioning as a problem-solving think tank, was of limited significance in alleviating the problem of unemployment. The targeted measures achieved piecemeal effects, and policy makers considered that it only focused on unemployment *per se* while neglecting a labour focus, thus it was very hard to form a package of policies addressing the multi-dimensional problems of unemployment.

All in all, policy makers were aware of the multi-dimensional aspects of unemployment in the new economy, and they were sensitive not simply to the macro economic conditions but also to the behaviour of enterprises. However, most of the policy makers only had a blurred and vague understanding of the impact of downsizing and reengineering, “doing more with less” with added values, outsourcing, demands for flexible specialization, etc. on the provision of jobs. Thus, they could only address the problem by raising questions rather than proposing recommendations for change.

### **6.3. Recommendations**

The present study is a study at the policy making level, about how policy makers interpret the problem of unemployment in the context of socio-political and socio-economic changes, the basic considerations involved, their responses to the problem, and also the design of policy strategies and institutional arrangements to execute such strategy. It aims at revealing and understanding the set of questions asked by policy makers themselves, so that we can put all these questions under a comprehensive framework and provide an overall policy direction in solving the problem of unemployment. Since it is an interpretive study focusing on understanding rather than problem solving, it is premature for this study to make recommendations on concrete policies for employment.

However, if we take a glance over documents in international literature on unemployment, it is noteworthy to find that there are many comprehensive reports on unemployment conducted by Asian countries in collaboration with international bodies like

International Labour Office, OECD, and the World Bank<sup>24</sup>. The active participation of many Asian countries in seeking international support through research and experience sharing help them to develop a full range of policies on unemployment. In Hong Kong, there is a dearth of literature, especially on the use of effective policy strategies to tackle the problem. It is recommended that the government shall take up active collaboration with international bodies to seek for solutions in tackling the problem of unemployment.

The second recommendation is the need for a Policy Paper on Employment. Technological displacement, industrial shift and new forms of corporate behaviour are affecting the healthy operation of the labour market, and it is leading to social and economic polarisation. The problem of “no-job growth” has often appeared in the policy agenda of many other governments, and Hong Kong is no exception. Our government has the responsibility to look into the seriousness of the problem, study and understand more thoroughly the multi-dimensional labour problems arising from the advent of the new economy, consult employers, employees and the general public, and devise social and economic policies to provide short-term and long-term solutions in unemployment.

The third recommendation is that the new Economic and Employment Council (EEC) has to take up an active role to shape the development of employment policies. The previous Task Force on Employment has been highly criticised by its members, particularly from the labour sector, and their criticisms pointed to the lack of a labour-focus in the discussion of unemployment policies. Unemployment is not simply a problem of supply and demand of labour, it is also closely related with the living standards and working conditions of labour, and the EEC has an undeniable responsibility to maintain a “labour-focus” perspective in the making of unemployment policies.

We need the help of international bodies and participation of the public to devise a comprehensive policy on unemployment. We need the EEC to look into the effects of market expansion in the creation of jobs for the unemployed. Without the active participation of the abovementioned three parties, the problem of unemployment will persist and aggravate, and it is a scenario in which no one would like to perceive in the Hong Kong SAR.

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<sup>24</sup> Hanam S. Phang (1999) Employment Policies in Korea after the Crisis, Ministry of Labour, Republic of Korea; Jude Esguerra, Arsenio Balisacan & Nieves Confessor (1999) World Bank Report: Philippine Case Study, Institute of labour Studies, the Bureau of Labour and Employment Statistics; Moazam Mahmood & Gosah Aryah (1999) An Appraisal of the Labour Market and Policy in the Context of the Macroeconomy – Growth, crisis and competitiveness in Thailand, Country Report for Thailand: World Bank/ILO/JMOL/JIL Seminar on the Economic Crisis in Employment and Labour Markets in East and South-east Asia; World Bank (1996) Indonesia: Dimensions of Growth, World Bank.

## 《處理失業問題政策調查》訪問內容

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### 1. 政策理念及適切性

- 1.1 你認為導致近年失業率持續高企的成因是什麼？有些人認為香港有不同類別的成因，如(1) 結構性失業、(2) 經濟下調 (3)企業瘦身減肥。你認為那個是主因？其他因素又有什麼影響力？它們各佔多少比重？影响的範圍有多大？
- 1.2 在過去數年間，政府釐訂了不少相關的政策及措施來處理及應付失業問題，它們能否對症下藥，針對導致失業的成因，來紓緩或解決失業問題？若果未能對症下藥，你覺得是什麼原因引致目前的情況？是方向及設計上的錯誤？是政策連貫性的問題？還是政策力度的不足？

### 2. 政策的全面性、連貫性及聯繫

- 2.1 你認為現時特區政府處理失業問題的政策是否已經相當全面？政策與政策之間是否連貫及協調？有沒有漏洞及重疊之處？
- 2.2 你認為現時政府有沒有清晰的策略性重點（例如訂定先後緩急目標，資源安排的優先次序等）處理失業問題？政府如何因應不同類型的失業問題，採取策略性的介入，來達致更佳的政策成效？例如兩大失業組群：青少年及中老年人，政策的介入策略是否適當？
- 2.3 你認為各部門的政策及服務是否有效地協調？現時勞工署、僱員再培訓局及社會福利署分別提供多項針對失業人士的服務，它們之間有沒有經常性的溝通協調？若否，成因何在？可以如何改善政策上的協調？
- 2.4 你如何評價就業專責小組的過往工作及對其工作有何期望？

### 3. 對個別政策範疇的意見：

- 3.1 創造就業職位：政府是否應該，或是否有能力，去繼續擴展這方面的工作？如果是的話，它應該如何推行？
- 3.2 教育及再培訓：政府強調這是一個重要的就業策略，你贊成嗎？有些人認為目前勞動市場的需求與供應脫節，教育及培訓只能起到長期整體性的成效，必須與其他短期策略配合，你是否贊成這一觀點？如果你贊成的話，有那些短期性的措施需要加強力度？
- 3.3 社會保障：現時的政策是加強就業支援服務，協助領取綜合社會保障援助計劃（綜援）的失業人士，儘快脫離綜援網。有些人認為這只會製造大量的「就職貧窮者」，你如何評價是項政策？

- 完 -

**List of Employment Related Programmes provided/funded by  
Labour department, Employees Retraining Board  
and Social Welfare Department**

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The Labour Department (under Economic Development and Labour Bureau), Employees Retraining Board (under Education and Manpower Bureau) and Social Welfare Department (under Health, Welfare and Food Bureau) provide employment related programmes to the unemployed. The services include job referrals, job counseling, retraining and assistance on self-employment programmes etc. This paper lists out the current programmes.

## ***1. Labour Department***

### **1.1 Services provided / funded:**

- Job Centres 就業中心
- Interactive Employment Service 互動就業服務
- Employment Programme for the Middle-aged 中年就業計劃
- Young Pre-employment Training Programme 展翅計劃 – 青少年職前綜合培訓
- Youth Work Experience and Training Scheme 青少年見習就業計劃
- Youth Self-employment Support Scheme 青少年自僱支援計劃
- Graduate Employment Training Scheme 大學生就業培訓計劃
- Selective Placement Service 展能就業服務

## ***2. Employees Retraining Board***

### **2.1 Services provided / funded:**

#### **2.1.1 For Employers**

- Job Referral Service for Employers 就業轉介服務
- Tailor-made Programme for Employers 為僱主提供的度身訂造再培訓課程
- Integrated Scheme for Local Domestic Helper 家務通計劃

#### **2.1.2 For Employees**

- Retraining Courses 再培訓課程
- Placement Service for Retrainees 為學員提供之就業服務
- Retraining Resource Centres 再培訓資源中心

### **3. *Social Welfare Department***

- Support for Self-reliance Scheme 自力更生支援計劃
  - : Active Employment Assistance Programme 積極就業援助計劃
  - : Community Work 社區工作
- Intensive Employment Assistance Projects 深入就業援助計劃





Policy Research & Advocacy, The Hong Kong Council of Social Service

*A Comprehensive Jobs Strategy? An **Exploratory** Study on Policies Tackling Unemployment in Hong Kong*

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