
INCOME INEQUALITIES UNDER ECONOMIC RESTRUCTURING IN HONG KONG

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ABSTRACT

Hong Kong's income inequalities have long been situated at a relatively high level by international standards. This paper investigates the factors that have contributed to this prolonged phenomenon. We argue that in the absence of appropriate government actions, economic progress in a laissez-faire capitalist system cannot necessarily equalize income distribution.

There are contrasting views on the relationship between economic development and income equality. Some believe that economic growth will finally bring benefits to all, therefore alleviating income inequality. Some argue that economic growth does not necessarily equalize income distribution. According to Kuznets,¹ the level of economic development is the major determinant of the degree of income inequality. Income inequality tends to increase during the early stages of economic growth, then levels off, and finally decreases during later stages. There is a great deal of literature in support of Kuznets's view.² Nonetheless, continuous economic development does

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1. Simon Kuznets, "Economic Growth and Income Inequality," in *The Gap between Rich and Poor: Contending Perspectives on the Political Economy of Development*, ed. Mitchell Seligson (Boulder, Colo.: Westview Press, 1984), pp. 25–37.

2. For example, A. Gilbert and D. Goodman, "Regional Income Disparities and Economic Development: A Critique," in *Development Planning and Spatial Structure*, ed. Alan Gilbert (London: Wiley, 1976), pp. 113–17; D. Sovoie and I. Brecher, *Equity and Efficiency in Economic Development* (Montreal: McGill-Queen's University Press, 1992).

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not necessarily increase the living standards of the people, because some cannot obtain a proper portion of the fruits of such development.³

Hong Kong's case seems to support the view that economic growth may not have automatically brought equal benefits to all those who contributed to Hong Kong's economic miracle. Hong Kong has experienced rapid economic growth since the 1950s. With its gross domestic product (GDP) growth at an average rate of 6.5% annually in real terms, the economy has more than quadrupled in size in the last 20 years. Per capita GDP has tripled, equivalent to an average annual growth rate of about 6%, in real terms. It is rare for developing economies, with the exception of Hong Kong and the three other "Asian Dragons" (South Korea, Taiwan, and Singapore), to make a transition to a developed status in just two generations. Hong Kong is now one of the richest societies in the world in terms of per capita GDP. However, it has not won the war of poverty eradication. The Gini coefficient, a measurement of income inequality, has long been situated at a relatively high level. It was reported that, by various conservative estimates, there were over 600,000 poor people in Hong Kong by 1996.⁴ According to the international or World Bank standard, "poor" designates those people whose monthly household income is below the median household income, which in Hong Kong is HK\$ 15,000, equivalent to \$1,923 in 2003.⁴ This was more than 11% of the total population at that time. Data from the 2001 census have further revealed that the recent situation of income inequality is the worst in over 40 years, and the worst among developed nations. These figures are quite shocking, reflecting a prolonged increase in the gap between rich and poor. It seems that the reality of economic growth may not, in fact, have generated a more equitable society, but rather the contrary. This has prompted wide concern among policymakers about the causes of worsening income inequality.

The objective of this article is to investigate the factors that have contributed to the prolonged inequality of income distribution in Hong Kong. We argue that economic restructuring under the process of globalization has enabled Hong Kong to retain its high growth of per capita GDP, but, at the same time, has generated some negative effects on the employment of low-skilled workers. The new arrivals/immigrants from Mainland China may have changed both the population and the employment structure in Hong Kong, which may have contributed to the increase of income inequality. The article also assesses this impact or contribution of new arrivals to overall Hong Kong income inequality.

3. James Midgley, *Social Inequality, Inequality and the Third World* (Chichester, U.K.: John Wiley & Sons, 1984); James Midgley, *Social Development* (London: Sage, 1995).

4. Mok Tai Kee, *Eradication of Hong Kong Poverty* (Hong Kong: Joint Publishers, 1999). Hong Kong Special Administrative Region Government, *Quarterly Report on General Household Survey for September–December 2003* (Hong Kong: Hong Kong Statistical Publisher, 2003).

The article is organized as follows. It starts with a brief review of the impacts of economic restructuring on income distribution. It then examines the trends of income distribution in Hong Kong over the past 40 years, based on the study of Gini coefficients and Lorenz curves. Finally, it will discuss the causes of the widened income gap and their policy implication. The appendix provides a brief note on the methodology used in this study.

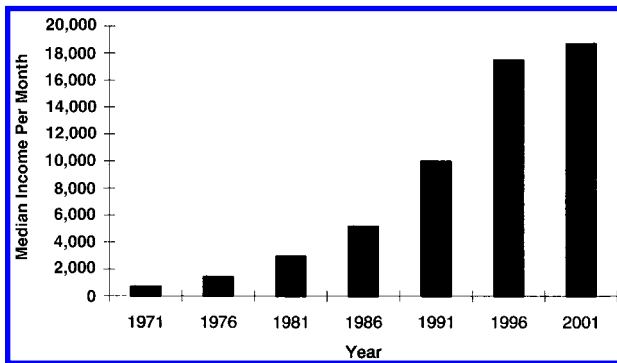
Economic Restructuring, Employment Changes, and Income Inequality

Employment, a key to an individual's or a family's well-being, has greatly influenced income disparities. Current literature has highlighted in two major ways the impact of economic restructuring under globalization on the structure of employment opportunities in developed economies.⁵ Firstly, the globalization process signifies the transnationalization of economic activities, shifting business and production from local to global and restructuring the national economy. The underlying logic of this process is best explained by the valorization and accumulation of capital. Under the internationalization of production, certain employment opportunities, especially those for unskilled or semi-skilled jobs, are relocated away from industrialized countries, where production costs are usually higher.⁶ Because economic restructuring has made jobs more mobile and flexible, it is inevitable that many of the effects on manual laborers, rather than on professional, technical, and supervisory workers, have been negative. Secondly, economic liberalism has been accompanied by globalization. Governments have increasingly left it to the market to determine developments, instituting neo-liberal or New Right economic ideologies. The key principles of neo-liberalism include the primacy of the market and profit, and the enhancement of competition, achieved by denationalization of state-owned companies, privatization of some state services, and deregulation of the regulatory apparatus applied to business structure and practices. This means that the economic well-being of individuals is increasingly determined less by national governments than by the rapidly escalating interdependence of the world economy. Although one of the major repercussions of economic liberalism has been to help create a "favorable business environment" that is necessary to cope with global market forces, this in turn generates wider issues of how economic growth could benefit everyone.

It is this dual aspect of economic restructuring under globalization that provides the framework for this study of income inequalities. Globalization, eco-

5. Peter Dicken, *Global Shift: Transforming the Global Economy* (London: Paul Chapman, 1998); R. Potter, E. Binns, and D. Smith, *Geographies of Development* (Harlow, U.K.: Addison Wesley, 1999).

6. B. Berry, E. Conkling, and D. Ray, *The Global Economy in Transition*, second edition (Upper Saddle River, N.J.: Prentice Hall, 1997).

FIGURE 1 *Monthly Median Household Income, 1971–2001*

SOURCE: Census and Statistics Department, various years, 1976 to 2001.

conomic restructuring, and government downsizing are terms used not only to describe, but also to justify and legitimize, changes in capital-labor relations.⁷ As we can see from the following analysis, the relocation of economic activities, coupled with insufficient government care for low-income classes, has worsened income distribution in Hong Kong. Although globalization and economic restructuring may be seen as positive elements in terms of economic efficiency and growth, we must not overlook their largely negative impacts on traditional labor markets and, therefore, income inequalities.

An Overall Assessment of Income Distribution in Hong Kong

Worsening of Aggregate Distribution of Income

Significant increases in the median income of Hong Kong households have been recorded since the 1970s. The median income for 1971 was HK\$ 708 (\$91), and it had risen to HK\$ 18,705 (\$2,398) in 2001, at current prices (Figure 1). Discounting 10% increases in consumer prices on the average, the median household income may have gone up as much as 240% from 1971 to 2001.

Tables 1 and 2 list the number of domestic households by monthly income levels from 1971 to 2001. Currently, there are about 6.8 million people and 2.1 million households in Hong Kong. Generally speaking, there was a rapid decline in the number of low-income households and a corresponding increase in the number of high-income households. Simple addition of the successive figures shows that from 1971 to 1976, the number of households with incomes

7. John Short and Yeong-Hyun Kim, *Globalization and the City* (Harlow, U.K.: Longman, 1999).

TABLE 1 *Number of Households by Monthly Income, 1971 and 1976*

| <i>Monthly Household Income (HK\$)</i> | <i>1971</i> | <i>1976</i> |
|--|-------------|-------------|
| Less than 200 (US\$26) | 41,457 | 16,680 |
| 200–399 (US\$26–\$51) | 90,113 | 29,560 |
| 400–599 (US\$51–\$77) | 205,511 | 51,580 |
| 600–799 (US\$77–\$102) | 169,023 | 87,430 |
| 800–999 (US\$103–\$128) | 96,973 | 91,510 |
| 1,000–1,199 (US\$128–\$154) | 81,302 | 102,690 |
| 1,200–1,499 (US\$154–\$192) | 62,249 | 128,820 |
| 1,500–1,999 (US\$192–\$256) | 40,384 | 154,080 |
| 2,000–2,499 (US\$256–\$320) | 28,333 | 98,810 |
| 2,500–4,499 (US\$321–\$577) | 27,215 | 131,800 |
| 4,500–7,500 (US\$577–\$962) and over | 14,448 | 59,620 |
| <i>Total</i> | 857,008 | 952,580 |

SOURCE: Census and Statistics Department, *Hong Kong Annual Digest of Statistics 1978* (Hong Kong: The Government Printer, 1978).

under HK\$ 1,000 (\$128) decreased from 603,077 to 276,760, while households with incomes over that amount went up from 253,931 to 675,820. This dramatic change in the respective numbers of low- and high-income households continued in subsequent years.

However, increases in per capita income do not necessarily represent an amelioration of income inequality. Although rapid economic growth has resulted in a net rise in the middle-income population in Hong Kong, we cannot see whether everybody has benefited to the same extent. Growth may turn out, upon further investigation, to have benefited only the richest few, leaving most of the population relatively poor.

By comparing the data from the eight censuses, it is easy to see that there were considerable changes, decile by decile, from one census to another, in the income share ratio from 1966 to 2001 (Tables 3 and 4). As shown by the census data, income distribution improved only between 1966 and 1971. The increase in the aggregate income share of low-income households and a corresponding decrease for the richest ones represent a narrowing of income inequality at that time.

However, the situation has totally changed since 1971. A notable deterioration of aggregate distribution can be observed. The cumulative share of the bottom 60% of households declined continuously (Figures 2 and 3). Even in the middle-income households (the middle 20% to 60%), the share began to decline in 1981 (Figure 4). The income share of the bottom 60% of households dropped from 30.7% in 1971 to 23.6% in 2001, while the top 30% and

TABLE 2 *Number of Households by Monthly Income, 1981–2001*

| <i>Monthly Household Income (HK\$)</i> | <i>1981</i> | <i>1986</i> | <i>1991</i> | <i>1996</i> | <i>2001</i> |
|--|-------------|-------------|-------------|-------------|-------------|
| Under 2,000 (US\$256) | 355,437 | 141,289 | 75,552 | 55,597 | 65,855 |
| 2,000–3,999 (US\$256–\$513) | 477,995 | 368,884 | 115,236 | 68,273 | 97,568 |
| 4,000–5,999 (US\$513–\$769) | 209,281 | 340,871 | 202,511 | 75,595 | 93,018 |
| 6,000–7,999 (US\$769–\$1,026) | 91,622 | 209,360 | 218,388 | 105,639 | 116,340 |
| 8,000–9,999 (US\$1,026–\$1,282) | 42,742 | 125,631 | 181,846 | 136,577 | 120,721 |
| 10,000–14,999 (US\$1,282–\$1,923) | 39,375 | 146,199 | 314,379 | 324,001 | 318,623 |
| 15,000–19,999 (US\$1,923–\$2,564) | 12,250 | 53,412 | 176,406 | 269,694 | 262,086 |
| 20,000–24,999 (US\$2,564–\$3,205) | 6,152 | 25,931 | 99,646 | 210,926 | 223,708 |
| 25,000–29,999 (US\$3,205–\$3,846) | 2,599 | 12,628 | 56,851 | 147,295 | 159,470 |
| 30,000–39,999 (US\$3,846–\$5,128) | 2,561 | 13,579 | 60,169 | 183,254 | 219,229 |
| 40,000–59,999 (US\$5,128–\$7,692) | 4,724* | 8,358 | 44,794 | 150,440 | 197,311 |
| 60,000 (US\$7,692) and over | NA | 6,440 | 36,434 | 128,263 | 179,483 |
| <i>Total</i> | 1,244,738 | 1,452,576 | 1,582,215 | 1,855,553 | 2,053,412 |

SOURCE: Census and Statistics Department, various years, 1981–2001.

* Number of households with monthly income HK\$40,000.00 (US\$5,128) or over.

especially, the top 10% of households began to enjoy a remarkable increase in their share of the overall income after 1976. Throughout the 1980s, the top 20% of households managed to concentrate over 50% of the income in their hands. Their share continued to increase to 56.5% in 2001. What is more, the share of the top 10% reached about 42% during that period (Tables 3 and 4, Figure 5). It is unusual for the richest stratum to control well over half of the national income in a developed society, but Hong Kong is an exception. The persistent decline in the respective shares of bottom- and middle-income households, with increases only among upper-income households, clearly signifies a deterioration in the aggregate distribution of income in Hong Kong over the past 30 years and a concomitant increase in income inequality.

TABLE 3 *Distribution of Total Household Income by Deciles, 1966–2001 (%)*

| <i>Decile</i> | <i>1966</i> | <i>1971</i> | <i>1976</i> | <i>1981</i> | <i>1986</i> | <i>1991</i> | <i>1996</i> | <i>2001</i> |
|----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| 1st (lowest) | 1.3 | 2.3 | 1.9 | 1.4 | 1.6 | 1.3 | 1.1 | 0.9 |
| 2nd | 4 | 3.9 | 3.5 | 3.2 | 3.4 | 3 | 2.6 | 2.3 |
| 3rd | 3.8 | 5.1 | 4.6 | 4.4 | 4.4 | 4 | 3.6 | 3.4 |
| 4th | 4.3 | 5.1 | 5.5 | 5.4 | 5.4 | 5 | 4.6 | 4.4 |
| 5th | 5.6 | 7 | 6.8 | 6.5 | 6.4 | 6.1 | 5.7 | 5.6 |
| 6th | 6.8 | 7.3 | 8.1 | 7.8 | 7.6 | 7.4 | 7 | 7.0 |
| 7th | 7.5 | 9 | 8.8 | 9.4 | 9.1 | 9 | 8.5 | 8.8 |
| 8th | 9 | 11 | 11.3 | 11.5 | 11.4 | 11.4 | 10.6 | 11.1 |
| 9th | 12.2 | 14.7 | 15.9 | 15.2 | 15.2 | 15.5 | 14.5 | 15.3 |
| 10th (highest) | 45.5 | 34.6 | 33.6 | 35.2 | 35.5 | 37.3 | 41.8 | 41.2 |
| <i>Total</i> | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

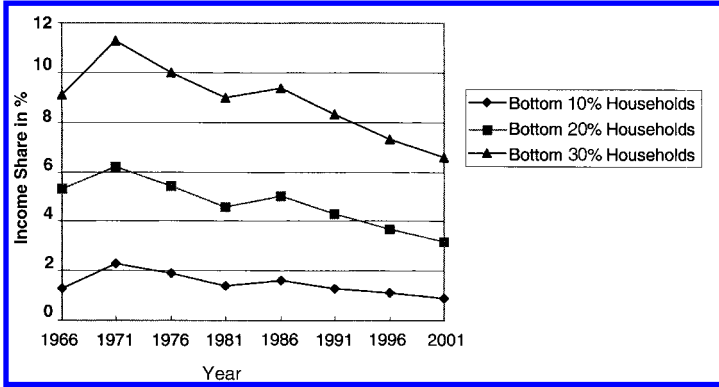
SOURCE: Stephen Chow, *Economic Growth and Income Distribution in Hong Kong* (Ann Arbor, Michigan: University Microfilms International, 1977); Census and Statistics Department, various years, 1971–2001).

TABLE 4 *Distribution of Total Household Income by Deciles, 1966–2001 (%)*

| <i>Decile</i> | <i>1966</i> | <i>1971</i> | <i>1976</i> | <i>1981</i> | <i>1986</i> | <i>1991</i> | <i>1996</i> | <i>2001</i> | <i>% Change (1971–2001)</i> |
|---------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------------------------|
| Bottom 10% | 1.3 | 2.3 | 1.9 | 1.4 | 1.6 | 1.3 | 1.1 | 0.9 | –60.9 |
| Bottom 20% | 5.3 | 6.2 | 5.4 | 4.6 | 5 | 4.3 | 3.7 | 3.2 | –48.3 |
| Bottom 30% | 9.1 | 11.3 | 10 | 9 | 9.4 | 8.3 | 7.3 | 6.6 | –41.6 |
| Bottom 40% | 13.4 | 16.4 | 15.5 | 14.4 | 14.8 | 13.3 | 11.9 | 11.0 | –32.9 |
| Bottom 50% | 19 | 23.4 | 22.3 | 20.9 | 21.2 | 19.4 | 17.6 | 16.6 | –29 |
| Bottom 60% | 25.8 | 30.7 | 30.4 | 28.7 | 28.8 | 26.8 | 24.6 | 23.6 | –23 |
| Middle 20% | 12.4 | 14.3 | 14.9 | 14.3 | 14 | 13.5 | 12.7 | 12.6 | –11.9 |
| Middle 40% | 24.2 | 28.4 | 29.2 | 29.1 | 28.5 | 27.5 | 25.8 | 25.8 | –9.2 |
| Middle 60% | 37 | 44.5 | 45.1 | 45 | 44.3 | 42.9 | 40 | 40.3 | –9.4 |
| Top 30% | 66.7 | 60.3 | 60.8 | 61.9 | 62.1 | 64.2 | 66.9 | 67.6 | 12.1 |
| Top 20% | 57.7 | 49.3 | 49.5 | 50.4 | 50.7 | 52.8 | 56.3 | 56.5 | 14.6 |
| Top 10% | 45.5 | 34.6 | 33.6 | 35.2 | 35.5 | 37.3 | 41.8 | 41.2 | 19 |

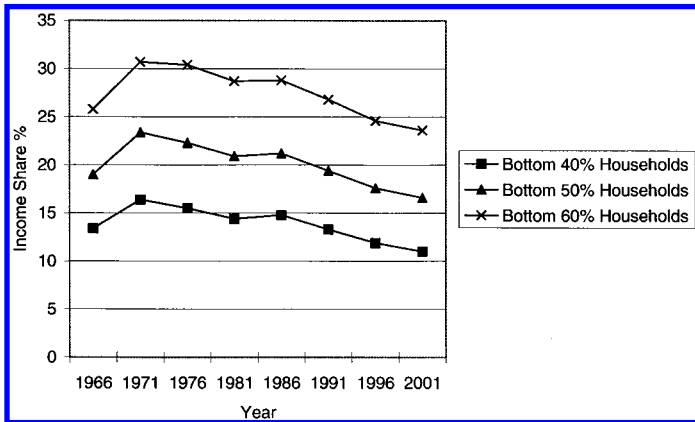
SOURCE: Same as Table 3.

FIGURE 2 *Income Shares of the Bottom 10%, 20%, and 30% of Households, 1966–2001*



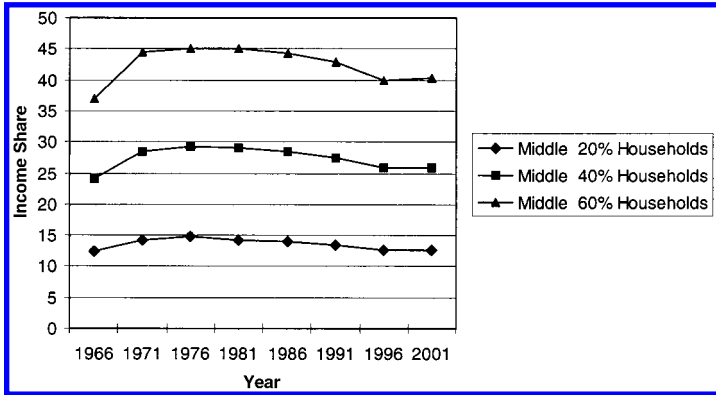
SOURCE: Same as Table 3.

FIGURE 3 *Income Shares of the Bottom 40%, 50%, and 60% of Households, 1966–2001*



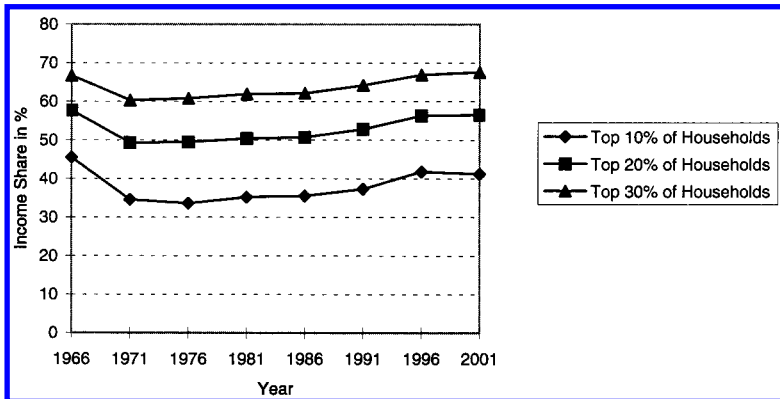
SOURCE: Same as Table 3.

FIGURE 4 *Income Shares of the Middle 20%, 40%, and 60% of Households, 1966–2001*



SOURCE: Same as Table 3.

FIGURE 5 *Income Shares of the Top 10%, 20%, and 30% of Households, 1966–2001*



SOURCE: Same as Table 3.

By computing the percentage change of income shares for different groups from 1971 to 2001, as given in Table 4, shocking results can be found. In the course of those 30 years, the bottom 10% to 60% of households—as well as the middle 60% of households—suffered heavy declines in their income share. The lower the income group, the greater the reduction of its share. The bottom 10% of households suffered the heaviest reduction (60.9%) in income share. The reduction for the bottom 20% of households was 48.3%, while that of the bottom 30% was 41.6%. Even the bottom 60% as a whole was reduced by 23%. It is disturbing, furthermore, to note that the respective income shares of the middle 20%, 40%, and 60% of households were also reduced variously by 9% to 12%. Under the circumstances, it is not impossible for the middle-income class to end up relatively impoverished.

It is observable that only the top 30% of Hong Kong households was able to enjoy a continual increase in income share in the course of the last few decades. In contrast to the situation of the middle- and lower-income households, the higher the income group, the greater the increase in its share of the national wealth. While the income share of the top 30% of households increased by nearly 12%, that of the top 20% of households went up over 15%. The share of the wealthiest 10% grew by 19% (Table 4).

Such a pattern of change in income share is, moreover, an indication that the rich, especially the very rich, are able to generate their wealth much faster than the lower classes in the process of rapid economic growth. The growth of the economy no doubt has greatly benefited the rich. The middle-income groups have benefited only moderately and the lowest groups have benefited least.

In Table 4, we can also observe that the households with the lowest income have always received an extremely small share of the total. The biggest share in the course of the eight census years was only 2.3% for the bottom 10% of households, 6.2% for the bottom 20%, and 11.3% for the bottom 30%. Their respective income shares reached a nadir in 2001—0.9%, 3.2%, and 6.6%. Compared with the lion's share of over 50% for the top 20% of households, these figures can be said to show the bottom percentiles as relatively poor.

Although income inequality improved somewhat in the 1960s and 1970s, special attention should be paid to the worsening aggregate distribution of income and the significant widening of the gap between rich and poor in more recent years and in the foreseeable future. It is indeed worrisome to observe that with the highest income households increasing their wealth progressively faster than the middle- and lower-income households, the widening of the gap has become serious in Hong Kong. Judging from the figures for 2001, the year of the most recent census, when the highest 20% of households surpassed the remaining 80% by well over 10% (see Table 4), income distribution is strikingly uneven.

Income Inequalities

This trend reflects increasing income inequality over three decades. By plotting the Lorenz curves and computing the Gini coefficients of income distribution, a long-term trend of increases and a notably high end point by the 2001 census can be demonstrated.

Lorenz curves representing the distribution of household incomes for the past 35 years are presented in Figures 6, 7, and 8. They show that income inequality has been exacerbated, rather than ameliorated, during the past few decades. The Lorenz curves deviated quite far from the line of equality toward the X-axis, one after another. It is only between 1966 and 1971 that inequality was reduced. In 1966, income inequality in Hong Kong was its worst ever. The curve for 1966 is the furthest from the line of equality between the Lorenz curves of all census years, as compared to the curves for 1971 and 1976. When we look at Figure 8, it is easy to see that the Lorenz curve for 2001, which is the furthest from the line of equality and which significantly deviates from the other four curves for 1981, 1986, 1991, and 1996, representing a sharp increase in income inequality from 1981. The pattern of the Lorenz curves, taken as a whole, can be taken to show that Hong Kong's economy has produced a high degree of income inequality, comparable to that of relatively undeveloped third-world countries.

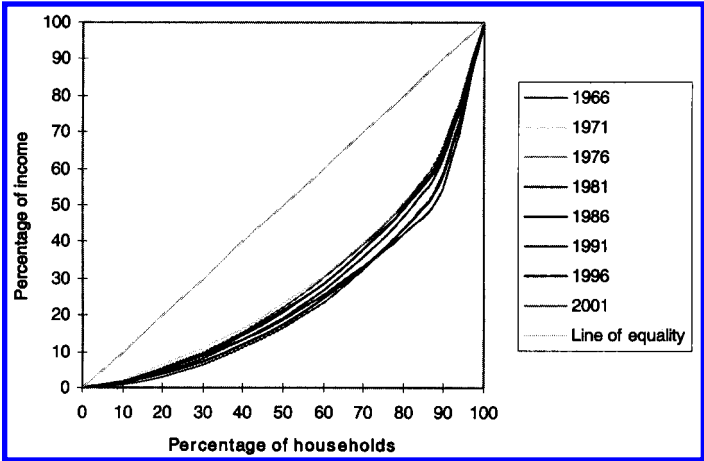
The rising Gini coefficients shown in Figure 9 for the years subsequent to 1971, comparable to the rather more attenuated shape of the Lorenz curves, support the conclusion that there has been a steady exacerbation of income inequality in Hong Kong over the past 35 years. The Gini coefficient fell from 0.48 in 1957 to 0.43 in 1971, which represented an improvement.⁸ But the cause of the improvement is exactly the initial massive industrialization in which many small and export-led industries in textiles and garments were blossoming during the period 1966–71.⁹ Since 1976, however, the Gini coefficient has shown a net rise, while Hong Kong's industrialization has increasingly become developed and mature. In 1981, the Gini coefficient was 0.45 and 0.476 in 1991. The Gini coefficient of 1996 went up to 0.518, and further to 0.525 in 2001.¹⁰ Comparing a changing trend in the Gini coefficients, we can see that the degree of income inequality for the most recent census period is in fact worse than it was 35 years before.

8. S. Chow and G. Papanek, "Laissez-faire, Growth and Equity—Hong Kong," *Economic Journal* 91:6 (1981), pp. 466–85.

9. Lui Hon Kwong, *Income Inequality and Economic Development in Hong Kong* (Hong Kong: City University of Hong Kong Press, 1997).

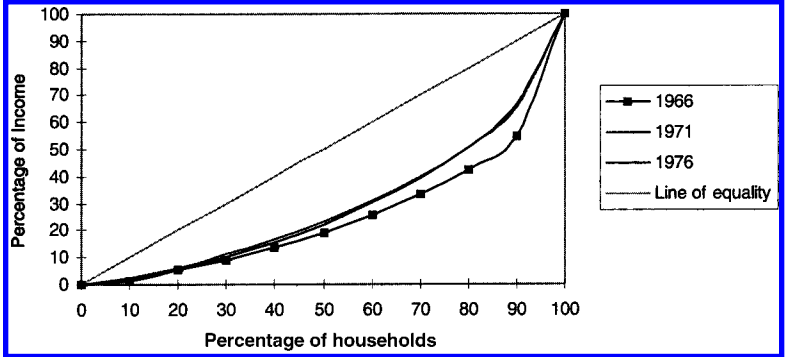
10. Census and Statistics Department, *Population Census: Basic Tables for Constituency Areas: Hong Kong Island* (Hong Kong: Government Printer, 2001).

FIGURE 6 *Lorenz Curves of Income Distribution, 1966–2001*



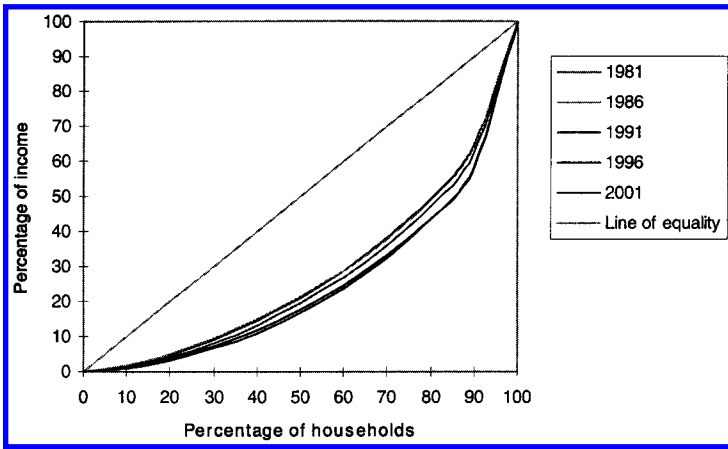
SOURCE: Same as Table 3.

FIGURE 7 *Lorenz Curves of Income Distribution, 1966–1976*



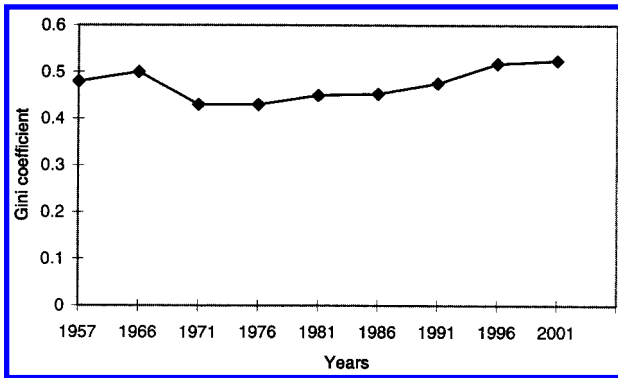
SOURCE: Same as Table 3.

FIGURE 8 *Lorenz Curves of Income Distribution, 1981–2001*



SOURCE: Same as Table 3.

FIGURE 9 *Gini Coefficient of Income Distribution in Hong Kong, 1966–2001*



SOURCE: S. Chow and G. Papanek, "Laissez-faire, Growth and Equity—Hong Kong," in *Economic Journal* 91:6 (1981), pp. 466–85; Census and Statistics Department, various years.

TABLE 5 *A Comparison of Quintile Household Income Distribution*

| | <i>Hong Kong</i> | <i>Guatemala</i> | <i>Spain</i> | <i>Singapore</i> | <i>United Kingdom</i> | <i>Japan</i> | <i>USA</i> |
|----------------------------------|------------------|------------------|--------------|------------------|-----------------------|--------------|------------|
| GDP per capita in 1990 (US\$) | 16,230 | 2,920 | 10,840 | 14,920 | 14,960 | 16,950 | 21,360 |
| <i>Statistical year</i> | 1991 | 1979–81 | 1980–81 | 1982–83 | 1979 | 1979 | 1985 |
| First quintile | 4.3 | 5.5 | 6.9 | 5.1 | 5.8 | 8.7 | 4.7 |
| Second quintile | 9 | 8.6 | 12.5 | 9.9 | 11.5 | 13.2 | 11 |
| Third quintile | 13.5 | 12.2 | 17.3 | 14.6 | 18.2 | 17.5 | 17.4 |
| Fourth quintile | 20.4 | 18.7 | 23.2 | 21.4 | 25 | 23.1 | 25 |
| Fifth quintile | 52.8 | 55 | 40 | 48.9 | 39.5 | 37.5 | 41.9 |
| Top 10% | 37.3 | 40.8 | 24.5 | 33.5 | 23.3 | 22.4 | 25 |

SOURCE: Tsang Shu Kei, "Income Distribution," in *The Other Hong Kong Report 1993*, eds. Choi Po-King and Ho Lok-Sang (Hong Kong: The Chinese University Press, 1994), pp. 361–68.

The Gini coefficients recorded have never been lower than 0.4 in Hong Kong. All of them fall within the standard range for developing countries,¹¹ though Hong Kong's economy has been well developed. In comparison to developed countries like the United States, Canada, and those of Western Europe with relatively equitable income distributions, characterized by Gini coefficients below 0.35, Hong Kong has a relatively high degree of income inequality. The concomitant of rapid economic growth in Hong Kong, as it happens, has been a worsening of income inequality. It has not resulted in a more equitable society.

A Comparative Perspective

A cross-country study was conducted for a comparison between the aggregate distribution of income and the overall economic level of Hong Kong with six other countries—Guatemala, Spain, Singapore, the United Kingdom, Japan, and the United States.¹² The study found that Hong Kong actually ranked above both Singapore and the U.K. in 1990 in terms of economic development, as its per capita income of US\$16,230 was the third-highest, after that of the United States and Japan (Table 5). However, the distribution of household income for Hong Kong in 1991 looked more like that of Guatemala in 1979–81, a low level economy with GDP per capita of no more than \$2,920 in 1990. This was not at all like Spain, Singapore, the U.K., or even Japan and the United States at various measurement points in the late 1970s and the early

11. Lui, *Income Inequality and Economic Development in Hong Kong*.

12. Tsang Shu Kei, "Income Distribution," in *The Other Hong Kong Report 1993*, eds. Choi Po-King and Ho Lok Sang (Hong Kong: Chinese University Press, 1994), pp. 361–68.

TABLE 6 *Income Distribution as a Ratio of Top Quartile to Bottom Quartile (1975–1986)*

| <i>Western Countries</i> | | <i>Asian Countries</i> | |
|--------------------------|-----|------------------------|-------------|
| Netherlands | 4.4 | Taiwan | 4.2 |
| Belgium | 4.6 | Japan | 4.3 |
| Germany | 5.0 | Israel | 6.7 |
| Hungary | 5.2 | South Korea | 6.8 |
| Ireland | 5.5 | India | 7.0 |
| Sweden | 5.6 | Bangladesh | 7.2 |
| United Kingdom | 5.7 | Indonesia | 7.3 |
| Switzerland | 5.8 | Sri Lanka | 8.3 |
| Spain | 5.8 | Thailand | 8.8 |
| Finland | 6.0 | The Philippines | 10.3 |
| Norway | 6.4 | Hong Kong | 10.1 (1986) |
| Italy | 7.1 | | 12.3 (1991) |
| Denmark | 7.2 | | 15.2 (1996) |
| United States | 7.5 | | |
| France | 7.7 | | |
| Australia | 8.7 | | |
| New Zealand | 8.8 | | |

SOURCE: Mok Tai Kee, *Eradication of Hong Kong Poverty* (Hong Kong: Joint Publishers Ltd., 1999), p. 17.

and mid-1980s. Hong Kong's degree of income inequality was worse than that of all of the countries studied other than Guatemala.¹³ The respective share of the first to fourth quintiles was smaller for Hong Kong, while the share of the fifth quintile was much higher. It is worth noting that the share of the top 10% of households in Hong Kong was more than 4% above that for Singapore and more than 10% above that for each of the other developed countries.

The data from the United Nations confirmed the finding of the above study. Table 6 shows that the income gap between the top and bottom quartile of households in Hong Kong was 10 times in 1986 and reached 15 times in 1996. The Hong Kong situation of income inequality was much worse than that of Western countries, and surprisingly, even that of many developing countries in Asia.

More updated data show that Hong Kong was ranked quite high in terms of the Gini coefficients (Table 7). Among the "high-income economies," according to the 2001 edition of the United Nations Human Development Report,¹⁴

13. Ibid.

14. United Nations Development Program, *Human Development Report 2001*, <<http://www.undp.org/hdr2001/>>, accessed May 14, 2003.

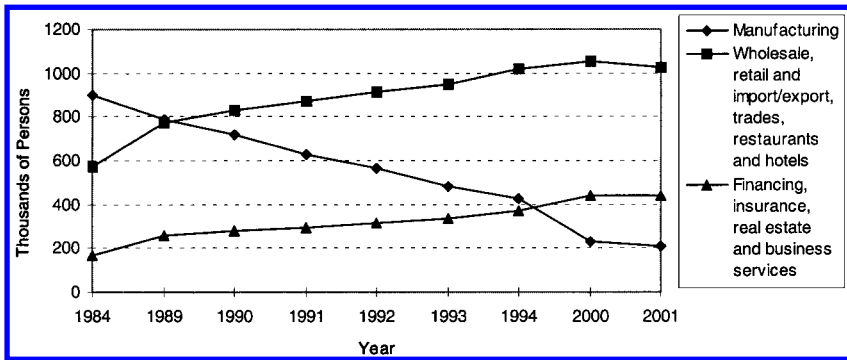
TABLE 7 *A Cross-Country Comparison of Gini Coefficients*

| <i>Countries</i> | <i>Gini Coefficients</i> | <i>Statistical Year</i> |
|------------------|--------------------------|-------------------------|
| Brazil | 0.601 | 1995 |
| South Africa | 0.593 | 1994 |
| Chile | 0.565 | 1994 |
| United Kingdom | 0.53 | 2000 |
| Hong Kong | 0.525 | 2001 |
| Mexico | 0.519 | 2000 |
| Malaysia | 0.492 | 2000 |
| Singapore | 0.481 | 2000 |
| Russia | 0.487 | 1996 |
| Peru | 0.462 | 1996 |
| The Philippines | 0.461 | 2000 |
| United States | 0.46 | 1999 |
| Australia | 0.44 | 1998 |
| China | 0.415 | 1995 |
| Thailand | 0.414 | 2000 |
| India | 0.378 | 2000 |
| Nepal | 0.367 | 1996 |
| Israel | 0.355 | 1992 |
| Mongolia | 0.332 | 1995 |
| France | 0.327 | 1995 |
| Indonesia | 0.317 | 2000 |
| South Korea | 0.316 | 1993 |
| Canada | 0.315 | 1994 |
| Pakistan | 0.312 | 1996 |
| Germany | 0.3 | 1994 |
| Sweden | 0.258 | 1992 |
| Norway | 0.25 | 1992 |
| Japan | 0.249 | 1993 |

SOURCE: *Ming Pao* (Hong Kong), October 26, 2001; *Apple Daily* (Hong Kong), October 27, 2001; United Nations Development Program, *Human Development Report 2001*, <<http://www.undp.org/hdr2001/>>, accessed May 14, 2003.

there were few, except Hong Kong, in which the top quintile took more than 50% of the total national income.

In summary, the findings of this empirical analysis suggest that although Hong Kong has succeeded in making the transition to a developed economy in a relatively short period, the concomitant of this rapid economic growth has been an exacerbation of income inequality. There is no evidence of wealth trickling down from the top to the bottom. On the contrary, there has been increasing inequality and polarization.

FIGURE 10 *Number of People Employed in Selected Industry Sectors*

SOURCE: Census and Statistics Department, *Hong Kong Social and Economic Trends 1995* (Hong Kong: The Government Printer, 1996); Census and Statistics Department, *Hong Kong 2001 Population Census Main Report* (Hong Kong: The Government Printer, 2001).

Factors Explaining Income Inequality

Factors associated with economic restructuring can be blamed for the severe inequalities. We identify two broad factors: economic and institutional.

Industrial Restructuring

In the past three decades, the Hong Kong economy has been undergoing significant restructuring. Except for certain quota-restricted businesses, a large number of traditional industries have been moved outside the territory. Manufacturing, which used to be Hong Kong's largest employment sector, has lost its dominant position since 1980. "Deindustrialization" has continued to proceed with full force in the 1990s. It is shown in Figure 10 that the number of manufacturing workers fell by over half from 898,900 in 1984 to only 209,329 in 2001 (Figure 10). This drop in the manufacturing work force of about 80% in 15 years cannot be regarded as insignificant. In contrast, there was a remarkable expansion of the service sector, where employment increased sharply from 743,300 in 1984 to 2,025,745 in 2001, a nearly threefold increase.¹⁵ Although the service sector has now become the largest single employment sector, when one takes into account the many difficulties of job shifting, it is questionable whether the sector can accommodate all unemployed former manufacturing workers.

15. Census and Statistics Department, *2001 Population Census Summary Results*, <http://www.info.gov.hk/censtatd/eng/hkstat/fas/01c/01c_index.html>, accessed June 13, 2003.

The initiative for deindustrialization came from thousands of business decisions made by individual factory owners seeking to evade the high cost of production in Hong Kong. In the course of the large-scale processes of deindustrialization, most manufacturing firms (except for those producing quota-restricted products like textiles and garments) have moved to Mainland China or to Southeast Asia, in order to take advantage of low production costs there. The industrial “outmigrating” process has been accompanied by a process of “white-collarization” in the manufacturing industry in Hong Kong territory. This industrial restructuring process amounted to a phase-out of “blue-collar” industrial operations, which typically employed non-skilled workers, replacing them with higher value-added processes like product design, product marketing, and other financial and/or commercial services, which require employees with professional qualifications. Hong Kong started to transform itself in the 1980s from a “product-producing” site into a “product-managing” center. There are many reports that transnational companies like Motorola closed their manufacturing operations in Hong Kong and moved production lines to lower-cost countries.

During a transition from an industrial economy to a service economy, a large number of workers previously working in manufacturing industries become marginalized. Many of them are forced to seek jobs in the service sector that require different qualifications. Those who cannot meet the new professional criteria (i.e., those without the requisite professional knowledge and necessary qualifications) are phased out of employment. Such people include middle-aged, unskilled, female workers and youngsters with low education levels. Since many former manufacturing workers are unable to find suitable jobs and therefore join the army of unemployed, poverty resulting from unemployment among the non-skilled segments of the labor force has exacerbated the pattern of income inequalities.

It is significant to note that from June 2001, the unemployment situation grew even more severe; the unemployment rate increased by 0.2% in just one month, compared to figures in May 2001 (see Table 8). Such deterioration has not improved since, and in fact the unemployment level reached the near-historical high of 6.8% in February 2002, with over 220,000 people out of work (see Table 8).

A large surplus of available workers has further exacerbated the unemployment situation. Apart from the pool of workers released from the manufacturing sector, this surplus is a function of the return of increasing numbers of former emigrants and expatriates, and also of a greater inflow of immigrants from China.¹⁶ Unemployment among the ranks of manual workers is serious

16. R. Skeldon, “Immigration and Population Issues,” in *The Other Hong Kong Report 1995*, ed. Stephen Cheung (Hong Kong: Chinese University Press, 1996), pp. 303–16; Government Information Services Department, *Hong Kong 1996* (Hong Kong: Government Printer, 1997).

TABLE 8 *Unemployment and Under-employment, 1997–2002*

| <i>Period</i> | <i>No. of Unemployed</i> | <i>Unemployment Rate (%)</i> | <i>No. of Under-employed</i> | <i>Under-employment Rate (%)</i> |
|---------------|--------------------------|------------------------------|------------------------------|----------------------------------|
| 1997 | | | | |
| July | 69,000 | 2.4 | 37,800 | 1.2 |
| August | 71,200 | 2.4 | 37,400 | 1.2 |
| September | 69,700 | 2.2 | 33,100 | 1.0 |
| October | 74,000 | 2.3 | 33,300 | 1.0 |
| November | 75,700 | 2.4 | 37,100 | 1.1 |
| December | 76,800 | 2.5 | 44,000 | 1.3 |
| 1998 | | | | |
| January | 73,300 | 2.5 | 49,200 | 1.5 |
| February | 87,900 | 2.9 | 53,200 | 1.6 |
| March | 106,200 | 3.5 | 63,600 | 1.9 |
| April | 121,700 | 3.9 | 72,400 | 2.2 |
| May | 129,700 | 4.1 | 85,800 | 2.6 |
| June | 143,700 | 4.4 | 86,000 | 2.6 |
| July | 161,000 | 4.8 | 88,000 | 2.6 |
| 1999 | | | | |
| Whole year | 207,500 | 6.2 | 96,900 | 3.0 |
| 2000 | | | | |
| Whole year | | 4.9 | 93,500 | 2.8 |
| 2001 | | | | |
| January | 142,900 | 4.5 | 89,400 | 2.6 |
| February | 147,200 | 4.5 | 82,200 | 2.4 |
| March | 149,700 | 4.5 | 77,700 | 2.3 |
| April | 153,700 | 4.5 | 74,700 | 2.2 |
| May | 151,900 | 4.5 | 77,400 | 2.3 |
| June | 152,600 | 4.5 | 75,100 | 2.2 |
| July | 160,800 | 4.7 | 73,700 | 2.2 |
| August | 172,200 | 4.9 | 74,800 | 2.2 |
| September | 185,600 | 5.3 | 84,400 | 2.5 |
| October | 194,400 | 5.5 | 91,000 | 2.6 |
| November | 204,800 | 5.8 | 98,200 | 2.9 |
| December | 209,800 | 6.1 | 104,300 | 3.0 |
| 2002 | | | | |
| January | 218,800 | 6.7 | 111,800 | 3.2 |
| February | 228,000 | 6.8 | 109,000 | 3.2 |

SOURCE: Mok Tai Kee, *Eradication of Hong Kong Poverty* (Hong Kong: Joint Publishers Ltd., 1999), p. 241; Hong Kong Council of Social Service, *Eradication of Poverty Website*, <<http://poverty.socialnet.org.hk>>, accessed June 3, 2003; Census and Statistics Department, various years.

TABLE 9 *Estimated Number of Poverty Population with Employment, 1993–1997*

| <i>Year</i> | <i>Median Income (HK\$)</i> | <i>Poverty Line (HK\$)</i> | <i>Poverty Population with Employment (10 thousand)</i> | <i>Total Employment (10 thousand)</i> |
|-----------------------------|---------------------------------|--------------------------------|---|---|
| 1993 | 7,000 (US\$897) | 3,500 (US\$449) | 18.3 | 279.1 |
| 1994 | 8,000 (US\$1,026) | 4,500 (US\$577) | 23.8 | 291.1 |
| 1995 | 8,000 (US\$1,026) | 4,250 (US\$545) | 28.8 | 298.9 |
| 1996 | 9,000 (US\$1,154) | 4,500 (US\$577) | 29.9 | 308.1 |
| 1997 | 10,000 (US\$1,282) | 5,000 (US\$641) | 30.6 | 311.3 |
| Change from 1993 to 1997 | | | 67.2% | 11.5% |

SOURCE: Mok Tai Kee, *Eradication of Hong Kong Poverty* (Hong Kong: Joint Publishers, 1999), p. 221.

and is a principal reason for the continual slide in the income share of the bottom 10% of households.¹⁷

The existence of this large pool of unemployed blue-collar workers may even have an effect on the employment situation in other sectors of the economy, thus triggering a decrease in the real income of the working class. Many of the unemployed were driven to seek jobs in the service sector. Due to their low levels of education and other skills, however, many of them could only compete for low-paid unskilled positions, and ended up with reduced incomes.¹⁸ The employment situation for these jobs deteriorates, owing to the large number of applicants (i.e., a large labor supply) and the limited number of unskilled-job vacancies. Employers are likely to suppress wages or to require employees to work long hours. One study found that in the 1990s, the number of employed poor people (whose income level is below half of the median income) had increased much faster than the number of total employed, indicating that more and more unskilled workers were underpaid (Table 9). According to the popu-

17. Mok, *Eradication of Hong Kong Poverty*.

18. Hong Kong Council of Social Service, *Labor and Poverty Conference 1996* (Hong Kong).

TABLE 10 *Labor Force Participation Rate in Trade Unions*

| <i>Year</i> | <i>Participation Rate</i> |
|-------------|---------------------------|
| 1995 | 22.8 |
| 1996 | 22.6 |
| 1997 | 22.6 |
| 1998 | 23.3 |
| 1999 | 24.1 |

SOURCE: Global Policy Network, *Current Labor Market Conditions in Hong Kong*, <<http://www.globalpolicynetwork.org/data/hongkong/hk-analysis.pdf>>, accessed June 14, 2003.

NOTE: The participation rate is defined as a ratio of the number of union members to the total number of salaried employees.

lation census of 2001, the median income of the unemployment households of Hong Kong in 2001 is \$10,000 (\$1,282), which is the same as in 1997.¹⁹ Thus, the richest 20% of the population had seen their share of income increase (see Table 4). Therefore, the only reason that can explain such staggering in the median income between 1997 and 2001 is the severe worsening of income in the bottom group of the population.

In contrast, the employment situation in the “higher value-added” positions (such as upper management and other professional work) has been least affected, since these skilled, “knowledge-based” jobs require a variety of specific qualifications. Hence, the labor market has been dichotomized and income gaps have widened. At the lower levels (the non-skilled market), people compete for jobs with few questions asked about the conditions of employment. At the upper levels, on the other hand, people are able to keep a standard commensurate with their professional qualifications. According to the latest census, the monthly per capita income among the top 10% of households was HK\$ 27,800 (\$3,564) in 2000, while those bottom 10% of households earned only HK\$ 1,400 (\$179).

In addition, the low level of unionization in Hong Kong (Table 10), together with the emergence of monopolies of large corporations with sizable market power, guarantees relatively weak bargaining power on the part of low-level employees with regard to remuneration and fringe benefits. It means that non-skilled workers as a group are especially vulnerable to the depressed economic conditions of a tightening traditional labor market under economic

19. Mok, *Eradication of Hong Kong Poverty*; Census and Statistics Department, *2001 Population Census Summary Results*, <http://www.info.gov.hk/censtatd/eng/hkstat/fas/01c/01c_index.html>, accessed June 13, 2003.

restructuring. Therefore, persistent, wide income gaps remain, as demonstrated above.

Government Policies

To a large extent, the Hong Kong government's overriding growth-oriented development strategies, plus its largely passive role with regard to income redistribution, has contributed to the exacerbation of income inequality. The government places maximization of growth as top priority, to the exclusion of any policy concerned with a more equal distribution of income. It accepts a theory that holds that "attempts to bring about a redistribution of income in favor of lower income groups by progressive taxation, minimum wage legislation and social security benefits will reduce the financial differential which separates success and failure and which is held to be the main spring of expansion."²⁰ As a result, the Hong Kong government has concentrated more of its efforts on promoting economic growth than on distributive justice. Since there is no progressive taxation, no minimum wage, no comprehensive social safety net, only a small proportion of the population is able to reap the benefits of economic growth.

In order to sustain a high degree of competitiveness for Hong Kong's economy under the pressure of globalization, the government believes that maintaining a small and efficient public sector is a crucial aspect of fiscal policy.²¹ The underlying principle is to ensure that the government will not crowd out an excessive amount of resources from the private sector. In concrete terms, the growth rate of the public sector is to be kept slower than that of the economy. Under this spending principle, the government always allocates its resources to social welfare as sparsely as possible.

It is clear that priority in government policy making has been given to economic growth rather than to social justice, as the government is really unwilling to redistribute wealth from the rich to the poor and thus plays a passive role in the amelioration of income inequality. This, on the one hand, is because the government wants to be "business-friendly." Large-scale social welfare would displace the profits from the hands of the rich, who are the major players for economic investment. On the other hand, the government chooses not to carry out progressive social security policies, mainly because of a fear of creating a "dependency culture," which discourages unemployed people from working and allows them to depend financially on others, thus ultimately undercutting Hong Kong's prosperity and preventing the attainment of maximum

20. Nicholas Owen, *The Decline of Competition with Industrial Maturity: The Implications for Income Distribution in Hong Kong* (Hong Kong: Centre of Asian Studies, University of Hong Kong, 1971).

21. Government Information Services Department, *Hong Kong 1996*.

growth.²² These cautious attitudes were reflected in the *Report on the Review of the Comprehensive Social Security Assistance (CSSA) Scheme* published in December 1998.²³ The report, under the subheading of “Support for Self-reliance,” laid down guidelines for the future of the CSSA program. The plan was to cut welfare assistance and grants for the able-bodied unemployed, thus allowing the government to “cut fat” in welfare expenditures. Besides providing insufficient welfare assistance, the government offered little means to help former manufacturing workers transition to the service sector, providing only a few types of assistance such as retraining programs, career counseling, or recruitment services.²⁴ This is evidence that the Hong Kong government is only weakly motivated, if at all, to seek to use employment services to control the widening income gap. Contrary to the experience of other developed economies, the growth of affluence in Hong Kong has so far not been accompanied by a corresponding development of an adequate social security system.

As the government purports to practice laissez-faire capitalism, its intervention in the economic realm is very limited. The fruits of growth are distributed largely by market mechanisms; therefore, an uneven income distribution is inevitable. Government intervention in the labor market is also kept to a minimum. The government’s past failure, in response to employer opposition, to establish minimum wages, unemployment insurance, and universal old age pensions is a key factor behind the increasing income inequalities today.²⁵ For several decades, the Hong Kong government has been focused on maintaining economic growth rather than on promoting redistributive justice.

Hong Kong’s government policies, of course, have not been totally non-interventionist.²⁶ The government does subsidize, to a certain degree, the less-fortunate members of society in the areas of housing, education, and medical services. Its redistributive efforts on income distribution, albeit insufficient, cannot be regarded as nonexistent.²⁷ Nevertheless, these efforts are not as pronounced in Hong Kong as elsewhere because of the relatively small amount of public expenditure and the rather passive role of the government in income

22. Wong Hung, “Xianggang Jiushi Niandai Pinqiong de Yuanyin: Miguan, Wenguan, yu Zhongqing de Fenshi” [The causes for poverty in 1990s Hong Kong: Micro, macro and metro analysis], in *Pinqiong de Shehui Fazhan* [Poverty and social development] (Hong Kong: Asia Monitor Resource Centre and Hong Kong Social Security Society, 2000), pp. 3–30.

23. Hong Kong Council of Social Service, *Report on the Review of the Comprehensive Social Security Assistance [CSSA] Scheme* (Hong Kong: Hong Kong Statistical Publisher, 1998).

24. Hong Kong Council of Social Service, *Labor and Poverty Conference 1996*.

25. Stephen C. M. Chow, *Economic Growth and Income Distribution in Hong Kong* (Ann Arbor, Michigan: University Microfilms International, 1997); Ronald L. I. Hsia and Laurence C. Chau, *Industrialization, Employment and Income Distribution: A Case Study of Hong Kong* (London: Croom Helm, 1978).

26. Hsia and Chau, *Industrialization, Employment*.

27. Chow, *Economic Growth and Income Distribution*; Tsang, *Income Distribution*.

distribution. Total public expenditures as a percentage of GDP were under 20% in most years, far below the level in many developed countries. This raises questions on how much the poverty class could really benefit from government redistributive policies. This can be illustrated by examining the public housing and social welfare programs.

The public housing program in Hong Kong has long been seen as unable to provide accommodation for all low-income households in need. Just as in 1990, over 150,000 families on the waiting list are still living in substandard accommodations or suffering a heavy rental burden in the private property market. The average waiting time to obtain public housing is 6.5 years.²⁸ What is more, the public housing program is not primarily targeted on the very poor. It is, in fact, middle-income households that have received the largest proportion of housing subsidies.²⁹ If we consider that the middle-income category includes a certain number of professionals and senior government officials, this means that a privileged minority benefited more than the low-income majority and that the inequality may be worse than what we have observed in the published data. While thousands and thousands of dollars of subsidies are spent for the already-comfortable, the redistributive effect for the very poor is truly insignificant.

Coverage by the social welfare net is too small and eligibility requirements are too strict. Many people who have hardships in life are indeed ill-served. Especially in the case of elderly care, the government has always faced public criticism for failure to promise anything beyond a minimum standard of living.³⁰ The social welfare provision in Hong Kong has even been less comprehensive than in other societies whose levels of economic development are much lower. A comparison of the ratio of received social security allowances to average wages among a few major Chinese cities shows that the ratio for Hong Kong is the smallest, only about 16% or 19.4%, depending on the recipient category (Table 11). The figures are 34% for Taipei, 60% for Guangzhou, 34% for Shanghai, and 44% for Beijing. Hong Kong comes in at only half or less than these figures. That means that the social security system in Hong Kong is still limited in scope. The severely limited spending for social welfare in general and for the poor-assistance program in particular is not enough to justify the government's efforts to allocate the fruits of development to all income classes equally. It may be that welfare shortages have also contributed to the exacerbation of income inequality.

28. Housing Branch of Government Secretariat, *Long Term Housing Strategy Review* (Hong Kong: Government Printer, 1997).

29. Li Si Ming and Yu Fu Lai, "The Redistribution Effects of Hong Kong's Public Housing Programme 1976-86," *Urban Studies* 27:1 (1990), pp. 105-18.

30. Government Information Services Department, *Hong Kong: A New Era, Hong Kong 1998* (Hong Kong: Government Printer, 1998).

TABLE 11 *Comparison of the Level of Social Security Allowance among Some Chinese Cities*

| <i>Year</i> | <i>City</i> | <i>Amount of Social Security Allowance</i> | <i>Amount of Social Security Allowance as Percentage of Average Income (%)</i> |
|-------------|------------------|--|--|
| 1992 | Taipei, Taiwan | NT\$ 4,920 (US\$600) | 34 |
| 1993 | Guangzhou, China | RMB 200 (US\$24) | 59.6 |
| 1993 | Shanghai, China | RMB 120 (US\$15) | 33.7 |
| 1993 | Beijing, China | RMB 125 (US\$1,025) | 44.1 |
| 1995 | Hong Kong | HK\$ 1,490 (US\$182) (adult) | 15.9 |
| | | HK\$ 1,810 (US\$221) (elderly) | 19.4 |

SOURCE: *United Daily News* (Hong Kong), October 16, 1995.

Income inequality resulting from reduced wages for low-skilled workers is also a consequence of the relatively recent privatization of public services promoted by the government. In the course of the 1990s, under the pressure of economic restructuring and the influence of the “New Right,” many Hong Kong public firms were privatized, and operated in the free market. Notable examples include the privatization of parking lot administration and cleaning services for the Hong Kong Housing Authority. The jobs offered by such firms are normally low-skilled. However, the rights to operate privatized services are usually allocated to the lowest bidder, which impels such businesses to reduce their operating costs. Wages, as a major part of those costs, are, of course, held down. Moreover, as part of a cost-cutting strategy, firms may employ only a small number of “core” employees for management and skilled positions and a large number of “non-core” workers to fit into non-skilled positions. The “non-core” workers are largely employed as part-time or subcontracted for short-term stints. Understandably, the demand elasticity for “non-core” workers is high, their bargaining power is minimal, and their wages are likely to be kept low. Owing to the temporary nature of their jobs, furthermore, unskilled workers subcontracted under the Housing Authority received the lowest level of protection from the Labor Law and were exploited. They suffered long working hours with neither medical care nor paid holidays.³¹ In one extreme case, widely reported by local media, an elderly woman who worked as a cleaner for 16 hours a day was paid only HK\$ 6 [\$0.80] per hour. Low wages and lack of fringe benefits exacerbated the harshness of life for the mass of low-skilled service workers.

31. Wong, “Xianggang Jiushi Niandai Pinqiong de Yuanyin.”

TABLE 12 *Income Distribution of the New Arrivals from the Mainland in Hong Kong between 1998 and 2001 (%)*

| <i>Monthly Income from Main Employment (HK\$)</i> | <i>1998</i> | <i>1999</i> | <i>2000</i> | <i>2001</i> |
|---|-----------------------|--------------------|--------------------|-----------------------|
| <3,000 (US\$385) | 13.1 | 15.0 | 18.4 | 28.7 |
| 3,000–4,999 (US\$385–\$641) | 11.8 | 10.1 | 11.6 | 11.7 |
| 5,000–6,999 (US\$641–\$897) | 20.3 | 19.2 | 19.4 | 17.8 |
| 7,000–8,999 (US\$897–\$1,154) | 23.6 | 22.5 | 19.7 | 17.8 |
| 9,000–10,999 (US\$1,154–\$1,410) | 17.1 | 16.6 | 14.5 | 12.2 |
| 11,000–12,999 (US\$1,410–\$1,666) | 6.6 | 7.9 | 7.2 | 5.4 |
| 13,000–14,999 (US\$1,667–\$1,923) | 3.3 | 3.7 | 3.5 | 2.8 |
| 15,000 (US\$1,923) and over | 3.4 | 4.8 | 5.7 | 5.2 |
| Median monthly income of new arrivals from main employment (HK\$) | 7,400 (US\$949) | 7,500 (US\$962) | 7,100 (US\$910) | 6,100 (US\$782) |
| Median monthly income of Hong Kong population from main employment (HK\$) | 9,500 (US\$1,218)* | — | — | 10,000 (US\$1,282) |

SOURCE: Home Affairs Department, *Survey on New Arrivals from the Mainland (Fourth Quarter of 2002)*, <http://www.info.gov.hk/had/images/pdf/report_2002q4.pdf>, accessed June 14, 2003.

* This figure is based on the 1996 population census.

New Immigrants from the Mainland

In relation to the phenomenon of income inequality in Hong Kong, there is a recent claim, from both society at large and the public media, that new immigrants from Mainland China account for a large portion of the increases in the work force and the population of the poor, and hence, the increase in income inequality. In view of this, we would like to analyze the contribution and significance of new immigrants to the increase in overall income inequality. However, because of problems with data availability and integrity, we are not able to separate out data on new immigrants' income and recalculate the Gini coefficient. Nevertheless, we can assess this contribution by utilizing the new arrival/immigrants survey data done by the government's Home Affairs Department, comparing the demographic characteristics, labor force characteristics, education attainment, and income distribution of the new arrivals with those of the overall Hong Kong population.

Table 12 illustrates the distribution of the level of monthly income from main employment of the new arrivals between 1998 and 2001. The percentage of new arrivals (out of the total number of families of new arrivals) earning

TABLE 13 *Domestic Household Income Distribution of New Immigrants and Hong Kong Population in 2001 (%)*

| <i>Monthly Domestic Household Income (HK\$)</i> | <i>Whole Territory</i> | <i>New Immigrants</i> |
|---|------------------------|-----------------------|
| <2,000 (US\$256) | 3.2 | 14.4 |
| 2,000–3,999 (US\$256–\$513) | 4.8 | 20.2 |
| 4,000–5,999 (US\$513–\$769) | 4.5 | 14.8 |
| 6,000–7,999 (US\$769–\$1,026) | 5.7 | 17.8 |
| 8,000–9,999 (US\$1,026–\$1,282) | 5.9 | 15.0 |
| 10,000–14,999 (US\$1,282–\$1,923) | 15.5 | 8.8 |
| 15,000–19,999 (US\$1,923–\$2,564) | 12.8 | 4.0 |
| 20,000–24,999 (US\$2,564–\$3,205) | 10.9 | 4.0 |
| 25,000–29,999 (US\$3,205–\$3,846) | 7.8 | 1.0 |
| 30,000–39,999 (US\$3,846–\$5,128) | 10.7 | 0 |
| 40,000–59,999 (US\$5,128–\$7,692) | 9.6 | 0 |
| 60,000 (US\$7,692) and over | 8.6 | 0 |
| Median Household Income (HK\$) | 18,704 (US\$2,398) | 7,000 (US\$897) |

SOURCE: Census and Statistics Department, *2001 Population Census Summary Results*, <http://www.info.gov.hk/censtatd/eng/hkstat/fas/01c/01c_index.html>, accessed June 13, 2003; Home Affairs Department, *Survey on New Arrivals from the Mainland (Fourth Quarter of 2002)*, <http://www.info.gov.hk/had/images/pdf/report_2002q4.pdf>, accessed June 14, 2003.

less than HK\$ 3,000 (\$345) had recorded a twofold increase, from 13.1% to 28.7%, and the percentages in every income category (apart from the richest category of those who earn HK\$ 15,000 [\$1,923] or more) had indicated a decrease. The median monthly income from main employment of the new arrivals dropped from HK\$ 7,400 (\$948) to HK\$ 6,100 (\$782), which was much lower than the HK\$ 10,000 (\$1,282) median monthly income earned by Hong Kong residents as a whole, as indicated in the 2001 population census.³² The percentage of new arrivals earning less than HK\$ 3,000 (\$385) in monthly income from main employment in 2001 increased by 119% as compared with that in 1998. The new arrivals are a group of low-paid laborers and the associated poor population. Thus, their presence notably aggravates the level of income inequality in Hong Kong.

Based on Table 13, the majority of the new immigrants, about 82.2% of them in 2002, were earning household incomes between HK\$ 2,000 (\$256) and HK\$ 10,000 (\$1,282). On the contrary, only 24.1% of Hong Kong households earned incomes within that low level. Even the high-income group within the new immigrants was earning less than the median income of the

32. Census and Statistics Department, *2001 Population Census Summary Results*.

TABLE 14 *Comparison between New Immigrants and Total Hong Kong Population in 2002*

| | <i>New Immigrants from Mainland China</i> | <i>Hong Kong Population</i> | <i>Proportion to Total Hong Kong Population (%)</i> |
|--|---|---------------------------------|---|
| Demographic characteristics | | | |
| Population | 45,234 | 6,787,000 | 0.67 |
| Cumulative sum of population in past 5 years | 267,083 | 6,787,000 | 3.94 |
| Labor force characteristics | | | |
| Labor force | 9,604 | 3,487,900 | 0.28 |
| Cumulative sum of labor force in the past 5 years | 44,946 | 3,487,900 | 1.29 |
| Unemployment rate | 3.5% | 7.3% | |
| Education | | | |
| Proportion of non-student population having attained secondary education | 57.4% | 54.6%* | |
| Proportion of non-student population having attained tertiary education | 8.9% | 16.4%* | |

SOURCE: Same as Table 13.

* These figures are based on 2001 census due to data availability.

Hong Kong population. The majority of Hong Kong households were earning more than HK\$ 10,000 (\$1,282). The median household income of Hong Kong population was HK\$ 18,704 (\$2,398), while the median household income of new immigrants was only HK\$ 7,000 (\$897).

Every year there are around 50,000 new immigrants arriving in Hong Kong. Referring to Table 14, in 2002, there were 45,234 new immigrants; this constituted 0.67% of the total Hong Kong population. The cumulative sum of new immigrants in the past five years was 267,083, but their proportion of the total population was only 3.94%. For the labor force, 9,602 new immigrants participated in Hong Kong labor markets, a proportion of 0.28%. The proportion of the cumulative sum of new immigrants in the past five years constituted just 1.29% of the total labor force. The proportion of new immigrants to total population and labor force is not as significant as widely thought. Though the proportion of new immigrants attaining tertiary education is lower than that of Hong Kong people, the ratio for secondary education was even slightly higher than that of residents. As the education level of new immigrants is not significantly lower than that of Hong Kong people, the unemployment rate of new

immigrants in 2001 was understandably lower than Hong Kong's overall unemployment rate, i.e., 3.5% and 7.3%, respectively. The new immigrants are quite economically active. Therefore, it is demonstrable that these arrivals from Mainland China have boosted the populations of low-paid laborers and poor. However, owing to their relatively small numbers within the broad population, the education system, and the labor market, we conclude that they are a factor in exacerbating overall income inequality in Hong Kong, but an insignificant one.

Concluding Remarks

This article has tried to assess the changing trends and magnitudes of income disparity among Hong Kong's different income groups by an examination of household income data. It also sets out to examine the factors responsible for the worsening of inequality in recent decades, particularly in the period of economic restructuring of the 1990s. The findings do not deny that Hong Kong has been a successful example of *laissez-faire* capitalism along the lines proposed by neoclassical economic theory and has achieved a remarkable degree of economic prosperity. However, this study reveals that a truly equitable income distribution is still out of reach for Hong Kong society despite sustained economic growth since the late 1960s. After observing the rising trend of the Gini coefficient, we note that the process of economic restructuring, involving phasing out manufacturing industries and upgrading to a service economy, has not reduced the problem of income disparities but may even have made it worse. Furthermore, this state of affairs seems likely to continue, given the current Hong Kong government's thinking in the era of post-industrial restructuring. It can be concluded that economic growth and structural change in a *laissez-faire* capitalist economy do not necessarily lead to a more equitable society, if the government holds back from a distributive socioeconomic development policy.

This study also reveals as unsubstantiated the broadly held public belief that new immigrants from Mainland China, who mainly engage in low-paid jobs and live on subsistence-level social security, are one of the major factors exacerbating income inequality in Hong Kong. Generally speaking, the new arrivals are groups of poor and low-paid workers, but they are very economically active, acquiring reasonable educations and achieving much lower unemployment rates than the blue-collar labor sector in Hong Kong. Furthermore, given that they are relatively few, in proportion to the total population and labor force, the new immigrants are not a major factor exacerbating income inequality in Hong Kong. The fundamental cause of the increase in income inequality is the focus of our analysis: overall economic restructuring without the necessary backup of government-led economic and social policies.

The validity of Kuznets's belief has been undermined by the case of Hong Kong, which, following a typical *laissez-faire* model, has successfully developed its economy to a high degree of prosperity.³³ However, the convergence toward equality has not taken place with the achievement of fully developed status. From the experience of Hong Kong, it is not clear at what point the extent of income inequality will begin to narrow, as predicted by Kuznets's thesis. It seems that the most effective ways of eliminating income inequality are not only the concomitants of rapid economic growth but also depend heavily on "government attitudes to inequality and the will to prosecute equalization policies vigorously."³⁴

It has been clarified in many studies that rapid economic growth and a more equitable distribution of income are not necessarily incompatible as development objectives.³⁵ The choice is not between more growth and more equality, but about whether a given type of economic growth principally helps the very rich or leads instead to a wider distribution of economic benefits. At the very least, as suggested by Todaro, the "reduction of mass poverty can stimulate a healthy economic expansion by acting as a powerful material and psychological incentive to widespread public participation in the development process."³⁶ By contrast, wide income disparities and substantial absolute poverty could negatively affect economic progress and social development.

In our opinion, the government policy of minimum intervention in the economy is a key factor in the pattern of increasing inequality in Hong Kong. The government should not only concern itself with economic growth, but should also play an active role in promoting necessary redistributive justice and a reduction in inequalities. It should redefine its development goal as growth with improved income distribution. Therefore, funneling resources into a redistributive network is necessary. It is also imperative for the Hong Kong government to intervene in the labor market to improve income distribution and eliminate factors that make for a "poverty trap."

Looking ahead, we are pessimistic, assessing that the widening income gap will continue. For one thing, we believe that economic restructuring will generate a small, extremely wealthy class of "new rich" and simultaneously, under inadequate social policies, a large population of "new poor." Although structural changes in the economy is a mainstay for achieving sustained development, such changes, as we have concluded, will not necessarily lead to prosperity for all.

33. Michael Enright, Edith Scott, and David Dodwell, *The Hong Kong Advantage* (Hong Kong: Oxford University Press, 1997).

34. Gilbert and Goodman, "Regional Income Disparities."

35. Michael Todaro, *Economic Development*, seventh edition (Harlow, U.K.: Addison Wesley Longman, 2000).

36. *Ibid.*

We frequently feel the need to argue for a more equitable society, since we believe that in order to sustain Hong Kong's prosperity, a higher value should be placed on the population as a whole and on social stability. The latter is a necessary condition for economic development and continuous prosperity.³⁷ In the view of Prime Minister Goh Chok Tong of Singapore, globalization has brought his country opportunities for skilled workers and professionals, but at the same time has widened the gap between rich and poor. He proclaimed that the government should focus on making people's lives better, rather than enlarging the income gap.³⁸ If the ultimate goal of economic development is the improvement of the well-being of all people, the Hong Kong government should pursue a more equitable socioeconomic development policy, rather than a solely growth-driven one. Of course, the promotion of income equality represents a long road, and would constitute a great challenge for the government of the Hong Kong Special Administrative Region.

Appendix: A Brief Note on Methodology

To analyze the income distribution pattern, the aggregate distribution of income has been adopted as a principal measure.³⁹ It simply deals with individuals or households and the total incomes received. All data of income is in real term, i.e., deflated by the inflation or consumer price index. The income for households has been divided into successive groups from lowest to highest and then the proportion of the total national income received by each income group is determined. The measure of aggregate income distribution not only displays the pattern of income distribution from poor to rich directly but also reflects the extent of income inequality. If the top 20% of households by income has a disproportionate share of more than 50% of the national total, while the bottom 20% has only a small percentage, the degree of income inequality is obviously very high.

In this study, two popular measures of income inequality that often appear in the literature, the Lorenz curve and the Gini coefficients, have been used. The Lorenz curve is probably the most widely used graphical display of income distribution. The horizontal axis plots the number of income recipients at 10 points for the 10 decile groups, from the lowest to the highest earners, in cumulative percentage terms. The vertical axis plots the cumulative percentage share of income going to the successively accumulated deciles of income earning units, adding up to 100%. If each percentage group of income recipients

37. ING Barings, "Increasing Income Inequality Could Threaten Hong Kong's Prosperity," <<http://www.ingbarings.com/pweb-modules/press/press/24aug00.htm>>, accessed June 10, 2003.

38. Agence France-Presse, "Singapore Facing Growing Income Gap, Says PM Goh," <<http://www.singapore-window.org/sw01/010304a1.htm>>, accessed June 10, 2003.

39. Chow, *Economic Growth and Income Distribution*; Todaro, *Economic Development*.

were to receive its respective percentage of the national total, the Lorenz curve would be a 45° diagonal and, as such, would be representative of “perfect equality” in the aggregate distribution of income. This means, for example, that the bottom 40% would receive 40% of the total income, while the upper 5% would receive only 5%. At every point on that diagonal, the percentage of income received would be equal to the cumulative percentage of income recipients.

However, the curve traced by a given empirical income distribution will usually lag beneath the diagonal, because no country exhibits perfect equality in its distribution of income.⁴⁰ For example, the poorest 20% of households may earn only 5% of the total national income, while the richest 20% receives over 50%. The more the Lorenz curves away from the diagonal—the greater the bend or the nearness to the bottom axis—the greater the degree of inequality represented.

Closely related to the Lorenz curve diagrammatic display of income distribution, the Gini coefficient is another effective way of representing the relative degree of income inequality.⁴¹ The Gini coefficient is defined as formula (1) where P_{1i} is income distribution for a particular income category, the ratio of Y_1 (average income) to the total income; P_{2i} is the income distribution for another income category, the ratio of Y_2 (the population) to the total population. It is a value ranging between 0 and 1.

$$Gini = \frac{1}{n \sum_{i=1}^n (|P_{1i} - P_{2i}|)} \quad (1)$$

$$P_{1i} = \frac{Y_{1i}}{\sum Y_1}$$

$$P_{2i} = \frac{Y_{2i}}{\sum Y_2}$$

A Gini coefficient of 0 would represent perfect equality, and 1 would represent extreme inequality. The Gini coefficient for most developing countries with highly unequal income distributions typically lies between 0.50 and 0.70. For developed countries with relatively equitable income distributions, it is likely to range from 0.20 to 0.35.⁴²

40. Ibid.

41. P. Coulter, *Measuring Inequality: A Methodological Handbook* (Boulder, Colo.: Westview Press, 1989); Todaro, *Economic Development*; Zhao Xiaobin, “Spatial Disparities and Economic Development in China, 1953–92: A Comparative Study,” *Development and Change* 27:1 (1996), pp. 131–60.

42. Todaro, *Economic Development*.