HKGCC

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Ms Priscilla Wong, BBS, JP
Chairperson
Minimum Wage Commission
1/F Harbour Building
38 Pier Road
Hong Kong

Dear Chairperson,

Public Consultation on the Review of the Statutory Minimum Wage Rate ("the Review"): Response by Hong Kong General Chamber of Commerce ("HKGCC")

HKGCC welcomes this opportunity to comment on the Review.

We fully support the Government's objective, as expressed in the Chief Executive's Policy Address, of improving the livelihood of Hong Kong citizens especially those who are the most vulnerable. In that regard, we recognize that the Statutory Minimum Wage ("SMW") serves the policy purpose of protecting the purchasing power of consumers especially at the grassroots level. Despite the virtues of SMW, there is need for caution to avoid inflicting unnecessary damage on the broader economy due to overzealous attempts to adjust SMW. There is no doubt that raising the SMW, as with previous increases in 2013, 2015, and 2017, has helped put more money in the pockets of employees. A higher wage floor has also been shown to induce more workers to join the workforce thereby enabling employers to fill vacancies and reduce turnover.

As a result of Hong Kong's strong economic performance to date and a positive outlook, consideration could be given to a **moderate** increase in SMW. That said, we cannot over-emphasize the importance of getting it right on the level of SMW increase; if raised too high, this could harm businesses especially SMEs. An excessive hike in the level of SMW could have a number of dire consequences. These include

- **Requiring consumers to pay more:** To offset rising labour costs, businesses would have to pass along such costs to customers. The domino effect of higher labour costs could give rise to inflationary pressures across the broader economy.
- **Creating a ripple effect on non-SMW compensation:** As pointed out in the foregoing, a hike in SMW could give rise to expectations/demands for higher wages by employees who are paid more than the SMW, an issue that is acknowledged by the Minimum Wage Commission and government.

- **Reducing employment opportunities:** If businesses are no longer able to or cannot pass along increased labour costs to customers, they would be forced to reduce staff. In extreme cases, some businesses would no longer be economically viable and be required to cease operations resulting in the loss of jobs.
- **Undermining Hong Kong's attractiveness as a place to do business:** Hong Kong is already an expensive place to operate. A high SMW would only serve to compound the stress and burden of running a business here. This is not conducive to the Government's aspirations to position the SAR as a start-up and entrepreneurial hub.

Given all of the above, we would strongly suggest that attention be given to a basket of factors such as the economic conditions, supply and demand, impact to businesses and cost of living, among others when reviewing SMW. It is convenient to link cost of living (or inflation) to SMW but this would be too simplistic an approach and there could be considerable risks in doing so for the reasons as stated.

As SMW workers make up only less than 1% (0.9% in May 2017) of the total workforce, according to the Labour and Welfare Bureau, too much effort is spent on discussing the issue of minimum wage, which impacts only a small group of workers. We continue to believe that wages should be set by supply and demand; if employers see difficulty in holding onto their staff, then they should simply pay more or provide greater benefits. The interaction between the employer and employee would therefore determine the market rate for pay. This is borne out by statistics for full-time employees at the lowest end of the pay scale, whose average monthly employment earnings rose by 55.3% between the first quarter of 2011 and fourth quarter of 2017. Given that Hong Kong has recorded an unemployment rate of a little above 3% (which by definition is close to full employment) since 2011, this phenomenon is more of a function of the persistently tight labour market in Hong Kong than the introduction of the SMW, which was introduced in May 2011. As a result, grassroots workers have been able to enjoy higher earnings than that prescribed under the SMW.

We respectfully suggest that efforts to create jobs and reduce poverty should not centre on forcing employers to pay a higher SMW. Instead, there is a myriad of other ways of improving Hong Kong citizens' livelihoods, and reducing their cost of living. These are set out in detail in the Policy Address, and include helping lower-income working families, improving the supply of public housing, and making healthcare more affordable.

We hope you find our comments helpful in your deliberations.

Yours sincerely,

Shirley Yuen
CEO