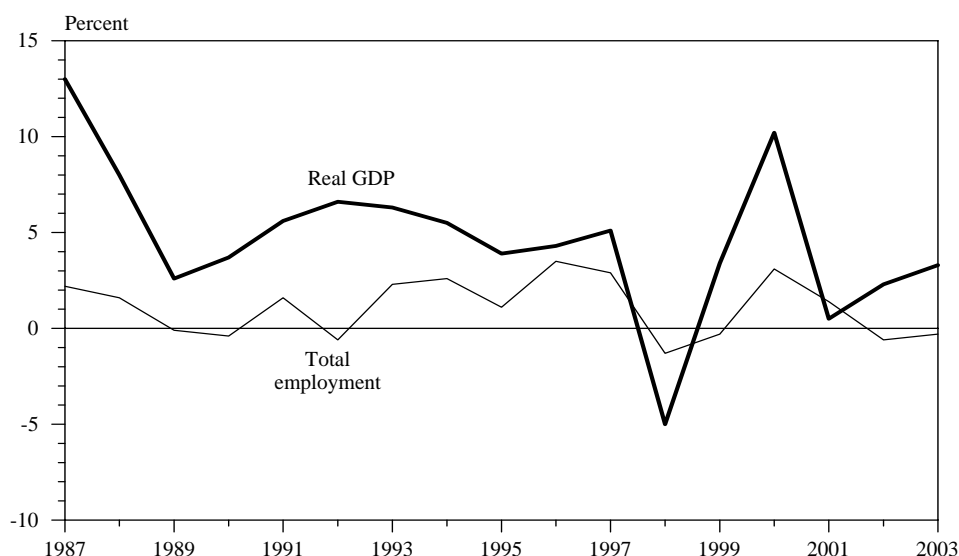


Box 5.1

Overall economic growth and total employment

Past data indicate a broad positive relationship between overall economic growth and total employment in Hong Kong. Yet the relationship has been much less than proportionate. Between 1987 and 1997, with real GDP growth averaging at 5.2% per annum, total employment went up by an average of 1.7% per annum. Between 1997 and 2003, as real GDP growth slowed down to an average of 2.3% per annum, total employment also slackened in growth, to an average of 0.3% per annum.

**Growth in real GDP and total employment
(rate of change)**



Economic growth normally generates additional jobs in the economy, but the actual number of jobs created is also influenced by other socio-economic factors, such as labour supply growth, wage movement, technological advancement, substitution of labour by capital equipment, labour productivity growth, work intensity, structural change in the economy, staff retrenchment or expansion in the corporate sector, etc. Thus real GDP and employment growth rates do not necessarily move in tandem at all times. For most of the time since 1987, real GDP in fact increased at a much faster pace than total employment. This was due in part to the gain in labour productivity resulting from technological advancement, and in part to a further shift in local production and output from a lower value-added to a higher value-added content.

A distinct loosening in the relationship between overall economic growth and total employment growth was observed in the more recent years, due to the accentuating effect of certain structural factors, including in particular further restructuring of the Hong Kong economy towards knowledge-based and higher value-added activities. Such economic restructuring had the effect of curbing employment growth in three major ways. *First*, it led to stepped-up efficiency drive in the corporate sector, thereby giving rise to increased incidents of downsizing and lay-offs. *Secondly*, it reinforced the tendency for local companies to relocate their more labour-intensive processes outside Hong Kong. *Thirdly*, it accelerated the process of substitution of labour by capital equipment and technology in the local operation. Taken together, it weakened labour demand especially for lower-skill and lesser educated workers.