

The Betty Letters

My Dear Grandchild,

I have read a great deal about commodity prices, rising to record highs of late, but I have read little about what is happening in the labour markets, both in China and in Hongkong. As far as I can ascertain, the Government of Hongkong is taking us down a very slippery road, one which is one-way, too. The idea of having a minimum wage may seem like a good idea, initially, in the same way that The Mandatory Provident Fund might have appeared, on the surface, to have been a workable idea, too, when it was first promulgated. But it is not a good idea, I can assure you. Actually, The Mandatory Provident Fund is a complete and utter failure, as far as workers of Hongkong are concerned, although I am certain that banks and insurance companies love it because they earn a great deal of money from it by managing the very large sums of money which flood into it, with limitless increases in those sums of money as companies and workers are forced to pay up, by law, on a monthly basis. After all, how can they lose when they are charging two percent per annum on the value of the fund? The worst thing about The Scheme is that there is no real accountability and so a lousy management team in a bank or insurance company, one which is consistently guessing equity markets, wrongly, will not be penalized for its many mistakes, assuming that it is caught. Also, I wonder who gets those 'soft commissions' when a bank or insurance company gives a stockbroker, consistently, large orders for the purchase of the scrip of blue chips stocks. Oh, I know that you will tell me, My Dear Grandchild, that there are safeguards, but I, also, know of children's greed when candy is placed on a table in plain sight. In the real world, there is, always, a way to get round any rule or set of rules. For workers, who are forced to contribute five percent of their monthly salaries/wages to The Scheme and have that amount of money, matched by the company for which they work, they see little value in it because they would prefer to be able to manage their own money: They do not need The Mandatory Provident Fund to teach them how to suck their grandmothers' eggs. However, to many workers, I can understand that they view The Scheme as a forced way to save their money, whether or not they want to save it. Luckily for the Government of Hongkong, these same workers are unable to do their sums because, if they did, they would soon come to the realisation that The Scheme was a complete waste of time – and a complete waste of their money. Anyway, when those workers reach the age of retirement and are permitted to cash in, the amount of money that will be available to them is unlikely to be sufficient to keep them living in clover, during their so-called golden years. Over a period of twenty five years, a worker, paying into the Scheme, say eight hundred dollars, monthly, matched by an equal amount of money from the worker's employer, will have five hundred and forty thousand dollars. That is not even enough to purchase a small flat.

Then, there is the matter of the five-day working week, which has just been introduced by that ninny, Chief Executive Donald Tsang Kam Kuen, also known as Donald Over-Dung. The five-day working week will only cost employers more at the end of the day, I can assure you, and there will be little to no benefit to Hongkong. The Hongkong Government workers, of course, must love the idea because it permits them to take on another job for two days a week and, since that other work will be on a part-time basis, only, they, probably, will not have to pay into The Mandatory Provident Fund Scheme in respect of those two, extra working days. But the worst thing is that the five-day week will increase costs for Hongkong employers. The strength of Hongkong has, always, been industry's ability to harness its labour force and to produce goods and services of a reasonable quality at a competitive price. Anything that increases costs to industry erodes Hongkong's competitive ability to a greater or lesser extent. Mr Donald Tsang Yam Kuen is, merely, a civil

servant who has never been in business and knows little about it. He would, no doubt, claim that that is correct, but he has advisers to assist and advise him. And who are the advisers? Other civil servants? Multi-millionaires who have never been on the assembly line or working on a construction project? I wonder whether or not those advisers are honest when confronted by our Catholic Chief Executive.

If you try to pop my little balloon, at this point, ask anybody in Southern China about inflation, today. While the cost of raw materials has risen by ten percent, twenty percent, thirty percent or more in the past year, the cost of labour in the Guangdong Province has risen by more than forty percent in the past year or so. A medium-sized, manufacturing company in, say, Shenzhen, therefore, with a workforce of let us say four thousand employees on the assembly line, is faced with an increase in recurrent annual costs of more than twelve percent (forty percent multiplied by thirty percent, being the proportional cost of labour in the manufacturing equation of the company's products). For many companies, their profit margins cannot withstand such an increase in recurrent overheads. Further, they cannot pass on these increases in manufacturing costs to consumers because (a) their customers will look elsewhere for similar products (this is a buyers' market, for the most part) and/or (b) many manufacturers have to produce catalogues at least six months in advance, those catalogues, having listed prices for the manufacturer's goods. So these manufacturers are trapped and are forced to continue to produce their goods, either losing money or seeing profit margins seriously eroded. This leads, of course, to manufacturers, looking for alternative methods of producing their goods – without having to rely as much on labour as in the past. Computerisation of the production line is one way to go, employing the use of robotics, partially or totally, is another route to try to follow (if one has the wherewithal). For some factories, of course, they will look to other provinces of China or, even, other countries in Asia where labour costs are lower. In any event, the bottom line is that workers in, say, Guangdong, will find work more difficult to obtain in the fullness of time. In addition, I know as a fact that petty officials in Guangdong are continuously trying to put their dirty little hands into the pockets of Hongkong manufacturers who have set up successful operations in the region. This is not corruption, of course, because it is masked behind such niceties as the beautification of this or that. Of course, such beautification projects are, always, negotiable when the begging bowl is passed round.

What the above means is that any and all addition costs in the production of goods and services slices away at profit margins, either today or tomorrow. The best controller of any market, in my opinion, is the market, itself. If workers feel that they are not being paid sufficiently, then, they will take action to correct the imbalance. No government needs to interfere in free-market forces because the market is self-correcting, based on the principle of supply and demand. For employers, if they cannot meet the expectations of their employees, they will suffer as an exodus of workers will, eventually, take place. The best employers will, in the long run, be able to employ the best workers – because the workers will appreciate their jobs and not want to move. I look at the situation in the same way as I go shopping for my husband's favourite food in the open market: If one vendor is selling an apple at one cost and a similar apple is being sold at another vendor's stall at a cheaper price, I shall purchase my apple from the one which is the cheaper, all things being equal, of course. That's life! I don't want a government to tell me when and where to buy my victuals. The best government, in my opinion, is the one which interferes in business the least. If you happen to meet Chief Executive Donald Tung at Church, one day, pass this on to him, will you?

Talk to you next week.

Chief Lady

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