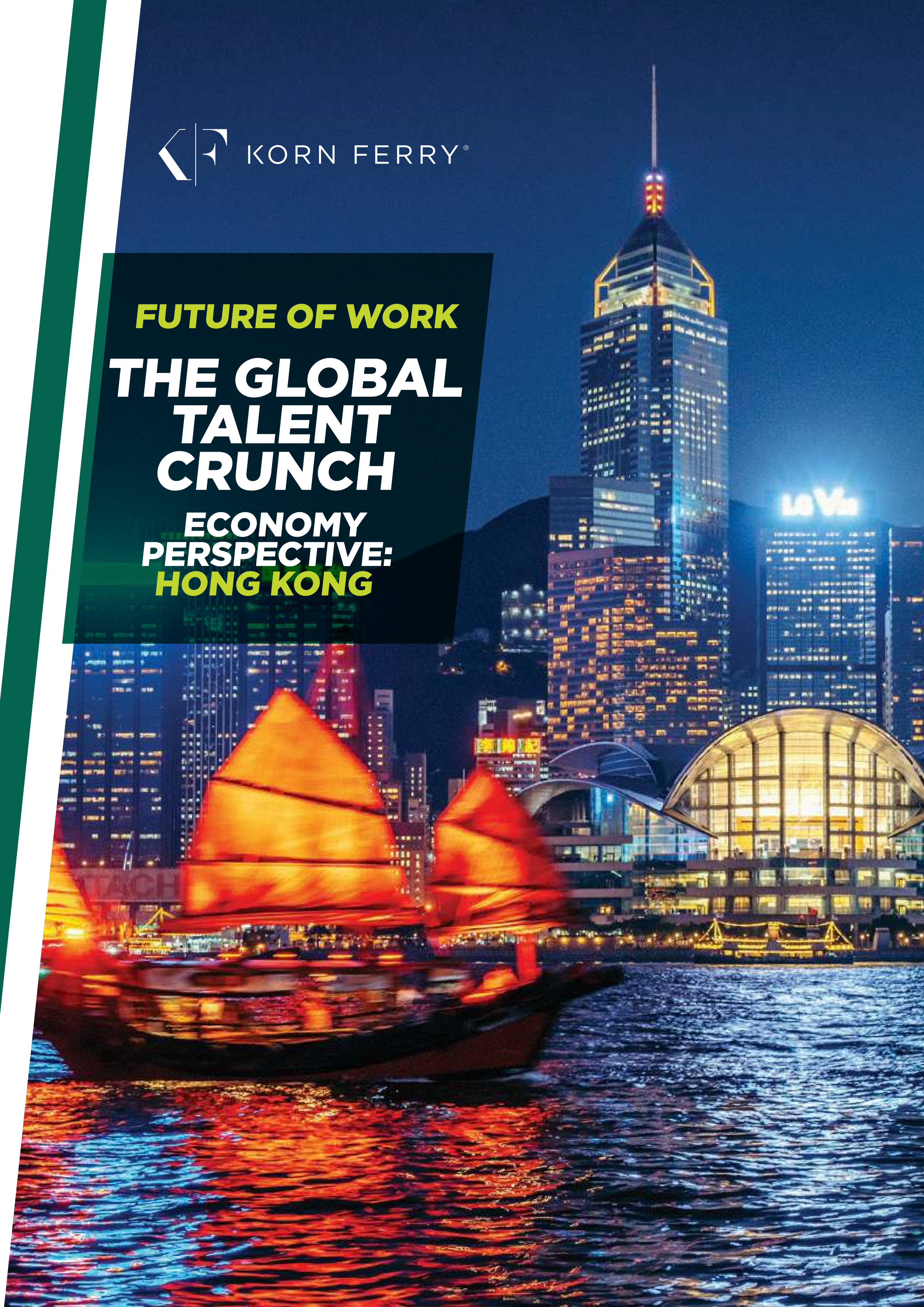
KORN FERRY

FUTURE OF WORK

THE GLOBAL TALENT CRUNCH

ECONOMY PERSPECTIVE: HONG KONG



A global talent crunch—looming skilled labor shortages set to hit both developed and developing economies—could cost nations trillions of dollars in unrealized annual revenues by 2030, new Korn Ferry study finds.

Introduction

A major commercial crisis is looming over organizations and economies throughout the world. By 2030, we can expect a talent deficit of 85.2 million workers across the economies analyzed—greater than the current population of Germany. This global skills shortage could result in $8.5 trillion in unrealized annual revenue by 2030—equivalent to the combined GDP of Germany and Japan.

While global leaders have bet heavily on technology for future growth—a 2016 Korn Ferry survey found that 67% of CEOs believe technology will be their chief value generator in the future of work[1]—they have discounted the value of human capital. Misalignment between automation, AI, machine learning, and other technological advances and the skills and experience talent needs to leverage the full potential of those advances is a main factor contributing to growing talent deficits. Technology cannot deliver the promised productivity gains if there are not enough human workers with the right skills. This has set the scene for a global talent crunch.

The talent crunch, as defined by Korn Ferry, refers to the gap between the supply and demand of skilled labor in 20 developed and developing economies at three critical milestones: 2020, 2025 and 2030. In Korn Ferry's latest study on the future of work, The Global Talent Crunch, we used economic modeling to explore the financial impact to organizations and economies if the talent crunch is left unaddressed[2].

In this supplementary report, we uncover what the talent crunch could mean for Hong Kong at 2030.

Asia Pacific

2030: Labor skills shortage of 47 million and unrealized output of $4.238 trillion

The talent crunch as a percentage of the global economy is most pronounced in the Asia Pacific region. While some countries in this region are dealing with rapidly ageing populations, others have a rising number of working-age citizens. Hong Kong and Japan face particularly stark deficits, for instance; in contrast, India stands out as the only country out of 20 economies studied that can expect a talent surplus, expected to reach 245 million workers by 2030.

How we uncovered the talent crunch

To understand the global demand for skilled labor in the future of work we assessed the demand for talent versus supply in 20 developed and developing economies across the Americas (Brazil, Mexico, the United States), EMEA (France, Germany, Netherlands, Russia, Saudi Arabia, South Africa, UAE, and the UK) and Asia Pacific (Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, Singapore and Thailand).

We examined talent supply and demand in each market as a whole and within three major knowledge-intensive sectors: **financial and business services** (including insurance and real estate), **TMT** (technology, media and telecommunications) and **manufacturing**.

Within these knowledge-intensive sectors, we measured the gap between talent supply and demand at three distinct skill levels, referenced throughout as:

1. **Highly skilled workers (Level A):** These individuals have completed post-secondary education, such as college (or university), or a high level trade college qualification
2. **Mid-skilled workers (Level B):** These individuals have attained upper secondary education, such as high school, or a low level trade college qualification
3. **Low-skilled workers (Level C):** These individuals have less than upper secondary education

Level A talent is the most highly in demand and globally is in shortest supply. According to our model, by 2025 demand for Level A workers will outstrip supply by 13.6 million workers globally. This will rise to 35.1 million Level A workers by 2030 across all sectors.

What does the talent crunch mean for Hong Kong?

The economic picture

Hong Kong is already facing a talent crunch: its Level A deficit will stand at 263,000 by 2020 and deteriorate at a rate of 11.0% annually to 746,000 by 2030. 746,000 is the equivalent to 79.5% of Hong Kong's Level A workforce in 2030.

Hong Kong will also have insufficient Level B labor by 2020, with a deficit of 200,000. The gap is expected to deteriorate at a rate of 17.5% annually to almost 1 million by 2030, or the equivalent of 56.3% of Level B talent.

Hong Kong is one of the few economies also anticipated to face a Level C shortage by 2030, or about 16.8% of Level C labor.

Finance will account for 20.4% of Level A shortages in 2020, which will increase to 23.3% by 2030. Technology and manufacturing will account for 8.4% and 1.5% of total Level A shortages in 2030.

By 2030, Hong Kong could lose out on $219.85 billion USD that will not be realized due to talent shortages.

In terms of the size of its economy, Hong Kong could fail to grow by 39.3% by 2030.

Talent supply and demand by sector

More granularly, at the sector level, Hong Kong will experience the following demand and supply of talent in its **financial and business services**, **TMT** and **manufacturing** sectors at 2030.

Sector	Surplus / deficit of Level A talent at 2030	Surplus / deficit of Level B talent at 2030	Surplus / deficit of Level C talent at 2030	Economic impact to Hong Kong in 2030 (USD)
Finance, Insurance, Real Estate and Business Services	-173,580	-253,077	-22,636	Hong Kong will fail to generate $65.56bn from its financial and business services sector
Technology, Media, Telecommunications (TMT)	-62,665	-57,673	-2,952	Hong Kong will fail to generate $16.94bn from its TMT sector
Manufacturing	-11,548	-36,649	-5,548	Hong Kong will fail to generate $2.10bn from its manufacturing sector
Rest of economy	-498,677	-652,464	-107,190	Hong Kong will fail to generate $135.25bn from the rest of its economy

“Organizations in Hong Kong are aware the talent crunch is coming, but they’re probably not aware of how severe the impact could be,” warns May Knight, President, Korn Ferry Hay Group Asia Pacific. “To counter the crisis, Hong Kong should leverage three competitive advantages it already has.

“Firstly, Hong Kong must continue to attract mainland Chinese undergraduates to continue their postgraduate studies here, then make it easy for employers to connect to this source of crucial Level A talent.

“Secondly, where mainland Chinese and Hong Kong undergraduates choose to study outside of Asia—for example, those who attend universities in Australia, Canada, the US and UK—significant effort should be made to attract this talent back to Hong Kong following graduation. Globally every country in our study except India will experience a talent shortage at Level A by 2030, so these people are likely to enjoy offers from local employers once they have qualified.

“Finally, importing labor has already been a very successful strategy for Hong Kong; the government should leverage the excellent infrastructure it already has for international workers to continue attracting talented expatriates.”

> *If organizations can give talent a 'learning platform' to gain broad experience throughout the business, exposing them to many different disciplines and functions, those people will become more agile and bring greater diversity of thinking to issues – both critical abilities to help organizations navigate an uncertain future of work.*
>
> *May Knight, President, Korn Ferry Hay Group Asia Pacific.*

Can technology mitigate the talent crunch?

Technologists might argue that labor deficits will be filled by automation, AI, the rise of robotics and machine learning. If history is a guide to the future, this would be a dangerous assumption to make, particularly looking at Level A talent. Technology does substitute labor—as is typically intended—but also complements labor by raising output in ways that ultimately increase the demand for labor.

Furthermore, CEOs are already overestimating the productivity gains technology can offer them. In Korn Ferry's first study into the future of work[3], we found that leaders' belief that physical capital will outperform human capital translates into a trillion-dollar blind spot: economic research as part of the same study proved that people are set to add $1,215 trillion to the global economy, whereas physical capital—including technology—will only contribute $521 trillion.

The best approach to create value in the future of work is to leverage the power of both people and technology. Machine learning will automate a range of functions, changing the nature of jobs and employment—but there will still be a need for highly-skilled individuals to manage, apply and enhance that automation. Creative high-skill jobs, senior-level positions and those that involve personal interaction are most likely to remain unthreatened.

The Last Word

The trillions of dollars of revenue that will not be generated because of skilled labor deficits means that governments and organizations must make talent strategy a key priority and seriously consider how to educate, train, and upskill their existing workforces.

In the fast-changing business environment, workforce planning and a comprehensive understanding of the talent supply chain are critical. Leaders need a deep understanding of talent marketplace economics to put the right planning and core proposition in place to ensure they have the skills their organization needs.

Through workforce planning, organizations can clarify the skillsets and capabilities of their current workforce and identify areas where organizational agility should be leveraged. Strategic workforce planning will help leaders optimize their workforce for today while preparing their organizations for the future. By identifying the gaps between the workforce the organization needs and the one they have, leaders can see how to close them, whether through developing or redeploying their talent. Anticipating not only future needed skillsets, but also embedding learning agility into workforces will be critical to ensure people are able to continuously learn and adapt in an ever-changing future of work.

For more information on the impact of the talent crunch on organizations operating in Hong Kong, and how to prepare for it, contact May Knight, President, Korn Ferry Hay Group Asia Pacific.

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2. Korn Ferry (2018). *The Global Talent Crunch* www.kornferry.com/future-of-work

3. Korn Ferry Institute (2016). *The Trillion-dollar Difference* http://engage.kornferry.com/future-of-work-trillion-dollar-difference-microsite

About Korn Ferry

Korn Ferry is a global organizational consulting firm. We help companies design their organization—the structure, the roles, and responsibilities, as well as how they compensate, develop, and motivate their people. As importantly, we help organizations select and hire the talent they need to execute their strategy. Our approximately 7,000 colleagues serve clients in more than 50 countries.