

Box 5.1

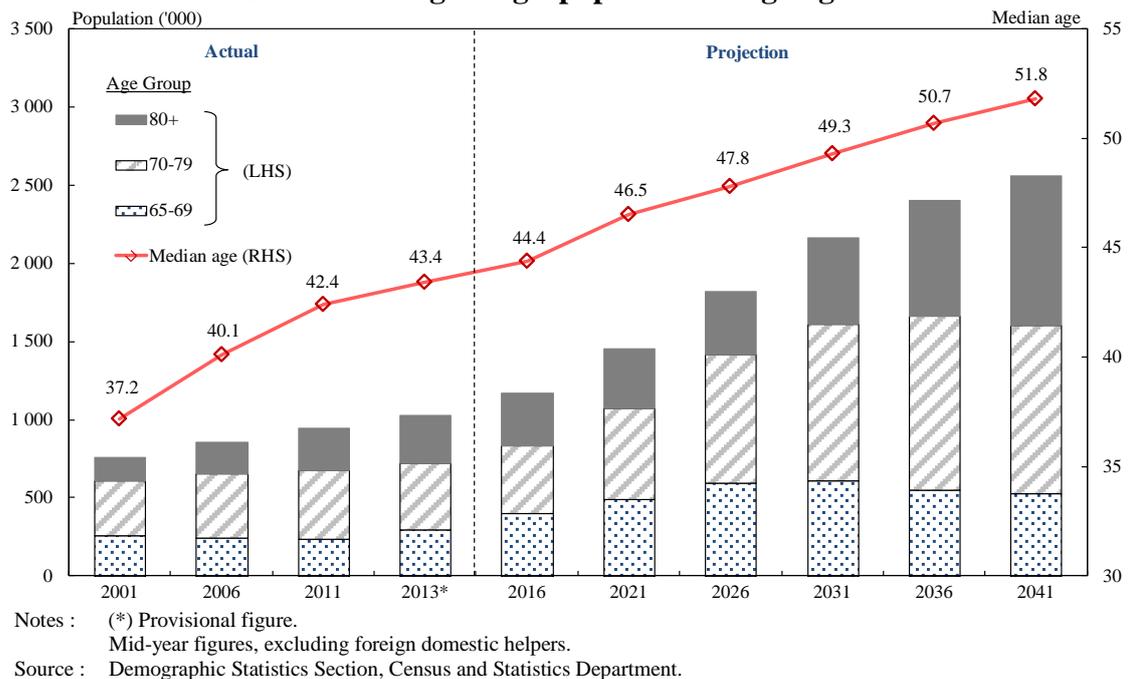
Population ageing in Hong Kong: challenges and opportunities

“Population ageing” is a pervasive, profound and enduring tide sweeping across the globe⁽¹⁾. Hong Kong is no exception. Whereas many people may still perceive population ageing as a long-term and distant subject, the consultation document released on 24 October 2013 by the Steering Committee on Population Policy (SCPP) revealed that our population would age at a faster pace than previously expected. In just a few years’ time, our workforce would embark on a persistent decline. Under a “do-nothing” scenario, population ageing could entail profound implications to our socio-economic development and public finance. This article elaborates on Hong Kong’s demographic challenges and the reasons behind, as well as the potential impacts they would bring to our society.

Population ageing: no longer a long-term matter

The latest projections by the Census and Statistics Department show that our population will continue to grow in the next 20-30 years, but only at a decelerating pace, from 7.2 million today to 8.5 million in 2041. There will be a startling shift in composition: in less than 30 years’ time, the number of elders aged 65 and above would surge from the current 1.0 million to 2.6 million in 2041. The median age would also climb to 52 by then, versus 43 today (*Chart 1*).

Chart 1 : Hong Kong’s population is ageing fast

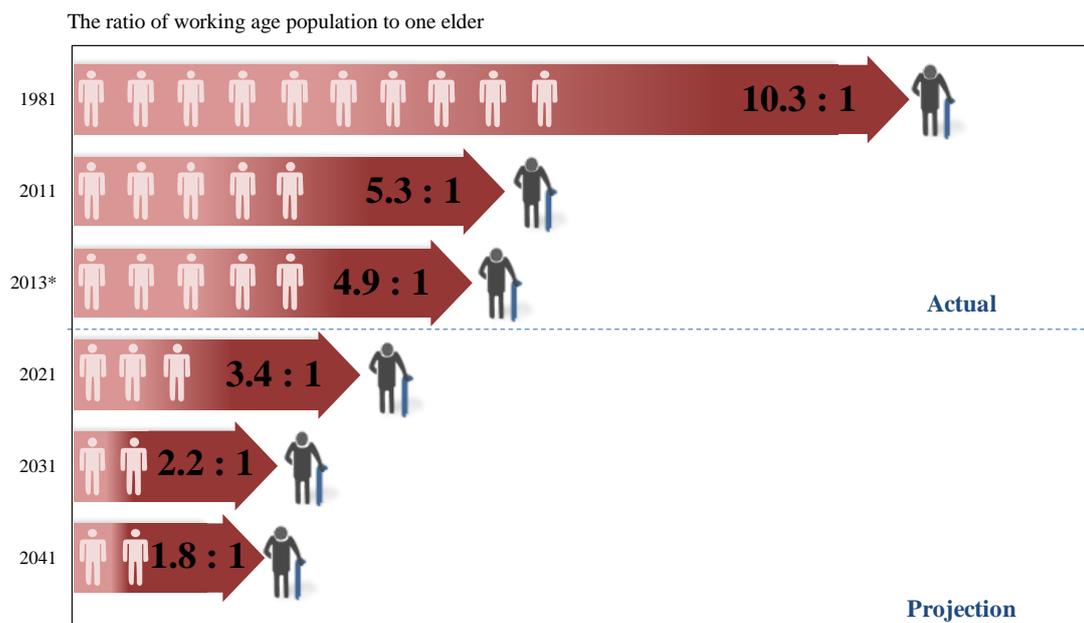


These figures suggest that by 2041, around one in three persons will be elders, up from the current level of one in seven. One in eight persons will be the older-old, i.e. aged 80 and above. Moreover, much of this upsurge is set to take place in the coming 10 years, with the elderly population expected to rise by more than half. As our population ages, the pool of working age people (aged 15-64) would dwindle, and be required to support an increasing number of dependents: while today one elder is supported by around five persons of working age, this figure is projected to fall dramatically to less than two persons by 2041 (*Chart 2*).

(1) The United Nations projected that the share of elderly aged 65 and above in the world’s population would rise notably to 14% in 2040 from 8% in 2010.

Box 5.1 (Cont'd)

Chart 2 : Fewer and fewer working age people to support elders



Notes : (*) Provisional figure.

Mid-year figures, excluding foreign domestic helpers.

Source : Demographic Statistics Section, Census and Statistics Department.

Why is our population ageing so fast?

In short, two major forces are at play. *First*, our families are having fewer children. Our fertility rate is among the lowest in the world, with the total fertility rate at only 1.3 in 2012, far below the replacement level of 2.1, i.e. the number of births that women need to produce for a population to replace itself. *Second*, thanks to medical advancement and better nutrition, our people live longer. In 2012, men and women born in Hong Kong are expected to live 81 and 86 years respectively, also among the longest in the world. The trends of low fertility and increasing longevity are likely to prevail, thus leading to a drastic shift in age structure of our population in the coming three decades.

Implications of ageing population on our economy and society

1. Lower economic growth with a shrinking labour force

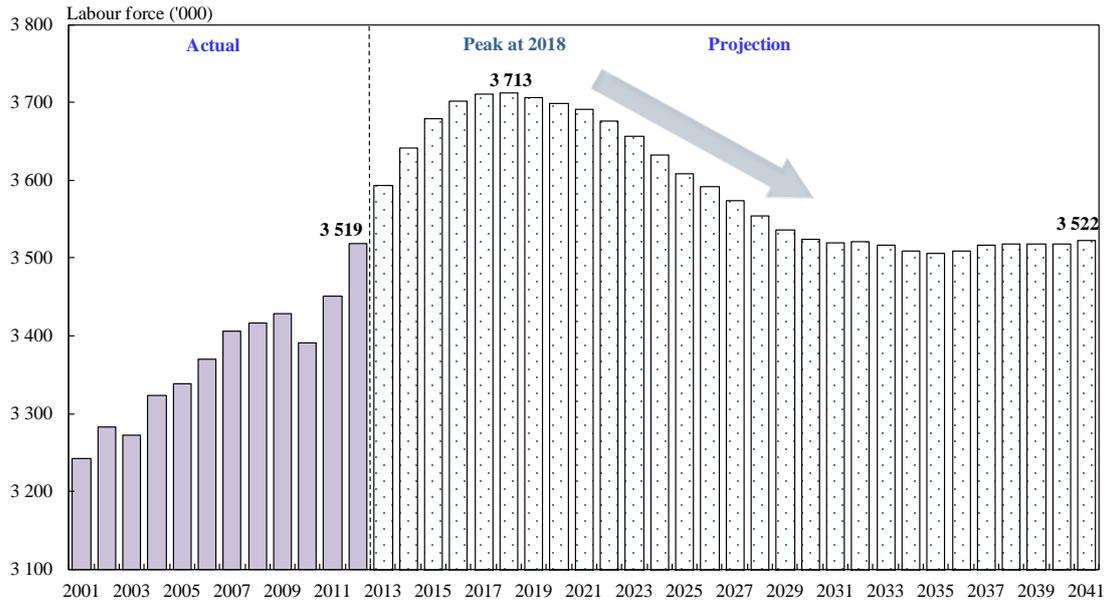
The most immediate and direct consequence of population ageing is the dwindling labour force, as more people retire while fewer younger people enter the labour market. With the post-war baby-boomers approaching retirement age, total labour force is projected to peak in 2018 and then look set to decline persistently until the early 2030s, before stabilising somewhat thereafter (*Chart 3*). This unwelcome development is particularly worrisome, as currently, manpower shortage is already evident in some sectors, including construction, retail, catering, and elderly care services.

From the supply side point of view, our workforce has indeed been instrumental in support of the development and transformation towards a knowledge-based economy. Over the past two decades, Hong Kong's economy has grown by an average of around 4% in real terms per annum. Of this, around 1 percentage point was due to the growth in labour force, while the other 3 percentage points came from productivity growth. With a rapidly shrinking labour force after 2018, it would be difficult to maintain the same rate of economic growth as in the past, unless productivity growth could be significantly enhanced. Meanwhile, the "demographic dividend"⁽²⁾ is disappearing fast and is expected to turn negative in the coming years, thereby posing a drag on our economic growth potential (*Chart 4*).

(2) The growth of per capita GDP contributed by a rising share of the workforce in total population.

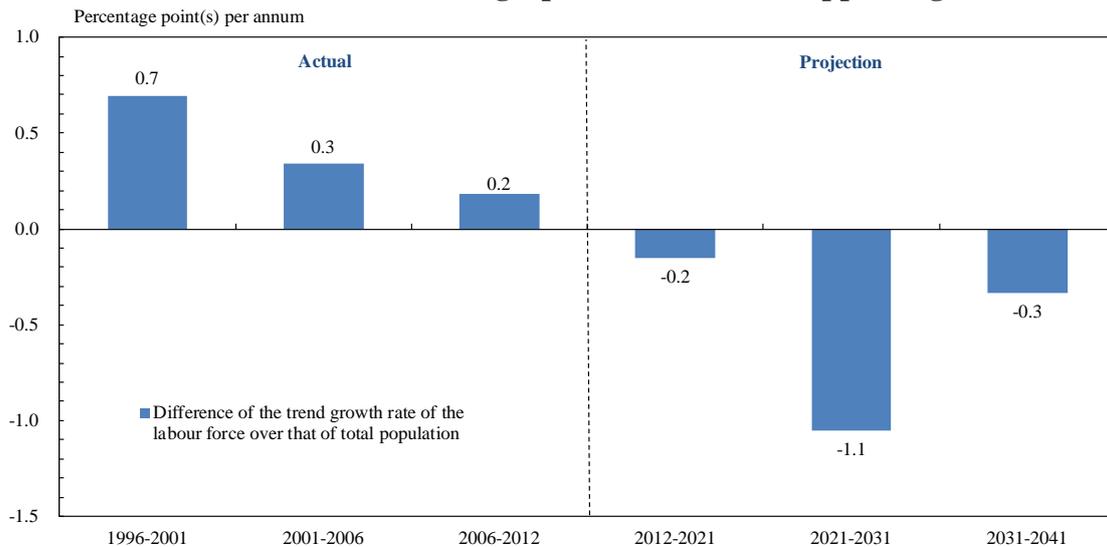
Box 5.1 (Cont'd)

Chart 3 : Labour force poised to shrink after 2018



Note : Excluding foreign domestic helpers.
 Source : General Household Survey Section, Census and Statistics Department.

Chart 4 : Demographic dividend is disappearing



Note : Excluding foreign domestic helpers.
 Sources : Demographic Statistics Section, and General Household Survey Section, Census and Statistics Department.

From the demand side point of view, overseas experience shows that when more and more people retire, the aggregate savings rate will fall, and the growth in capital accumulation and hence investment will then slow. All these combined could also translate into a visibly slower economic growth and fewer job opportunities, thereby undermining economic vitality and competitiveness over time.

II. Net migration as the main driver for future population growth

Due to a secular decline in birth rates, the contribution of natural increase (number of births minus deaths) to our total population growth has been diminishing. As such, it would not be at all surprising that as our population ages, the number of deaths would eventually outgrow the number of births, and by around 2027, net migration would overtake natural increase as the most important source to replenish our ageing population and workforce.

Box 5.1 (Cont'd)

Hong Kong is a city of immigrants. The movement of people in and out of the territory will continue to affect the size, mix and quality of our population. If our society could build up a more inclusive and cohesive environment whereby these newcomers can realise their full potential, they would contribute significantly to our economic and social developments to the benefit of the whole community.

III. Fiscal sustainability

An ageing population would also have profound implications on public finance. On the revenue side, only some 1.6 million or 45% of our total working population were salaries taxpayers, with the top 12% paying over 80% of the total salaries tax in 2011-12. A dwindling workforce could make the already narrow tax base even narrower. At the same time, on the expenditure side, although our future generation of elders are expected to be generally healthier and probably more financially secured, the surge in elderly population will still add considerable fiscal pressure, particularly in healthcare, social welfare and other elderly services. Government expenditure is set to surge as our elderly population rises.

Population ageing, if not properly addressed, would likely pose a drag on our revenue base, while simultaneously bringing significant pressure to bear on our welfare and healthcare systems. The combined impact could threaten our long-term fiscal sustainability. To this end, the Working Group on Long-Term Fiscal Planning set up under the Treasury Branch of the Financial Services and the Treasury Bureau is now exploring ways to more thoroughly plan for public finances to cope with the challenges.

IV. Opportunities from an ageing population

Notwithstanding the above challenges, it is also important for us to realise that an ageing population might bring new business opportunities for some segments of our community. No doubt many elderly of the next and future generations will be fitter, better-educated, better-informed, and want to stay active in the community. They will be more individualised in lifestyle and inclined to plan ahead for and take care of their own needs. These factors will open up new economic and social opportunities. The so-called “silver hair market” will therefore present plenty of business opportunities in such areas as financial services (for example, health or medical insurance), tourism, care services, medical services, fitness and grooming, and health food products. There is a need to proactively examine how best to explore these burgeoning business opportunities so as to benefit the whole community.

Paving the way forward: we must act now

Sailing Hong Kong through the impending demographic challenges calls for concerted efforts of the Government and the community as a whole. The SCPP’s four-month public engagement exercise aims to deepen public understanding of the population challenges, initiate active discussion and gauge views widely from the community, with a view to mapping out key strategies and specific measures to address those challenges⁽³⁾. The exercise opens a window of opportunities for a fundamental rethink of population policy in need of the society’s full participation.

Population policy touches on a wide array of complex and multi-faceted issues. The Government hopes that more Hong Kong citizens can voice out their views and thoughts on how best our city can embrace the population ageing trend, so as to sustain our development towards a high value-added and knowledge-based economy while maintaining the long-term sustainability of our public services and welfare system. The ultimate goal is to attain higher living standards for all residents and families.

(3) The SCPP has laid out five directions to address the challenges: (i) unleashing the potential of existing population; (ii) enhancing the quality of our home-grown talent; (iii) complementing our existing population and workforce with new sources; (iv) fostering a supportive environment for our people to form and raise families; and (v) embracing opportunities in an ageing society.