

**For discussion on
20 November 2017**

Legislative Council Panel on Public Service

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

PURPOSE

The Economic Analysis and Business Facilitation Unit (EABFU) under the Financial Secretary's Office proposes to create one permanent Principal Economist (Pr Econ) (D2) post for leading a newly established team to strengthen the research on international competitiveness, step up the professional dialogues and technical exchanges with various international ranking institutes on competitiveness studies, and embark on new research areas, so as to support the fifth-term Government's policy priority on diversifying the economy and promoting Hong Kong's long-term competitiveness. This paper invites the Panel's support for the proposal.

BACKGROUND AND JUSTIFICATION

Imminent need to enhance Hong Kong's economic competitiveness

2. Hong Kong is an international financial, business, and trading centre with leading performances in various competitiveness league tables. Yet, in face of the keen global competition, the Government needs to devise policies to reinforce Hong Kong's strengths and develop new economic growth drivers, with an aim to upholding its high international standings. Otherwise, our competitive advantages might diminish over time. In the light of the fast-changing global economic

and political landscape as well as the increasingly fierce competition among economies, we must continuously monitor and assess Hong Kong's competitive strengths and weaknesses, and strategically analyse how the Hong Kong economy should position itself in the international arena. This critical task is now more pressing than ever.

3. Specifically, although Hong Kong retained the top rank among 63 economies in the International Institute for Management Development's (IMD) World Competitiveness Yearbook 2017, the edge over the first and second runners-up in terms of overall score has narrowed visibly. At the same time, 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 this year. As competition intensifies, one could envisage increasing difficulties for Hong Kong to stay in the top notch in the world's league tables on competitiveness.

4. If Hong Kong were to lose its leading position in the international competitiveness rankings, its international image as a global financial and business centre would inevitably be dented. It is therefore all the more important for the Government to enhance Hong Kong's international competitiveness and step up effort on developing new growth engines. In view of the urgency of this task, we have in October 2017 established a new Section, viz. Section VI, to better prepare for broadening our work portfolio into new areas. The current establishment of Section VI comprises five professional grade officers, including two Senior Economists and three Economists. Considering the importance of this portfolio, there is a genuine need for Section VI to be led by a directorate officer, for expanding the professional dialogues with international ranking institutes in breadth and depth, reinforcing our analyses on international competitiveness, as well as scaling up the research effort on new economic growth drivers such as innovation and technology. Details of Section VI's work portfolio are as follows:

(i) Strengthen professional dialogues with international ranking institutes

5. Given Hong Kong's status as an international finance and business hub, global rankings on economic freedom and competitiveness are of paramount importance to its international image and attractiveness to foreign investment. In order to provide the international ranking institutes with a stereoscopic view on Hong Kong's economic situation and policies to objectively assess our performance in economic freedom and competitiveness, a more proactive approach is needed to strengthen professional dialogues and technical exchanges with these institutes. Currently, we have maintained regular dialogues with major ranking institutes¹ to exchange views on researches relating to economic freedom and competitiveness. We will build on this foundation to further develop the dialogues and expand the coverage of ranking institutes. For instance, in support of the Government's policy on promoting innovation and technology, we have already initiated the study on related ranking reports, including the World Intellectual Property Organization's Global Innovation Index, the IMD's World Digital Competitiveness Ranking and the World Economic Forum's Global Information Technology Report, so as to consolidate the analytical framework for benchmarking competitiveness in innovation and technology worldwide, and to identify key success factors for promoting this aspect. Not only would these expanded dialogues allow us to have a more comprehensive understanding on Hong Kong's competitiveness in different aspects, the valuable researches by these international ranking institutes could also lend to our investigation into the strengths and weaknesses of Hong Kong relative to our competitors, thereby assisting the Government's policy deliberation on augmenting Hong Kong's leading position.

¹ Including the IMD, the World Economic Forum, the Heritage Foundation, the Fraser Institute, the Cato Institute, the World Bank and the Chinese Academy of Social Sciences.

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

6. For the various policy measures on enhancing Hong Kong's competitiveness, more in-depth research and analysis are definitely required to support the Government's deliberation. This is a very extensive and technically demanding research area, involving not only the economics behind policy measures and the lessons learnt from similar policies in other economies, but also the changes in relative performances of Hong Kong and its close contenders over time. Moreover, the effectiveness of policy measures in enhancing Hong Kong's competitiveness also needs to be studied. All these researches require detailed examination on the latest discussions on theories relating to economic development and growth, comparisons on the ranking methodologies and results of different ranking institutes, as well as close monitoring of the economic structures, institutional settings and policies of both Hong Kong and our contenders from a macro view, so as to identify the relative merits and shortcomings of our economy.

(iii) Devote greater research effort on new economic growth drivers

7. The competitiveness and vitality of a high-income and advanced economy like Hong Kong hinge crucially on the innovative 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 require a lot more research support from many aspects. For example, for promoting innovation and R&D, policy experiences in other economies as well as the economic pros and cons of various policy options have to be analysed in order to create a more vibrant innovation environment in Hong Kong. Moreover, as the Government sees a more proactive role in diversifying the economy to attain higher growth potentials, the scope of research would undoubtedly need to be broadened to other areas with new growth potential in the future.

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 work on economic analysis has been increasingly heavy, with a much broader scope and higher complexity in nature. Government Economist's (G Econ) team has all along been supporting other bureaux/departments with substantial amount of economic arguments and professional analyses on various policy areas (such as population, poverty alleviation, trade, labour, retirement protection and housing), and the considerable increase in workload in the past few years has already stretched the team's capacity beyond limits. Notwithstanding increase in resources, manpower conditions remain extremely tight.

9. As elaborated above, the new work areas in Section VI on Hong Kong's international competitiveness and new growth drivers are not only broad in scope and complex in nature, but also with very high priority on the policy agenda. To ensure timely and high-level strategic advice to the Government, and to develop effectively the professional dialogues and technical exchanges with various ranking institutes, Section VI has to be led and managed by a directorate officer. From the perspective of organisational effectiveness, high-level steer and forward-looking professional guidance from a Pr Econ is also absolutely critical for ensuring quality and robust research.

THE PROPOSAL

10. We propose to create in 2018-19 a permanent Pr Econ post, titled Pr Econ (6), to spearhead Section VI's research on competitiveness from both local and international perspectives, as well as the analysis on new economic growth drivers. The job description of Pr Econ (6) is at **Annex A**. The current organisation chart of EABFU with the change proposed in this paper is at **Annex B**.

ALTERNATIVES CONSIDERED

11. We have considered the alternative of staff redeployment but found it not feasible given the substantial increase in workload 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 additional duties and responsibilities of Section VI. Specifically, the work portfolios of the five Sections each headed by a Pr Econ are as below:

- (a) Section I is fully occupied by the high frequency monitoring of 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 from the changing monetary policy stances in the major economies, as well as the volatile global financial, currency, and commodity markets. The US Fed's interest rate normalisation, Brexit, and heightened geopolitical tensions would also add extra work burden on Section I for an extended period. Moreover, the new initiative on reviewing fiscal and tax policies by the current-term Government is another area that Section I is expected to contribute significantly from time to time.
- (b) Section II is heavily tied up in 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 expediting land development to alleviate supply-side bottlenecks, Section II needs to put significant resources in monitoring various strategic planning and works studies commissioned by other bureaux/departments. Moreover, the demand projections in the Long-Term Housing Strategy would need to be updated annually, occupying considerable resources of Section II on an on-going basis.

- (c) The volume of work in Section III has likewise built up tremendously in recent years, including the monitoring and analysis on free trade agreements, as well as researches on the Mainland's 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 remain under the spotlight. As such, Section III has to keep providing substantial research support on the Mainland's economic structure and policy development, leaving no capacity to shoulder the extra analysis on international competitiveness.

- (d) Section IV is responsible for monitoring the labour market situation, as well as rendering various impact assessments on labour and manpower policies, including the statutory minimum wage in particular. Section IV also provides support for the Labour and Welfare Bureau to review an array of labour legislations such as paternity leave and maternity leave. Furthermore, the work on MPF "offsetting" arrangement is also proceeding in full steam 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 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 economic analyses on key policy issues including population ageing, poverty, ethnic minorities, income disparity and welfare issues. Given the technically demanding and highly contentious nature of these policy areas, Section V is expected to remain fully engaged to provide the dedicated professional research support.

12. As explained above, there is no other operationally feasible option apart from creating a Pr Econ post in Section VI. In lack of a directorate professional to spearhead the research work on international competitiveness and new economic growth drivers, the effectiveness of Section VI to deliver high quality strategic advice in support of the Government's new vision in driving economic development and diversification will be severely undermined.

FINANCIAL IMPLICATIONS

13. 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 \$2,877,000.

14. We will include sufficient provision in the Estimates of 2018-19 and subsequent years to meet the cost of the proposal.

ADVICE SOUGHT

15. Members are invited to offer views and support on the proposal on creating a permanent Pr Econ post. With Members' support, we will seek the necessary funding approval from LegCo.

Economic Analysis and Business Facilitation Unit

Financial Secretary's Office

November 2017

Job Description

Principal Economist (6)

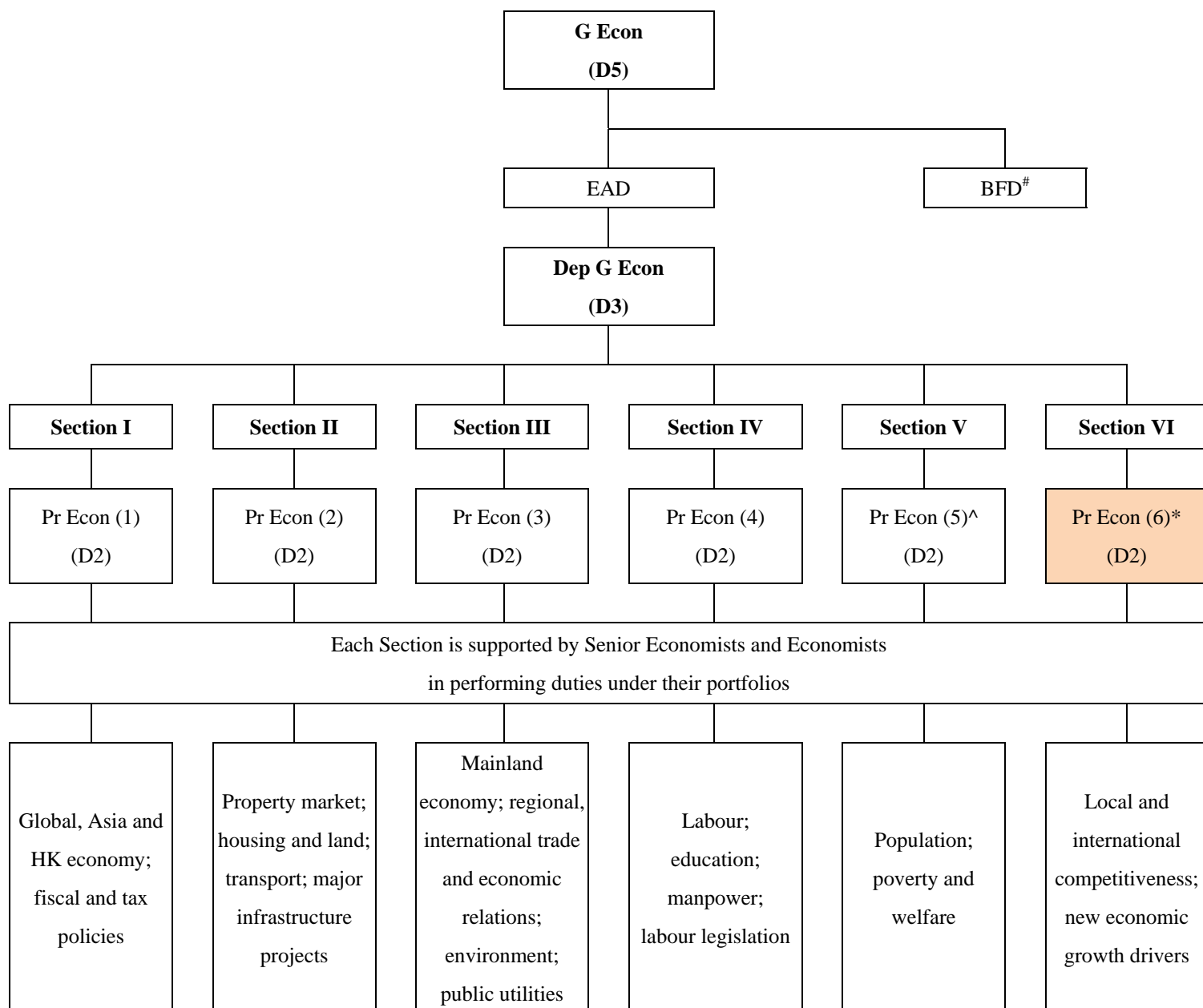
Rank : Principal Economist (D2)

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 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 in an international perspective.
3. To liaise with the international ranking institutes through professional dialogues and technical discussions, and closely monitor the latest developments of these institutes.
4. To strengthen the research on new economic growth drivers, with a view to supporting the Government's deliberation on related policy measures.
5. To undertake other duties as assigned by the Government Economist and Deputy Government Economist.

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



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

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