

## *The Betty Letters*

*My Dear Grandchild,*

*I suppose that you will consider me to be a silly billy, but, to my way of thinking, the recent actions of the Hongkong Government, promulgated by its Beijing-appointed Chief Executive, Mr Donald Tsang Yam Kuen (), will have grave consequences in just a few short years to come. As you know, I eat lunch, daily, in the very excellent Chinese restaurant, located in a lower floor of a certain, 5-star hotel in Pacific Place, and I have noted that, over the past year or so, there has been a decided shortage of serving staff, starting, perhaps, with the opening of the Hongkong Disneyland and that other large, 5-star hotel, in Central, and, culminating, of late, with the opening of the (old) Mandarin Oriental. I talked to some high-ranking people in the hotel industry about the problem of staffing a hotel and discovered some very disturbing facts about obtaining sufficient numbers of service staff. I am no economist, having had little academic tutoring in this very difficult discipline, but one does not have to be an economist to arrive at obvious, common-sense deductions. The central focus of my little study – and that which appears to be very clear to me – was the axiom that I have coined: Migration follows trade. (Because it would make very little sense for trade to follow migration, wouldn't it?) I think that that is what you educated young people would call a self-evident truth. That, having been established in my little brain, then, it follows that the shortage of service staff in my favourite Chinese restaurant must be due to the migration of its former, well-trained service staff, which is following trade. Now, in Macau, with the opening of a number of gambling joints and some very expensive hotels, naturally, Hongkong service staff will follow the trade which pays the highest amount of money for their services and, in addition, offers the best benefits. In addition, there is a number of new hotels, scheduled to open in Hongkong over the next few years. All of these establishments are looking to staff their hotels with experienced service personnel, if at all possible. According to my little survey, I have determined that the ratio of service staff to guest-rooms at 5-star hotels of Hongkong is about 0.75:One. I worked it out when I learned that, in the hotel that I visit, daily, it has 605 guest rooms and employs about 800 service staff. That means that, for every guest-room, the number of service staff, which includes maintenance personnel, room boys and girls, management, waiters, car jockeys, etc, is about three quarters of one service staff. For one of the adjoining, 5-star hotels, it has 513 rooms and employs about 700 service staff. That means that the ratio of service staff to guest-rooms is about 0.73:One. Naturally, guests, staying at 5-star hotels in Hongkong, expect a certain standard of excellence and 5-stars is supposed to mean just that: 5-stars. If the ratio of guest-rooms to service staff drops below a certain level, the hotels will lose patronage, of course, since regular guests will switch to 5-star hotels where there is, still, a certain standard of excellence, which the patronage has determined is the minimum to be considered acceptable.*

*Which brings me to the matter of the Government of Hongkong. As I see the situation, what the Government is doing, today, and plans to do in the future, too, is to cause inflation to escalate, making it impossible for my 5-star hotel to be able to afford to maintain the ratio of guest-rooms to service staff without increasing costs – which means that I will have to pay more for my dim sum. And I don't like that idea, at all! As it is, in my hotel, just 3 years ago, the cost of a lunch, comprising just soup and salad, was \$HK78. Today, that same soup and salad costs \$HK128. That is an increase of 64 percent in a period of about 3 years. The cost of food has not risen by 64 percent in the past 3 years, to be sure, and neither have there been demands from labour to the extent of 64 percent over that period of time. Hongkong taxation has not moved between 2003 and 2006, also. Then, for what reason have there been this huge increase in the cost of a simple European lunch at my favourite 5-star hotel? I pondered long and hard and I think I have the answer. Notwithstanding greed on the part of the Southeast Asian owners of the hotel and/or the American headquarters of the hotel*

chain that manages my hotel – and you know how the American business head works, don't you? – the answer has to be homespun. Firstly, there was the imposition of the Mandatory Provident Fund in Hongkong in December 2000. That has cost Management of my hotel 5 percent of the salaries of the entire service staff (the service staff, also, has to contribute 5 percent of their salaries). That 5 percent, obviously, has been passed on to the consumer, to be sure. Today, the Hongkong Government has introduced, obliquely at this point, the idea of a 5-day working week. This means that my hotel will have to employ additional staff in order to fill the void, during the 2 days per week that service staff are required to have rest days. There is no question in my mind that service staff, throughout Hongkong, will demand a 5-day working week since they will claim that if the Hongkong Government encourages a 5-day working week, for what reason may they not, also, enjoy the same benefits as the Hongkong Civil Service employees? Also, the Hongkong Government wants to introduce a 5-percent, Goods and Service Tax in order, we are told, to broaden the tax base. In addition, the Hongkong Government is considering a minimum wage for all workers. All of these new laws (or strong recommendations, whatever you want to call them) are going to mean that service companies will pass on the additional costs to their customers. Businesses are established to make profits and, if a government imposes financial burdens upon its businesses, then, those financial burdens will be passed down the line to the consumer. I appreciate that Hongkong's Chief Executive, Mr Donald Tsang Yam Kuen, does not understand business because he has always been a servant of sorts. He would have all public buses raise the inside temperature to 25.50 degrees Celsius without having the faintest idea of just how hot a crowded bus, travelling up Cotton Tree Drive, can become at the height of the summer even with the air-conditioning, blasting away at full power. Anyway, I doubt that Mr Donald Tsang Kam Yuen has ridden in a public bus for some years and, certainly, never on a regular basis. Changing tack for a minute, if one asks the majority of the service staff of Pacific Place, today, what they think of the idea of turning up the temperature to 25.50 degrees Celsius, you will hear nothing but complaints – while the owners of Pacific Place, the Swire Group of Companies, embrace the idea, lovingly, because this company is able to save tens of millions of dollars, monthly, by complying to the 'recommendation' of the Government: Pacific Place has only central air-conditioning. In uncomfortable working situations, service staff will migrate where they are able to obtain similar wages for their labours and enjoy a better working environment. Meanwhile replacement service staff is becoming more and more difficult to obtain in these 416 square miles. The situation, as I see it, will be exacerbated in the years to come unless something is done, now.

Hongkong has lost nearly all of its industries to China because China is a low-cost centre for industrial enterprises, relative to the Hongkong of old, leaving the territory to be a service centre, only. Banking, insurance, finance, tourism, management of theme parks, etc, are all that is left for us. It seems to my little mind that we must remain competitive with our geographic neighbours which, by and large, have more to offer than we. Holding down prices is, clearly, one way of being able to compete. Every financial onus, imposed upon businesses, will be passed on to customers. Alternatively, cuts will have to be made in the quality of service, offered, in order to maintain the status quo, while a lower quality of raw produce, etc, will, also, be introduced in order to bring back businesses to their original starting points, prior to the imposition of the new financial onus.

Throughout the centuries, migration has taken place due to political, economic or social reasons. It is not a new phenomenon. Migration is a burden for the social welfare system. The 3 determinants of the population development of a territory include the birth rate, the death rate, and the rate of migration. If service staff continue to leave the profession or determine to switch to other professions, it will have dramatic consequences to our Hongkong. And I can tell you, My Dear Grandchild, it is happening – today. Again, without trying to sound like an economist, one realises that the determinant factors of migration include, mainly: (1) Conditions, driving inhabitants to consider making changes to other climes; (2) Conditions in receiving territories, which are attracting migrants, such as higher wages, low unemployment, better working conditions; and, of course, (3) Transportation costs and immigration policies in place in the receiving territory. If you doubt this analysis, ask Management of Disneyland as to the reason that many of their service staff have become militant, from time to time, and how many of their service staff have left the facility in order to return to their old jobs – even though wages at their old jobs are lower than those which Disneyland pays. Make no mistake, Hongkong is facing a crisis in its core service industry, today, and the situation in respect of service staff will not ameliorate with prayers at a Sunday Mass. What the Hongkong Government must realise is that there is a strong correlation between trade and migration and although industry may employ fancy technological footwork for a time in order to circumvent problems of today, at the end of the month, wages must be paid; and, if wages reduce Bottom Lines to negative figures, then, industry will determine a course of action, which could well be detrimental to the long-term prosperity of Hongkong. Through better technology, one may achieve comparative productivity advantages, but only up to a point. Should this scenario of mine come to fruition, it will not be a case of broadening the tax base of Hongkong, but having the Government of Hongkong consider deficit financing in order to meet expenses in

*addition to the Civil Service payroll. You know, as a final consideration, I recall my father, telling me that I should not throw away a soiled handkerchief unless I have a clean one, ready to replace it. Does it make any sense to you?*

*Talk to you next week.*

*Chief Lady*

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