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INTELLIGENCE REPORT

Going grey

Ageing populations are the norm across East Asia. For Hong Kong, there are particular concerns. One implication is for Hong Kong's vaunted Mandatory Provident Fund scheme. While it's a straightforward way to look after an ageing population, a substantial decrease in contributions may have long-term economic consequences.

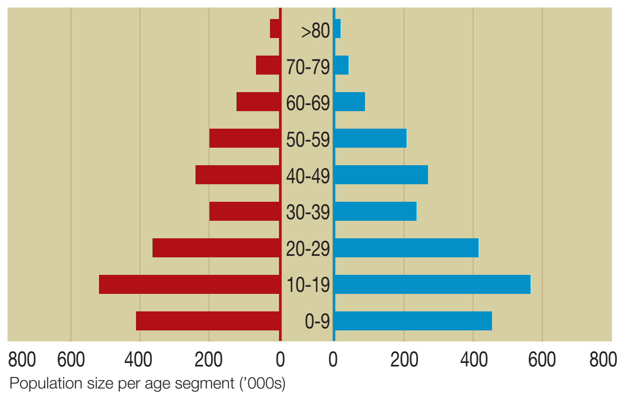
Since the MPF's inception in 2000, over HK$135 billion in funds has been added to Hong Kong's liquidity. As secretary for Financial Services and the Treasury Frederick Ma puts it, MPF funds "have been a very positive impetus for our financial markets." Ma estimates that 25 percent of MPF money is channelled into debt instruments and another 54 percent into equities. sOver 20 percent of the increase in Hong Kong debt holdings in the last five years has been a result of MPF funding.

The golden rule of economics is that savings equals investment. So while Hong Kong's elderly will be better looked after, are we risking stagnation as Asia's financial hub by letting contributions fall?

According to Hong Kong's age profile (see chart), prime salary earners are already beginning to thin out. In 2004 Frederick Ho, commissioner for Census and Statistics, commented on Hong Kong's ageing profile. Ho noted that Hong Kong's over-65 population will slowly increase until 2015, and dramatically increase thereafter. Hong Kong's over-65 population already stands at 12 percent, on a par with the U.S.

Two broad policy prescriptions are available to the government. One is boosting immigration; it's the age-old solution, and a factor that has long kept Hong Kong's labour force on a competitive keel over the years. The alternative is to create more incentives for child bearing. The experiences of Japan and Singapore show that people aren't easily induced into having children, but it's a strategy the government seems to be considering.

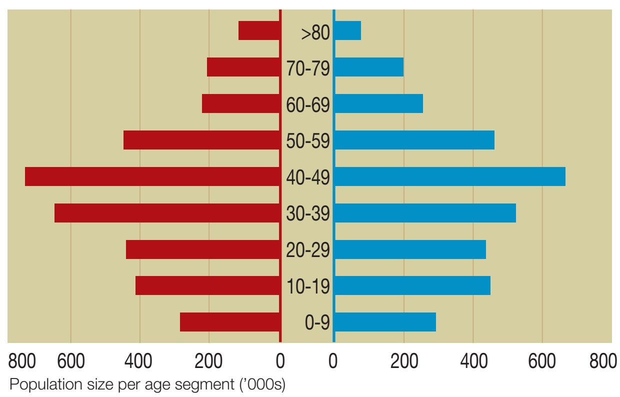
Hong Kong population, 1975



Total population: 4.46 million
Percentage over 65: 5.3 percent

Female Male

Hong Kong population, 2005



Total population: 6.94 million
Percentage over 65: 12.1 percent

Female Male