



The Hong Kong Management Association  
Advancing Management Excellence

# A Study of Trends and Challenges Facing Hong Kong



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## **I. ABOUT THE HONG KONG MANAGEMENT ASSOCIATION**

Established in 1960, The Hong Kong Management Association (the Association) is an apolitical and non-profit-making organization with the vision to be the leading professional organization advancing management excellence in Hong Kong and the Region.

### **Vision**

To be the leading professional organization advancing management excellence in Hong Kong and the Region

### **Mission**

- To promote best practices in management
- To nurture human capital through management education and training at all levels
- To provide members with a platform for exchange of ideas, networking and personal development

### **Values**

- Continuous improvement  
We embrace best practices through continuous improvement.
- Innovation  
We welcome new ideas, seek out new skills and capabilities, and explore new concepts.
- Integrity  
We are open, honest and forthright in our dealings.
- Professionalism  
We strive for excellence in all we do.
- Respect for Individuals  
We built relationships based on trust and respect.
- Sustainability  
We integrate sustainability into all aspects of our operations and business practices.

Services provided by the HKMA can be categorized into three major areas, namely education and training; management services and membership services.

With a commitment to nurturing human capital through management education and training at all levels, the HKMA offers over 2,000 training and education programmes covering a wide range of management disciplines for more than 50,000 executives every year. From distance learning courses, seminars and workshops, certificates, diplomas, all the way to bachelor, master and doctorate degree programmes in conjunction with prestigious overseas universities, these programmes are suitable for executives at different stages of development. The HKMA also provides specially designed in-house training which geared to the particular needs of different organizations. In 2009, the Association introduced the concept of Corporate University, which helps companies retain quality staff and build a corporate culture of lifelong learning.

The Association believes learning while networking works best for achieving continuous development. Diversified management services are offered to provide platforms for business executives to exchange ideas, to network and to gain professional development. Annually, the Association organizes diverse functions such as Annual Conference, Theme Year Seminars and Activities and Dinners. Prominent business leaders are invited to share their invaluable insights and wisdom on the most updated trends and development of management.

Business award is another major area of HKMA's management services. To promote best practices in management, each year, the Association organizes eight business awards in Hong Kong and the Mainland. These include the Best Annual Reports Awards, the HKMA Quality Award, the Award for Excellence in Training and Development, the HKMA/TVB Awards for Marketing Excellence, the Hong Kong Management Game, the Distinguished Salesperson Award, the Award for China marketing Excellence and the China Best Annual Reports Awards for Listed Companies. These prestigious awards, which are now regarded as the highest accolades of the business community, provide an exemplary model for business professionals to follow and benchmark.

With a total of over 13,000 members including individuals and corporates, membership service has always been a priority for the Association. A comprehensive range of membership activities such as seminars, forums, luncheons, company visits, study tours and social gatherings are offered every year. Another distinctive feature of membership is the eight autonomous specialist clubs which provide opportunities for members with similar interests to meet and develop further their specialist knowledge. The highlight event of membership is the Annual Fellowship Dinner which provides an excellent platform for members to extend their network.

## **II. TRENDS AND KEY CHALLENGES FACING HONG KONG IN 2015**

Every year, the Association takes a critical look at the economic, social and political factors affecting Hong Kong. This study takes into account suggestions from various members of Council and Management Committees, together with research findings. The following were trends and challenges facing Hong Kong in 2015.

### **1. ECONOMIC FACTORS**

#### World Economy

The world economy sees lower annual growth with risks to global economic activity tilted to the downside.<sup>1</sup> The projected global growth for 2015 has been adjusted downwardly in July 2015 to 3.3%, 0.2 percentage point lower than the estimate in April 2015.<sup>2</sup> Despite a gradual pickup in advanced economies, there is a slowdown in emerging market and developing economies. Near-term risks include increased financial market volatility and disruptive asset price shifts, while lower potential output growth remains an important medium-term risk in both advanced and emerging market economies.<sup>3</sup>

#### **European Economies**

To revive economic growth and ward off deflation, the European Central Bank (ECB) launched a government bond-buying programme to buy 60 billion euros every month from March 2015 to September 2016, totaling at least 1.1 trillion euros.<sup>4</sup> With this quantitative easing measure in place, the euro area economy has managed to recover but the pace is slow. Its gross domestic product (GDP) grew by 0.3% in the third quarter of 2015, which decelerated from 0.4% in the second quarter and 0.5% in the first quarter.<sup>5</sup> Among the four largest economies in the euro area, the growth of Germany, Italy and Spain continued to slow. As the biggest economy, Germany recorded a 0.3% growth in the third quarter which had slackened from 0.4% in the previous quarter. Growth in Italy and Spain, the third and fourth-biggest economies, slipped from 0.3% and 1% in the third quarter to 0.2% and 0.8% in the second quarter respectively. In contrast, France managed to grow by 0.3% in the third quarter despite a zero growth in the previous quarter.<sup>6</sup>

For the euro area, the unemployment rate was 10.7% in October 2015 which was the lowest rate since January 2012.<sup>7</sup> Manufacturing activities contracted with the manufacturing purchasing managers' index down to 49.6 in November 2015, the lowest since 2012, from 49.8 in October.<sup>8</sup> Retail sales were generally improving. Although there was a slight decrease of 0.1% in September 2015, the year-on-year figure was a growth of 2.9%.<sup>9</sup> Core inflation in the euro area recorded an unexpected climb to 1.1% in October 2015, the highest since August 2013.<sup>10</sup> However, President of ECB pointed out that signs of a sustained turnaround in core inflation had somewhat weakened.<sup>11</sup> ECB believed that it would still take long to achieve its target of 2% and signaled additional easing to boost the euro area's recovery.<sup>12</sup>

The Greek debt crisis re-emerged in the second quarter of 2015. In June 2015, ECB ended emergency funding for Greece, and the country closed banks and imposed capital controls.<sup>13</sup> After the rejection on bailout terms in referendum by the European Union, Greece and the rest of the eurozone had finally reached an agreement on 13 July 2015, which could lead to a third bailout of 86 billion euro on the condition that Greece would implement new austerity measures and economic reforms, as well as without agreeing any write-off of Greek debt.<sup>14</sup> The country has so far received 13 billion euro under the third programme.<sup>15</sup> Looking ahead, owing to its oversized debt, there is still uncertainty over Greece's position in the eurozone which will cloud the economic outlook and stunt consumer spending and foreign investment.<sup>16</sup>

Requiring much immediate attention from European heads of government is the huge influx of refugees with the majority coming from Syria. While around 9 million of Syrians have fled to neighbouring countries or within Syria itself since the outbreak of civil war in March 2011<sup>17</sup>, a significant and growing number of Syrians is now seeking to settle in Europe, with the threat posed by the terror group Islamic State (ISIS) emerged as one of the main push factors<sup>18</sup>. More than 750,000 migrants are estimated to have arrived by sea so far in 2015, and over 700,000 of them have claimed asylum.<sup>19</sup> To address the huge influx of refugees, the European Union approved a plan in September 2015 to relocate 160,000 of them across the region.<sup>20</sup>

Not only has the refugee crisis raised concerns of extra financial burden and logistical challenges for the destination countries<sup>21</sup>, but also national security problem. In the evening of 13 November 2015, a series of coordinated terrorist attacks were launched in Paris and its northern suburb, of which ISIS later claimed responsibility. Suicide bombing and mass shootings were found in five locations in Paris, killing 129 victims and injuring more than 350.<sup>22</sup> The terror group claimed that thousands of gunmen had been smuggled into Europe and the undercover infiltration was only the beginning of a larger plot to carry out revenge attacks in the West in retaliation for the US-led coalition airstrikes.<sup>23</sup>

## **US Economy**

The US Economy has continued to recover with a fairly good momentum. It saw an economic expansion of 2.1% in its GDP in the third quarter of 2015.<sup>24</sup> The job market continued to improve with the unemployment rate falling to 5% in October 2015, reaching the lowest level in seven years.<sup>25</sup> Consumer spending, accounting for two-third of US's economic activity, edged up 0.1% in October 2015 after a similar increase in the previous month. It slowed from the third quarter's brisk pace but had continued to improve.<sup>26</sup> In general, manufacturing activities were on a downward trend from March 2015 onwards. The manufacturing purchasing managers' index came in at 52.8 in November 2015, the lowest figure in the last 25 months.<sup>27</sup> Housing starts and building permits continued to surge but with a slower pace when compared to the previous quarter, recording a year-on-year increase of 11% and 4.1% respectively in October 2015.<sup>28</sup>

The Federal Reserve has been maintaining a near-zero interest rate since the financial crisis in 2008.<sup>29</sup> Amid gradual improvement in the US economy, the Federal Reserve raised its target for the Federal Funds Rate by 0.25 percentage points on 16 December 2015. The process of raising interest rates was likely to proceed gradually.<sup>30</sup> To some developing and emerging countries, the rising US interest rates could mean higher debt repayments. In contrast, the stronger dollar which has followed the rise may be good for European and Asian economies as exports to America may be cheaper.<sup>31</sup>

## **China Economy**

China's third-quarter GDP expanded 6.9% year-on-year, dropping slightly from its target of 7% in the first and second quarters of 2015.<sup>32</sup> Despite an overall growth, total trade slumped in the first three months of 2015 by a year-on-year decrease of 7.9%. The total value of exports dropped by 1.8%; and that of imports was down by 15.1%.<sup>33</sup>

In mid-June 2015, the Mainland's stock market crashed by nearly a third.<sup>34</sup> In spite of a growing economy, it was believed that the burst was overdue as trade rules had become relaxed, allowing investors to buy shares with more borrowed money and open multiple accounts.<sup>35</sup> Not long after the drastic plunge, the stock market rebounded due to several countermeasures by Chinese government including an interest rate cut, curbing Initial Public Offerings, loosening margin requirements etc.<sup>36</sup> Some warned that this crash was indeed a sign of an unsustainable economy and financial markets in China and debt-fueled bubbles in the long run.<sup>37</sup>

The high indebtedness of China is another alarming issue. The country's corporate and local government debt totals a 280% of its GDP.<sup>38</sup> Outstanding loans for companies and households stood at a record of 207% of gross domestic product at the end of June 2015, nearly a double of the 125% level in 2008.<sup>39</sup> The corporate sector of China is among the most indebted in the world.<sup>40</sup> Non-performing loans climbed by a record 140 billion yuan in the first quarter of 2015.<sup>41</sup> China's central bank has recently pushed forward stimulus to reduce financing costs for local government authorities including four rate cuts, three reserve ratio-requirement reductions and implementing debt-swap facilities. However, these will encourage more debt to be taken on and potentially increase risks of instability in the financial system of China.<sup>42</sup> The growing debt burden is creating amplified financial risks but the fallout of any potential debt crisis might be limited by the Chinese government's effective ownership and control of the nation's banks, and the fact that China's economy remains relatively closed off.<sup>43</sup>

The Communist Party of China proposed the 13<sup>th</sup> Five-Year Plan, China's development blueprint for the next five years from 2016 to 2020, on 29 October 2015. The plan sets a target of "maintaining a medium-high speed of growth" which aims to double its 2010 GDP and per capita income by 2020.<sup>44</sup> It highlights the ideas of innovation, coordination, green development, opening up and sharing in the fulfillment of its goals.<sup>45</sup> Most economists expected that the five-year growth target would be around 6.5% which was the minimum to meet the Party's goal of the country's economic expansion. The details of the plan will be unveiled at the National People's Congress in March 2016.<sup>46</sup>

## **Hong Kong Economy**

Hong Kong's economic growth slowed to 2.3% year-on-year in the third quarter of 2015, from 2.8% in the second quarter. The growth slowdown was part of a region-wide phenomenon amid a lacklustre global economy. The domestic segment was relatively stable with expansion at a slower pace. Total exports of goods contracted for the second consecutive quarter, down by 3.2% year-on-year. Exports of services slackened again to a decline, falling by 1.3% in the third quarter over a year earlier.<sup>47</sup> Although the purchasing managers' index rose to 46.6 in October 2015 from 45.7 in September 2015, the below-50 figure pointed to continuing weakness in operating conditions in private sector.<sup>48</sup>

The labour market was broadly stable during the quarter. The seasonally adjusted unemployment rate stayed at a low level of 3.3% in the third quarter, only marginally up from 3.2% in the second quarter.<sup>49</sup> Growth in private consumption expenditure accelerated to 5.2% year-on-year in the first three quarters of 2015.<sup>50</sup> Home sales sank in November 2015 to a record low as an imminent interest rate in the US in December 2015 had scared away prospective buyers.<sup>51</sup> Registered residential transactions dropped by 14.4% in November 2015 and 41.7% year-on-year. In terms of value, the transactions decreased by 7.7% in the same month.<sup>52</sup>

Looking ahead, some warn that Hong Kong economy will begin to slow even though moderate growth has been recorded in 2015. Imports and exports, which make up nearly 20% of the city's GDP, might continue to contract due to the broad slowdown in China. Travel-related sectors in Hong Kong, from retail to tourism services, have been hit hard as the Mainland travelers have shifted to places such as Europe and Japan, and when they contract, unemployment could rise.<sup>53</sup>

## China to Move to a Next Level of Integration with the World

As a major international financial centre, Hong Kong is well-known for offering diversified financial products and services with a high level of liquidity to both local and international investors through its integrated network of institutions and markets. This advantage is not only important to Hong Kong, but also to the Mainland which has been gradually undergoing steady financial modernization and liberalization. To capitalize on this dual identity, several initiatives have been launched or recommended for both to leverage the advantages and promote financial diversification.

Launched in November 2014, the pilot programme Shanghai-Hong Kong (SH-HK) Stock Connect enables the Stock Exchange of Hong Kong Limited and Shanghai Stock Exchange to establish mutual order-routing connectivity and trading links, enabling investors to trade shares listed on the other's market.<sup>54</sup> The link allows around 23.5 billion yuan of daily cross-border purchases.<sup>55</sup> Since its inception, northbound transactions reached 1.54 trillion yuan, equivalent to around US\$241.2 billion while southbound transactions amounting to HK\$742 billion. The SH-HK Stock Connect is considered a success in creating mutual benefits between Hong Kong and the Mainland. It has enhanced Hong Kong's role as a connector on the financial front and raising the global profile of Hong Kong as the financial center.<sup>56</sup> Through this connector, the Mainland has reached out to more international investors, who have also gained easier access to invest in the world's second largest economy without having to tap into their Qualified Foreign Institutional Investor quotas.<sup>57</sup> There are plans to expand the SH-HK Stock Connect when the Shenzhen-Hong Kong Stock Connect is launched. The expansion may cover the scope of qualified stocks and the investment quotas, and involve technical enhancements.<sup>58</sup>

The Shenzhen-Hong Kong (SZ-HK) Stock Connect, being taken forward subsequent to the launch of the SH-HK Stock Connect, serves the same purpose to opening up the Mainland's capital market to the world. It is anticipated to allow for an additional US\$2.6 trillion in market cap value for investment.<sup>59</sup> Initially expected to be launched by the end of 2015, the Mainland's stock market turmoil in mid 2015 had caused a delay to the launch of the scheme.<sup>60</sup> Government announced on 10 December 2015 that preparatory works for the launch had been completed, and trial runs lasting for three to four months would be required after an approval was granted by the Central Government.<sup>61</sup>

Compared to Shanghai where the market is dominated by traditional and larger enterprises, the Shenzhen Stock Exchange is dominated by younger and higher-growth enterprises. Some investors worry that the tie-up with the Shenzhen market may add volatility in Hong Kong.<sup>62</sup> However, some believe that companies listed on Shenzhen's market are a good representation of China's growth pathway in the long run. If the new Shenzhen and Hong Kong stock market tie-up offers a separate new quota set at a higher level than the other cross-border schemes, mainland investors who do business exclusively in the Shenzhen stock market will be attracted by the scheme.

Apart from creating a feasible, controllable and expandable channel for mutual market access between the Mainland and Hong Kong, the Stock Connect initiatives have paved the way for gradual and steady Renminbi (RMB) internationalization.<sup>63</sup> The RMB internationalization had been on the Central Government's agenda since late 2000. It was accelerated in 2009 when dim sum bond market was established and Cross-Border Trade RMB Settlement Pilot Project was expanded, establishing pools of offshore RMB liquidity.<sup>64</sup> In December 2013, the RMB overtook the euro to become the second most-used currency in global trade finance after the US dollar. As of February 2014, the RMB was the seventh most-used currency for payments worldwide.<sup>65</sup>

As a major step in Central Government's push to internationalize its currency, the RMB will be included in the reserve currency basket of the International Monetary Fund (IMF) from late 2016 onwards. It will make up about 11% of the basket that defines the value of IMF special drawing rights, a type of reserve asset that makes up a small but symbolic portion of overall currency reserves.<sup>66</sup> IMF's decision is expected to increase demand for the currency, and an US\$2 trillion flow into the RMB assets over the next 10 years as the currency takes on a larger international role.<sup>67</sup>

Despite the above significant progresses made, the journey of RMB internationalization could be bumpy as the Central Government still maintain control of the currency. The RMB experienced depreciation of a cumulative drop of 4.4% against the US dollar in August 2015.<sup>68</sup> Since then, the currency had kept drifting lower, with some cited the strong US dollar and weaker Chinese economic data as the main reasons behind the weak RMB.<sup>69</sup> While internationalization of currency refers to allowing for free capital flow, the Central Bank stated that it would continue to intervene in currency markets to prevent excessive fluctuations so as to keep the RMB stable at a reasonable and equilibrium level.<sup>70</sup>



Serving as the world's largest offshore RMB business hub with the world's largest offshore pool of RMB liquidity and the development of RMB bonds, loans and equity products, Hong Kong will benefit from the currency internationalization in the long run. To consolidate the city's status as a premier asset management hub in the Asia-Pacific region, Government earmarked HK\$100 million to implement a three-year pilot scheme to enhance manpower training in the industry in the 2016 Policy Address.<sup>71</sup>

Even though the development of the Mainland's financial market is growing rapidly and becoming more mature, Hong Kong, whose high degree of liquidity, efficient operations under effective and transparent regulations, compliance with international standards are not easily replaceable, and will continue to play an important role in the entire liberalization journey of China's financial market.

### Need for a Balanced Mix of Visitors and Diversified Development of Tourism

From January to October 2015, there was a mere drop of 0.8% in visitor arrivals as compared to the figure during the same period of 2014.<sup>72</sup> Out of the 49.5 million of arrivals during this period of 2015, 78% of them were from the Mainland which continued to be the leading source market. In fact, there was a drop of 0.2% in arrivals from the Mainland for this period in 2015<sup>73</sup> in comparison to a sharp growth of 15.5% in the year earlier,<sup>74</sup> suggesting a declining growth in Mainland visitor arrivals. Excluding those from the Mainland, visitor arrivals from other countries recorded a decline of 3.4%.<sup>75</sup>

During this period, short-hauls arrivals to Hong Kong registered a decrease of 2.7%. Overnight arrivals from Indonesia and Singapore dropped most significant with 15.9% and 14.1% respectively, followed by a decrease of 9% from Malaysia and 4.4% from Japan. In contrast, the Philippines and South Korea saw a growth of 8.4% and 1.6% respectively.<sup>76</sup> As regards long-haul markets, there was a drop of 1.6%. A sharp decrease of 7.9% and 5.6% was observed in overnight visitor arrivals from Australia and Germany respectively. Canada and the UK saw a slight drop of 0.6% and 0.1% respectively. Growth was only seen in overnight visitor arrivals from the US with 3.3%. New markets also registered an overall decline of 5.7% with a most significant decrease in Russia but an up in India and Vietnam.<sup>77</sup>

Retail business has been dragged by the continued slowdown of inbound tourism. For the first 10 months of 2015, the value of total retail sales decreased by 2.7% compared with the same period in 2014. Total retail sales in volume increased by 1.1% over the same period in 2014. The category of "Jewellery, watches and clocks, and valuable gifts" recorded the highest drop in both sales value and volume of 14.9% and 11.3% during this period.<sup>78</sup> The notable drop in sales of luxury products is widely regarded as a result of the recent sharp drop of Mainland visitors, especially the high-spending visitors.<sup>79</sup>

The city is losing appeal to Mainland visitors. While there had long been tensions sparked by cultural and linguistic differences between Hong Kong and the Mainland, the anti-mainlander sentiment grew intense in the past year and was expressed in a number of protests.<sup>80</sup> Many visitors from across the border regarded the series of incidents as a source of discouragement for visiting Hong Kong.<sup>81</sup> At the same time, due to weakened currencies and relaxed visa rules, they were lured to other countries such as Japan, South Korea and Thailand.<sup>82</sup>

The dwindling number of Mainland visitors was also a result of an adjustment to the multiple-entry individual visit policy. The launch of the Individual Visitor Scheme in 2003, through which Mainland residents were eligible to apply to visit Hong Kong in their individual capacity, had brought the city with a great number of arrivals from the Mainland.<sup>83</sup> The huge influx of visitors had led to problems of receiving capacity and parallel trading activities. Therefore, the multiple-entry individual visit endorsements for permanent Shenzhen residents was replaced with a one-trip-per-week cap in April 2015.<sup>84</sup> Under the new policy, Shenzhen residents who hold multiple-entry permits can only visit Hong Kong once a week instead of without limit. While the policy was expected to reduce the number of visitors by about 30%, or 4.6 million a year,<sup>85</sup> its level of impact on retail business had yet to be assessed as it was a measure intended to restrain parallel trades from reselling goods to the border.<sup>86</sup>

At home, the Chinese Government has been trying to attract local spending to boost its domestic consumption. In June 2015, tariffs were reduced on a number of imported consumer goods, including shoes and boots, cosmetics, and disposable paper diapers, at a rate averaging 50%.<sup>87</sup> From January 2016 onwards, import taxes on consumer goods from clothing and sunglasses to bags and blankets will be lowered.<sup>88</sup> As foreign-made daily necessities and luxury products are popular with Mainlanders, the cuts are aimed to encourage shoppers to make such purchases locally.<sup>89</sup> The reduction in tariffs may hit Hong Kong's retail sector harder as the price gap between the two markets is expected to become narrower.<sup>90</sup>

As a measure to relieve pressure on towns in the northern New Territories, which have been facing a massive influx of Mainland visitors including tourists and parallel traders, a pop-up shopping complex near the border with Shenzhen was proposed, which would operate for about three years before turning into a permanent mall.<sup>91</sup> The proposed complex would include 208 stores, selling goods designed or manufactured in Hong Kong ranging from electronic appliances to apparel, and attract some 8,000 visitors daily on weekdays and 12,000 on weekends. It was hoped that the complex could capture businesses during the National Day holidays in October 2015, but labour shortage and construction problems had delayed the opening of the shopping complex, which according to the latest estimation, would not be ready until February 2016.<sup>92</sup>

Overall, the outlook for retail sales is expected to still be constrained by the lacklustre performance of inbound tourism.<sup>93</sup> As retail industry relies much on tourism, it is important to maintain a healthy and sustainable development of the tourism industry in Hong Kong. It should reduce its reliance on Mainland visitors and create a balanced mix of visitors.<sup>94</sup> In order to attract visitors from all over the world, the city should enhance its commercial facilities and tourists attractions.

Crowned as the "Best Business City in the World" at the 2014 Business Traveller Asia-Pacific Travel Awards, and named the "Best City for Business Events" in the 2015 CEI Industry Survey organised by the prominent Meetings, Incentives, Conferences, and Events (MICE) publication CEI Asia magazine, there is huge potential for Hong Kong to develop itself into a premier convention and exhibition centre in the region.<sup>95</sup> In 2014, overnight MICE arrivals recorded a sharp growth of 11.1% in comparison with 1.8% in 2013. Among major countries worldwide, arrivals from the Mainland and Taiwan saw an increase of 19.6% and 28.7% respectively. In view of the growing demand of MICE services, Government has commissioned a consultancy study to assess the future demand for convention and exhibition facilities in Hong Kong. In addition to the existing MICE facilities of Hong Kong Convention and Exhibition Centre and the AsiaWorld-Expo, it will consider constructing a new convention centre above the Exhibition Station of the Sha Tin to Central Link in around 2020.<sup>96</sup>

On new tourist attractions and facilities, the Lantau Development Advisory Committee is undertaking a feasibility study of future development of recreation and tourism on Lantau Island. An initial identification is wellness travel which is an area yet to be untapped in Hong Kong. It refers to healthy living, rejuvenation and relaxation, and disease prevention and management etc. In 2013, the city was ranked as 10<sup>th</sup> in world for domestic wellness spending, with the Mainland as 18<sup>th</sup> and Singapore as 17<sup>th</sup>. The wealth of temples on the Island may serve as basis for retreats, or wellness-focused herbal or botanical gardens. Other identifications include outdoor adventure, ecological and experiential travel.<sup>97</sup> Also, a feasibility study of extending the existing cable car at Ngong Ping on Lantau Island to Tai O, the Western coast of the Island commenced in 2014. However, there have been concerns over the infrastructure and facilities to receive the increased capacity in Tai O, as well as the impact on heritage and the natural environment. The study is expected to complete in 2016.<sup>98</sup>

The two existing theme parks, Ocean Park and Hong Kong Disneyland, are two key attractions in Hong Kong. Both of them have embarked on expansion plans which will bring new facilities and experience to visitors. The Ocean Park had the construction of its new initiative, the Tai Shue Wan Waterpark, commenced in 2015. It will be the first indoor cum outdoor all-weather waterpark built next to the sea in Southeast Asia, hosting some 1.5 million visitors a year. The Waterpark is anticipated to open in July 2018, delaying from its original target of mid 2017.<sup>99</sup> Construction work of its first hotel, Ocean Hotel, has also commenced.<sup>100</sup> Slated to open in 2017, it will provide convenient accommodations enabling guests to spend multiple days at the Park.<sup>101</sup> As regards the Hong Kong Disneyland, a new Marvel-themed Iron Man Experience will open in late 2016 as scheduled.<sup>102</sup> In addition, building work of its third hotel, Explorers Lodge, commenced in early 2015, which will boost accommodation supply by 75%. It is expected that the hotel will open its doors to visitors by early 2017.<sup>103</sup> Alongside the above new development, Government has commenced discussion with The Walt Disney Company on the Phase Two development of Hong Kong Disneyland.<sup>104</sup>

The overall attractiveness of Hong Kong does not only rely on new attractions and enhanced facilities and accommodations. If Hong Kong were to maintain itself as a premier destination for leisure and business visitors, the industry should also continue to make efforts to raise its quality assurance and service standard which have long been the city's competitive edges.<sup>105</sup>

#### Continuously Static Development in the City's Logistics Industry

Logistic industry is regarded as one of the pillar industries in Hong Kong, and the city is long renowned for its international and regional logistic hub due to its strategic geographical location, well-developed infrastructure as well as its free port status. Over the past few years, the industry development has remained stagnated and its overall outlook is likely to stay gloomy.<sup>106</sup>

Trade performance is closely connected to the industry's growth. In 2015, exports in Hong Kong are projected to be flat as the world trade environment remains uninspiring.<sup>107</sup> As of September 2015, the value of merchandise exports saw a year-on-year decrease of 4.6%. Domestic exports saw a significant drop of 13.8% and re-exports also recorded a decrease of 4.5%.<sup>108</sup> Hong Kong Trade Development Council has cut its forecast for the city's export growth in 2015 from 3% to zero amid uncertainties in the global economy notably the slowing economy in China.<sup>109</sup>

Dragged by the dismal external trade performance, the logistics sector continued to slacken in the third quarter of 2015. Total container throughput plunged further by 7.1% from a year earlier to 5.25 million twenty-foot equivalent units (TEUs). In parallel, the value of trade handled at the Hong Kong port plummeted by 11.4%, and its share in total trade declined from 21.7% to 20.4%. Air freight throughput also edged down by another 0.7% from a year earlier to 1.09 million tonnes in the third quarter. The total value of trade by air fell more sharply by 5.3% from a year earlier, though its share in overall trade value slightly edged up from 38.7% to 38.8%.<sup>110</sup>

The city's competitive edge in the logistics sector has continued to slip away owing to the increasingly fierce competition from the neighbouring ports.<sup>111</sup> Taking the value of container throughput into account in the first half of 2015, Shanghai continued to be the world's top port, followed by Singapore and Shenzhen. Hong Kong's fourth place in 2014 was taken by Ningbo-Zhoushan. This rising star, Ningbo-Zhoushan, is two neighbouring cities in Zhejiang province which have united their coastal front to form a port complex, recorded a sharp growth in throughput of 9.1% year-on-year to 10.5 million TEU.<sup>112</sup> The last time for Hong Kong's port to top the list was 2004.<sup>113</sup>

With the opening up of the Mainland's economy and its ports, Hong Kong's role has shifted from serving the hinterland across the border to being a mere transshipment hub, where a container is discharged here and loaded on another ship. In 2014, transshipment cargoes accounted for 72% of total traffic compared to only a quarter in the early 2000s. However, due to high costs in Hong Kong, the city's role as a transshipment hub will not sustain as transshipment cargoes will be routed through the cheapest possible corridors.<sup>114</sup>

In the hope of sustaining the port's competitiveness, an expansion plan of the port by building the Container Terminal 10 (CT10) to increase port capacity was put forward more than a decade ago. However, it will not be pushed ahead at least for the next 15 years. Government released findings of the Study on the Strategic Development Plan for Hong Kong Port 2030 and the Preliminary Feasibility Study for CT10 at Southwest Tsing Yi in December 2014. In view of a weak growth of the total container throughput up to 2030 and the fact that the project would not be economically viable, planning for CT10 before 2030 was not recommended.<sup>115</sup>

In fact, huge potential for growth has been observed in the existing Kwai Tsing Container Terminal (KTCT) as it grew faster than the total throughput at the port from 2001 to 2011. This was attributed to the fact that cross-boundary transport has shifted from trucking to river transport; the size of ocean going vessels has increased; and international transshipment throughput, which was mainly concentrated at the KTCT, has surged. Alternate to building a new terminal, adopting appropriate measures to enhance the handling capacity of the existing terminals should be sufficient to cope with future growth. It may be a way to boost the port's growth by leveraging on the untapped potentials of the already built infrastructure.<sup>116</sup>

With a strong need to spur growth of the maritime services, the existing Maritime Industry Council and the Port Development Council will be merged to form a new Hong Kong Maritime and Port Board. It will promote manpower development, marketing and research on all fronts to develop a high-value-added maritime services sector.<sup>117</sup>

To enhance Hong Kong's edge in logistics business as a whole, some other infrastructure plans have also been put forward but bumps in the road are expected. One of which is the Third Runway Project by the Airport Authority to meet future traffic growth. This project accounts for HK\$141.5 billion and the third-runway system (3RS) will be able to handle a practical maximum capacity of 620,000 flight movements per year.<sup>118</sup> Slated to open by 2023, the new runway will help Hong Kong compete with regional rivals such as Singapore where plans to spend HK\$2.2 billion to develop a fifth passenger terminal were revealed in 2013<sup>119</sup>; Shanghai where a fifth runway will open in 2018; and Seoul where a fourth runway will commence its operation in 2020<sup>120</sup>.

Despite support from Government<sup>121</sup> and business groups such as airlines, tour operators and trade associations<sup>122</sup> who are persuaded by 3RS's positive effect on the city's economy and competitiveness as a global and regional aviation hub, green groups and residents living near to the airport have continued to urge the Authority to address problems of pollution, noise and crowded airspace brought by 3RS. In particular, residents on the Ma Wan island, who have been complaining about noise pollution due to the existing air traffic, said that they would protest against the 3RS project which is expected to heighten the degree of noise pollution.<sup>123</sup>

The public is also showing concerns about the proposal of a HK\$180-per-traveller fee for passengers flying out of the airport being put forth by the Airport Authority in September 2015, and debates on the levy are expected to continue before reaching a conclusion.<sup>124</sup> Some suggest that even based on the most optimistic estimate, the implementation work on the 3RS project will not start until 2016, and will not open for use until 2024.<sup>125</sup>

A delay of up to two years is confirmed with regards to the completion of the Hong Kong section of Guangzhou-Shenzhen Hong Kong Express Rail Link (XRL) due to the damage to a tunnel boring machine and unforeseen geological problem at the cross border section. Government agreed on 30 November 2015 to adjust the target completion date of the project to the third quarter of 2018 and to revise the cost to HK\$84.42 billion. A total funding from Government of about HK\$19.6 billion would be required to cover the increased cost for the project.<sup>126</sup> Upon completion, the travelling time from Hong Kong to Beijing and Shanghai will be shortened to about 10 and eight hours respectively, speeding up logistics and traffic. More importantly, the Hong Kong Section will become part of the 16,000km national high-speed rail network now being developed in full steam, fostering closer economic ties between Hong Kong and the Mainland<sup>127</sup>.

Alongside the benefits brought by XRL itself, the project has driven the establishment of juxtaposed border control to speed up traffic of XRL, bringing passengers greater convenience in border checks. Such control refers to passengers undergoing both Hong Kong and mainland document and custom checks in one place to save time, and the process is proposed to take place at the West Kowloon Terminus in the Hong Kong Section of XRL.<sup>128</sup> Owing to legal complications arising from different jurisdictions of the two ends, detailed arrangements for juxtaposed border control have not been finalized.<sup>129</sup> Apart from the abovementioned challenges facing the industry, the continued demand for modern warehousing and logistics space as well as manpower has remained to be a problem unsolved. Substantial efforts are urged to address the obstacles if Hong Kong were to regain its long-gone status as the world's vibrant logistics hub.

### Cultural and Creative Industries as Potential Growth Engines

Not only can arts, culture and creativity energize an individual, but also bring an economy with economic growth and enhanced competitiveness, thereby leading to a more diversified and sustainable economic development. In Hong Kong, the cultural and creative industries are seeing growth but the pace is slow. The industries contributed an increase of value added as a percentage of GDP from 3.8% in 2005 to 5.1% in 2013. Total exports of cultural and creative goods increased moderately at an average annual rate of 2.3% during this period. The share of the industries in the total employment of Hong Kong registered a mere increase of 0.5% from 5.1% in 2005 to 5.6% in 2013.<sup>130</sup>

To facilitate the development of the cultural and creative industries, Government has been offering funding schemes to support local projects and regional collaborations. Create Hong Kong was set up in 2009 to lead and drive the cultural and creative industries in Hong Kong. It is responsible for the administration and management of funding schemes related to creative industries, overseeing the Hong Kong Design Centre for promoting design, and providing funding support for the Design Incubation Programme at InnoCentre at the Hong Kong Science & Technology Parks.<sup>131</sup> Also in 2009, CreateSmart Initiative (CSI) was established to provide funding support to projects which are conducive to the development of the industries.<sup>132</sup> As of September 2015, a total of 467 CSI applications have been received, and 242 of them have been approved involving HK\$504.21 million funding.<sup>133</sup> Apart from promoting the industries locally, the initiative has also supported partnerships with the Mainland and the region.<sup>134</sup> Some projects approved under the scheme included Cyberport Venture Capital Forum 2009; The ABU Robocon 2012 Hong Kong, a robot contest for the Asia-Pacific region; Hong Kong Asian-Pop Music Festival 2014; and 2015 Hong Kong & Shenzhen Bi-city Biennale of Urbanism/Architecture etc.<sup>135</sup>

Filming industry has been a dynamic part in the city's cultural and creative sectors. In 2014, the total box office receipts was HK\$1,647 million, slightly increased by 1.4% as compared in 2013. As a means to facilitate the long-term development of the local film industry, Government set up the Film Development Fund (FDF) in 1999 to fund film projects.<sup>136</sup> In recent years, it has been supporting production of small-to-medium budget films, and some of which had turned out to be critically-acclaimed box office hits.<sup>137</sup> With the encouraging results, Government has stepped up its efforts in boosting the volume of local film production and nurture film talent in 2015 through injecting an additional HK\$200 million into the FDF; introducing a Grant Scheme to subsidize small-budget film productions; and relaunching the First Feature Film Initiative with increased subsidies on production costs.<sup>138</sup>

Apart from serving as an entertainment for locals, Hong Kong's film productions are exported to the Mainland and worldwide. The city is among the world's largest film exporters, and Asia accounts for the majority of the foreign sales income. Seizing the opportunities arising from the Mainland market, an increasing number of movies have been co-produced by Hong Kong and Mainland film production companies. Many of which were good-quality productions with some winning acclaims in various regional and international film awards.<sup>139</sup> More funding schemes encouraging partnerships between Hong Kong and the Mainland in film production could be developed to allow local producers to further capitalizing the opportunities from across the border.

In addition to providing monetary incentives, Government is endeavouring to build cultural hubs or clusters to draw cultural talents and lovers, but there are challenges restraining the projects from moving forward. The West Kowloon Cultural District (WKCD) Project was initiated in 2003 to shape the WKCD into a cultural hub gathering international-grade arts and culture.<sup>140</sup> The project has been battling construction delays due to filibustering by lawmakers and wrangling over the final design. The first substantial building works on the Xiqu Centre for Chinese opera, the M+ modern-art museum, a park and an Arts Pavilion began after more than 10 years in 2014. A second round of construction is on hold as a high-speed-rail terminus at the WKCD is being built. There is no definite timetable for completion for the third batch of facilities including a concert hall and musical theatres. In addition, a 15,000-seat arena has been shelved due to a lack of money.<sup>141</sup>

A recently-launched cultural cluster is the former Police Married Quarters (PMQ) in Central, gathering local talents in promoting their brands and designs. It had been served as living unit for police force since 1951 and was revitalized in 2014 to house 100 studios, retail shops and offices for design and creative enterprises.<sup>142</sup> Some tenants voiced discontent for the inability of PMQ's management to bring the right crowd to the building, leading to poor business. At least 10 tenants had left and some tenants have plans to do the same. Although numerous events were staged and some five million visitors were drawn to the cluster since its inauguration, some further commented that the site had been run as a shopping mall, deviating from its purpose of serving as a cultural cluster in Hong Kong.<sup>143</sup>

In addition to its hardware, the city is facing a critical challenge on the software side of the industries which is an inadequacy of talents. Although the workforce of the industries had been on a rise in the past decade, the number of employees remained insufficient at 207,490, accounting for only 5.6% of total employment in Hong Kong.<sup>144</sup> Being not a traditional pillar industry in Hong Kong, the cultural and creative sector may be less appealing to the general public as a career of choice. In South Korea which has emerged as a creative economy recently, there are 372 institutions and 174 secondary schools and vocational schools providing subjects related to culture and creativity.<sup>145</sup> To enable the city's cultural and creative industries to blossom, more efforts should be made in education to develop a sense of appreciation towards arts and culture in society, and cultivate interest and nurture skills of the younger generation, thereby creating a strong pool of talents for the industries in future.

### Harnessing the Opportunity of Innovation and Technology

Innovation and technology is undoubtedly a substantial source of sustainable economic growth for Hong Kong. The local gross domestic expenditure attributed to research and development increased from HK\$7.1 billion in 2001 to HK\$15.6 billion in 2013, reflecting an average annual growth of 7%.<sup>146</sup> According to the Global Innovation Index 2014 published by Cornell University and other organizations, Hong Kong ranked 10<sup>th</sup> among 143 countries and territories worldwide.<sup>147</sup> The plan of Massachusetts Institute of Technology (MIT) to set up its first overseas innovation node in Hong Kong in mid-2016, has hinted that Hong Kong's potential in the field of innovation and technology is internationally recognized.<sup>148</sup>

Government has undertaken several initiatives in an effort to raise Hong Kong's competitiveness in the area of innovation and technology. The resolution to establish the Innovation and Technology Bureau (ITB) was passed by the Legislative Council in June 2015,<sup>149</sup> while funding for the ITB was approved by the Legislative Council Finance Committee in early November 2015.<sup>150</sup> The ITB was formally established on 20 November 2015, with The Hon Nicholas W Yang appointed as Secretary for Innovation and Technology.<sup>151</sup> The ITB is responsible for policymaking, facilitating stronger coordination among Government, industry, academia and the research sectors, as well as driving Hong Kong's development in innovation, technology and related industries.<sup>152</sup>

On financial support, the Innovation and Technology Fund, which has provided about HK\$8.9 billion for more than 4,200 projects, had an expanded funding scope in July 2014 to cover more downstream activities, including development engineering/system integration, large scale process optimization, compliance testing and clinical trials, licensing of third-party IP, and industrial design.<sup>153</sup> Government will inject HK\$5 billion into the Innovation and Technology Fund, and subsume under the Fund, the Research and Development Cash Rebate Scheme,<sup>154</sup> which aims to reinforce the research culture among private companies and encourage them to establish stronger partnership with designated local public research institutions.<sup>155</sup> In April 2015, Government set up an Enterprise Support Scheme<sup>156</sup> to enhance funding support for research and development projects of the private sector.<sup>157</sup>

In recent years, Hong Kong sees a notable growth of start-ups, which have made new technologies and applications possible.<sup>158</sup> The occurrence of start-ups calls for financial resources. The Hong Kong Science and Technology Parks Corporation will earmark HK\$50 million to set up a corporate venture fund for co-investment, on a matching basis with private funds, applicable to start-ups located in the Science Park or have participated in its incubation programmes.<sup>159</sup> A Technology Start-up Support Scheme for Universities has been set up in 2015 by the Innovation and Technology Commission, to provide annual funding of up to HK\$24 million to six local universities initially for three years, to encourage their students and professors to start technology businesses and commercialize their research and development results.<sup>160</sup> In the 2016 Policy Address, Government announced that HK\$2 billion has been set aside to set up an Innovation and Technology Venture Fund for co-investing with private venture capital funds on a matching basis; and HK\$500 million to launch an Innovation and Technology Fund for Better Living to finance projects making use of innovation and technology to improve citizens' daily life.<sup>161</sup>

Among the various technological trends, some have particular potential for growth in Hong Kong, including FinTech, the Internet of Things, and smart city technologies.<sup>162</sup> Hong Kong's position as an international financial centre and its abundance of experience in technology, have made it an ideal place for developing financial technologies.<sup>163</sup> Financial technologies can raise operational efficiency and foster new modes of development for the financial sector, by facilitating numerous functions such as payment, clearing and settlement systems, big data analytics, cloud computing, information and risk management, and network security.<sup>164</sup> A steering group was established by Government in March 2015 to study ways to turn Hong Kong into a financial technology hub with industries, research and development institutions, and regulatory authorities.<sup>165</sup> Apart from the public bodies, the business community is also working towards the same goal. Some large companies, mostly from the banking industry, have launched programmes to assist FinTech start-ups.<sup>166</sup> The programmes offer them workspace, mentor support, financial and managerial guidance, etc.<sup>167 168</sup>

The concept of “Smart City” consists of the use of information and communication technology infrastructure and innovative solutions to address issues of governance, economy, mobility, environment, living and people; while aiming at improving the citizens’ quality of life, and the city’s sustainable growth and competitiveness through the use of smart initiatives.<sup>169</sup> Government is using Kowloon East as a pilot area to explore the feasibility of developing a Smart City.<sup>170</sup> The study will look at various ways, such as the use of smart data and technology, disseminating information to the public and collecting feedback in digital format, using technology to enhance pedestrian and vehicular accessibility, etc. with a view to making the neighbourhood a better place for work and play.<sup>171</sup> Smart city initiatives also include the deployment of smart sensors by Transport Department to collect real-time traffic data for better traffic control, as well as the use of smart sensors by Water Supplies Department to detect water pipe leakages through analysis of the sound of water flow.<sup>172</sup>

In addition to strengthening the local technology sector, the potential benefits from cooperation with across the border should not be underestimated. In Shenzhen, one of the largest consumer markets in the world and enormous production capacities in the Pearl River Delta, many Hong Kong companies manufacture products for the world, and have great exposure to technology upgrading as well as improvement of value-added capabilities.<sup>173</sup> In the 12<sup>th</sup> Five-Year Plan of the Mainland China, it has been determined that technological advancement and innovation is a key means to drive economic development.<sup>174</sup> As Chinese enterprises mostly lack the necessary front-end technologies to achieve their innovation and technology objectives, Hong Kong can serve as a platform for its technology sector to undertake technology transfer to the Mainland from the international market.<sup>175</sup> At the same time, Hong Kong presents an attractive opportunity for foreigner companies to set up their Research & Development operations in Hong Kong, which can enable them to enjoy the benefits of Hong Kong’s high value-added content and intellectual property protection, as well as the huge market prospects of the Mainland China.<sup>176</sup>

The advancement of technology brings in opportunities as well as risks. In 2014, 6,778 technology crime cases were reported, representing a 30% increase from the previous year, as well as a resulted financial loss amounted to HK\$1.2 billion.<sup>177</sup> The situation may be underestimated, as some victims were not aware of the cybercrimes committed, and did not report to the law enforcement agencies.<sup>178</sup> Furthermore, there is a trend of cybercrimes targeting users of smartphones and mobile devices,<sup>179</sup> the convergence of computing and telecommunications, as well as the development of the Internet of Things present new opportunities for criminal exploitation.<sup>180</sup>

In view of the prevalence of cybercrimes, the new Cyber Security & Technology Crime Bureau (CSTCB) was set up in January 2015 within the Hong Kong Police Force.<sup>181</sup> It deals with cyber security incidents and investigates into technology crimes in collaboration with local and foreign law enforcement agencies.<sup>182</sup> The Office of the Government Chief Information officer (OGCIO), the Hong Kong Computer Emergency Response Team Coordination Centre (HKCERT) and security service providers have joined hands, to gather information on security vulnerabilities and issue timely alerts in relation to malicious cyber activities to the public and private sectors.<sup>183</sup> Work has been done to improve protection against cyber attacks on major information infrastructures, through coordination with Internet service providers, the Hong Kong Internet Exchange, and the Hong Kong Internet Registration Corporation Ltd, etc.<sup>184</sup> Information security drills were organized for Internet service providers, mobile operators and domain name registrars in October 2014, to strengthen their capability and readiness against cyber attacks by assessing their analytic and detection abilities, as well as their incident handling procedures.<sup>185</sup> Besides upgrading the relevant industry sectors, efforts on raising public awareness and knowledge of information security have also been made, by launching seminars, exhibitions, school visits, as well as issuing announcements through television, radio and online channels.<sup>186</sup>



## 2. SOCIAL FACTORS

### Meeting the Emerging Learners' Needs

Hong Kong, as a knowledge-driven city, has a vibrant and dynamic education sector with a wide choice of progression pathways for school leavers and various types of programmes serving the needs of adults for continuing education and training. With the world of today facing radical changes, learning needs have also seen a shift which will set the ground for the development of continuing education providers in Hong Kong.

Sub-degree education, being offered by self-financing institutions in particular, has shown signs of a contraction. According to Education Bureau, student enrolments in the sub-degree programmes including publicly-funded and self-financing programmes dropped by about 8% from 92 700 in 2012/13 to 86 100 in 2013/14.<sup>187</sup> In fact, such decline was entirely due to a reduction of enrolments in the self-financing programmes. Due to shortage of new enrolments, Sacred Heart Canossian College of Commerce<sup>188</sup> and Hong Kong Adventist College<sup>189</sup>, which were providers of sub-degree programmes, closed down in 2013 and 2014 respectively. For 2015/16, there were around 4,800 places less, constituting a drop of 12% in sub-degree programmes, in particular the associate degree and higher diploma programmes offered by self-financing institutions.<sup>190</sup> Some anticipate that the self-financing institutions will continue to diminish the scale of their offerings of sub-degree programmes owing to the declining population of students.<sup>191</sup>

With the sub-degree sector waning, some self-financing institutions have shifted its focus to degree programmes or are planning to develop themselves into private universities.<sup>192</sup> The Hong Kong Buddhist College (HKBC) operated four associate degree programmes with a small total enrolment of around 30 students for the 2013/14 academic year.<sup>193</sup> In view of the shrinking sub-degree market, HKBC had sought to register itself as a post-secondary college, namely the Hong Kong Nang Yan College of Higher Education (NYC) to award two degree programmes, and the proposal was approved by Government in 2014.<sup>194</sup> NYC hopes to offer seven more degree programmes by 2016 and eventually turns itself into a private university.<sup>195</sup> Another institution namely Hang Seng Management College which is now offering both associate degree and degree programmes, is planning to cease its provision of associate degree programmes from 2016/17 onwards, with 2014/15 being the last year of admission of the said programmes.<sup>196</sup>

At the same time, the Community College of City University, established under the City University of Hong Kong in 2004 to provide associate degree programmes, formed a strategic alliance with the University of Wollongong Australia (UOW) in November 2014 to offer new top-up and self-financing degree programmes.<sup>197</sup> For the 2015/16 school year, three UOW degree programmes are offered for articulation from the associate degree programmes at CCCU.<sup>198</sup> In addition to provide wider articulation opportunities for its students, the collaboration with UOW will pave the way for CCCU to ultimately become a degree granting private university.<sup>199</sup>

The emerging trend of private universities is indeed a product of the increasing demand and a lack of supply of degree programmes in Hong Kong. Such heavy demand of undergraduate study, to certain extent, is linked to the mentality of the need to pursue university education in Hong Kong. However, with an over-supply of university graduates which subsequently leading to job mismatch<sup>200</sup>, Government has been actively promoting vocational education and training (VET) as to engineering a paradigm shift in society. In the 2014 Policy Address, Chief Executive highlighted the development of vocational training in its policy agenda<sup>201</sup>, and reiterated the importance of varied learning, training and development opportunities for youngsters in the 2015 Policy Address.<sup>202</sup> Despite Government's efforts to raise public awareness of the benefits of vocational education through a number of measures, the thinking of valuing traditional academic pursuit over vocational education is still prevailing in Hong Kong.<sup>203</sup>

According to a survey of the Task Force on Promotion of Vocational Education which was set by Government to promote VET, 61% of secondary school students and 78% of their parents considered that VET had a fairly positive or very positive image in Hong Kong. However, 34% of secondary school students still would not consider pursuing VET programmes, and 28% of their parents still would not advise their children to pursue the same. It was found that VET was generally perceived by students and parents as a second choice among articulation options, and was for those not eligible for university education.<sup>204</sup> A study of The Hong Kong Institute of Education also shared similar findings. Even though VET was regarded fairly positive in terms of the career prospect and progression that it could lead to, respondents would still prefer other articulation pathways. Almost half of those interviewed said that VET could provide the same occupational opportunities as a university degree but nearly 44% of the respondents believed that VET was less acceptable to society than traditional academic study.<sup>205</sup>

In view of the above, some suggest that the promotion of VET should bring out the professional image of related industries as well as the progression pathways they might provide.<sup>206</sup> However, some think that the critical problem is that Hong Kong students tend to choose their study pathways according to society's expectation, and that efforts should be made to encourage students to pursue their studies according to interests. Despite divided opinions on the actions to be taken, the abovementioned mentality is deep-rooted in the minds of students, parents and the general public and it will take substantial efforts and much time to position VET as the first choice among various study pathways.

Beyond undergraduate study, the demand for continuing education has remained strong as it enables executives to keep up with the market trends. According to a study conducted by The Institute for Entrepreneurship at The Hong Kong Polytechnic University, about 56% of the in-service executives surveyed would pursue continuing education and training even without financial incentives from company or if it would take up personal time after work. It was also found that in-service executives were prone to job-related training about areas such as technical skills, product knowledge as well as law and ordinance than management-related training and personal development courses. Job-related training courses are market-driven, and the need of programmes related to the core industries in Hong Kong such as finance and logistics or latest trends such as HR development and digital marketing will therefore remain. In view of the ageing population in Hong Kong, it is expected that the demand for programmes relating to elderly care services will continue to increase.<sup>207</sup>

Although in-service executives are aspired to continuously upgrade themselves, financial burden might be a deterrent to the pursuit of continuing education. Around 37% of the respondents of the study said that they had given up enrolling to certain programmes because the tuition fees were unaffordable. 30% of the respondents commented that their companies did not provide financial assistance for staff in this regard. Currently, the Continuing Education Fund under Government subsidizes adults with learning aspirations to pursue continuing education and training courses with a maximum sum of HK\$10,000.<sup>208</sup> Other types of financial assistance excluding company sponsorship are minimal. Continuing education does not only benefit an individual, but also plays a pivotal role in enhancing a city's competitiveness. Therefore, it is imperative for Government, companies and the community to provide more financial aids to executives to facilitate continuing education and training in Hong Kong.

### Shopping in Two Worlds: the Booming E-commerce and O2O Business Model

Online retail market in the Mainland has been prospering in recent years. It has registered stunning growth and became the world's largest market in 2013. Total online sales are expected to reach 5.63 trillion yuan by 2017, accounting for 15.7% of the total retail sales in the Mainland. In view of the growing momentum of online sales business, e-commerce was identified by the Chinese government as one of the six major areas to boost domestic consumption in a State Council meeting in 2014.<sup>209</sup>

The rising popularity of mobile devices across the border over recent years has also driven the growth of e-commerce. A rising number of Mainland consumers are accustomed to buying online, and mobile commerce has therefore become a major part of the e-commerce purchase cycle.<sup>210</sup> In June 2014, 205 million Mainland users shopped through their mobile phones which was a 42% surge year-on-year and 4.3 times the growth rate of online shoppers as a whole. Moreover, 38.9% of total shopping were made via mobile phones.<sup>211</sup> It is estimated that the total transaction value of mobile shopping will exceed 3,207 billion yuan by 2017, more than a tenfold of the value of 274 billion yuan in 2013.<sup>212</sup>

In the era of mobile commerce, a new mode of business has been generated which is the concept of O2O, i.e. Online to Offline or Offline to Online. O2O commerce is a hybrid commerce model focusing on making a point of contact online and driving customers offline via a reservation or financial commitment.<sup>213</sup> The common ways retailers in China have embraced the O2O concept are (1) launching mobile applications and offering location-based marketing; (2) offering mobile payment services in-store; (3) supporting “click and collect” that customers can buy online and pick up the online orders in a physical store; and (4) integrating back-end operations and systems such as inventory, warehouses and logistics management systems etc.<sup>214</sup> As regards O2O commerce in 2014, 43% of the market is occupied by food and beverages industries, 26% on leisure entertainment while hotels share 25% of the whole.<sup>215</sup> Businesses of group-buying of boutique or physical commodities has been expanding at a compound growth rate of 46% from 2013 to 2017 with two popular group-buying sites in China, namely, Meituan.com and Dianping.com as the major players.<sup>216</sup>

Among the many O2O initiatives, robust development has seen in using mobile as a payment mechanism as it allows retailers to close the loop between their online marketing investments and in-store transactions.<sup>217</sup> There are a huge number of third-party mobile payment providers such as Alipay.com and Tenpay.com which are developed by two web giants Alibaba Group Holding Ltd (Alibaba) and Tencent Holdings Ltd (Tencent), as well as Baidu Wallet, UnionPay, China Mobile and China Telecom. WeChat, a social networking application, can now perform payment function for users to pay utility bills.<sup>218</sup> The total transaction value of the third-party mobile payment market reached close to 6,000 billion yuan in 2014. The top three reasons for consumers to pay through mobiles are convenience of usage, high efficiency and no extra fee being charged as credit cards do. The third-party mobile payment is anticipated to become more prevalent in China and the value handled is estimated to reach around 18,260 billion yuan by 2018.<sup>219</sup>

However, the above booming online payment channels may face a hit due to a draft proposal for a new set of laws on online payment issued by The People’s Bank of China in July 2015. The proposed laws obstructing the payment applications include (1) online third-party payment providers must prohibit cash transfers between two people; (2) consumers who want to use a third-party online payment provider must provide at least three forms of identity verification upon registering; and (3) a ceiling of 5,000 yuan be set on purchases made through an online payment provider during a single day. Each of these proposed regulations pinches at some of the features that Alibaba and Tencent have trumpeted when they promote their online payment applications. Moreover, both WeChat and Alibaba currently have lightning-fast registration processes which require users to merely upload their personal identification information, set a username and password, and bind their bank cards to their new accounts.<sup>220</sup>

An emerging trend in the O2O market has appeared with Mainland internet retailers and offline firms collaborating to offer traditional brick-and-mortar services in a bid to give shoppers better service. The year 2015 has featured some high-profile deals. In early 2015, Alibaba and its affiliate, Ant Financial, plowed nearly 3 billion yuan each into a joint venture called Koubei, which connects local food merchants to consumers. In March 2015, Alibaba took a stake of up to 25% in Intime Retail Group Co which operates 36 department stores in the Mainland that sell high-end luxury brands like Gucci.<sup>221</sup> In August 2015, the giant’s fierce rival JD.com agreed to invest 4.3 billion yuan in Chinese supermarket chain Yonghui Superstores.<sup>222</sup> In the same month, Alibaba said it would make an investment of more than 28.3 billion yuan in electronics retailer Suning Commerce Group.<sup>223</sup> It is predicted that more big-name alliances will appear in the near future.<sup>224</sup>

Instead of containing the initial success of e-commerce development to itself, the Chinese government has set sight to push forward e-commerce liberalization. The State Council issued a guideline in June 2015 to encourage development of cross-border e-commerce flows so as to push China's e-commerce champions to expand overseas.<sup>225</sup> Some of the key measures are to streamline customs procedures for e-commerce exports and imports to make the processes simpler and quicker; encourage domestic banks and institutions to launch cross-border electronic payment businesses and advance pilot overseas payments in foreign currencies; and give Chinese e-commerce firms financial support on international projects.<sup>226</sup>

Compared with the Mainland, Hong Kong retailers are yet to embrace e-commerce or O2O business model considerably in their businesses. From 2009 to 2014, the compound growth of sales value of internal retailing excluding tax was only 16%, a huge contrast to a 123% growth in the Mainland.<sup>227</sup> Unlike China where the country is large and access to physical shops can be fairly difficult, it is convenient for Hong Kong consumers to shop and buy at brick-and-mortar shops as the city is small. While the driving force of e-commerce development is relatively weak in Hong Kong, some companies have made trials on O2O commerce. Two prime examples are Gogovan and EasyTaxi which are both designed by local start-ups to digitizing traditional sectors such as delivery by truck and ordering a taxi.<sup>228</sup>

Some suggest that the O2O model which has proven successful in the Mainland might not be suitable for Hong Kong. With the city having a risk-averse business culture and regulatory concerns, the development of banking or payment applications may not thrive as it does across the border.<sup>229</sup> Instead of placing a key focus on e-commerce in retail businesses, transforming physical stores into "experience shops" and offer unique products or experiences may build the city's competitive edge.<sup>230</sup>

### Focused Efforts to Cultivating the Youths

Youngsters have taken much social spotlight in occasions such as the recent "Occupy Central" movement and the "Occupy HKU Council Meeting" incident. The aggressive and determined posture of the younger generation is illustrated in a survey published in April 2015 by Hong Kong Ideas Centre, 38.3% of 1,505 interviewees aged between 15 and 39 thought that it was not wrong to pursue justice by way of civil disobedience; the population aged between 20 and 24 agreeing the proposition reached 47.1%.<sup>231</sup> Close to one-fourth of all surveyed youngsters would participate in similar occupy movements, if there was any in the future.<sup>232</sup>

Besides the belief that youths nowadays are concerned about the need for personal development and social improvement, many youngsters are dissatisfied with Hong Kong.<sup>233</sup> It is believed that the perceived lack of social mobility is the major reason behind the youths' dissatisfaction towards the city. One of the obstacles against upward mobility is the high cost of living.<sup>234</sup> In the past two decades, the overall growth in salary was only slightly higher than inflation, making it difficult to save money;<sup>235</sup> skyrocketed housing costs fuel the problem, with a 160.6% increase in property price and a 58.6% rise in rents.<sup>236</sup>

On the other hand, the average monthly earnings of fresh university graduates have dropped almost 20% over the last 20 years, from HK\$13,158 in 1993 to HK\$10,860 in 2013.<sup>237</sup> The reason behind this phenomenon is attributed to the rise in university places over the years, which leads to another problem – a mismatch between the types of degrees offered for study and jobs available in the employment market.<sup>238</sup> Only 73.4% of fresh university graduates today land in middle-class jobs in the eyes of the general public, which are described as managers, administrators and professionals, compared to 82.5% a decade ago. Instead, more degree holders of 18.2%, find jobs as office clerks that usually require only a secondary school education, in comparison to 11% a decade ago.<sup>239</sup>

On the public policy side, Government's focus on youth-related initiatives remains to be education, employment and whole-person development.<sup>240</sup> A substantial element of Mainland cooperation has been added to the plan, including the proposed subsidy for students to participate in at least one Mainland exchange programme each during the primary and secondary stages; the plan to liaise with Mainland provinces and cities to expand and improve such exchange; and a pilot scheme to provide financial and professional support to local schools in an attempt to progressively double the number of primary and secondary sister schools in Hong Kong and the Mainland.<sup>241</sup> It is believed that such cooperation can broaden the young people's horizons, and enhance teaching and learning effectiveness.<sup>242</sup> An additional HK\$205 million will be injected in 2015-18 to support youngsters to join Mainland exchange and internship programmes.<sup>243</sup>

Vocational education is one of the highlights of youth development strategies. Backed by the support from the industry and Government, the Pilot Training and Support Scheme was first launched in March 2014,<sup>244</sup> to provide participants with apprenticeship training followed by clear progress pathways.<sup>245</sup> In addition, a Task Force on Promotion of Vocational Education was set up in June 2014, and has submitted a report to the Education Bureau putting forward strategies and concrete recommendations for promoting vocational education.<sup>246</sup>

With the vision to change the perception of vocational education as being a second choice, the strategy comprises three themes, including rebranding vocational education and training, strengthening promotion, and sustaining efforts.<sup>247</sup> As regards rebranding, it is suggested that "vocational education and training" in Hong Kong can be rebranded as "vocational and professional education and training (VPET)" comprising programmes of a degree level and specialized contents in vocational skills or professional knowledge.<sup>248</sup> Concerning strengthening promotion, the recommendation covers six areas, namely promotion of the professional image of VPET, provision of more information about VPET and related careers, more contribution from industries, promotion of VPET through career and life planning education, promotion of applied learning, and provision of financial support by Government.<sup>249</sup>

Corresponding plans have been made to raise youngsters' exposure to a broad range of career options. Costing HK\$960 million, 1,000 students per cohort will be subsidized to pursue designated self-financing undergraduate programmes, topics of which include health care, architecture and engineering, testing and certification, creative industry, logistics, as well as tourism and hospitality.<sup>250</sup> For insurance and asset and wealth management services, HK\$100 million will be allocated to launch a three-year pilot scheme to develop talents; as to the construction industry, HK\$100 million will be allocated for the Construction Industry Council to train more skilled workers.<sup>251</sup>

In view of the ageing population and the increasing demand for derived services, the "first-hire-then-train" Navigation Scheme for Young Persons in Care Services is providing 1,000 places to encourage young people to join the workforce of elderly and rehabilitation care services; furthermore, the feasibility of increasing the number of publicly-funded degree places in medicine, dentistry and other healthcare specialties will be studied.<sup>252</sup> Besides actions of Government, support from the business community is also necessary, more than 170 organizations have participated in the Business-School Partnership Programme, which enhances students' understanding through activities like workplace orientation and visits, mentorship and career experience programmes.<sup>253</sup>

### Sustainability to Continue as an Essential Element in Business and Society

The concept of sustainability has been gaining growing awareness among the general public and business community in the global context. It refers to a balance among environmental, social, economic and resource needs, for both the present and future generations, so as to achieve a vibrant economy and social progress, and a high quality environment, locally, nationally and internationally, with the concerted efforts of the government and the community.<sup>254</sup>

In Hong Kong, Government has made stock of efforts in facilitating the city's sustainability development in the area of environmental protection with a focus on air quality, green building and energy conservation, and waste management.<sup>255</sup> From 2010 to 2014, the air quality monitoring results revealed a continuous improvement of Hong Kong's air quality.<sup>256</sup> The annual average concentrations of sulphur dioxide, nitrogen dioxide and respirable suspended particulates decreased by 8%, 6% and 4% respectively. To further improve the air quality, Government introduced in March 2015 a new legislation which requires ocean-going vessels at berth in the city to switch to low-sulphur diesel.<sup>257</sup> It is also collaborating with Guangdong to require ocean-going vessels berthing at the ports of Pearl River Delta to switch to cleaner fuel.<sup>258</sup> The Cleaner Production Partnership Programme, established in 2008 with Guangdong to encourage Hong Kong-owned factories in Guangdong to adopt cleaner production technologies, has seen good progress in the first two phases with over 2400 funding applications approved and close to 390 technology promotion activities organized. The Programme has therefore been extended for another five years to March 2020 with an additional funding of HK\$150 million by Government.<sup>259</sup>

On green building and energy conservation, Government reduced electricity use in government buildings alone by nearly 15% in the last decade. Chief Executive announced in the 2015 Policy Address that Government pledged a new target of achieving a 5% saving in electricity consumption for government buildings under comparable operating conditions in the next five years.<sup>260</sup> In May 2015, it introduced the "Energy Saving Plan for Hong Kong's Built Environment 2015~2025+" to achieve the ultimate goal of lowering energy intensity by 40% in 2025 through policies, regulations, education and social initiatives.<sup>261</sup>

Reducing food waste at source is Government's top priority among other food waste reeducation strategies. Since the launch of Food Wise Hong Kong Campaign in 2013, nearly 400 trade organizations, NGO and government departments have signed the Food Wise Charter with some of which having reduced food waste by 15% or more. In 2014, Government unveiled the "A Food Waste & Yard Waste Plan for Hong Kong 2014-2022" strategy and set a remarkable target of reducing food waste disposal to landfills by 40% in 2022 in Hong Kong.<sup>262</sup> In addition, Government is formulating the framework of municipal solid waste charging which is anticipated to be put forward for legislation in 2016/17 and implemented in 2018 or 2019.<sup>263</sup> To further realise the polluter-pays principle, Government is considering to increase the charge level for construction waste disposal by 80% or a double and will seek to submit the fee adjustment for legislation in 2016.<sup>264</sup>

Corporations in Hong Kong undertaking initiatives on corporate social responsibility (CSR) are on a rise.<sup>265</sup> CSR means to align business's values and behaviour with the social and environmental expectations and concerns of stakeholders.<sup>266</sup> In short, it takes public interest into account for business decision. From merely affecting management decisions and company actions, CSR has begun to exhibit an impact on regulatory requirements.

Mandatory requirements for companies to report on their environmental and social impacts have become a standard part of most regulatory regimes around the world, but it has taken some time for related implementations in Hong Kong. The new Companies Ordinance, implemented in March 2014, requires all Hong Kong incorporated companies, unless exempted, to include a "business review" in their annual reports discussing their environmental policies and performance, and giving an account of their key relationships with stakeholders such as employees, customers and suppliers.

While the disclosure of environmental, social and governance factors is mandatory in stock exchanges in the region such as Singapore and Shanghai, it is a voluntary requirement in Hong Kong.<sup>267</sup> Hong Kong Exchanges and Clearing Ltd (HKEx) implemented in 2012 an Environmental, Social and Governance (ESG) Reporting Guide which is voluntary, to encourage listed companies in Hong Kong to standardize and improve disclosure of environmental, social and governance factors.<sup>268</sup> Under the current requirement, listed issuers are only encouraged to recommend their best practices on ESG.<sup>269</sup>

With ESG disclosure moving into the mainstream regionally and globally, HKEx put forward a consultation on proposed changes to the existing Guide lasting from July to September 2015<sup>270</sup> and decided to upgrade the disclosure obligation. The listing rules will be amended to require issuers to state in their annual report or ESG report whether they have complied with the “comply or explain” provisions, that an issuer must give reasons for deviation from this provisions, of the ESG Guide for the relevant financial year.<sup>271</sup>

Still, to most of the Hong Kong companies, the reason for engaging in sustainability is that it affects the company’s financial value.<sup>272</sup> Also, it is still being taken as a public relations strategy which relates to business interest.<sup>273</sup> While the majority may not be advocates of sustainability, it is worth taking note of an emerging driving force of it. Globally, it is found that ESG factors contribute significantly to the real value of a company, and that the younger generation is more concerned with sustainability and will look for employers with similar values as theirs.<sup>274</sup>

### A Call for a Better Retirement Protection System

The persistently ageing population has made retirement protection a prime concern of the society in Hong Kong. Under the current retirement protection system, retirees who are extremely poor can seek support from the Comprehensive Social Security Assistance (CSSA). The others can obtain short-lived retirement protection from the Mandatory Provident Fund (MPF) or make their living with personal savings.<sup>275</sup> The Old Age Allowance which is granted to those aged 70 or above, and the Old Age Living Allowance (OALA) which a person of 65 years old or above with an income and assets not exceeding the prescribed limits is eligible for, can provide some yet minimal assistance to those in need.<sup>276</sup>

Among the retirees who are normally aged 65 or above, a significant group of them can hardly make ends meet and is in great need of livelihood support. According to the Hong Kong Poverty Situation Report 2014 released by The Commission on Poverty, 30% of the elderly population (aged 65 or above) were living below the Poverty Line. About 16.6% of the poor elders were residing in households receiving CSSA. Of the remaining poor elders living in non-CSSA households, a large majority of 96.8% was economically inactive.<sup>277</sup> By March 2014, there were around 420,000 eligible recipients for OALA, suggesting that the elderly nowadays did not have much assets.<sup>278</sup>

In the coming decade, there will be a peak period of retirement for the “post-war baby”. This cohort was mostly engaged in manufacturing or low-skilled service industries during their work life. Family burden generally used up much of their income leaving little for savings for old age living. The demand for social security is therefore predicted to increase when they retire.<sup>279</sup>

To provide adequate assistance to the existing and future vulnerable elderly, the society is calling for a universal retirement protection and there are divergent views on the issue. Some believe that retirement protection is a basic right and support a “non-means-tested, universal and uniform payment level” scheme. Those oppose to any options that are non-means-tested consider that public resources should be devoted to the most needy elderly.<sup>280</sup> The research on “Future Development of Retirement Protection in Hong Kong” commissioned by Government recommended a universal retirement protection scheme with each citizen over 65 getting HK\$3,000 a month without a means test.<sup>281</sup> As regards Government’s stance, there is still reservation about the universal option in consideration of the sustainability of the option, its impact on public finance as well as the guiding principle that allocation of public resources should be directed to help the under-privileged.<sup>282</sup> To formally gather the public’s opinions on retirement protection, a consultation exercise was launched by the Commission of Poverty in December 2015.<sup>283</sup>

To some 2.4 million people in the working class, MPF forms a main source of their retirement fund but its offset system may reduce the sum to be received upon retirement.<sup>284</sup> Under the existing MPF system, an employer who is liable to pay an employee severance payments (SP) or long service payments (LSP) can offset the SP or LSP with the accrued benefits derived from the employer's contributions made to an MPF scheme for the employee.<sup>285</sup> Between July 2001 and June 2013, companies' MPF contributions used to offset SP or LSP exceeded HK\$20.7 billion. Since 2009, this amount has exceeded HK\$2 billion annually.<sup>286</sup> Criticisms have been stirred up on this arrangement in society recently especially among the employees as the arrangement has a negative impact on their retirement protection.<sup>287</sup> Some lawmakers have also proposed to abolish the offset provision.<sup>288</sup>

In contrast, employers are very concerned that any change to this mechanism will increase the operating costs of enterprises and hurt companies' business environment. They oppose to a scrap of the mechanism on the grounds that its implementation was based upon consensus reached after extensive consultation on the establishment of the MPF system and many companies agreed to adopt the MPF schemes because of the continuation of this offsetting mechanism. The great magnitude of the amounts used for offsetting indicates that abolishing the mechanism will have a huge financial impact on businesses, particularly the Small and Medium-sized Enterprises (SMEs) whose financial resources are limited.<sup>289</sup>

With employees and employers' views on two ends, labor unionists appealed in September 2015 to employers that instead of a one-time cut off, a gradual scrap of the offsetting system may make it easier for businesses to absorb the impact of the move. There are several recommendations from different groups in society for a gradual change such as banning the use of "new contributions" to offset layoff payments but allowing the use of "old contributions"; and banning employers from using MPF contributions to offset severance payments first, to be followed by long-service payments.<sup>290</sup> It is also suggested that Government could offer tax rebates to companies as an incentive for making such a change.<sup>291</sup>

While a plan favourable to all parties is always hard to get, it should be bore in mind that retirement protection is not only a sole responsibility of Government, but also a shared one between the employers and employees.

### Expanding Workforce to Boost Hong Kong's Productivity

Hong Kong's unemployment rate has been stable within the range of 3.3% to 3.5% in the past four years which signifies full employment.<sup>292</sup> However, about 440,000 workers are complaining about their inability to find jobs.<sup>293</sup> Labour shortage has remained acute in a number of industries such as construction, restaurant and catering, and logistics etc.<sup>294</sup> At the same time, some trades, for instance, aircraft maintenance, shipping and elderly care services, have been struggling to recruit new blood, even though these jobs offer reasonably promising remuneration and prospects.<sup>295</sup>

The manpower issue is one of quantity and quality. A shrinking workforce as a result of a consistently low birth rate and ageing population has been a pressing labour problem, which is now found more urgent than previously expected. Government projected that the labour force would decline after 2018, but a recent report by Morgan Stanley has suggested that the working population is expected to post almost no growth over 2015 and 2016, and will begin to drop from 2017 onwards.<sup>296</sup> Job mismatch is also an evident issue in the labour market. Employers regard recruiting the right people with suitable qualifications to fill either permanent or temporary job vacancies a big challenge.<sup>297</sup>

In tackling the above challenges, Government placed a key focus in recruiting talent and professionals from outside of Hong Kong through the Admission Scheme for Mainland Talents and Professionals and the Quality Migrant Admission Scheme, as well as vocational training and re-training in the past decade. While all these continue to stay high on Government's policy agenda, it has shifted its focus to unleashing the potential of the local labour force including retirees, women and ethnic minorities.<sup>298</sup>



Compared with other Asian economies, the Labour Force Participation Rates (LFPR) of mature persons aged within the ranges of 55 to 59 and 60 to 64 in Hong Kong are on the low side.<sup>299</sup> Approximately 40% of the economically inactive persons aged from 50 to 64, accounting for a population of around 240,000, claimed that they had already retired.<sup>300</sup> About 5% of early retirees said they would be willing to work given suitable employment opportunities.<sup>301</sup> With high life expectancy of 81 years for men and 87 years for women in Hong Kong<sup>302</sup>, it is believed that some of the retirees can contribute their knowledge, skills and wealth of experience to the workforce.

To make the best use of the “young olds” and early retirees, Government has taken the lead to extend the retirement age of civilian officers to 65 and disciplined services officers to 60, who were appointed to the civil service on or after 1 June 2015.<sup>303</sup> In addition, it has proposed to extend the age limit of Security Guard License B from 65 to 70 which is expected to come into effect by 2015.<sup>304</sup> To encourage the employment of older persons to take up part-time jobs, Government has extended the coverage of on-the-job training allowance under the Employment Programme for the Middle-aged.<sup>305</sup> The Employees Retraining Board has also focused on providing training for older persons to help them re-join the job market.<sup>306</sup> The business sector also welcomes the above as a growing number of companies or organizations have started to hire retirees in jobs related to property management, restaurant and catering, and social services.<sup>307</sup>

There is also untapped workforce in females, especially those who stay out of the market owing to family commitment. As of June 2015, the LFPR of women of 55% was visibly lower than that of men of 69%.<sup>308</sup> Concerning those in prime working age, the LFPR of men of 95.0% was only 2.5% higher than that of never-married women. In Hong Kong, there is a tendency for women to take up traditional role of shouldering domestic duties, for example, taking care of their family members and other household chores, instead of working for pay. Besides, the LFPR of women with child care responsibilities, as proxied by whether they were living with children, was 57.8%, being 20.9% lower than that of those not living with any children.<sup>309</sup> Among women living with children, those with foreign domestic helpers in their households were more inclined to take part in the labour market than those without foreign domestic helpers in their households.<sup>310</sup>

The top three factors that female homemakers would look at in considering a job are (1) office hours, (2) salary and (3) number of working hours.<sup>311</sup> Therefore, jobs that allow for flexibility, responsibility sharing and working from home may raise female homemakers' interest in taking a job. Other kinds of support such as child care services, family-friendly practices at work place and enhanced retraining services also play an important role in attracting mothers to join or re-join the labour market.<sup>312</sup>

In recent years, Government has been spearheading initiatives to offer a supportive environment to draw mothers to the labour force. In 2015, Government set aside \$130 million to strengthen child care services, thus providing support for women to achieve a work-family balance.<sup>313</sup> In addition, the Food and Health Bureau, Department of Health and the Hong Kong Committee for UNICEF, unveiled initiatives to promote the establishment of breastfeeding friendly facilities at workplace.<sup>314</sup> Corporations have also shown support towards this policy. An increasing number of large corporations and SMEs have put in place family-friendly practices and some companies have introduced the “job sharing” working approach to working mothers. Close to a third of businesses in Hong Kong is also planning to hire more returning mothers in 2015 than in 2014.<sup>315</sup>

Other groups of people whose potential could be optimized are the ethnic minorities, youth and the disabled. In Hong Kong, non-Chinese ethnic population increased significantly by 31% in the past decade to 451 200 by mid-2011.<sup>316</sup> Most of them are confined to low-skilled jobs of domestic helpers or construction workers, but they can perform more high-skilled jobs or jobs in other types or industries.<sup>317</sup> Over the past years, Government had implemented various measures for ethnic minorities such as financial support for learning Chinese language and the provision of vocational training courses to meet job requirements<sup>318</sup>, they still find great difficulties in job seeking.

In general, Hong Kong companies are conservative in hiring ethnic minorities due to cultural concerns and language barriers.<sup>319</sup> It is envisaged that it will be long way for the business community to genuinely engage the group into other job types, particularly the knowledge-based jobs. Some have suggested that Government should further enhance its support towards ethnic minorities such as organizing outreach programmes to encourage business sector to provide them with more job opportunities, providing translation services for employers to increase job opportunities for them, and further increase public awareness of the new generation of ethnic minorities.

The unemployment rate for youths aged 15-24 in the third quarter of 2015 was 12.3%, an up of 1% as compared to the figure in the same period of 2014. Within this particular group, the unemployment rate for those aged 15-19 increased by 1.7% to 14% while that for those aged 20-24 increased by 0.8% to 12%. It was found that apart from the perceived lack of working experience, higher job mobility, more wait-and-search, higher propensity to work part-time, together with a general delay in labour market entry, could be underlying labour market features of the youths.<sup>320</sup> There is also a gap between what young workers expect from a job and what employers currently offer. While remuneration remains an important factor, factors such as workplace participation, communication and flexibility are more important to the youths in Hong Kong than their employers realise.<sup>321</sup> To promote youth employment, in addition to efforts on vocational education and training and on-the-job training from Government, companies should step up efforts to reach out to the youths in secondary schools and universities, and challenge their preconceptions, inspire them and set the right expectations.<sup>322</sup>

Despite mental or physical impairment, persons with disabilities could also be developed into a productive workforce. To this group of people, job-related training is of great importance for them to cope with job requirements. In view of that, Government has launched a new scheme subsidising social enterprises and NGOs to offer about 2 000 to 3 000 on-site training places for persons with disabilities and other groups in need to increase their employment prospect. Some have suggested that tax incentives may also help promote employment of persons with disabilities in the private sector.<sup>323</sup> In the end, no matter how much effort from Government to facilitate retirees, women, ethnic minorities, youth and the disabled in joining the labour force, whether these people can effectively be engaged hinges on companies or organizations, which should offer them a supportive work environment.

### **3. POLITICAL FACTOR**

#### A Standstill in Constitutional Development and Escalation of Conflicts in Society

There are no signs of a receding of the hostile climate within the society in Hong Kong, which was greatly triggered by the controversial issue of constitutional development in 2014. Achieving “one person, one vote” for the selection of Chief Executive in 2017 was expected to be a big step forward to Hong Kong’s long-term constitutional development, as well as an important milestone in the democratic development. However, it has led to an unprecedentedly serious political and social cleavage in Hong Kong.<sup>324</sup> The 79-day Occupy Central movement ended on 15 December 2014.<sup>325</sup> The incident posed significant adverse impacts on the stability of the society and the competitiveness of Hong Kong as a world-class financial centre.

In January 2015, Government conducted a second round of public consultations on electoral reforms. A package of political reform proposals for 2017 Chief Executive Election was spelled out in April 2015 and was introduced to the Legislative Council for the vote.<sup>326</sup> Failing to achieve a two-thirds majority of vote, the proposal was vetoed on 18 June 2015.<sup>327</sup> In 2017, the 5<sup>th</sup> term Chief Executive will be elected by a 1200-member Election Committee, same as the election in 2012.<sup>328</sup> Thus, Government halted the “Five-step Process” constitutional reform at the third stage<sup>329</sup> and the aim of implementing universal suffrage for the Chief Executive selection in 2017 has fallen through.

Constitutional development in Hong Kong has therefore to come to a standstill.<sup>330</sup> However, political tensions within the community continued to rise as the public opinion remained deeply divided. The advocacy of pro-independence and localism have been intensified in the wake of the 79-day Occupy Central movement<sup>331</sup> and groups have been carrying out irresponsible outburst with aggression and violence in the community. Violent protests erupted in areas, such as Tuen Mun,<sup>332</sup> Yuen Long<sup>333</sup> and Sheung Shui<sup>334</sup> to vent anger towards mainland tourists and cross-border parallel traders for affecting their daily lives in February and March 2015. Violent protests not only ended in chaos, but also resulted in arrests and injuries.

Increasingly, the appeal of localism has fanned out onto younger generation and the perception of the youth has become more radical. From burning copies of Basic Law at the annual June 4 commemoration,<sup>335</sup> to arguing with other rally participants when carrying the colonial-era Hong Kong flag during the annual Hong Kong pro-democracy rally on July 1,<sup>336</sup> some extreme advocacy groups stoked a new front of radical activism as a means to condemn the current political situation. An alleged bomb plot was discovered by the police three days ahead of the electoral reform vote of the Legislative Council.<sup>337</sup> Six of the 10 people arrested, aged between 21 to 58, are the core members of a local radical group, the “National Independent Party” which was formed in January 2015.<sup>338</sup> Concerns are growing that their actions may escalate and jeopardize public safety, which will damage the core values of Hong Kong.

The work of the incumbent Government in taking forward constitutional development has come to an end since there is no plan to re-start the “Five-step Process” to implement universal suffrage for the Chief Executive election in the remaining two years,<sup>339</sup> it will continue to focus on handling economic development and livelihood policies.<sup>340</sup> With an ultimate goal of creating a harmonious environment, Government hopes that different sectors of the community should work together, enhance communications and rebuild mutual trust at all levels within the society. However, it may only be a wishful thinking in the foreseeable future. In light of the increasingly volatile political situation and recent violent behaviours, social and political conflicts within the city are expected to be heightened. It is anticipated that the problems will further aggravate and worsen the city’s development as a whole.

#### **4. REGIONAL FACTOR**

##### Rising Opportunities Arising From the Belt and Road Initiative

The Central Government has put forward the initiatives of building the “Silk Road Economic Belt” and the “21<sup>st</sup> Century Maritime Silk Road”, or “the Belt and Road Initiative” in short.<sup>341</sup> Since ancient times, the Silk Road, spanning different regions in Southeast Asia, had been an important commercial route facilitating trading activities of China.<sup>342</sup> In modern days, the Silk Road initiatives are a development strategy of China to promote co-development and foster co-operation in the economic, political and social areas among countries in Asia, Europe and Africa.<sup>343</sup> On 1 February 2015, the Leading Group for Advancing the Development of Belt and Road Initiative was formed.

The Belt and Road Initiative covers 26 countries and regions benefiting a population of 4.4 billion, accounting for 63% of the world population.<sup>344</sup> Three routes covered in the Belt are (1) from China via Central Asia and Russia to Europe; (2) from China to Central and Western Asia to Persian Gulf and Mediterranean Sea; and (3) China to Southeast Asia, South Asia and Indian Ocean.<sup>345</sup> As regards the Maritime Silk Road, two routes, from coastal cities in China and through South China Sea, will reach (1) Indian Ocean, extending to Europe; and (2) South Pacific.<sup>346</sup> Its economic effect is valued at US\$21 trillion.<sup>347</sup> According to a report of the McKinsey & Co, this initiative has the potential to boost a region that will contribute 80% of global economic growth and vault three billion people into the middle class by 2050.<sup>348</sup>

This economic corridor will open up a wealth of business opportunities for construction and manufacturing industries in China.<sup>349</sup> The Belt will be a planned network of overland road, highways and rail routes, oil and natural gas pipelines, telecommunications systems and other built infrastructure while the Maritime Silk Road will include port constructions and other coastal infrastructural projects.<sup>350</sup> With such a huge demand for infrastructure, it is expected that the domestic demand for construction machinery in the Mainland will surge by an annual average of 11.9% and the initiative will boost providers of railways and nuclear power equipment.<sup>351</sup> At the same time, industries with overproductions in areas such as steel manufacturing can sell their excess capacities abroad.<sup>352</sup>

The built infrastructure along the economic corridor will undoubtedly foster China's logistics and trade development. In 2014, the value of trade between China and countries of the Belt and Road Initiative was US\$1.12 trillion, contributing to 26% of the total value of export of China. It is expected that the trade value will be approaching US\$2 trillion by 2020, based on an estimated annual growth of 10%. The Belt and Road Initiative also has a significant political implication for China. The more integrated economic activities and closer trade ties promoted by the initiative will take China to the next level of globalization.<sup>353</sup> It allows the country to go further and take a bigger role on the international arena. In addition, it will facilitate diplomacy and foster trust between China with countries along the route.<sup>354</sup>

To provide the grand scale of capital for infrastructure construction in Asia, notably those of the Belt and Road Initiative, the Central Government established an Asian Infrastructure Investment Bank (AIIB) in December 2015.<sup>355</sup> There are 57 founding members for AIIB.<sup>356</sup> The authorized capital of AIIB is USD100 billion and the initial subscribed capital is expected to be around USD50 billion.

The launch of AIIB is largely symbolic in facilitating the internationalization of Renminbi (RMB) which will further drive the economic integration between Asia and the rest of the world. Although it is expected that US dollar will be used in the early stage of AIIB, the Bank will gradually move to a mix of RMB and US dollar. To this end, China will seek to include RMB in a basket of currencies used to denominate and settle loans from AIIB and encourage AIIB to set up special currency funds and issue RMB-denominated loans.<sup>357</sup>

AIIB also underlines China's ambition to assume more international responsibility and exert greater global influence. The Bank is regarded as a potential rival to the US-led World Bank and International Monetary Fund (IMF). The US has a voting share of 16.22% and 16.75% in the two institutions respectively while China has only 4.85% and 3.81% respectively.<sup>358</sup> In AIIB, China is the largest player with a voting share of 20.06%, followed by India with 7.5% and Russia with 5.92%.<sup>359</sup> Although the US is absent in this new China-led infrastructure, the participation of most of the big European economies such as the UK, Germany and France has already proved the great importance of China in foreign policy.<sup>360</sup> While the Bank has garnered support from a greater number of countries, the funding challenges of AIIB cannot be undermined, as among the AIIB members are countries associated with volatile domestic economies, unstable politics, or financial instability.<sup>361</sup>

Serving as the "super-connector" between China and the rest of the world, Hong Kong will face unparalleled opportunities from the Belt and Road and AIIB initiatives. Today, Hong Kong handles some 20% of the Mainland's international trade which is expected to burgeon, in terms of both trade volume and value, along the giant economic corridor. It can offer quality and diversified maritime services including ship agency and management, finance, broking as well as maritime insurance, legal and arbitration which will be heavily demanded by the Maritime Silk Road.<sup>362</sup> In addition, it can leverage on its membership in AIIB by bidding for management contracts and related jobs in overseas projects funded by the Bank.<sup>363</sup>

Furthermore, as the world's major offshore RMB hub with the largest pool of RMB liquidity, Hong Kong can serve as the fundraising hub to gather funds in RMB to finance the infrastructure projects of the Belt and Road. It can provide a reliable channel for enterprises looking to issue RMB bonds to meet project funding needs.<sup>364</sup> To grasp the opportunities arising from such development, Government announced in the 2016 Policy Address that a steering committee for the Belt and Road will be set up to formulate strategies and policies for Hong Kong's participation in the Initiative. A Belt and Road Office will also be established to take forward related studies, and coordinate work between government departments and other organizations.<sup>365</sup>

Despite the wealth of benefits brought by the initiatives, the shortage of manpower may be a challenge for enterprises to capitalize on the opportunities. A lack of talents has been apparent in almost all fields, particularly in private banking and insurance, in the financial industry. There is also demand for human capital in services such as asset management, financial consultancy and wealth management.<sup>366</sup> Hong Kong should therefore take an active role to enhance and expand the pool of related professionals if it were to seize the vast opportunities in financial services arising from the two massive moves of China.

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