

Sources of employment growth in Hong Kong

by Frank Leung, Kevin Chow, Wendy Woo and Dickson Tam of the Research Department

This paper analyses the sources of employment growth and assesses the contribution of Mainland China's demand to job creation in Hong Kong. Contrary to perceptions, this analysis suggests the import/export sector, instead of the financial sector, is the major contributor to employment creation in Hong Kong in recent years thanks to the fast-growing re-export trade. Increasing service demand in Mainland China will continue to boost domestic employment in areas like trade and financial services, while the construction boom in Macao is expected to create more new jobs for Hong Kong's construction workers. However, if the headline unemployment rate continues to ease, a tightening labour market may put upward pressure on wages and inflation.

Overview

Employment expanded at an average rate of 2-3% per annum from 2004 to 2006 after the economic downturn in the preceding years. Since the trough in 2003, some 318,000 jobs have been created by the second quarter of 2007, mainly in the service sector. Disaggregated data show structural shifts in employment across different service sectors in recent years. Growing trade and financial activities between Hong Kong and Mainland China have boosted employment growth in the import/export and financial services sectors.

From 2001 to 2005, about a quarter of the employment growth in Hong Kong was derived from growing service demand in China, particularly in areas like trade and financial services as a result of China's strong economic performance. This helped mitigate the negative impact on the domestic labour market during the cyclical downturn in Hong Kong's economy.

Despite higher employment, a sectoral breakdown shows that unemployment rates remained high in the construction, restaurants/hotels and wholesale/retail sectors.¹ Increased infrastructure spending by the Government and the construction boom in Macao are expected to create more jobs for domestic construction workers, while growing household spending and inbound tourism will boost employment in retail trade, restaurants and hotels, which will help lower the overall unemployment rate.

Sources of Employment Growth

In recent years, stronger growth in employment relative to the labour force has driven down the unemployment rate from the peak of 8.5% in mid-2003 to a nine-year low of 4.2% in the second quarter of 2007. Distribution of employment by economic sector shows that growing labour demand in the service sector has been the key driver of employment growth over the past few years, as

¹ Except for hotel services, of which the unemployment rate has declined to the pre-1997 level.

domestic manufacturing industries continued to downsize their operations in Hong Kong and subdued residential investment restrained labour demand in the construction sector (Chart 1). The expansion in service sector employment has been broad-based, with job creation mainly concentrating in import/export trade, and personal, financial and business services (Chart 2).

The import/export sector has been the main contributor to output and employment growth in the recent economic upturn. During 2003-06, when employment in the import/export sector grew at its fastest annual pace of 7.7%, nearly one quarter of output was attributed to external trade activities. As a result, the share of the import/export sector in total employment increased to 15% in 2006 from 10% in 1996, the highest among the key economic sectors (Table 1). This was followed by the real estate and business service sector, where employment increased by an average annual rate of 4.2% during 2003-06, mainly reflecting strong job growth in accounting and legal services. Over the same period, employment in the financial and insurance sector rose by an annual rate of 3.4%, marginally higher than the overall growth rate in service sector employment. Employment growth also turned positive in wholesale/retail trade, restaurants and hotels sectors, due to the strong revival in consumer spending and inbound tourism. However, labour demand remained weak in the construction sector, while manufacturing employment continued to shrink.

CHART 1

Employment by economic sector

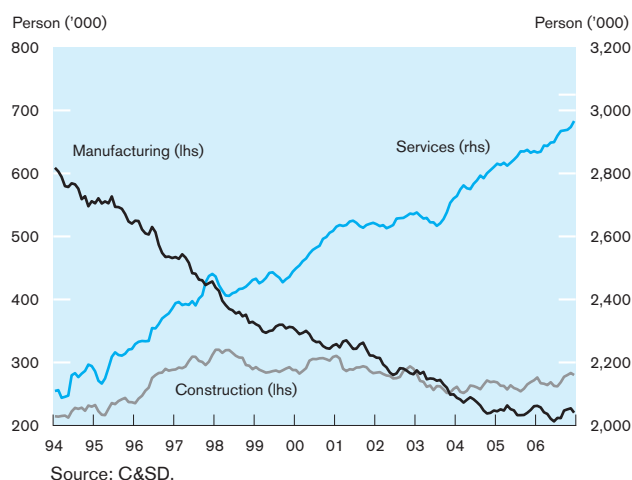


CHART 2

Contribution to service sector employment growth

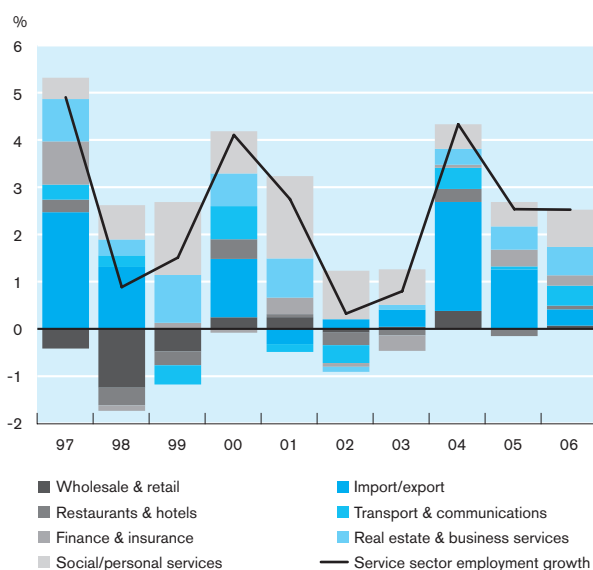


TABLE 1

Employment growth by economic sector

(Unit: %)	Share in total employment		Average annual growth	
	1996	2006	1996-2003	2003-2006
Manufacturing	16	6	-8.2	-6.9
Construction	9	8	-0.7	1.2
Service sector	74	85	2.2	3.1
Wholesale & retail	12	10	-1.6	1.2
Import/export	10	15	5.2	7.7
Restaurants & hotels	8	7	-0.5	0.7
Transport & communications	11	11	0.3	2.4
Finance & insurance	5	5	1.6	3.4
Real estate & business services	7	10	5.2	4.2
Social & personal services	22	26	3.4	1.9
- Public administration	4	4	0.5	-1.9
- Education & medial	7	8	2.5	2.2
- Other personal services	11	15	4.9	2.8
Total employment	100	100	0.6	2.2

Sources: C&SD and staff estimates.

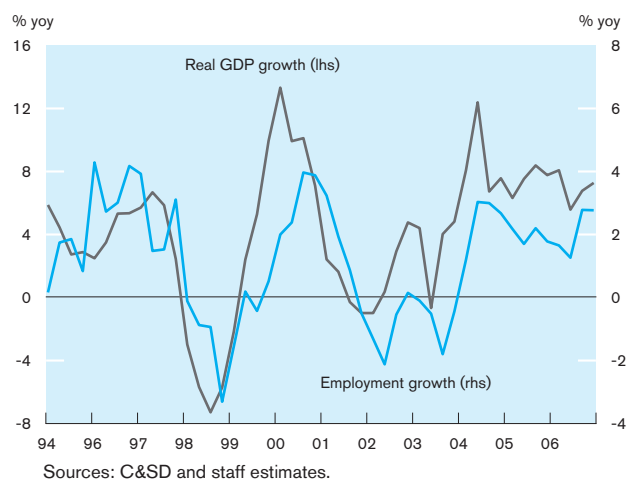
What has driven the current employment growth cycle?

The strong revival in aggregate demand has been the main factor behind the recent expansion in service sector employment. Historical data show there is a strong positive relationship between employment growth and output growth, with the former being driven by the latter with a time lag of about one quarter (Chart 3). During 2003-06, real GDP grew at an above-trend rate of 7.7% per annum, turning the output gap to positive in 2005 and 2006. The broad-based economic upturn and growing profitability have supported business owners to expand their workforce and investment.

While service sector employment has generally benefited the most from the recent economic upswing, disaggregated data show that employment growth varied substantially across different service

CHART 3

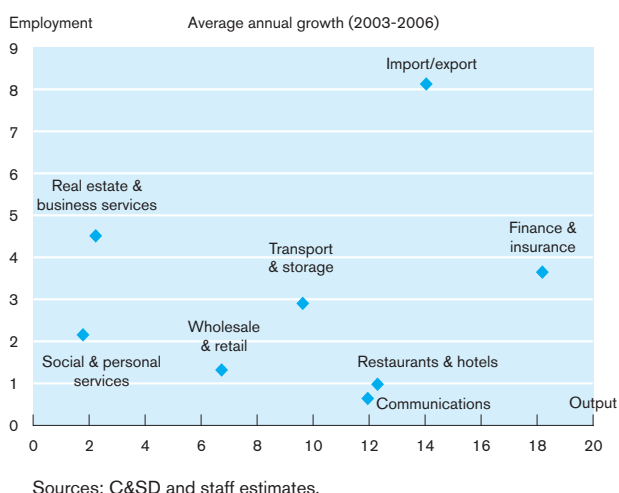
Output growth and employment growth



sectors. Chart 4 compares output growth and employment growth of key service sectors during 2003-06. Employment growth in real estate and business services was shown to be more responsive to output growth, as these sectors were more labour-intensive and the scope for labour-capital substitution was limited. In contrast, employment growth in communications, restaurants and hotels, wholesale/retail trade remained subdued, and stayed below their output growth. One striking development is that despite the strong expansion in financial activities in recent years, employment growth in the financial and insurance sector has lagged behind output growth.

CHART 4

Output and employment growth among key service sectors



One possible explanation for the tepid growth in financial sector employment relative to output growth is that financial institutions have been investing heavily in information technology (IT) and shifting their business mix to higher value-added services such as financial planning and wealth management. These factors have helped raise labour productivity and led to higher output per employee (Chart 5). Compared with other service sectors, per-labour IT spending in the financial and insurance sector is the highest (Chart 6). The relatively limited labour supply in face of the booming demand may also explain the moderate growth in financial sector employment in recent years.

CHART 5

Output per labour in the financial services sector

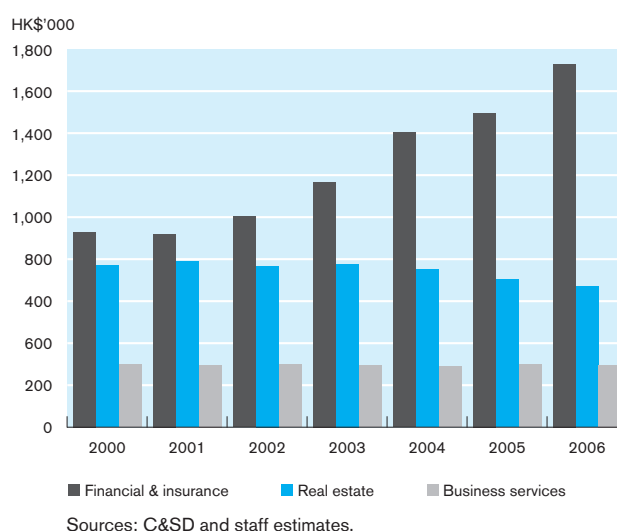
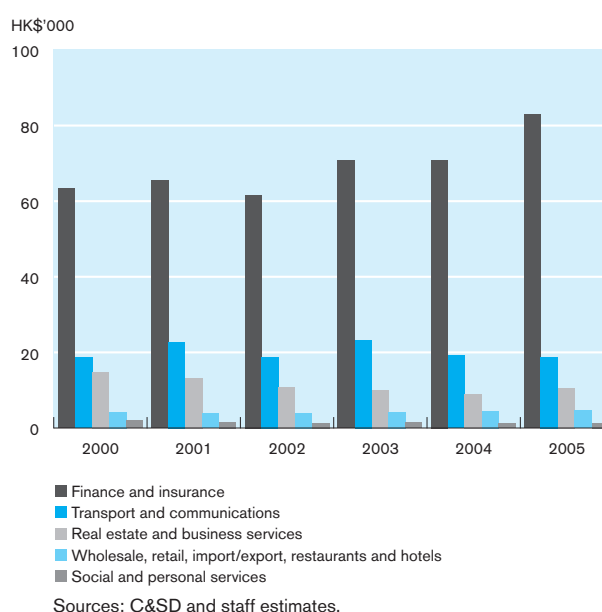


CHART 6

Per-labour IT investment in the service sector



Contributions from Mainland China's Demand

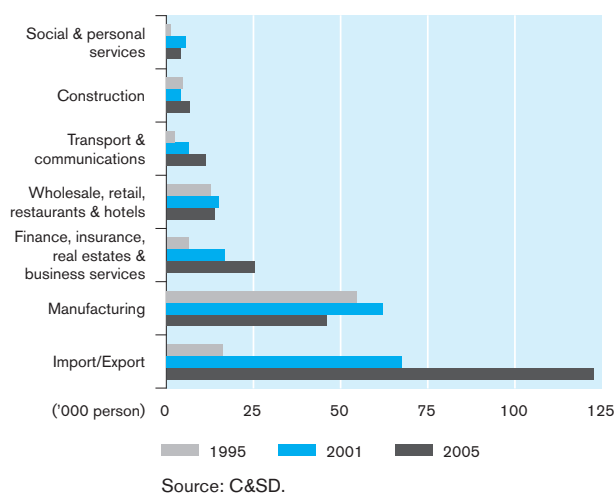
While the strong revival in economic activities has been the key driving force of employment growth in recent years, growing business activities with Mainland Chinese enterprises and stronger service demand from Mainland China have created new job opportunities in the domestic labour market. This has also led to an increasing number of Hong Kong residents working in Mainland

China. According to figures released by the Census and Statistics Department (C&SD), about 52,000 Hong Kong residents (2% of total employment in Hong Kong) worked in Mainland China occasionally or regularly in 1988.² By 2005, the number had increased more than three-fold to 229,000 people (7% of total employment in Hong Kong). This is much larger than the number of Mainland Chinese residents working in Hong Kong through the Admission Scheme for Mainland Talents and Professionals.³

In the 1980s and 1990s, Hong Kong residents working in Mainland China were mainly in the manufacturing sector, as domestic manufacturers relocated their production base to the Mainland. During the initial stage of setting up their assembly lines on the Mainland, domestic manufacturers needed the managerial expertise from Hong Kong employees to supervise and manage the workforce in their factories located in the Pearl River Delta region. In recent years, however, there has been a gradual shift in the number of Hong Kong residents working in Mainland China from the manufacturing sector to the service sector. Between 1995 and 2005, the share of Hong Kong residents working in China in manufacturing declined from 56% to 20%, while the service sector's share increased from 39% to 77%. Within the service sector, import/export trade witnessed the largest increase, rising from 16,000 people in 1995 to 122,000 in 2005 (Chart 7). This was followed by the financial and business service sector, which increased from 6,000 to 25,000 over the same period, mainly reflecting the expansion in business service employment.

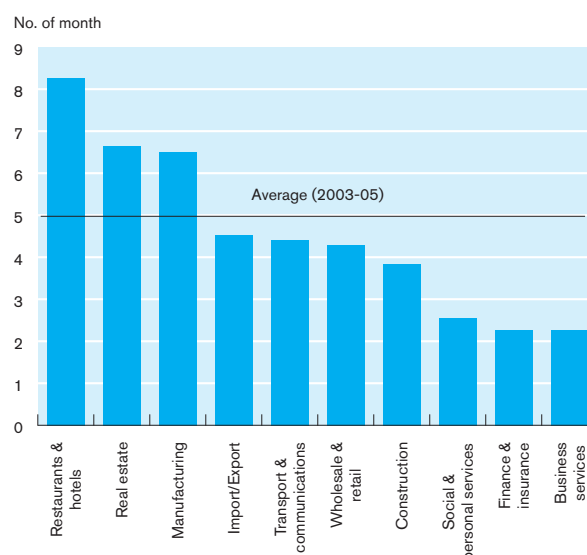
However, not all Hong Kong residents working in Mainland China are required to visit and work there regularly. On average, they spend about 40% of their man-month on the Mainland – a ratio that has been stable over the past few years. The nature of jobs determines the average duration of stay with the longest in labour-intensive sectors, such as

CHART 7
Hong Kong residents working in Mainland China by economic sector



restaurants and hotels, real estate and manufacturing, which range from three months to more than six months. In contrast, business service professionals, including accountants and lawyers, on average, only spent about two weeks to three months working on the Mainland (Chart 8). One notable trend is that an increasing number of accountants are

CHART 8
Duration of stay of Hong Kong residents working in Mainland China (2003-05)



² Figures before 1998 refers to Hong Kong residents who had ever worked in China in the past 12 months at the time of enumeration.

³ According to the Immigration Department, 18,000 Mainland Chinese residents were working in Hong Kong by the end of April 2007 under the Admission Scheme for Mainland Talents and Professionals. The Scheme was implemented on 15 July 2003.

required to provide auditing services to their clients on the Mainland towards the end of the financial year, usually staying there for a short period.

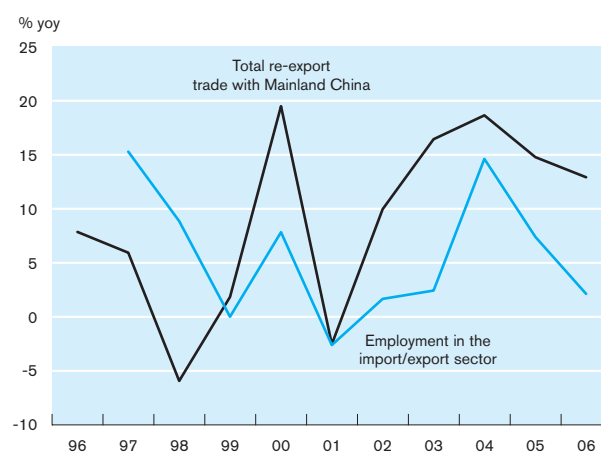
How important has the derived labour demand from Mainland China been to domestic employment growth? Using the number of Hong Kong residents working on the Mainland, irrespective of their duration of stay there, as a proxy for labour demand derived from the Mainland, it would have contributed about 1.6 percentage points to the overall employment growth of 2.8% in Hong Kong during 2001-05, equivalent to almost 60% of the net increment in domestic employment. However, this figure may have overstated the effect of Mainland China's demand on domestic employment growth, as the number of man-months spent on the Mainland varies across sectors. After adjusting for the duration of stay, the contribution from Mainland China's demand to domestic employment growth would decline to 0.7 percentage point. This represents about one quarter of the net increase in domestic employment for the period 2001-05 (Table 2).

The rapid employment growth in Hong Kong's import/export sector indicates the importance of growing re-export trade across the border (Chart 9). The increasing Mainland demand for professional services from Hong Kong also mitigated the negative

impact of external shocks on the domestic labour market. For example, when Hong Kong experienced a sharp cyclical downturn in labour demand during 2001-03, the number of residents working on the Mainland grew strongly reflecting the country's rapid economic expansion and the increased willingness of unemployed people in Hong Kong to cross the border in tough times. The greater access of the service providers in Hong Kong to the Mainland market under the Closer Economic Partnership Arrangement (CEPA) has also increased cross-border labour flows. More recently, however, as domestic labour demand has picked up with the economic recovery, the contribution from Mainland

CHART 9

Re-export trade with Mainland China and employment in the import/export sector



Source: C&SD.

TABLE 2

Contribution from Mainland China's demand to domestic employment growth

(Unit: %)	Employment Growth ^(a)	Contribution from Mainland China's demand	
	(2001-05)	(Not adjusted for duration of stay)	(Adjusted for duration of stay)
Manufacturing	-31.0	-4.9	-3.1
Construction	-9.0	0.9	0.7
Wholesale & retail	2.9	-0.9	-0.3
Import/Export	27.2	13.5	7.0
Restaurants & hotels	-3.0	0.7	0.4
Transport & communications	1.2	1.4	0.9
Finance & insurance	0.4	2.4	1.0
Real estate & business services	7.3	1.5	-0.1
Social & personal services	9.4	-0.2	-0.2
Overall	2.8	1.6	0.7

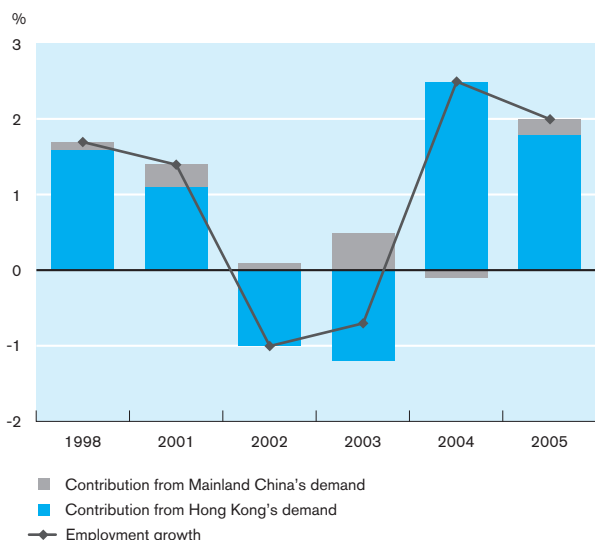
^(a) Domestic employment growth between 2001 and 2005.

Sources: C&SD and staff estimates.

China's demand to domestic employment growth has become less significant (Chart 10).

CHART 10

Contribution from Mainland China's demand to employment growth in Hong Kong¹



Note: 1998 and 2001 data are calculated using the average annual growth rate between surveyed dates while figures from 2002 onwards are year-on-year growth rates.

1. Adjusted for duration of stay in Mainland China.

Sources: C&SD and staff estimates.

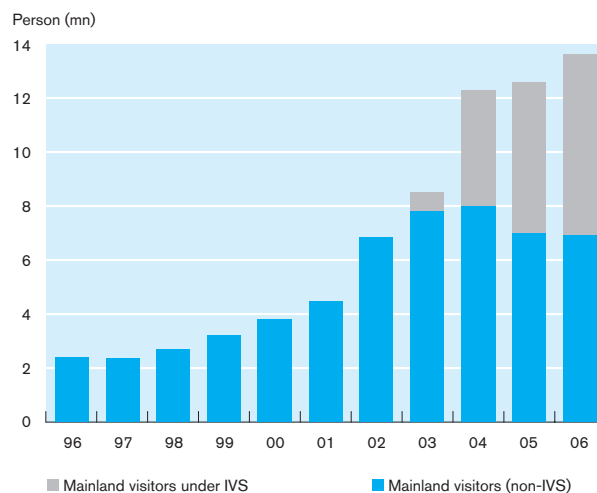
Another source of employment growth directly related to Mainland China's demand is the rapidly-growing number of Mainlanders visiting Hong Kong. With the introduction of the Individual Visit Scheme (IVS) under the Closer Economic Partnership Arrangement (CEPA) in 2003, the number of Mainland visitors coming to Hong Kong grew by 19% per annum between 2002 and 2006, with the Mainland's share of total inbound visitors rising from 41% to 54%. Among the 13.6 million Mainland visitors in 2006, about 6.7 million (or 49% of the total) came through the IVS (Chart 11). These visitors are not only an important source of tourism income for Hong Kong, they help create many employment opportunities, particularly in hotels, transportation, retail trade and restaurants. Based on some broad assumptions, Mainland visitors could have contributed some 10-15% of the increase in employment within these tourism-related sectors

⁴ The tourism-related sector includes retail trade, restaurants, hotels and transportation services.

during 2003-05 (Chart 12).^{4,5} However, in terms of overall employment growth, the contribution from Mainland visitors is relatively small given these tourism-related sectors account for about one quarter of total employment in Hong Kong.

CHART 11

Number of Mainland visitors in Hong Kong¹

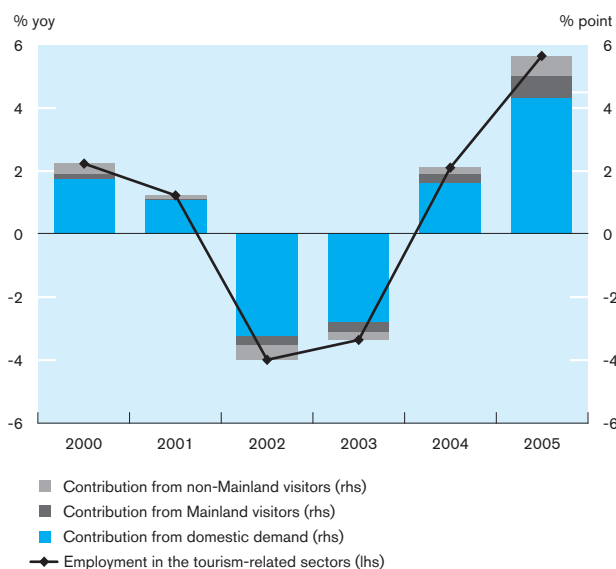


1. Mainland visitors under the IVS with effect from July 2003.

Sources: Immigration Department and the Hong Kong Tourism Board.

CHART 12

Contribution from Mainland visitors to employment growth in the tourism-related sector¹



1. The tourism-related sectors include retail trade, restaurants, hotels and transportation services.

Sources: C&SD and staff estimates.

⁵ Please refer to the Annex for details about the estimated impact of Mainland visitors on employment growth in Hong Kong's tourism-related sector.

While the numbers of Hong Kong residents working in Mainland China and Mainland tourists are useful proxies to gauge the direct impact of Mainland China's demand on domestic employment growth, it is difficult to measure the overall effect of Mainland China factors on Hong Kong's labour market. With growing trade and financial activities between Hong Kong and the Mainland, business with the latter has become an important source of income for Hong Kong firms, and has boosted domestic employment growth both directly and indirectly.⁶

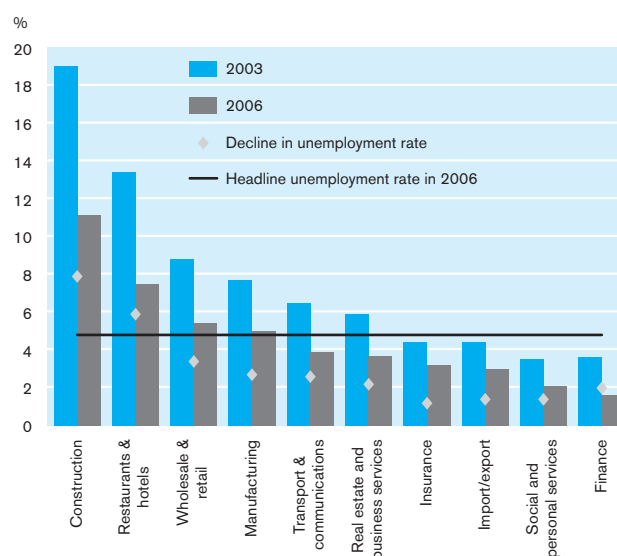
Causes of higher structural unemployment in Hong Kong

The current economic upswing and growing Mainland China demand have boosted domestic employment growth and driven down the headline unemployment rate from its peak of 8.5% in June 2003 to 4.2% in June 2007. However, unemployment rates in the construction, restaurants/hotels and wholesale/retail sectors continued to stay above the headline unemployment rate (Chart 13). As for the share of unemployment, the construction and the restaurants/hotels sectors remained the highest among the key economic sectors, reflecting modest job creation relative to the size of unemployment (Chart 14).

Sluggish Construction Spending

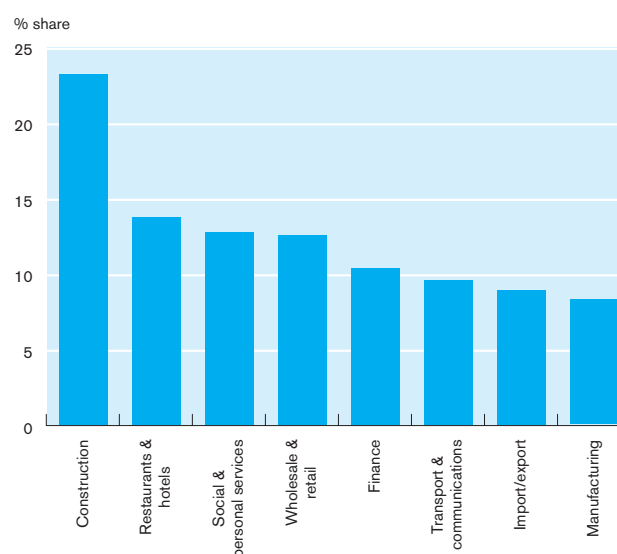
The persistently high unemployment in the construction sector reflects mainly sluggish residential investment in both the private and public sectors, whose share of GDP declined sharply from about 16% in 1997 to below 7% in 2006. As a result, the share of construction output in GDP has

CHART 13
Unemployment rates by economic sector



Source: C&SD.

CHART 14
Share of unemployment by economic sector (2003-06)



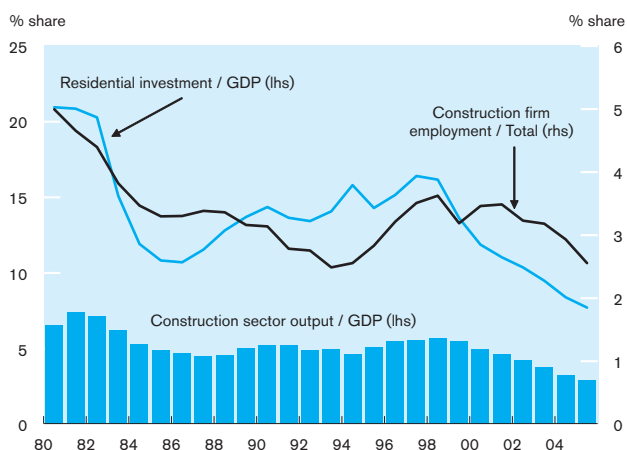
Source: C&SD.

⁶ Statistics from the C&SD show that Mainland affiliates operating in Hong Kong hired about 18,000 employees at the end of 2004, equivalent to 3.3% of total employment by foreign affiliates operating in Hong Kong. However, the actual employment figures are expected to be larger than this estimate as some of the Chinese enterprises with operations in Hong Kong may register their business ownerships in offshore financial centres like British Virgin Islands and Bermuda for tax reasons.

been falling since 1998 (Chart 15). With their relatively high wages and specialised skill sets, there is also greater reluctance for unemployed construction workers to move to other sectors with better job opportunities. The extent of the shortfall in labour demand relative to supply can be seen from the virtually zero number of vacancies versus the double-digit unemployment rate in the construction sector in recent years (Chart 16).

CHART 15

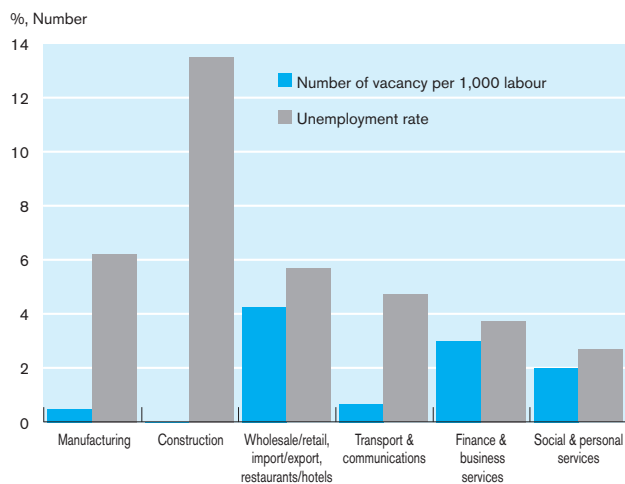
Residential investment and output in the construction sector



Sources: C&SD and staff estimates.

CHART 16

Vacancy and unemployment rates by economic sector (2004-06)

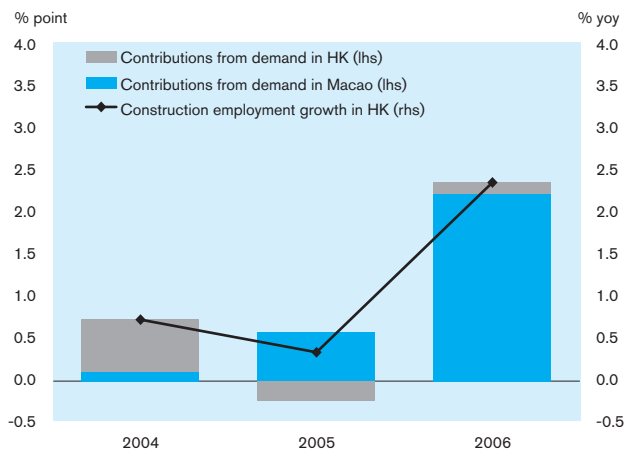


Sources: C&SD and staff estimates.

The deterioration of employment conditions in the domestic construction sector has forced the unemployed to search for job opportunities outside Hong Kong. The construction boom in Macao, following the opening up of the gaming and betting industry, attracted about 12,000 Hong Kong residents to work there by the end of 2006, with some 80% working in the construction sector.⁷ During that year, the number of Hong Kong construction workers in Macao increased by 5,800, contributing about 90% of employment growth in the sector (Chart 17). The industry-level employment survey shows that Hong Kong building companies have been downsizing their work force since 2002. However, the employment survey conducted at the household level (the General Household Survey) shows that more construction workers have found

CHART 17

Contribution from demand in Macao to construction sector employment in Hong Kong



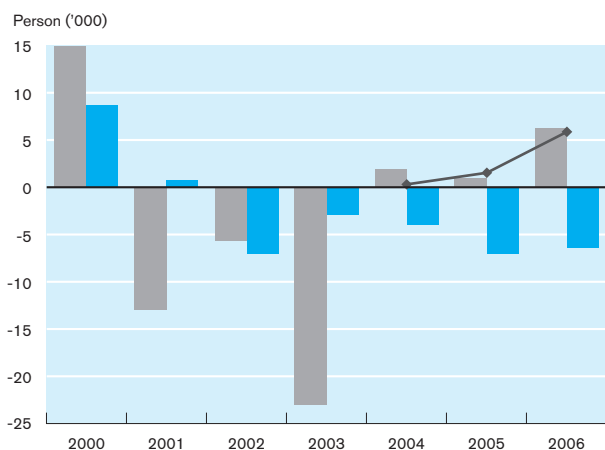
Sources: C&SD, Statistics and Census Service of Macao and staff estimates.

⁷ Figures of Hong Kong residents working in Macao are compiled by Statistics and Census Service of Macao.

jobs in recent years, which match with the rising number of Hong Kong residents working in Macao (Chart 18).

CHART 18

Different measures of construction sector employment



Legend:
 ■ Change in construction employment (General Household survey)
 ■ Change in construction employment (Industrial survey)
 ◆ Change in the number of HK construction workers in Macao

Sources: C&SD and Statistics and Census Service of Macao.

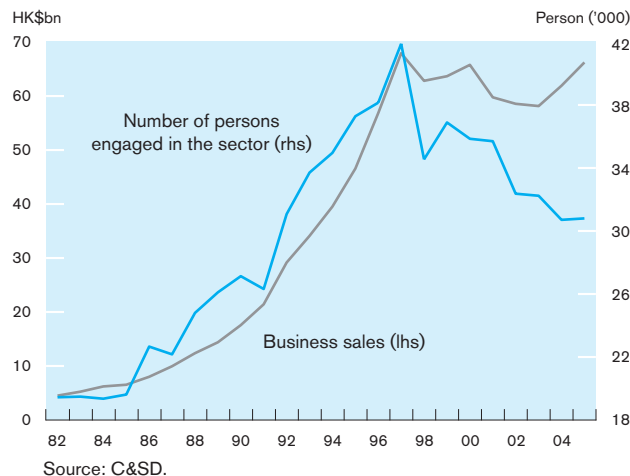
Service Outsourcing

Another commonly cited factor contributing to the high unemployment rate in the lower-skilled segment is the outsourcing of services generally in areas such as call centres, data storage, software development and logistics. Although service outsourcing tends to increase frictional unemployment, as it takes time for laid-off workers to search for new jobs, it also brings new job opportunities as firms may use the resources saved from outsourcing efforts to invest in new business areas.

Due to the lack of information about the scale and type of service outsourcing, we use some proxy measures to identify the most affected areas and assess their impact on domestic employment. The communications sector has been widely reported as one of the major areas of service outsourcing in recent years, with domestic operators relocating their call centres and data banks to Shenzhen and Guangzhou. Affected employees are therefore redeployed to work in areas with higher value-added, such as sourcing and marketing, or else they may be laid off. The industrial survey statistics show that since 1998 the number of people engaged in the communications sector has started to diverge with business sales, with the former continuing to shrink and the latter picking up in recent years (Chart 19).⁸ As a result, business sales per labour increased markedly by 135% in the communications sector

CHART 19

Employment and business sales in the communications sector



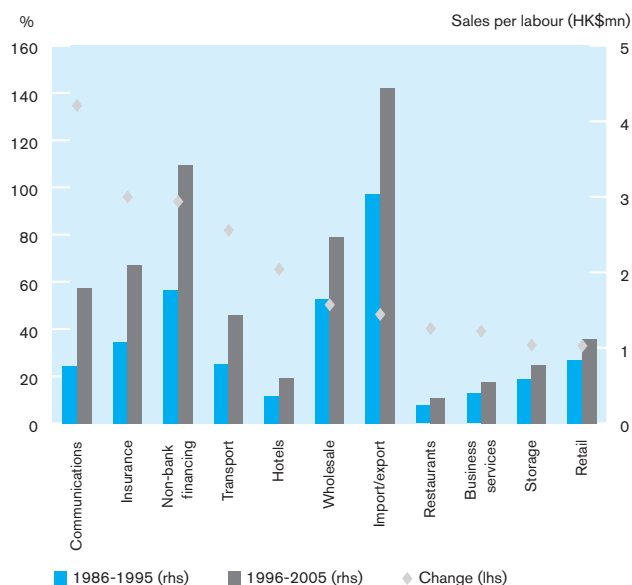
Source: C&SD.

⁸ Within the communications sector, most of the decline in employment has been observed in the telecommunication sector, while employment in other communications areas has expanded recently.

between the 10-year periods of 1986-1995 and 1996-2005, the highest among the key service sectors (Chart 20).

CHART 20

Business sales per labour among key service sectors



Sources: C&SD and staff estimates.

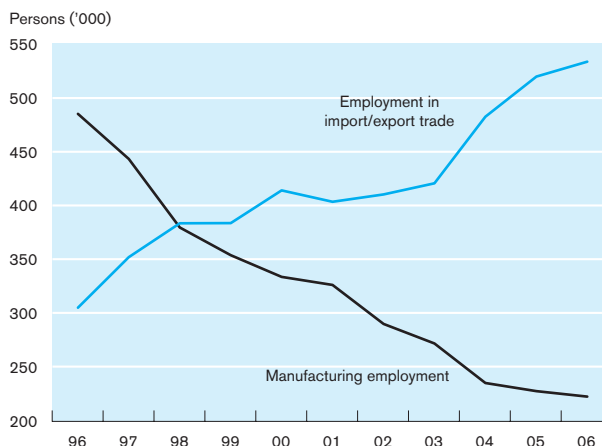
The substantial rise partly reflects improved labour productivity due to advances and investment in IT (see Chart 6). However, productivity improvement alone appears to be inadequate in explaining the simultaneous increase in business sales and sharp decline in employment in the communications sector. One possible factor is that through outsourcing of lower value-added services to their business partners in Mainland China, telecommunication companies in Hong Kong have shifted their focus to areas that create higher value-added activities and business turnover.

While service outsourcing may inflict short-term pain on those laid off as a result of corporate restructuring, new business also creates new job opportunities, which is beneficial to both employers and employees over the medium term. The advantages of outsourcing are best seen in the relocation of domestic manufacturing industries to Mainland China in the 1980s and 1990s. Between 1986 and 2006, over 700,000 jobs were lost in

manufacturing. At the same time, however, most domestic manufacturers maintained a trading office in Hong Kong to support their operations on the Mainland in areas such as product design, logistics, sourcing and marketing. As a result, a significant portion of manufacturing employees have acquired new skills to provide trade services and technical support to their Mainland production plants (Chart 21). Reflecting the higher value-added benefits of trade services, remuneration per person engaged in the import/export sector has been higher than that in manufacturing (Chart 22).

CHART 21

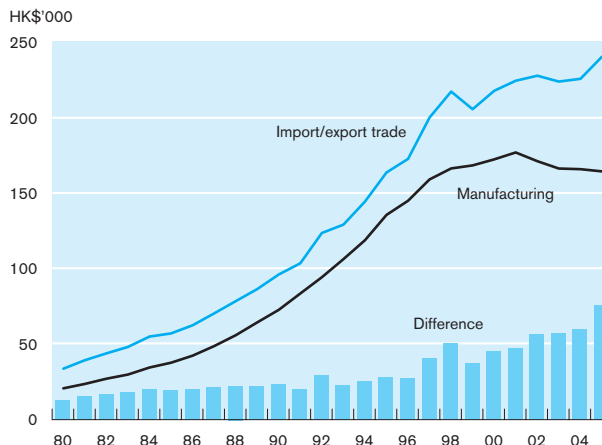
Employment shift from manufacturing to trade services



Source: C&SD.

CHART 22

Remuneration per person in manufacturing and trade services



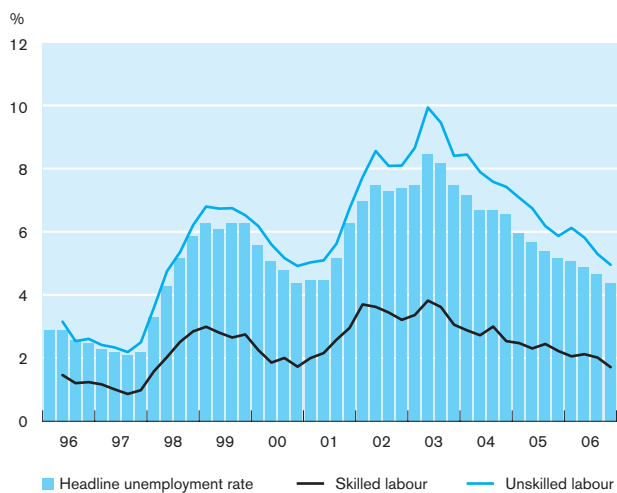
Sources: C&SD and staff estimates.

The Anatomy of Structural Unemployment

The high unemployment in the construction sector and sluggish job growth in the lower-skilled segment are generally regarded as the main causes of the relatively high structural unemployment despite the economic upswing in recent years. A breakdown of the headline unemployment rate shows that in the higher-skilled segment the unemployment rate has declined to almost the pre-crisis level of 1-2%. However, the unemployment rate in the lower-skilled segment is still two percentage points higher than the pre-crisis level of 2-3% (Chart 23). This reflects sluggish labour demand relative to supply in the lower-skilled segment, with the job-to-applicant ratio (a proxy measure of tightness in the labour market) staying flat in recent years. In contrast, the ratio rose to close to one in the higher-skilled segment, suggesting labour demand for managers and professionals may have outpaced supply (Chart 24).

CHART 23

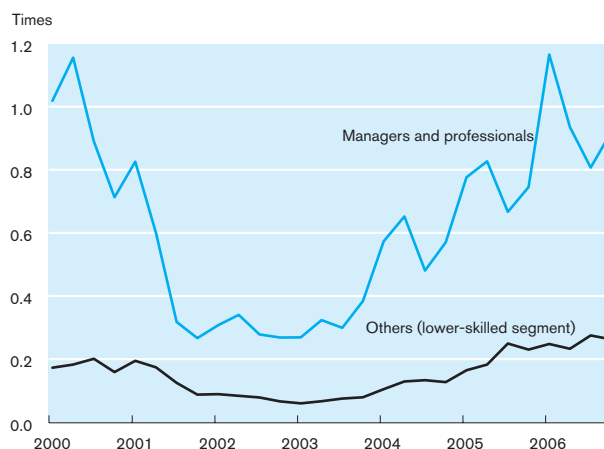
Unemployment rates in the higher- and lower-skilled segments



Sources: C&SD and staff estimates.

CHART 24

Job-to-applicant ratio of high-skilled and low-skilled labour

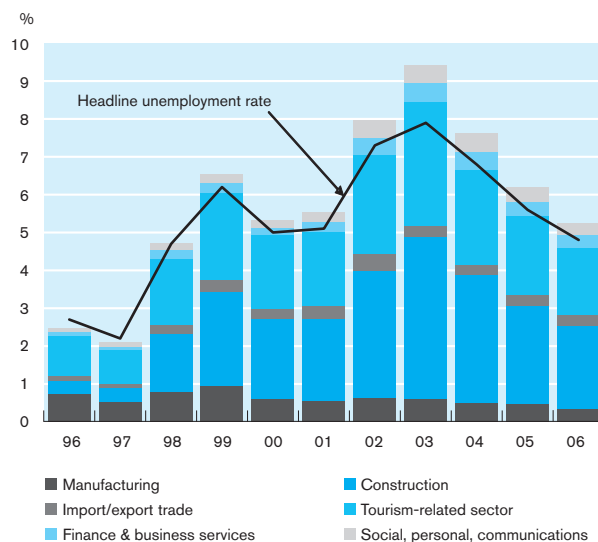


Sources: C&SD and staff estimates.

With the headline unemployment rate approaching the estimated natural rate of unemployment, a further decline in the jobless rate may increase wage and inflation pressures. The relatively high headline and estimated natural rates of unemployment compared with the early 1990s in part reflects the structural unemployment in the construction, restaurants/hotels and wholesale/retail sectors (Chart 25). The revival in construction spending and solid expansion in household spending would reduce both the headline and natural rates of unemployment. For example, if the unemployment rate in the construction sector can

CHART 25

Contribution to the rate of unemployment by economic sector



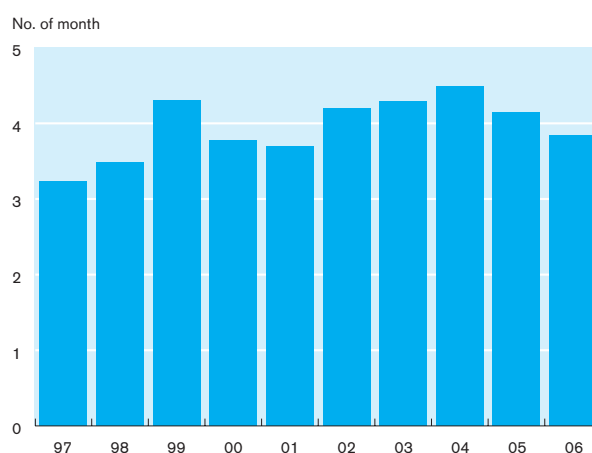
Sources: C&SD and staff estimates.

be reduced by half to 5.5% from 11% in 2006, the headline unemployment rate will fall by nearly one percentage point. A similar result applies if the same happens in the restaurants/hotels, wholesale/retail and transportation sectors (Table 3).

The commencement of new infrastructure projects by the Government in the coming years and the steady growth in consumer and inbound tourist spending are therefore expected to boost employment in the construction and restaurants/hotels, wholesale and retail sectors. However, it is less likely the natural rate of unemployment will fall to the level seen in the early 1990s, at least for two reasons. First, labour with less education and transferable skills may face the risk of being laid off and becoming unemployed for a longer duration due to business restructuring (Chart 26). The skills mismatch problem in the service sector can be shown by the outward shift in the Beveridge curve between the 1980s and 1990s, though it is less conclusive in the 2000s. This suggests that given a certain vacancy rate, the unemployed person needs to spend more time searching for a placement within the service sector, implying higher frictional unemployment (Chart 27). Secondly, more generous unemployment benefits compared with the early 1990s may have a tendency to increase the time the unemployed search for new placement, keeping the natural rate high. Since unemployment represents output losses, as resources are not fully utilised, growing structural unemployment is always a major concern for policy makers.

CHART 26

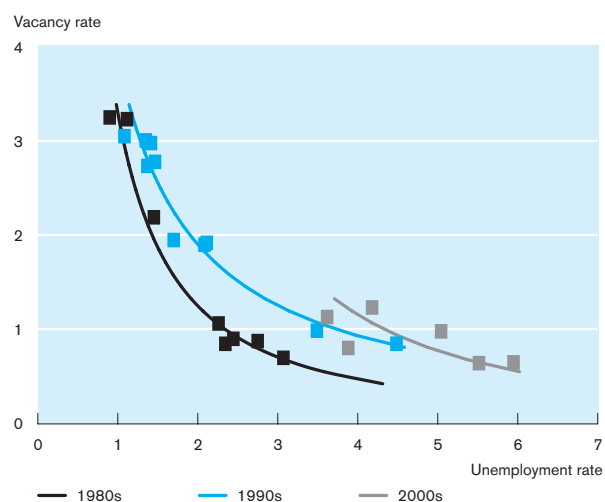
Average duration of unemployment



Sources: C&SD and staff estimates

CHART 27

Beveridge curves for the service sector



Sources: C&SD and staff estimates.

TABLE 3

Sensitivity of the overall unemployment rate to changes in sectoral unemployment rate

Year 2006	Unemployment share	Unemployment rate	Overall unemployment rate if the sectoral unemployment rate is reduced by half
Construction sector	0.22	11.1%	3.6%
Restaurants/hotels, wholesale/retail & transportation	0.34	5.2%	3.9%
Social & personal services	0.12	2.1%	4.7%
Finance & business services	0.11	3.0%	4.6%
Import/Export	0.11	3.0%	4.6%
Manufacturing	0.08	5.0%	4.6%
Overall	1.00	4.8%	

Sources: C&SD and staff estimates.

Near-term employment prospects

The near-term employment prospects remain favourable. Although economic growth is expected to moderate somewhat for this year, the solid expansion in domestic demand and growing corporate profits will support employment growth in the service sector. Employment in the external trade and financial services sectors will continue to benefit from the vibrant cross-border trade and financial activities between Hong Kong and the Mainland. The high unemployment rate in the construction, restaurants/hotels and wholesale/retail sectors may limit the decline in the overall unemployment rate. However, increased infrastructure spending by the Government and the construction boom in Macao will create more jobs for domestic construction workers. Growing household income and inbound tourism will boost business volume in the wholesale/retail and restaurants/hotels sectors, thus improving employment prospects for less-skilled labour.

Mainland China's strong economic performance and fast-growing service industry have offered great opportunities for corporations in Hong Kong. While manufacturing remains the largest economic sector on the Mainland, the contribution from the service sector to output has become more significant (Chart 28). Given that the liberalisation of foreign access to the service sector in Mainland China is still at an initial stage, there is ample growth potential when the pace of liberalisation accelerates, particularly in the financial, insurance and other business services areas. Over the past years, service sector employment has outpaced manufacturing employment on the Mainland, and the trend is expected to continue (Chart 29). Growing demand for talent on the Mainland will create new job opportunities for professionals in Hong Kong because of their expertise and international exposure, and their apparent increasing willingness to work on the Mainland.

CHART 28

Output share by key industry in Mainland China

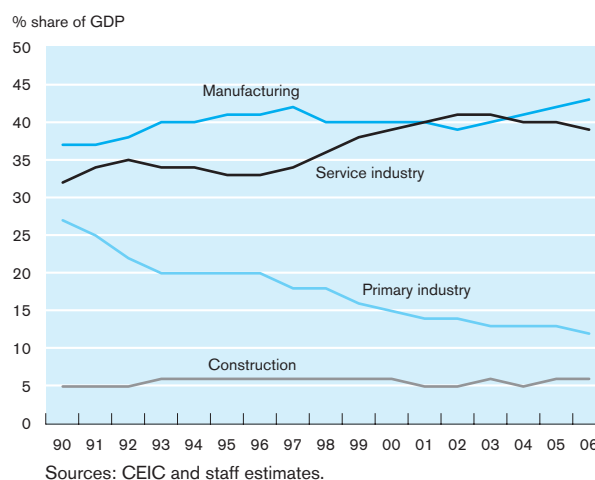
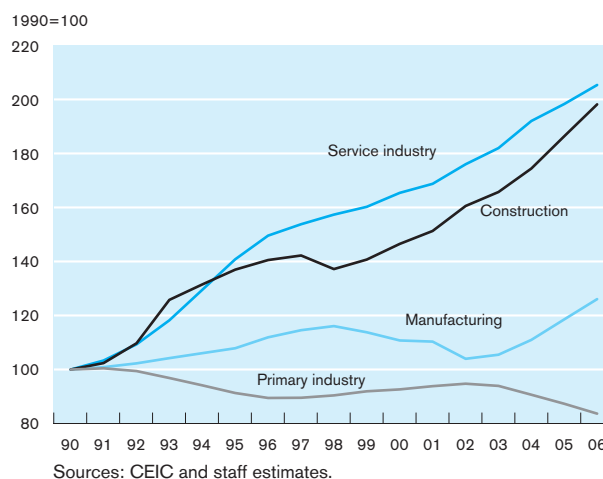


CHART 29

Employment by key industry in Mainland China



While labour market conditions remain vibrant in Hong Kong, the uncertain economic outlook for the US economy may hamper the re-export trade between Hong Kong and the Mainland. This may weigh on overall employment growth as the import/export sector has the largest employment share. At the same time, growing labour demand for financial and business services has pushed up wages and payrolls in these sectors. However, the highly specialised labour force in Hong Kong suggests that labour in other service sectors will only have limited benefits from the employment prospects in the financial sector. Reflecting this, the divergence in unemployment rates across different service sectors may persist, despite the moderation in the overall unemployment rate.

ANNEX

Contribution from Mainland visitors to tourism-related employment in Hong Kong

The employment survey conducted by the Census and Statistics Department at the industry level shows that the total number of people engaged in the tourism-related (restaurants/hotels, wholesale/retail and transportation) sectors increased by 7.8% to 641,000 between 2003 and 2005. To estimate the contribution from Mainland visitors to tourism-related employment in Hong Kong, we use the industry tourism ratio (ITR), a measure of an industry's reliance on direct tourism consumption, to approximate the proportion of job creation due to inbound tourism.⁹

Table A1 presents the ITR, employment growth in the tourism-related sector and the contribution from Mainland visitors during 2003-05.

These results suggest that Mainland visitors accounted for about 13% of growth in tourism-related employment in Hong Kong between 2003 and 2005. However, as the tourism-related sector only constitutes 27% of total employment, the contribution from Mainland visitors to overall employment growth in Hong Kong is relatively small.

TABLE A1

Contribution from Mainland visitors to tourism-related employment

	ITR ¹ (a)	Employment growth (%) (b)	Contribution from tourism (% point) (a)*(b)	Of which: Mainland visitors ² (% point) (a)*(b)*0.55
During 2003-05				
Retail trade	0.20	8.7	1.7	1.0
Restaurants	0.13	10.8	1.4	0.8
Hotels	0.72	15.8	11.4	6.3
Transport	0.31	3.7	1.1	0.6
Tourism-related industry		7.8	1.8	1.0

1. The ITR figures are for 2003, which are the latest available data from C&SD.

2. The average share of Mainland visitors in the total number of inbound tourists is 55% for 2003-05.

Sources: C&SD and staff estimates.

⁹ The industry tourism ratio is the proportion of the total value added of an industry derived from tourism activities.