

Press release

HONG KONG LOSES “BEST BUSINESS ENVIRONMENT” SPOT

Hong Kong will lose its position as the Asia-Pacific’s best location for doing business, falling just behind rival Singapore while the region as a whole struggles to keep pace with reforms being made by other countries world-wide. According to the Economist Intelligence Unit’s latest quarterly Business Environment Rankings - an authoritative forward-looking survey of 70 factors affecting operating conditions, from government policy to access to capital - Asia will continue to have a markedly worse business environment than Western Europe or North America during 2002-06.

The operating environment in Hong Kong remains “very good” the highest qualitative assessment provided by the rankings. But its score slips compared with the 1997-2001 historic period, pulling down the SAR from fifth to 11th place out of 60 countries covered by the rankings. (In the previous Business Environment Rankings, Hong Kong was in ninth place for the forecast period.) Singapore, previously second in Asia, moves into first place regionally. “Hong Kong is trying to walk forward, but others are running,” said Graham Richardson, Asia Regional Director for the Economist Intelligence Unit.

This fall in the rankings coincides with a structural change in the rate of GDP growth in the Hong Kong Special Administrative Region (SAR). Economic growth will be boosted during the early part of the 2002-06 forecast period by the recovery of the world economy from the downturn of 2001, reaching a forecast 1.7% this year and 3.9% in 2003. However, while the SAR will continue to gain from its links to China, the growth of the mainland economy will no longer provide the unadulterated benefits that it seemed to during the last two decades. As the mainland economy liberalises, Hong Kong’s special role as an entrepot for visible trade with China is likely to diminish. As a result, Hong Kong’s average annual GDP growth rate over the next five years is likely to drop to 3.3%. By contrast, in the five years prior to the regional downturn of 1998, Hong Kong’s economy grew by an average of 5% a year.

Key concerns: political effectiveness, openness to competition and labour skills

The loss of trade to cheaper ports in China is just one external risk to Hong Kong’s

continuing competitiveness. On the domestic front there are also causes for concern. In the latest survey, Hong Kong loses the most ground in its scores for political effectiveness and for policy towards private enterprise and competition. These fall 9.2% and 9.8% respectively, against the 1997-2001 comparison period. Worsening civil-service morale and the uncertain impact on policymaking of chief executive Tung Chee-hwa's new "accountability" system of political appointees contributed to the drop in the political-effectiveness score for 2002-06. Continuing concern over the government's cosy relationship with certain sectors of the business community, combined with lack of progress in developing a competition law, were among the causes of the expected decline in the competitive environment for businesses.

The quality of the workforce - in particular, the ability to adapt to the new skills required in a knowledge-based economy - also remains a major worry. The SAR's overall labour market score falls 8% between the historic and forecast periods, reflecting concerns over the education system and poor standards of English. "Shortages of highly skilled labour will be an endemic problem as Hong Kong seeks to move up the value chain, said Richardson.

Still one of the world's freest economies, though

Not all the news is bad. "Hong Kong starts from such a competitive position that a slight slippage is hard to prevent," said Richardson. Hong Kong still has, for example, the world's most liberal regimes for taxation and for foreign trade and exchange controls, a fact reflected in its continued No.1 world ranking in both categories. Another rankings category, market opportunities, shows a substantial improvement over the comparison period, with Hong Kong's score advancing nearly 15% on the back of the increased opportunities, particularly in services, anticipated as a result of China's entry to the World Trade Organisation (WTO). But scores are improving faster for countries elsewhere.

Singapore on top

Singapore will pip Hong Kong at the post to become Asia's most attractive place to do business. It, too, is struggling to upgrade its business environment as rapidly as countries elsewhere, and slipped two places in the world-wide rankings. In the latest survey, the city-state overtook Hong Kong in two categories - policy towards private enterprise and competition, and the labour market - and improved its standing relative to the SAR in five other categories, either extending its own lead or narrowing Hong

Kong's advantage. Hong Kong's lead in having a liberal and uncomplicated tax regime also may be eroded as the Hong Kong government considers broadening the tax base to reduce the structural budget deficit; Singapore's government, in contrast, enjoys a much stronger underlying fiscal position, enabling it to consider cuts in both corporate and personal income tax.

In the rest of the region, only India, the Philippines, South Korea, Sri Lanka and Thailand climbed the global rankings. The relative world positions of the other 11 Asian and Australasian countries covered either worsened or were unchanged. The Hong Kong SAR was one of only three countries worldwide whose absolute scores for 2002-06 deteriorate compared with the previous ranking period of 1997-2001.

What are the EIU Business Environment Rankings?

The EIU has developed a global business rankings model, which is applied to the world's 60 largest countries, and seeks to measure the quality or attractiveness of the business environment and its key components. The model considers 70 factors which affect the opportunities for, and hindrances to, the conduct of business in each country. The resulting scores allow us to rank the countries in order of attractiveness to business. The model is used to generate scores and rankings for the past five years, and also for the next five years (using EIU forecasts and assessments of likely business and political developments).

About the Economist Intelligence Unit

The Economist Intelligence Unit, the business-to-business arm of The Economist Group, publisher of The Economist, is the world's leading provider of country intelligence, with over 500,000 customers in corporations, banks, universities and government institutions. Our mission is to help companies do better business by providing timely, reliable and impartial analysis on worldwide market trends and business strategies. Through our global network of over 500 analysts, the EIU continuously assesses and forecasts political, economic and business conditions in 195 countries, and provides insight into how companies are responding.

Overall regional scores

	1997-2001 Total score (out of 10)	2002-06 Total score (out of 10)
North America	8.63	8.71
Western Europe	7.64	8.10
Asia & Australasia	6.33	6.88
Latin America	5.71	6.28
Eastern Europe	5.31	6.27
Middle East & Africa	4.92	5.76
World average	6.33	6.96

Business environment rankings

	1997-2001 Total score (out of 10)	Global rank (out of 60)	2002-06 Total score (out of 10)	Global rank (out of 60)	Change in total score	Change in rank	Qualitative assessment 1997-2001 ^a 2002-06 ^a	
Australia	7.83	15	8.23	15	0.40	0	Good	Very good
China	5.31	42	6.05	42	0.74	0	Poor	Moderate
Hong Kong	8.57	5	8.46	11	-0.11	-6	Very good	Very good
India	5.19	46	6.23	41	1.04	5	Poor	Moderate
Indonesia	5.09	48	5.68	49	0.59	-1	Poor	Moderate
Japan	6.60	26	7.26	27	0.66	-1	Good	Good
Malaysia	6.81	25	6.75	33	-0.60	-8	Good	Good
New Zealand	8.03	12	8.17	16	0.14	-4	Very good	Very good
Pakistan	4.36	52	5.02	58	0.66	-6	Very poor	Poor
Philippines	5.52	38	6.50	35	0.98	3	Poor	Good
Singapore	8.40	7	8.47	9	0.07	-2	Very good	Very good
South Korea	6.35	31	7.27	26	0.92	5	Moderate	Good
Sri Lanka	4.93	49	5.87	46	1.06	3	Very poor	Moderate
Taiwan	7.35	19	8.02	20	0.67	-1	Good	Very good
Thailand	6.27	33	6.35	32	0.58	1	Moderate	Good
Vietnam	4.61	50	5.32	56	0.71	-6	Very poor	Poor

^a Qualitative grades are assigned according to the following scale: very good: score more than 8; good: 6.5 to 8; moderate: 5.5 to 6.4; poor: 5 to 5.4; very poor: less than 5.

Regional rankings

	1997-2001 Regional rank (out of 16)	2002-06 Regional rank (out of 16)	Change in rank
Australia	4	3	1
China	11	12	-1
Hong Kong	1	2	-1
India	12	11	1
Indonesia	13	14	-1
Japan	7	7	0
Malaysia	6	9	-3
New Zealand	3	4	-1
Pakistan	16	16	0
Philippines	10	10	0
Singapore	2	1	1
South Korea	8	6	2
Sri Lanka	14	13	1
Taiwan	5	5	0
Thailand	9	8	1
Vietnam	15	15	0

EIU assessment on Hong Kong unfair

In response to the Economist Intelligence Unit's (EIU) latest Business Environment Rankings report today (April 24), a Government spokesman regretted that the assessment on Hong Kong was unfair and biased over a number of issues, in particular in respect of the new Accountability System.

“The new Accountability System for Principal Officials will improve Hong Kong's governance, as well as preserve the integrity of our civil service system.

“The purpose of introducing the Accountability System is to enable the HKSAR Government to enhance understanding of community sentiments and to strengthen liaison and communication with the Legislative Council, the media, different functional groups and the wider community,” the spokesman stressed.

Under the proposed system, the politically appointed Principal Officials will be underpinned by Permanent Secretaries and a permanent civil service. The Permanent Secretaries and their colleagues will continue to constitute Hong Kong's professional, meritocratic and politically neutral civil service. The permanent civil service will continue to serve the people of Hong Kong and transcend the changes of government following future elections of the Chief Executive.

“This system is very similar to what applies in mature and developed jurisdictions around the world. Therefore, the EIU should have recognised that this approach to governance has been well tested around the world,” the spokesman said.

The spokesman also refuted the EIU's allegation on the morale of Hong Kong's civil service, noting that it was not based on any survey or objective evidence.

“According to a survey report published in February this year by the Political & Economic Risk Consultancy Ltd., Hong Kong's civil service has been viewed as more effective, efficient and responsive in 2002 than in 2001.

“This is seen against the fact that the establishment of Hong Kong's civil service has been reduced by seven per cent from about 198,000 in March 2000 to around 184,000 as at 1 January 2002. It has gone back to the level in 1986-87 while the population

of Hong Kong has grown by 20 per cent, or approximately 1.1 million, since 1987.

“Hong Kong’s civil service remains one of the best in the world. It has always provided stability, continuity, certainty, honesty and integrity,” he said.

On the tax structure, the spokesman underlined the fact that despite record budget deficit, the Government chose not to increase tax or to introduce a consumption tax in this year’s Budget. He said: “As a result, we still have a very simple tax regime as well as one of the lowest tax rates throughout the region, even taken into account any possible changes in the tax regime of Singapore.”

Addressing the EIU’s comment on the lack of a competition law in Hong Kong, the spokesman said: “Hong Kong’s competition policy, based on a broad policy framework applicable to all Government bureaux and departments and supplemented by sector-specific measures, provides us with the flexibility to take appropriate measures to promote competition, having regard to the circumstances in different sectors. For example, we have introduced competition effectively in the telecommunications sector.”

“With an open market and highly competitive economy, we do not see the need to enact an all-embracing competition or anti-trust law. Such legislation has its own inadequacies, for example, rigidity and inability to address the special concerns, circumstances and needs of individual sectors. There are also the risks of over-regulating, leading to protracted litigation and the creation of a large bureaucracy,” the spokesman said.

The spokesman rejected as totally unfounded and misguided the assertion that “the Government had a cosy relationship with some sectors”. He stressed that HKSAR Government was committed to providing a level-playing field and promoting a fair, open and pro-competition business environment.

Refuting the allegation that Hong Kong’s role as an entrepot for trade with China is diminishing, the spokesman said: “Hong Kong has moved forward substantially from a mere entrepot for years. Indeed Hong Kong’s unrivalled geographical location and first-class physical infrastructure means that we will remain as the prime financial, logistics and commercial centre for the region, in particular the Mainland of China.”

“This can be demonstrated by the fact that in 2001 the total number of regional headquarters and regional offices set up by international companies here increased by 7.9% to 3,237 over 2000. Foreign Direct Investment in Hong Kong has been consistently strong in recent years. At the end of 2000, the stock of Hong Kong’s inward direct investment amounted to HK\$3,551.3 billion at market value.

“As pointed out by EIU in the report, there will be increased market opportunities for Hong Kong as a result of China’s entry into the WTO,” he added.

On the quality of the workforce, he said: “We are fully committed to improving the quality of our human resources. That is why the Chief Executive has accorded top priority to education reform. The Government is investing heavily in education and the related expenditure has been increased by 46% over the past four years. We have also made very good progress in upgrading the community’s educational attainment. Between 2000 and early 2002, the participation rate in tertiary education of those aged 17-20 has increased from 32% to nearly 40%. We are confident that within 10 years, this will reach at least 60%.”

“We also appreciate the importance of enhancing the English proficiency of the people of Hong Kong to meet the needs of the global economy. Active steps have been taken to strengthen the teaching and learning of English in schools and to encourage working adults to improve their English proficiency,” he said.

End/Wednesday, April 24, 2002

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- [SCS’ transcript \(24.04.02\)](#)
- [Transcript of FS’ briefing \(24.04.02\)](#)

Transcript of FS' briefing

The following is a transcript of the standup briefing given by the Financial Secretary, Mr Antony Leung, at the Legislative Council Building this (April 24) afternoon:

Reporter: (How do you respond to the results of the EIU? Is it fair comment about Hong Kong?)

Financial Secretary: I think the EIU report on Hong Kong is an unfair one. I believe they take basically an unfair view on the accountability system that we are trying to introduce. It questioned the effect of the accountability system, on the political effectiveness.

In a way actually it is quite ironic for EIU to say it because its headquarters is in London. As we see in all democracies, they have some form of a ministerial system. Indeed, in Hong Kong, we are trying to introduce the accountability system exactly to promote the efficiency of our policy making as well as policy implementation.

Another point that has been mentioned in the EIU report is on the tax structure. It commented that Singapore is making improvements and that Hong Kong may fall behind in due course. Now, despite record budget deficit, we choose not to increase tax or to introduce a consumption tax. We choose to reduce the public expenditure. In particular, we choose to reduce the size of public expenditure as a percentage of the GDP. As a result, we still have a very simple tax regime as well as one of the lowest tax rates throughout the region despite all the possible changes in Singapore. Hong Kong's tax system remains simpler as well as having rates that are much lower. So we believe that this fact should be highlighted in that report.

In addition, the Government is trying very hard to enable the market, the most telling sign really is to reduce the share of Government expenditure or public sector expenditure as a percentage of the GDP. We are also working very hard to reorganise and reengineer the Government so that we can provide better services to the community.

All in all, we believe that we still have a very competitive environment and this in a way is underscored by the number of foreign companies choosing Hong Kong as the

Press Release

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regional headquarter, either choosing Hong Kong as the place to locate its regional headquarter or regional offices. So I believe Hong Kong citizens should have more confidence in ourselves and not be unduly influenced by one of these reports.

Reporter: (Your response to the report's remarks that Hong Kong's competitiveness may be affected as a result of China's entry into the WTO?)

Financial Secretary: Actually, I believe the report, if I remember correctly, (also)highlighted it as a plus. It actually increases the market opportunities for Hong Kong. In that sense, we agree with the report.

(Please also refer to the Chinese portion.)

End/Wednesday, April 24, 2002

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SCS's transcript

Following is the transcript of a media session given by the Secretary for the Civil Service, Mr Joseph W P Wong, today (April 24):

Reporter: Mr Wong, the EIU(Economist Intelligence Unit) Report said that the civil service morale could have been affected by the incoming accountability system. How do you react to the report findings?

Secretary: The EIU statement, as far as I can see from their press release is a general statement. It is not based on survey results nor is it based on any objective evidence.

I can only say that we have received a similar study. The one made by the Political and Economic Risk Consultancy Ltd which I had mentioned in February this year. It is based on a survey of businessmen in the region. And the results indicated that the Hong Kong civil service in 2002 is more effective, more efficient and more responsive than in 2001.

Whereas it is very easy for people to say that our civil service or some of our civil servants may express certain anxiety in the face of various changes which we have brought upon the civil service. But as a whole, our performance and our services to public have not deteriorated. Indeed they have improved over the past years.

Reporter: Mr Wong, we also know that tomorrow a review on the civil service pay and structure will be released. What do you expect from the report?

Secretary: I think this is a subject which has been in the papers in the past few days. It is important to put the matter in context. We commissioned the Standing Commission (Standing Commission on Civil Service Salaries and Conditions of Service), the Standing Committee (Standing Committee on Disciplined Services Salaries and Conditions of Service) as well as the Directorate Committee (Standing Committee on Directorate Salaries and Conditions of Service) to carry out a comprehensive review of the civil service pay system.

The review is in two parts. The first part is an analytical study of the civil service system and the measures these countries have undertaken in recent years so as to

provide a basis for us to see whether or not there are some lessons to be learned. The first phase study will be completed by the middle of this year. As far as I understand, what the Task Force will publish tomorrow is no more than an analytical study made by a consultant. The Task Force will not express any views. It is also very premature to speculate that the Government has taken any position at all. Indeed, the second phase review, which will be the more substantive part of the review, will only take place in the latter part of the year. So my message is really that it is no more than an opportunity for people to understand what other countries have been doing on civil service matters so that they can express their views in a more informed basis.

It is indeed premature to speculate anything. The Government has not taken any position at all on any of the things which are being done overseas.

Reporter: Mr Wong, you mentioned that there would be some guidelines or codes of conduct for politically appointed members. What sort of codes of conduct or what sort of guidelines are they going to be?

Secretary: In announcing the accountability system, the Chief Executive has made it very clear that he would like to see the preservation of the present civil service system. He would like to see all the good qualities in the civil service, such as political neutrality, professionalism, integrity, high efficiency etc., would be maintained. We therefore think it would be useful if we could set this out in the relevant documents, such as the contracts signed by the Principal Officials or in a code of practice which we think will be useful for the Principal Officials to observe.

Of course, the code of practice perhaps will cover a variety of subjects. One of the subjects may very well be the relationship between the Principal Officials and the civil servants, and also some advice on the civil service system.

This would serve two purposes. First of all it would reassure the civil service that we are in a way implementing what the Chief Executive would want us to do, which is to better preserve the system under the accountability system, and secondly to offer some perhaps practical advice and guidance to the Principal Officials so that they also know the essential ingredients of our civil service system. We would like, through this process, to cement the relationship between the Principal Officials and the civil service so that both sides can work in full cooperation and in full partnership. We, of course, will have to take into account the views of interested parties, such as the

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Legislative Council and our civil service colleagues.

(Please also refer to the [Chinese](#) transcript)

End/Wednesday, April 24, 2002

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CS' Speech

Following is the speech by the Chief Secretary for Administration, Mr Donald Tsang, at the luncheon of the British Chamber of Commerce at the Hong Kong Convention and Exhibition Centre today (April 25).

Mr Chairman, distinguished guests, ladies and gentlemen,

Thank you, Norman, for that very kind introduction. As you are undoubtedly aware, the Chief Executive last week announced details of an Accountability System for Principal Officials which we hope will come into effect on July 1. That is its official, bureaucratically-correct title, although most people in Hong Kong and elsewhere commonly call it a “Ministerial” system.

Now, as we all also know, Mr Tung has yet to announce his line-up, so I can't be sure what my own future will be. So, I stand before you today in the guise of Sir Humphrey Appleby. Who knows, the next time I come to see you, I might sound a lot more like Jim Hacker.

I don't want anyone reading too much into this. I simply thought that a mention of these two beloved characters from ‘Yes, Minister’ might be an easy way into exchanging some ideas with you about the changes to government that will take place once the Accountability System comes into effect.

Let me assure you, changes there will be. In some respects, the most significant changes to the way Hong Kong is run that any of us can remember. They are far-reaching, progressive and important in the way government will interface with the governed.

In my view, the changes are definitely for the better. Let me explain why.

I don't think I need to go into deep detail about the new system. It has been widely reported and debated in the local and international media. But the real perspective is that it is simple in concept and familiar to those who come from countries where a Cabinet system is central to the way government is organised.

Press Release

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Briefly, the Chief Executive intends to fill by political appointment certain Principal Official posts, including those of Chief Secretary, Financial Secretary, Secretary for Justice and the Directors of Bureaux – otherwise known as Policy Secretaries. These officials will form the core of his Executive Council - or Cabinet. Each will have a range of responsibilities for which they must answer to the Chief Executive, the legislature and more important the public at large.

They will be employed on contract terms for the duration of the Chief Executive's tenure in office. That is for the maximum of five years. They face the prospect of resignation or dismissal if they fail to deliver the goods. On the other hand, they will earn the respect, gratitude and admiration of the public if they perform up to, or exceed, expectations. If, as expected, some of these posts are filled by civil servants, they will go from lifetime employment terms at the moment to minute-to-minute terms.

This is a somewhat exaggerated way of making the point, but those of you from the private sector will understand the emphasis the system places on performance and results.

So what are the benefits of all of this? To the government? To the Legislative Council? To the public? To the civil service?

First of all, I believe it will make the government more open and, of course, accountable. There will be a much sharper focus on producing policies that are more in tune with public sentiment and aspirations. Principal Officials will need to spend more time tapping into public opinion and addressing the needs and concerns of the community. This will mean more involvement with people at every level of society and a much closer dialogue and debate with LegCo. "Constituency building" will become an important mission of the Government.

I am not suggesting for a moment government by opinion poll or populist whim. I simply mean that our policies and decisions will need to be more sympathetically shaped and more skilfully communicated to meet the rapidly changing needs of our citizens as they cope with challenges brought about by the restructuring of the economy. At core, we will remain a business-friendly government but more businesslike in the delivery of our services.

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Hong Kong has succeeded because it is not in the habit of standing still and, in my view, the fresh thinking and new personalities the Accountability System will bring with it over time are what people want in this day and age. And the timing is right - at the beginning of the second term of the Chief Executive. It's a fresh start.

On this point, I am a little bemused by claims that the new arrangements will turn Mr Tung into some kind of dictator, placing unbridled power in his hands. If you look at the Basic Law, the Chief Executive has all the power he needs. All political and administrative power flows from his constitutional position at the apex of government in Hong Kong. But no one has absolute power in Hong Kong. The proposals of the Chief Executive or the Government can go nowhere, unless the Legislative Council passes our bills and approves our budgets. The constitutional checks and balances have been working according to design. The accountability system will not and cannot add to or derogate from the powers given to the Chief Executive by the Basic Law. More to the point, the Chief Executive is creatively using his authority to create a more recognisable system of Cabinet-style government that is consistent with the executive-led government mandated by the Basic Law. In doing so, he has devolved power and responsibilities to individual Secretaries whose remit will be to drive the approved policies of the HKSAR Government. And be accountable for the success or failure of those policies. Hopefully, there will be much of the former and little or none of the latter.

Surely this is a good thing? And seen in the wider context of Hong Kong's route map towards a more democratic government, the Accountability System must be seen as a positive step in the right direction. That, at least, is how I and my colleagues see it.

Mr Chairman, at this point I would like to address the demand that has been raised for the establishment of some kind of criteria or set of circumstances or mechanism by which Principal Officials would be obliged to fall on their swords. I simply don't see how this could be done in a sensible or equitable manner. If you look overseas - at the UK, for example - Parliamentary and Ministerial conventions have grown over the decades. Sometimes they are observed, sometimes not. When such matters do arise, they are the subject of fierce and sometimes partisan debate.

But common political sense dictates that - outside of criminal behaviour - public officials in high-profile and powerful positions who face life-and-death career decisions should be able to see the writing on the wall, even if their backs are against

it.

Political and administrative scandals have their own way of exploding in the public arena. Those who find themselves at the vortex of such storms usually know when to abandon ship, if only because others will tip them overboard if they don't. So, I think that, like other places, Hong Kong should be allowed to develop over time its own conventions set against its own needs and political and constitutional environment.

The new system will certainly present ample framework against which Principal Officials can be judged. Their first priority will be to draw up a five-year plan for their areas of responsibility. These plans will need to be approved by the Chief Executive-in-Council. Before that, they will have to be argued out in ExCo sub-committees chaired by the Chief Secretary or Financial Secretary. So plans and priorities will have been exhaustively sieved and sifted even before they reach the full 'Cabinet'. To repeat, this process will be familiar to all of you who have grown up with the Cabinet system.

In shaping our agenda in this way, I believe the public and LegCo will have a much clearer idea of the government's vision and goals. We will need to roll out legislation on a year-by-year basis to meet our aims and objectives and targets. I envisage that this will lead to a more prioritised and sharper legislative programme which will enable the government and the legislature to concentrate on a more coherent agenda.

As a result, it will be easier for the entire community to monitor the progress of the government's programme. They will be better able to judge whether we are achieving follow-through on our commitments. That's what I mean when I say that the new system will result in more open and accountable government.

But what does the new system mean for the civil service? After all, as an institution, the civil service has always been at the heart of decision-making in Hong Kong. Will the old dogs in the civil service be able to learn new tricks? I think they will.

I do believe the Accountability System offers tremendous scope for constructive change in the civil service. First of all, it will relieve permanent civil servants who are the current Principal Officials from the Jekyll and Hyde role they now play as politically-neutral civil servants on the one hand, and quasi-political "ministers" on the other. There will be a clear distinction and division of responsibilities between

politically-appointed Principal Officials and permanent civil servants. This is how it should be. Frankly, the current system was becoming untenable, because of how Hong Kong has evolved in recent years, with its robust press and critical legislature. Mr Tung's reforms address this very issue.

By doing so, the Accountability System puts the civil service back on all fours in terms of its role as a professional, permanent, meritocratic, politically neutral body. Our new Principal Officials will have permanent secretaries to advise and assist them in faithfully and earnestly implementing their policies.

Civil servants will continue to offer advice without fear or favour, based on intellectual rigour, objective research and an inherent professional understanding of the nature of the wider public interest born of decades of experience developed in our civil service. They will continue at various levels to support and explain policies to LegCo and the public.

And their interests will continue to be recognised and served by the inclusion of a Secretary for the Civil Service, drawn from the ranks, who will be a full and equal member of the Executive Council where he or she will bring the civil service ethos and experience to bear. I should add that henceforth under the new system, the Permanent Secretaries and the permanent civil service will always be there to serve the Hong Kong community and will transcend the changes of government following elections of the Chief Executive once every five years.

Of course, there will be teething problems and hiccups as the system settles in. That's only natural. To ease the transition, we are developing rules and procedures for the new Principal Officials and revising the Code of Conduct for civil servants to take the new arrangements into account. But I have confidence in the commonsense and pragmatism of the people of Hong Kong to give the new arrangements time to be bedded down.

After that, it will be up to all of us involved in government to live up to the expectations we have created. We have put down some benchmarks by which we can be judged and tested. After all, the proof of this pudding will be in the eating.

Thank you very much.

Press Release

 [Email this article](#) | [Government Homepage](#)

End/Thursday, April 25, 2002

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- [EIU assessment on Hong Kong unfair \(24.04.02\)](#)
- [SCS' transcript \(24.04.02\)](#)
- [Transcript of FS' briefing \(24.04.02\)](#)

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