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At a family wedding recently near Shanghai, the conversation turned to the widespread belief that China's commercial capital will economically "outcompete" Hong Kong. The litany of anecdotal and sometimes contradictory evidence included Shanghai's low wage levels, rapidly rising incomes, red hot real-estate prices and even Formula 1 racing.

Interestingly, many of the comments were based on the preconception that it is government that builds competitiveness. The Shanghainese praised some of the Hong Kong government's responses to this challenge, including the "daring" construction of a Disneyland and the rumored lobbying to stop Shanghai from building its own. They even admired the political cunning of the Hong Kong government in packaging an industrial policy of creating a recycling park as environmental protection. But because of Shanghai's own government efforts and the support of the Chinese central government, they believed, Hong Kong would be unable to outperform its northern challenger for much longer.

So how will Hong Kong respond to this challenge? Unfortunately, the same mind-set that competitiveness relies on government action has evidently infected Hong Kong. That much was clear from the theme of Chief Executive Donald Tsang's maiden policy address. His vision to improve Hong Kong's economy and build harmony? "Strong government."

This is a dangerously misguided approach. Government can't create competitiveness; it can only facilitate its development by the people. More freedom to allow the development and expression of the Hong Kong people's talents and desires is a more certain path to improving competitiveness. Rather than strong government, Mr. Tsang should make his slogan "strong people."

The goal of ever-rising prosperity and a higher standard of living is common to all governments, second only to national security. Economic competitiveness plays an integral part toward achieving that goal. However, how is true competitiveness defined? How can a government improve the competitiveness of its economy and what kind of policies should be implemented to create the most competitive environment?

The key to any pro-competitiveness strategy is the development, attraction and motivation of hardworking talent. Development of human resources starts with our children. Attracting the best people, not narrowly defined by university degrees, but through commitment and market forces,

allows flexibility in responding to changing market conditions. All this talent will be motivated when the government respects the economic choices these people make and allows them to enjoy the full consequences of those choices, positive or otherwise.

Development

Effective education policy lies at the heart of the development of a competitive people. A successful government recognizes that education is a form of investment. In the long run, a more productive population creates goods and services people demand at a higher value output to input ratio, loosely defining efficiency. Allowing people to maximize their economic potential creates a socially mobile society where the hope of new generations improving on the old is tangible and realistic.

In this realm the Hong Kong government is headed for failure. Unsurprisingly, the majority of the designers and operators of the education system send their children to international schools or abroad, thereby allowing them to escape the very system they run. As all parents want the best education for their children, this represents an admission that Hong Kong's schools are woefully inadequate.

The goal of liberalizing education is to offer to all children of Hong Kong what the children of these powerful and high earning officials have. Demand, personified by the decisions of parents and students in where and how they are educated, should be empowered with school vouchers. Supply, in the form of schools, should be liberated not only in terms of curriculum, but in all operational aspects, so that innovations could be swiftly implemented. Government-run examination boards should be split up into fully competing units and fully privatized.

Currently, the government not only decides the curriculum through its examination boards, but also micromanages the system down to the level of individual schools. For example, the government chooses which teachers are suitable to be hired instead of letting school management decide.

We cannot trust our children and our future to a structure whose caretakers avoid it like the avian flu. If the government trusts that parents want the best education for their children and will carefully exercise their choice of schools, then the creation of world-beating talent is guaranteed.

Attraction

The challenge in attracting hardworking talent to Hong Kong is a matter of minimizing the impediments created by the Hong Kong government for these good people to come. Contrary to the lethargy demonstrated by the government on education, the new chief executive's decision to address this issue in his maiden policy speech inspired hope. His pledge to "consider a new admission scheme to allow talented mainland and overseas people to stay in Hong Kong without securing a local job offer beforehand" is truly a cause for celebration.

Hong Kong is starting to recognize that it needs immigration because it has one of the world's lowest fertility rates. Without a continuous flow of new talent, the population will continue to age, and then even to shrink. However, the main reason people fear immigration is the possibility that the newcomers will commit crimes or become a burden on society by using social welfare benefits paid for by taxpayers. Addressing these fears then is vital.

The territory is largely made up of migrants and the children of migrants because of the famed "Touch Base" policy that ended in 1982. Up until then, an illegal migrant from China could obtain a Hong Kong identification card, which brought with it the right to live and work in the territory, once he had proved his mettle by evading immigration and police authorities and reaching the downtown area of

Kowloon. The original policy served Hong Kong well, as a generation of hard-working refugees built a world-class city in the space of a single generation.

Everyone recognizes that it is politically impossible for the government to return to the “Touch Base” policy today. But could it create a new policy that captures its essence, without encouraging people to break the law?

One solution would be the creation of Immigration Security Deposits. These would allow entry to the most highly motivated and enterprising individuals, thus ensuring society would benefit without resorting to subjective or unfair rules of admission.

Any potential migrant would place a deposit of, for example, \$5,000 with the Hong Kong government and produce proof of good health. In return, the government would grant the migrant a work permit and permission to stay for three years. If the migrant committed a crime or became a burden on society, the deposit would be forfeited. Otherwise it would be returned upon completion of the three years, or could be rolled over for another work permit for four years. After a total of seven years spent in Hong Kong, the migrant would be entitled to permanent residency under current law.

Hong Kong’s spectacular growth in the 30 years from the 1960s attests to the power of a policy that self-selects for talent and will. Whether a migrant finances a deposit with their own capital or through borrowing, the opportunity cost will act as the barrier to entry which a migrant will have to consider before coming.

Education for the children of migrants should be embraced in the rational expectation that these children will become productive citizens of Hong Kong. A certified clean bill of health will ensure that at the very least, the people of Hong Kong would pay for no legacy health costs. The ISD could also act as a form of Health Savings Account against healthcare costs incurred while in Hong Kong. The scheme could also be fine-tuned by raising or lowering the size of the required deposits according to Hong Kong’s needs and the level of interest from potential migrants.

Motivation

Lack of trust in the ability of Hong Kong’s people to make and live by their own decisions has resulted in policies that reduce their legendary appetite for work. The epitome of this distrust is the most widely disliked policy in Hong Kong, the Mandatory Provident Fund. This retirement savings scheme was founded on the principle that the people of Hong Kong cannot plan for their old age.

To compound the problem, the government prohibits the use of the monies controlled by the fund for the two investments that bring the highest returns: education for one’s children and the funding of one’s entrepreneurial pursuits. This limited view of Hong Kong people’s ability to assess risk and plan for the future results in policies that disrespect property rights.

The government should immediately move to make the MPF voluntary. People’s motivation to earn is diminished by the knowledge that their control over their property and how it is invested is weakened by government fiat.

In manpower policies, yielding to labor activists’ demands, the government is also exploring mandated “standard working hours” and similar “protection” of workers against supposed capitalist exploitation. These measures will ultimately harm the most marginal workers, typically young people and new migrants, by reducing the flexibility of the workforce. Implementing the kind of rigid labor laws seen in France and Germany will result in their high levels of youth and long term unemployment.

The list of such restrictive measures goes on and on. If the Hong Kong government's lack of trust and respect for its own people is the biggest threat to its competitiveness, not some challenge from a Shanghai juggernaut pumped up with government support.

Creating, attracting and retaining the best talent will require a renewed focus on keeping Hong Kong economically competitive coupled with the political courage to travel that road. Strong government is not the answer. Limited government means strong people, and that is the true key to competitiveness.

Thank you for your continued service to Hong Kong.

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