

LEGISLATIVE COUNCIL BRIEF

Manpower Development Plan for the Textiles and Clothing Industry

INTRODUCTION

At the meeting of the Executive Council on 3 January 2006, the Council ADVISED and the Chief Executive ORDERED that a two-pronged Manpower Development Plan for the Textiles and Clothing Industry comprising -

- (a) active recruitment coupled with structured training to attract local workers to enter/re-enter the industry; and
- (b) flexibility measures under the Supplementary Labour Scheme (SLS)¹ for the importation of skilled workers,

be put in place.

JUSTIFICATIONS

2. Following the imposition of quota restrictions by the US and EU on a wide range of Mainland-made T&C products, some Hong Kong manufacturers intend to relocate part or all of their operations in the Mainland back to Hong Kong or expand their production here as products made in Hong Kong are not subject to similar quantitative restrictions. However, the difficulty of recruiting sufficient skilled local workers is seen

¹ The SLS, which commenced operation on 1 February 1996, operates on the twin cardinal principles of ensuring the priority of employment for local workers whilst allowing employers who have demonstrated genuine difficulties in finding suitable staff locally to import workers to fill available vacancies. Workers imported under the Scheme should be paid at least the median wage of the same/similar post. Local workers of the same post employed during the mandatory recruitment period should also be paid at least the median wage. It is a non-industry-specific scheme and there is no quota ceiling. All applications are considered on a case-by-case basis.

by the industry as the major hurdle to return to Hong Kong or expand their local production lines. Against this background, we propose to put in place a Manpower Development Plan for the T&C Industry which would meet five objectives:

- (a) address the immediate manpower needs of Hong Kong manufacturers for skilled workers;
- (b) retain the skilled workforce in the local industry, improve their work prospects and upgrade their skills;
- (c) attract new local workers into the industry;
- (d) meet the shortfall in local skilled workers through the importation of labour; and
- (e) capitalize on the opportunity to create local employment and facilitate the development of the industry.

3. The Plan seeks to provide the industry with sufficient skilled workers to carry out the major manufacturing processes in Hong Kong to qualify the products as Hong Kong origin. We have identified four posts under this category which are in short supply at present. They are: General Sewing Machine Operator (GSMO), Special Sewing Machine Operator (SSMO), Knitting Machine Operator (KMO) and Linking Machine Operator (LMO). The Plan consists of two key elements:

- (a) active recruitment coupled with structured training to attract local workers to enter/re-enter the industry; and
- (b) more flexible importation of skilled workers under the SLS to ease the immediate manpower shortage.

A. Active Recruitment and Structured Training

(i) Committee on Manpower Development for the T&C industry

4. A Committee on Manpower Development for the T&C industry comprising representatives of the Labour Advisory Board (LAB), T&C

manufacturers, industry-specific labour unions, training bodies and relevant Government bureaux/departments will be set up to:

- (a) identify how best to strengthen the recruitment of skilled workers and those interested in joining/rejoining the trade;
- (b) facilitate the placement and retention of skilled workers as well as trained and retrained workers in the industry; and
- (c) monitor the adequacy of the labour supply for the industry and the effectiveness of the flexibility measures to import skilled labour to meet the manpower shortfall.

5. Under the Committee, a Skills Assessment Working Group will be formed to set skill standards for trade tests to be conducted by the Clothing Industry Training Authority (CLITA) for local workers and to review those standards in the light of employers' requirement.

(ii) Central recruitment-cum-training centre

6. To enhance the effectiveness of training and job placement, we propose to adopt a coordinated approach and integrate the training/retraining programme, job matching/placement and labour importation processes. For this purpose, a central recruitment-cum-training centre under CLITA will be set up.

7. Under this proposal, CLITA will conduct trade tests on the relevant skills for unemployed local T&C workers of the four aforesaid post titles and for workers who wish to enter or re-enter the industry. Those who have passed the test will have their names put on a register and will be referred to employers looking for local workers. Those who wish to re-enter the trade but fail to meet the required standard and those who are new to the trade may attend relevant retraining courses organized by CLITA. Retrainees will receive a retraining allowance during the period of classroom training and a three-month post-placement follow-up service provided by CLITA. For retrainees who are unemployed, aged 30 or above and with education level of secondary three or below, the retraining allowance and follow-up service will be funded by the Employees Retraining Board (ERB). For retrainees who are not covered by the

Employees Retraining Fund (ERF), the Labour Department (LD) will provide the same level of training allowance and funding for follow-up service as a one-off special project to encourage young people to join the industry. On completion of retraining, they will attend trade tests and, if successful, will have their names put on the register for placement into employment.

8. The recruitment-cum-training centre will also serve as a clearing house for filling vacancies involving applications for importation of workers of the four specific job titles for the industry.

(iii) Special assistance to graduate retrainees

9. Skilled production workers in the industry are commonly paid on a piece-rate basis. As it takes time for fresh graduate retrainees, who are only semi-skilled, to become as productive as skilled workers, their income in the first few months would inevitably be low and they might find it difficult to stay in the trade. This has been a major reason for the high wastage rate of workers fresh to the trade.

10. To assist new entrants and encourage employers to take on these new hands, the LD will fuse its Work Trial Scheme (WTS) and Employment Programme for the Middle-aged into CLITA's retraining programmes. Graduate retrainees will be put on the WTS, under which they will get a one-off subsidy of \$4,500 from the LD, and payment of \$500 from the participating manufacturers for the one-month work trial period. In addition, should the retrainees be aged 40 or above and their employers meet the eligibility criteria², the employers will also get on-the-job training allowance of \$1,500 per month for up to three months to subsidise the retrainees' wages under the Employment Programme for the Middle-aged.

11. To further protect the income of local workers, those who are engaged by employers with imported workers in the same post titles will receive a basic daily wage and a 26-week guaranteed remuneration as a safety net.

² Under the Employment Programme for the Middle-aged, employers who engage Programme participants aged 40 or above on a full-time basis and provide them with on-the-job training will receive a monthly training allowance of \$1,500 for up to three months.

B. Flexibility measures for importation of labour

12. To meet the immediate needs of local manufacturers for skilled workers, a series of flexibility measures will be introduced under the SLS.

(i) Review of the flexibility measures

13. As the flexibility measures are meant to be a pilot exercise, a review will be conducted annually and a comprehensive review will be undertaken when the number of imported workers approved reaches 5 000.

(ii) Recruitment ratio of local workers to imported workers

14. To strike a balance between the creation of local job opportunities for the industry and the immediate needs for imported skilled labour, employers seeking to import labour have to adhere to a fixed recruitment ratio of local workers to imported workers. In essence, the ratios for the garment sector will range from 1:1 to 1:4 whereas the ratio for the knitwear industry will be 1:4. Details are given in Annex A.

A

15. Before approval to import workers is granted, employers will have to undergo a local recruitment exercise to be coordinated by the recruitment-cum-training centre to fill the required percentage of vacancies. This will last for two weeks and, unless there are legitimate reasons, the employer will have to recruit the trade-tested workers or retrainees referred by the centre. The employer is free to recruit local workers from his/her own channels to fill the vacancies. Upon completion of the two-week local recruitment exercise, the employer would be allowed to import workers according to the recruitment ratio, provided the other vetting criteria³ are met.

16. Where the centre cannot provide sufficient suitable workers to fill the required number of vacancies within the two-week period, the employer will have to undergo another round of local recruitment exercise, which will last for six weeks. If the employer still cannot recruit sufficient local workers upon the conclusion of the six-week local recruitment exercise,

³ These include financial capability and no adverse record, etc.

he/she would be allowed to fill the remaining vacancies by imported workers to make up the shortfall.

(iii) Basic wages for local workers

17. To ensure a stable income for local workers and to attract more former skilled workers and new blood alike to the industry, employers who import workers under the flexibility measures are required to provide a basic income for local workers of the four post titles as follows:

- (a) the employer should pay the local workers a basic daily wage for each working day plus remuneration calculated on the basis of piece-rate beyond the threshold of work done for the basic wage; and
- (b) the local workers will be guaranteed a minimum total remuneration over every 26-week period⁴. The employer is required to pay the differential to the workers to make up the shortfall if the latter earns less than the specified guaranteed total remuneration in the 26-week period.

18. The basic daily wage rates and the 26-week guaranteed remuneration are as follows:

	<u>basic daily wage for each working day</u>	<u>26-week guaranteed remuneration</u>
GSMO/SSMO	\$200	\$24,000
KMO/LMO	\$235	\$27,000

⁴ The 26-week guaranteed remuneration will include only the basic daily wage and the piece-rated remuneration earned during normal working hours, but will not include overtime wages/allowances and remuneration of any other nature. The rationale of applying a wage period of 26 weeks is to tally with section 31E(b) of the Employment Ordinance, which aims to protect employees from a significant drop of income due to insufficient provision of work by the employer.

(iv) Wages for imported workers

19. Imported workers will receive monthly wages (which form an essential feature of the SLS), calculated on the same basis as local workers as follows:

	<u>basic daily wage for each working day*</u>	<u>basic monthly wage*</u>
GSMO/SSMO	\$200	\$4,000
KMO/LMO	\$235	\$4,500

*plus piece-rate income beyond the basic daily wage

(v) Additional safeguards for local workers

20. To protect the interests of local workers, the following additional scheme conditions will be adopted:

- (a) the employer should not displace local workers by imported workers;
- (b) the employer should treat local workers and imported workers equally in work assignment; and
- (c) the employer should not artificially reduce the piece-rate remuneration in order to bring down the overall income of existing local workers.

(vi) Monitoring mechanism

21. To ensure that employers comply with the above conditions, we will put in place stringent monitoring measures. The LD will provide a complaint hotline and promptly investigate any complaints lodged.

(vii) Monitoring role of the LAB

22. As in the case of the SLS, the proposed flexibility measures will be subject to the overall monitoring by the LAB. Representatives of the

LAB would be invited to serve on the Committee on Manpower Development for the T&C industry.

(viii) *Processing time*

23. The time required for processing an application for importation of labour by LD would be about eight weeks. The time for processing a visa/entry permit thereafter would take about another four weeks.

Commencement Date

24. To allow time for CLITA to set up the central recruitment-cum-training centre and to build up a pool of skilled local workers on its register, we plan to launch the centre by end-January 2006 and start to invite applications for importation of labour four weeks afterwards.

Potential job creation in local employment

25. The proposal would generate additional local employment opportunities. For one thing, the recruitment ratio between local workers to imported labour would ensure that additional local workers could take up employment in the four designated posts. For another, the expansion of the existing local production lines and relocation of some of the manufacturing operations from the Mainland back to Hong Kong will create more job opportunities in other supporting and ancillary positions. These would include positions such as merchandisers, shipping clerks, general labourers.

IMPLICATIONS OF THE PROPOSAL

26. The proposal has economic, financial and civil service and sustainability implications as set out in Annex B.

27. The proposal is in conformity with the Basic Law, including the provisions concerning human rights. It has no productivity or environmental implications.

PUBLIC CONSULTATION

28. In drawing up the proposal, the Economic Development and

Labour Bureau (EDLB) and the LD have closely liaised with all the key stakeholders including the labour unions, employer groups, trade associations and training bodies and have fully taken account of their views and concerns. The LAB endorsed the proposal at its meeting on 15 November 2005. The ERB and CLITA have agreed to play their roles in the proposal.

PUBLICITY

29. We shall hold a media briefing this week and present the scheme at the meeting of the LegCo Panel on Manpower on 19 January 2006.

BACKGROUND

30. Although multilateral trade in the T&C products amongst WTO members has been fully liberalized since 1 January 2005, China is the exception. Specifically, under China's terms of accession to the WTO, a WTO member may invoke textiles-specific safeguard actions (in form of quotas) against T&C exports from the Mainland until end-December 2008. The US and the EU - the two major markets for T&C goods - have successively taken or threatened to take textiles-specific safeguard actions to limit the import of a wide range of Chinese T&C products. To prevent such unilateral safeguard actions which have posed immense uncertainties to the textiles trade, China has concluded bilateral textiles agreements with the EU in June 2005 and the US in November 2005, in which selected categories of Mainland T&C products would be subject to yearly quantitative restrictions until end-2007 and end-2008 respectively.

31. As T&C products of Hong Kong origin are not subject to similar quantitative restrictions, some Hong Kong manufacturers have indicated the intention of relocating part or all of their operations in the Mainland back to Hong Kong or expanding their existing production lines here. Some Mainland enterprises are also said to be keen in taking advantage of Hong Kong's unrestricted access to the US and EU markets and setting up production facilities here in partnership with local manufacturers. Indeed, some local manufacturers have already expanded their production capacity here. However, the difficulty of recruiting suitable and sufficient skilled local workers is widely seen by the industry as the major hurdle to return to Hong Kong or expand their local production.

ENQUIRIES

32. Enquires on this brief should be addressed to Mrs DO PANG Wai-yee, Assistant Commissioner for Labour (Policy Support and Strategic Planning), on 2852 3633.

**Economic Development and Labour Bureau
January 2006**

Recruitment ratio of local workers to imported workers

For General Sewing Machine Operator (GSMO) and Special Sewing Machine Operator (SSMO)

- Employers with no GSMOs/SSMOs currently under their employ will be allowed to fill 50% of the vacancies by imported workers. The remaining 50% will have to be filled by local workers.
- Employers with local GSMOs/SSMOs currently under their employ will be allowed to fill 80% of the vacancies by imported workers, with the remaining 20% to be filled by local workers. However, if the number of imported workers applied for exceeds the total number of the existing local GSMOs/SSMOs, the number of workers to be imported will be equivalent to 80% of the total number of the existing local GSMOs/SSMOs plus 50% of the number over and above the level of existing local workers. The remaining vacancies should be filled by local workers.

For Knitting Machine Operator (KMO) and Linking Machine Operator (LMO)

- As the local pool of skilled KMOs and LMOs is relatively small, employers seeking to import workers for these two post titles will, regardless of whether they have local KMOs/LMOs currently under employ, be allowed to fill 80% of the vacancies by imported workers, with the remaining 20% to be filled by local workers.

Enclosure I An illustration of the above arrangement is at Enclosure I.

**Illustration of
Recruitment ratio of local workers to imported workers**

Manufacturers without local workers under employ

Number of imported workers applied for : 100

	<u>Newly recruited local workers</u>	<u>Imported workers</u>
Ratio:	50	50

Total number of local workers : imported workers = 50:50 (or 1:1)

Manufacturers with local workers under employ

(a)	<u>Existing sewing machine operators</u>	<u>Imported workers applied for</u>
	100	100

Ratio:	<u>Newly recruited local workers</u>	<u>Imported workers</u>
	20	80

Total number of local workers : imported workers =120 (i.e.100+20):80
(or 3:2)

(b)	<u>Existing sewing machine operators</u>	<u>Imported workers applied for</u>
	100	200

Ratio:	<u>Newly recruited local workers</u>	<u>Imported workers</u>
(i)	First 100 vacancies :	20 80
(ii)	Remaining 100 vacancies :	50 50
	New local workers :	70 130

Total number of local workers : imported workers = 170 (i.e. 100+70):130

Economic, Financial, Staffing and Sustainability Implications

Economic implications

The proposal will help alleviate the manpower shortage problem anticipated for the T&C industry in the near term, which is likely to arise from an expansion by Hong Kong manufacturers of their production lines here or relocation of part of their operations from the Mainland back to Hong Kong. As more T&C products are to be manufactured in and exported directly from Hong Kong, instead of indirectly through re-exports or transshipments, the value added contribution of the T&C industry to the local economy can be expected to increase as a result.

2. Concurrently, the proposal will also lead to an improvement in the local unemployment situation. More specifically, it can be expected to generate additional employment opportunities in the T&C industry, apart from retaining the 40 000-plus jobs already existing in the business. Moreover, there may be some spill-over effects on related activities such as fashion and design, merchandising, and the import/export trades. The precise impact is, however, hard to assess. Much will depend on the pace and scale of relocation of manufacturing operations back to Hong Kong as well as expansion of the production lines here.

Financial and staffing implications

3. LD will provide CLITA with a one-off grant of \$2.5 million in 2005-06 to set up the central recruitment-cum-training centre. As for the running of the centre and assistance to trainees, etc., the LD, CLITA and ERB will make optimal use of existing resources. LD will also absorb the additional cost required by the Immigration Department as a result of the projected increase in workload arising from the new flexibility measures. As LD will conduct a review of the proposal one year after implementation, it will take the opportunity of ascertaining if additional new resources would be required in the ensuing years.

4. With the projected entry of some 5 000 imported workers, the ERB is expected to raise about \$48 million for every two years (based on a levy of \$400 per imported worker per month and contract period of two years) from the Employees Retraining Levy to be paid by employers.

Sustainability implication

5. The proposal would ease the immediate manpower shortage of the T&C industry and enable manufacturers to relocate their manufacturing operations back to Hong Kong or expand their production lines here. Related activities such as fashion and design, transportation and logistics, merchandising, import/export trading would stand to benefit. It would also benefit the local economy in terms of higher fixed capital formation by stimulating more economic activities. Furthermore, the proposed manpower development plan would help create more job opportunities, upgrade the quality of the local workforce for the T&C industry and give these workers improved protection.