Misled Intervention by a Misplaced Diagnosis: The Hong Kong SAR Government’s Policies for Alleviating Poverty and Social Exclusion

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Abstract

Despite evidence of the aggravation of the problem of poverty, the Hong Kong colonial government prior to 1997 dismissed poverty as a non-issue. Since the 1997 Asian financial crisis, growing unemployment and increased visibility of poverty in Hong Kong have forced the Special Administrative Region (SAR) government to admit the severity of the problem.

The main strategy of the colonial government in dealing with poverty was to maintain a “social security net,” providing the poor with the basics for subsistence. Also, the government played an important role in the provision of education for the general population, with a view to allowing the poor to have access to social mobility as an escape from poverty. These basic policies and strategies have been inherited by the Hong Kong SAR government.

This strategy has a two-fold objective: the promotion of economic growth and investment in human capital. It is hoped that poverty will be properly managed by reducing unemployment. Such a diagnosis of the
nature and causes of poverty is misplaced, and neglects the problem of
the working poor and social exclusion. This misplaced diagnosis has
misled the government in its policy intervention. Though Tung Chee-
hwa, the former Chief Executive, set up the Commission on Poverty
before his resignation in 2005, this move was hardly a break from the
misplaced strategies on poverty alleviation mentioned above.

Introduction

One would think that, as one of the most modern and affluent cities in Asia,
Hong Kong should be free from the problem of poverty. In reality, behind
the image of prosperity, Hong Kong’s income distribution is highly
unequal, with many people still living at subsistence level and a significant
portion of the population in abject poverty. Using different definitions and
measurements of poverty, various researchers estimate that about 600,000
persons, that is, 10 to 15% of the population were living in poverty in
1994–1996.¹ From 1996–2005, it is suggested that the proportion of people
living in low-income households increased from 15.0% to 17.7%. In 2005,
over 1.2 million people (out of the total population of 6.9 million) in Hong
Kong were classified as poor people.²

Hong Kong’s unemployment rate in 1997 was 2.2%, with only just
over 71,000 unemployed persons. Since then, the Hong Kong economy has
been adversely affected by the Asian financial crisis. It was also badly hit
by the severe acute respiratory syndrome (SARS) outbreak in 2003. The
unemployment rate rose to 8.7% (i.e. about 310,000 persons unemployed)
in July 2003. Rising unemployment was a cause for alarm, and thus
attention was drawn not just to the problem of poverty but also to the
broader issue of social exclusion of vulnerable groups.

Faced with the escalating problem of poverty, in 2000 the HKSAR
government, for the first time in Hong Kong’s administrative history,
admitted the existence of a poverty problem in Hong Kong, and eventually
set up the Commission on Poverty in 2005. However, the actions and
policies adopted by the HKSAR government to combat poverty were too
few and too late. Furthermore, there were few, if any, changes in the
government’s attitude, philosophy, policies and strategies with regard to
poverty alleviation. The same can be said about its understanding of the
broader issue of social exclusion. The HKSAR government’s approach to
the question of poverty is largely a continuation of those practices adopted
by the former colonial government.
In the colonial era, the government’s main strategy for dealing with poverty was to ensure social stability by providing income support through the Comprehensive Social Security Assistance Scheme (CSSA) to the poor households and Old Age Allowance (OAA) to the elderly. Abject poverty, according to the colonial government, had been dealt with by the establishment of the CSSA scheme, which provides food, shelter and other basic necessities to the needy. The colonial government believed that the best way to help poor households to improve their conditions was to provide them with education and job opportunities. For those who had the will, this would enable them to become upwardly mobile.

As noted earlier, these poverty alleviation measures remained intact despite a change in government brought about by Hong Kong’s return to China. Regarded by official discourse as one of the corner-stones of Hong Kong’s economic success in the post-war decades, the so-called “positive non-interventionist” approach in the economy and social welfare continues to be the fundamental framework guiding state policy. This induces inertia that inhibits major changes in the government’s social policy initiatives. The adoption of the established poverty alleviation measures by the HKSAR government has also been restricted by its overall fiscal policy (e.g. low taxation) and the expectation of maintaining a financial surplus.

This paper will first analyse the nature of poverty and social exclusion in Hong Kong, and then demonstrate that the anti-poverty strategies of the HKSAR government are largely a continuation of the measures carried out by the former colonial government and that they remain problematic. The misplaced diagnosis of the nature and causes of poverty and the neglect of the wider problems of social exclusion renders the attempts made by the HKSAR government to deal with the poverty problem ineffective.

The Concepts of Poverty and Social Exclusion

Poverty and unemployment are two social problems in contemporary Hong Kong that have increasingly attracted the attention of academia and the mass media as well as government officials. This, as noted above, reflects a major change in mindset in the understanding of these problems. Previously, studies of poverty and unemployment focused mainly on the aspect of material deprivation. To redress the inadequacy of the traditional perspective, the social exclusion approach underlines both the impacts of material deprivation and the social processes and state policies that construct such deprivation.
Social exclusion is a multi-dimensional concept, involving economic, social, political, and cultural aspects of disadvantage and deprivation. Social exclusion refers to the process by which individuals and groups (as a consequence of low income and restricted access to employment, social benefits and services, and to various aspects of cultural and community life) are wholly or partially excluded from participation in their society. Social exclusion is not attributed to any single cause. However, persistent low income, place of residence or neighbourhood, lack of job opportunities, and lack of access to education and healthcare, as well as other public services combine to trap particular groups in a situation of severe disadvantage. Marginalization of the poor is linked to their membership of particular ethnic, social, cultural or other groups and categories as defined by gender, social class, age, race, ethnicity or religion. Discrimination against these social categories creates structural barriers and denies their access to life chances that would allow the poor to escape from poverty. The interest of policy analysts and academic researchers in understanding poverty in the light of social exclusion has grown as countries in Western Europe have had to face the consequences of rising unemployment, increasing international migration and the dismantling of the welfare state. To some extent, Hong Kong has also experienced important socio-economic changes since 1997. Poverty has been transformed from a cyclical phenomenon to one which is structural in nature. Growing labour market informalization means that the benefits attached to employment (such as paid holidays) are becoming available to fewer and fewer people.

The core concept of social exclusion, according to Room, involves “people who are suffering such a degree of multi-dimensional disadvantage, of such duration, and reinforced by such material and cultural degradation of the neighborhoods in which they live, that their relational links with the wider society are ruptured to a degree which is to some considerable degree irreversible.” Although social exclusion is often regarded as the most pervasive negative outcome of globalization, in which socially disadvantaged groups are deprived of economic, socio-cultural, and political participation, views on how social exclusion and globalization are related remain diverse. There are at least three competing approaches to this question: the neo-liberal, radical and transformationalist perspectives.

In the neo-liberal perspective, social exclusion is taken as an unfortunate but inevitable side effect of global economic development. To be globally competitive, market liberalization, privatization, and welfare
reduction are necessary, and so are the poor living conditions of disadvantaged groups. The HKSAR government seems to have taken a similar position when it encounters various social problems brought about by globalization. The radical perspective focuses on how dominant players (transnational corporations, local capitalists as well as the state) deprive people of their resources and the opportunities to assume membership in society by restructuring social institutions in the name of confronting globalization. In the transformationalist perspective, globalization is both an outcome and an on-going process. Social exclusion is therefore dynamic and ever changing. The efforts both from above (state) and below (grassroots) to combat social exclusion that has taken place and crystallized locally may reshape social institutions and, in turn, have their effects on global forces.

In this paper, we adopt the transformationalist perspective in our analysis and try to address the poverty and social exclusion problems of Hong Kong in the context of globalization, and we discuss the reasons why the neglect of such institutional and structural perspectives renders the anti-poverty attempts of the HKSAR government ineffective.

**Poverty and Social Exclusion in Hong Kong**

In 2005, the per capita GNP of Hong Kong was HK$199,616 (US$ 25,692), comparable to those of developed countries like Australia and Italy. The high per capita GNP shows a reasonably high level of economic development at the aggregate level. However, owing to glaring income disparity, the above statistics can hardly give us a representative picture of the livelihood of the ordinary people in Hong Kong at the individual and household levels. Moreover, and perhaps more importantly, the problem of poverty persists in the course of economic development. When the economy slumps, and particularly since the Asian financial crisis, the problem becomes more remarkable.

Dependent on the overheated financial and real estate development sectors, the bubble economy of Hong Kong burst in 1997. The annual growth rate of per capita GDP decreased dramatically from 10.1% in 1997 to –5.6% in 1998. From 1999 to 2003, except for a positive growth of 2.9% in 2000, the per capita GDP annual growth rates were in the region of –2% to –3%. Hong Kong faced a prolonged period of economic downturn, rising unemployment and wage cuts. This adversely affected the livelihood of the ordinary people, particularly the labourers.
There are different kinds of poor people in Hong Kong, some more visible and receiving more attention and sympathy (e.g. the unemployed and elderly) whereas others are hidden and largely neglected by the public (e.g. women and the working poor). It is commonly believed that poor people are mostly “old, weak, ill or disabled” and they are poor mainly because they do not have the ability to work. In addition, there are new categories of poor people, e.g. women who are single parents, new immigrants and people with low incomes due to exclusion or exploitation. Before embarking on a discussion of state policies and their failures, in the following section I shall briefly survey the conditions of the poor in Hong Kong.

**Absolute Poverty**

The CSSA is the major income support scheme in Hong Kong. Families receiving CSSA need to pass a stringent income and asset review. Being the most important safety net in Hong Kong’s social protection, the CSSA can be seen as a kind of state service for the poor, and recipients of CSSA can be regarded as constituting a core group of the abject poor in Hong Kong.

In 1991, there were only 72,969 CSSA cases; whereas by March 2001, the number had increased significantly, to 228,263 and further to 297,557 cases by February 2006. This reflects a tremendous growth in the poor population from the 1990s to the present. Looking at the CSSA recipients according to the type of case, it is clear that senior citizens constitute the main body of them, making up more than 50% of the total recipients. Most of the abject poor are elderly people. As Hong Kong does not have a comprehensive Old Age Income Protection Scheme, needy senior citizens who do not have an income must depend on the CSSA for survival.

Unemployed and low-income groups are the two most significant categories in terms of increase in CSSA cases. In 1991, there were 2,248 CSSA cases of unemployment, which jumped to 30,290 cases in 1998 and further increased to 39,175 cases by July 2006. Low earnings cases also increased rapidly. In 1991, there were only 1,036 low income CSSA cases. The figure first went up to 7,348 cases in 1998, and then rose further to 18,438 cases by July 2006. This clearly indicates that more and more able-bodied people in Hong Kong are falling into the poverty trap because of changes in labour market conditions, causing them and their families to depend on CSSA for survival.
The changing composition of CSSA recipients shows how changing economic conditions have made their impact on people’s livelihoods. Poverty is no longer a problem confined to those who are “old, weak, ill and disabled.” Structural conditions, such as rising unemployment triggered by economic downturn and economic restructuring, have become important factors in the creation of poor households.

Relative Poverty

In September 2004, the Hong Kong Council of Social Service (HKCSS) attempted to define the poverty line, suggesting that those households earning half (or less) of the median monthly domestic household income would be classified as poor households with a standard of living in the poverty zone. It also examined the number of people of different age groups living in low-income households. I adopt the same definition of poverty in this paper to analyse the changes in Hong Kong’s poor population and the poverty rate from 1996 to 2005.

According to the above definition of poverty (see Figure 1), existing findings show that there was a trend towards an increase in the poor population and a rise in the poverty rate between 1996 and 2005. It is suggested that a total of 950,000 persons were living below the poverty line in Hong Kong in 1996, representing a poverty rate of 15.0%. In 2005, the overall poor population increased to a historical high of 1,216,000, amounting to 17.7% of the Hong Kong population. In ten years, the poor population had increased by 28%, while the poverty rate increased by 18%.

By defining poor households as those having an income of half (or less) of the median monthly domestic household income, and by regarding people within the poor households as the poor population, we further look into the number of poor people and the poverty rate amongst different age groups for the period 1996–2005. Taking those aged 0–14 as children; 15–24 as youths; 25–64 as adults and 65 or above as old people, the poverty rate for each group is defined as the percentage of poor people within the corresponding age group. Between 1996 and 2005, there was a significant increase in the poverty rate across all age categories. The extent of increase was lower among children and adults, but was more significant among youths and senior citizens. In 1996, 228 out of every 1,000 children (0–14) in Hong Kong were poor. The figure increased to 250 in 2005. Although the child poverty rate rose, the actual number of poor children fell due to an overall decrease in the child population from 271,300 in 1996 to
260,500 in 2005. In 1996, 115 youths (aged 15–24) out of every 1,000 youngsters were poor; increasing to 181 in 2005. Accordingly, the population of poor youths increased drastically: in 1996, there were 103,300 poor young persons, compared with 163,500 poor young persons in 2005, an increase of 60,000 poor youngsters in a decade. The adult poverty rate increased from 11.3% in 1996 to 13.1% in 2005. Although the rate increase was not significant, the poor adult population sharply increased from 406,800 persons in 1996 to 545,600 persons in 2005. For senior citizens, the poverty rate rapidly increased from 26.9% in 1996 to 31.5% in 2005. The actual number of poor senior citizens increased from 169,300 in 1995 to 256,400 in 2005, an increase of more than a quarter of a million persons.

**Income Disparity**

Disparity between the rich and the poor is also widening in Hong Kong. According to the Census and Statistics Department, the Gini-coefficient of
Hong Kong for 1981 was 0.451, rising to 0.476 in 1991, and reached a record high of 0.525 in 2001. This clearly indicates that Hong Kong’s income distribution has become more and more unequal (see Table 1). Meanwhile, the percentage of the total income received by the 20% of households in the lowest income bracket fell. In 1991, the 20% of households with the lowest income received 4.3% of the income of all households. This dropped substantially to 3.7% in 1996, and further to 3.2% in 2001. That is, the income of the poorest 20% of households has been shrinking. Clearly, relative poverty in Hong Kong deteriorated in the 1980s and continued to do so in the 1990s.

According to statistics provided by the World Bank and cited in the United Nations Development Programme (UNDP) Human Development Report 2006 (see Table 2), the Gini-coefficient of Hong Kong in 1996 (calculated according to per capita household income and not household income as in Table 1) was 0.434 and the income of the richest 10% of the population was 17.8 times that of the poorest 10%. The disparity between the rich and the poor in Hong Kong is serious in relation to the standard of developed economies like the USA and Canada. It is also hardly encouraging when compared to other Asian Newly Industrialised

<table>
<thead>
<tr>
<th>Table 1. Percentage Distribution of Monthly Household Income by Decile Groups of Households and Gini-Coefficient (1981–2001)</th>
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</thead>
<tbody>
<tr>
<td>1st (lowest)</td>
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<tr>
<td>2nd</td>
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<td>3rd</td>
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<td>4th</td>
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<td>7th</td>
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<td>8th</td>
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<tr>
<td>9th</td>
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<tr>
<td>10th (the highest)</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Gini-coefficient</td>
</tr>
</tbody>
</table>

Countries (NICs) like Singapore and South Korea. Hong Kong’s degree of income disparity is comparable to China’s and is worse than Indonesia’s. For an affluent city like Hong Kong, there is no room for complacency in having a glaring income disparity which is worse than that of many developing or less developed economies in Asia.

### Poverty Situation of the Poor

In their Poverty Line study, Wong and Lee suggest that the inflection point of the Hong Kong Engel Curve, which demarcates the poor from other households, was at HK$3,750 per person in 1999/2000. Using this as the poverty line, they found that 39.3% of the poor households avoid taking buses for commuting, which is one of the cheapest means of transportation. Around one third of them (33.2%) do not switch on the light even when necessary; 31.9% could not afford to give “red pocket money” (a popular kind of New Year’s gift in Chinese society) to their relatives during the previous Chinese New Year; about one quarter (23.8%) of them buy food just before the market closes (when discounts are offered) to take advantage of cheaper prices. Last but not least, almost one-fifth (18.4%) of them have at least one household member without a bed to sleep in. Quite a number of poor households cannot manage to attain even basic living conditions like having enough food and maintaining good health. Almost one-tenth (9.4%) of the poor households cannot afford necessary medicine.

### Table 2. Disparity Situation in Different Regions

<table>
<thead>
<tr>
<th>Country or region</th>
<th>Year</th>
<th>Gini-coefficient</th>
<th>Richest 10% to poorest 10%</th>
<th>Richest 20% to poorest 20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>2002</td>
<td>0.495</td>
<td>24.6</td>
<td>12.8</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1997</td>
<td>0.492</td>
<td>22.1</td>
<td>12.4</td>
</tr>
<tr>
<td>China</td>
<td>2001</td>
<td>0.447</td>
<td>18.4</td>
<td>10.7</td>
</tr>
<tr>
<td><strong>Hong Kong</strong></td>
<td><strong>1996</strong></td>
<td><strong>0.434</strong></td>
<td><strong>17.8</strong></td>
<td><strong>9.7</strong></td>
</tr>
<tr>
<td>Singapore</td>
<td>1998</td>
<td>0.425</td>
<td>17.7</td>
<td>9.7</td>
</tr>
<tr>
<td>United States</td>
<td>2000</td>
<td>0.466</td>
<td>15.9</td>
<td>8.4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2002</td>
<td>0.343</td>
<td>7.8</td>
<td>5.2</td>
</tr>
<tr>
<td>Canada</td>
<td>1998</td>
<td>0.331</td>
<td>10.1</td>
<td>5.8</td>
</tr>
<tr>
<td>Korea, Rep. of</td>
<td>1998</td>
<td>0.316</td>
<td>7.8</td>
<td>4.7</td>
</tr>
</tbody>
</table>

Source: UNDP (2006), Human Development Report, Table 15.

Data refer to income shares by percentiles of population, ranked by per capita income.
when they fall sick; and 6.8% of them had insufficient food for at least one meal during the past week.

Social Exclusion in Hong Kong

Berghman argues that the failure of functions in one or more systems (the democratic and legal system, labour market system, welfare system, and family and community system) will give rise to social exclusion. Unfortunately in Hong Kong, all four systems malfunction to some degree and are thus likely to produce social exclusion. With respect to the democratic and legal system, the construction of the identity of “new immigrants” created cleavage in civic integration. In 1999, the HKSAR government actively sought the interpretation of the Basic Law by the National People’s Congress Standing Committee (NPCSC) to limit the right of abode of mainland-born children of Hong Kong residents. In order to win the support of local residents, the HKSAR government claimed vigorously that if the verdict of the Court of Final Appeal was adhered to, there would be 1.67 million new immigrants coming to Hong Kong from the mainland, and insisted that this would create tremendous pressure on economic, housing, social welfare and education. In the course of the public debate over the issue of right of abode, the HKSAR government actually accentuated the cleavage and antagonism between local residents and the new immigrants. The ensuing outburst of violence (most dramatically the incident of confrontation and a fire in the headquarters of the Immigration Department in August 2000) led to further civic cleavage.

Where the labour market system is concerned, the study of marginal workers by Wong and Lee suggests that labour market discrimination as to age, sex and ethnicity do exist. The unemployed, underemployed and working poor are found mainly among the elderly, women, new immigrants, and ethnic minorities. Marginal workers are those workers who are excluded from the primary labour market because of their age, sex, or ethnicity. The growth of marginal workers is partly attributed to the reorganization of state provisions. As an employer, the HKSAR government promoted casualization in order to cut costs. Flexible management strategy, such as subcontracting, out-sourcing, hiring fixed-term contract, temporary and part-time employees, has been adopted. Casualization and flexible employment are even more widespread in the private sector. All these management strategies facilitate a process of informalization of employment and marginalization of employees.
(particularly those with a low standard of education and who are unskilled or semi-skilled). Divisions within the labour market undermine the possibility of economic integration.

Exclusion is also evident in the provisions of social services in the welfare system. For example, the requirement that half of the household members should reside in Hong Kong for more than seven years in order for them to be eligible for public rental housing has excluded many new immigrant families from access to public housing, forcing them to find accommodation in non-self-contained low-rent partitions or rooms in the inner city areas.

Lastly, the division between the rich and the poor is also witnessed in the process of urban renewal in the community system. Given that land is precious in urban Hong Kong and real estate development and speculation are always active and vibrant, the redevelopment of the old urban areas is very tempting. The setting up of the Urban Renewal Authority was intended to speed up urban renewal. However, the local residents, most of them tenants, are relocated with only a small amount of compensation, whether or not they are willing to leave. Many of the poor people living in the inner city areas are dependent on jobs in the local economy. Redevelopment, which quite often means building new offices and expensive apartments, with a view to creating a gentrified environment, has a dampening effect on the community concerned in the sense that economic activities and job opportunities for the residents (many of whom are poor) have been driven out of the neighbourhood. Those sections of the community still untouched by redevelopment become ghettoized and the contrast (and the spatial division) between the poor and the rich community becomes even more appalling. 14

In brief, social exclusion is quite marked and makes the poverty situation in Hong Kong worse. Nevertheless, the HKSAR government continues to see the roots of the poverty problem in a lack of individual human capital and the motivation to strive for a better life. Social exclusion shaped by institutional and structural factors is largely ignored.

Half-Hearted Anti-Poverty Policy

Before 1997, the colonial government did not openly acknowledge the prevalence and severity of the poverty problem in Hong Kong. Social welfare was residual in nature and served as a safety net for the vulnerable and the unfortunate minority rather than redistributing resources. Chris
Patten, the last Governor, stated in his 1996 Policy Address that “Quite deliberately, our welfare system does not exist to iron out inequalities. It does not exist to redistribute income. Our welfare programmes have a different purpose. They exist because this community believes that we have a duty to provide a safety net to protect the vulnerable and the disadvantaged members of society, the unfortunate minority, who, through no fault of their own, are left behind by the growing prosperity enjoyed by the rest of Hong Kong.”

Apart from a philosophy of “residual welfare,” social policy for combating poverty in Hong Kong is also restricted by the Basic Law. According to Chiu, the Basic Law requires the Hong Kong government to maintain a by-and-large balanced budget; hence an increase in public expenditure is only possible when budget surplus is available. When the HKSAR encountered budget deficits for the years 1998/99 to 2004/05, the government chose to desert the growing poverty problem for the sake of restoring a balanced budget.

It was not until 2000 that Tung Chee-hwa, then Chief Executive, officially admitted for the first time in contemporary Hong Kong that poverty was a serious problem. In his 2000 Policy Address, Tung agreed that the Asian financial crisis had had an impact on the community, particularly on lower-income families, some of whom had suffered a substantial drop in income. Tung pledged that he would focus on the plight of low-income families in the coming year. However, the anti-poverty policy of the HKSAR government is at best half-hearted. Many government officials considered relative poverty as a necessary evil, a part of social reality, and a kind of hardship that can motivate the poor to work hard (and thus a driving force for economic development in a capitalist society). Accordingly, Tung emphasized in his 2000 Policy Address that the wealth gap was an unfortunate but inevitable phenomenon in the course of economic development, and was not unique to Hong Kong. Demonstrably, the SAR government’s intention to alleviate relative poverty was less than lukewarm.

Since 1995, local non-government organizations (NGOs) have repeatedly put forward proposals to set up an inter-departmental commission to deal with the poverty problem. However, it was only in the wake of his resignation in 2005 that Tung accepted the idea and established the Commission on Poverty. The Commission on Poverty is chaired by the Financial Secretary, and comprises government officials, legislative councillors, leaders from the private business sector, representatives from
NGOs, experts and academics. “(The Commission’s) task will be to study, from a macro perspective, how to help the poor in terms of financial, employment, education and training needs.”20 Undeniably, the launch of the Commission on Poverty was a positive move. However, there have been few signs of change in the government’s philosophy, policy or strategy for poverty alleviation. It is contended that a misplaced diagnosis of the poverty problem has misled the government in its stated intention to tackle the looming problem of poverty.

Misplaced Diagnosis

Unemployment vs. Poverty and Social Exclusion

The first flaw in the government’s diagnosis is its failure to see poverty in the light of social exclusion. The official discourse of the HKSAR government constructs the challenge and problem facing Hong Kong as unemployment, assuming that if the unemployed workers can secure jobs and get back into the labour market, the problem of poverty will disappear as a result.21 Some officials even allege that “every job is a good job and a low pay is better than no pay.”22 A return to the labour market after training or retraining to face the economic restructuring which is taking place is seen as the key factor in lifting a person out of the poverty zone.23 However, such an assumption is problematic, and employment alone is not sufficient to alleviate the poverty of the working poor. Indeed, the conditions of the working poor are found to be equally appalling in contemporary Hong Kong.

As a consequence of economic restructuring, many unemployed persons and dislocated workers find it difficult to go back to those trades that they are most familiar with. Manufacturing jobs, following the hollowing out of manufacturing industries, have been relocated. The impacts of the restructuring process are uneven, hitting most severely those who are poorly qualified, unskilled, and middle-aged. Meanwhile, women and new immigrants are also likely to find themselves working in the secondary labour market. In the process of becoming a sector, the working poor sector is composed of the aged, the poorly qualified, the unskilled, women, and recent immigrants. They earn low wages and have poor working conditions. Without denying the contributions of job creation, it is emphasized here that efforts aimed at lowering unemployment rates fail to address the problems encountered by the working poor and are far from
adequate to deal with the problems of the lower class. Unemployment and/or underemployment are part of the problem of working poverty; the defining feature of the working poor is marginality.

**Marginality Trap**

Deindustrialization has given rise to the growth of flexible managerial practices, expanding low-wage service jobs, and reduction of welfare and social insurance measures. Consequently, urban labour markets in advanced economies are segmented into a three-tiered system: a high-wage, knowledge-based professional labour market, a shrinking average-wage labour market, and a low-wage and low-skilled labour market (as shown in Figure 2). Some of the unemployed, can occasionally go back to the low-wage labour market, either through their own efforts or as compelled by the workfare requirement of the state. But there is nevertheless still an outsider group of the permanently unemployed that remains socially excluded from the so-called mainstream opportunity structure.

Segmentation of the labour market structures mobility opportunities. Those whose skills and qualifications are losing their market value are likely to find themselves trapped in a segment characterized by low-wage jobs, non-standard employment, and high risk of redundancy or unemployment. Workers trapped in that labour market segment are vulnerable and can easily become the working poor. Among these vulnerable groups, the most desperate are the so-called labour market outsiders or the chronic unemployed who rely on their spouse’s earnings or on social welfare.

Marginalized workers consist of those trapped in the low-wage labour market segment, the underemployed, and the chronic unemployed. Their marginalized labour market position makes their livelihood vulnerable. Their vulnerability is manifested in two ways: a lack of bargaining power in negotiating for better terms of employment, and a lack of resources and capabilities in dealing with negative life-course events, like illness and unemployment. The marginalized workers’ bargaining power vis-à-vis their employers is minimal because the latter can easily replace them with other labourers who are readily available. Consequently, neither “voice” nor “exit” can be an effective negotiating strategy for these workers.

In general, marginalized workers have to work for long hours, with very low pay, uncompensated over-time work, appalling working
conditions and strict surveillance by their employers. They are very much exposed to the risks of negative life-course events. In the past, these risks could be mitigated by the existence of social security. But nowadays, workers are forced to become self-reliant as a result of welfare cuts. Meanwhile, job insecurity coupled with low incomes makes it difficult for the marginalized workers to save enough resources to insure against or to cope with life-course risks. The poor people in Hong Kong are constantly in a state of uncertainty, shifting between unemployment, underemployment and survival by becoming the working poor. The prospect of getting out of the poverty trap is dim.

**The Rise of the Working Poor**

Owing to the dim prospect of getting out of the poverty trap, and the “fluidity” between unemployment, underemployment and being the working poor, the working poor population keeps on increasing in response to short-term economic fluctuations, and stays at a high level throughout the entire period of economic slowdown.
Figure 3 reports a change in the trends of unemployment and the number of working poor from 1996 to 2005. There were three phases in Hong Kong’s post-1997 economic recession: 1996–1999, 1999–2001 and 2001–2004. In these phases of economic downturn, there have been different relative changes in the numbers of unemployed and working poor population.

**The First Phase (1997–1999)**

The first phase lasted from 1997 to 1999. During the first three years of the economic downturn, the unemployed population rose quickly from 70,000 to 210,000, an increase of 140,000 persons. Meanwhile, the working poor population only rose from 180,000 to 220,000, an increase of 40,000 persons. During the first phase of the economic recession, local corporations responded mainly by closing their businesses or cutting jobs rather than significant wage reduction. As a result, the number of the working poor increased only slightly. As economic recession was expected to be short-lived, both employers and employees were somewhat slow in making adjustments at the wage level.
The Second Phase (1999–2001)

During the three years of the second phase of economic recession, from 1999 to 2001, the growth pattern of the working poor and the unemployed was different from the first phase. The working poor population grew more than that of the unemployed. The working poor increased from 220,000 to 330,000, an increase of 110,000 persons, while the unemployed population actually decreased from 210,000 to 170,000. There was a short-lived economic rebound in the middle of this phase of recession. But it only helped reduce the number of the unemployed: the working poor population continued to grow, and sharply. During this brief economic recovery, most of the new jobs created were for low-income service workers. Many of the unemployed accepted such low wage jobs simply to earn a living.

Concomitantly, there was also a change in labour demand. Wages of supervisory, technical, clerical and other non-production workers dropped significantly in the first quarter of 2000. This delayed wage cut hinted that in the first phase of the economic recession employers had reduced headcount instead of adjusting wages in order to lower their costs. Growing pressure on corporate adjustment eventually led to more drastic wage cuts. In view of the existence of a large pool of unemployed workers in the market, employers could act aggressively in wage bargaining. This new recruitment and human resources strategy was one of the important factors in pushing down the wage levels (particularly of those jobs requiring few marketable skills and credentials).

The Third Phase (2001–2004)

During the third phase of the post-1997 economic recession (2001–2004), there were two distinct sub-phases where the unemployed population and the working poor mirrored each other. In 2001 and 2002, the unemployment numbers increased greatly from 170,000 to 260,000, but the working poor population decreased from 330,000 to 300,000. The economic rebound in 2000 proved to be short-lived. In the latter half of 2001, global economic slowdown together with the socio-economic and political impacts of the September 11 incident pulled the Hong Kong economy back into hardship. The year 2002 recorded a negative growth of −4.3% in terms of gross domestic product (GDP) per capita, the worst record in ten years. Employers became very cautious in recruitment and in business planning. Size of establishment was carefully managed and
flexibility was again emphasized. An increase in redundancies led to a rise in unemployment rates in 2001–2002. The size of the working poor population was reduced as even low wage jobs had been terminated.

Between 2003 and 2004, as the economy began to pick up, statistics on GDP per capita recorded an increase of 3.4%. In 2003–2004 unemployment dropped from 270,000 to 240,000 persons. However, the working poor increased slightly, from 356,000 people to 375,000 people. On the whole, employers had learnt to be cautious. Economic recovery might push them to take on more new recruits, but they had learnt to run flexible organizations, offering the new recruits part-time or temporary jobs and keeping wages at a low level. Such practices ensure that even if the economy improves and corporations again start to recruit staff, the wage package would not have to be adjusted upward as a consequence of this.

In 2005, the second year of the recent economic revival, GDP per capita recorded a positive growth of 4.5%. The number of unemployed persons and the working poor dropped but the drop in unemployment was substantially greater than that of the working poor. Unemployment dropped by 40,000 persons, from 240,000 in 2004 to 200,000 persons in 2005. The working poor population only dropped by 20,000 from 370,000 to 350,000 persons in 2005. These statistics suggest that unemployment in 2005 had returned to the 1999 level whereas the working poor population stayed at the high point of the 2003 level. It seems that once wage adjustment has been started, in a context of no shortage of labour, wages will not be readjusted quickly, even though market conditions have improved. The assumption that problems of poverty would be automatically dealt with by market forces when the market rebounded is overly simplistic.

**Misled Interventions**

As discussed previously, in the long-term economic slowdown, the bargaining power of employers and employees has tipped further to the advantage of the former. Both wages and working conditions for the least skilled and qualified have been kept at a far from satisfactory level. The problem of the working poor persists. Owing to a policy framework of “positive non-interventionism” and the practice of “small government, big market,” the HKSAR government is most reluctant to set up a minimum wage system, which is the major policy in other countries in tackling the
problem of the working poor. The HKSAR government insists that government should not intervene in the wage determination mechanism. The labour market should be left on its own, operating as freely as possible.

After prolonged calls from trade unions and NGOs for the setting-up of a minimum wage system, the Chief Executive Donald Tsang responded by emphasizing that “views within the Labour Advisory Board (LAB) and different sectors of the community remain diverse.” 28 Tsang only agreed in his Policy Address 2006–2007 to develop a “Wage Protection Movement” for wage protection of employees in the cleansing and security service sectors through non-legislative means.

Chiu points out that the role of the HKSAR Government in social policy and welfare provisions has been significantly restricted by opposition from the local capitalists, who for a long time have enjoyed protected privileges in Hong Kong. 29 The HKSAR government avoided the setting up of a minimum wage system. It also turned down proposals for setting up universal retirement benefits scheme for the poor elderly and a basic needs budget for the CSSA recipients. Room for social policy initiatives is also limited by the requirements of a low taxation system and the maintenance of a surplus budget prescribed by the Basic Law. In 2005, the budget for the direct poverty alleviation policy for the years from 2006 to 2010 was set at only HK$60 million a year, money which is generated from the newly established auctioning of Personalized Vehicle Registration Marks. 30 The budget for direct poverty alleviation is thus minimal, as HK$60 million constitutes a mere 0.028% of the recurrent public expenditure of HK$212,965 million in 2006–2007.

The HKSAR government has chosen to stay with a limited set of policy tools in dealing with poverty. Its major policy strategies are “economic development” and “human capital investment.”

Human Capital Investment

In his Policy Address for 2000, Tung Chee-hwa claimed that the major cause of poverty in Hong Kong was the mismatch of human capital. He explained that most low-income workers do not have the necessary skills or the educational background to adapt to the new knowledge-based economy. Following such a diagnosis, the proposed poverty alleviation policies were old wine in a new bottle, short of new ideas and strategies. The proposed strategies aimed at “providing more opportunities for education and ensuring sustained healthy economic development” to create
more jobs and facilitate social advancement. The emphasis was placed on economic development and human capital investment, an approach largely similar to that practised by the colonial government in the 1970s and 1980s. Donald Tsang, who had been responsible for the economic and financial affairs of the government for an extended period, has stayed close to the established policy framework. In his Policy Address for 2005–2006, he stated, “Our policy thinking is to help people to help themselves, with a focus on increasing employment and reducing inter-generational poverty.”

**Human Capital vs. Social Capital**

Following the above diagnosis, most of the government’s resources were devoted to setting up various education and training schemes so as to invest in the human capital of the poor. These schemes included Employee Retraining Schemes for the unemployed middle-aged workers, and the Youth Pre-employment Training Programme and Youth Work Experience and Training Scheme (YWETS) for the unemployed youth. All of these programmes aimed at tackling the unemployment problem, but they had little to offer to the working poor. The major outcome measure of these programmes was the employment rate of the participants. But the wage level of the participants was not included as an indicator of programme achievement.

In the 2006 Policy Address, Donald Tsang reaffirms this strategy, “To assist those in need who are capable of working, our focus is not only on providing welfare, but also on enhancing their capability through education and training, and giving them proper employment assistance and support.” The CoP explicitly states that support to low-income employees should not be focused on passive assistance, but rather on proactive support, including the provision of training and employment assistance to help them enhance their capacities and move out of poverty. The human capital investment approach is the core strategy to achieve the CoP’s objective of promoting “From Welfare to Self-Reliance”. Furthermore, in the discussion paper “Training, Retraining and Continuing Education,” the CoP admits that an income disparity does exist between workers with a high educational level and those with a low level of education. The earnings of those with tertiary education have experienced significant growth in real terms, but the earnings of those with a low level of education have remained relatively stagnant. Of the approximately 260,000 jobs
created since mid-2003, nearly 80% are high-skilled jobs. The basic diagnosis of the HKSAR government is that the mismatch arising from an over-supply of poorly-educated and low-skilled workers and the over-demand for workers to fill jobs which require a high level of education and skills is the root of unemployment and income disparity. The logical prescription for such a diagnosis is to provide the necessary education and training to invest in human capital development of the poorly-educated and low-skilled unemployed and poor, so that they can take up the vacancies at the higher end of the occupation ladder. This human capital investment strategy was in fact adopted in the colonial period when the Employees Retraining Scheme and various youth training programmes were set up.

However, the poverty alleviation effects of these schemes are far from satisfactory. Chan and Suen conducted research on both the short-term and long-term effects of the Employees Retraining Scheme (ERS), and found no evidence of any positive effect on the earnings or employment rate of trainees one year after the completion of training. They also conducted a follow-up study to measure the impact of the retraining scheme three years after the completion of training. They found that the labour market performance (in terms of earnings, duration of employment, employment and unemployment status) of the trainees showed no evidence of any positive programme effect, as compared with a group of job seekers.

Recent policy initiatives have focused on human capital instead of social capital formation of the poor, resulting in a concentration of resources on those youth training and placement projects at the expense of the unemployed adult generation. A more holistic view of poverty alleviation would be for the HKSAR government to focus on both poor youth and their parents’ generation rather than focusing on the youth generation alone. Furthermore, the Hong Kong government should not only be concerned about the development of human capital, but should also facilitate the positive development of social capital and find ways to deal with social exclusion.

For the development of the social capital of poor households, the Hong Kong government set up the Community Investment and Inclusion Fund in 2001. Its objective is not poverty alleviation as such but on promoting community participation, mutual assistance, support, and social inclusion. A study by the author suggests that in order to lift families out of poverty, specific policies and programmes should be launched to improve
the social capital of the poor households both in terms of both quality and quantity. According to our analysis, the quality of its social network has more influence on a family’s chance of escaping from poverty than the quantity of connections in its social networks. This confirms the significance of social capital in finding leverage resources, ideas and information outside the community.

New Focus in the Strategy of Poverty Alleviation

Clearly, a new policy framework is needed for the HKSAR government if it is to solve the poverty problem in Hong Kong. Adherence to the old policy paradigm has proved to be futile in alleviating poverty. The constant flux in the shift between unemployment and poverty in work leads the poor people nowhere, if government policy continues to neglect the issue of low pay in its efforts to curb unemployment. It is imperative for a long-term and sustainable poverty alleviation policy to incorporate concern for the “working poor,” before improvement can be brought to the life of those trapped in poverty. Moreover, the goals of the HKSAR government’s poverty alleviation policy should go beyond economic development, “human capital investment,” or the creation of job opportunities. Macro economic policy should be coupled with social development goals, so that the social vision of developing social capital and mitigating social exclusion can be realized.

Notes

1. Stewart MacPherson and Oi Yu Lo, *A Measure of Poverty* (Hong Kong: City University of Hong Kong, Department of Public and Social Administration, 1997); Henry Mok and Shing On Leung, *Hong Kong Poverty Rate, Series on Social Security Research #15* (Hong Kong: Hong Kong Social Security Society, 1997); Hung Wong and Hoi Wai Chua, *Research on Expenditure Pattern of Low Expenditure Households in Hong Kong: Research on Poverty in Hong Kong* Series No. 1 (Hong Kong: Hong Kong Council of Social Service and Oxfam Hong Kong, 1996).
7. The statistics on CSSA cases are retrieved from various issues of the Hong Kong Monthly Digest Statistics published by the Census and Statistics Department, HKSAR Government.
8. Census and Statistics Department (Note 7).
9. The Hong Kong Council of Social Service (Note 2).
10. Hung Wong (Note 2).
11. Hung Wong and Kim Ming Lee, Hong Kong Poverty Line Study (Hong Kong: Division of Social Studies, City University of Hong Kong, 2002).
17. Hong Kong SAR Government, The 2002–03 Budget: Speech by the Financial Secretary, the Hon. Antony Leung Moving the Second Reading to the Appropriation Bill 2002 (Hong Kong: SAR Government Printer).
19. Hong Kong SAR Government (Note 17), paragraph 82.
20. Hong Kong SAR Government, Chief Executive’s Policy Address 2005 (Hong Kong: Hong Kong SAR Government, 2005), paragraph 44.
21. Hong Kong SAR Government, Chief Executive’s Policy Address 2000 (Hong Kong: Hong Kong SAR Government, 2000), paragraph 89.
22. The author received this comment from a senior HKSAR Government official in discussing welfare issues.
23. Hong Kong SAR Government, Chief Executive’s Policy Address 2003 (Hong Kong: Hong Kong SAR Government, 2003), paragraph 57.


26. Lee and Wong (Note 22).

27. “The working poor” refers to those employed persons with a monthly income of less than 50% of the median income of all employed persons, excluding foreign domestic helpers.


29. Chiu (Note 16).

30. The estimates of an income of 60 million for poverty alleviation purposes were given in the LC Paper No. CB(1)408/05-06. Paper for the House Committee meeting on 2 December 2005, Report of the Bills Committee on Revenue (Personalized Vehicle Registration Marks) Bill 2005, paragraph 39.

31. Hong Kong SAR Government (Note 17), paragraph 84.


33. Hong Kong SAR Government (Note 27), paragraph 64.


37. Lee and Wong (Note 24).