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THE SOCIAL SECURITY SYSTEM IN HONG KONG: ESTABLISHMENT AND READJUSTMENT OF THE LIBERAL WELFARE MODEL

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Hong Kong's social security system has followed a "liberal" welfare state regime. The system has undergone changes along with the high economic growth, changes in the labor market, and transformation of the political environment, but has retained the fundamental principle of a social security system led by the private sector. In recent years, Hong Kong has responded to the aging population and growing unemployment by introducing the Mandatory Provident Fund Scheme that requires individuals to join private-sector pension schemes and by intensifying cooperation with nongovernmental organizations. This indicates the deep-seated nature of the influence of the liberal regime in Hong Kong.

INTRODUCTION

Hong Kong's social security system has seesawed amid the shifting industrial structure and changing political environment. The British colonial government, which initially adopted a "laissez-faire" approach, decided to launch a "big bang" in social welfare policy in the 1970s. The share of social welfare spending to fiscal expenditure also expanded following the transfer of the territory to Chinese sovereignty (see Table I). At the same time, however, in parallel with these measures, policies have also been implemented to assign social-welfare-related projects to commercial entities.

The seesawing in policy has been reflected in the previous literature. Jones (1981), who conducted an analysis of the changes that took place in the 1970s, discusses social security policy by focusing on political participation by citizens, which gained force in those years. Meanwhile, Mok (1993) who conducted research on the impoverished members of society from the late 1980s through the first half of the 1990s, adds to this an emphasis on the importance of economic changes. On the other hand, Chow (1979) developed an argument from the perspective of the bal-

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TABLE I

PUBLIC EXPENDITURES

Public Expenditure by Item	1995		1999		2000				2002			
	H.K.$ Billion	%	H.K.$ Billion	%	H.K.$ Billion	%	Y/Y Change (%)	Change from 1995 (%)	H.K.$ Billion	%	Y/Y Change (%)	Change from 1995 (%)
Community and external affairs	5.4	3.3	8.6	3.20	9.1	3.40	5.80	68.50	8.1	3.07	−1.22	50.0
Economic	8.0	4.8	21.4	8.00	12.3	4.60	−42.50	53.80	13.7	5.20	0.00	71.3
Education	28.9	17.4	48.5	18.20	50.3	18.70	3.70	74.00	54.8	20.80	4.98	89.6
Environment and food	8.2	4.9	13.3	5.00	12.5	4.60	−6.00	52.40	11.4	4.33	1.79	39.0
Health	19.3	11.6	31.4	11.80	31.9	11.80	1.60	65.30	33.2	12.60	−2.92	72.0
Housing	19.7	11.9	38.9	14.60	45.8	17.00	17.70	132.50	24.0	9.11	−25.23	21.8
Infrastructure	25.6	15.4	23.1	8.70	23.0	8.50	−0.40	−10.20	24.6	9.34	−1.20	−3.9
Security	19.0	11.5	25.1	9.40	25.9	9.60	3.20	36.30	27.1	10.28	−1.81	42.6
Social welfare	10.9	6.6	26.4	9.90	27.6	10.20	4.50	153.20	32.3	12.26	7.31	196.3
Support	20.9	12.6	29.7	11.10	31.1	11.50	4.70	48.80	34.3	13.02	−2.56	64.1
Total	165.9	100.0	266.4	100.00	269.5	100.00	1.20	62.40	263.5	100.00	−2.19	58.8

Source: Census and Statistics Department, "Public Accounts, Money and Finance," http://www.info.gov.hk/censtatd/chinese/hkstat/hkinf/pub_account/pub_account_index.html (accessed May 9, 2004).

ance of power within the government and the aging of the population, while Chan (1996) did so from an examination of the Legislative Council and the shift in the political structure. In the meantime, Tang (1993), who took an interest in the social welfare regime model, argues that no existing model is applicable to Hong Kong, which is neither a developing country nor an industrialized country.

However, the author believes that, borrowing from the classification by Esping-Andersen (1990, p. 26), Hong Kong has a system close to the "liberal welfare state regime." The characteristics of this type of regime, such as means-tested assistance, modest universal transfers, and minimum social insurance, all hold true for Hong Kong. Livelihood assistance recipients are indeed limited to the low-income group, with a scheme designed to "discourage people from depending on welfare instead of working." The screenings for qualifications for receipt are strict, often resulting in stigma. The level of allowance is kept to a minimum to ensure a vigorous labor market. On the other hand, the government provides a substantial amount of subventions to private welfare schemes, making use of nongovernmental organizations (NGOs) and financial institutions.

The social security system in Hong Kong as described above was deeply influenced by the laissez-faire approach of the colonial regime. The nature of the system can be portrayed as a "residual model dependent upon economic growth." As a consequence of the laissez-faire approach, the government dealt with social welfare issues ex post facto, without establishing clear principles, and only after specific issues came to the fore. Social safety net was supposed to be achieved primarily through families and the market, with the government providing policy measures only when they fail to function.

Needless to say, this model was established due to the restrictions on democracy under the colonial regime. As a consequence, entities and channels for calling for social welfare reform were quite limited. This is clear from the fact that trade unions are weak, as well as the continued presence of the indirect election system that contains a wide disparity in the relative weight of one vote.

From the mid-1980s, however, the laissez-fair approach faced major political as well as economic challenges. First, the transfer of Hong Kong from British to Chinese sovereignty in 1997 had a decisive political impact. The balance of power began to shift gradually even before the transfer, and political parties, which had been nonexistent in Hong Kong, came into being. Existing pressure groups found their way into the policymaking process through elections. Furthermore, Beijing's intentions began to influence Hong Kong's welfare policy.

Secondly, noteworthy changes took place in Hong Kong's industrial structure. A hollowing out of manufacturing occurred with the transfer of production bases to Mainland China. Middle-aged and unskilled workers, who were forced out of industries, faced a supply-demand mismatch in the labor market. Keeping a safety net for living at minimum level had little effect in enforcing the unemploymed to find job, because the unemployment was not caused by the loss of a willingness to work on the part of jobless people. Moreover, in such times, "support for the weak by family members," the bastion notion of the Hong Kong government, ceased to function effectively. In an era of low growth, the mobility of social positions declines. Family members tend to have similar jobs, so when one loses a job or faces pay cuts, it is increasingly the case that others find themselves in similar situations.

The rapid aging of the territory's population is also a factor exacerbating these problems. The ratio of people aged sixty-five and over has already exceeded 11 per cent of the total population, turning it into an aging society with a ratio of elderly population far beyond the 7 per cent defined by the United Nations. Furthermore, the birthrate is declining at a serious rate. The number of children born per reproductive-age woman (total fertility rate) was below one in both 1998 and 1999.

As described above, the conventional social security system in Hong Kong is under pressure to respond to the changes in the new era. Typical example can be found with public pension reform. This paper will explore the social welfare regime sought by Hong Kong in an era of crisis, in order to elucidate the characteristics of social security in Hong Kong.

I. QUALIFIED POLICY IDEAS AND BACKGROUND

In Hong Kong, the term "*shehui fuli*" (social welfare) is the closest equivalent to social security. The Chinese term "*shehui baozhang*" (social security) is only used to indicate the livelihood safety net for the socially weak. Up until 1980, the Hong Kong government had always stated in official documents such as the social welfare white paper that the primary source of social welfare was "family support." It is true that in the 1980s, the administration began to use the expression "social welfare is the responsibility of the government," and after the 1997 transfer of Hong Kong to China, the government began to increasingly refer to its involvement in social welfare.

However, under the Basic Law, Hong Kong's constitution, the government refers to its responsibility as a provider of resources, or as a sponsor, yet it does not define the principles the government should use to formulate social security–related policies. In 1997, the year of the transfer to China, the policy address by the chief executive used the title "A Compassionate and Caring Society" for a chapter describing social policy. However, the first line of the chapter was typical in stating, "caring for the elderly is the responsibility of every family."

This limitation of the social security principle is deeply rooted in Hong Kong's history. In the colonial years, few channels were institutionalized to make demands regarding the government's social policy measures until the 1970s. Thus, ethnic Chinese had no choice but to literally rely on self-help, mutual aid, and private-sector charity. Until the 1960s, private-sector welfare was provided by Christian charitable bodies and traditional Chinese organizations.[1]

The situation changed in the 1970s, prompted by the Kowloon Disturbances of 1966 and the Hong Kong Riot of 1967, which were spillovers of Mainland China's Cultural Revolution. From the experiences of these two events, the Hong Kong government adopted a policy of strengthening social services in order to help relieve the dissatisfaction of workers before demands erupted violently. In particular, the government laid an emphasis on welfare, medical care, and education, since these areas significantly affected the lives of ordinary citizens. In the field of primary education, for example, the six years of elementary school education was made free of tuition for the first time in 1971. Elementary schooling became compulsory in 1979, and measure to exempt school expenses was expanded in 1978 to cover nine years, from elementary to junior high school. This illustrates the rapid change in the Hong Kong government's laissez-faire policy in the 1970s.

We should not be overlook the fact that behind this shift in policy lay not only the influence of political movements in Mainland China but also the significant changes in Hong Kong's social and economic structures. In the 1970s, the number of people born in Hong Kong overtook that of the first generation who had immigrated from Mainland China, leading to a weakening of the immigrant psychology. The high economic growth in the 1960s contributed to the rise to the middle class within the second generation, reinforcing the trend toward nuclear families, and undermining the function of families to provide the primary care for the socially weak. At the same time, improved mechanisms introduced by the government to indirectly reflect the will of the people made it easier for residents to express their expectations and to put pressures on the government. The Hong Kong government began to utilize an advisory board to reflect the will of the people. Under it, the government organized the parties concerned to discuss pending issues and used their discussions as reference opinions. Most of the existing advisory boards on industry, labor, welfare, and other matters were established in the 1970s. Also, an electoral process was established to allow voters to choose two members of the Urban Council, which is responsible for public health and cultural activities. With the center of gravity in Hong Kong's industrial structure shifting from intermediary trade to the processing of light industry products, the Hong Kong government finally released a report by the Committee on Industrial Diversification, acknowledging, albeit with some

[1] In 1965, the Hong Kong government published the 1965 White Paper on *Aims and Policy of Welfare in Hong Kong*, unveiling its first comprehensive program for social welfare. However, this program included the precondition, provided there was cooperation between voluntary bodies and the Social Welfare Department of the Hong Kong government. In other words, the Hong Kong government, instead of taking over from conventional Christian charitable bodies or mutual aid organizations of Chinese people to provide social welfare services, simply proposed to strive toward enhancing social welfare services indirectly by supporting these bodies and organizations (Jones 1981, pp. xii–xiii, 1–20).

qualifications, the necessity of an industrial policy. It marked the start of the adjustment of the laissez-faire approach, as symbolized by the term "positive nonintervention" used by then Financial Secretary Philip Haddon-Cave.

However, this did not signify the retraction of the laissez-faire approach. "Positive nonintervention," in other words, means a "negative attitude toward further intervention," which first and foremost assumed no increase in the burden on the government. In the social welfare field, the government stuck to the format of "indirectly" supporting NGOs regarding the content and implementation of its policy.

The Hong Kong government used existing mutual aid organizations and charitable bodies as channels to provide indirect welfare. The amount of subventions provided by the government to nongovernmental organizations increased from H.K.$16 million in 1971–72 to H.K.$390 million in 1984–85. Reflecting these changes, the share of social welfare–related expenditure in the Hong Kong government's budget increased incrementally in the 1970s. In 1971–72, social welfare spending totaled just H.K.$55 million, accounting for a meager 2 per cent of total fiscal expenditures. However, this figure shot up to H.K.$2,534 million in 1985–86, bringing its share in the total fiscal expenditures to 5.6 per cent.

II. IN SEARCH OF A PUBLIC PENSION SYSTEM

In the 1980s, however, the Hong Kong government's approach of absorbing the will of the people through indirect support and the discussions among parties concerned through advisory boards and public consultations again reached a limit. Nongovernmental organizations designated as intermediaries by the government were not able to channel all of the changing demands of the people. Beginning in the late 1970s, it became common for residents and workers to make petitions directly to the government without going through NGOs or advisory boards. This was a change in the "mobilization of the working class," one of the factors constituting the "social welfare state regime." The existing Labour Advisory Board may have been able to reflect the opinions of workers, but labor representatives regularly formed a minority group on the board and as such the board inevitably functioned in management's favor. In the end, the Labour Advisory Board could not separate itself from the framework where elite bureaucrats, out of paternalistic considerations, lectured corporate managers and experts with information and advice regarding workers. Consequently, while some peripheral legal provisions for the protection of workers may have been enforced, regulations that were decisively disadvantageous to employers, such as those concerning the period of employment and minimum wages or the right to collective bargaining, were never enacted. Under the framework of the 1975 Labour Relations Ordinance, a conciliation officer in the Labour Relations Division of the Labour Department of the Hong Kong government can call the representatives of both labor and management to a conciliation meeting, but the attendance of the parties is voluntary. Moreover, the conciliation officer customarily refrains from proposing or imposing terms and conditions to settle the disputes, and this has led to criticism that the intervention was ineffective.

After the Sino-British Joint Declaration in 1984 set the stage for the transfer of Hong Kong to China, and the ensuing consultations between China and Britain led to an agreement in 1991 on the holding of direct elections of the Legislative Council, numerous political parties were formed to prepare for that election. In particular, labor organizations and social workers at the afore-mentioned NGOs and charitable bodies served as launch and support bases for the formation of political parties. Thus, with the forum of the Legislative Council and entities of political parties put in place, labor and social security policies became the agenda of debate in parliament, instead of issues on which the advisory boards "hold discussions but take no decisions."

The 1980s were an era of drastic change not only for Hong Kong's politics but also for its industrial structure. Looking at the industry-by-industry composition of gross domestic product (GDP), the share of manufacturing slid sharply from 24 per cent in 1980 to 11 per cent in 1993, while that of the services sector rose from 75 to 88 per cent in the same period. Along with this, the structure of employment shifted rapidly. The number of workers in the manufacturing sector was halved from 890,000 in 1980 to 440,000 in 1994. During the same period, employment in major services industries such as finance and trade increased from 560,000 to 1.46 million. This dramatic shift in Hong Kong's industrial structure stemmed from the transfer of production to Mainland China. In neighboring Guangdong Province in particular, investment from Hong Kong is said to have created about three million jobs in 1991 alone.[2]

Job insecurity is one of factors that have raised concern about the industrial "hollowing out." Massive investments overseas by a single specific industry sector tend to result in job reassignments or job changes for domestic workers. When this process is very large in scale and rapid in speed, workers incapable of responding to the changes face losing their jobs. In the case of Hong Kong, however, the chronic shortage of labor contributed to a state of almost full employment, with the jobless rate staying at around just 2 per cent in the latter half of the 1980s. It was understood that the drop in employment due to manufacturing operations' shift overseas had been offset by the increase in employment in the services sector.

The reassignment of middle-aged workers did not prove so easy, however. Moreover, the shutdown of factories with the relocation of manufacturing firms overseas often came abruptly, often in disregard for Hong Kong government's ordinance that

[2] Policy Address by Governor David Wilson on October 1, 1991. At the time, overseas investment from Hong Kong concentrated on China, and as much as 70 per cent of its investment in China went into Guangdong Province.

workers should be given a one-month notice of dismissal. During these plant closedowns, the in-house retirement funds set aside by employees were not redeemed. In March 1994, the Hong Kong government substantially raised the fine for violations of the Employment Ordinance, a clear sign of the extent to which Employment Ordinance violations had increased at the time (*South China Morning Post*, March 25, 1994).

The increase in problems in labor-management relations can be seen also by figures on working days lost due to labor-management disputes. The figure rose sharply from 3,296.5 days in 1992 to 16,204 days in 1993. In 1989, 1,700 drivers at China Bus staged a large-scale walkout for two days on November 29–30, demanding an increase in retirement allowances and the easing of conditions for benefits. It was the first strike in the transportation sector in twenty years, and the Hong Kong government, fearing a repetition of the Hong Kong Riot of 1967, took the unusual step of immediately sending a special conciliation officer of the Labour Department. As a result, management made full concessions and agreed to treble retirement allowances; the workers declared victory and announced an end to the strike on the night of November 30.

Starting at around the time of this incident, the rate of trade union organization rose steadily from the late 1980s; from 16.99 per cent in 1988, to 17.81 per cent in 1989, 18.84 per cent in 1990, 19.98 per cent in 1991, and 21.16 per cent in 1992. One of the reasons for the previous weakness of trade unions was the fact that two national labor centers existed, one with close links to Mainland China and the other with Taiwan, acting as political organizations. In 1990, the Hong Kong Confederation of Trade Unions (CTU) was established as a third national labor center, and its advocacy of a middle-of-the-road policy line drew support from democratic forces. The CTU now has a foothold in the Legislative Council with its tie-up with the Democratic Party.

These changes in the environment gave rise to demands for a social policy that would be closely tied to livelihoods. A typical example was the introduction of the public pension system. The scheme itself had been under consideration by the Legislative Council since the 1970s, but full debate on its introduction was prompted by the Tiananmen Incident in 1989 and the assumption of office of Christopher Patten (1994), Hong Kong's last governor, in 1992. In the run-up to the territory's transfer to China, Patten tried to democratize the Legislative Council and move forward with measures to deal with the aging society. However, the plan for a "public" pension system under the direct responsibility of the government was aborted in the face of opposition from both labor and the business community as well as China.[3]

[3] The policy decision and debate concerning the public pension plan is discussed in detail in Sawada (1997).

III. ESTABLISHMENT OF THE MANDATORY PROVIDENT FUND AND ITS CURRENT STATE

As an alternative to the aborted public pension plan, the government in 1995 proposed the "Mandatory Provident Fund (MPF) Scheme," which would require workers to join commercial old-age insurance plans. Small-scaled manufacturers in labor-intensive industries and petty services firms harshly opposed the scheme due to concerns over higher personnel expenses, but their importance in the Hong Kong economy had already declined, leaving them little influence over the situation. By contrast, the financial community, the linchpin of the international financial center of Hong Kong, welcomed the creation of a new financial commerce. Thus, after two modifications by 1999, Hong Kong's first social insurance scheme was born on December 1, 2000.

The characteristics of the system are: (1) it is an individual-based scheme for employees and self-employed people; and (2) it is a fully funded system based on a defined contribution plan. Both employers and employees contribute insurance premiums equivalent to 5 per cent of employees' monthly salaries for a combined rate of 10 per cent (the self-employed only contribute the 5 per cent portion). Employees with monthly salaries in excess of H.K.$20,000 are not required to make contributions for the portion exceeding H.K.$20,000. Meanwhile, employees with monthly salaries of less than H.K.$4,000 are exempted from their 5 per cent share of contributions, but their employers are still required to contribute a 5 per cent share.

Unlike the pay-as-you-go system, this scheme is free of problems such as the intergenerational transfer of income and double burdens (the burden on the working generation in paying benefits to the elderly who were already in retirement at the inception of the pension scheme). Put differently, however, the scheme does not provide relief to elderly people who need security immediately. Also, in the absence of an income transfer, the contribution rate of 5 per cent results in benefit levels too low to enable low-income workers to plan for the future based solely on pensions. Moreover, many white-collar employees who were expected to have enough earnings to set aside adequate pension funds were already covered by corporate pension plans, and in a number of cases, employers simply switched their corporate pension plans over to the MPF Scheme.

In order to complement the weak pension system, which had little immediate merit, the government decided to expand minimum security for the socially weak. It strengthened the minimum safety net for living and worked to make NGOs, the direct providers of services, more efficient.

The main vehicle of this safety net is the "Comprehensive Social Security Assistance" (CSSA), the most important livelihood assistance program, accounting for over 60 per cent of expenditures by the Social Welfare Department. It provides living expenses in cash to low-income people who cannot provide for themselves. In addition to having Hong Kong citizenship, CSSA recipients are required to go through financial tests of income and assets. For physically able people in the working age category from "fifteen or above" to "fifty-nine years old," the income criterion is lower than H.K.$1,610 per month, and in order to receive CSSA assistance, they must work at least 120 hours a month and participate in the Support for Self-Reliance Scheme, to be described later.

TABLE II

COMPREHENSIVE SOCIAL SECURITY ASSISTANCE SCHEME

A. Asset Limits

(1) *Single Person Case*

	Asset Limit (H.K.$)
Able-bodied adult	22,000
Nonable-bodied adult[a]	34,000

[a] For example, a child, an elderly, a disabled person, or a person medically certified to be in ill-health.

(2) *Family Cases*

(a) Cases involving any able-bodied adult

Able-Bodied Adults/Children		Elderly, Disabled Persons, or Persons Medically Certified to Be in Ill-Health	
No. of Such Members	Asset Limit (H.K.$)	No. of Such Members[a]	Asset Limit (H.K.$)
1	14,500	1	34,000
2	29,000	2	51,000
3	43,500	3	68,000
4 and above	58,000	4	85,000
		5	102,000
		6	119,000

[a] For example, the asset limits of a seven-member family, including two able-bodied adults, three abled-bodied children, one disabled child, and one elderly person, is KH$109,000 (i.e., H.K.$58,000 + H.K.$51,000).

(b) Cases involving no able-bodied adult

No. of Such Members[a]	Asset Limit (H.K.$)
2	51,000
3	68,000
4	85,000
5	102,000
6	119,000

[a] Enquiries about the asset limits for families with more than six members can be made at the social security field unit.

TABLE II (Continued)

B. Standard Rates

Category	Amount of Standard Rates per Month (H.K.$)	
	Single Person	Family Member
(1) Elderly person aged 60 or above		
Able-bodied / 50% disabled	2,400	2,265
100% disabled	2,910	2,570
Requiring constant attendance	4,095	3,750
(2) Ill-health / disabled adult aged under 60		
Ill-health / 50% disabled	2,030	1,845
100% disabled	2,540	2,195
Requiring constant attendance	3,720	3,375
(3) Disabled child		
50% disabled	2,705	2,360
100% disabled	3,215	2,870
Requiring constant attendance	4,390	4,055

	Single Person	In a Family Comprising: Not More Than 2 Able-Bodied Adults/Children	Three Able-Bodied Adults/ Children	Four or More Able-Bodied Adults/ Children
(4) Able-bodied adult aged under 60				
Single-parent/family carer	—	1,745	1,575	1,395
Other adult	1,605	1,430	1,290	1,145
(5) Able-bodied child	1,920	1,595	1,435	1,275

Source: Social Welfare Department, "Social Security," http://www.info.gov.hk/swd/html_eng (accessed November 9, 2003).

As for asset limits, CSSA is provided only to those whose total assets do not exceed the amounts shown in Table II. In the case of the physically disabled, beneficiaries need to be medically certified by doctors at public hospitals or medical clinics.

Elderly and physically disabled people who receive CSSA uninterruptedly for twelve months or longer also receive long-term supplements in the thirteenth month for the purchase of replacement household and durable goods. The annual amounts of these supplements are H.K.$1,425 for singles, H.K.$2,855 for a household of two to four qualified family members, and H.K.$3,825 for a household of five or more qualified family members. In addition, a special allowance of H.K.$255 per month is provided to single-parent households. Adding these benefits does come to cash amounts that make living in Hong Kong financially possible. However, there is a problem involving the stigma left to recipients from the financial tests for CSSA. Indeed, one NGO survey reported a case where a female immigrant from Mainland

China divorced her husband who was applying for CSSA because she detested being sneered at by neighbors (Pan 2002).

Furthermore, in the face of increasing CSSA disbursements, the government set out to raise the psychological hurdle for physically able individuals to receive assistance. After Hong Kong slipped into recession in the wake of the Asian financial crisis in 1997, the territory's unemployment rate rose rapidly and reached the unprecedented level of over 7 per cent in 2002. The increase in joblessness brought with it an increase in the number of CSSA recipients among the able-bodied. To help contain the expansion of disbursements, the Social Welfare Department introduced the Support for Self-Reliance Scheme in June 1999, and made participation in the scheme one of the requirements for CSSA assistance. This scheme imposes strict checks on the job-hunting activities of CSSA recipients. They are required to submit work schedules to the Social Welfare Department and participate in community activities such as cleaning up of public parks at least two days a week.

As a result of this measure, the ratio of the unemployed among CSSA recipients fell from 13.8 per cent in May 1999 to 10.4 per cent in October 2000. The number of recipients also declined from 32,435 to 23,600 during the same period, yet the unemployment rate in Hong Kong did not show such a significant decrease during the same period. Therefore, it is likely that this scheme was used to squeeze out eligible recipients from CSSA.

Another major destination of welfare disbursements is NGOs. Government subventions to NGOs make up the second largest share of social welfare spending after CSSA. In order to promote greater efficiency, therefore, the government came up with the policy of introducing principles of competition and self-responsibility into the allocation of subventions to NGOs.

Discussions on this policy started in 1995, but a specific tentative plan was proposed only in 1999. In October 1999, the Hong Kong government presented a series of reform proposals to the Social Welfare Advisory Committee. The government's objectives in the reform were fourfold: (1) to clarify the respective responsibilities of the administration and NGOs in order to improve their accountability to the community; (2) to enhance services by introducing a system of evaluation on the basis of their output; (3) to ensure that NGOs spend public funds cost-effectively; and (4) to introduce greater flexibility in deploying resources to meet evolving community needs.[4] Of these objectives, the change in the evaluation method in (2) was partially introduced in 1999. The new evaluation method, called the Performance Monitoring System (PMS), featured the introduction of (1) performance-based assessment, (2) self-assessment, and (3) review visits and on-site assessment by review officers.

[4] Social Welfare Department, "Review of Welfare Subvention Policy," October 28, 1999, http://info.gov.hk/swd/html_eng/pre_rel/1999_10_01.html (accessed on November 1, 2001).

The following concrete procedures are followed in the actual implementation of PMS. Nongovernmental organizations first reach "funding and service agreements" with the Social Welfare Department. Next, the services provided by these NGOs are evaluated through the following three methods: (1) they submit quarterly and monthly statistical data in a specified form as performance reports to the Service Performance Division of the Social Welfare Department; (2) they submit annual self-assessment reports; and (3) they evaluate their own self-assessments in accordance with the nineteen-item "service quality standards." When NGOs fail to clear the "service quality standards" in (3), they are required to submit self-assessment evaluation reports with "action plans" attached. These "action plans" must specify plans for future improvement along with a time schedule.

All of the three evaluation reports described above are subject to review visits and on-site assessments by review officers. The reviews are conducted every three years, and involve not only examinations of documents and on-site assessments but also interviews with people responsible for the provision of services, staff representatives and costumers of services. The new system is to be introduced in four stages from 1999 through 2002. In other areas, the government is attempting to introduce the market mechanism to welfare-related social services. One such effort is a reform plan designed to select welfare service providers in biddings that are open to profit organizations as well.

Another item worthy of special mention is the reform of the medical care system. Hong Kong does not have a public health insurance scheme. Instead, it can be argued that a minimum level of medical care services is guaranteed to everyone, since hospitals run by the government or the Hospital Authority, a public body, provide medical care services at very low costs.

At these public hospitals, patients are required to shoulder just 3 to 4 per cent of medical costs. Immediately before the territory's transfer to China, public hospitals in Hong Kong charged around H.K.$40 for one outpatient visit, and hospitalization cost some H.K.$70 a day for ordinary rooms. The 1991 survey by the government's Census and Statistics Department showed that 83.7 per cent of patients at public hospitals paid H.K.$1,000 or less per hospitalization, while the cost to patients at privately run hospitals was much higher, with 30 per cent paying H.K.$1,000 to H.K.$5,999 and 34.2 per cent paying H.K.$6,000 to H.K.$14,999. Hospitalization at private hospitals would be a considerable financial burden on the average household without membership in a workplace-based health insurance plan.

The present systems have already been subject to a barrage of criticism. The concentration of inpatients in public hospitals has given rise to problems such as: (1) increased fiscal expenditures for the government, (2) a shortage of medical staff, (3) frequent medical accidents, and (4) discontent among patients due to long waiting lists. In response, the government established the Hospital Authority to make medical services more efficient. In 2000, it outlined the direction of reform in a

Consultation Document on Health, entitled "Life Long Investment in Health." The document proposed the adoption of Chinese herbal medicine at public medical institutions, an effective reduction of medical costs, and ways for individuals to procure funds for medical expenses through long-term investment plans instead of the current total dependence on tax revenue. Public comments on the Consultation Document were announced in July 2001, and its proposals are being implemented in stages.

CONCLUSION

In the Chinese community in Hong Kong, organizations based on kinships and birth places, along with religious bodies, have been the primary providers of minimum welfare services to workers since the prewar period. The Hong Kong government, which followed a "laissez-faire" approach, adopted a nonintervention policy regarding the welfare issue as well. However, as these traditional organizations lost the ability to deal with the rapidly changing postwar society, people began to place expectations on the government as the primary provider of modern social security. Beginning in the latter half of the 1970s, it began to introduce social security–related legislation through support for NGOs, facilitating gradual institutional reforms. Further, from the 1980s, it began to tackle pension reform, which had been taboo until then, in preparation for the transfer to Mainland China and the aging of the population.

However, in the face of the time constraints leading up to the 1997 transfer, the government had to compromise on pension reform by, in effect, extending the existing system. As the government sought in haste to obtain the endorsement of all principal actors such as China, the business community, the democratic forces, and trade unions through consultations within a limited span of time, it became the target of much criticism. It retracted its own reform plan with relatively small resistance, partly because any serious problems with the pension system would surface only after Hong Kong was transferred to China. While surveys of ordinary citizens' opinions indicated overwhelming public support for the government's draft proposal, it decided to cope with the immediate needs of the elderly for the time being by expanding the minimum safety net. Only after the transfer was a market-based system created for mandatory membership in private-sector endowment insurance plans, in the form of inheriting the conventional corporate pension plans offered by big corporations (Appendix Table).

Ironically enough, under these circumstances, the transfer to China in 1997 coincided with the Asian monetary crisis. Hong Kong was confronted with the most serious unemployment problem in the postwar period, on top of the aging of the population and the inflow of new immigrants from Mainland China as a new class of socially weak. Within the Hong Kong Special Administrative Region, fiscal expenditures for "housing" and "welfare" stood out during the five years surrounding the transfer. From 1995 through 2000, fiscal spending posted exceptionally high growth of over 100 per cent for only two items: housing and welfare. Cash disbursements of welfare benefits, the biggest spending item of the Social Welfare Department, account for over 50 per cent of the department's total expenditures. Moreover, nearly 60 per cent of the number of payouts is for "welfare assistance for the elderly."

Looking at the growth of welfare-related spending, payments due to "unemployment" are increasing noticeably. Among welfare recipients in the past decade, the biggest growth in number was recorded by those who had lost jobs. Particularly noteworthy is the fact that recipients of welfare assistance for reasons of "unemployment" began to increase in the first half of the 1990s, meaning that even before the Asian financial crisis, losing jobs stemming from the change in the territory's industrial structure was creating new demand for welfare. In other words, the number of people on welfare due to unemployment had already begun to expand in the first half of the 1990s, during the near-full employment situation blessed with an unemployment rate of only around 2 per cent. It is easy to envisage that behind the situation lay the major restructuring of the labor market resulting from the growing shift of production operations to Mainland China.

However, it should be noted that Hong Kong is not moving toward a welfare state modeled on some of the industrialized nations. Rather, a close examination of reforms so far points toward a tendency to aim for a market-friendly social safety net. This is an indication of Hong Kong's intention to maximize the residual model rather than getting rid of it. In fact, the government's measures to respond to the aging of the population and increased demand for welfare caused by rising unemployment were designed to reinforce the conventional policy of relying on the private sector and market forces. On the aging issue, contributions to private pension plans were made mandatory by the government, and to deal with the unemployment, it came up with a plan to offer job placement services in cooperation with NGOs. In the area of medical services, it decided to basically maintain the low cost system of public hospitals, though with possible gradual markups, instead of going for a public health insurance scheme. It attempted to tide over a bulge in medical costs due to the aging of the population by calling on its citizens to cut back on medical expenses, and initiated long-term investment plans.

This policy trend is being sustained partly because of the political system in Hong Kong. First, the political groups involved in social security do not have great strength as welfare-promoting pressure groups. These political groups can be broadly classified into pro–Mainland China leftist trade unions and middle-of-the-road social service NGOs. In the pre-transfer colonial governing structure, however, neither had political party representation, and hence was not able to participate in policymaking through elections or legislative activities. Their involvement was limited to participation in advisory panels and the announcement of policy proposals; bureaucrats listened to their opinions but did not necessarily act upon them. Needless to say, after the transfer, it became possible for them to exert pressure in the legislature. Still, their policy options were limited in view of the process and current status of their organizations. Pro-China labor organizations find it difficult to demand large-scale fiscal spending in disregard of Beijing's intent to "not turn Hong Kong into a welfare state." Meanwhile, for the large-scale NGOs, which offered social security services in place of the government as welfare providers by receiving a large share of government subventions, making policies in the direction of expanding the government's direct projects would be acting to undermine their own raison d'etre. In social security reform, therefore, these organizations, while demanding enhanced services and a greater commitment from the government, find themselves in a position where it is awkward to insist that the government must directly and fully get involved in welfare projects.

Furthermore, the fact that most of Hong Kong's power elites, including the chief executive, were chosen from the business community, underpins Hong Kong's tendency toward favoring market-friendly reforms. This tendency is expected to continue as a result of the chief executive's 2001 proposal for the "Accountability System for Principal Officials" (implemented in July 1, 2002). Under this system, the chief executive appoints fourteen principal officials of the Executive Council, including the chief secretary for Administration and the Financial Secretary. Previously, these officials were appointed from among government officials. The new system allows the principal officials to be recruited from the private sector. In fact, the composition of the cabinet under Chief Executive Tung Chee Hwa's second term in office inaugurated in July 2002, proved that chief executive, who himself was formerly a business leader, appointed the member from business circle via his personal connections.

Moreover, the Basic Law, Hong Kong's local constitution, contains in statutory form the balanced budget principle followed by the government of the territory.[5] The Hong Kong government is exempt from any payments to the central government in Beijing and its fiscal independence is guaranteed. On the other hand, the Basic Law precludes any social security reform initiative that would exacerbate Hong Kong's fiscal balance. In an era of high economic growth, it may be possible to carry out reform accompanied by substantial growth in fiscal spending. However, Hong Kong has already entered an era of low growth, and the economic growth rate has been particularly subdued since the transfer to China. In the end, it is assumed that Hong Kong's cautious approach to any change in its political and eco-

[5] Article 107: The Hong Kong Special Administrative Region shall follow the principle of keeping the expenditure within the limits of revenues in drawing up its budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its gross domestic product.

nomic systems under the guise of the "one country, two systems" will help to reinforce the legacy of the liberal welfare model.

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APPENDIX TABLE

Chronology of the Social Security System in Hong Kong

Year	Political	Social Security
1842	Treaty of Nangking	
1860	Convention of Peking	
1870		Chinese Hospital Ordinance
1883		Establishment of Po Leung Kuk
1966	Kowloon Disturbances of 1966	
1967	Hong Kong Riot of 1967	
1971		Cash benefits under Public Assistance (PA) Scheme
1972	Governor Murray MacLehose assumes office	
1973		Introduction of special need allowance, old-age allowance, and disability allowance (non-means-tested).
1978		Establishment of Social Security Appeal Board
1984	Sino-British Joint Declaration	
1985	Indirect election for Legislative Council	
1987	Governor David Wilson assumes office	
1988	Direct election for Legislative Council	Lowering of old age allowance eligibility from 70 to 65
1989	Tiananmen Square Incident on June 4	
1990	Completion of Hong Kong Special Administrative Region Basic Law	Establishment of Hospital Authority under medical reform
1991	Direct election for Legislative Council	
1992	Governor Christopher Patten assumes office	Occupational Retirement Scheme
1993		Introduction of Comprehensive Social Security Assistance
1995		Enactment of Mandatory Provident Fund Scheme Ordinance
1997	Transfer of Hong Kong sovereignty from Britain to China Chief Executive Tung Chee Hwa assumes office Asian currency crisis	
1998		Launch of CSSA review and Active Employment Assistance Programme
1999		Introduction of Performance Monitoring System for NGOs

APPENDIX TABLE (Continued)

Year	Political	Social Security
2000		Implementation of Mandatory Provident Fund Scheme Publication of "Life Long Investment in Health: Consultation Document on Health" Proposal for reform of Lump Sum Grant Subvention for NGOs
2002	Reelection of Chief Executive Tung Chee Hwa	