INSIGHT

A step down

Darryl Jarvis says Hong Kong will fall behind the mainland and other cities in the region unless it quickly shakes off its inertia and renews its commitment to invest heavily in education

Is Hong Kong destined to be a second-tier Chinese city? Posing this question 25 or even 15 years ago would have seemed absurd. Hong Kong could rightly boast economic dynamism, regional leadership in commerce, trade and finance, and a strategic position as China's window to the world. In terms of wealth, governance, rule of law, property rights and the quality of its institutions, Hong Kong was second to none.

More importantly, Hong Kong's investment in its future, specifically in education, research and development, and the city's pool of human capital, made it an object of policy emulation in the region and beyond.

However, while Hong Kong still likes to think of itself as a leading global city, the evidence that it can continue to do so for too much longer grows less convincing.

There is no magic formula for securing future competitiveness. But there is one necessary ingredient without which economic growth and prosperity are virtually impossible: education.

This might explain why so many states are accelerating their investments in education in an attempt to secure their future, prepare a workforce ready for

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economic adaptation, and to train the next generation of change agents – the inventors, innovators and entrepreneurs of tomorrow whose discoveries will shape new markets, products and businesses.

Most policymakers already know this. In Hong Kong, however, policy complacency and a continuing "lost decade" of policy inertia point to a looming decline in the ability of the city to compete regionally and globally.

Several indicators point to Hong Kong's relative decline.

First, investing in the future. Hong Kong has historically enjoyed a competitive advantage over mainland China and many states in the region through public policy focused on the development of its education sector, especially higher education. Consistent investment in infrastructure, capacity, talent attraction and research funding placed the sector on the global educational map.

More recently, however, the level of investment required to sustain the sector's competitive advantage has slipped. While spending on education accounts for about 4.2 per cent of gross domestic product, this places it behind countries like South Korea. In absolute dollar terms, Hong Kong's funding of the education sector has grown since 1997, but it is being outpaced by mainland China and South Korea, among others.

Second, the assumptions that Hong Kong enjoys continuing advantages in terms of educational quality, world-class facilities, an internationalised professoriate and competitive research funding increasingly no longer hold true. Capital injections by South Korea, mainland China, Singapore and Malaysia are fast transforming university capacity and quality. A trip to any university in Shanghai, Beijing, Guangzhou, Korea or Singapore, for example, cannot but impress.

By contrast, Hong Kong universities increasingly look like shabby counterparts, with less impressive information and communications technology, facilities and research funding. For local universities, this makes it more difficult to compete for international talent, provide the resources demanded by a globally mobile professoriate, or attract the brightest local and international students.

Third is stagnant higher education participation rates. While competitor economies have been cranking up higher education participation rates in order to prepare their economies to climb the value chain and enhance productivity, participation rates in higher education in Hong Kong remain embarrassingly low by international standards.

In Hong Kong, only about 20 per cent of high-school graduates enter universities, compared with 60 per cent in Korea, 40 per cent in the US and about 34 per cent in Britain.

Hong Kong rations out insufficient university places relative to demand, driving large numbers of students offshore. Hong Kong sent 11,335 students to British universities in 2011-12, ranking sixth among non-EU economies as a source of students, after mainland China, India, Nigeria, the US and Malaysia, all of which have considerably larger populations.

Add in enrolments in Australian, Canadian, US and European universities, and Hong Kong exports a great number of its high school cohort overseas. Some of the best and brightest students, in other words, are lost to Hong Kong; they graduate and remain overseas, or spend some of their most productive years contributing to competitor economies.

Fourth, educating for economic transition. Hong Kong needs a workforce capable of moving its economy up a gear to the knowledge services sector – for example, biotechnology, nanotechnology, professional consulting, medical and technology services, among others. This will help it fend off increasing competition from mainland China. Yet, at this time, low participation rates in higher education leave Hong Kong with insufficient capacity to navigate this transition or meet this competition head-on.

In his recent policy address, the chief executive pledged up to 100 scholarships for the most able Hong Kong students to study at world-leading institutions, and the provision of an additional 1,000 funded places to enable sub-degree students to enter advanced-year undergraduate programmes. These measures will only go a little way to addressing these broader structural problems and the looming skills and knowledge crisis Hong Kong faces. Nor will they do much for the 13,000 students who qualified for university admission but missed out on a place last year.

In the absence of substantial policy innovation, reform of the higher education sector and recognition of the larger challenges ahead, Hong Kong's brightest days may well be behind it and its future as a second-tier Chinese city simply a matter of time.

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Fake class war

Alice Wu says contrary to portrayals by some politicians, Hong Kong's middle class do not mind the working poor getting some help

I'm going to call it: the biggest loser of the policy address is the middle class. But it's not because they got "nothing" from the policy address, as Voice of the Middle Class chairman Alvin Lee Chi-wing claimed.

It's true we didn't get any handouts. But since when did the middle class expect handouts from the public purse? And if people who perceive themselves as middle class actually need handouts from the government to make ends meet, then we have a new set of problems.

The reason the middle class is a victim in all this is because its name has been taken in vain. Blame politics. The middle class is so ill-defined that political exploitation is easy. We also have Dominic Lee Tsz-king of the Liberal Party to thank, and all of those who have jumped on the bandwagon.

The Ebenezer Scrooges within the sizeable segment of Hong Kong's middle class might have been the first ones to begrudge the working poor getting a helping hand. But they are a minority.

Hence the picture being painted of a stingy middle class in Hong Kong is very far from the truth. As of last year, Hongkongers are among the top charitable people in the world, ranking 17th out of 153 countries and regions. With 63 per cent of this city's residents donating to charity, we, the middle class, are not the miserly kind.

We understand that the government is actually trying to do something to get people out of poverty. The aim and purpose is to lessen the burden on the welfare system before they become part of it.

Yes, the middle class have some issues with our immigration policy. We have housing, education and economic issues. We also have a problem with what our politicians do in the name of the middle class.

For the most part, members of the middle class know that we bear a disproportionate burden, and that we are not entitled to entitlement programmes. We pay our dues and we would like the government to leave us to our own pursuits.

We want the government to lessen our financial burden – lower taxes and lower costs of living – and want it to create equal opportunities for all. We would also like it to clean our air as well as our streets so we can live better. We ourselves would like to provide for our future generations and leave them with a little more than we were provided with.

But while we don't have high hopes because we are clear about the difference between needs and wants, we are also not blind to the HK$1.4 trillion the government has in reserves. We can appreciate the fact that, with so much stashed away in the bank vaults, it would be crazy – and political suicide – for anyone to suggest raising taxes for the middle class.

So lay off the efforts to pit the have-somes against the have-nots. And cool it with the runaway rhetoric that gives the middle class an undeserving bad rap. We are not all French-film-watching, latte-sipping Scrooges who make it a sport of kicking people while they're down.

So, before the budget is upon us, how about a little peace and quiet for the middle class to spend time with their families over Lunar New Year?

Alice Wu is a political consultant and a former associate director of the Asia Pacific Media Network at UCLA

Hybrid vehicles can be the missing link in China's ambitious electric dreams

Andreuw Gunawan says consumers aren't ready to embrace Beijing's push for battery-powered cars

With toxic smog reaching China's inland cities and pollution levels breaking records in Shanghai, it's clear why the government is pushing Chinese companies to develop fully electric battery-powered cars, with the goal of radically changing the market by 2020. It is offering purchase subsidies, tax exemptions and research and development incentives.

Other electric vehicles such as hybrids and plug-in hybrids enjoy government benefits too, but the Communist Party wants local and international companies to focus on developing battery-powered electric vehicles.

Some believe this is an effort to give domestic companies the chance to develop new technology in a highly globalised market dominated by foreign firms. As auto executives know, cars sold to Chinese consumers need to be produced from start to finish on Chinese soil.

By 2020, China's energy consumption is set to double, according to projections by Liu Zhenya, president of the State Grid Corporation. By then the number of private cars, the largest energy consumers and worst carbon-dioxide emitters, is projected to hit 200 million. In contrast, public transport – buses and taxis – account for over 80 per cent of the hybrid vehicle market.

With the number of first-time car buyers at unprecedented levels, and continuing to grow, now is the time to direct consumers towards green, or "new energy", vehicles.

China's 12th five-year plan aims to reduce energy consumption by 16 per cent.

The government launched a "10 Cities, Thousand Vehicles" programme in 2009 to support electric vehicle development by providing subsidies, a plan that was eventually extended to 25 pilot cities. Further, in 2012, the State Council announced plans to put 500,000 battery-powered vehicles and plug-in hybrids on the road by 2015.

Green vehicles have been divided into two categories: energy-saving vehicles and new-

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energy vehicles. The former, or those with biofuel engines and hybrid electric engines, receive purchase subsidies of only 3,000 yuan (HK$3,800). In contrast, buyers of plug-in hybrids are eligible for 35,000 yuan purchase subsidies, while battery-powered electric vehicles attract 60,000 yuan in subsidies.

Yet, even with such large subsidies and pressure from the government, car companies are struggling to make battery-powered vehicles attractive to Chinese consumers, who worry about performance, maintenance and access to recharging stations. Sales of domestically produced vehicles, such as the BYD e6, have been disappointing.

Chinese consumers are mainly shunning battery-powered vehicles because of fears about unreliable technology; in particular, the vehicles' poor range compared with regular cars and a lack of charging stations.

Companies responsible for designing infrastructure worry about meeting government targets by 2015 (2,000 charging stations). A vicious cycle is created in which consumers won't buy battery-powered cars because they can't charge them, and producers don't build charging stations because people won't buy electric cars.

But a third way exists. Hybrid vehicles, especially plug-in hybrid electric vehicles, could be a stop-gap measure to reaching government targets. Toyota and Nissan are working to localise production of their hybrid and plug-in hybrids. BYD, the Chinese car producer, is hoping to make up for 2012's low battery-powered vehicle sales following the launch last year of a new hybrid electric vehicle series.

The secretary general of the China Association of Automobile Manufacturers, Dong Yang, believes hybrid vehicles should be the "main technology" to promote energy saving and emission targets in the automotive sector.

Hybrids not only increase market demand and meet consumer requirements, but also buy producers more time because they work with existing infrastructure. They suit Chinese consumers in three major ways: price, efficiency and ease of use.

Much rests on how willing the government is to support hybrid electric vehicles as a transitional technology. It should encourage international companies to localise and compete with domestic companies. Subsidies could be tied to a vehicle's fuel efficiency instead of its type or engine.

The question is, would this be enough to substantially reduce China's energy consumption and reliance on oil? Without a doubt, citizens are already paying for its breakneck development with their health. The anger that existed over land seizures is now also directed at environmental pollution.

Without drastic changes and programmes such as the pilot carbon-tax initiative, the market will not meet the health needs of the people. At the same time, battery-powered electric vehicles will fail without the necessary time for improvements to the current infrastructure.

Andreuw Gunawan is a senior consultant at Solidiance, an Asia-focused marketing consultancy firm which has recently released a white paper titled "EV In China – Moving Forward but not as fast as expected"

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Strengthen our safety net through social innovation

Ming Wong says Hong Kong should stop hoarding and put money to work

Financial Secretary John Tsang Chun-wah has done Hong Kong a great disservice with his alarmist view that our fiscal reserves will be depleted in 20 years, following Chief Executive Leung Chun-ying's announcement the government will spend up to HK$20 billion per year on measures to alleviate poverty.

Tsang also appears to be out of touch with the social challenges facing us now.

Hong Kong's reserves should never have been allowed to build up to the current outrageous level of HK$1.4 trillion. Tsang might believe that more is needed for his proverbial "rainy day", but the reality is that rain is already pouring down on Hong Kong when it comes to social and environmental issues.

Poverty and income inequality are not new issues. Neither is the lack of affordable housing or health care facilities for our rapidly ageing population. A good financial secretary works with the chief executive to execute plans for the growth and prosperity of our city. In Hong Kong's case, this obviously includes taking care of the most vulnerable members of our population.

Those who are too old, too weak or not otherwise able to work will require social welfare services. The rest need to find jobs – and that includes new immigrants, the young as well as healthy older people.

Handouts are only appropriate as emergency measures, such as when our city is in the middle of a regional financial crisis or recovering from a health epidemic. For all other times, poverty alleviation means job creation, and jobs have to come from boosting the economy, ideally across a diversified range of industries, and not just in property, finance and retailing.

The issue Leung has to address is not whether HK$10 billion (or HK$20 billion) is the right amount to spend on poverty alleviation initiatives. At issue is how the money should be spent. If Tsang wishes to be helpful to Hong Kong, he should ask his team of experts to explore

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how to double or treble the HK$10 billion, for instance by attracting corporate and family foundations to invest alongside this amount.

Impact investing focuses on generating financial returns while having a social and environmental impact.

British Prime Minister David Cameron has long been a supporter of impact investing and, this month, announced the launch of the Global Learning Exchange on Social Impact Investing, an initiative to share global best practices.

Instead of just leaving the social innovation work to colleagues in the chief secretary's office, who are spearheading the formation of Hong Kong's HK$500 million Social Innovation and Entrepreneurship Development Fund, Tsang should join them to speed up the fund's creation to boost social innovation.

Social innovation cannot happen within the narrow confines of any one government department. For example, tax policies should be studied to see how they can better support social entrepreneurs. After all, their work is just as important as that conducted by Hong Kong's non-governmental organisations, which enjoy tax-exempt status.

Financing and investing regulations also need to be aligned to allow social finance intermediaries to more easily provide advisory and capital-raising services to start-up companies with social missions, without being subject to all the rules and regulations intended to govern traditional banks and investment companies.

Impact investing is now squarely on the global agenda. With a co-ordinated policy approach, Hong Kong can show the world that we care just as much about social well-being and quality of life as we do about financial success.

Ming Wong is an advisory council member of the Impact Investing Policy Collaborative that is jointly leading the Global Learning Exchange with the World Economic Forum