

Hong Kong: The Duality of Foreign Domestic Workers

An international trade assessment of Hong Kong's increasing foreign domestic labor force.

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1. Introduction

In recent years, Hong Kong has witnessed a notable increase in emigration accompanied by an expected doubling in size of the elderly population to 2.3 million by 2034. This has led to “a steep rise in the coverage ratio of foreign domestic helpers (FDHs) for caregiving duties,” (Hong Kong: Legislative Council Secretariat 2017, 1). The motivations behind Hong Kong emigration are multifaceted, driven by factors such as socio-political changes and economic opportunities. Research conducted by the University of Hong Kong's Department of Social Sciences has revealed significant socio-political determinants, including mobility, trust and confidence in the legal system, and perception of inequality, as predictors of Hong Kong migration. As individuals from Hong Kong seek opportunities abroad, the demand for domestic helpers to assist with household chores, elderly care, and childcare has seen a corresponding rise (Chan et al. 2022, 1). Simultaneously, Hong Kong has been grappling with the challenges posed by an aging population potentially shrinking its labor supply, increasing demand for domestic help services, lowering savings rates, and increasing government expenditures towards welfare and health (Wong and Yeung 2019, 1).

Understanding the economic factors driving these correlations and the consequential outcomes from an international trade perspective is vital to ensuring the future health of not only Hong Kong but also many other Southeastern Asian countries. Theories of international trade, such as comparative advantage and factor endowment theory, provide valuable insights into this phenomenon. Comparative advantage theory highlights the importance of focusing on activities where Hong Kong has a competitive edge, such as high-skilled professional services, finance, and technology. Emigration of highly educated or skilled individuals from Hong Kong, also known as a “brain drain,” may lead to a relative scarcity of

skilled labor in the domestic labor market, thereby increasing the demand for outsourcing lower-skilled domestic help services. Moreover, factor endowment theory emphasizes the influence of resource endowments on trade patterns. The changing demographic structure in Hong Kong, characterized by an ageing population, affects labor supply and demand dynamics. The increased demand for domestic help services driven by the converging gender equality, aging population, and emigration stimulates the outsourcing of these services to countries with available labor resources.

“The ratio of foreign domestic workers (FDWs) in Hong Kong’s workforce has doubled from 5.3% to 9.3% over the past two decades,” (Hong Kong: Legislative Council Secretariat 2017, 2). This paper aims to utilize the theories of international trade to assess the impact of an aging population due to the recent increase of emigration on the demand for domestic help to draw implications for the future of Hong Kong’s labor market and the global economy. By examining these factors, policymakers and stakeholders can gain insight into the challenges and opportunities associated with the topic at hand.

2. Theories of International Trade:

The Heckscher-Ohlin model provides valuable insights into the economic rationale behind Hong Kong’s emigration and its aging population. This model considers both comparative advantage and factor endowments to explain countries’ trade patterns. The theory of comparative advantage, developed by David Ricardo, provides the framework for understanding the specialization of countries in producing goods and services (Feenstra 2002, 5). On the other hand, the theory of factor endowments explores how a country’s resource endowments shape its trade patterns.

In the context of Hong Kong’s emigration and its aging population, the Heckscher-Ohlin model can help explain the economic drivers behind these trends and their implications. Hong Kong boasts a highly developed financial sector, professional services, and technological expertise, which give the city a comparative advantage in these sectors. Emigration from Hong Kong often involves individuals with specialized skills and education, who seek opportunities in countries where their expertise is in high

demand. Consequently, the relative scarcity of unskilled labor in Hong Kong may lead to an increased demand for outsourcing domestic help services to meet the changing labor market dynamics. Moreover, the aging population in Hong Kong further amplifies the demand for domestic help, as the need for assistance with elderly care and household chores grows. These demographic shifts influence the allocation of labor resources and stimulate the outsourcing of domestic help services.

In addition to the Heckscher-Ohlin model, the Gravity Model of Trade can further enhance our understanding of Hong Kong's emigration and its aging population. The Gravity Model of Trade is commonly used to analyze bilateral trade flows between countries and can be incorporated in the context of Hong Kong's emigration. According to the Gravity Model, trade flows are positively related to the economic size (GDP) of trading partners and inversely related to the geographic distance between them (Feenstra 2002, 21-22). In 2021, Hong Kong's total GDP was approximately \$359,838,598.81 while the Philippine's total GDP was approximately \$404,284,327.31 (World Bank Data 2021). Based off the Gravity Model alone, we may be able to predict positive trade flows between Hong Kong and the Philippines.

Furthermore, as Hong Kong relax foreign worker policies to promote immigration of FDWs, this is likely to increase economic ties with countries where FDWs emigrate from. The Gravity Model of trade suggests that trade volumes between Hong Kong and immigration departure countries may rise, driven by stronger economic connections and labor mobility.

By employing the Heckscher-Ohlin model and the Gravity Model of Trade to analyze these trends, we gain a deeper understanding of how the changing demographics impact Hong Kong's labor market dynamics and service demands. This understanding is vital for policymakers and businesses to address the challenges and opportunities posed by increasing emigration and an aging population effectively.

3. Aging Population and Demographic Transition:

I. Hong Kong's Aging Population

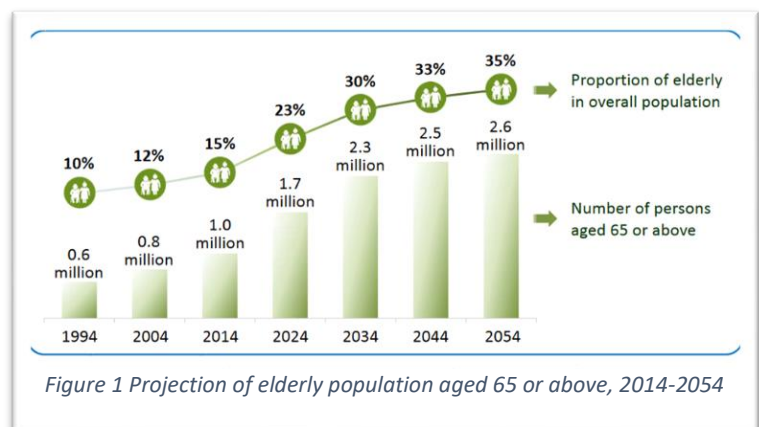
Unfortunately, Hong Kong's emigration trends are not a newly emerging concern. The territory has experienced multiple waves of emigration in the past fifty years. Obtained from Ronald Skeldon's article, "Emigration and the Future of Hong Kong," table 1 shows the number of emigrants Hong Kong has seen leave per year from 1980 to 1991. Notably, the number of emigrants per year triples over the course of a decade from 22,400 emigrants in 1980 to 62,000 in 1990 (Skeldon 1991, 502). Skeldon's work is supported in detail by Professor Wong Siu-Lun in her 1991 paper, "Emigration and Stability in Hong Kong." Professor Wong divulges that out of the 62,000 emigrants in 1990, roughly 48.8% of them were between the age of 25 and 44 with about 14.5% of them having a first degree or postgraduate qualification, and 23.3% of them "were employed as professionals, technical, administrative and managerial staff before they left," (Wong 1991, 4).

Year	Number of Emigrants
1980	22,400
1981	18,300
1982	20,300
1983	19,800
1984	22,400
1985	22,300
1986	19,000
1987	30,000
1988	45,800
1989	42,000
1990	62,000
1991	58,000

Table 1. Official Hong Kong Government Estimates of Emigrations 1980-91.

II. Factors Influencing Demographic Transition

From the late 1990's to present day, Hong Kong has been experiencing a significant demographic transition, characterized by a rapidly aging population. The demographic shift is driven by multiple factors, including declining birth rates,



increasing life expectancy, and improved healthcare facilities. In figure 1 above and in their paper, "Population Ageing Trend of Hong Kong, Economists Dr. Kelvin Wong, and Mathew Yeung, emphasizes

Hong Kong's age demographic issue when they write, "From 1988 to 2018 ... the size and share of the elderly (aged 65 and older) rose continuously from 0.46 million and 8.2% to 1.27 million and 17.9% respectively" (Wong and Yeung 2019, 1). They continue to express concern as they state, "nearly one in every three persons will be elders in 2038," (Wong and Yeung 2019, 2).

4. Demand and Supply for Labor

I. Demand

In 2016, FDWs were primarily hired by households with younger children. These FDWs made up roughly 74% of the 275,600 FDWs in Hong Kong; FDWs hired by households with members having special care needs were roughly 23% in 2000 (Hong Kong: Legislative Council Secretariat 2017, 6). However, in Guangye He's and Xiaogang Wu's, "Foreign Domestic Helpers Hiring and Women's Labor Supply in Hong Kong," He and Wu develop a logit probability model to assess which types of households are more likely to decide to seek foreign domestic help services. In their model, they found that the presence of elderly individuals, ages 75 and older, was a statistically significant indicator of the decision to hire an FDW, with a coefficient of 0.895. The elderly population of Hong Kong expected to increase to 2.3 million by 2038 and its local fertility rate of 1.125 in 2017 (Wong and Yeung 2019, 4) and 0.772 in 2021 (The World Bank 2021), are emerging signs that the demand for foreign domestic helpers will increase. Elderly individuals often require assistance with daily activities, such as personal care, meal preparation, and household chores.

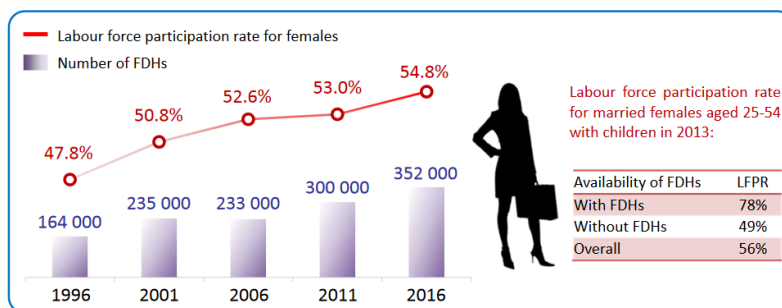
Gender equality has also had a significant influence on Hong Kong's demand for FDWs. He and Wu cite data from Hong Kong Panel Study of Social Dynamics (HKPSSD), which indicates that the "need for family care services was mostly driven by demand from privileged rich or expatriate families, the large influx of FDWs had been driven by the demand of working classes' family care in Hong Kong," (He and Wu 2019, 400). As the female labor force rises, the societal attitudes towards parenting and the division of housework have largely remained the same. The straining tension between work and home

life balance has incentivized the outsourcing of foreign domestic helpers. This has become “an important strategy for dual-earner families,” (He and Wu 2019, 398).

He and Wu’s analysis suggests that the “positive effect of hiring FDHs on work hours is the greatest among those who hold an upper-secondary education, live in subsidized housing and are married to men who earn a relatively low income,” (He and Wu 2019, 1). Inversely, the positive effects of hiring FDHs were insignificant, suggesting that the relief from housework contributes more “to the support for a more leisurely lifestyle,” (He and Wu 2019, 1). As Hong Kong citizens face time constraints due to work, leisure, and other commitments, the opportunity cost of allocating time to household duties increases. Outsourcing domestic help services allows individuals to free up time for other productive activities, such as work, education, or leisure. This shift in time allocation will further stimulate demand for FDWs.

1. Supply

In their article, “Outsourcing Household Production: Foreign Domestic Workers and Native Labor Supply in Hong Kong,” Patricia Cortés and Jessica Pan measures the impact on Hong Kong’s labor supply



Data sources: Census and Statistics Department and Immigration Department.

Figure 2 Labor force participation rate for females in Hong Kong 1996-2016

due to Hong Kong’s increasing dependence on FDW’s. Cortés and Pan emphasize the role of labor mobility on Hong Kong’s labor supply due to changes in the foreign worker policies. Cortés and Pan write, “In 1974, the Hong Kong government opened a legal immigration channel that permitted domestic workers from other Asian countries to work in Hong Kong. ... Concurrent developments in the Philippines ensured a ready supply of domestic helpers; the Labor Code of 1974 initiated by President Marcos marked the beginning of the Philippines’s formal labor migration program. Coupled with the demand for

domestic help among highly skilled natives in Hong Kong, these developments led to a rapid rise in the number of FDWs in Hong Kong starting in the late 1970s and early 1980s,” (Cortés and Pan 2013, 332).

Interpreting the effects of the simultaneous changes in foreign worker policies in both Philippines and Hong Kong has led to increased labor mobility. Cortés and Pan conclude that Hong Kong’s relatively cheap cost for hiring FDWs, shifts in demand and supply from emigration, higher levels of education, and an aging population have increased the labor participation of mothers by roughly 10-14%. This increased participation, have approximately generated a consumer surplus of US\$130-US\$200 (Cortés and Pan 2013, 327). Cortés and Pan suggest that “by reducing child care costs through immigration, this is a market-based alternative to child care subsidies,” (Cortés and Pan 2013, 327).

6. Using Trade Theories to Draw Implications

I. Labor Mobility

The opening of a legal immigration channel in Hong Kong in 1974 allowed for the influx of domestic workers from other Asian countries, particularly the Philippines. This immigration led to an increase in the supply of FDWs in Hong Kong, which can be seen as a change in labor mobility and factor endowments. The relative abundance of low-skilled labors in the Philippines, combined with the demand for domestic help in Hong Kong, resulted in a shift in the allocation of labor between the two countries. Additionally, the wage differences between Hong Kong and the Philippines further incentives domestic workers from the Philippines to immigrate to Hong Kong for work. This helps Filipino consumers and labors but also hurts their capital owners. Simultaneously, this makes native domestic workers in Hong Kong worse off and capital owners better off by the lowering wages. The overall change in well-being is indeterminate due to the offsetting nature.

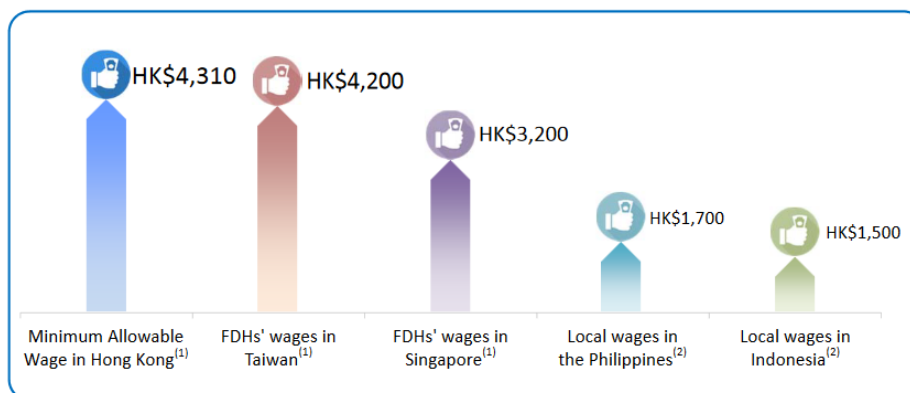


Figure 3 Minimum monthly wages for FDWs and average local wages in selected countries, 2016-2017

II. Specialization and Comparative Advantage

The factor endowment theory suggests that countries should specialize in producing goods and services that use their abundant factors of production. In this case, Hong Kong's relatively cheap cost for hiring FDWs made it advantageous for the country to specialize in certain industries or occupations that require domestic help. This specialization allowed Hong Kong to free up its native labor for other sectors where they may have a comparative advantage, potentially contributing to Hong Kong's subsequent increased labor participation by mothers.

III. Aging Population and Labor Participation

An aging population has played a role in Hong Kong's increasing labor participation by mothers. As the population ages, there may be a greater demand for eldercare and household services, which could lead to an increased demand for domestic workers. The availability of FDWs helps address these needs and enables more individuals, particularly mothers who are generally delegated with household duties, to participate in the labor market.

IV. Consumer Surplus and Market-Based Solutions

Cortés and Pan highlighted the high utilization of FDWs as a market-based solution as an effective solution in combating the increased demand for domestic help due to emigration and the aging population has attributed to not only an increased labor participation by mothers but also has generated a consumer surplus. The increase in FDWs in Hong Kong provides the territory with an

alternative to traditional childcare subsidies. As more mothers enter or remain in the labor force with the support of FDWs, handling household and caregiving responsibilities, they have the flexibility to pursue their careers in the absence or lack of childcare subsidies provided by the government.

7. Conclusion

In conclusion, the interplay of emigration, an aging population, and an increasing dependence on FDWs in Hong Kong has significant implications for the territory's market and economy. The theories of international trade, such as the Heckscher-Ohlin model and the Gravity Model, offer valuable insights into the economic inhibitors behind these trends and their consequences.

The Heckscher-Ohlin model highlights how Hong Kong's comparative advantage in certain industries, such as finance, professional services, and technology, contributes to the outflow of skilled individuals seeking opportunities abroad. This brain drain may result in a relative scarcity of skilled labor in the domestic market, leading to an increased demand for outsourcing domestic help services. Moreover, the changing demographics driven by an aging population, further exacerbates the demand for domestic help, as elderly care and household chores increase substantially.

By incorporating the Gravity Model of Trade, we gain a deeper understanding of the economic ties that exist between Hong Kong and the Philippines. The model suggests that trade volumes between Hong Kong and these countries may rise due to the increased labor mobility and economic connections resulting in immigration.

The aging population in Hong Kong presents challenges and opportunities for the labor market. The demand for domestic help services is likely to grow, particularly for households with elderly individuals requiring assistance. While the outsourcing of domestic help services is a market-based solution that allows mothers to participate more in the labor force and generates consumer surplus and potentially reducing the need for welfare subsidies.

Notes:

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