

LEGISLATIVE COUNCIL BRIEF

Minimum Wage Ordinance
(15 of 2010)

Employment Ordinance
(Chapter 57)

Minimum Wage Ordinance (Amendment of Schedule 3) Notice 2010

Minimum Wage Ordinance (Commencement) Notice 2010

Minimum Wage Ordinance (Commencement)(No. 2) Notice 2010

Employment Ordinance (Amendment of Ninth Schedule) Notice 2010

INTRODUCTION

At the meeting of the Executive Council on 9 November 2010, the Council ADVISED and the Chief Executive ORDERED that under section 16(1) of the Minimum Wage Ordinance (15 of 2010) (MWO), the Minimum Wage Ordinance (Amendment of Schedule 3) Notice 2010, at Annex A, should be made.

2. The Secretary for Labour and Welfare has, under section 1(2) of the MWO, made the Minimum Wage Ordinance (Commencement) Notice 2010 (Annex B) and Minimum Wage Ordinance (Commencement)(No. 2) Notice 2010 (Annex C). In accordance with section 49A(6) of the Employment Ordinance (Cap. 57) (EO), the Commissioner for Labour has made the Employment Ordinance (Amendment of Ninth Schedule) Notice 2010 (Annex D).

JUSTIFICATIONS

(A) Initial statutory minimum wage (SMW) rate

3. The MWO seeks to establish an SMW regime which provides a wage floor to forestall excessively low wages but without unduly jeopardising our

labour market flexibility, economic growth and competitiveness or causing significant adverse impact on the employment opportunities for the vulnerable workers.

E

4. The Provisional Minimum Wage Commission (PMWC) has by consensus recommended in its Report at Annex E that the initial SMW rate be set at \$28.0 per hour. We note that the PMWC has adopted an evidence-based approach and made reference to relevant statistical data released by the Census and Statistics Department (C&SD), experience of other places in implementing SMW, views and empirical data/information provided by stakeholders as well as academic articles. The major considerations taken into account by the PMWC in arriving at the recommended initial SMW rate include: (a) the latest economic and labour market conditions; (b) the level of the initial SMW rate relative to median wage; (c) the number and proportion of employees to be covered under the recommended rate; (d) impact on businesses; (e) impact on the unemployment rate; (f) impact on inflation; (g) impact on competitiveness and economic growth; and (h) impact on the community from a social perspective like enhancing the quality of life and social harmony, enhancing work incentive as well as the ratio of employees to be benefitted.

5. According to the PMWC's estimation, the recommended initial SMW rate of \$28.0 per hour would represent 48% of Hong Kong's median hourly wage in the second quarter of 2009, around 314 600 or 11.3% of the total number of employees in Hong Kong¹ would be involved and their average wage increase would be about 16.9%. The total wage bill would increase by around \$3.3 billion or 0.6%. Firms employing a higher proportion of low-paid workers would face heavier cost impact. In particular, if the cost increase cannot be fully passed onto consumers through price increase or be absorbed through profit reduction, part of the adjustments could take the form of lay-offs and reduction in working hours and/or fringe benefits. Yet on the whole, the additional wage bills should be manageable by most business sectors through mitigation measures and are unlikely to trigger serious reorganisation of work practices leading to substantial downsizing. The impact on Hong Kong's overall unemployment rate is likely to be relatively mild, particularly when viewed against the improving economic and labour market conditions. The inflationary impact should also be mild. Even assuming a full pass-through of the additional wage bill onto output prices, both the Composite Consumer Price Index (Composite CPI) and CPI(A) are estimated to rise by 0.4 percentage point. As full pass-through is unlikely, the actual inflationary impact is likely to be less significant than the above estimate. It is noteworthy that the above assessment is only based on information available and the actual impact will have to be evaluated through detailed tracking studies over a longer period of time upon implementation of SMW.

6. We have carefully considered the Report of the PMWC and are of the view that the Commission has dutifully discharged its duties in accordance

¹ These figures exclude live-in domestic workers and employees in the Government.

with its Terms of Reference and the basis of its deliberation is reasonable and well balanced. Therefore, the recommended rate of \$28.0 per hour should be adopted as the initial SMW rate.

(B) Commencement of the MWO and the initial SMW rate

7. The MWO (except those provisions on the short title and commencement of the MWO, interpretation, amendment of Schedule 3 and the statutory Minimum Wage Commission (MWC)) and the initial SMW rate will come into operation on 1 May 2011. Implementation of the SMW regime on the next Labour Day not only carries symbolic significance but also gives some six months' preparation time for the community. Prior to implementation, the Labour Department (LD) will launch a wide range of publicity and promotional activities to enhance public understanding of the SMW requirements. Targeted efforts will be made to facilitate employers and employees to understand their respective obligations and entitlements under the MWO. We will include in the publicity materials illustrative examples drawn from different trades and industries to elucidate the application of the MWO. Guidelines to address the unique characteristics of specific sectors will also be drawn up through consultation with the relevant stakeholder groups.

8. The provisions on the short title and commencement of the MWO, interpretation, amendment of Schedule 3 and the statutory MWC will come into effect on the date of gazettal (i.e. 12 November 2010). This is to provide for the gazettal of the commencement notice of the MWO and the initial SMW rate and to allow the early establishment and operation of the MWC.

(C) Wage level for exempting employers from recording hours worked

9. Under the EO (as amended by the MWO), an employer is obliged to keep the total number of hours worked by employees in a wage period. An employer will be exempted from this requirement if wages payable to the employee are not less than the monthly monetary cap to be set in the Ninth Schedule to the EO, or a proportionate amount if the wage period is not a month.

10. According to the 2009 Annual Earnings and Hours Survey (AEHS) conducted by the C&SD, in the second quarter of 2009 the median monthly wage of 2 776 600 employees² in Hong Kong was \$11,500. Taking into account that the initial SMW rate of \$28.0 per hour would represent 48% of the median hourly wage of \$58.5, we consider that the median monthly wage of \$11,500 should be adopted for the monthly monetary cap in the Ninth Schedule. This should strike a reasonable balance between the need to enforce the SMW requirements on the one hand and to minimise the administrative burden of employers on the other hand.

² These figures exclude live-in domestic workers and employees in the Government.

THE NOTICES

Minimum Wage Ordinance (Amendment of Schedule 3) Notice 2010

11. The Notice at Annex A amends Schedule 3 to the MWO to specify the initial SMW rate of \$28.0 per hour and its effective date which is linked to the commencement date of section 9 of the MWO.

Minimum Wage Ordinance (Commencement) Notice 2010 and Minimum Wage Ordinance (Commencement)(No. 2) Notice 2010

12. The Notices at Annex B and Annex C bring those provisions in relation to the short title and commencement of the MWO, interpretation, amendment of Schedule 3 and the statutory MWC into operation on 12 November 2010, and the other provisions of the MWO into operation on 1 May 2011 respectively.

Employment Ordinance (Amendment of Ninth Schedule) Notice 2010

13. The Notice at Annex D amends the Ninth Schedule to the EO to specify \$11,500 as the monthly monetary cap on keeping records of hours worked. The Notice will also come into operation on 1 May 2011.

LEGISLATIVE TIMETABLE

14. The legislative timetable will be –

Publication in the Gazette	12 November 2010
Tabling at the Legislative Council (LegCo)	17 November 2010

IMPLICATIONS OF THE PROPOSAL

15. The Notices are in conformity with the Basic Law, including the provisions concerning human rights. There are no productivity or environmental implications. The economic, sustainability, financial and civil service implications are set out at Annex F.

F

PUBLIC CONSULTATION

16. The PMWC, in accordance with its Terms of Reference, conducted intensive and extensive consultations to collect views and understand the concerns of stakeholders and interested parties on the initial SMW rate. It organised three rounds of consultation to collect oral and written submissions from some 100 stakeholder groups and interested parties, and over 7 500 written submissions were received. The wage level for exempting employers from recording the total number of hours worked is set on account of the

PMWC's recommendation of the initial SMW rate of \$28.0 per hour and the median monthly wage of \$11,500 according to the 2009 AEHS. During the scrutiny of the Minimum Wage Bill at the LegCo Bills Committee and at the resumption of its Second Reading debate, the Administration also informed Members of our intention to bring the initial SMW rate into commencement in the first half of 2011.

PUBLICITY

17. A press release will be issued on the day of issue of the LegCo Brief. A spokesman from the LD will be made available to handle press enquiries.

BACKGROUND

18. The MWO was passed by the LegCo on 17 July 2010 and gazetted on 23 July 2010. According to the MWO, the Ordinance will come into operation on a day to be appointed by the Secretary for Labour and Welfare by notice published in the Gazette. Section 16 provides that the Chief Executive in Council may, by notice published in the Gazette, amend Schedule 3 to specify the SMW rate and its effective date. By section 49A of the EO as amended by section 20 of the MWO, the Commissioner for Labour may amend the Ninth Schedule to the EO by notice published in the Gazette to prescribe the monetary cap on keeping records of hours worked. The advisory PMWC, comprising members from the labour, business and academic sectors as well as public officers, was set up in February 2009 to advise the Government on the appropriate level of the initial SMW rate.

ENQUIRIES

19. Enquiries on this brief may be addressed to Miss Mabel LI, Acting Chief Labour Officer (Statutory Minimum Wage) of LD, at 2852 4148.

Labour and Welfare Bureau
November 2010

Minimum Wage Ordinance (Amendment of Schedule 3) Notice 2010

Section 1

1

**Minimum Wage Ordinance (Amendment of Schedule 3)
Notice 2010**

(Made by the Chief Executive in Council under section 16(1) of the
Minimum Wage Ordinance (15 of 2010))

1. Commencement

This Notice comes into operation on the day on which section 9 of the Minimum Wage Ordinance (15 of 2010) comes into operation.

2. Minimum Wage Ordinance amended

The Minimum Wage Ordinance (15 of 2010) is amended as set out in section 3.

3. Schedule 3 amended

(1) Schedule 3, column 1—

Add

“\$28”.

(2) Schedule 3, column 2—

Add

“the day on which section 9 comes into operation”.

Clerk to the Executive Council

COUNCIL CHAMBER

2010

Explanatory Note

The purpose of this Notice is to specify the first prescribed minimum hourly wage rate (***the rate***) and its effective date. The rate is used to calculate the minimum hourly wage rate for an employee under section 9 of the Minimum Wage Ordinance (15 of 2010).

Minimum Wage Ordinance (Commencement) Notice 2010

1

**Minimum Wage Ordinance (Commencement) Notice
2010**

Under section 1(2) of the Minimum Wage Ordinance (15 of 2010), I appoint 12 November 2010 as the day on which the following provisions of the Ordinance come into operation—

- (a) sections 1, 2 and 16;
- (b) Part 3;
- (c) Schedule 4.

Secretary for Labour and Welfare

9 November 2010

Minimum Wage Ordinance (Commencement) (No. 2) Notice 2010

**Minimum Wage Ordinance (Commencement) (No. 2)
Notice 2010**

Under section 1(2) of the Minimum Wage Ordinance (15 of 2010), I appoint 1 May 2011 as the day on which the Ordinance (except sections 1, 2 and 16, Part 3 and Schedule 4) comes into operation.

Secretary for Labour and Welfare

9 November 2010

Employment Ordinance (Amendment of Ninth Schedule) Notice 2010

Section 1

1

Employment Ordinance (Amendment of Ninth Schedule) Notice 2010

(Made by the Commissioner for Labour under section 49A(6) of the Employment Ordinance (Cap. 57))

1. Commencement

This Notice comes into operation on the day on which sections 20 and 22 of the Minimum Wage Ordinance (15 of 2010) come into operation.

2. Employment Ordinance amended

The Employment Ordinance (Cap. 57) is amended as set out in section 3.

3. Ninth Schedule amended

Ninth Schedule, before “per month”—

Add

“\$11,500”.

Commissioner for Labour

9 November 2010

Explanatory Note

The purpose of this Notice is to specify an amount of wages (*the specified amount*) for the purposes of section 49A(3)(ea) of the Employment Ordinance (Cap. 57) (*the Ordinance*).

2. If an employee is an employee within the meaning of the Minimum Wage Ordinance (15 of 2010) and the wages payable to the employee in respect of any wage period are less than the specified amount (or the amount that bears the same ratio to the specified amount as the length of that wage period bears to the month in which that wage period falls, calculated where that wage period falls in more than one month according to the number of days of that wage period falling in each particular month), the employer is required under section 49A of the Ordinance to record the total number of hours worked by the employee in that wage period.

Report of the
Provisional Minimum
Wage Commission

October 2010

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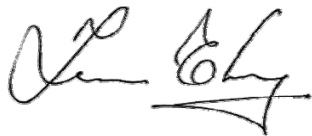
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Chairperson's Foreword

- 1 The Statutory Minimum Wage (SMW) has been the subject of debate in Hong Kong for a number of years. In parallel with the preparation of legislation, the Government established the Provisional Minimum Wage Commission (PMWC) in February 2009 and provided us with a specific set of Terms of Reference.
- 2 The advice and recommendations we make are the unanimous agreement of all members of the Commission. We hope that our reaching consensus over an otherwise controversial issue would serve as a clear demonstration of the ability of Hong Kong that it can deal with other endeavours in a harmonious, rational and impartial manner resulting in a win-win situation.
- 3 With a view to properly completing our task, we designed our *modus operandi* as a consensus-building process. The desirability of providing recommendations that have been unanimously agreed upon is trite. Consensus tends to encompass understanding of and respect for different viewpoints. It also helps to avoid inclinations focusing on a narrower perspective. Results flowing from such a process would generally be better regarded and attract more support.
- 4 We have therefore agreed at the outset that whilst ensuring transparency of and public accessibility of the evidence and data we would rely on, confidentiality as to our deliberations must be maintained. This enables us to have rational, frank and constructive discussions of all relevant perspectives without undue influence or pressure that might undermine the consensus-building process we have devised.
- 5 Our task could not have been completed without the diverse but valuable and candid views provided by stakeholder groups and individuals representing a broad range of interests and perspectives. The importance of listening directly to the views of the stakeholders cannot be understated. We thank those who have sincerely and generously shared with us their thoughts on the subject and provided constructive advice and support to our work.
- 6 The evidence collected during the consultation processes together with the data derived from the Annual Earnings and Hours Survey enabled us to formulate and refine our recommendations. We thank the Secretariat for their work, especially the numerous economic modelling and analysis that have to be undertaken to facilitate the iterative process of our discussions. Our thanks also go to the Labour and Welfare Bureau, Labour Department, Census and Statistics Department and Economic Analysis and Business Facilitation Unit of the Financial Secretary's

Office for their logistical and technical support.

- 7 I would like to express my special gratitude to all the members without whom this exercise would have been truly impossible. Their experience and attributes, their devotion to the mandate, their fostering of the team spirit, their genuine concern for workers and businesses alike are fundamental to our work. Most importantly, their ability to listen to and consider the evidence with an open mind as well as to deliberate rationally has been pivotal to the successful implementation of the consensus-building process. I am deeply indebted to each of them.
- 8 We trust that the unanimous recommendations would benefit the community as a whole. We sincerely appeal to all people of Hong Kong to move forward with our recommendations and to strive to support their introduction through each person's own sphere of influence.

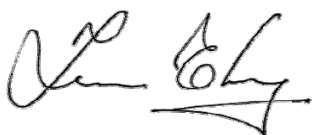
A handwritten signature in black ink, appearing to read 'Teresa Cheng', with a stylized flourish at the end.

Teresa CHENG

October 2010

Members

Chairperson

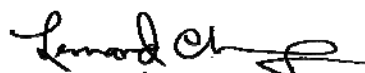


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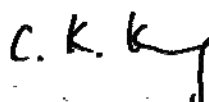
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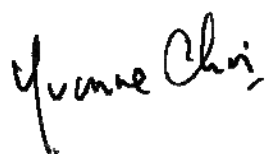


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Permanent Secretary for Labour and Welfare



Miss Yvonne CHOI Ying-pik, JP
*Permanent Secretary for Commerce and Economic
Development (Commerce, Industry and Tourism)*



Mrs Helen CHAN, JP
Government Economist

Executive Summary

- I On the assumption that the statutory minimum wage (SMW) would be implemented in the first half of 2011, we advise that the initial SMW be fixed at \$28.0 per hour. We further advise that the mechanism for determining the SMW should continue to be evidence-based. Movements of the indices in the Basket of Indicators should be monitored so that the SMW could be reviewed in a timely fashion. More detailed statistical data should be collected so as to ascertain and/or verify the assessment of the impact of the implementation of the SMW.

Chapter 1: Introduction

- II The Provisional Minimum Wage Commission (PMWC) was established by the Government to recommend to the Chief Executive the appropriate mechanism for determining the SMW rate and the initial SMW rate by adopting an evidence-based approach with a view to ensuring a sensible balance between forestalling excessively low wages and minimising the loss of low-paid jobs while sustaining Hong Kong's economic growth and competitiveness.

Chapter 2: The Work of the Provisional Minimum Wage Commission

- III We adopted an evidence-based approach in fulfilling the mandate in accordance with our Terms of Reference. Given the complexity of the task, the diversity of views in the community and the possible socio-economic impacts of SMW, a prudent approach was adopted as we went through an iterative process in deliberating the recommended initial SMW rate by taking into account evidence obtained from various sources and analysing them with reference to the Basket of Indicators, other considerations relevant to SMW policy and assumptions for impact assessment.
- IV We designed the modus operandi of PMWC as a consensus building process by encouraging rational discussions and due respect for different viewpoints. We kept the deliberation of PMWC confidential to facilitate frank discussions and avoid undue influence undermining consensus building. Nevertheless, keenly aware of the interest of the community in the work of PMWC, we informed the public of our work when there was notable progress and shared with them the basic materials referred to in our deliberation.

Chapter 3: Characteristics of Low Pay

- V Different places have different standards on "low pay". Having regard to the experience of the United Kingdom (UK) and the views of stakeholders, employees

within the lowest decile of the hourly wage distribution of all employees in Hong Kong could initially be described as low-paid for the purpose of the present analysis. However, it must be emphasised that it was a reference point and not definitive, nor could it be treated as a benchmark cast in stone for future analyses. As shown by the statistical data of 2009 Annual Earnings and Hours Survey (AEHS), the aforementioned employees were mainly vulnerable groups like females, older workers, workers with low educational attainment, part-time workers, casual workers and elementary and service workers.

- VI Generally, a given sector could be described as a low paying sector (LPS) if it has more low-paid employees than that of the other sectors in the economy. Based on the results of 2009 AEHS and information gathered from stakeholders, four sectors could be initially described as LPS: (i) retail; (ii) restaurants; (iii) estate management, security and cleaning services; and (iv) other low paying sectors. Since the SMW policy is expected to have greater impact on LPS, detailed impact assessments on the 15 sub-sectors under these 4 LPS were conducted. It should be noted that the classification of sectors as LPS is based on reasoned analysis and could be changed as and when evidence so obliges.

Chapter 4: Considerations Underlying the Recommendation of the Initial Statutory Minimum Wage Rate

- VII Given the emotive and sensitive nature of discussions on the SMW rate, we considered an evidence-based approach the best strategy to identify an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs; and to sustain the Hong Kong's economic growth and competitiveness.
- VIII For deliberating the initial SMW rate, we identified a “Basket of Indicators” after taking into account the views of stakeholders, experience of other places and socio-economic circumstances of Hong Kong. This Basket consists of four categories of indicators: (i) general economic conditions; (ii) labour market conditions; (iii) competitiveness; and (iv) standard of living. These indicators underline the factors that our Terms of Reference require us to look into. In recognition of an inevitable time lag between the date on which our recommended initial SMW rate would be submitted and the date of its implementation, we took into account the latest performance of the selected indicators in an attempt to address this limitation. In addition, as some implications of SMW would be either qualitative or could be measured only after SMW implementation, we also factored into account a number of other relevant considerations, such as enhancing social harmony, enhancing work incentive, enhancing quality of life, raising purchasing power and other potential chain effects.

Chapter 5: Assessment of Impacts

- IX Without any experience in implementing SMW and in the absence of adequate empirical data and evidence, assessment of the impact of SMW has its inherent limitations, as there are many factors involved and the economy and labour market are constantly evolving. Nevertheless, we tried our best in simulating the possible impacts on employees, businesses and output prices as well as inflation based on various assumptions. We also performed sensitivity tests in various aspects, namely knock-on effect on the pay hierarchy, reduction in guaranteed year-end payment/bonus, reduction in meal benefits in kind, and impact on profit conditions after depreciation.

Chapter 6: Deciding the Recommended Initial Statutory Minimum Wage Rate

- X In discharging our duties in conformity with our Terms of Reference and the spirit and policy intent of SMW, we attempted to achieve a proper balance through thorough and objective consideration of the following: (i) economic and labour market conditions; (ii) SMW to median wage ratio; (iii) number and proportion of employees involved; (iv) impact on businesses; (v) impact on unemployment rate; (vi) inflationary pressure; (vii) competitiveness and economic growth; (viii) striking a sensible balance between the above-mentioned economic impacts and other social considerations, especially with regard to enhancing quality of life and social harmony, enhancing work incentive, and the ratio between employees benefiting and not benefiting from SMW policy.
- XI We note that the Hong Kong economy is currently on track to recovery and the labour market has progressively improved, with unemployment rate receding, and wages and employment earnings picking up. Meanwhile, inflationary pressure remains modest. These should provide a relatively favourable macro-economic environment for SMW implementation. Against the above economic background and after taking into account a wide range of evidence and conducting thorough impact assessment, we reached the consensus of recommending the initial SMW rate at \$28.0 per hour.
- XII The impact of our recommended SMW rate of \$28.0, which represents 47.9% of median wage in the second quarter of 2009, would vary across sectors, enterprises and employees. We estimated that around 314 600 or 11.3% of employees in Hong Kong would be involved; the wages of involved employees would rise by 16.9%; and the total wage bill would increase by 0.6% to \$541.6 billion. Firms employing a higher proportion of low-paid workers would face heavier cost impacts, and where the cost increase cannot be fully passed on to consumers through price increase, part of the adjustments could take the form of lay-offs and reduction in

working hours and fringe benefits. Yet on the whole, the additional wage bills should be manageable by most business sectors through adoption of mitigation measures to absorb or offset the additional costs, especially against the backdrop of improving economic and labour market conditions, and still benign inflation.

- XIII As the increase in wage costs is unlikely to trigger serious reorganisation of work practices leading to substantial downsizing, the estimated impact on Hong Kong's unemployment rate in overall terms would likely be mild. The estimated impact on inflation should be mild in terms of both Composite Consumer Price Index (Composite CPI) and CPI(A). It is noteworthy that the above assessment is only based on the information available and the actual impact will have to be evaluated through detailed tracking studies over a longer period of time.

Chapter 7: Recommendation

- XIV Having regard to our Terms of Reference which require us to make recommendations on the appropriate mechanism for determining the SMW rate and the initial SMW rate, we came up with three groups of recommendations, namely (i) an iterative approach with all activities anchored on the evidence-based principle should be adopted for setting an optimal SMW rate; (ii) the initial SMW rate should be set at \$28.0 per hour; and (iii) studies and review should be conducted to evaluate the actual impact of the SMW subsequent to its implementation and the movement of the indicators relevant to the setting of SMW rate should be monitored to facilitate future reviews of the SMW rate.
- XV To ensure the smooth and effective implementation of the SMW, we also recommend the Government to consider timely and suitable measures to assist the most vulnerable workers who may be affected by SMW, and to launch a wide range of publicity and promotional activities to familiarise the community, in particular, the business sector with the design of SMW.

1 Introduction

1.I Background

- 1.1 The introduction of a statutory minimum wage (SMW) has been a subject of heated and protracted debate in Hong Kong. Those favouring SMW regard it as an apt instrument to protect workers from exploitation through forestalling wages from falling below a statutory floor and to encourage employment as well as enhance social harmony. Those holding the opposite view are concerned that SMW would undermine the flexibility of the labour market, jeopardise the employment opportunities of vulnerable workers and compromise the economic freedom and competitiveness of Hong Kong. Seeking a balance between these conflicting views, the Government initiated in 2006 a two-year voluntary Wage Protection Movement for cleaning workers and security guards (WPM)⁽¹⁾. The Government at the same time pledged that whether to introduce an SMW would hinge on the outcome of WPM.
- 1.2 As the voluntary WPM was considered to be ineffective⁽²⁾, the Chief Executive announced in his Policy Address in October 2008 the introduction of an SMW. In tandem with the Government's formulation of the main legislation on SMW in late February 2009, the Chief Executive appointed the Provisional Minimum Wage Commission (PMWC) to advise on the matters set out in its Terms of Reference.

1.II Terms of Reference

- 1.3 On the basis of an evidence-based approach and with a view to ensuring a sensible balance between forestalling excessively low wages and minimising the loss of low-paid jobs, while sustaining Hong Kong's economic growth and competitiveness, the PMWC is tasked:
- (a) to advise the Chief Executive on the appropriate mechanism for determining SMW;
 - (b) to advise the Chief Executive on the initial SMW rate based on the mechanism in (a) above;
 - (c) to study the possible impact of the implementation of the SMW on the local economy, including its effect on pay, employment and economic competitiveness, particularly of the low-pay sectors and small and medium enterprises; and
 - (d) to consult stakeholders in carrying out its work in (a) - (c) above.

(1) Under WPM, business enterprises were encouraged to follow the lead taken by the Government in paying cleaning workers and security guards wages not lower than the average market rate for the relevant industry/occupation published in the latest Quarterly Report of Wages and Payroll Statistics issued by the Census and Statistics Department.

(2) Only 52% of cleaning workers and security guards received wages at their respective WPM levels.

1.III Membership

1.4 In addition to the Chairman, there are 12 Members in the Commission. The nine non-official members are drawn equally from the labour, business and academic sectors, all serving on an ad personam basis. The three ex-officio members are drawn from Government bureaux/departments dealing with portfolios relating to labour and social welfare, business (especially in relation to small and medium enterprises) and economic analyses. The PMWC's term of appointment will last until the establishment of the statutory Minimum Wage Commission. Secretariat support is provided by the Labour Department and the Economic Analysis and Business Facilitation Unit of the Financial Secretary's Office.

1.5 Membership of PMWC is as follows:

<i>Chairperson</i>	Ms Teresa CHENG Yeuk-wah, BBS, SC, JP (<i>Front Row: Middle</i>)
<i>Non- official Members</i>	Dr Michael CHAN Yue-kwong (<i>Back Row: 5th from Right</i>)
	Professor Leonard CHENG Kwok-hon, JP (<i>Back Row: 1st from Left</i>)
	Mr Thomas KWOK Ping-kwong, SBS, JP (<i>Back Row: 4th from Left</i>)
	Mr KWONG Chi-kin (<i>Back Row: 2nd from Right</i>)
	Mr LAU Chin-shek, JP (<i>Back Row: 2nd from Left</i>)
	Mr LEE Kai-ming, GBS, JP (<i>Back Row: 4th from Right</i>)
	Professor LIU Pak-wai, SBS, JP (<i>Back Row : 3rd from Right</i>)
	Ms Caroline MAK Sui-king (<i>Front Row: 2nd from Left</i>)
	Professor NG Sik-hung (<i>Back Row: 3rd from Left</i>)
<i>Official Members</i>	Permanent Secretary for Labour and Welfare Mr Paul TANG Kwok-wai, JP (<i>Front Row: 1st from Right</i>)
	Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) Miss Yvonne CHOI Ying-pik , JP (<i>Front Row: 2nd from Right</i>)
	Government Economist Mrs Helen CHAN, JP (<i>Front Row: 1st from Left</i>)
<i>Secretary</i>	Senior Labour Officer (Statutory Minimum Wage) Miss Cindy YIM Lai-kwan (<i>Back Row: 1st from Right</i>)

Members of the Provisional Minimum Wage Commission



2 The Work of the Provisional Minimum Wage Commission

2.1 Underlying Principles in Discharging Duties

(a) In conformity with the Terms of Reference

2.1 The Provisional Minimum Wage Commission (PMWC) is tasked to advise the Chief Executive on the appropriate mechanism for determining the statutory minimum wage (SMW) rate and the initial SMW rate identified on the basis of an evidence-based approach with a view to ensuring a sensible balance among the objectives of forestalling excessive low wages and minimising the loss of low-paid jobs, while sustaining Hong Kong's economic growth and competitiveness.

2.2 Since Hong Kong has no experience in implementing an SMW, we adopted a prudent approach in discharging our duties under our Terms of Reference which included conducting detailed analyses on the possible impact of the implementation of SMW on the local economy such as its effect on pay, employment, inflation and economic competitiveness, particularly of the low paying sectors (LPS)⁽¹⁾ and small and medium enterprises (SMEs) as well as holding extensive consultations with stakeholders. We expect that the above mechanism would be refined in the light of actual experience.

(b) Source of evidence

2.3 Our Terms of Reference expect us to adopt an evidence-based approach. We made reference to the following four sources of evidence in our deliberation. They were (i) statistical data released by the Census and Statistics Department (C&SD), in particular the Annual Earning and Hours Survey (AEHS) and the Programme of Annual Economic Surveys (PAES), (ii) experience of other places in implementing SMW, (iii) views of stakeholders and empirical data and information provided by stakeholders and interested parties, and (iv) articles from scholars.

(c) Transparency of the work of the Provisional Minimum Wage Commission

2.4 We have all along been conscious that there was, and still is, a keen interest in the work and progress of the PMWC. We strove to ensure that the information or data made available to and considered by us, in particular all the statistical information and data collected by C&SD, were also accessible by members of the public. We uploaded onto our webpage for public information the basic materials for our deliberations. These included our preliminary views on a Basket of Indicators, other relevant considerations and the impact assessment; summary of views of

(1) LPS employ a relatively large number or a relatively high proportion of low-paid employees. Details would be discussed in Chapter 3.

stakeholders; and supplementary statistical data on the wage distribution of employees and operating characteristics of enterprises analysed by sectors. Furthermore, from time to time, we informed the public of our progress through press statements, media gatherings and stand-up interviews.

- 2.5 However, to enable frank discussions among members of PMWC and to avoid undue political or other influence prejudicing the consensus building process, members unanimously agreed to keep our deliberation confidential. It was also unanimously recognised that any premature disclosure of information on our thinking or deliberation would create confusion in the community and undue pressure on members. Therefore, we decided that there was no need for a public announcement or briefing after each and every meeting or activity of the PMWC and it would suffice to inform the public of our work as and when there was notable progress.

(d) Representativeness of members of the Provisional Minimum Wage Commission

- 2.6 All non-official members of the PMWC are appointed on an ad personam basis rather than as representatives of respective organizations. This is essential to safeguarding the impartiality and independence of the PMWC. PMWC members possess rich experience and knowledge in their respective sectors, including leading trade unionists from the labour sector, prominent business practitioners from LPS, distinguished scholars from relevant academic fields, an experienced practitioner in dispute avoidance and resolution, and senior government officials from the relevant public administration areas. All members made concerted efforts and useful contributions to the identification of the recommended initial SMW rate.

(e) Criteria and methodology for deliberating the statutory minimum wage

- 2.7 We designed at the very outset the modus operandi of PMWC as a consensus building process which would encourage rational discussions rather than confrontation and making of decisions by majority vote with regard to various multifaceted and controversial issues relating to the setting of the initial SMW rate. This also facilitated the conduct of extensive consultations with stakeholders and interested parties during which they were encouraged to express their views. The presence at some consultation sessions of both workers and employers of the same sectors also facilitated interactive dialogue involving different perspectives. We considered very carefully all the data, views and information available and analysed them with reference to each and every item in the Basket of Indicators⁽²⁾ in an

(2) The Basket of Indicators underlined the factors that our Terms of Reference require us to look into. Details would be discussed in Chapter 4.

iterative manner. PMWC members had thorough discussions of all the relevant perspectives. We were keenly aware that, given the diverse views and perspectives relating to SMW in the community, it would be important to promote among members a mutual respect for opposing views which, in turn, was crucial to a frank and constructive deliberation on the initial SMW rate. After all, we accept that deciding on the recommended rate would ultimately be a balancing act.

(f) Experience of other places

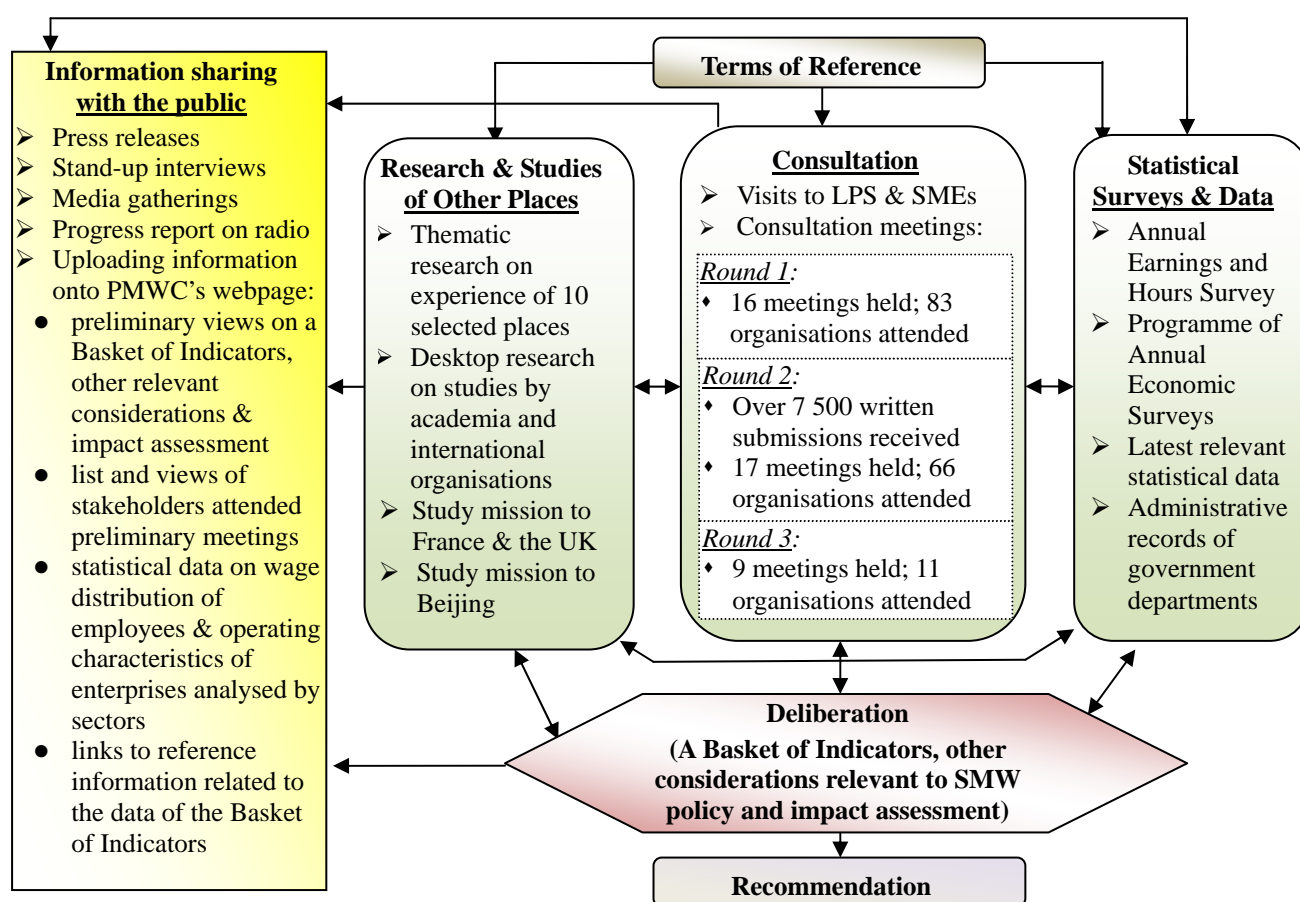
- 2.8 Suggestions were made that we should make reference to or simply apply the successful experience of other places. For example, whether Hong Kong should simply apply the minimum wage to median wage ratio and the proportion of workers covered by minimum wage in the United Kingdom (UK). However, there were also suggestions that we should devise our own mechanism having regard to our own socio-economic circumstances. While we agreed that experience elsewhere should be taken into account, we considered that our deliberation should be rooted in the local context, given the uniqueness of Hong Kong's cultural, social and economic circumstances.

2.II Details of the Work of the Provisional Minimum Wage Commission

2.II.1 Mechanism for Fulfilling the Mandate

- 2.9 We appreciate the complexity of the task as well as the diversity of views in the community on the initial SMW rate and its possible socio-economic impact. To fulfill our mandate as set out in our Terms of Reference, we adopted an iterative approach by considering all evidence collected through various channels before coming up with the recommended initial SMW rate. The iterative deliberation process that we adopted in discharging our duties is in **Figure 2.1**.

Figure 2.1: Deliberation process of PMWC



2.10 In gist, we kick-started our deliberation process by conducting desktop studies on local socio-economic circumstances and the experience of other places in implementing SMW, followed by undertaking study missions to other places, conducting extensive consultations with stakeholders and sharing with the public our work progress as and when there was notable progress. Details of the activities, other than meetings of PMWC, conducted in the deliberation process are summarised below.

Date	Events	Details
Year 2009		
31 March	Press release and media gathering	<ul style="list-style-type: none"> • To report the work plan and housekeeping arrangements.
5 June	Press release and media gathering	<ul style="list-style-type: none"> • To report progress on preparatory work in studying the local welfare and social security systems as well as the policy environment and socio-economic considerations in setting the SMW rate in Hong Kong.
21 September	Press release and media gathering	<ul style="list-style-type: none"> • To report progress on research of other places' experience in implementing SMW and distribute a summary of the findings. • To report the plan of preliminary meetings with stakeholders.

Date	Events	Details
26 September to 3 October	Study mission to France and the UK	• To secure first-hand understanding of the experience of France and the UK.
5 November	Media gathering	• To report the experience gained from the study mission to France and the UK.
11 November & 7 December	Visits to LPS and SMEs	• To gear up for the consultation exercise.
24 & 30 December	First round consultation meetings	• Attended by 3 major trade unions and 4 major employers' associations.
Year 2010		
7, 8, 13 & 14 January, 9 & 10 February	Continuation of the first round consultation meetings	• Attended by 14 employer/employee associations of the property management, security and cleaning services sector, 12 employer/employee associations of the retail sector, 12 employer/employee associations of the catering industry, 12 trade/professional associations, 11 labour policy concern groups, 7 think tanks/policy research institutes, 7 SME associations and 1 major employers' association.
2 March	Media gathering	• To brief the media on the first round consultation conducted and preliminary views of PMWC on a Basket of Indicators, other relevant considerations and impact assessment.
	Uploading relevant information onto the PMWC's webpage for public information	• To share with the public the preliminary views of PMWC on a Basket of Indicators, other relevant considerations and impact assessment; and the list of stakeholders that attended the first round consultation meetings.
18 March	Uploading relevant information onto the PMWC's webpage for public information	<ul style="list-style-type: none"> • To share with the public statistical data on the wage distribution of employees and operating characteristics of enterprises analysed by sectors. • To share with the public a summary of views of stakeholders collected from the first round consultation meetings.
18 March to 26 April	Invitation of views on the initial SMW rate	• To invite members of the public to give written submissions by sending appeal letters to stakeholders and some 7 600 Incorporated Owners/ Mutual Aid Committees/Owners' Committees and posting advertisements on newspapers, radio, MTR cabins, bus compartments and the PMWC's webpage.
13 & 14 April	Study mission to Beijing	• To secure first-hand understanding of the Mainland's experience in determining SMW rates.
16 & 20 April	Second round consultation meetings	• Attended by 15 employer/employee associations of the catering industry, 9 think tanks/policy research institutes, 8 employer/employee associations of the property management, security and cleaning services sector, 8 trade/professional associations, 8 labour policy concern groups, 6 SME associations, 5 major employers' associations, 4 employer/employee associations of the retail sector and 3 major trade unions.

Date	Events	Details
27 April to 3 May	Continuation of invitation of views on the initial SMW rate	<ul style="list-style-type: none"> The deadline for written submissions was extended from 26 April to 3 May in response to requests of stakeholders. The extension was made known to the public by sending appeal letters to stakeholders and some 7 600 Incorporated Owners/Mutual Aid Committees/Owners' Committees and posting advertisements on newspapers, radio, MTR cabins, bus compartments and the PMWC's webpage since mid-April.
24 April	Letter to Hong Kong by the PMWC Chairperson on radio	<ul style="list-style-type: none"> To report work progress.
13 & 14 May	Third round consultation meetings	<ul style="list-style-type: none"> Attended by 5 employer/employee associations of LPS, 3 major trade unions, 1 think tanks/policy research institute, 1 labour policy concern group and 1 major employers' association.
23 July	Press release	<ul style="list-style-type: none"> To report the latest work progress.
30 August	Meet-the-media session	<ul style="list-style-type: none"> To announce that consensus on the recommended SMW rate had been reached among members.

2.II.2 Research and Studies of Experience in Other Places

(a) Research

2.11 We conducted comprehensive research into the experience of ten selected places, namely the UK, France, Ireland, Australia, New Zealand, the Mainland of China, Taiwan, South Korea, the United States and Canada. We also drew reference from studies on SMW by academia and international organisations. Details of the research are at [Appendix I](#).

(b) Study missions

2.12 Apart from desktop research, we also undertook study missions to Paris and London in late September/early October 2009 and Beijing in mid April 2010. During the study missions, we paid visits to the government departments responsible for the SMW policy, major trade unions and employers' associations as well as our counterparts responsible for making recommendations on the SMW rate to the government.

2.13 Though geographically close to each other, France and the UK have put in place rather different SMW systems. The system in France is premised on the concept of "living wage" with the prime objective being to ensure that low-paid workers can enjoy a certain living standard and are able to share the benefits of economic development. The UK, on the other hand, adopts the concept of "wage floor" to forestall excessively low wages while taking into account the impact of the SMW on the overall economy and employment. To understand more how these two

countries attempt to incorporate diverse stakeholders' multifarious considerations into their deliberations on the SMW rates, we undertook a study mission to both Paris and London from 26 September to 3 October 2009. We visited key organisations involved in formulating the respective SMW rates and, through dialogues and experience sharing with relevant parties, gained a good understanding of the mechanism, timelines and considerations adopted in the two countries.

- 2.14 Given the close ties between Hong Kong and the Mainland and noting that the SMW system in the Mainland is among those oft-discussed in the media, we visited Beijing from 13 to 14 April 2010. We gained a useful understanding of how the Mainland authorities perceived the interface between SMW rate adjustments and the economic objective of stimulating domestic consumption through raising the income of the low-paid workers.
- 2.15 While our deliberation must be rooted in the context of Hong Kong, the study missions to Paris, London and Beijing provided valuable insights into the matter which greatly facilitated our work in recommending the initial SMW rate. Details of the study missions and lessons learnt are at [Appendix II](#).

2.II.3 Consultation

- 2.16 Guided by the evidence-based principle in deliberating the initial SMW rate as given in our Terms of Reference, we conducted intensive and extensive consultations to collect views and understand concerns of stakeholders and interested parties on the initial SMW rate. The consultation exercise provided an additional platform for thorough exchanges with stakeholders, thus better enabled us to strike an appropriate balance among the diverse interests of various parties concerned. The sharing of our preliminary views and thinking with stakeholders and interested parties during the consultation meetings and related activities also enhanced the transparency of our work.

(a) Visits to low paying sectors and small and medium enterprises

- 2.17 To gear ourselves up for the consultation exercise, we visited employers and employees of LPS, namely the catering, retail, property management, security and cleaning services sectors as well as SMEs in November and December 2009. The purpose of these visits was to understand the possible impact of SMW on sectors which would likely be more affected by the introduction of SMW and to gauge the views and concerns of employers and employees in these sectors.
- 2.18 In tandem with the progress in our deliberations, we conducted three rounds of consultation to collect oral and written submissions from some 100 stakeholders and interested parties, a list of which is in [Appendix III](#). In our view, the three rounds

of consultation integrated well with the iterative approach that we adopted in the deliberation process.

(b) First round consultation

2.19 For round one consultation, we basically adopted a listening mode so as to encourage stakeholders to be as forthcoming and free-flowing as possible. We invited all stakeholder organisations that had expressed views and concerns on the SMW rate or the work of PMWC to discuss the methodology for setting the SMW rate. In total, 16 meetings were held from late December 2009 to mid-February 2010. Among the 157 organisations invited, 83 attended. They included major trade unions, major employers' associations, associations of SMEs, associations of LPS, trade/professional associations, think tanks and policy research institutes as well as labour policy concern groups. With reference to the stakeholders' views collected from the first round consultation, we formulated and uploaded onto our webpage for public information our preliminary views on a Basket of Indicators, other relevant considerations and impact assessment that should be taken into account in deliberating the initial SMW rate.

(c) Second round consultation

2.20 The second round of consultation commenced upon the release in mid-March 2010 of the findings of the 2009 AEHS, whose research design had been tailored to support the implementation of SMW. During the period from 18 March to 3 May 2010, we invited stakeholders and members of the public to give written submissions on the initial SMW rate by making reference to the AEHS results and other relevant statistical data which had been posted onto our webpage. We appealed for views through various means such as press releases; appeal letters to stakeholders and some 7 600 Incorporated Owners, Mutual Aid Committees and Owners' Committees; advertisements on newspapers, MTR cabins and bus compartments; promotional messages on our webpage; radio Announcement in the Public Interest; etc. The response was good and we received a total of over 7 500 written submissions from various organisations and individuals. We carefully studied every submission, ranging from single-page letters to detailed statistical analyses and opinion surveys.

2.21 In parallel to the invitation of written submissions, we conducted round two meetings with stakeholders to gauge their views on the initial SMW rate with reference to the findings of AEHS and other relevant statistical data, and to encourage empathetic discussion of the diverse community perspectives on the SMW rates by sharing with them contending views of different parties. In this round of consultation, among the 160 organisations invited, 66 attended. In total, 17 meetings were conducted in April 2010.

- 2.22 We invited views and comments of stakeholders on our preliminary thinking of the Basket of Indicators and other relevant considerations for deliberating the SMW rate during the second round of meetings. These feedback and views helped us formulate assumptions for subsequent conduct of impact assessment and which in turn enabled our evidence-based discussion to be more focused.

(d) Third round consultation

- 2.23 With a view to obtaining a more in-depth understanding of the diverse views of stakeholders, we conducted a third round of consultation and held 9 meetings during which we met with 11 stakeholder groups from amongst those which had given more focused submissions and views on the initial SMW rate. In this round of meetings, we put forward views that had been obtained from different stakeholders so as to allow them the opportunities to respond and give oral submissions to supplement their written submissions. The purpose of such arrangements was to test the strengths and weaknesses of the arguments and the tenacity of their assertions and evidence when faced with challenges from other perspectives so that we could accord appropriate weight to their views received when deliberating the initial SMW rate. This round of consultation also enabled us to further refine our impact analysis and assumptions derived from consideration of the views and evidence collected during the previous consultation meetings. Details of stakeholders' views collected during the consultation exercise are in [Appendix IV](#) with key observations summarised in Section 4.I of Chapter 4.

2.II.4 Statistical Surveys and Data

- 2.24 In the process of deliberating the initial SMW rate, we studied in detail statistics of hourly wage levels and distribution of employees in Hong Kong with a view to estimating the number and proportion of affected employees and understanding their socio-economic characteristics. These data were obtained through AEHS conducted by C&SD. We also studied the operating characteristics of business enterprises in different sectors, so as to analyse the likely impact of SMW on the business community. These data were collected through PAES conducted by C&SD. Particular attention was paid to LPS and SMEs, as they would likely be more affected by the implementation of SMW.
- 2.25 AEHS is a survey conducted for the first time to provide comprehensive data on the level and distribution of wages, employment details and demographic profile of employees in Hong Kong. These statistics are essential inputs for analyses related to SMW. PAES, on the other hand, has been conducted since 1980s to collect data for compiling annual statistics to measure the general operating characteristics and performance of business enterprises of various sectors in Hong Kong. Key operating statistics include total business receipts, operating expenses, compensation

of employees and gross surplus. Detailed analyses of these two survey results are given in Chapters 3 and 4.

- 2.26 In addition to AEHS and PAES, data from various C&SD surveys and administrative records of selected government departments (e.g. aggregated data from the Inland Revenue Department and Official Receiver's Office, etc.) were collated and studied. These statistical data covered essential and important indicators such as gross domestic product, consumer price index and labour market statistics (including employment, unemployment and vacancies, wage distribution and differentials, labour earnings and productivity).
- 2.27 The above statistical data are generally accessible to all members of the public. To enable the public to better understand the wage distribution of employees and operating characteristics of enterprises, we also uploaded onto the webpage of PMWC a set of supplementary statistical tables, namely (i) the number and proportion of employees earning less than different hourly wage levels analysed by sector; (ii) estimated increase in wages of employees earning less than different hourly wage levels analysed by sector; (iii) estimated increase in wage bill analysed by sector; and (iv) operating characteristics of enterprises analysed by sector.
- 2.28 It is noteworthy that there would be inevitably a time lag between data collection and final output for the annual surveys of AEHS and PAES. In addition, data on depreciation and hence profit ratios after depreciation were not available from the current data of PAES, and data on some small and medium franchisees might not be captured as individual SMEs but rather were grouped collectively under "the franchisors" in PAES. In recognition of these limitations, we took into account other relevant indicators drawn from data sources which were more frequently updated, especially with regard to business operating conditions. We also conducted sensitivity tests on profit ratio after depreciation under different SMW scenarios by applying depreciation rates provided by relevant stakeholders during the consultation exercise.
- 2.29 Moreover, special meetings were also held to update the PMWC on the latest performance of the relevant social, economic and employment situations of our economy.

3 Characteristics of Low Pay

- 3.1 Different places have different standards on “low pay”. We should make a judgement in the light of our own circumstances. What other places have considered as “low pay” should be taken as a reference but must not be taken as decisive or conclusive for application in Hong Kong.
- 3.2 In order to conduct an in-depth impact assessment of the statutory minimum wage (SMW), we nonetheless studied in detail the data on groups of employees and enterprises who would likely be more affected by the introduction of SMW. These would be commonly referred to as low-paid employees and low paying sectors (LPS) by the community and stakeholders. The data on wage distributions of these employees and their key socio-economic characteristics were obtained through the 2009 Annual Earnings and Hours Survey (AEHS). The operating characteristics of LPS, and in particular small and medium enterprises (SMEs) in LPS, were obtained from the 2008 Programme of Annual Economic Surveys (PAES) and the Annual Survey of Personal, Social and Recreational Services.
- 3.3 According to the *First Report* of the Low Pay Commission in the United Kingdom (UK), hourly rates falling within the lowest decile (i.e. lowest 10%) of earnings were commonly considered as low pay. Besides, as reflected by some stakeholders during our consultation exercise, the employment opportunities of certain groups of workers would likely be more affected by the implementation of SMW, and we notice that most of such workers were engaged in LPS and/or received the lowest pay. Using the description of the UK and the views of stakeholders mentioned above as an initial reference, those employees within the lowest decile of the hourly wage distribution of all employees in Hong Kong could generally be described as low-paid⁽¹⁾. According to the 2009 AEHS, there were some 277 400 employees⁽²⁾ paid below the lowest decile (\$27.0) of the hourly wage distribution of all employees in Hong Kong in the second quarter of 2009. However, it must be emphasised that using the lowest overall wage decile to describe low-paid employees is only a reference point and not definitive, nor could it be treated as a benchmark cast in stone for future purposes. This initial reference was used to allow the iterative process of deliberations to be completed. In Section 3.I below, the socio-economic characteristics of employees within the lowest overall wage decile and selected groups of such individuals as discussed above will be analysed.

(1) Such employees are abbreviated as employees within the lowest overall wage decile hereafter.

(2) Employees do not cover live-in domestic workers and Government employees. Please refer to the Glossary for details.

- 3.4 Generally, a given sector would be described as LPS if it employs a relatively large number or a relatively high proportion of low-paid employees within that sector. It is noted that there are low-paid employees engaged in sectors other than LPS (non-LPS) and a worker engaged in LPS is not necessarily a low-paid employee.
- 3.5 In working out LPS, we initially used the lowest overall wage decile as the reference of low pay to find out the number and proportion of low-paid employees in each sector. After comparing these numbers and proportions among sectors and the overall economy, we picked sectors with the most low-paid employees. Based on the evidence available, including the above analysis and information gathered from the visits made to various sectors and the meetings with the stakeholders as well as the results of the 2009 AEHS, three sectors, namely: (i) retail, (ii) restaurants, and (iii) estate management, security and cleaning services could be initially described as LPS. There was a fourth group which comprised various other low paying sectors. **Table 3.1** presents a breakdown of these LPS by sub-sector and the proportion of employees within the lowest overall wage decile in each low paying sector. The detailed coverage of LPS is in Appendix V. It should be noted that the classification of sectors as LPS is not cast in stone nor a mere designation by the Provisional Minimum Wage Commission (PMWC). Rather, it is based on reasoned analysis and subject to change as and when needed according to evidence.

Table 3.1: Make-up of employees within the lowest overall wage decile by LPS in the second quarter of 2009

Sector	Employees within the lowest overall wage decile		Hourly Wage	
	Number	Proportion among all employees within each sector	Median (\$)	1st decile (\$)
I Low paying sectors	230 500	30.6%	33.7	22.7
1 Retail	45 500	18.2%	39.9	25.0
1.1 Supermarkets and convenience stores	14 200	36.3%	30.0	23.0
1.2 Other retail stores	31 200	14.9%	42.5	25.6
2 Restaurants	56 500	29.0%	32.7	23.0
2.1 Chinese restaurants	9 200	14.3%	37.6	25.6
2.2 Non-Chinese restaurants	13 000	20.9%	35.0	25.0
2.3 Fast food cafes [^]	27 000	56.3%	25.6	20.0
2.4 Hong Kong style tea cafes	7 300	35.2%	30.4	23.1
3 Estate management, security and cleaning services	101 700	47.2%	27.6	21.0
3.1 Real estate maintenance management	38 000	38.3%	33.3	20.5
3.2 Security services [#]	15 700	46.2%	27.9	20.2
3.3 Cleaning services	43 100	65.8%	26.2	22.2
3.4 Membership organisations [@]	4 800	29.2%	45.7	20.4
4 Other low paying sectors	26 700	28.7%	33.7	22.2
4.1 Elderly homes	6 000	32.5%	35.9	22.7
4.2 Laundry and dry cleaning services	900	28.3%	34.7	\$
4.3 Hairdressing and other personal services	12 300	28.7%	33.7	21.3
4.4 Local courier services	1 100	21.0%	33.9	24.0
4.5 Food processing and production	6 400	27.3%	37.3	22.2
II Other sectors	47 000	2.3%	71.6	38.2
III All sectors	277 400	10.0%	58.5	27.0

Notes: (^) Fast food cafes include takeaway shops.

(#) Security services include investigation activities and services to buildings and landscape care activities.

(@) Membership organisations include incorporated owners/tenants committees, kaifong welfare associations, etc.

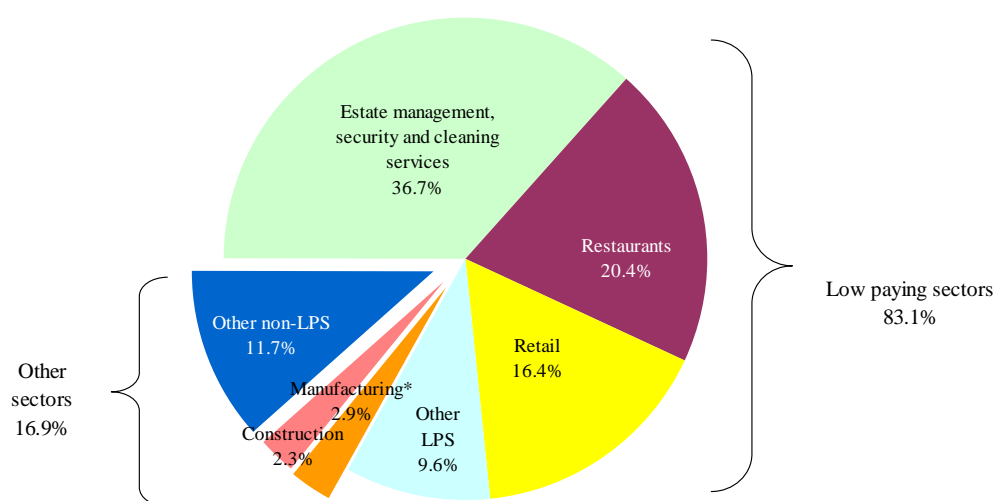
(\$) Figure is not released due to relatively large sampling error.

Source: 2009 Annual Earnings and Hours Survey, C&SD.

3.6 The concentration of employees within the lowest overall wage decile in each low paying sector was relatively high (**Table 3.1**). In the second quarter of 2009, 30.6% of the employees within LPS were low-paid, which was in sharp contrast to only 2.3% found in other sectors. Among individual low paying sector and sub-sectors, the shares of employees within the lowest overall wage decile were as high as 65.8% in cleaning services, 56.3% in fast food cafes, 46.2% in security services, 38.3% in real estate maintenance management, 36.3% in supermarkets and convenience stores and 35.2% in Hong Kong style tea cafes. Such figures suggested that these sectors would be more affected by SMW.

- 3.7 LPS in Hong Kong employed a total of 753 400 employees (27.1% of all sectors), of whom 230 500 (30.6% of 753 400) were employees within the lowest overall wage decile. 83.1% of all employees within the lowest overall wage decile were engaged in LPS, with 101 700⁽³⁾ (36.7%) in estate management, security and cleaning services, 56 500⁽³⁾ (20.4%) in restaurants, 45 500⁽³⁾ (16.4%) in retail, and 26 700⁽³⁾ (9.6%) in other low paying sectors (**Figure 3.1**). Among the other sectors, manufacturing and construction had the highest shares of employees within the lowest overall wage decile, accounting for 2.9% and 2.3% respectively.

Figure 3.1: Distribution of employees within the lowest overall wage decile by sector



Note: (*) Excluding food processing and production activities.
Source: 2009 Annual Earnings and Hours Survey, C&SD.

- 3.8 Further analysis of the operating characteristics of LPS and key socio-economic characteristics of employees within the lowest overall wage decile in individual low paying sector will be given in Section 3.II.

3.I Employees within the Lowest Overall Wage Decile

- 3.9 In a free economy such as Hong Kong where wage levels are primarily determined by labour supply and demand, several groups are particularly vulnerable to receiving low pay (**Table 3.2**). These vulnerable groups include: females, young and elderly workers, workers with low educational attainment, part-time workers, casual workers, elementary workers⁽⁴⁾ and service workers. **Figure 3.2** shows the extent to which, based on the 2009 AEHS, these groups of employees appeared in the lowest-paid decile in the hourly wage distribution of employees in Hong Kong. Their socio-economic characteristics will be discussed in the following paragraphs.

(3) Individual figures do not add up to the total number of employees within the lowest overall wage decile engaged in LPS due to rounding.

(4) Elementary workers refer to unskilled workers performing simple and routine tasks which may require the use of hand-held tools and considerable physical effort. Please refer to the Glossary for details.

Table 3.2: Socio-economic characteristics of employees within the lowest overall wage decile

Socio-economic attribute	Employees within the lowest overall wage decile			Proportion of employees with the corresponding socio-economic attribute in all employees in Hong Kong [@] (%)
	Number ('000)	Proportion among all employees with the corresponding socio-economic attribute* (%)	Proportion among all employees within the lowest overall wage decile* (%)	
All Employees within the lowest overall wage decile	277.4	100.0	100.0	10.0
I. Gender				
Female	169.0	12.7	60.9	47.8
Male	108.4	7.5	39.1	52.2
II. Age group				
15-24	38.7	15.3	13.9	9.1
25-34	31.4	4.1	11.3	27.8
35-44	48.5	6.1	17.5	28.5
45-54	87.1	12.9	31.4	24.3
55 and above	71.8	25.1	25.9	10.3
III. Educational attainment				
Primary and below	116.8	31.5	42.1	13.3
Secondary 1 to 3	98.0	21.2	35.3	16.6
Secondary 4 to 5	57.0	6.0	20.5	34.3
Secondary 6 and above	5.6	0.6	2.0	35.8
IV. Employment status				
Full-time	221.8	8.5	80.0	94.0
Part-time	55.6	33.3	20.0	6.0
V. Terms of contract				
Permanent	238.2	9.5	85.8	90.1
Fixed-term contract	20.2	9.4	7.3	7.7
Casual	19.1	30.9	6.9	2.2
VI. Occupation				
Managers, administrators, professionals & associate professionals	3.9	0.4	1.4	37.6
Clerks	9.0	1.7	3.3	18.6
Craft workers & plants operators	9.3	2.6	3.4	12.8
Service workers	99.5	23.1	35.9	15.5
Elementary workers	155.7	36.5	56.1	15.4

Notes: Individual figures may not add up exactly to the total due to rounding.

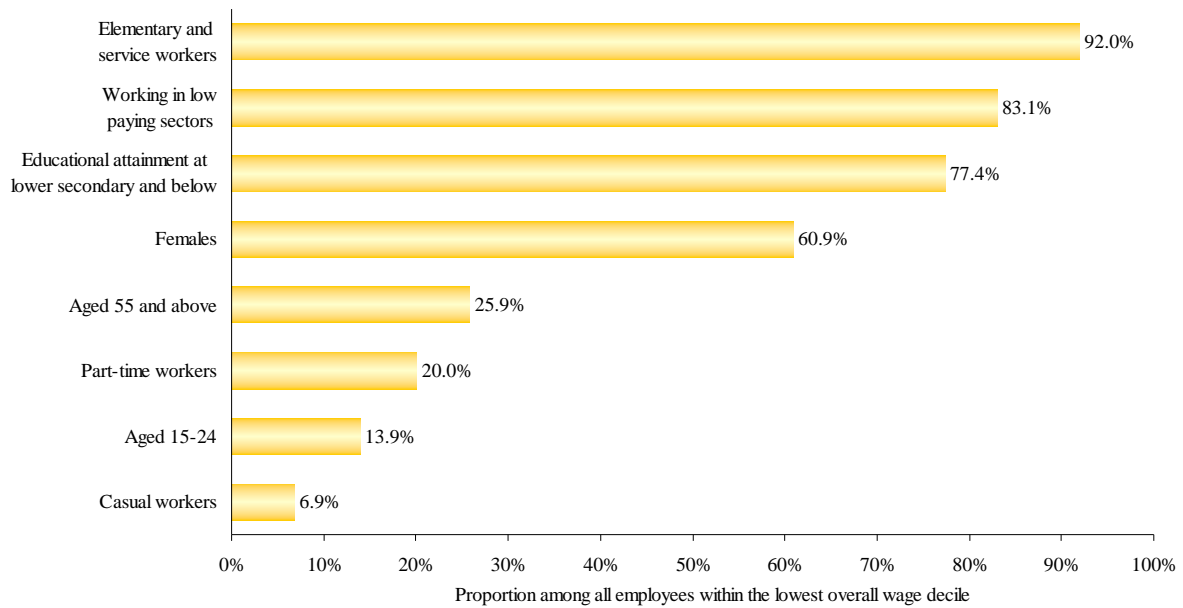
(*) For example, female employees within the lowest overall wage decile accounted for 12.7% of all female employees, and so on.

(#) For example, females accounted for 60.9% of all employees within the lowest overall wage decile, and so on.

(@) For example, female employees accounted for 47.8% of all employees, and so on.

Source: 2009 Annual Earnings and Hours Survey, C&SD.

Figure 3.2 Socio-economic profile of employees within the lowest overall wage decile

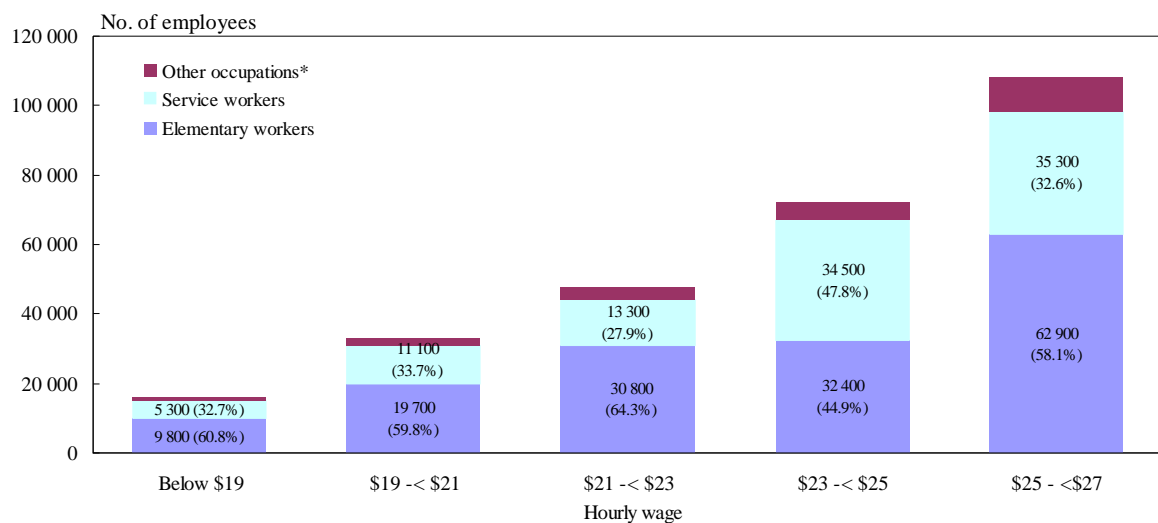


Source: 2009 Annual Earnings and Hours Survey, C&SD.

3.1.1 Elementary and Service Workers

3.10 Elementary and service workers took up a significant percentage share in the lower wage bands (**Figure 3.3**). In the second quarter of 2009, the majority of low-paid service workers were employed in LPS, especially in retail shops and restaurants. The bulk of the low-paid elementary workers were found in estate management, security and cleaning services (**Figure 3.4**).

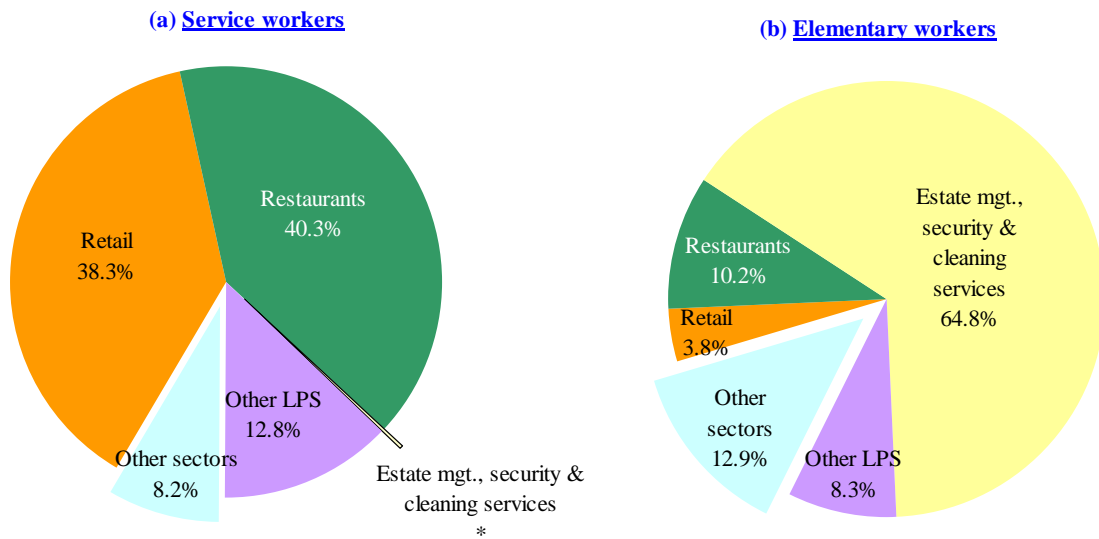
Figure 3.3: Employees by occupation in lower wage bands



Note: * Other occupations include managers, administrators, professionals & associate professionals, clerks, craft workers and plants operators.

Source: 2009 Annual Earnings and Hours Survey, C&SD.

Figure 3.4: Distribution of service and elementary workers within the lowest overall wage decile by sector



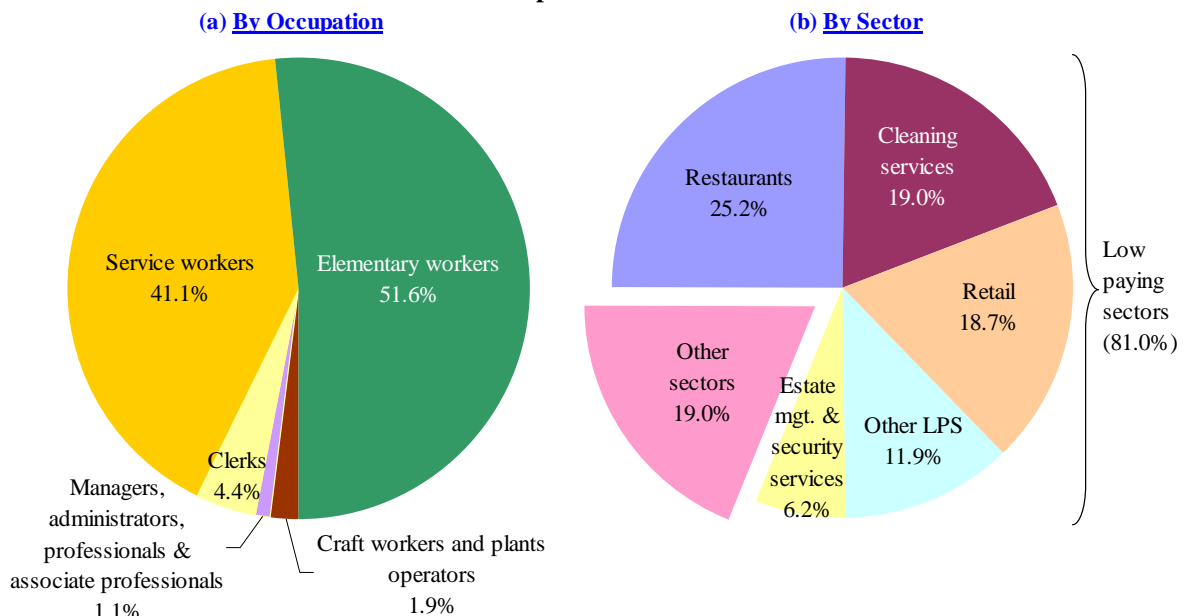
Note: * less than 0.5%

Source: 2009 Annual Earnings and Hours Survey, C&SD.

3.1.2 Females

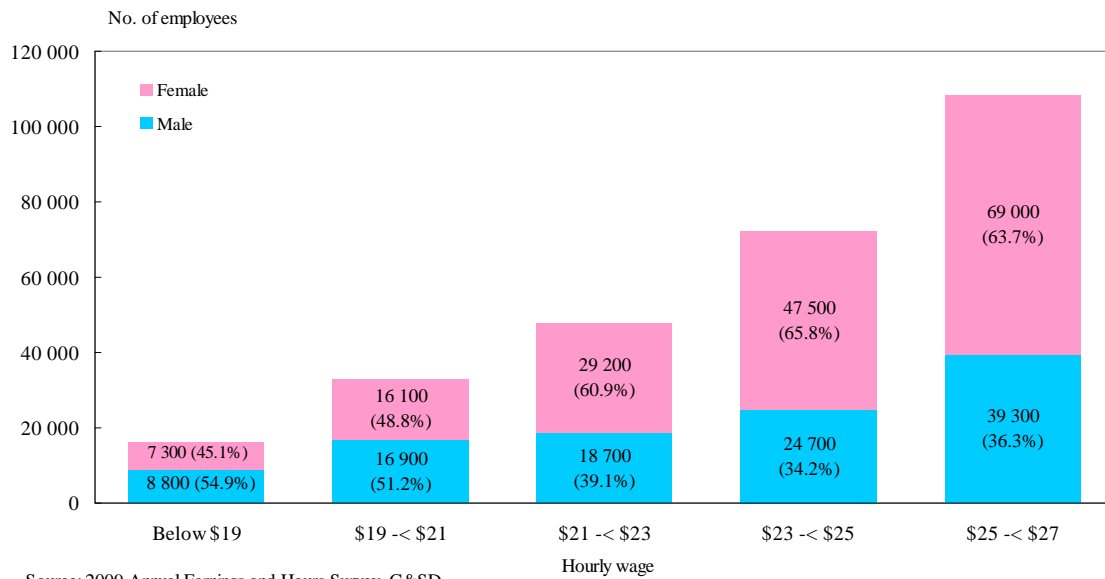
3.11 The data showed that gender-wise, there were relatively more female employees within the lowest overall wage decile. They were mainly elementary and service workers engaged in the restaurants, cleaning services and retail (**Figure 3.5**). As shown in **Figure 3.6**, while there were significantly more females in the lower hourly wage bands of \$21 to \$27, slightly more males were found among those earning hourly wages below \$21.

Figure 3.5: Distributions of female employees within the lowest overall wage decile by occupation and sector



Source: 2009 Annual Earnings and Hours Survey, C&SD.

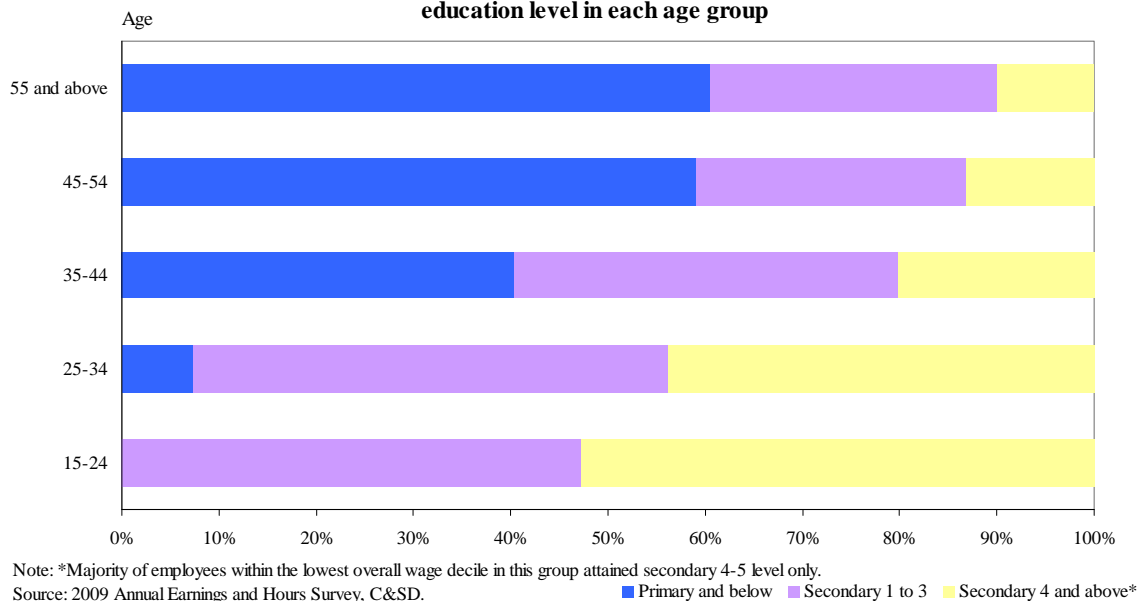
Figure 3.6: Employees in low wage bands by gender



3.1.3 Young and Elderly Employees with Low Educational Attainment

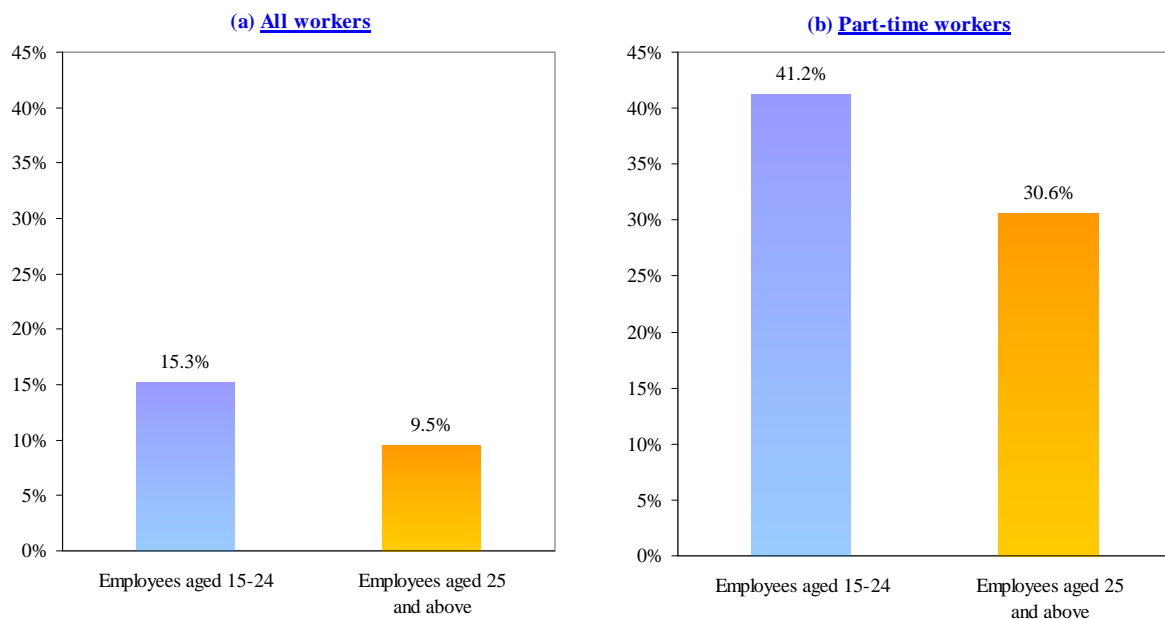
3.12 Young and elderly workers respectively aged 15 to 24 and 55 and above were more likely to be engaged in low-paid jobs. Within these two age groups, such a situation was strongly associated with low educational attainment. For employees aged 55 and above, over 60% of the low-paid were found to possess only primary and below education (**Figure 3.7**). Likewise, a significant proportion of low-paid young workers aged 15-24 attained only lower secondary or below education.

Figure 3.7: Distribution of employees within the lowest overall wage decile by education level in each age group



3.13 Worth noting was that a substantial proportion of Hong Kong's young workers was low-paid and working part-time, though in absolute number such individuals did not represent a significant part of the total low-paid workforce (**Figure 3.8**). Conceivably, many low-paid young workers had just entered the workplace or were still receiving education. Unlike other low-paid groups, over time, with accumulation of experience, training and further education, they would still have a fair chance of improving their earnings.

Figure 3.8: Percentage of employees within the lowest overall wage decile by age

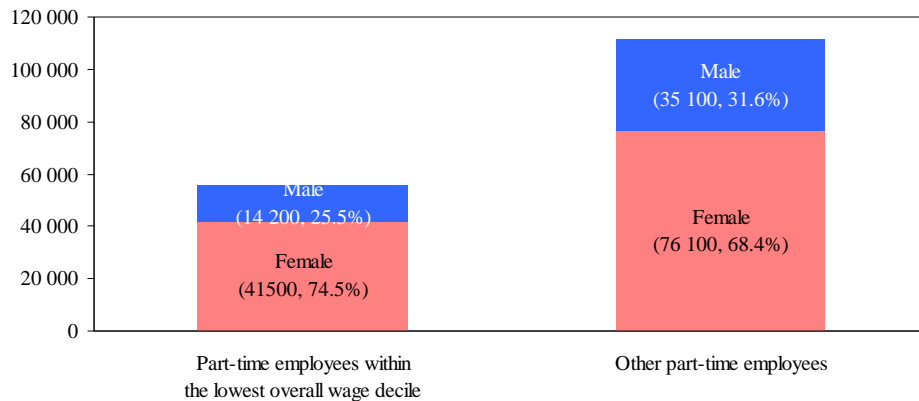


Source: 2009 Annual Earnings and Hours Survey, C&SD.

3.I.4 Part-time Workers

3.14 Part-time work accords flexibility to both employers and employees. Employers could readily adjust the size of the workforce to meet frequent changes in business conditions. Employees, on the other hand, could adjust their extent of participation in the labour market to their personal or family commitments. This applied particularly to females who dominated the part-time workforce, irrespective of low-paid or not (**Figure 3.9**). Nevertheless, there were indeed part-time workers who desired full-time work but failed to secure such.

Figure 3.9: Distribution of part-time employees by gender and pay



Source: 2009 Annual Earnings and Hours Survey, C&SD.

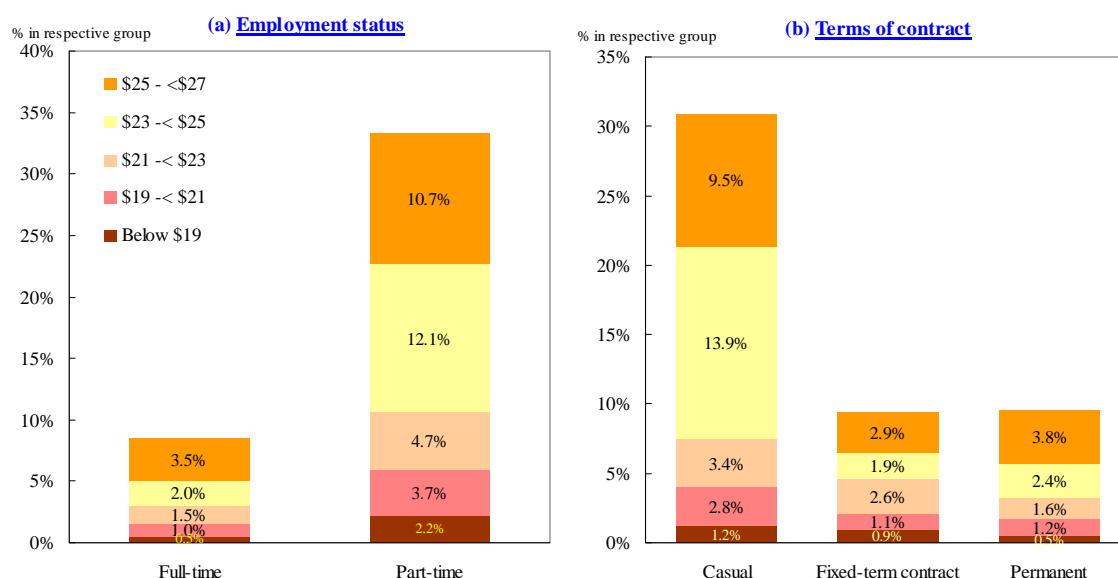
3.15 While most of the employees within the lowest overall wage decile worked full-time, the incidence of low pay⁽⁵⁾ was more pronounced in part-time jobs. This was demonstrated by the significantly higher proportions of part-time workers who fell into the lower wage bands (**Figure 3.10(a)**).

3.1.5 Casual Workers

3.16 Casual workers refer to individuals employed on a daily basis or for a fixed period of less than 60 days. The 2009 AEHS indicated that low-paid casual workers were usually found among the middle-aged and females, especially in the retail and restaurants sectors. Though accounting for a small proportion of the low-paid workforce, casual workers faced a much higher incidence of low pay as compared with permanent and fixed-term contract workers (**Figure 3.10(b)**).

(5) The incidence of low pay of a specific socio-economic attribute is measured by the percentage shares of employees within the lowest overall wage decile among all employees of that attribute.

Figure 3.10: Percentage of employees within the lowest overall wage decile by nature of employment

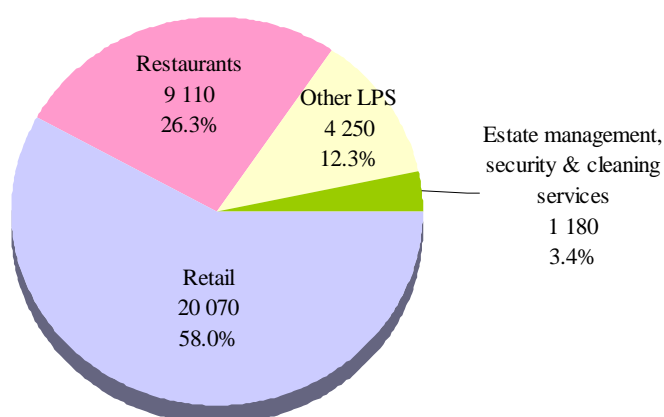


Source: 2009 Annual Earnings and Hours Survey, C&SD.

3.II Low Paying Sectors

- 3.17 Based on the 2008 PAES, there were 34 620 enterprises⁽⁶⁾ falling within LPS, which amounted to 18.4% of all enterprises in Hong Kong. The retail sector accounted for the largest number of enterprises within LPS, followed by restaurants, other low paying sectors, and estate management, security and cleaning services⁽⁷⁾ (**Figure 3.11**).

Figure 3.11: Distribution of enterprises by low paying sector



Source: 2008 Programme of Annual Economic Surveys, C&SD.

- (6) Since the SMW policy would only affect firms with employees, all statistics and analysis of LPS and other sectors given in this Section cover enterprises with employees only.
- (7) Excluding enterprises of membership organisations, such as incorporated owners / tenants committees and kaifong welfare associations.

- 3.18 Compared with other sectors, higher shares of staff cost⁽⁸⁾ were generally found in LPS, together with lower profitability⁽⁹⁾ and greater concentration of employees in the lower wage bands, as shown by the more heavily skewed hourly wage distributions (**Table 3.3 and Figure 3.12**). This suggested that following the implementation of SMW, the impact of staff cost increases would be relatively more significant in LPS, which would also entail larger impacts on total operating costs and profit margins. The low profit ratios suggested that competition among LPS enterprises was very keen, thus increasing the chance that some existing enterprises might be forced to exit from the market because their profits would likely fall due to SMW-induced additional wage cost, unless they were able to counter it with enhanced productivity. It should be noted that profitability in this report is measured in terms of profit ratio which is similar, but not exactly the same as that commonly used in business practice. Profit ratio in this context refers to the ratio of earnings⁽¹⁰⁾ before deducting tax; depreciation; gain/loss on disposal of property, machinery and equipment; bad debts/write-off, amortisation and provisions, to business receipts.

(8) The share of staff cost is measured in terms of the ratio of compensation of employees to total operating expenses.

(9) For the rationale of selecting the indicators of (a) shares of staff cost (i.e. the ratios of compensation of employees to total operating expenses) and (b) overall profit ratios within the Basket of Indicators considered by PMWC, please see Chapter 4.

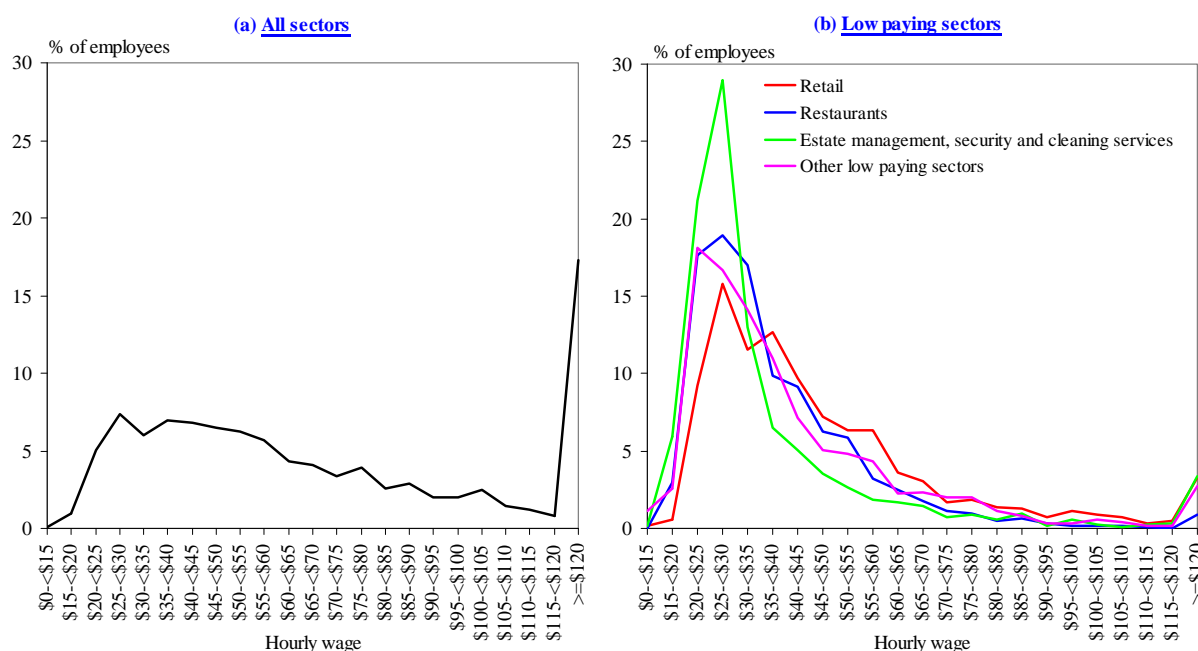
(10) Earnings used in this report are not exactly the same as EBITDA (earnings before interest, taxes, depreciation and amortisation) used in business accounting. Please refer to the Glossary for details.

Table 3.3 Share of staff cost, profit ratio and hourly wage rate in LPS

Sector		Staff cost ⁽¹⁾ as % of		Profit ratio ^{(~)(1)}		Hourly wage rate ⁽²⁾	
		Total operating expenses	Business receipts	Overall	1st quartile	Median (\$)	1st decile (\$)
I.	Low paying sectors	41.9%	16.8%	7.8%	-0.1%	33.7	22.7
1	Retail	31.6%	9.1%	7.0%	-1.9%	39.9	25.0
1.1	Supermarkets and convenience stores	29.0%	7.2%	6.2%	0.9%	30.0	23.0
1.2	Other retail stores	31.9%	9.4%	7.2%	-1.9%	42.5	25.6
2	Restaurants	50.1%	28.4%	9.0%	-3.9%	32.7	23.0
2.1	Chinese restaurants	54.3%	32.0%	8.9%	-4.8%	37.6	25.6
2.2	Non-Chinese restaurants	48.9%	26.3%	10.0%	-4.0%	35.0	25.0
2.3	Fast food cafes [^]	40.1%	22.9%	9.7%	6.9%	25.6	20.0
2.4	Hong Kong style tea cafes	53.9%	30.3%	5.8%	-7.1%	30.4	23.1
3	Estate management, security and cleaning services	49.9%	46.4%	6.8%	1.8%	27.6	21.0
3.1	Real estate maintenance management	34.0%	31.3%	7.7%	0.9%	33.3	20.5
3.2	Security services [#]	87.4%	82.7%	5.3%	1.8%	27.9	20.2
3.3	Cleaning services	80.1%	75.6%	4.1%	5.5%	26.2	22.2
3.4	Membership organisations [@]	-	-	-	-	45.7	20.4
4	Other low paying sectors	54.8%	22.9%	11.7%	3.1%	33.7	22.2
4.1	Elderly homes	58.5%	55.5%	5.1%	*	35.9	22.7
4.2	Laundry and dry cleaning services	37.3%	33.3%	10.9%	6.8%	34.7	§
4.3	Hairdressing and other personal services	48.3%	39.3%	17.9%	10.2%	33.7	21.3
4.4	Local courier services	40.4%	36.7%	9.2%	§	33.9	24.0
4.5	Food processing and production	59.3%	16.0%	12.2%	1.0%	37.3	22.2
II	Other sectors	33.6%	10.6%	14.1%	-0.1%	71.6	38.2
III	All sectors	34.4%	11.1%	13.7%	-0.1%	58.5	27.0

- Notes: (^) For statistics on hourly wage rate, fast food cafes include takeaway shops.
 (#) Security services also include investigation activities and some services to buildings and landscape care activities.
 (@) Membership organisations include incorporated owners/tenants committees, kaifong welfare associations, etc.
 (~) Earnings before tax and depreciation ratio (abbreviated as profit ratio) refers to ratio of earnings before deducting tax; depreciation; gain/loss on disposal of property, machinery and equipment; bad debts/write-off, amortisation and provisions, to business receipts.
 (-) Data are not available for the survey period.
 (§) Statistics are not released due to large sampling error.
 (*) Less than 0.05%
- Sources: (1) 2008 Programme of Annual Economic Surveys, C&SD.
 (2) 2009 Annual Earnings and Hours Survey C&SD.

Figure 3.12: Distribution of employees by hourly wage



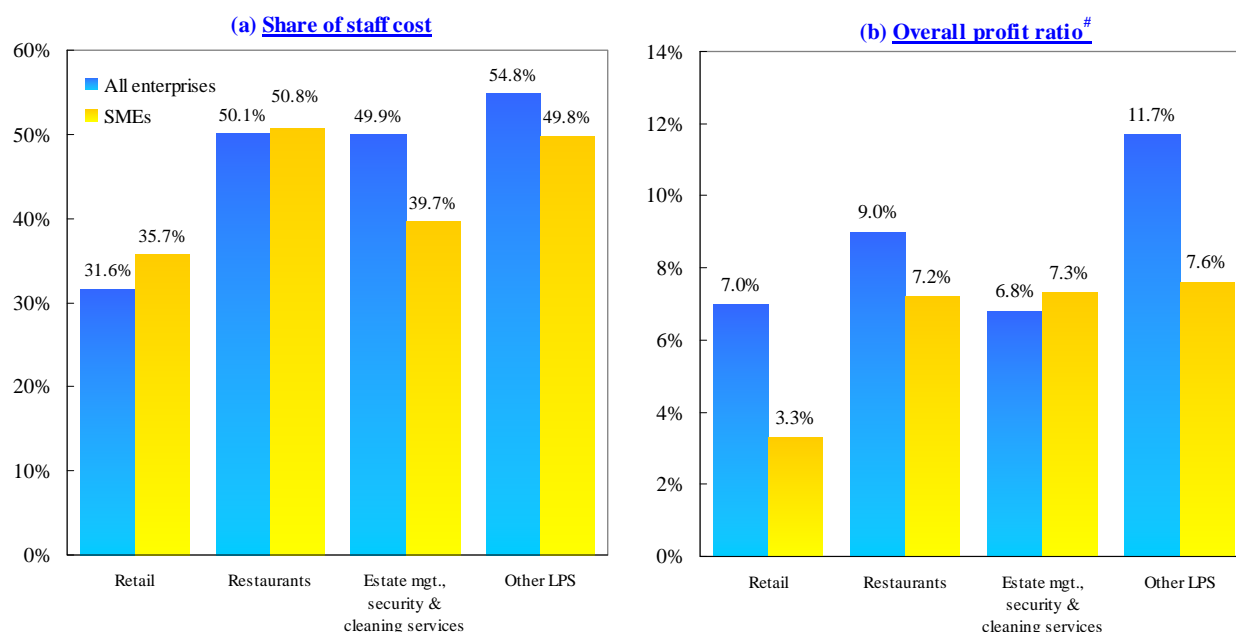
Source: 2009 Annual Earnings and Hours Survey, C&SD.

- 3.19 Security services, cleaning services and elderly homes had very high shares of staff cost (above 50% of business receipts) and low overall profit ratios (less than 6%). Also, wages of employees in LPS were lower. As an illustration, the lowest decile hourly wage of employees engaged in LPS was \$22.7 per hour in the second quarter of 2009, 15.9% less than that of \$27.0 per hour for all employees in Hong Kong.

SMEs

- 3.20 The impact of SMW would likely be more significant for SMEs in the retail, restaurants, and food processing and production sectors. Such firms generally had either higher shares of staff cost in total operating costs or lower profit ratios as compared with larger companies in the same sectors (**Figure 3.13**). More visible differences were observed in the retail sector, in which SMEs as a whole recorded profit ratio of about 3.7 percentage points lower than all enterprises in the sector. The large enterprises as a group took up a major share of employment. The ability of SMEs to cope with SMW-induced cost increases would depend on the competitive environment in their respective sectors. For more analysis on the operating characteristics of SMEs, please refer to paragraph 4.94 and **Table 4.4** in Chapter 4.

Figure 3.13: Share of staff cost and profit ratio in LPS



Note: [#] Earnings before tax and depreciation ratio (abbreviated as profit ratio) refers to ratio of earnings before deducting tax; depreciation; gain/loss on disposal of property, machinery and equipment; bad debts/write-off, amortisation and provisions, to business receipts.

Source: 2008 Programme of Annual Economic Surveys, C&SD.

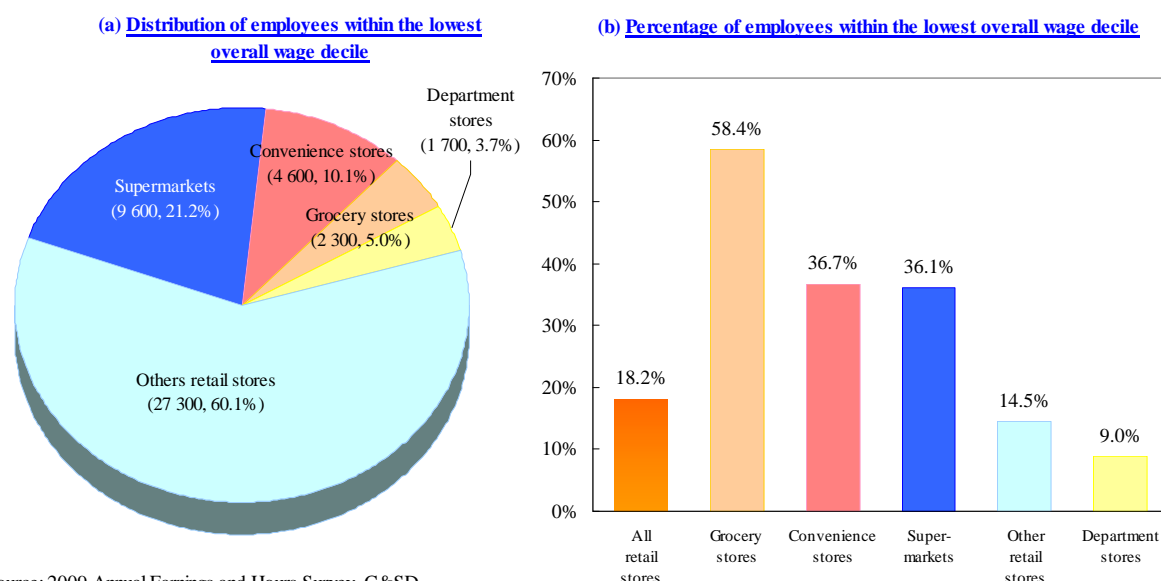
3.21 Companies operating at very low or even negative profit ratios would likely face more difficult business and operating conditions following the implementation of SMW. As shown in **Table 3.3**, such enterprises were likely to be found in the retail and restaurants sectors, where profit ratios at the first quartile⁽¹¹⁾ were negative in 2008.

3.II.1 Retail

3.22 Hong Kong is an international shopping centre, which offers consumers a variety of fashion boutiques, large department stores, as well as outlets specialising in fast moving consumer goods. Given a relatively high incidence of low pay in the sub-sectors of outlets specialising in fast moving consumer goods including supermarkets, convenience stores and grocery stores, they would likely experience a more significant impact (**Figure 3.14**).

(11) Profit ratio at the first quartile is the rate at which one-fourth of all business enterprises have profit ratios less than this ratio, while three-fourths have profit ratios larger than this ratio.

Figure 3.14: Distribution of employees within the lowest overall wage decile in the retail sector and percentage of these employees within each sub-sector



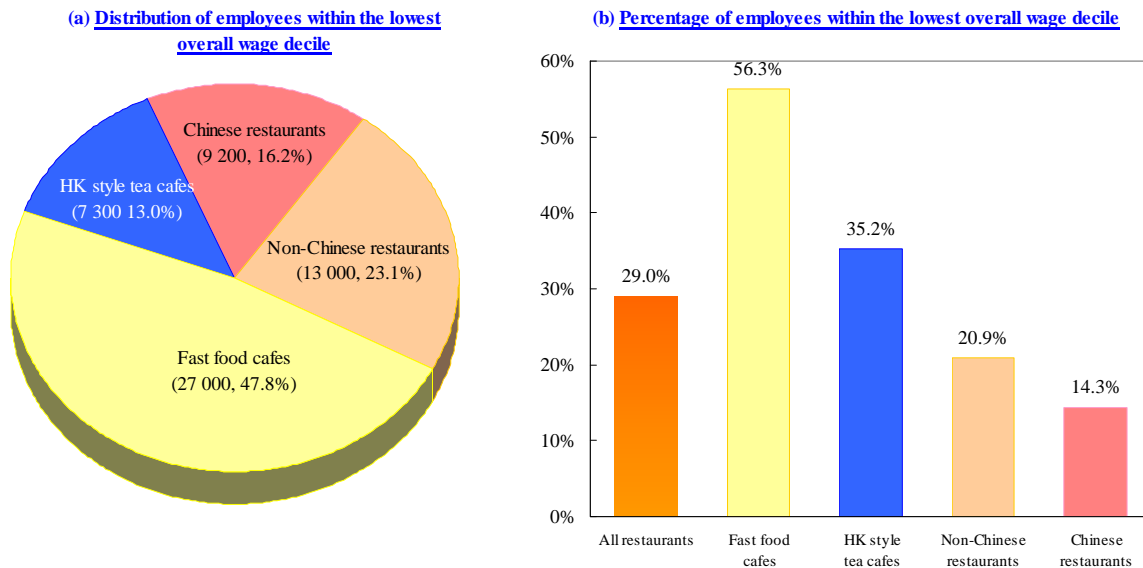
Source: 2009 Annual Earnings and Hours Survey, C&SD.

- 3.23 It should be noted that over half of the retail shops in Hong Kong were operated solely by working proprietors, active partners and unpaid family workers without hiring any employees, which should not be affected by SMW. For retail shops with employees, awarding commission as an incentive on top of basic wages is a very common practice. While some retail shops may adjust remuneration packages by reducing the commission so as to offset staff-cost increases, the extent and impact can only be ascertained through further studies after the SMW implementation.
- 3.24 Hourly wage distribution for the retail sector as a whole indicated that pay was particularly concentrated at the lower levels, with 10% or around 24 800 employees earning an hourly wage below \$25.0 in the second quarter of 2009 (**Table 3.3 and Figure 3.12(b)**). Employees within the lowest overall wage decile in the retail sector were mainly service and elementary workers, females, and workers with lower secondary and below education.

3.II.2 Restaurants

- 3.25 Catering services in Hong Kong are supplied by a diversity of restaurants. The SMW implementation would likely impact more heavily on those restaurants which competed on low prices and employed more low-paid employees (**Figure 3.15**).

Figure 3.15: Distribution of employees within the lowest overall wage decile in the restaurants sector and percentage of such employees within each sub-sector



Source: 2009 Annual Earnings and Hours Survey, C&SD.

- 3.26 Employees in the restaurants and catering businesses usually work long hours. The majority of employees receive meal benefits in kind. The pay hierarchy is generally complex, involving a large number of ranks distinguished by relatively narrow differentials in pay. The extent to which the SMW implementation would impact working hours, meal benefits in kind and pay hierarchy in the restaurants sector would need to be examined in future studies.
- 3.27 A high proportion of employees in the restaurants sector was found at the lower wage bands, with 10% or around 18 900 employees earning less than \$23.0 per hour in the second quarter of 2009 (**Table 3.3 and Figure 3.12(b)**). Employees within the lowest overall wage decile in this sector were mainly service and elementary workers, females and workers with primary and below education.
- 3.28 About half of the restaurants employed fewer than 10 workers. These small restaurants, including Chinese restaurants, Hong Kong-style tea cafes and non-Chinese restaurants, generally operated on slim profit ratios and hence would face a more challenging business environment following the SMW implementation (**Table 3.4**). In the case of small fast food cafes, their seemingly high profit ratios must be interpreted against the fact that most were operated by owners together with a few employees, and that these owners might not take any wages.

Table 3.4 Profit ratios for restaurants with fewer than 10 employees

Restaurant	Number	Proportion	Profit ratio [@]
Chinese restaurants	920	40.3%	-2.6%
Non-Chinese restaurants	1 810	49.0%	3.6%
Fast food cafes [#]	1 020	80.6%	10.4%
Hong Kong style tea cafes	770	40.9%	1.7%
Total	4 510	49.5%	3.6%

Notes: (#) Takeaway shops are not included.

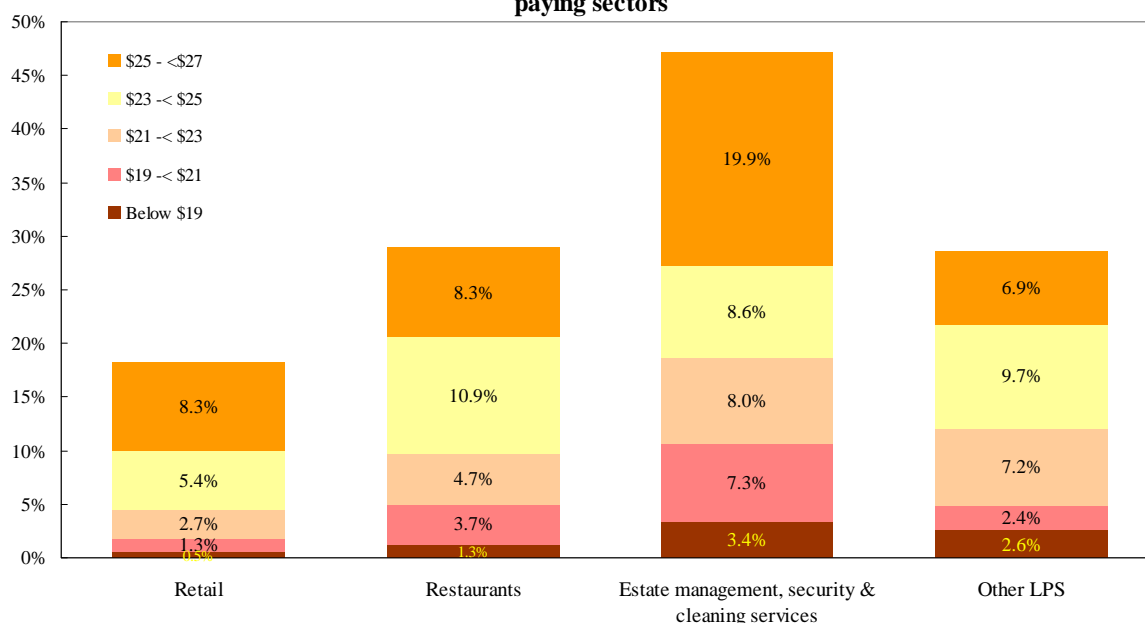
(@) Earnings before tax and depreciation ratio (abbreviated as profit ratio) refers to ratio of earnings before deducting tax; depreciation; gain/loss on disposal of property, machinery and equipment; bad debts/write-off, amortisation and provisions, to business receipts.

Source: 2008 Programme of Annual Economic Surveys, C&SD.

3.II.3 Estate Management, Security and Cleaning Services

3.29 Employees within the lowest overall wage decile in the estate management, security and cleaning services sector were mainly cleaners, security guards and building caretakers. Such individuals were more heavily represented at the lower end of hourly wage distribution than those in all the other three LPS (**Figure 3.16**). In the second quarter of 2009, 10% or around 21 500 employees of this sector earned less than \$21.0 per hour (**Table 3.3 and Figure 3.12(b)**). In addition, the lowest 5% of employees in this sector received an hourly wage of less than \$19.6. Building caretakers/watchmen hired under the 2-shift system (of 12 hours each) typically faced longer working hours and lower hourly wages than those hired under the 3-shift system (of 8 hours each).

Figure 3.16: Percentage of employees within the lowest overall wage decile in the low paying sectors



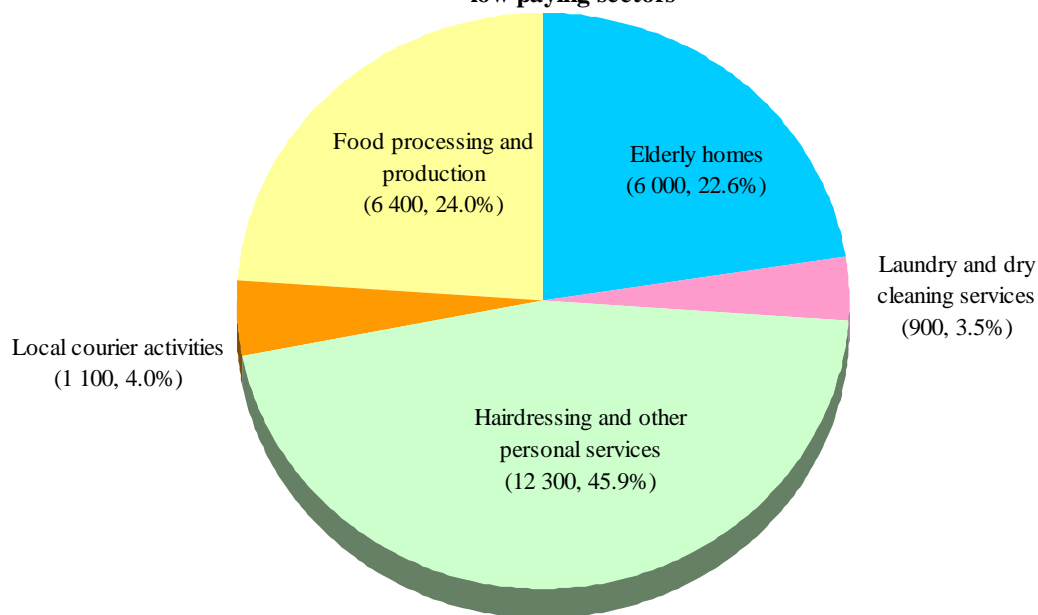
Source: 2009 Annual Earnings and Hours Survey, C&SD.

- 3.30 Compared with the other three LPS, significantly higher proportions of male and more mature workers (aged 45 and above) could be found in estate management, security and cleaning services. In particular, both security guards and cleaners were more often older individuals, while security guards and building caretakers/watchmen were mostly males. While some may have concerns about the impact of SMW implementation on these employees, stakeholders in this sector reflected that the majority of firms should be able to cope with the SMW-induced additional wage bill by raising service charges, without the need for significant layoffs. More discussion is in paragraphs 5.31 and 5.47 in Chapter 5.

3.II.4 Other Low Paying Sectors

- 3.31 Other low paying sectors covered five different activities. In terms of the number of employees within the lowest overall wage decile, hairdressing and other personal services came first, followed by food processing and production⁽¹²⁾, elderly homes, local courier services, and laundry and dry cleaning services (**Figure 3.17**).

Figure 3.17: Distribution of employees within the lowest overall wage decile in other low paying sectors



Source: 2009 Annual Earnings and Hours Survey, C&SD.

- 3.32 Employees within the lowest overall wage decile in other low paying sectors were mostly females and primarily found in hairdressing and other personal services, elderly homes, and food processing and production. These individuals were typically engaged in such low-skilled tasks as elementary and service workers, and possessed low educational attainment of primary schools and below.

(12) Examples of food processing and production establishments include establishments preparing meals for airlines and schools, establishments preparing food for sale at their enterprises' own or other enterprises' retail outlets, etc.

4 Considerations Underlying the Recommendation of the Initial Statutory Minimum Wage Rate

- 4.1 We are tasked by the Government to adopt an evidence-based approach to recommend an initial statutory minimum wage (SMW) rate which should serve as the wage floor. This wage floor, as stipulated in the law, should have regard to the need to maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs; and to sustain Hong Kong's economic growth and competitiveness. Given the emotive and sensitive nature of discussion on the SMW rate, we consider an evidence-based approach the best strategy to identify this balance.
- 4.2 As mentioned in Chapter 2, we conducted three rounds of consultation with stakeholders and members of the public in the deliberation of the initial SMW rate. Upon the completion of the first round of consultation, it was determined that in discharging our duties under the Terms of Reference, we should make reference to a Basket of Indicators and other considerations relevant to the SMW rate that reflected the areas of concerns raised, and assess the potential impact of different rates of SMW based on data available so that our deliberations on the initial SMW rate could be conducted in an informed and evidence-based manner. The adoption of such an approach, together with our preliminary views on the Basket of Indicators, other relevant considerations and impact assessment were uploaded onto our webpage for public information in mid-March 2010. Stakeholders' feedback and views from the second and third rounds of consultation had enabled us to confirm the selected indicators, refine the list of relevant considerations and develop assumptions for the impact assessment.
- 4.3 A summary of the stakeholders' views is given in Section 4.I. A detailed discussion of the Basket of Indicators (including selection rationale, data sources and limitations) and their latest performance are given in Sections 4.II and 4.IV respectively. Other considerations relevant to the SMW rate are highlighted in Section 4.III and details of the impact assessment will be discussed in Chapter 5.

4.I Views of Stakeholders

- 4.4 We paid full attention to the concerns and views expressed by stakeholder organisations and interested parties and studied in great depth every piece of written submission alongside the relevant statistical data provided. The information collected covered the methodology in setting the SMW rate and the appropriate level of the initial SMW rate, possible impact of SMW as well as other considerations relevant to the SMW policy, a summary of which is in Appendix IV. The key observations are set out below.

(a) Wage floor versus living wage

- 4.5 Employers' associations and business representatives were commonly of the view that SMW should be a wage floor which only guaranteed workers a minimum remuneration for their work but not a living wage to cover family expenses. They drew on the experience of the United Kingdom (UK) and France, which adopted the concepts of wage floor and living wage respectively, and concluded that the UK experience was more applicable to Hong Kong and that SMW in Hong Kong should start at a conservative level of no more than \$25 per hour.
- 4.6 On the contrary, labour unions and labour policy concern groups believed that SMW should be sufficient to cover the basic needs of an employee and his/her family with reference to the standards of the International Labour Organisation, and the SMW rate should not be lower than the level of payment under the Comprehensive Social Security Assistance (CSSA) Scheme in order to enhance work incentive and to accord due dignity to those at work. They in general considered that the initial SMW rate should be between \$30 and \$35 per hour.

(b) Impact on labour market

- 4.7 *Unemployment, automation and multi-tasking* – Employers' associations expressed that a high SMW rate would force enterprises to adopt various measures to reduce demand for staff and hence overall wage bill (such as replacing labour-intensive process with automation, raising job requirements and workload of staff, requesting senior staff to be multi-tasked after dismissing some junior staff). The employers' associations further claimed that, in extreme circumstances, some enterprises might even choose to close down if the increase in labour costs was beyond their affordability. Such measures, if adopted, would inevitably lead to job loss and higher unemployment rate, particularly in the low paying sectors (LPS). On the contrary, labour unions pointed out that some LPS, such as catering and cleaning services, were labour-intensive in nature with the majority of the workforce at the frontline level. Having regard to the persistent manpower shortage in these sectors, they argued that it was unlikely that large-scale redundancies would take place upon SMW implementation.
- 4.8 *Reducing working hours and outsourcing* – In addition to cutting headcounts, business representatives also cited other possible measures to offset cost increase, such as shortening staff working hours, replacing full-time workers with part-time ones and greater degree of outsourcing, which would mean less stable income as well as less income and fringe benefits for affected workers. In contrast, some labour policy concern groups held the view that after the implementation of SMW, workers should be able to work flexible or fewer hours while getting the same or even higher income.

- 4.9 *Employment opportunities of vulnerable groups* – Employers' associations were concerned that, in seeking to offset the cost increase triggered by SMW, some employers might raise job requirements and engage employees with higher productivity, hence displacing the vulnerable groups with lower productivity. These groups could include low-skilled workers, inexperienced young people, the disabled and the elderly. They were further of the view that special arrangements, such as setting different SMW rates or granting exemption to the vulnerable groups should be introduced. Some labour unions cast doubt on the displacement assertion. In their view, different workers had different job preferences (for instance, workers with higher competitiveness were generally not willing to take up menial work), and thus workers with different backgrounds and attributes would unlikely displace jobs of one another.
- 4.10 *Change in training strategy* – Some trade/professional organisations indicated that an excessively high SMW rate would jack up labour costs and hence adversely affect the affordability of employers to provide training to inexperienced staff. They also held the view that the pressure on costs and productivity might dampen employers' incentive to employ inexperienced youths.

(c) Impact on businesses

- 4.11 *Profitability, prices, trading-down and consumption and production across the boundary* – Some business representatives indicated that enterprises might be forced to raise the prices of goods and services in order to survive or maintain a reasonable level of profit. However, for sectors and firms facing keen competition from like-products and services, customers might respond by changing their consumption pattern. Examples included procuring substitute-goods commanding lower prices or crossing the boundary to consume on the Mainland and purchase products/services which could be stored and were not time-sensitive. Should the cost increase go beyond their affordability, some enterprises might even choose to relocate their operation, wholly or partly, elsewhere such as across the boundary onto the Mainland.
- 4.12 Labour unions and labour policy concern groups found such assertion unduly alarming. They believed that the additional labour costs could be fully absorbed by enterprises and profit drop, if any, should be by a small margin only. They felt that, with reasonable reward for work and a chance to share the fruits of economic growth, workers would be better motivated to provide better service, which would in turn help attract and retain customers.
- 4.13 *Additional labour costs in relation to statutory entitlements of employees* – Business associations pointed out that since the amount of contributions from employers to the mandatory provident fund, long service payments and other statutory

- entitlements of employees were all calculated with reference to the wage levels, the impact of SMW on labour costs for businesses would be much higher than initially assessed.
- 4.14 *Knock-on/ripple effect on the pay hierarchy* – Trade associations remarked that apart from raising wages of employees to the SMW rate, firms might have to raise wages of some low-paid employees (who could include workers already commanding a pay level above SMW) to levels above the SMW rate in order to underline the relative requirements of different positions in the set-up or to maintain reasonable pay differentials among staff of different ranks.
- 4.15 Labour unions, while not disputing the possibility of knock-on effect, considered such to be of a much smaller magnitude. They were of the view that for the purpose of reflecting different job requirements and maintaining reasonable pay differentials between ranks, enterprises would only need to increase wages for workers earning below the SMW level and those with direct working relationships with the former.
- 4.16 *Ways to offset additional labour costs* – Some stakeholders opined that, since increasing sales revenues or transferring additional labour costs to consumers might not always be feasible, firms were expected to adopt measures like simplifying organisational structures, increasing work automation thus enabling staff retrenchment and/or reduction in hours worked, requiring workers to take up more responsibilities, cutting bonuses and benefits (e.g. free meals) and so forth.
- 4.17 *Change in pay strategy* – Some business representatives remarked that should SMW be set too high, firms would have to offset the additional wage bills by reducing commissions or bonuses for employees, which would undermine the efficacy of performance-based payment system and thus, in turn, the quality of service. On the contrary, labour unions and some interested parties held the view that SMW could raise the pay of workers, thus enhancing their loyalty to the company and increasing overall productivity.
- 4.18 *Market dominance of large enterprises and franchise mode of businesses* – small and medium enterprise (SME) associations indicated that as the rates of depreciation of SMEs were higher than those of large enterprises, they often made less profit. An excessively high SMW rate would further erode profits and threaten the survival of SMEs, leading to the market dominance of large enterprises and those operating under the protection of franchises. On the other hand, individual policy research institute opined that the elimination of firms which were economically less efficient subsequent to the implementation of SMW could enhance the overall competitiveness of Hong Kong.

- 4.19 *Wage bills as compared to rental costs* – Labour unions and labour policy concern groups commented that rents assumed a greater portion of operating costs than wages. Thus, high land costs and rentals had a much greater impact on the viability of business operations. In contrast, trade associations pointed out that for certain LPS like cleaning and guarding services and catering, wages rather than rents accounted for the largest element of operating costs of businesses.

(d) Economic impact

- 4.20 *Inflation, purchasing power and domestic consumption* – Labour unions and labour policy concern groups estimated that the SMW-induced additional labour costs would not be significant and hence would have limited impact on inflation even if enterprises passed on part of the additional costs to consumers by raising prices. Further, they highlighted the positive effect of SMW on stimulating domestic consumption and thereby the economy. Meanwhile, some business and employer representatives were worried that inflation might be pushed up if firms chose to transfer the additional costs to consumers via price increases and hence eroding the real income and purchasing power of workers, especially the low-paid ones.
- 4.21 *Economic characteristics of Hong Kong* – Some employers' associations and interested parties remarked that Hong Kong, due to its linked exchange rate system and its extremely high degree of external orientation, was very sensitive to vicissitudes in the global economy and relied heavily on the internal structural flexibilities of prices and costs to cope with economic turbulence. They believed that a high SMW rate would undermine the flexibility of downward adjustments of wages, forcing enterprises to cut jobs to maintain competitiveness during economic downturn and hence the need to be prudent in setting the initial SMW rate.

(e) Competitiveness

- 4.22 *Productivity* – Individual policy research institute predicted that the implementation of SMW would become a driving force for enterprises to improve management system and productivity to offset the additional labour costs, which might in turn help improve productivity and competitiveness of enterprises in the long run. The elimination of less efficient firms subsequent to SMW implementation could also enhance the overall competitiveness of Hong Kong. Some labour unions echoed that, encouraged by SMW-induced wage increases, workers would be motivated to provide quality service, thus enhancing productivity of individual workers as well as firms they worked for.
- 4.23 *Competition from surrounding regions* – As mentioned in paragraph 4.11 above, some employer representatives were concerned that the SMW-induced cost increase might entice some enterprises to relocate their production, wholly or partly, from

Hong Kong. Some others, however, pointed out that it might not be feasible to relocate industries whose services had to be produced and consumed locally.

- 4.24 *Deterioration in service quality* – Trade associations predicted that, when faced with increased staff cost, some enterprises might choose to incorporate incentive-based pay into the basic pay, hence effectively implying dispensing with an incentive-based approach to remuneration. This, they considered, would undermine Hong Kong's culture in providing quality service and dampen the drive for excellence which would eventually affect our competitiveness. On the contrary, labour unions were of the view that with reasonable reward for work, workers would be motivated to provide quality service.

(f) Experience from other places

- 4.25 *Percentage of median wages, prudent approach and percentage of the workforce covered* – Employers' associations and business representatives considered that Hong Kong should follow the successful experience of the UK, including setting the initial minimum wage rate at around 45% of the median wage, covering only around 5% of the entire workforce and adopting a prudent approach to setting the initial rate at a conservative level thus allowing room for enhancement in the future in the light of the prevailing economic and social conditions. On the other hand, individual policy research institutes commented that we should devise our own mechanism for setting the SMW rate having regard to our socio-economic circumstances in view of Hong Kong's skewed distribution of wages toward low wages, the relatively high Gini index, and stagnant wage levels of low-paid workers despite Gross Domestic Product (GDP) growth over the years.

- 4.26 *Government policy as supplement* – Drawing reference from the UK experience, both employers' associations and labour unions remarked that the implementation of SMW should be complemented by other public policies such as in-work benefits to safeguard adequate living standard of low-paid workers.

(g) Standard of living / Quality of life

- 4.27 *Purchasing power* – Labour unions and labour policy concern groups pointed out that SMW could raise the purchasing power of workers and stimulate local spending, which in turn could help boost workers' standard of living as well as economic growth. The resultant boost in domestic consumption should generate employment opportunities, in particular for vulnerable workers.

- 4.28 On the contrary, some interested parties and policy research institutes were concerned that inflation might be exacerbated as enterprises would pass the additional costs to consumers by raising prices of goods and services, especially

daily necessities.

- 4.29 *Quality of life* – Labour unions and labour policy concern groups generally considered that after the implementation of SMW, workers should be able to work flexible or fewer hours while enjoying the same or even higher income, thus having more time with families and for the pursuit of personal aspirations.

(h) Social harmony

- 4.30 *Forestalling excessively low wages* – Labour unions and labour policy concern groups generally considered that SMW would protect low-paid workers from exploitation, maintain their level of income regardless of economic conditions and enable them to share the fruits of economic prosperity of Hong Kong.

- 4.31 *Labour relations* – Business representatives opined that an appropriate SMW level that balanced the interests of employers and employees would help maintain good labour relations. However, the SMW policy, if not implemented and enforced properly, could lead to labour disputes. Labour groups, nevertheless, were of the view that, in helping to reduce income disparity, SMW should lead to more amicable relationships in the workplace and greater social harmony.

(i) Enhancing work incentive

- 4.32 Labour policy concern groups opined that a person's incentive to work would hinge much on the wage level in addition to other personal considerations. An excessively low SMW rate would discourage workers from joining or re-entering the labour force. An SMW rate sufficient to meet the basic needs of workers could help enhance labour force participation and provide adequate labour supply for businesses.

(j) Undermining entrepreneurship

- 4.33 SME associations were concerned that SMW could undermine the incentive for business start-up which in turn might result in loss of low-paid jobs and opportunities for part-time work (which enabled many female homemakers to supplement family income).

4.II Basket of Indicators

- 4.34 With reference to the views of stakeholders in the first round of consultation, experience of other places and socio-economic circumstances of Hong Kong, we initially identified a “Basket of Indicators” for deliberation of the initial SMW rate. We uploaded our preliminary views on these indicators and other relevant considerations onto the PMWC's webpage in March 2010. Our subsequent

consultations and deliberations confirmed that these indicators should be used for formulating the optimal initial SMW rate. The Basket of Indicators thus identified consists of four categories of indicators: (i) general economic conditions; (ii) labour market conditions; (iii) competitiveness; and (iv) standard of living. A summary of indicators selected under each area is presented in **Table 4.1**. These indicators underline the factors that our Terms of Reference require us to look into. They also encompass the considerations that other places took into account when deliberating their SMW rates.

Table 4.1: Summary of the Basket of Indicators

Consideration		Indicator
General Economic Conditions	1(a)	Latest economic performance and forecasts
Labour Market Conditions	2(a)	Labour demand and supply
	2(b)	Wage level and distribution
	2(c)	Wage differentials*
	2(d)	Employment characteristics*
Competitiveness	3(a)	Productivity growth*
	3(b)	Labour costs*
	3(c)	Operating characteristics of enterprises
	3(d)	Entrepreneurship, business sentiment and solvency*
	3(e)	Relative economic freedom and competitiveness of Hong Kong*
Standard of Living	4(a)	Changes in employment earnings
	4(b)	Changes in consumer price

Note : * Mainly for comparison before and after SMW implementation.

4.35 Indicators featured in the Basket cast light on the different aspects of the four objectives of SMW referred to in paragraph 4.1 above. For example, the indicators of wage level and distribution as well as changes in employment earnings and consumer price could help ascertain the wage levels which are excessively low. To minimise job losses, we have to examine the latest economic performance and forecasts, labour demand and supply and employment characteristics, among other factors. Various indicators under the considerations of general economic conditions and competitiveness are also useful in identifying an optimal SMW rate which would not adversely affect the economic growth and competitiveness of Hong Kong.

4.II.1 General Economic Conditions

4.36 The economic impact of an SMW would depend on its level, review frequency, market response, and the prevailing conditions of the economy. In particular, the impact on an economy at different phases of the business cycle or on different growth paths would be different. The current and expected states of the economy are therefore key considerations when determining the initial SMW rate.

4.37 Information and indicators reflecting general economic conditions include the latest economic performance (including nominal and real GDP growth rates), as well as short-term (2010) and medium-term (2011 to 2014) GDP and inflation forecasts.

4.38 The latest GDP data were obtained from the Census and Statistics Department (C&SD), while GDP and inflation forecasts were provided by the Economic Analysis and Business Facilitation Unit of the Financial Secretary's Office.

4.II.2 Labour Market Conditions

4.39 The labour market represents the immediate environment in which an SMW would take effect and economic theory predicts that the introduction of a wage-floor may lead to a fall in employment if the labour market is sufficiently competitive. The current and expected states of the labour market must therefore be studied in any deliberation on the SMW rate. Various indicators of the labour market also facilitate the identification of vulnerable segments, such as lower-skilled and less experienced young workers.

4.40 Indicators reflecting labour market conditions:

- (a) *Labour demand and supply* – These indicators include: (i) total employment and vacancies by sector (especially LPS) and by occupation group; (ii) total labour force by sector and its socio-economic attribute; (iii) the labour force participation rate by age; and (iv) unemployment and underemployment by sector and their socio-economic attribute.
- (b) *Wage level and distribution* – These two indicators cover major market sectors such as LPS, and can be analysed by socio-economic characteristics of the employees, such as gender, age, educational attainment and occupation. Hourly wage distribution figures⁽¹⁾ of the 5th, 10th, 25th percentiles and the median are available. Wage distributions of different economic sectors are used to provide a quantitative assessment of the differential impact of a given SMW rate across different segments of the labour market.
- (c) *Wage differentials* – These indicators include ratios of the median, the 75th percentile and the 90th percentile of the hourly wage distribution respectively to the 10th percentile. Since these ratios reflect wage disparities between employees at the lower layer of the distribution and those at the middle and upper layers, they capture the change in wage differentials before and after

(1) When arranging the wage observations in ascending order of magnitude, the wage level say at the 5th percentile means that 5% of the observations in the wage distribution are lower than or equal to this wage level. The 10th percentile, 25th percentile and 50th percentile are also known as the 1st decile, lower quartile and the median respectively.

implementation of SMW.

- (d) *Employment characteristics* – These indicators include (i) employment status (employees and self-employed); (ii) employment nature (full-time and part-time employment); and (iii) contractual status (permanent, fixed-term contract and casual basis), all with reference to major economic sectors (especially LPS). Experience elsewhere shows that some firms may opt to adjust the proportion of full-time employment, or change employment and contractual terms after the introduction of SMW or a change in the SMW rate. These indicators are therefore useful for monitoring the impact on the labour market.

4.41 Data of vacancies in item (a) are available from the Quarterly Survey of Employment and Vacancies. Data of the remaining parts of item (a) and the proportion of self-employed in item (d) are available from the General Household Survey (GHS). Items (b), (c) and the remaining parts of item (d) can be compiled from the Annual Earnings and Hours Survey (AEHS). The above surveys are conducted by C&SD.

4.II.3 Competitiveness

4.42 Generally speaking, with the introduction of an SMW, firms hiring low-paid workers, especially those in LPS and SMEs, would face an increase in wage bills. Other things being unchanged, this would raise the unit labour cost in the economy as a whole. Over time, such a change may impact Hong Kong's competitiveness, productivity, inflation and economic growth. It is important to consider and monitor the impact of SMW rate on Hong Kong's competitiveness, at both the micro- and macro-levels.

4.43 Indicators reflecting competitiveness:

- (a) *Productivity growth* – This indicator measures real labour productivity growth in Hong Kong. It is useful to compare it against the productivity growth of selected developed countries and Asian economies. These data would facilitate measurement of changes in labour productivity in different domestic sectors after implementation of SMW and changes in Hong Kong's labour productivity vis-à-vis other places.
- (b) *Labour costs* – This indicator measures nominal unit labour costs of Hong Kong and selected economies, which show the average labour cost required to produce a unit of output. Changes in Hong Kong's labour cost after SMW implementation should be studied to examine changes in Hong Kong's cost competitiveness.

- (c) *Operating characteristics of enterprises* – These indicators include, among others, the number of enterprises⁽²⁾ in various sectors, the ratios of compensation of employees to total operating costs and business receipts respectively, and earnings before tax and depreciation to business receipts ratios (abbreviated as profit ratios)⁽³⁾. A higher proportion of compensation of employees, if combined with a higher proportion of low-paid employees, generally implies a more significant SMW-induced increase in the wage bill, and thus a stronger impact on firms' profit. The above data are available from the Programme of Annual Economic Surveys (PAES) and the Annual Survey of Personal, Social and Recreational Services. As the results from annual surveys of this nature entail a relatively long lead time and in order to take into account the latest business operating performance under rapidly changing market conditions, more up-to-date monthly or quarterly statistics, such as business receipts and sales values, have also been considered.
- (d) *Entrepreneurship, business sentiment and solvency* – Start-up, closure, bankruptcy and winding-up of companies are indicators which reflect current and expected business sentiment. These indicators would then facilitate assessment of the impact of SMW on entrepreneurship. Relevant statistics include the numbers of creation and deletion of business registration as well as the numbers of bankruptcies and compulsory winding-up cases.
- (e) *Relative economic freedom and competitiveness of Hong Kong* – These indicators refer to Hong Kong's rankings on indices of economic freedom and competitiveness compiled by various international organisations, such as the Fraser Institute's *Economic Freedom of the World Report*, the Heritage Foundation's *Index of Economic Freedom*, the World Economic Forum's *Global Competitiveness Report*, International Institute for Management Development's *World Competitiveness Yearbook*, and World Bank's *Doing Business Report*. Hong Kong's ranking in such indices is usually a factor for foreign investment. As SMW may impact the labour market and business costs, some ranking organisations, such as the Fraser Institute and the Heritage Foundation, have expressed concern about the introduction of SMW in Hong Kong. The overall ranking as well as relevant sub-indices on regulation and flexibility of labour market have been considered.

(2) Since an SMW policy would basically only affect firms with employees, all impact assessments on SMW implementation cover enterprises with employees only.

(3) Earnings before tax and depreciation to business receipts ratios here refer to ratio of earnings before deducting tax, depreciation, gain/loss on disposal of property, machinery and equipment, bad debts/write-off, amortisation and provisions, to business receipts. For the difference with EBITDA (earnings before interest, taxes, depreciation and amortisation) used in business accounting, please refer to the Glossary.

- 4.44 Items (a), (b) and (e) above capture in different ways Hong Kong's overall real and/or perceived competitiveness at the macro level, while items (c) and (d) measure features and conditions of Hong Kong's economic sectors that are related to competitiveness at the sector and firm levels. Data for item (d) and (e) can be obtained respectively from the Official Receiver's Office and various ranking organisations, while data for other items are obtained from surveys conducted by C&SD, including Quarterly Survey of Service Industries, Monthly Survey of Retail Sales, and Quarterly Survey of Restaurant Receipts and Purchases.

4.II.4 Standard of Living

- 4.45 A typical worker's standard of living is captured by his/her level of purchasing power, which depends on his/her level of income and the consumer price he/she faces. Given their effects on purchasing power, changes in employment income and Consumer Price Index (CPI) (i.e. inflation or deflation) are key indicators which reflect changes in standard of living. If income growth outpaces inflation, real purchasing power increases, and vice versa.
- 4.46 Indicators reflecting changes in the standard of living:
- (a) *Changes in employment earnings* – This indicator refers to the nominal and real rates of change in average monthly employment earnings from main employment⁽⁴⁾ for full-time workers.
 - (b) *Changes in consumer price* – Changes in CPIs are the key indicators which measure inflation/deflation. Since SMW would primarily affect the lowest paid, whose expenditure would likely be low, CPI(A)⁽⁵⁾, which measures the consumer price level faced by households with lower household expenditure, had been selected. It should be noted that since relief measures introduced by the Government would affect price levels and thus cause short-term fluctuations in CPIs, underlying CPI(A) figures that exclude the impact of all relevant one-off measures have also been compiled and chosen as indicators to

(4) Main employment refers to the job on which a person spends most of his/her time if he/she has more than a job at the time of enumeration. This indicator serves to reflect the change in income that workers received from work. It should be noted that employment earnings level depends not only on wage rate, but also on working hours. As working hours usually vary more for part-time workers than full-time workers, the data of part-time employment earnings would thus be subject to higher variation from a change in working hours. In addition, secondary employment is most likely to be part-time employment. Given that SMW is set on an hourly basis and thus would not be affected by the number of working hours, the rate of change in employment income of full-time workers from main employment is considered an appropriate indicator in the current context.

(5) Consumer Price Indices (A), (B) and (C) are compiled by reference to the average expenditure patterns for different groups of households as obtained from the Household Expenditure Survey of C&SD. For example, CPI(A) reflects the consumer price faced by households with monthly household expenditure being \$4,000 to \$15,499 during October 2004 to September 2005. Then, by aggregating the expenditure patterns of all the households covered by the above three indices, a Composite CPI is compiled.

measure changes in consumer price.

- 4.47 Items (a) and (b) above can be obtained from C&SD's GHS and Monthly Retail Price Survey respectively. These two items are economic measurements and cannot fully represent the concept of standard of living. It is also acknowledged that the concept itself overlaps with the broader concept of quality of life, which will be addressed in Section 4.III.3.

4.II.5 Limitations

- 4.48 Attention should be drawn to a number of limitations of the above indicators. For some statistical indicators, such as those based on the annual surveys of AEHS and PAES, there is inevitably a time lag between data collection and availability of the statistics. In recognition of this limitation, we have taken into account other relevant indicators with data sources which are more frequently updated, especially with regard to business operating conditions and the latest wage trend.
- 4.49 It is inevitable that there would be a time lag between the date on which our recommended initial SMW rate is submitted and the date of its implementation, having regard to the time for the Chief Executive in Council to consider the recommendation, for the Legislative Council to consider the subsidiary legislation regarding the SMW level, and for the time the business sector is allowed to prepare for SMW implementation. Since our recommendation was based on data available up to August 2010, and because economic, business and labour market conditions would likely change from the date of recommendation to the date of implementation, we have taken on board the GDP and inflation forecasts for 2010, as well as the latest wages, employment and various business operation statistics in an attempt to address this time lag. In particular, we tracked the latest change in wages and employment earnings, which shortened but did not eliminate the time lag.
- 4.50 In addition to the time lag issue, there were other data limitations that we faced in our deliberation of the initial SMW rate. These included the lack of data on (a) depreciation rates for assessing the profit situation, and (b) detailed pay hierarchies for studying the likely impact of knock-on effects. Upon the availability of these data in future, our understanding of the business operating characteristics and the assessment of SMW impact could be further enhanced.

4.III Other Relevant Considerations

- 4.51 In addition to the possible economic effects, an SMW rate may have other impact on the community which are either qualitative in nature or can only be measured after SMW implementation. A number of these other factors, including social and economic considerations, have also been taken into account in deliberating the

initial SMW rate.

4.III.1 Enhancing Social Harmony

- 4.52 Stakeholders of both the business and labour sectors are of the view that grassroots workers' social discontent is fuelled by their excessively low wages and inability to share the fruits of economic growth. They believe that an appropriate level of SMW would help forestall excessively low wages, protect workers against exploitation, give workers a chance to share the fruits of economic growth and thus promote social harmony. In particular, some look to SMW to safeguard the wages of the lower-skilled in an economy such as Hong Kong where increases in wages for lower-skilled jobs have often lagged behind economic growth due to a surplus in the supply of lower-skilled labour. Sharing the fruits of economic prosperity through SMW may make the workforce more willing to contribute to the continued development of the economy and the well-being of society as a whole. This would also be conducive to the promotion of social harmony.
- 4.53 Reflective of the controversies of the SMW concept itself, discourse on SMW's social implications has not been unanimous. Studies from the Organisation for Economic Cooperation and Development and World Bank have indicated that SMW would not be an effective policy tool to reduce poverty, because most adults living in poor families are not working, and many workers earning SMW rate are not living in poor families. Although our local socio-economic conditions may be different, some stakeholders also recognise that the SMW policy may not help resolve the problem of poverty in Hong Kong. Some have further pointed out that SMW may lead to the dismissal of less productive workers or a reduction of their working hours, which would not bode well for the most vulnerable workers nor for social harmony.
- 4.54 Another important aspect of social harmony is the relationship between employers and employees. During our consultation, many stakeholders opined that the SMW policy, if not implemented and enforced properly, could lead to labour disputes. PMWC considers publicity and provision of clear guidelines essential to a successful and smooth implementation of SMW.

4.III.2 Enhancing Work Incentive

- 4.55 With a view to enhancing work incentive, the average monthly CSSA payment⁽⁶⁾ for the unemployment category has been taken into account in deliberating the initial level of SMW. The level of CSSA is considered by our community as the benchmark of the income with which basic living requirements can be met. It is

(6) CSSA payment here refers to the amount when a CSSA case does not have other income. These figures can be more specifically regarded as "recognised needs" under the CSSA Scheme.

widely believed to impact an individual's choice between self-reliance and welfare support.

- 4.56 If work incentive can be enhanced upon the introduction of SMW, this may then attract individuals who are originally economically inactive to enter or re-enter the labour market, thus increasing the supply of lower-skilled workers. If this additional supply can be fully absorbed by the labour market, the economy would benefit from SMW as higher wages for the low-paid workers would induce higher consumption at the lower social and economic strata, which can in turn help generate further employment opportunities. On the other hand, if this additional supply cannot be completely absorbed by the economy at the mandated wage level in the short run, or if individuals so induced to seek work cannot meet the requirements of the lower-skilled jobs, this would exert pressure on the unemployment rate of the lower-skilled workers. Nevertheless, some stakeholders expressed that with enhanced work incentive following the SMW implementation, certain sectors might benefit from a slight increase in manpower supply and the concomitant greater flexibility and choice in hiring.

4.III.3 Enhancing Quality of Life

- 4.57 As the hourly wage rates of the low-paid would be raised upon the implementation of SMW, grassroots workers may have a choice to work flexible or less hours while getting the same or even higher income. This would allow them more time to take care of family responsibilities or other personal fulfillments, and hence enhancing their quality of life.

4.III.4 Raising Purchasing Power

- 4.58 Employees earning wages originally below SMW level would enjoy higher pay and hence greater purchasing power. However, the benefits of wage increases should be considered together with the possible concurrent rise in consumer prices. Indeed, employer groups indicated that passing the additional costs to consumers through higher prices would be among the key business response strategies. This implies that in real terms, the purchasing power induced by SMW-triggered pay increase could be less than the extent of the pay increase. On the other hand, while theoretically, increased earnings may boost domestic consumption, the extent of the effect would hinge on the willingness of workers to spend their extra income, as against saving such income.

4.III.5 Other Potential Chain Effects

- 4.59 Experience elsewhere indicates that, with the implementation of SMW, firms may adopt various strategies in response to the increase in wage bills. Such possible

reaction has also been brought to our attention by some of the stakeholders during the consultation process, in particular stakeholders from the catering and retail sectors. If we take into account firms' possible mitigation measures and workers' possible responses, a potential chain of effects could possibly emerge. This outcome can be summarised in the following areas:

- (a) *Downsizing and organisational changes as well as changes in provision and quality of products and services* – Some employers may react by streamlining the operation through, for example, dismissing the least productive workers or cutting working hours. Workers who are retained would then be expected to perform more efficiently and take on multi-tasks. In addition, some firms may replace labour with automation. However, adjustment in terms of increased automation may take some time and would only be feasible for sectors and occupations in which factor substitution in production is relatively easy.

In addition to passing all or part of the wage increases to consumers through higher prices, some firms may seek to reduce costs and maintain profit margins through downward adjustment in output (e.g. charging a smaller dish at the same price) or quality. Such actions would likely weaken competitiveness of individual firms and Hong Kong as a whole. On the other hand, quality of services of firms may be improved by motivating staff with reasonable reward for work, which in turn help attract and retain customers and strengthen competitiveness.

- (b) *Change in employment terms and relocation* – Since SMW is set on an hourly basis, employers would likely become more efficiency-conscious when deciding the hours of work. Some firms may seek to change the employment terms by hiring fewer full-time and permanent workers while employing more casual and part-time staff during peak hours and periods. In addition, some firms may even choose to relocate operations to neighbouring areas with lower overall (including labour) costs. Outsourcing will be another consequence particularly if the work process can be readily outsourced to the Mainland and surrounding regions. Nevertheless, since many low-paid jobs are in service industries where the service needs to be provided and consumed within Hong Kong, relocation possibilities are expected to be limited.
- (c) *Change in pay strategy* – Remuneration items like year-end payment, discretionary bonuses, free meals, free accommodation and medical benefits are not covered under the definition of wages in the Minimum Wage Ordinance. It is expected that some firms may choose to offset higher labour costs after SMW implementation by raising basic wages of low-paid workers to the statutory level, while reducing the magnitude and number of non-wage benefit items.

Some firms may need to reduce overall wage increase to accommodate the extra costs in meeting SMW.

When wages at the lowest levels of the hierarchy are increased as a result of SMW implementation, some firms may have to raise wages for the upper levels of the hierarchy in order to preserve the relativity in responsibilities and incentives. As knock-on wage adjustments would be non-mandatory, the extent and magnitude of its effect on business costs are uncertain at this stage.

- (d) *Changes in the costs of other statutory entitlements of employees* – Since the amount of contributions from employers to the mandatory provident fund, long service payments and other statutory entitlements of employees are all calculated by reference to the wage levels, it is expected that SMW would have further impacts on labour costs of businesses.
 - (e) *Change in training strategy* – Some firms facing higher wage bills may elect to reduce costs by reducing training for staff. This may hinder workers' skill development and enhancement to the long-term detriment of the firm. Another possible consequence may be that, since the wage floor set by SMW applies to all workers irrespective of their skill levels and working experience, some firms may consider it more cost-effective to recruit skilled or experienced workers so as to save on training, provided there is a sufficient supply of skilled and experienced workers in the labour market.
 - (f) *Wage-price spiral* – If firms generally choose to transfer higher costs to consumers in the form of higher prices, there would be inflationary pressure. Workers may then demand higher wages to maintain real income, which would result in even higher inflation. The likelihood and extent of such a wage-price spiral depend on the level of SMW and other relevant factors like the economic situation.
- 4.60 It is noteworthy that chain effects of this nature may not be entirely attributed to SMW. The prevailing economic, social, and labour market conditions must also be taken into account. Moreover, the type and magnitude of chain effects would likely vary across different economic sectors and enterprises of different sizes. As experience in other places has shown, specific chain effects could only be identified and measured through dedicated studies over a few years after SMW implementation.
- 4.61 Hong Kong businesses have considerable experience and resilience in absorbing rises in business cost due to rental hikes and various other sources. While SMW would limit their ability to adjust labour costs as a means to cope with economic vicissitudes, their experience and resilience should help them manage the possible

chain effects due to SMW. The growing sense of corporate social responsibility in the business community in recent years may also bolster their resolve to adapt positively to the post-SMW environment.

4.IV Latest Performance of the Selected Indicators

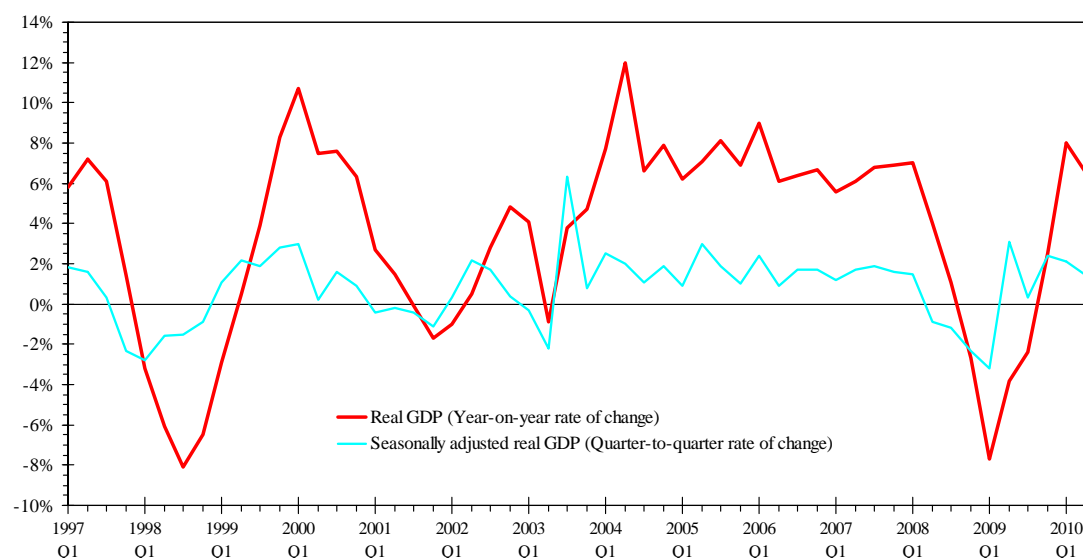
4.62 With the above analytical framework, we have examined the latest performance of the Basket of Indicators, and the analysis is as follows.

4.IV.1 General Economic Conditions

- *The Hong Kong economy is currently on the track to recovery. Latest data show that activities in many economic segments have recovered much of the ground lost during the recession in 2009. With the short-term and medium-term economic outlooks generally improved when compared with the austere external environment in 2009, SMW would likely be implemented under a relatively stable economic environment.*
- *The profit situation of most of the firms that would be affected by the SMW policy is expected to be somewhat better, as the economic recovery becomes more broad-based. This would help cushion the effect of higher wage bills without severe pressure on downsizing, thereby alleviating somewhat the impact of SMW on employment and business conditions.*
- *Notwithstanding the positive indications outlined above, we have also been aware that significant uncertainties still overshadow the current economic situation especially since our traditional markets in Europe and the United States (US) have yet to emerge fully from their economic doldrums.*
- *Inflationary pressure has returned with economic recovery, though at a modest level. Given a mild inflation outlook and a generally firm consumption market, there should be scope for firms to pass on part of the additional wage costs brought about by SMW to consumers through price increase.*

4.63 The Hong Kong economy, after hitting the bottom in the first quarter of 2009, recovered progressively in the ensuing quarters, returning to a positive year-on-year growth by the fourth quarter of 2009 (**Figure 4.1**). The recovery became more broad-based on stepping into 2010. With both domestic and external segments gathering further pace, GDP rose by 7.2% year-on-year in real terms in the first half of 2010, in stark contrast to a contraction of 2.8% for 2009 as a whole.

Figure 4.1: The economic recovery gained further momentum in the first half of 2010

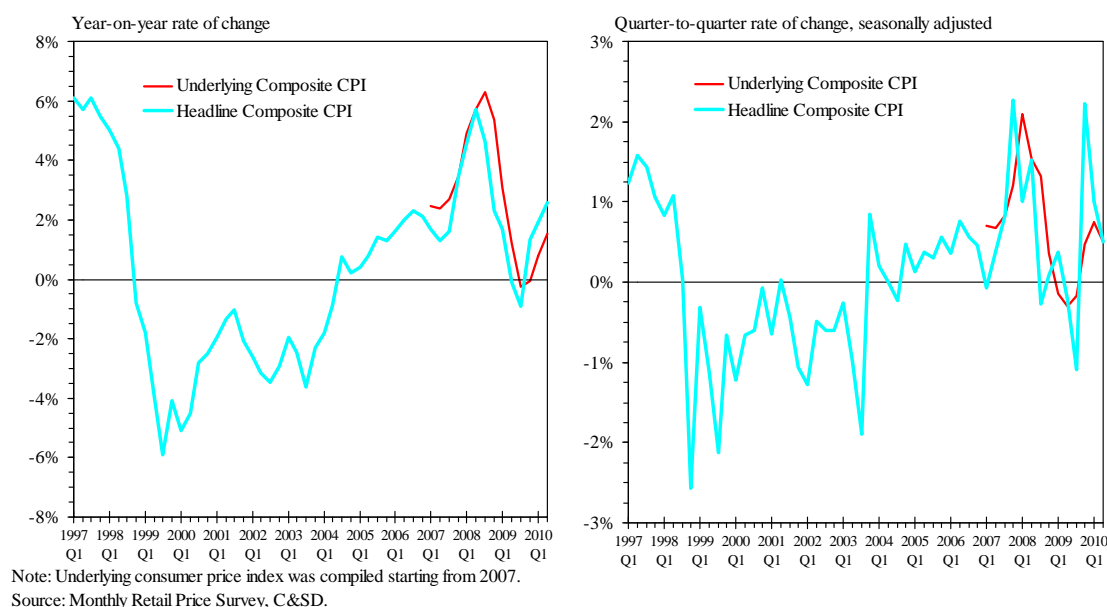


Source: National Income Statistics, C&SD.

- 4.64 Looking ahead to the remainder of 2010, it is expected that consumption would maintain solid growth in the coming months. Investment as a whole should continue apace, with private sector investment recovering further in addition to the expected pick-up in public sector works. If no major external shock occurs, the economy should be able to attain the 5% - 6% real GDP growth for 2010 as forecast in the August 2010 update.
- 4.65 However, the downsides and uncertainties in the external environment still loom large, with the earlier outbreak of the sovereign debt crisis in several European Union member economies, and with the US economy also losing momentum lately. Being relatively small and open, Hong Kong would inevitably be affected if there are significant disruptions to the global recovery.
- 4.66 The medium-term outlook (2011-2014) for the Hong Kong economy depends on how well and how sustained the global economy can recover after the 2009 Great Recession. Barring unforeseen adverse developments in the global economy, the trend GDP growth rate in real terms in Hong Kong is forecast at 4% per annum from 2011 to 2014 which, if realised, would be broadly on par with the trend growth over the past ten years.
- 4.67 Thus, granting continued solid growth in the economy, SMW would likely be introduced in a generally stable and growing economic environment. Most of the firms should be more able to take on the additional wage bills through price pass-on and any profit reduction would be milder in a growing economy, therefore downsizing could be minimised. On the other hand, the uncertainties surrounding the current economic situation are keen reminders that our recommendation for the initial SMW rate must not be overly aggressive.

- 4.68 Inflation has been another important consideration in the deliberation of the SMW rate. Both underlying Composite CPI and underlying CPI(A) rose 1.3% in the first seven months of 2010 over a year earlier, up from the respective year-on-year changes of -0.1% and 0.1% in the fourth quarter of 2009 (**Figure 4.2**).

Figure 4.2: Price pressure returned gradually since early 2010



- 4.69 Given the movements of consumer prices so far, Hong Kong's underlying and headline Composite CPI is forecast to increase by 1.5% and 2.3% respectively for 2010 as a whole. In the medium-term (2011-2014), the trend rate of change in the underlying Composite CPI in Hong Kong is forecast at 3% per annum.
- 4.70 Overall, the inflation outlook is still rather benign. The mild inflation outlook suggests that, in general, there would be scope for the affected firms to raise prices to offset part of the higher wage bills after SMW implementation, without causing too large an impact on the cost of living in Hong Kong, especially if local consumption is to hold firm. However, it must be noted that if price rises are sufficiently large and sustained to increase inflationary expectations, a feedback loop between nominal wages and prices could potentially trigger a wage-price spiral. Such an outcome would negatively impact Hong Kong's competitiveness. Hence, in the deliberation of the SMW rate, we have been very careful in seeking a scenario which has a mild inflationary impact.

4.IV.2 Labour Market Conditions

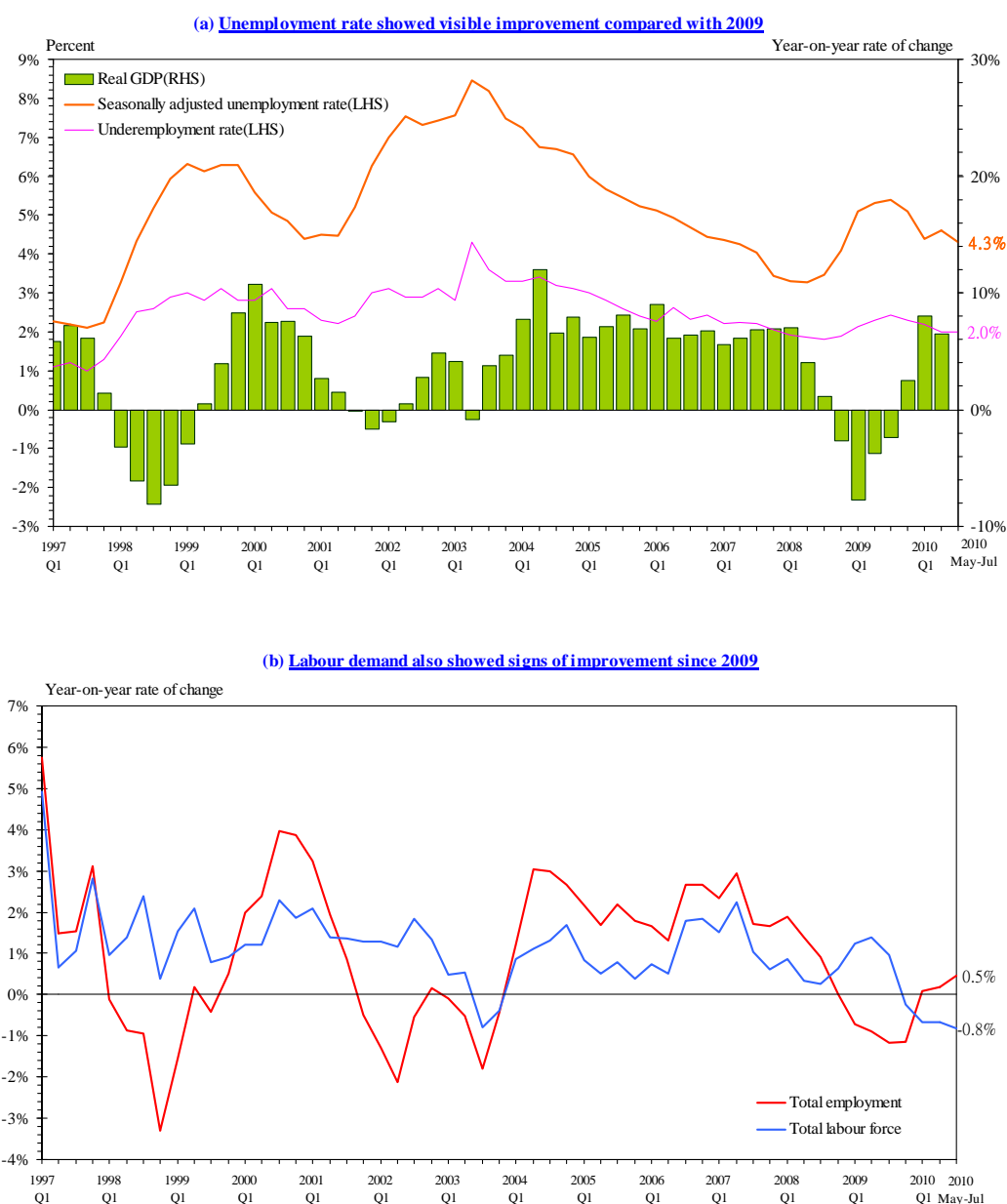
- *In tandem with economic recovery, unemployment rate of Hong Kong has fallen back from the high in mid-2009. We understand that with economic recovery, the demand side of the labour market should progressively improve. The disemployment effect of an SMW-imposed wage floor would therefore likely be cushioned to some extent by*

- higher demand for labour riding on an improving economy.*
- *However, the unemployment rates in some segments are still relatively high, especially among lower-skilled workers. Economic restructuring, as well as manpower shifts following daily inflow of low-skilled labour across the boundary, may aggravate the supply-demand imbalance in the lower-skilled segment.*
 - *It is found that given the current wage levels and distribution, LPS would be the major groups which must be targeted for detailed analysis and monitoring.*
 - *Labour earnings have resumed modest increases since late 2009. As a result, the number of employees involved may turn out to be lower than the number estimated based on data in the second quarter of 2009. This potential difference has been taken into account during the deliberation of the SMW rate.*
 - *Wage differentials and employment status are useful indicators reflecting the structural change and adaptations in the labour market immediately after SMW implementation. We consider it necessary to continue tracking these two indicators after implementation to support future analysis.*

(a) Labour demand and supply

- 4.71 Labour market conditions continued to improve in the first half of 2010 in tandem with the rebound in the economy. After falling from 5.4% in the third quarter of 2009 to 4.4% in the first quarter of 2010, the seasonally adjusted unemployment rate notched down further to 4.3% in May - July 2010. The underemployment rate continued to improve, down from 2.4% in the third quarter of 2009 to 2.2% in the first quarter of 2010, and fell further to 2.0% in May - July 2010 (**Figure 4.3(a)**).
- 4.72 The unemployment rate in LPS also fell, from 5.4% in the third quarter of 2009 to 4.2% in the first quarter of 2010 but rose to 4.4% in May - July 2010. Whether by age, occupation and educational attainment, the unemployment rate showed visible improvements when May - July 2010 was compared with mid-2009. However, the unemployment rate was found to be still high among youths aged 15 to 24 with secondary education (especially Form 1 to Form 3), and lower-skilled workers (especially service workers and craft and related workers). (**Figure 4.3(b)**). Granting a generally positive economic environment, the growing macro-economy should provide a relatively favourable environment to absorb the disemployment effect of SMW implementation, especially if the initial SMW rate is not set at an excessively high level.

Figure 4.3: Labour market conditions improved in tandem with the progressive economic recovery



Sources: National Income Statistics and General Household Survey, C&SD.

4.73 When deliberating the SMW rate, we have been particularly concerned about the potential impact on lower-skilled workers. As Hong Kong continues to restructure towards a high value-added and knowledge-based economy, labour demand would shift towards individuals with better knowledge and higher skill. Growth in lower-skilled employment would tend to be slow. Current statistics show that the number of vacancies in the lower-skilled segment is still grossly inadequate when matched against the respective number of the unemployed (**Table 4.2**). It is also noteworthy that most of the One-Way Permit holders from the Mainland are middle-aged women with relatively low educational attainment. If these individuals fail to enhance skills through training and study, they would likely be trapped in the lower wage echelon, and thus the manpower imbalance in Hong Kong may worsen.

Table 4.2: The ratio of job vacancies per 100 unemployed persons

	June 2008	March 2009	June 2009	September 2009	December 2009	March 2010
By Sector						
Low paying sectors	44.7	22.4	20.9	26.1	26.5	33.4
- Retail	38.4	15.1	18.0	19.9	25.3	29.0
- Restaurants	41.0	26.0	19.3	28.9	21.6	27.5
- Estate management, security and cleaning services	50.2	26.5	24.7	28.3	25.3	38.9
- Other low paying sectors	60.8	27.7	27.6	31.0	46.2	51.8
Other sectors	50.6	13.0	15.1	19.6	20.7	29.8
By Occupation						
Higher-skilled	128.5	30.7	30.8	36.6	31.1	58.6
Lower-skilled	33.0	11.9	13.1	17.7	20.1	24.0
Overall	42.6	14.8	15.5	18.5	20.0	28.6

Sources: General Household Survey and Quarterly Survey of Employment and Vacancies, C&SD.

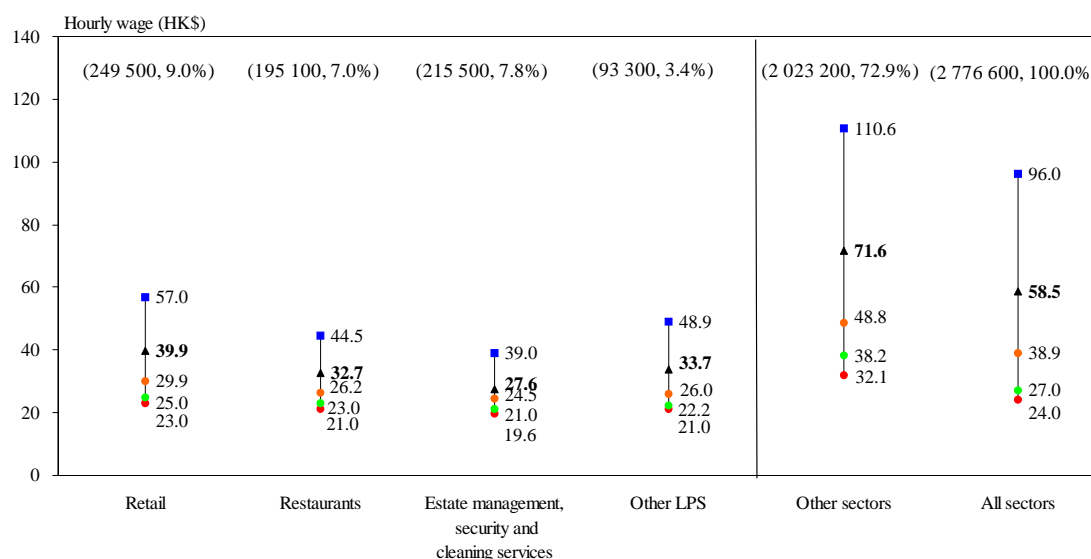
4.74 As low-paid workers are mostly lower-skilled and with low educational attainment, these individuals would be especially vulnerable to the disemployment effects of SMW implementation. In particular, those workers who fail to upkeep their skills in line with the changing requirements of Hong Kong's transformation into a high value-added economy would face the risk of dismissal when firms seek to offset higher wage bills by reducing headcount. Hence, some vulnerable workers may not benefit from the introduction of SMW, and unemployment in the corresponding sectors and occupations may worsen. It is imperative to carefully consider such a possibility when deliberating the SMW rate, so as to minimise the negative disemployment effects and maximise the benefits.

(b) Wage level and distribution

4.75 According to AEHS, the median hourly wage of all employees in the second quarter of 2009 was \$58.5, with the 10th, 25th, 75th and 90th percentile hourly wages being \$27.0, \$38.9, \$96.0 and \$171.8 respectively. The wage distribution varied across different economic sectors. For example, among employees in the four main LPS (including retail; restaurants; estate management, security and cleaning services; and other low paying sectors), median hourly wages for estate management, security and cleaning services was the lowest (\$27.6) while that for retail was the highest (\$39.9) (**Figure 4.4**). Firms in these sectors could be expected to be more seriously affected by SMW implementation, as the magnitude of increase in wages would be higher as compared to other sectors where workers were paid more. On the other hand, subject to the condition that they are not laid off after wages are raised to the recommended SMW level, low-paid employees would be one of the groups to benefit most among all employees. Since the low-paid are mainly found in LPS, we agree that these sectors should be analysed in detail and closely

monitored.

Figure 4.4: Hourly wage by LPS and other sectors



Note: Figures in brackets denote number and percentage (out of all employees) of employees engaged in the specified sector.
 Source: 2009 Annual Earnings and Hours Survey, C&SD. ▲ Median ● 5th percentile ● 10th percentile ● 25th percentile ■ 75th percentile

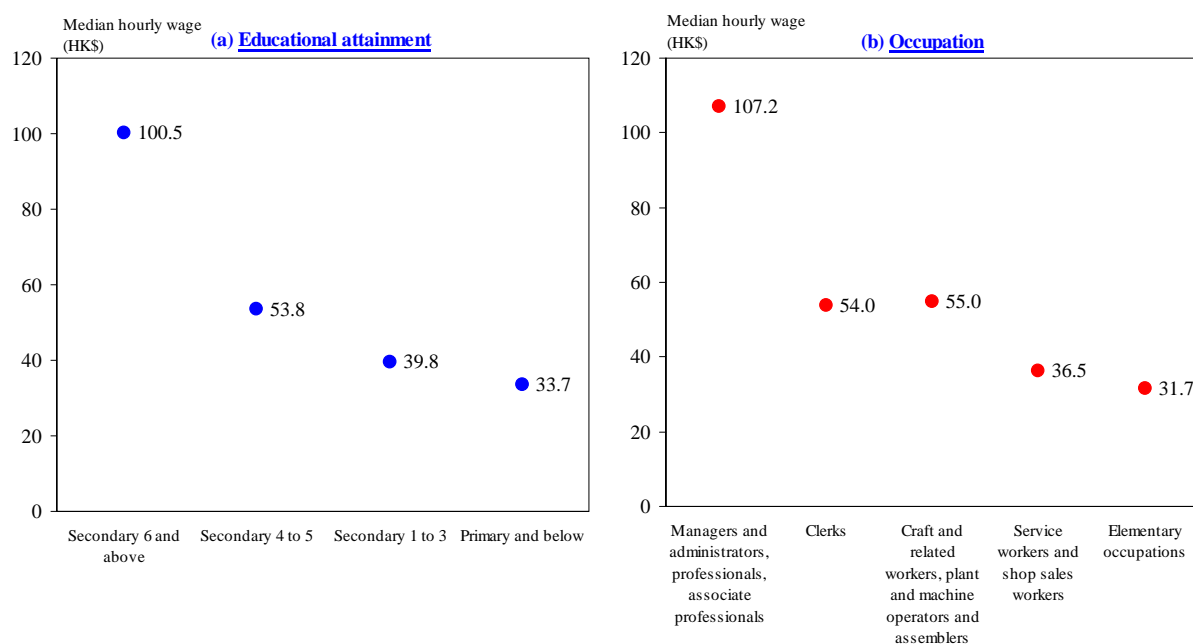
4.76 Analysed by gender and age, the median hourly wages for male and female employees were \$64.3 and \$53.4 respectively. Ignoring gender, the median of hourly wages increased as we moved to a higher age group until the middle-aged (aged 35-44), after which these hourly wages started to fall (**Table 4.3**). These observations suggest that the distribution of wages may be determined by occupation and working experience. Educational attainment also bears a close relationship with the distribution of wages. Individuals with better educational attainment tend to earn more, as they are more likely to take up jobs which offer more attractive remuneration (**Figure 4.5**).

Table 4.3: 25th percentile and median hourly wage by age group and gender

	Hourly wage (HK\$)	
	25 th percentile	Median
By Gender		
- male	43.3	64.3
- female	34.9	53.4
By Age		
- 15-24	31.2	40.2
- 25-34	46.6	64.9
- 35-44	45.7	70.0
- 45-54	35.9	57.7
- 55 and above	27.0	42.6
Overall	38.9	58.5

Source: 2009 Annual Earnings and Hours Survey, C&SD.

Figure 4.5: Median hourly wage by educational attainment and occupation



Source: 2009 Annual Earnings and Hours Survey, C&SD.

- 4.77 Because AEHS statistics can only reflect the situation in the second quarter of 2009, we have also made reference to the “Quarterly Report of Wage and Payroll Statistics” and GHS to track the latest change in labour earnings, which shortens though does not completely eliminate the time lag.
- 4.78 According to the relevant data, the average nominal wage for employees up to the supervisory level increased by 1.3% in March 2010 as compared to June 2009, while the increase was 1.9% on a year-on-year basis. All occupations covered under this category enjoyed increases from end-2008, with a year-on-year increase of 3.3% for miscellaneous non-production workers. Labour earnings also increased modestly in the first two quarters of 2010. The difference between these wage data and actual wages at the time of SMW implementation is a factor that we must take into account.

(c) Wage differentials

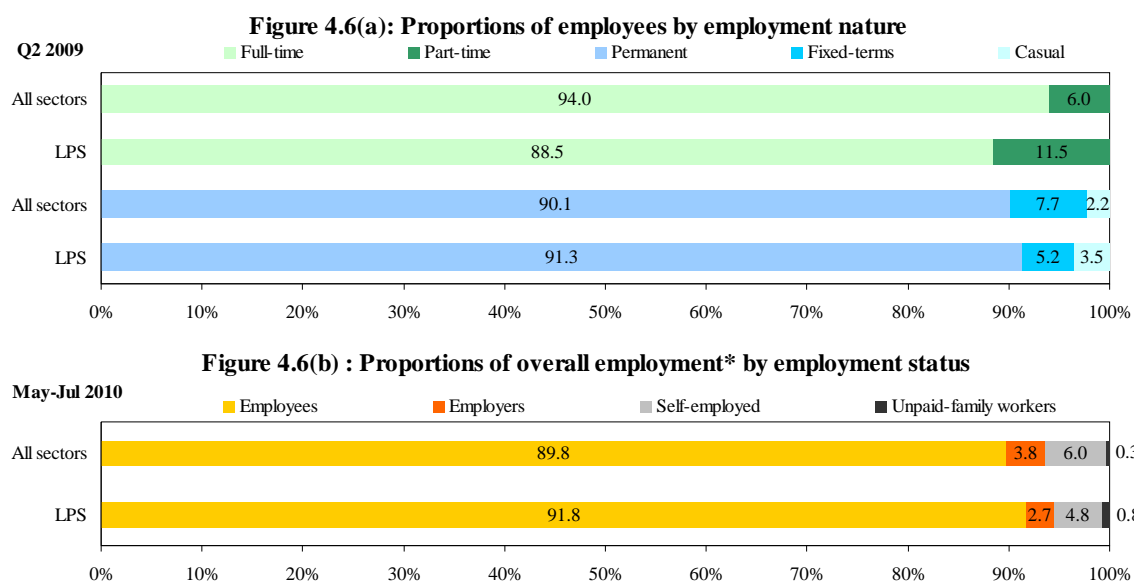
- 4.79 Wage differentials are expected to be reduced after SMW implementation. Performance of this indicator before and after SMW implementation would be useful in analysing the impact of SMW on wage differentials.

- 4.80 There is no standard way to measure wage differentials. Ratios of the median, 75th percentile and 90th percentile of the hourly wage distribution to the 10th percentile have been chosen to anchor wage relativity. In the second quarter of 2009, these ratios were found to be 2.2, 3.6 and 6.4 respectively⁽⁷⁾.
- 4.81 Since a distinctly larger proportion of low-paid employees, viz. individuals within the lowest decile of the overall hourly wage distribution were found in LPS, reductions in wage differentials in LPS should be most noticeable after SMW implementation. However, the magnitude of this reduction would depend on the SMW rate and the mitigation strategies adopted by the firms affected. Some firms may choose to maintain some relativity in wage differentials across employees with different ranks in order to maintain staff morale. The wage levels of some non-low-paid employees would then be pushed up, thereby leading to higher wage costs whilst also curtailing the effect of SMW in reducing wage differentials. This knock-on effect on the pay hierarchy will be further discussed in Chapter 5.

(d) Employment characteristics

- 4.82 After SMW implementation, firms may seek to reduce staff costs by selectively replacing full-time or permanent employees by part-time/contract or even temporary staff. Firms may also be more aggressive in retaining only the more productive workers. Other firms may choose to outsource operations. Empirical analysis of the above effects would provide a better understanding of the adaptation and mitigation strategies adopted by firms.
- 4.83 Based on the results of AEHS, most employees in Hong Kong (94.0%) were employed on a full-time basis in the second quarter of 2009. Though the proportion in part-time work was not high (6.0%), this form of employment was more commonly found in LPS (11.5%) (**Figure 4.6(a)**). In comparison, the corresponding ratios for fast food shops, supermarkets and convenience stores, cleaning services, food processing and production, laundry and dry cleaning services and membership organisations were all above 15%.

(7) This means that if there are only 100 employees in the economy, after sorting from the lowest paid (#1) to the highest paid (#100), these ratios indicate that employee #50, employee #75 and employee #90 earn 2.2, 3.6 and 6.4 times that of employee #10 respectively.



Note: (*) Excluding live-in domestic workers and employees in public administration.
 Sources: (a) 2009 Annual Earnings and Hours Survey, C&SD; and
 (b) General Household Survey, C&SD.

- 4.84 In terms of contractual status, individuals employed on a permanent basis was the most prevalent mode (90.1% of the total), with fixed-term contract and casual basis accounting for the remaining 7.7% and 2.2% respectively. The proportions of employees on fixed-term contract and casual basis were higher in sectors like non-Chinese restaurants and cleaning services.
- 4.85 Analysed by employment status, only 6.0% of total employment⁽⁸⁾ in May - July 2010 were self-employed (**Figure 4.6(b)**). The proportion of self-employed in LPS was lower at 4.8%. Self-employment was more commonly found in some LPS such as retail, hairdressing and other personal services.

4.IV.3 Competitiveness

- *We understand that SMW implementation would increase the total wage bill of Hong Kong. Firms, when faced with higher wage costs, would respond by economising on the increased costs through various strategies including efficiency drive and productivity upgrading.*
- *Since enterprise characteristics, in particular, the proportion of low-paid employees, cost structure, business nature and profitability vary across sectors, firms in different sectors would be affected differently upon SMW implementation. In deliberating the initial SMW rate, we have tried to strike an appropriate balance between sustaining Hong Kong's economic growth and competitiveness, forestalling excessively low wages and minimising the loss of low-paid jobs, along with other pros and cons.*

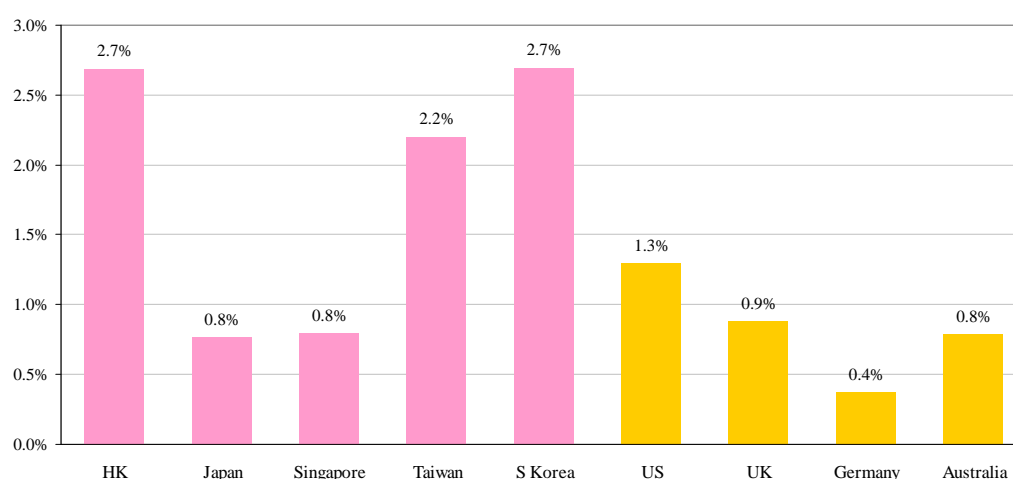
(8) Excluding live-in domestic workers and employees in public administration.

- *Entrepreneurship, business sentiment and bankruptcy situations have all improved since the economic recovery from end-2009. At the same time, Hong Kong has persistently ranked high internationally in economic freedom and overall competitiveness. By adopting a prudent approach in deliberating on the initial SMW rate, the negative impact of SMW implementation on the above aspects of economic performance is expected to be relatively small.*

(a) Productivity growth

- 4.86 After SMW implementation and the consequential incremental impact on wage bills, firms are expected to adopt different strategies aimed at increasing labour productivity and maintaining competitiveness. In particular, some firms may choose to replace full-time with part-time jobs, while some may replace the less efficient by more efficient employees, or substitute capital for labour in the production process.
- 4.87 In tandem with Hong Kong's continuous transformation into a knowledge-based economy, labour productivity has enjoyed significant gains. Over the 9-year period from 2000 to 2009, Hong Kong's labour productivity had grown by an annual average rate of 2.7%. This performance was significantly better than that of other advanced economies, including the US, the UK, Germany and Australia. Among the major Asian economies, Hong Kong's labour productivity growth was also higher than that of Japan, Singapore and Taiwan (**Figure 4.7**). The sectoral labour productivity trends over 2000-08 are set out in the Statistical Appendix. In general, wholesale and retail trades, and restaurants and hotels experienced lower average labour productivity growth rates, suggesting that their capability to absorb SMW-induced wage bill increases through productivity gains would be relatively limited.

Figure 4.7: Average annual labour productivity growth rate of Hong Kong and other economies, 2000-2009



Sources: HK - National income statistics and General Household Survey, C&SD.
 Other countries - Real GDP and labour statistics in CEIC database.

(b) Labour costs

4.88 Hong Kong's nominal unit labour cost rose significantly in 1997 and 1998, and then except for a rise in 2001, was on a downtrend up to 2007. Since 2007, there has been a general rise-back in unit labour cost. Nevertheless, nominal unit labour cost in 2009 was still marginally lower than that in 1996, reflecting the substantial adjustments in the business sector to raise productivity and efficiency amidst the general economic slack between 1997 and 2003. In contrast, nominal unit labour costs were higher in many advanced economies in 2009 than 1996, e.g. the US, the UK, Germany and Australia.

(c) Operating characteristics of enterprises

4.89 Sectors and firms with a relatively high proportion of low-paid employees would face more significant wage bill increases after SMW implementation. If increased labour costs cannot be readily transferred to consumers through higher prices, then the impact on firms' profit would be larger. Relatively profitable firms should be more capable in coping with the additional labour costs through a profit reduction, so that prices can be kept relatively unchanged to maintain competitiveness. On the contrary, firms with less favourable profit conditions may need to downsize. Owing to different operating characteristics, pricing and output responses to SMW implementation are likely to vary significantly across different sectors. We have considered the potential impact of SMW on individual sectors in the deliberation of the initial SMW rate.

4.90 According to the latest PAES results, in 2008 there were 188 490 enterprises with employees, accounting for 65% of all enterprises in Hong Kong. The great majority were SMEs (96.9%), at 182 670. Some 18.4% of the enterprises with employees were found in LPS, with 58.0% of LPS enterprises being in the retail sector.

4.91 The ratio of staff cost⁽⁹⁾ to business receipts of LPS was 16.8%, significantly higher than that for all sectors (11.1%) (**Table 4.4**). Among LPS, the shares for security services (82.7%), cleaning services (75.6%), and elderly homes (55.5%) were particularly high.

(9) Staff cost refers to compensation of employees, i.e. income from work, including basic wage, over-time payments, commissions, bonuses, allowances, contributions to Mandatory Provident Fund Scheme by employers, and cost of benefits in kind (such as meals).

**Table 4.4: Operating characteristics of enterprises analysed by sector in 2008
(for enterprises with employees only)**

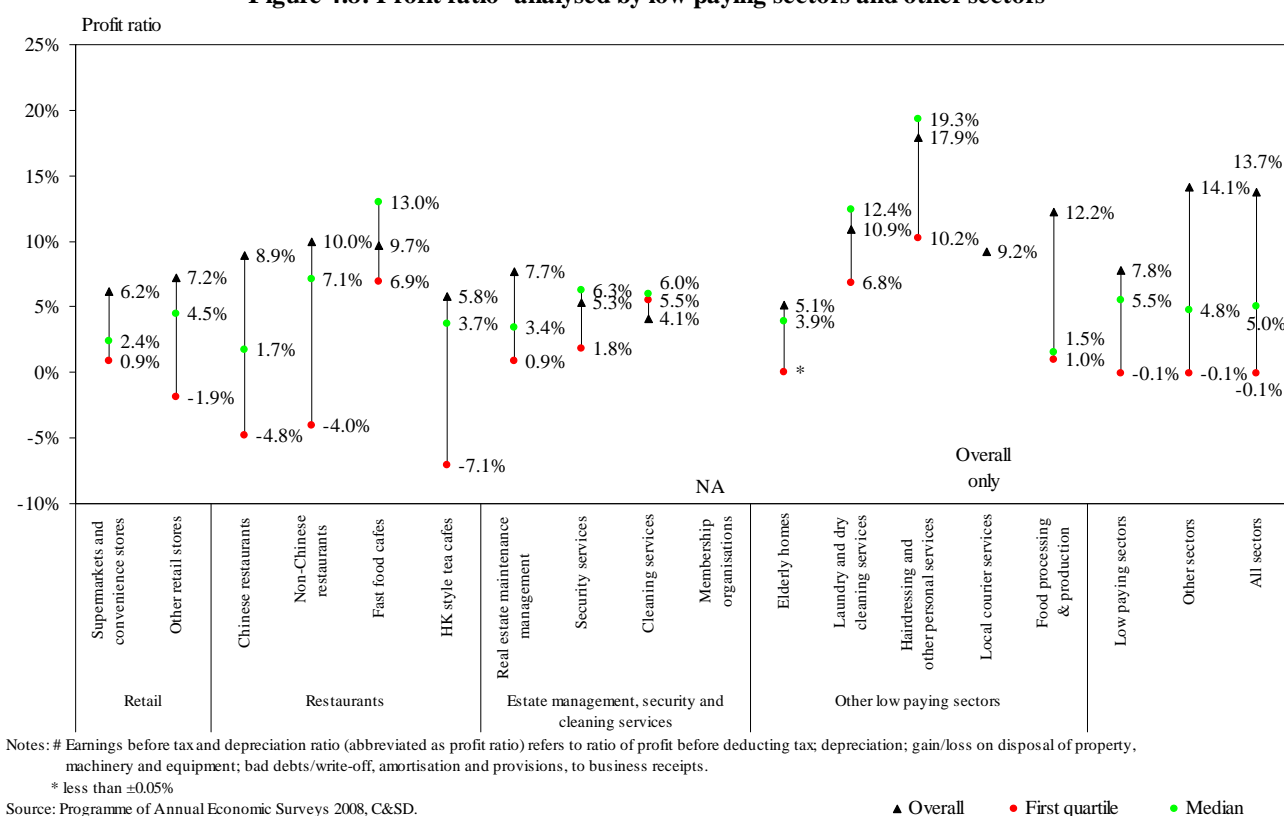
Sector	All enterprises				Small and medium enterprises (SMEs)			
	Ratio of compensation of employees to business receipts	Profit ratio ^(Note 2)			Ratio of compensation of employees to business receipts	Profit ratio ^(Note 2)		
		Overall	First quartile ^(Note 3)	Median ^(Note 3)		Overall	First quartile ^(Note 3)	Median ^(Note 3)
(A) Low paying sectors	16.8%	7.8%	-0.1%	5.5%	17.0%	4.9%	-0.1%	5.4%
1. Retail	9.1%	7.0%	-1.9%	4.5%	10.4%	3.3%	-2.2%	4.5%
1.1 Supermarkets and convenience stores	7.2%	6.2%	0.9%	2.4%	5.2%	1.9%	0.9%	2.1%
1.2 Other retail stores	9.4%	7.2%	-1.9%	4.5%	10.4%	3.3%	-2.2%	4.5%
2. Restaurants	28.4%	9.0%	-3.9%	6.6%	28.0%	7.2%	-4.5%	6.4%
2.1 Chinese restaurants	32.0%	8.9%	-4.8%	1.7%	32.1%	3.9%	-4.8%	*
2.2 Non-Chinese restaurants	26.3%	10.0%	-4.0%	7.1%	26.4%	9.4%	-4.0%	6.6%
2.3 Fast food cafes	22.9%	9.7%	6.9%	13.0%	20.3%	10.7%	7.1%	13.0%
2.4 Hong Kong style tea cafes	30.3%	5.8%	-7.1%	3.7%	30.3%	5.1%	-7.1%	3.6%
3. Estate management, security and cleaning	46.4%	6.8%	1.8%	5.5%	36.1%	7.3%	3.4%	5.5%
3.1 Real estate maintenance management	31.3%	7.7%	0.9%	3.4%	32.7%	7.4%	0.9%	1.4%
3.2 Security services	82.7%	5.3%	1.8%	6.3%	See note 4			
3.3 Cleaning services	75.6%	4.1%	5.5%	6.0%	54.8%	7.0%	5.5%	6.0%
4. Other low paying sectors	22.9%	11.7%	3.1%	11.1%	22.1%	7.6%	3.2%	12.2%
4.1 Elderly homes ^(Note 1)	55.5%	5.1%	*	3.9%	41.0%	7.0%	*	3.9%
4.2 Laundry and dry cleaning services	33.3%	10.9%	6.8%	12.4%	24.8%	10.9%	6.8%	12.4%
4.3 Hairdressing and other personal services	39.3%	17.9%	10.2%	19.3%	38.9%	18.7%	10.2%	19.3%
4.4 Local courier services	36.7%	9.2%	See note 4					
4.5 Food processing & production	16.0%	12.2%	1.0%	1.5%	15.2%	5.5%	1.0%	1.5%
(B) Other sectors	10.6%	14.1%	-0.1%	4.8%	6.8%	10.3%	-0.3%	4.8%
(C) All sectors	11.1%	13.7%	-0.1%	5.0%	7.3%	10.0%	-0.3%	4.9%

Notes: (1) Preliminary estimates were compiled for crude reference based on data of elderly homes collected for the first time in 2008 survey. In calculating figures for business receipts and profit, subsidies from government and other organisations were also included.
(2) Earnings before tax and depreciation ratio (abbreviated as profit ratio) refers to ratio of earnings before deducting tax; depreciation; gain/loss on disposal of property, machinery and equipment; bad debts/write-off, amortisation and provisions, to business receipts.
(3) Not including those enterprises without business receipts (including local representative offices of overseas companies).
(4) Data not released due to insufficient sample size to render reliable estimates.
* In between -0.05% and 0.05%.

Data source : 2008 Programme of Annual Economic Surveys, C&SD.

4.92 Profit ratios can be used as an indicator of competitiveness, with a lower ratio generally reflecting keener competition within the sector. The overall profit ratio for LPS was found to be 7.8%, which was significantly lower than that for all sectors at 13.7% (**Figure 4.8**). The profit ratio for SMEs was lower for LPS and all sectors, at 4.9% and 10.0% respectively.

Figure 4.8: Profit ratio[#] analysed by low paying sectors and other sectors



4.93 The distribution of profit ratio is also important for understanding the intensity of competition faced by firms, especially with regard to firms at the lower end of the spectrum. It was found that in 2008, the 25th percentile of the distribution was negative for sectors like restaurants except fast food cafes and other retail stores. This meant that more than a quarter of firms in these sectors recorded negative profits. In comparison, supermarkets and convenience stores, real estate maintenance management, food processing and production, and security services recorded profit ratios (25th percentile) of less than 2%. The aforementioned sectors also recorded median figures lower than 4% (except other retail stores, non-Chinese restaurants and security services). These statistics suggest that intra-sector competition for many LPS is very keen, which in turn implies that the scope to transfer SMW-induced additional staff cost to customers through higher prices would be limited in these sectors. In particular, it would be more difficult for firms with low or negative profit ratios to respond to SMW implementation through profit reduction. As a result, enterprises of LPS might operate under greater pressure in comparison to non-LPS enterprises.

4.94 As regards SMEs in LPS, the share of staff cost in total operating cost was 43.4%, slightly higher than the overall LPS figure (41.9%). The profit ratio for the former (4.9%) was visibly lower than that for LPS as a whole (7.8%). However, in cleaning services, fast food cafes, elderly homes, hairdressing and other personal

services, the profit ratios for SMEs were higher than all enterprises in these sectors.

4.95 As there is inevitably a time lag between data collection and availability of the annual PAES statistics, more frequently updated indicators have also been studied to assess the latest business operating environment.

- (i) Business receipts of various major service sectors showed broad-based year-on-year increases in the first quarter of 2010.
- (ii) In the first six months of 2010, the volume of retail sales increased by 14.7%, partly boosted by a distinctively low base last year. Although the increases were broad-based, they were particularly discernible in items such as motor vehicles and parts (51.7%), electrical goods and photographic equipment (27.9%); and jewellery, watches, clocks and valuable gifts (25.0%). Retail sales of daily necessities such as supermarket sales recorded only slight increase (0.8%).
- (iii) Restaurant receipts volume resumed year-on-year increase in the fourth quarter of 2009, and has grown further in the second quarter of 2010 (at 3.0%). Chinese restaurants, however, lagged behind other types of restaurants in recovering from the last quarter of 2008.

(d) Entrepreneurship, business sentiment and solvency

4.96 After SMW implementation, those less competitive firms may not be able to withstand the impact and may cease business. Cancellation of business registrations, cases of bankruptcies and winding up may therefore rise as a result⁽¹⁰⁾. We believe that some of the market share of such firms would be absorbed by other more competitive incumbent firms or new entrants if the initial SMW rate is pitched at a level that would not result in a notable shrinkage of the overall market size.

4.97 In tandem with the economic rebound in mid-2009, business sentiment has generally revived, with the number of new business registrations reverting to year-on-year increase in the third quarter of 2009. In 2009-10 as a whole, the figure rose by 4.3% over the preceding year. Further growth was recorded in the second quarter of 2010. The number of cancelled business registrations rose by 8.1% in 2009-10 over a year earlier, but fell in the second quarter of 2010.

4.98 Likewise, following a 36% surge in the number of bankruptcy cases and a 22% increase in winding up cases in 2009, both fell back significantly by 47% and 32%

(10) Analysis of statistics on start-up, closure, bankruptcy and winding-up of enterprises would help compare the situation before and after SMW implementation. However, in analysing these figures, it should be noted that the number of new business registrations and cancellation may not be only attributed to entrepreneurship or cessation of business. Other factors like operational reasons or enterprise restructuring may be relevant too.

respectively in the first seven months of 2010.

(e) Relative economic freedom and competitiveness of Hong Kong

4.99 Hong Kong has been ranked high by a number of renowned international organisations with regard to economic freedom and competitiveness. In particular, Hong Kong has been named the world's freest economy by the Heritage Foundation under its *Index of Economic Freedom* for 16 consecutive years since the Index was first published in 1995, and consistently ranked first by the Fraser Institute in its *Economic Freedom of the World* Report.

4.100 In terms of competitiveness, Hong Kong ranked 2nd in the 2010 *World Competitiveness Yearbook* by the International Institute for Management Development, 3rd in World Bank's 2010 *Doing Business* Report, and 11th in the World Economic Forum's 2009-10 *Global Competitiveness Report* (Table 4.5).

Table 4.5: Hong Kong's world rankings of economic freedom and competitiveness

Institution	Fraser Institute/Cato Institute		Heritage Foundation		World Economic Forum		International Institute for Management Development		World Bank	
Report	Economic Freedom of the World (1)		Index of Economic Freedom (2)		Global Competitiveness Report (3)		World Competitiveness Yearbook (4)		Report on Doing Business (5)	
Year Ranking	2008 [^]	2009	2009	2010	2008-09	2009-10	2009	2010	2009 [^]	2010
1	Hong Kong	Hong Kong	Hong Kong	Hong Kong	United States	Switzerland	United States	Singapore	Singapore	Singapore
2	Singapore	Singapore	Singapore	Singapore	Switzerland	United States	Hong Kong	Hong Kong	New Zealand	New Zealand
3	New Zealand	New Zealand	Australia	Australia	Denmark	Singapore	Singapore	United States	Hong Kong	Hong Kong
4	Switzerland	Switzerland	Ireland	New Zealand	Sweden	Sweden	Switzerland	Switzerland	United States	United States
5	Chile (5)	Chile	New Zealand	Ireland	Singapore	Denmark	Denmark	Australia	Denmark	United Kingdom
6	United Kingdom (5)	United States	United States	Switzerland	Finland	Finland	Sweden	Sweden	United Kingdom	Denmark
7	United States	Ireland	Canada	Canada	Germany	Germany	Australia	Canada	Ireland	Ireland
8	Canada	Canada	Denmark	United States	Netherlands	Japan	Canada	Taiwan	Canada	Canada
9	Ireland	Australia (9)	Switzerland	Denmark	Japan	Canada	Finland	Norway	Australia	Australia
10	Australia	United Kingdom (9)	United Kingdom	Chile	Canada	Netherlands	Netherlands	Malaysia	Norway	Norway
Hong Kong (11th)										
No. of economies covered	141	141	183	179	134	133	57	58	181	183

Note: [^] The relevant organisations have changed some of the index components or revised methodology for compiling the index in the latest report, and have revised rankings of previous years accordingly. This column shows the revised ranking.

4.101 In terms of sub-indexes related to labour market regulation and flexibility, Hong Kong has generally enjoyed favourable rankings, e.g. ranked 4th in World Economic Forum's *Labour Market Efficiency Index* and Fraser Institute's *Labour Market Regulation Index*. As such rankings may have a bearing on foreign investment into Hong Kong, there is also a need to assess the impact, if any, in the latter regard following the implementation of SMW.

4.102 The Heritage Foundation and Fraser Institute have both expressed concern about the implementation of SMW in Hong Kong. The Economist, likewise, has raised concern about the impact of SMW on Hong Kong's free-market regime. It is necessary to track how Hong Kong's competitiveness ranking would change after the implementation of SMW.

4.IV.4 Standard of Living

- *Employees' standard of living depends mainly on employment earnings and inflation. Prospects for employment earnings have generally turned better in 2010 when compared with the difficult situation in 2009, thus suggesting a relatively benign environment for SMW implementation.*
- *Though inflationary pressure should remain modest in the short term, the situation needs to be monitored after SMW implementation. Special attention should be paid to maintaining the standard of living for low-paid employees.*

(a) Employment earnings

- 4.103 Average monthly employment earnings of elementary and semi-skilled workers increased by 3.7% and 0.8% respectively in overall terms in May - July 2010⁽¹¹⁾. Within LPS, employment earnings of elementary and semi-skilled workers registered increases of 2.3% and 1.3% respectively (**Table 4.6**).

Table 4.6: Year-on-year change of average monthly employment earnings in May - July 2010

	Nominal	Real
All sectors		
Elementary	3.7%	1.5%
Semi-skilled	0.8%	-1.4%
Low paying sectors		
Elementary	2.3%	0.1%
Semi-skilled	1.3%	-0.9%

Source: General Household Survey, C&SD.

(b) Consumer price inflation

- 4.104 CPI(A), which measures inflation for households with lower expenditure, increased by 2.3% in the first seven months of 2010 over a year earlier. The year-on-year increase was partly due to a low base in early 2009 caused by the electricity subsidies provided by the Government. Netting out the effects of Government's one-off relief measures to give a more accurate measure of the underlying inflation, the underlying CPI(A) inflation in the first seven months of 2010 was more modest at 1.3%.

(11) At the time of SMW implementation, overall and low-skilled employees' wages may have risen, therefore the actual number of involved employees may be slightly lower than that revealed from 2009 AEHS, and the wage bill increase estimated in Chapter 5 may also be higher than the actual figure.

5 Assessment of Impact

- 5.1 As stated in the Terms of Reference of the Provisional Minimum Wage Commission (PMWC), we are tasked to study the possible impacts of a statutory minimum wage (SMW) on pay, employment and economic competitiveness, with particular focus on the low paying sectors (LPS) and small and medium enterprises (SMEs). In the absence of adequate empirical data and evidence, the impact assessment of SMW has its inherent limitations. While we realise that no impact assessment of SMW would ever be accurate as there are many interactive factors involved, and the economy and the labour market are constantly evolving, we have thoroughly examined the possible impact of the introduction of SMW on employees, employers and prices with different assumptions on downsizing, price pass-through and profit reduction.
- 5.2 In the course of the PMWC meetings, we thoroughly deliberated the possible impact of SMW, by taking into account not only the data collected through various statistical surveys but also views and suggestions obtained from consultations. The deliberation process was iterative, as we continuously refined our analysis based on opinions and feedback from stakeholders. We started with a broad range of SMW test levels ranging from \$22 to \$35 per hour, viz. the lowest and highest SMW proposals received from stakeholders during our first round of consultation. We looked into the possible impacts on employees, including the number of employees involved and their socio-economic characteristics, the possible pay rises and unemployment situation. We also deliberated the possible implications for businesses (including the scenarios of negative profitability and closing down) and impacts on output prices and inflation.
- 5.3 After the second round of consultation and our iterative deliberations, we narrowed slightly with suggestions ranging mainly from \$24 to \$33 per hour. Further scenario evaluation, with SMW test rates at 50-cent intervals, was then conducted. This was then progressively narrowed with more detailed and focused deliberations before coming up with the recommended rate. This iterative exercise reflected our rigorous scrutiny during the process of impact analysis. Furthermore, based on views expressed by stakeholders, we took into account the knock-on effect on the pay hierarchy, and constructed additional sensitivity tests of reduction in guaranteed year-end payment/bonus, reduction in meal benefits in-kind, and the impact on profit conditions after depreciation. A discussion of the key considerations leading to the recommended rate and its likely impact is given in Chapter 6. The ensuing paragraphs give a general description of the scope, approach and results of the impact assessment conducted by us. For more details of the assessment methodology, please refer to Appendix VI.

5.4 The impact of the initial SMW rate on pay, employment and economic competitiveness depends on the reactions of the business enterprises which would vary across sectors. Some examples given by stakeholders regarding the likely enterprise responses included:

- ❑ automation of labour intensive processes;
- ❑ relocating/outsourcing food preparation across the boundary by restaurants;
- ❑ requesting the more senior staff to perform multi-tasking after dismissing some junior staff; and
- ❑ passing through the higher wage costs of security guards and cleaners to tenants through an increase in management fee.

5.5 We considered all the views expressed by stakeholders and grouped the most common responses which firms might adopt in response to the SMW policy into the following:

- a) downsizing through i) laying off staff or ii) restructuring employment through reducing working hours - the “manpower streamlining strategy”;
- b) transferring the higher costs to consumers by raising product and service prices - the “price pass-through strategy”; and
- c) absorbing the additional wage bills through reducing profit - the “profit reduction outcome”.

It should be noted that the “manpower streamlining strategy” would only be part of a broader “cost cutting strategy” under which a firm might also save cost by re-organising and boosting the efficiency of its production process. Similarly, besides selling the same products/services at higher prices, the higher wage bill might also lead some firms to introduce new products and services. However, owing to lack of data, quantitative assessment of neither was attempted.

5.6 The above three responses, combined with different parameters to take into account various business conditions and characteristics among sectors, gave rise to different “Enterprise Response Scenarios”, which formed the basis of our impact analysis. In constructing these scenarios, we considered factors including the proportion of part-time jobs, manpower structure, nature of operation, feasibility of automation and the capability of passing the costs onto consumers. Different sets of assumptions on the proportions of additional wage bills to be offset under these strategies/responses for each sector were used to prepare nearly three hundred scenario studies for discussion in several rounds of PMWC meetings. In working out different strategies/responses that would be adopted by each sector, we undertook an iterative process by studying the initial scenario testing results and

refining them continuously by taking into account the deliberations during our meetings and views from stakeholders.

- 5.7 More importantly, given the fact that Hong Kong has no experience in implementing an SMW, the impact cannot be measured with precision. In addition, the chain effects arising from the interactions of different parties' reaction to SMW can only be ascertained some time after SMW implementation. In particular, the impact of major issues such as changes in employers' staffing and recruitment strategies, workers' reactions to these strategies, and the pass-through of higher wage costs to prices would very much depend on the various concerned parties' adjustment process and interactions, as well as the prevailing economic and labour market conditions. Since ex-ante assessment of the effects is inherently difficult and subject to considerable imprecision, other places like the United Kingdom (UK) and Australia commissioned ex-post studies by academics and researchers to make thorough evaluation of the impact of SMW only a few years after its implementation. Our view on the necessity for collecting more data, including information on franchised businesses and depreciation, to enable more comprehensive assessment of SMW implementation and to address data limitations currently faced, has already been relayed to the relevant government departments.

5.I Impact on Employees

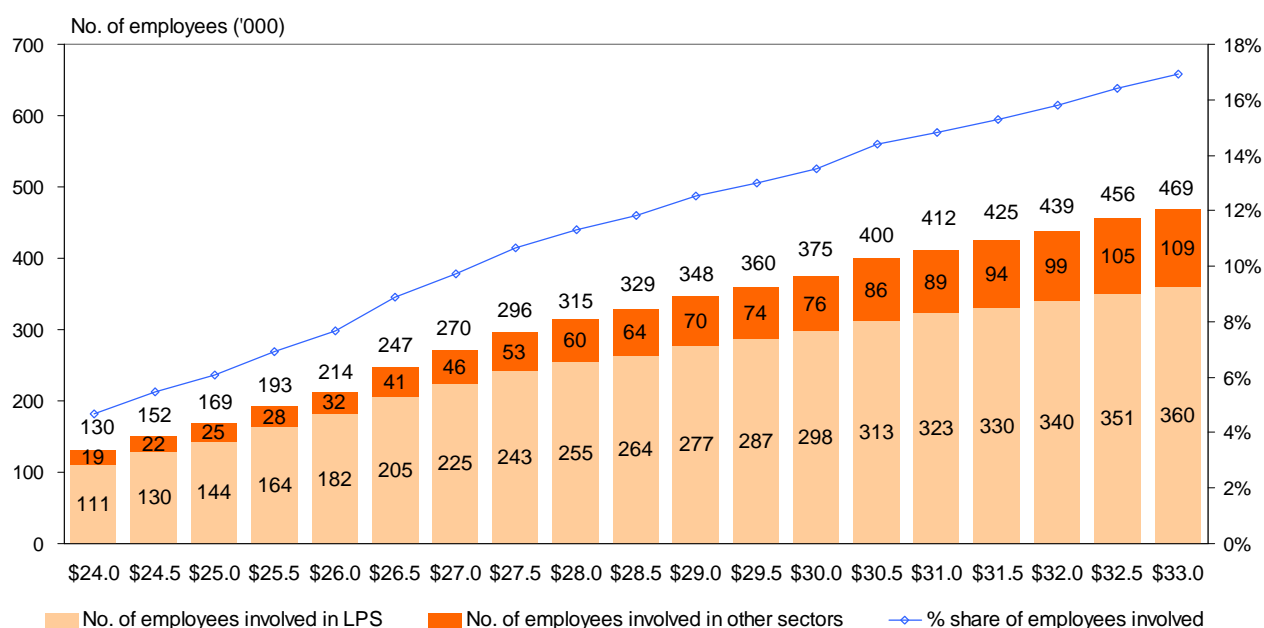
5.I.1 Number and Proportion of Employees Involved

- 5.8 Employees involved or affected refer to employees earning wage rates below the statutory level prior to SMW implementation. These individuals would be directly affected by SMW. Most involved employees may benefit from an increase in wages to the statutory level, but some may have working hours reduced or even be laid off⁽¹⁾. The number and proportion of such individuals under each SMW test level were estimated by analysing the wage distribution data from the 2009 Annual Earnings and Hours Survey (AEHS). Naturally the higher the SMW rate, the higher would be these estimated figures. Since the wage distribution varied quite significantly across economic sectors, the results would vary correspondingly.
- 5.9 We also studied the socio-economic profiles of the employees involved (gender, age, education, occupation, sector, etc.) in order to understand the detailed impact of SMW implementation.

(1) As discussed in Section 4.III.5, the introduction of SMW is expected to lead to a series of chain reactions or ripple effects as some employers may try to maintain wage differentials among different hierarchical levels in order to reflect the relativity in responsibilities. Some employees with wage rates above the statutory level may indirectly benefit, while some supervisory employees may be laid off as firms may seek to offset increased operating costs. The quantitative assessment of "employees involved" presented, however, only pertains to employees directly affected, owing to difficulties in precise estimation of chain reactions.

5.10 We estimated that the number of employees⁽²⁾ involved would range from 130 200 (or 4.7% of all employees) at the SMW test level of \$24 to 469 400 (or 16.9%) at the SMW test level of \$33 (**Figure 5.1**). A significant proportion of them work in LPS, including the estate management, security and cleaning services sector, restaurants, retail trade and other low paying sectors.

Figure 5.1: Number and percentage share of employees involved



Source: 2009 Annual Earnings and Hours Survey, C&SD.

5.11 As regards the social characteristics, the majority of them would be elementary and services/shop sales workers, possessing low educational attainment of secondary 3 and below, being females, aged 55 and above, and being part-timers (**Table 5.1**).

(2) Employees do not cover live-in domestic workers and Government employees. Please refer to the Glossary for details.

Table 5.1 Groups of employees affected by different SMW test levels

Aspect	SMW test level [#]			All employees [^]
	\$24	\$28	\$33	
Number of employees involved	130 200	314 600	469 400	2 776 600
<i>Of whom</i>				
Employees engaged in elementary occupations and service/shop sales jobs	121 300 (93.2%)	281 800 (89.6%)	402 000 (85.6%)	858 300 (30.9%)
Employees engaged in LPS	111 000 (85.3%)	254 700 (80.9%)	360 300 (76.7%)	753 400 (27.1%)
• retail	17 000 (13.1%)	51 600 (16.4%)	79 600 (17.0%)	249 500 (9.0%)
• restaurants	30 000 (23.0%)	62 400 (19.8%)	98 900 (21.1%)	195 100 (7.0%)
• estate management, security and cleaning services	47 300 (36.4%)	111 800 (35.5%)	138 200 (29.4%)	215 500 (7.8%)
• other low paying sectors	16 700 (12.9%)	28 900 (9.2%)	43 500 (9.3%)	93 300 (3.4%)
Employees possessing educational attainment at Secondary 3 and below	105 100 (80.7%)	242 200 (77.0%)	339 200 (72.3%)	832 000 (30.0%)
Female employees	74 400 (57.2%)	193 100 (61.4%)	291 300 (62.1%)	1 327 300 (47.8%)
Employees aged 55 and above	40 000 (30.7%)	79 500 (25.3%)	100 400 (21.4%)	286 000 (10.3%)
Part-timers	26 400 (20.3%)	59 300 (18.8%)	78 100 (16.6%)	166 900 (6.0%)

Notes: (#) Figure shown in brackets represents the percentage of employees with the specified socio-economic characteristics in the total number of employees involved under the SMW level.

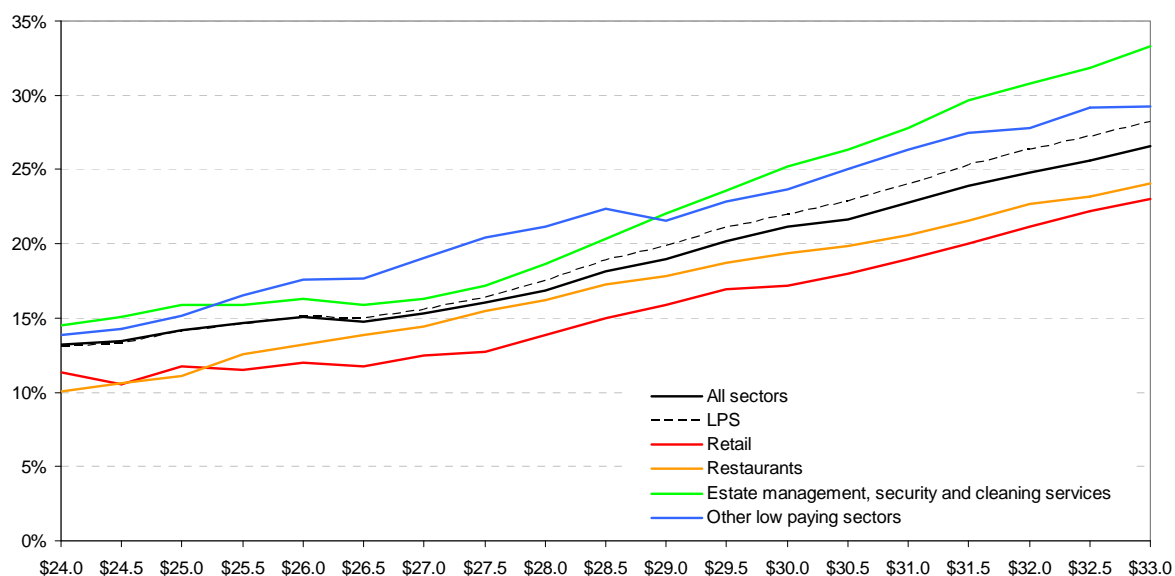
(^) Figure shown in brackets represents the percentage of employees with the specified socio-economic characteristics in the total number of employees in Hong Kong.

Source: 2009 Annual Earnings and Hours Survey, C&SD.

5.1.2 Increases in Wages of Employees Involved and Total Wage Bill

5.12 An estimation of the increase in the wages of the involved employees under various SMW test levels was made, based on data obtained from the 2009 AEHS. Employees with wage rates at the bottom segment of the wage distribution would experience greater increases in wage rates. These employees would more likely be employed in LPS, with percentage increases of wages of all employees involved in LPS ranging from 13.0% at \$24 SMW test level to 28.2% at \$33 SMW test level (**Figure 5.2**). Nevertheless, it must be emphasised that the actual outcome would depend on the responses and strategies of firms in coping with higher wage costs.

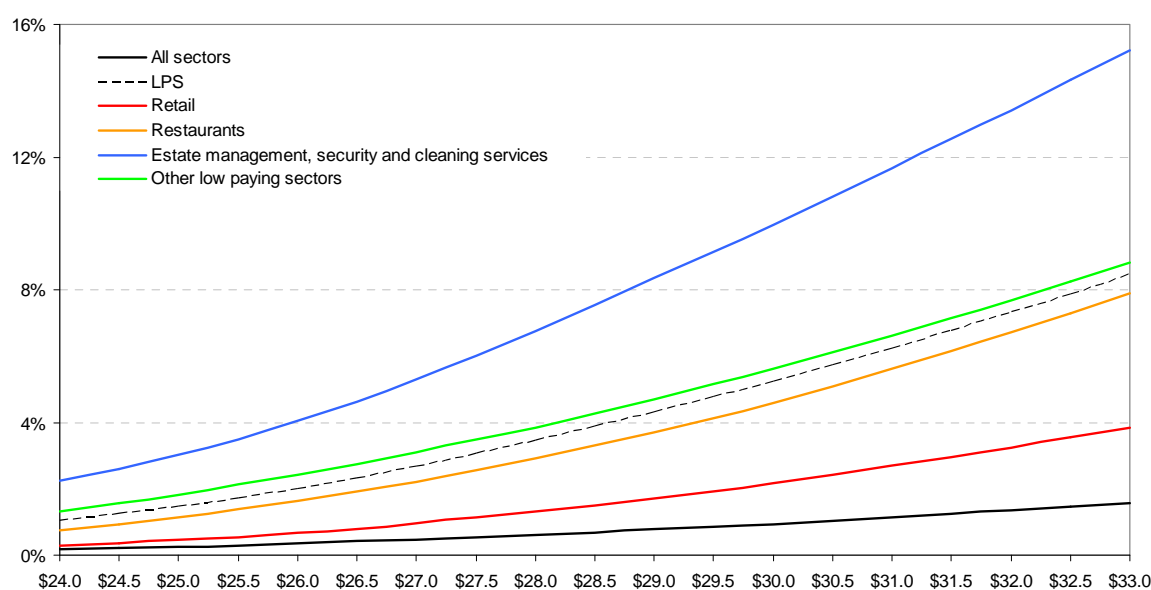
Figure 5.2: Percentage wage increases for involved employees under different SMW scenarios



Source: 2009 Annual Earnings and Hours Survey, C&SD.

5.13 As regards the impact on labour costs, the total wage bill in Hong Kong is expected to increase by 0.2% (\$1.0 billion) to 1.6% (\$8.4 billion) under the SMW test levels of \$24 to \$33. LPS would likely bear most of the increase (**Figure 5.3**). The largest percentage increase would likely be found in the estate management, security and cleaning services sector (2.2% - 15.2%), followed by other low paying sectors (1.3% - 8.8%), restaurants (0.7% - 7.9%) and retail trade (0.3% - 3.9%).

Figure 5.3: Percentage increases in wage bills under different SMW scenarios



Source: 2009 Annual Earnings and Hours Survey, C&SD.

5.1.3 Downsizing and Restructuring Employment

5.14 During consultations, many firms indicated that they might consider restructuring employment through reducing working hours during non-peak periods or even downsizing to offset cost increases. Although it might be more desirable for firms to retain sufficient manpower to meet average demand over the business cycle, larger firms would be more inclined to streamline the operation through automation. Some large enterprises facing greater increases in wage bills also indicated plans to relocate/outsource operations across the boundary, or to close down some branches/outlets with very low or negative profit prospects.

5.15 We considered carefully the possible consequences of a reduction in working hours and downsizing, under various “manpower streamlining scenarios”. In our deliberations, we also took into account the factors that would affect firms’ decision to actually opt for downsizing subsequent to the SMW implementation. In general, firms with the following characteristics would have higher incentives to downsize, and with a larger magnitude:

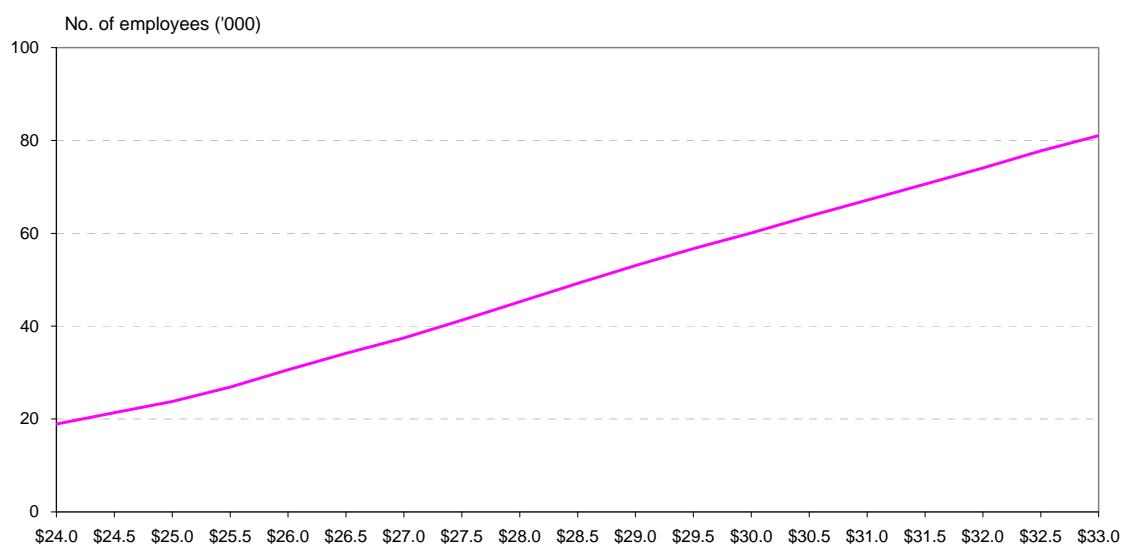
- ❑ firms with a higher wage elasticity of demand for lower-skilled labour, such as those with operations which could be more readily mechanised or outsourced outside Hong Kong given the cost incentives;
- ❑ firms with a larger share of wage bill of lower-skilled workers in total operating costs;
- ❑ firms in respect of which it would not be costly to replace a large number of workers of lower productivity with a smaller number of workers of higher productivity; and
- ❑ firms with thin profit margins and hence limited ability to absorb SMW-induced wage bill increases through profit reduction, or firms facing keen competition, so that passing additional wage costs onto consumers through higher prices would likely lead to a significant fall in total demand.

(a) Downsizing through laying off staff

5.16 Given that SMW is only one of the many economic factors at play, the magnitude of job loss due to SMW cannot be estimated precisely. Nevertheless, with different scenarios on the extents of manpower streamlining following SMW implementation, we were able to gauge the possible impact on unemployment rate for both the overall economy and LPS. Feedback from stakeholders generally suggested that enterprises would tend to adopt price raising and manpower streamlining strategies, while profit reduction would be the last resort. For manpower streamlining, many enterprises also pointed out that the scope of downsizing was not without limit, as the existing manpower situation was already tight in many LPS and it might not be

feasible to adopt automation in the short run. Some therefore suggested that enterprises might not be able to accommodate more than 30% of the additional wage bills through downsizing. Based on these views, we estimated that the number of employees potentially to be laid off would be around 18 900 (or 0.7% of all employees) at SMW test level of \$24 if enterprises chose to absorb 30% of additional wage bills through downsizing (**Figure 5.4**). This would roughly represent a moderate 0.5 percentage point rise in Hong Kong's overall unemployment. Under the SMW test level of \$33 and the assumption that 30% of the additional wage bill would be mitigated through downsizing, the estimated job loss would increase to 81 000, translating into 2.2 percentage points impact on the overall unemployment rate.

Figure 5.4: Estimated number of employees who may be laid off under different SMW scenarios
(if 30% additional wage bills are offset by downsizing)



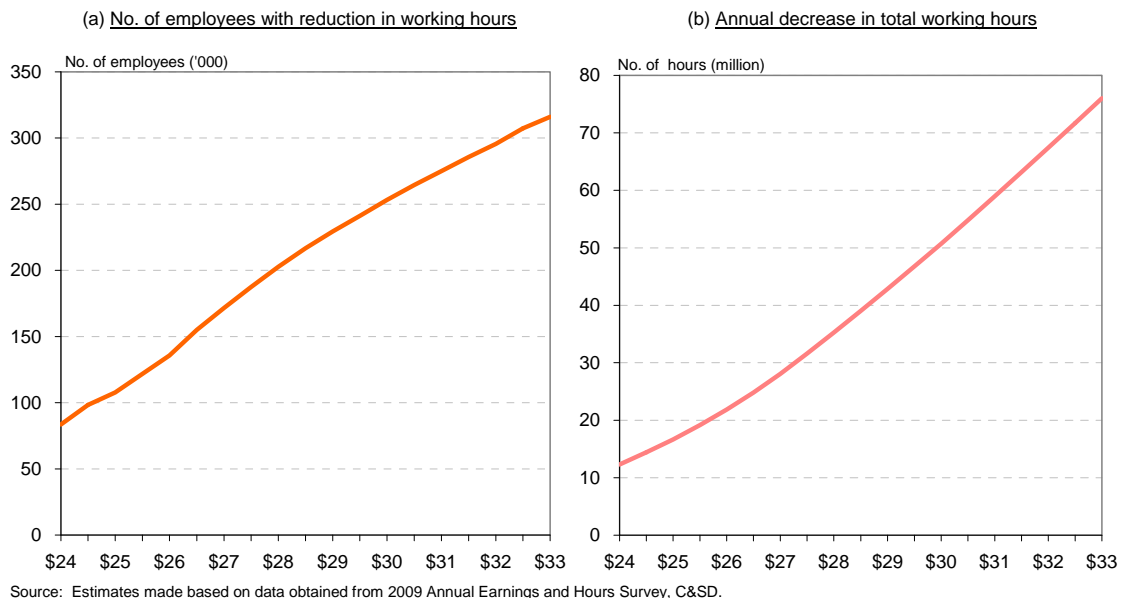
Source: Estimates made based on data obtained from 2009 Annual Earnings and Hours Survey, C&SD.

- 5.17 We would like to stress that the above estimates on the number of employees potentially to be laid off and the impact on unemployment rate are for illustration only. Also, the assumption that at most 30% of additional wage bills would be absorbed by downsizing was based on views collected through our consultation and did not represent the position taken by PMWC. Instead, during our deliberations, we considered a vast array of possible strategies that might be adopted by enterprises. Yet, due to the lack of empirical evidence, the dynamic effects of higher wage levels on labour demand and supply, and the stimulus of higher economic growth on the pace of job creation and labour force participation were not taken into account in the current exercise. While higher wages may encourage entry into the labour market, and hence social inclusion, the unemployment situation (particularly for the vulnerable groups) would depend very much on whether jobs could be created at a rate commensurate with the increase in labour supply brought about by enhanced work incentives.

(b) Restructuring employment through reducing working hours

5.18 With regard to a reduction in working hours, we estimated that the percentage reduction in total working hours would unlikely be very significant. Similar to downsizing through layoffs, feedback from stakeholders suggested that enterprises might not be able to accommodate more than 30% of the additional wage bills through reduction of working hours. Based on these views, we estimated that the number of employees who might suffer from a reduction in working hours would range from 83 500 (or 3% of all employees) to 316 000 (or 11.4%) under the SMW test levels of \$24 to \$33 if enterprises chose to offset 30% of additional wage bills by reducing working hours (**Figure 5.5**). Their total annual working hours were estimated to fall by 5.4% to 9.1% or 12.3 to 76.0 million hours.

Figure 5.5: Estimated reduction in working hours under different SMW scenarios
(if 30% additional wage bills are offset by reducing working hours)



5.19 We assessed that most low-paid workers would enjoy increases in wages after SMW implementation. Some individual employees might also benefit from more leisure time as a result of reduced working hours, while earning a similar or higher level of income. In addition, reduction in contractual working hours could also moderate the reliance on layoffs as a means to cope with the increased costs. While this seemed to be a potentially “win-win” situation for both sides, we were also aware that part-time jobs might be created as a result to replace full-time jobs. Some employees might be forced to take up part-time jobs with less stable income and even reduced fringe benefits and bonus payments, particularly as these items were usually not included in the remuneration package of part-time workers. Some might be forced to take up more than one part-time job at different locations instead of one full-time job. We also saw a possibility of increase in underemployment, as

some workers might have working hours reduced involuntarily⁽³⁾ with a resultant reduction in take-home pay.

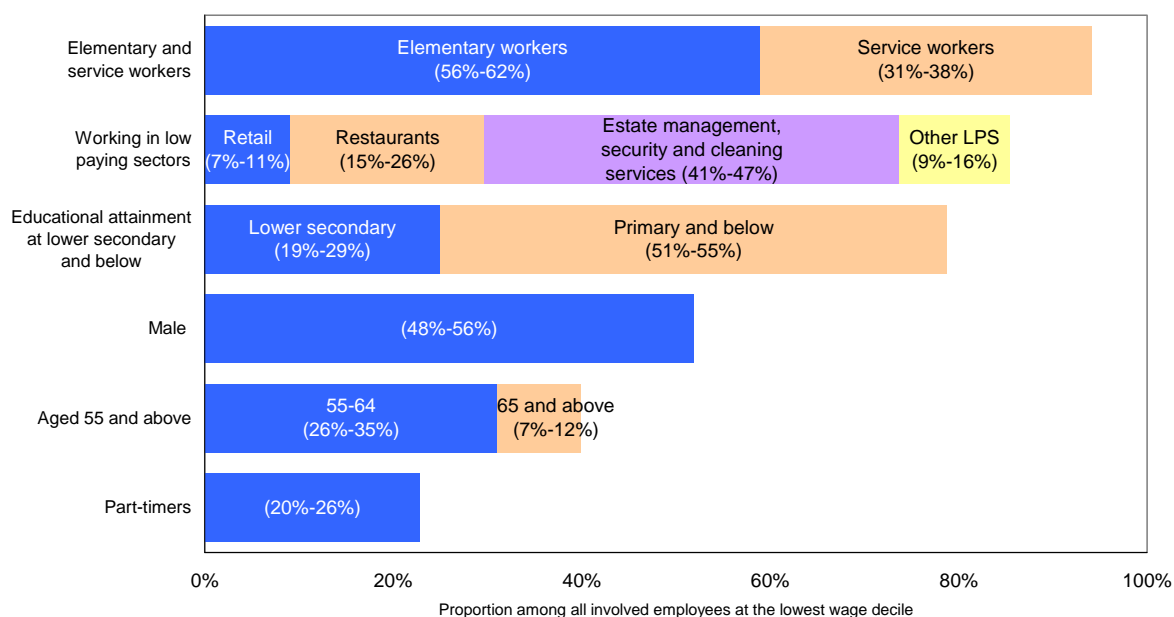
- 5.20 Relatively vulnerable employees (i.e. individuals who would more likely be laid off or suffer a cut in working hours) would mostly be those with lower skills and productivity, and currently earning the lowest wages. They would more likely be those working in LPS with the lowest wages. We therefore analysed the socio-economic profile of individuals at the lowest wage decile among the employees involved in LPS. Most of these workers were elementary and service workers, males, aged 55 and above, and with primary and below educational attainment (**Figure 5.6**) and some of them might be laid off. However, those who were more productive (e.g. being younger with higher educational attainment) might benefit from improved income prospects.
- 5.21 We recognised that among the employees involved, (a) some employees would inevitably be laid off, (b) some would have their working hours cut⁽⁴⁾, while (c) some would be able to enjoy wage increases without any reduction in working hours. We analysed the ratios between employees benefiting (group (c)) and not benefiting (group (a)) at different SMW levels⁽⁵⁾ and endeavoured to strike an appropriate balance between these outcomes during the deliberation process.

(3) The criteria for an employed person to be classified as underemployed are involuntarily working less than 35 hours during the 7 days before enumeration; and either (i) has been available for additional work during the 7 days before enumeration; or (ii) has sought additional work during the 30 days before enumeration.

(4) As discussed in paragraph 5.19, some of the employees involved with a small reduction in working hours might still benefit from increase in employment income, or enjoy more leisure time albeit receiving an employment income comparable to the pre-SMW level. Therefore not all employees with working hours cut would be worse off.

(5) This ratio was not meant to be any scientific cost-benefit analysis as losses to employees laid off under group (a) and gains to employees of group (c) would be different (e.g. in terms of employment income and psychological well-being). This was just one of the many impact assessment results that we had considered when seeking to strike a sensible balance among various considerations.

Figure 5.6: Socio-economic profile of employees involved at the lowest wage decile



Source: 2009 Annual Earnings and Hours Survey, C&SD.

5.22 While we estimated that employees being laid off or having their working hours reduced would be among the employees currently earning wages below the SMW test levels, in practice some employers might choose to dismiss employees with wages above the SMW level. In such case, the outturn of number of layoffs might be smaller.

5.23 The downsizing and unemployment rate estimates did not include employees affected as a result of closure of some firms due to profit reductions after SMW implementation. Nevertheless, such potential impact did form part of our consideration in examining the impact of SMW on employees. We also understand that the extent of such closure, if any, would depend on the prevailing and anticipated business and economic conditions.

5.24 The above limitations are due to the inherent difficulties in predicting the dynamic responses of employers, employees and their interactions in the market. The extent and timing of downsizing would depend on the operating characteristics, financial capability, profitability, business prospects, the firms' strategic responses, and the general economic conditions, among others.

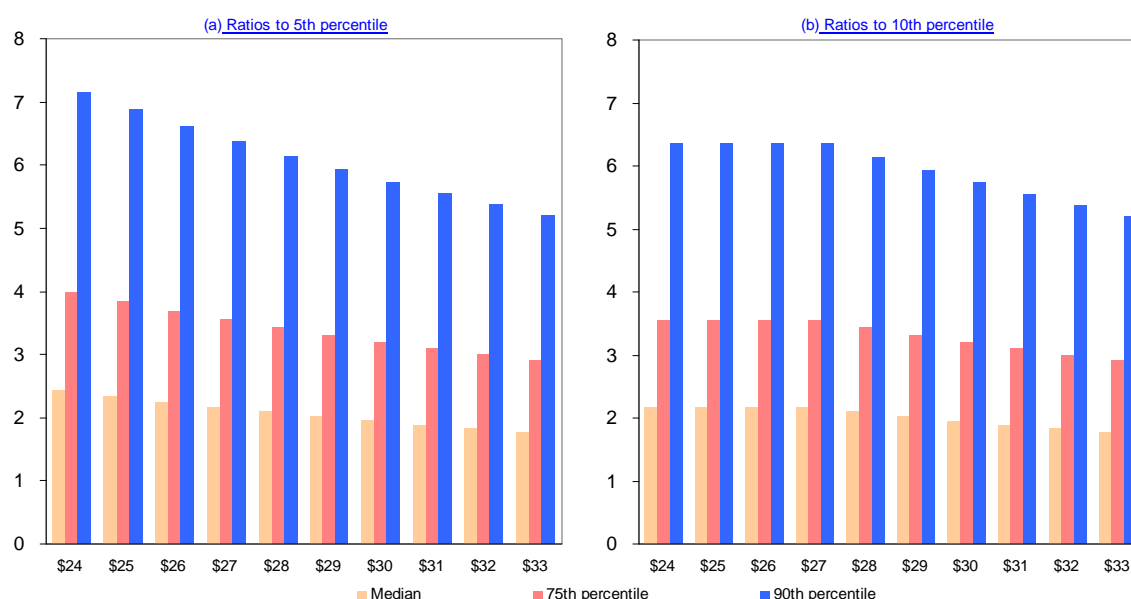
5.1.4 Change in Wage Differentials

5.25 Since SMW implementation would raise the wages of the lowest-paid and forestall excessively low wages, it would tend to reduce the wage differentials between the lower layer of the wage distribution and the middle and upper layers. Quantitatively, we estimated the ratios of the median, the 75th percentile, and the 90th percentile to the lower end percentiles (such as the 5th and 10th percentiles)

under different SMW test levels. In general, these ratios would decrease along with higher SMW test levels (**Figure 5.7**), indicating a narrowing of wage disparities. However, it should be noted that this outcome must be qualified by the initiatives of firms to increase the wages of workers at the middle-upper segment so as to maintain some relativity in wage differential after SMW implementation, or to reduce wages at various levels above the SMW rate in order to offset part of the additional wage bills.

- 5.26 By tracking the changes in these ratios over a longer time span, we could obtain a clearer picture of how SMW would improve the relative earnings of the involved employees. Experience in the UK suggested that following the introduction of a national minimum wage, wage differentials did narrow, as workers at the bottom of the earnings distribution tended to receive higher pay rises than those in the middle⁽⁶⁾.

Figure 5.7: The ratios of the median, the 75th percentile, and the 90th percentile to the lower end percentiles under different SMW scenarios



Source: Estimates based on the 2009 Annual Earnings and Hours Survey, C&SD.

5.1.5 Sectoral Analysis

- 5.27 We paid particular attention to the impact analysis of LPS, by taking into account the wage bill impacts and the unique operating and competition environments that lead to different response strategies. The views of stakeholders also helped enrich our understanding of the low paying industries and facilitated our analysis. A

(6) According to the UK's 2010 Low Pay Commission report, over the period of 1998 to 2008, workers "at the bottom of the earning distribution received higher pay rise than those at the middle of the distribution", although such difference appeared to become smaller during the later period of 2004 to 2008. The pattern continued in 2008-2009 but with important differences, as "those paid just above the minimum wage appear to have received a lower pay rise than those paid at the minimum wage, suggesting a squeeze in differentials". Also, recession of the UK economy "appears to have considerably reduced the earnings growth of those in the highest decile relative to those at the median".

summary account of our analysis is given below.

(a) Retail

5.28 Within the retail sector, the proportions of employees of supermarkets and convenience stores who would be affected by the SMW policy were high, ranging from 12.8% at the SMW test level of \$24 to 60.3% at \$33. Many of them would be part-timers, with proportions ranging from 65.0% at \$24 to 46.1% at \$33 (**Table 5.2**). Given the high proportion of part-time workers, it would appear that the scope in cutting jobs significantly would be comparatively limited in this sector. However, during consultations, some employers did indicate to us that they would still choose to further reduce working hours of part-time jobs during non-peak hours or seasons, in order to absorb increase in the wage bill.

Table 5.2: Proportion of part-time employees

	Proportion of part-time employees to total no. of employees in each sector	Proportion of part-time employees involved		
		SMW test level		
		\$24.0	\$28.0	\$33.0
Low paying sectors	11.5	21.3	20.6	18.2
1. Retail	11.9	41.6	34.7	27.5
1.1 Supermarkets & convenience stores	29.5	65.0	61.8	46.1
1.2 Other retail stores	8.7	31.9	23.4	19.6
2. Restaurants	14.2	38.9	30.1	23.4
2.1 Chinese restaurants	4.9	*	4.9	4.3
2.2 Non-Chinese restaurants	12.2	31.1	25.7	22.5
2.3 Fast food cafes	31.9	53.3	47.9	41.1
2.4 Hong Kong style tea cafes	8.1	*	10.2	10.8
3. Estate management, security and cleaning services	9.5	3.1	9.6	11.0
3.1 Real estate maintenance management	0.7	*	*	*
3.2 Security services	6.1	*	7.5	6.8
3.3 Cleaning services	23.0	7.2	17.6	21.0
3.4 Membership organisations	16.5	*	*	*
4. Other low paying sectors	9.1	20.3	17.6	12.4
4.1 Elderly homes	3.0	*	*	*
4.2 Laundry & dry cleaning services	17.4	*	*	*
4.3 Hairdressing & other personal services	5.7	*	*	*
4.4 Local courier services	12.9	*	47.3	27.2
4.5 Food processing and production	18.3	75.1	58.4	40.4
Other sectors	4.0	14.4	11.4	11.4
All sectors	6.0	20.3	18.8	16.6

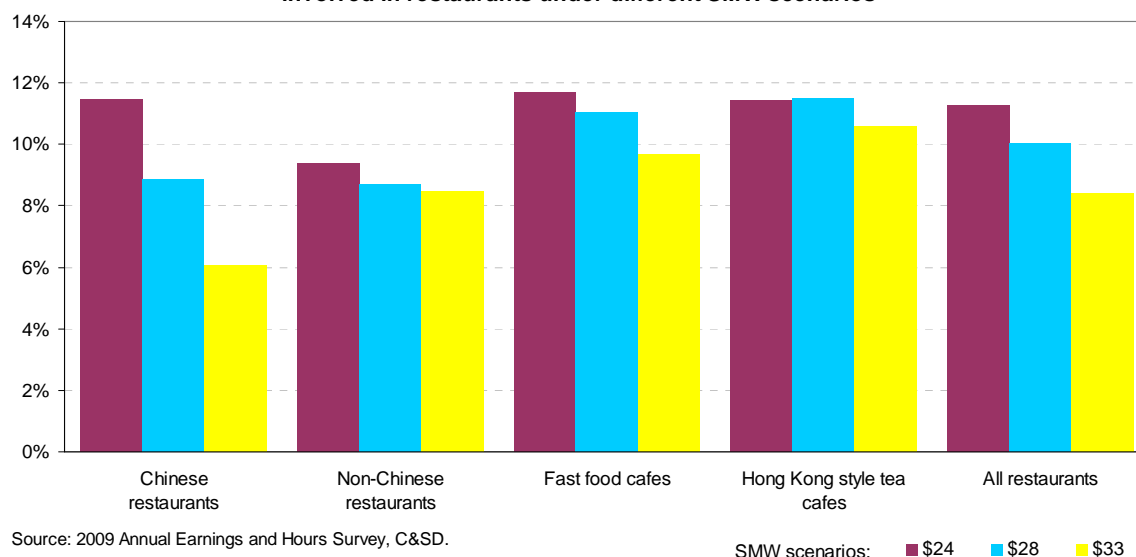
Note: * Estimates are not released due to relatively large sampling error.

Source: 2009 Annual Earnings and Hours Survey, C&SD.

(b) Restaurants

5.29 Among LPS, restaurants hired the second largest group of employees affected by SMW implementation at all SMW test levels. The effect and extent of the impact of our recommendation would vary among firms and employees of different types of restaurants. For restaurants with low/negative profits, relatively low efficiency or output quality, the chance of adopting strategies like shifting to part-time work or dismissal would be higher. Restaurants in Hong Kong are in general more labour-intensive and have finer division of work than their counterparts in Western countries with SMW, and their first quartile profit ratio was the lowest amongst LPS. Thus, many stakeholders indicated that there would be potential for more capital-labour substitution or outsourcing of operational processes after SMW implementation. We therefore assessed that the magnitude of manpower downsizing in the restaurants sector would likely be larger than that of the overall economy, and hence there could be a more visible rise in the sector's unemployment rate, other things being equal. In addition, given that the provision of meal benefits to employees is very common in the restaurants sector, employers might consider reducing meal benefits as one of the main strategies to offset the increased wages. Indeed, the cost of meal benefits as a ratio to the total wage bill of employees involved was relatively high, at 11.3% and 8.4% for the sector as a whole under the respective SMW test levels of \$24 and \$33 (**Figure 5.8**).

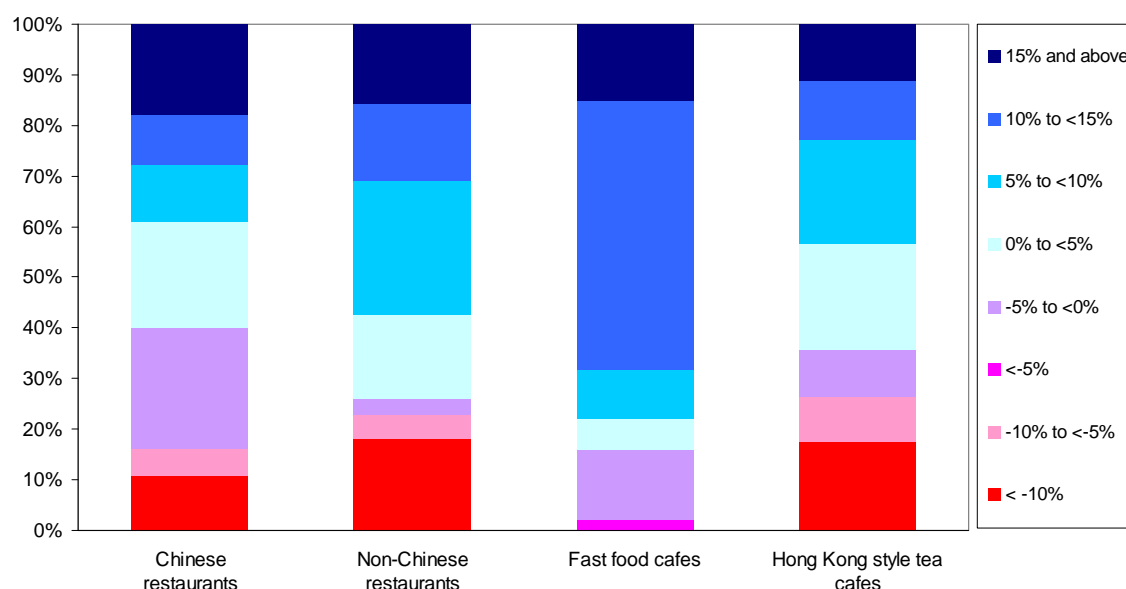
Figure 5.8: Ratios of costs of meal benefits to total wage bill of employees involved in restaurants under different SMW scenarios



5.30 We carefully studied the diversity of restaurants within the sector in deliberating our recommendation. In general, restaurants with good profitability and low price elasticity of demand would be in a better position to cope with the changes brought by SMW implementation. Taking fast food cafes as an example, they were generally characterised by (a) employment of a high proportion of low-paid workers

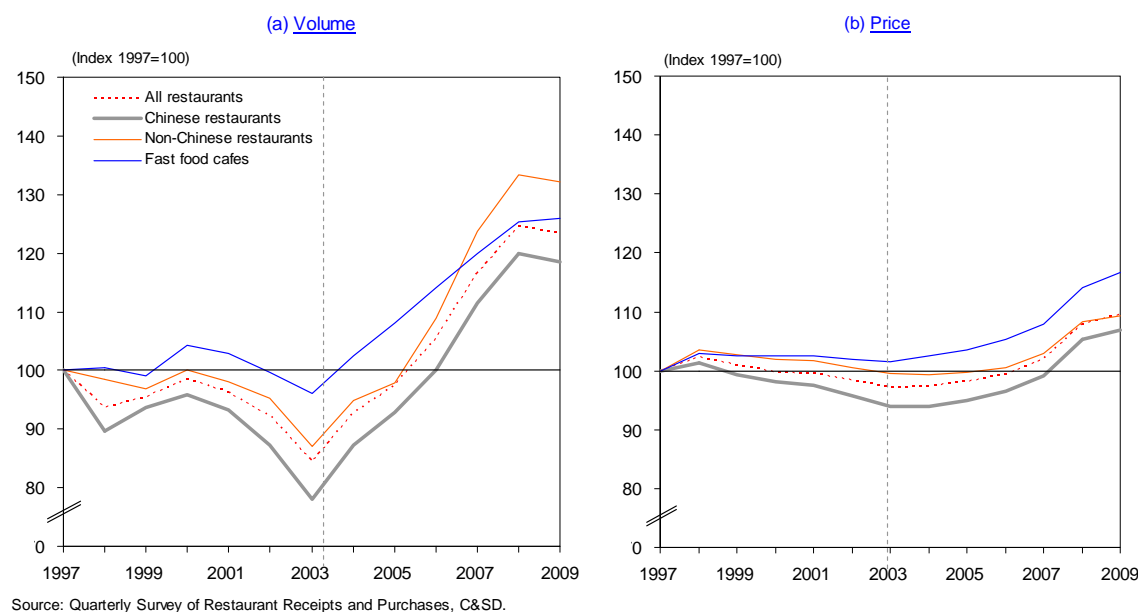
with a large share being part-timers (**Table 5.2**), (b) relatively higher profit margins (**Figure 5.9**), (c) dominated by chain stores operated by large enterprises, and (d) relatively resilient in consumer demand and prices during economic downturn (**Figure 5.10**). We therefore assessed that, for most fast food cafes, price pass-through would likely be the more common responding strategy in addition to reduction of meal benefits in kind to employees. However, we noted that some other restaurants (particularly Chinese restaurants) with relatively low profit margins and higher price elasticity of demand might have more difficulty in adopting aggressive price pass-through strategy, and hence might resort to greater streamlining in manpower through various means, including job compression, rank amalgamation, reduction in working hours, introduction of automation and replacement of full-time by part-time workers.

Figure 5.9: Profit distributions of restaurants by type



Source: 2008 Programme of Annual Economic Surveys, C&SD.

Figure 5.10: Total restaurant receipts



(c) Estate management, security and cleaning services

5.31 This sector employed the largest group of individuals affected by SMW implementation under all SMW test levels. The employees in question generally received lower pay than other sectors, with the lowest 5% employees earning an hourly wage of less than \$19.6 in the second quarter of 2009. As reflected by stakeholders in this sector, the majority of firms should be able to offset the additional wage bills by raising service charges. Some also suggested that with higher wages for employees after SMW implementation, they might raise job requirements and choose to engage employees with higher productivity, hence resulting in displacement of the less productive workers. In fact, some security guards working in single block buildings expressed concern of losing their jobs during our consultation visits. For cleaning services in particular, clients might require less frequent services in the face of increased service charges, thus reducing labour demand modestly. In each case, the long-run impact would depend on the further interactions of demand and supply along the adjustment path.

(d) Other low paying sectors

5.32 Most of the other miscellaneous LPS like elderly homes, local courier services, hairdressing and other personal services are service-oriented and labour intensive. To offset the cost effects of SMW implementation, price increases would appear to be a more viable strategy than large scale staff reduction. However, given that apprentice system is relatively common in the hairdressing and other personal services sector, some employees (mainly apprentices) received very low hourly wages (2 000 employees or 4.7% of all employees in this sector earned less than

\$19 an hour in the second quarter of 2009). This suggested a need to introduce relatively larger price increases or greater extents of staffing streamlining. However, as some of these services might face high price elasticities of demand, it is expected that some firms might need to absorb part of the higher wage bills through their generally higher profit margins, which might lead to reduced returns to working owners who usually do not receive any wages. At this stage it is empirically uncertain how employers, employees, and consumers in this sector would respond and interact after SMW implementation. Data of longer time series after implementation should help analysing the impact in this regard.

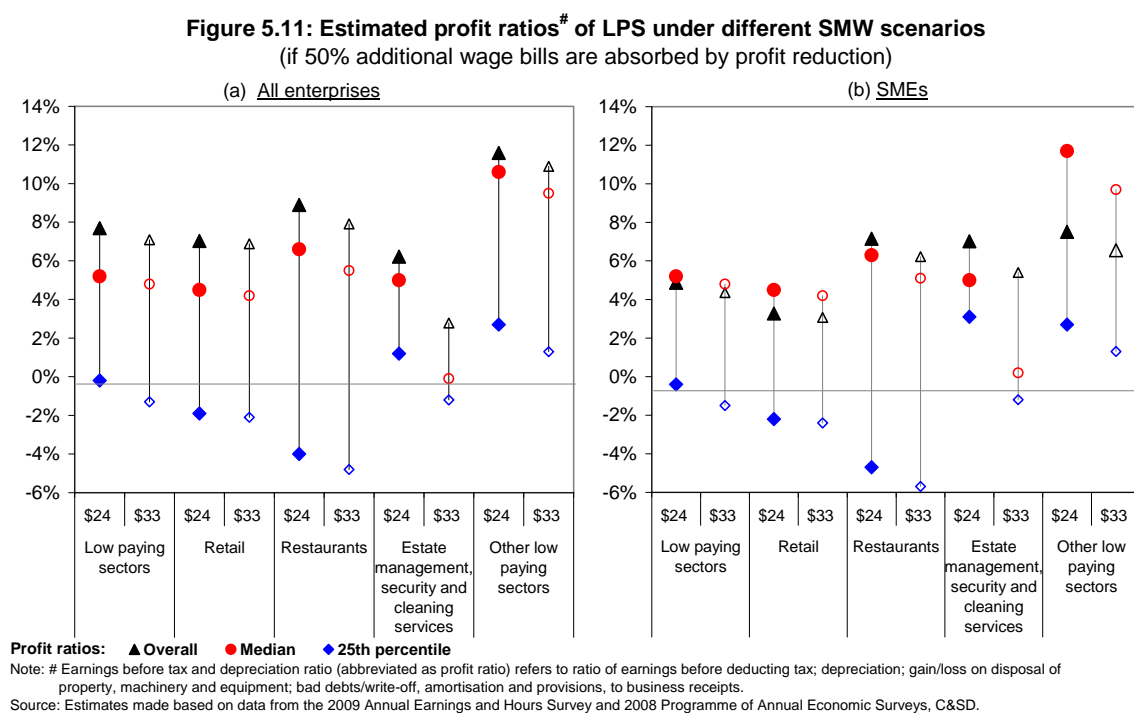
- 5.33 To conclude, we studied in great detail the various aspects of the SMW impact on employees. We paid special attention to the unemployment situation of the vulnerable workers, and unanimously considered that the initial SMW rate should be carefully chosen so that wage increases of grassroots workers would not be achieved at the cost of a significantly higher unemployment rate. This was indeed one of the important factors that we took into account in accordance with our Terms of Reference.

5.II Impact on Businesses

- 5.34 Under various “profit reduction scenarios”, we estimated the impact on the profit ratios (including the overall profit ratios and the median and ratios at the 25th percentile), the number of enterprises turning from positive to negative profitability and the total number of employees affected. We also studied the impact on distribution of profit ratios within each LPS so as to gauge the different impacts on enterprises operating on various profitability situations. Furthermore, owing to significantly different operating characteristics, a separate exercise was conducted for SMEs alone in each sector.
- 5.35 During our consultation, some labour policy concern groups opined that enterprises should be able to contain the increased wage costs by reducing profits. On the other hand, representatives from trade associations indicated that firms would seek to maintain a reasonable rate of return on investment, hence profit reduction might not be the preferred strategy to offset the additional wage bills. The general view from various stakeholders was that enterprises would not absorb more than 50% of the additional wage bills by profit reduction. Based on this view, our analysis showed that the overall profit ratio for firms with employees in LPS, at 7.8% in 2008, might register a decrease of 0.1 percentage point at the SMW test level of \$24, should enterprises choose to absorb 50% of additional wage bills by profit reduction. At \$33, the overall profit ratio might be reduced by 0.7 percentage point. More notable decreases in profits would be found in the estate management, security and cleaning services sector, in view of its larger wage bill increase and high share of

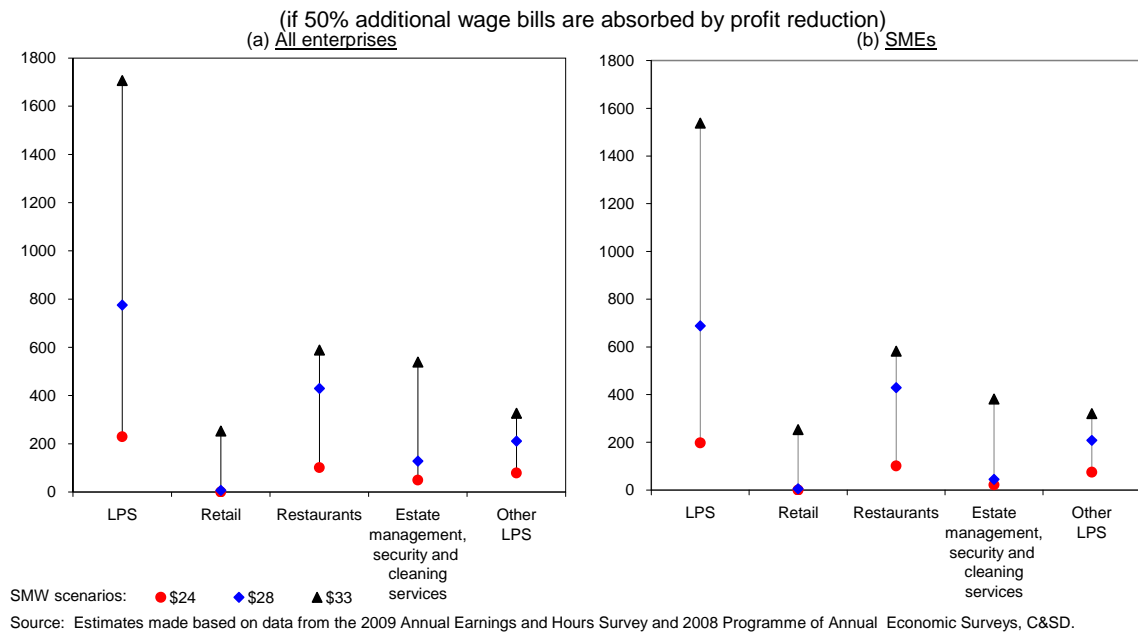
staff costs in total operating costs. As regards SMEs, the estimated declines in the overall profit ratio, at 4.9% in 2008, were of similar magnitude (**Figure 5.11**).

5.36 Again, we would like to emphasise that the above estimates on profit ratio reduction are only illustrative. The view that firms would not absorb more than half of the additional wage bills by profit merely reflected the opinions provided to us during consultation and did not represent the position taken by PMWC. In our deliberation process, numerous scenarios taking into account all possible strategies that could be adopted by enterprises were studied.



5.37 We also estimated the number of enterprises in LPS with profit ratio turning from positive to negative, and noted that there would be a progressive increase in the number of enterprises turning into losses as the SMW test level went higher (**Figure 5.12**). Firms operating under the constraints of huge up-front investments and tenancy agreements might continue operations even when profits become negative. However, upon completion of the current tenancy, firms still struggling for survival would be more prone to downsizing or even closing down, especially if they fail to renew tenancy with affordable rental.

Figure 5.12: Estimated number of enterprises turning into negative profits in LPS and different SMW scenarios



5.38 Furthermore, by studying the changes in median profit ratios and profit ratios at the 25th percentile, we found small declines of similar magnitude but noted that some retail shops and restaurants could experience a considerable reduction in profits or bigger losses upon the additional wage bills after SMW implementation. An aggressive SMW rate could jeopardise the survival of many firms in these two sectors. Furthermore, the estimates did not take into account depreciation rates due to data limitations. By conducting further sensitivity test to take into account depreciation (as discussed in paragraphs 5.57 and 5.58 under Section 5.IV.4 below), we noted that some retail shops and restaurants would be in an even more difficult profit situation.

5.39 We understand that even within the same sector, the competitive environment faced by large enterprises and SMEs could be very different. As indicated by stakeholders, both profitable and unprofitable large enterprises with lots of branches and outlets might not immediately close down those branches operating in the red owing to tenancy constraints or strategic marketing positioning, such as existence of competitors in the vicinity. The impact of closing down branches on job loss had already been taken into account in the estimation under “manpower streamlining scenarios” in Section 5.I. In contrast, SMEs operating under a tighter capital flow and shorter tenancy would be more inclined to cease unprofitable businesses. Should some enterprises (such as those already operating in the red) close down as a result of failing to cope with the challenges arising from SMW implementation, employees of these firms would lose their jobs, which had not been fully accounted for in our estimates in paragraph 5.16. This would in turn exert an immediate upward pressure on the unemployment rate in the short run. In the long run, we believe that enterprises with higher efficiency, better output quality and higher

- innovation would be more likely to benefit from SMW implementation through an increase in market share. These firms might also absorb part of the employees dismissed by other firms.
- 5.40 It should be noted that the above estimation of changes in profit ratios did not take into account the possibility that firms might seek to reduce operating costs through various measures. The figures must therefore be interpreted with caution. Furthermore, items like tax, depreciation, gain/loss on disposal of property, machinery and equipment, bad debts, amortisation and provision could not be included due to data limitation, hence the figures of profit ratio are not net profit in the strictest sense. For the same reasons, estimates regarding the number of firms with profit ratios turning negative are necessarily crude.
- 5.41 As discussed in Chapter 4, SMW implementation would have further impact on labour costs of business, as an increase in wage level would cause statutory entitlements of employees such as long service payments to increase. We looked into the likely impact in this regard, based on data from AEHS and the General Household Survey conducted by C&SD. For SMW test level at \$24, the estimated increase in employers' liability of long service payment would be around \$94 million, or equivalent to 1.3% of the total wage bill of all involved employees. At the SMW test level of \$33, the corresponding increase would rise to about \$0.8 billion, equivalent to 2.5% of the total wage bill of all involved employees.
- 5.42 To conclude, in our deliberation of the likely SMW impact on businesses, we noted that under very high SMW test levels, those businesses already operating at very low or even negative profits might have great difficulty in surviving. In such cases, some firms may have to close down thus resulting in further job loss. We were therefore mindful to recommend an appropriate level of the initial SMW rate that would be manageable by the business sector and avoid massive cessation of firms which eventually would impact adversely on workers, nor one that would create heavy cost burden to the extent of discouraging start-up of businesses.

5.III Impact on Output Prices and Inflation

- 5.43 We were fully aware of the negative macroeconomic impact if we were to recommend an SMW rate which forced significant price increases. This would undermine Hong Kong's domestic and international competitiveness, erode purchasing power, and might even reduce aggregate demand. We therefore devoted much attention to the price effects of SMW implementation.
- 5.44 Based on views on possible strategies to be adopted by enterprises, we formulated various "price pass-through scenarios". We also took into account the operating cost structure of LPS, based on data from C&SD. All firms consume products

and/or services supplied by other firms. It follows that the magnitude of any SMW-induced increase in prices would depend on a) the direct increases in wages and related staff costs for the firm; and b) the indirect effect of higher input costs (e.g. on rental, business services) due to higher prices on the part of supplier firms which experience SMW-induced cost increases.

5.45 The estimated price effect would vary, depending on the estimated increase in wage bills of individual sectors and the shares of staff costs in output value. During consultation, some labour policy concern groups suggested that a full transfer of the additional wage costs to consumers via price increases would be a viable and effective strategy to mitigate SMW impacts. However, it should be noted that the ability to raise output prices in reality hinges on many factors. Sectors and firms facing keen competition (in the case of most firms in LPS) and higher price elasticities of demand would generally find it more difficult to raise prices. These cases include:

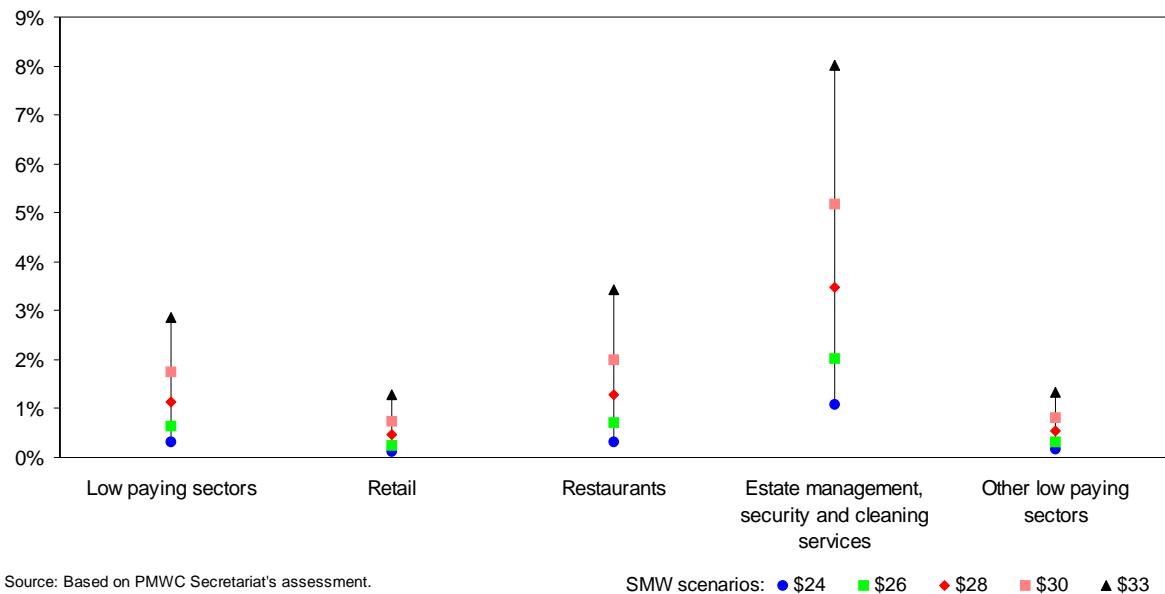
- ❑ firms with weak market power, marketing strategies and customer loyalty;
- ❑ firms offering products or services which are not necessities; and
- ❑ firms offering products or services that can be readily substituted within the same sector, across sectors, or even across the boundary. For example, some consumers would switch from dining at restaurants to eating in fast food cafes, or engage personal services like hairdressing and massage in Shenzhen instead of Hong Kong.

5.46 Firms in the above cases would find it difficult to raise prices without a significant reduction in business volume. They may therefore be forced to offset wage increases by supplementary strategies. On the other hand, high manpower reliance and low profitability may compel firms to adopt a price-raising strategy. Also, firms may resort to lowering output quantity and/or quality while charging the same price.

5.47 Whilst knowing a full cost transfer scenario was unrealistic, we also simulated the results to understand the potential maximum impact on output prices. Our simulation results showed that the impact on output prices of the aggregate LPS would be 0.3% at an SMW test level of \$24, which would increase to 2.9% at \$33 (**Figure 5.13**). Among LPS, larger impact on output prices would likely be found in the estate management, security and cleaning services sector, particularly with regard to security services and cleaning services. These firms provided more labour intensive services with a relatively high share of staff costs in total operating costs, hence would face higher increases in wage bills. As a rough indication, under a full pass-through scenario, it was broadly estimated that management fees of private residential buildings would possibly increase slightly by 1.0% - 7.2% in

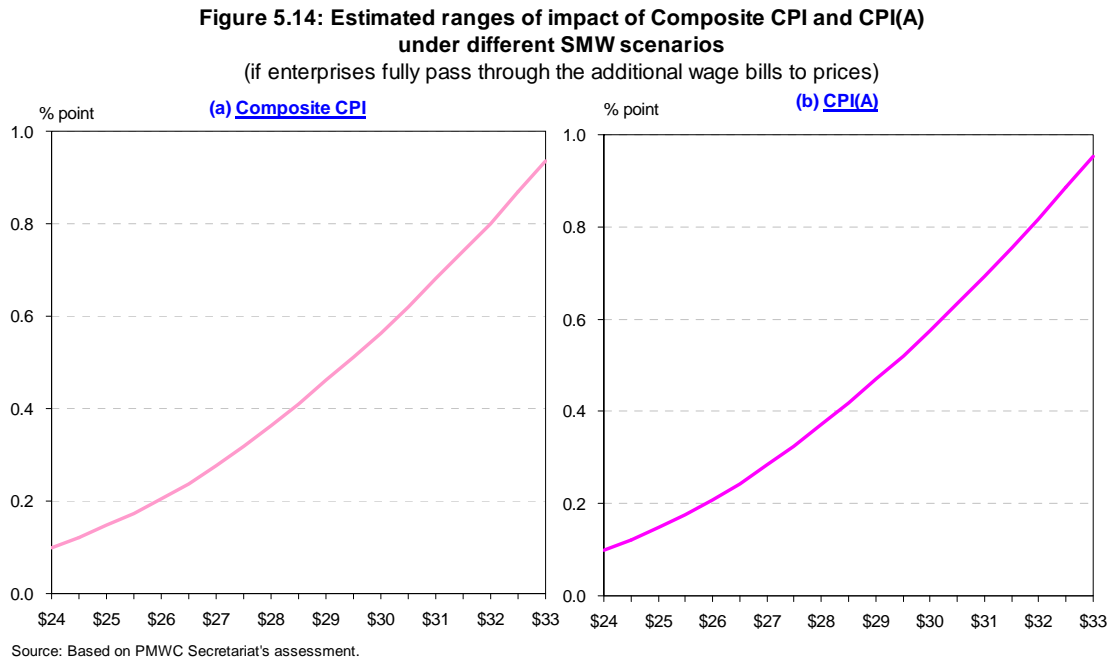
respect of single-block buildings and 0.8% - 5.5% in respect of non-single block buildings under the SMW testing range of \$24 - \$33⁽⁷⁾.

Figure 5.13: Estimated price impact on LPS under different SMW scenarios
(if enterprises fully pass through the additional wage bills to prices)



5.48 Recognising that higher consumer prices would erode purchasing power and reduce real wages, we also examined the impact on consumer price inflation, in terms of Composite CPI and CPI(A), using price estimates for sectors. Our analysis suggested that the likely impact of the SMW test rate of \$24 on Composite CPI and CPI(A) would be around 0.1 percentage point under the full price pass-through scenario. At \$33, the corresponding price impact would become larger, with impacts on Composite CPI and CPI(A) at around 0.9 and 1.0 percentage points respectively (**Figure 5.14**). Since most firms would not be able to transfer all additional costs to consumer, the actual impact should be smaller than these estimates.

(7) The estimates were derived by applying the estimated increases in output prices of security and cleaning services to the median shares of guarding and cleansing expenses in total management expenses. The latter data were obtained from a survey commissioned by C&SD to a market research firm in 2008. It was further assumed that enterprises choose to transfer all of the increased management expenses to fees.



5.49 While the above estimates on Composite CPI and CPI(A) reflected the aggregate picture, individuals might experience different impacts due to differences in consumption baskets. In particular, the impact was estimated to be higher in the case of low-paid employees, who tend to spend a large proportion of income on daily necessities which might experience discernible SMW-induced price increases. While CPI impact estimates are technically based on a basket of consumption goods for general households, some heavily weighted items may not be affected by SMW implementation (e.g. public housing rental). It is therefore understandable that some individuals might psychologically feel more acute inflation after SMW implementation than what the overall price impact estimates would suggest, if they focus only on items with price increases (e.g. items from retail shops, meals from restaurants, etc).

5.50 It should be noted that the above estimates, which enabled us to understand the SMW impact on purchasing power and real wages, only took into account the direct and indirect effects of increased wage bills on prices (i.e. the direct staff costs increases and the sequential increases of other operating costs, say rental triggered by pass-through from landlords). The serial increases in prices due to the possible subsequent wage-price spiral as discussed in Section 4.III.5 have not been assessed.

5.IV Sensitivity Tests

5.51 In addition to the core impact assessment of SMW implementation described above, we performed sensitivity tests as follows:

5.IV.1 Knock-on Effect on the Pay Hierarchy

- 5.52 During consultation, stakeholders from the business community indicated that instead of just raising wages of all low-paid employees to the statutory level, employers might need to raise wages for both employees earning below and above the SMW rate in order to maintain staff morale. Hourly wages of some lower-paid employees might even need to be raised beyond the statutory level and some employees with wages above the statutory level might also enjoy pay rises as employers sought to preserve wage differentials in the hierarchy. This knock-on effect would likely be particularly pronounced in sectors and firms with multi-layered grade structure and small differences in pay between adjacent ranks. Large and medium restaurants and retail shops were examples frequently quoted by stakeholders.
- 5.53 As these stakeholders opined that such knock-on effects would lead to significant increases in wage bills on top of what was necessary to meet the statutory requirement, and experience of other places also showed that the SMW-induced knock-on effect on the pay hierarchy would to a certain extent have implications on business costs, we also examined the impact on wage bills, profit ratios and prices in sensitivity tests under different knock-on assumptions and combined SMW and enterprise response scenarios. Nevertheless, it is noteworthy that assessment of such possible effects before the implementation of SMW has its inherent limitations in the absence of empirical data and evidence. Furthermore, organisational changes and shifts in the pay scale might take place alongside manpower streamlining. This would reduce first the cost impact and then the knock-on effects.
- 5.54 Based on the opinions of various submissions from stakeholders, we recommend conducting tracking studies for LPS with special reference to the retail and restaurant sectors to monitor the empirical magnitude of knock-on effects after SMW implementation so that due consideration could be given in this regard in future reviews of the SMW rate.

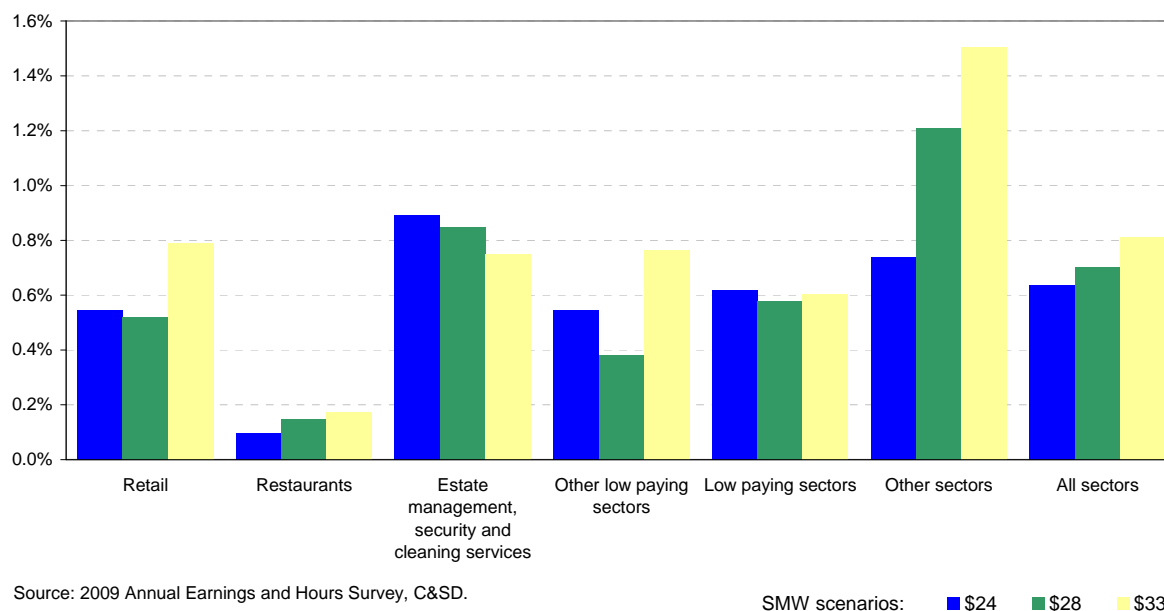
5.IV.2 Reduction in Guaranteed Year-end Payment / Bonus

- 5.55 Feedback from stakeholders received during consultations suggested that some firms might choose to offset part of the wage bill increases induced by SMW implementation by reducing guaranteed year-end payment/ bonus to low-paid employees⁽⁸⁾. Results of our sensitivity test in this regard, however, showed that

(8) According to the “Employment Ordinance”, “wages” means all remuneration, earnings, allowances, tips and service charges, however designated or calculated, payable to an employee in respect of work done or work to be done. However, end of year payment, annual bonus which is of a gratuitous nature or is payable only at the discretion of the employer, and meal benefits in kind are not components of “wages” and thus not covered under SMW.

the likely effects were expected to be small, as only a small proportion of the involved employees receive guaranteed year-end payment/bonus (**Figure 5.15**).

Figure 5.15: Ratio of guaranteed year-end payment/bonus to total wage bill of employees involved in LPS under different SMW scenarios



5.IV.3 Reduction in Meal Benefits in Kind

5.56 During consultation, some employers expressed the need to offset part of the additional wage bills by reducing meal benefits in kind to low-paid employees. Such benefits were relatively common in restaurants and elderly homes. While employers would face lower cost pressure by adopting this strategy, the extent and feasibility would depend very much on the business operation and the contractual arrangements between employers and employees. We examined the impact on firms and found that reduction in additional wage bills would be more prominent among fast food shops. However, as the SMW test level went up, the percentage reduction in additional wage bills would become smaller because when wages of employees increased, the costs of meal relative to the total wage costs would decline (see **Figure 5.8**).

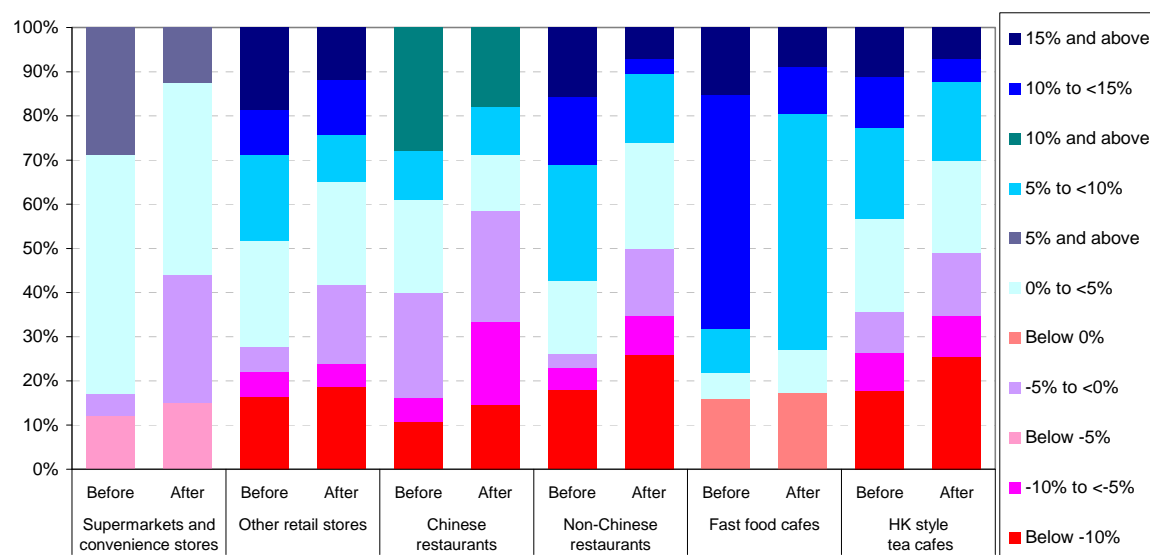
5.IV.4 Impact on Profit Conditions after Depreciation

5.57 Data on depreciation and hence on profit ratios after depreciation were not available from the data of 2008 PAES. However, many stakeholders stressed that depreciation was a significant cost element for the retail and restaurant sectors, a sensitivity test on profit ratio after depreciation under different SMW scenarios was thus performed by applying depreciation rates provided by relevant stakeholders. Some estimates provided to us during consultation suggested that the average depreciation rate in supermarkets and convenience stores was around 2% while that

in other retail stores was slightly higher at 2.5%. The average depreciation rate in the restaurants sector was generally higher, with fast food shops and Chinese restaurants at 3.3% and 3.8% respectively, while that in non-Chinese restaurants was even higher at 7.0%.

- 5.58 After taking depreciation into account, we found that the share of companies incurring losses would increase significantly in retail shops and restaurants (**Figure 5.16**), particularly in supermarkets and convenience stores, non-Chinese restaurants and Chinese restaurants. Under higher SMW test levels, an increasing number of companies in these sectors would be found to operate under loss, and hence fighting for survival or even closing down. However, such situation should be much less pronounced at lower SMW test levels.

Figure 5.16: Profit distribution of retail trade and restaurants before and after taking into account depreciation



Note: Before and after refer to before or after depreciation

Source: Estimates made based on data obtained from 2008 Programme of Annual Economic Surveys, C&SD; and depreciation rates provided by relevant stakeholder.

- 5.59 To conclude, we acknowledge that the above impact assessment is a reasoned judgement made on the basis of the information available. As the economy and the labour market would continue to evolve, the precise responses of firms and the exact impact on employees remain unknown. The full and actual consequences, including the possible knock-on effects, would only manifest themselves in the years to come and only then can their actual impact be evaluated through detailed tracking studies over a longer period of time.

6 Deciding the Recommended Initial Statutory Minimum Wage Rate

- 6.1 We consistently sought to discharge our duties in conformity with the spirit and intent of the SMW policy. SMW is intended to be a wage floor but not a living wage in the context of Hong Kong, as set out in the 2008-09 Policy Address, the Legislative Council (LegCo) Brief on the Minimum Wage Bill (the Bill) and the speech of the Secretary for Labour and Welfare in the resumption of second reading debate of the Bill in LegCo on 15 July 2010. By definition, therefore, at the SMW rate, wages may not be sufficient to cover all family expenses of all employees which vary greatly according to family size and composition, number of wage earners in the family and other family circumstances. We noted that employees in need could obtain financial assistance under the current social security system and/or upgrade their employability through training and retraining under various government-sponsored programmes.
- 6.2 With the above observations and conditions in mind, we set out to rationally balance demands from different directions. On the one hand, the desire to forestall excessively low wages and give greater protection to, and improve the quality of life of, more low-paid workers support a higher SMW rate and thus a greater number of workers will be covered. On the other hand, the risks of layoffs and rising unemployment, especially among the vulnerable groups, as well as the negative effects on the viability of affected firms, inflation, competitiveness, and economic growth point to the prudence of opting for a lower SMW rate with fewer employees covered. All these considerations need to be viewed against the backdrop of the economic and labour market conditions. Details regarding the considerations at different margins and their corresponding impacts are given in Section 6.I.
- 6.3 Through thorough and objective consideration of the views of stakeholders and public opinions, research and studies on the experience of other places, performance of the Basket of Indicators, other considerations relevant to the SMW policy, impact assessment results, as well as candid exchanges among our members from different backgrounds and professions, we reached the consensus of recommending the initial SMW rate at \$28.0 per hour.

6.I Major Considerations

6.I.1 Economic and Labour Market Conditions

- 6.4 We note that the Hong Kong economy is currently on track to recovery after the recession in 2009, with real Gross Domestic Product (GDP) reverting to positive growth, unemployment rate receding, and wages and employment earnings picking up. Broad-based recovery has been seen in both the external and domestic sectors.

On the basis of the Government's official economic forecast, we are cautiously optimistic about Hong Kong's economic outlook in the short- to medium-term. The improving economic and labour market conditions should provide a stable macro environment for SMW implementation that should help cushion the pressure on business profitability and unemployment consequential to the implementation of the SMW policy.

6.5 Alongside economic recovery, wages and labour earnings have resumed modest increases since late 2009. Looking ahead, wages and inflation are expected to rise gradually, implying that the proportion of involved employees after SMW implementation may be slightly lower than that estimated on the basis of the survey data in the second quarter of 2009. The actual wage bill increase and impact on business profitability may also be smaller than the estimates in Chapter 5.

6.6 There are nonetheless downside risks and uncertainties in the external environment, especially the sovereign debt crisis in Europe and the fragile nature of the global recovery, which call for extra caution as any significant disruptions to the global recovery could impact adversely on Hong Kong. Instead of setting the SMW level at too high or too low a level in the first round of this important mission, the Provisional Minimum Wage Commission (PMWC) unanimously agreed that the recommendation of the initial SMW rate should be prudent in striking an appropriate balance among various contending factors. This prudent approach would be imperative for Hong Kong since being an externally oriented economy with a linked exchange rate, we are very sensitive to vicissitudes in the global economy.

6.I.2 Statutory Minimum Wage to Median Wage Ratio

6.7 Many stakeholders expressed concern about the level of the initial SMW rate relative to the median wage. Some of them suggested setting the initial SMW rate at a level of 40% to 50% of the median wage, while others argued for a higher ratio. According to the experience of other places, a juxtaposition of the proposed SMW level with median wage is for presentation simplicity. The juxtaposition is often done after the completion of deliberation on the SMW rate on the basis of a Basket of Indicators. As such, a ratio between SMW and median wage should be an outcome rather than a process of the deliberation on SMW.

6.8 We recognise that a higher SMW to median wage ratio would mean a higher initial SMW rate and this would need to be balanced against other contending considerations. Our recommended rate of \$28.0 represents 47.9% of Hong Kong's median hourly wage in the second quarter of 2009. We have taken into account the magnitude of wage disparity in Hong Kong when considering this indicator, and

believe that taking a holistic view after analysing all the evidence, this ratio, which is comparable to that of the UK and the G7 average⁽¹⁾, would not be unreasonable for Hong Kong.

6.I.3 Number and Proportion of Employees Involved

6.9 A higher number and proportion of employees involved represent that more workers would potentially benefit from SMW implementation. We think that the initial SMW rate must be able to cover employees who are excessively low-paid. At our recommended initial SMW rate, around 314 600 or 11.3% of employees would be involved. Among the employees involved, the estate management, security and cleaning services sector takes up the largest share (111 800 employees or 35.5%), followed by restaurants (62 400 employees or 19.8%), retail trade (51 600 employees or 16.4%) and other low paying sectors (28 900 employees or 9.2%). Employees involved are primarily those in elementary occupations and service/shop sales jobs. Many of these employees are females; aged 55 and above; and those in possession of educational attainment at Secondary 3 and below.

6.10 Overall, the wages of the employees involved are estimated to increase by 16.9%. We believe that most of these employees would experience increases in their wages upon the SMW implementation. Nevertheless, some may have their working hours cut or even lose their jobs.

6.11 Some stakeholders suggested that we should apply the proportion of SMW coverage in other places in deliberating the initial SMW rate in Hong Kong. We have made reference to other places' experience and taken into account the differences in socio-economic circumstances between these places and Hong Kong. For instance, the proportion of jobs held by adults paid at or below the National Minimum Wage (NMW) adult rate in the United Kingdom (UK) was about 5%⁽²⁾. Having regard to the larger proportion of low-paid workers in Hong Kong than in the UK, and the objective of forestalling excessively low wages, we reckon that a higher coverage proportion of 11.3% for Hong Kong appears to be appropriate.

(1) The relevant ratio in the UK and G7 average (of economies with SMW, hence excluding Germany and Italy) in 2008 were about 46% and 44% respectively, according to the Government evidence to the Low Pay Commission on the economic effects of the National Minimum Wage in the UK.

(2) According to Annual Survey of Hours and Earnings (ASHE) data without supplementary information quoted in the UK Low Pay Commission Report 2010, about 5.4% of jobs were held by those aged 22 and over who are paid at the adult minimum wage rate or below in 1999. According to the central estimate of ASHE and Labour Force Survey, 5.6% of all jobs in spring 1998 before NMW implementation were paid below the NMW rates to be introduced in spring 1999.

6.I.4 Businesses

- 6.12 Whilst we are tasked to forestall excessively low wages, particularly for those lacking bargaining power and earning very low wages, it would also be crucial to be cautious to choose an initial SMW rate which would be manageable by the business sector. An excessively high SMW rate may impose heavy additional cost to firms, causing those with a large proportion of low-paid employees and with very slim or even negative profit ratios to cease business, ultimately impacting on workers negatively.
- 6.13 That said, since business enterprises generally seek to maintain a reasonable rate of return on their investment, profit reduction may not be a willingly acceptable outcome. With respect to their business and operating nature, as well as market power, firms may opt for alternatives of manpower streamlining, raising output prices, or cost cutting by reducing fringe benefits and discretionary bonuses, to cope with the challenges brought about by the SMW implementation. We have analysed changes in profit ratios and the number of enterprises going into the red under different SMW rates.
- 6.14 We are fully aware that the impact of SMW implementation would vary across sectors and enterprises. Some enterprises may face greater impact, in particular those in the low paying sectors (LPS) employing lots of low-paid workers, small and medium enterprises (SMEs) with weaker competitive edge, and firms operating at margin of very low or even negative profits. We are mindful that a quarter of retail shops and restaurants were operating in the red in 2008 (with the 25th percentile profit ratio of overall restaurants as low as -3.9%), for example. We have paid special attention to the likely impact on LPS, and more vulnerable firms through detailed assessments for SMEs and companies with negative profits in our balancing exercise. The possibility of heavier cost pressure on businesses owing to knock-on effect on the pay hierarchy has also been considered.
- 6.15 We estimate that total wage bill in Hong Kong would increase by \$3.3 billion (or 0.6%) to \$541.6 billion under our recommended rate. LPS would bear most of the increase, with the cost of the estate management, security and cleaning services sector up by \$1.4 billion or 6.8%, followed by other low paying sectors (\$0.4 billion or 3.9%), restaurants (\$0.6 billion or 2.9%) and retail trade (\$0.4 billion or 1.3%). Our analysis suggests that the negative impact on business profits in overall terms and for overall LPS should be moderate, as most firms should find the impact manageable. This notwithstanding, they would likely look for ways to maintain a reasonable rate of return. However, firms already in the red or are competing only on low wages and prices rather than productivity and output quality may be subject to greater pressure. Some of these firms may have to close down. Nevertheless,

the recovering economy should lend some support to business profitability in absorbing part of the wage increase. In turn, competitiveness and economic growth are not expected to be undermined to a large extent at our recommended SMW rate.

6.I.5 Unemployment Rate

- 6.16 The extent to which SMW would lead to job loss and add pressure on unemployment depends on a range of dynamic adjustments in the economy after SMW implementation, including the extent to which firms can offset the higher wage costs by raising output prices, by downsizing and through profit reduction, as well as the work incentive on the part of labour. Theoretically, a higher initial SMW rate covering as many workers as possible would bring about notable enhancement to workers' quality of life and social harmony. Yet, a higher initial rate may induce firms to economise through downsizing and cutting working hours. Generally, the higher the SMW rate, the higher would be the risk of job loss, especially among the lower-skilled segment. The above has to be viewed against the backdrop of the on-going economic restructuring of Hong Kong towards a high value-added and knowledge based economy, as well as manpower shifts following the daily inflow of low-skilled labour in the form of new arrivals from the Mainland.
- 6.17 We understand that the employment opportunities of the less productive and low-skilled workers would be at stake. Indeed, we heard the concerns of some low-skilled and elderly workers about losing their jobs upon SMW implementation. We also note that employment opportunities in some LPS such as the restaurants and retail sectors would be more vulnerable as these sectors have suffered from higher unemployment rates and have taken longer time to adjust during economic downturns. Having regard to our Terms of Reference to minimise the loss of low-paid jobs, a prudent approach has been adopted in balancing the various conflicting considerations.
- 6.18 At our recommended SMW rate of \$28.0, the resultant increase in wage costs is unlikely to trigger serious reorganisation of work practices leading to substantial downsizing. The impact on the unemployment rate in Hong Kong is estimated to be relatively mild, particularly when viewed against the improving labour market conditions. In recommending the current rate, we have also taken into account the possible impact on the unemployment rate caused by businesses having to close down if the SMW rate is set too high. It is noteworthy that the above estimate is only based on the best information available and the actual impact will have to be evaluated through detailed tracking studies over a longer period of time.

6.I.6 Inflation

- 6.19 Prices of certain products and services would unavoidably be higher as many firms would pass part of the SMW-induced cost to consumers. Inflation, which would lead to the erosion of purchasing power, is a cost that the whole society has to bear in exchange for the protection of low-paid workers from exploitation and enhancement of social harmony. However, the estimated impact on overall inflation is likely to be mild. Should there be a full pass-through of additional wage bill onto output prices, both the Composite Consumer Price Index (Composite CPI) and CPI(A) are estimated to rise by 0.4 percentage point. As full pass-through to consumer prices is unlikely, the actual inflationary impact should be smaller than the above estimates. Despite a likely moderate overall inflationary impact of SMW implementation, such impact would be higher in the case of low-paid employees, who tend to spend a large proportion of their income on daily necessities which may be subject to discernible SMW-induced price increases. This has been considered alongside the expectation that inflation would creep up modestly in the near term, in tandem with economic recovery.

6.I.7 Competitiveness and Economic Growth

- 6.20 Many stakeholders were concerned about the impact of the introduction of SMW on the competitiveness and economic growth of Hong Kong, which is also one of the dimensions that need to be balanced in deliberating the initial SMW rate as set out in our Terms of Reference. We have considered the impact of SMW on business competitiveness. As some firms may have to cope by raising prices, some parties were concerned that enterprises with weaker market power and less flexibility, especially SMEs, would lose out to local and overseas competitors.
- 6.21 Hong Kong's success as a modern international city is attributable to a large extent to the competitive spirit, flexibility and innovation of our business community. We believe that with the introduction of SMW, enterprises with low-paid employees would be prompted to offset additional costs through different strategies to make better use of their workforce and to improve productivity, output quality and competitiveness. In the long run, we anticipate that enterprises with higher efficiency, better output quality and better innovation would be more likely to ride out or even benefit from the SMW implementation, as they could better cope with the changes brought by the SMW implementation and are expected to take up the market shares of the less efficient firms. This would enhance the sectoral efficiency and in turn the overall productivity of Hong Kong, provided that the SMW rate is not set at a level that would lead to extensive job loss and working hour cuts across LPS.

- 6.22 Indeed, overseas experience suggests that productivity enhancement could follow SMW implementation. For example, in the UK attempts to improve competitive performance, or productivity enhancement, through capital investment or better organisation of work were observed. This was attributed to fewer opportunities for cost competition and hence the call for a stronger emphasis on product and service quality.
- 6.23 Balancing against the other major considerations, we have strived to recommend an SMW rate with additional wage costs likely to be found manageable by the business sector as a whole, and hence not undermining Hong Kong's competitiveness, and at the same time minimising the loss of job opportunities. Therefore, SMW implementation at our recommended initial rate should not dampen business and consumption sentiment to the extent of posing a drag on economic growth.

6.I.8 Striking a Sensible Balance

- 6.24 Our deliberations on Hong Kong's initial SMW rate are premised not only on the economic effects but also the impact on the community from a social perspective. We see the need to strike a sensible balance between the quantifiable impacts as discussed in Sections 6.I.1 – 6.I.7 above and the social considerations, especially with regard to enhancing the quality of life and social harmony, enhancing work incentive, as well as the ratio between employees benefiting and not benefiting from SMW policy.

(a) Enhancing quality of life and social harmony

- 6.25 As SMW implementation will raise the hourly wages of low-paid workers, most of these workers are expected to enjoy an increase in employment income, or benefit from more leisure time as a result of reduced working hours, while earning a similar or higher level of income. This would help raise the purchasing power and quality of life of low-paid workers. As excessively low wages would be forestalled, low-paid workers with weak bargaining power would be protected from exploitation, wage disparity would hence be narrowed, and social harmony would likely be enhanced.
- 6.26 Meanwhile, we are cautious not to recommend an overly aggressive SMW rate that would significantly jeopardise the job opportunities of low-paid workers, lead to substantial reduction in working hours, or even trigger a wage-price spiral.

(b) Enhancing work incentive

- 6.27 With higher wages for low-paid workers after SMW implementation, work incentive would be enhanced and some hitherto economically inactive individuals

may be encouraged to enter or re-enter the labour market, thus enhancing social inclusion.

6.28 However, the dynamic effects of higher wage levels on labour demand and supply, and the stimulus of higher economic growth on the pace of job creation and labour force participation may complicate the picture. While higher wages may encourage entry into the labour market⁽³⁾, the unemployment situation (particularly for the lower-skilled workers) hinges on whether jobs could be created at a rate commensurate with the increase in labour supply brought about by enhanced work incentive.

6.29 Some stakeholders contended that a higher SMW rate was needed to attract some individuals to leave the social security net and enter the labour force. We note that a person's incentive to join the labour force depends on many factors, not only employment income and alternative social welfare assistance available for the family, but also individual and family circumstances, costs incurred for work (e.g. commuting), etc. Since SMW is intended to be a wage floor for a worker instead of a living wage in Hong Kong, we did not recommend a rate to address the basic living requirements of a worker's family since family needs differ from worker to worker. Yet, we have taken into account the average monthly payment under the unemployment category of the Comprehensive Social Security Assistance (CSSA) in our deliberations since SMW could be a disincentive for people to remain on such a CSSA category.

(c) Ratio between employees benefiting and not benefiting

6.30 We recognise that as a result of the SMW implementation, (a) some employees would inevitably be laid off, (b) some would have their working hours cut, while (c) some would be able to enjoy wage increases without any reduction in working hours. Those in group (c) are the obvious beneficiaries with their employment income augmented, while those in group (a) would suffer. We have looked into the ratios between employees benefiting (group (c)) and not benefiting (group (a)) at different SMW levels⁽⁴⁾, in an attempt to strike a balance between the groups obviously benefiting and not benefiting, and also against other considerations.

(3) A research study in Australia showed that the labour force participation rate would increase (indicating higher work incentive) with a rise in the Federal SMW rate, particularly for partnered women and single parents.

(4) Regarding group (b), some of the involved employees with a small reduction in working hours may still benefit from increase in employment income, or enjoy more leisure time albeit receiving an employment income comparable to the pre-SMW level (see paragraph 5.19). Therefore employees with working hours trimmed may or may not be worse off compared to the situation before SMW implementation. For this reason, group (b) is not featured in the ratio concerned.

6.II The Recommended Initial Statutory Minimum Wage Rate

- 6.31 After considering a wide range of evidence (see Chapter 4), we thoroughly assessed the multi-dimensional impact of different SMW levels (see Chapter 5). Members had candid and well-informed discussion on various considerations (see Section 6.I). This was followed by attempts to strike an appropriate balance between a higher SMW rate (with its concomitant implications for enhanced remuneration for the low-paid, higher risk of job loss and more expensive goods and services) and a lower initial rate (which was prudent but covering a smaller number and portion of the workers). We reached the consensus of recommending the initial SMW rate to be \$28.0.
- 6.32 We realise that recommending the initial SMW level is a judgement call though in doing so we have taken fully on board a wide range of evidence and data presented to us or compiled by ourselves. But it is virtually impossible to come up with a rate that would please everyone. We firmly believe that we have struck the right balance between forestalling excessively low wages and minimising the loss of low-paid jobs, while sustaining Hong Kong's economic growth and competitiveness. The approach we adopted in the deliberation process with all activities geared towards the adherence to the evidence-based principle is essential in setting an appropriate SMW rate. We also believe that the recommended initial SMW rate of \$28.0, which has been carefully chosen to balance the needs from all angles, should be conducive to improving the well being of the disadvantaged groups in our society; maintaining, if not substantially increasing, the incentive for work participation; raising the living standard of low-paid employees and enhancing social harmony.

7 Recommendation

7.1 Having regard to the Terms of Reference of the Provisional Minimum Wage Commission, we have come up with the recommendations as elaborated below on (a) the appropriate mechanism for determining the statutory minimum wage (SMW); (b) the initial SMW rate; and (c) studies and reviews that need to be conducted to identify and evaluate the actual impact of SMW. In addition, we would also like to offer some observations on other possible supplementary public policies or measures that could be introduced in tandem with the implementation of SMW.

(a) Mechanism for determining the statutory minimum wage rate

7.2 Since stakeholders hold different or even conflicting views on the SMW rate, irrespective of the level set, the mechanism for deliberating and setting the SMW rate would be of paramount importance for gaining broad-based support in society for the SMW rate as well as the SMW policy as a whole.

7.3 Being entrusted with the task of recommending the appropriate mechanism for determining the SMW rate and the optimal initial SMW rate, we are fully aware of the intricacy and complexity of our mission. To fulfil our mandate, we adopted an iterative approach in the deliberation process. With a view to facilitating rational and informed public discussion on such a controversial subject, we provided an additional platform for stakeholders and interested parties to express their views by conducting extensive and intensive consultations. We developed preliminary views on a Basket of Indicators, other relevant considerations and impact assessment with reference to the views of stakeholders, experience of other places and statistical data available. We shared with the public our preliminary views together with the relevant statistical data, and invited comments and further views from stakeholders and interested parties. Based on the feedback and views collected, we confirmed the Basket of Indicators, expanded the considerations for deliberating the initial SMW rate, and developed assumptions for the impact assessment.

7.4 In formulating the recommended initial SMW rate, we considered very carefully all the data, views and information available and analysed them with reference to each and every item in the Basket of Indicators. We conducted a balancing exercise to strike an appropriate balance among the diverse interests of various parties concerned. We kept our deliberations confidential to enable frank discussion among members and to avoid undue political or other influence prejudicing the consensus building process. We had thorough and constructive discussion on all relevant perspectives with a view to promoting mutual respect for possible opposing views.

7.5 We firmly believe that the mechanism and approach we adopted in discharging our duties with all activities anchored on the evidence-based principle is appropriate and essential in setting an optimal SMW rate. Nevertheless, in the absence of adequate empirical data and evidence, the impact assessment of the initial SMW has its inherent limitations. As a result, whilst we firmly believe that the mechanism we adopted has provided a fair, open and rational basis for the determination of the SMW rate, it is envisaged that the full implications of the initial SMW rate will only become clear sometime after its implementation and the mechanism for determining the SMW rate will have to be further refined so as to properly take into account further evidence that may become available in the future.

(b) The initial statutory minimum wage rate

7.6 After going through the iterative deliberation process and balancing exercise elaborated in Section 7(a), we reached the consensus that an initial SMW rate at \$28.0 per hour should be our recommendation to the Government.

7.7 At this rate, around 314 600 or 11.3% of the total number of employees in Hong Kong would be covered, many of whom would benefit either by increased employment earnings or shorter working hours without reduction in earnings. It is estimated that SMW at the recommended rate would increase Hong Kong's total wage bill by 0.6% or \$3.3 billion, a magnitude that most business sectors, including the low paying sectors (LPS), should be able to afford by adopting different measures in absorbing or offsetting the impact of the higher costs.

(c) Studies and review

7.8 Given the limitations and constraints arising from the lack of experience and empirical data guiding the identification of the appropriate initial SMW rate, the actual impact and risks⁽¹⁾ of SMW can only be identified and measured over a longer period of time through dedicated studies after the SMW implementation. To facilitate future reviews of the SMW rate, survey and research studies should be conducted to monitor and evaluate the actual impact of SMW, in particular, on vulnerable workers, enterprises in LPS and small and medium enterprises (SMEs), and also with special reference to the changes in detailed pay hierarchy to facilitate an in-depth examination of possible knock-on effects. These studies, which can only be conducted after SMW implementation, would not only provide useful information to fill the data gap we currently face, but also enable a deeper understanding of the actual impact of SMW in different aspects.

7.9 In view of the changing socio-economic circumstances, a periodic review of the

(1) For example, effects on profit ratios of LPS, possible job loss, extent of downsizing, unemployment rate, inflation and social harmony.

SMW rate would be essential. We recommend that the movement of indicators relevant to the setting of the SMW rate should be closely monitored so that a timely review of the SMW rate can be conducted as and when appropriate. Meanwhile, continuous consultations with stakeholders to collect their feedback and views on the actual impact of SMW are considered necessary.

(d) Other recommendations

- 7.10 Given that SMW is a wage floor instead of a living wage, by definition, wages at the SMW rate may not be sufficient to cover all family expenses of all employees. As recognised by some stakeholders, SMW is not a panacea for alleviating poverty in Hong Kong though it should help improve the well being of low-paid workers. At the same time, we also recognise that SMW may entail risks of disemployment and job loss, hence the Government should consider timely and suitable measures to assist the most vulnerable workers who may be affected by SMW.
- 7.11 In order to ensure the smooth and effective implementation of SMW, we consider that the Government should launch a wide range of publicity and promotional activities to familiarise the community, in particular, the business sector with the design of SMW and how they should gear themselves up for compliance. In addition, relevant guidelines should be developed to address the characteristics and specific problems faced by different sectors. Education campaigns should also be launched to inform workers of their rights under the SMW regime.
- 7.12 It will not be surprising that changes to the economy and labour market of Hong Kong will occur after the implementation of SMW. Each of us in Hong Kong will have to adapt to these changes. These changes together with appropriate measures of adaptation would ultimately be for the overall good of Hong Kong in the long run.

Appendix I

Summary of Statutory Minimum Wage (SMW) Systems in Other Places

Place studied	Year of establishing the current SMW system	Concept	Authority for determining SMW rate	Criteria for determining and reviewing the SMW rate	Procedure for determining the SMW rate and review cycle
The United Kingdom	1999	Minimum wage is a “wage floor” not a “living wage”.	Government	6 criteria: <ul style="list-style-type: none"> ✧ Pay differentials ✧ Business costs ✧ Competitiveness ✧ Inflation ✧ Employment ✧ Economic conditions 	<ul style="list-style-type: none"> ✧ The Government sets the minimum wage rate with reference to the advice of the Low Pay Commission and subject to the scrutiny by the Parliament according to the affirmative resolution procedures. The Parliament may accept or reject the new minimum wage rate but not to change the proposed rate. ✧ There is no legal provision on the frequency of review though the minimum wage rate has been reviewed annually since 1999.
France	1970	Minimum wage is a “living wage” that ensures low-paid workers can enjoy a certain living standard and have a share in the economic development.	The Council of Ministers	4 criteria: <ul style="list-style-type: none"> ✧ The needs of workers and their families ✧ The overall wages and income levels ✧ Consumer Price Index ✧ Economic conditions 	<ul style="list-style-type: none"> ✧ A Group of Experts submits its report on the recommendation of SMW 15 days before the meeting of the National Collective Bargaining Commission (NCBC). The Council of Ministers makes a decision having regard to the NCBC’s recommendations, which takes effect from 1 January each year. ✧ In addition, the minimum wage rate will further be adjusted automatically by way of a ministerial order when Consumer Price Index increases by 2% or more. ✧ Review is conducted at least once a year.
Ireland	2000	Minimum wage is only one of the components in safeguarding the living standard of nationals. In terms of policy design, it is more akin to the concept of “wage floor” instead of “living wage”.	Government	3 criteria: <ul style="list-style-type: none"> ✧ Movement in employees earnings ✧ Relevant exchange rate movement ✧ Impacts on unemployment and employment rates, inflation and competitiveness 	<ul style="list-style-type: none"> ✧ After conducting research studies and consultation, the government is responsible for setting the minimum wage rate and submitting to the Parliament for approval. The Parliament can accept or reject the newly adjusted SMW rate proposed by the government but cannot amend the recommended rate. ✧ No legal provision stipulating the cycle of review.

Place studied	Year of establishing the current SMW system	Concept	Authority for determining SMW rate	Criteria for determining and reviewing the SMW rate	Procedure for determining the SMW rate and review cycle
Australia	1907	Minimum wage is only one of the components in safeguarding the living standard of workers. In terms of policy design, it is more akin to the concept of “wage floor” instead of “living wage”.	A Minimum Wage Panel under the Fair Work Australia	5 criteria: <ul style="list-style-type: none"> ✧ Performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth ✧ Promoting social inclusion through increased workforce participation ✧ Relative living standards and the needs of the low paid ✧ Principle of equal remuneration for work of equal or comparable value ✧ Providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability 	<ul style="list-style-type: none"> ✧ The Minimum Wage Panel of Fair Work Australia sets the minimum wage rate after consultation and completes its annual review by 30 June. ✧ The adjusted rates come into effect on 1 July each year.
New Zealand	1894	Minimum wage is a “wage floor”.	Government	4 criteria: <ul style="list-style-type: none"> ✧ Minimum wage is no lower than a socially acceptable level ✧ Wage protection to vulnerable workers ✧ Earnings of low-paid workers do not deteriorate relative to those of other workers ✧ Increase of incentive to work for people considering work 	<ul style="list-style-type: none"> ✧ The Government completes the review of minimum wage rate by 31 December each year and submits its recommendation to the Governor-General. With the endorsement of the Cabinet, the Governor-General issues an Order-in-Council for implementation. ✧ The new minimum wage rate normally takes effect by 1 April of the following year.
The Mainland of China (Beijing, Shanghai, Guangdong and Shenzhen)	1993	Minimum wage is built on the “living wage” concept and is an important means to protect the basic living of workers and their family members so as to ensure workers can have reasonable remuneration.	Provincial labour and social security authorities	5 criteria: <ul style="list-style-type: none"> ✧ Minimum cost of living for a worker and the average number of his/her dependants ✧ Average wage levels ✧ Labour productivity ✧ Employment situation ✧ Economic development differentials among regions 	<ul style="list-style-type: none"> ✧ Minimum wage rates are set by provincial/municipal labour and social security authorities after consultation with local trade unions and enterprise unions/entrepreneur associations. The Ministry of Human Resources and Social Security further collects comments from All China Federation of Trade Unions and China Enterprise Confederation/Chinese Entrepreneur Organisation. The final decision is still in the hands of the provincial/municipal authorities. ✧ Review at least once every two years.

Place studied	Year of establishing the current SMW system	Concept	Authority for determining SMW rate	Criteria for determining and reviewing the SMW rate	Procedure for determining the SMW rate and review cycle
Taiwan	1985	Minimum wage is the lowest standard of employment conditions with a basket of indicators taken into account in setting its rate; hence is considered as adopting the “wage floor” concept.	Government	7 criteria: <ul style="list-style-type: none"> ✧ National economic development ✧ Wholesale price index ✧ Consumer Price Index ✧ Average and total earnings of nationals ✧ Labour productivity and employment situation in various sectors ✧ Wages of workers in various sectors ✧ Survey on family income and expenditure 	<ul style="list-style-type: none"> ✧ Minimum wage rate as scrutinised by the Basic Wage Deliberation Committee is submitted to the Executive Yuan by the Council of Labour Affairs for endorsement and implementation. ✧ No legal provision on the frequency of review.
South Korea	1988	Minimum wage takes into account the living needs of workers as well as a basket of indicators so as to balance various interests. In terms of policy design, it is more akin to the “wage floor” concept.	Government	4 criteria: <ul style="list-style-type: none"> ✧ Cost of living of workers ✧ Wage levels ✧ Labour productivity ✧ Ratio of workers’ compensation to national income 	<ul style="list-style-type: none"> ✧ The Minister of Labour makes a request for study to the Minimum Wage Council by 31 March each year and determines the minimum wage rate with reference to the Council’s recommendation. The Minister of Labour only has the legal authority to accept or reject the recommendation of the Minimum Wage Council but not to alter it.
The United States	1938	Federal minimum wage is a “wage floor” instead of a “living wage”, which is not adjusted according to changes in living standard and inflation.	Congress	4 criteria: <ul style="list-style-type: none"> ✧ Cost of living ✧ Productivity in the manufacturing sector ✧ Wage level ✧ Affordability of employer to wage increase 	<ul style="list-style-type: none"> ✧ The Congress may introduce a bill for adjusting the minimum wage rate. If the bill is passed, it will come into effect after the endorsement of the President. ✧ No legal provision stipulating the frequency of review.

Place studied	Year of establishing the current SMW system	Concept	Authority for determining SMW rate	Criteria for determining and reviewing the SMW rate	Procedure for determining the SMW rate and review cycle
Canada (British Columbia and Ontario)	1965	Minimum wage takes account of the living needs of workers as well as a basket of indicators so as to balance various interests. In terms of policy design, it is more akin to the "wage floor" concept.	Government	In general, cost of living, economic conditions and other related factors will be taken into account.	✧ The Governor in Council determines the minimum wage rate with reference to the recommendation of the Minimum Wage Board; if there is no Minimum Wage Board, the Governor in Council determines the minimum wage rate directly.

Appendix II

Study Missions and Lessons Learnt

II.1 Introduction

- II.1.1 We undertook study missions to Paris and London from 26 September to 3 October 2009 and Beijing from 13 to 14 April 2010. These study missions gave us valuable opportunities for in-depth discussions on various aspects of their respective statutory minimum wage (SMW) regimes, including procedures for setting SMW rates, indicators and factors for determining and adjusting SMW rates, as well as the assessed impact of SMW on employment and economy.

II.2 Study Mission to France and the United Kingdom

- II.2.1 Though geographically close to each other, France and the United Kingdom (UK) have put in place rather different SMW systems. The system in France is premised on the concept of "living wage" with the prime objective of ensuring that low-paid workers can enjoy a certain living standard and be able to share the benefits of economic development. The UK, on the other hand, adopts the concept of "wage floor" to forestall excessively low wages while taking into account the impact of SMW on the overall economy and employment. To understand more how these two countries attempt to incorporate diverse stakeholders' multifarious considerations into their deliberations on the SMW rates, we undertook a study mission to both France and the UK. We visited key organisations involved in formulating the respective SMW rates and, through dialogues and experience sharing with relevant parties, gained a good understanding of the mechanism, timelines and considerations adopted in the two countries.
- II.2.2 During the study mission, we were received by the government departments responsible for the SMW policy, viz. the Ministry of Labour in France, as well as the Department for Business, Skills & Innovation and the Department of Her Majesty Revenue & Customs in the UK. We visited major trade unions and employers' associations, namely the French Democratic Confederation of Labour, the General Confederation of Labour and the Movement of French Enterprises in France, as well as the Trades Union Congress and the Confederation of British Industry in the UK. We also met with our counterparts responsible for making recommendations on the SMW rate to the Government, i.e. the National Collective Bargaining Commission (NCBC) in France and the Low Pay Commission (LPC) in the UK.

France

- II.2.3 In France, the SMW level is determined by the Council of Ministers with reference to the recommendation of NCBC, which comprises representatives from trade unions and employers' associations. The SMW level is reviewed in a two-stage process. First, an annual review is conducted based on the annual increase in the Consumer Price Index (CPI) and 50% of the annual increase in average real employment earnings of manual workers. The SMW level is adjusted to cover the movement of CPI since the last adjustment on 1 January each year. In addition, during the year, if CPI increases by 2% or more, SMW would be adjusted automatically so as to safeguard the real value of SMW. In addition to the increase based on the above index-linked formula, the Government has the discretion to grant an “extra” boost in the annual review of the SMW level. It is noteworthy that it is not uncommon for the “extra” boosts to precede shortly years of political significance in France, e.g. presidential elections (e.g. 1995, 2002 and 2007).
- II.2.4 Notwithstanding the index-linked approach, the trade unions that we met commented that the changes in price level considered by the French Government in determining the SMW level could not fully reflect the changes in the cost of living of workers. On the other hand, the employers' association considered the French SMW regime lacking in flexibility in coping with the changes of society and the economy and the effect was especially dire during recessions. They were also concerned that the discretionary additional adjustment by the Government in the form of “boost” was subject to excessive political influence.
- II.2.5 The French Government introduced some changes to the SMW regime in December 2008. In order to give greater weight to economic considerations in the formula-based and inflation-linked SMW regime, the French authorities appointed a Group of Experts to recommend to NCBC and the Government the desirable evolution and adjustment of the SMW rate. Such change was welcomed by the employers' association but not the trade unions. Furthermore, the effective date of SMW adjustment was also changed from 1 July to 1 January each year in order to tie in with the availability of the latest statistical data and the normal timetable of collective bargaining on wages in various key industries.

The United Kingdom

- II.2.6 In the UK, the National Minimum Wage (NMW) level is determined by the Secretary of State with reference to the recommendation of LPC, which comprises members from the business community, labour sector and academia. All members of LPC are appointed on a personal basis.

- II.2.7 As part of the "Making work pay" policy, NMW is a wage floor to protect workers from exploitation and is complemented by in-work benefits (i.e. tax credits) to provide an adequate standard of living for workers in work.
- II.2.8 Before its inception, some, in particular employers and academics, had qualms about the introduction of NMW in the UK. They believed that it would bring about both unemployment and wage inflation. To address these concerns, both the UK Government and LPC adopted three cardinal principles in setting and reviewing the NMW rates, viz. (i) an evidence-based approach through data analyses and extensive consultations with stakeholders; (ii) a flexible process by taking into account a basket of factors; and (iii) a prudent approach with the initial NMW rates set at a fairly conservative level in order to minimise the risk of job loss. With evidence collected four years in a row confirming that the NMW rates adopted in previous years had limited impact on the economy, substantial increases in subsequent upratings from 2003 to 2006 were made. To allow time to evaluate the impact of such substantial increases of NMW, LPC adopted a prudent approach again by recommending minor upratings since 2007, in particular in 2009 amidst the global financial tsunami.
- II.2.9 Through the adoption of a prudent, flexible and evidence-based approach in setting and reviewing the NMW rates, the NMW system in the UK has fared well since its introduction. The UK society at large supports setting the initial NMW rates at a prudent level. Subsequent reviews have been conducted in the light of prevailing socio-economic conditions so as to ensure that no significant negative impact on employment and the economy would result from NMW. As a result, thus far, there is no evidence suggesting that the implementation of NMW in the UK has caused a significant adverse effect on employment nor has it hindered low paying sectors in coping with the economic downturn.
- II.2.10 Both the major trade union and employers' association we met in the UK supported the work of LPC. They attributed the success of LPC to two key factors. First, the adoption by LPC of a prudent and evidence-based approach to determining the NMW rates through detailed data research and analysis as well as extensive consultation with stakeholders. In addition, the appointment of LPC members on a personal basis and their strict observation of confidentiality also greatly facilitated LPC to deliberate in a relatively objective and impartial manner without undue political influence.

II.3 Study Mission to Beijing

- II.3.1 During the 2-day visit to Beijing, we visited the Ministry of Human Resources and Social Security (MOHRSS), the department in the Central People's Government (CPG) responsible for the SMW regime; as well as the China Enterprise

Confederation, the major employers' association.

- II.3.2 On the Mainland, prior to 1992, wage levels were set and determined by the State as an integral aspect of a planned economy. Following the policy change since 1992 in giving autonomy to enterprises to set the wage levels for their employees, the phenomenon of excessively low wages began to emerge. To address the problem, the government established the SMW system in 1993 with a view to guaranteeing the basic living standards of workers and their family members.
- II.3.3 Taking into account different paces of economic development among regions, the SMW rates are determined and reviewed by the local government of a province/an autonomous region/a municipality in consultation with local trade unions and enterprise confederation/enterprise directors association, according to the specific socio-economic conditions of its region or different areas in the region. Any newly adjusted SMW rates proposed by the local governments have to be submitted to MOHRSS for endorsement. MOHRSS may give advice within 14 days after receiving the proposals but the final decisions are vested with the local governments.
- II.3.4 In setting the SMW rates, local authorities are advised to make reference to either the proportion method⁽¹⁾ or the Engel Coefficient method⁽²⁾ and further adjust the amounts so derived by taking into account other factors such as social insurance premiums and public accumulation funds for housing paid by employees, average wage levels, economic development, employment situation, etc.
- II.3.5 While it has been specified in the relevant regulation since 2004 that the SMW rates should be reviewed at least once every two years, the actual timing and frequency of the reviews are to be determined by local authorities having regard to the practical situations of their regions or areas.
- II.3.6 The China Enterprise Confederation agreed in principle with the policy objectives of CPG that workers should have the right to share the fruits of economic prosperity and that raising the income of low-paid workers could contribute to the sustainable development of society in the long run. However, they commented that setting the SMW rates at 40% to 60% of the average wages of workers as demanded by trade unions could deter foreign investments, in particular, at times of economic downturn given that the SMW rates would, realistically, only be adjusted upward but not downward.

(1) Multiplying the average cost of living per capita of a family living in poverty by a coefficient of person supported by each employee.

(2) Multiplying the proportion of a family's expenses on food (i.e. the Engel Coefficient) by a coefficient of person supported by each employee.

Appendix III

List of Stakeholders and Interested Parties that Attended Consultation Meetings

Name of Organisation	
1	Action for Voice 青言社
2	Advance Caterers Limited 駿昇飲食有限公司（前稱：香港飲食管理有限公司）
3	Association of Professional Personnel (Hotels, Food & Beverage) 酒店及飲食專業人員協會
4	Association of Restaurant Managers 現代管理(飲食)專業協會
5	Bossini Enterprises Limited 堡獅龍企業有限公司
6	Building Supervisors & Caretakers Union 大廈管理員職工會
7	Business Facilitation Advisory Committee under the Economic Analysis and Business Facilitation Unit 經濟分析及方便營商處轄下方便營商諮詢委員會
8	Business and Professionals Federation of Hong Kong 香港工商專業聯會
9	Café de Coral Holdings Limited 大家樂集團有限公司
10	California Red Limited 加州紅有限公司
11	Caritas Youth and Community Service Head Office 明愛青少年及社區服務總辦事處
12	Catering and Hotels Industries Employees' General Union 飲食及酒店業職工總會
13	Celestial Asia Securities Holdings Limited (CASH Group) 時富投資集團有限公司(時富集團)
14	Chinese & Western Food Workers Union 中西飲食業職工會
15	Chinese Cuisine Management Association 稻苗學會
16	Chiu Chow Overseas Food Trade Merchants Association 潮僑食品業商會
17	Chow Sang Sang Holdings International Limited 周生生集團國際有限公司
18	Clothing Industry, Clerical and Retail Trade Employees General Union 成衣業、文職及零售業職工總會
19	Dah Chong Hong Limited 大昌貿易行有限公司
20	Dai Pai Dong Retail Shops Company Limited 大排檔零售店有限公司
21	Eating Establishment Employees General Union 飲食業職工總會
22	Economic Synergy 經濟動力
23	Employers' Federation of Hong Kong 香港僱主聯合會
24	Environmental Services Contractors Alliance (Hong Kong) 香港環境衛生業界大聯盟
25	Fairwood Holdings Limited 大快活集團有限公司
26	Federation of Hong Kong Industries 香港工業總會
27	Forum Restaurant (1977) Limited 富臨飯店(1977)有限公司
28	Hang Yick Properties Management Limited 恒益物業管理有限公司
29	HKSME Forum 香港中小企商會聯席會議
30	Hong Kong & Kowloon Electrical Appliances Merchants Association 港九電器商聯會
31	Hong Kong & Kowloon Restaurant & Café Workers General Union 港九酒樓茶室總工會

Name of Organisation	
32	Hong Kong (SME) Economic and Trade Promotional Association 香港中小企經貿促進會
33	Hong Kong Association of Property Management Companies 香港物業管理公司協會
34	Hong Kong Building Management and Security Workers General Union 香港物業管理及保安職工總會
35	Hong Kong Catering Industry Association 香港飲食業聯合總會
36	Hong Kong Catholic Commission for Labour Affairs 香港天主教勞工事務委員會
37	Hong Kong Chamber of Small and Medium Business 香港中小型企業商會
38	Hong Kong Chinese Reform Association 香港華人革新協會
39	Hong Kong Christian Council 香港基督教協進會
40	Hong Kong Civic Association 香港公民協會
41	Hong Kong Confederation of Trade Unions 香港職工會聯盟
42	Hong Kong Construction Association 香港建造商會
43	Hong Kong Democratic Foundation 香港民主促進會
44	Hong Kong Department Stores & Commercial Staff General Union 香港百貨商業僱員總會
45	Hong Kong Diecasting & Foundry Association 香港壓鑄及鑄造業總會
46	Hong Kong Federation of Insurers 香港保險業聯會
47	Hong Kong Federation of Restaurants & Related Trades 香港餐飲聯業協會
48	Hong Kong Federation of Women's Centres 香港婦女中心協會
49	Hong Kong General Chamber of Commerce 香港總商會
50	Hong Kong Institute of Housing 香港房屋經理學會
51	Hong Kong Institute of Human Resource Management 香港人力資源管理學會
52	Hong Kong Institute of Real Estate Administrators 香港地產行政師學會
53	Hong Kong People Management Association 香港人才管理協會
54	Hong Kong Professionals and Senior Executives Association 香港專業及資深行政人員協會
55	Hong Kong Retail Management Association 香港零售管理協會
56	Hong Kong Securities Association 香港證券業協會
57	Hong Kong Security Association 香港保安業協會
58	Hong Kong Small & Medium Enterprises General Association 香港中小企業總會
59	Hong Kong Small and Medium Enterprises Association 香港中小型企業聯合會
60	Hong Kong SME Development Association 香港中小企業促進協會
61	Hong Kong Union of Chinese Workers in Western Style Employment 香港洋務工會
62	Hong Kong Women Development Association Limited 香港婦聯
63	Hong Yip Services Company Limited 康業服務有限公司
64	Idea4hk 城市智庫
65	ISS EastPoint Property Management Limited 置邦物業管理有限公司
66	JLW Management Services Limited 仲量聯行物業管理有限公司
67	Joint Council of Estate Agents Associations 地產代理業界聯席會議
68	Kam Hing Food Factory Limited 錦興食品集團
69	Kwan Sang Catering Professional Employees Association 群生飲食技術人員協會

Name of Organisation	
70	Li & Fung (Retailing) Limited 利豐(零售)有限公司
71	Liberal Party 自由黨
72	Oxfam Hong Kong 樂施會
73	People's Alliance for Minimum Wage 民間爭取最低工資聯盟
74	Property Management Administrative and Clerical Staff Association 物業管理行政及文職人員協會
75	Savills Property Management Limited 第一太平戴維斯物業管理有限公司
76	Seafood Delight Restaurant 昇悅集團
77	Sino Administration Services Limited 信和置業有限公司
78	Small and Medium Enterprises Committee of the Trade and Industry Department 工業貿易署中小型企業委員會
79	SME Global Alliance 中小企國際聯盟
80	Strategic Access Limited (沒有中文名)
81	Sun Lok Restaurant 新樂茶餐廳
82	Swire Resources Limited 太古資源有限公司
83	The Association for Hong Kong Catering Services Management Limited 香港餐務管理協會
84	The Association for the Advancement of Feminism 新婦女協進會
85	The British Chamber of Commerce in Hong Kong 香港英商會
86	The Chinese General Chamber of Commerce 香港中華總商會
87	The Chinese Manufacturers' Association of Hong Kong 香港中華廠商聯合會
88	The Dairy Farm Company Limited 牛奶有限公司
89	The Federation of Hong Kong & Kowloon Labour Unions 港九勞工社團聯合會
90	The Hong Kong Council of Social Service 香港社會服務聯合會
91	The Hong Kong Federation of Trade Unions 香港工會聯合會
92	The Hong Kong General Union of Security & Property Management Industry Employees 香港護衛及物業管理從業員總會
93	The Institute of Accountants in Management 專業管理會計師公會
94	The Lion Rock Institute 獅子山學會
95	The Wing On Department Stores (HK) Limited 永安百貨有限公司
96	Travel Industry Council of Hong Kong 香港旅遊業議會
97	Urban Property Management Limited 富城物業管理有限公司
98	Wing Lai Yuen Restaurant 詠藜園
99	Well Born Real Estate Management Limited 偉邦物業管理有限公司
100	(No English name) 天主教爭取家庭工資聯盟
101	(No English name) 香港各界商會聯席會議

Appendix IV

Summary of Views of Stakeholders Collected

IV.1 Views on the Methodology in Setting the Statutory Minimum Wage Rate and the Appropriate Level of the Initial Statutory Minimum Wage Rate

- IV.1.1 Labour unions and labour policy concern groups believed that statutory minimum wage (SMW) should be sufficient to cover the basic needs of an employee and his/her family with reference to the standards of the International Labour Organisation, and the SMW rate should not be lower than the level of payment under the Comprehensive Social Security Assistance (CSSA) Scheme in order to enhance work incentive and to accord due dignity to those at work. In setting the SMW rate, both the dependency ratio (i.e. average number of family members to be supported by each employee) and the basic family expenses (such as expenditures on rents, transport, food, entertainment, medical care and education for children) should be taken into account. Generally speaking, they considered the initial SMW rate should be between \$30 and \$35 per hour.
- IV.1.2 Some labour unions stated that their analyses of the statistical data published by the Census and Statistics Department (C&SD) indicated that the increase in wage bills could be offset by a mere drop in profits or increase in product/service prices. They therefore held the view that an SMW rate at \$33 an hour would certainly be affordable to the business sector.
- IV.1.3 Individual policy research institute opined that as a knowledge-based economy, Hong Kong should maintain its competitiveness through the development of creative industries and innovative technologies rather than exploitation of grassroots workers. SMW should therefore be set at a level sufficient for an individual to support his/her daily living. They expected that an SMW rate at \$30 per hour would have mild impact on most economic sectors. Furthermore, they commented that Hong Kong should devise its own mechanism for setting the SMW rate having regard to its own socio-economic circumstances in the light of Hong Kong's skewed distribution of wages toward low wages, relatively high Gini index, and stagnant wage levels of low-paid workers despite Gross Domestic Product growth over the years.
- IV.1.4 Some members of the public indicated that an SMW rate between \$33 and \$35 could barely cover an individual's basic living expenses. Only if it was set at a level between \$40 and \$50 per hour would it be enough for the workers' basic family needs.

- IV.1.5 On the other hand, employers' associations and business representatives were commonly of the view that SMW should be a wage floor which only guaranteed workers a minimum remuneration for their work but not a living wage to cover family expenses as family needs varied. Families in need should get assistance under the current social security system. They drew on the experience of the United Kingdom (UK) and France, which adopted the concepts of wage floor and living wage respectively, and concluded that the UK experience was more applicable to Hong Kong. They expressed concerns about the knock-on effects of SMW which could lead to a significant increase in labour costs. Most considered that the SMW rate should start at a conservative level of no more than \$25 an hour or between 40% and 50% of the median wage by making reference to the experience of members of the Organisation for Economic Cooperation and Development.
- IV.1.6 Employers' associations and business representatives considered that Hong Kong should follow the successful experience of the UK in implementing the minimum wage, including setting the initial minimum wage rate at around 45% of the median wage, covering only around 5% of the entire workforce and adopting a prudent approach to setting the initial minimum wage rate at a conservative level thus allowing room for enhancement in the light of the prevailing economic and social conditions.
- IV.1.7 Individual employers' associations were concerned that if SMW rate was set at \$33, a drop in profit ratio resulted from the additional wage bills of the low paying sectors (LPS) like property management, security and cleaning services would be greater than the median profit ratio. Over half of the enterprises would operate with a loss if they were unable to pass the additional labour costs to customers.
- IV.1.8 Small and medium enterprise (SME) associations considered that the affordable SMW rate would be \$23.4 per hour, which, in covering around 4% of the workforce, would be comparable in coverage to the initial SMW rate of the UK. Such proposal was echoed by an employers' association of the retail industry, having regard to the limited ability of the retail sector to cope with increases in labour costs. An employers' association further remarked that a high initial SMW rate would leave little room for downward pay adjustment in times of economic downturn, thus inadvertently forcing some SMEs with limited financial capability to close down.
- IV.1.9 In the catering industry, an employers' association conducted an opinion survey to gauge the affordability of enterprises under different SMW rates. The findings indicated that the wage level which most enterprises could afford was \$24 per hour and the market wages in different regions/districts varied. The association was concerned that businesses operating in districts with lower traffic and consumer

spending power could not afford an SMW at too high a level.

- IV.1.10 Regarding property management, security and cleaning industry, an employers' association of the security services industry considered an SMW rate at \$26 to \$28 acceptable. However, there was concern that owners of some single block private residential buildings might not be able to afford the substantial increases in labour costs, given that they were currently hiring elderly security guards at low wages only to maintain basic guarding services. For cleaning services, the trade indicated that owing to the unpleasant job nature and perennial shortage of labour, they were hiring workers at over \$28 per hour, a level higher than the market rate for low-skilled workers. Thus, an SMW rate at too high a level would further increase the difficulties of the sector in recruiting sufficient labour.
- IV.1.11 Drawing reference from the UK experience, both employers' associations and labour unions remarked that the implementation of SMW should be complemented by other public policies such as in-work benefits to safeguard adequate living standard of low-paid workers.

IV.2 Views on the Possible Impact of Statutory Minimum Wage

(a) Economic Impact

- IV.2.1 Labour unions and labour policy concern groups estimated that as SMW would only affect low-paid workers, the SMW-induced additional labour costs would not be significant. They therefore held the view that SMW would only have limited impact on businesses and hence should not affect the overall economy or inflation. Further, they highlighted the positive effect of SMW on stimulating domestic consumption and thereby the economy.
- IV.2.2 Meanwhile, some business and employer representatives were worried that if the SMW rate was set too high, they might end up having to lay off workers or close down, thus creating negative economic and employment impacts. Inflation might be pushed up if firms chose to transfer the additional costs to consumers via price increases and hence eroding the real income and purchasing power of workers, especially the low-paid ones.
- IV.2.3 As pointed out by business representatives, enterprises might be forced to offset additional labour costs by raising prices of goods and services in order to survive or maintain a reasonable level of profit. However, for sectors and firms facing keen competition from like-products or services, customers might respond by changing their consumption pattern. Examples included procuring substitute-goods commanding lower prices or crossing the border to consume on the Mainland products/services which could be stored and were not time-sensitive. Should the

- cost increase go beyond their affordability, some enterprises might even choose to relocate their operation, wholly or partly, elsewhere such as across the boundary onto the Mainland.
- IV.2.4 Labour unions and labour policy concern groups found such assertion unduly alarming. They believed that the additional labour costs could be fully absorbed by enterprises and profit drop, if any, should be by a small margin only. They felt that, with reasonable reward for work and a chance to share the fruits of economic growth, workers would be better motivated to provide quality service, which would in turn help attract and retain customers.
- IV.2.5 Business associations pointed out that since the amount of contributions from employers to the mandatory provident fund, long service payments and other statutory entitlements of employees were all calculated with reference to the wage levels, the impact of SMW on labour costs for businesses would be much higher than initially assessed.
- IV.2.6 Trade associations remarked that apart from raising wages of employees to the SMW rate, firms might have to raise wages of some low-paid employees (who could include workers already commanding a pay level above SMW) to levels above the SMW rate in order to underline the relative requirements of different positions in the set-up or to maintain reasonable pay differentials among staff of different ranks.
- IV.2.7 Labour unions, while not disputing the possibility of knock-on effect, considered such to be of a much smaller magnitude. They were of the view that for the purpose of reflecting different job requirements and maintaining reasonable pay differentials between ranks, enterprises would only need to increase wages for workers earning below the SMW level and those with direct working relationships with the former. They commented that, in respect of the other staff, in particular those at the middle and management levels, firms would follow the existing practice and adjust their wages according to market trends and employee's performance. As such, the knock-on effect of SMW should be smaller than what trade associations anticipated.
- IV.2.8 Some stakeholders opined that, since increasing sales revenues or transferring additional labour costs to consumers might not always be feasible, firms were expected to adopt measures like simplifying organisational structures, retrenching staff, increasing work automation, requiring workers to take up more responsibilities, cutting bonuses and benefits (e.g. free meals) and so forth, to offset the additional wage bills. Some firms might eventually be forced out of business if they could not afford the increase in labour costs.

- IV.2.9 Some business representatives remarked that the commission- or bonus-based remuneration package was widely adopted by various industries (including retail, insurance, real estates, tourism and securities) so as to provide performance-related incentives to workers. Should SMW be set too high, firms would have to offset the additional wage bills by reducing commissions or bonuses for employees, which would undermine the efficacy of performance-based payment system and thus, in turn, the quality of service. On the contrary, labour unions and some interested parties held the views that SMW could raise the pay of workers, thus enhancing their loyalty to the company and increasing overall productivity.
- IV.2.10 Labour unions and labour policy concern groups commented that rents assumed a greater portion of the operating costs than wages. Thus, high land costs and rental had a much greater impact on the viability of business operations. In contrast, trade associations pointed out that for certain LPS like cleaning and guarding services and catering, wages rather than rental accounted for the largest element of operating costs of businesses.
- IV.2.11 SME associations were concerned that coupled with limited flexibility in manpower, SMW could undermine the incentive for business start-up which in turn might result in the loss of low-paid jobs and opportunities for part-time work (which enabled many female homemakers to supplement family income).

(b) Impact on the labour market

- IV.2.12 Employers' associations expressed that a high SMW rate would force enterprises to adopt various measures to reduce demand for staff and overall wage bill (such as replacing labour-intensive process with automation, raising job requirements and workload of staff, requesting senior staff to be multi-tasked after dismissing some junior staff). The employers' associations further claimed that, in extreme circumstances, some enterprises might even choose to close down if the increase in labour costs was beyond their affordability. Such measures, if adopted, would inevitably lead to job loss and higher unemployment rate, particularly in the LPS.
- IV.2.13 On the contrary, labour unions pointed out that some LPS, such as catering and cleaning services,, were labour-intensive in nature with the majority of the workforce at the frontline level. Having regard to the persistent manpower shortage in these sectors, they argued that it was unlikely that large-scale redundancies would take place upon SMW implementation.
- IV.2.14 In addition to cutting headcounts, business representatives also cited other possible measures to offset cost increase, such as shortening staff working hours, replacing full-time workers with part-time workers and greater degree of outsourcing, which would mean less stable income as well as less income and fringe benefits for

affected workers. In contrast, some labour policy concern groups held the view that after the implementation of SMW, workers should be able to work flexible or less hours while getting the same or even higher income.

IV.2.15 Employers' associations were concerned that, in seeking to offset the cost increase triggered by SMW, some employers might raise job requirements and engage employees with higher productivity, hence displacing the vulnerable groups with lower productivity. These groups could include low-skilled workers, inexperienced young people, the disabled and the elderly. They were further of the view that special arrangements, such as setting different SMW rates or granting exemption to the vulnerable groups, should be introduced. Some labour unions also cast doubt on the displacement assertion. In their view, different workers had different job preferences (for instance, workers with higher competitiveness were generally not willing to take up menial work), and thus workers with different backgrounds and attributes would unlikely displace jobs of one another.

IV.2.16 Some trade/professional organisations indicated that an excessively high SMW rate would jack up labour costs and hence adversely affect the affordability of employers to provide training to inexperienced staff. They also held the view that the pressure on costs and productivity might dampen employers' incentive to employ inexperienced youths.

(c) Competitiveness

IV.2.17 Some predicted in their submissions to PMWC that the increase in wage bills arising from the introduction of SMW would leave limited room for enterprises to maintain their competitiveness through downward adjustment in prices of goods and services. Furthermore, experience in some places suggested that SMW might become the de facto maximum wage rate for some low-skilled workers. If so, this would reduce these workers' motivation for work and in turn dampen the competitiveness of Hong Kong. On the other hand, individual policy research institute predicted that the implementation of SMW would become a driving force for enterprises to improve management system and productivity to offset the additional labour costs, which might in turn help improve productivity and competitiveness of enterprises in the long run.

IV.2.18 SME associations indicated that as the rates of depreciation of SMEs were higher than those of large enterprises, they often made less profit. An excessively high SMW rate would further erode profits and threaten the survival of SMEs, leading to the market dominance of large enterprises and those under the protection of franchises. On the other hand, individual policy research institute opined that the elimination of firms which were less efficient subsequent to the implementation of SMW could enhance the overall competitiveness of Hong Kong.

- IV.2.19 Some employers' associations and interested parties remarked that Hong Kong, owing to its linked exchange rate system and its extremely high degree of external orientation, was very sensitive to vicissitudes in the global economy and relied heavily on the internal structural flexibilities of prices and costs to cope with economic turbulences. They believed that a high SMW rate would undermine the flexibility of downward adjustments of wages, forcing enterprises to cut jobs (including full-time jobs) to maintain competitiveness during economic downturn and hence the need to be prudent in setting the initial SMW rate. Individual business associations pointed out that workers would not be able to make a living if they lost their jobs, leaving them with no choice but to resort to CSSA for a living. This would in turn affect the overall productivity of Hong Kong.
- IV.2.20 Some employer representatives pointed out that many of the LPS were labour intensive with staff costs accounting for a large proportion of the operating costs. They were concerned that should SMW go beyond an affordable level, the SMW-induced cost increase might entice some enterprises to relocate their production, wholly or partly, from Hong Kong. Some others, however, pointed out that it might not be feasible to relocate industries whose services had to be produced and consumed locally.
- IV.2.21 In view of the increased staff cost, trade associations predicted that, when faced with increased staff costs, some enterprises might choose to incorporate incentive-based pay into the basic pay, hence effectively implying dispensing with an incentive-based approach to remuneration. This, they considered, would undermine Hong Kong's culture in providing quality service and drive for excellence, which would eventually affect our competitiveness. Employer representatives in the catering sector anticipated that in order to save labour costs, some restaurants might reduce the demand for labour by simplifying menus and providing regular dishes. They worried that such a move might affect Hong Kong's reputation as the culinary capital of Asia.

(d) Standard of living / Quality of life

- IV.2.22 Labour unions and labour policy concern groups generally considered that after the implementation of SMW, workers should be able to work flexible or fewer hours while enjoying the same or even higher income thus having more time with families and for the pursuit of personal aspirations.
- IV.2.23 Labour unions and labour policy concern groups pointed out that SMW could raise the purchasing power of workers and stimulate local spending, which in turn could help boost workers' standard of living as well as economic growth. The resultant boost in domestic consumption should generate employment opportunities, in particular for vulnerable workers. On the contrary, some interested parties and

policy research institutes were concerned that inflation might be exacerbated as enterprises would pass the additional costs to consumers by raising prices of goods and services, especially daily necessities. Though benefiting from wage increases, the standard of living of workers might not be enhanced as real income and thus their purchasing power could be eroded by inflation. However, some considered that there was no definite correlation between inflation and SMW.

IV.3 Views on Other Considerations relevant to the Statutory Minimum Wage Policy

(a) Social harmony

- IV.3.1 Labour unions and labour policy concern groups generally considered that SMW would protect low-paid workers from exploitation, maintain their level of income to cover the living expenses regardless of economic conditions and enable them to share the fruits of economic prosperity. They were of the view that, in helping to reduce income disparity, SMW should induce more amicable relationships in the workplace and greater social harmony.
- IV.3.2 Business representatives opined that an appropriate SMW level that balanced the interests of employers and employees would help maintain good labour relations. However, the SMW policy, if not implemented and enforced properly, could lead to labour disputes.
- IV.3.3 A labour union opined that notwithstanding the possible mild job loss arising from the introduction of SMW, a high level of SMW could enable a worker to support his/her family including the elderly members. As a result, some displaced elderly workers might choose to withdraw from the labour force and enjoy the financial support from their family members. This, the union commented, would help promote the social objective of "Care for the elderly".

(b) Enhancing work incentive

- IV.3.4 Labour policy concern groups opined that a person's incentive to work would hinge much on the wage level in addition to other personal considerations. An excessively low SMW rate would discourage workers (particularly those living in remote areas since commuting would entail high transport costs) from joining or re-entering the labour force. In a similar fashion, some members of the public suggested that an SMW rate sufficient to meet the basic needs of workers could help enhance labour force participation and provide adequate labour supply for businesses.

(c) Raising purchasing power

IV.3.5 Some labour unions and labour policy concern groups pointed out that SMW could raise the purchasing power of workers and stimulate local spending, which in turn could help boost the economy and generate employment opportunities, in particular for vulnerable workers. The unions concerned held the view that in the long run, workers should become more self-reliant and be able to save some of their income for retirement protection, thus reducing their subsequent reliance on welfare.

Appendix V

Detailed Coverage of Low Paying Sectors

Low paying sectors	Coverage in terms of Hong Kong Standard Industrial Classification Version 2.0* (HSIC V2.0)
1 Retail	
1.1 Supermarkets and convenience stores	471101, 471102
1.2 Other retail stores	47 (excluding 471101 and 471102)
2 Restaurants	
2.1 Chinese restaurants	561109-11
2.2 Non-Chinese restaurants	561103-8, 561199
2.3 Fast food cafes^	5612, 5619
2.4 Hong Kong style tea cafes	561101
3 Estate management, security and cleaning services	
3.1 Real estate maintenance management	6822
3.2 Security services [#]	80-81 (excluding 812)
3.3 Cleaning services	812
3.4 Membership organisations [@]	949
4 Other low paying sectors	
4.1 Elderly homes	873
4.2 Laundry and dry cleaning services	9601
4.3 Hairdressing and other personal services	960201, 9603-9, 97-99
4.4 Local courier services	5322
4.5 Food processing and production	10-12

Notes:(*) The Hong Kong Standard Industrial Classification Version 2.0 (HSIC V2.0) is modelled on the International Standard Industrial Classification of All Economic Activities Revision 4 (ISIC Rev. 4), which was released by the United Nations Statistics Division in August 2008 and is the latest international statistical standard for industrial classification. HSIC V2.0 has been used progressively in different surveys by Census and Statistics Department (C&SD) since 2009 as a standard framework for classifying business establishments into industry classes as well as for compilation, analysis and dissemination of statistics by industry. A full index of HSIC V2.0 industry codes and titles are available from the publication entitled *Hong Kong Standard industrial Classification (HSIC) Version 2.0*, which can be downloaded free of charge from the website of C&SD (www.censtatd.gov.hk).

(^) Fast food cafes include takeaway shops.

(#) Security services include investigation activities and services to buildings and landscape care activities.

(@)Membership organisations include incorporated owners/tenants committees, kaifong welfare associations, etc.

Appendix VI

Methodology of Impact Assessment

VI.1 Introduction

- VI.1.1 The present impact assessment aims to measure the effects of different statutory minimum wage (SMW) test levels on job losses and reduction of working hours, profit conditions, and the prices of goods and services (with special reference to low paying sectors (LPS)), based on a set of scenarios and assumptions.
- VI.1.2 A number of “enterprise response scenarios” have been constructed based on assumptions regarding the strategies likely to be adopted by enterprises in response to SMW-induced increases in total wage bill. In particular, the following three types of “enterprise response scenarios” are studied:
- (a) “Manpower streamlining scenarios”, i.e. “downsizing response scenarios” under which enterprises choose to lay off staff or “working hours reducing scenarios” under which enterprises choose to reduce working hours of employees to offset higher wage bills. Different assumptions regarding the proportion of wage bill increases to be offset by this strategy are chosen for scenario testing;
 - (b) “Profit reduction scenarios”, i.e. scenarios under which enterprises absorb higher wage bills through profit reduction. Different assumptions regarding the proportion of wage bill increases to be offset under this outcome are chosen for scenario testing;
 - (c) “Price pass-through scenarios”, i.e. scenarios under which enterprises choose to transfer higher wage bills to prices of goods and services. Different assumptions regarding the proportion of wage bill increases to be offset by this strategy are chosen for scenario testing.
- VI.1.3 The methods employed for the scenario testing of possible impacts on employees, businesses and prices are described in Sections VI.2, VI.3 and VI.4 respectively. In addition to scenario testing, sensitivity tests have been conducted to assess the likely impact of other responses and strategies (including the knock-on effect on pay hierarchy, the reduction of guaranteed year-end payments/bonuses and meal benefits in kind) that may be adopted by enterprises for mitigating the impact of wage bill increases. The methods adopted are described in Section VI.5. Besides, sensitivity testing of the impact on profits after depreciation has also been conducted for retail trade and restaurant sectors, in view of their relatively high

depreciation costs.

- VI.1.4 It should be noted that the results of impact assessment do not fully capture the actual situation after SMW implementation, as there are numerous other factors which cannot be taken into account for reasons of technical infeasibility in the impact assessment.

VI.2 Impact on Employees

- VI.2.1 Impact assessment on employees includes the estimation of: (a) the number of employees involved under different SMW test levels; (b) the estimated wage increases accruing to these employees; (c) the number of employees who may be laid off under various “downsizing response scenarios”; (d) the number of employees whose working hours may be reduced under various “working hours reducing scenarios” and the total reduction in working hours. An analysis on the socio-economic characteristics of the employees involved and the impact on wage differentials is also conducted.
- VI.2.2 Employees involved refer to those whose hourly wages are below the SMW test levels. The corresponding increases in wage bills are estimated by the difference between their original hourly wages and the SMW test levels.
- VI.2.3 The number of employees who may be laid off under “downsizing response scenarios” is estimated upon the assumption that only employees involved would be laid off, and for each occupational group within the economic sector, employees with the lowest hourly wage (who would receive the largest wage increase after SMW implementation) would be laid off first. The total number of employees retrenched is estimated upon different assumptions regarding the proportion of wage bill increases to be offset through downsizing. The impact on the unemployment rates of Hong Kong and all LPS is estimated by dividing the number of layoffs by the respective labour force figures.
- VI.2.4 As regards the estimation of reduction in working hours, the method is similar to that of “downsizing response scenarios”. It is assumed that for each occupational group within the economic sector, employees with the lowest hourly wage (who would receive the largest wage increase after SMW implementation) would have their working hours reduced first. The total number of employees involved and working hours reduced are estimated upon different assumptions regarding the proportion of wage bill increases to be offset through reduction in working hours.
- VI.2.5 A cost benefit analysis has been conducted to determine the optimal ratio between employees benefiting (individuals with employment income augmented) and not benefiting (individuals being displaced or laid off) from SMW implementation.

- VI.2.6 Wage differential is measured by the ratios of hourly wages at the median, the 75th percentile and the 90th percentile to that at the 10th percentile. The higher the ratios, the larger would be the wage differentials. Under various SMW test levels, wages at the lower end of the hourly wage distribution would be increased, hence the ratios of wage differentials are lowered.
- VI.2.7 Data employed under Section VI.2 above were obtained from the 2009 Annual Earnings and Hours Survey (AEHS).

VI.3 Impact on Businesses

- VI.3.1 Impact assessment on businesses includes: (a) estimated increases in wage bills faced by employers under various “manpower streamlining scenarios” and SMW test levels; (b) estimated reduction in overall and median profit ratios, and profit ratios at the 25th percentile; (c) estimated number of enterprises with profit ratios turning negative and those already with negative profit ratios under various “profit reduction scenarios”, and (d) the increase in employers’ liability of long service payment. In addition, an analysis of the shifts in the distribution of profit ratios is also conducted.
- VI.3.2 Wage bill increases faced by employers are estimated based on wage data obtained from AEHS. To estimate the reduction in profit ratios, estimated increases in wage bills are applied to staff costs (particularly, wage bill and other wage related benefits like employers’ contributions to Mandatory Provident Fund) of enterprises obtained from the findings of the 2008 Programme of Annual Economic Surveys (PAES). Under various “profit reduction scenarios”, a number of assumptions regarding the proportion of additional wage bill to be offset by reducing profit are chosen. The impacts on large enterprises and small and medium enterprises (SMEs) are separately estimated.
- VI.3.3 The number of enterprises with profit ratios turning negative and those already with negative profit are estimated by applying the percentage point of reduction in overall profit ratios to the profit ratios of individual enterprises. Again, separate estimations are conducted for large enterprises and SMEs.
- VI.3.4 For the estimation of increase in employers’ liability of long service payment, the number of employees involved with 5 or more years of service in the same establishment is estimated based on data from AEHS and the General Household Survey (GHS). The average monthly salary before and after SMW implementation is estimated based on data from AEHS, with the assumption that each employee’s monthly salary is equal to the average monthly salary of all employees involved under the specified SMW test level. Then the long service payment liability can be estimated as monthly salary in last month of service

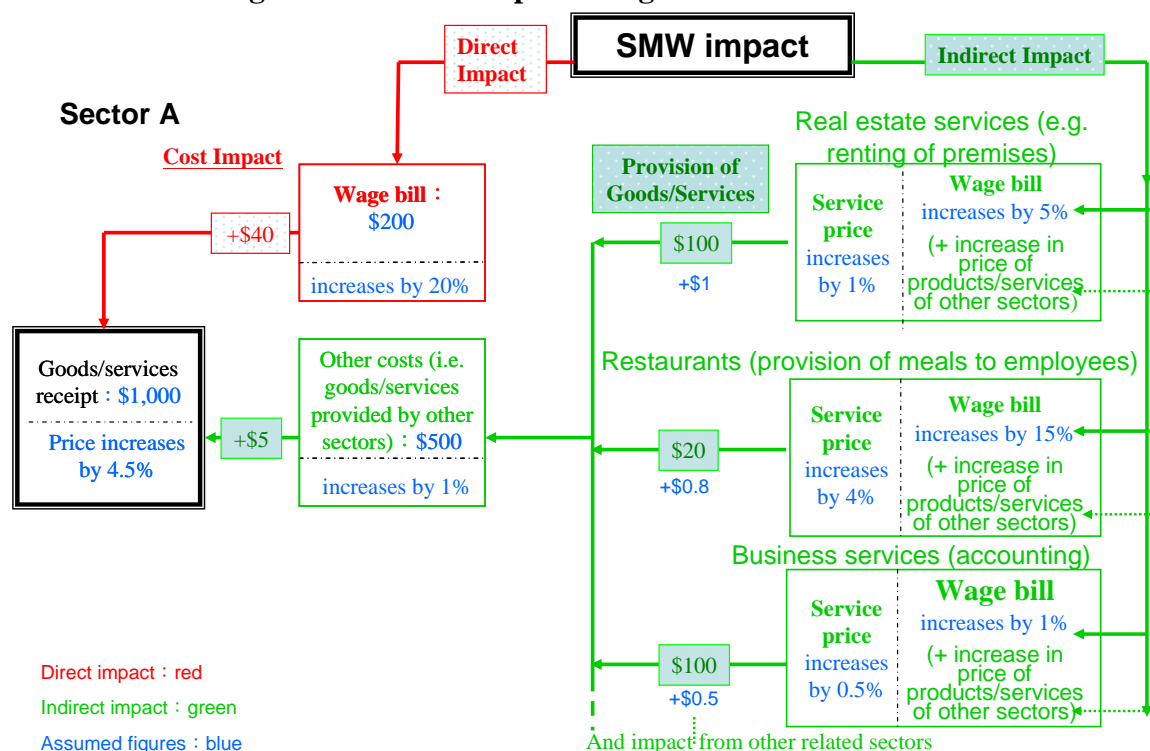
multiplied by 2/3 and the years of service.

VI.4 Impact on Output Prices and Inflation

VI.4.1 Impact assessment of SMW on the prices of goods and services produced by LPS is based on various “price pass-through scenarios”. In particular, different assumptions on the percentage share of additional wage bill to be offset by price increases are made. It is assumed that enterprises would pass both direct and indirect cost increases to the prices of their goods and services. Direct cost increase refers to increase in staff cost owing to the increase in wages of their own staff under different SMW test levels, while indirect cost increase refers to the increase in other costs (e.g. rental, transportation, courier services, etc.) due to increase in output prices of other enterprises. **Figure 1** illustrates the impact of direct and indirect cost increases. The estimation of price impact is based on the detailed statistics of goods and services in LPS and their cost structures.

VI.4.2 Furthermore, an assessment on consumer inflation in terms of both Composite Consumer Price Index (Composite CPI) and Consumer Price Index (A) (CPI(A)) has been performed by applying the estimated increases in prices of goods and services (regardless of whether they are produced by LPS or other sectors) to the relevant expenditure weights of Composite CPI and CPI(A). The total impact of SMW on consumer inflation therefore includes the total effects of price increases by all sectors in the economy.

Figure 1: Flow chart showing the estimation of impact of SMW-induced wage bill increases on prices of goods and services



VI.5 Sensitivity Testing

VI.5.1 Following our deliberations, four sensitivity tests have been performed: (a) knock-on effect on pay hierarchy; (b) reduction in guaranteed year-end payment/bonus; (c) reduction in meal benefits in kind; and (d) impact on profit conditions after depreciation. The data for conducting the sensitivity tests were drawn from both AEHS and PAES, supplemented by industry estimates provided to us during public consultation.

(a) Knock-on effect on the pay hierarchy

VI.5.2 Some economic sectors, particularly retail trade and restaurants, display sophisticated pay hierarchies among adjacent ranks, i.e. there are more ranks with narrow differences in hourly wages. In order to maintain the existing pay hierarchy upon SMW implementation, enterprises would need to raise not only the wages of employees with hourly wages lower than the SMW rate but also those with hourly wages higher than this rate. Furthermore, hourly wages of some lower-paid employees would even need to be raised to a level higher than the SMW rate. This knock-on effect on the pay hierarchy would therefore create further pressure on wage bill increases.

VI.5.3 Without specific information on how enterprises would respond to the knock-on effect on pay hierarchy, estimation is based on the views and information collected through public consultation and upon the assumption that enterprises would maintain existing pay hierarchies by raising the hourly wages of both low-paid employees and those with hourly wages higher than the SMW test levels. It is further assumed that for employees with higher wages, their wages would be augmented at decreasing rates, so that the increased pay scale would eventually meet the existing ones at a particular point.

(b) Reduction in guaranteed year-end payment/bonus

VI.5.4 This sensitivity test involves the scenario of enterprises choosing to offset the additional wage bill by reducing guaranteed year-end payment/bonus. It is assumed that for employees whose hourly wage are below the SMW test levels and are currently entitled to guaranteed year-end payment/bonus, they would no longer be given such payment. Instead, the lump sums involved would be split into equal portions and be paid to the employees concerned as additional basic wage in each wage period. This would lead to a smaller increase in number of employees involved and in additional wage bills.

(c) Reduction in meal benefits in kind

VI.5.5 This sensitivity test pertains to the scenario of enterprises choosing to offset part of the additional wage bill by reducing meal benefits in kind. As such benefits are more frequently found among restaurants and elderly homes, these two sectors are selected for analysis. The estimation method is similar to that adopted in paragraph VI.5.4. It is assumed that for employees whose hourly wages are below the SMW test levels and are currently entitled to meal benefits in kind, they would no longer be provided with such benefits. Instead, the cost value of the meal benefits in kind currently provided would be paid to the employees concerned as additional basic wage in the wage period concerned. This would lead to a smaller increase in the number of employees involved and in additional wage bills.

(d) Impact on profit conditions after depreciation

VI.5.6 This sensitivity test involves the scenario of estimating the reduction in profit ratios after depreciation for the retail trade and restaurant sectors. Given that depreciation data are not available from PAES, it would not be possible to estimate the reduction in profit ratios after depreciation for all LPS in performing the scenario testing described in Section VI.3 above. However, during our consultation with stakeholders, some industry estimates of depreciation rate (viz. the value of depreciation as a ratio to the value of sales) of retail trade and restaurants were obtained, which enabled the conduct of a sensitivity test on the reduction in profit ratios after depreciation for these two sectors.

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* In this statistical appendix, employees involved refer to employees earning less than the specified hourly wage levels as SMW test levels.

A. Employees Involved and Low Paying Sectors

Table A.1 Number and percentage of employees analysed by hourly wage and sector

Sector	Number and percentage of employees earning less than the specified hourly wage levels													
	\$22		\$23		\$24		\$25		\$26		\$27		\$28	
	('000)	(%)**	('000)	(%)**	('000)	(%)**	('000)	(%)**	('000)	(%)**	('000)	(%)**	('000)	(%)**
(A) Low paying sectors	56.0	7.4	81.7	10.8	111.0	14.7	144.2	19.1	181.6	24.1	224.5	29.8	254.7	33.8
1. Retail	6.1	2.5	11.3	4.5	17.0	6.8	24.8	10.0	34.3	13.8	43.4	17.4	51.6	20.7
1.1 Supermarkets and convenience stores	*	*	1.8	4.7	5.0	12.8	9.9	25.1	12.5	31.8	14.1	36.1	15.2	38.7
1.2 Other retail stores	*	*	9.5	4.5	12.0	5.7	15.0	7.1	21.9	10.4	29.2	13.9	36.4	17.3
2. Restaurants	13.1	6.7	18.9	9.7	30.0	15.4	40.3	20.6	46.8	24.0	55.1	28.3	62.4	32.0
2.1 Chinese restaurants	1.4	2.2	2.4	3.8	4.1	6.4	5.7	8.8	7.2	11.3	9.0	14.1	11.0	17.3
2.2 Non-Chinese restaurants	1.6	2.5	2.7	4.3	4.5	7.3	6.8	10.8	9.5	15.3	12.7	20.3	14.7	23.6
2.3 Fast food cafes ⁽¹⁾	9.1	19.1	12.2	25.5	18.4	38.3	23.1	48.2	24.4	50.9	26.2	54.6	28.4	59.3
2.4 Hong Kong style tea cafes	1.0	4.9	1.6	7.6	3.0	14.3	4.7	22.7	5.7	27.1	7.3	34.8	8.2	39.5
3. Estate management, security and cleaning services	28.9	13.4	40.2	18.7	47.3	22.0	58.8	27.3	77.5	36.0	99.5	46.2	111.8	51.9
3.1 Real estate maintenance management	16.0	16.1	19.7	19.8	22.4	22.6	25.8	26.0	28.6	28.7	38.0	38.3	40.5	40.8
3.2 Security services ⁽²⁾	5.6	16.3	8.4	24.8	9.8	28.7	11.8	34.7	13.2	38.6	15.4	45.1	17.6	51.7
3.3 Cleaning services	4.7	7.2	8.9	13.6	11.3	17.3	16.8	25.6	31.2	47.7	41.5	63.4	48.7	74.3
3.4 Membership organisations ⁽³⁾	2.6	15.8	3.2	19.2	3.8	22.9	4.4	26.4	4.5	27.4	4.6	27.9	5.0	30.1
4. Other low-paying sectors	7.9	8.4	11.3	12.1	16.7	17.9	20.3	21.8	23.0	24.7	26.5	28.4	28.9	31.0
4.1 Elderly homes	1.0	5.5	2.1	11.3	3.3	17.5	4.8	25.8	5.3	28.7	6.0	32.5	6.6	35.7
4.2 Laundry and dry cleaning services	*	*	*	*	0.5	15.5	0.7	21.2	0.9	26.5	0.9	28.3	1.0	31.2
4.3 Hairdressing and other personal services	5.4	12.5	5.7	13.4	8.9	20.8	9.5	22.3	10.5	24.5	12.3	28.7	13.4	31.4
4.4 Local courier services	*	*	*	*	0.6	11.0	0.8	15.5	0.9	17.0	1.1	21.0	1.1	21.9
4.5 Food processing & production	1.0	4.2	2.6	11.3	3.5	14.9	4.5	19.1	5.5	23.2	6.2	26.4	6.7	28.4
(B) Other sectors⁽⁴⁾	11.9	0.6	15.3	0.8	19.1	0.9	25.0	1.2	31.9	1.6	45.5	2.2	60.0	3.0
(C) All Sectors	67.9	2.4	97.0	3.5	130.2	4.7	169.2	6.1	213.6	7.7	270.0	9.7	314.6	11.3

Sector	Number and percentage of employees earning less than the specified hourly wage levels													
	\$29		\$30		\$31		\$32		\$33		\$34		\$35	
	('000)	(%)**	('000)	(%)**	('000)	(%)**	('000)	(%)**	('000)	(%)**	('000)	(%)**	('000)	(%)**
(A) Low paying sectors	277.4	36.8	298.4	39.6	322.9	42.9	339.9	45.1	360.3	47.8	381.5	50.6	401.5	53.3
1. Retail	57.4	23.0	64.2	25.8	70.5	28.3	74.9	30.0	79.6	31.9	86.5	34.7	93.1	37.3
1.1 Supermarkets and convenience stores	17.0	43.3	19.3	49.2	21.0	53.6	22.2	56.6	23.7	60.3	25.1	64.1	26.6	67.8
1.2 Other retail stores	40.4	19.2	45.0	21.4	49.5	23.5	52.7	25.0	56.0	26.6	61.4	29.2	66.5	31.6
2. Restaurants	69.8	35.8	77.1	39.5	86.1	44.1	91.6	46.9	98.9	50.7	103.7	53.2	110.3	56.5
2.1 Chinese restaurants	13.7	21.5	16.2	25.3	19.3	30.3	21.2	33.1	24.0	37.6	26.2	41.0	28.7	44.9
2.2 Non-Chinese restaurants	16.6	26.7	19.2	30.8	22.1	35.4	23.9	38.2	26.7	42.7	28.1	45.0	30.6	49.0
2.3 Fast food cafes ⁽¹⁾	30.2	62.9	31.8	66.4	33.6	70.0	34.8	72.7	36.1	75.3	36.9	76.9	37.6	78.3
2.4 Hong Kong style tea cafes	9.3	44.6	9.9	47.5	11.0	52.9	11.7	56.0	12.1	58.0	12.5	60.2	13.4	64.3
3. Estate management, security and cleaning services	116.8	54.2	121.1	56.2	128.8	59.8	132.7	61.6	138.2	64.1	144.1	66.9	149.1	69.2
3.1 Real estate maintenance management	41.0	41.3	43.6	43.9	45.9	46.2	47.0	47.3	49.0	49.3	52.0	52.3	54.5	54.8
3.2 Security services ⁽²⁾	18.3	53.7	19.0	55.9	20.3	59.7	22.5	66.0	24.4	71.7	25.3	74.2	26.7	78.3
3.3 Cleaning services	52.2	79.8	53.2	81.2	56.9	86.9	57.4	87.7	58.8	89.8	60.7	92.7	61.7	94.2
3.4 Membership organisations ⁽³⁾	5.2	31.7	5.3	31.9	5.7	34.2	5.8	34.8	6.0	36.0	6.2	37.2	6.2	37.3
4. Other low-paying sectors	33.4	35.8	35.9	38.5	37.6	40.3	40.7	43.7	43.5	46.7	47.1	50.5	49.1	52.6
4.1 Elderly homes	7.2	38.9	7.8	41.8	8.1	43.7	8.4	45.1	8.6	46.3	8.9	47.7	9.1	48.9
4.2 Laundry and dry cleaning services	1.2	34.4	1.2	37.3	1.3	38.9	1.4	43.3	1.6	47.7	1.6	49.3	1.8	53.7
4.3 Hairdressing and other personal services	16.4	38.3	17.4	40.6	17.6	41.2	19.6	45.7	21.3	49.8	24.0	56.0	24.6	57.5
4.4 Local courier services	1.2	23.9	1.5	29.5	1.7	33.3	2.1	40.1	2.3	44.5	2.6	50.3	3.0	58.7
4.5 Food processing & production	7.4	31.7	8.0	34.0	8.9	37.7	9.3	39.6	9.8	41.6	10.1	42.9	10.6	45.1
(B) Other sectors⁽⁴⁾	70.3	3.5	76.4	3.8	88.8	4.4	99.2	4.9	109.2	5.4	126.3	6.2	139.3	6.9
(C) All sectors	347.8	12.5	374.8	13.5	411.7	14.8	439.0	15.8	469.4	16.9	507.8	18.3	540.8	19.5

Notes: (1) Fast food cafes include takeaway shops.

(2) Security services include investigation activities and services to building and landscape care activities.

(3) Membership organisations include incorporated owners/tenants committees, kaifong welfare associations, etc.

(4) Other sectors do not include the sectors in (A) above.

* Estimates are not released due to relatively large sampling error.

** Referring to the percentage of employees earning less than the specified hourly wage level in respective sector.

Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total as shown in the table.

Hourly wage figures shown in the above table are exact figures without rounding.

Source : 2009 Annual Earnings and Hours Survey, C&SD.

Table A.2 Number and percentage of employees analysed by hourly wage, gender and age

Age group	Number and percentage of employees earning less than the specified hourly wage levels													
	\$22		\$23		\$24		\$25		\$26		\$27		\$28	
	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)
Male	33.3	49.1	44.4	45.8	55.7	42.8	69.1	40.9	84.7	39.7	105.5	39.1	121.5	38.6
15-24	4.3	6.4	5.9	6.1	9.4	7.2	12.9	7.6	15.3	7.2	17.2	6.4	20.5	6.5
25-34	2.1	3.1	3.1	3.2	3.8	2.9	5.0	3.0	6.2	2.9	9.3	3.4	11.3	3.6
35-44	3.0	4.5	3.9	4.0	5.4	4.1	7.1	4.2	10.3	4.8	14.2	5.3	17.4	5.5
45-54	5.8	8.5	8.4	8.7	10.8	8.3	14.9	8.8	18.5	8.7	23.8	8.8	27.0	8.6
55 and above	18.0	26.6	23.1	23.8	26.3	20.2	29.3	17.3	34.4	16.1	40.9	15.2	45.4	14.4
Female	34.6	50.9	52.5	54.2	74.4	57.2	100.1	59.1	128.8	60.3	164.6	60.9	193.1	61.4
15-24	4.9	7.2	6.7	6.9	10.9	8.4	13.8	8.1	17.5	8.2	19.8	7.3	23.5	7.5
25-34	2.2	3.2	3.8	3.9	6.9	5.3	10.8	6.4	14.7	6.9	21.0	7.8	25.8	8.2
35-44	6.6	9.7	10.4	10.7	15.9	12.2	21.6	12.8	26.5	12.4	32.4	12.0	37.8	12.0
45-54	13.6	20.1	21.1	21.7	27.0	20.8	35.3	20.9	45.0	21.1	61.6	22.8	71.9	22.8
55 and above	7.3	10.7	10.6	11.0	13.7	10.5	18.6	11.0	25.1	11.8	29.9	11.1	34.2	10.9
Total	67.9	100.0	97.0	100.0	130.2	100.0	169.2	100.0	213.6	100.0	270.0	100.0	314.6	100.0
15-24	9.2	13.6	12.6	13.0	20.3	15.6	26.7	15.8	32.8	15.4	37.0	13.7	44.0	14.0
25-34	4.3	6.3	6.8	7.0	10.8	8.3	15.8	9.4	20.9	9.8	30.3	11.2	37.1	11.8
35-44	9.6	14.2	14.3	14.7	21.3	16.4	28.6	16.9	36.7	17.2	46.6	17.2	55.2	17.5
45-54	19.4	28.6	29.5	30.4	37.8	29.0	50.2	29.7	63.5	29.7	85.4	31.6	98.8	31.4
55 and above	25.3	37.3	33.7	34.8	40.0	30.7	47.8	28.3	59.6	27.9	70.8	26.2	79.5	25.3

Age group	Number and percentage of employees earning less than the specified hourly wage levels													
	\$29		\$30		\$31		\$32		\$33		\$34		\$35	
	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)
Male	132.9	38.2	141.2	37.7	157.2	38.2	166.6	37.9	178.1	37.9	194.2	38.3	207.8	38.4
15-24	23.4	6.7	25.6	6.8	29.0	7.1	31.7	7.2	35.1	7.5	39.2	7.7	41.1	7.6
25-34	13.3	3.8	14.4	3.8	16.4	4.0	17.8	4.1	20.1	4.3	22.7	4.5	25.7	4.8
35-44	19.4	5.6	21.4	5.7	27.5	6.7	28.8	6.6	30.8	6.6	33.3	6.6	37.2	6.9
45-54	28.4	8.2	30.2	8.0	32.9	8.0	34.7	7.9	37.0	7.9	40.9	8.1	43.7	8.1
55 and above	48.3	13.9	49.6	13.2	51.3	12.5	53.5	12.2	55.1	11.7	58.0	11.4	60.1	11.1
Female	214.9	61.8	233.5	62.3	254.6	61.8	272.4	62.1	291.3	62.1	313.5	61.7	332.9	61.6
15-24	25.4	7.3	30.1	8.0	32.5	7.9	35.0	8.0	37.6	8.0	40.8	8.0	44.6	8.2
25-34	29.5	8.5	32.1	8.6	35.6	8.6	37.3	8.5	40.9	8.7	45.2	8.9	49.3	9.1
35-44	44.2	12.7	48.2	12.9	52.9	12.8	57.8	13.2	61.1	13.0	65.9	13.0	71.1	13.2
45-54	79.6	22.9	85.3	22.8	93.1	22.6	99.3	22.6	106.4	22.7	114.3	22.5	118.7	21.9
55 and above	36.2	10.4	37.7	10.1	40.5	9.8	43.0	9.8	45.3	9.7	47.4	9.3	49.2	9.1
Total	347.8	100.0	374.8	100.0	411.7	100.0	439.0	100.0	469.4	100.0	507.8	100.0	540.8	100.0
15-24	48.8	14.0	55.8	14.9	61.6	15.0	66.7	15.2	72.7	15.5	80.0	15.8	85.6	15.8
25-34	42.8	12.3	46.5	12.4	51.9	12.6	55.2	12.6	61.0	13.0	67.9	13.4	75.1	13.9
35-44	63.6	18.3	69.6	18.6	80.4	19.5	86.6	19.7	91.9	19.6	99.2	19.5	108.3	20.0
45-54	108.1	31.1	115.5	30.8	126.0	30.6	134.1	30.5	143.4	30.5	155.2	30.6	162.4	30.0
55 and above	84.4	24.3	87.4	23.3	91.8	22.3	96.5	22.0	100.4	21.4	105.4	20.8	109.3	20.2

Notes: Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total as shown in the table.
Hourly wage figures shown in the above table are exact figures without rounding.

Source : 2009 Annual Earnings and Hours Survey, C&SD.

Table A.3 Number and percentage of employees analysed by hourly wage and educational attainment

Educational attainment	Number and percentage of employees earning less than the specified hourly wage levels													
	\$22		\$23		\$24		\$25		\$26		\$27		\$28	
	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)
Primary and below	33.1	48.8	48.0	49.5	61.4	47.1	78.6	46.5	98.1	45.9	114.7	42.5	133.7	42.5
Secondary 1 to 3	22.5	33.1	31.2	32.2	43.7	33.6	58.5	34.6	73.5	34.4	96.9	35.9	108.4	34.5
Secondary 4 to 5	10.2	15.1	15.3	15.8	22.5	17.3	29.0	17.2	37.7	17.6	53.1	19.7	65.9	21.0
Secondary 6 and above	2.1	3.1	2.5	2.6	2.6	2.0	3.0	1.8	4.4	2.0	5.3	2.0	6.5	2.1
Total	67.9	100.0	97.0	100.0	130.2	100.0	169.2	100.0	213.6	100.0	270.0	100.0	314.6	100.0

Educational attainment	Number and percentage of employees earning less than the specified hourly wage levels													
	\$29		\$30		\$31		\$32		\$33		\$34		\$35	
	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)
Primary and below	147.3	42.3	153.2	40.9	164.2	39.9	172.4	39.3	180.2	38.4	187.8	37.0	194.3	35.9
Secondary 1 to 3	117.4	33.7	126.8	33.8	140.1	34.0	149.2	34.0	159.0	33.9	173.4	34.1	182.4	33.7
Secondary 4 to 5	75.6	21.7	85.6	22.8	96.5	23.4	105.9	24.1	117.6	25.0	131.4	25.9	144.9	26.8
Secondary 6 and above	7.5	2.2	9.1	2.4	10.8	2.6	11.5	2.6	12.7	2.7	15.2	3.0	19.2	3.6
Total	347.8	100.0	374.8	100.0	411.7	100.0	439.0	100.0	469.4	100.0	507.8	100.0	540.8	100.0

Notes: Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total as shown in the table.

Hourly wage figures shown in the above table are exact figures without rounding.

Source : 2009 Annual Earnings and Hours Survey, C&SD.

Table A.4 Number and percentage of employees analysed by hourly wage and occupation

Occupational group	Number and percentage of employees earning less than the specified hourly wage levels													
	\$22		\$23		\$24		\$25		\$26		\$27		\$28	
	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)
Elementary occupations	41.4	61.0	60.3	62.2	74.4	57.2	92.8	54.8	119.8	56.1	152.9	56.6	170.3	54.1
Service workers and shop sales workers	20.6	30.3	29.7	30.6	46.9	36.0	64.2	38.0	79.4	37.2	96.6	35.8	111.5	35.4
Craft and related workers, plant and machine operators and assemblers	2.3	3.4	3.0	3.1	4.3	3.3	5.7	3.4	6.8	3.2	8.5	3.2	10.9	3.5
Clerks	1.8	2.6	2.1	2.1	2.3	1.8	4.1	2.4	5.1	2.4	8.5	3.1	17.7	5.6
Managers and administrators, professionals and associate professionals	1.8	2.7	1.9	1.9	2.1	1.6	2.4	1.4	2.4	1.1	3.6	1.3	4.2	1.3
Total	67.9	100.0	97.0	100.0	130.2	100.0	169.2	100.0	213.6	100.0	270.0	100.0	314.6	100.0

Occupational group	Number and percentage of employees earning less than the specified hourly wage levels													
	\$29		\$30		\$31		\$32		\$33		\$34		\$35	
	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)
Elementary occupations	184.3	53.0	192.0	51.2	207.0	50.3	217.9	49.6	230.8	49.2	245.3	48.3	254.3	47.0
Service workers and shop sales workers	124.2	35.7	137.9	36.8	151.3	36.8	160.2	36.5	171.2	36.5	183.4	36.1	195.1	36.1
Craft and related workers, plant and machine operators and assemblers	13.1	3.8	14.7	3.9	20.3	4.9	24.0	5.5	25.6	5.5	29.2	5.7	33.5	6.2
Clerks	20.3	5.8	24.0	6.4	26.5	6.4	29.7	6.8	34.0	7.2	40.4	8.0	45.9	8.5
Managers and administrators, professionals and associate professionals	5.8	1.7	6.2	1.7	6.6	1.6	7.2	1.7	7.8	1.7	9.4	1.8	12.0	2.2
Total	347.8	100.0	374.8	100.0	411.7	100.0	439.0	100.0	469.4	100.0	507.8	100.0	540.8	100.0

Notes: Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total as shown in the table.

Hourly wage figures shown in the above table are exact figures without rounding.

Source : 2009 Annual Earnings and Hours Survey, C&SD.

Table A.5 Number and percentage of employees analysed by hourly wage and employment nature

Full-time/part-time	Number and percentage of employees earning less than the specified hourly wage levels													
	\$22		\$23		\$24		\$25		\$26		\$27		\$28	
	('000)	(%)*	('000)	(%)*	('000)	(%)*	('000)	(%)*	('000)	(%)*	('000)	(%)*	('000)	(%)*
Full-time	55.9	2.1	79.3	3.0	103.8	4.0	131.4	5.0	167.1	6.4	217.4	8.3	255.4	9.8
Part-time	12.0	7.2	17.7	10.6	26.4	15.8	37.8	22.7	46.5	27.8	52.7	31.6	59.3	35.5
Total	67.9	2.4	97.0	3.5	130.2	4.7	169.2	6.1	213.6	7.7	270.0	9.7	314.6	11.3

Full-time/part-time	Number and percentage of employees earning less than the specified hourly wage levels													
	\$29		\$30		\$31		\$32		\$33		\$34		\$35	
	('000)	(%)*	('000)	(%)*	('000)	(%)*	('000)	(%)*	('000)	(%)*	('000)	(%)*	('000)	(%)*
Full-time	283.8	10.9	309.1	11.8	337.5	12.9	363.2	13.9	391.3	15.0	427.1	16.4	457.8	17.5
Part-time	64.0	38.4	65.7	39.4	74.2	44.5	75.8	45.4	78.1	46.8	80.6	48.3	83.0	49.7
Total	347.8	12.5	374.8	13.5	411.7	14.8	439.0	15.8	469.4	16.9	507.8	18.3	540.8	19.5

Notes: Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total as shown in the table.

* Referring to the percentage of employees earning less than the specified hourly wage level in respective group.

Hourly wage figures shown in the above table are exact figures without rounding.

Source : 2009 Annual Earnings and Hours Survey, C&SD.

Table A.6 Operating characteristics of enterprises analysed by sector (for enterprises with employees only)

Sector	All enterprises					
	Number of enterprises (2)	Share of compensation of employees in total operating expenses	Ratio of compensation of employees to business receipts	Profit ratio ⁽³⁾		
				Overall	First quartile (4)	Median ⁽⁴⁾
(A) Low paying sectors	34 620	41.9%	16.8%	7.8%	-0.1%	5.5%
1. Retail	20 070	31.6%	9.1%	7.0%	-1.9%	4.5%
1.1 Supermarkets and convenience stores	50	29.0%	7.2%	6.2%	0.9%	2.4%
1.2 Other retail stores	20 020	31.9%	9.4%	7.2%	-1.9%	4.5%
2. Restaurants	9 110	50.1%	28.4%	9.0%	-3.9%	6.6%
2.1 Chinese restaurants	2 280	54.3%	32.0%	8.9%	-4.8%	1.7%
2.2 Non-Chinese restaurants	3 690	48.9%	26.3%	10.0%	-4.0%	7.1%
2.3 Fast food cafes	1 270	40.1%	22.9%	9.7%	6.9%	13.0%
2.4 Hong Kong style tea cafes	1 870	53.9%	30.3%	5.8%	-7.1%	3.7%
3. Estate management, security and cleaning services	1 180	49.9%	46.4%	6.8%	1.8%	5.5%
3.1 Real estate maintenance management	460	34.0%	31.3%	7.7%	0.9%	3.4%
3.2 Security services	190	87.4%	82.7%	5.3%	1.8%	6.3%
3.3 Cleaning services	540	80.1%	75.6%	4.1%	5.5%	6.0%
4. Other low paying sectors	4 250	54.8%	22.9%	11.7%	3.1%	11.1%
4.1 Elderly homes ⁽¹⁾	530	58.5%	55.5%	5.1%	*	3.9%
4.2 Laundry and dry cleaning services	600	37.3%	33.3%	10.9%	6.8%	12.4%
4.3 Hairdressing and other personal services	2 100	48.3%	39.3%	17.9%	10.2%	19.3%
4.4 Local courier services	220	40.4%	36.7%	9.2%	See note 5	
4.5 Food processing & production	790	59.3%	16.0%	12.2%	1.0%	1.5%
(B) Other sectors	153 870	33.6%	10.6%	14.1%	-0.1%	4.8%
(C) All sectors	188 490	34.4%	11.1%	13.7%	-0.1%	5.0%

Sector	Small and medium enterprises (SMEs)							
	Number of enterprises (2)	Share in total number of enterprises	Share in total number of employees	Share of compensation of employees in total operating expenses	Ratio of compensation of employees to business receipts	Profit ratio ⁽³⁾		
						Overall	First quartile (4)	Median ⁽⁴⁾
(A) Low paying sectors	33 030	95.4%	33.0%	43.4%	17.0%	4.9%	-0.1%	5.4%
1. Retail	19 720	98.2%	39.0%	35.7%	10.4%	3.3%	-2.2%	4.5%
1.1 Supermarkets and convenience stores	50	88.5%	1.0%	40.7%	5.2%	1.9%	0.9%	2.1%
1.2 Other retail stores	19 670	98.2%	44.9%	35.7%	10.4%	3.3%	-2.2%	4.5%
2. Restaurants	8 300	91.1%	43.5%	50.8%	28.0%	7.2%	-4.5%	6.4%
2.1 Chinese restaurants	1 630	71.4%	27.7%	51.0%	32.1%	3.9%	-4.8%	*
2.2 Non-Chinese restaurants	3 600	97.5%	68.3%	51.3%	26.4%	9.4%	-4.0%	6.6%
2.3 Fast food cafes	1 230	97.2%	19.8%	40.7%	20.3%	10.7%	7.1%	13.0%
2.4 Hong Kong style tea cafes	1 840	98.2%	85.8%	53.5%	30.3%	5.1%	-7.1%	3.6%
3. Estate management, security and cleaning services	890	75.4%	6.6%	39.7%	36.1%	7.3%	3.4%	5.5%
3.1 Real estate maintenance management	^	^	^	35.3%	32.7%	7.4%	0.9%	1.4%
3.2 Security services	See note 5							
3.3 Cleaning services	440	82.3%	5.8%	74.2%	54.8%	7.0%	5.5%	6.0%
4. Other low paying sectors	4 120	96.8%	51.1%	49.8%	22.1%	7.6%	3.2%	12.2%
4.1 Elderly homes ⁽¹⁾	^	^	^	44.1%	41.0%	7.0%	*	3.9%
4.2 Laundry and dry cleaning services	600	98.8%	56.3%	27.8%	24.8%	10.9%	6.8%	12.4%
4.3 Hairdressing and other personal services	2 100	99.9%	96.6%	48.2%	38.9%	18.7%	10.2%	19.3%
4.4 Local courier services	See note 5							
4.5 Food processing & production	730	92.9%	39.2%	61.3%	15.2%	5.5%	1.0%	1.5%
(B) Other sectors	149 650	97.3%	45.5%	30.6%	6.8%	10.3%	-0.3%	4.8%
(C) All sectors	182 670	96.9%	42.2%	31.7%	7.3%	10.0%	-0.3%	4.9%

Notes: (1) Preliminary estimates were compiled for crude reference based on data of elderly homes collected for the first time in 2008 survey. In calculating figures for business receipts and profit, subsidies from government and other organisations were also included.

(2) Figures were rounded to tens.

(3) Earnings before tax and depreciation ratio (abbreviated as profit ratio) refers to ratio of earnings before deducting tax; depreciation; gain/loss on disposal of property, machinery and equipment; bad debts/write-off, amortisation and provisions, to business receipts.

(4) Not including those enterprises without business receipts (including local representative offices of overseas companies).

(5) Data not released due to insufficient sample size to render reliable estimates.

* In between -0.05% and 0.05%.

^ Not provided so as to prevent the deduction of suppressed cells.

Source : 2008 Programme of Annual Economic Surveys, C&SD.

Charts A.1 to A.16 Hourly wage distribution of low paying sectors and all sectors

Chart A.1: Supermarkets and convenience stores

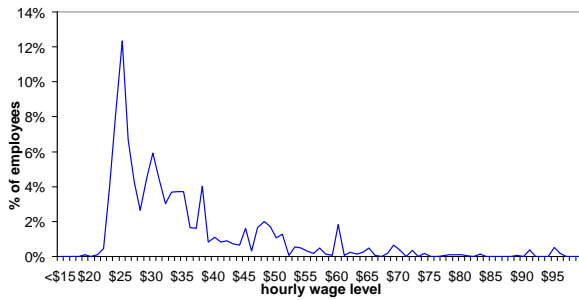


Chart A.2: Other retail stores

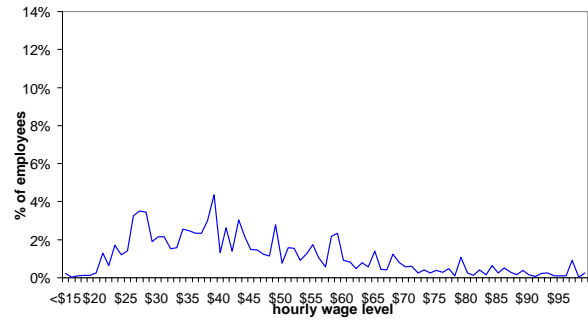


Chart A.3: Chinese restaurants

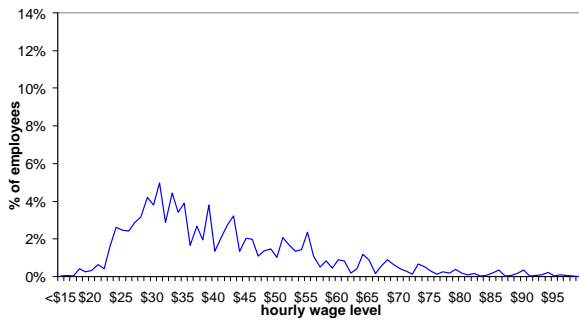


Chart A.4: Non-Chinese restaurants

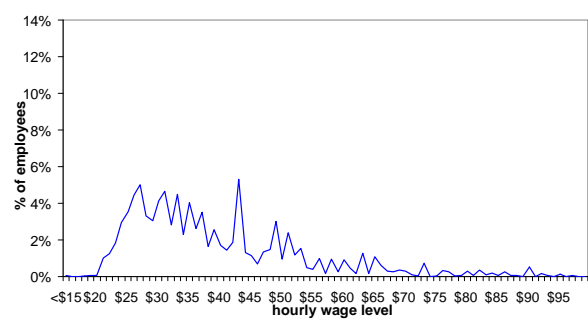


Chart A.5: Fast food cafes

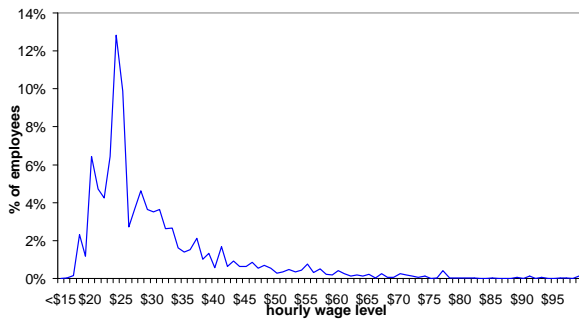


Chart A.6: Hong Kong style tea cafes

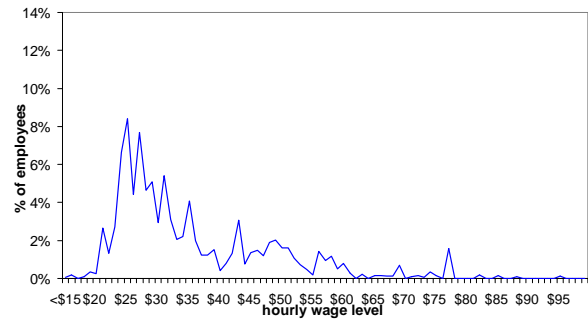


Chart A.7: Real estate maintenance management

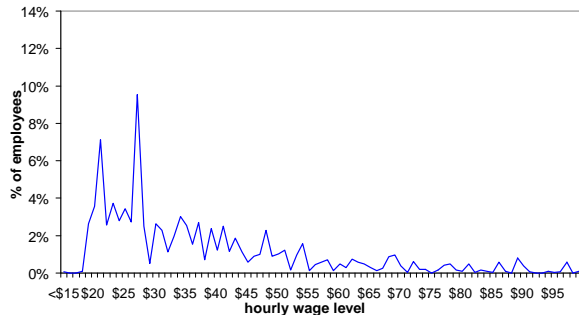


Chart A.8: Security services

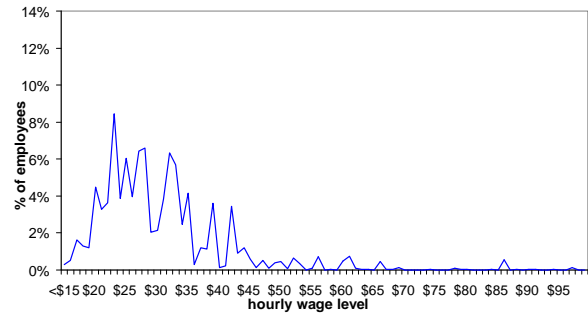


Chart A.9*: Cleaning services

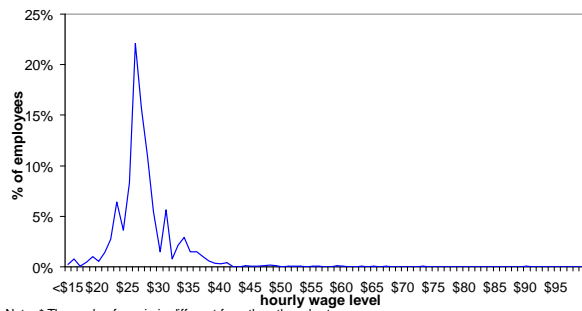


Chart A.10: Membership organisations

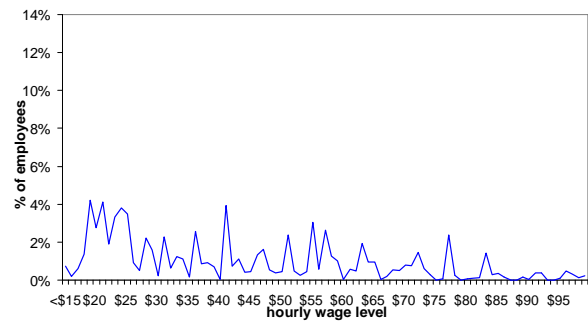


Chart A.11: Elderly homes

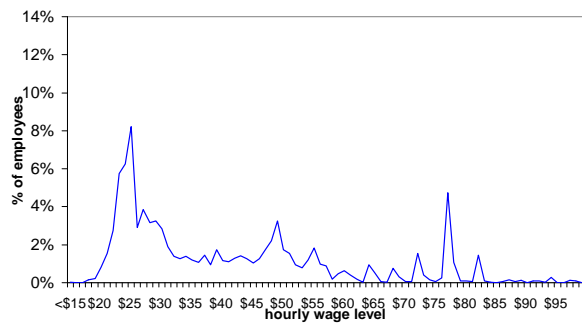


Chart A.12: Laundry and dry cleaning services

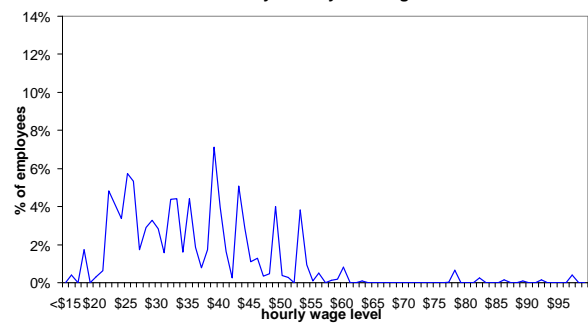


Chart A.13: Hairdressing and other personal services

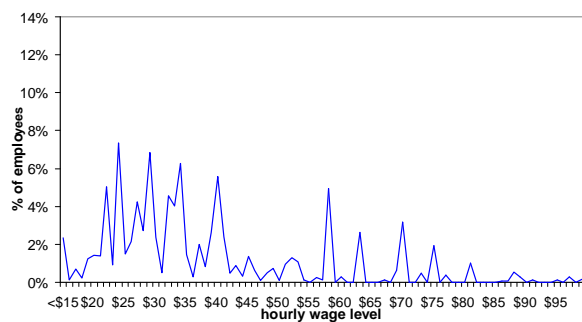


Chart A.14: Local courier activities

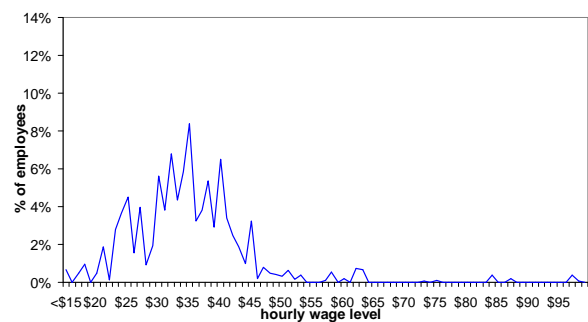


Chart A.15: Food processing & production

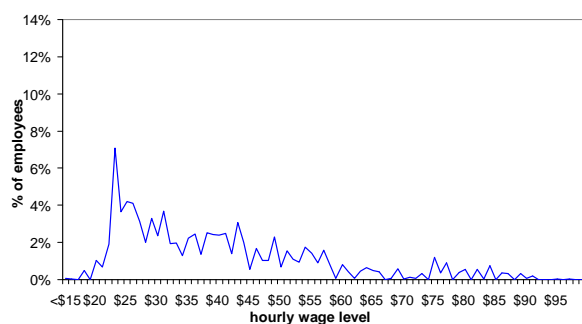
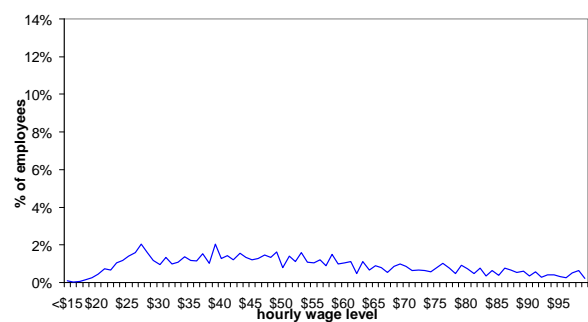


Chart A.16: All sectors



Source: 2009 Annual Earnings and Hours Survey, C&SD.

B. Basket of Indicators

I. General Economic Conditions

Table B.1: Overall economic growth

Year		Gross domestic product		
		Nominal ⁽¹⁾	Real ⁽²⁾	
		Year-on-year rate of change (%)	Year-on-year rate of change (%)	Seasonally adjusted quarter-to-quarter rate of change (%)
2000		+4.0	+8.0	-
2001		-1.4	+0.5	-
2002		-1.7	+1.8	-
2003		-3.3	+3.0	-
2004		+4.6	+8.5	-
2005		+7.0	+7.1	-
2006		+6.7	+7.0	-
2007		+9.5	+6.4	-
2008		+3.7	+2.2	-
2009		-2.6	-2.8	-
Short-term forecast (2010)		+5 to +6	+5 to +6	-
Medium-term forecast (2011-2014)		+6	+4	-
Year	Quarter			
2007	Q1	+7.1	+5.6	+1.2
	Q2	+7.9	+6.1	+1.7
	Q3	+10.7	+6.8	+1.9
	Q4	+11.9	+6.9	+1.6
2008	Q1	+9.8	+7.0	+1.5
	Q2	+6.3	+4.0	-0.9
	Q3	+3.2	+1.1	-1.2
	Q4	-3.2	-2.7	-2.3
2009	Q1	-7.0	-7.7	-3.2
	Q2	-2.9	-3.8	+3.1
	Q3	-3.4	-2.4	+0.3
	Q4	+2.7	+2.5	+2.4
2010	Q1	+10.1	+8.0	+2.1
	Q2	+5.9	+6.5	+1.4

Notes: (1) The compilation of percentage changes in nominal terms is based on GDP at current market prices.

(2) The compilation of percentage changes in real terms is based on GDP in chained (2008) dollars.

Source: National Income Statistics, C&SD.

Table B.2: Composite Consumer Price Index

		Composite Consumer Price Index (Composite CPI) ⁽¹⁾			
		Underlying Composite CPI ⁽²⁾		Headline Composite CPI	
		Year-on-year rate of change (%)	Seasonally adjusted month-to-month rate of change (%)	Year-on-year rate of change (%)	Seasonally adjusted month-to-month rate of change (%)
Year					
2000		-	-	-3.8	-
2001		-	-	-1.6	-
2002		-	-	-3.0	-
2003		-	-	-2.6	-
2004		-	-	-0.4	-
2005		-	-	+1.0	-
2006		-	-	+2.0	-
2007		+2.8	-	+2.0	-
2008		+5.6	-	+4.3	-
2009		+1.0	-	+0.5	-
Short-term forecast (2010)		+1.5	-	+2.3	-
Medium-term forecast (2011-2014)		+3	-	-	-
Year	Month				
2009	Jan	+4.5	+0.2	+3.1	+0.2
	Feb	+2.1	-0.3	+0.8	-0.4
	Mar	+2.6	+0.3	+1.2	+0.3
	Apr	+1.9	-0.3	+0.6	-0.1
	May	+1.3	*	*	*
	Jun	+0.4	-0.2	-0.9	-0.2
	Jul	-0.3	-0.1	-1.5	-0.1
	Aug	-0.3	+0.1	-1.6	-1.7
	Sep	-0.3	+0.1	+0.5	+0.9
	Oct	-0.3	+0.2	+2.2	+2.0
	Nov	-0.3	+0.1	+0.5	+0.1
	Dec	+0.3	+0.3	+1.3	+0.4
2010	Jan	*	+0.2	+1.0	+0.4
	Feb	+1.6	+0.5	+2.8	+0.6
	Mar	+0.8	-0.1	+2.0	-0.1
	Apr	+1.3	+0.3	+2.4	+0.3
	May	+1.4	+0.1	+2.5	+0.1
	Jun	+1.7	+0.1	+2.8	*
	Jul	+1.9	+0.1	+1.3	-1.6

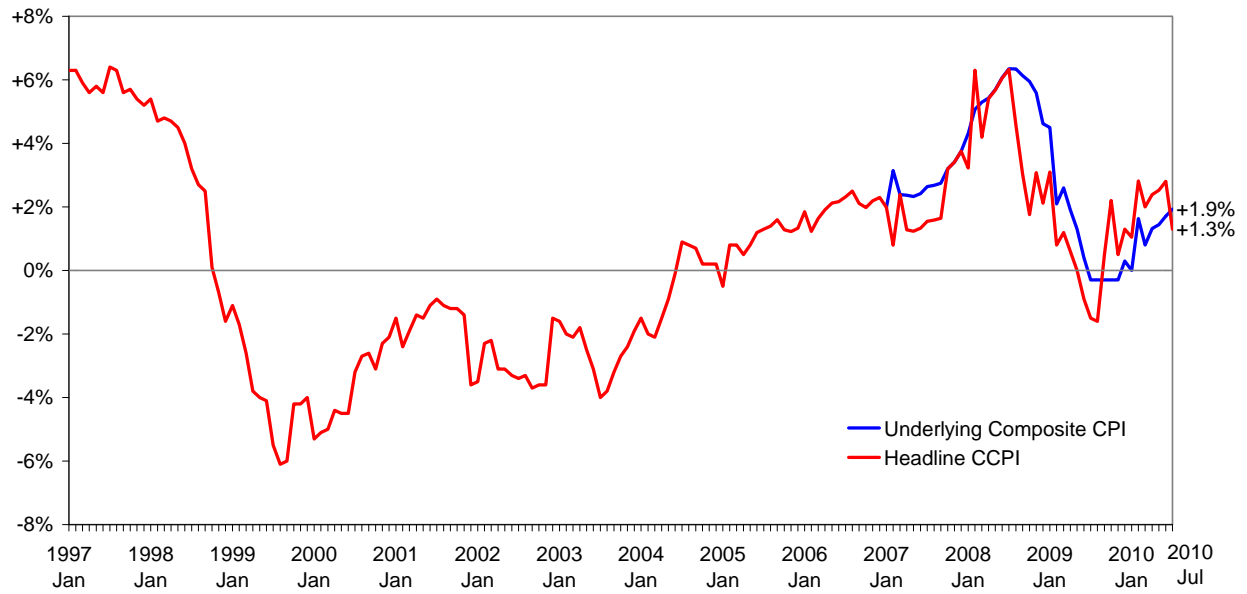
Notes: (1) Composite CPI is compiled based on the overall expenditure pattern of about 90% of households in Hong Kong to reflect the impact of consumer price changes on the household sector as a whole.

(2) Underlying CPI is calculated by netting out the effects of all relevant one-off measures introduced since 2007, including the waiver and Government's payment of public housing rentals, rates concession, suspension of Employees Retraining Levy, and subsidies for household electricity charges.

* less than ±0.05%

Source: Monthly Retail Price Survey, C&SD.

Chart B.1: Year-on-year rate of change in the headline and underlying monthly Composite Consumer Price Index



II. Labour Market Conditions

Chart B.2: Labour force analysed by sector

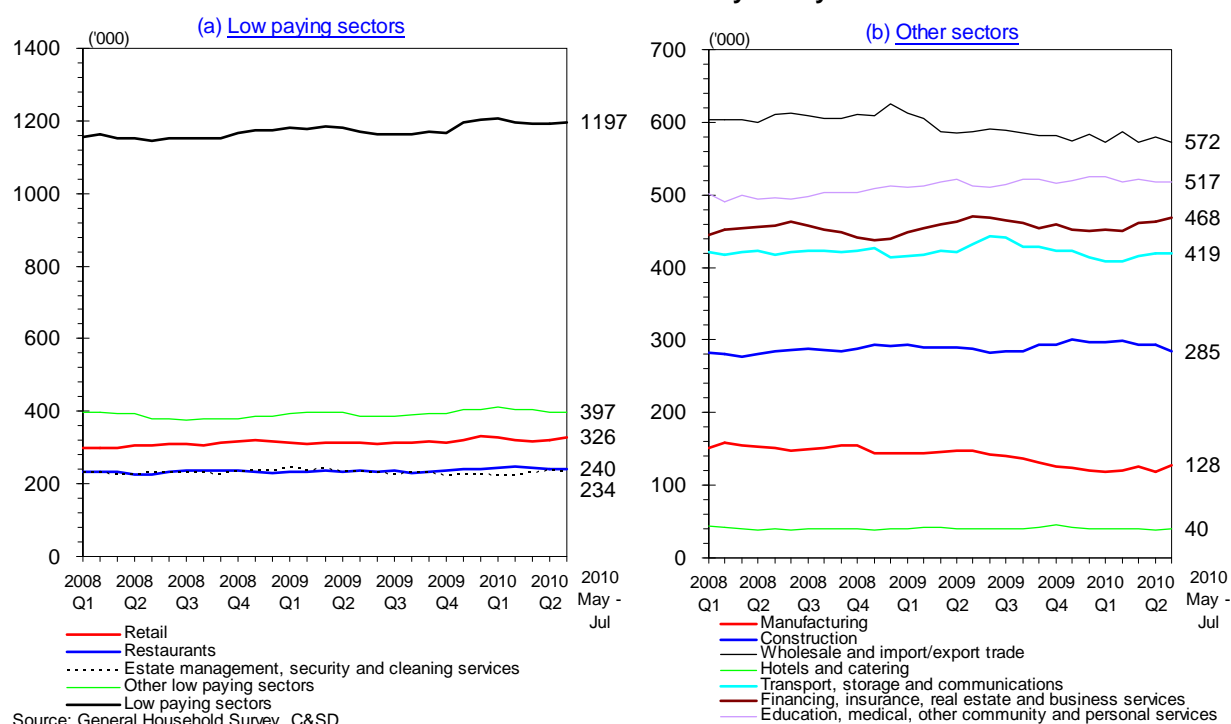


Chart B.3: Employment analysed by sector

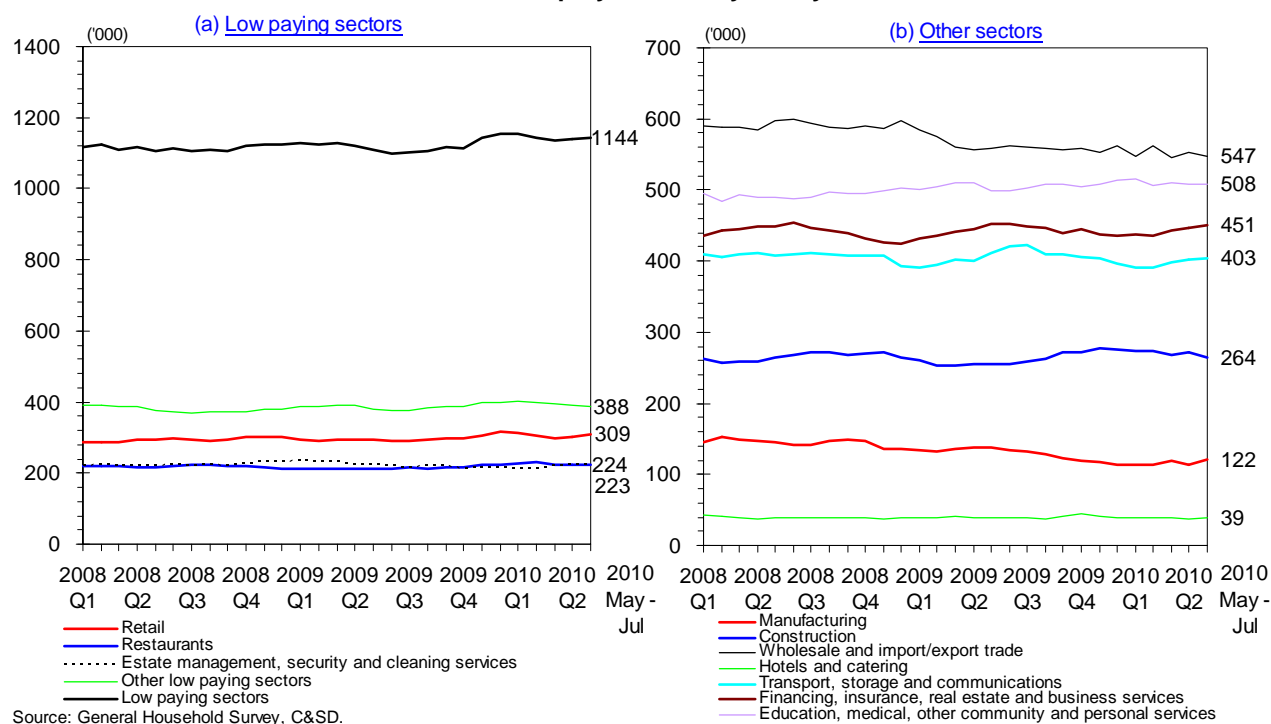


Chart B.4: Labour force participation rate analysed by gender and age

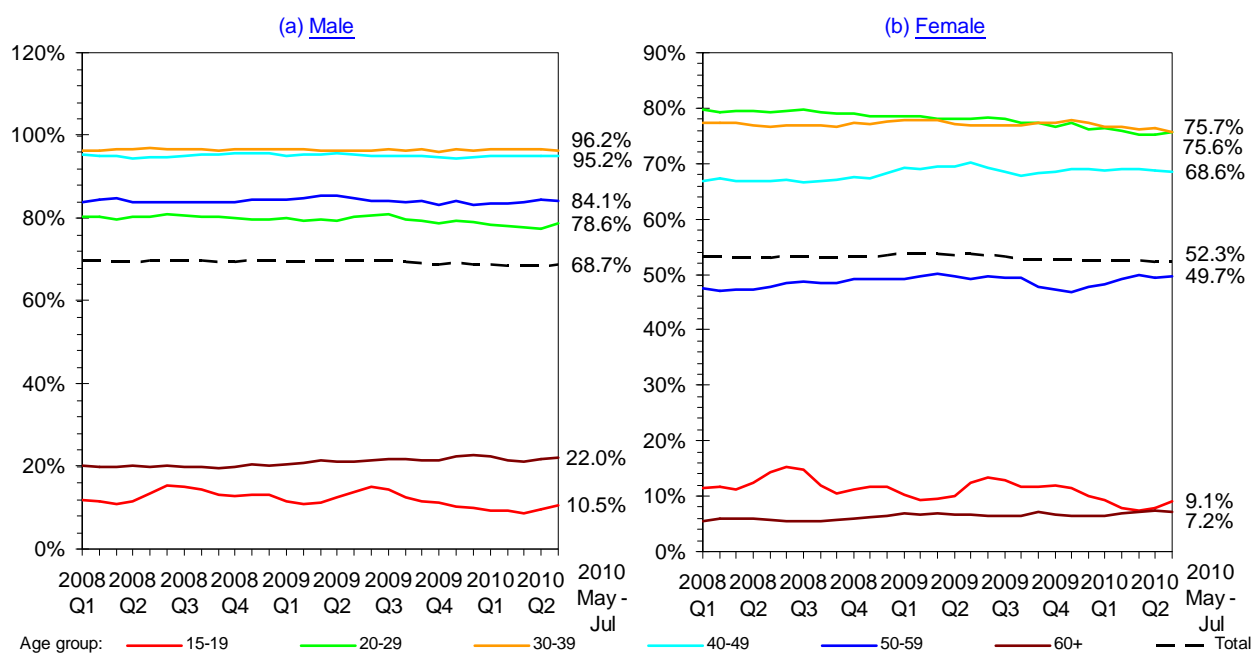


Chart B.5: Unemployment rate analysed by sector

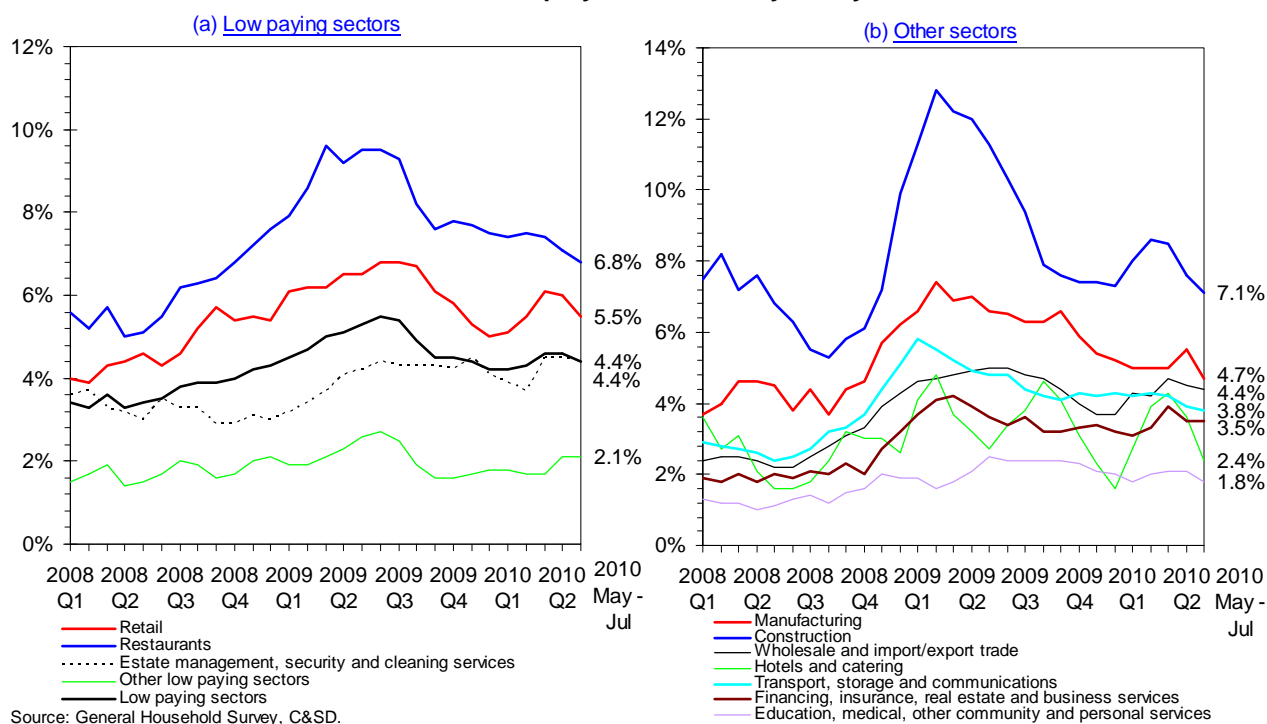


Chart B.6: Unemployment rate analysed by occupation

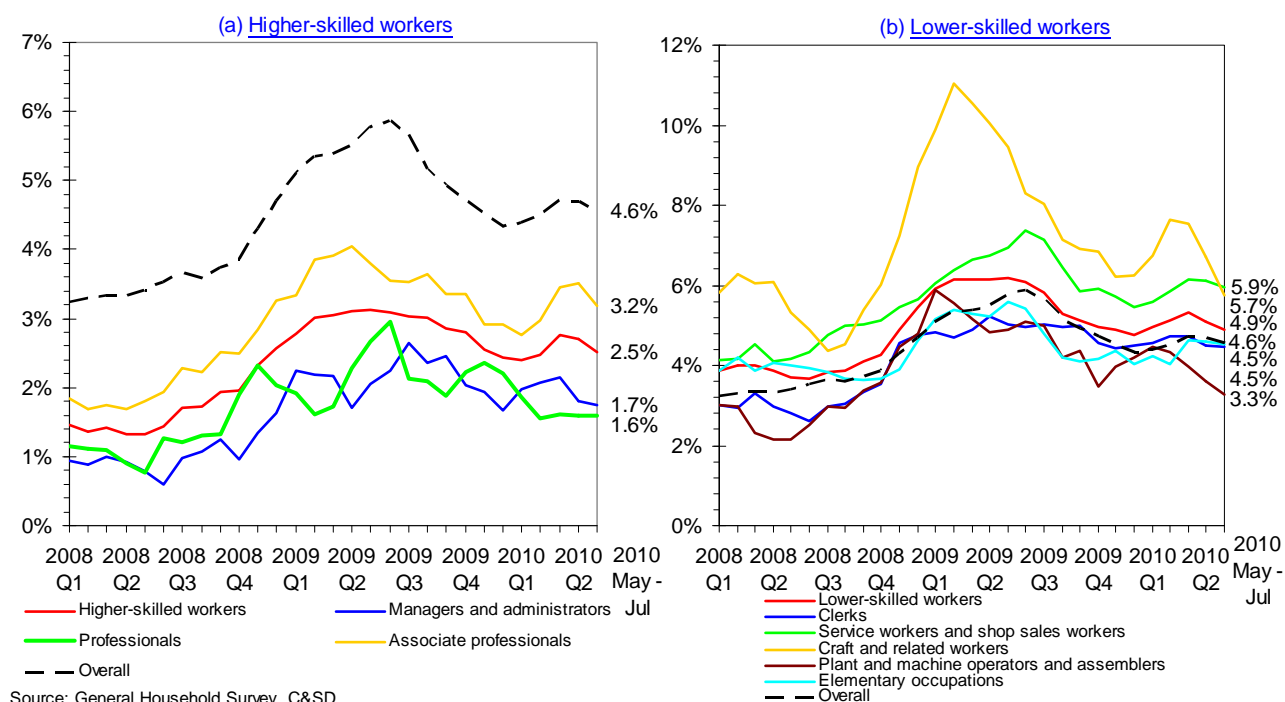


Chart B.7: Underemployment rate analysed by sector

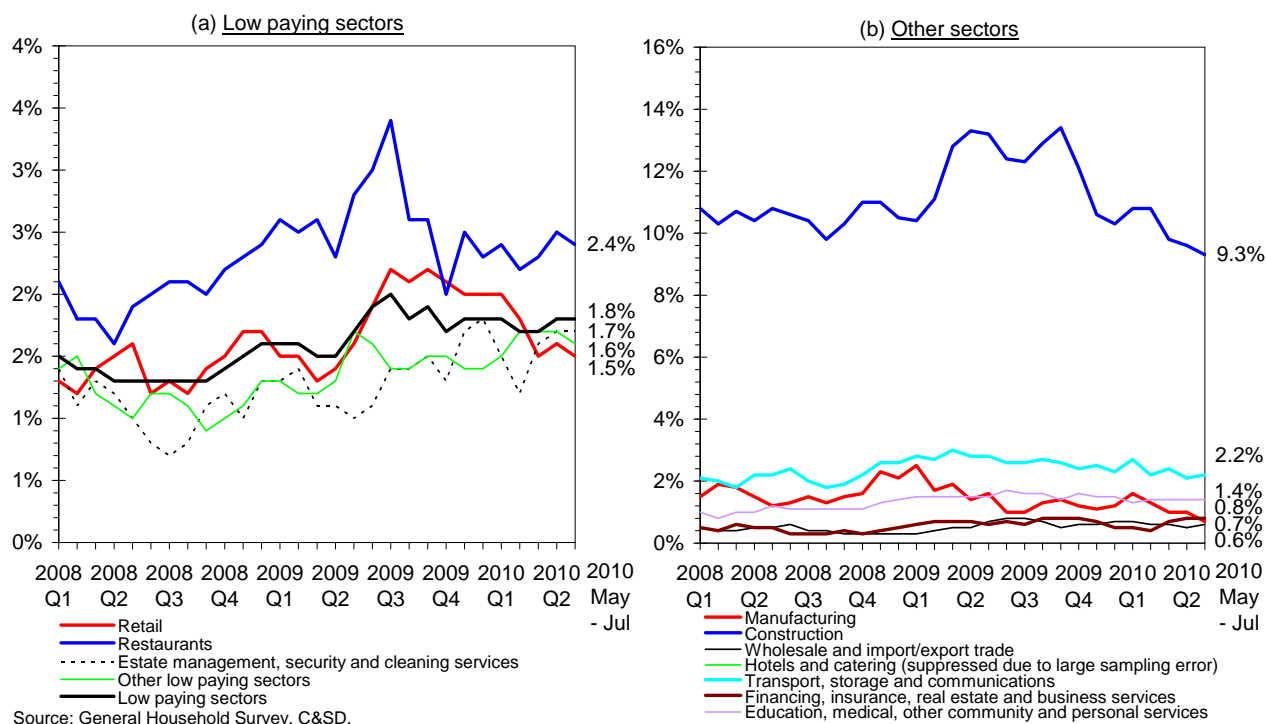
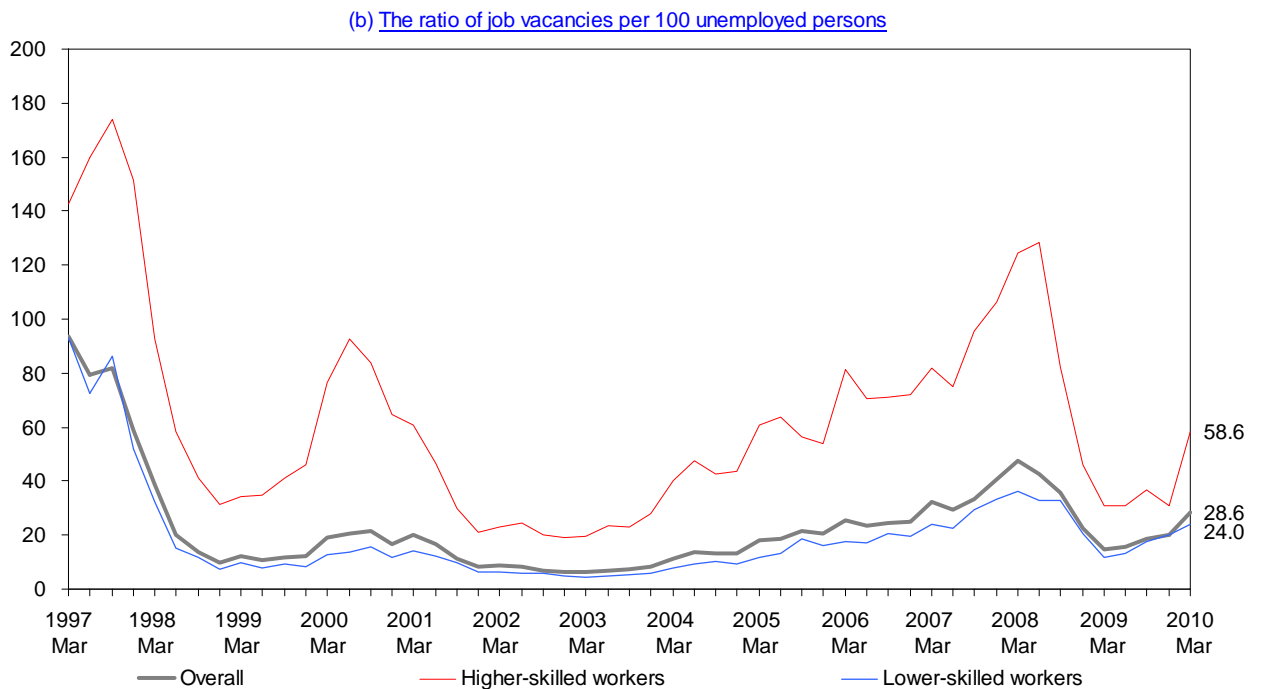
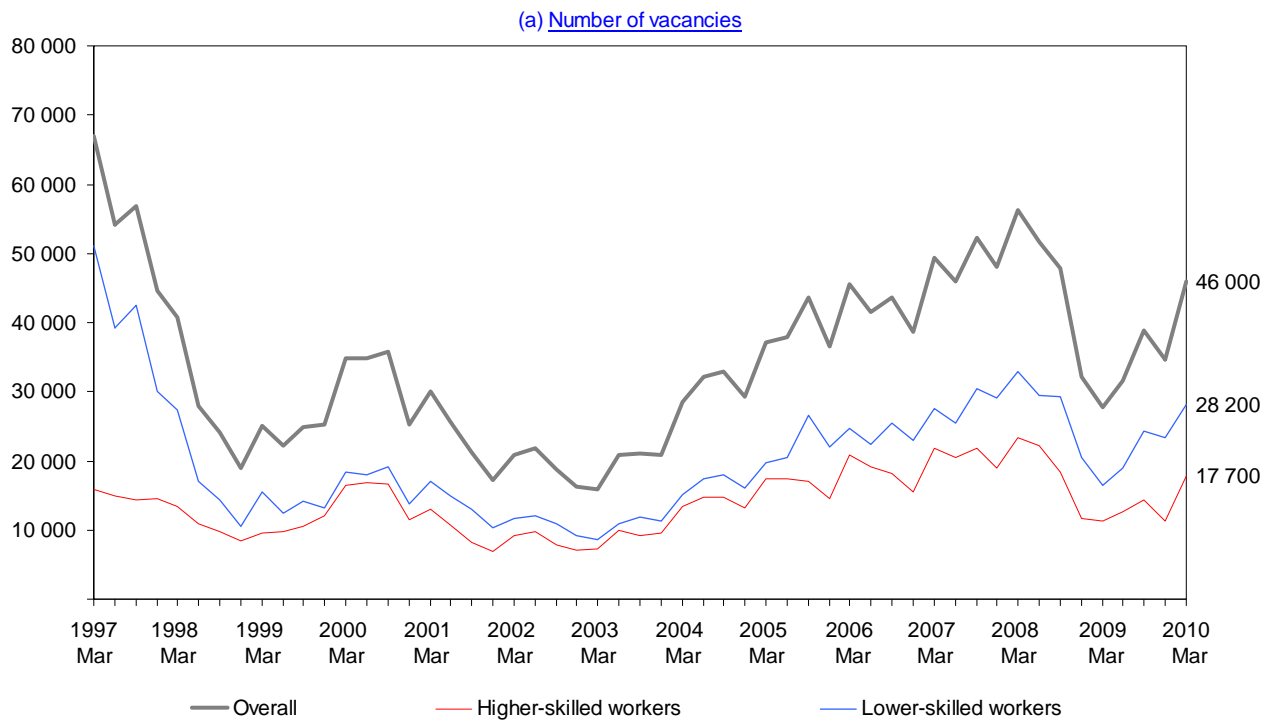
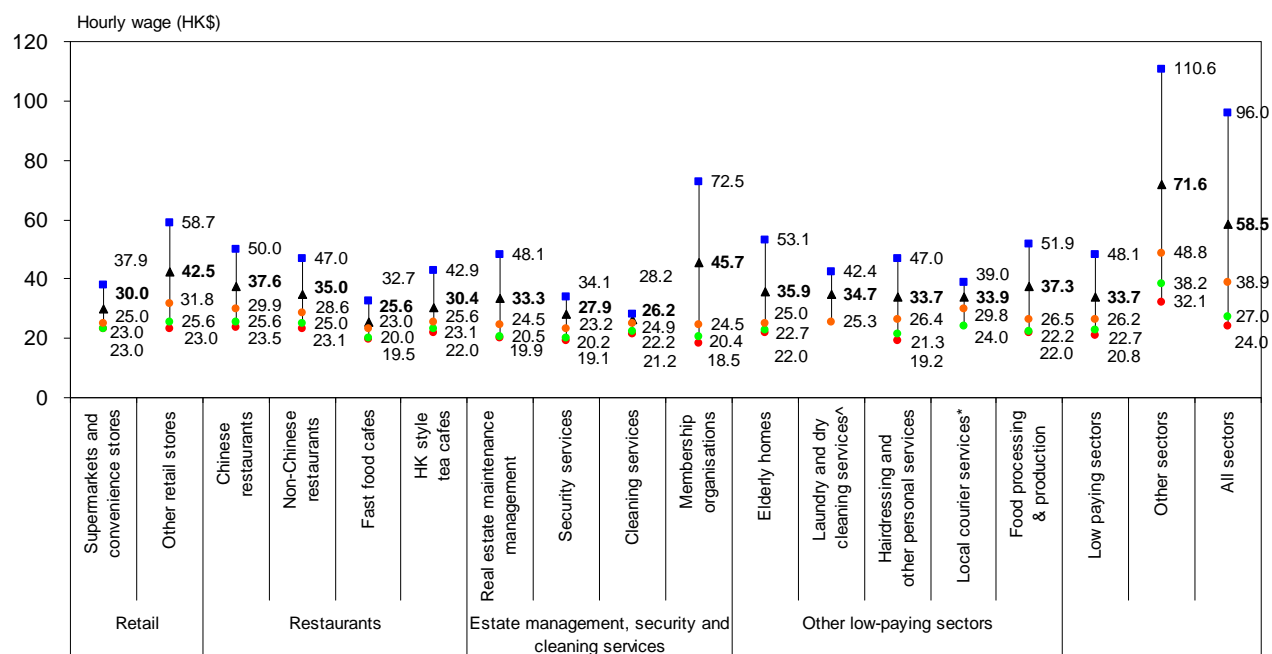


Chart B.8: Number of vacancies and the ratio of vacancies per 100 unemployed persons



Source: General Household Survey and Quarterly Survey of Employment and Vacancies, C&SD.

Chart B.9: Hourly wage distribution analysed by sector

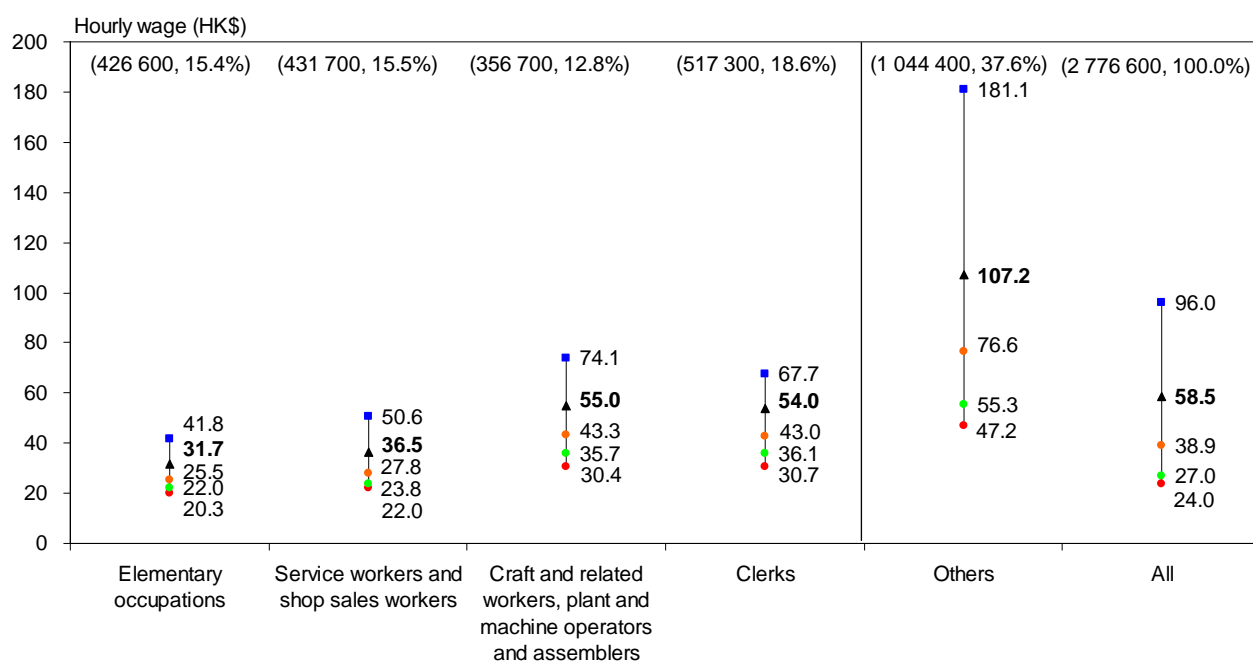


Notes: ^ The 5th percentile and 10th percentile are not released due to relatively large sampling error.
* The 5th percentile is not released due to relatively large sampling error.

Source: 2009 Annual Earnings and Hours Survey, C&SD.

▲ Median ● 5th percentile ● 10th percentile
● 25th percentile ■ 75th percentile

Chart B.10: Hourly wage distribution analysed by occupation

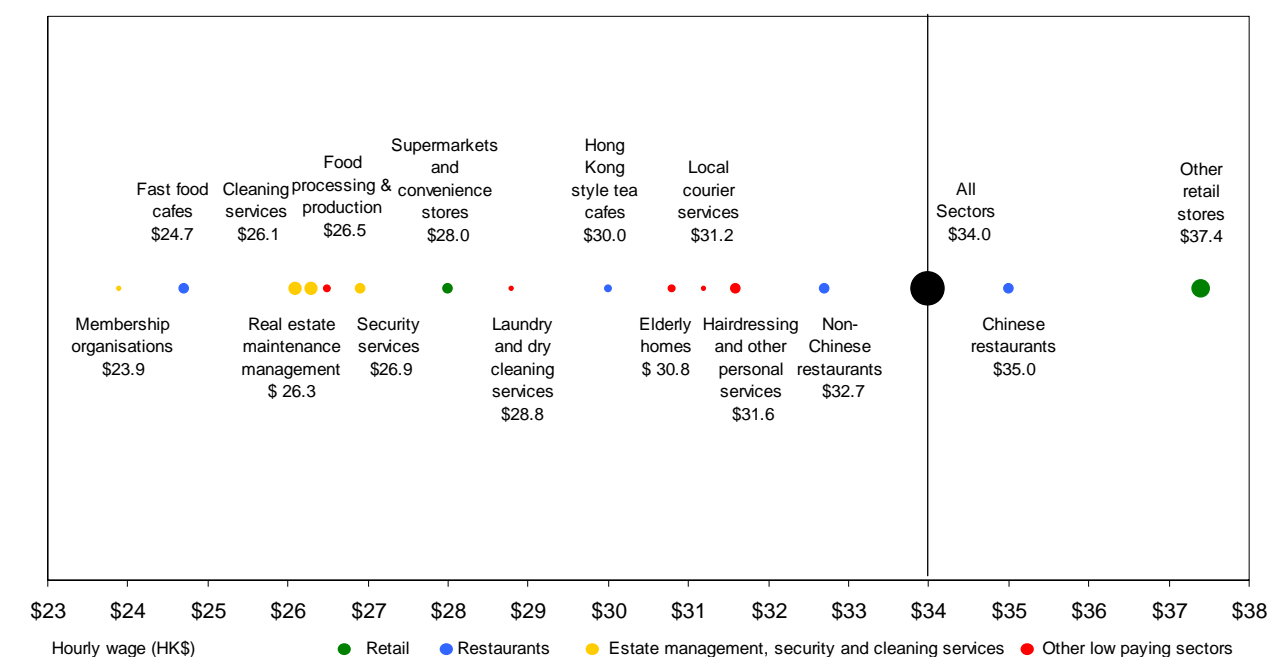


Note: Figures in brackets denote number and percentage (out of all employees) of employees engaged in the specified occupation.

Source: 2009 Annual Earnings and Hours Survey, C&SD.

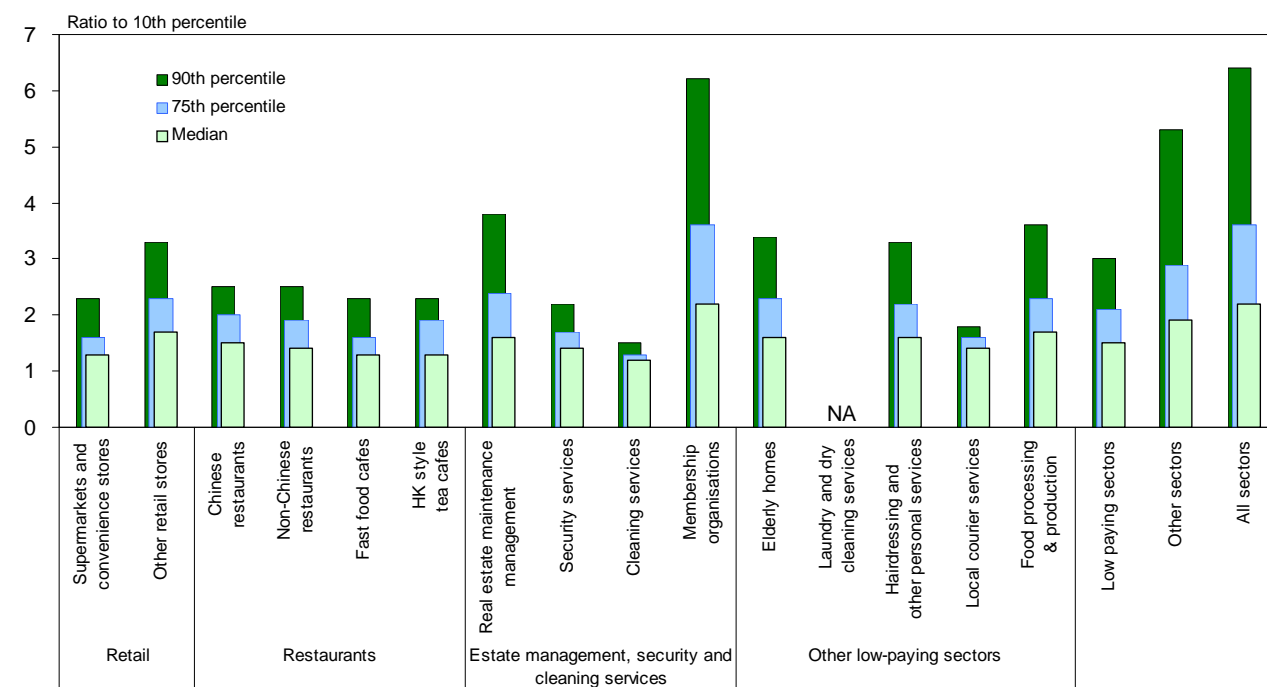
▲ Median ● 5th percentile ● 10th percentile ● 25th percentile ■ 75th percentile

Chart B.11: Distribution of median hourly wage of employees in elementary occupations and service workers and shop sales workers by sector



Source : 2009 Annual Earnings and Hours Survey, C&SD.

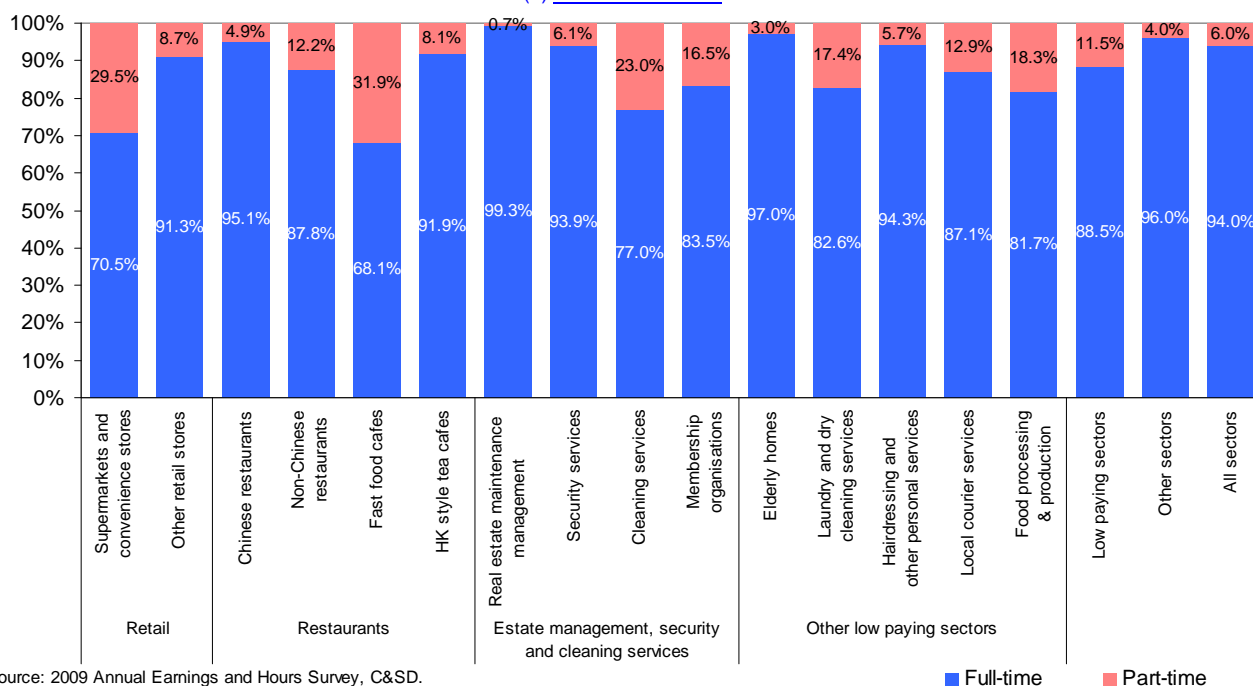
Chart B.12: Wage differential analysed by sector



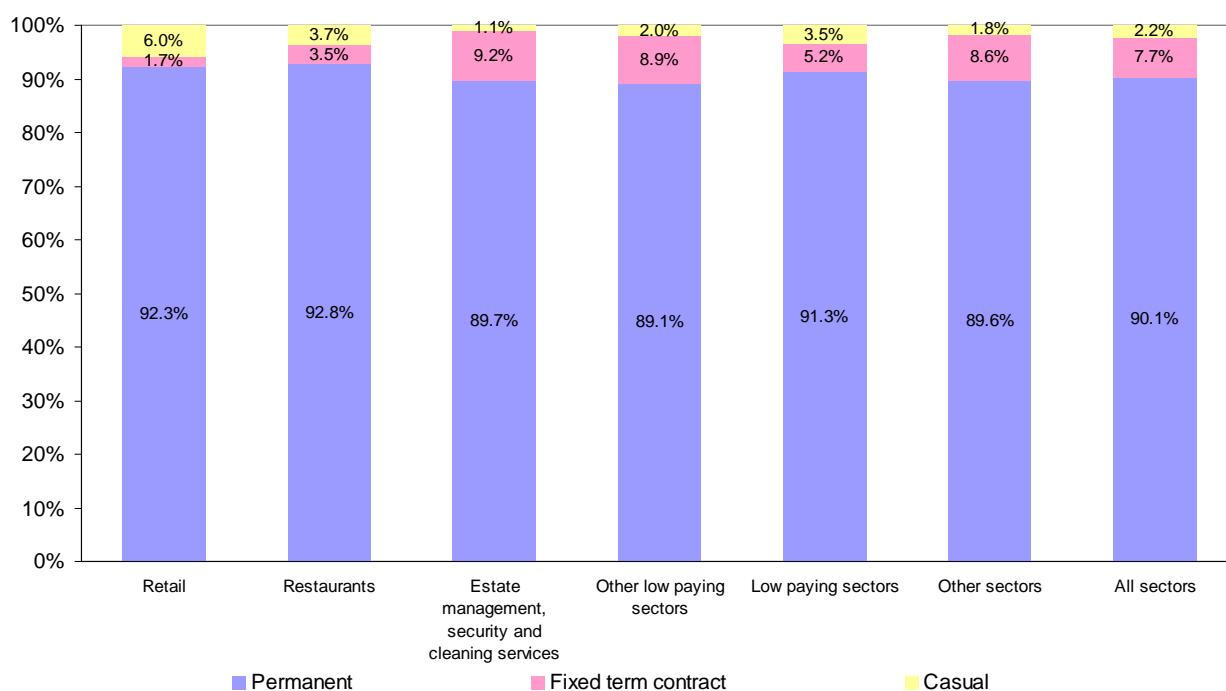
Source : 2009 Annual Earnings and Hours Survey, C&SD.

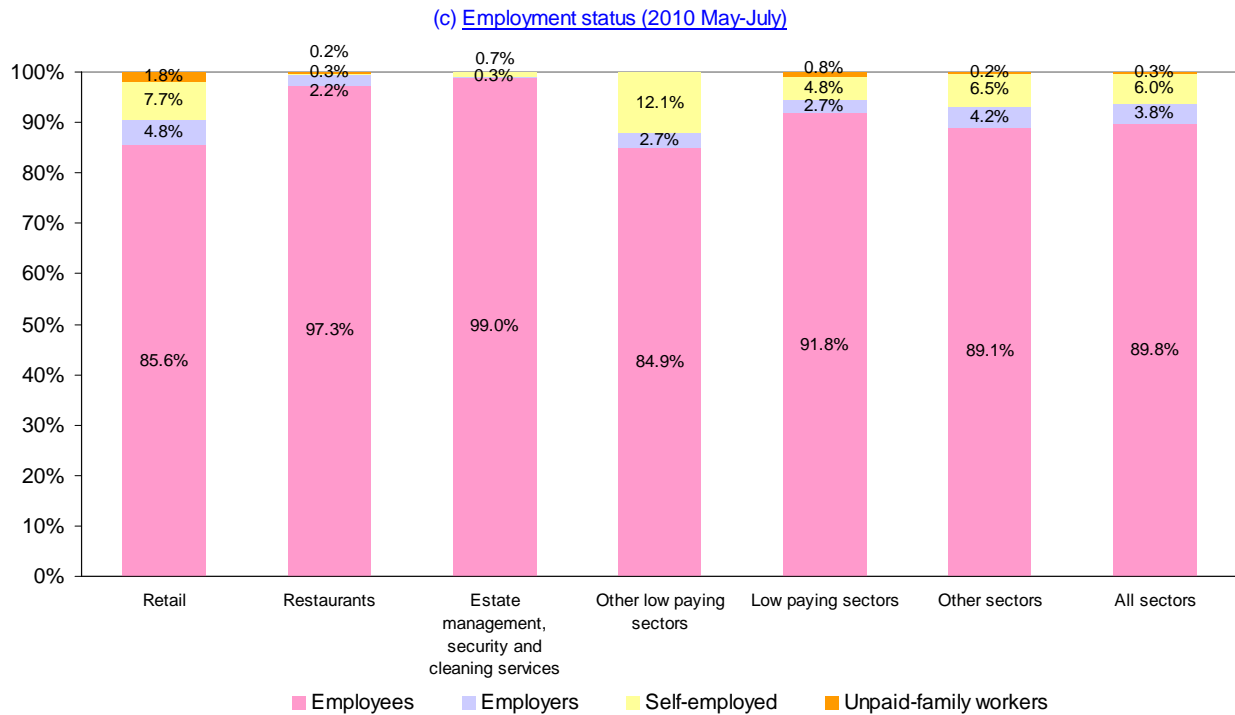
Chart B.13: Employment nature analysed by sector

(a) Full-time/Part-time



(b) Permanent / Fixed term contract / Casual





Note: Excluding live-in domestic workers and employees in public administration.
Source: General Household Survey, C&SD.

III. Competitiveness

Chart B.14: Labour productivity index of Hong Kong and selected economies

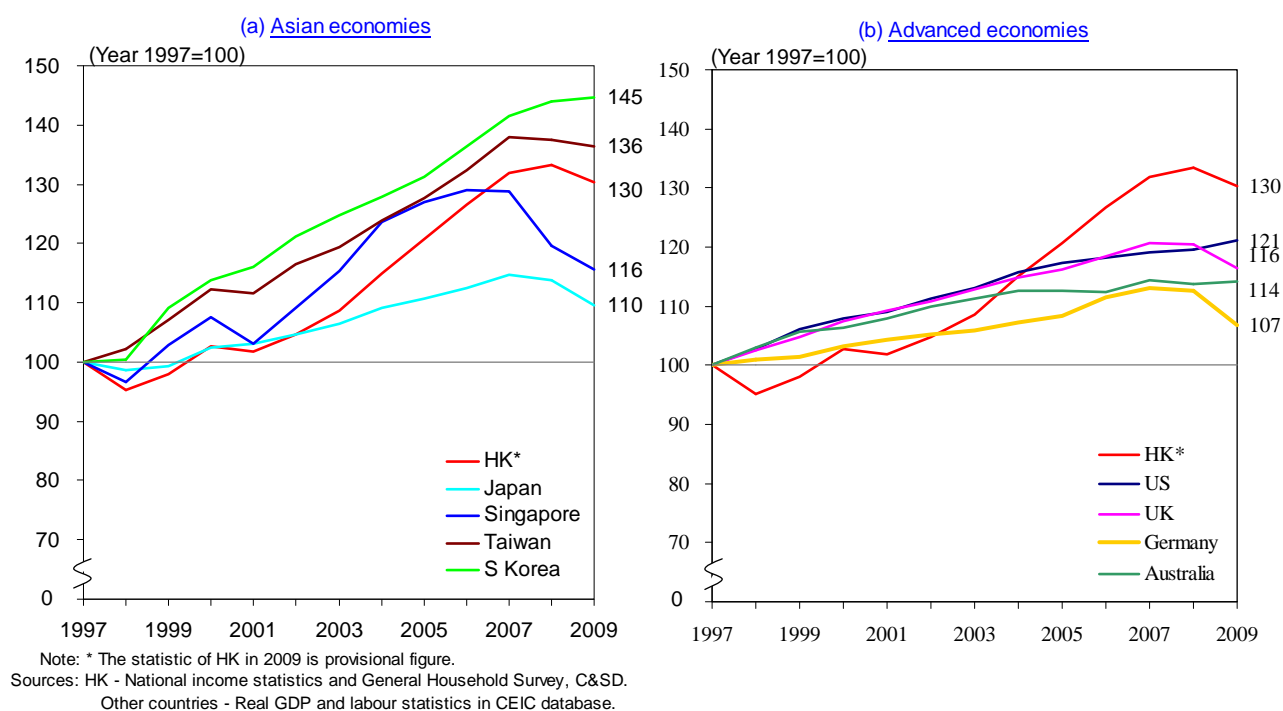


Chart B.15: Labour productivity index of Hong Kong analysed by selected sectors

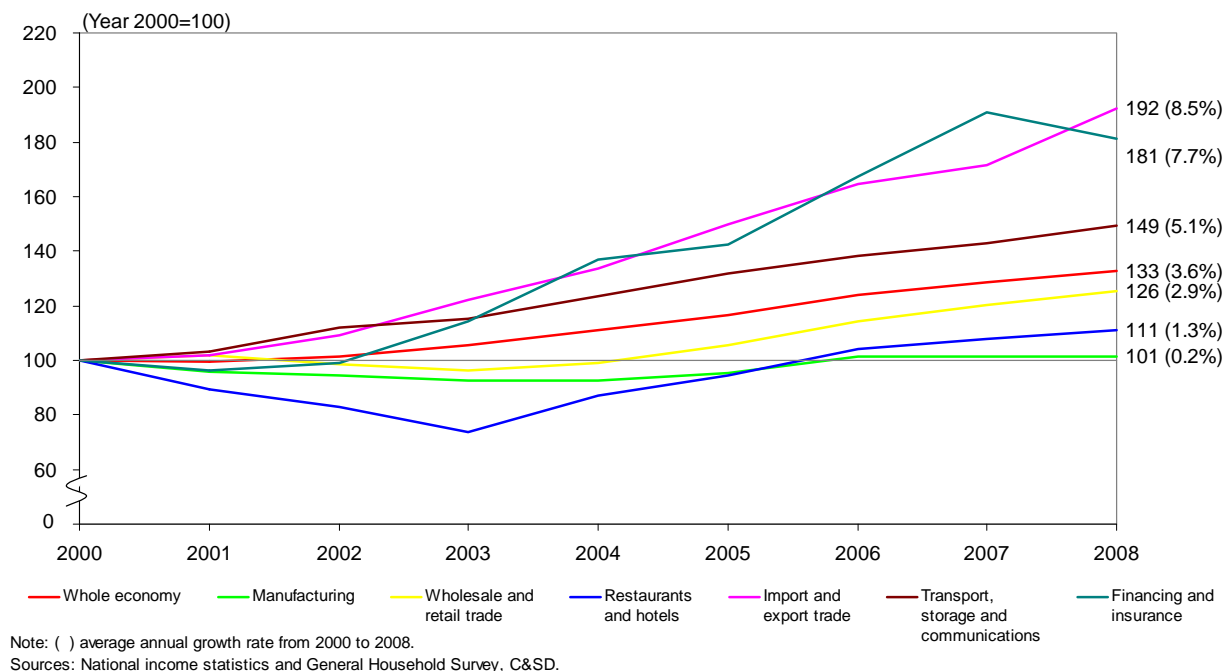
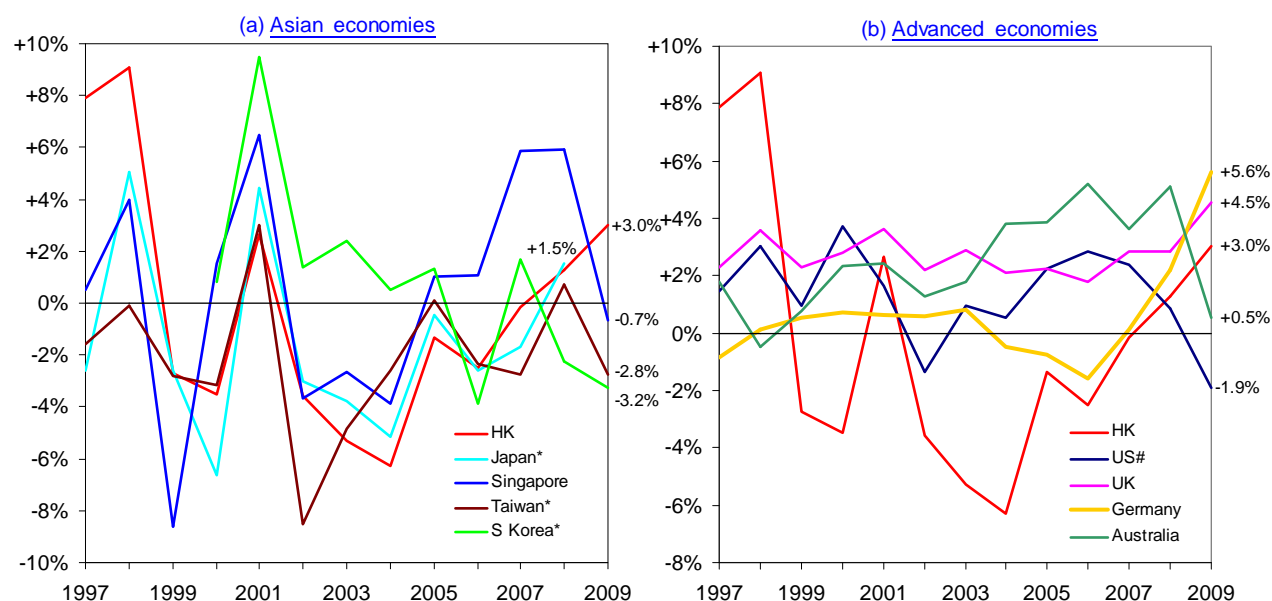


Chart B.16: Year-on-year rate of change of nominal unit labour costs of Hong Kong and selected economies

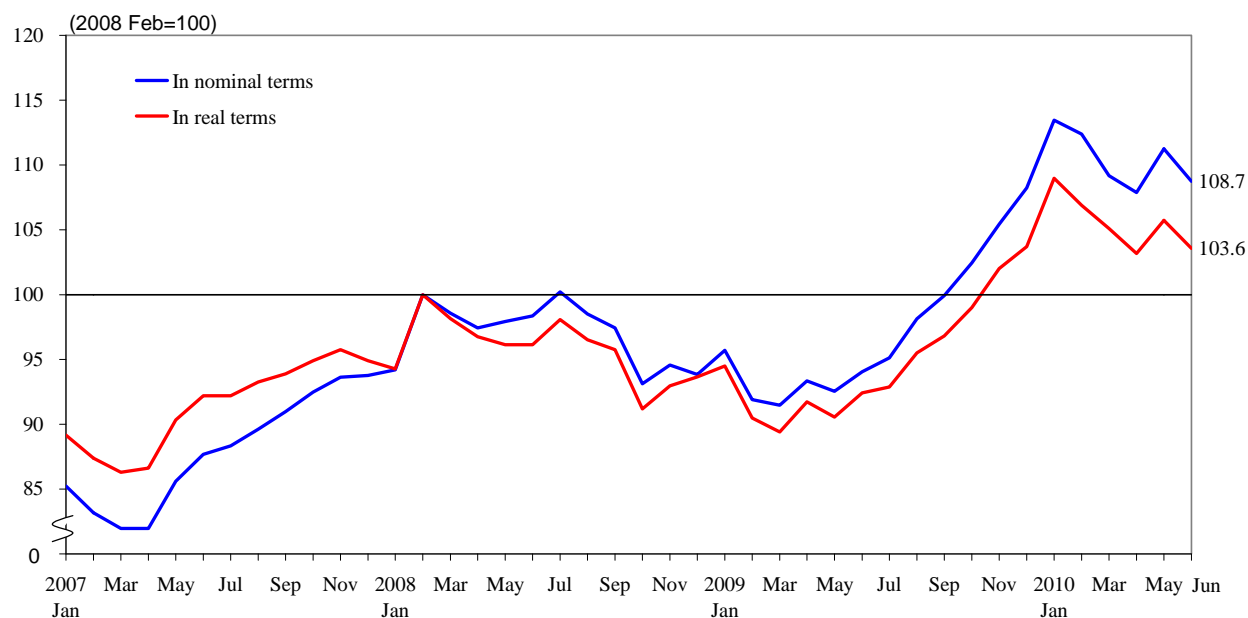


Notes: * Statistics cover the manufacturing sector only.

Statistics only cover the commercial sector, not including government, non-profit organizations, workers employed in private households.

Sources: (i) HK - National income statistics and payroll statistics, C&SD (ii) Other countries - Datastream and CEIC database.

Chart B.17: Seasonally adjusted total retail sales indices in nominal and real terms



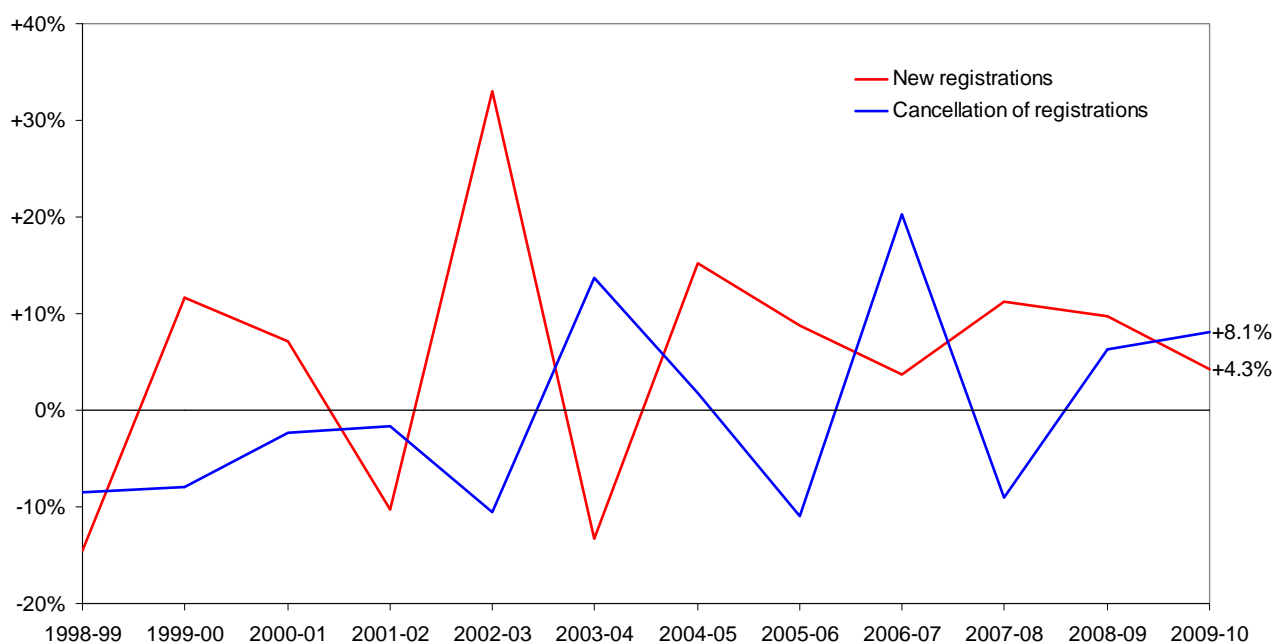
Source: Monthly Survey of Retail Sales, C&SD.

Chart B.18: Quarter-to-quarter rate of change of seasonally adjusted total restaurant receipts in nominal and real terms



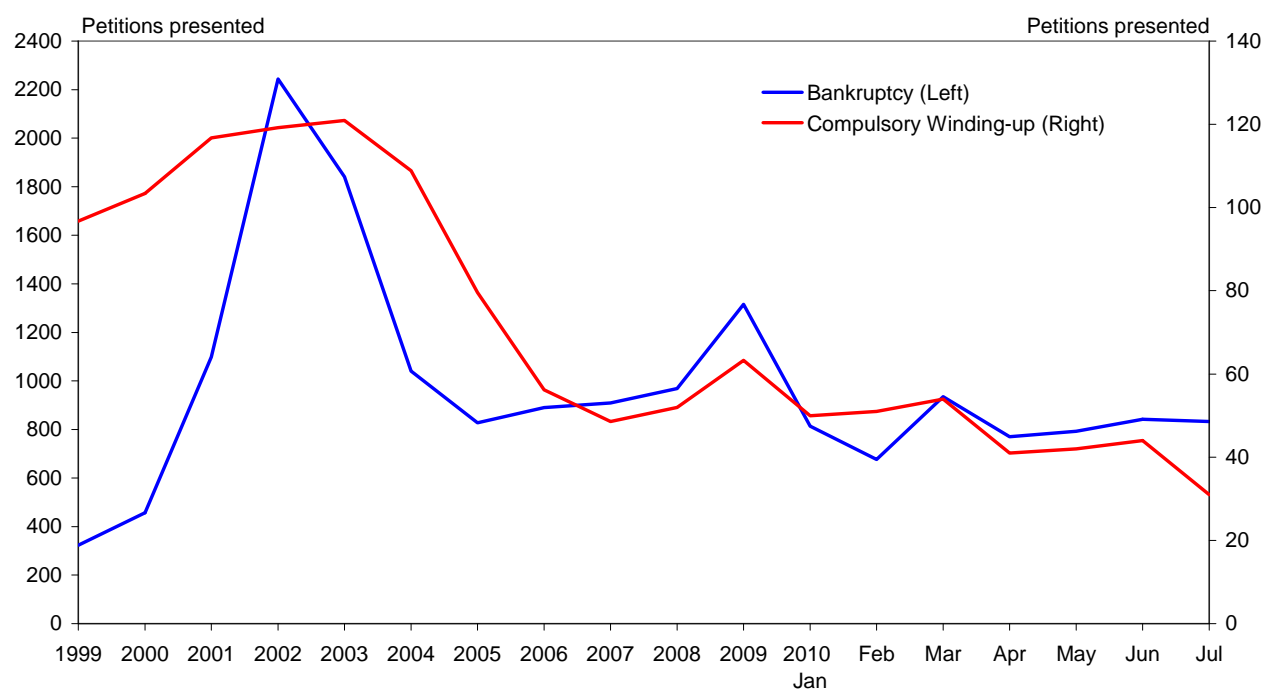
Source: Quarterly Survey of Restaurant Receipts and Purchases, C&SD

Chart B.19: Year-on-year rate of change of creation and deletion of companies



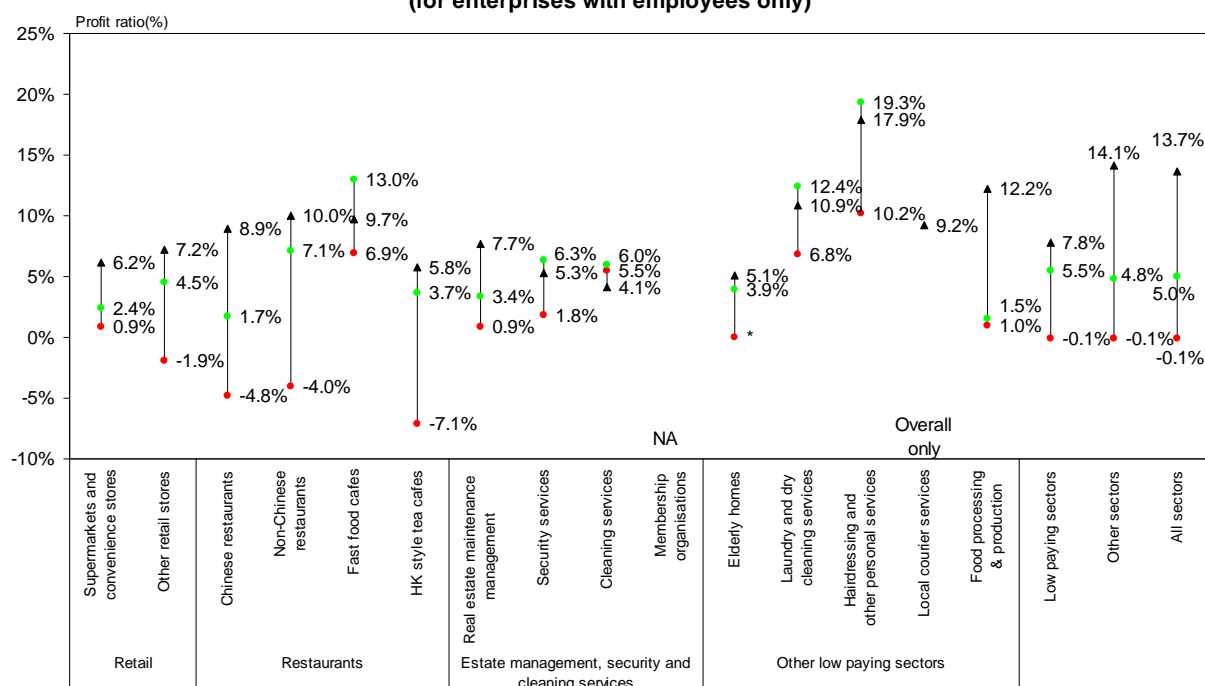
Source: Inland Revenue Department.

Chart B.20: Statistics of bankruptcy and compulsory winding-up cases



Note: The statistics are average monthly cases in 1999-2009.
Source: Official Receiver's Office.

Chart B.21: Distribution of profit ratios[#] of enterprises of low paying sectors (for enterprises with employees only)



Notes: * in between $\pm 0.05\%$.

[#] Earnings before tax and depreciation ratio (abbreviated as profit ratio) refers to ratio of earnings before deducting tax; depreciation; gain/loss on disposal of property, machinery and equipment; bad debts/write-off, amortisation and provisions, to business receipts.

Source: 2008 Programme of Annual Economic Surveys, C&SD.

▲ Overall ● The 25th percentile ● Median

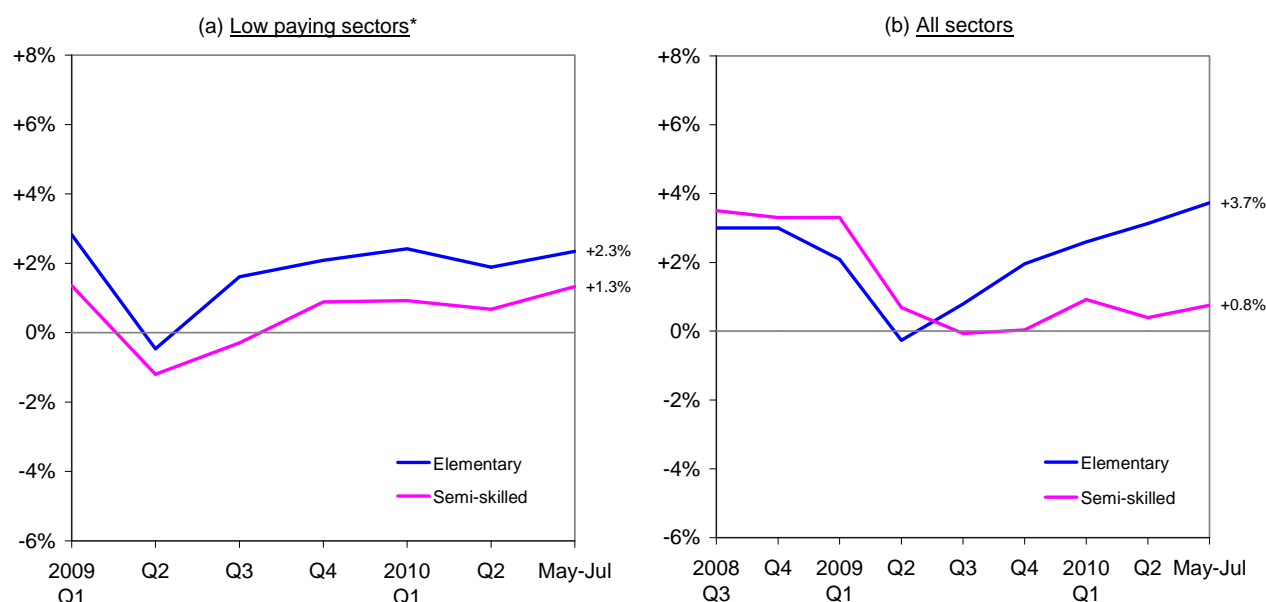
Table B.3: Hong Kong's world ranking of economic freedom and competitiveness

Institution	Fraser Institute/Cato Institute		Heritage Foundation		World Economic Forum		International Institute for Management Development		World Bank	
Report	Economic Freedom of the World		Index of Economic Freedom		Global Competitiveness Report		World Competitiveness Yearbook		Report on Doing Business	
	(1)		(2)		(3)		(4)		(5)	
Year Ranking	2008^	2009	2009	2010	2008-09	2009-10	2009	2010	2009^	2010
1	Hong Kong	Hong Kong	Hong Kong	Hong Kong	United States	Switzerland	United States	Singapore	Singapore	Singapore
2	Singapore	Singapore	Singapore	Singapore	Switzerland	United States	Hong Kong	Hong Kong	New Zealand	New Zealand
3	New Zealand	New Zealand	Australia	Australia	Denmark	Singapore	Singapore	United States	Hong Kong	Hong Kong
4	Switzerland	Switzerland	Ireland	New Zealand	Sweden	Sweden	Switzerland	Switzerland	United States	United States
5	Chile (5)	Chile	New Zealand	Ireland	Singapore	Denmark	Denmark	Australia	Denmark	United Kingdom
6	United Kingdom (5)	United States	United States	Switzerland	Finland	Finland	Sweden	Sweden	United Kingdom	Denmark
7	United States	Ireland	Canada	Canada	Germany	Germany	Australia	Canada	Ireland	Ireland
8	Canada	Canada	Denmark	United States	Netherlands	Japan	Canada	Taiwan	Canada	Canada
9	Ireland	Australia (9)	Switzerland	Denmark	Japan	Canada	Finland	Norway	Australia	Australia
10	Australia	United Kingdom (9)	United Kingdom	Chile	Canada	Netherlands	Netherlands	Malaysia	Norway	Norway
					Hong Kong (11th)					
No. of economies covered	141	141	183	179	134	133	57	58	181	183

Note: ^ The relevant organisations have changed some of the index components or revised methodology for compiling the index in the latest report, and have revised rankings of previous years accordingly. This column shows the revised ranking.

IV. Standard of Living

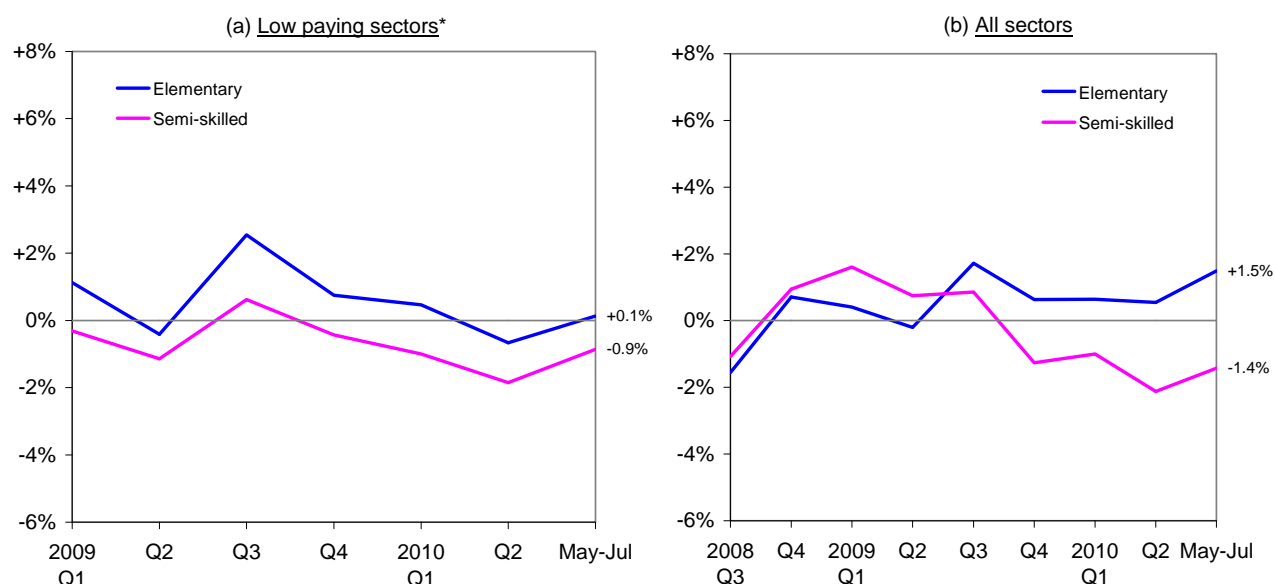
Chart B.22: Year-on-year rate of change in nominal average monthly employment earnings analysed by skill level and sector



Note: * Since the average monthly employment earnings statistics are compiled based on the Hong Kong Standard Industrial Classification (HSIC) Version 2.0 starting from 2008 Q1, the rate of change of low paying sectors in 2008 are not available.

Source: General Household Survey, C&SD.

Chart B.23: Year-on-year rate of change in real[^] average monthly employment earnings analysed by skill level and sector

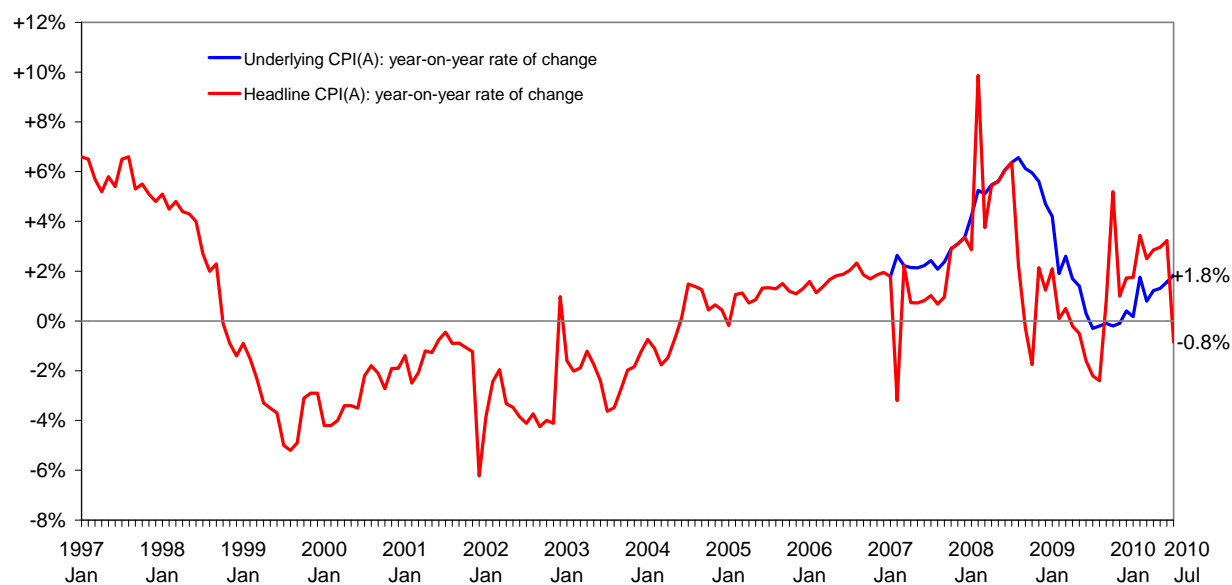


Notes: [^] The compilation of real average monthly employment earnings is based on the nominal average monthly employment earnings deflated by Composite Consumer Price Index to show the changes in purchasing power.

* Since the average monthly employment earnings statistics are compiled based on the Hong Kong Standard Industrial Classification (HSIC) Version 2.0 starting from 2008 Q1, the rate of change of low paying sectors in 2008 are not available.

Source: General Household Survey, C&SD.

Chart B.24: Headline and underlying Consumer Price Index (A)



Source: Monthly Retail Price Survey, C&SD.

Note: The distinct year-on-year rise in the headline CPI(A) in October 2009 was due to the low-base effect resulted from the Government's payment of public housing rentals and electricity charge subsidy in October 2008. The headline CPI(A) went down notably in July 2010, due to the Government's provision of two-month payment for public housing tenants which started in July 2010.

C. Assessment of Impact

Table C.1 Estimated increase in wages of employees involved analysed by sector

Sector	Estimated increase in wages of employees involved(1)(2)													
	\$22		\$23		\$24		\$25		\$26		\$27		\$28	
	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)
(A) Low paying sectors	362.4	11.5	563.0	11.9	838.4	13.0	1 185.4	14.1	1 619.1	15.1	2 154.3	15.5	2 789.0	17.5
1. Retail	32.2	12.5	52.8	10.0	87.6	11.3	134.3	11.7	199.0	12.0	282.9	12.5	389.8	13.9
1.1 Supermarkets and convenience stores	*	*	3.4	5.0	10.6	6.1	24.9	6.7	44.1	8.9	67.2	11.2	92.7	14.0
1.2 Other retail stores	*	*	49.4	10.7	76.9	12.9	109.5	14.2	155.0	13.2	215.7	12.9	297.1	13.8
2. Restaurants	56.6	10.7	91.7	10.6	147.7	10.1	226.6	11.1	324.6	13.2	442.9	14.4	582.6	16.2
2.1 Chinese restaurants	11.1	13.4	16.7	10.7	27.1	9.7	41.8	10.6	61.1	11.9	85.9	13.1	115.8	14.3
2.2 Non-Chinese restaurants	4.6	7.0	9.7	7.6	18.0	8.0	30.3	8.9	47.9	9.4	72.7	9.9	105.2	12.0
2.3 Fast food cafes ⁽³⁾	34.7	10.5	55.5	11.2	85.6	10.9	127.7	12.6	175.1	16.0	226.4	18.5	282.8	20.8
2.4 Hong Kong style tea cafes	6.2	11.7	9.9	11.0	17.0	9.4	26.8	9.3	40.5	11.8	57.8	12.4	78.8	14.5
3. Estate management, security and cleaning services	210.2	10.9	328.5	12.0	473.7	14.5	645.8	15.9	858.8	16.3	1 126.0	16.2	1 441.2	18.6
3.1 Real estate maintenance management	106.3	9.3	169.1	11.8	244.0	14.7	329.6	16.9	424.1	19.4	540.0	17.8	676.7	20.8
3.2 Security services ⁽⁴⁾	50.1	13.2	76.7	12.5	108.6	15.2	146.6	16.7	189.5	19.2	238.4	20.6	293.2	22.3
3.3 Cleaning services	30.2	12.4	49.8	10.1	76.3	11.9	111.9	11.8	173.5	9.6	261.6	10.7	370.6	13.0
3.4 Membership organisations ⁽⁵⁾	23.5	14.4	33.0	16.1	44.8	18.0	57.8	20.3	71.8	24.2	86.0	28.3	100.7	31.6
4. Other low-paying sectors	63.4	14.4	89.9	15.3	129.4	13.8	178.7	15.2	236.7	17.6	302.6	19.0	375.5	21.1
4.1 Elderly homes	3.9	5.4	9.1	5.9	18.4	7.5	32.0	8.6	49.0	11.8	67.8	14.3	88.8	16.9
4.2 Laundry and dry cleaning services	*	*	*	*	2.5	10.5	3.7	11.0	5.4	13.1	7.3	16.0	9.3	17.9
4.3 Hairdressing and other personal services	53.5	17.7	70.1	21.5	93.9	17.3	121.3	20.5	151.1	23.0	185.3	23.2	222.6	24.9
4.4 Local courier services	*	*	*	*	3.0	14.2	4.2	13.8	5.7	16.2	7.7	16.3	9.7	20.1
4.5 Food processing & production	3.4	7.6	6.9	8.9	11.5	11.3	17.4	11.6	25.5	13.2	34.5	15.2	45.0	17.3
(B) Other sectors⁽⁶⁾	69.6	12.2	103.2	13.7	147.3	14.6	202.6	14.9	273.9	15.3	372.2	14.3	501.3	13.9
(C) All sectors	432.0	11.6	666.2	12.2	985.6	13.2	1 388.0	14.2	1 893.1	15.1	2 526.5	15.3	3 290.3	16.9

Sector	Estimated increase in wages of employees involved(1)(2)													
	\$29		\$30		\$31		\$32		\$33		\$34		\$35	
	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)
(A) Low paying sectors	3 482.1	19.8	4 232.3	22.0	5 049.2	24.0	5 912.4	26.3	6 828.9	28.2	7 795.3	29.9	8 824.1	31.6
1. Retail	511.0	15.9	645.7	17.2	801.5	19.0	970.1	21.1	1 150.6	23.0	1 345.9	23.9	1 562.5	25.0
1.1 Supermarkets and convenience stores	121.8	15.6	155.0	16.0	195.2	17.7	239.1	19.7	286.3	21.4	337.2	22.6	393.8	24.0
1.2 Other retail stores	389.2	16.0	490.7	17.6	606.3	19.4	731.0	21.6	864.3	23.6	1 008.7	24.4	1 168.7	25.4
2. Restaurants	740.6	17.8	918.6	19.3	1 120.2	20.6	1 339.4	22.7	1 577.5	24.1	1 831.1	26.1	2 102.2	27.5
2.1 Chinese restaurants	151.5	14.7	195.4	15.8	247.5	16.4	306.9	18.3	373.6	19.3	447.1	20.8	527.3	21.9
2.2 Non-Chinese restaurants	142.7	14.0	186.0	15.3	237.0	16.6	292.9	18.8	355.4	19.8	422.5	21.9	496.1	22.9
2.3 Fast food cafes ⁽³⁾	343.9	23.2	409.5	25.2	479.8	27.4	553.4	29.8	630.7	32.0	710.5	34.9	792.4	37.7
2.4 Hong Kong style tea cafes	102.5	16.6	127.8	19.0	155.9	20.7	186.2	22.9	217.8	25.6	250.9	28.1	286.4	29.2
3. Estate management, security and cleaning services	1 774.5	22.0	2 120.4	25.2	2 482.2	27.8	2 854.3	30.8	3 241.6	33.3	3 640.5	35.7	4 054.6	38.3
3.1 Real estate maintenance management	817.9	24.7	964.4	27.3	1 118.0	29.9	1 276.5	33.1	1 440.5	35.8	1 609.8	37.4	1 787.8	39.4
3.2 Security services ⁽⁴⁾	351.6	25.7	412.8	28.7	475.8	30.8	542.4	31.6	615.6	32.7	692.3	35.4	772.6	37.3
3.3 Cleaning services	489.0	16.1	611.6	19.7	740.6	22.5	871.0	26.2	1 003.6	29.3	1 139.0	32.4	1 276.8	35.7
3.4 Membership organisations ⁽⁵⁾	115.9	34.1	131.6	38.5	147.7	40.1	164.5	43.5	181.8	45.8	199.5	49.1	217.4	53.2
4. Other low-paying sectors	456.1	21.6	547.4	23.6	645.3	26.3	748.5	27.8	859.2	29.3	977.7	30.1	1 104.9	32.2
4.1 Elderly homes	111.5	19.3	136.0	21.8	161.8	24.6	188.6	27.7	216.1	30.9	244.3	33.7	273.1	36.5
4.2 Laundry and dry cleaning services	11.6	19.5	14.3	21.2	17.1	24.0	20.1	24.2	23.5	24.4	27.2	27.0	31.1	26.9
4.3 Hairdressing and other personal services	263.7	23.9	312.0	26.3	362.2	30.0	414.4	30.6	471.2	31.4	533.2	30.8	600.9	33.5
4.4 Local courier services	11.9	21.9	14.4	18.8	17.6	19.8	21.6	18.8	26.0	19.9	31.2	20.2	37.5	19.8
4.5 Food processing & production	57.3	18.1	70.9	19.7	86.6	20.2	103.9	22.3	122.3	24.1	141.8	26.6	162.4	27.9
(B) Other sectors⁽⁶⁾	659.4	15.3	838.2	17.6	1 043.7	18.3	1 275.0	19.6	1 530.9	21.1	1 816.2	21.0	2 143.1	21.9
(C) All sectors	4 141.5	19.0	5 070.5	21.1	6 092.9	22.8	7 187.4	24.8	8 359.8	26.6	9 611.6	27.7	10 967.2	29.1

Notes: (1) Employees do not include live-in domestic helpers and employees in the Government.

(2) Increase in wages of employees refers to the increase in wages of all employees earning less than a specific hourly wage level to that hourly wage level, while other things being equal.

(3) Fast food cafes include takeaway shops.

(4) Security services include investigation activities and services to building and landscape care activities.

(5) Membership organisations include incorporated owners/tenants committees, kaifong welfare associations, etc.

(6) Other sectors do not include the sectors in (A) above.

* Estimates are not released due to relatively large sampling error.

Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total as shown in the table.

Hourly wage figures shown in the above table are exact figures without rounding.

Source : 2009 Annual Earnings and Hours Survey, C&SD.

Table C.2 Estimated increase in wages of employees involved analysed by gender and age

Age	Estimated increase in wages of employees involved(1)(2)													
	\$22		\$23		\$24		\$25		\$26		\$27		\$28	
	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)
Male	246.3	12.3	368.2	13.4	521.0	15.0	707.1	16.3	928.5	17.2	1 203.0	17.1	1 531.1	18.7
15-24	24.2	13.6	34.8	14.3	50.6	13.1	72.7	13.4	100.1	14.9	132.0	16.5	171.2	17.1
25-34	14.8	20.8	19.5	17.5	26.2	16.7	35.6	16.0	47.5	15.8	66.0	12.1	91.5	12.9
35-44	21.4	11.9	31.8	13.2	45.3	13.1	63.7	14.4	87.7	13.3	123.7	12.6	169.2	14.2
45-54	38.0	9.9	62.1	10.6	93.9	12.4	135.9	12.6	189.1	14.2	256.2	14.6	334.8	16.7
55 and above	148.0	12.4	219.9	14.0	305.1	16.7	399.1	19.5	504.1	20.7	625.2	21.3	764.5	23.2
Female	185.7	10.8	298.0	10.9	464.6	11.7	680.9	12.5	964.5	13.5	1 323.5	14.0	1 759.2	15.5
15-24	27.1	17.8	37.4	16.4	54.7	13.0	77.8	14.1	107.2	13.9	143.5	15.6	188.7	16.1
25-34	11.9	13.5	18.8	10.3	32.8	8.8	53.2	8.8	85.3	10.2	129.2	10.3	187.3	12.2
35-44	33.3	10.8	54.0	10.3	88.0	10.6	133.3	11.7	190.5	13.8	258.6	14.6	340.8	16.0
45-54	73.9	9.8	122.7	10.6	188.2	12.4	270.9	13.5	374.2	14.4	509.8	14.2	673.7	15.6
55 and above	39.4	9.6	65.1	10.3	100.9	12.1	145.6	12.8	207.4	13.2	282.3	14.9	368.6	17.0
Total	432.0	11.6	666.2	12.2	985.6	13.2	1 388.0	14.2	1 893.1	15.1	2 526.5	15.3	3 290.3	16.9
15-24	51.3	15.5	72.2	15.3	105.3	13.0	150.6	13.7	207.3	14.4	275.5	16.1	359.9	16.5
25-34	26.7	16.8	38.2	13.1	59.0	11.1	88.9	10.7	132.8	11.7	195.2	10.8	278.8	12.4
35-44	54.7	11.2	85.8	11.2	133.3	11.3	197.0	12.5	278.1	13.6	382.3	13.8	510.1	15.4
45-54	111.9	9.8	184.9	10.6	282.0	12.4	406.8	13.2	563.4	14.4	765.9	14.3	1 008.5	16.0
55 and above	187.4	11.6	285.1	12.9	406.0	15.3	544.7	17.1	711.5	17.8	907.6	18.8	1 133.1	20.8

Age	Estimated increase in wages of employees involved(1)(2)													
	\$29		\$30		\$31		\$32		\$33		\$34		\$35	
	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)
Male	1 892.5	20.9	2 279.5	23.4	2 705.7	24.4	3 163.4	26.7	3 651.7	28.4	4 171.3	29.2	4 734.8	30.4
15-24	216.0	17.8	267.6	19.3	328.2	20.2	395.4	21.6	471.1	22.3	555.0	22.6	646.3	24.6
25-34	122.7	14.3	157.8	16.7	197.7	17.9	241.6	20.0	289.9	20.9	343.1	21.2	406.5	21.2
35-44	220.1	16.4	276.4	18.2	346.2	16.4	427.0	19.1	513.6	21.1	605.1	22.8	707.1	23.2
45-54	420.5	19.8	510.7	22.3	608.6	24.2	711.8	26.6	821.7	28.5	938.9	29.0	1 065.1	30.8
55 and above	913.1	26.1	1 066.9	29.6	1 225.0	32.8	1 387.5	35.5	1 555.4	38.5	1 729.2	40.1	1 909.9	42.3
Female	2 249.0	17.6	2 791.0	19.6	3 387.2	21.6	4 024.0	23.5	4 708.1	25.3	5 440.2	26.6	6 232.4	28.1
15-24	239.3	18.4	299.3	18.2	366.6	20.5	439.5	22.2	519.1	23.5	604.8	24.5	702.0	25.2
25-34	252.5	14.1	325.4	16.2	408.4	18.0	497.3	20.7	592.3	21.9	697.8	22.7	815.2	23.6
35-44	434.7	16.8	542.7	18.7	663.7	20.7	795.5	21.9	939.0	24.1	1 092.0	25.2	1 259.9	26.3
45-54	860.9	17.8	1 064.8	20.1	1 287.6	22.1	1 523.3	24.1	1 775.4	26.0	2 044.9	27.3	2 331.6	29.6
55 and above	461.7	20.1	558.7	23.2	660.9	25.6	768.4	27.8	882.3	29.8	1 000.9	32.4	1 123.7	34.7
Total	4 141.5	19.0	5 070.5	21.1	6 092.9	22.8	7 187.4	24.8	8 359.8	26.6	9 611.6	27.7	10 967.2	29.1
15-24	455.3	18.1	566.9	18.7	694.8	20.4	834.9	21.9	990.2	22.9	1 159.7	23.5	1 348.3	24.9
25-34	375.2	14.2	483.3	16.4	606.0	18.0	738.9	20.5	882.2	21.5	1 040.9	22.2	1 221.8	22.7
35-44	654.8	16.7	819.1	18.5	1 009.9	19.0	1 222.5	20.8	1 452.6	22.9	1 697.1	24.3	1 967.0	25.1
45-54	1 281.4	18.4	1 575.6	20.8	1 896.2	22.7	2 235.1	24.8	2 597.1	26.7	2 983.8	27.8	3 396.7	30.0
55 and above	1 374.8	23.7	1 625.6	27.0	1 885.9	29.8	2 155.9	32.3	2 437.7	34.8	2 730.1	36.9	3 033.6	39.1

Notes: (1) Employees do not include live-in domestic helpers and employees in the Government.
(2) Increase in wages of employees refers to the increase in wages of all employees earning less than a specific hourly wage level to that hourly wage level, while other things being equal.
Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total as shown in the table.
Hourly wage figures shown in the above table are exact figures without rounding.

Source : 2009 Annual Earnings and Hours Survey, C&SD.

Table C.3 Estimated increase in wages of employees involved analysed by educational attainment

Educational attainment	Estimated increase in wages of employees involved(1)(2)													
	\$22		\$23		\$24		\$25		\$26		\$27		\$28	
	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)
Primary and below	236.6	12.3	358.3	12.8	519.2	14.1	716.4	15.0	962.0	16.1	1 250.9	17.7	1 581.7	18.8
Secondary 1 to 3	119.2	9.4	196.7	10.9	302.0	11.9	439.9	13.0	612.6	14.1	837.9	13.9	1 108.7	16.2
Secondary 4 to 5	59.6	13.3	89.4	11.7	137.6	12.0	198.9	13.2	277.5	13.9	386.1	12.5	534.6	13.7
Secondary 6 and above	16.6	19.5	21.7	22.3	26.9	26.7	32.7	26.6	40.9	20.0	51.7	19.2	65.2	19.4
Total	432.0	11.6	666.2	12.2	985.6	13.2	1 388.0	14.2	1 893.1	15.1	2 526.5	15.3	3 290.3	16.9

Educational attainment	Estimated increase in wages of employees involved(1)(2)													
	\$29		\$30		\$31		\$32		\$33		\$34		\$35	
	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)
Primary and below	1 952.8	20.9	2 349.8	23.9	2 770.3	26.3	3 208.3	28.6	3 669.6	30.9	4 149.2	33.3	4 645.7	35.7
Secondary 1 to 3	1 403.0	18.7	1 722.5	20.8	2 078.1	22.1	2 461.7	24.2	2 870.0	26.1	3 306.6	27.0	3 777.7	28.8
Secondary 4 to 5	704.9	15.3	900.2	16.7	1 124.6	18.1	1 373.4	19.8	1 649.5	20.9	1 954.3	21.5	2 301.7	22.3
Secondary 6 and above	80.7	21.1	98.0	19.5	119.9	19.9	144.0	21.8	170.7	22.9	201.4	21.2	242.1	18.8
Total	4 141.5	19.0	5 070.5	21.1	6 092.9	22.8	7 187.4	24.8	8 359.8	26.6	9 611.6	27.7	10 967.2	29.1

Notes: (1) Employees do not include live-in domestic helpers and employees in the Government.

(2) Increase in wages of employees refers to the increase in wages of all employees earning less than a specific hourly wage level to that hourly wage level, while other things being equal.

Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total as shown in the table.

Hourly wage figures shown in the above table are exact figures without rounding.

Source : 2009 Annual Earnings and Hours Survey, C&SD.

Table C.4 Estimated increase in wages of employees involved analysed by occupation

Occupation	Estimated increase in wages of employees involved(1)(2)													
	\$22		\$23		\$24		\$25		\$26		\$27		\$28	
	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)
Elementary occupations	278.3	10.8	437.7	11.6	644.5	13.7	892.4	15.1	1 199.6	15.7	1 587.2	15.9	2 040.8	18.2
Service workers and shop sales workers	126.5	14.6	184.3	13.6	275.4	12.3	402.1	12.7	565.5	13.9	765.8	14.5	1 009.7	16.0
Craft and related workers, plant and machine operators and assemblers	5.4	4.3	13.4	7.4	25.1	8.6	38.8	10.1	56.7	12.3	77.7	14.3	104.1	14.5
Clerks	7.9	9.7	12.3	12.5	17.7	15.3	26.0	11.9	36.8	13.3	54.4	11.0	85.9	7.7
Managers and administrators, professionals and associate professionals	13.9	16.4	18.4	21.6	23.0	23.0	28.6	24.7	34.5	28.4	41.5	26.0	49.8	25.4
Total	432.0	11.6	666.2	12.2	985.6	13.2	1 388.0	14.2	1 893.1	15.1	2 526.5	15.3	3 290.3	16.9

Occupation	Estimated increase in wages of employees involved(1)(2)													
	\$29		\$30		\$31		\$32		\$33		\$34		\$35	
	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)
Elementary occupations	2 527.6	20.9	3 042.6	23.9	3 590.1	26.1	4 161.4	28.4	4 765.8	30.4	5 401.2	32.1	6 065.9	34.5
Service workers and shop sales workers	1 286.2	17.8	1 595.3	19.1	1 945.0	20.8	2 323.0	22.9	2 729.6	24.5	3 166.7	25.8	3 640.8	27.2
Craft and related workers, plant and machine operators and assemblers	136.3	14.9	174.3	16.7	224.6	14.4	287.3	15.7	355.1	18.2	428.2	18.9	514.2	19.1
Clerks	131.7	10.3	185.7	12.0	246.7	14.4	314.3	16.2	390.8	17.2	477.8	17.1	582.6	18.0
Managers and administrators, professionals and associate professionals	59.6	19.9	72.5	22.2	86.4	24.3	101.3	23.8	118.4	25.3	137.7	23.0	163.9	19.5
Total	4 141.5	19.0	5 070.5	21.1	6 092.9	22.8	7 187.4	24.8	8 359.8	26.6	9 611.6	27.7	10 967.2	29.1

Notes: (1) Employees do not include live-in domestic helpers and employees in the Government.

(2) Increase in wages of employees refers to the increase in wages of all employees earning less than a specific hourly wage level to that hourly wage level, while other things being equal.

Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total as shown in the table.

Hourly wage figures shown in the above table are exact figures without rounding.

Source : 2009 Annual Earnings and Hours Survey, C&SD.

Table C.5 Estimated increase in total wage bill analysed by sector

Sector	Estimated increase in wage bill ⁽¹⁾													
	\$22		\$23		\$24		\$25		\$26		\$27		\$28	
	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)
(A) Low paying sectors	362.4	0.4	563.0	0.7	838.4	1.0	1 185.4	1.5	1 619.1	2.0	2 154.3	2.7	2 789.0	3.4
1. Retail	32.2	0.1	52.8	0.2	87.6	0.3	134.3	0.5	199.0	0.7	282.9	0.9	389.8	1.3
1.1 Supermarkets and convenience stores	*	*	3.4	0.1	10.6	0.3	24.9	0.7	44.1	1.3	67.2	2.0	92.7	2.8
1.2 Other retail stores	*	*	49.4	0.2	76.9	0.3	109.5	0.4	155.0	0.6	215.7	0.8	297.1	1.1
2. Restaurants	56.6	0.3	91.7	0.5	147.7	0.7	226.6	1.1	324.6	1.6	442.9	2.2	582.6	2.9
2.1 Chinese restaurants	11.1	0.1	16.7	0.2	27.1	0.3	41.8	0.5	61.1	0.8	85.9	1.1	115.8	1.5
2.2 Non-Chinese restaurants	4.6	0.1	9.7	0.1	18.0	0.3	30.3	0.5	47.9	0.7	72.7	1.1	105.2	1.6
2.3 Fast food cafes ⁽²⁾	34.7	1.0	55.5	1.6	85.6	2.4	127.7	3.6	175.1	4.9	226.4	6.4	282.8	8.0
2.4 Hong Kong style tea cafes	6.2	0.3	9.9	0.5	17.0	0.8	26.8	1.3	40.5	2.0	57.8	2.8	78.8	3.9
3. Estate management, security and cleaning services	210.2	1.0	328.5	1.5	473.7	2.2	645.8	3.0	858.8	4.0	1 126.0	5.3	1 441.2	6.8
3.1 Real estate maintenance management	106.3	0.9	169.1	1.4	244.0	2.0	329.6	2.7	424.1	3.5	540.0	4.5	676.7	5.6
3.2 Security services ⁽³⁾	50.1	1.6	76.7	2.5	108.6	3.5	146.6	4.7	189.5	6.1	238.4	7.7	293.2	9.5
3.3 Cleaning services	30.2	0.8	49.8	1.3	76.3	2.0	111.9	2.9	173.5	4.4	261.6	6.7	370.6	9.5
3.4 Membership organisations ⁽⁴⁾	23.5	1.0	33.0	1.4	44.8	2.0	57.8	2.5	71.8	3.1	86.0	3.8	100.7	4.4
4. Other low-paying sectors	63.4	0.7	89.9	0.9	129.4	1.3	178.7	1.8	236.7	2.4	302.6	3.1	375.5	3.9
4.1 Elderly homes	3.9	0.2	9.1	0.4	18.4	0.9	32.0	1.5	49.0	2.3	67.8	3.2	88.8	4.2
4.2 Laundry and dry cleaning services	*	*	*	*	2.5	0.8	3.7	1.2	5.4	1.8	7.3	2.4	9.3	3.1
4.3 Hairdressing and other personal services	53.5	1.3	70.1	1.7	93.9	2.2	121.3	2.9	151.1	3.6	185.3	4.4	222.6	5.3
4.4 Local courier services	*	*	*	*	3.0	0.7	4.2	1.0	5.7	1.4	7.7	1.9	9.7	2.4
4.5 Food processing & production	3.4	0.1	6.9	0.3	11.5	0.4	17.4	0.6	25.5	0.9	34.5	1.3	45.0	1.7
(B) Other sectors⁽⁵⁾	69.6	#	103.2	#	147.3	#	202.6	#	273.9	0.1	372.2	0.1	501.3	0.1
(C) All sectors	432.0	0.1	666.2	0.1	985.6	0.2	1 388.0	0.3	1 893.1	0.4	2 526.5	0.5	3 290.3	0.6

Sector	Estimated increase in wage bill ⁽¹⁾													
	\$29		\$30		\$31		\$32		\$33		\$34		\$35	
	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)
(A) Low paying sectors	3 482.1	4.3	4 232.3	5.2	5 049.2	6.2	5 912.4	7.3	6 828.9	8.4	7 795.3	9.6	8 824.1	10.9
1. Retail	511.0	1.7	645.7	2.2	801.5	2.7	970.1	3.3	1 150.6	3.9	1 345.9	4.5	1 562.5	5.2
1.1 Supermarkets and convenience stores	121.8	3.6	155.0	4.6	195.2	5.8	239.1	7.1	286.3	8.5	337.2	10.0	393.8	11.7
1.2 Other retail stores	389.2	1.5	490.7	1.9	606.3	2.3	731.0	2.8	864.3	3.3	1 008.7	3.8	1 168.7	4.4
2. Restaurants	740.6	3.7	918.6	4.6	1 120.2	5.6	1 339.4	6.7	1 577.5	7.9	1 831.1	9.2	2 102.2	10.5
2.1 Chinese restaurants	151.5	2.0	195.4	2.5	247.5	3.2	306.9	3.9	373.6	4.8	447.1	5.8	527.3	6.8
2.2 Non-Chinese restaurants	142.7	2.2	186.0	2.8	237.0	3.6	292.9	4.4	355.4	5.4	422.5	6.4	496.1	7.5
2.3 Fast food cafes ⁽²⁾	343.9	9.7	409.5	11.6	479.8	13.5	553.4	15.6	630.7	17.8	710.5	20.1	792.4	22.4
2.4 Hong Kong style tea cafes	102.5	5.0	127.8	6.3	155.9	7.6	186.2	9.1	217.8	10.7	250.9	12.3	286.4	14.0
3. Estate management, security and cleaning services	1 774.5	8.3	2 120.4	10.0	2 482.2	11.7	2 854.3	13.4	3 241.6	15.2	3 640.5	17.1	4 054.6	19.1
3.1 Real estate maintenance management	817.9	6.8	964.4	8.0	1 118.0	9.3	1 276.5	10.6	1 440.5	12.0	1 609.8	13.4	1 787.8	14.9
3.2 Security services ⁽³⁾	351.6	11.4	412.8	13.4	475.8	15.4	542.4	17.6	615.6	19.9	692.3	22.4	772.6	25.0
3.3 Cleaning services	489.0	12.5	611.6	15.6	740.6	18.9	871.0	22.3	1 003.6	25.6	1 139.0	29.1	1 276.8	32.6
3.4 Membership organisations ⁽⁴⁾	115.9	5.1	131.6	5.8	147.7	6.5	164.5	7.2	181.8	8.0	199.5	8.8	217.4	9.5
4. Other low-paying sectors	456.1	4.7	547.4	5.6	645.3	6.6	748.5	7.7	859.2	8.8	977.7	10.0	1 104.9	11.3
4.1 Elderly homes	111.5	5.3	136.0	6.4	161.8	7.6	188.6	8.9	216.1	10.2	244.3	11.5	273.1	12.9
4.2 Laundry and dry cleaning services	11.6	3.8	14.3	4.7	17.1	5.6	20.1	6.6	23.5	7.7	27.2	8.9	31.1	10.2
4.3 Hairdressing and other personal services	263.7	6.3	312.0	7.4	362.2	8.6	414.4	9.9	471.2	11.2	533.2	12.7	600.9	14.3
4.4 Local courier services	11.9	2.9	14.4	3.5	17.6	4.3	21.6	5.3	26.0	6.4	31.2	7.6	37.5	9.2
4.5 Food processing & production	57.3	2.1	70.9	2.6	86.6	3.2	103.9	3.8	122.3	4.5	141.8	5.2	162.4	6.0
(B) Other sectors⁽⁵⁾	659.4	0.1	838.2	0.2	1 043.7	0.2	1 275.0	0.3	1 530.9	0.3	1 816.2	0.4	2 143.1	0.5
(C) All sectors	4 141.5	0.8	5 070.5	0.9	6 092.9	1.1	7 187.4	1.3	8 359.8	1.6	9 611.6	1.8	10 967.2	2.0

Notes: (1) % increase in wage bill refers to the % increase in wage bill comparing with the original wage bill of all employees when the hourly wages of employees earning less than a specific hourly wage level are raised to that hourly wage level, while other things being equal.

(2) Fast food cafes include takeaway shops.

(3) Security services include investigation activities and services to building and landscape care activities.

(4) Membership organisations include incorporated owners/tenants committees, kaifong welfare associations, etc.

(5) Other sectors do not include the sectors in (A) above.

Less than 0.05%

* Estimates are not released due to relatively large sampling error.

Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total as shown in the table.

Hourly wage figures shown in the above table are exact figures without rounding.

Source : 2009 Annual Earnings and Hours Survey, C&SD.

Abbreviations

AEHS	Annual Earnings and Hours Survey
ASHE	Annual Survey of Hours and Earnings
C&SD	Census and Statistics Department
CPG	Central People's Government
CPI	Consumer Price Index
CSSA	Comprehensive Social Security Assistance
GDP	Gross Domestic Product
GHS	General Household Survey
HSIC	Hong Kong Standard Industrial Classification
LegCo	Legislative Council
LPC	Low Pay Commission
LPS	Low Paying Sector
MOHRSS	Ministry of Human Resources and Social Security
NCBC	National Collective Bargaining Commission
NMW	National Minimum Wage
PAES	Programme of Annual Economic Surveys
PMWC	Provisional Minimum Wage Commission
SME	Small and Medium Enterprise
SMW	Statutory Minimum Wage
The Bill	Minimum Wage Bill
UK	United Kingdom
US	United States
WPM	Wage Protection Movement

Glossary

Glossary	Definition
Business establishment	In this report, business establishment refers to an economic unit (i.e. a unit engaged in the production of goods or services) which engages, under a single ownership or control, in one or predominantly one kind of economic activity at a single physical location.
Business receipts	Business receipts include service receipts, receipts from sales of goods, commissions, rental, interest and other income.
Casual employee	Casual employee refers to an employee who is employed by an employer on a day-to-day basis or for a fixed period of less than 60 days at the time of enumeration.
Compensation of employees	Income from work includes basic wages, over-time payments, commissions, bonuses, allowances, contributions to Mandatory Provident Fund Scheme by employers, and cost of benefits in kind (such as meals).
Composite Consumer Price Index (Composite CPI)	Different series of CPIs are compiled by the Census and Statistics Department to reflect the impact of consumer price changes on households in different expenditure ranges. CPI(A), CPI(B) and CPI(C) are compiled based on the expenditure patterns of households in the relatively low, medium and relatively high expenditure ranges respectively. A Composite CPI is compiled based on the overall expenditure pattern of all the above households taken together to reflect the impact of consumer price changes on the household sector as a whole.
Earnings	<p>In this report, earnings mean earnings before tax and depreciation, which are defined as business receipts less total operating expenses (including compensation of employees, operating expenses and interest payments, etc.) and costs of goods sold. However, tax; depreciation; gain/loss on disposal of property, machinery and equipment; bad debts/write-off; amortisation and provisions have not been deducted from earnings.</p> <p>Earnings are not exactly the same as EBITDA used in business accounting as interest is deducted from the former but not the latter. On the other hand, earnings are before deduction of a number of items such as gain/loss on disposal of property, machinery and equipment; bad debts/write-off.</p>
Earnings before tax and depreciation ratio (profit ratio)	Earnings before tax and depreciation ratio (abbreviated as profit ratio) refers to ratio of earnings before tax and depreciation to business receipts.

Glossary	Definition
Economically inactive	Those persons who have not had a job and have not been at work during the seven days before enumeration, excluding persons who have been on leave/holiday during the seven-day period and persons who are unemployed. Persons such as home-makers, retired persons and all those below the age of 15 are thus included.
Elementary worker	Elementary worker mainly uses hand-held tools and often some physical effort to carry out simple and routine tasks. Examples include cleaners; security guards; building caretakers; messengers; delivery workers; couriers; dishwashers; freight handlers; lift operators; labourers/general workers; hand packers; and card/pamphlet distributors.
Employees	<p>Employees from the 2009 Annual Earnings and Hours Survey (AEHS) cover all employees under the coverage of the Employment Ordinance, except live-in domestic workers. Specifically, the Employment Ordinance applies to all employees with the following exceptions:</p> <ul style="list-style-type: none"> (i) a family member who lives in the same dwelling as the employer; (ii) an employee as defined in the Contracts for Employment Outside Hong Kong Ordinance; (iii) a person serving under a crew agreement under the Merchant Shipping (Seafarers) Ordinance, or on board a ship which is not registered in Hong Kong; and (iv) an apprentice whose contract of apprenticeship has been registered under the Apprenticeship Ordinance. <p>Furthermore, Government employees are not covered in AEHS.</p>
Employment earnings	In this report, employment earnings refer to income that full-time employees received from main employment during the last month (including wages and salary, bonus, commission, tips, housing allowance, overtime and other allowances but excluding back pays).
Enterprise	In this report, an enterprise consists of one or more business establishments which engage, under a single ownership or control, in one or predominantly one kind of economic activity at one or more locations.
Fixed term contract employee	A fixed term contract employee refers to an employee with a contract of employment for a fixed period of 60 days or more, and is due to end when a specified date is reached.
Full-time employee	An employee who could not be classified as a part-time employee (please refer to definition of part-time employee below).
Headline Consumer Price Index	The Headline CPI measures the changes over time in the price level of consumer goods and services generally purchased by households. The year-on-year rate of change in CPI is widely used as an indicator of the inflation affecting consumers.

Glossary	Definition
Labour force	Labour force refers to the land-based non-institutional population aged 15 and over who satisfy the criteria for being classified as employed population or unemployed population.
Labour force participation rate	Labour force participation rate refers to the proportion of labour force in the total land-based non-institutional population aged 15 and over.
Labour productivity	Labour productivity is compiled by dividing real output (e.g. real Gross Domestic Product or real value added) by labour input (e.g. total hours worked or total persons engaged). It shows how efficient labour input is used for generating real output.
Nominal unit labour costs	<p>Nominal unit labour cost measures the average labour cost per unit of output. It is an indicator of labour cost after deducting the changes in labour productivity.</p> <p>Nominal unit labour cost index for Hong Kong is estimated by nominal index of payroll per person engaged multiplied by total employment and then divided by real gross domestic product.</p>
Part-time employee	<p>An employee is regarded as working part-time if one of the following conditions is met:</p> <ul style="list-style-type: none"> (i) the number of usual days of work per week is less than 5 (for a person with a fixed number of working days per week); or (ii) the number of usual hours of work per working day is less than 6 (for a person with a fixed number of working days per week); or (iii) the number of usual hours of work per week is less than 30 (for a person without a fixed number of working days per week). <p>However, persons who usually work 24 hours per shift are excluded, regardless of the number of usual days of work per week.</p>
Service workers and shop sales workers	Service workers and shop sales workers provide personal services related to travel, catering, personal care; or demonstrate and sell goods in wholesale or retail shops and similar establishments, as well as at stalls and on markets. Examples include flight attendants and travel guides; cooks and waiters; care workers; hairdressers and beauticians; personal services workers; wholesale and retail sales persons in shops; and shop assistants.
Small and medium enterprises	In this report, small and medium enterprises refer to those enterprises with fewer than 50 persons engaged.
Total operating expenses / costs	Total operating expenses/costs include compensation of employees, rent, rates, interest expenses, repair and maintenance expenses and other miscellaneous expenses, but exclude costs of goods sold.

Glossary	Definition
Underemployment rate	<p>Underemployment rate refers to the proportion of underemployed persons in the labour force.</p> <p>The criteria for an employed person to be classified as underemployed are involuntarily working less than 35 hours during the 7 days before enumeration; and either</p> <ul style="list-style-type: none"> (i) has been available for additional work during the 7 days before enumeration; or (ii) has sought additional work during the 30 days before enumeration. <p>Working short hours is considered involuntary if it is due to slack work, material shortage, mechanical breakdown or inability to find a full-time job. Following this definition, employed persons taking no-pay leave due to slack work during the 7 days before enumeration are also classified as underemployed if they work less than 35 hours or are on leave even for the whole period during the 7-day period.</p>
Underlying Consumer Price Index	<p>Underlying CPI denotes CPI compiled upon netting out the effects of all Government's one-off relief measures.</p>
Unemployment rate	<p>Unemployment rate refers to the proportion of unemployed persons in the labour force.</p> <p>For a person aged 15 or over to be classified as unemployed, that person should:</p> <ul style="list-style-type: none"> (i) not have had a job and should not have performed any work for pay or profit during the 7 days before enumeration; and (ii) have been available for work during the 7 days before enumeration; and (iii) have sought work during the 30 days before enumeration. <p>However, if a person aged 15 or over fulfils the conditions (i) and (ii) above but has not sought work during the 30 days before enumeration because he/she believes that work is not available, he/she is still classified as unemployed, being regarded as a so-called 'discouraged worker'.</p> <p>Notwithstanding the above, the following types of persons are also classified as unemployed:</p> <ul style="list-style-type: none"> (i) persons without a job, have sought work but have not been available for work because of temporary sickness; and (ii) persons without a job, have been available for work but have not sought work because they: <ul style="list-style-type: none"> ✧ have made arrangements to take up a new job or to start business on a subsequent date; or ✧ are expecting to return to their original jobs (e.g. casual workers are usually called back to work when service is needed).

Glossary	Definition
Wages	<p>"Wages" collected in the 2009 AEHS follows the definition as adopted in the Employment Ordinance. In brief, the following components are covered:</p> <ul style="list-style-type: none"> (i) Basic wage/salary; (ii) Commission and tips not of gratuitous nature; (iii) Guaranteed bonuses and allowances other than year-end payment/bonuses (e.g. shift allowance, cost-of-living allowance, meal allowance, good attendance bonus not of gratuitous nature); and (iv) Overtime payment. <p>"Wages" collected in the 2009 AEHS does not include:</p> <ul style="list-style-type: none"> (i) The value of any accommodation, education, food, fuel, water, light or medical care provided by the employer; (ii) Employer's contribution to any retirement scheme; (iii) Commission, attendance allowance or attendance bonus which is of a gratuitous nature or is payable only at the discretion of the employer; (iv) Non-recurrent travelling allowance or the value of any travelling concession or travelling allowance for actual expenses incurred by the employment; (v) Any sum payable to the employee to defray special expenses incurred by him/her by the nature of his/her employment; (vi) End of year payment, or annual bonus which is of a gratuitous nature or is payable only at the discretion of the employer; and (vii) Gratuity payable on completion or termination of a contract of employment.
Working hours paid for	<p>Number of working hours paid for collected in the 2009 AEHS refers to the sum of:</p> <ul style="list-style-type: none"> (i) number of contractual/agreed working hours (i.e. working hours in accordance with the contract of employment, or with the agreement or at the direction of the employer. Rest time and meal break, if no work is done or to be done during the time period concerned, is not included); and (ii) number of paid overtime hours (i.e. number of hours, in addition to the contractual/agreed working hours, spent by an employee and paid by the employer at the place of employment, and with the agreement or at the direction of the employer).

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Prepared by
the Provisional Minimum Wage Commission

Economic, Sustainability, Financial and Civil Service Implications of the Proposal

Economic implications

As a wage floor applicable to all sectors, statutory minimum wage (SMW) can potentially entail great economic implications for Hong Kong. Since Hong Kong has no experience in implementing an SMW, potential market responses arising from such a policy, and hence the exact economic impact, are difficult to gauge precisely before its introduction.

2. Based on the wage distribution data from the 2009 Annual Earnings and Hours Survey, at the recommended SMW rate of \$28.0 per hour, around 314 600 or 11.3% of the total number of employees in Hong Kong¹ would be involved. These employees are mostly elementary and service workers (90%); female (61%); older (25% aged 55 and above); and of lesser education (77% with lower secondary level and below).

3. The recommended SMW rate would entail an increase in total wage bill for the economy as a whole by around \$3.3 billion or 0.6%. This is a magnitude that should be manageable by most business sectors, especially when viewed against the backdrop of an improving economy, falling unemployment and still benign inflation. Yet, while the immediate impact on price level and the labour market in overall terms is likely to be mild, the cost impact would be more visible in low paying sectors where they employ a relatively large number or a relatively high proportion of low-paid workers. Specifically, at the recommended SMW rate of \$28.0 per hour, the average increase in wage bill for the low paying sectors as a whole is estimated at 3.4%, with larger cost impact in security services (9.5%), cleaning services (9.5%), fast food cafes (8.0%), real estate maintenance management (5.6%), hairdressing and other personal services (5.3%), and elderly homes (4.2%).

4. Depending on the extent to which these affected sectors can offset the additional costs through raising output price and by how much they are willing or able to absorb the rest of the cost through profit reduction, there would inevitably be some job loss and reduction in working hours after SMW implementation. Yet at the recommended SMW rate of \$28.0, the resultant increase in wage costs is unlikely to trigger serious reorganisation of work practices leading to substantial

¹ These figures exclude live-in domestic workers and employees in the Government.

downsizing. The impact on Hong Kong's overall unemployment rate is likely to be relatively mild, particularly when viewed against the improving economic and labour market conditions.

5. To the extent that some firms can pass on the additional wage bill to consumers through raising output prices, consumer price inflation would rise as a result. Nevertheless, even assuming a 100% pass-through, the impact of the recommended SMW rate on overall inflation is estimated to be modest with a rise in both Composite CPI and CPI(A) by 0.4 percentage point. In reality, the inflation impact should be much smaller, and accordingly, the impact on Hong Kong's cost competitiveness as a whole should be mild. More importantly, in the longer run, as enterprises fully adjust to the SMW policy through capital investment and better work organisation to maximise return on labour and improve output quality, positive effects such as enhanced sectoral productivity and efficiency are possible.

6. Overall, the broad-based economic recovery over the past year has provided a stable macro environment for SMW implementation in 2011. While SMW would entail some short-term negative impact of job losses, reduced business profits and higher inflation, these negative effects in overall macro terms are expected to be manageable given the cushion from a growing economy and the ensuing job creation in the business sector.

Sustainability implications

7. Introducing an SMW at the recommended rate would help prevent excessively low wages. By enhancing the protection of vulnerable workers, a statutory wage floor would be conducive to social sustainability as it helps foster a harmonious society as well as social equality and justice.

Financial and civil service implications

Non-staffing resources arising from SMW implementation

8. Experience of other places suggests that the actual impact of SMW would have to be evaluated through detailed tracking studies over a longer period of time. Pitching the SMW at a high level could result in job loss. Elderly and young and inexperienced workers as well as workers with lower education and lower skills are more vulnerable to such employment displacement. Some of these displaced workers may fall into our social security net for financial assistance to support their daily living, thereby increasing Government's expenditure on the Comprehensive Social Security Assistance (CSSA) Scheme. On the other hand, depending on whether there would be any substantial

employment displacement, some low-income workers originally receiving supplements under the low earnings category of the CSSA Scheme may leave the welfare net after their wages have been raised to a higher level following the introduction of the SMW at the recommended rate. Our CSSA expenditure on this front may be reduced as a result². The precise net effect of these “push” and “pull” factors on CSSA expenditure would largely hinge on how the recommended SMW rate impacts on employment and the profile of those affected.

9. The Administration’s policy to pay its employees no less favourably than the prevailing SMW rate stipulated under the Minimum Wage Ordinance (MWO) should have minimal financial implications for the Government as an employer. This is because the pay for government employees, both civil servants and non-civil servants, should generally be above the SMW rate to be determined from time to time.

Staffing resources arising from SMW implementation

10. Given the wide and complex policy implications of SMW, the Labour Department, the Economic Analysis and Business Facilitation Unit and the Census and Statistics Department have been provided with resources to take forward the legislative exercise and other related work. Any additional provision to implement and enforce the MWO or support the deliberation of the SMW rate in the long term will be reflected in the Estimates of the relevant year.

² By way of background information, as at September 2010, there were 31 100 unemployment cases and 14 700 low earnings cases out of a total of 285 400 CSSA cases.