

# Hong Kong: Two social worlds in one city

**Our reporter**  
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Hong Kong—and its financial institutions—likes to portray itself as the land of opportunity. Last month, Citibank launched the annual “Hong Kong Millionaire Survey” as a marketing tool. Its full page adverts in the press read, “Last year, the number of millionaires increased by 13 percent in Hong Kong. Opportunities are out there. Are you ready to seize yours?”

According to Citibank’s survey, Hong Kong’s wealthy have prospered despite the ongoing financial and economic crisis. Almost 400,000 of Hong Kong’s population of 7.1 million have more than \$HK1 million (\$US130,000) in liquid assets, up 13 percent on 2008, following the recent stock market recovery. The richest, those with \$HK5 million or more, grew the most, up 22 percent from 2008 to more than 80,000.

Hong Kong Island is where the rich live, with one in seven people on the island making the millionaires’ club, compared with one in 18 in Kowloon and one in 17 in the New Territories. About 20 percent of Hong Kong’s millionaires were born in mainland China, an indication of the degree to which Hong Kong has become integrated into China.

This year’s *Forbes* rich list shows that Hong Kong’s 40 richest people had a net worth of \$135 billion, up from \$85 billion a year ago but still below a record \$179 billion in 2008. By way of contrast, the *Forbes* 2009 rich list for China, published in November last year, found China’s 40 richest people had \$106 billion in 2009, compared with \$52 billion in 2008.

However, behind Hong Kong’s glitz and glamour lies one of the most grotesquely unequal societies in Asia and the world. The Gini Coefficient, which measures income inequality, shows a widening gap between rich and poor, from 0.451 in 1981 to 0.525 in 2001, close to Mexico and Brazil, according to UN statistics. More than 1.3 million, about 20 percent of the population, live below the official poverty line of \$900 a month for a two-person household and \$1,500 for a three-person household. While just 2.9 percent of households have an annual income of \$HK100,000 or more (\$US12,880), the median household income is \$17,000 with most households in the \$10–25,000 bracket.

This is not because Hong Kong’s economy is in decline. Quite the opposite. Leung Chunying, Hong Kong’s Executive Council convenor and aspiring chief executive, admitted that since 1996, the economy had grown by 34 percent. However, 30 percent of people had seen their income fall in real terms.

Originally a free trade centre for China, Hong Kong was forced to become an export-orientated light manufacturing centre after the 1949 Chinese revolution and the subsequent trade embargo imposed on China by Western powers. But following Beijing’s “open door” policy in 1978, Hong Kong manufacturers shifted production to the Pearl River Delta area in Guangdong Province to take advantage of China’s low wages. Hong Kong became a management and coordination centre for the manufacturing base that had moved, while also emerging as one of the most important financial centres in the world.

The consequences of this economic transformation from manufacturing to a service-oriented economy that serves as a close trading partner for China and the rest of the world are stark. Manufacturing has declined from 21 percent of the economy in 1981 to just 5 percent in 2001; services rose from 66 percent to 85 percent over the same period. The migration of manufacturing has meant fewer job opportunities for Hong Kong workers, while the shift to financial services has brought enormous wealth to a thin social layer.

The 1997 Asian financial crisis brought falling wages and unemployment. Household incomes have still not recovered the 1997 monthly average of \$US2,436. The official unemployment rate at 3.8 percent is still nearly double the 1997 figure. Over the last 10 years, employers have exacted an annual 4 percent productivity increase even though wages have risen by less than 0.5 percent a year.

At the same time, the taxation and social policies are tilted firmly in favour of the rich and employers. The maximum tax on profits is just 16.5 percent and on salaries 15 percent. Income tax is in effect a flat tax. So the HSBC chief executive who earns \$HK13 million a year pays at the same rate as HSBC cashiers who earn far less. And there is no tax on income or profits earned outside Hong Kong. There is no tax on capital gains, dividend income or inherited wealth.

The misnamed Comprehensive Social Security Assistance (CSSA) scheme, provides little in the way of a safety net and excludes many through a means test. There is no unemployment benefit and no state pension except for civil servants. Means tested assistance has never benefited more than 25 percent of those without work or other means of subsistence. Only 14 percent of the over 60s get social security. There is as yet still no statutory

minimum wage. The level currently being proposed by employer associations, \$HK24 an hour, is so low it would benefit only toilet cleaners. Trade unions are calling for at least \$33 an hour.

Britain's legacy—colonial rule only ended in 1997—in creating these conditions has been nothing short of criminal. The British colonial authority supported business against any sort of social insurance, by promoting a cult of “free market”. Free and compulsory education was an extraordinarily late development, coming only in 1971 for first to sixth grades and in 1978 for seventh to ninth grades. Not surprisingly, an official survey in 2005 found that most unemployed welfare recipients had had no access to free education.

Yet this is not because the Hong Kong government cannot afford it. The government is cash rich and regularly runs budget surpluses. Just last week, the government, after initially forecasting a \$HK40 billion deficit, announced a \$13.8 billion surplus, due not to its own policies but the \$586 billion stimulus measures in China, and similar measures in the US and Europe. As well as an accumulated fiscal surplus running into billions, the Hong Kong Monetary Authority, the city's central bank, has an accumulated surplus of nearly \$500 billion. But financial secretary John Tsang Chun-Wah handed out money and tax breaks to the rich. He waved property rates of homeowners for a year but gave just two months' free rent to public housing tenants. He issued taxpayers—some of the wealthiest in Hong Kong—a rebate of \$6,000 while welfare recipients got just one extra month of money. Business registration fees are to be waived for a year at a cost of \$1.8 billion. The list goes on.

Alongside poverty, housing has long been one of the most explosive social issues in Hong Kong—both its dilapidated and squalid state, and its cost. Hong Kong is synonymous with impossibly dense and monotonous skyscrapers, many 50 storeys high, with few social and communal facilities. Developers, both public and private, have sought to minimise costs and maximise profits for themselves, the construction companies and financiers alike. Multi-level highways cut through the city and make life intolerable for the overwhelming majority of the population who have no car. With little public space at ground level, the sidewalks and air conditioned shopping malls are packed.

Hong Kong is one of the most densely populated regions on earth. The former British authority, which owned much of the land, refused to lease it out in order to keep demand and prices high. Little land was put up for auction, and often it was reclaimed by dredging and filling bays, wetlands and the coast. Even then the sales were to suit the colonial power's revenue needs, leading to housing shortages and dense skyscraper accommodation. The Hong Kong Special Administrative Zone government, established after London handed the island back to Chinese sovereignty in 1997, continued the same policy.

The most luxurious homes, complete with sumptuous gardens

and swimming pools, monitored by electronic cameras and surrounded by high walls topped off with barbed wire, exist alongside slum tenements. One in ten luxury residential apartments are vacant, as evidenced by the unlit blocks after nightfall, despite their owners paying millions of dollars for them. In part, the blocks are empty because large numbers of high-end homes in Hong Kong are subject to frenzied speculation, driven by a flood of money from the mainland wealthy elite. On the other hand, property speculation has driven up housing costs so much that it has become a huge burden for working families. Hundreds if not thousands still live in caged bunk beds, even though these have now been banned. Many more live in small apartments subdivided into three and four units. Others live in illegal makeshift dwellings on tenement roofs without sanitation.

A few weeks ago, a 50-year-old five storey tenement block on Ma Tai Wei Road, Kowloon, collapsed during renovation work on the ground floor, killing four people. A bigger tragedy was only averted by the warnings made by building workers. Two adjacent blocks are to be demolished and the Building Department has ordered repairs to some 680 old blocks after emergency inspections of 3,000 similar blocks in the area. But the government refuses to introduce a building inspection regime that covers anything more than the common areas of a building. At present, most inspections are triggered by complaints or safety concerns.

Mindful of the social unrest triggered by the fires that raged through the filthy squatter towns and villages in the early 1950s, the Urban Renewal Authority is to demolish 33 blocks in the area and replace them with two 30-storey blocks at a cost of \$2 billion. The beneficiaries will be the financial institutions and construction companies not the new tenants—the apartments will have only the most basic facilities and be less than 500 square feet. Like every other aspect of life in Hong Kong, it is the wealthy who benefit at the expense of the majority of working people.



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