

立法會
Legislative Council

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Legislative Council
Panel on Financial Affairs

Minutes of Meeting held on
Monday, 4 June 2001 at 9:30 am
in the Chamber of the Legislative Council Building

Members present : Hon Ambrose LAU Hon-chuen, JP (Chairman)
Hon Henry WU King-cheong, BBS (Deputy Chairman)
Hon James TIEN Pei-chun, JP
Hon Albert HO Chun-yan
Hon LEE Cheuk-yan
Hon NG Leung-sing
Hon Bernard CHAN
Hon CHAN Kam-lam
Hon SIN Chung-kai
Dr Hon Philip WONG Yu-hong
Hon Emily LAU Wai-hing, JP

Non-Panel Members : Hon David CHU Yu-lin
attending Hon LAU Chin-shek, JP
Hon LI Fung-ying, JP
Hon Michael MAK Kwok-fung

Members absent : Hon Eric LI Ka-cheung, JP
Dr Hon David LI Kwok-po, JP
Hon James TO Kun-sun
Hon Jasper TSANG Yok-sing, JP

Public officers attending : For Items III & IV

Miss Susie HO
Deputy Secretary for Financial Services (2)

For Item IV

Mr Benjamin TANG
Commissioner of Insurance

For Item V

Mr Antony LEUNG
Financial Secretary

Miss Denise YUE
Secretary for the Treasury

Mr K Y TANG
Government Economist

Mr Howard LEE
Administrative Assistant to Financial Secretary

Clerk in attendance : Mrs Florence LAM
Chief Assistant Secretary (1)4

Staff in attendance : Ms Pauline NG
Assistant Secretary General 1

Ms Connie SZETO
Senior Assistant Secretary (1)1

I Information papers issued since the last meeting

- (LC Paper No. CB(1) 1235/00-01 -- Review of the concessionary interest rates for certain Government loan schemes
- LC Paper No. CB(1) 1362/00-01 -- Review of the Code of Banking Practice)

Members noted that the above two information papers had been issued since the last meeting.

II Date of the next meeting and items for discussion

(LC Paper Nos. CB(1) 1356/00-01(01),(02) & (03))

2. Members agreed to discuss the following items at the next Panel meeting scheduled for Tuesday, 3 July 2001 at 10:45 am :

- (a) Proper use of fiscal reserves
- Meeting with academics and experts
- (b) Issues relating to the monitoring of the financial position of insurance companies and the compensation arrangements for insurance policy holders

3. Members noted that the Financial Secretary's Office had advised that it was seeking the views of Department of Justice on the legality of charging the expenditure for the purchase of Hong Kong Monetary Authority (HKMA)'s permanent accommodation to the Exchange Fund and would revert to the Panel in due course. The Chairman also informed members that the Legal Adviser of the Legislative Council Secretariat was preparing a paper on HKMA's legal advice on this issue. Members agreed that a meeting should be convened to follow-up the matter when the information was available.

(Post-meeting note: The English version of the paper prepared by Legal Adviser was circulated to members vide LC Paper No. CB(1) 1518/00-01 on 12 June 2001. The Chinese version was issued vide LC Paper No. CB(1) 1892/00-01 on 17 August 2001. The letter dated 19 July 2001 from the Financial Secretary's Office providing the Department of Justice's advice was circulated to members vide LC Paper No. CB(1) 1829/00-01 on 23 July 2001. The Chinese version of the letter was issued vide LC Paper No. CB(1) 1847/00-01 on 30 July 2001.)

III The work of the Advisory Committee on Human Resources Development in the Financial Services Sector of Hong Kong
(LC Paper No. CB(1) 1356/00-01(04))

4. The Deputy Secretary for Financial Services (DS/FS) briefed members on the Administration's paper on the work of the Advisory Committee on Human Resources Development in the Financial Services Sector (the Advisory Committee). She advised that the Advisory Committee was established in June 2000 to provide an on-going mechanism to match the demand for and supply of human resources development programmes in the financial services sector, and to co-ordinate and motivate sector-wide support for human resources development in pursuit of the longer term benefits of the sector. The Advisory Committee comprised 21 members (including the Chairman) who were from the financial services industry, financial regulators, professional bodies, tertiary and other training institutions, and relevant policy bureaux. It had submitted its first report (the Report) to the Financial Secretary. The Report was published in January 2001. A copy was provided at Annex C of the information paper.

5. Mr Henry WU recalled that the Secretary for Financial Services had indicated at the Special Finance Committee meeting on 22 March 2001 that the proposed Admission of the Mainland Professionals Scheme (the Scheme) was a recommendation put forth by the Advisory Committee to address the shortage of professionals in the financial services sector in Hong Kong. He noted from the Report that the Advisory Committee had not conducted any quantitative survey on the manpower shortfall situation in the financial services industry, in particular, no figures on manpower shortfall in respect of the various sub-sectors had been provided. In this regard, he queried the bases for Government to introduce the Scheme. He was also of the view that the Panel should be consulted on the details of the Scheme.

6. Sharing Mr WU's view, Mr SIN Chung-kai asked whether the Advisory Committee had any plan to undertake quantitative studies on the manpower shortage situation in the financial services sector. He considered that the solution would be to provide training and re-training programmes to bridge the gap between the demand for and supply of professionals.

7. In response, DS/FS said that the mission of the Advisory Committee was to develop a visionary view on the human resources development in the financial services sector, to pursue the longer term benefits of the sector as well as the Hong Kong economy as a whole in respect of human resources development, and to cultivate a sense of partnership in the financial services sector in the pursuit of the common goal of enhancing the competitiveness of Hong Kong as a premier international financial centre. At its first meeting, the Advisory Committee considered it necessary to begin with an assessment of the

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users' needs and their views of the quality of the present pool of human resources in the financial services sector. Having considered the findings of the Consultancy Study on the demand for and supply of human resources opportunities conducted in 1998, the Advisory Committee concluded that instead of conducting a quantitative survey, it should focus on discussion with users. A qualitative study was then conducted under which 49 local and international firms were interviewed and consulted on the basis of a questionnaire drawn up for the purpose. The firms selected were of different sizes operating in five sub-sectors, namely banking, fund management, securities and futures, insurance, and legal and accounting. The objectives of the study were to obtain the employers' views on the current human resources development situation, to identify the attributes and qualities which they were looking for at various levels of staff, and to gauge their views on areas for improvement in the present system. DS/ES added that according to the Administration's manpower projection, there would be a serious shortfall in manpower supply in the financial services sector in the next five years. The relevant figures had been provided to the Panel on Manpower. She undertook to provide the information for members' reference after the meeting. Furthermore, she agreed to convey members' suggestion on the need to conduct a quantitative study on the manpower shortage situation for the Advisory Committee to consider.

(Post-meeting note: The information was circulated to members vide LC Paper No. CB(1) 1504/00-01 on 11 June 2001.)

8. As regards the recommendations of the Advisory Committee, DS/ES said that the Advisory Committee considered the importation of talents as an interim measure to meet the projected shortfall of professionals in Hong Kong. Apart from this short term measure, the Advisory Committee had recommended other areas of improvement for implementation in the longer term. They were related to the education system, provision of human resources training programmes, Government's manpower planning strategy, continuing professional development and professional qualification for practitioners, and establishment of a reference database on human resources development.

9. Mr Albert HO noted from the findings of the survey that there were deficiencies in the local education system which had failed to provide good quality graduates to meet the requirements of employers in the financial services sector. He urged that the Report should be forwarded to the Education Commission for consideration. He said that while the Democratic Party was supportive of the Admission of the Talents Scheme which admitted the top-notch talents, it was concerned that the Admission of Mainland Professionals Scheme might jeopardize the job opportunities of local graduates and practitioners, and could be abused by employers. It was also doubtful whether the Mainland financial professionals were of higher quality than local

practitioners and graduates, as the financial services industry in the Mainland was still developing.

10. In response, DS/FS said that the Report had reflected the interviewees' views on the current situation of the human resources development in the financial services sector and their suggestions for improvement. There were specific suggestions that talents from the Mainland were particularly sought after by local employers and that importation of such Mainland professionals should be seriously considered. As regards the concern about possible abuse, DS/FS assured members that the entry criteria would be developed carefully and the Scheme would be closely monitored by the Administration. Those to be admitted to work in the financial services sector under the Scheme would be professionals with high academic qualifications, knowledge and expertise in relevant disciplines who were not available in Hong Kong.

11. Mr CHAN Kam-lam opined that the Report was very comprehensive. While supporting the Advisory Committee's recommendation to admit Mainland professionals as a stop gap measure to address the shortage in manpower supply in the financial services sector, Mr CHAN enquired about the Administration's plans and timetable for implementing the other recommendations of the Advisory Committee. He was particularly interested in the proposed measures to improve the courses relating to financial services provided by the tertiary institutions. Mr NG Leung-sing also asked how the tertiary institutions would widen the perspective and international exposure of local undergraduates.

12. DS/FS said that the Administration recognized that the concerted efforts of all relevant parties were needed to further human resources development in the financial services sector. It was one of the important tasks of the Advisory Committee to maintain an on-going dialogue between the suppliers of human resources and the end users. To this end, the Advisory Committee would seek to enhance the channels of communication among the Government, the industry, the professional bodies, education and training institutions to ensure that the development of human resources in the financial services sector would meet the changing needs of the market. The Advisory Committee would hold a forum on human resources development on 9 June 2001 to provide an opportunity for direct dialogue on the subject among prominent employers in the financial services sector, the academia, university students and policy-makers. More forums and seminars would be organized in future.

13. On recommendations to improve the quality of local graduates, DS/FS said that the Advisory Committee considered it necessary for tertiary institutions to maintain close and regular contact with employers in the industry to ascertain their human resources needs so that curricula and course contents would be reviewed regularly and developed accordingly. It was hoped that

through the regular forums mentioned above, the quality of graduates in financial services-related discipline would meet the expectations of employers. DS/FS supplemented that the Advisory Committee saw the need to strengthen the basic skills of graduates, such as language proficiency, creativity and lateral thinking ability. It also noticed that employers preferred to recruit staff who were brought up locally but educated overseas as they were familiar with the Hong Kong system and had extensive international exposure. Apart from encouraging universities to admit more overseas students, the Advisory Committee supported the expansion of the current international exchange programmes organized by universities, so as to increase opportunities for local students to participate in these programmes which helped to widen their perspective and to improve their language skills. The Advisory Committee also recommended that the private sector should be involved and provide financial support for these programmes. DS/FS said that the details of the recommendations were given in the Report and the Education and Manpower Bureau was co-ordinating the relevant parties to implement these recommendations.

IV Issues relating to the implementation of the Insurance Intermediaries Quality Assurance Scheme (LC Paper No. CB(1) 1356/00-01(05))

14. The Commissioner of Insurance (COI) took members through the information paper which reported on the implementation of the Insurance Intermediaries Quality Assurance Scheme (IIQAS) since its commencement on 1 January 2000. He said that the main purpose of IIQAS was to enhance the professional standard of insurance intermediaries in order to strengthen the self-regulatory regime of the insurance industry in Hong Kong for the better protection of the interests of policy holders. He advised that IIQAS consisted of two parts, namely the Insurance Intermediaries Qualifying Examination (IIQE), which had been running for over one year, and the Continuing Professional Development (CPD) Programme. Exemption from the requirement of IIQE was granted to insurance intermediaries with recognized professional qualifications, or those who were in the insurance intermediary business prior to the commencement date of IIQAS and possessed proven relevant experience. For those intermediaries already practising in the business immediately before the commencement date, but who were not exempted from IIQE requirement, a two-year transitional period was given for them to meet the requirement. On the other hand, all intermediaries would be required to attend the CPD Programme starting in 2002.

15. Members generally supported the implementation of IIQAS which would help enhance the professional knowledge of insurance intermediaries and raise the entry requirement to the profession. However, they considered it important to enhance the professional conduct of the intermediaries and to

improve the quality of their services. Mr Albert HO said that the common practice of the industry where intermediaries orally explained the contents of insurance policies to their clients might cause misunderstanding on the part of policy holders. There had been complaints against intermediaries about improper handling of insurance contracts and claims. In order to assist potential policy holders in understanding complex terms and conditions of insurance contracts and to avoid different interpretations of the relevant clauses, Mr HO suggested that the insurance industry should explore the feasibility of adopting standardized contracts for the same type of insurance products. Such contracts should be recognized by the Insurance Authority (IA) to ensure full compliance by the entire industry. His views were shared by Mr Henry WU.

16. COI stressed that the main purpose of the CPD Programme was to ensure the continued professional competence and standard of the insurance intermediaries. As a prerequisite for renewal of their registration or authorization, intermediaries would be required to comply with CPD requirement which comprises core and non-core activities. Under the CPD Programme, intermediaries would be required to acquire 10 core and 20 non-core credits every year. Details for the implementation of the CPD Programme were being finalized.

17. Noting that a wide range of activities including those run by insurance companies for their own staff were admitted as eligible activities under the CPD Programme, Mr Henry WU expressed concern about the quality control of the Programme and asked whether the IA had any role in assessing the contents of the programmes.

18. In reply, COI said that the core activities of the CPD Programme would be accredited by the Hong Kong Council for Academic Accreditation to ensure that they were of the appropriate quality. Higher credits would be accredited to core activities which consisted mainly of training courses relevant to insurance or related legislation and the regulatory aspects of insurance practices. Training bodies, industry associations and insurance companies were welcome to organize CPD activities, such as seminars, workshops and conferences.

19. As regards conduct supervision of insurance intermediaries, COI said that intermediaries had been operating under a self-regulatory regime since 1995. Intermediaries were required to register with or to obtain authorization from the three self-regulatory bodies, namely the Insurance Agents Registration Board, the Hong Kong Confederation of Insurance Brokers, and the Professional Insurance Brokers Association Limited as appropriate. The system was running effectively and the IA had planned to conduct a review of the regime in the near future. The business and conduct of the intermediaries were monitored by the self-regulatory bodies which also handled complaints against the intermediaries. Misconduct of intermediaries was subject to disciplinary actions including warnings and reprimands. For serious cases,

the registration or authorization of intermediaries would be terminated or suspended. Fraudulent acts of intermediaries were criminal offences. Upon members' request, COI undertook to provide information on complaints relating to intermediaries received in the last three years and the follow-up actions taken for members' information after the meeting.

(Post-meeting note: The information was circulated to members vide LC Paper No. CB(1) 1667/00-01 on 29 June 2001.)

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20. On Mr Albert HO's suggestion for the insurance industry to adopt standardized policy contracts, COI advised that it was already the industry practice to use certain standard contract terms for some general insurance products, such as general liabilities and property damages. The IA and the three self-regulatory bodies worked closely to encourage the provision of better services to the insuring public and greater transparency in the operations of intermediaries. Relevant parties met regularly to discuss issues of mutual concern. Mr HO's suggestion would be referred to relevant bodies for consideration.

21. Noting that up to May 2001 only about 50% of the insurance intermediaries had passed IIQE, Mr Bernard CHAN expressed concern about increased competition in the market for qualified intermediaries. He was also concerned that an intermediary would persuade his existing clients to switch their policies when he changed to work for another insurance company and asked what measures the Administration would take to protect the interests of the policy holders in this regard. In this connection, Mr CHAN also considered it necessary to promote the awareness of the insuring public on their rights and obligations under the insurance contracts they had entered into and the need for them to know their insurance intermediaries well. He asked whether the IA had any plan to step up publicity in this area.

22. Responding to the concern about the switching of insurance policies, COI said that while intermediaries were free to work for different insurance companies, they must not induce their clients to replace their existing policies with those issued by another company. Currently, the protective measure put in place to safeguard the interest of policy holders in relation to policy switching was the Code of Practice for Life Insurance Replacement. Under the Code, which was binding on all intermediaries, both the intermediaries and the clients were required to complete a customer protection declaration form to ensure that the intermediaries had fully explained to and discussed with the clients any real or potential disadvantages of replacing their existing insurance policies. The IA would random check such records during regular inspection to insurance companies.

Admin 23. As regards education and publicity to enhance the insuring public's awareness about their rights and knowledge about their insurance intermediaries, COI informed members that publicity leaflets and booklets on a wide range of related topics had been produced and made available to the public through different channels. Some insurance companies had also sent the materials to their clients on their own initiative. Upon members' suggestion, COI agreed to consider the need for imposing a mandatory requirement for insurance companies to disseminate such information to their clients.

V Briefing by the Financial Secretary on Hong Kong's latest economic situation

(LC Paper No. CB(1) 1329/00-01 -- First Quarter Economic Report 2001 and LC Paper No. CB(1)1430/00-01 -- Reference material tabled at the meeting)

24. The Chairman welcomed Mr Antony LEUNG, Financial Secretary (FS), to the meeting. He advised members that it had been the practice of the Panel to invite FS to brief Legislative Council (LegCo) Members on Hong Kong's latest economic situation. Pursuant to the decision at the House Committee's meeting on 30 March 2001, this meeting would also serve as a forum for Members to exchange views with the newly appointed FS on issues of mutual interest and concern, including his aspirations and vision in managing his policy portfolio, the budgetary process, mode of consultation with Members and management of the fiscal reserves.

Briefing by the Financial Secretary

Hong Kong's latest economic situation

25. On Hong Kong's latest economic situation, FS said that Hong Kong's economy continued to slow down in the first quarter of 2001, with the growth in Gross Domestic Product (GDP) decelerated further to 2.5% in real terms in the first quarter of 2001, from 6.9% in the fourth quarter of 2000. Total exports of goods grew by only 4.2% in real terms over a year earlier. Exports of services held up relatively well mainly as a result of notable growth in inbound tourism. The number of inbound visitors rose to 3.2 million in the first quarter of 2001 representing an increase of 8% compared to a year earlier. Local consumer spending maintained a modest growth of 3% in real terms over a year earlier. Overall investment spending recorded a remarkable growth of 14% over last year and was a double-digit growth for the third consecutive quarter since mid-2000. The performance in residential property remained slack. The number of transactions dropped by 3% as compared to the fourth quarter of 2000 and the total value contracted by 23%.

26. ES said that despite downside risks and uncertainties ahead, he was cautiously optimistic about Hong Kong's economic outlook. External factors affecting Hong Kong's economy included the distinct slow-down in the US economy, the less robust growth in the European Union economies, the protracted slump in the Japanese economy, and the slow-down in the momentum of growth in East Asian economies. In view of these risks and uncertainties, the forecast GDP growth for 2001 had been revised downwards to 3% from 4% in the earlier forecast. However, sustained robust economic growth and continuing reform in the Mainland and China's imminent accession to the World Trade Organization (WTO) were beneficial to Hong Kong's economy.

Strategies for Hong Kong's economic development

27. ES stressed that Hong Kong was facing two major challenges: a restructuring in its own economy and competition arising from the rapid economic growth in the Mainland. Moving from a primarily manufacturing-based economy to a knowledge-based economy, every sector of the economy was compelled to make adaptations in meeting challenges posed by globalization and advancement in information and technology. Enhancement of competitiveness should not only target at cost cutting but the meeting of customers' overall demands. Despite the challenges, Hong Kong had the advantage of its strategic geographical position in the region, its legal system and a well developed infrastructure for international trade. To seize the opportunity for growth, Hong Kong needed to position itself and aimed at becoming the "Manhattan Plus" in the Asian region. Hong Kong should aim at establishing itself as an international financial centre, a commerce and trade centre, a transport and logistic services hub, a telecommunication and tourist centre, a bio-technology and healthcare services centre and a centre for higher education in the region.

28. ES highlighted that it was Government's policy to invest in high-value-added industries as they would spearhead the growth of all other servicing industries. To become a "Manhattan Plus", Hong Kong ought to have the human resources, the capital, and a high inter-flow of goods and telecommunications. For long-term growth, the Government had the duty to provide a suitable environment conducive to economic development. This would mean the provision of the necessary "hardware" such as the basic infrastructure, and the "software" such as the upholding of the rule of law, freedom of speech and free flow of information, a level playing field for businesses, a simple and low tax regime, a clean and efficient civil service, and the development opportunities for the workforce. For medium-term development, Hong Kong should develop its financial services industry and promote tourism. There was a need for increasing the quota for visitors from the Mainland and strengthening economic co-operation with the Mainland, in

particular, with Guangdong Province, and to further enhance the efficiency of the Government and the private sector.

Management of public finances

29. ES stressed the need to maintain adequate fiscal reserves to underpin the exchange rate stability of Hong Kong dollar and to meet contingency requirement during times of economic adversity. Fiscal reserves were public money and should be invested for the interests of Hong Kong's long-term development.

30. On the preparation of the 2002-03 Budget, ES said that consultation with LegCo Members would start on 5 June 2001. He assured members that the Government would be prudent in drawing up the Budget and would consult Members on related expenditure and revenue proposals.

Discussion with members

Inter-Bureau cooperation and public accountability

31. Miss Emily LAU, referring to FS' past work in reforming Hong Kong's education system, enquired how his experience in pushing ahead reforms would help him in his work as the finance chief. Mr SIN Chung-kai, on the other hand, invited FS to share with members how he would work with different policy bureaux engaged in economic development issues for effective formulation and implementation of economic policies.

32. ES said that the most valuable experience he had gained from his previous work as head of the Education Commission was the need to consult the public and relevant stakeholders on Government proposals, and to listen carefully, in particular, to dissenting voices. He assured members that the Government would attach greater importance to the need for effective communication and full consultation with the public in formulating and implementing economic policies. The Government would not push forward reforms hastily merely for quick results. ES further assured members that he had been maintaining good working relationship with the Chief Executive (CE) and the Chief Secretary for Administration. He would endeavour to strengthen co-operation among policy bureaux and government departments for the effective implementation of economic policies.

33. As regards public accountability, Miss Emily LAU referred to FS' appointment on contract terms and sought FS' views on whether the form of appointment system should be adopted for all principal officials with a view to enhancing their public accountability. ES said that the subject was still under study. He envisaged that CE would put forward a concrete proposal for consultation in his coming Policy Address in October 2001.

34. Miss Emily LAU remarked that the recent purchase of permanent accommodation for HKMA using the Exchange Fund had aroused public concern over the transparency and accountability of HKMA's operations. She asked whether the Government had any plan to conduct a review on the current legislation related to HKMA or enable part of its functions to be subject to statutory checks and monitoring.

35. FS recognized the need to strike a balance between enhancing the independence of HKMA in discharging its responsibilities and ensuring transparency and accountability of HKMA's operations. As his predecessor had already suggested, HKMA was conducting an internal review of its organizational structure and powers with a view to further clarifying HKMA's policy objectives, mandates, authority, governance, and accountability arrangements. Since the review was still underway, there was no concrete plan as to how the matter would be taken forward. He assured members that the Government would listen carefully to LegCo Members' views and he welcomed views from the public. While recognizing members' concern in this respect, FS stressed that HKMA had contributed significantly to the stability of Hong Kong's monetary system. Any reforms in HKMA should not be carried out hastily.

Linked Exchange Rate system

36. Mr James TIEN pointed out that owing to the adoption of the Linked Exchange Rate (LER) system, Hong Kong had not been able to recover as quickly as other economies in the Southeast Asian region which had the advantage to depreciate the value of their currencies to enhance their competitiveness. With the weakening of the US currency, it might be an opportune time for Hong Kong to peg its currency to more than one foreign currency, i.e. a basket of currencies, so as to reduce the adverse impact of the strong US dollar on the Hong Kong economy.

37. In response, FS stressed that LER system had helped Hong Kong ride out of the Asian financial turmoil in good shape. Having regard to the present economic situation where there was ample supply of short-term capital but no system to check money flows, Hong Kong, being a small economy with an entirely open market, was vulnerable to external risks. It was not appropriate to de-link the present currency peg or consider linking the Hong Kong dollar to a basket of currencies. FS cautioned that this would give rise to speculation of further changes in the monetary policy and might adversely affect the stability of the Hong Kong dollar.

China's accession to the WTO

38. Mr Bernard CHAN noted that Hong Kong enterprises would face increased competition from overseas companies and Mainland enterprises when China joined the WTO. He enquired about Government's assistance to Hong Kong enterprises in grasping the opportunities ahead and enhancing their competitiveness.

39. FS said that Hong Kong had distinct advantages which enabled it to benefit from China's entry into the WTO. These included its unique location at the doorstep of the vast China market, the high-calibre professionals in the services industries, the independent judicial system, well-developed transportation infrastructure, etc. Yet, it was necessary for local enterprises to enhance their own competitiveness in face of the increased competition. China's accession to the WTO would benefit the financial services sector and related professional services in particular. Local enterprises would gain a competitive edge in operating in the Mainland through merging with and acquiring Mainland enterprises.

40. Sharing Mr CHAN Kam-lam's view that Hong Kong should enhance its economic ties with the Mainland, FS said that the Government would review existing policies and enhance infrastructural links in order to facilitate economic flows and admission of talents across the boundary.

Strategy for the long-term development of Hong Kong

41. While expressing support for the Government to adopt a long-term development strategy focusing on high-value-added industries, Mr NG Leung-sing saw the need to revive the manufacturing sector which still employed a significant proportion of the working population in the short and medium term. One of the possible ways to help the manufacturing industries was to provide suitable land in the New Territories for their operation.

42. In response, FS said that the manufacturing sector had contributed greatly to Hong Kong's economic growth for many decades. However, Hong Kong did not possess the qualities to develop low-skilled yet labour-intensive industries. It was equally beneficial to Hong Kong to develop into a knowledge-based economy by focusing on the development of high-value-added industries. For instance, there would also be great potential for developing the clothing industry by focusing on higher-end activities, such as fashion design, rather than engaging in traditional labour-intensive production processes. FS reiterated the Government's commitment to support the development of the manufacturing sector and he welcomed any concrete proposals on this regard.

43. Mr MAK Kwok-fung expressed concern over Hong Kong's capability to develop into a healthcare services centre for Southern China. He was of the view that without providing the public medical sector with more resources, it would be impossible for the sector to expand its services to the rest of the region. ES said that with continuing economic growth and rising living standard in the Mainland, there would be greater demand for private healthcare services, hence providing room for the private medical sector to expand.

44. Mr Albert HO considered it necessary for the Government to assist the environmental industry as it would not only take the lead in environmental protection but would also create job opportunities. While undertaking to further consider Mr HO's suggestion, ES reiterated that the Government's role was to provide the basic infrastructure to facilitate economic development. Government interference should be kept to the minimum so as to leave room for the private sector to flourish. The Government would have a duty to assist those economic activities which were unsustainable on commercial principles but were beneficial to the public at large.

45. Responding to Mr Albert HO's suggestion of introducing fair competition laws in Hong Kong, ES said that to legislate for fair competition might not be the most effective means to ensure a level playing field for the conduct of business. It would be more important for the Government to ensure that the principle of fair competition had been given due regard at various stages of policy formulation and implementation.

46. On Mr Henry WU's enquiry about Government's role in regulating the financial market, ES said that the purpose of regulation was to protect investors and deter market misconduct. However, the Government must not over-regulate which would constrain market development and innovation.

Strategies in helping low-skilled workers

47. Mr LEE Cheuk-yan said that the low-skilled, less-educated, low-income and middle-aged workers were the hardest hit class in the process of economic restructuring. He expressed concern about the unemployment problem faced by these workers and further deterioration in their livelihood, and enquired whether the Government would consider imposing "minimum wages" in order to protect the interest of these workers. In this connection, Ms LI Fung-ying urged the Government to conduct a comprehensive review on its labour importation policy and to critically re-examine the need of various labour importation schemes in the light of poor employment situation of local workers. Mr MAK Kwok-fung also expressed concern about the social problems, such as poverty and the increasing suicide rate, associated with adversity in the economy.

48. FS said that economic restructuring was inevitably a painful process. While increasing social problems might not be directly related to the structural change in the economy, the Government had already put in place a social security system and introduced new initiatives to address people's needs at times of economic adversity. A knowledge-based economy had a great demand for well-trained talents and professionals to help developing high-value-added industries. As a short-term measure, it was necessary to admit such people from the Mainland and overseas, who were not readily available in Hong Kong, in order to meet the immediate needs of economic development. The sustained growth in high-value-added industries would provide an impetus to related and supporting industries, hence creating more job opportunities for local workers. Nonetheless, the long-term strategy was to upgrade Hong Kong's human capital through reforming the education system and provision of training and re-training opportunities.

49. ES agreed that there was an urgent need to create jobs for the less-skilled workers. To this end, the Government would promote the tourist industry through attracting more visitors from the Mainland and enhancing Hong Kong's attractiveness as a tourist destination in Asia. Growth in the tourist industry would benefit less-skilled workers because of the consequential expansion in job opportunities in related services sectors, such as the catering industry. On the question of minimum wages, ES said that it was inappropriate for the Government to interfere with the labour market by imposing minimum wages. The level of wages should be determined by market forces through adjustment in the demand and supply in labour.

The use of fiscal reserves

50. Mr LEE Cheuk-yan considered that the best way to stimulate the economy was to increase Government spending. In view of the two constraints imposed by the Basic Law which required the Government to keep its expenditure within the limits of revenue and to keep the budget commensurate with the growth rate of GDP, Mr LEE asked whether the Government would consider using the abundant fiscal reserves to fund new initiatives in order to improve the livelihood of the general public. His views were shared by Mr SIN Chung-kai and Mr David CHU. They were of the view that increased Government spending would provide immediate relief to people and would be beneficial to economic recovery.

51. FS emphasized the importance of maintaining fiscal prudence in the management of public finances which meant achieving fiscal balance over the medium term, avoiding recurrent operating deficits in the Government account, and maintaining adequate fiscal reserves. Recurrent operating deficits and unhealthy fiscal reserves position would undermine international confidence and lower the credit rating for Hong Kong. This would also raise borrowing costs for businesses and adversely affect economic growth. Nevertheless,

FS shared members' view that there would be room for the Government to spend more on non-recurrent services to address the immediate needs of the community, such as to create more employment opportunities and to upgrade human capital. He welcomed any views in this respect. FS also advised members that he was aware of public concern about the appropriateness of the guidelines for determining the level of fiscal reserves which was set out in the 1998 Budget Speech. The Government kept the guidelines under review and he welcomed views from Members and the public on the subject.

52. Responding to Mr LAU Chin-shek's call for the Government to continue freezing its fees and charges in order to relieve the hardship suffered by the general public, FS said that the Government would keep its earlier promise of not increasing livelihood-related fees and charges in 2001-02. He nevertheless pointed out the risks of not achieving fiscal balance and the impact of such risks on Hong Kong's long-term development.

53. The Chairman thanked FS for attending the meeting.

VI Any other business

54. There being no other business, the meeting ended at 12:30 pm.