

OFFICIAL RECORD OF PROCEEDINGS

Wednesday, 11 October 2000

The Council met at half-past Two o'clock

MEMBERS PRESENT:

THE PRESIDENT

THE HONOURABLE MRS RITA FAN HSU LAI-TAI, G.B.S., J.P.

THE HONOURABLE KENNETH TING WOO-SHOU, J.P.

THE HONOURABLE JAMES TIEN PEI-CHUN, J.P.

THE HONOURABLE DAVID CHU YU-LIN

THE HONOURABLE CYD HO SAU-LAN

THE HONOURABLE ALBERT HO CHUN-YAN

IR DR THE HONOURABLE RAYMOND HO CHUNG-TAI, J.P.

THE HONOURABLE LEE CHEUK-YAN

THE HONOURABLE MARTIN LEE CHU-MING, S.C., J.P.

THE HONOURABLE ERIC LI KA-CHEUNG, J.P.

DR THE HONOURABLE DAVID LI KWOK-PO, J.P.

THE HONOURABLE FRED LI WAH-MING, J.P.

DR THE HONOURABLE LUI MING-WAH, J.P.

THE HONOURABLE NG LEUNG-SING

PROF THE HONOURABLE NG CHING-FAI

THE HONOURABLE MARGARET NG

THE HONOURABLE MRS SELINA CHOW LIANG SHUK-YEE, J.P.

THE HONOURABLE JAMES TO KUN-SUN

THE HONOURABLE CHEUNG MAN-KWONG

THE HONOURABLE HUI CHEUNG-CHING

THE HONOURABLE CHAN KWOK-KEUNG

THE HONOURABLE CHAN YUEN-HAN

THE HONOURABLE BERNARD CHAN

THE HONOURABLE CHAN KAM-LAM

THE HONOURABLE MRS SOPHIE LEUNG LAU YAU-FUN, S.B.S., J.P.

THE HONOURABLE LEUNG YIU-CHUNG

THE HONOURABLE SIN CHUNG-KAI

THE HONOURABLE ANDREW WONG WANG-FAT, J.P.

DR THE HONOURABLE PHILIP WONG YU-HONG

THE HONOURABLE WONG YUNG-KAN

THE HONOURABLE JASPER TSANG YOK-SING, J.P.

THE HONOURABLE HOWARD YOUNG, J.P.

DR THE HONOURABLE YEUNG SUM

THE HONOURABLE YEUNG YIU-CHUNG

THE HONOURABLE LAU CHIN-SHEK, J.P.

THE HONOURABLE LAU KONG-WAH

THE HONOURABLE LAU WONG-FAT, G.B.S., J.P.

THE HONOURABLE MRS MIRIAM LAU KIN-YEE, J.P.

THE HONOURABLE AMBROSE LAU HON-CHUEN, J.P.

THE HONOURABLE EMILY LAU WAI-HING, J.P.

THE HONOURABLE CHOY SO-YUK

THE HONOURABLE ANDREW CHENG KAR-FOO

THE HONOURABLE SZETO WAH

THE HONOURABLE TIMOTHY FOK TSUN-TING, S.B.S., J.P.

THE HONOURABLE LAW CHI-KWONG, J.P.

THE HONOURABLE TAM YIU-CHUNG, G.B.S., J.P.

DR THE HONOURABLE TANG SIU-TONG, J.P.

THE HONOURABLE ABRAHAM SHEK LAI-HIM, J.P.

THE HONOURABLE LI FUNG-YING, J.P.

THE HONOURABLE HENRY WU KING-CHEONG, B.B.S.

THE HONOURABLE TOMMY CHEUNG YU-YAN, J.P.

THE HONOURABLE MICHAEL MAK KWOK-FUNG

THE HONOURABLE ALBERT CHAN WAI-YIP

THE HONOURABLE LEUNG FU-WAH, M.H., J.P.

DR THE HONOURABLE LO WING-LOK

THE HONOURABLE WONG SING-CHI

THE HONOURABLE FREDERICK FUNG KIN-KEE

THE HONOURABLE IP KWOK-HIM, J.P.

THE HONOURABLE LAU PING-CHEUNG

PUBLIC OFFICERS ATTENDING:

THE HONOURABLE MRS ANSON CHAN, G.B.M., J.P.

THE CHIEF SECRETARY FOR ADMINISTRATION

THE HONOURABLE DONALD TSANG YAM-KUEN, J.P.

THE FINANCIAL SECRETARY

THE HONOURABLE ELSIE LEUNG OI-SIE, J.P.

THE SECRETARY FOR JUSTICE

MR MICHAEL SUEN MING-YEUNG, G.B.S., J.P.

SECRETARY FOR CONSTITUTIONAL AFFAIRS

MR CHAU TAK-HAY, J.P.

SECRETARY FOR COMMERCE AND INDUSTRY

MR GORDON SIU KWING-CHUE, J.P.

SECRETARY FOR PLANNING AND LANDS

MR NICHOLAS NG WING-FUI, J.P.

SECRETARY FOR TRANSPORT

MR DOMINIC WONG SHING-WAH, G.B.S., J.P.

SECRETARY FOR HOUSING

MR JOSEPH WONG WING-PING, G.B.S., J.P.
SECRETARY FOR THE CIVIL SERVICE

MISS DENISE YUE CHUNG-YEE, J.P.
SECRETARY FOR THE TREASURY

MR LAM WOON-KWONG, G.B.S., J.P.
SECRETARY FOR HOME AFFAIRS

MR STEPHEN IP SHU-KWAN, J.P.
SECRETARY FOR FINANCIAL SERVICES

MRS LILY YAM KWAN PUI-YING, J.P.
SECRETARY FOR THE ENVIRONMENT AND FOOD

DR YEOH ENG-KIONG, J.P.
SECRETARY FOR HEALTH AND WELFARE

MRS FANNY LAW FAN CHIU-FUN, J.P.
SECRETARY FOR EDUCATION AND MANPOWER

MS SANDRA LEE SUK-YEE, J.P.
SECRETARY FOR ECONOMIC SERVICES

MR WONG HUNG-KIN, J.P.
SECRETARY FOR WORKS

MR RAYMOND WONG HUNG-CHIU, J.P.
SECRETARY FOR SECURITY

MS EVA CHENG, J.P.
SECRETARY FOR INFORMATION TECHNOLOGY AND BROADCASTING

DR EDGAR CHENG WAI-KIN, J.P.
HEAD, CENTRAL POLICY UNIT

CLERK IN ATTENDANCE:

MR RICKY FUNG CHOI-CHEUNG, J.P., SECRETARY GENERAL

TABLING OF PAPERS

The following papers were laid on the table pursuant to Rule 21(2) of the Rules of Procedure:

Subsidiary Legislation/Instruments	<i>L.N. No.</i>
Prison (Amendment) Rules 2000	270/2000
Immigration (Vietnamese Migrants) (Detention Centres) (Amendment) Rules 2000	271/2000
Probation of Offenders (Amendment) Rules 2000	272/2000
Banking Ordinance (Amendment of Third Schedule) Notice 2000	273/2000
Animals and Plants (Protection of Endangered Species) Ordinance (Replacement of Schedule 5) Order 2000 (L.N. 149 of 2000) (Commencement) Notice 2000	274/2000
Animals and Plants (Protection of Endangered Species) (Exemption) (Amendment) Order 2000 (L.N. 163 of 2000) (Commencement) Notice 2000	275/2000
Animals and Plants (Protection of Endangered Species) Ordinance (Amendment of Schedule 3) Notice 2000 (L.N. 164 of 2000) (Commencement) Notice 2000	276/2000

PRESIDENT (in Cantonese): Honourable Members will please remain standing for the Chief Executive.

The Chief Executive will now present the policy address to the Council.

CHIEF EXECUTIVE (in Cantonese): Madam President, Honourable Members, today I shall present my policy address in a new manner. I shall welcome your suggestions in respect of this.

1. The second term of the Hong Kong Special Administrative Region Legislative Council (SAR) has begun. I would like to congratulate all Members, both newly-elected and re-elected. My Administration and I are looking forward to working more closely with the Legislative Council to better serve the community and I will come back to that a little later.

2. In preparing my fourth policy address, I have, as in previous years, met with people from all walks of life and visited many local communities to listen to different views. I have taken those views into consideration. In this policy address I will review the Government's work and talk about the economic outlook, although I plan to focus on three major issues of public concern — education, poverty and governance. For other policy areas, I have asked the Bureau Secretaries to present their own detailed reports to this Council and the public over the next few days.

3. Looking back on the developments in Hong Kong in the past three years, we can see there have been profound changes in our public awareness in two areas.

4. The first change is that people can now better appreciate the importance of innovation and technology. Three years ago, there were very few people in Hong Kong who thought about the relationship between technology and economic development. Now it is widely recognized that innovation and technology are essential to enhancing productivity for our sustained economic growth.

5. To meet the challenges of the knowledge-based new economy, the SAR Government has adopted a series of measures to improve our soft and hard infrastructure. For example, we have further liberalized the telecommunications and broadcasting markets. We have introduced a legislative framework to promote the use of electronic transactions. We have set up the Growth Enterprise Market. Phase One of the Science Park will be completed by the end of next year. Preparation work for the Applied Science and Technology Research Institute has commenced. Construction of the Cyberport is now underway and is expected to open by stages from 2002 onwards.

6. In a knowledge-based economy, anyone equipped with knowledge and creativity stands a chance of succeeding regardless of his or her social status or family background. New knowledge and technologies make market entry easier, enabling more enterprising individuals to set up their own businesses, and facilitate upward social mobility. Of course, the prerequisite to realizing this goal is the provision of educational opportunities to people in all strata of society in order to bridge the knowledge divide. This is one of the major reasons why the Government is committed to carrying out education reforms.

7. In recent years, another major change in public awareness has been our greater emphasis on the quality of our environment and the concept of sustainable development. Last year we declared our commitment to introduce new initiatives to prevent and reduce environmental pollution. Air quality was the main priority and good progress has been achieved over the past year.

8. We have provided financial assistance for diesel taxi owners to switch to liquefied petroleum gas (LPG) taxis, and have subsidized the installation of particulate traps on older light diesel vehicles. A pilot scheme on the use of clean LPG and electricity by public light buses has been launched. After completion of the scheme early next year, we will decide on measures for its long-term implementation. With effect from 1 January 2001, all newly registered light vehicles will be required to meet more stringent emission standards. At the end of July, Hong Kong became the first city in Asia to adopt ultra low sulphur diesel. We have introduced a concessionary duty to encourage owners of all diesel vehicles, including heavy goods vehicles, to switch to this cleaner fuel. Also, I am pleased to note that all franchised bus operators will switch completely to ultra low sulphur diesel next year.

9. With the implementation of these and other measures, air pollution by vehicle emissions will be significantly alleviated in the coming years. From the progress so far, it is clear that we are well on track to meet the targets announced in last year's policy address, that is, to reduce particulates and nitrogen oxide emissions from vehicles by 80% and 30% respectively by 2005.

10. However, if the number of vehicles continues to increase, the benefits that our mitigating measures bring will be eroded. So, we have to ensure that our transport strategies and land planning are consistent with the principle of sustainable development. We will again examine the use of an electronic road pricing scheme, not to generate additional revenue, but to encourage effective

use of vehicles so as to reduce emissions and traffic congestion as far as possible. Before making any decision, we will carefully consider the issues, especially concerns about personal privacy.

11. For the disposal of waste, the current recovery rate of commercial and industrial wastes in Hong Kong is 50%. For domestic waste the rate is only 10%, so there is certainly much more we can all do to improve this situation, including stepping up education to increase public awareness. We are formulating policies to promote waste recycling which should encourage the development of waste recycling industries. This, in turn, will create new job opportunities. We will conduct a careful and comprehensive assessment of the cost-effectiveness, land requirements and environmental impacts of waste recycling and the disposal of non-recyclable waste by incineration or landfilling. We will then finalize our overall strategy.

12. The quality of Hong Kong's waters is one of our major concerns. Despite difficulties encountered in its implementation, Stage I of the Strategic Sewage Disposal Scheme is now making good progress and should be completed by the end of next year. We have also set up an expert panel to review the Scheme and its report will be submitted shortly. We will then consult the public on the recommendations in the report.

13. To prevent and reduce pollution requires regional co-operation. A Joint Working Group on Sustainable Development and Environmental Protection has been set up under the Hong Kong/Guangdong Co-operation Joint Conference. Its study on regional air quality will be completed early next year and the Joint Working Group will then draw up a long-term co-operation plan to improve air quality. We will also maintain our joint efforts in improving the quality of Dongjiang water.

14. As a modern city, it is only right that the people of Hong Kong should be able to enjoy a better environment, with clean streets and markets as well as a beautiful countryside. We will launch a new Clean Hong Kong Campaign at the end of the year to help bring about an overall improvement to our city environment. I have asked the Secretary for Environment and Food to co-ordinate the related programmes to push ahead with our greening work, especially the planting of more trees and flowers in the urban area.

15. Environmental protection is an urgent task. But as an old Chinese saying goes, "It takes more than one cold day for the river to freeze three feet deep". Our pollution problems have been brewing for quite some time, and we should not have unrealistic hopes that they can be solved completely overnight. Sustained efforts are needed to tackle the problems and these will show results in the next few years.

16. The changes in our public awareness that I have just mentioned are a manifestation of the evolution of Hong Kong society. Hong Kong has made rapid economic and social progress in many areas over the past three years, which are propelling us towards our long-term vision of Hong Kong becoming a major city of China and the most cosmopolitan city in Asia. A city that is not only the most attractive business base in Asia, but also an ideal place in which to live and work.

17. In realizing this vision, we have planned a series of reforms as well as introduced a number of initiatives that will benefit the community as a whole. The Asian financial crisis highlighted the structural weaknesses in our economy that needed to be corrected. Reforms have been put in place to enhance our competitiveness, to tap the enormous opportunities brought about by globalization and the knowledge-based economy, and to promote the long-term development of Hong Kong. Some of the problems we have encountered did not happen overnight. In the decade or so before the reunification, there were problems which could have been addressed, but were shelved because they might have been too controversial or involved arrangements that straddled 1997. At the same time, other major cities in the region such as Singapore, Beijing and Shanghai were embarking on their own significant reform programmes. Hong Kong could not stand still, we had to reform in order to keep pace with the changing global circumstances. And that is precisely what we have been doing.

18. In addition to promoting innovation, technology and environmental protection, we have introduced reforms and initiatives in five other important areas — finance, housing, care for the elderly, municipal services and the Civil Service. These reforms and initiatives have produced positive results.

19. First, I shall talk about the financial reform. The Asian financial turmoil underlined the need for timely reforms on the financial front. We have implemented a series of measures to reinforce the linked exchange rate system. We have fostered the demutualization, merger and listing of the securities and

futures exchanges, and established a link with the NASDAQ. The Growth Enterprise Market is providing a useful avenue for start-ups to raise capital. The US dollar payment system is in place and is linked with the Hong Kong dollar real-time gross settlement system. The Securities and Futures Bill, which will enable us to keep pace with new developments in the market, will be announced next month. All these help to consolidate Hong Kong's position as an international financial centre and enhance the overall vitality of our economy.

20. For years, our citizens were troubled by high property prices and high rentals, and many families had to spend years queuing for public housing. In the wake of the Asian financial turmoil, the prices of private flats have declined. The Government is fully aware of the importance of a stable property market to our entire economy. People buy property not only as a home, but also as an important long-term investment. For public housing, we have introduced more flexible initiatives, such as the sale of public rental flats and the introduction of the Home Starter Loan Scheme, which have been well-received by the public. Over the past three years, more than 150 000 families have bought their own homes under various housing assistance schemes. Some 50 000 of them through the Tenants Purchase Scheme. In addition, 117 000 households have been allocated public rental flats. We are committed to reducing the average waiting time for public rental flats to three years and to bring this target forward to the year 2003.

21. The Elderly Commission has been set up to advise on better comprehensive care for the aged. The Government has shortened by one year the average waiting time for the allocation of public rental flats to single elderly persons. This has been made possible by giving priority to elderly applicants in the allocation of flats and building more flats tailored to their needs. Efforts will be made to further reduce the waiting time. Also, in the past three years, an additional 6 400 subsidized residential care places have been provided, reducing waiting time by eight months. Next year, we will increase the allocation by more than \$100 million to provide approximately 1 600 more places. The Government has also stepped up its regulation of private care homes for the elderly. The number of licensed private care homes has increased from 14 in 1997 to 450 this year. With a 65% increase in funding in the past three years, the number of beneficiaries of home care services for the elderly has been increased by 10 000. In the coming year, we will spend a further \$70 million to enable more frail elderly to receive care at home. We will also promote the Healthy Ageing Campaign.

22. With the approval of the last Legislative Council, we have reformed the municipal framework in order to provide more efficient services to the public. The Food and Environmental Hygiene Department has been set up to co-ordinate and control food safety, thus eliminating problems caused by dispersed functions in the old framework. To upgrade the standard of food safety in Hong Kong, the Department has adopted a new management model. The removal of geographical constraints has enabled more efficient deployment of resources and enhanced quality of services. For instance, the supervision of front-line work has been stepped up, the lead time for the issue of restaurant licences reduced and the clean-up of litter blackspots expedited. The new Leisure and Cultural Services Department has set up customer liaison groups at its major venues. A new service culture has gradually developed to better meet the needs of our citizens in such areas as opening hours and booking services.

23. Our reforms include a review of the Civil Service, which on the whole is highly admired for its integrity and efficiency. However, to keep abreast of social advances, our Civil Service needs continuous improvements as well. After detailed study, we mapped out a package of reforms to modernize management, enhance productivity and revise the entry arrangements for new recruits. Most of the reforms have already been launched. In the course of the reforms, not a single serving officer has been subject to forced redundancy or salary cuts. The enhanced productivity arising from the reform will result in total savings this year and in the previous year of \$1.8 billion in recurrent expenditure. Savings of \$2 billion are expected to be made in each of the next two years. Thereafter our annual recurrent expenditure will be \$5.8 billion less than it was before the Enhanced Productivity Programme. All the savings are to be used to provide better services to the public in various areas such as education, employment, health care and welfare.

24. The remaining measures to be introduced include a performance-based reward system and a provident fund scheme designed for new recruits. While we have not planned any major reform of the Civil Service other than those already announced, we must, of course, remain responsive to the developing needs of our society. We will continue to provide more effective and flexible services for our citizens. In the long run, our Civil Service needs to keep pace with the times. But before any new measure is introduced, we will hold extensive consultations and communicate with the staff side in a thorough, open and transparent manner.

25. Civil servants at all levels have made historic contributions to Hong Kong's smooth transition and our reunification with the Motherland. They have actively participated in the implementation of government policies and reforms with a strong sense of mission and commitment. For our reforms to be successful, we need the management and the staff sides to join hands to realize the common goal of serving the community and building the SAR. As the Chief Executive, I attach great importance to mutual trust and respect throughout all levels of the service. I hope there will be better co-ordination and communication within the Civil Service so that together we will help imbue an organizational culture appropriate for Hong Kong in the years ahead.

26. In the coming years, we will continue to consolidate the reforms we have already put in place and focus our attention on education and the changes we need to make to health care.

27. On the medical front, our current health care system is becoming unsustainable as a result of rapid advances in medical science, an ageing population and the ever-changing needs and aspirations of our community. Our future task, therefore, is to study how best to ensure the long-term availability of funding and the efficient allocation of resources. Since the release of the report of the Harvard consultants last year, we have listened carefully to opinions from all sectors of the community. A report setting out our future policy directions will be published later for further public consultation. A series of proposals will be put forward, some of which are likely to be implemented shortly while others will be carried out in phases over the next 10 years. The Government will proceed after careful deliberation and full consultation on the issue.

28. The reforms we have implemented embody the suggestions and ideas of many of our citizens. Academics, professionals and people from all walks of life have made many valuable recommendations which the Government has taken on board when carefully examining the reform measures. We have weighed the impact of the various reforms on the target groups and taken account of the interests of the community as a whole. The measures were then considered at the policy level where priorities were set before final decisions were made. I believe the majority of the people support the reforms which have been made with the best interests of the general public in mind.

29. Yet there are criticisms in our society that the Government is attempting to do too much, too fast. Some even question the necessity of the reforms. I can understand these concerns. First, some measures may not have been prepared or implemented in the best possible way. Second, we may not have explained clearly enough the need for the reforms, the processes involved or the benefits flowing from them. Third, there are bound to be voices of scepticism and opposition at the initial stages as the reforms touch on the immediate interests of some people and it takes time to reap the full benefits. This is quite understandable.

30. In summing up, we have learnt from this experience. In future when moving forward with our reforms, we will pay greater attention to the need for effective communication and full consultation, and in particular, listen more carefully to dissenting voices. In carrying out reforms, we will plan more carefully and conduct comprehensive assessments of their impact on all stakeholders beforehand to allow different issues to be handled differently. We will also ensure that the groundwork is thoroughly prepared so that problems arising in the course of implementation can be solved in a timely manner.

31. The success of these reforms will eventually enhance our competitiveness, foster economic development, create employment opportunities and improve the living conditions of low-income families. With careful planning and better estimates of our capabilities, the reforms can be implemented more satisfactorily in future. Given the support of the community at large, I am confident that our objectives can be achieved.

32. Honourable Members, since the beginning of this year, the pace of our recovery from the Asian financial turmoil has quickened significantly. Our Gross Domestic Product (GDP) attained robust double-digit growth in the first half of the year. Exports of goods and services have increased markedly. Investment has rebounded while consumer spending has further picked up. The number of incoming visitors has increased considerably. Our economic base is firmer now than it was before the financial crisis. Our operating costs have come down. Earlier efforts made by local enterprises to rationalize their corporate structures and the increased use of information technology have enhanced cost-effectiveness. Looking around, there is no doubt that our recent economic performance has stood out from other Asian economies.

33. Externally, our major economic partners are expecting continued growth. The accelerated economic growth of the Mainland is especially favourable to us. The Mainland's growth reached 8.2% in the first half of the year and the profits of its industry and enterprises rose briskly, indicating a significant turn for the better. The output of many of China's agricultural and industrial products are now the highest in the world. By the end of this year, China's GDP will exceed US\$1,000 billion and its Second Strategic Goal of Modernization will be fully achieved. The Third Strategic Plan will be launched next year. The goal for the first decade of the century is to double this year's Gross National Product (GNP). Hong Kong has benefited tremendously from the Mainland's economic growth over the past two decades. It is therefore not hard to see the strong economic impetus we will derive from our country's sustained aggregate economic growth in the coming decade.

34. In the light of the favourable internal and external conditions, the Financial Secretary has earlier revised upward his forecast of Hong Kong's economic growth in real terms for the year 2000 to 8.5%. This rate, the highest for more than a decade, has already taken into account the impact of fluctuating oil prices.

35. Apart from the fact that our economy is showing signs of substantial recovery, there is another important reason for our confidence in Hong Kong's economic prospects. I am referring to the unprecedented opportunities for development that lie before us.

36. China will very likely join the World Trade Organization (WTO) soon, now that the hurdles to its accession have been gradually removed. This will speed up the alignment of China's domestic market with the international market. As a result, China's inward investment, external trade and the GNP will witness higher growth. With the expansion and liberalization of the mainland market, particularly service industries, Hong Kong will gain great advantages and opportunities for development.

37. On the other hand, with China's entry into the WTO, local businessmen will face greater challenges in competing for business in the Mainland. During the past two years, the Central Government and relevant departments of the SAR Government have maintained contacts with the local business sector to keep our businessmen informed of the procedures, scope and measures relating to the opening up of China's market in future. The business community needs to map out strategic plans to actively expand their markets and upgrade the quality of

their products and services, so that they are ready to capitalize on the huge business opportunities that are within sight.

38. Following its accession to the WTO, the Mainland will have an even greater demand for professional services. Hong Kong has a wealth of high calibre professionals who should have a competitive edge in the Mainland market. The SAR Government will make every effort to keep our local professionals well informed of developments in the opening up of the China market.

39. To keep up with the latest local and external economic developments, the Education and Manpower Bureau has conducted two studies, one on the employment opportunities and the other on the training needs in various trades over the next five years. Based on the findings, the Government will devise appropriate training plans to tie in with the trend of demand for various occupational groups. The Government will also review its policy on approving visa applications from professionals, and make proactive but prudent efforts to admit from the Mainland and abroad more professionals not readily available in Hong Kong to meet our immediate needs. The recruitment of such people will provide an impetus to our economic growth, thereby creating more job opportunities for local workers.

40. China's accession to the WTO will also give a huge impetus to the joint development of the regional economy by Hong Kong and Guangdong. To promote economic co-operation among Guangzhou, Hong Kong, Macao, Shenzhen and Zhuhai, we need to strengthen our infrastructure to facilitate economic flows. Looking ahead, we need to work together with the Mainland over the long-term development of our cross-boundary facilities.

41. By enhancing our infrastructural interface in transport facilities, Hong Kong will gain the edge in the development of regional logistics services. In last year's policy address, I announced the implementation of a liberal policy for air cargo services. In the past year, the air cargo volume of our airport increased by more than 20%, again ranking first in the world in terms of air cargo throughput. To further enhance Hong Kong's role as a passenger service hub, we will continue to expand our air services network and consider long-term plans to enhance our transport links with the Pearl River Delta to serve the entire region.

42. The Central Government has decided to launch the strategic development of Western China, which covers more than half of our country. The region is rich in resources and has vast potential. Developing Western China is an ambitious and long-term undertaking. It will provide Hong Kong with many more business opportunities on a continuing basis, and with our unique advantages, we in turn can make significant contributions.

43. Hong Kong has long acted as an intermediary between the Mainland and world markets. China's accession to the WTO will give us an opportunity to further expand our network which links with the mainland and overseas markets, and to attract more Mainland and overseas companies to set up their regional headquarters here. Historically, our economic and trade relations were concentrated mainly in a few major world markets. These relations are bound to become more important. But we have also noted that some developing areas in other parts of the world are eager to do business with China. To take advantage of this, we need to train a critical mass of people with suitable talent as quickly as possible. These people should have a thorough understanding of the business environment of the Mainland, knowledge in international finance and commerce and proficiency in Putonghua and foreign languages, especially English. A good command of English is not only a tool for conducting business and trade with the world, but also a must in maintaining Hong Kong's status as an international financial centre. I hope that the educational community will respond to this need and offer more relevant courses to help nurture such talent.

44. I shall turn now to the small and medium enterprises (SMEs). The SMEs have always been a pillar of the Hong Kong economy. At present, there are over 290 000 SMEs in Hong Kong, accounting for more than 98% of all local enterprises. They employ more than 1.39 million people, which is about 60% of private sector employees. Over the past few years, the SAR Government has been actively supporting the SMEs and we will take the opportunity to strengthen the status of the Small and Medium Enterprises Committee and to widen its representation when appointing members for a new term of office soon. The Government's intention is to help SMEs to solve different problems at different stages of their development. We will explore possible new measures under the themes of "helping to start a new business", "helping to build a new business" and "helping to expand a business". I hope that the SME Committee will enhance communication with business organizations and SMEs, and put forward practical recommendations to me within six months.

45. In addition to establishing support measures, we will also assist with resources. Although the Special Finance Scheme for Small and Medium Enterprises has been closed to new applications, we anticipate that about \$2 billion of the funding previously committed can be made available to provide further support for SMEs.

46. The economic setback that we recently experienced has brought hardship to many of us. We are still recovering from the fallout of the Asian financial crisis. Nevertheless, with reforms and adjustments, we have strengthened our foundations and are now moving towards a knowledge-based, sustainable and competitive economy. What we are seeing is a return to growth and the opening up of enormous business opportunities. The momentum of our economic growth will persist and the employment situation will further improve, with increasing job opportunities and a decreasing chance of layoffs. In recent months, we have heard the encouraging news that many companies have started to give their employees a pay rise. This should soon show up as a trend. For salaried workers, next year will be a better year. The outlook is certainly optimistic!

47. Having analysed our economic development, I now come to our social policy. Madam President, the work we do as a government is to help people achieve their goals and is for the benefit of the community generally. To advance, we need to embrace economic, social and cultural change. And we have spared no effort in providing that little extra boost to improve our economic development. Last year, I spoke about the role of the Government in our economy. We remain firmly committed to upholding our system of free enterprise and will adhere steadfastly to the philosophy of small government with prudent fiscal management. In pursuing economic development, we attach great importance to enhancing the well-being of every member of the community so we can build a society in which we can all live together in harmony.

48. We are committed to creating a favourable environment in which all citizens have the opportunity to realize their personal goals through hard work. We believe in allowing everyone to compete in a fair manner. Our social mobility is among the highest in the world. For those who have suffered setbacks, they should be given further opportunities to succeed. We should also assist those who have been adversely affected by the sudden economic downturn by giving them the necessary support to help themselves. Greater support should also be given to the younger generation brought up in disadvantaged circumstances so that they will have better chances to succeed in life.

49. Four areas of equal importance lie within the Government's responsibility for social development. First, we have to create an environment where participation and fair competition are open to all, with special emphasis on the education and healthy development of the young, as well as upgrading the knowledge and skills of the workforce. Second, we have to put in place a well-resourced basic safety net to look after the physical and psychological well-being of the elderly, the infirm and the disabled. Third, we have to assist the disadvantaged, the poor and the unemployed with an emphasis on enhancing, not impeding, their will to be self-reliant. Fourth, we have to encourage those in our society with sufficient means to show their concern for the community by organizing, participating in, or supporting different kinds of voluntary work so as to build a harmonious and energetic society.

50. Such a social policy, which stresses goodwill and equal opportunities as its fundamental values, is complementary to the *laissez-faire* economic policy we follow. Both policies share the belief that self-motivation is the basis for both individual and societal progress. They also stress that government's primary task is to create the conditions necessary to foster, maintain and enhance self-motivation. In fact, this is the philosophy underlying all our relevant policies and measures. These include our efforts on education and initiatives to help the poor, which I will discuss in a moment. But first to education.

51. Our education policy is at the very core of our social policy. And our most important long-term social investment is in education.

52. I have stressed right from the beginning of my tenure that we would do our best to cultivate the talents needed by Hong Kong in the future. In recent years, the resources allocated to education have continued to rise significantly despite overall budgetary constraints. Total spending on education this financial year amounts to \$54.4 billion, a jump of 43% compared to that before our reunification. It now represents 4.25% of our GDP. To improve the quality of education, we set up a \$5 billion Quality Education Fund. So far, over 2 700 projects have been approved at a total cost of over \$1.5 billion, benefiting about 1 200 schools. In addition, we are investing over \$3.2 billion in a five-year IT in education strategy which will benefit all secondary and primary students. The last three years have seen an increase of over 2 800 teaching posts, improving the teacher-pupil ratio by 10% to 1:21.8 in primary schools and 1:18.7 in secondary schools. The percentage of whole-day primary school places has risen from 20% to 40%, and we are confident that our goal of

providing whole-day schooling for virtually all primary students can be achieved by 2007. The proportion of qualified kindergarten teachers has increased from 40% to 60%. Graduate posts in primary schools have increased from less than 5% to 20%. To introduce diversity, we have allocated five sites for the construction of quality private schools, and have allocated school premises for nine Direct Subsidy Scheme schools. We have certainly done a lot during the past three years.

53. However, the education system of old can no longer meet the challenges of the new age. Embracing the knowledge-based New Economy requires a large pool of talent equipped with the right skills and creativity. Rapid advances in science and technology have unleashed a series of perplexing social and ethical issues, which demand more critical and analytical thinking by our young people. Following our reunification, the need to groom a new generation of leaders has become ever more pressing. Therefore, without sweeping reforms of our education system, the quality of our education would not be able to meet the requirements for social development and the community's expectations.

54. As early as October 1996, I put forward initial proposals on the direction of education reform for Hong Kong. In the 1997 policy address, I further examined where reforms would be necessary. Subsequently, I entrusted the Education Commission (EC) to conduct a comprehensive review of our education system. In the course of the public consultation conducted over the following two years, many front-line educators, parents and people from different walks of life engaged in passionate debate on education reforms and have shown admirable commitment in nurturing our younger generation. The important goal of "Learning for Life — Learning through Life" is now widely accepted by the community. The EC submitted its reform proposals last month and we have adopted its recommendations. Here, I would like to thank members of the Commission and all those who have contributed to the review.

55. Once all these reforms have been put in place, I can see how our future generations will be able to seek out knowledge and be absorbed by the way it is communicated to them:

- Resources will be more abundant. Students will have their examination burden lightened and enjoy better all-round development. School leavers will possess a broad spectrum of knowledge and balanced development in the domains of ethics,

intellect, physique, social skills and aesthetics. They will understand the need to make continual efforts to learn, to think, to explore, to be creative and to respond to changes. They will be ready to make contributions to the future of our community, our country and the world at large. School principals and teachers will likewise be expected to pursue lifelong learning to enhance their professional standards.

- All children can have quality early schooling followed by nine years of free education. Those who aspire to continue their education on completion of junior secondary level will have the opportunity to carry on their studies and choose the path that best suits their individual abilities and character. Gifted students will be better groomed to fully explore their potential; students with special needs will be given good care and students who have yet to attain the basic standards will be given full support in their studies.
- A diverse, multi-level, multi-channel system of tertiary education accessible to all will emerge. Our university education will become more flexible and diverse. It will aspire to a higher international reputation with the continued upgrading of academic standards and teaching quality. The curriculum will cover personal development, general knowledge, professional training and preparation for employment. Lifelong learning will increasingly become the norm. This integrated and highly efficient education system will provide the constant supply of talent which Hong Kong needs as a world-class city.

56. I believe this represents most people's expectation of how our education system will develop. I am also convinced that with a concerted effort, we can attain this goal. Let me now outline the Government's initial commitments in implementing our education blueprint.

57. First is early childhood education. Early childhood is the formative stage for psychological and intellectual development. It provides the foundation for developing the capabilities and interest in lifelong learning. We must ensure that no child is deprived of the chance to enjoy early childhood education for financial reasons, so we intend to relax the requirements of the Kindergarten Fee Remission Scheme from this school year onwards to benefit more families. At

the same time, we will ask schools to strengthen their quality assurance and to be more transparent in their operations so that the quality of teaching will be enhanced.

58. To upgrade the quality of teachers, we have decided to raise the entry requirements of all newly appointed kindergarten teachers. They will need five passes in the Hong Kong Certificate of Education Examination, including Chinese and English, starting from the 2001-2002 school year. Starting from the 2003-2004 school year, they will be required to complete at least one year of pre-service training. In addition, the ratio of teachers to pupils for half-day and whole-day schooling will both be improved from 1:30 and 1:20 respectively to 1:15 by stages within three years. Within the next five years, we will make arrangements for all serving kindergarten principals and child care centre supervisors to attend courses leading to the Certificate in Early Childhood Education.

59. The Education Department and Social Welfare Department are currently examining further harmonization of kindergartens and child care centres including the mode of subsidy and training of teachers. They are expected to come up with recommendations within one year. The Government has earmarked a sum of \$100 million for the implementation of the recommendations in the next financial year.

60. In respect of school education, at present, only 85% of Secondary Three students from public sector schools have subsidized Secondary Four places, while another 5% receive subsidized vocational training. Starting from the 2002-2003 school year, Secondary Three students from public sector schools who are capable and want to continue with their studies will be provided with subsidized Secondary Four places or vocational training. In order to meet the demand, we plan to provide about 6 000 more subsidized school places before the 2003-2004 school year. We expect this will incur an extra \$740 million in recurrent expenditure by 2007-2008.

61. We will also provide additional resources and professional services to help schools reform the school curriculum and improve teaching methods. This will make learning more interesting, and help students to enjoy all-round development. At the senior secondary school level, we will increase the range of learning options to allow students more choice of schools and subjects according to their abilities and interests. The rigid divide between the arts and

science streams will be removed and equal emphasis will be placed on the acquisition of knowledge, skills and positive values. And, we have already announced that we will provide \$500 million this school year to implement the principle of "teaching students according to their aptitude" more effectively. Teachers will be freed up to concentrate on their teaching duties and cater to students' individual needs. This will enable outstanding students to further develop their potential while allowing under-achievers to catch up. An additional \$10 million will be allocated to design enrichment courses for gifted students. The Government will also continue to promote integrated education in secondary and primary schools so that children with special education needs can receive appropriate education in regular schools. It is estimated that the additional expenditure involved will be increased to \$50 million in four years.

62. Learning should be comprehensive. It should not be confined within the bounds of schools or books. Children should participate in extra-curricular activities more often and strive to achieve all-round development. I earnestly hope that schools will capitalize on the opportunities for improvement created by the reforms. Schools should have more scope for moral and civic education courses enabling the students to develop sound beliefs, determination and integrity, leadership skills, a sense of social responsibility and positive attitudes towards life. I have asked the Education and Manpower Bureau to work with other relevant departments and so-called uniformed groups, such as the Red Cross, the scouts and the guides to arrange more activities to help students develop their potential in these areas.

63. We must speed up the School Improvement Programme to provide a better teaching and learning environment. While there has been a remarkable improvement in the design of school premises completed this year, many schools are still using premises built to the standards adopted some three to four decades ago. Our target is to complete the feasibility studies for the improvement of 358 school premises within two years. More than \$10 billion has been earmarked for the phased implementation of the programme. For those schools where improvement is feasible, the works will be completed before the end of the 2004-05 school year.

64. As parents are the first teachers of children, parent-school co-operation is essential to bring out the best in our youngsters. In the coming year, the Government will set aside \$50 million to support parent education and to encourage parents to participate in educational affairs. The Education, Health

and Social Welfare Departments will collaborate to produce reference materials featuring children's physical, psychological and intellectual development for parents and child care workers.

65. The Government will consider further promoting flexitime to enable working parents to spend more time with their children and to participate more actively in school affairs and activities organized by parent-teacher associations. I hope that employers will allow more flexibility to enable working parents to give their children better care and attention.

66. I would like to talk about our tertiary education. In developed countries and some major cities in Asia, up to 60% of senior secondary school graduates pursue tertiary education. For Hong Kong, however, the rate is just about half that, not only are we lagging far behind, but we are failing to meet the needs of a knowledge-based economy. It is imperative we catch up. Our objective is that within 10 years, 60% of our senior secondary school leavers will receive tertiary education. By then, we will need to provide about 28 000 additional places for higher education, bringing the total number to around 55 000.

67. In achieving this target, the Government will facilitate tertiary institutions, private enterprises and other organizations to provide options other than the traditional sixth form education, such as professional diploma courses and sub-degree courses. We will consult these organizations, examine the demand and allocate more resources by providing land and one-off loans to those institutions interested in offering such courses. We will further extend the scope of assistance offered to students by the Non-means Tested Loan Scheme and low-interest loan scheme, and will offer fee remission to the most needy students. We need to build a flexible higher education system that offers various channels and different modes of learning, so that everyone can pursue continuing education at different stages of life.

68. Universities are the cradle for nurturing our future leaders, the base for intellectual advancement as well as a key source of impetus for social development. And our universities have taken up these responsibilities with distinction. We must now create the conditions for our universities to further excel in both academic research and the quality of teaching so they can take on more demanding tasks and rise to greater challenges. The EC's recommendations on the development of university education include reforming the university admission criteria, shortening secondary education to six years and

extending the usual length of degree programmes to four years, expanding the transferable credit unit system, enhancing quality assurance and encouraging the establishment of private universities. Over the next two years, the Government will formulate its policies after considering these issues with the EC, the University Grants Committee (UGC) and the eight UGC-funded institutions.

69. In recent years, we have seen significant expansion of continuing education. In future, we will co-operate with the education, industrial and commercial sectors to develop a lifelong learning ladder, and study the implications of establishing a qualifications framework and programme standards. This will help maintain the confidence of employers and professional bodies in the qualifications awarded by the training providers. In the coming three years, the Government will provide \$50 million to enhance its training programme for civil servants and encourage them to pursue continuous and lifelong learning. Indeed, I would urge all employers to encourage their staff to continue their learning and to allow them time for it. I have asked the Financial Secretary to consider raising the maximum self-education deduction for Salaries Tax when preparing the Budget for the coming year.

70. Certainly, institutional reforms can create the conditions to facilitate improvements in the effectiveness of teaching and learning, but whether these actually will occur depends on the leadership of schools and their sponsoring organizations, the capabilities of teachers and the motivation of students. Of these, the key is our teaching force. Our teachers are devoted to their jobs. Many of them are always keen to upgrade their professional standards through continuous learning in their spare time. To provide them with greater support in the next five years, we will step up training for school principals and teachers, encourage communication and co-operation, support the establishment of a General Teaching Council and initiate continuing professional development for teachers. We will also review the performance assessment and promotion systems with a view to rewarding outstanding teachers.

71. Education reform is a mammoth and arduous long-term task, which requires the creation of the necessary complementary conditions. Before we can see results, we need a step-by-step process of implementation, review, improvement and consolidation. In the coming two years, we will focus on upgrading the standards of our teachers, reforming curricula and teaching methods, improving systems of assessment and examination, as well as increasing learning opportunities at and above senior secondary level.

72. As education is our most important long-term investment, we are determined to continue to provide the necessary resources. Full implementation of all the plans I have outlined will increase our annual recurrent expenditure on education by about \$2 billion. In view of the heavy expenditure involved, we will make consistent efforts to provide better quality education in a cost-effective way. More and more individuals as well as organizations are increasingly enthusiastic in supporting education enterprises. They are fully aware of the significance and importance of a joint commitment to this major task. We encourage schools and other educational institutions to make good use of their support. We also call on schools and parents to form co-operative partnerships, providing parents with channels to contribute their resources and efforts. I earnestly hope that everyone, especially educators and parents, will keep an open mind and actively support and participate in these significant education reforms.

73. Young people are the most important elements of our community as they represent our future. Most of our young people today enjoy a healthy lifestyle. They are intelligent, keen to learn, aim high and have outstanding achievements. However, in Hong Kong, as in other places, there is a small number of young people who are at risk, so we should complement our efforts in education with services in the areas of youth protection, development, counselling, support and rehabilitation. In this way we can improve the physical and psychological well-being of our young people, and give timely help to the troubled minority to overcome their problems.

74. We need to enhance our leadership training for outstanding young people to groom them for roles as future leaders of society. Young adults should be given opportunities to play a more active role in community affairs. I have urged our numerous advisory boards and committees to co-opt more distinguished younger members of the community so that we can get a better perspective of the views and aspirations of the younger generation.

75. This year, the Government will expand the Youth Pre-employment Training Programme for job-seeking school leavers. We will also continue with our efforts in implementing "Project Springboard" to encourage young people to continue their education.

76. In paying more attention to young people at risk, we need to devote more resources to help them. As a first step, we have launched the "One Social Worker for Each Secondary School" programme in all secondary schools.

Based on our experience, we will be more flexible in the deployment of resources and strengthen our youth welfare service to enable early detection of problems and provide timely counselling.

77. The tripartite efforts of families, schools and the community are essential in nurturing our next generation. Over the years, many voluntary youth organizations have made important contributions to society in serving our young people with dedication and commitment. The Commission on Youth has presented the Government with many constructive ideas and youth development is at the top of our working agenda for social development. In future, we will require all social policies to take youth development into account. In addition, the Education and Manpower Bureau, the Home Affairs Bureau and the Health and Welfare Bureau have been providing young people with a wide range of services. Last year, there was a fundamental review of expenditure on these services and we will carry out a further study on the co-ordinating structure and consultation mechanism of youth work. We intend to work more closely with non-governmental organizations to explore more effective ways to rally the many positive forces in society and bring them into full play for the betterment of the younger generation.

78. In the overall development of our society we need to improve the quality of life, with a greater emphasis on culture, better social cohesion and more shared values. We also need to foster the development of arts and literature, encourage diversity of thought, and promote the pursuit of studies in various academic fields. And I am pleased to see that the Culture and Heritage Commission and the newly established Leisure and Cultural Services Department have embarked on their task. They are working with vision to instil a passion for learning and intellectual pursuits, arouse greater civic consciousness, environmental awareness, and concern for professional ethics and conduct.

79. Hong Kong's history is intertwined with that of China which is a vast treasure house of culture, traditions and customs. Our young students have much to learn about the history of our country. They should find out more about our great cultural heritage, but at the same time they need to develop a global outlook. We can make the best of our own creativity and enrich our culture in the new era by building on the foundation of an integration of the best of Chinese and foreign cultures.

80. However, it takes more than just culture to build a spiritually healthy society. Sports activities, which underline the principles of fair play and team spirit, are equally important. We will work closely with District Councils, local sports organizations and schools to encourage participation in sports. We will also strengthen our co-operation with the Sports Federation and Olympic Committee, the Sports Development Board and various sports associations in Hong Kong to raise professional standards. And we are co-ordinating closely with the sports sector in our bid to host the 2006 Asian Games. Hosting the games would be a great impetus to the development of a strong sporting culture in Hong Kong. We know we can make the Games a great success.

81. Education in the 21st century should be broad and holistic. Everyone has a role to play. And, I call on the whole community to work together with the Government to nurture a new generation of Hong Kong citizens.

82. Having expounded our work on education and the youths, I turn now to how best we can help the poor and the needy. There is no doubt the Asian financial crisis had a major impact on our community, particularly the lower income families some of whom have suffered a substantial drop in average income levels. This situation has aroused considerable public concern. I know how they must feel. That is why I want to focus on the plight of low income families in the coming year.

83. Unfortunately, the wealth gap is an inevitable phenomenon in the course of economic development. It is not unique to Hong Kong. The social security system we have put in place serves to ensure that the poor can meet their basic needs. It is, however, difficult to narrow the wealth gap in the short term. One major reason is the rapid rise of the knowledge-based economy, which has led to a great demand for well-trained talent with specialized skills required for technological development and application. However, most low-income workers do not have the necessary skills or the educational background to adapt to the new economy, let alone grasp the new opportunities to fundamentally improve their own financial position. Besides, our population is ageing. Without considerable savings or family support, retired persons can find it difficult to support themselves. Moreover, the number of single-parent families continues to increase. Many single parents cannot go out to work because they have to look after their children at home. Therefore, they are badly in need of assistance. Furthermore, quite a number of new arrivals are experiencing financial difficulties because of adaptation problems.

84. Over the past few months, many concern groups have put forward their ideas on helping the poor. I share the views expressed by many members of the community that the problem should be tackled by holistic and integrated social and economic policies. The best solution is to address the problem at source by providing more opportunities for education and ensuring sustained healthy economic development. This approach will create more jobs and facilitate social advancement.

85. The Government provides immediate relief through a range of social services focusing on the disadvantaged. The Comprehensive Social Security Assistance (CSSA) Scheme and the Social Security Allowance (SSA) Scheme help meet the basic needs of the underprivileged. We also offer tangible assistance in respect of housing, medical care, education and rehabilitation. However, we understand these support schemes, even though fully implemented, may not reach every needy member of society for a variety of reasons. So, we will enhance our referral and outreaching services to better understand their needs and provide information on the resources available to help resolve problems. This will help us to do a better job in assisting the poor. Also, we will pay special attention to the elderly and the families of new arrivals who are in need.

86. For those who are still suffering hardship as a result of the ongoing economic restructuring, we need to implement various flexible and effective measures to improve the ability of people to support themselves. These measures include creating job opportunities through social investments and drawing up plans designed to help the most needy in our community. Of these measures, improving training and retraining of grass-roots workers is of paramount importance.

87. In the coming six months, the Government will examine the development of the labour market and consult local trades and industries extensively on the need for skills upgrading. Tailor-made training programmes will then be devised. We have earmarked \$400 million for a wide variety of training programmes in the next two years for both employed and unemployed workers with low education levels. Our aim is to help them upgrade their skills and enhance their competitiveness in the labour market. We estimate that about 50 000 people will benefit directly.

88. The Employees Retraining Board (ERB) has so far received capital injections totalling \$1.6 billion to offer nearly 100 000 retraining places every year. I propose that starting from the next financial year, an annual recurrent subvention of \$400 million be allocated to the ERB so that it has a more stable source of funding, and can therefore draw up plans for the longer term. To encourage people to start their own business, the ERB since August has been offering courses on self-employment on a trial basis to help retrainees start businesses or co-operative societies in areas such as providing cleansing or home help services. The Education and Manpower Bureau is also discussing with the ERB the establishment of a fund to provide shared facilities and other support services for retrainees who want to start up a business, and to offer one-off loans to those who can put forward concrete business plans.

89. As our economic recovery continues, the number of new jobs is rising and the unemployment rate has gradually come down. However, the significant mismatch between job seekers and vacancies has delayed improvement in the overall employment situation. The Labour Department will work with the Social Welfare Department and various training providers to help the jobless and low-income earners to find suitable work. We are particularly concerned about the plight of the older, low-skilled long-term unemployed who find it difficult to find work. In the coming year, the Labour Department will launch, on a trial basis, a one-stop service covering employment counselling, job matching and induction training for these displaced workers. We will provide training subsidies to employers who are willing to engage these workers. We have set aside \$10 million to help about 2 000 long-term unemployed workers aged above 40 by, for example, outreaching staff making home visits to provide relevant information on employment and training courses.

90. The Task Force on Employment chaired by the Financial Secretary has introduced over 40 measures to revive the economy and to relieve the difficulties faced by the community. These measures include the granting of tax concessions and the freezing of government fees and charges. The Task Force has also recommended speeding up the start of government construction projects and strengthening employment placement and counselling services. Over the past two years or so, the implementation of government policy measures and infrastructural projects has opened up many long-term and short-term job opportunities.

91. The Government will, without compromising the principle of a market economy, create new job opportunities in areas where more social investment is required. Some of the areas include:

- Additional staff for up to two years for the anti-smoking campaign and the promotion of healthy living, which will add \$30 million to our annual expenditure;
- Recruiting extra workers to step up our efforts in urban cleansing and greening as well as refuse collection along the coast for a period of two years. This will improve environmental hygiene and help beautify our city. It will increase our annual expenditure by \$94 million;
- Additional staff for two years for environmental improvement and community building in the 18 districts. This will cost \$50 million each year;
- Increase the number of supporting staff in personal care, outreach services and ward services to offer better services to patients. This will increase expenditure by \$243 million per year in the first two years; and
- Enhance services for women, new arrivals, single-parent families, the elderly and the disabled. This will increase our annual expenditure by \$228 million in the coming two years.

92. It is estimated that about 7 000 new jobs will be created by these measures. A further 8 000 jobs are expected to be available next year in other expanded service areas. Subject to the Legislative Council's funding approval, the total number of job opportunities provided by the Government next year will be around 15 000. This does not include the tens of thousands of jobs to be created by various government infrastructure projects which will also help many jobless to find work and earn a living.

93. Apart from creating more jobs and supporting employment, we will provide the poor elderly, children and the disadvantaged with focused assistance.

94. We will direct our efforts to helping the poor elderly in two ways. First, we will speed up their rehousing. At present, over 17 000 low-income elderly families live in non-self-contained private flats or temporary structures. We are very concerned about this, and will step up efforts to encourage and help eligible elderly people to apply for public housing within the next few months. For applications submitted by the end of March next year, we are committed to providing all the eligible applicants with public rental flats by the end of 2003. Second, for those elderly who, because of meagre savings and lack of family support, have to depend largely on their old age allowances for a living, we intend to provide them with additional assistance. We will complete within one year a review of the old age allowance scheme to see if we can further improve their livelihood.

95. For needy students we will add to the various types of financial assistance currently available to them. In a bid to help remove the "digital divide" faced by children of the poor, the Quality Education Fund has agreed to allocate \$200 million for public sector secondary schools to purchase notebook computers for needy students to borrow. And, I would like to take this opportunity to thank those computer companies, software suppliers and Internet service providers for their generous support in providing free or discounted products or services.

96. In addressing the special needs of the disadvantaged, we will design more specific training programmes to ensure better matching between the programmes and the jobs available. The existing training programmes for older workers and people with disabilities, and various other tailor-made programmes will also be enhanced.

97. It is our duty to assist the disadvantaged in society. We plan to allocate over \$2.7 billion in the next two years to finance various measures to help the poor. But I must point out once again that the fundamental way to address the poverty problem is to create ample employment opportunities through sustained economic growth on the one hand, and continuously upgrade the quality of people's skills through education on the other. We must persevere in our efforts in these areas.

98. I should like to take this opportunity to talk about a vibrant third sector. The progress of our community hinges largely on the long-term commitment of our citizens. I believe that in the years ahead, our citizens will play an increasingly active role in serving the community and in voluntary services.

My observation is based on experience from other parts of the world which shows that people in developed economies are on the whole more ready to participate actively in various non-profit-making social services. Non-profit-making and voluntary services, which are outside the ambit of the market and the Government, are often known as the "third sector". In some places, this sector accounts for up to 7% of the economy and can often find solutions to social problems that appear intractable to both the market and the Government. In some developed countries, almost all the best universities, museums, think-tanks and hospitals are run by non-profit-making or voluntary organizations. In Hong Kong, voluntary organizations already provide a vast array of services, but still have great potential to improve in terms of both quality and quantity. I hope that apart from having a highly efficient and modernized market economy and a small and effective government, Hong Kong can also boast a dynamic and growing sector of voluntary services. We will continue to enhance our working partnership with these organizations. Together we will build a better future for Hong Kong.

99. Having discussed our economy and social development, I will now address the question of governance, including three issues of public concern, namely the relationship between the executive and the legislature, accountability and community involvement in public affairs.

100. I will say something, first of all, on our governing philosophy. With reunification, Hong Kong has been exercising a high degree of autonomy in accordance with the Basic Law. The approach of our governance has been to engage Hong Kong people in a collective effort to build a better future while balancing and looking after the interests of all. Governance in a modern society involves three main elements: first, to ensure equality for all before the law, judicial independence and that the rule of law prevails in all spheres of society; second, to respect the rights and dignity, and to safeguard the freedoms of each individual; and third, to maintain a highly transparent and accountable government which supports civic participation. These three elements are not only protected by the Basic Law, but have become a reality in the daily life of the Hong Kong SAR.

101. As the Chief Executive, my primary concern is to ensure the successful implementation of "one country, two systems", so as to enable Hong Kong to continue to progress. Now that Hong Kong has returned to the Motherland, future development of the region is inextricably linked with that of the Mainland.

Over the past two decades, Hong Kong and the Mainland have forged even closer economic ties and have strengthened mutual co-operation. Hong Kong has long benefited from the country's strong support. I still firmly believe that when China succeeds, Hong Kong will prosper.

102. Hong Kong's residents are mostly Chinese, who take pride in their nation. It is only natural that they should stand up and strongly support the nation. Since the reunification, we have had more opportunities to get to know and understand our country. I am pleased to see that this enhanced understanding is affirming the identification of Hong Kong people with our cultural and historical roots. This will provide a basis for developing our future political structure.

103. To safeguard the interests of Hong Kong and our country, we must abide by the Chinese Constitution and the Basic Law. We must earnestly maintain the two systems and work in accordance with the law to preserve our existing systems and way of life, and to protect the rights and freedoms of Hong Kong people.

104. Hong Kong is a pluralistic society. People have the freedom of speech, of assembly, of demonstration, of the press, of academic research and of religious belief. Hong Kong citizens hold diverse views, which are often reflected by the variety of public comments on controversial issues. Nevertheless, our community shares a set of common values, including the importance attached to education, respect for the elderly, caring for children, the emphasis on self-improvement, on charity and on benevolence. We all support upholding the rule of law, maintaining prosperity and stability, and adhering to the principle of "one country, two systems". This provides a basis for us to broaden community consensus while accommodating differences. This can help establish social harmony and facilitate concerted efforts to further the progress of our society.

105. Over the past three years, we have implemented the concept of "Hong Kong people running Hong Kong". The community and the SAR Government have worked together to meet the challenges of the financial turmoil, to restore economic growth and to maintain social stability. Hong Kong's achievements have been acknowledged by the Central Government. Our experience demonstrates that the political system stipulated in the Basic Law can function effectively. Of course, having inherited most of the systems and institutions operating prior to the reunification, the SAR has to go through a process of

adjustment and adaptation before it can function optimally. This process takes time.

106. Our political structure outlined in the Basic Law is the manifestation of a spirit which encompasses respect for history and respect for reality. It establishes the principle of gradual and orderly progress and provides the SAR with 10 years during which we can strengthen the foundation of our political structure and accumulate experience through the process of implementation before taking the next steps. Over the past three years, there have been different voices in the community: some favour expediting political reforms, while others are concerned that Hong Kong's political environment may be changing too rapidly. Constitutional development is obviously a most important subject. It encompasses a wide spectrum of issues. It will have a fundamental bearing on society as a whole. We need to allow for a period of gestation. We also need to create the appropriate conditions and environment, and to enable views to mature through implementation. We have ample time to go through this evolutionary process.

107. The Chief Executive is the head of both the SAR and the SAR Government. He is accountable to the Central People's Government and the Hong Kong SAR. As the Chief Executive, I am responsible for leading the SAR Government, implementing the Basic Law, signing bills passed by the Legislative Council, promulgating laws, deciding on government policies and issuing executive orders, as well as nominating and reporting to the Central People's Government for the appointment or removal of principal officials.

108. The Executive Council assists me in policy-making. It comprises Members drawn from among principal officials, the Legislative Council and public figures. Members of the Executive Council come from various sectors of the community and give me advice under the principles of collective responsibility and confidentiality. Over the past three years, the Executive Council has given me very valuable advice on the major policies and issues which we have addressed. In the light of changing circumstances and according to the demands of the Government's work, I will review the composition of the Executive Council at the appropriate time.

109. The SAR Government represents the executive authorities of Hong Kong, responsible for formulating and implementing policies, conducting a wide range of administrative affairs and drafting and introducing legislation. More than 20

principal officials play an important role in the formulation and implementation of policies pivotal to the effectiveness of the administration.

110. As I have mentioned earlier, following the reunification, a period of adjustment and adaptation is required for our transition from the former establishment to the new administration. The public demand for our officials to be held more accountable is one such example. At present, most of the principal officials' posts are held by pensionable civil servants. The advantages of having civil servants appointed as principal officials are that they focus on objective analysis, establish internal consensus, maintain the continuity of our policies and ensure a high degree of administrative efficiency. The Civil Service places special emphasis on discipline, follows very strict codes of conduct and disciplinary procedures, and has maintained a very high standard of integrity. SAR Government officials at different levels have been very open and active in explaining our policies and accounting for our work to the public, the various councils and the media.

111. I have noted that the previous Legislative Council and the community have expressed the view that as senior officials are involved in policy-making and play a leading role in public affairs, they should be held accountable for the outcome of their policies. As Hong Kong people are now running Hong Kong, I appreciate their aspirations for the SAR Government to be subjected to a higher degree of accountability. I also agree that the SAR Government should respond seriously, undertake a thorough review, and make the system of accountability more complete. We can consider this issue at two levels.

112. The principal officials of the SAR Government at Secretaries and Directors of Bureaux rank assume an important role in policy formulation and implementation which is different from that of other civil servants. Therefore, we should examine how, under the leadership of the Chief Executive, the accountability of principal officials for their respective policy portfolios can be enhanced. This involves very complicated issues. We would need to consider devising a compatible system of appointment for these principal officials, setting out their powers and responsibilities and at the same time defining clearly their role in formulating and implementing government policies under the new system. I appreciate that the people of Hong Kong would like to see the establishment of a comprehensive system of public accountability. A decision will be taken as soon as possible on the basis of our deliberations.

113. Quite apart from these considerations pertaining to principal officials, a system of accountability has always been in place within the Government. We have an impartial investigation system to deal with disciplinary cases and to determine reasonable and appropriate penalties. In future, regardless of the system to be adopted in respect of the appointment of principal officials, we will maintain the stability of the civil service structure, preserve the principles of permanence and neutrality of the Civil Service, and maintain a highly efficient, professional and clean government.

114. I turn now to the legislature and the executive. The powers and functions of the Legislative Council include enacting laws, receiving and debating the policy addresses, examining and approving budgets introduced by the Government, and approving taxation and public expenditure. Under colonial rule, which lasted more than a hundred years, a top-down appointment system was adopted. The legislature and the executive authorities used to operate very harmoniously. However, since the introduction of elected seats to the Legislative Council, the political environment has undergone a profound change. The Basic Law provides for a system of checks and balances and a complementary relationship between the executive and the legislature. Therefore, it is not surprising that there are now divergent views and that, sometimes, tension exists between the two institutions. This is a natural phenomenon in a political system with a division of powers and constitutional checks and balances.

115. While exercising these checks and balances, the executive authorities and the legislature should also seek to complement one another. I firmly believe there is scope for closer co-operation, and to this end I am ready to work together with Members of this Council.

116. At present, through various means in the policy-making process, government officials will discuss with Members of the Legislative Council our thinking and proposals. For instance, after introducing a bill to the Legislative Council, the Government will discuss with Members the rationale and the specific provisions of the bill in a Bills Committee to gather the views of Members and to reach consensus. Our experience shows that this is an effective channel of communication. We will continue with this approach in our deliberations with the newly-elected Legislative Council. We will examine ways of strengthening the existing mechanism of communication, so that the executive authorities will understand fully the standpoints and opinions of

Members of the Legislative Council, and can better ensure that policies formulated and bills submitted will have the support of the legislature. I also hope that throughout the term of the new Legislative Council, the Government and the legislature will work together to resolve problems and to promote all aspects of Hong Kong's future development in a spirit of mutual co-operation and understanding.

117. In Hong Kong, courts at all levels exercise judicial power independently. The Government respects and upholds judicial independence, and acts in accordance with the rulings of the Court of Final Appeal (CFA) and the lower courts. As a SAR, Hong Kong enjoys the power of final adjudication — a unique constitutional arrangement. By comparison, the state or provincial courts of the United States, Canada and Australia are bound by the decisions of their supreme courts under their federal systems. The CFA of Hong Kong, however, has the power of final adjudication on all cases within the SAR's jurisdiction, and the power of interpretation of the Basic Law, Hong Kong legislation and the common law. Our legal system is functioning effectively. Judges from other common law jurisdictions serve in the CFA as non-permanent judges. This signifies full confidence of the international judicial community in our rule of law.

118. It has been 10 years since the promulgation of the Basic Law. After three years of implementation, the people of Hong Kong have a much deeper understanding of the new constitutional system. The Government will continue to strengthen our legal system and uphold the rule of law in every aspect of its administration. We will continue to promote the Basic Law and the concept of the rule of law as well as encouraging our citizens to exercise their rights and fulfil their obligations in accordance with the law.

119. Ten months have passed since the first District Councils of the Hong Kong SAR were established. Their operations are on track. We are considering how the roles of the District Councils in district affairs can be enhanced and ways to give the Councils better support.

120. The success of "Hong Kong people running Hong Kong" hinges on the active participation of all sectors of our community. For example, the Hong Kong, Our Home activities, launched by the Government in collaboration with a number of community groups, have made a positive impact on our community. We want to open up more channels for greater participation by our citizens in

public affairs. This will enable the Government to hear and consider the public's views in formulating appropriate and acceptable policy measures. This is an important basis for our governance. Notwithstanding our adherence to the principle of an executive-led government, the views of the public will be taken fully into account.

121. Various statutory and non-statutory advisory boards and committees have always played an important role in public affairs. At present, about 370 boards and committees, with a total of some 5 300 members, either provide the Government with advice on different policy areas or assist in handling specific issues. Over the years, members of these boards and committees have made significant contributions to society. I am keen to explore ways to enable these community leaders to give full play to their abilities, and for the community to benefit from their wisdom. In future, we will enlist an even wider range of talent. This will ensure that in formulating our policies, we can better reflect the ideas and proposals of both the public and experts.

122. The new era we face is bringing very rapid changes. The SAR Government has to exercise strong leadership, so that we can harness the collective support of the community and master the challenges of change together. My colleagues and I are determined to apply greater efforts to build a dedicated and capable team which shares the same vision and will work together closely to serve the community. We will continue to communicate our policy thinking to members of the public and to listen carefully to their views. We will incorporate these views into our research and studies so as to formulate policies in the best interests of the community, and to promote effective governance. My principal officials and I will do our very best, act with prudence, and reciprocate the community's support.

123. Our experience in the three years since reunification fully demonstrates that the executive authorities, legislature and Judiciary of the SAR are able to function effectively under the Basic Law. The rights of Hong Kong people have been fully protected. In seeking to improve our governance, the priorities are to enhance the accountability of the senior echelon of the executive authorities, to continue to establish an effective and constructive executive-legislature relationship and to encourage greater community participation in public affairs. We will continue to act according to the Basic Law and the actual situation in the Hong Kong SAR to make gradual and orderly progress in furthering Hong Kong's constitutional developments.

124. Madam President, today, I have spoken at some length about the Government's work in the coming year, focusing mainly on three areas — education, poverty and governance. Education reform should be a matter of concern for society generally; the poor need our support; the implementation of various policies requires the monitoring, support and participation of the public. I sincerely hope that every member of the community can join hands with me, sharing common goals, so together we can build a better Hong Kong.

125. Four years ago, when I stood for election as Chief Executive, I presented my vision for Hong Kong entitled "Building a 21st Century Hong Kong Together". In my manifesto I said, "I see a stable, equitable, compassionate and democratic society with clarity of direction and unity of purpose; I see an increasingly affluent and well-educated population, proud of our new identity and our Chinese heritage; I see an economy that is one of the most important in the world; I see Hong Kong, as a Special Administrative Region of China, making significant contributions as China emerges as a leader amongst the community of nations." This vision was well-received then. Since I took office, the SAR Government has been working hard towards this vision under my leadership. We have carried out a wide range of measures and reforms. Considerable progress has been made. However, as I mentioned earlier, certain new initiatives such as those on environmental protection take time to realize the full effects or to see positive results. In achieving our vision, we must move forward with conviction and perseverance.

126. Over the past three years, it has been widely recognized, both locally and internationally, that the Central Government has honoured all its pledges on Hong Kong. The concept of "one country, two systems" has been fully implemented. The Central Government has not interfered in the affairs within the scope of our autonomy and this should have eliminated all the doubts and anxieties that some people had before 1997. With such a high degree of autonomy, it is up to us to determine how well we perform and whether we can continue to progress in the 21st century. Indeed, Hong Kong has achieved remarkable success in many areas. For instance, the consolidation of our judicial system, the further development of our free market economy and the enhancement of our position as an international financial centre have all won widespread recognition. We can certainly take pride in this and look ahead to our future with full confidence.

127. Nevertheless I have noticed in recent times a change in community attitudes. People are more inclined to adopt a mood of scepticism, and criticism — even belittling the capabilities of our own people. I am also aware that many of our citizens are tired of this. Most want a society with greater harmony, less hostility, less unnecessary quarrelling, but more rational discussion. Looking ahead, we still have quite a few problems to address as we pursue Hong Kong's development. We are also facing keener competition as a result of globalization. Instead of indulging in negativism, let us join hands and direct our efforts at making Hong Kong the world city in Asia.

128. This new Legislative Session opens at the dawn of a new century and a new millennium. If we are to seize the many unprecedented opportunities and to meet the challenges that lie ahead, we need a new way of thinking. China is moving into another stage of development, making an all-out effort to step up its modernization programme, and to build a society in which everyone enjoys a reasonable standard of living. Our nation is well down the road to regaining its prominence. Hong Kong is in the right place at the right time. We should cast off our old baggage and work harmoniously together. Building on these strengths, we can continue to open up new horizons and propel Hong Kong to greater success.

NEXT MEETING

PRESIDENT (in Cantonese): I now adjourn the Council until 3.00 pm tomorrow. The Chief Executive will now leave the Chamber. Will Members please stand?

Adjourned accordingly at eighteen minutes past Four o'clock.