

ITEM FOR ESTABLISHMENT SUBCOMMITTEE OF FINANCE COMMITTEE

HEAD 142 – GOVERNMENT SECRETARIAT : OFFICES OF THE CHIEF SECRETARY FOR ADMINISTRATION AND THE FINANCIAL SECRETARY

Subhead 000 Operational expenses

Members are invited to recommend to the Finance Committee the creation of the following permanent post in the Economic Analysis and Business Facilitation Unit under the Financial Secretary's Office with effect from 1 April 2018 or with immediate effect upon approval by the Finance Committee (whichever the later) –

1 Principal Economist
(D2) (\$164,500 - \$179,850)

PROBLEM

We need to strengthen staffing support at the directorate level in the Economic Analysis and Business Facilitation Unit (EABFU) under the Financial Secretary's Office (FSO) to support the fifth-term Government's policy priority on diversifying the economy and boosting Hong Kong's long-term competitiveness.

PROPOSAL

2. It is proposed to create one permanent Principal Economist (Pr Econ) (D2) post in the Economic Analysis Division (EAD) of EABFU under FSO with effect from 1 April 2018 or with immediate effect upon approval by the Finance Committee (whichever the later), titled Pr Econ (6), for leading a newly established team to expand the research on international competitiveness,

/undertake

undertake new research for exploration of new economic growth drivers, and step up professional dialogues and technical exchanges with international ranking institutes on competitiveness studies, thereby supporting the formulation of relevant policies by the current-term Government to drive Hong Kong's long-term economic development.

JUSTIFICATION

Imminent need to enhance Hong Kong's economic competitiveness

3. With increasingly keen competition among economies, Hong Kong needs to augment its prevailing strengths, improve on the relatively weak areas, and explore new economic growth drivers to promote sustainable long-term economic development. This critical task is now more pressing than ever. In fact, the increasingly keen competition among economies can also be reflected in the latest competitiveness studies compiled by international ranking institutes. For instance, while Hong Kong retained the top rank among 63 economies in the International Institute for Management Development (IMD)'s World Competitiveness Yearbook 2017, the edge over the first and second runners-up in terms of overall score has narrowed visibly. Meanwhile, Hong Kong's leading margin over the second place also narrowed despite remaining number one in the Fraser Institute's Economic Freedom in the World Report last year. In the World Economic Forum (WEF)'s Global Competitiveness Report published last year, Hong Kong was up by three places to reach the sixth place worldwide, but innovation remained a relatively weak spot. These ranking results have highlighted not only the fierce competition we face, but also the importance of identifying new growth spots to enhance Hong Kong's competitiveness.

4. In view of the urgency of this task, a new Section, viz. Section VI, was established in October 2017 to better prepare for expanding the work portfolios into new areas. The current establishment of Section VI comprises five professional grade officers, including two Senior Economists and three Economists. Given the strategic importance of this portfolio, there is a genuine need for Section VI to be led by a directorate officer, for leading researches into new growth drivers and innovation capacity, as well as undertaking in-depth analyses of Hong Kong's strengths and weaknesses in the global competitiveness landscape, thereby providing timely economic advice to relevant departments during policy deliberation. Details of Section VI's work portfolio are as follows –

/(i)

(i) Step up high-powered research on international competitiveness

5. In order to support the Government's consideration and formulation of various policy measures to enhance Hong Kong's competitiveness, more in-depth researches into and analyses of the related areas would definitely be required, which are bound to be extensive and technically demanding. In addition to the theoretical foundations related to economic development and growth, it is all the more important to keep abreast of the latest economic policy changes in other economies, and thoroughly analyse their ensuing impacts on the Hong Kong economy, so that timely responses could be taken to safeguard Hong Kong, otherwise we will fall behind the ever-changing landscape worldwide. The tasks would not only require a detailed study of the methodologies and results of studies undertaken by various ranking institutes and relevant literature on competitiveness, but also in-depth data mining and analyses so as to examine the relative strengths and weaknesses of our economy and identify the direction for improvement. By rendering strategic analyses and advice to senior officials and various policy bureaux, the work of the new team will assist the Government in formulating policies to promote new economic activities and enhance the overall competitiveness of Hong Kong.

(ii) Devote greater research efforts to new economic growth drivers and innovation capacity

6. The competitiveness and vitality of a high-income and advanced economy like Hong Kong hinges crucially on the innovation capacity to drive efficiency and enhance productivity. To this end, the current-term Government's emphasis on driving Hong Kong's innovation and technology development would entail a substantial increase in new research efforts. For instance, in promoting innovation and R&D, we need to step up the relevant support for analysing the experiences of policies in other economies, including those in such new economic segments as re-industrialisation and digital economy in recent years. Section VI will embark on relevant researches to consolidate analytical frameworks for benchmarking competitiveness in innovation and technology worldwide, analyse the economic pros and cons of various policy options, and identify the key success factors in developing innovation and technology. These will in turn assist the policy formulation of relevant bureaux, with the aim of creating more favourable conditions for innovation and thus a more diversified economy in Hong Kong.

(iii) Strengthen professional dialogues with international ranking institutes

7. International competitiveness, being relative and multi-dimensional by nature, cannot be assessed by examining the local situation alone. Comparison with other economies from different perspectives could help render a clearer

picture. Therefore relevant international competitiveness studies have all along been highly regarded by governments and international investors. Their analytical frameworks can, to a certain extent, reflect the latest concerns and trends across the globe in the context of strengthening international competitiveness. These studies also draw on a large volume of data for objective comparative and evidence-based analyses. As such, they have some value as reference. As the research focus varies among these studies on international competitiveness, their assessments of different aspects of the economies concerned would help us understand the relative strengths and weaknesses of different economies in areas such as economic structures, institutions and policies. Currently, the Government Economist (G Econ) has maintained regular dialogues with economists in major ranking institutes, including the IMD, the WEF, the Heritage Foundation, the Fraser Institute, the Cato Institute, the World Bank and the Chinese Academy of Social Sciences, to exchange views on researches on overall competitiveness and economic freedom. In support of the current-term Government's policy priority on promoting innovation and technology, Section VI has expanded its portfolio coverage to the World Intellectual Property Organization's Global Innovation Index, the IMD's World Digital Competitiveness Ranking and the WEF's Global Information Technology Report. We will, on this foundation of dialogue, proactively strengthen professional dialogues and technical exchanges with major international ranking institutes. By updating them on Hong Kong's latest economic situation and policies and clarifying any misconceptions, the dialogues will also help deepen their understanding of Hong Kong.

The need to create a Principal Economist post

8. In order to respond to the fast-changing external environment in a timely manner, the Government's workload on the front of economic analysis has been increasingly heavy. G Econ's team has all along been fully supporting the Financial Secretary on all economic issues, including in-depth analysis of Hong Kong's economic performance as well as close monitoring of global macroeconomic risks. On top of that, G Econ's team has also supported various departments with a substantial amount of economic reasoning and professional economic analyses on various policy areas (such as housing, population, poverty alleviation, trade, and labour welfare). As such, the workload of EABFU has increased notably over the past few years.

9. As elaborated above, the new economic research work on identifying new growth impetus and promoting innovation to enhance Hong Kong's international competitiveness is not only broad in scope, but also involves very important policies. To ensure timely and high-level strategic advice to the Government and carry on effectively the professional dialogues and technical exchanges with various ranking institutes, Section VI has to be led and managed by

Encl. 1 a directorate officer. From the perspective of organisational effectiveness,
 Encl. 2 high-level steer and forward-looking professional guidance from a Pr Econ is also
 absolutely essential to ensure the quality of the research work. The proposed job
 description of Pr Econ (6) is set out at Enclosure 1, while the current organisation
 chart of EABFU with change proposed in this paper is set out at Enclosure 2.

ALTERNATIVES CONSIDERED

10. We have considered the alternative of redeployment of existing manpower resources to meet the need but found it not feasible given the substantial workload already shouldered by the five Pr Econs. In view of the heavily-loaded work schedules of the five Pr Econs and the need to cater for the growing demand for services in their own equally important portfolios, it is operationally not feasible for them to effectively share out the new duties and responsibilities of Section VI in the long term. Specifically, the work portfolios of the five Sections each headed by a Pr Econ are as below –

- (a) Section I has to closely monitor the macroeconomic environment. Assessments are required for gauging potential shocks on the Hong Kong economy from the notable external uncertainties in the post-global financial crisis world, especially the major macro risks arising from the changing monetary policies in the major economies, as well as the volatile global financial, currency, and commodity markets. The risks arising from US Fed's interest rate normalisation, US tax reform, Brexit, and heightened geopolitical tensions would also add extra work burden on Section I for an extended period. Moreover, in the current-term Government's proactive pursuit of tax policy review, Section I's research work and policy support on fiscal and tax policies will definitely increase significantly.
- (b) Section II focuses on monitoring the property markets, and providing economic analysis and advice in such policy areas as housing, tourism, major infrastructure programmes, town planning, land, and transport. As the Government accords high priority to increasing land supply to alleviate the supply-side bottlenecks as soon as possible, Section II needs to put significant resources in monitoring various strategic planning and works studies commissioned by various bureaux. Moreover, the demand projections in the Long-Term Housing Strategy would need to be updated annually, taking up considerable resources of Section II on an on-going basis.
- (c) The workload of Section III has likewise built up tremendously in recent years, including the on-going monitoring and study of free trade agreements, as well as researches into the Mainland's

/macroeconomic

macroeconomic development and its trade ties with Hong Kong, such as the National Five Year Plans, the Belt and Road Initiative, and the Guangdong-Hong Kong-Macao Bay Area. Moreover, the continued economic and financial reforms in the Mainland, particularly those relating to Renminbi internationalisation and liberalisation of the services sector, will be vital to Hong Kong. Apart from these, the threat to free trade posed by the resurgence of protectionist sentiments in recent years also warrants attention. As such, Section III is expected to keep providing substantial research support related to the Mainland's economic structure and policy development, leaving it with no capacity to take on the analysis of international competitiveness.

- (d) Section IV is responsible for monitoring the labour market situation, as well as undertaking various impact assessments of labour and manpower policies, including the statutory minimum wage in particular. Section IV also supports the Labour and Welfare Bureau in reviewing an array of labour legislations such as paternity leave and maternity leave. Furthermore, the work on MPF 'offsetting' arrangement is also proceeding in full swing and is expected to get even more hectic under the current-term Government, to which Section IV has been rendering and will continue to render staunch and dedicated professional analytical support.
- (e) Section V is responsible for supporting two high-level Committees, viz. the Commission on Poverty and the Steering Committee on Population Policy, with timely and high-quality professional economic analyses of key policy issues such as population ageing, poverty, ethnic minorities, income disparity and welfare issues. Given the highly complex and contentious nature of these policy areas, Section V is expected to remain fully engaged to provide the dedicated professional research support.

FINANCIAL IMPLICATIONS

11. The proposed creation of a permanent Pr Econ post requires an additional notional annual salary cost at mid-point of \$2,094,600. The additional full average staff cost, including salaries and staff on-cost, is \$2,788,000. We will include sufficient provision in the Estimates of 2018-19 and subsequent years to meet the cost of the proposal.

/PUBLIC

PUBLIC CONSULTATION

Encl. 3 12. The LegCo Panel on Public Service was consulted on 20 November 2017. Members noted this proposal and passed two motions. A written reply from the Administration regarding the two motions was provided on 11 December 2017 (Enclosure 3). Also, Members suggested this proposal be submitted to the Panel on Economic Development for discussion. After follow-up, the Chairman of the Panel on Economic Development opined that this staffing proposal fell outside the terms of reference of that Panel. This proposal has hence been further submitted to the Establishment Subcommittee for consideration.

ESTABLISHMENT CHANGES

13. The establishment changes of Head 142 Government Secretariat: Offices of the Chief Secretary for Administration and the Financial Secretary for the past two years are as follows –

Establishment (Note)	Number of posts			
	Existing (as at 1 January 2018)	As at 1 April 2017	As at 1 April 2016	As at 1 April 2015
A	30 + (1) [#]	30 + (4)	29 + (3)	29 + (4)
B	130	127	124	124
C	399	396	391	392
Total	559 + (1)	553 + (4)	544 + (3)	545 + (4)

Note:

A - ranks in the directorate pay scale or equivalent

B - non-directorate ranks, the maximum pay point of which is above MPS point 33 or equivalent

C - non-directorate ranks, the maximum pay point of which is at or below MPS point 33 or equivalent

() - number of supernumerary directorate post

- as at 1 January 2018, there was no unfilled directorate post

CIVIL SERVICE BUREAU COMMENTS

14. The Civil Service Bureau supports the proposed creation of the permanent Pr Econ post to lead a newly established team to support the fifth-term Government's policy priority on diversifying the economy and promoting Hong Kong's long-term competitiveness. The grading and ranking of the proposed post are considered appropriate having regard to the level and scope of responsibilities required.

/ADVICE

**ADVICE OF THE STANDING COMMITTEE ON DIRECTORATE
SALARIES AND CONDITIONS OF SERVICE**

15. The Standing Committee on Directorate Salaries and Conditions of Service has advised that the ranking proposed for the permanent directorate post would be appropriate if the proposal was to be implemented.

Economic Analysis and Business Facilitation Unit
Financial Secretary's Office
January 2018

**Job Description
Principal Economist (6)**

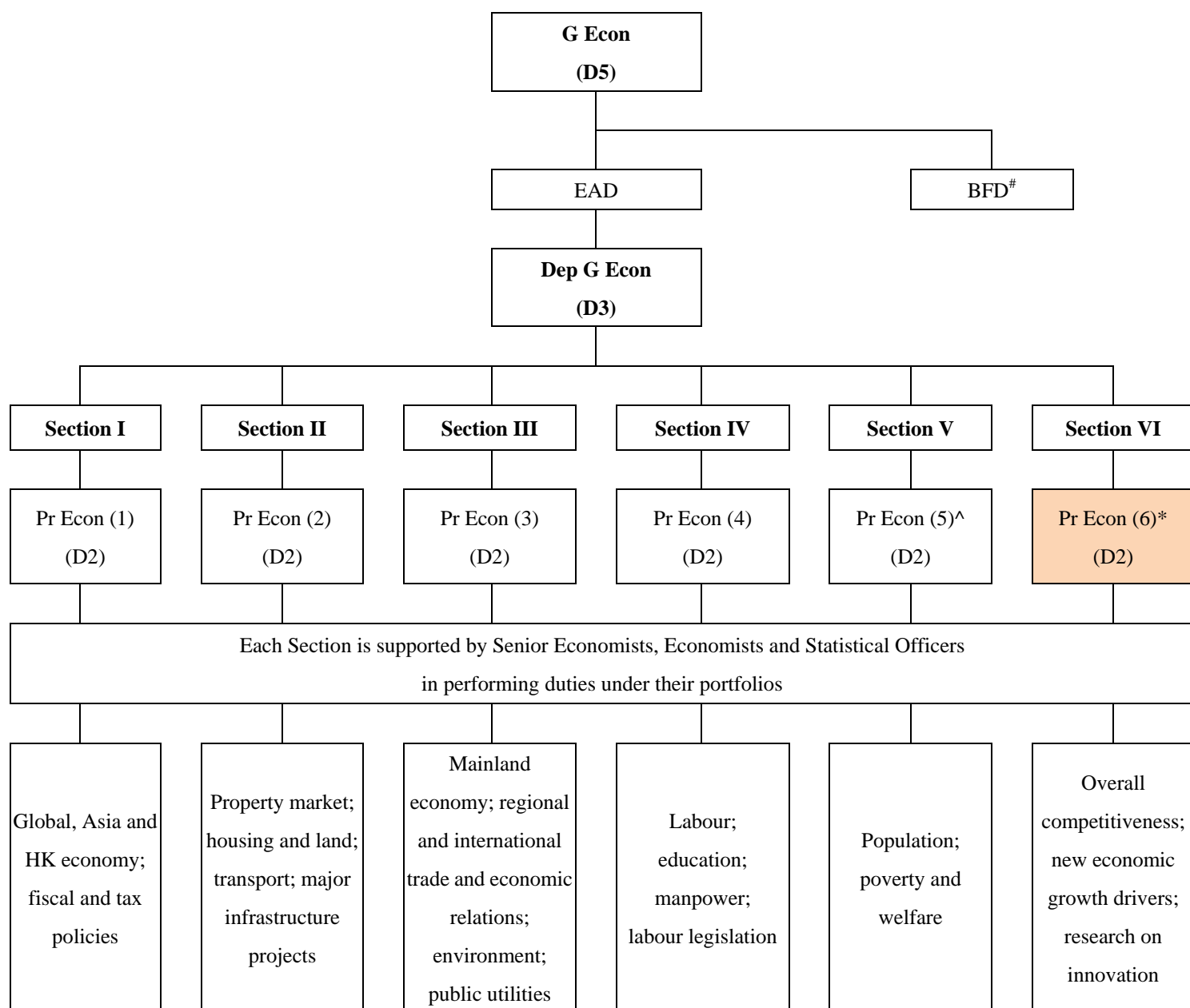
Rank : Principal Economist (D2)

Responsible to : Deputy Government Economist

Main Duties and Responsibilities –

1. To assist the Government Economist and Deputy Government Economist in providing analyses and strategic inputs to policy areas relating to economic development and strengthening overall competitiveness.
2. To step up the research on international competitiveness, with a view to devising suitable frameworks for benchmarking the strengths and weaknesses of various aspects of the Hong Kong economy from an international perspective.
3. To strengthen the research on new economic growth drivers and innovation capacity, with a view to supporting the Government's deliberation on related policy measures.
4. To liaise with international ranking institutes through professional dialogues and technical discussions, and closely monitor the latest developments of these institutes.
5. To undertake other duties as assigned by the Government Economist and Deputy Government Economist.

**Current organisation chart of EABFU under FSO
with change proposed in this paper**



Notes: * Post proposed for creation in this paper.
^ Supernumerary post to lapse on 13 May 2019.

Legend:

BFD# - Business Facilitation Division. The Government plans to transfer BFD to the Efficiency Unit starting from 1 April 2018.
Dep G Econ - Deputy Government Economist
EAD - Economic Analysis Division
G Econ - Government Economist
Pr Econ - Principal Economist

Panel on Public Service, Legislative Council

Creation of a Principal Economist Post in the Economic Analysis and Business Facilitation Unit, Financial Secretary's Office

**The Government's response to the motions passed
at the meeting on 20 November 2017**

PURPOSE

This note sets out the Government's response to the two motions passed at the Panel meeting on 20 November 2017 regarding the creation of a permanent Principal Economist Post in the Economic Analysis and Business Facilitation Unit ("EABFU") under the Financial Secretary's Office.

THE FIRST MOTION

"Given that the Government's proposed addition of a permanent Principal Economist (D2) post in the Economic Analysis and Business Facilitation Unit under the Financial Secretary's Office is mainly to enhance Hong Kong's international competitiveness and strengthen the research effort on new economic growth drivers, this Panel therefore urges the Government to expeditiously hire from outside the Government an economic professional with higher education qualifications to lead the Economic Analysis and Business Facilitation Unit and take up the Government's proposed new post, and at the same time strengthen its effort to hire economic talents from the private sector for the enhancement of relevant policy research and economic analysis."

Moved by: Hon Mrs Regina IP LAU Suk-yee, GBS, JP

RESPONSE TO THE FIRST MOTION

2. EABFU has all along been actively recruiting talents with outstanding academic background. As at end-November 2017, more than 80% of the members

in the Economist Grade held a Master degree or even higher. For the proposed post in particular, the same arrangement will be adopted as with all other directorate posts at promotion rank in the Government. The department concerned would conduct a promotion exercise in accordance with the established guidelines and procedures of the civil service, to identify the most suitable officer(s) among the eligible officers for promotion to the rank concerned, based on selection criteria such as character, ability, and experience, as well as any qualifications prescribed for the promotion rank. Nonetheless, if sufficient number of candidates cannot be identified for promotion to the rank concerned, the Government would consider other filling arrangements in accordance with the established mechanism, such as open recruitment. In fact, EABFU had in the past conducted open recruitment in accordance with the above established mechanism to recruit professionals with private sector experience and academic research background to take up posts at promotion ranks.

THE SECOND MOTION

“After the Government’s creation of a permanent Principal Economist post in the Economic Analysis and Business Facilitation Unit (‘EABFU’), this Panel urges EABFU to formulate and project at a macro level the detailed forecasts on manpower demand arising from different industries under the new economy of Hong Kong”

Moved by: Dr Hon CHIANG Lai-wan, JP

RESPONSE TO THE SECOND MOTION

3. The Government conducts manpower projections (“MPs”) from time to time to assess the broad trends in the future manpower demand and supply of the local economy at the macro level. Apart from traditional economic sectors, the Government also conducts studies and projections on the labour demand from “strategic sectors” that are of paramount importance or have great potential for further development, and provides them for stakeholders’ reference. EABFU has all along been participating in the relevant work and rendering the necessary economic analysis and technical support in the process. The results of the most recent round of MP (i.e. Manpower Projection to 2022) are available on the Labour

and Welfare Bureau (“LWB”)’s website (http://www.lwb.gov.hk/report/mp2022_en.pdf). According to the projections therein, the average annual growth rates in manpower requirements for financial services, innovation and technology, and cultural and creative sectors are projected at 2.2%, 1.7% and 1.3% respectively during the projection period¹, higher than that of 0.9% growth in the overall manpower demand.

4. As for the emerging industries now under formation in the new economy, there is a certain degree of difficulty in rendering the respective labour demand forecasts in the absence of adequate and reliable statistics and information. Nevertheless, the Government will extensively consult businesses, trade associations and academia as well as collect their qualitative views for analysis while conducting MP.

5. A new round of the exercise, Manpower Projection to 2027, has formally kicked off, and the main results are expected to be released by mid-2019. EABFU will continue to actively participate in the inter-departmental working group led by the LWB, and render data analysis and technical support as required by the relevant bureaux and departments. In addition, the Commission on Human Resources Planning (“CHRP”) under the chairmanship of the Chief Secretary for Administration, which will start operating in early next year, will be responsible for co-ordinating and taking forward policies on human resources in a holistic manner, with a view to fostering Hong Kong’s development into a more diversified economy. EABFU will also provide the economic analysis and technical support as required by the CHRP.

Economic Analysis and Business Facilitation Unit

Financial Secretary’s Office

11 December 2017

¹ The projection period of MP2022 covered 2012 to 2022. Given the actual 2012 figures for the Innovation and Technology and Cultural and Creative sectors were not yet available when the manpower requirement projections were being compiled, the projection period for these two sectors covered 2011 to 2022.