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## Cost of Living and Income Security in Hong Kong

Wong Hung

Chinese University of Hong Kong

These social changes can be compared to an hour-glass, where grains of sand represent households desperately falling to the bottom and money is like air accumulating in the upper part. This income distribution not only looks like an hour-glass, but the metaphor also describes an economic mechanism...in the case of the hour-glass society 'the poor live off what trickles down from the expenditure of the rich'

(Lipietz, 1998: 182)

## Introduction

Lipietz captures the recent social changes in France as an ‘hour-glass society’, which can be used to describe the current widening gap between the poor and the rich and the economic mechanism in Hong Kong. Owing to the mounting property prices and rental cost in the 1990s, both wealthy and poor people found the cost of living in Hong Kong has been increasing tremendously and rapidly. In addition to rising expenditure, many low-income households in Hong Kong were facing the problem of decreasing and fluctuating income. Among other factors, the deindustrialisation in the 1980s, the rising of structural unemployment since the mid-1990s and the outbreak of the Asian financial crisis in 1997 were the main socio-economical factors, which made significant adverse impacts on income security of the employees in Hong Kong. This paper will examine the changes of cost of living and income security in Hong Kong in the 1990s and explore the reasons behind such changes.

## Rising Cost of Living in the 1990s

In 2000, Hong Kong is the third most expensive city in the world for the expatriates to live, according to a study by consultants William M. Mercer. With New York as the base city scoring 100 points, Hong Kong scores 141.5 points, that is cost of living for the expatriates in

Hong Kong is 41.5% higher than those living in New York. The survey measures the comparative cost of over 200 items, which includes the cost of housing, food, clothing and household goods, together with transport and entertainment (William M. Mercer 2000).

Not only the foreign executives of the MNCs, but also the local residents find Hong Kong an expensive city to live in. According to a survey conducted by the China Hong Kong Development Fund in March 2000, over 1 million Hong Kong citizens would like to live in Shenzhen after their retirement in the next ten years. The respondents explain that their main reason is to escape from the high cost of living in Hong Kong. The survey also finds that low-income respondents are more likely to retire in Shenzhen than the high-income respondents. The researcher suggests that the high property price and high living cost in Hong Kong are the main reasons for the low-income households to prefer to live in Shenzhen, as they want to lower their living cost (Sing Tao Daily 10/4/2000).

Cost of living indices measure the cost of reaching a given standard of living under different economic circumstances. Under changing prices, the true cost of living index is the relative (minimum) cost of attaining a reference-level living standard at each set of prices (Crawford 1996). In Hong Kong, a Composite Consumer Price Index (CPI) is compiled by the Census and Statistics Department. The CPI measures the changes in the price level of consumer commodities and services generally purchased by households over time. The year-on-year rate of change in the CPI is widely used by the public and the media as an indicator of the inflation in Hong Kong (Census and Statistics Department 2000).

Crawford (1996) argues that if relative prices move and households consume goods and services in different proportion, then each household will have its own unique cost of living index. In practice, for comparison and macro-analysis purpose, it is not possible and unworthy to construct household unique cost of living index. In Hong Kong, different CPIs are compiled to reflect the impact of consumer price changes on low, medium and high expenditure households. The monthly expenditure ranges of the CPI(A), CPI(B), and CPI(C) at 1999 prices are broadly equivalent to \$4,500-\$18,000, \$18,000-\$34,000 and \$34,000-\$68,000 respectively.

[“Table 4.1 near here”](#)

Table 4.1 shows the annual rate of changes of the different CPIs, which represent the rise and fall of the cost of living for different households in Hong Kong. From 1990 to 1994, the average inflation rate, measured by the annual rates of change of composite CPI, was 9.8%, signifying that the cost of living mounted rapidly during the boom of the bubble economy in the first half of 1990s. From 1995 to 1997, the average inflation rate retarded and decreased to 7.1%. After the 1997 Asian Economic Crisis, Hong Kong has faced deflation, so the average inflation rate in 1998 and 1999 sharply decreased to -0.6%. The rise and fall of different CPIs: A, B and C follow the similar pattern of the composite CPI. From Table 4.1,

nevertheless, we can learn that from 1990 to 1997 the rate of rise of [CPI(C) is generally greater than CPI(B) and CPI(A), while after 1997 the rate of decrease of CPI (B) is greater than the CPI (A) and CPI(C). The difference in the rate of change of CPIs shows that in the inflation period the wealthiest households (top 10%) face higher increase in their cost of living, while the middle expenditure households benefit more in the deflation period.

[“Table 4.2 near here”](#)

Although Hong Kong has experienced deflation in 1999, the cost of living in Hong Kong is still high. The composite CPI in 1999 was 113.2, which was just lower than the level of 114.7 in 1997. On a whole, the cost of living for all households in Hong Kong recorded a 13.2% increase from 1994 to 1999. The CPI(A), CPI(B) and CPI(C) increased 13.2%, 12.4% and 14.5% respectively from 1994 to 1999. It demonstrates that the cost of living for low, medium and high expenditure households have been increasing significantly in the 1990s.

## Rising Housing Cost and its Share in Household Expenditure

Rising housing cost in the 1990s was the most important factor for the growing cost of living in Hong Kong. Liu (1998) suggests that strong demand and restricted supply of land

push property price to an unrealistic level. The residential property price index had increased sevenfold in the last ten years before the market crashed in late 1997. Residential property prices in Hong Kong overtook Tokyo and all major cities to become the highest in the world. Rising property price inevitably pushed up the rental cost of accommodation.

During the late 1980s and the early 1990s, the housing expenditure pattern of Hong Kong households faced an important change. Families spent more of their budget on housing with less on food. Referring to Table 4.3, the share of housing in total household expenditure increased more than 5 percent from 20.1% in 79/80 to 25.6% in 89/90. The increasing trend continued in the 1990s, with another 7 percent of the total expenditure added on housing, which increased to 32.2% in 99/00. The share of transport expenses also increased from 6.4% in 79/80 to 9.2% in 99/00. Concomitantly, the share of food of the total household expenditure decreased from 38.3% in 84/85 to 25.7 % in 99/00. For other expenditures, their shares in the total expenditure have been stable since 79/80. In 94/95, housing surpassed food to become the largest single item of household expenditure.

[“Table 4.3 near here”](#)

Owing to the expanding share of housing in the total household expenditure, the rise and fall of the housing cost is the most important factor for the change of cost of living. In

1999, the change of housing price contributed to 40.6% to the rate of change in Composite Consumer Price Index (Census and Statistics Department 2000: 38). According to the SDI 2000 indicators, the 'expenditure on housing as share of total household expenditure' ranked 40 out of the total 47 indicators by 1998 performance.

In conclusion, households in Hong Kong had to put more share of their expenditure in meeting the tremendously rising estate price and rent. The changing expenditure pattern shows that the households in Hong Kong spent most of their increasing income to finance the housing cost. After paying the mounting housing expenditure, most Hong Kong families did not have extra financial resource to improve their quality of life.

### Impact of Rising Housing Cost on Different Types of Households

According to the Households Expenditure Survey (HES) 99/00, the lowest 0-5% expenditure group of one-person household spent 42.9% of their total expenditure on housing while the lowest 5-10% expenditure group spent 34.4% on housing (see Table 4.4). The ratio then decreased to 32% level for the 10-20% expenditure group. For the 40-50% expenditure group the ratio significantly increased to 55.2% while for the 50-100% highest expenditure group, the ratio was 45.1%. This curve shows that, on the one hand, the poorest people had to spend about 40% of their expenditure to rent a bed sit or a tiny board-partition-room, and on the other hand, the middle class used up more than half of their expenditure (55%) to repay

their home mortgage . It demonstrates that high housing cost has increased the cost of living of both the poorest sector and the richest one in Hong Kong.

“Table 4.4 near here”

Comparing the changes in expenditure pattern of the low expenditure households in the 1990s, Wong and Chua (1996) conclude that increasing poverty in Hong Kong is the result of increasing housing cost borne by the low expenditure households who have to squeeze their food and other expenditures. Data in Table 4.5 reveal that the growth rate of food expenditure for the one-person households of the lowest 5% expenditure group from 89/90 to 99/00 was 55%, which was lower than the growth rate of inflation (72%) during those 10 years. However, the growth rate of housing expenditure for these households was 228%, which tripled the inflation rate of the same period. This signifies that due to the bubble economy in the late 1980s, rising property price induced higher rental cost, which had increased the burden of the low-income households (See Table 4.5).

“Table 4.5 near here”

The rise of housing cost had greater impact on small households and those living in



private housing. These households spent larger proportion of their total income on housing. Unlike the households of more members, larger proportion of single person households lived in private housing. It is because the supply of public housing used to neglect the need of single-person and two-persons households. Although single-person households can apply for public rental housing, the waiting time was so long that most of them were forced to take up accommodation in the private sector.

In 99/00, the lowest 5% expenditure group of single-person households spent \$699 on housing. During that period, the average rent of a bed sit was around \$700 . Bed sit were the cheapest means of accommodation in the private housing market . These people, however, had to use up 43% of their expenditure on housing and squeeze their other expenditures.

The low-income households living in the private housing spend more on housing than their counterparts living in public housing. In 99/00, among the lowest 10% expenditure group of two-person households , those living in private housing spent 35% of their total expenditure on housing, while those living in public housing only spent 25% on housing. However, those who lived in the public housing still faced the pressure of high rent. The guideline of fixing rent adopted by the Housing Authority is that the standard rent should not exceed 15% of the median income of the potential tenants. Those the one-person households of the lowest 10% expenditure group in public housing spent 38.2% on housing, which was double the standard rate set by the Housing Authority.

Wong and Chua illustrate and account for the existence of households living in ‘abject poverty’: low-expenditure households who squeeze their food expenditure in order to pay the housing expenditure in Wong and Chua (1996). They argue that the existence of a turning point of the Engel Curve is caused by the lower price elasticity of their housing expenditure than their food expenditure. They claim that the low elasticity of housing expenditure of the low-expenditure households is caused by the formalisation of the housing market in Hong Kong.

Before the 1980s, poor households in Hong Kong mainly applied for public housing to fulfil their housing need. While they were waiting for public rental housing, they had to rent bed sits or rooms in the private housing market. When they found the rent in the private housing market unbearable, the poor households could fulfil their housing need by different accommodations in the informal economy: buying squatters or rooftop flats, or through self-help strategy to build their own squatters or boathouses.

The private housing market in Hong Kong, however, have become more ‘formalized’ after the government tried to regulate and demolish the squatters, rooftop houses and caged-home. Consequently, the choices of the poor households become less and less. The only outlet for those who cannot find accommodation in the public housing, mainly single person households and new arrivals, is to live in bed sits or board-partition-rooms in the old urban areas. Worse still, facing the redevelopment of old urban areas, these poor households cannot find enough supply of caged-homes and board-partition-rooms. The elasticity of

housing expenditure of such poor households is extremely low. Therefore, if they cannot afford the rent of these lowest level accommodations, they will become homeless. In short, the increasing housing cost is the most important factor for both the rise of living cost in Hong Kong as well as the deterioration of poverty problem in Hong Kong.

### Income Security in the 1990s :

#### *Growth of Income and Inequality Poverty*

Using different definitions and measurements of poverty, various researchers come to the same conclusion that poverty problem was severe in the 1990s in Hong Kong. They estimate that about six hundred thousand people, that is 10 to 15 per cent of the population were living in poverty during the period 1994 to 1996 (MacPherson & Lo 1997; Mok and Leung 1995; Wong and Chua 1996).

The gap between the rich and the poor has been widening in the 1990s. According to the data of the Census 1996, the Gini Coefficient reached its recorded highest level of 0.525 (Hong Kong Census and Statistics Department 2001). In 1971 the Gini Coefficient of Hong Kong was only 0.43. Nevertheless, in the 1980s the economic restructuring process had induced a growing discrepancy in income; thus the Gini Coefficient was increasing and reached 0.451 in 1981 and then 0.476 in 1991. In the early 1990s the process of economic restructuring accelerated, with a concomitant widening of the gap between the rich and the

poor.

From 1981 to 1996, households with the lowest income had shown no sign of improvement, but there is a sign of decrease in the share of income of the low-income households. In fact, 20% of the households with the lowest income earned only 4.6% of total households incomes in 1981. The figure increased slightly in 1986 to 5.0 per cent. But in the period from 1986 to 1991, the figure fell to 4.3 per cent. During the period 1991 to 2001, the ratio even decreased sharply to 3.2 per cent. We can see that the income gap had widened in the 1980s and the situation of low-income households has worsened significantly in the 1990s (See Table 4.6).

[“Table 4.6 near here”](#)

### *The Impact of the Asian Financial Crisis*

In the late 1990s, the bubble economy of Hong Kong burst after the Asian financial crisis. As lots of employees faced unemployment and wage cutting, the income security of the poorest employees, mainly unskilled manual workers of low education background, has tremendously worsened. In 1990 the average income of the first quintile income households was \$3,450 while in 1997 the average real income of this group slightly increased to \$3,668. However, after the Asian financial crisis, the average income of this lowest quintile group

decreased to \$2,645 for the first nine months of 1999. In other words, from 1990 to 1999 the real income of the poorest one-fifth households in Hong Kong had decreased 23.3 per cent.

On the contrary, income of the wealthiest stratum in Hong Kong had recorded significant increase. In 1990 the average income of the fifth quintile group was \$28,850, whereas in 1997 the average real income of this group increased to \$36,397. After the Asian financial crisis, their income still recorded real growth and increased to \$37,115. Real income of the wealthiest one-fifth households of Hong Kong had increased 26.1% from 1990 to 1999. These figures clearly demonstrate that the impacts of the Asian financial crisis were mainly on the low- income, unskilled employees. However, the impacts of the Asian financial crisis on the professional and administrative employees are limited. The above figures also signify that in the early 1990s economic restructuring had worsened the income security of the low-paid and unskilled workers in Hong Kong and the Asian financial crisis had accelerated such a process.

## Factors Affecting the Income Stability of the Working Class

### *Restructuring of the Economy*

De-industrialisation became significant and rapid in Hong Kong after the early 1980s. Employment in the manufacturing sector as a percentage of total employment decreased from 41.3 per cent in 1981 to 18.9 per cent in 1996. In 1986 the number of workers employed in

manufacturing industry was 946,653. It was the largest industry in Hong Kong in terms of workers employed. Owing to the continuous outflow of production capital, manufacturing industries lost some 178,000 jobs from 1981 to 1991. This de-industrialisation process accelerated in the early 1990s while manufacturing industry lost another 570,000 jobs from 1986 to 1996. In 1996 only 574,867 workers remained in the manufacturing industry.

There was also a simultaneous change in the internal employment structure of manufacturing industries. From 1981 to 1991 the number of operatives fell 43 per cent while non-production staff increased by 11 per cent.<sup>i</sup> Manual workers in manufacturing industries had been adversely affected by the trends of de-industrialisation and white-collarisation.

Nevertheless, the relocation of capital was not exclusively restricted in manufacturing industry; some of the labour processes in the service industry had also been relocated to other countries. For example, the relocation of reception of pager calls to mainland China by various pager companies, and the relocation of document processing to China by different banks, all signify the future trend of relocation of service industry, mainly the labour-intensive process, to China.

#### *Displaced Manufacturing Workers*

Many manual workers have been forced to leave manufacturing industries for other industries. Owing to their poor education, most of them could merely shift to low-paid, unskilled and precarious jobs in service industries. More and more manual workers,

especially women, middle-aged and elderly workers, are facing the impact of economic restructuring. These displaced workers, who had earlier worked in manufacturing industries, encounter difficulties in securing jobs because their skills hold little market value.

While displaced manufacturing workers find themselves trapped in low-paid jobs in the service industry, those who remain in manufacturing industries often experience under-employment and receive lower incomes. Manufacturing workers experience a slower increase in wages and a deterioration of living standards. The real wage index of craftsmen and operatives in manufacturing industry changed from 101.1 in 1993 to 96.9 in 1997, a 4.2% decrease.<sup>ii</sup> In other words, the real income of the manufacturing workers could not catch up with inflation. In 1997 the average daily wage of manufacturing workers was only \$329.

Comparatively speaking, production workers in manufacturing industries who can retain their jobs in the same industry, or who can find low-paid jobs in service industries are fortunate, although they have much lower incomes. Many laid-off workers are so unfortunate that they can never re-enter the labour market to procure other employment. Comparatively speaking, production workers in manufacturing industries who can retain their jobs in the same industry, or who can find low-paid jobs in service industries are fortunate, although they have much lower incomes. Many laid-off workers are so unfortunate that they can never re-enter the labour market to procure other employment.

### *The Rise of Structural Unemployment*

During the late 1980s and the first half of the 1990s, the unemployment rate of Hong Kong stayed below 2 per cent, which was very low when compared with other western industrialised countries. However, the scenario has deteriorated since 1995. In 1995 the official unemployment rate was over 3 per cent for the first time since 1985. Nevertheless, after the financial crisis in Asia in October 1997 the unemployment rate experienced such a quick and tremendous surge that in early 1999 it reached its historically high level of 6.3 per cent.

### *Wage Polarisation in Service Sector*

Furthermore, wage structure in service sector also experienced polarisation in the 1990s. The wage of the managerial and professional workers like the managers, accountants, system analysts in the service industry increased much faster than the low-skilled elementary workers like the cleaners, catering workers. According to the report of the Hang Seng Economic Monthly (July 1996), from 1986 to 1996 the annual growth rate of the average real income of managerial and professional employees was 5%, however, the growth rate of the low-skilled workers was merely 1-1.6%. In the same period, the annual growth rate of GDP per capita was 5.1%. This vividly demonstrates that there was a wage polarisation in the service industry, whereas the low-wage service workers faced stagnant wage increase, which was much lower than the wage increase of their managerial and professional counterparts and the economic growth.



### *Marginalisation of Labour: Flexible Management Strategy*

Since the 1980s, labour have been marginalised in Hong Kong and other developed countries. Marginalisation can be seen as the process of the identification and separation of marginal groups from mainstream society. It is the subordination of labour through its gender, ethnic, and occupational divisions, usually with assistance from the state. Under such divisions of labour, the wage levels, working conditions and job security of marginal workers have deteriorated enormously. The marginalisation of labour also increases the authority of capital, which under the label of ‘flexible management’ cuts back the bargaining power of labour.

De-industrialisation and mass unemployment enabled capital and the state to have unchecked authority to restructure the economy and to deregulate the labour market. No matter what rosy or fashionable terms<sup>iii</sup> the management use, the simple fact is that most of the newly created jobs in the developed capitalist countries are part-time, contract,<sup>iv</sup> temporary or self-employed jobs. The common characteristic of these marginal jobs is that the jobholders are entitled to minimal job security. Workers are liable to be freely hired-and-fired according to the fluctuating demands of the market. Moreover, most of them do not belong to any union because it is difficult for unions to organise these workers because they are employed on a part-time basis, or they are on temporary or short term contracts, or they work at home. The self-employed and the contractors<sup>v</sup>, have lost their entitlement to the protection of labour legislation, because their relationship with their employers has already

been transformed from an 'employment relation' to a 'business contractual relation' (Collins 1990).

Atkinson (1985) describes differences in the labour market in his model of a 'flexible firm'. He makes a distinction between functionally and numerically flexible workers. Functionally flexible workers, according to Atkinson, are those workers who are able to change their skills and tasks in relation to changing market condition at the core. Whereas different types of numerically flexible workers, by subcontracting, out-sourcing, self-employment and agency temporaries are at the periphery, whose numbers can be adjusted as market conditions fluctuate.

Bosch et al. (1993) identify different forms of flexibility– in working time, wage rates and other contractual terms. In the primary labour market, flexibility is achieved through multi-skilling, working-time flexibility and higher wage rates for overtime and unsocial hours. In the secondary segments of the labour market, flexibility is attained differently through part-time and temporary work, low pay and high insecurity. This distinction thus resolves arguments over whether workers in core or periphery jobs contribute most to overall flexibility (Hakim 1995a).

Flexible management is not a 'new' invention of management, rather it is as old as capitalism itself. Especially when we examine developments from a comparative perspective, we discover that in Hong Kong, along with the other NICs, subcontracting between large and

small firms and the use of flexible management (use of over-time, out-worker, seasonal workers) existed in its industrialisation period in the 1960s and has survived up to now.

‘Divide and rule’ is another old trick used by management. When they are still building their power, they may divide and segregate the labour market, both internally and externally. While management does not hesitate to use their big stick on marginal workers, they still need to use the carrot to retain co-operation among mainstream workers. However, when management gains enough authority and feels safe enough to use it, they will not just use their stick on ‘peripheral’ workers. We are now witnessing marginalisation being extended to the so-called ‘core’ workers. For example, at universities in Hong Kong, it is not only cleaners who are working mainly as part-time staff under subcontracting agencies. Most newly employed lecturers are also under contract terms and more part-time staff are hired to do the teaching.

Not only employees in the private sector, but also those working in the public sector in Hong Kong also face marginalisation. Under the strategy of ‘privatisation’, numerous public services have been contracted out and provided by private companies, for example: the car-park management, cleaning and maintenance services of the public housing estates. Since most of these services are out-contracted by the method of competitive tendering, the contractors have to suppress their labour cost in order to bid the tender successfully. The wages, working conditions and welfare of employees of these contract workers are much worse than the civil servants who did the same job before. Owing to the uncertainty of

tendering, most of the employees of the contractors are part-time and temporary workers. Owing to the marginalisation of labour, their job and income security have been greatly deteriorated.

## **Conclusion**

In this paper, I have examined two related issues which have strong adverse impact on the livelihood of the Hong Kong citizens in the 1990s: the rise of cost of living, and the loss of income security. The rise of cost of living was a direct result of the mounting property prices and rental cost in the 1990s. All classes in Hong Kong, including the wealthy and poor people find the cost of living in Hong Kong, has been increasing enormously and rapidly. Many low-income households were struck even harder as most of them faced redundancy, unemployment and wage-cut after the 1997 Asian financial crisis. Under the label of flexible management, employers in public and private sector are now creating more part-time, temporary and contract jobs. It means that there is a further erosion of both job and income security of the employees. Owing to the mass unemployment and the threat of redundancy, labour have lost their bargaining power in the labour market and have to accept whatever offered.



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## **Endnotes**

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- <sup>i</sup> Census and Statistics Department, ‘Structural Changes in Manufacturing Industries 1981-1991’ in *Hong Kong Monthly Digest of Statistics*, September 1993, p.119.
- <sup>ii</sup> Census and Statistics Department (1999) *Hong Kong Annual Digest of Statistics 1998*. Table 2.12 p.26.
- <sup>iii</sup> In addition to restructuring and rationalisation, the current fashionable terms are ‘re-engineering’ and ‘total quality management’.
- <sup>iv</sup> Contract workers are those workers who are not ‘permanent’ employees, but are only employed for a fixed period laid down by the contract. The length of employment may vary from several months to several years.
- <sup>v</sup> Contractors are those persons whose relationship with the supplier of works is not an employer-employee relationship, but a business contractual relationship. If contractors further contract out work to others, they may be known as ‘sub-contractors’. Contractors and sub-contractors are not employees of the supplier of work, so that they are different from contract workers.