Executive Summary

The socioeconomic impacts of Mainland immigrants have raised concerns in Hong Kong for many years. While immigrants can help any society reach its social and economic targets, an increase in their numbers can also give rise to social resistance. As Hong Kong and the Mainland become more integrated, socially and economically, friction inevitably occurs.

All around the world, there are sporadic waves of anti-immigration rhetoric. In some countries, immigration policy has even become a determinant in the course of political elections. However, given that studies across countries show the public may have misconceptions on the status and characteristics of immigrants, that antipathy is often far from rational.

As stated earlier, there are close social and economic connections between Hong Kong and the Mainland. For one thing, a large proportion of Hong Kong population is originally from the Mainland. An examination of the demographics over time reveals that many such immigrants and their offspring have come to Hong Kong asynchronously. Requests for family reunion have increased the incidence of immigration, due in part to the large number of cross-border marriages between Hong Kong and the Mainland. In response, the Hong Kong government issues one-way permits (OWPs) and accepts a daily quota of Mainland residents coming to Hong Kong for these reasons. Since the handover of Hong Kong in 1997, relocation from the Mainland has operated under the "One Country, Two Systems" principle, making this population shift neither a typical immigration from one country to another nor a within-country migration from one place to another.

The question of what policy Hong Kong should adopt to deal with Mainland immigration is far-reaching. To answer it, we need comprehensive and fundamental research. This report proceeds from literature review to international comparisons and then to data analysis, with the aim of broadening and deepening the understanding of the situation and the effects of immigration from the Mainland.

The first chapter focuses on literature review. We examine the recent studies discussing the positive and negative effects of immigration. In analysing immigration-related questions in

Hong Kong, most studies focus on the short-term welfare burden. However, to investigate the all-round social and economic effect, a long-term horizon is more productive. The literature points to implications in many areas. First, from a macro perspective, immigration plays an indispensable role in demographic and economic transformation, even though these benefits are often overlooked when calculating its narrowly-defined fiscal and economic effects. Second, we should assess the role of immigrants not only by measuring the short-term social and economic benefits and costs of their relocation, but also evaluate their income growth and degree of social integration at different periods after they arrive. Third, as the effects of immigrant arrival last more than one generation, the effects of their offspring should also be considered. Finally, the analysis of overall advantages and disadvantages should also consider the settling of dependents due to family reunion. Thus, there is a wide range of important direct and indirect social and economic effects. Although many studies have discussed these questions with respect to many countries worldwide, they are relatively under-examined in the context of Hong Kong, attracting little attention from the government and academia.

Whether or not immigration produces net economic and fiscal benefits in the long run depends on a country's social and economic status and policy environment. For example: whether the government encourages fertility, whether the immigration policy can select immigrants by education attainments and age, whether labour market policy affects immigrants' willingness to work, whether the government has an effective integration policy, and whether new arrivals are willing to settle domestically and make long-term contributions. Relocation is just the beginning. Long-term interactions between immigrants and the local labour market, society, and government policy, all affect their contributions to the domestic society and economy.

In Chapter 2, we compare the immigration policy of Hong Kong to that of some other countries. Specifically, we select the United States (US) and Germany for their sizeable immigration flows, and Singapore for its similar social and economic conditions to those of Hong Kong.

Faced with the challenges of economic transformation and an ageing population, the Hong Kong government is gradually adjusting its immigration policy. To attract Mainland immigrants, other than issuing OWPs for family reunion, it has adopted many other approaches. With regard to assistance to immigrants, the Hong Kong government plays a

relatively passive role and mainly relies on the existing social welfare system. In the past, immigrants have tried to adapt to the new life course by themselves, while until recently some social welfare organizations have actively helped immigrants to integrate into the society. Compared to some places with a large immigrant influx, Hong Kong tends to be pragmatic in drafting policy and lacks a perspective to derive a consistent policy package to deal with immigration issues.

As we know, the US has a long and sizeable influx of immigrants and has attracted the greatest number. In recent years, the average annual increase has exceeded one million, making it the world's number one immigrant destination. The US federal government works on the principle of prioritizing the equal status of all Americans without introducing any special acts for integration purposes. Some researchers describe this strategy as "laissez-faire integration". The federal government implements equal-opportunity policies, e.g. anti-discrimination laws, rather than actively imposing policies for integration.

Germany is another country that attracts millions. More than 80% of its immigrants have come from other European Union countries without facing any entry restrictions. In this sense, Germany has no leeway in selecting immigrants. To reduce the difficulties of acquiring citizenship and even of finding a job, Germany has enacted a series of new acts since 2000. Since learning German and knowing the German lifestyle make it easier for immigrants to fit into society, these acts stipulate that immigrants pass a standardized German test, participate in integration courses, and pass a follow-up test before getting citizenship. To cope with the cultural differences of immigrants, Germany creates courses, organizes integration summits, and provides education and employment assistance to help immigrants adapt to their new life.

Singapore is also a nation of immigrants. In 2018, it had 1.64 million alien residents who are dependents, students, and workers, which makes up about 29% of Singapore's 5.64 million total population. The Singapore government recruits proactively and has relaxed its naturalization restrictions to attract talent and elites. Its meticulously-designed policy package covers so many dimensions, including politics, religion, education, and housing, that immigrants from different backgrounds can more easily assimilate into a harmonious community.

Since there has been public attention over the issuing of OWPs for family reunion in Hong Kong, we also compare this kind of immigration policy with that of the aforementioned countries. We find that Hong Kong has a relatively high bar for issuing visas for family reunion. In terms of relative numbers, the US and Germany tend to issue 1.9 family reunion related visas per work visa, while in Hong Kong the ratio is as small as 1.2. In terms of visa requirements, only Hong Kong sets a quota for OWPs and this means the waiting time may be counted in years. In comparison, other countries only take a few weeks or months to process the visa. It is worth noting that the German government cannot restrict the flow of immigrants from the EU countries and that this situation is similar to that of Hong Kong OWPs.

Hong Kong and the three countries we are examining are developed economies. They are all encountering the ageing population problem. All have the motivation to boost economic development by attracting immigrants. However, they take completely different approaches to dealing with immigration issues. The US commits to an equalized community, Germany acts to integrate immigrants, and Singapore pays a lot of attention to attracting talents and elites. But Hong Kong does not stress equalization as strongly as the US, does not take active steps to promote integration like Germany, and does not have a comprehensive policy package to reduce conflicts between different cultures like Singapore. Nevertheless, these countries have not arrived at a policy package easily. Rather, their immigration policy has evolved over time, with many trials and adjustments. Given the erratic political environment, their immigration policy still faces challenges. In Hong Kong, even though residents and Mainland immigrants are all Chinese, due to differences in their social systems and lifestyle, it is not surprising to see conflicts. This is not like the case in places where conflicts are driven by essential disparities in religion, culture, and race. However, with a passive attitude on the part of the government, the conflicts may be aggravated. In fact, there are many alternatives that lie somewhere between adopting an active role and a passive role that the government could adopt.

In Chapter 3, by examining the government's aggregate data, we depict the changes of the main characteristics of Mainland immigrants. Because the observations are focused on those who have been here for fewer than seven years and the number of variables is limited, we make use of a 5% sample of the Census and By-Census (hereafter, Census) microdata from

2001 to 2016 for further investigation. Apart from compiling important complementary indicators, we further analyse how Mainland immigrants contribute to Hong Kong's demographics and economy, and the changes in socioeconomic status of immigrants over time. We have the following findings:

(1) Mainland immigrants who had arrived in recent years are significantly different from earlier arrivals in terms of education attainments and income. On one hand, from 2001 to 2016, the proportion of new immigrants ages 15 and above with only lower secondary education or less has decreased from 70.4% to 52.2% whereas the percentage of immigrants who have tertiary education or higher has increased from 5.7% to 19.5%. By 2016, 8.5% of immigrants had earned a Master's degree, compared to only 4.9% of the whole population ages 15 and above in Hong Kong. On the other hand, during the same period (2001-2016), the monthly individual and family median incomes of new immigrants increased 70.8% and 45.1%, much higher than those for the whole population (40.9% and 33.6%, respectively). Furthermore, the younger an immigrant is when he/she arrives in Hong Kong, the more likely he/she will have a Bachelor's degree in the future. According to the 2016 Census, more than 45% of immigrants who had arrived in Hong Kong before the age of 9 obtained a Bachelor's degree, whereas only 30% of those who had arrived between 13 and 15 years of age obtained a Bachelor's degree.

(2) Mainland immigrants ameliorate the effects of population ageing and boost economic transformation. We estimate how the influx of Mainland immigrants and the subsequently increased fertility has affected Hong Kong demographics in the recent two decades. Without Mainland immigrants and their children, Hong Kong would face a more severe population ageing problem, as the median age would otherwise rise from 43.3 to 46.1, and the population under age 20 would decrease by about a quarter. Moreover, immigrants also accelerate economic transformation. Comparing the 2001 Census with the 2016 Census, we find that in the industries and occupations with the fastest growth of employment, the growth of employment by Mainland immigrants has increased even faster. This demonstrates that immigrants tend to devote themselves to those fast-growing industries, making significant contribution to Hong Kong's economic transformation. However, the percentage of local workers

in well-paid occupations grows faster than average, which implies that they would continue to flow into those occupations in the face of economic transformation.

(3) We can see some convergence between locally-born residents and Mainland immigrants. First, they converge in terms of the labour participation rate. For instance, looking at males who had immigrated between 1997 and 2001, we find that though they had a lower labour participation rate (11.9%) than local men in 2001, the gap had disappeared in 2016. Investigating the 2016 Census, we find that female immigrants holding OWPs had a labour participation rate of 39.8%, much lower than the Hong Kong average of 68.2%. However, for older women who may not have to look after children, the labour participation rates are similar.

To examine the convergence of income between local residents and Mainland immigrants, we should compare the same age-education groups. To make a precise comparison with local residents, we calculate the average income of Mainland immigrants, weighted by the number of local residents in each age-education group, hereafter called the "adjusted income". The "adjusted income" keeps growing. Still, focusing on the male immigrants who had arrived from 1997 to 2001, the "adjusted income" was HKD 10,600 (39.3%) less than local men's income in 2001. However, that difference had reduced to HKD 4,300 (14.5%) by 2016. For female immigrants in the same period, the income gap narrows from HKD 10,300 (45%) in 2001 to HKD 6,600 (25.4%) in 2016. During this period, most immigrants had come to Hong Kong via OWPs. If we base our analysis of the social and economic effects of Mainland immigrants on a horizon longer than seven years, we see many improvements in the data.

(4) Many Mainland immigrants with a higher education are likely to leave Hong Kong within relatively few years. Among those male immigrants who had arrived from 1997 to 2001, 28.2% held a Bachelor's or more advanced degree in 2001. This percentage was reduced by almost half, to 14.6%, in 5 years, and has continued to fall in later years. Immigrants from other periods show similar trends. Previous research has not

documented this fact which has therefore received little attention. If these high-skill immigrants stayed, the associated gains would be tremendous.

(5) Some significant changes have taken place for low-income Mainland immigrants. During the five years after 2014, families holding OWPs had a higher poverty rate than Hong Kong families. However, these poor families constitute only a small proportion of the total number of poor families (e.g. 3.7% in 2019) and social welfare spending in Hong Kong. In 2013, the Hong Kong government updated the requirements for getting subsidies: immigrants can apply for subsidies if they have stayed in Hong Kong for more than one year (rather than the previous 7-year requirement). Hence, the amount the government spends on subsidizing immigrants climbed from 3.0% in 2013 to 4.3% in 2015, but the spending slumps to 4.0% in the ensuing years.

Given the analysis of the above three chapters, we have the following policy suggestions:

First, Mainland immigrants play an important role in the demographics and future labour supply of Hong Kong. Thus, the Hong Kong government should fully consider the role of these immigrants when formulating policy on population and human resources. OWPs should be issued in cooperation with the Mainland government with the common aims of letting age-eligible children attend schools in Hong Kong as early as possible, helping immigrants integrate smoothly into society, and encouraging them to contribute to Hong Kong. Currently, even though Hong Kong has some policies designed to attract Mainland talents, it is relatively unaware that a large proportion of high-skilled early immigrants leave after a relatively short time. The Hong Kong government needs to take steps to retain talents.

Second, the Hong Kong government should strive to build a harmonious community that accommodates both Mainland immigrants and local residents. The authorities should establish a discourse for social equality and demonstrate a clear determinacy for facilitating social harmony. The government can also organise cultural exchange activities to give Mainland immigrants and local residents the chance to learn about differences in their cultures and develop mutual respect. Other than offering professional training, the Hong Kong government should help Mainland immigrants better acquaint themselves with the local

labour market, the living environment, and the local lifestyle, which may reduce or erase potential friction between local residents and immigrants. If, by any chance, friction and verbal or physical confrontation occur, the government should respond. If or when discrimination against Mainland immigrants happens, the government should not remain silent but actively protect the interests of those being discriminated, including the exploration in passing relevant laws and regulations to restrict discrimination of any form.

Last but not least, in order to gain a deeper and more profound understanding of the effect and the benefits or otherwise of immigration, the government should make its immigration dossiers more comprehensive. For instance, it could add more relevant questions to the Census or conduct special investigations on relevant topics so that the channels of immigration can be identified and distinguished. Furthermore, it should facilitate the tracking of the status of immigrants after arrival and study the socio-economic status of their later generations. Initiatives like these will help the government improve its research and its policy making.