



HONG KONG
RETAIL MANAGEMENT
ASSOCIATION

香港零售管理協會

HONG KONG RETAIL MANAGEMENT ASSOCIATION

Submission on Review of the Statutory Minimum Wage Rate (SMW) in 2014

16 May 2014

The Hong Kong Retail Management Association (HKRMA) submits to the Minimum Wage Commission (MWC) the following recommendations regarding the review on Statutory Minimum Wage (SMW). **The HKRMA notes that the economic outlook has deteriorated and the retail industry suffered from major negative growth in Q1 2014.**

Basic Principles

1. Since its introduction to Hong Kong, the Statutory Minimum Wage (SMW) has created significant impacts to the labour market, businesses, as well as the society and the economy. Hence, the Hong Kong Retail Management Association (HKRMA) considers it paramount that the Minimum Wage Commission (MWC) **should conduct the second review of the SMW rate prudently**. The review should best be done by following rational considerations that adhere to the law, rather than succumbing to social pressure and political expedience.
2. The HKRMA considers the review should follow the basic principles below:
 - (a) **The legislative intention and stipulations should be adhered to closely:** The review should focus strictly on the purpose enshrined in the Minimum Wage Ordinance (MWO), i.e. to “maintain an appropriate balance between the objectives of forestalling excessively low wages and minimizing the loss of low-paid jobs; and to sustain Hong Kong’s economic growth and competitiveness”. The original intent of SMW as a wage floor and not a living wage for workers should be maintained.



- (b) **SMW's impacts and risks should be fully assessed and shared with the public:** To follow MWC's own pledge that the review is "objective, evidence-based and balanced", the Commission should focus first on understanding and sharing with the public SMW's full impacts on workers, businesses, the society and the economy since the last rate review, before adjusting the rate again. An assessment on the economic risks of further SMW adjustment should also be included, as there are signs of slower or even negative growth in industries (such as the retail industry) and the economy as a whole.
- (c) **The review must ensure fairness to stakeholder sectors and NOT repeat the unfairness to employers:** In setting the SMW, employers were unfairly pressurized to pay employees for non-work hours, which were not specified in the law. Conflict was generated, causing unnecessary disruption to social harmony. This should not recur again.

Considerations on the Consultation

Following the above basic principles, the HKRMA proposes that the MWC should heed the considerations below over the consultation process and its circumstances during the SMW rate review:

3. **The consultation process: There is currently insufficient information and understanding on SMW's actual impacts** on workers, businesses, the society and the economy. Such information is important to foster "evidence-based" and "rational" discussions in the SMW rate review and consultation, as highlighted in the MWC homepage, press statements and reports. Accordingly, the MWC should prioritize collecting, commissioning and releasing comprehensive and in-depth studies on SMW's impacts to facilitate public understanding. It should also publish a proper, full consultation paper or a draft report to facilitate collection of public comments, which is a prerequisite and basic practice in present-day public consultations. The scarcity of information and yet-to-be-studied topics are detailed below:
- (a) In this SMW rate review, the MWC refers the public to only a **few raw reference materials** (namely, "Relevant Information and Data" and Census and Statistic Department's report on earning and work hours), which are highly insufficient to



foster an informed discussion. The only other official reference available is the Government's commissioned study in 2012 on the knock-on effect of the SMW.¹

- (b) Currently, **very few empirical studies** on SMW's social and economic impacts are available. Some of the studies focus on a narrow set of stakeholders, a selected scope of impact, or mostly cover data only until 2012². Researchers of most of these studies also called for a closer tracking of the situation to better understand SMW's impacts. Even the Central Policy Unit, the government think tank, announced only in March 2014 to include the SMW as a new indicative research area in its Public Policy Research Funding Scheme³.
- (c) For the purpose of the SMW review consultation, the community must be provided with sufficient information and references before an informed discussion may proceed. **Certain important topics on the labour market, businesses, the society and the economy should be carefully and comprehensively studied. The findings should be shared with the public.**
- i) *Which types of low-paid jobs have been benefitted from SMW, and which types have not? In what way?*

The public does not know “who” have actually been employed with SMW, and if they did earn a way below the SMW level before. The public must be provided with information on which types of low-paid jobs have been benefitted since the implementation of the SMW, and which types have not, as well as how they have been affected. Further information should be provided including what are the SMW beneficiaries' demographic profiles, social characteristics, occupation and

¹ Policy 21 (2012), “Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors”

² (a) Wong Hung & Ye Shengquan (2012), “The Impact of the Introduction of a Statutory Minimum Wage on Labour Market Conditions and the Quality of Life of Vulnerable Groups in Hong Kong”; (b) Hong Kong Catholic Commission for Labour Affairs and Catholic Diocese of Hong Kong Diocesan Pastoral Centre for Workers (Kowloon) (2012), “Research Report on the Enforcement of Statutory Minimum Wage and Accessibility of Anti-Poverty Government Social Services or Measures among South Asians Residents of Hong Kong”; (c) 李樹甘、楊偉文 (2012), “法定最低工資條例對香港營商環境影響問卷調查研究報告”; (d) 李樹甘、林昊輝 (2013), “香港零售業現時面對的困難、局限、優勢、未來挑戰與提升香港零售業競爭力的策略研究報告”。

³ Government press release: www.info.gov.hk/gia/general/201403/07/P201403070311.htm



industries they are working in? Also, have the SMW earners and their families been receiving other social welfare or public policy benefits?

ii) What are the positive and negative impacts on non-SMW jobs?

A majority of employees in the labour market are non-SMW workers, but they may have also been affected by the legislation. Do they get any positive or negative unintended impacts on the incomes, working hours and job experiences? In fact, many of them may have been negatively affected by the SMW. Their working hours may have been lengthened as a result of staff turnover; and their job nature may have been modified or new tasks may have been added because of job restructuring necessitated by the SMW. The public should be given information about who among the employees have been negatively affected by the SMW; and how they have been harmed.

iii) Which sectors have been positively or negatively affected by SMW, including non-profit agencies, e.g. in recruiting and retaining staff?

There have been observations that certain sectors which employ workers around the SMW level have been adversely affected. An example is that certain social service agencies (such as elderly homes) have been facing more difficulties in recruitment, and an increase in operation costs because workers now prefer to work in other less demanding jobs offering SMW. The public should be provided with information of: how the operations, costs and development of the indirectly affected sectors have been impacted, and how serious these impacts are. Are there any unintended impacts on non-profit agencies, such as in recruiting and retaining staff for less popular job types?

iv) What are the associated impacts on Hong Kong's economic growth?

In particular, what will be SMW's effect on reduction in employment, which was masked by the good economic conditions in recent years? The public should be provided with an appraisal on the risks and impacts of adjusting the SMW at a time when the economy is expected to have a slower or negative growth in future.



- v) *As many companies have experienced increase in labour turnover since the introduction of SMW, how has this affected their competitiveness, and in turn the competitiveness of Hong Kong?*

Many businesses, including the retail industry, have been adversely affected by the SMW. As paragraphs 6 to 9 in this submission will explain, some studies have already indicated major negative impacts of the SMW on businesses. The public should be provided with fuller and more up-to-date assessments of the impacts on businesses and the economy.

4. **The consultation's circumstances:** Major changes in the policy environment and the economy warrant major reevaluation of the role of the SMW. Since the last MWC report, there have been many new policy developments, especially in the area to alleviate poverty of the less privileged people, thereby potentially creating policy overlaps with the SMW. **These potential policy overlaps need to be studied and assessed thoroughly as a whole before any major change to the SMW.** They include:
- a) Introduction of **Old Age Living Allowance** in 2013 to help the elderly in need.⁴
 - b) Publication of Hong Kong's first **official poverty line** at the Commission on Poverty Summit in late 2013. Subsequent policy initiatives to introduce better employment-related, or CSSA-related supports for the working poor⁵ were announced in the 2014 Policy Address:
 - i) Introduction of **Low-income Working Family Allowance** for implementation in 2015.⁶
 - ii) Introduction of various improvement measures to **increase support for low-income CSSA recipients.**⁷
 - c) Launch of **Living Subsidy for Non-public Housing and Non-CSSA Households** by Community Care Fund (CCF) in late 2014 to provide one-off living subsidy for

⁴ www.swd.gov.hk/oala/index_e.html#s2

⁵ www.info.gov.hk/gia/general/201309/28/P201309280463.htm

⁶ www.policyaddress.gov.hk/2014/eng/p49.html

⁷ www.policyaddress.gov.hk/2014/eng/p59.html



low-income households not living in public housing and not receiving CSSA to relieve their financial pressure.⁸

In addition, it is also important to note that in the first few months of 2014, **the retail industry has suffered from major negative growth. Business risks in the retail sector are obviously on the rise.**

Considerations on SMW's Impacts

In addition to considerations on the consultation discussed above, the HKRMA urges the MWC to note the following observations on the impacts of SMW in this rate review. According to several studies monitored, the impacts of SMW include:

5. **Impacts on job choice and wages:** With narrower differentials in wages among different occupations because of the introduction of the SMW, many workers now choose jobs that are less demanding. This is the **wage substitution effect** that:
 - a) Disrupted the employment balance in a number of businesses and service sectors,
 - b) Created significant pressures for businesses to further increase wage generally to retain staff (the **ripple effect**), and to maintain wage differentials among different ranks of staff (the **knock on effect**)
6. **Impacts on businesses:** The introduction of the SMW has increased labour turnover, especially in sectors with relatively lower wages. The direct results of a higher turnover of workers in businesses are as below:
 - (a) Training and management costs increased.
 - (b) Service quality and productivity decreased.
 - (c) In the end, together with the ripple effect and the knock on effect, they drove up business costs beyond simple calculation on just the additional payments to minimum

⁸ www.communitycarefund.hk/en/lsp.asp, and www.info.gov.hk/gia/general/201312/02/P201312020215.htm



wagers. Business competitiveness is also challenged, causing further impacts on the labour market and the economy.

7. **Impacts on the stability of the labour market:** Businesses' responses on the SMW naturally aim at limiting their risk exposure. However, the responses may also unintentionally **lower labour market stability**, as described below, which will surface and exacerbate when the economy deteriorates:

(a) Reduced high wage and full-time employment, substituted by more part-time employment or job outsourcing arrangements.

(b) The increase in nominal wage has downward rigidity, i.e. the **ratchet effect**, so that future deterioration of the Hong Kong economy may elicit more severe redundancy, if costs cannot be controlled via downward adjustment of wage. This will send shock waves especially for those working in the security, estate management, cleansing service, retail, restaurants, etc., in which staff costs is a major component of the business costs, and then to the whole market.

8. **Impacts to the Hong Kong society and economy:** The above impacts to workers and businesses have brought more macro impacts to our society and economy. The SMW has brought challenges to the economic competitiveness of Hong Kong and reduced its flexibility to adjust to economic fluctuation. The decrease in service quality and rise in price level attributable to the SMW have also directly affected people's livelihood, especially those with less means.

9. **Impacts illustrated in the retail industry:** While retail businesses have boomed in the past because of the vibrant tourism, the industry has been confronted with constraints of labour shortage and high rising rents.⁹ By nature, the industry is a labour-intensive industry that hinges on quality service. The introduction of the SMW has prompted workers to move to other sectors, thus exacerbating the labour shortage problem and creating worsened working conditions for workers who stay behind.

⁹ (a) 李樹甘、林昊輝 (2013), “香港零售業現時面對的困難、局限、優勢、未來挑戰與提升香港零售業競爭力的策略研究報告”. (b) Task Force on Manpower Development of the Retail Industry (2013) “Report of the Task Force on Manpower Development of the Retail Industry”.



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The retail sector has responded to the labour shortage by increasing wage levels. These rippling and knock on effects are evident as the nominal wage index of the retail sector has risen above that of the market. However, despite the efforts, our observation is that the effect to retain staff was limited. Shops are still difficult to fill vacancies with wage levels 20 to 30% above the SMW. The leaving of more experienced staff and the increased work stress for those remaining have started to affect the sector's quality of service. On the other hand, the rising hiring cost has also affected business operations. When a business' flexibility to cushion these impacts is depleted, it has to resort to pass the increase in costs to consumers, or it will risk losing money and closing down. When many shops are experiencing the same challenges, there will be further ripples of impact to affect the retail industry's competitiveness and service to the community.

The rise of the SMW last time from 28 dollars to 30 dollars per hour had worsened the situation above. **Following the previous trends, a rise of the SMW will further dampen the future of the retail industry. We are worried that the situation will develop into a vicious circle.**

10. **Overall impacts and challenges:** The SMW has created impacts in job choice, wages, mobility and stability in the labour market. While some workers are benefited, others are put under stress. After all, the SMW has created serious challenges on business operations, service quality, costs and competitiveness, especially to SMEs and the retail industry in particular. There are further negative impacts to Hong Kong's economic competitiveness and potential ability to adjust to economic changes, as well as the livelihood of people in the community. Therefore, HKRMA opines that the **evaluation on SMW's partial benefits on some workers should be balanced alongside the direct, indirect impacts and social costs it generated over other workers and the community.**

Recommendations

Given the above considerations on the consultation and impacts of the SMW, HKRMA opines that:

11. On consultation process



The MWC should:

- (a) **Put the review on hold:** MWC should put the SMW rate review, a process purported to be objective and evidence-based, on hold, pending the availability of more information and in-depth studies of SMW's benefits and impacts upon its introduction and initial operation.
- (b) **Publish a full consultation paper or a draft report:** MWC should publish a full consultation paper or a draft report for consulting the public to help the community better assess SMW's benefits and impacts, in accordance with MWC's consideration to foster a more rational discussion.
- (c) **Review the assessment criteria:** The MWC should consider reviewing the suitability of its basket of assessment criteria, such as some within the "social inclusion" category that arguably have deviated from the original legislative intention of the MWO.

12. On the SMW rate review

If the MWC decides to go ahead to review the SMW rate, irrespective of the gaps in the consultation process and circumstances, it should still be cautious and conservative.

The MWC should:

- (a) **Resist political expediency:** The MWC should adhere to the law and legislative intention, and resist following political expediency (e.g. some suggest increasing the SMW rate "automatically" to simply compensate for the inflation since the last review) or bargaining (e.g. some consider the new rate should take a mid-point somewhere between the figures argued by different sides).
- (b) **Adopt a minimum change approach:** The MWC should adopt a minimum change approach in considering adjustment of the SMW rate, including freezing it at the present level. Critical factors of consideration are as follow:
 - i) Inflation and nominal wage increases have moderated over the years.



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- ii) SMW's impacts on businesses and the retail industry, as well as other sectors, have already been considerably substantial.
 - iii) The Government has introduced or planned a number of major measures to support people with less means, especially since 2013, thus creating policy overlaps
 - iv) There is a need to equip the labour market and businesses with flexibility to adjust for potential economic downturn. The unexpected slowdown of the retail business in the first quarter of 2014 is one vivid example to remind us that SMW should have due consideration to different economic scenarios.

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About Hong Kong Retail Management Association

The Hong Kong Retail Management Association (HKRMA) was founded in 1983 by a group of visionary retailers with a long-term mission to promote Hong Kong's retail industry and to present a unified voice on issues that affect all retailers. Established for 31 years, the Association has been playing a vital role in representing the trade, and raising the status and professionalism of retailing through awards, education and training.

Today, HKRMA is the leading retail association in Hong Kong with membership covering more than 7,800 retail outlets and employing over half of the local retail workforce. HKRMA is one of the founding members of the Federation of Asia-Pacific Retailers Associations (FAPRA) and is the only representing organization from Hong Kong. FAPRA members cover 17 Asian Pacific countries and regions.