

# **OFFICIAL RECORD OF PROCEEDINGS**

**Wednesday, 21 April 2004**

**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, G.B.S., J.P.

DR THE HONOURABLE DAVID CHU YU-LIN, J.P.

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.

DR THE HONOURABLE ERIC LI KA-CHEUNG, G.B.S., J.P.

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

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

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

THE HONOURABLE NG LEUNG-SING, J.P.

THE HONOURABLE MARGARET NG

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

THE HONOURABLE JAMES TO KUN-SUN

THE HONOURABLE CHEUNG MAN-KWONG

THE HONOURABLE CHAN KWOK-KEUNG, J.P.

THE HONOURABLE CHAN YUEN-HAN, J.P.

THE HONOURABLE BERNARD CHAN, J.P.

THE HONOURABLE CHAN KAM-LAM, J.P.

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, G.B.S.

THE HONOURABLE WONG YUNG-KAN

THE HONOURABLE HOWARD YOUNG, S.B.S., J.P.

DR THE HONOURABLE YEUNG SUM

THE HONOURABLE YEUNG YIU-CHUNG, B.B.S.

THE HONOURABLE LAU KONG-WAH, J.P.

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

THE HONOURABLE MIRIAM LAU KIN-YEE, 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.

DR 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 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, J.P.

THE HONOURABLE WONG SING-CHI

THE HONOURABLE FREDERICK FUNG KIN-KEE

THE HONOURABLE IP KWOK-HIM, J.P.

THE HONOURABLE LAU PING-CHEUNG

THE HONOURABLE AUDREY EU YUET-MEE, S.C., J.P.

THE HONOURABLE MA FUNG-KWOK, J.P.

**MEMBERS ABSENT:**

THE HONOURABLE HUI CHEUNG-CHING, J.P.

THE HONOURABLE JASPER TSANG YOK-SING, G.B.S., J.P.

THE HONOURABLE LAU CHIN-SHEK, J.P.

THE HONOURABLE AMBROSE LAU HON-CHUEN, G.B.S., J.P.

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

**PUBLIC OFFICERS ATTENDING:**

THE HONOURABLE DONALD TSANG YAM-KUEN, G.B.M., J.P.  
THE CHIEF SECRETARY FOR ADMINISTRATION

THE HONOURABLE HENRY TANG YING-YEN, G.B.S., J.P.  
THE FINANCIAL SECRETARY

THE HONOURABLE ELSIE LEUNG OI-SIE, G.B.M., J.P.  
THE SECRETARY FOR JUSTICE

THE HONOURABLE MICHAEL SUEN MING-YEUNG, G.B.S., J.P.  
SECRETARY FOR HOUSING, PLANNING AND LANDS

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

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

THE HONOURABLE STEPHEN IP SHU-KWAN, G.B.S., J.P.  
SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR

DR THE HONOURABLE SARAH LIAO SAU-TUNG, J.P.  
SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS

THE HONOURABLE FREDERICK MA SI-HANG, J.P.  
SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY

THE HONOURABLE AMBROSE LEE SIU-KWONG, IDSM, J.P.  
SECRETARY FOR SECURITY

THE HONOURABLE JOHN TSANG CHUN-WAH, J.P.  
SECRETARY FOR COMMERCE, INDUSTRY AND TECHNOLOGY

MR ALBERT LAI KWOK-YING, J.P.  
DEPUTY HEAD, CENTRAL POLICY UNIT

**CLERKS IN ATTENDANCE:**

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

MR RAY CHAN YUM-MOU, ASSISTANT 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>
Designation of Libraries Order 2004 .....	47/2004
Antiquities and Monuments (Declaration of Historical Building) Notice 2004 .....	48/2004
Federation of Hong Kong Industries (Addition of a Scheduled Group) Notice 2004.....	49/2004
Construction Industry Levy (Miscellaneous Amendments) Ordinance 2004 (3 of 2004) (Commencement) Notice 2004.....	55/2004
Prisons (Hostel) (Amendment) Order 2004.....	56/2004

**Other Papers**

- No. 76 — Report No. 42 of the Director of Audit on the results of value for money audits - March 2004
- No. 77 — Approved Estimates of Income and Expenditure for financial year 2004/2005,  
Securities and Futures Commission

**WRITTEN ANSWERS TO QUESTIONS****Land Control for Unleased Government Land**

1. **MR LAU PING-CHEUNG** (in Chinese): *Madam President, the Lands Department (LandsD) is responsible for land control for unleased government*

*land and enforcement of lease conditions in respect of leased land. In view of a series of recent revelations about illegal extraction of pebbles from river beds, unlawful occupation of unleased land and construction waste being deposited on private land, and so on, will the Government inform this Council of:*

- (a) the respective establishments and numbers of officers of the Land Executive and Land Inspector grades undertaking the above duties in the LandsD;*
- (b) the respective numbers of inspections conducted and prosecutions recommended in the past three years by such officers in their discharge of the above duties, as well as the number of suspected cases of unlawful acts which were still outstanding after six months; and*
- (c) the review measures to ensure that suspected cases of unlawful acts in this respect have been duly dealt with?*

**SECRETARY FOR HOUSING, PLANNING AND LANDS (in Chinese):**

Madam President, the LandsD's land control and lease enforcement work in the New Territories are mainly undertaken by officers of the Land Executive and Land Inspector grades. Similar duties in the urban area are mainly undertaken by the Estate Officer grade. My reply to the three parts of the question is as follows:

- (a) The staffing position in respect of the concerned grades for lease enforcement and land control work is:

	<i>Lease Enforcement</i>	<i>Land Control</i>
Senior Land Executives	6	8
Land Executives	12	24
Land Inspectors	35	75
Total	53	107

- (b) In the past three years, 52 745 inspections were conducted in respect of land control and lease enforcement work with a total of 26 prosecutions recommended.

Of the cases processed, 91 took more than six months to process. They were lease enforcement cases in which the property owners concerned had applied for a short term waiver and requested deferral of enforcement action by the LandsD during the application processing period.

- (c) To ensure that cases of suspected irregularities are properly dealt with, each District Lands Office (DLO) has drawn up a monitoring chart of such cases. A Senior Land Executive is responsible for monitoring progress of the cases. More serious cases will also be handled by the District Lands Officer personally. After the completion of the control action and depending on the circumstances of individual cases, re-inspections will be conducted by DLO staff within three to six months. This is to prevent recurrence of the irregularities. Cases of suspected irregularities are also considered by DLOs' District Review Boards on a regular basis.

### **Boundary Crossing Arrangements at Lok Ma Chau Control Point During Weekends**

2. **MR HUI CHEUNG-CHING** (in Chinese): *Madam President, many members of the public have reflected to me that when they cross the boundary via Lok Ma Chau (LMC) Control Point during peak periods on weekends, they often have to wait for more than half an hour before immigration clearance procedures are completed, and as there is insufficient room for queuing in the passenger hall, some passengers have to wait outside the passenger hall. Moreover, no special arrangements have been made to facilitate the elderly and the mobility-handicapped to undergo immigration clearance procedures. In this connection, will the Government inform this Council:*

- (a) *of the number of immigration counters at the control point which are open on weekends and public holidays; the circumstances under which all immigration counters will be open; whether it adjusts the relative proportions of the number of arrival and departure*



*immigration counters in the light of the passenger traffic, or diverts passenger by their category to improve and speed up the flow of passenger; if not, of the reasons for that;*

- (b) of the maximum capacity of the passenger hall of the control point; of the arrangements when the capacity is exceeded; whether it has considered providing additional passenger queuing areas; and*
- (c) whether it plans to provide preferential arrangements (for example, special passageways) for the elderly and the mobility-handicapped to undergo immigration clearance procedures at this control point, particularly during peak periods, so that they do not have to wait outside the passenger hall; if so, of the details of such plan; if not, the reasons for that?*

**SECRETARY FOR SECURITY** (in Chinese): Madam President,

- (a) The number of immigration counters operated at the LMC Control Point ranges from 33 to 38 during peak periods on weekends and public holidays and from 27 to 32 in normal periods. When passenger traffic is extremely heavy, such as during long holidays, the Immigration Department (ImmD) will, subject to the prevailing passenger traffic and manpower situation, operate all the 50 immigration counters in the passenger hall to expedite passenger clearance as far as possible. The number of arrival and departure counters operated is flexibly adjusted from time to time to cope with passenger traffic. The ImmD also implements appropriate passenger diversion measures having regard to the processing time required for different types of passengers, including Hong Kong permanent residents, Hong Kong residents, visitors and mainland group travellers, and adjustments are made from time to time in light of prevailing circumstances to speed up the flow of passengers.
- (b) Upon completion of Improvement Works at the LMC Control Point last September, its handling capacity and waiting area were both

enlarged. At present, the passenger hall can accommodate about 1 500 passengers pending immigration clearance. During peak periods, when a large number of passengers pass through the Control Point and the passenger hall is overcrowded, the ImmD will operate more immigration counters and co-ordinate with relevant mainland authorities on measures to ease passenger traffic. The ImmD will also implement appropriate crowd management measures in conjunction with the police. These measures include deploying more officers to maintain order and allowing passengers of coaches or shuttle buses to wait inside the vehicle before being directed into the passenger hall in batches. Given the physical constraint of the LMC Control Point, there is no plan to further expand the passenger hall. This notwithstanding, the handling capacity of the LMC Control Point will still be enhanced as the ImmD rolls out the Automated Passenger Clearance and the Automated Vehicle Clearance systems at control points progressively around end 2004. This should help to alleviate the problem of congestion. Moreover, the Hong Kong-Shenzhen Western Corridor and the Sheung Shui to LMC Spur Line will be commissioned by end 2005 and mid-2007 respectively, and we expect that passenger flow will be diverted to these new crossings which should help to ease the busy traffic at the LMC Control Point.

- (c) At present, two counters at the LMC Control Point, one at the arrival hall and one at the departure hall, are designated for use by the elderly and the disabled. The ImmD is prepared to make flexible arrangements for the operation of such counters in light of passenger needs.

### **Improvement Measures by Hong Kong Examinations and Assessment Authority to Deal with Loss of Examination Scripts**

3. **DR YEUNG SUM** (in Chinese): *Madam President, regarding the improvement measures formulated by the Hong Kong Examinations and*

*Assessment Authority (HKEAA) to deal with the loss of examination scripts, will the Government inform this Council whether it knows:*

- (a) the details of such measures, particularly in relation to the prevention and investigation of the loss of scripts, the penalty imposed on the persons held responsible as well as the remedies (including the arrangements of a re-sit and the resources involved); and*
- (b) if such measures will apply to the Hong Kong Advanced Level Examination (HKALE) and the Hong Kong Certificate of Education Examination (HKCEE) to be held this year, and if the arrangements of a re-sit will apply to school candidates; if not, the reasons for that?*

**SECRETARY FOR THE CIVIL SERVICE** (in the absence of Secretary for Education and Manpower) (in Chinese): Madam President,

- (a) The School Examinations Board of the HKEAA Council has recommended improvement measures to handle the loss of examination scripts under marking for the HKEAA Council's consideration and approval. The Education and Manpower Bureau is aware of these improvement measures, having the Bureau representatives on the HKEAA Council and the School Examinations Board.
  - (i) *Improvement of the Precautionary and Remedial Measures, and Investigation*

The HKEAA is a credible examination body and has implemented a number of improvement measures starting from the 2004 HKCEE and HKALE to handle the loss of examination scripts.

In its press releases of 29 January and 4 March 2004 (at Appendices A and B respectively), the HKEAA has already announced most of the improvement made to the

precautionary and remedial measures, and the investigation procedures.

(ii) *Improvement of the Existing Remedial Measure of Awarding Assessed Grades*

In addition to the announced improvement measures, the HKEAA will, starting from the 2004 examinations, improve its existing remedial measure of awarding assessed grades for cases of lost scripts by considering also the candidate's school result in the subject with reference to his/her schoolmates' public examination results in the subject concerned<sup>1</sup>; and the candidate's public examination results in other subjects, particularly those of a similar nature. This mechanism of grade assessment is in line with international practices, such as Australia, the United Kingdom and other countries of Asia.

(iii) *Penalty Imposed on the Persons Held Responsible*

The marker who has acknowledged receipt of a script and subsequently reported its loss without any acceptable reason will not be re-appointed as marker for three years.

(iv) *The Policy of Re-sit Examination*

This issue involves professional considerations regarding the comparability of public examination results. The HKEAA is considering whether candidates concerned will be offered to re-sit an examination.

- (b) The measures mentioned in (a)(i) to (iii) are being implemented in the 2004 HKCEE and HKALE.

Any arrangement related to the re-sit examination is subject to the deliberation of the HKEAA on its policy.

<sup>1</sup> The reference to public examination results of the candidate's schoolmates does not apply to private candidates.

## Appendix A



香港考試及評核局  
HONG KONG  
EXAMINATIONS AND  
ASSESSMENT AUTHORITY

香港灣仔軒尼詩道一百三十號修頓中心十三樓  
13/F, Southorn Centre, 130 Hennessy Road  
Wan Chai, Hong Kong  
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## Press Release

### Informing candidates whose scripts could not be located

To increase transparency, the Hong Kong Examinations and Assessment Authority has recently decided that candidates whose scripts could not be located would be notified on the day of publication of results. The following measures will be taken:

School candidates will be informed via schools and private candidates will be informed by post together with the results notices. Reasonable time will be given for the candidates to decide whether to accept the assessed grades.

If they do not accept the assessed grades, they will be given a refund of the subject fee and their results to be treated as absent.

- ♦ For single-script papers, no assessment could be made for private candidates. For such cases, the subject fee will be refunded.

Each year the Authority appoints about 5,000 markers and handles approximately two million scripts for the HKAL and HKCE examinations. In 2003, the numbers of missing scripts of HKAL and HKCE examinations were three and two respectively. Stringent measures are taken in checking the scripts to ensure safe custody before markers collect them. Markers are given written instructions not to mark the scripts in public places and they have to preserve the confidentiality of the scripts and to keep them in safe custody. If a script has been confirmed missing despite every possible effort made to locate it, the following remedial actions will be taken:

In the case of multi-paper subjects, the performance of the candidates in the paper with a missing script will be assessed based on their performance in the other paper(s).

In the case of single-script subjects, the school candidate concerned will be assessed based on his/her results at school compared with the relevant public examination results of his/her schoolmates.

The Authority is very concerned about the safe custody of the scripts and would do its best to protect the interests of candidates.

Date: 29 January 2004



香港灣仔軒尼詩道一百三十號修頓中心十三樓  
13/F, Southorn Centre, 130 Hennessy Road  
Wan Chai, Hong Kong  
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## Press Release

### Investigation Report on Handling of Scripts

The Hong Kong Examinations and Assessment Authority (HKEAA) has the following responses to the above report released by the Office of The Ombudsman today:

The Authority processes about two million scripts each year. Stringent measures are taken to prevent scripts from missing, such as reminding markers to keep the scripts in safe custody at markers' meetings. However, similar to the experience of other examination bodies around the world, a small number of scripts are lost each year. In 2003, the numbers of missing scripts in HKALE and HKCEE were three and two respectively. Notwithstanding all these, the Authority agrees with The Ombudsman's Office that one missing script is too many. The Authority welcomes the efforts of The Ombudsman's Office in carrying out the investigation and making recommendations to help improve the Authority's policies and procedures concerned.

The Authority will study the recommendations put forward by The Ombudsman's Office. In fact, some of the recommendations have been put into practice starting from the 2004 examinations. A firm reminder about the safe custody of scripts has been highlighted in the *Instruction to Markers*. A note has also been included that markers who lose any script due to negligence will not be re-appointed. For the small number of markers who lose a script after acknowledging receipt of it, every possible effort will be made to locate the missing script. In addition to this usual practice, the Authority will require the markers concerned to submit a written report which will be filed together with other relevant materials in the investigation.

Regarding the recommendations which involve policy issues, such as offering candidates the option of re-sit, the Authority need to study them in greater detail. The current remedial measures for missing scripts are in line with international best practice. The offer of a re-sit has resource implications, and involves complex measurement problem. The Authority has to explore further the feasibility of this recommendation before a final decision is made.

In the past, the Authority did not inform the candidates about missing scripts to avoid bringing anxiety to them. Our primary concern has been to redress the situation in as fair and objective a manner as possible. The Authority has informed the media of missing script cases and the measures adopted to redress the situation. As a leap forward to further enhancing transparency, the Authority has recently announced its new policy of informing candidates about missing scripts on the day of publication of results.

Each year the Authority appoints about 5 000 markers, who are experienced education professionals, for the HKALE and HKCEE. The good work of these markers should not be tarnished by isolated unfortunate cases. The Authority will work with members of the education community to further improve its procedures to protect the interests of candidates.

-End-

Date: 4 March 2004

## Two-way Flyovers with No Central Dividers

4. **MS MIRIAM LAU** (in Chinese): *Madam President, regarding two-way flyovers with no central divider either on part or the whole of their lengths, will the Government inform this Council:*

- (a) *of the number of traffic accidents involving head-on collisions of vehicles which occurred on such flyovers, the resultant casualties, as well as the percentage of such accidents in the territory-wide figure, in each of the past three years;*
- (b) *whether it plans to retrofit central dividers on such flyovers; if so, of the details of the plan; if not, the reasons for that; and*
- (c) *whether it plans to convert the traffic on such flyovers to one-way operation so as to minimize traffic accidents involving head-on collisions of vehicles; if so, of the details of the plan; if not, the reasons for that?*

## **SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS**

(in Chinese): Madam President, the number of traffic accidents in the last three years involving head-on collision of vehicles on flyovers without central dividers, the resultant casualties and the percentage of such accidents compared with the territory-wide figures are as follows:

<i>Year</i>	<i>Number of accidents</i>	<i>Number of casualties</i>	<i>Percentage</i>
2001	4	4	0.61 %
2002	5	27	0.68 %
2003	3	11	0.46 %

Physical constraints on flyovers with two-way single carriageways make the installation of central dividers not feasible. The presence of a central divider will prohibit vehicles from overtaking stationary vehicles in case of vehicle breakdown or minor accidents. This could result in serious congestion before the lane is cleared. The Transport Department has installed reflective cylinders along these flyovers to draw drivers' attention to the two-way traffic arrangement.

We have no plan to convert these flyovers to one-way operation as this would adversely affect traffic circulation and cause serious congestion in the vicinity.

### **Specification of Responsibilities of Senior Staff by Hospital Authority**

5. **DR LO WING-LOK** (in Chinese): *Madam President, the Administration informed this Council on 17 March that the Hospital Authority (HA) had transferred to the other two Directors the professional services responsibilities of the post of Director (Professional Services and Human Resources). However, the HA announced on 30 March the cancellation of the above arrangement, and the transfer of the incumbent Director (Professional Services and Public Affairs) to the above post with effect from 1 April. With regard to the HA's staff planning for the work on human resources and public affairs, and the specification of responsibilities of senior management staff, will the Government inform this Council whether it knows:*

- (a) *the respective total numbers of senior staff responsible for the work on human resources and public affairs in the headquarters of HA, hospital clusters and public hospitals at present, as well as their responsibilities and the total expenditures on the remuneration and benefits respectively;*
- (b) *if the HA has assessed the need to have one Director and one Deputy Director concurrently for undertaking the work on human resources, given that the incumbent Deputy Director (Human Resources) who assumed duty on 25 November 2002 was appointed for a period of three years; if the assessment result confirms the need, the justifications for that; if the assessment result shows otherwise, whether the HA has terminated the employment contract with the above Deputy Director prematurely; if it has, the time of such termination and the amount of compensation involved; and*
- (c) *the criteria and rules adopted by the HA in determining the addition, deletion and merging of senior management posts, and in specifying the responsibilities of these senior staff?*



**SECRETARY FOR HEALTH, WELFARE AND FOOD** (in Chinese): Madam President, in recruiting the Director (Human Resources), the HA Board was open to considering both external and internal candidates. After a careful and thorough selection process, the Selection Panel considered that Dr KO Wing-man, former Director (Professional Services and Public Affairs) is the most suitable candidate to fill the post. The professional services portfolio of the previous three Directors will continue to be shared between Dr KO and the Director (Professional Services and Medical Development).

- (a) At present, a total of two senior officers<sup>1</sup> are responsible for the work on human resources at the HA Head Office. They are the Director (Professional Services and Human Resources) and the Deputy Director (Human Resources). The total value of their remuneration and benefits package is around \$5 million per year.

With the former Director (Professional Services and Public Affairs) taking up the post of Director (Professional Services and Human Resources) with effect from 1 April 2004, there is not any dedicated senior officer at the HA Head Office overseeing the public affairs function at the present moment. This function is now being shared by all senior officers in the Head Office with the assistance of 14 Information Officer grade staff. The HA is planning to conduct a recruitment exercise in the near future to fill the vacancy of the Deputy Director (Public Affairs) post, which has been left vacant since early 2000, to augment the leadership and expertise needed in the development and implementation of public relations and communications strategies, policies and practices.

At the cluster and hospital levels, no senior officers are specifically designated for the human resources or public affairs functions. The responsibility for overseeing these functions rests with the Cluster Chief Executives and Hospital Chief Executives.

- (b) Having reviewed the HA's top management structure recently, the HA Board concluded that there is an urgent need to strengthen its human resource management function, particularly in view of the

<sup>1</sup> All references to "senior officers" in this reply mean officers with responsibilities remunerated at a level comparable to those of directorate officers in the Civil Service.

recommendations of the SARS Expert Committee Report and the Report of the HA Review Panel on the SARS Outbreak that various aspects of human resources management should be improved, including communication with staff, co-ordination and deployment of human resources during an outbreak and staff training.

Considering the HA's size and the complexity of its organization, and that there are both generic human resource issues as well as specific human resource issues pertaining to the medical professionals that need to be tackled, the HA Board considers that there is a need for a directorate team comprising the new Director (Professional Services and Human Resources), with his medical and senior managerial background, and the Deputy Director (Human Resources), with his professional background, to undertake the work on human resources.

- (c) The HA Board, assisted by its Staff Committee, regularly reviews the structure of the senior management team of the HA Head Office taking into account operational needs and development of the organization. The matters covered by these reviews include the addition, deletion and merger of senior executive posts as well as the delineation of their roles and responsibilities.

### **Running of Teaching Programmes Jointly by Hong Kong and Mainland Tertiary Institutions on Mainland**

6. **MR ABRAHAM SHEK** (in Chinese): *Madam President, it is learnt that one of the major co-operation programmes of the Expert Group on Co-operation in Education under the Hong Kong/Guangdong Joint Co-operation Conference is to participate in the teaching programmes of the Guangzhou University Town. It is also reported that some Hong Kong tertiary institutions have been running teaching programmes jointly with mainland institutions in the Mainland. In this connection, will the Government inform this Council:*

- (a) *of the content, purpose and approach of as well as the financial contribution arrangements for the co-operation programme in relation to the Guangzhou University Town teaching programme;*

- (b) *whether surveys have been conducted on the amounts of expenditures borne by Hong Kong tertiary institutions in running teaching programmes jointly with mainland institutions in the Mainland over the past five years and whether they included funding from the University Grants Committee (UGC); if such surveys have been conducted, of the findings; if not, the reasons for that; and*
- (c) *if the expenditures mentioned in part (b) above included funding from the UGC, whether the Hong Kong authorities have regulated such public-funded teaching programmes in the Mainland, and of the criteria adopted by the relevant Hong Kong institutions for determining that such teaching programmes are compatible with the interests or needs of Hong Kong, as well as the measures taken by the Hong Kong authorities to regulate the use of the public funds in the Mainland?*

**SECRETARY FOR THE CIVIL SERVICE** (in the absence of Secretary for Education and Manpower) (in Chinese): Madam President,

- (a) The Government encourages collaboration between Guangdong Province and Hong Kong in a number of areas including education. Possible forms of collaboration on the educational front include student exchanges and research partnerships. Participation in the Guangzhou University Town was one of the initial ideas mentioned at the Guangdong/Hong Kong Co-operation Joint Conference.

To explore the possibility of collaboration, the UGC led a delegation comprising institutions' representatives to visit the Guangzhou education authority and academic institutions in February 2004. Institutional representatives from Hong Kong and Guangzhou had a direct and useful dialogue. It was understood, amongst other things, that the Guangzhou University Town was one of the several university towns in the Guangdong province. Participation in the Guangzhou University Town by Hong Kong tertiary institutions is, at this stage, a very preliminary idea.

- (b) According to information provided by the UGC-funded institutions, institutions which have jointly organized programmes with their

mainland partners offer such programmes on a self-financing basis, and no UGC funds are involved.

- (c) The UGC does not regulate self-financing programmes offered by the institutions on the Mainland. The institutions may freely engage in academic pursuits in accordance with their respective governing legislation. To avoid dilution of public resources, the UGC stipulates that there should be no cross-subsidy of UGC funds to non-UGC-funded activities.

### **Communication with Members of Election Committee**

7. **MR NG LEUNG-SING** (in Chinese): *Madam President, regarding the contact and communication with members of the Election Committee (EC), will the Government inform this Council:*

- (a) *of the number of formal meetings it has held with members of the EC in respect of public policy issues since the completion of election for the Second Chief Executive, as well as the details of the public policy issues discussed at such meetings;*
- (b) *in order to have a better grasp of the public opinion during the administration process, whether the authorities have assessed the necessity of keeping close contact with members of the EC and the adequacy of the existing work in this regard; if so, of the assessment results; and*
- (c) *whether it has plans to enhance the contact and communication with members of the EC; if it has, of the details; if not, the reasons for that?*

**SECRETARY FOR CONSTITUTIONAL AFFAIRS** (in Chinese): Madam President, taking the question raised by the Honourable NG Leung-sing as a whole, our reply is as follows:

To address public policy issues in a more effective manner, the SAR Government has been making full use of various channels to collect public

opinion extensively. In supporting policy formulation, the Chief Executive and Principal Officials under the Accountability System will maintain communication with various sectors of the community and listen to the views of the relevant business sectors and organizations. Through contacts at the working level, other colleagues of the relevant Policy Bureaux and departments will also strengthen their understanding of the views of various sectors of the community and grasp public sentiment. Having regard to the nature of the policy issues involved, the relevant Policy Bureaux and departments will adopt different means to collect public views.

The statutory functions of the EC are to elect the Chief Executive and six Members of the incumbent Legislative Council. The 800 members of the EC come from four sectors, that is, the industrial, commercial and financial sectors; the professions; the labour, social services, religious and other sectors; and Members of the Legislative Council, representatives of district-based organizations, Hong Kong deputies to the National People's Congress, and representatives of the Hong Kong members of the National Committee of the Chinese People's Political Consultative Conference.

Of the 800 EC members, quite a number have participated in the work of government advisory bodies, while a sizable number are members of the relevant industry or professional organizations, chambers of commerce and non-governmental bodies, and so on. Having regard to the nature of the issues involved, individual Policy Bureaux or departments will conduct consultation with these organizations or bodies. Through these consultation arrangements, we can collect the views of the EC members, with a view to ensuring that our policy proposals can reflect public opinion better.

In future, the SAR Government will continue to strengthen the communication and links with the EC members through their participation in different organizations or bodies, and make our best endeavours to collect their views extensively in the process of policy formulation.

In March this year, the Constitutional Development Task Force led by the Chief Secretary for Administration organized four sessions to listen to the views of the EC members on the issues of principle and legislative process in the Basic Law relating to constitutional development.

**Traffic Volume in Central and Wan Chai**

8. **MR ANDREW CHENG** (in Chinese): *Madam President, regarding traffic volume in the Central and Wan Chai, will the Government inform this Council:*

- (a) *how the actual volume-to-capacity (v/c) ratio of vehicular traffic at critical sections of Gloucester Road during peak hours in 2001 compares with the forecast ratio in respect of 2001 as stated in the Second Comprehensive Transport Study (CTS), which was completed in 1989; if these two ratios differ, of the reasons for that;*
- (b) *on the basis of the assumptions used in the Third CTS, which was completed in 1999, of the respective estimated v/c ratios of Connaught Road Central, Harcourt Road, Gloucester Road and Central - Wanchai Bypass (CWB) in 2011 and 2016; and*
- (c) *of the forecast vehicular traffic arising from the completion of the developments on the reclaimed land earmarked for commercial uses under the Central Reclamation Phase III Project, as well as the impact of such vehicular traffic on the v/c ratios as mentioned in (b) above in 2011 and 2016?*

**SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS**

(in Chinese): Madam President,

- (a) The actual peak hour v/c ratio of Gloucester Road in 2001 was 1.1-1.2 while the forecast v/c ratios as predicted in the Second CTS completed in 1989 and updated in the Third CTS in 1999 were 1.2-1.3 and 1.1 respectively. The actual v/c ratio of Gloucester Road in 2001 was generally in line with the ratios as predicted in the two CTSs.
- (b) As Connaught Road Central, Harcourt Road and Gloucester Road (CRC/HR/GR) form a continuous corridor where traffic conditions of one section will impact on the rest of the trunk route, the Third CTS has come up with a single v/c ratio of 1.3 and 1.4 in 2011 and 2016 respectively for the Corridor without the CWB. Assuming

that the CWB were in place, both the CRC/HR/GR Corridor and the CWB were forecast to have v/c ratios of about 0.9 and 0.7 in 2011 and 2016 respectively.

- (c) As assessed under the Central Reclamation Phase III (CRIII) project, the forecast vehicular traffic arising from the proposed commercial developments on CRIII of an area of about 5.1 hectares is about 1 200 vehicle trips per hour during the peak periods. This traffic was predicted to use mainly the Road P2 network and will therefore have insignificant bearing on the v/c ratios of both the CRC/HR/GR Corridor and the CWB.

### **Cleanliness of Streets**

9. **MS LI FUNG-YING** (in Chinese): *Madam President, it is reported that the cleanliness of streets has been unsatisfactory after the outsourcing of street cleaning services by the Food and Environmental Hygiene Department (FEHD). As a result, the FEHD has to deploy its workers of the Cleansing and Hygiene Section under the civil service establishment to render assistance, which may be tantamount to a waste of public money. In this connection, will the Government inform this Council:*

- (a) *of the number and names of the streets the cleaning services of which have been outsourced;*
- (b) *of which of the above streets the cleanliness was complained about in the past year, and the number of such complaints in respect of each of these streets, grouped by districts in which they are situated; and*
- (c) *whether contractors of cleaning services have been penalized during the above period for violation of the terms and conditions of outsourcing contracts; if so, of the details of the violations and penalties?*

**SECRETARY FOR HEALTH, WELFARE AND FOOD** (in Chinese):  
Madam President,

- (a) The FEHD has outsourced the cleansing service of 2 606 streets to private contractors, accounting for about 63% of the total number of streets in Hong Kong. As the Department does not have a ready list of the names of these 2 606 streets and it requires extensive work to collate such information, a full list of the names cannot be provided here within such a short timeframe.
- (b) From April 2003 to March 2004, the FEHD received a total of 6 787 complaints about the cleanliness condition of the above streets. About half of the complaints were found to be substantiated. Given the large number of streets involved in the outsourcing exercise, information on the number of complaints received in respect of individual districts or streets is not readily available. Upon receipt of such complaints, the FEHD will take immediate follow-up action. If the complaints are found to be substantiated, the FEHD will require the contractors concerned to rectify the problems within specified periods of time.
- (c) The FEHD attaches great importance to the quality of service provided by cleansing contractors and tasks its staff to conduct field inspections. If contractors are found to be in breach of contract terms (such as street cleanliness not up to standard, inadequate clearing of refuse bins), the FEHD will issue warning letters in accordance with the terms of the relevant contracts. If the contractors fail to rectify the problems within the specified periods of time, the FEHD will issue default notices to impose penalty to the contractors in terms of deduction of contract fees.

From April 2003 to March 2004, the FEHD issued a total of 806 warning letters and 755 default notices to contractors for breach of contract terms. About \$1.7 million of contract fees were deducted as a result.

### **Emissions and Dumping at Sea**

**10. MR BERNARD CHAN:** *Madam President, will the Government inform this Council:*



- (a) *of the categories and amounts of pollutants emitted by marine transportation vehicles, as well as the amounts of litter found in Hong Kong waters, in each of the past three years; and*
- (b) *what measures have been taken by the authorities to reduce the above emissions and dumping at sea; and what would be done by them to further reduce pollution?*

**SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS:**  
Madam President,

- (a) The major pollutants produced by marine vessels in Hong Kong waters include oily water, chemical waste, sewage and air pollutants. The amounts of oily water and chemical waste generated by marine vessels and collected for treatment by the facility provided by the Environmental Protection Department (EPD), the estimated volume of sewage generated by marine vessels and the quantity of floating refuse scavenged by the Marine Department (MD) in Hong Kong waters in the past three years are set out below:

	2001	2002	2003
Oily water	22 280 tonnes	15 170 tonnes	16 170 tonnes
Chemical waste	15 450 tonnes	12 940 tonnes	8 490 tonnes
Sewage <sup>1</sup>	3 800 cu m daily	3 800 cu m daily	3 800 cu m daily
Floating refuse	9 400 tonnes	9 280 tonnes	11 460 tonnes

We do not have the estimations of the major air pollutants emitted by marine vessels in Hong Kong waters for the past three years.

- (b) The Waste Disposal Ordinance (Cap. 354), the Water Pollution Control Ordinance (Cap. 358) and the Air Pollution Control Ordinance (Cap. 311) provide overall control of waste disposal and prevent the pollution of our waters and atmosphere. The Summary Offences Ordinance (Cap. 228) is also used to prosecute littering at

<sup>1</sup> It is estimated that marine vessels generate about 3 800 cu m of sewage daily. Such sewage is normally treated by facilities installed on the vessels if it is to be discharged in Hong Kong waters instead of open waters. The level of sewage generated by marine vessels constitutes about 0.16% of the total quantity of sewage generated in Hong Kong daily.

sea. Moreover, there are also two other ordinances which specifically govern the proper handling of pollutants generated by marine vessels:

- (i) the Shipping and Port Control Ordinance (Cap. 313) which prohibits pollution of the sea by oil or smoke emissions in such a quantity as will cause nuisance in Hong Kong waters; and
- (ii) the Merchant Shipping (Prevention and Control of Pollution) Ordinance (Cap. 413) which controls oil pollution, the disposal of garbage and the discharge of noxious liquid substances and harmful substances through preventive measures. This Ordinance gives effect to the International Convention for the Prevention of Pollution from Ships (the MARPOL Convention) in Hong Kong. The MARPOL Convention is the main international convention covering prevention of pollution of marine environment by marine vessels.

Operators of marine vessels have to abide by the above ordinances. The relevant government departments take rigorous enforcement action under them. Apart from stepping up enforcement, we will continue to promote public awareness of the importance of keeping Hong Kong's marine environment clean through various educational campaigns and publicity initiatives.

To further strengthen the control of pollution from marine vessels, the Administration will extend all Annexes to the MARPOL Convention to Hong Kong. In this connection, we are preparing two pieces of new subsidiary legislation, namely, the Merchant Shipping (Prevention of Pollution by Sewage) Regulation and the Merchant Shipping (Prevention of Air Pollution by Ships) Regulation, under the Merchant Shipping (Prevention and Control of Pollution) Ordinance (Cap. 413) to regulate the disposal of sewage and the emission of air pollutants from marine vessels. After the enactment of two new regulations, the requirements for prevention of pollution under all Annexes to the MARPOL Convention will become applicable to Hong Kong.

**Police's Removal of Protesters and Journalists at Central Government Offices**

11. **MS CYD HO** (in Chinese): *Madam President, it has been reported that at about 4 am on 2 April this year, protesters and journalists at the Central Government Offices (CGO) were removed by the police and the security guards of CGO from the scene. The protesters were there opposing the move by the Standing Committee of the National People's Congress to interpret the provisions of the Basic Law concerning the political structure of the Hong Kong Special Administrative Region, whereas the journalists were reporting at the scene. In this connection, will the Government inform this Council whether the Director of Administration who is responsible for the management of CGO:*

- (a) *was at the scene to personally look into and deal with the demonstration activities taking place inside and outside the precincts of CGO at that time; if not, the rationale for being able to handle such activities without being there;*
- (b) *made the decision to remove the protesters and journalists within the precincts of CGO, including using force to clear the scene; if so, of the rationale for making the decision; if not, who made the decision; and*
- (c) *has the duty to safeguard the public's right of peaceful expression and the press media's right to know within the precincts of CGO; if so, whether an assessment has been made to ascertain if she properly performed her duty when handling the above demonstration activities; if assessment has been made, of the results; if she has no such duty, whether the person(s) making the removal decision had consulted the Chief Executive and principal officials beforehand to ensure that the rights of the public and journalists were duly respected?*

**CHIEF SECRETARY FOR ADMINISTRATION** (in Chinese): Madam President,

- (a) Upon receiving report that a group of students had barged into the CGO, the Director of Administration immediately dispatched a directorate officer to the scene to gauge and oversee the situation

according to established emergency arrangements. The officer concerned reported and updated the developments regularly to the Director of Administration and had, on the instruction of the Director, made repeated attempts to maintain direct communication and dialogue with the students while liaising closely with the police present at the scene. Throughout the incident, the Director of Administration, while being kept informed by the directorate officer deployed to the scene, was also in close contact with the police and the Information Services Department to ensure the full information for the effective co-ordination and appropriate handling of the situation.

- (b) The Administration Wing is responsible for maintaining the effective day-to-day operation of the Government Secretariat. With this in mind, and having regard to the special circumstances at that time, the Administration Wing had offered to arrange an early meeting between the students and the Constitutional Development Task Force (the Task Force), and let the students enter the CGO in the morning to hand in their petition letter direct to the responsible senior official. However, the students raised other questions and refused to leave the CGO. Having served three verbal warnings to the students but to no avail, the Administration Wing brought the students away with the assistance of the security guards. Parties concerned exercised restraint in the course of the action without the need for the police's intervention. As to those reporters also staying within the CGO, they left on their own accord after the students had gone. Neither the Administration Wing nor the police took any action to obstruct these reporters from covering the news.
- (c) The Government Secretariat is where the Policy Bureaux and core offices of the Government are housed. It is essential for the Government Secretariat to remain free of interference and maintain its effective day-to-day operation. The Administration Wing is tasked with the management of the Government Secretariat. While we are given the responsibility to maintain the effective operation of the Government Secretariat, we also recognize and accept the public demand for direct expression of opinions to the Government. To strike a balance between the two, we have put in place a mechanism to handle applications from community groups/individuals who

intend to enter the CGO for petitions or public meetings on Sundays and public holidays. We have also made special arrangements for groups/individuals to hand in their petition letters direct to Members of the Executive Council during the Council meetings on Tuesdays. As for other working days, groups/individuals may lodge their petitions, hand in letters or express their opinions in other ways in the public activity area outside the west gate of the Government Secretariat. Arrangements are also made to facilitate news reporting within the CGO.

As stated above, after the students had barged into the CGO, the Administration Wing kept its efforts to maintain a dialogue with the students and persuade them to leave the Government Secretariat voluntarily. Offers were also made to arrange for the students to express their opinions direct to the Task Force. Although in the end the students refused to leave the Government Secretariat, we had kept our promise and arranged for the students to meet the Task Force in the morning of 3 April, so that they could express their views to the Task Force members directly.

### **Interruption in Electricity Supply**

12. **MR LEUNG FU-WAH** (in Chinese): *Madam President, it has been reported that on the evening of the 11th last month, temporary instability in the electricity supply from CLP Power Hong Kong Limited (CLP Power) in some parts of the territory caused operational failure of at least 12 elevators, with some people trapped in them. In this connection, will the Government inform this Council:*

- (a) *whether it knows the causes of the incident;*
- (b) *of the number of incidents of interruption or instability in the electricity supply over the past three years, together with their causes;*
- (c) *whether it has reviewed the effectiveness of the measures adopted by the two power companies to prevent failure in the electricity supply systems; if it has, of the details of the review; and*

- (d) *of the mechanism to monitor that the technical people employed by the two power companies and their contractors of outsourced services possess the relevant trade skills, so as to ensure the reliability of the electricity supply systems?*

**SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR** (in Chinese): Madam President,

- (a) According to the preliminary findings of the Electrical and Mechanical Services Department (EMSD), the momentary power voltage fluctuation on 11 March 2004 was due to a short-circuit inside a sealed 400 kV switchgear unit in CLP Power's Castle Peak Substation.
- (b) According to reports submitted to the EMSD by CLP Power, the numbers of incidents of power instability or interruption in its supply network and their causes in the past three years are as follows:

<i>Causes</i>	<i>Power Instability</i>	<i>Power Interruption</i>
Third Party Damage on Electricity Supply Lines	15	388
Inclement Weather	9	43
Equipment Fault	3	45
Others (for example, problems with customer installations)	6	22
Total	33	498

- (c) and (d)

The reliability index of electricity supply in Hong Kong, which exceeds 99.99%, is one of the highest in the world. To minimize the possibility of major supply interruptions in Hong Kong, the EMSD monitors the power supply by the two power companies to

ensure that best operational requirements and engineering practices are complied with. The EMSD also carries out regular reviews and inspections of the electricity supply systems of the two power companies to ensure that they are being operated safely and reliably having regard to the requirements of the Electricity Ordinance and internationally recognized codes of practice. The EMSD will also ensure that engineers and technicians who work on the electricity supply systems possess the requisite qualifications and professional training in accordance with the Electricity Ordinance. Similarly, outsourced electrical work can only be undertaken by electrical contractors and workers registered by the EMSD under the Ordinance. The EMSD will take appropriate action against a contractor in accordance with the Electricity Ordinance if it is found to have employed electrical contractors or workers who have not been registered to undertake electrical work.

### **English/Putonghua Teachers to Attain Language Proficiency Requirement**

13. **MR CHEUNG MAN-KWONG** (in Chinese): *Madam President, English/Putonghua (PTH) teachers in government, subsidized, Direct Subsidy Scheme, and private primary, secondary and special schools in Hong Kong are required to have attained the language proficiency requirement (LPR) for teachers by 31 August 2006. In this connection, will the Government inform this Council:*

- (a) *among the English/PTH teachers in these schools in the current school year, of the respective numbers of teachers who;*
  - (i) *are exempted from the LPR;*
  - (ii) *have scored a pass or above in the Language Proficiency Assessment for Teachers (LPAT);*
  - (iii) *took the LPAT held in March this year;*
  - (iv) *have completed the LPAT training courses;*

- (v) *are attending the LPAT training courses;*
  - (vi) *are attending relevant degree courses in order to be granted exemption;*
  - (vii) *have enrolled in the LPAT training courses which have not yet commenced; and*
  - (viii) *have enrolled in the relevant degree courses which have not yet commenced;*
- (b) *of the number of English/PTH teachers that these schools will need in the next three school years;*
- (c) *whether it has evaluated the number of English/PTH teachers who will not have attained the LPR after the abovementioned deadline, if it has, of the method and outcome of the evaluation; and*
- (d) *if the evaluation outcome indicates that there will be teachers who will not have attained the LPR by then, how the authorities will handle these teachers and of the measures resolve the problem of inadequate English/PTH teachers who have attained the LPR?*

**SECRETARY FOR THE CIVIL SERVICE** (in the absence of Secretary for Education and Manpower) (in Chinese): Madam President,

- (a) Among the English/PTH teachers in the schools referred to in the question, in the current school year:
- (i) number of teachers exempted from the LPR

	<i>Primary</i>	<i>Secondary</i>	<i>Total</i>
English Teachers	906	2 181	3 087
PTH Teachers	578	403	981



- (ii) number of teachers who have got a pass or above in all papers of the LPAT (LPR met) or in some papers of the LPAT (in progress)

	<i>Primary</i>		<i>Secondary</i>		<i>Total</i>	
	<i>LPR met</i>	<i>in progress</i>	<i>LPR met</i>	<i>in progress</i>	<i>LPR met</i>	<i>in progress</i>
English Teachers	559	2 887	561	1 057	1 120	3 944
PTH Teachers	611	1 441	281	607	892	2 048

- (iii) number of candidates who took the LPAT in March this year

English            4 810    (number claimed to be teachers = 3 540)

PTH                2 240    (number claimed to be teachers = 1 590)

- (iv) number of teachers having completed the authorized Language Proficiency Training Courses

	<i>LPR met (all modules completed)</i>	<i>in progress (some modules completed)</i>	<i>Total</i>
English Teachers	1 467	2 938	4 405
PTH Teachers	1 168	761	1 929

- (v) and (vii)

From September 2003 up to now, there are 7 506 and 7 005 counts of teachers enrolled in different modules of the English and Putonghua Language Proficiency Training Courses respectively. Since these training courses are mostly short courses of different duration and the number of teachers attending and the number of teachers who have not yet commenced are continuously changing, we do not have the breakdown for these two figures.

- (vi) and (viii)

The Education and Manpower Bureau does not have the required figures.

- (b) Estimated number of English/PTH teachers required in the next three years:

	<i>2003-04 school year</i>		<i>2004-05 school year</i>		<i>2005-06 school year</i>	
	<i>English</i>	<i>PTH</i>	<i>English</i>	<i>PTH</i>	<i>English</i>	<i>PTH</i>
Primary	5 489	1 372	5 344	1 336	5 150	1 287
Secondary	6 032	2 262	6 097	2 286	6 191	2 322

- (c) The number of teachers required in each school year, as shown in the table above, is estimated based on the projected school age population in that particular year. The number of English teachers required is calculated on the assumption that English lessons occupy 20% of the curriculum time. For PTH, the number of teachers required is calculated on the assumption that two PTH periods per week are allocated to primary classes and three PTH periods per week to secondary classes. An additional 20% of language teachers are included in the estimated number to allow flexible manpower deployment. As of March 2004, the number of English and PTH teachers who have attained the LPR is 4 980 and 1 957 respectively. The number of English and PTH teachers who have partially met the LPR is 5 773 and 2 858 respectively. As the enrolment in language proficiency training courses and the number of teachers taking the LPAT are on the increase, and some teachers would meet the LPR by exemption, it is estimated that there will be enough teachers meeting the LPR by the end of August 2006.
- (d) Based on the situation described in (c), it is anticipated that there will be enough English/PTH teachers attaining the LPR by 31 August 2006. In the 2006-07 school year, English/PTH teachers who still cannot meet the LPR will not be eligible to teach these subjects. These teachers can be redeployed to teach other subjects.

### **Standardization of Handling of Applications by Elderly for Subsidized Long-term Care Services**

14. **DR LAW CHI-KWONG** (in Chinese): *Madam President, the Social Welfare Department (SWD) standardized the handling of applications by the*

*elderly for subsidized long term care (LTC) services in November last year. Upon registration and completion of assessment on their care needs, applicants will be registered on the central waiting list (CWL) to wait for appropriate services. In this connection, will the Government inform this Council:*

- (a) of the following since the establishment of the CWL,*
  - (i) the respective numbers of newly registered cases the relevant authorities have received regarding application for residential and community care services;*
  - (ii) the number of cases on which assessment has been completed;*
  - (iii) the number of the elderly who have been assessed to be eligible for residential care services and, among them, of the number of those who are willing to continue to reside in the community and accept a switch to community care services;*
  - (iv) the number of cases in which the applicants have rejected the services offered by the authority concerned and the reasons for rejection, with a breakdown by type of services;*
  - (v) the respective average waiting times for the elderly who have been offered residential and community care services;*
  - (vi) the number of cases in which applicants are assessed to be ineligible for the services applied and the reasons for ineligibility;*
- (b) whether there have been any LTC service places not being utilized; if so, of the details;*
- (c) given that prior to the implementation of the CWL, applicants for community care services could approach individual service units directly to enquire about the queuing situation, of the channels available to them to make such enquiries at present; and*
- (d) whether the applicants can choose the organizations to provide community care services to them?*

**SECRETARY FOR HEALTH, WELFARE AND FOOD** (in Chinese): Madam President, the SWD introduced the CWL for subsidized LTC services for the elders on 28 November 2003. Elders who wish to apply for any of the LTC services after that date have to be assessed of their LTC needs by completing the Standardized Care Need Assessment first. Those assessed to have LTC needs may then apply and waitlist for eligible LTC services.

On the specific questions raised by Dr LAW Chi-kwong, the answers are as below:

(a) (i) and (ii)

Between 28 November 2003 and 31 March 2004, 3 481 elders have newly registered with the SWD for Standardized Care Need Assessment. By 13 April 2004, the SWD has completed the assessments on 2 874 elders. 2 533 were assessed to have LTC needs, and might apply for those LTC services for which they were assessed to be eligible. As at 31 March 2004, 1 672 applied and were placed onto the CWL.

- (iii) Of the 2 533 elders who were assessed to have LTC needs, 2 422 elders were considered to be eligible for residential care services. The remaining 111 were assessed to be eligible for community care services only.

As at 13 April 2004, 339 of the 2 422 elders who were considered to be eligible for residential care services have waitlisted for or received community care services, in addition to waitlisting for residential care services. Another 162 elders have waitlisted for or received community care services only.

- (iv) As at 31 March 2004, 1 672 of the 2 533 elders who were assessed to have LTC needs have already applied for one or more of the LTC services for which they were assessed to be eligible. As for the remaining 861 elders, some are still considering whether or not to apply for any of the LTC

services. The SWD does not have ready information showing how many of the 861 elders have already decided not to apply for the services. Also, as the SWD will not know the reasons why they do not apply, it is not possible to tell how many do not apply because they reject the services recommended by the SWD on the basis of the outcomes of the Standardized Care Need Assessment.

- (v) The average waiting time for applicants admitted to residential care services and community care services for the period from December 2003 to March 2004 is as below:

<i>Types of LTC services</i>	<i>Average waiting time (number of months)</i>
Nursing homes	38.9
Care and attention homes	21.4
Day care centres/units for the elderly	2.6
Enhanced Home and Community Care Services/Integrated Home Care Services (Frail cases)	1.4

- (vi) Of the 2 874 elders whom the SWD has completed assessment, 341 were assessed to be not having reached an impairment level of moderate or above, and were not eligible for LTC services. The social workers of these elders will attend to their other welfare needs and refer them to appropriate services where necessary.
- (b) As at 31 March 2004, there are on average around 0.7% vacancies in care and attention homes and about 1% in nursing homes. The figures cover subsidized places in subvented homes, the Enhanced Bought Place Scheme and contract homes. Almost all of them are casual vacancies and are usually filled up shortly afterwards.

About 15% of the places in the day care centres/units for the elderly, and about 23% of the places in the Enhanced Home and Community Care Services and Integrated Care Services (Frail cases) were not yet being fully utilized as at 31 March 2004.

- (c) Applicants may lodge enquiries on their applications for community care services to the SWD's five Standardized Care Need Assessment Management Offices (Elderly Services) through the SWD/Non-Government Organizations' social workers responsible for their cases.
- (d) Community care services are district/vicinity based. That is, applicants will be assigned service providers which are serving the districts/vicinities where they reside. To ensure optimal use of services, applicants cannot choose the service providers under normal circumstances.

### **Recruitment of Doctors and Nurses by Hospital Authority**

15. **MR MICHAEL MAK** (in Chinese): *Madam President, it is learnt that the Hospital Authority (HA) is going to recruit a batch of doctors and nurses in this financial year to fill vacancies and maintain its level of services. In this connection, will the Government inform this Council whether it knows:*

- (a) *which departments of public hospitals are now suffering from the most severe shortage of nursing grade staff;*
- (b) *of the numbers of each rank of doctors and nurses to be recruited by the HA, as well as their remuneration and conditions of service; and*
- (c) *whether the HA plans to recruit staff of the allied health grades in this financial year; if so, of a breakdown by grades and ranks of the number, remuneration and conditions of service of these staff; if not, the reasons for that?*

**SECRETARY FOR HEALTH, WELFARE AND FOOD** (in Chinese):  
Madam President,

- (a) It is mainly the acute medical departments in public hospitals that require reinforcement of nursing grade staff.

(b) and (c)

In 2004-05, the HA is planning to recruit the following staff at the entry ranks on contract terms:

- 300 resident doctors to receive specialist training in various clinical specialties or training (for example, in family medicine) that will enable their future practice at the primary care level;
- 400 registered nurses; and
- 50 allied health professionals.

The salary range and benefits of the above positions are as follows:

<i>Rank</i>	<i>Salary Range</i>	<i>Other Benefits</i>
Resident Doctors	\$34,320 - \$55,993	Monthly allowance, contract gratuity, mandatory provident fund, annual leave, paid public/statutory holidays, death and disability benefit, and so on, in accordance with the prevailing terms and conditions of employment for the HA's new recruits
Registered Nurse	\$17,643 - \$31,423	
Registered Nurse (Psychiatry)	\$19,463 - \$32,900	
Medical Laboratory Technician II	\$11,495 - \$26,168	
Occupational Therapist II/ Physiotherapist II/ Radiographer II	\$16,633 - \$30,053	
Assistant Social Welfare Officer/Dietician/Speech Therapist	\$17,643 - \$45,375	
Clinical Psychologist	\$27,308 - \$71,845	
Resident Pharmacist	\$24,833 - \$28,700	

Subject to the actual staff wastage in the various allied health grades over the next 12 months, the preliminary projection of the HA is that the 50 allied health professional positions to be recruited in 2004-05 will be distributed among the various allied health grades as follows:

<i>Allied Health Rank</i>	<i>Estimated number of new recruitments in 2004-05</i>
Medical Laboratory Technician II	11
Diagnostic Radiographer II	7
Occupational Therapist II	5
Physiotherapist II	7
Pharmacist/Dispenser	12
Others	8
Total:	50

### **Subordinated Loans or Loans Facilities Approved by Securities and Futures Commission**

16. **MR HENRY WU** (in Chinese): *Madam President, regarding licensed brokers' applications for approval by the Securities and Futures Commission (SFC) in respect of subordinated loans or loans facilities obtained by them over the past five years, will the Government set out in chronological order the amount involved in and the time taken to process each of the approved and rejected applications; and the reasons for the rejection?*

**SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY** (in Chinese): Madam President, during the past five years, the SFC did not reject any application for subordinated loans or loan facilities from licensed corporations. In response to the Honourable Henry WU's question, the SFC has compiled and analysed the statistics required. The statistics are set out at the Annex.

Annex

#### **Subordinated loans 1999-2000**

	<i>Type of subordinated loan<sup>(Note 1)</sup></i>	<i>Amount (HK\$'M equivalent)</i>	<i>Processing time (month)<sup>(Note 2)</sup></i>
1.	R	760.00	6.32
2.	R	100.00	2.10
3.	F	150.00	4.26



	<i>Type of subordinated loan<sup>(Note 1)</sup></i>	<i>Amount (HK\$'M equivalent)</i>	<i>Processing time (month)<sup>(Note 2)</sup></i>
4.	F	25.00	0.35
5.	F	12.40	0.32
6.	F	36.00	0.16
7.	F	39.00	1.42
8.	F	25.00	0.65
9.	F	2.00	0.23
10.	F	7.00	0.65
11.	R	312.00	0.10
12.	F	4.50	2.03
13.	F	117.00	1.74
14.	F	1.50	0.19
15.	F	8.00	1.29
16.	F	66.30	0.48
17.	R	195.00	0.55

## Subordinated loans 2000-01

	<i>Type of subordinated loan<sup>(Note 1)</sup></i>	<i>Amount (HK\$'M equivalent)</i>	<i>Processing time (month)<sup>(Note 2)</sup></i>
1.	F	10.00	3.94
2.	F	6.00	2.52
3.	F	20.28	0.19
4.	F	234.00	0.03
5.	R	156.00	0.19
6.	F	60.00	0.03
7.	F	50.00	0.26
8.	F	277.40	2.10
9.	R	390.00	0.35
10.	F	11.00	0.35
11.	F	50.00	3.58
12.	F	1.00	0.39
13.	F	29.70	4.03
14.	F	35.00	0.81
15.	F	10.00	1.65
16.	S	200.00	3.13
17.	R	7.80	3.06

	<i>Type of subordinated loan<sup>(Note 1)</sup></i>	<i>Amount (HK\$'M equivalent)</i>	<i>Processing time (month)<sup>(Note 2)</sup></i>
18.	R	23.40	3.19
19.	F	546.00	0.23

## Subordinated loans 2001-02

	<i>Type of subordinated loan<sup>(Note 1)</sup></i>	<i>Amount (HK\$'M equivalent)</i>	<i>Processing time (month)<sup>(Note 2)</sup></i>
1.	R	1,000.00	0.68
2.	R	100.00	0.68
3.	F	20.00	0.90
4.	F	393.00	3.13
5.	F	2.00	4.13
6.	R	78.00	1.71
7.	R	20.00	0.45
8.	F	39.00	1.35
9.	R	1,000.00	0.90
10.	R	200.00	0.90
11.	F	2.20	0.16
12.	S	132.60	13.29
13.	R	8.00	0.65
14.	F	3.00	0.13
15.	F	12.00	4.29
16.	R	200.00	0.68
17.	F	2.00	0.19
18.	F	0.60	0.29
19.	R	70.00	8.87
20.	F	2.30	2.19

## Subordinated loans 2002-03

	<i>Type of subordinated loan<sup>(Note 1)</sup></i>	<i>Amount (HK\$'M equivalent)</i>	<i>Processing time (month)<sup>(Note 2)</sup></i>
1.	F	60.00	13.29
2.	F	29.70	3.61
3.	F	200.00	0.13
4.	R	100.00	3.00

	<i>Type of subordinated loan<sup>(Note 1)</sup></i>	<i>Amount (HK\$'M equivalent)</i>	<i>Processing time (month)<sup>(Note 2)</sup></i>
5.	R	300.00	8.13
6.	R	30.00	1.77
7.	F	5.00	0.00
8.	F	170.00	0.87
9.	F	10.00	0.06
10.	R	1,000.00	0.29
11.	F	20.00	0.71
12.	F	2.00	0.03
13.	F	10.00	0.03
14.	R	100.00	2.55
15.	F	120.90	0.23
16.	F	10.00	3.13
17.	F	5.00	0.65
18.	S	300.00	4.48
19.	S	585.00	22.58
20.	F	23.40	0.23
21.	F	58.50	0.23
22.	F	23.40	0.23
23.	F	702.00	1.35
24.	F	2.50	1.81

## Subordinated loans 2003-04

	<i>Type of subordinated loan<sup>(Note 1)</sup></i>	<i>Amount (HK\$'M equivalent)</i>	<i>Processing time (month)<sup>(Note 2)</sup></i>
1.	F	0.50	0.29
2.	F	13.50	2.94
3.	R	50.00	0.23
4.	R	200.00	0.94
5.	F	8.00	1.61
6.	F	6.10	1.06
7.	R	200.00	0.26
8.	F	300.00	0.06
9.	F	0.50	1.32
10.	R	5.00	4.00
11.	F	296.40	0.10

	<i>Type of subordinated loan<sup>(Note 1)</sup></i>	<i>Amount (HK\$'M equivalent)</i>	<i>Processing time (month)<sup>(Note 2)</sup></i>
12.	R	3.00	0.81
13.	R	123.24	0.87
14.	R	30.00	0.71
15.	R	60.00	2.29
16.	R	3.00	0.42
17.	R	225.00	0.03
18.	F	50.00	0.32
19.	R	120.00	0.29
20.	F	50.00	0.42
21.	R	70.00	1.39
22.	F	200.00	0.71
23.	F	50.00	0.74
24.	R	200.00	0.00
25.	F	300.00	0.23
26.	R	35.00	0.00
27.	F	31.20	0.68
28.	R	160.00	0.00
29.	R	80.00	0.03
30.	R	20.00	0.00
31.	R	40.00	0.03
32.	F	800.00	0.00
33.	R	78.00	3.52
34.	F	550.00	0.23
35.	F	7.80	1.03
36.	R	117.00	0.29
37.	F	30.00	1.10
38.	F	250.00	0.13
39.	R	3.50	1.68
40.	R	390.00	0.90
41.	F	150.00	0.00
42.	F	50.00	0.03
43.	R	220.00	1.35
44.	F	2.50	5.45
45.	R	300.00	0.10
46.	F	300.00	0.13
47.	R	50.00	2.26

	<i>Type of subordinated loan<sup>(Note 1)</sup></i>	<i>Amount (HK\$'M equivalent)</i>	<i>Processing time (month)<sup>(Note 2)</sup></i>
48.	F	23.40	3.81
49.	R	20.00	0.26
50.	R	312.00	1.03
51.	F	1.00	0.58

(Note 1) : The type of subordinated loans is classified as fixed term subordinated loans (F), revolving subordinated loan facility (R) or stand-by subordinated loan facility (S). Because of their different nature, a revolving or a stand-by facility generally requires a longer processing time.

(Note 2) : The length of processing time depends on a number of factors, such as whether the lender is an overseas company, whether it involves third parties such as a bank to guarantee payment and whether legal opinion is required.

Source: SFC

April 2004

### **Prosecution of Clandestine Photo-taking with Mobile Phones**

17. **MR SIN CHUNG-KAI** (in Chinese): *Madam President, it has been reported that to prevent crimes of clandestine photo-taking with mobile phones bearing built-in camera functions, the police have sought views of the Department of Justice (D of J) on instituting prosecution by invoking various ordinances. The D of J has issued guidelines to the police, suggesting that those who are suspected of general clandestine photo-taking with such phones should be charged with loitering and disorderly conduct, whilst repeat offenders should be charged with breaching public decency. Moreover, to address the problem of clandestine photo-taking, the South Korean Government is considering stipulating that a beep sound of not less than 65 dB shall be given off by such phones when their camera function is activated. In this connection, will the Government inform this Council:*

(a) *of the details of the above D of J's guidelines; and*

- (b) *whether it will formulate measures, such as that being deliberated by the South Korean Government, to prevent clandestine photo-taking with such mobile phones; if it will, of the details; if not, the reasons for that?*

**SECRETARY FOR SECURITY** (in Chinese): Madam President,

- (a) In December 2003, the D of J issued guidelines to the police for dealing with persons using mobile telephones to take photographs beneath ladies' skirts. The guidelines identified three possible charges that might be considered, depending on the available evidence. These were:

- loitering causing concern (s.160(3) of the Crimes Ordinance);
- disorderly conduct (s. 17B(2) of the Public Order Ordinance);  
and
- outraging public decency (contrary to common law).

The D of J's advice to the police emphasized that whether a charge should be laid, and if so, the appropriate charge, depended on the individual facts of each case, and the available evidence. The evidential problems in respect of each charge were also canvassed. Where a person had committed multiple offences, and subject to there being evidence to support each of the elements of that offence, the person should be charged with the more serious offence of "outraging public decency".

- (b) At present, the Personal Data (Privacy) Ordinance protects living individuals' personal data privacy in circumstances where an individual is identifiable in such data. Images containing unidentifiable personal data obtained by clandestine photograph taking do not fall within the ambit of the Ordinance. Nonetheless, we understand that the Law Reform Commission Subcommittee on Privacy is following up the views expressed by different sectors on the Consultation Paper on Civil Liability for Invasion of Privacy.

The Government will study the subject in detail when the Law Reform Commission report is available.

In the meantime, the police will continue enforcing existing laws in line with the D of J's advice referred to in part (a) above.

### **West Rail Construction Project**

18. **MR ALBERT CHAN** (in Chinese): *Madam President, regarding the West Rail Construction Project (WRCP), will the Government inform this Council whether it knows:*

- (a) the respective total expenditures of the various projects under the WRCP as at the end of last month and how they compare with the originally approved estimated expenditures; where there is over-spending, the organization(s) to shoulder the extra expenditures; and*
- (b) the number and amounts of claims received by the Kowloon-Canton Railway Corporation (KCRC) from project contractors, and the number of such cases which have been settled; where there is over-spending, the reasons for that?*

**SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS** (in Chinese): Madam President, the latest total West Rail expenditure was \$40.4 billion against a total budget of \$46.4 billion. The KCRC expects that the total expenditure will remain within budget.

Currently, there are a total of about 2 390 outstanding claim notifications under review. The total value of the claims changes as claims are being assessed, settled or rejected and contractors are also reconsidering and adjusting their claims. The KCRC considers that the total value of the claims is commercially sensitive and release of the information could prejudice the Corporation's commercial position. The KCRC expects that the settlement of these claims will be contained within the project budget.

**Flexible Water Supply System**

19. **DR RAYMOND HO** (in Chinese): *Madam President, it has been reported that the Government of Hong Kong Special Administrative Region (SAR) and the Guangdong Provincial Government have reached a consensus in principle on the supply of Dongjiang water to Hong Kong. A water supply system with a limited degree of flexibility will be introduced under the new water supply agreement. In this connection, will the Government inform this Council:*

- (a) *when the above system will be implemented, of the minimum amount (in cubic metres) of Dongjiang water that the Hong Kong authorities will be required to purchase under the system, and how the system compares to the current one;*
- (b) *of the estimated amount of savings in expenditure that can be achieved annually from the implementation of the flexible water supply system, and how such savings will be put to use; and*
- (c) *whether it will continue to negotiate for greater flexibility in the water supply system; if so, of the details?*

**SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS**  
(in Chinese): Madam President,

- (a) The agreement on the supply of Dongjiang water is still under negotiation and has not been finalized yet. Therefore, details of the agreement, including the implementation schedule and supply quantities, are not available at the moment.
- (b) As the new agreement on the supply of Dongjiang water has yet to be finalized, it is not possible to estimate at this stage the amount of savings in expenditure resulting from the new agreement.
- (c) The SAR Government will continue to negotiate for greater flexibility in the water supply system, taking into consideration the overall interests of Hong Kong. Details of the water supply agreement will be released once they are finalized.



Although the Governments of Guangdong Province and Hong Kong cannot alter the agreed quantity of Dongjiang water supply and the price unilaterally, both parties have agreed to a certain reduction in the volume of Dongjiang water supplied to Hong Kong under the existing supply agreement in the past several years. For example, the average annual supply in 2002 and 2003 is in the order of 750 million cubic metres (mcm) which is about 50 mcm less than the agreed quantities.

### **Unsolicited Faxed Advertisements**

20. **MR LAU KONG-WAH** (in Chinese): *Madam President, as unsolicited faxed advertisements are a nuisance to the recipients, will the Government inform this Council:*

- (a) *of the respective numbers of complaints in this regard received last year by the Office of the Telecommunications Authority (OFTA) and fixed telecommunications network services (FTNS) operators, as well as the follow-up actions they have taken; and*
- (b) *whether it plans to legislate against junk faxed advertisements?*

**SECRETARY FOR COMMERCE, INDUSTRY AND TECHNOLOGY** (in Chinese): Madam President,

- (a) In 2003, the OFTA and the five local FTNS operators received 279 and 23 953 consumer complaints related to "unsolicited fax advertisements" respectively.

The OFTA would refer these received complaints to the local FTNS operators for follow-up action. Upon receipt of such complaints, local FTNS operators would carry out investigation immediately accordingly to "The Procedures for Handling Complaints against Senders of Unsolicited Fax Advertisements" issued by the OFTA. If the sender is identifiable and the case of "junk fax" (that is, fax contents are of advertising nature, and the complainant's fax number has been included in the "not-to-call" list maintained by the OFTA for commercial fax purpose) is established, the operator will issue a

warning letter to the "junk fax" sender within three working days. The lines leased to the sender will be temporarily suspended for a period of 14 working days when two consecutive complaints against the sender have been established. When three consecutive complaints against the sender have been established, the lines leased to the sender will be terminated.

In 2003, 132 and 17 lines were suspended and terminated respectively due to complaints about "junk fax".

- (b) Broadly speaking, sending fax advertisements is a common form of sending "unsolicited electronic messages". The OFTA intends to issue a public consultation paper on the issue of "unsolicited electronic messages" to explore a range of possible measures to combat the problem, including the need for enactment of legislation or strengthening of existing guidelines/codes of practice.

## **BILLS**

### **Second Reading of Bills**

#### **Resumption of Second Reading Debate on Bills**

**PRESIDENT** (in Cantonese): Bill: Second Reading. The Second Reading debate on the Appropriation Bill 2004 resumes today and tomorrow. Members will be speaking. The question before Council is: That the Appropriation Bill 2004 be read the Second time.

I will try to maximize the number of Members speaking on the question today, and will suspend the meeting at an appropriate time.

Under the Rules of Procedure, each Member has a maximum of 15 minutes for his/her speech. I will direct a Member..... *(pause)*

(A large group of people entered the public gallery. The President motioned to them to sit down)

.....to discontinue when he/she speaks in excess of the specified time.

**APPROPRIATION BILL 2004****Resumption of debate on Second Reading which was moved on 10 March 2004**

**MR TIMOTHY FOK** (in Cantonese): Madam President, in this year's Budget, the Financial Secretary proposes the strategy of "cutting down on expenditure before raising revenue", allowing the community to take a respite. While answering the aspirations of all sectors of the community, this has evidently demonstrated the Government's determination and commitment to revitalize the economy. However, to effectively govern by non-interference in order to achieve long-term stability and thus put the economy back onto the smooth track to prosperity and stability, it is necessary for us to break away from the old mindset, with a view to injecting new impetus into the economy and exploring new business opportunities.

In his Budget, Financial Secretary Henry TANG envisaged a growth of 6% in real terms in the economy this year, and the forecast trend growth rate for the subsequent four years over the medium term is 3.8%. Recently, studies conducted by the Better Hong Kong Foundation and The Hong Kong University of Science and Technology even projected an economic growth of 6.9% this year, expecting the unemployment rate to come down to 6.6% by the end of the year with deflation disappearing in the third quarter. Coupled with the implementation of CEPA in full swing and continued upward trend of the stock and property markets, the prospects of the Hong Kong economy are pretty promising.

I must point out that the days when the economy was driven by the "three highs" in Hong Kong (high land prices, high inflation and high wages) are already gone. The reborn economy recently is basically attributed to CEPA and the Individual Visit Scheme. Nevertheless, these two advantages which stem from "one country, two systems" have certain limitations. They, therefore, cannot facilitate smooth economic restructuring and promote overall economic recovery. In this connection, the Hong Kong Government must come up with concrete proposals to promote economic restructuring and consolidate the concept of regional economic integration, in order to prevent the recent signs of an upturn from becoming bubbles.

The Government used to stress the four pillar industries, namely, financial services, logistics, tourism and professional and producer services. But the reality is that these four pillar industries cannot bolster up the entire economy, nor can they promote full employment. The development of a creativity economy, enhancement of our integration with the Pearl River Delta Region to facilitate restructuring, and improvement of the industrial structure will together form the major axis of a vigorous relaunch of the Hong Kong economy.

Madam President, apart from the four pillar industries, creativity economy is a new industry with the most business opportunities. Last year, the Government proposed to vigorously develop creativity economy. But regrettably, what has been achieved so far is only some breakthrough in individual industries. We have not seen any comprehensive planning and long-term deployment, not to mention changes in policy concepts. In fact, talents and industrialization are the two major premises of creativity economy. But we cannot rely solely on the efforts of the industries. Whether the Government can rise above the established mindset, provide suitable assistance and remove boundary limitations in the exchange of talents and market interactions are the crucial factors for creative industries to take shape in Hong Kong.

Take sports and culture as an example. If they continue to be considered as amateur cultural and recreational activities and made to observe stringent rules on commercial sponsorship, and if the Government continues to act as an onlooker, it would be difficult for these industries to prosper, in which case they would have to rely on government subsidies forever. However, if they are enabled to be industrialized and provided with sufficient venues, facilities and talents training, and with new sources of sponsorship, they would very likely become sunrise industries blessed with numerous business opportunities. As we all know, the F1 or Formula One race has already landed in China, whereas NBA and the England Premier League are setting eyes on the Asian market; the business opportunities associated with the Beijing Olympics have attracted the attention of investors worldwide; and the glamour of the Chinese has rendered them a place in the international movie arena. So, the crux of the question is not that we lack the conditions to develop the sports, cultural and performing arts industries. Rather, it really lies in whether we have creativity in our thinking and whether we have the resolve and actions to promote industrialization and turn the opportunity into practical business opportunities to tap new sources of economic impetus for growth.

In fact, as a result of the authorization of football betting alone, the Hong Kong Jockey Club (HKJC) can launch two large-scale recruitment exercises in less than a year's time. Frankly speaking, without the introduction of football betting and faced with the pressure of a shrinking betting turnover, the HKJC might have to resort to retrenchment today, rather than creating job opportunities over and over again, and the subvention for charitable organizations would be further reduced. This shows that new thinking is a new impetus. Sticking to the old rut will ultimately get us nowhere.

Certainly, new thinking and business opportunities do not come by as a matter of course. There must be a solid foundation to provide support. Take football betting as an example again. To successfully promote football betting, it is necessary to encourage the public to develop an interest in football activities. But if the development of football activities remains stagnant in Hong Kong, if venues and facilities are so lacking that even the qualifying match between Hong Kong and the China national team was played at the Siu Sai Wan Sports Ground instead, and when the venues and facilities required for the East Asian Games to be hosted for the first time by Hong Kong in 2009 have yet to be finalized, the new thinking will turn sour sooner or later. Therefore, it is necessary for the Government and the HKJC to set aside a certain amount of proceeds from football betting to promote the development of sports and culture, improve venues and facilities, and promote their industrialization and internationalization, so that the local football development and betting can co-exist and prosper together. Efforts should also be made to identify long-term sources financing for sports and culture. Moreover, policy support and back-up facilities for culture, performing arts and films, which are major components of creativity economy, are also indispensable. I must point out that any shortsighted strategy which ignores infrastructure simply cannot hold, and ongoing development will thus be rendered difficult.

Looking into the future, the Government will need to develop more new thinking. It should adopt a positive and proactive attitude in creating conditions conducive to the development of the industries, rising above the rigid boundary limitations and desisting from the conservative mindset of not assisting individual industries. Through negotiations among and concerted planning efforts by government and non-governmental bodies and the industries concerned, the Government should give play to a leverage effect, with a view to achieving integration with the relevant industries in the Mainland, intensifying economic integration and pooling together talents from both places. Meanwhile, it is

necessary to work with individual industries to conduct research studies, in order to remove restrictions which impede the development of the industries and identify ways and channels for development of the local and overseas markets.

With these remarks, I support the motion.

**MISS CHAN YUEN-HAN** (in Cantonese): Madam President, in recent years, our impression of the role of the budget has been one of it serving only to resolve the deficit, aiming to find ways to achieve fiscal balance for the Government as soon as possible. That is why the former Financial Secretary or the incumbent Financial Secretary or even the past Financial Secretaries over the years all sought to increase tax or increase public spending or reduce public spending. Their role is broadly to effect increases or decreases. This can be considered the "entrée" of the budgets in recent years.

However, insofar as this year's Budget is concerned, many people said that Financial Secretary Henry TANG is a lucky man, for he took office just when the economy started to bottom out, and with the facilitation of CEPA and the Individual Visit Scheme, there have been signs of a pick-up in the economy and the economic atmosphere has hence improved. So, insofar as this Budget is concerned, we have not felt the pressure of tax increase or fee increase for the time being. Having said that, however, a decision will be taken on the goods and services tax within the next three years, and concerning some controversial items, this Budget has not spelt out how they will be dealt with.

On the surface, the entire Budget appears to allow the community to take a respite. But some people have commented that this Budget may have scored just an average, containing no surprises at all. But if we take a closer look at the entire Budget, we must ask: Is resolving fiscal issues the sole objective of the Budget or financial management? I believe apart from achieving fiscal balance through financial management, it is also the wish of every government to resolve social issues through fiscal measures.

To me, I very much hope that as the economic atmosphere has improved, this Budget can solve the problem of structural unemployment that has plagued Hong Kong in recent years by seizing the business opportunities. But honestly, I cannot see how structural unemployment can be resolved through fiscal policies or through recent improvement in the economic conditions or through CEPA.

Madam President, the Hong Kong Federation of Trade Unions (FTU) considers this Budget good since it has not proposed any tax increase or fee increase. But on the other hand, we think that this Budget has failed to seize the present opportunity to overcome the difficulties one by one and also the problem of structural unemployment. We, therefore, feel rather disappointed.

Recently, I have been holding residents' meetings in my district, and when we presented this view, I found that our view is supported by many people. The several Financial Secretaries in the past had gone through economic recession and the financial turmoil; they were caught in a time when Hong Kong was in difficulties with little business opportunity. But since last year, we can see that the atmosphere in Hong Kong has obviously loosened up a lot due to the Individual Visit Scheme and CEPA. Why has the Government not seized the opportunity to improve the situation? Particularly, we can see that there are now 1.3 million people whose educational attainment is below Secondary Three. Despite an improved economic atmosphere, it is still very difficult for them to land a job anyway. Wages have continued to be frozen or lowered; welfare measures have also been cut gradually. This is also the situation with jobs outsourced by the Government.

Theoretically, all Hong Kong people should be able to find some breathing space in the prevalent economic atmosphere. But the grassroots whom we mentioned cannot solve their problems. In the consultations conducted by me, some residents have asked: Has this Budget abandoned the grass-roots workers and grass-roots citizens who are badly in need of assistance in Hong Kong? Madam President, I have tried to find out from the Budget the Financial Secretary's answer to this question. There are three paragraphs altogether on revitalizing the economy and creating employment. The Financial Secretary said that some members of the labour sector had expressed their view to him, asking him to address squarely their concern that the grassroots might not solve their employment problem despite improvement in the economy. The Financial Secretary responded in the Budget that it is not surprising to see this happen in Hong Kong given that we are faced with globalization of the world economy. On this point, we agree with it and we also disagree with it; and when we discussed it with the grassroots, they expressed disagreement too. Why? The Financial Secretary said that under globalization of the world economy, in many developed territories or countries, economic activities and jobs have been draining to places where wages are low. This, we do agree. But we do not agree with the view that our situation is the same as theirs.

As I said just now, the atmosphere in Hong Kong has obviously improved in recent years, making us the envy of our neighbours. We have the Individual Visit Scheme and CEPA. So, we do have an opportunity, and the question remains how the Government will face this opportunity and how it will capitalize on this opportunity to address the situation today. Madam President, I would like to further elaborate on this. Now, there are 1.3 million wage earners who have attained a level of education below Secondary Three. Their lot has not improved despite an economic upturn; their wages and welfare have continued to deteriorate and their working hours are extending. Apart from this, we also see another phenomenon and that is, there is now a very serious wealth gap because the grassroots are in dire straits. Hong Kong ranks the 97th among places where the gap between the rich and the poor is serious, and we even compare less favourably with other Asian countries, such as Thailand, the Philippines, Korea and Japan. We can see that the World Bank had used the statistics in 1996, and the wealth gap in Hong Kong has become even more appalling in recent years. According to the 2001 population census, the Gini Coefficient already worsened to 0.525, and this can be said as very serious.

In other words, when faced with the problems of grass-roots workers and the problem of poverty, a responsible government should find ways to develop a diversified economy and provide assistance to industries that will generate benefits, which are not confined to economic benefits. It is also necessary to study whether social benefits can be generated to resolve unemployment. Let us take a look at the neighbouring places. In Mauritius, for example, as long as initiatives are taken to develop the local economy and employ local workers, many concessions will be provided. Similarly, if we look at other countries or territories, we can see that in order to solve similar problems, the governments there will also tackle them one by one through some measures.

Madam President, in such places or developed countries as Japan, Singapore, the United States and Britain, when they face a situation similar to that of Hong Kong today, they will, in each and every process, make an effort to solve the problems for people who cannot catch up with the mainstream economic development. They will provide support to some labour-intensive industries and draw up policies to enable small operators to earn their own living. They will make use of waste recycling or the green industries to provide jobs for workers, so that they can get rid of poverty and improve their lot.



But much to our regret, as I said just now, the Financial Secretary made that remark as quoted by me earlier on. We understand that he was actually telling us to work hard to enhance Hong Kong's competitiveness amid globalization. Honestly speaking, we can see what areas where we can enhance our competitiveness, as also pointed out by the Financial Secretary, but apart from financial services and certain other industries in which we do have an edge, what competitiveness can we speak of in other industries? When others can take advantage of government acts in respect of land, water, electricity, wages, and so on, to vie for capital but there is nothing for us to take advantage of, we should know that although we do have an opportunity, we have failed to make good use of it. But after all, honestly, can we really reduce unemployment through CEPA as we have expected?

Madam President, all grass-roots workers in the world are struggling hard for survival. We see that in the process of globalization, as shown in the examples cited by me earlier, in many countries or places, they are provided with assistance through government measures. But our Government has not given any assistance at all. We very much hope that the Government will address this problem squarely. Certainly, the Financial Secretary may argue that the Government has undertaken to provide temporary jobs at a cost of over \$1 billion.

Speaking of temporary jobs, when the Government created temporary jobs for the first time in 2000, the FTU was very happy and supported this initiative, for we had long been aware of the severity of unemployment then. Many people failed to land a job even after attending training or retraining and after making very hard efforts in learning. So, I thought it was very good that the Government was willing to create temporary jobs. However, while temporary jobs were created in the hope to solve structural unemployment in 2000, this measure was again adopted in 2001, and again in 2002. Now that it is 2004 and the Government still sticks to this measure. While it is very difficult for us to object to it, we are very angry. The Government spends over \$1 billion each time. It invariably spends a sum of money each time. Not that we are unwilling to spend this sum of money exceeding \$1 billion to help the unemployed, but the situation now is that the youngsters and the middle-aged among the unemployed already have misgivings about it. The temporary jobs can solve their livelihood problems for three to six months but they will be out of job again afterwards. There are no compatible grass-roots jobs in society and

so, everyone is in low spirits. Some young people said to me, "Sister Han, even though I have worked very hard and gained some experience and I have also attended retraining and taken up all the courses, in the end I still find that the skills and experience I have acquired cannot help me find a job". Madam President, this is because there are no jobs, no grass-roots jobs, available in the market.

The Financial Secretary is also aware of this situation, but how can we address today's plights? Many objective factors have reflected a continual downward adjustment in the wages of grass-roots workers. According to a survey conducted by the Hong Kong Department Stores and Commercial Staff General Union early this year, even though the Individual Visit Scheme has induced improvement in the atmosphere and business in the sector has also been very good, the majority of workers in the sector have not been given a pay rise. Worse still, their benefits have continued to be slashed and they have to work long hours. All this is what grass-roots workers face in common. Even for jobs outsourced by the Government, the wages of which are clearly stipulated at \$5,600, only some \$2,800 can go to the workers' pocket eventually (as reflected by the results of a survey conducted by Oxfam), and this happens to 60% of the workers. This precisely reflects an imbalance between grass-roots workers and grass-roots jobs in the market, and as the supply of workers has outgrown demand, the situation has become very serious.

Madam President, we very much hope that the Government will refrain from resorting to the measure of simply spending over \$1 billion on the employment of temporary workers, in order to discourage some companies from thinking that they can take on workers at low wages. But among all economic activities in society, there is precisely no economic activity which can absorb the grassroots. Madam President, since 1998, the FTU has been criticized by some members of the labour sector for only putting forward demands and chanting slogans without actually solving the employment problems of the grassroots. I remember that in 1997, Yaohan collapsed overnight at the end of the year. In mid-1998, I bumped into some former staff members of Yaohan and learned that they still could not find a job. As time goes by, it will be more and more difficult for them to land a job.

Despite the improved economic atmosphere, it does not mean that the grassroots can share the economic benefits. The surveys conducted by some labour organizations and in the community cited by me just now reflect that the

problem has remained unresolved. In this connection, the FTU has, in recent years, put forward many concrete proposals on the creation of job opportunities. For example, in 1999, we proposed to the Government an employment-based strategy for economic development, underscoring the need to consider how the employment problems of grass-roots workers can be resolved when pursuing economic development. We put forward TSANG Shu-ki's proposal of a "dual economy". That is, if, during the continued development of the mainstream economy, some people are unable to integrate with the mainstream economy or the knowledge-based economy, can there be another stream of economy to assist them in employment? The United States, Japan and many countries have had such experience. When pursuing development in the urban areas, they have adopted measures to enable all strata of the community to land jobs. We suggested the SAR Government to do the same in 1999, but the SAR Government did not say "Yes" or "No". Subsequently, we proposed the promotion of the green industries, because recycling and environmental protection have solved the employment problems of tens of thousands of people in the State of Virginia (near Washington D.C., United States). That is, this industry is developed through efforts to "return" and "recover" waste and through the sale of second-hand goods and green products. We consider this a very good method. We have tried to put this message across to the Government through a march, and in fact, there is also a need for Hong Kong to solve the problem of waste at landfills. We proposed the development of the recycling industry, and we also proposed a local cultural economy or community economy. In fact, many organizations and individuals who are concerned about labour interest have put forward views similar to those of the FTU.

We very much hope that the SAR Government can truly and earnestly address the problem of grass-roots workers facing difficulties in seeking employment. As poverty among the grassroots has become more and more serious, the grassroots are leading a more and more impoverished life. The Government should not seek only to effect increases or decreases, aiming only to reduce the budget deficits gradually. I think other than this objective, it is most important to find ways to enable people in all sectors of the community to share the fruits of economic prosperity. Otherwise, society as a whole will have to pay a very dear price. Any country and territory will tackle their problems one by one by fiscal means. I hope the Financial Secretary can seriously consider our views. We will also make an effort along this line to identify viable options to help resolve today's plights.

Madam President, apart from this problem which I often mention, I would also like to bring up another problem. Today, even a well-known member of the community said that given the narrow tax base in Hong Kong, Hong Kong would be over if a sales tax is not imposed. I absolutely take exception to this view. Hong Kong has a workforce of 3.2 million, of which 1.2 million are taxpayers, and the tax paid by 700 000 taxpayers accounts for 5% of the total tax revenue. Does this simply show the problem of a narrow tax base? In fact, this precisely shows a huge gap between the rich and the poor. Let us not put the cart before the horse, thinking that a sales tax is necessary given a relatively small pool of taxpayers. I think this is sophistry. Madam President, I do not wish to expound my views on a sales tax here. However, we do oppose regressive tax. I wish to emphasize that a relatively small number of taxpayers precisely points to an enormous problem in the distribution of wealth and a serious wealth gap. The Government should target actions on this problem of poverty and find solutions to it. Every "wage earner" does wish to be qualified to pay tax. But even though they want to, they do not have the money to do so. What can they do? We cannot introduce a sales tax simply on the ground of a narrow tax base. We oppose this. If the Government sees fit to do so, it should adopt a progressive tax regime, and its attitude should be that the more a person earns, the more tax he pays..... (*the buzzer sounded*)

Thank you, Madam President. I so submit.

**DR DAVID LI:** Madam President, the maiden Budget presented by the Financial Secretary was a welcome breath of fresh air, for it demonstrated that he is someone who listens to the voice of the community. Knowing that the Financial Secretary is listening, I would like to take this opportunity to relay a few requests from the banking sector.

The Chief Executive first identified Hong Kong's four pillar industries — financial services, logistics, tourism and professional services — in his 2001 policy address. At each policy address and Budget speech since then, we have been reminded of the vital importance of these four core industries. Yet, despite such high profile treatment, what has this Administration really done to support the financial services industry?

For the logistics industry, we have seen major investment in infrastructure and detailed government planning to enhance Hong Kong's role as a logistics

centre. For the tourism sector, infrastructure is being enhanced; the Individual Visit Scheme has been launched; the Government has even become a major owner in a Disney theme park. Then, what of the financial services industry? This Council has passed the landmark Securities and Futures Ordinance, but the groundwork for that legislation was prepared before this Administration took office.

We have the market opening measures under the Mainland/Hong Kong Closer Economic Partnership Arrangement (CEPA). But the practical benefits are limited, as issues not dealt with under CEPA make expansion on the Mainland a slow and expensive process.

We have the Renminbi business scheme. But again, the practical benefits for Hong Kong's financial sector are limited. At present, Hong Kong banks merely serve as collection agents for Renminbi. They are not able to use Renminbi as they could with other deposits.

Both CEPA and the Renminbi business scheme are worthwhile initiatives. But much work remains to be done at the policy level on both schemes before real benefits flow to Hong Kong's financial services sector.

Growth in financial services will also enhance the opportunities for professional services. It therefore would benefit both core industries if the Government focused attention on further development of the financial sector.

Unlike logistics or tourism, this cannot be accomplished by spending on infrastructure. Rather, it must be done by adopting an accommodative policy framework. Unfortunately, the Administration has been very, very slow to act. For example, the banking industry has made repeated submissions to successive Financial Secretaries concerning the tax treatment of the general provision for bad and doubtful debts. When banks raise their general provision for bad and doubtful debts, they do so as a matter of prudence and sound business practice. In effect, the refusal to allow tax relief for these general provisions penalizes prudence.

Most other jurisdictions in the Asia Pacific Region do allow banks to claim a tax deduction for their general provision for bad and doubtful debts. I have argued for such relief in Hong Kong for almost 20 years. My colleagues in the banking sector remain very disappointed that the Administration continues to drag its feet on this matter.

Our industry has also pointed out that following enactment of the Securities and Futures Ordinance, banks have begun to combine their businesses under fewer legal entities. This has the potential to leave legal entities with tax losses, and little or no means of generating income to utilize losses. The introduction of a form of group relief would eliminate this distortion. Again, the Budget remained silent on this point.

There is a consistent and disturbing theme running through the Administration's attitude. While the Administration has proven to be very willing to spend public money on pet projects, it is most unwilling to rationalize its tax structure to eliminate counter-productive distortions.

Our industry is not looking for tax incentives. We are merely pointing out the disincentives which exist in the current tax code, and asking for the Government to review the position. A positive response by the Financial Secretary would be widely welcomed by our industry.

May I take this opportunity to compliment the Financial Secretary for raising the issue of estate duty in this Budget address. I have long campaigned for its abolition.

The present regime limits the opportunities for Hong Kong banks to develop their wealth management business. Abolition of estate duty is precisely the forward-looking measure required to enhance the growth of the financial services industry in Hong Kong.

Estate duty is not a tax on the rich. Wealthy individuals take advantage of estate planning to protect their assets. The burden of estate duty will most likely fall on those who are barely qualified to pay the tax. This tax should be abolished at the earliest opportunity.

The Finance Constituency welcomes the issuance of bonds to fund infrastructural projects, especially at a time when the requirement for new investment is so high. This is a sound financial planning, and the Financial Secretary should be congratulated for pressing ahead with his plan in the face of significant initial opposition.

The Financial Secretary showed considerably less fortitude when it came to the duty on wine. We are all aware that the Financial Secretary has an

extensive wine cellar, and many wine lovers among us were hoping for some sympathy from the Financial Secretary in his maiden Budget. Alas, it was not to be.

Hong Kong's tourism and hospitality sectors thrive on their ability to deliver a world-class holiday experience. The thousands of workers these industries employ depend on Hong Kong's ability to deliver this experience for their livelihood.

The high duty on wine makes it very difficult for our restaurants and hotels to deliver that world-class experience. It is not the duty on one single bottle which matters. It is the cost of holding an extensive collection, ready for the customer's enjoyment.

Seen in this light, it is irresponsible of the Financial Secretary to shy away from action. He himself is well aware of the fascination of a good Bordeaux. Our hotels and restaurants simply cannot afford to maintain a reputable cellar at current rates of duty. How many jobs are being sacrificed through this short-sighted attitude?

Madam President, the Administration insists that its guiding philosophy is "small government, big market". In practice, this Administration has pursued the opposite policy agenda. It is very willing to tax and spend. It is much less willing to eliminate unfair taxes which constrain the market.

In my remarks today, I have highlighted two long-standing requests from the banking sector, covering the treatment of the general provision for bad and doubtful debts, and of group tax relief.

These requests fully comply with the principle of "small government, big market". I urge our Financial Secretary to announce a review at the earliest opportunity.

Thank you.

**MR BERNARD CHAN:** Madam President, for several years now, our annual Budgets have been delivered against a background of gloom and doom. It seemed we were stuck with the economic downturn.

This year's Budget was presented against a far more optimistic background. Deflation is coming to an end. Unemployment is declining. Consumer demand is picking up. As the Financial Secretary pointed out, it is springtime in Hong Kong.

This Budget has received a fairly positive response from much of the community, and I believe that is justified.

Some people have criticized the Financial Secretary for not offering any major new initiatives or changes of direction. To me, that is a reason for praising this Budget. Things are starting to get better, and a consistent, predictable and low-impact economic policy is just what we need.

Of course, we do still have some challenges. The first is the budget deficit. The Financial Secretary seems happy to wait until 2008-09 before getting expenditure and revenue back into balance. Many of us would prefer to see faster action on curbing expenditure and boosting revenues. But under the political as well as economic circumstances, I can understand why Mr TANG prefers a gradual approach.

He has identified one obvious step, that is, to issue bonds to cover some capital expenditure. If you think about it, this is the ultimate example of the "user pays" principle. Our children will use the infrastructure, so why not let them pay for it?

Everyone borrows to pay for capital goods which provide a long-term return, whether it is the manufacturing industry investing in plants, or a family buying a home. Governments around the world are no exception. There is no reason why Hong Kong should not take the same approach.

I am sure that there will be healthy demand for such bonds. I would particularly encourage the Financial Secretary to consider issuing longer-term debt in due course. I know the insurance industry would certainly be interested in such low-risk investments producing steady income.

Thanks to the Government's huge reserves, there is no need to panic about the deficit. Taxpayers mostly agree that drawing on the reserves is preferable to raising more revenue. Non-taxpayers seem to agree that it is better to use the reserves than to cut spending. So, we have a sort of community consensus.



The problem is that the reserves will not last forever. The Administration must use the next few years to learn to live within its means. The rest of us must get back into the habit of paying, collectively, enough in terms of taxes and fees to cover the cost of the public services we want.

This brings me to our second major challenge — our lopsided tax system. In recent years, just 500 companies have paid 60% of all profits tax, and the top 100 000 salary earners have been paying more than 60% of salaries tax.

I am not suggesting that these corporations and people should pay less tax. Some members of the Insurance Constituency are among the main taxpayers in Hong Kong. I believe they and the other successful companies and individuals accept that they have a duty to contribute. I believe they appreciate the reasonable levels of tax here in Hong Kong.

But we do need a broader tax base than this. We cannot rely simply on a small number of top earners. A relatively minor levy on a larger proportion of the population could yield a meaningful sum of revenue. The obvious way to do it is a consumption tax of some sort.

This is a political challenge. It will be interesting to see how the Government and the community balance the need for universal taxation with the demands for universal suffrage. Could it be that they are different sides of the same coin?

Despite these major challenges for the future, I believe this Budget generally points in the right direction. I welcome the Financial Secretary's commitment to promote a free market economy. At the end of the day, only economic growth will fix the deficit, create jobs, and naturally increase asset prices. The priority must therefore be economic growth. That can only be delivered by the private sector.

This brings me to a couple of proposals of Mr TANG's which are relatively minor in fiscal terms, but which concern me in principle. The extension of salaries tax deduction for home loans will go down well among some members of the middle class — including those in negative equity. However, we need to remember that a concession of this sort is basically a subsidy. The rest of the community will have to pay more to the revenue as a result.

Can the Financial Secretary be sure that this cross-subsidy can be justified? Why should people without a mortgage subsidize those who have one? It is quite possible that some poorer people will have to pay more, so some richer people can pay less.

Initiatives like the "DesignSmart" programme mentioned in the Budget speech are also basically a form of cross-subsidy. Maybe it will boost our creative industries. But I have to ask whether we in Hong Kong have a comparative advantage in this particular field? If we do not, subsidies will not make a difference. If we do, why is a subsidy needed?

We should bear in mind that for every subsidy there is a provider, and the provider is not the Government, but the rest of the community.

Perhaps my greatest reservation about these budget proposals concerns the social welfare provisions.

As the Chairperson of the Hong Kong Council of Social Service (HKCSS), I take a keen interest in this area. The members of the HKCSS were extremely pleased to be recognized for their efforts in the Financial Secretary's comments on 10 March. The Caring Company campaign, which Mr TANG kindly mentioned, is something we are all proud of.

The figures for recurrent public expenditure show a 2.9% increase in nominal terms for social welfare spending in 2004 to 2005. In real terms, this is a rise of 6.3% which sounds very substantial at a time when the Government is tightening its belt.

However, my understanding is that this increase will be absorbed by the provisions for Comprehensive Social Security Assistance payments and the funding for temporary positions as part of the job creation efforts. The front-line service providers will actually find themselves facing further cuts in baseline funding. That means their clients will have to wait longer to have their cases dealt with.

I do not want to sound too dramatic, but in some cases, that delay can mean more despair, and more despair can lead to serious problems, like spouse abuse or attempted suicide. It costs the taxpayers around \$500 a month to look

after a single social work case, but it can cost more like \$50,000 a month to keep someone in a refuge, a prison or a hospital.

In other words, these savings might turn out to be false economies. I wonder whether the Financial Secretary's team has considered the possible costs of reducing expenditure on front-line delivery of welfare services.

Madam President, with that main exception, my objections to this Budget are relatively small. I believe the proposals as a whole are the right ones for Hong Kong at this time. Thank you.

**MR IP KWOK-HIM** (in Cantonese): Madam President, on behalf of the Democratic Alliance for Betterment of Hong Kong (DAB), I will give an overall comment on the Budget. Later on, other colleagues of the DAB will make specific comments and suggestions in respect of policies in various areas.

Regarding the Financial Secretary's maiden Budget entitled "Giving Our Community a Respite", the evaluation of the DAB is this: Pragmatic but not aggressive enough.

Madam President, many people think that Financial Secretary Henry TANG brings luck. Miss CHAN Yuen-han also made a similar view earlier. Since he took office, the Hong Kong economy has gradually shown signs of improvement, the unemployment rate has dropped, and better still, deflation is expected to vanish within this year. Given generally promising prospects, the DAB has made suggestions to the Government that the Budget should allow the community to take a respite by, among other things, extending the tax deduction for home loan interest, imposing no tax increases, freezing government fees and charges related to the people's livelihood and the business environment, extending the duty concession for ultra low sulphur diesel, and effecting no reduction in education provisions and spending. All these practical suggestions have been accepted by the Financial Secretary. That the Financial Secretary is willing to take on board our views and those of various sectors of the community is welcome and commended by the DAB.

The DAB considers that the Budget is not aggressive enough mainly in terms of stimulating the economy and promoting employment, particularly in respect of policies to promote employment among low-skilled workers. Miss

CHAN Yuen-han has spoken on this at some length earlier. If we take an overview of the Budget, we will see that the Government still has not transcended the limits of its old mindset. In respect of concrete policies, apart from promoting creative industries and tourism, little has been mentioned in other aspects. No effective solutions have been proposed to address the employment problems faced by low-skilled workers.

Madam President, the DAB has consistently stressed that the Government of the Hong Kong Special Administrative Region (SAR) must make it a mission to promote economic development and to act resolutely to pursue achievements. The Government must be clear about which industries require a guiding hand from the Government, in order to duly fulfil its role to promote recovery of the local economy. In fact, if we look around the world, in order to facilitate local economic development, governments of various countries may in one way or another draw up incentive measures, which may be in the form of tax concessions or matching land policies, to attract the inflow of certain designated industries, with a view to stimulating the economy and creating jobs. Unfortunately, the SAR Government has all along acted in a conservative and backward manner, knowing only to stick to the old rut. "Big market, small government" is, in effect, a pretext of the Government to conceal its inability to make achievements. In this Budget, the Financial Secretary proposes the new slogan or principle of "market leads, government facilitates". However, on reading into the details, it is not difficult to find out that apart from explicitly committing to "safeguarding and promoting Hong Kong's commercial and trade interests, namely, securing more favourable market access for our enterprises through bilateral and multilateral economic and trade negotiations", all the other initiatives are merely a rehash of old ideas. The major role played by the Government remains to be a passive one of providing platforms, hosting ball games, and so on. This is a bit disappointing to the DAB.

With regard to concrete policies, the Budget proposes to promote the development of creative industries and tourism. These proposals, which have been repeatedly put forward by the DAB and various sectors of the community before, do merit support. However, targeting actions only on these two aspects absolutely cannot solve the huge employment problem of low-skilled workers, particularly as their employment opportunities will only continue to diminish in the course of economic restructuring. If the Government does not seriously and actively address the problem, it will only snowball and swell.

In this connection, the DAB considers that in order to make achievements in stimulating the economy and promoting employment, the Government must first break away from the old mindset and admit that it must play a positive and proactive role in these two areas. It must, through a "tangible hand", provide facilitation in terms of policy to enable industries facing greater difficulties in development to develop in or return to Hong Kong, thereby creating abundant employment opportunities. The DAB hopes that the Government can carefully consider this and change the current practice of approving concessions for large enterprises on a case by case basis. The Government should formulate clear policies on the provision of concessions to trades or industries. In its policies on the provision of concessions to enterprises, the Government must set out every detail and requirement in express terms to give a clear message to the market, stating explicitly what trades or industries are welcome to invest in Hong Kong and providing uniform concessions for qualified enterprises. The DAB considers that setting out policies in express terms is more open, equitable and transparent than the existing practice of consideration on a case by case basis. Moreover, the DAB also urges the Government to consider setting up a fund for environmental protection industries and actively assist the development of green industries in Hong Kong through its other policies in land and tax.

Another important area of work is to identify ways to further extend and utilize the business opportunities brought by CEPA. The DAB has put forward many proposals before, such as further extending the Individual Visit Scheme to cover Nanjing and Hangzhou, provincial capitals of Jiangsu and Zhejiang in the Yangtze River Delta — We have just heard of some good news in this regard. We have also proposed to appeal to the Central Authorities to further allow free business exchange between Hong Kong enterprises and their mainland customers within the existing parameters of CEPA, so that Hong Kong enterprises, including providers of professional services, can negotiate with their customers in the Mainland direct and provide their services across the boundary without having to set up companies or branches in the Mainland, thus truly making Hong Kong a service centre of China. This is an important measure which will enable both China and Hong Kong, particularly the service industries in Hong Kong, to reap benefits more speedily and in a better way. Later on, my colleagues will provide new input in respect of how to deepen CEPA and how co-operation between Hong Kong and the Mainland can be further fostered.

Now, Madam President, I would like to turn to building maintenance. To Hong Kong, the Severe Acute Respiratory Syndrome (SARS) is a nightmare. To residents of Block E of Amoy Gardens in Kowloon Bay, it is even an indelible traumatic experience. I believe residents of Block E are much more concerned about the problems of drainage pipes than other citizens in the territory. One whole year has passed and with the funding support of professional bodies, all the inspection and maintenance works on the drainage pipes of this building were completed only in early April. It is already no easy task to carry out repairs at this building which has gone through such ordeals. To tenement buildings without owners' corporations and management companies, is it not more inconceivable for repairs to be conducted? As a common saying goes, it is always difficult to get things started. The DAB considers that the Government should assume the role of a middleman and conduct initial inspections for private buildings in the territory. If a building is considered in need of further follow-up, the building should be required to set up an owners' corporation or to hire a management company. Only in this way can the problem of old, dilapidated buildings be solved, and such buildings can be gradually put onto the track of proper repairs and maintenance.

There are about 38 000 private multi-storey buildings in Hong Kong now, and over 11 000 buildings of them have neither an owners' corporation nor a management company. The DAB considers that these are precisely buildings most in need of government assistance. The DAB hopes that the Government can carry out work in two stages. In the first stage, the Government should carry out free visual inspection — visual inspection — for buildings aged 30 years or above in the next two years. If follow-up repairs is considered necessary by the Government, the Government can mandatorily require the establishment of an owners' corporation or the employment of a management company within six months in order to commence repairs works.

In the second stage, the Government should gradually extend the scope of visual inspection to cover more buildings. Starting from the third year, visual inspection can be carried out at buildings between 20 and 30 years of age. Similarly, the Government may require buildings to carry out the relevant follow-up works and it may mandatorily require buildings to set up owners' corporations or to hire management companies within a period of six months.

On the proposal of making it mandatory for buildings to carry out inspection and set up owners' corporations, the DAB believes that it will be

generally supported by the public. According to a survey on building management and repairs conducted by us last month, 80% of the respondents supported the proposal that free building inspections be carried out by the Government first and follow-up repairs works be undertaken by owners subsequently. On the proposal of making it mandatory for buildings to set up owners' corporations, close to 76% of the respondents expressed support. The DAB considers that the problem of canopies collapsing and concrete spalling resulting in injuries has become a time bomb. No one would wish to see such incidents involving injuries recur. The DAB considers that owners have an unshirkable responsibility for the safety of their buildings. Having said that, however, we think the Government should at least shoulder a minimal cost before the problem can be solved.

Madam President, the DAB has all along been concerned about the disposal of vacant Home Ownership Scheme (HOS) flats. Since November 2002 when the sale of HOS flats was suspended, the government rent and management fees of vacant HOS flats totalled \$120 million as of March this year. If these flats are not put up for sale by the Government by end-2006, the relevant expenditure to be incurred for this period of time is estimated to soar to \$230 million. The DAB finds it difficult to accept the waste of public money in hundreds of millions of dollars for nothing. In this connection, the DAB proposes two options for their disposal: First, converting such flats into quarters for the disciplined forces; second, selling these flats to sitting — sitting — tenants of public rental housing (PRH) in an orderly manner.

Since July last year, the DAB has met with the four relevant Bureau Secretaries who have given us positive and active responses. However, the situation remains one of all thunder but no rain. We have yet seen any substantive progress and efforts of implementation.

Moreover, the DAB is also concerned that the suspension of the sale of HOS flats will abruptly sever the continuity of the entire housing policy, resulting in PRH tenants being rendered unable to move out of the existing PRH units in an orderly manner under the past policy. The DAB hopes that the Government will look into the sale of these flats in batches to sitting — sitting — PRH tenants, so that public money will not be wasted as a result of the freeze on these flats.

Here, Madam President, I would like to talk about the resources for training elite athletes. The Chief Executive made a lot of undertakings earlier when he met with elite athletes and coaches. In the coming year, the funding for training of elite athletes will be maintained at \$90 million, which means no reduction. Nevertheless, this level of provision can only meet the expenditure up to the Athens Olympic Games in August. The provisions for the next few years still remain unknown. There are now five years away from the Beijing Olympics, and Hong Kong will be hosting the East Asian Games in 2009. If the funding for elite sports in the next few years will only be maintained at the existing level, without long-term stable resources to provide back-up, it would be impossible to satisfy the resolve of the sports sector to make better achievements, and their morale would also be undermined. The DAB very much hopes that the Government can increase provisions for the sports sector, particularly in respect of elite training to facilitate its development.

I so submit. Thank you, Madam President.

**MR ANDREW CHENG** (in Cantonese): Madam President, today, I will discuss the amendment proposed by Mr CHEUNG Man-kwong of the Democratic Party to the Appropriation Bill 2004 from a labour viewpoint, and also discuss the impact of the Budget from a transport viewpoint.

Madam President, from a labour viewpoint, we generally seldom support the reduction of any salary cost. But today, we will certainly throw weight behind it. It is because Mr CHEUNG Man-kwong of our Party will propose that the expenditure on salary cost of the Constitutional Affairs Bureau be reduced by \$3.23 million in the Budget, which is equivalent to the annual salary of Secretary Stephen LAM.

Madam President, under what circumstances and for what reasons will a company or organization delete a post? There are three strongest reasons: First, this post is not indispensable, and the incumbent is redundant; second, the person holding this post is incapable at work or has shown poor performance; and third, the customers are not satisfied.

First, the person holds the post in name only with no responsibilities, and the person has become redundant. What are the reasons for this?



Institutionally, the post of the Secretary for Constitutional Affairs can be said as a dispensable post. Why?

According to the information on the Government's webpage, the main duties of the Constitutional Affairs Bureau are to ensure that matters within the portfolio of constitutional affairs are dealt with in accordance the relevant provisions of the Basic Law; to develop and maintain a working relationship between the Government of the Hong Kong Special Administrative Region (SAR) and the Central Authorities in accordance with the principles of "one country, two systems", "a high degree of autonomy" and "Hong Kong people running Hong Kong"; and to ensure that local elections are held in accordance with the relevant provisions of the Basic Law. The main duties of the Secretary include the policy on electoral affairs, implementation of the Sino-British Joint Declaration and the Basic Law, and relationship between the Central People's Government and the SAR Government.

In fact, it seems that the Secretary only has one substantive duty now and that is, constitutional reform. The other duties are piecemeal in nature and can be taken up by other departments. Before 7 January this year, the post of the Secretary for Constitutional Affairs still had value in that the Secretary was still theoretically tasked to take forward constitutional reforms in Hong Kong. But since the Chief Executive's announcement on the establishment of the Constitutional Development Task Force (the Task Force) led by the Chief Secretary for Administration, the post of the Secretary for Constitutional Affairs has no role to play. The Secretary for Justice, a member of the three-member Task Force, is responsible for handling technicalities in law. But what of the responsibilities of the Secretary for Constitutional Affairs cannot be replaced? The many deputies under the Secretary for Constitutional Affairs are more than competent to handle these duties.

Furthermore, it is difficult for this three-member Task Force to make any contribution to Hong Kong's constitutional reform. This three-member team led by the Chief Secretary for Administration has ostensibly met with members from different sectors of the community and conducted many rounds of consultation. But the reports submitted by the Task Force are given no weight. The Task Force submitted its second report to the Chief Executive on 15 April and on the following day, the Chief Executive submitted his own report to the Central Authorities, attaching no importance to the Task Force's report at all. In the entire incident, as the public could see, the most important role of the

Secretary for Constitutional Affairs, Mr Stephen LAM, was to act as a "super courier", for he had to specially make a trip to Beijing to submit in person the Chief Executive's report to QIAO Xiaoyang, the Deputy Secretary General of the Standing Committee of the National People's Congress (NPCSC), so that Chief Executive TUNG Chee-hwa and Chief Secretary for Administration Donald TSANG could stay in Hong Kong to hold a press conference.

Judging from the SAR Government's performance in promoting constitutional reform, it is unnecessary for the three-member Task Force to conduct studies, for its main task is only to promote the views of the Central Authorities to Hong Kong people. The Central Authorities already have plans to set up a Hong Kong and Macao research institute in Hong Kong, the role of which will overlap that of the three-member Task Force. Added to this is the interpretation of the Basic Law by the NPCSC, whereby the Central Authorities have made it clear that insofar as constitutional development in Hong Kong is concerned, the authority does not rest with Hong Kong. What role is there for the three-member team to play? The three-member team could have performed its function of reflecting the public's views on constitutional development to the Central Authorities and standing up for the spirit of "Hong Kong people ruling Hong Kong" and "a high degree of autonomy". However, what we have seen and heard, whether in front of television, in radio or on newspaper, is that the Secretary only keeps on praising the interpretation of the Basic Law by the NPCSC as constitutional and conducive to communication. Not only is Secretary Stephen LAM incapable of maintaining the autonomy of Hong Kong and fighting for democracy. He even lacks the ability to convey the wish of Hong Kong people. The reduction of the expenditure on his post is reasonable and justified. Why should taxpayers in Hong Kong pay several millions of dollars each year to employ the Secretary as a "super courier" and the "super salesman" for the Central Government?

The second reason is that Secretary LAM is incompetent. Why has the Secretary for Constitutional Affairs degenerated into a dispensable "small potato"? It is simply because Secretary Stephen LAM has failed to perform his duties. It seems that it is evident in a remark of the Chief Executive. He said to the effect that constitutional development is a big issue; it is a big issue for the country and a big issue for Hong Kong. However, what Secretary LAM has done is just trivial, as a mouthpiece of the Central Authorities and a messenger, and he has done nothing at all to defend the rights of Hong Kong people and to reflect to the Central Authorities the general aspiration of Hong Kong people for

the implementation of universal suffrage as soon as possible. This is precisely how the Secretary has trimmed his own roles and functions while at the same time surrendering the autonomy of Hong Kong to the Central Authorities step by step.

Third, poor performance at work. Taxpayers in Hong Kong are already extremely dissatisfied with the Secretary's performance. An opinion poll conducted by the Public Opinion Programme of the University of Hong Kong after the interpretation of the Basic Law by the NPCSC shows that Secretary LAM scored only 40.8 in his popularity rating. The public is extremely dissatisfied with the Secretary's performance. In radio programmes, we can often hear calls from the audience for the resignation of Secretary LAM. If the accountability system of principal officials is true to its name, there seems to be no reason for the Secretary to stay.

To sum up, it only stands to reason to delete this post of the Secretary for Constitutional Affairs and there is simply no reason to retain this post. There are one hundred reasons for Secretary LAM to leave but not one excuse for him to remain in office.

Next, Madam President, I will discuss the impact of the Budget from a transport viewpoint. Madam President, with regard to transport issues, we can see that the Government will launch a number of large projects in the future. They include Central Reclamation, the Hong Kong-Zhuhai-Macao Bridge, merger of the two railway corporations, and the West Island Line and South Island Line for which the MTR Corporation Limited (MTRCL) has requested an equity injection by the Government. If these initiatives are implemented, they will bring about important changes to the transport blueprint of Hong Kong.

In fact, regarding the disputes over the Central Reclamation, I believe colleagues will appreciate that the Victoria Harbour is an important asset of Hong Kong. No large-scale engineering works is permitted without detailed consideration, and reclamation must not be carried out arbitrarily. The transport or traffic problems in Central should be resolved in accordance with practical and actual needs.

According to the Government's proposal, the Central-Wan Chai Bypass will carry 12 lanes in total. One can imagine that its completion can absolutely solve by a wide margin the congestion problem in Central so often mentioned by

the Government. It is perhaps for this reason that the Government will be providing commercial facilities for leisure, so to speak, in the reclaimed area. The Democratic Party is worried that after the original congestion problem is solved, the Government will create new congestion problems. This is a typical example of lifting a stone to crush one's own feet. So, on the scale of reclamation in Central, the Democratic Party considers that there is still room for discussion. In fact, the Central Reclamation has become a highly controversial and sensitive issue. The Government absolutely cannot think that it can continue to encourage public acceptance of the existing proposal, and it must not think that with the establishment of the Harbour-front Enhancement Committee which has no solid powers, it can resolve the disputes over Central Reclamation under the adornment of this "decorative vase". We hope that the Government can listen to more public opinions on the existing proposal and set up a community-led Harbour-front Enhancement Committee with solid powers and a statutory status, in order to properly address issues relating to harbour protection and its sustained development.

Madam President, the Government has all along maintained that the most thorough solution to congestion on roads between Central and Wan Chai is the construction of the Central-Wan Chai Bypass. However, treating and tackling traffic problems in such a way will ultimately create new traffic demands. In fact, in our view, we cannot entirely build our way out of congestion. Rather, we can look at the problem from the angle of transport management and address it by way of diversion. It is worthwhile for the Government to note that more and more metropolises have adopted or are in the course of considering a fee-charging approach to deal with the problem of traffic congestion in urban centre.

A case in point is Singapore, where the electronic road pricing system has been adopted for years. In February last year, London also began to impose congestion charges. The two governments consider these initiatives immensely helpful to solving traffic congestion in the urban centre. At present, as far as we understand it, other cities such as New York and Beijing have started to look into the feasibility of these initiatives. Economists in the Mainland have also advocated the use of a road levy to solve the traffic problems in Beijing, in order to achieve reasonable distribution of road resources and hence minimize economic loss. Hong Kong has repeatedly conducted studies of an electronic road pricing scheme before. The Democratic Party understands that this is a highly controversial issue in society. So, we hope that the Government can take the lead in discussion and publish a consultation document to facilitate in-depth

discussion on the feasibility of implementing electronic road pricing in the business district of Central and also the pros and cons of such a scheme for public discussion and decision. Obviously, according to overseas experience, after the implementation of the scheme, there should still be sufficient alternative roads as choice for drivers, so that they can choose not to use the sections where a fee is charged. Public transport, including taxis, can enjoy a waiver of such charges. Residents in the district, when driving in and out of their district, should only be required to pay a nominal charge at 10% of the fee. So, even if the Government is inclined to give effect to this scheme in future, it must put in place these three matching measures before the scheme can be readily accepted by the public.

Madam President, the Government always stresses that public coffers must be spent cautiously, and before us now is a tall test for the Government. Recently, the MTRCL has submitted to the Government a proposal on the West Island Line and South Island Line, suggesting the probable need for an equity injection by the Government at \$5 billion to \$7.5 billion. At a special meeting of the Finance Committee, Members had drawn Secretary Dr Sarah LIAO's attention to this, but the Government did not express its view on this matter. The Democratic Party agrees that there is a need to construct the West Island Line and South Island Line, but an equity injection by the Government must be handled with care. We are worried that the MTRCL may threaten to give up the project once the Government refuses the injection. In fact, the Project Director of MTRCL, Mr Russell John BLACK, did make such a remark. As a public transport operator, the MTRCL, being a listed company though, asks the Government to "lend a hand" to its construction projects, but when it comes to fares, it hopes that the Government can "withdraw its hand". I think this attitude is inappropriate. After all, an equity injection by the Government will come from the public's pockets and funded by the people's money. The MTRCL must give up part of its fare autonomy and must be willing to incorporate a mechanism which is highly transparent and acceptable to the public and which allows for increases and reductions in fares. Only in this way will the Democratic Party consider an equity injection by the Government meaningful.

Madam President, regarding the merger of the two railway corporations, the Government has all along stated that the merger depends on the wish of the minor shareholders of MTRCL. In this connection, the public is worried that the Government will, in order to make the MTRCL shareholders accept the

merger, sell the Kowloon-Canton Railway Corporation at rock-bottom prices. If such being the case, we do not consider it a suitable method of management of public finance. Recently, the Government has commissioned financial consultants to conduct an assessment on the merger and a report has been submitted to the Legislative Council. It is mentioned *inter alia* that a fare mechanism which allows for increases or reductions in fares and the other objectives that must be achieved pursuant to the merger are contradictory and conflicting. Besides, while the report considers a merger desirable, it is pointed out at the same time that the completion of the merger would remove competition in future tenders of railway projects. So, for the above reasons, we again urge the Government not to effect a merger only for the sake of merger at the expense of public interest.

Madam President, I so submit.

**MR LAU WONG-FAT** (in Cantonese): Madam President, the new Financial Secretary, Mr Henry TANG, who may have accepted his appointment at a critical and difficult moment, has been extremely lucky. Soon after assuming office, he witnessed the recovery of Hong Kong economy after a long period of stagnation. By the time when he delivered his maiden Budget, Hong Kong's momentum of rebound had become even more prominent. Under such circumstances, Secretary Henry TANG has naturally found his "mission" much easier.

In the light of the current situation, Secretary Henry TANG has highlighted the importance of "giving the community a respite and charting a course of governance that does not go against nature". But still, the Budget has induced diverse repercussions. Some described it as lacking in new initiatives and counting on luck; some said the Budget was just a reincarnation of previous ones; and some considered it sound and practical. To give the matter its fair deal, despite the improving economy, it is impractical for us to expect Secretary Henry TANG to be able to instantly come up with a radical solution to a wide range of long-standing problems. In my opinion, it is more worthwhile to pay attention to his philosophy and notions of financial management.

Despite years of alarming fiscal deficits, Secretary Henry TANG is bold enough to run a serious risk in reversing the approach of his predecessor, who was determined to eliminate the fiscal deficit by all means. With this, he has

won wide praises. After sizing up the situation, the new Financial Secretary has decided to restore things to order by postponing the timetable for eliminating the fiscal deficit, thus laying the foundation for his well-intentioned policy of "giving the community a respite".

The rule by Emperor Wen and Emperor Jing of the Han Dynasty serves as the best example of "giving the community a respite and charting a course of governance that does not go against nature". Reviewing history, we will find that "giving the community a respite" is preceded by "minimal labour and tax burdens". In other words, in times of difficulty, labour and tax burdens must be reduced before the people can recuperate and regather their energy and the economy recover. Under this policy, Emperor Wen and Emperor Jing managed to turn the grave destitution prevailing in the early years of the Han Dynasty into unprecedented prosperity, paving the way for the golden era of the Han Dynasty that inspired awe throughout the country.

Today, this ancient formula is still considered to be highly realistic and practical. In the face of the downturn, the Government of the Hong Kong Special Administrative Region (SAR) has suffered tremendously in finding the right way out over the years. Now it has finally decided to resort to the great wisdom of our forefathers. As the saying goes, it is better late than never. Fortunately, it appears that the Chief Executive and the new Financial Secretary share the general direction in managing public finance. I believe their approach is right. However, whether the corresponding policy initiatives can be thoroughly implemented shall depend on the judgement and will of the people tasked with the job.

Madam President, as mentioned by me earlier, tax reduction is the most important means to implement the policy of "giving our community a respite". In this respect, the failure of Secretary Henry TANG to scrap the second-phase salaries tax increase proposed by his predecessor is obviously inconsistent with the principle of "minimal labour and tax burdens", much to our regret indeed. Some people have described this as an example of "xiao gui cao sui"<sup>1</sup>; but I consider people who hold this thinking have made a cognitive mistake. If we really have XIAO's rules to follow, Hong Kong will not end up in such a miserable situation. XIAO He was a great prime minister in the early years of

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<sup>1</sup> XIAO and CAO refer to two prime ministers of the Han Dynasty. According to history, Cao has chosen to follow the good rules set by Xiao, his predecessor.

the Han Dynasty. His successor, CAO Can, knowing his own limitations and realizing that XIAO He far surpassed him in terms of strategy-formulation and knowledge, decided to follow the rules laid down by XIAO in governance and achieved remarkable success.

Understanding this, it is simply unreasonable for Secretary Henry TANG to stick to the second-stage salaries tax increase proposal. Aggravating the hardship of the public in times of economic stagnancy is simply not a good practice. If the practice is not good, why should it be followed? Secretary Henry TANG has, on the one hand, stressed the need to give the community a respite and, on the other, acted indecisively. Has it ever occurred to him that he may be caught between two stools? As he has been so courageous to act in his own way in reducing the fiscal deficit, issuing bonds and even introducing the boundary facilities improvement tax, why did he not do it more thoroughly? If he does so, his words, deeds and course will be even more convincing.

Madam President, I wish to say a few words on sales tax. Although it is said in the Budget that the Government is merely considering and examining the introduction of a sales tax, what is in the mind of the Financial Secretary is pretty obvious. I would advise the Government against introducing a sales tax, for this is not in line with the principle of "giving the community a respite and keeping minimal labour and tax burdens". Furthermore, how can the public relax and take a respite should the Government hasten to warn them of the possibility of introducing new taxes before they can enjoy the benefit brought about by the benevolent policies of the new Financial Secretary? A simple and low tax regime has always been an important selling point of Hong Kong. At the same time, this system has been operating smoothly and effectively. So, is it worthwhile for us to risk making such a major change because of short-term hardship?

Furthermore, has the authorities evaluated the possible losses incurred as a result of Hong Kong people flocking to our neighbours for shopping and entertainment subsequent to the introduction of a sales tax? What is even more worthwhile for the people in power to seriously consider is that sales tax is not merely a financial issue; it is a major political issue too. Now that the Government, with such a poor credibility, is heavily weighed down by abundant problems and in such a state of confusion, is it intentionally stirring up such a highly controversial issue because it does not have enough trouble?



It is more practical for the Government to make more efforts in reducing expenditure. When it comes to reducing expenditure, I am sure Secretary Henry TANG knows the story of how Emperor Hanwen won the hearts of the people by living frugally, practising what he preached, and sharing the people's hardship. We will not require or expect the senior officials of the SAR to follow the footsteps of our wise forefathers. But the Government will have done us a service if it can fulfil its due governance and supervisory responsibilities in concrete terms by strictly prohibiting various departments from committing the mistake of negligence of duty, thus resulting in a waste of huge sums of public money and economic losses, and preventing the Audit Commission from finding so many faults.

Madam President, "charting a course of governance that does not go against nature and discarding all desire and worries from our mind" is not equivalent to "attempting nothing and accomplishing nothing" and "merely waiting for luck". As the saying goes, the people will feel secure only when a government is administered in a peaceful manner. For the stability of the people, a ruler should streamline administrative procedures and refrain from making undue interference. Only in doing so can society be properly administered and stability be maintained. Such being the case, I think it is necessary for the Administration to re-examine the situation and scrap all hassling measures as far as possible. It should be understood that there is just a difference in one word in "wu wei er zhi" and "wu neng er zhi"<sup>2</sup>.

I so submit. Thank you, Madam President.

**MR CHAN KWOK-KEUNG** (in Cantonese): Madam President, despite signs of an economic revival, the employment market has not yet fully recovered. I therefore fully support the Budget' proposal to set up the Economic and Employment Council.

The Government's initiative to extend the 11 000 temporary posts can do only little to help. With the number of unemployed persons reaching 240 000 at present, these temporary posts are simply not enough to resolve the unemployment problem, for only less than one twentieth of the unemployed can

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<sup>2</sup> "wu wei er zhi" refers to charting a course of governance that does not go against nature; "wu neng er zhi" refers to an incapability of running a government.

be benefited. As such, I urge the Government to make continuous efforts in creating posts. In particular, I hope long-term posts can be created, because the creation of temporary posts is after all not a long-term solution. In fact, there has been a constant increase in the services provided by the Government in such areas as environmental hygiene, tourism assistants, elderly services, libraries, and so on. Additional manpower is required to provide these services. The Youth Work Experience and Training Scheme has helped many young people aged between 15 and 24 gain working experience and prepared them to join the community. The establishment of the Youth Sustainable Development and Engagement Fund is meant to provide a proactive solution to the non-engaged youth problem in response to the aspirations of young people.

Although the economy has regained vitality in recent months, it is still necessary for the Government to make vigorous efforts to boost the economy. The issuance of bonds is one way of achieving this objective. The high deposit level in Hong Kong, reaching \$3,400 billion at present, can provide the energy needed for promoting the local economy.

Last year, in order to strictly observe the golden rule of "maintaining healthy public finances", scheduled infrastructure projects were put on hold because of the deficit problem, and the recruitment of civil servants was also frozen. All this has made the Government even weaker and the task of rescuing Hong Kong even harder. Recently, the economy has shown signs of improvement rather than deterioration. The Government should all the more promote the economy by way of issuing bonds. In doing so, the capital thus generated can be re-channelled to finance infrastructure projects to boost employment. For instance, the Government should reconsider its plan to build its headquarters at the Tamar site. However, it is very important to note that local workers must be benefited. As unemployment in the construction industry is very serious, putting some infrastructure projects on hold will affect the livelihood of more than 10 000 construction workers.

The Government's proposal to issue bonds worth \$20 billion can not only boost the spending confidence of Hong Kong people, but also produce a domino effect to completely reverse the dilemma confronting Hong Kong at present. The most notable example is the improvement in the property market. It can be seen that the improvement is totally attributable to psychological factors. With the recent increase in the number of transactions in the property market, the

Government should make the most of its policies to help the general public in home ownership by such means as offering home purchase loans. What is more, additional resources should be provided to help home buyers to "get on board". Property developers will naturally build more housing should they feel that the desire of home ownership in Hong Kong has risen again. With the construction industry regaining its momentum, workers in the industry will not have to worry about such problems as underemployment, and so on.

Of course, the Government must strive to combat illegal workers before the desired result can be achieved. I am very pleased to note that the Financial Secretary has emphasized this point in the Budget, and I believe the Government will protect the employment opportunities of local residents. The Labour Department has indicated that more staff will be deployed to carry out inspection pinpointing "illegal workers". I do hope the Government can deter unscrupulous employers from employing illegal workers.

On the other hand, the Budget has offered two tax concessions to benefit the public: extending the entitlement period of Home Loan Interest Deduction and the duty concession for ultra low sulphur diesel. The former can relieve property owners of some of their pressure for they can each receive a deduction of \$300,000. This is particularly beneficial to the middle class for they can pay less tax. The latter will benefit professional drivers, particularly those rent-a-taxi drivers. The proposal can help them save a substantial amount of fuel expenses. Both concessions are meant to be good news to the general public. I hope the concessions can be extended in the future to ease the burdens on home buyers and professional drivers so as to truly achieve the objective of "leaving wealth with the people".

During the motion debate on the policy address, I expressed the wish that the Government should, apart from supporting the movie industry, assist other creative industries with potentials in terms of policy and resources. We are very pleased to see that the Government has made known its position in supporting the product designs of jewelry, watches and fashion in the Budget just published. In particular, it has mentioned a determination to strengthen its support for design and innovative development to promote local product design activities, thereby further developing Hong Kong's brands. In addition, the Government has pledged to turn Hong Kong into a focal point of design excellence in the region.

The Budget has also proposed launching a "DesignSmart" initiative to establish a "Design and Innovation Centre" with the creation of a \$250 million fund. While we support the general direction of this proposal, we hope the Government can expeditiously submit concrete initiatives on such matters as the utilization of funds, measures to implement the "DesignSmart" initiative, planning of the Design and Innovation Centre, and so on, to expedite the implementation of the initiative. At the same time, it is necessary for the Government to evaluate the effectiveness of the performance of the fund and the progress of various project items on a regular basis, to ensure that the fund is well-spent.

According to the idea conceived by the Government, the "DesignSmart" initiative should be responsible for nurturing start-up design ventures, training talents in design and branding, and promoting and honouring design excellence. On nurturing start-up design ventures, I would like to say a few words on the development of digital entertainment in Hong Kong. It has been two years since the establishment of the Working Group on Digital Entertainment. During the period, a number of initiatives and proposals have been put forward. While some of them have already been implemented, some are still in progress. In my opinion, apart from reporting on the work progress on a regular basis, it is now time to review the performance and effectiveness of various initiatives and, in the light of the global trend in development of the digital entertainment industry, evaluate which items require adjustment and consolidation, or expedition, and which items have become obsolete or failed to meet market demands.

On the training of talents in design, a number of professional training programmes organized by various tertiary institutions and industry associations are available on the market. As such, no more government resources should be invested in providing training programmes. Instead, the Government should formulate a direction and strategy for the future development of creative and design industries in Hong Kong, and enable various sectors to draw up more appropriate curricula and training contents. At the same time, the Government should assume the role of an intermediary and co-ordinator to co-ordinate the curriculum development of different levels and scopes.

In general, creative industries require the support of computerized and digital high-tech equipment and technology. To complement the Design and Innovation Centre conceived by the Government, I hope the Government will

reconsider the proposal of converting old factory blocks into information and technological commercial buildings. To tackle the difficulty encountered by the industries in making substantial investments in systems and equipment during the initial period, these buildings should be equipped with super computers and other costly high-tech systems to attract and promote the development of high-tech creative industries.

Given limited resources, the extensive scope of creative and design industries, and the dissimilarities between industries in terms of their unique features and requirements, the Government must strengthen its communication with the various product design industries, and listen to their views and demands to enable resources to be used effectively in optimizing the support rendered.

Madam President, I so submit.

**MR JAMES TIEN** (in Cantonese): Madam President, the Liberal Party fully supports the maiden Budget delivered by the Financial Secretary (a former member of the Liberal Party) because, in addition to his status as a former member of the Liberal Party, his philosophy closely resembles that of the Liberal Party. Of course, I share the view that Hong Kong has been developing smoothly in many aspects after Secretary Henry TANG took office. He has been praised by many colleagues for his great luck. I do share this view too. However, it is most important that a great deal of work has been done by the Government over the past several years. Many initiatives proposed a couple of years ago, such as the "DIY tours", Individual Visit Scheme and CEPA, were not put into implementation until last year. Certainly, the people of Hong Kong have worked very hard too. In the wake of SARS, the entire community has made concerted efforts in stimulating and relaunching the economy. Thanks to the concerted efforts made by the Government, the business sector and wage earners in general, our economy has been recovering speedily.

Broadly speaking, Madam President, the Financial Secretary has in this Budget agreed to freeze most fees and charges relating to or affecting business operation and the livelihood of the people. Given today's economic conditions, this will produce a very positive impact in easing the pressure on the public. We surely hope the Government can continue doing this. I have also noticed that the financial position of the Government has greatly improved in the past few months. In fact, there has been a sharp rise in the number of tourists

visiting Hong Kong under the Individual Visit Scheme, an arrangement backed by the Central Government. The increase in the number of travellers coming in DIY tours, as published in the past two days, is expected to bring us tens of billions of dollars in revenue next year, as well as creating a large number of jobs. In particular, the vacancies created at the grass-roots level have already provided the unemployed with a lot of job opportunities. I expect to see a substantial improvement in the economy next year.

Under such circumstances, what should be done to reduce expenditure or raise revenue in other areas if the Government's overall financial position has begun improving? The Liberal Party would like to make the following suggestions on expenditure reduction. Apparently, the Government's annual recurrent expenditure of more than \$206 billion is largely associated with civil service pay and benefits. In this respect, an agreement, or the so-called "0-3-3 proposal", has been reached between the Chief Executive and civil service unions. The Liberal Party fully supports the agreement and we do not have any objection to civil service pay. Yet the Government has mentioned that a two-phase review of the allowances enjoyable by civil servants has been carried out. In particular, the overseas education allowance and housing allowances have been reviewed during the second phase of the exercise. However, the Government will still have to spend \$4 billion annually. I hope the Government can adopt a pragmatic approach in granting allowances should there be a genuine need to do so. For instance, can the numerous items of allowance be slashed for they might no longer be applicable in 2004? The Liberal Party supports the Government to do as much as it can in this respect.

Furthermore, we share the view that the Government can do better in reducing expenditure, or curbing the so-called wastage among government departments. This point was raised by several Members earlier, and discussed in detail by Mr LAU Wong-fat and the Director of Audit. We certainly hope the Government can do as best as it possibly can in order to minimize wastage. Though this has nothing to do with civil service pay or benefits, there are a number of areas where wastage has been identified. We will agree so long as taxpayers' money can be saved and the resources thus recouped can be used to help the more needy people.

Madam President, another point I wish to raise concerns the two so-called revenue-raising measures endorsed and implemented by this Council last year. Insofar as the increase in profits tax is concerned, the Liberal Party will continue

to support the Government to impose the 1.5% increase. On the second phase of increases in salaries tax, however, the Liberal Party suggests the Secretary to reconsider whether there is room for not effecting the second phase of increases in salaries tax this year. Madam President, our argument is, when this proposal was passed last year, the financial position of the territory, with a fiscal deficit of \$78 billion, was far worse than it is now. In addition to raising profits tax, we felt that the majority of middle-class income earners should pay more in salaries tax. With the adjustments being effected in two phases, a tax revenue of approximately \$3 billion is expected in each phase. Now that Hong Kong economy has turned the corner — we can see improvement in various trades and industries over the past few months, yet there is little prospect for the vast majority of wage earners, or the middle class, to receive a salary rise this year. They have yet to enjoy the fruit of the so-called economic recovery. If the withholding of the \$3-billion additional tax increase is not going to impact enormously on the budget for the whole year, the Government should consider shelving the levy of the additional \$3 billion to be imposed in the second phase.

Why do I consider it not necessary to worry about the \$3 billion this year? This is because the Financial Secretary projected in last October that this year's fiscal deficit would still top \$78 billion. However, he has recently told us that there has been a substantial improvement in the overall economy. Moreover, he expected the deficit to be just \$49 billion after all the accounts were settled in end March. In fact, the projected deficit has been reduced by \$29 billion in half a year. Should this situation persist, I believe it will still be possible for the \$29 billion difference to rise slightly when all the accounts are settled. The \$3 billion will then become insignificant.

Another point I wish to raise is that we were relatively pessimistic about the property market last year for many negative assets and government sites remained unsold. Over the past several months, particularly January, February and March, however, the property market has become far more active than before. Previously, the Government was worried that no one would be interested in the "application list". However, we can see two days ago that K. Wah International indicated its willingness to bid for two sites at Ma On Shan and Sha Tin at a proposed price of \$1.6 billion, compared to the combined revenue of \$4.5 billion the 17 sites on the application list are expected to fetch. According to the market view, insofar as the 17 reserved sites are concerned, property developers will continue to make applications to the Government at

reasonable prices and there is a great possibility for all the sites to be sold. Even if only eight or 10 of the 17 sites are eventually sold, the revenue will definitely far exceed \$4.5 billion. Given this possibility, I hope the Secretary can reconsider the proposal of not effecting the second stage of increases in salaries tax. This must be done by the Government because it is stipulated in Article 74 of the Basic Law that taxation, involving public expenditure and government policies, must be introduced by the Government, and we are not allowed to do so. I hope there is scope for the Government to take the lead to do so.

The Government's recent issuance of bonds worth \$20 billion is supported by the Liberal Party this year. We used to worry that the Government was just transferring money from its left pocket to the right through the issuance of bonds — nothing was done to help the matter for a debt of \$20 billion would merely mean an additional \$20 billion income for banks. However, the Government has made an undertaking that the issuance of the \$20 billion worth of bonds will be used to finance infrastructure projects, not for recurrent expenditure. Given that the returns of infrastructure projects are stable and the investment is long-term, the Liberal Party considers the issuance of bonds worth supporting.

It has been noted that there have been increasing investment opportunities for the public recently. Let me cite the issuance of securitized bonds discussed in the past two days as an example. Expecting an annual return at of 2%, 3% and 4% for three-, five- or seven-year bonds respectively, many people in Hong Kong consider the bonds as an additional means of investment from the angle of savings or a means to earn reasonable interest income. Insofar as the Government is concerned, interest rates may raise in next few years and it will then be impossible for the Government to borrow money at low interest rates then. Given that interest rates are currently low in the international community, the Government can thus strive to raise longer-term loans of five, seven or 10 years. This will not only help the Government raise funds, but also enable taxpayers to save money. Therefore, the Liberal Party supports the issuance of bonds. As regards the question of whether the Government can make an undertaking of not to issue more bonds in the future, the Secretary's reply is in the negative, for the Government may consider issuing bonds again in the years to come. The Liberal Party's position is relatively open — the Government should examine whether there is a need to do so before making its decision. We will then look at the matter to see what should be done.



Madam President, regarding the Secretary's proposal of examining estate duty, Dr David LI mentioned it earlier in the debate and the Liberal Party also thinks that the Government should consider it. I have studied some data in this respect. Under the existing estate duty system in Hong Kong, estate duty is levied only when an estate is in excess of \$7.5 million. As such, the vast majority of the general public in Hong Kong has not paid estate duty before. It was revealed that of the 13 000-odd cases assessed by the Inland Revenue Department (IRD) annually, only 400 cases or so were eventually required to pay estate duty. In fact, despite the enormous wastage of manpower and resources in assessing the need to charge estate duty, the IRD has managed to collect estate duty in 400 cases only. I have also noticed that people with more assets can lawfully be exempted from the payment of estate duty through making such financial arrangements as trust fund, and so on. In fact, the Government was not in a position to impose estate duty on many deceased assets-holders in Hong Kong. It was just that many of them might not have the means to commission experts to make lawful financial or estate duty arrangements for them. As a result, they were required to pay enormous sums in tax. In this respect, the Financial Secretary collected approximately \$1.4 billion in 2002-03, and approximately \$1.5 billion in 2003-04.

I have also noted that many other Southeast Asian countries have, by contrast, fully abolished estate duty over the past several years in order to attract foreign capital. For instance, the levy of estate duty has been completely scrapped in such neighbouring countries as Singapore, Malaysia, New Zealand and Australia. Such being the case, estate duty should perhaps be scrapped in Hong Kong too. In particular, many mainlanders have the means to invest in Hong Kong. Given that "one country, two systems" has brought Hong Kong and the Mainland even closer, many mainland investors have brought with them assets to Hong Kong, in addition to purchasing properties here. According to the information provided by the Government on the amount of investment declared in the applications for investment immigration, five investors have brought to Hong Kong more than \$100 million in total. Scrapping the estate duty will attract more people to invest in Hong Kong and create better development opportunities for other industries.

Madam President, it will apparently run against the long-standing objective of the Liberal Party should we fail to talk about wine duty and motor vehicle duty in each year's Budget. Insofar as wine duty is concerned, I very

much agree with Dr David LI that, despite our greatly improving tourism, opening a bottle of finer wine in a high-class hotel costs more than \$1,000, which is most expensive by world standards. If Hong Kong is to turn itself into a popular tourist destination in the world and rival the rest of the world, we should not let people develop a habit of drinking inexpensive wine worth dozens of dollars. The levying of a hefty duty on a bottle of wine costing a few hundred dollars will affect the way many tourists look at Hong Kong — they will have the impression that goods in Hong Kong are very expensive. In short, they just find spending in Hong Kong much more expensive than many other countries when paying their bills, even not knowing whether it is because they have drunk many bottles of wine or the meal itself is very expensive. The Government should really think about this. Even if an exorbitant rate is to remain, can it be kept at a certain percentage, say 60% or 70%, so that the most expensive wine will cost no more than \$500 or \$1,000 a bottle? Conversely, it is now found that levying an exorbitant duty on wine will force the public either stop drinking wine or bring just one bottle into Hong Kong without breaking the law. The amount of tax thus collected is thus going to be small.

Madam President, on the first registration tax for motor vehicles, we spent a long period of time debating this issue last year. From the data published by the Government this year, we are happy to see that the Government has listened to our advice by capping the increase in first registration tax at 100% and scrapping the proposed increase at 150%. In the end, the Government has collected an additional \$200 million instead of an expected \$300 million. Should the tax remain at such a high level, will the overall power of Hong Kong people in car purchase be affected? Another point I wish to make is that taxation in the Mainland will lower to 60% as the World Trade Organization agreement will soon be fully honoured by China. As such, import tax in China will be reduced to 60% very soon too. However, Hong Kong is still levying an exorbitant rate of 105%, which is much higher than that in the Mainland. I hope the Government can examine such an unreasonable practice.

Lastly, Madam President, despite the Liberal Party's long-standing objection to the introduction of a sales tax, the Hong Kong General Chamber of Commerce (HKGCC) agrees that the Government should carry out a study in view of Hong Kong's extremely narrow tax base, though it has no intention to ask the Government to introduce a sales tax immediately. The HKGCC also considers that the measure should be implemented several years later after we

have seen the economy fully recovered, wages increased and inflation appeared. Therefore, the HKGCC supports the Government to examine this issue.

With these remarks, Madam President, I support this year's Budget.

**DR TANG SIU-TONG** (in Cantonese): Madam President, despite the community's high expectation for the maiden Budget prepared by the Financial Secretary, Mr Henry TANG, the Budget has turned out to be dull and devoid of surprises. Since 1999, Hong Kong has been troubled by its fiscal deficit problem. Eliminating the deficit has thus become the Government's prime task for many years. However, it can be seen from the Budget that Secretary Henry TANG has relied mainly on sustainable economic recovery and the sales of assets to eliminate the deficit, rather than truly tackling the fundamental problem of income falling short of expenditure. Mr TANG has obviously chosen to follow the footsteps of his predecessor, Mr LEUNG, with his measures for raising revenue and cutting expenditure being mostly borrowed from last year's Budget. This shows that Mr TANG has not done enough in introducing new thinking into his management of finance. Nevertheless, Secretary Henry TANG is a man of extremely good fortune; Hong Kong economy started to recover soon after he had assumed office. It can be said that "he has risen to such a high position without encountering any hardship".

To start with, the Financial Secretary has stated that, in the next five years, government operating expenditure will be reduced year-on-year from \$218 billion in 2003-04 to \$200 billion in 2008-09, with the largest annual saving being less than \$6 billion. This shows that the deficit-elimination programme is almost entirely dependent upon economic recovery, which is expected to substantially boost the Government's coffers to make up for the shortfall. On the other hand, no concrete measures have been proposed for slashing the pay and allowances for civil servants, which have been widely considered a cause of the structural deficit. Undoubtedly, there is no room for further downward adjustment in civil service pay level this year and the next, subsequent to the agreement reached on the "0-3-3" proposal. Although it was said that the annual spending of up to \$5.7 billion on various fringe benefits and allowances has been reviewed, less than \$100 million in benefits and allowances is expected to be reduced in the first phase this year. This demonstrates that the Government has failed to address this issue squarely. As for the proposal of formulating and implementing a civil service pay adjustment mechanism that

allows both upward and downward movements, not a single word about it can be found in the Budget. At the same time, the bad habit of "wastage", making improper use of public money, and achieving efficiency disproportionate to the amount of resources injected is now commonly found among government departments. During its meeting with the Chief Executive and the Financial Secretary earlier, the Hong Kong Progressive Alliance (HKPA) expressed the hope that the Government can strengthen the power of the Audit Commission and bring the auditor's report into full play by establishing a reward system that pegs the auditor's findings to the expenditure levels of the relevant departments in the years to come. I would like to urge the Government to seriously consider and adopt this proposal.

The Government's speed in streamlining its structure has apparently failed to catch up with the Financial Secretary's shout for implementing strict measures to reduce spending. Over the next five years, a number of government assets will be privatized (including selling shopping centres and car parks worth approximately \$20 billion in 2005) and services will be outsourced. In 2006-07, even without taking into account the number of full-time non-civil-service contract staff, the civil service establishment alone will still reach 160 000. Why does the Government expect to retain so many posts after the privatization of some assets and outsourcing of certain services? According to the statistics provided by the Government, the civil service establishment has shrunk from more than 190 000 to around 172 000 as of early this year. Yet, at the same time, the number of full-time non-civil-service contract staff as at end 2003 still exceeded 16 000, representing a growth of 18% over end 2002. The government structure will still be very enormous even excluding more than 4 100 posts created under the job creation initiatives. At present, many private companies in Hong Kong are actively implementing measures to reduce costs through downsizing and staff productivity enhancement. In comparison, the Government's strength in reducing costs can hardly satisfy the community's expectation.

Furthermore, the Government has failed to come up with effective solutions to rein in certain constantly ballooning public expenditure items. Insofar as medical expenditure is concerned, I am of the view that through studying the introduction of medical insurance systems of a saving or investment nature, applying the user pays principle, co-ordinating specialization and co-operation between public and private medical establishments, and so on, the Government should be able to progressively reduce the reliance of medical services on government coffers in the long run. At present, only approximately

\$1.4 billion is left in the fiscal reserves of the Hospital Authority (HA). As the combined fiscal deficits for the last fiscal year and this amount to nearly \$1.05 billion, so without even taking into account its annual increments for employees, the HA is likely to face "bankruptcy" in the next fiscal year. However, the Budget has not mentioned or responded to the deficit problem confronting the medical sector. Given such a "soft" approach in reducing expenditure, has the objective of achieving the target of eliminating the deficit in 2008-09 become unrealistic?

As the Government has failed to implement effective measures to reduce expenditure, it can rely merely on economic revival to eliminate the fiscal deficit. However, there is little mention in the Budget of ways to relaunch the economy. Those mentioned are actually old initiatives proposed by the former Financial Secretary, such as developing tourism, high value-added industries, creative industries, the local community economy, and so on. It can be said the Budget is lack of new ideas. Apart from establishing a limited fund with respect to the promotion of design and original brands to support talents training and studying the feasibility of extending the scope of tax deduction to cover design-related activities, reference to the Government's strength in facilitating the development of these industries has been simply general. Even though the Budget speaks at length from the outset about the various merits and benefits brought about by CEPA to Hong Kong economy, it has fallen short of delving deeper to propose concrete measures to assist small and medium enterprises or local professionals in capitalizing on CEPA. Insofar as relaunching the economy is concerned, it is hoped that the Government can, apart from "allowing the market to take the lead", come up with more concrete "facilitating" initiatives and support.

After experiencing "the worst of the times" in 2003, Hong Kong has seen its economy gradually picking up. However, the employment problem is still the greatest concern of the public. Compared to the period when Hong Kong was hit by SARS, it can be said that the present unemployment rate of 7.3% has fallen substantially. Yet the Budget has merely affirmed the implementation of several short-term employment measures proposed in the policy address delivered in January. Nothing concrete has been proposed with respect to identifying the causes of structural unemployment and upgrading the competitive edge of the 1.5 million low-skilled workforce with an education level of Secondary Three or below. This gives the working population an impression that the Government does not care about them at all.

Subsequent to the "Co-ordinating economic and infrastructural projects" outlined in the policy address, the Budget has put forward concrete initiatives with respect to planning and development of Lantau and devoted considerable length to elaborating its plan on promoting the development of tourism and logistics. This is a positive move. I would like to call on the Government to expeditiously strengthen its infrastructural and manpower support in this respect to ensure the sustained growth of logistics and tourism, thereby creating a large number of employment opportunities at different levels in Hong Kong.

Nevertheless, the Budget has merely emphasized the need to develop Lantau as a new region; it has neglected the issue of whether planning, development and allocation of resources of developed regions can effectively promote development. Let me cite Northwest New Territories, the constituency represented by me, as an example. As a trip to the hearts of Hong Kong Island and Kowloon is both time-consuming and costly, some low-income earners in the district are reluctant to spend so much money on travelling a long way to the urban areas to work, thus aggravating the unemployment problem in the district. Yet the Budget has not come up with long-term planning initiatives on how the local community economy and tourism of the western part of the New Territories can be developed to create more jobs in the district. Neither has it proposed reducing travelling expenses or other feasible initiatives to help people living in the western part of the New Territories to travel to and from the urban areas. In my opinion, the Government should, in formulating its funding policy, pay attention to achieving a balanced development of all districts through perfecting regional development and planning and enforce its policy by way of reasonable distribution of resources in various areas. A recent family tragedy in Tin Shui Wai might be attributed partly to the fact that, despite a very large concentration of low-income families of low-skilled workers in the district for planning and development reasons, the amount of social welfare resources allocated to the district is lower than the average. In fact, different districts are confronted with different problems. For instance, family, youth and transport problems abound in the Northeastern New Territories; the western district of Kowloon is plagued by problems with the elderly, aged buildings, and so on. However, the Budget is lack of planning in allocating resources in the light of the diversity of the problems confronting different districts. The accumulation and deterioration of problems in the community will eventually hinder regional economic development and affect the livelihood of the people living in the districts.

Lastly, this year's Budget has stressed the importance of "people-based governance" and "allowing the community to take a respite". The HKPA has always emphasized that the middle class is the mostly badly hit during the economic recession. The Government should therefore do its utmost to help them get out of their predicament. It is a pity that, apart from the only concession granted in the form of extending the entitlement period of Home Loan Interest Deduction, the Budget has not proposed substantial measures to help the middle class. Fortunately, the Financial Secretary has adopted the proposal raised by the HKPA and the vast majority of the public by continuing freezing government fees and charges that affect the livelihood of the people and the business environment. Although the extension of the duty concession for ultra low sulphur diesel to end 2004 is well-intentioned, the number of people benefited will after all be limited. Insofar as social welfare expenditure having a bearing on the well-being of the public is concerned, the Budget has merely put forth a proposal to encourage the business sector to actively take part in an initiative to demonstrate their concern for society. In my opinion, if the Government is to truly achieve its objective of "people-based governance", it should address the needs of the disadvantaged for social welfare resources and, through reasonable distribution of resources, maintain and improve existing services, instead of passing the commitment of helping them to the business sector.

Madam President, I so submit.

**MR SIN CHUNG-KAI** (in Cantonese): Madam President, the emphasis of the 2004-05 Budget is on giving the community a respite. Of course, Secretary Henry TANG has been criticized by many for "betting on luck". Earlier on in the debate, he was criticized by Mr LAU Wong-fat for "charting a course of governance that does not go against nature". Actually, this is not the case. I noticed that the people of Hong Kong had already breathed a sigh of relief after the 1 July march last year, and then there was an upsurge of feel-good sentiment. It was probably because of growing confidence that people were generally willing to spend. More importantly, Hong Kong economy has truly completed a transformation from propelling the economy of the Pearl River Delta (PRD) to counting on China's policies. After the 1 July march, there came the Individual Visit Scheme, CEPA, Renminbi business, the Hong Kong-Zhuhai-Macao Bridge, and now a further expansion of the Individual Visit Scheme. Is it really possible for Hong Kong economy to rely entirely on CEPA and the Individual

Visit Scheme for impetus? Have we become increasingly reliant on China's economy? Our long-term economic direction should seek to position ourselves in the economic transformation for development in line with our neighbouring regions. I think the Hong Kong Government must pay particular attention to the following two aspects: first, enhancing its own competitive edge; second, providing the required momentum for the process.

Let us take a look at some of the comments made by the international community on Hong Kong since 1997:

According to a 2003-04 report on global competitiveness published by the World Economic Forum, Hong Kong's competitiveness has fallen for four consecutive years, and there is no sign that the fall has stabilized.

In 1997, Hong Kong's global competitiveness ranked second and retained the same position in 1998, but started falling to the third place in 1999, eighth in 2000, 13th in 2001, 22nd in 2002, and further to 24th in 2003. In sharp contrast to Hong Kong, our long-standing rival, Singapore, secured the sixth place. It was suspected by the World Economic Forum that our public finances might have been plagued by wastage — Hong Kong is below the world's general standard in terms of utilizing public money! Mr Albert HO will give a detailed explanation on wastage later.

According to the 2003 World Competitiveness Yearbook published by the IMD, based in Lausanne, Switzerland, Hong Kong ranked third in 1997, fifth in 1998, and started dropping to the sixth place in 1999, 12th in 2000, back to the sixth place in 2001, and then down to the ninth place in 2002. Thanks to an apparent improvement last year, Hong Kong has surged back to the fourth place, with the reason being more emphasis was placed by rating agencies on the efficiency of the private sector.

These competitiveness study reports do take into account politics and effectiveness of governance. In terms of the Government's effectiveness in implementing policies, its score fell by 0.4 last year, which in turn directly affected the ranking of Hong Kong. If we look at these two key study reports on competitiveness, we can see that Hong Kong's competitiveness rankings have kept falling since 1997. We can even see a steady worsening of various indicators. In particular, the constant decline in governance ability has harmed Hong Kong's competitiveness. We hope the Government can draw a lesson and



reflect on its blunders to prevent committing the mistake of "being unable to run a government", as remarked by Mr LAU Wong-fat earlier. Nevertheless, we should find comfort in that Hong Kong has topped two study or rating reports, namely the Heritage Foundation of the United States and the Fraser Institute of Canada, for years in terms of Economic Freedom Index, indicating that Hong Kong has maintained its economic freedom.

Over the past years, a number of economists have written articles to analyse the key factors leading to Hong Kong's sliding competitiveness: first, the Government's policy research work is not properly done; second, the private sector has not taken research and development (R&D) seriously. Because of the failure of the government leadership in attaching importance to R&D, we have seen repeated policy blunders and policies turning into slogans since the reunification. As a result, Hong Kong has made no progress after all these years. On the other hand, the failure of private or commercial organs to take the initiative to engage in R&D in the interest of narrowing the gap between Hong Kong and its neighbours has also contributed to Hong Kong's weakening competitiveness. The relevant officials of the SAR Government should formulate remedial policies with respect to the abovesaid two negative factors with a view to fully activating research on economic and employment policies for the sake of promoting a sustainable enhancement of competitiveness.

On policy research, the Government has emphasized in the 2004 policy address the need to upgrade the standard of public policy research. However, when various Policy Bureaux were asked how much money would be spent on policy research in their estimates of expenditure, almost every Policy Bureau gave the same reply that policy research fell under the brief of the Central Policy Unit, illustrating that the Government is not yet prepared to properly conduct policy research for various Policy Bureaux. Ignoring output and failing to properly perform its research duty, the Central Policy Unit has instead spent time doing head counts of the people taking part in processions.

In recent years, we have often seen the Government coming up with outdated and even empty slogans, and that mirrors the slipshod attitude of government departments towards policy research. Certain controversial and disgusting policies launched by the Government in recent years, such as the selling of the Hunghom Peninsula at a rock-bottom price, the Harbour Fest, the Central Reclamation, and so on, have attracted fierce public reactions. These policies have not only caused a sheer waste of energy and money, but also given

us an impression that the Government's policy objectives are seriously out of tune with the realistic circumstances.

In the entire government structure, the Hong Kong Monetary Authority (HKMA) is worth mentioning, for this is the only organ which has been able to undertake research properly. Under the auspice of the Financial Secretary, the HKMA has not only set up its own research department, but also enlisted top international financial experts and renowned scholars to give advice and suggestions on Hong Kong's monetary policies to ensure the policies implemented are practical. Although it might be due to the attack on Hong Kong Dollar in 1998 that the HKMA learned a lesson and thus decided to strengthen its research work, the efforts made are nonetheless commendable. Some recent movements made by the Financial Secretary also warrant our encouragement. In a bid to strengthen the research ability of the people around him, he has set up the Economic Analysis and Business Facilitation (EABF) Unit responsible for providing economic analysis by merging the department headed by Mr TANG Kwong-yiu and another business department. Although we support the setting up of the EABF Unit, we note that there are still inadequacies, for a dedicated analysis department can only help us grasp the veins of Hong Kong's economic development. The Financial Secretary should not only make economic analysis, but also undertake economic research, further upgrading its scope of research to cover policies in all areas. Apart from implementing policies to remove restrictions and barriers, research should be undertaken on longer-term policies.

The same should apply to other Policy Bureaux. In order to improve the quality of governance in practical terms and tackle the blind spot in this area, more resources should be committed to enhancing policy research. Compared to the amount of public money wasted because of administrative blunders made by the Government every year, spending on policy research might just be negligible. The Government is simply obligated to upgrade its ability to undertake objective policy research and implement timely objectives.

On the other hand, the Government is obliged to encourage or induce private and commercial organs to undertake their own research work. While efforts are made to improve the Government's policy research, private commercial organs should enhance their own edge in competing with their business rivals in future and improve their own R&D capacity. In fact, the Government has spent enormous capital on promoting R&D. The Applied

Research Fund has been criticized by the Director of Audit today for wastage or various problems. Since the establishment of the Innovation and Technology Fund (ITF) in 1999, \$1.4 billion has been spent on research. Although I agree that the current review of the ITF is worthwhile, I think the Government should consider making use of the funding available to induce the private sector to undertake its own research. It is simply inadequate to rely solely on government capital to undertake research.

I would like to say a few words on enhancing the infrastructure integration between Hong Kong and China. Apart from strengthening policy research undertaken internally by the public sector and R&D undertaken by the private sector, the Government should concentrate its efforts on studying the opportunities for integration between Hong Kong and China and undertake joint research with the mainland authorities in providing strengthened support for the two places. This will definitely upgrade Hong Kong's strength in developing in the Asian-Pacific Region. In the light of the rapidly-growing geographical and economic integration between Hong Kong and the PRD, and in order to shorten the travelling time between both places, the Government should expeditiously open discussions with the Mainland.

We are very disappointed that despite much discussion — the Chief Secretary for Administration has just walked out of the Chamber. Perhaps he is merely interested in constitutional issues at the moment, and has no time to study massive railway and transport systems or infrastructure facilities connecting Hong Kong and China — it seems that the levitated transportation system discussed previously has been shelved. It is actually most imperative that long-term arrangements be made to turn Hong Kong into a hub, so that most parts of the PRD can be reached from the territory within a couple of hours, thus strengthening Hong Kong's competitive edge in the long term. It is disappointing that the PRD bridge and railway network, though having been discussed for a long time, are still progressing very slowly. I hope the Secretary can work harder.

I would like to respond to the issue of salaries tax mentioned by Members of the Liberal Party earlier. It is a pity that when the Democratic Party proposed an amendment last year to oppose or veto an amendment proposed by the Financial Secretary, we received no support from our colleagues. Today, this issue was brought up again by the Liberal Party. There should have been no problem had the Liberal Party supported us last year to block the tax increase

proposal. Now it is saying that the tax should be lowered. The Democratic Party will definitely support Secretary Henry TANG should he propose to lower the tax, because we did not approve of the tax increase last year. As regards the issuance of bonds, the Government is going to issue bonds worth \$20 billion this year. However, some so-called bond experts held the view that bonds worth up to \$100 billion might have to be issued should Hong Kong wish to develop a bond market here. The Government might need to conduct another detailed study, because the information received by us might be biased. Anyhow, this is what the Government should do. The balance of funds for infrastructure should not be considered as the only factor determining whether bond issuance should be promoted. What I mean is, the issuance of \$20 billion bonds should not be used as a balancing tool because the surplus this year appears to be inadequate. In the long run, bond issuance is in itself a financial tool. A large number of countries do employ such tools to resolve their financial problems.

Madam President, next I would like to turn to information technology (IT). In the latest issue of "Digital 21" Information Technology Strategy published by the Commerce, Industry and Technology Bureau in early March, the Government pledged that efforts would be made to sustain IT development. Back to the Budget, although the Financial Secretary has not substantially slashed expenditure incurred by technology departments, can the estimated expenditure level meet the requirements for these departments to implement the Strategy? For instance, wireless technological services are found to offer considerable development potentials. Even the Government has set up a task force to follow up the proposals made by a working group set up under the Information Infrastructure Advisory Committee. Yet when I enquired with the authorities concerned, I found that no additional resources had been provided by the Government.

Let me cite another example. At the suggestion of the industries concerned, the Government has agreed to tailor-make e-trading promotional programmes for individual industries, in order to enhance their competitive edge. However, only \$480,000 can be earmarked to encourage tourism, one of the four economic pillars of Hong Kong, to switch to e-trading. From the funding applications for the computerization programme, we can see that there has been an overall reduction in IT items by 22%, from \$690 million in 2002-04 to \$540 million in 2004-05. In terms of the number of newly launched computerization projects, there were 249 in 2002-03, 174 in 2003-04, and a mere 86 in 2004-05.

Madam President, I do not mean the more the better. It is just that money should be spent where necessary. Like education, IT should be seen as an investment instead of expenditure. Its return is actually enormous. The problem currently confronting the Government is that all departments have to slash expenditure. As a result, the first step all departments must take is to slash non-current expenditure. Expenditure on IT is among such expenditure items. In the long run, this will only undermine the Government's efforts in upgrading its efficiency because IT investment can eventually bring efficiency. It is hoped that the Government can appreciate this.

It is planned that the Information Services Department (ISD) be merged with the Communications and Technology Branch of the Commerce, Industry and Technology Bureau and a Government Chief Information Officer post be created. In our opinion, Madam President, this merger proposal is neutral for it involves mainly reorganization of functions. However, the industry and the staff of the ISD are still concerned about the specific details of the merger and the career development of the IT professional grade within the Government in future. At present, most of the 700-odd departmental employees are professional staff. I hope the Government can, in implementing the merger, respect the views of the ISD and strengthen its communication with staff unions. After the merger, will the Government change its IT policy and the importance it attaches to IT? How will the Government Chief Information Officer be selected in future? These are all important matters.

**MR LEUNG FU-WAH** (in Cantonese): Madam President, when the 2004-05 Budget was being prepared by the Financial Secretary, the Hong Kong Federation of Trade Unions (FTU) expressed its views on a number of areas, including employment and labour, our greatest concern, and issues pertaining to the economy, education, social welfare, environmental protection, public finance management, and so on. We understand that, in the face of a huge fiscal deficit, the Government must endeavour to raise revenue and reduce spending. Redistributing government resources, streamlining the government structure, avoiding unnecessary wastage, and so on, are all effective means to utilize public money and reduce expenditure. However, should the Civil Service be unduly compressed for the sake of reducing expenditure to such an extent that certain departments will face a shortage of manpower and resources, the Civil Service, which has been operating smoothly, will be dealt a serious blow and its morale

will be hit severely. This will do no good to Hong Kong, and I believe no one would like to see this happen.

While it is important to reduce expenditure, it is also extremely important to look at how resources can be effectively utilized. Every year, the Government would spend considerable sums of money on outsourcing its projects and services. If the Government is to truly ensure that every cent is well spent and there is no wastage, it should effect strict supervision to monitor if the money has been well spent. In other words, a comprehensive monitoring system should be put in place to ensure that, after deducting necessary administrative fees, cost and reasonable profits, the funds awarded to the contractors will mostly be used to pay for the wages of employees on outsourced jobs, so as to minimize serious exploitation by contractors in the middle.

We should be proud of our civil service team that has always been clean, stable, and efficient. To further enable the Civil Service to function effectively, the FTU considers it necessary to review the Government's outsourcing and manpower resource distribution systems and rationalize the distribution of work among civil servants. This will enable Hong Kong to maintain a clean and effective civil service team to provide quality service to the public. In the face of serious unemployment, the Government should adopt effective measures to maintain the stability of the Civil Service. Under no circumstances can the Government slash resources and manpower with a "broad-brush" approach, or even create unemployment.

To tie in with its target of reducing operational expenditure, the Government has resorted to different means, including natural wastage, full suspension of recruitment of civil servants, and implementation of the second round of the voluntary retirement scheme beginning 1 April 2003, to realize its objective of compressing the civil service establishment to 160 000 by 2006-07. According to the Government's plan, 5 483 posts will be slashed in 2004-05. To limit the civil service establishment to 160 000, that means at least 6 000 civil service posts will be deleted in the next two years.

A reduction of 6 000 posts is by no means small. Is it really possible for the Government to cut so many posts through natural wastage and voluntary retirement schemes? Even if the recruitment of civil servants continues to be suspended, I am still worried that the Government might resort to layoffs to force

achievement of the target of downsizing. I am absolutely against an achievement of the Government's target through layoff. I hope the Government can clarify this issue, or even give an undertaking that there will no layoffs, so as to dispel the worries of serving civil servants about their prospects.

Insofar as disciplined forces are concerned, the Government gave the green light last year for four disciplined forces, namely the Immigration Department, Hong Kong Police Force, Fire Services Department and Correctional Services Department, to relaunch recruitment exercises to make up for a combined shortfall of 560 civil service posts. However, before the completion of the recruitment exercises for the 560 posts, the Government has decided to target its action on disciplined forces again in this fiscal year. As a result, with the exception of the Immigration Department, which will be allowed to recruit additional manpower, the other three disciplined forces will see a further reduction in manpower. While the Hong Kong Police Force will cut 600-odd permanent posts, the Fire Services Department and the Correctional Services Department will cut 97 and 80 permanent posts respectively.

In their respective written replies to my question, the Commissioner of Police, the Director of Fire Services and the Commissioner of Correctional Services stated that before deleting the posts, the management would strive to maintain good communication with the staff to minimize the impact of downsizing on their morale. At the same time, the management will try as far as possible to minimize the impact of downsizing on the workload of staff through flexible deployment of resources, re-engineering of work procedures, reorganization, and so on. Nevertheless, there have always been complaints from the disciplined services of enormous increases in workload and work pressure because of insufficient manpower. How far does the management understand the situation? At the same time, how serious has the management found the problem?

Undoubtedly, it is important for departmental expenditure to be compressed when the Government faces a tight budget. However, the devotion and sense of belonging of employees to their jobs, and their job satisfaction, are equally important. This is because excessive workload and work pressure will directly impact on work performance and service quality. In the end, resources will very likely be wasted, with the loss even outweighing the gain. In fact, the disciplined forces have a very important part to play in maintaining the overall law and order and social order in Hong Kong. The SAR Government must

ensure the stability of the disciplined forces by such means as avoiding unduly compressing the departmental establishment for the sake of reducing expenditure, and holding staff consultation before revising pay, benefits and allowances, to ensure the morale of the disciplined services is not injured.

In recent years, the Government has, on the one hand, reduced the size of the Civil Service and, on the other, recruited additional non-civil service contract staff outside the civil service establishment. Although it is emphasized that the recruitment of employees on non-civil service contract terms is sought to give departmental heads greater flexibility in staff recruitment to cope with the demand for short-term, non-full-time services or services pending review, it must be noted that the Non-Civil Service Contract Staff Scheme is permanent. Will the Scheme be abolished or further expanded? This is a matter of great concern to many civil servants. In the interest of dispelling the worry of the Civil Service, I hope the Government can review the Non-Civil Service Contract Staff Scheme and explain to the outside world the way forward of the Scheme.

Actually, not only do civil servants have worries, employees on non-civil service contract terms are worried too. Following civil service pay cuts, employees on non-civil service contract terms have to follow suit in having their pay cut. I have received a complaint in respect of two pay cuts over the past three years from a group of Workman II who have been serving the Food and Environmental Hygiene Department (FEHD) for a couple of years. Their pay has been reduced from around \$9,000 to around \$8,000, and further to around \$7,000. Despite the pay cuts, they are still willing to keep their jobs. They very much hope that they can have their contracts renewed and continue working. However, they have seen their contract term shortened from two years to one year, and then to nine months, and even possibly three months. It is grossly unreasonable that they will not be informed of whether their contracts can be renewed until just a few days before completion. The only wish of the employees is having a stable job. These contract staff merely hope the Government can inform them earlier of whether and how their contracts will be renewed. In particular, they hope the contract term can be longer so that they need not worry every day about losing their "rice bowls". At the same time, they hope their contracts can be renewed for a longer period.

Madam President, in his policy address delivered early this year, the Chief Executive stated for the first time that the Government would "pay attention to



whether those working on government contracts are receiving a reasonable wage". In fact, the problem faced by employees on outsourced government jobs of receiving unreasonable wages has always been in existence. In times of economic depression, this problem has worsened. The FTU has been pushing the Government for improvement to its outsourcing system, including demanding the Government to set a reasonable wage level in government contracts to ensure that employees on outsourced government jobs are given their entitled wages and benefits, and prevent serious exploitation in the middle. Some unionists have recently approached me to reflect the plight of some cleaners on outsourced government jobs. I was supposed to meet with a group of workers to listen to their grievances the day before yesterday (Monday evening). However, they failed to show up for fear of losing their jobs for complaining to the labour union. In the end, they could only reflect their grievances through the union representative. It is obvious that they dared not come forward to tell us their situation because they feared that they would lose their jobs. They merely hoped the labour union could reflect their plight to us so that Members of this Council could make representation on their behalf.

According to the "Wage and Payroll Quarterly Statistics" published by the Census and Statistics Department in December last year, cleaners are generally paid \$5,174 monthly. However, I learned that these cleaners were paid around \$3,000 at most. Apart from low wages, the treatment received by them was extremely poor. Being employed by the Leisure and Cultural Services Department, the Agriculture, Fisheries and Conservation Department and the FEHD for performing outsourced jobs, these workers are required by their supervisor, a civil servant, not to leave their posts until 4.45 pm, although they are supposed to be off-duty at 5 pm. As they are often required to travel by car or walk more than half an hour to reach the place where they can sign off, they can never leave their workplace punctually. However, the time is not factored into the working hours. In particular, they will be required to work outdoors even in bad weather. Even for those working on hilltops, no extra safety facilities will be provided. In order to keep their jobs, these grass-roots workers have to continue working even in extremely dangerous locations and conditions. So this issue really warrants our attention.

The monthly wage of \$3,000 received by these cleaning workers is obviously lower than the average wage received by average cleaning workers, as indicated in the survey published by the Census and Statistics Department. Compared to the contracts awarded by the Government, are the monthly wages

received by the workers too low or is there serious exploitation in the middle? The Government is obliged to, apart from ensuring public money is well spent, carry out investigation to prevent itself from indirectly becoming an unscrupulous employer.

Madam President, while it is necessary to ensure public money is well spent, the Government must not rely solely on civil servants to save public money — the civil servants referred to by me should include pensionable officers, non-pensionable officers, government contract staff, employees of government subvented organs and employees on outsourced government jobs. The Government must refrain from making them worry all the time simply out of a need to make savings. What I mean is the Government must stop reducing wages, cutting benefits, shortening the terms of employment contracts, giving increasingly late notices of contract renewal, or even refusing to renew contracts.

Madam President, I so submit.

**MR FRED LI** (in Cantonese): Madam President, it is so good to see that Secretary Dr YEOH Eng-kiong is in the Chamber because what I am going to say has a close relation with the Secretary. I would like to express my views on food safety and environmental hygiene.

In the budget of the Food and Environmental Hygiene Department (FEHD), I note that the Government is proposing to the Legislative Council a uniform rent system for market stalls. In fact, this policy has already been delayed for four years, and it is high time we resolved the issue now. After the establishment of Environment and Food Bureau and the FEHD in 2000, it was announced that the issue would be dealt with as soon as possible. However, four years have lapsed, and the problem of "one place, two systems" still persists in the issue of rents of market stalls, whereby markets in the urban area follow the practice of the past Urban Council, whereas those in the New Territories follow that of the Regional Council. On this point, the Democratic Party thinks that this is undesirable. In the past few years, due to the economic downturn, the rents of market stalls have been frozen and the rent mechanism has not been fixed. As the Government is inclined to fix the rents of public market stalls at a level close to the market rate, so we believe that once the proposed mechanism is implemented, the new rents will be much higher than the present ones if the frozen increase in the past is added to the rents fixed by the new mechanism.

Therefore, I hope the Government can be more realistic when it puts forward the new mechanism to the Legislative Council, because if the Government charges tenants of market stalls rents at market rate without considering their actual situations, it will generate very great conflicts between the Government and the tenants, thereby causing very great social conflicts. As such, we hope that the Government can take the affordability of tenants into consideration when it proposes a new mechanism to the Legislative Council.

Another policy which has seen slower progress than expected is the compulsory food recall measures. The progress of this policy is seriously slower than expected. When the Environment and Food Bureau was first established, the Secretary at that time, Mrs Lily YAM, said they would formulate the relevant measures and undertook to put forward regulatory suggestions to the Legislative Council. However, nothing has materialized in this regard year after year. Now, with all the personnel changes, even the new Health, Welfare and Food Bureau has been established, the Government has not spoken a single word on the progress of the issue. Of course, I do not wish to see that it is a repeat of the case of "not mentioning it anymore means that it no longer exists." However, given our higher demand on food safety, the Government should change the past practice of just relying on the voluntary effort of food manufacturers and distributors to recall problematic food, in order to provide safety protection in the public hygiene system of Hong Kong. In fact, as early as the era of the Urban Council, the Democratic Party already proposed to the Government on the establishment of a system of compulsory food recall. We hope the Government can live up to its promise to expedite putting forward a proposed framework of food recall, so as to enhance the Government's capabilities of protecting the people in the public health system.

Next, what I am going to say is very similar to the issue raised by Mr LEUNG Fu-wah, the issue of outsourcing. In the manpower budget estimate of the FEHD, we can see that 328 posts in the environmental hygiene services of the department will be deleted in the coming year. Among such posts, Workman II will account for 67%. So we can see that most of the deleted posts are those of the Workman II grade. Obviously, there is less protection for junior staff. Obviously, the deleted posts will be filled by outsourcing. However, we should note that, among the various departments which provide outsourced services, those provided by the FEHD have received the harshest criticism. Very often, we come across reports in newspapers on how the junior

and front-line workers were exploited, such as the reduction of wages, no-pay annual leave, or even they were made to pay extra money for leave so as to avoid losing their jobs. We think such negative news would tarnish the public image of the FEHD. Therefore, I would like to urge the management of both the Department and the Bureau to note the problems in this regard, and take actions against the unscrupulous and ruthless contractors, who should be punished or have their names removed from the contractors' list. Only will such measures be able to achieve sufficient deterrent effect, thereby minimizing the chances for contractors to exploit the workers.

Madam President, I would also like to take this opportunity to discuss the issue of fair competition. It seems that food and fair competition are two totally different issues. However, I wish to use "chickens" to illustrate the connection. Yesterday, 6 000 live chickens were allowed for importation into Hong Kong from the Mainland. This provided more options for the people of Hong Kong in buying chickens. However, as we look back on the 80-day period during which live chickens were not allowed for importation into Hong Kong, we can see that the prices of local live chickens had kept on surging. The wholesale price of such chickens had risen from the average price of \$10 per catty in the past to \$24 now, and the retail price from \$18 or \$20 per catty in the past to \$34 now. The prices were even higher on the Ching Ming Festival.

Of course, with a reduced supply of live chickens, it is understandable that the prices of chickens should rise or adjust under the law of demand and supply. However, I have received complaints from some chicken retailers in the markets. They pointed out the fact that only three or four chicken wholesalers had remained in business, as there was limited supply of chickens. So these few wholesalers collaborated in setting and standardizing the wholesale prices. So the chicken retailers have no alternatives, either they resume business and buy the chickens from the wholesalers, all at the same prices, or they may choose to continue suspending their business. However, even if they choose to resume business, they may still lose money because the wholesale prices of chickens are too high, and do they have a large supply of chickens from the wholesalers? So, some people are collaborating to set high prices for chickens and take advantage of the chaotic situation, resulting in the drastic upsurge of the prices of chickens. The ultimate cause of all these is the absence of a fair competition law. The Government of the Hong Kong Special Administrative Region (SAR) has only one paper-tiger type of regulation, namely, calling on and encouraging the

different sectors to observe the fair competition principle. However, those people just could not care less about this, and they will carry on with their practice of taking advantage of such a situation. All the consumers and the retailers are affected by or even suffer a blow from the unfair situation of raising and standardizing the prices.

Fair competition seems a remote issue and bears little relation to the general public. However, from the example of people who were exploited in the process of buying chickens, we can see that public interest could be affected any time if no effective fair competition laws are in force. Therefore, we shall continue reiterating our request to Financial Secretary Henry TANG, and I shall continue to say that we need to study the possibility of introducing a fair competition law into Hong Kong.

It is quite probable that the Government may say in its response that the SAR Government has already established a Competition Policy Advisory Group chaired by the Financial Secretary. However, I am not sure how the Government would assess the effectiveness of this Advisory Group. We think that its achievement leaves much to be desired and much greater initiatives are required. On the complicated and yet significant issue of fair competition, the Government actually has not launched any large-scale publicity. In the Budget, we can see that the Government plans to spend \$500,000 on promotional efforts in future. If the Government could really achieve great promotional effect on such a major issue with such a small budget, I would really feel happy about that, and I would also admire it for having made such a good achievement. But I am worried. That the Government has actually allocated such a small amount of money to this reflects that the Government actually does not attach great significance to fair competition, virtually ignoring that a fair business environment could safeguard the investments of foreign investors.

I hope the Government can respond to this question raised by me.

Lastly, I have repeatedly discussed this with Financial Secretary TANG. During the past month or so, I have been doing my best in holding resident consultation meetings, 12 in total, in some public housing estates and some HOS estates in Kowloon East. But as I proceeded to hold such consultations, the more such meetings I held, the more bored I felt. This was because the residents did not have much to say. The Financial Secretary proposed to give

the community a respite. So there were not much detail, nor anything spectacular. No new tax items, nor are there any new policies. For vehicle licenses, as most residents in the district do not have vehicles, so they did not have much to say.

I wish to raise one point, that is, I had made some calculation, there were altogether 1 200 residents attending such consultation meetings. Therefore, I could convey some viewpoints to the Financial Secretary. Very obviously, I had asked for a show of hands on the sales tax. This is because I found the sales tax the easiest subject for me to explain to them, and it could stimulate them to listen to me instead of falling into a doze, and also the media had reported a lot on sales tax recently. I may say that, 90% of the public housing residents indicated opposition to the introduction of the sales tax. Among them, some abstained because they absolutely had no knowledge of the sales tax. Those in favour of the tax accounted for less than 10%. However, at a certain HOS estate, which was relatively middle-class by nature, I tried to raise this question to more than 10 committee members; among them, nine were in favour of the sales tax, and five opposed it. This came across to be somewhat as a surprise. Why was there the marked difference in the middle-class areas? I put the same question to residents of Laguna City (some councillors had conducted a survey for us in the past), which is a relatively middle-class district, there were more residents who supported the sales tax. I have reported this finding to Mr TANG as such.

I guess the grassroots strongly object to the sales tax because most of them do not have to pay salaries tax as they earn less than \$8,000 a month; some make as little as \$6,000 or \$7,000 a month. Therefore, they think it is not acceptable that they be made to pay tax for whatever they buy. They said, even if the tax had to be levied, it should only be 1%. However, if it is only 1%, I think the Financial Secretary will not accept it. If a sales tax of only 1% is levied, the administrative cost incurred will still not be small, so I think the Financial Secretary will hope to levy at least 3% to 5%. Basically, the general tax rate is 5% in overseas countries. Other countries usually charge more than 5%. It is seldom less than 5%. Therefore, calculating at 5%, the Government will gain revenue of some \$20 billion to \$30 billion. However, not too many people can accept the 5% rate. But this is just the opinion of the grassroots. As for the middle class, they hope that they can pay less salaries tax upon the introduction of the sales tax. That is, they hope they can be compensated in another aspect. Therefore, this has led to, I am not sure if I should call this, the class conflict

between the middle class and the grassroots, that is, those who do not have to pay tax. At least, a class conflict does exist.

Regarding the opinions I collected on sales tax from Kowloon East, which mainly comprises public housing estates, I have had some very profound feelings. I have also discharged my duties as a Member and a public opinion representative. As it had been raining heavily recently, I had not held too many resident consultation meetings. However, I have already tried my best to conduct a certain number of such meetings. I hope the Financial Secretary can hear the opinions of the people of Kowloon East, which I represent. I so submit.

**DR PHILIP WONG** (in Cantonese): Madam President, the Hong Kong Chinese General Chamber of Commerce (CGCC) which I represent welcomes the maiden Budget presented by the Financial Secretary. I support the formulation of the new Budget by the Government in accordance with the principles of prudent management of public finances and keeping expenditure within the limits of revenue and under the spirit of allowing the people to take a respite and our enterprises to regather their energy. I think this Budget is more aggressive in terms of expenditure-cutting initiatives but more pragmatic in terms of revenue-boosting measures, in keeping with the actual situation of Hong Kong. It helps improve the business environment and displays the clear thinking of this term of the Government of properly resolving such structural problems as the fiscal deficit through revitalizing the economy.

The Financial Secretary projected a \$49 billion deficit for this year, representing a significant drop over last year's forecast of \$78 billion. This shows that Hong Kong's economic restructuring and recovery have made a good start. This has also sent a positive message to the public and the international community, that the Government is seriously implementing various measures to control expenditure while making an effort to stimulate economic growth in order to increase tax revenue and job opportunities and inspire greater confidence in the public and investors. This general direction is correct and should be widely supported and accepted by all sectors of the community.

I am cautiously optimistic about a 6% growth in the Gross Domestic Product in real terms this year. Barring unforeseen circumstances, this forecast should be able to realize. The various statistics recently have all shown

that the local economy has entered a stage of stable recovery. Coupled with the rapid, stable and co-ordinated development of the mainland economy, economies in the Asia-Pacific Region have shown signs of improvement. To Hong Kong which enjoys the unique status of "one country, two systems", there is great room for manoeuvre. I think the first and foremost task of the public and the business community now is to concentrate their efforts on working for a common goal in one mind, and cherish and grasp the valuable opportunities bestowed on us by the Central Authorities in trade, financial services, infrastructure, Individual Visit Scheme and relaxed restrictions on investment in Hong Kong. They should bring into play the traditions of Hong Kong people of always being flexible and adaptable to changing circumstances and their spirit of perseverance and diligence. They should, under the "market leads, government facilitates" principle, give full play to Hong Kong's advantage of "leveraging on the Mainland as our hinterland and being a window on the world", thereby shaping a new image for Hong Kong economy.

The CGCC attaches great importance to this Budget which is announced at this crucial moment of recovery. We have, in the name of the CGCC or jointly with other industrial and business organizations, expressed our views to the Financial Secretary on the goods and services tax (GST), estate duty and the issue of bonds by the Government. The CGCC is of the view that the Government should consider the justifications for broadening the tax base. Proposals can then be drawn up by internal committees after detailed studies for rational discussion in the community, with a view to reaching a consensus. Nearly 30% of the members of the CGCC have long engaged in business relating to retail, wholesale and tourism. They are, therefore, very much concerned about the details of the introduction of GST by the Government. I hope the Government can widely consult public views and truly draw lessons from the experience of other places. In considering broadening the tax base, the Government should reduce the operating costs of the business sector as far as possible, in order to maintain Hong Kong's reputation as the "Shopper's Paradise". I will continue to collect and collate the views of trade member of the CGCC and reflect them to the Financial Secretary and also submit them to this Council for consideration.

Today, Madam President, I would like to mainly express my views on the abolition of estate duty. As we all know, Hong Kong is an international financial centre and its success is attributed to its role as a bridge, assisting overseas investors to enter the Mainland and also assisting the development of



mainland enterprises overseas. Faced with a new economic outlook, the Government should actively think about how to take forward the restructuring of Hong Kong's financial structure and institutions and how to fundamentally lay down a solid foundation for our financial revenue. I would like to suggest that an option is to streamline the tax regime as far as possible. The underlying principle is that it should not create obstacles to investment and capital flow, and taxation should not undermine investor sentiments in making investment in Hong Kong. However, I think the existing estate duty runs counter to this basic principle. Estate duty has been given effect in Hong Kong for over 80 years. Many of the legislative provisions are outdated and exist in name only. Major business chambers in Hong Kong have time and again proposed the abolition of estate duty.

I think the abolition of estate duty have more pros than cons. It may be a viable option encompassing creativity and vision.

Firstly, the revenue generated by estate duty is only limited. In 2002-03, only \$1.4 billion was generated from estate duty, accounting for 0.8% of the total government revenue. According to statistics for the past decade, estate duty only accounted for less than 1% of the revenue of the Treasury, and the amount is even more insignificant after deduction of the administrative costs.

Secondly, the imposition of estate duty cannot serve the desired purpose of the Government. In fact, estate duty is most prone to evasion. Many people who have the means to pay estate duty can often transfer their assets overseas through various legitimate arrangements. Therefore, however sizeable the wealthy people's legacies are, their inheritors often do not have to pay any estate duty. In some countries, the imposition of estate duty seeks to redistribute wealth and increase government revenue. But in Hong Kong, estate duty has generated too little revenue and is, therefore, impossible to serve these purposes. Some people opine that the Government could find out "unlawful income" through the estate duty and catch those who have slipped through the net. This argument is far from convincing. In 2002-03, the Inland Revenue Department handled a total of 15 227 cases of estate duty, of which only 298 cases required the payment of estate duty. In the recent decade, the taxable part of estate duty cases accounted for only about 2% of the total cases. From another viewpoint, the imposition of estate duty nowadays may conversely be seen as a measure taken by the Government to spare the rich but to fleece the middle class.

Again, and more importantly, the abolition of estate duty is conducive to facilitating investment. Hong Kong is a small externally-oriented economy. There is already no capital gain tax here. By abolishing estate duty which is the only kind of asset tax in Hong Kong, coupled with matching policies on investment migrants, elites from the Mainland will be attracted to Hong Kong and entrepreneurs from the Asia-Pacific Region and elsewhere will swarm into this "tax haven" of Hong Kong, truly making Hong Kong investors' prime choice for keeping and managing their assets. This will further facilitate the development of the financial services industry, the stock market, the property market and various trades and industries, thus boosting public revenue indirectly and creating more job opportunities. Moreover, the outflow of assets and talents may well be avoided; and the elderly do not have to worry about estate duty and will be more willing to participate in endeavours for worthy causes or set up charity funds.

In recent years, estate duty has been abolished in such countries as Australia, New Zealand, Malaysia, India and Canada. In Singapore, reforms have been carried out to the legislation on estate duty. If Hong Kong hopes to assume a leading position in the competition with neighbouring regions, it is indeed time to expedite financial restructuring and review the estate duty.

Madam President, I so submit.

**MS LI FUNG-YING** (in Cantonese): Madam President, the economy of Hong Kong has faced great hardships during the past few years. In the atmosphere of a recovering economy, the Financial Secretary released his maiden Budget since his assumption of office. In paragraphs 57 and 117, the latter being a paragraph of the concluding remarks, he stressed that the Government "should allow the community to be given a respite" and "seek to strike a proper balance between reducing the fiscal deficit and safeguarding people's livelihood." I believe no one will oppose the idea of giving our community a respite. However, before putting forward this proposal, we must first identify the causes for the great sufferings of the people. If the causes were attributable to government policies, then a relatively "non-interventionist" Budget should achieve the effect of giving the community a respite. However, if the causes of people's sufferings had their roots in the so-called free market, then the "non-interventionist" policies of the Government will just rub salt to the wound, and it will be difficult for such

policies to achieve the effect of giving the community a respite. If the people's sufferings were caused by factors related to both the Government and the market, then the "non-interventionist" approach will only achieve half of the desired effect, that is, even if all government policies disturbing the people are removed, the people will still have to suffer the hardships caused by the free market.

After the Budget was released, the public response has been generally good. The main reason is that the Government has abandoned some grand policies, thereby reducing the extent of disturbance to the people. However, in regard to the people's sufferings caused by the free market, the Budget basically adopts a "sit-back-and-relax" approach, and for people of the working class, who suffer most in the free market, the relief measures in the Budget cannot help them in reducing their pressure in life. This is certainly disappointing. Just as the response to the Budget made by the Federation of Hong Kong and Kowloon Labour Unions (FLU), which I represent, "The workers will lose their rice bowls, it is hardly people-based governance."

The Budget admits in the section of "Revitalizing the Economy, Promoting Employment" that, "As a long-term solution, we should promote Hong Kong's economic restructuring, become more competitive .....". I am not going to comment on the Financial Secretary's long-term solution to the unemployment problem, but I would like to ask: What about the short-term measures? The Government can formulate long-term policies for the next decade, but for the salary earners, especially the grass-roots workers, an unemployment period of one month is already too long.

The Financial Secretary stresses that the unemployment problem is not unique to Hong Kong. As globalization intensifies competition, manufacturing industries and even some service industries will move to other competitive locations that incur lower costs, giving rise to job losses. The critical issue is not whether the problem is unique to Hong Kong. Instead, the key issue is, in face of the unemployment problems, whether the Government has made reference to other countries and regions facing the same problem and examine what it can learn and adopt from their measures of protecting the livelihood of the unemployed. In the Budget, the Financial Secretary just proposes to allocate \$1.2 billion to extend 110 000 temporary posts, as well as to the training of young people. Such measures are not sufficient for extending all the present temporary posts, not to mention rendering any assistance to the 240 000 unemployed ranks.

Globalization has changed the ecology of the entire labour market. Most of the salary earners cannot rely on one skill for living throughout their lifetime. After the relocation of labour-intensive manufacturing industries out of Hong Kong, it is now the turn for the service industries and white-collar trades. Salary earners can no longer change their jobs just for two to three times from their young days to their retirement. Even for civil servants, their jobs may not necessarily be secure. Problems like job insecurity and unemployment have been the constant sources of worry of salary earners during the past few years. Even if we expect to see an economic recovery in future, such factors will continue to exist in the new economy. In the face of incessant job losses, does our Government intend to adhere to the "market leads and government facilitates" approach, so as to allow such bad labour market conditions to persist?

In mentioning the "market leads and government facilitates" principle, the Financial Secretary points out that the Government's role includes "maintaining a robust institutional framework", and a good working environment is one of the elements of a robust institutional framework. Is the above job insecurity "a good working environment"? Hourly-rate workers and contract workers cannot enjoy the protection of the Employment Ordinance, is this "a good working environment"? Last month, a survey conducted by a local university revealed that Hong Kong people had to work eight to 12 hours more than their counterparts in European and American countries with comparable living standards. It is not uncommon for grass-roots workers to have signed employment contracts stipulating that they have to work more than 10 hours daily. Is this "a good working environment"? Some academics predict that even if the unemployment rate could drop to 5% in the next two years, the real wage will still see a downward adjustment. Is this "a good working environment"?

Several years ago, three Members from the labour sector, namely Mr LEUNG Fu-wah, Mr CHAN Kwok-keung and myself, requested the Government to amend the labour legislation to protect the interests of hourly-rate workers. But the Government did not support the idea. At a time when the unemployment rate was becoming increasingly acute, the FLU also suggested to establish an unemployment loan fund, yet the Government was unsympathetic. During the consultation period of this Budget, I said that I hoped the Government could reconsider the possibility of introducing unemployment insurance, and the Government again thought that the proposal was inappropriate. As the Government thinks that maintaining "a good working environment" is a future

development trend, I hope the Government can respond next week by describing specifically what constitutes "a good working environment", and what kinds of policies the Government has in stock to achieve "a good working environment".

In response to labour organizations' worry that the local employment situation might not improve despite an economic recovery, the Financial Secretary said in the Budget speech that this is not unique to Hong Kong. The problem is not unique to Hong Kong. But this observation is not the solution to the problem, and it is especially not the solution to labour problems. In the Legislative Council debate on the policy address conducted in the beginning of this year, I already criticized the Chief Executive for feeling complacent in making remarks like "the entire world faces these" and "we are no exception" in responding to the widening of the wealth gap between the rich and the poor. Obviously, the Financial Secretary has made the same mistake in the Budget.

The Financial Secretary stresses that he will not waver in his commitment to provide for the disadvantaged. Really, the social welfare expenditure in the Budget shows an increase of about \$800 million over the previous year. However, the increase is in fact meant to meet the expenditures arising from the increasing number of new cases which require assistance from the social security net, as well as old age pension as a result of the ageing population. Insofar as all the other social services are concerned, the resources are diminishing. The recent family tragedy that happened in Tin Shui Wai was just the tip of the iceberg. With diminishing resources for social services, how can the Financial Secretary live up to his own promise of not wavering in his commitment for the disadvantaged?

A related issue is the Government's implementation of the so-called "big market, small government" objective. In the next five years, irrespective of the financial situation of the Government, it will slash substantially the percentage of public expenditure as a share of the Gross Domestic Product (GDP) from 22.5% in 2004-05 to 16.9% in 2008-09. The rate of cut is spectacular. The Government's expenditure will be determined by the performance of the GDP, and it will be subject to very stringent control so as to avoid the recurrence of a deficit. However, as a common saying goes, "Make hay while the sun shines." When we have an economic downturn, the disadvantaged will bear the brunt first and foremost, and the Government will incur more expenditure. So the reserve is just like the hay we make on sunny days. Setting an across-the-board link

between public expenditure and the GDP is inconsistent with the Financial Secretary's pledge of unwavering commitment to the disadvantaged. Even if it is all smooth sailing for the economy of Hong Kong in the days ahead, some critics are already questioning whether the Financial Secretary intends to use the expenditure level of the '70s of the last century to fund a knowledge-based international cosmopolitan city in the 21st century.

During the transition to "large market, small government", the civil servants are among the first batch of people who are directly affected. In addition, in order to improve the financial situation, all kind of austerity measures has been implemented in the Civil Service. So the impact on them is very great. The civil servants will face another pay cut of 3% next year. All kinds of measures for streamlining the civil service structure and reviewing the allowances and remunerations of civil servants are now pressing ahead in full steam. There are a lot of factors of unrest and instability in the Civil Service, or even a lot of dissatisfaction. In the Budget, the Financial Secretary specifically thanks the civil servants for their understanding and assistance in improving the financial situation of the Government. This is a due recognition of the commitment of the Civil Service. I think this merits our commendation. I hope the Government can continue with its practice of respecting civil service organizations and conducting sincere discussions with them. At a time when the Government has to reduce its expenditure, it is necessary for it to maintain a harmonious team spirit with civil service organizations.

Madam President, in his personal reflection on how he had prepared his maiden Budget, the Financial Secretary said that the most difficult part had been for him to make the courageous decision of not introducing any tax increases. In fact, the former Financial Secretary had already lowered the threshold of personal income tax from \$104,000 to \$100,000. As a result, some 40 000 people will become eligible to pay tax now; the Government will proceed with the fee adjustments and then start conducting a detailed study on a sales tax. I may not necessarily oppose to such government measures. If these measures could improve and narrow the wealth gap in society, and if such measures could help the disadvantaged and grass-roots workers, I cannot see any reasons for objection. The Financial Secretary has the courage of not introducing any tax increases, but we hope even more strongly that he can have the courage of safeguarding the working environment of the salary earners, allocating resources to ameliorate the predicaments of the disadvantaged and narrowing the wealth

gap between the rich and the poor, so as to enable the grass-roots people to enjoy the fruit of economic recovery as we are now beginning to see some promising signs. Thank you, Madam President. I so submit.

**MR MA FUNG-KWOK** (in Cantonese): Madam President, the Budget released by the Financial Secretary stresses giving the community a respite. While no tax increases are introduced, it also extends the period of time for Hong Kong to achieve budget balance with due consideration to the actual circumstances in Hong Kong. The general direction of the Budget merits our support. However, with only the measures mentioned in the Budget, I believe we may not solve the prevailing economic and public finance problems faced by Hong Kong.

I do not intend to argue over trivial issues here. Instead, I would like to discuss the Government's philosophy of public finance management. I, together with friends in the New Century Forum, have been in support of the "large market, small government" principle. However, "small government" does not mean "non-interventionism", or repeatedly waiting for assistance from the Central Government. The Budget has proposed some fragmented measures, yet it has failed to put forward a direction of financial management that can dovetail with the economic restructuring of Hong Kong. In order to solve the economic and public finance problems faced by Hong Kong, I think the Government must have a set of clear-cut and comprehensive economic strategies, and it may even have to formulate some specific industrial policies so as to promote the economic restructuring of Hong Kong.

In the meantime, the Government should identify clearly the priorities of its various measures. At a time of economic concession, the first and foremost task of the Government is to stimulate the economy by implementing suitable fiscal policies with a view to creating more job opportunities, creating assets of the community by public expenditure and promoting the economic restructuring. If the Government just focuses on reducing its expenditure and increasing tax, it will just affect investment sentiments and eventually only weaken the economy, instead of strengthening it.

In retrospect, with the Central Government launching a series of initiatives to assist Hong Kong, we can see that the economic atmosphere does show some

positive improvement. However, if we take a closer look at the recent economic data of Hong Kong, we will discover that though deflation has dropped by a certain margin, it continues to exist. The nominal value of GDP in the fourth quarter of last year had shrunk by 1% when compared with the corresponding period of 2002; the unemployment rate was still above 7%. From all of these, we can see that the economy of Hong Kong still has a long way to go before achieving a real recovery. Even after the signing of CEPA between the Central Government and the Government of the Hong Kong Special Administrative Region (SAR), we still have to wait and see its actual impact on the economy of Hong Kong.

It is most unfortunate that the Government has made the elimination of the fiscal deficit its priority target during the past two years, without appreciating the grievances of the people, especially the middle class. In the Budget of last year, apart from making downward adjustment to tax concessions, the Government also implemented measures to introduce narrower tax bands, higher standard tax rate, and increases in vehicle first registration tax as well as lower the ceilings for deduction of home loan interest. As a result, once again, most of the tax burden fell on the shoulders of the middle class.

The Budget of this year proposes to extend the period for claiming home loan interest deduction, so as to give people required to make home mortgage repayments a respite. However, apart from this, there are no other specific tax measures which may help the middle class. The proposal of a second-phase tax increase put forward last year will be implemented as scheduled. In other words, it is just a continuum of last year's policies. The predicaments of the middle-class people have not been alleviated. I think the salaries tax adjustment last year has already put a heavier burden on the shoulders of the middle class. Therefore, the second-phase tax increase originally scheduled for implementation this year should be suspended, so as to give the middle class a respite and avoid further dampening investment sentiments.

All along, the New Century Forum has supported the widening of the tax base. For example, the Government may suitably lower the amount of personal salaries tax allowance, so as to enable more salary earners to shoulder a bit of the tax burden in accordance with their capability. Several years ago, we even proposed that the Government should actively consider the possibility and implications of introducing a sales tax, and formulate a proposal for it which may be activated when there is a full recovery of our economy. However, all these



must be considered in the context of the principle of fair sharing of responsibility, instead of putting all the burden of tackling the fiscal deficit on the middle class.

Madam President, in fact, there are a lot of resources which Hong Kong can make use of. The Budget of this year proposes to issue bonds not exceeding \$20 billion to fund infrastructure projects. I support this in principle. However, I wish to add one point: Throughout the whole Budget, there is no mention of how and when this debt will be repaid. If our economic growth is not as good as expected, will it affect our capability to repay the bonds? Does the Government have a comprehensive plan, or the act of issuing bonds is simply a temporary measure to make up for the ledger deficit? If the bonds are issued without giving any consideration to such issues, I am afraid we are just postponing the deficits, and eventually we may have to solve the fiscal deficit by increasing taxes.

Apart from issuing bonds, my friends from the New Century Forum have pointed out a long time ago that Hong Kong actually still possesses many public assets, including the huge profits from such public organizations as the Airport Authority and the Kowloon-Canton Railway. However, such resources have not been utilized properly. The most obvious example is the Exchange Fund. As an on-loan government asset, the Exchange Fund yields tens of billion dollars annually, yet the profit shared by the Government reserve is less than 50%. All we have to do is to suitably adjust the method of profit-sharing and proceed to charge the Exchange Fund a reasonable interest rate. In this way, the Government will be able to enjoy a stable source of revenue. For example, the annual interest rate of the 30-year Long-Term Bond of the United States Government is 5%, so the SAR Government may charge the Exchange Fund this bond interest rate less 1%, that is 4%, as revenue. With HK\$900 billion in the Exchange Fund, the Government can generate an annual revenue of about \$36 billion. In this way, the pressure of increasing tax can be alleviated.

Another example: Although the Budget stresses the significance of creative industries, it seems that the value of creative products owned by the Government has been completely overlooked. Programmes produced by Radio Television Hong Kong (RTHK) over the years do possess very good market potential. However, all along, RTHK has only given out CDs containing such programmes as free gifts. The Government has not explored the potential of such

programmes. The people, on the one hand, are not given the opportunity of watching such programmes again, and on the other, RTHK cannot develop ways of generating new revenue. It is indeed a waste of resources.

Madam President, I would like to reiterate that the utilization of the above resources should not be meant to make up for the deficit. Instead, they should be utilized to provide additional investment in cost-effective infrastructure projects such as speeding up the process of urban renewal, building matching transport and road infrastructure facilities for tourist and logistics industries, and developing new tourist spots and facilities. These initiatives will not just stimulate the economy and create employment opportunities, but more importantly, they will create social assets and facilitate our economic restructuring in the future.

Madam President, the Budget forecasts that deflation is expected to disappear in the year ahead, and the economic growth rate over the medium term is forecast at 3.8%. However, as we take a global look at the Budget of this year, we can see that it is just stressing some existing advantaged industries in Hong Kong. It has not put forward any new directions for the economic restructuring of Hong Kong in future, not to mention a comprehensive direction for economic restructuring, so as to facilitate the establishment of new growth points. So, will the economic growth of Hong Kong enable us to achieve our desired objectives?

Although the Budget has not mentioned any policies for the industries, it has repeatedly stressed the development of the creative industries. However, on the issue of how to provide an environment that would facilitate the booming development of such industries, the Government does not have a comprehensive package of development concepts. In the Budget, the Financial Secretary mentions "Buddha's Palm", "A Better Tomorrow", "Infernal Affairs", "Master Q", "My Boy" and "McMug". These are undoubtedly classics or examples of success of the industry, but these names are by no means the totality of the industry. The film industry still has to face the problem of exploring new markets, and they are distressed by many problems related to piracy. Our musical industry is seriously plagued by illegal uploading and downloading activities on the Internet. Our publishing industry is facing the threat of electronic piracy. Our pay television industry is beset by the problem of illegal viewing. Our product designs are also under the threat of infringement of rights

by copycat activities. In the face of such realistic facts that are threatening the survival of our creative industries, how resolute is our Government in addressing the problems and genuinely assisting the creative industries in exploring new scope of development?

On the other hand, Hong Kong has a lot of quality public services which enjoy great advantages in the region. Unfortunately, the Government does not know how to make use of such advantages to create wealth for Hong Kong. Instead, they are regarded as a financial burden. Let us take the two major scopes of education and medical services as examples. What we have witnessed are incessant arguments over the reduction of expenditure, and that the allocation of funds to tertiary education was only passed after enormous controversies. The suspension of some primary schools has led to some lawsuits. The Hospital Authority (HA) on the one hand has to cope with increasing service demand, yet on the other, it has to cut its front-line staff. Last week, there was even the rumoured report that HA would soon go bankrupt.

My friends from the New Century Forum all along think that the educational and medical services in Hong Kong have enjoyed certain advantages in the Asian region. We can turn them into industries, so as to attract more overseas and mainland people to come to Hong Kong to study and seek medical treatment at their own costs. This will not only create job opportunities for local professionals, but will also stimulate local consumption. However, despite discussions for so many years, the issue is still a subject pending further studies. Yet our neighbouring countries such as Singapore and Thailand have already overtaken us. When shall we really implement all these measures?

Madam President, while actively turning some public services into industries, it is still necessary for the Government to take positive measures to reduce its recurrent expenditure, including streamlining the civil service establishment by implementing such schemes as voluntary and early retirement, reviewing the arrangement of granting annual increments automatically to civil servants and deleting certain outdated allowances. Only by implementing such measures will it be possible to eliminate the fiscal deficit of the Government.

Madam President, thanks to the assistance of the Central Government, the economy of Hong Kong has begun to show some signs of improvement.

However, whether such auspicious signs could become momentum for the long-term growth of Hong Kong is largely dependent on whether the SAR Government can realize clearly its most important objective at the moment, that is, to give the people, especially the middle-class people who have been plagued for a long time by the negative asset problems, a genuine respite. In addition, it should make good use of public resources and promote our future economic restructuring. I think the Budget of this year still has not done enough in this aspect.

Madam President, I so submit. Thank you.

**MR WONG YUNG-KAN** (in Cantonese): Madam President, the Financial Secretary, Mr Henry TANG, has released his maiden Budget during his term of office. He follows closely the style of his predecessors by overlooking the existence of the agricultural and fishing industries, without giving the least regard to our difficulties, not to mention rendering any assistance. I hope the Financial Secretary can give us some good news in his response.

Here, on behalf of the Democratic Alliance for Betterment of Hong Kong (DAB), I will speak on policies in respect of food safety, environmental hygiene and agricultural and fishing industries in the Budget. In regard to food safety, with avian flu looming over us during the past few months, not only have the various trades related to live chickens been badly affected, but also the public have had to pay excessively high prices for chickens. This has caused a sharp drop in the sales volume of chickens. Recently, with the easing of the outbreak situation, restrictive measures against the sale of live chickens have been removed gradually. After a ban of three months, live chickens are now allowed to be imported again from the Mainland into Hong Kong. Although the importation of live chickens is resumed initially only on a trial basis, and the quantity of imported chickens is small, the Government has at least really listened to the opinions of the industry and the officials concerned have taken the initiative of visiting mainland chicken farms authorized to export chickens to Hong Kong, thereby expediting the resumption of importation of live chickens into Hong Kong. All these deserve our recognition.

I must point out that in the avian flu that broke out in many countries and territories in Asia at the end of last year, a number of people died as a result of infection in such countries as Thailand and Vietnam. But, thanks to the efforts

of the Government and the industry, Hong Kong was the only place which was not affected by this avian flu crisis. This was really a worthy cause for us to take pride in ourselves. However, instead of using the opportunity to promote our good experience to other countries, the Government over-reacted by listening to the advice of some expert microbiologists and banned the importation of live chickens and day-old chickens indefinitely, and also imposed a lot of restrictions on local farms and markets. After the persistent lobbying by the industry, the Government yesterday permitted the importation of 6 000 live chickens into Hong Kong. But day-old chickens are still not supplied to Hong Kong at the same time, as claimed by the Government. I hope the Government can expedite its liaison with the relevant mainland departments, so as to enable day-old chickens to be exported to Hong Kong as soon as possible, thereby preventing the situation of "having no chickens at chicken farms".

Madam President, in this avian flu crisis in Asia, though Hong Kong was uninfected, the poultry trade, the restaurant industry and the tourist industry had paid a high price for it. What makes Hong Kong catch flu or a cold just because our neighbouring countries or territories have sneezed? Why is Hong Kong so excessively dependent on the supply of agricultural and fishery products from other places? Once the supplier territories run into problems, our local food supply would be affected. If the Government had attached significance to the agricultural and fishing industries and formulated a package of sound policies for such industries, thus raising the quantity of supply substantially, Hong Kong people would not have to bear with the predicament of having no chickens to eat? Therefore, the Government should learn the lesson from this event and expedite the formulation of agricultural and fishing policies.

Madam President, the challenge faced by the agricultural and fishing industries is not just from the outbreak. Instead, the greater challenge lies in the direction of our long-term development. Insofar as our agriculture is concerned, the urbanization of lands in the New Territories has led to the substantial shrinkage of our farmland. In addition, the planning errors made by the Town Planning Board have given rise to the situation where many new development areas are adjacent to some poultry and livestock raising farms. As a result of this, the residents have to put up with the nuisances caused by the farms, whereas the farms have to shoulder the consequences of the planning errors. In fact, the industry has all along requested the Government of the Hong Kong Special Administrative Region (SAR) to establish an agricultural priority zone to pool together farming and poultry and livestock raising activities,

and also it should proceed with proper planning for such activities. In this way, the agricultural zone can be kept away from the new development areas, thereby minimizing conflicts between residents and operators of such activities.

On the surface, the partial resumption of the importation of chickens from the Mainland by the Government seems to have solved the short-term predicament of the industry. However, it has at the same time brought some hidden danger that can threaten the survival of the industry. Early this month, the Government released a consultation paper entitled "Prevention of avian influenza: Long term direction to minimize the risk of human infection" which put forward some medium-to-long-term proposals. Regarding some long-term strategic proposals, two well-presented approaches are proposed, namely, the "cold chain" approach and the "freshly slaughtered chicken" approach. They are actually in essence the options of a central slaughtering system and a district slaughtering system. Regarding the destructive impact of the central slaughtering system on the industry and the potential hazard in terms of food safety, we have mentioned them on numerous occasions in this Council. As for the "cold chain" approach mentioned in the consultative document, the Government will spend \$200 million on building a central slaughtering house. I wish to say that this is absolutely a waste of public funds. As we have daily supply of cold chickens from the Mainland, the prices of such chickens will definitely be cheaper than those produced in Hong Kong. Therefore, if Hong Kong really proceeds to build a central slaughtering house to compete with mainland suppliers in providing cold chickens, a frank way of describing such an approach would be "dumping money into the sea".

As for the so-called "freshly slaughtered chicken" approach, the Government has been stressing that it is a more flexible approach. But actually, it is an approach that may end up being caught between stools. With only a few places selling chickens, it is neither convenient nor capable of satisfying the people's demand for live chickens. Suppose a district slaughtering house is established in Sha Tin, but I live in Tai Po, will I go all the way to Sha Tin just for buying a live chicken? This is utterly unreasonable. Ultimately, I am afraid this will inevitably make our business very difficult to survive. Therefore, if the Government really insists that these two options are feasible in operation, then I would like to ask them to be prepared. I do not want them to come under the criticism of the Audit Commission.

Madam President, regarding the discussion on avian flu, the industry has always been placed at an disadvantageous position, having to face from time to time certain biased comments made by some scholars and officials. They even quoted some incorrect information, saying that the Government had already spent public funds amounting to \$1 billion on tackling the avian flu outbreak. Such comments have touched the nerves of the public. Earlier on, people of the industry requested the Government to provide them with compassionate assistance because their livelihood had been affected by the ban on the sale of live chickens. Yet their request was misinterpreted as "can attempt to gain special advantages". In fact, during the several avian flu outbreaks in Hong Kong, the total amount of compensation, *ex gratia* payments and loans received by the industry, as provided by law, was only about \$200 million, of which over \$100 million was made out as loans. And such loans were made to various trades such as wholesalers and retailers, farms and the transportation industry, and so on. The majority of those who got loans from the Government have already repaid over 90% of them. By now, only about \$4 million, instead of \$1 billion, of the loans is still outstanding. If what the experts had said is correct, that is, we have spent \$1 billion on the battle against avian flu, then can the Government conduct a thorough investigation to identify where that amount of \$700 million-odd has gone? Actually what are the reasons that make them mention the figure of \$1 billion, thereby causing panic among the people? Furthermore, during the latest outbreak of avian flu, affected farm operators have not received a single cent from the Government in compensation, not to mention the losses incurred by the industry and the workers during the various outbreaks in the past. Therefore, may I ask those who accused the industry of making "attempts to gain special advantages" to understand and feel the predicaments of the industry with their hearts, and do not mislead the public and make the industry feel aggrieved?

In fact, the industry has always been willing to co-operate with the Government. The consultative document mentioned some short-term measures, such as installing acrylic panels, or improving the compartmentation of the chicken retail stalls, so as to upgrade the hygiene level of the entire retailing operation of live chickens. However, any measures must be compatible with the actual operating environment. If such a stringent measure is deliberately used to force the industry out of business, or even biased comments are employed to make the industry give in, it will only offend people of the industry, thereby undermining the good co-operation that has prevailed for so many years. Therefore, during this consultation period, I strongly hope that the Government,

the industry and the relevant experts can find an opportunity to gather together to hold a peaceful discussion in order to formulate a proposal that could ensure the survival of the industry on the one hand, and the protection of food safety for the public on the other.

Apart from the problem arising from the sale of live chickens, recently several members of the public suffered from ciguatera poisoning after consuming some marine fish. The Customs and Excise Department has seized smuggled meats on several occasions. All these have sounded an alarm for food safety control in Hong Kong. Although some of the problems, such as that of ciguatera fish poisoning, could be regulated by amending the legislation, the serious problem of meat smuggling is largely related to law enforcement. According to recent press reports, the Director of Food and Environmental Hygiene said that, as a measure to combat smuggled meat, the Administration would permit the importation of mainland chilled pork into Hong Kong in the middle of the year. In fact, if imported chilled meat could solve the problem of smuggled meat, the chilled meat now legally imported from Thailand should have solved the problem. But actually it still could not effectively reduce the seriousness of the problem. So we can see that it is still uncertain whether the permitted importation of chilled meat from the Mainland could achieve any effect at all in solving the problem. We hope the Government can first consult the industry before implementing any decision. On the other hand, we are also concerned about the practice of some unscrupulous merchants in passing chilled pork off as fresh pork. Last year, some meat stalls in supermarkets were prosecuted for this reason. This reflected the seriousness of the problem. Although now the staff of the Food and Environmental Hygiene Department would frequently patrol and monitor the situation and look out for any possible acts of violation, obviously this is really a "tough but ineffective" approach. As such, the industry has always hoped that the Government can adopt the method of "one licence for each stall, and different licences for different goods", so as to facilitate effective inspection, thus deterring the practice of making false claims on the products offered.

Madam President, in regard to the fishery industry, I believe you have spoken a lot in support of me, especially on offshore fishing. The Government has already allocated \$20 million to the development of offshore fishing. But I am not sure whether the Secretary knows that his colleagues have imposed a lot of barriers and restrictions. We are required to overcome numerous hurdles



and satisfy countless requirements in the process. And so far, none have succeeded in applying for this loan. I do not know what the reasons are. Do you want our industry to continue developing, or do you want to see our immediate death? I hope the Secretary can think about this and take this up with his colleagues, and examine whether there are ways to help us. Even Honourable colleagues have reflected this to the Government on numerous occasions, yet we cannot see any reasonable measures. Meanwhile, I envy Macao a lot. The Macao Administration provides interest subsidy to fishermen who have successfully obtained loans of \$500,000 or above from banks. It is understood that they are now enjoying a 4% interest subsidy, which is an envy of Hong Kong fishermen. Some even say that they should consider going to Macao to be fishermen there.

Madam President, two years ago, I spoke in both the Tai Po District Council and this Council to the effect that we should consider developing eco-tourism to make Tai Po and the Tolo Harbour leisure fishing and eco-tourist spots. And the Financial Secretary has also mentioned these two aspects in his Budget of this year. However, strange enough, so far the Government has only made mention of it, but no one has ever contacted us for discussion on how the development should proceed. Nor has anyone told it will be done. We have repeatedly requested the Government to assist us in our restructuring, especially for our onshore fishermen. In fact, eco-tourism is also one of the directions we must take. I hope the Government can consider this from different perspectives. Do not just mention it without any follow-up actions. This is not good to the whole industry. Just now some Honourable colleagues have mentioned that some workers employed on outsourced jobs could only make as little as \$2,000 or so a month. Let me tell the Secretary, some fishermen cannot even earn \$2,000 a month. But we hope that the Government can support us in developing leisure fishing or eco-tourism, so that our industry could further develop. Therefore, I hope that the Government can have adequate discussion with the industry. Now, our tourism is just limited to certain aspects, and we hope that our eco-tourism can attract tourists from Japan and other countries to Hong Kong waters and the neighbouring areas. I hope the Secretary or the Financial Secretary can make some contribution to our fishing industry. I so submit.

**MS EMILY LAU** (in Cantonese): Madam President, this year's Budget debate has been really calm and peaceful, probably because everybody is more

concerned about the interpretation of the Basic Law by the NPCSC. Madam President, today you cannot attend that meeting as well. So the focus is not here.

Another possible reason is that the Financial Secretary has not proposed any controversial issues. Some organizations may feel very happy because the Financial Secretary has accepted many of their suggestions. Although the introduction of a sales tax may be more controversial, we still have many years to argue about it. However, I am not sure if we can still argue over issues in this Chamber next year.

However, another more important reason for few disputes about the Budget is that the method for the formation of this Council makes it impossible for us to influence the Budget. In fact, in parliaments, the budget is always a prime issue. Honestly speaking, the one in control of the purse is the most influential person. However, the method for the formation of this Council make us unable to achieve anything — and worst of all, we are not united. If the six or seven parties could unite together, then we could have the say on the Budget which would then become ours. But this is not the case here. So, we have to let you call the shots now.

(THE PRESIDENT'S DEPUTY, MS MIRIAM LAU, took the Chair)

Madam Deputy, the point I would like to say most is, there is a most important point in the Budget, irrespective of whether we have any influence, I still hope all of us could respond to a very important problem that exists in society — the issue of the disparity between the rich and the poor. In fact, in this afternoon, I am not the first one bringing up this issue. Madam Deputy, many people from different political parties agree that this is a problem.

Let us look at some figures. We all understand the Gini Coefficient. I have read some figures compiled by Prof WONG Hung, Department of Social Work, The Chinese University of Hong Kong. Such figures show why the situation is worsening. He conducted the research between 1981 and 2001, which spanned 20 years. He divided the family incomes of Hong Kong into 10 groups. In 1981, the total income of the lowest 30% income groups accounted for 9% of the total income of Hong Kong. In 2001, the total income of these

groups became 6.6%, accounting for one third of the lowest strata of society. On the contrary, the total income of the highest 30% income groups accounted for 61.9% of the total income of Hong Kong in 1981. And in 2001, the figure became 67.6%. This indicates where the money has gone.

Madam Deputy, everyone mentions the Gini Coefficient, I would like to discuss it as well. We all know that it is a method, a way of measuring the disparity between the rich and the poor. The value "0" would denote absolute equality; "1" would denote absolute inequality. Certain reference books have already mentioned that "0.4" is indicative of a problem situation. Insofar as Hong Kong is concerned, this coefficient already exceeded "0.4" as early as in 1981. It was 0.451 in 1981, 0.453 in 1986, 0.476 in 1991, 0.518 in 1996 and 0.525 in 2001. Therefore, based on such circumstances, just as pointed out by some Honourable colleagues and as reported by many mass media, we are almost the place with the worst disparity between the rich and the poor in the world. How should we handle the situation? Madam Deputy, let me present another figure, which I have mentioned several dozens of times in this Chamber. That is, there were 85 000 families (I will never forget this figure) which earned less than \$4,000 a month in 1996-97. The total number of such families has risen to 200 000 recently, representing an increase of more than 200%. What on earth has happened?

I have discussed this with the Administration. Some of the officials said that it was no big deal, and that it was a global trend and a phenomenon brought about by globalization. However, no other places have seen such a drastic upsurge. Madam Deputy, if this is the same case with all the other countries, then we may ask them to show us all the figures when they come before us next time. We have hit the 0.525 mark — we are the only place with such a high figure. What have we done? I have recently raised several questions. We have Comprehensive Social Security Assistance (CSSA), nine-year compulsory free education, and affordable medical services. But our CSSA was slashed by 11% last year. As for the affordable services, be they medical or social welfare services, people with less than seven years' residency are not entitled to such services now. There are all kinds of hurdles in the various items, making the life of the poor increasingly difficult. How should we address the situation?

Madam Deputy, The Frontier hopes that a poverty line could be drawn, so that society as a whole, the Administration, the Legislative Council and all the

people could assess and identify by scientific methods who are the poorest group of people, and this would enable us to acknowledge the existence of such a problem. Having acknowledged the existence of such a problem, then we shall have to address it. However, in the past, the Administration was unwilling to do it. In the past, whenever we met a Secretary of Department, we would raise this issue with him. But all of them would simply say "No way." They would not do anything like that.

Another way of tackling the problem is by way of taxation. We are not doing it in the communist way, not pooling together all the wealth and redistributing them through taxation. It is not like that. We are not going to scare away all the wealthy people, Madam Deputy, those people including members of your Party. However, we can do something about the taxation system. Therefore, The Frontier has been advocating for many years that we should adopt an open mind and conduct a comprehensive review of the entire taxation system. However, all these proposals were in vain.

Then what have we done? Many years ago, the Government said that our tax base was too narrow and we needed to study the issue. That explains why the Advisory Committee on New Broad-based Taxes (Advisory Committee) was established. The finding of the Advisory Committee indicates that the best way is to levy a sales tax. The Frontier, on the other hand, suggested that maybe we could introduce a progressive profits tax regime or abolish the standard tax rate for salaries tax, so that those with the means should pay more. The Government said that it would not work. It was not suitable for the Hong Kong system. It was too complicated, and would scare away investors.

In regard to the sales tax, there are different opinions even among us within The Frontier. Some people have no objection to it, while others oppose it. However, Madam Deputy, several days ago, on the 15th, I attended a forum in The Hong Kong University of Science and Technology (HKUST), in which I mentioned the sales tax. The forum invited me and a member of the Advisory Committee, Prof Leonard CHENG, to attend. He took a look at the name of the Advisory Committee (he does not understand Chinese) and found its translation very awkward — it does not mean broadening the tax base, just the other way round. He said he agreed with the viewpoint of The Frontier. He felt that a comprehensive review of the taxation system should be conducted, instead of first assuming that the tax base was too narrow, therefore, the sales tax should be introduced. This was a wrong approach.

Also in attendance at the forum was a representative of the Hong Kong Society of Accountants. He also agreed to this viewpoint because his Society felt that the whole taxation system should be subject to a comprehensive review before a decision should be made on what to do next. However, he said the Administration would not listen to this. Now the Advisory Committee has already submitted its report and the Financial Secretary has said that an in-depth study would be conducted to study the sales tax. However, it has not occurred to them that it is a correct approach.

I may tell the Financial Secretary something, which may make him very happy. It is because on that day we asked the students at the forum whether they would support the introduction of a sales tax. Some people may think that whenever a new tax is introduced, people will generally oppose it. But it was not the case. There were people supporting it and there were people opposing it. But, everyone felt that the basis was insufficient for drawing a conclusion. So far the entire taxation system has not been reviewed. Some people may prefer to increase profits tax, while others may prefer to introduce increases to salaries tax. After taking a look at the system, we would then understand the rationale of "wool comes off the sheep's back". If we say that the land premium is too high, we may levy tax in that area. However, we all agreed that we must first take a good look into the system before deciding on which road to take, and only in this way we would be seen to be fair. We should not adopt a preconceived position and say that the tax base is too broad or too narrow, or say that we should do this or we cannot do that, and so on. Such an approach will simply not work.

Madam Deputy, I do not have to say anything more because the Party to which you belong, and many other parties also oppose the suggestion. I hope the Financial Secretary can think about it more carefully and listen to professional advice and conduct a comprehensive review, and then next we should join hands in conducting the research, instead of just studying a certain point. This is because both the academic and professional sectors think that this is not the professional way of handling the issue.

Madam Deputy, apart from the tax rate, I would also like to discuss the unemployment problem. As we have to deal with the problem of the disparity between the rich and the poor, I have to raise the subject of unemployment. On the unemployment problem, everyone says that the Financial Secretary has been very lucky — so lucky that he can witness the unemployment rate dropping from

8.3% to 7.2%. The Financial Secretary has also established a new Economic and Employment Council which held a meeting on 23 February. What has it done? It has established a Subgroup on Business Facilitation, to be chaired by Mr NIGHTINGALE of the Hong Kong General Chamber of Commerce, and the Subgroup will hold its first meeting on the 30th of this month. I shall attend the meeting that morning. Yet so far, we still have not received any documents for the meeting. This is quite consistent with the Government's practice. If we do not receive any document before the meeting, we shall have to attend the meeting and make comments impromptu. As for the Council under the leadership of the Financial Secretary, when will its meeting be held again? It will be held on 21 May. It will meet once every three months. I do not know what kind of homework they can present to us. The Financial Secretary should understand that, if you cannot hand in any homework, you may run out of luck.

We really hope that we can do some work together. The Frontier also agrees that we should do that. If we have to ask, please do not let Premier WEN Jiabao say that again, ".....come to me for a favour again". It would be too tedious if we ask for such favours too often. For the Individual Visit Scheme and CEPA, we do not have any objection. We support anything that can revitalize the economy of Hong Kong. However, we hope that we can have a fair competition law, which we have raised with the Financial Secretary.

Last year, we conducted a survey jointly with Hong Kong Democratic Foundation and compiled a report, a copy of which has already been sent to the Financial Secretary as well as the Secretary. We can see that monopoly or oligopoly may exist in such sectors as supermarkets, electricity, fuels, staple food supply, container terminal services and mass transportation. The situations must be addressed. Therefore, we suggest that we must do something. The Consumer Council had also said at a very early stage that something must be done. Recently (end of last year), it issued a report on supermarkets, which mentioned that despite the decline in operating costs, prices of goods had risen still, contrary to the market trend, by 3.6%. This 3.6% increase has not taken account of the reduced prices, because prices of certain goods may be reduced, some will not. The prices have surged by 3.6%; and even if reduced-price items are counted, they still have gone up by 1.5%. Why should this happen? The Consumer Council mentioned that the suppliers had been bullied by supermarkets, which employed methods like restricted contracts, refusal to purchase their goods or jointly raise prices of their goods to make suppliers yield

to their demands. Madam Deputy, some renowned overseas supermarkets cannot enter the market of Hong Kong. They can enter the markets of the Mainland and even Taiwan, but not Hong Kong. What actually can we do about this?

Madam Deputy, let us take a look at other successful places, such as South Korea. Next month, we shall have a delegation to South Korea to see why they can provide so many job openings. South Korea already enacted a fair competition law as early as in 1981. However, the effect of this law was not too evident in the beginning. At that time, they had some major consortia, commonly known as "the chaebol", which were cracked after a lot of hard efforts. The status of the organization responsible for implementing the fair competition law has been elevated to the cabinet level, and its head takes a seat in the cabinet and is directly responsible to the Prime Minister. Of course, they also have an enforcement department. Then, Madam Deputy, what we can see is, in the wake of the financial turmoil, South Korea was the first country to see an economic recovery. Its Gross National Product (GNP) started to grow again in 1999. In comparison, its GNP in 2001 had risen by 20% over that of 1997. Of course, the Secretary and the Financial Secretary may say that this was not the only cause for South Korea's recovery. But what we can see is: They have enacted a fair competition law.

Many foreign consul-generals told me that they had mentioned to the SAR Government that a fair competition law is very important. Recently, The Trade Commissioner of the European Union, Mr LAMY, visited Hong Kong. He also expressed the concern that it was not good enough for Hong Kong to handle fair competition only on a sector basis. Another example is Singapore, which I have also mentioned many times before. Recently, I note that Singapore has completed its first open consultation hearing in mid-May, and then the relevant bill will be submitted to the National Congress. Madam Deputy, you know how extraordinary their efficiency is. If Singapore has enacted laws in this regard, we shall be the only developed economy left behind. However, it is fine even if we are left behind, but the most important point is, we cannot make any further development. If we want to remove these barriers and restrictions, I find it most important that the industries should be allowed to compete, instead of making major corporations and consortia richer and richer at the expense of others.

Besides, I would also like to talk about the removal of barriers and restrictions: Madam Deputy, it is about public organizations competing for profits with the private sector. This Friday, the Panel on Commerce and Industry, chaired by Mr Kenneth TING, will hold a meeting in respect of the Trade Development Council (TDC). From the information provided, I came to learn that there is an association comprising some 80 companies. They said that, insofar as Hong Kong was concerned, the TDC had taken away their business. They reckoned that, among the 10 major exhibitions held recently, seven were hosted by the TDC, and 55% of the floor space of the exhibition venues was occupied by the TDC. Madam Deputy, what is "big market, small government"? Does the Secretary know that? Does the Financial Secretary know that? Besides, there is also the Hong Kong Productivity Council, which I do not have the time to talk about now. I have told officials that they should not snatch up all the work, and it would be better for them to leave the work to others by all means. For example, on the last occasion when we talked about waste recycling, they said the private sector could not handle it, so they would do it. I said they could not do it, because their work is facilitation. Once the facilitation is completed, they should leave the actual work to the relevant industry. The Administration should not do the work itself. Therefore, I hope the Financial Secretary can really put "big market, small government" into practice.

Finally, Madam Deputy, I would like to mention this: Whether the Administration is proposing new tax or tax increases, we must be convinced that the Government can manage it. Do not waste money. Just like this morning, all of a sudden, they proposed to build an escalator for a footbridge at a cost of \$2 million, and it involves a management cost of \$100,000 annually. Although we opposed it, the Government still insisted on building it. Mr MA Fung-kwok asked just now why RTHK programmes could not be put on the market for sale to the public. It means money. I hope the Financial Secretary can consider such issues. If they cannot do these tasks, we will not support the introduction of new tax items.

**MR KENNETH TING** (in Cantonese): Madam Deputy, as a representative of the business and industrial sector, I would first comment on the policies found in the Budget related to the businesses and industries as well as on economic development. Then I would discuss the measures related to increasing revenue and reducing expenditure.



First of all, the Federation of Hong Kong Industries (FHKI) is very much in support of the various economic policies stated in the Budget.

Before assuming the office of Financial Secretary, Mr TANG was a top-notch personality in the business sector. He therefore knows very well the importance of the manufacturing industries to our economy and that there is still much room for improvement in our business environment. In view of this, the Budget has proposed a series of measures to improve the business environment and explore business opportunities. The FHKI is very much in support of these measures.

First, on giving tax concessions to creative industries and on introducing a "green" tax to promote the environmental protection industry and tyre recycling. These measures are positive and correct efforts aiming at offering tax concessions to promote the development of certain industries. We hope that the Government of the Hong Kong Special Administrative Region (SAR) will make more use of tax concessions to spur the development of industries which are beneficial to the long-term interest of Hong Kong.

On capitalizing on the Mainland/Hong Kong Closer Economic Partnership Arrangement (CEPA) in exploring long-term business opportunities, Secretary Henry TANG stresses an enhanced two-way flow between the two places in terms of talents, goods and capital. He also proposes the development of a Value-Added Logistics Park on Lantau Island to give full play to our advantage as a supply chain centre and a logistics hub. The Secretary also suggests that the construction of cross-border infrastructural facilities be expedited and that the efficiency of Customs be enhanced. All these will reduce the costs of cargo shipment. These proposals in the Budget provide correct measures for our future development.

Meanwhile, the positive results of CEPA are slowly beginning to surface. The Secretary pointed out that a company had made investments in the region of over \$100 million in Hong Kong to manufacture films for semiconductors. In addition, people from the clocks and watches industry point out that CEPA will be able to create 10 000 to 20 000 jobs. It can therefore be seen that in the foreseeable future, the vast opportunities of the mainland market will become a key factor to our industrial development. The business and industrial sector hopes that the SAR Government will adopt more effective measures to enhance the economic benefits brought about by CEPA. For example, the relevant

government departments should do their best to help businesses and industries capitalize on CEPA to expand their operations. Moreover, the Government should also seek to increase the number of sectors covered by CEPA so that more businesses and industries from other sectors can benefit from CEPA.

In view of the fact that bureaucratic practices posed great obstacles to the development of businesses and industries in the past, Secretary Henry TANG made it clear that the role to be played by the Government is to remove these barriers and restrictions, simplify the relevant procedures to create the best possible environment for business and facilitate market development. Under a market-led environment, jobs will be created in the market. The FHKI has always agreed with this and we will do our best to facilitate businesses and industries in making contribution to the growth of the economy as a whole.

Madam Deputy, in sum, the FHKI supports the policies presented in the Budget in relation to the development of businesses and industries. Now I would like to discuss the budget measures on increasing revenue and reducing expenditure.

As we are affected by structural fiscal deficits and that the deficits for the current year are as much as \$49 billion, the SAR Government should step up its efforts to increase revenue and reduce expenditure with a view to reducing the deficits and achieving fiscal balance.

With respect to increasing revenue, the Financial Secretary suggests turning Hong Kong into a world-class asset management centre and issuing government bonds to replace non-recurrent expenditure, particularly in the funding of infrastructure projects. These proposals may strengthen our position as an international financial hub and will promote the development of the bond market, thereby giving the investors another low-risk investment option. However, before Hong Kong can develop into an asset management centre, many institutions in Hong Kong would have to be improved. The issuance of government bonds should only be for the purpose of meeting non-recurrent expenditure and its primary objective is not the elimination of deficits. When added to other revenue-raising measures such as the Personalized Vehicle Registration Marks Scheme, and so on, they can only bring in some \$70 million to the public coffers. So we hope the Secretary can think harder in tackling the deficit problem.

Part of the deficit problem of Hong Kong can hopefully be tackled through the implementation and promotion of measures like CEPA, the Individual Visit Scheme, the Reminbi business, and so on. But in the long run, the SAR Government must devise sound and stable revenue channels in order to avoid an over-reliance on land sales or investments made in the Exchange Fund, for these are unstable sources of revenue.

The hi-tech industries, the innovative industries and the high value-added industries all warrant development. Their development represents an important direction for our economic restructuring. The SAR Government should consider making more investments in these areas, which will not only help our economy restructure, but also provide a new impetus for the economy to grow and hence consolidate its foundation.

With the property market turning for the better, the Government is expected to resume land auctions and the revenue from land sales will help ease the deficit. The recent boom in the property and securities markets is likely to bring in more tax revenue to the Government. All in all, despite the fact that the Secretary has not come up with any new measures to increase revenue, with the improvements in the economy, there will be more revenue for the public coffers. For the Government, its deficits will hopefully ease.

As to the question of reducing expenditure, the business and industrial sector is of the view that the Secretary could have been more aggressive.

The major cause of our structural deficit is an excessive inflation of public expenditure and an excessively narrow tax base. Despite the remark made by the Secretary that he would impose stringent control on public expenditure in the next four years so that public expenditure could be reduced from the current \$280 billion to \$200 billion, that is, the level of spending at the 1970s when the percentage of public expenditure as a share of GDP was about 16% to 17%, we are of the view that the Secretary should take more aggressive actions to slash public expenditure. For some of the allowances enjoyed by senior civil servants which are clearly outdated, such as allowances for air-conditioning, home removal, vacation and overseas education allowance for their children to study in Britain, and so on, the Civil Service Bureau will still need to undertake a lengthy review before a decision can be made to cut these allowances. We opine that since public expenditure is involved, these outdated allowances should be scrapped at the soonest.

Madam Deputy, although the FHKI thinks that there are still places where the revenue-increasing and expenditure-reducing measures in the Budget can be improved, this Budget can still be regarded as a very fine piece of work generally. Thank you, Madam Deputy.

**DR YEUNG SUM** (in Cantonese): Madam Deputy, the economy of Hong Kong has been put through one test or another ever since the reunification. First came the financial turmoil, then the SARS epidemic, to be followed by the repeated blunders committed by the Government of the Hong Kong Special Administrative Region (SAR). The business sector, the middle class and the grassroots are all hit and affected in various degrees. The Democratic Party demands that the Government should take into account the fact that our economy is still recovering and consider the various proposals we have made with regard to the Budget, including the postponement of the deadline for deficit elimination to the year 2009-10 and the issuance of bonds. Other factors which should be considered are our opposition to the introduction of sales tax and our suggestion that more investment revenue from the Exchange Fund should be put into the government account. Indeed, Hong Kong badly needs a budget that can give the people a respite, will not make too many drastic moves and give too many pleasant surprises. However, a plain budget is not the same as one which is blind and insensitive to the current economic woes and the people's hardships, lest grievances in society will be intensified. So the SAR Government must examine the views expressed by different political parties, academics and groups on the Budget. It must seek common grounds and accommodate differences and find a new direction for the economic development of Hong Kong.

First of all, on improving government finance. The Democratic Party suggests postponing the deadline for deficit elimination to 2009-2010. What we are doing is not a delaying tactic or a disregard of the financial difficulties faced by the Government. Quite the contrary, we hope that there will be a soft-landing in the Government's attempt to slash deficits. With this, economic growth may improve the Government's financial position on the one hand, while an attempt to slash public expenditure not in a drastic manner will minimize repercussions in society on the other. In 2004-05, the overall cut in health and medical expenditure is about \$1.4 billion, with the expenditure of the Department of Health (DH) slashed as much as 9%. This has brought fears that the ability of the DH in handling public health problems and epidemics will be affected. With respect to public health care, now with the deterioration of the

problem of ageing, the increase in the number of medical doctors is unfortunately offset by a cut in the number of nurses and other health care workers. With respect to social welfare, although there is an increase of 2.9% in welfare expenditure this year, the increase is only meant to cope with the rise in applications for Comprehensive Social Security Assistance and "fruit grants". So that is really an increase in the number of cases instead of the amount of payments. At a time when the economic situation is still bad, this reduction of expenditure across the board and the adoption of a spendthrift mentality are really a true reflection of the SAR Government. It is also a tragedy for Hong Kong society.

On the issuance of bonds, the Democratic Party suggests that after the securitization of the "five tunnels and one bridge", and granting the response is good, the Government may make a review of other assets to see if they can be securitized too. We also support the idea of issuing government bonds not exceeding \$20 billion at this time of low interest rates, for it can boost the bond market and finance the large-scale infrastructure projects. When offering various securities products, the Government should consider increasing the share of retail bonds and denominating the bonds at a smaller value and giving preference to small investors to buy these bonds, and so on. These will encourage more small investors and members of the public to buy bonds. The Government should also look into how mainland capital can be attracted to buy the Hong Kong government bonds. If the Central Government has not yet given its approval for mainland companies to use their surplus capital to invest in bonds outside China, then the SAR Government should seek a consensus with the Central Authorities to promote the sale of Hong Kong Dollar government bonds. If part of the bonds on government assets can use the US Dollar as the trading unit, it can also meet the demand from the Mainland for this kind of investment. As regards the imminent privatization of the Airport Authority, the Democratic Party remains open to this idea and is of the view that, in proceeding with the scheme, the relevant departments should take into account the timing and the market situation to examine if it is appropriate. The assets must not be sold at a loss or at rock-bottom prices, for this will ultimately affect public interest.

The Budget mentions that a study will be made on the sales tax. The Democratic Party has made reference to the experience of other places in introducing the sales tax and we disagree with the idea of introducing a sales tax at this moment. There are two major reasons. First, the economy of Hong Kong is presently weak and in the next few years, the economy will still be in a

process of restructuring, so if the Government rashly introduces a new tax of such a huge scale, it is afraid that the economic recovery of the territory will slow down. Second, we oppose the idea of determining fairness simply by looking at the number of taxpayers, for the jobless rate now is still above 7% and it is expected that it will remain high in the next few years. The introduction of a sales tax will only add to the burden of the people. The Government should therefore consider other options which are more effective in bringing in additional revenue, for example, introducing more "green" taxes, studying into the economic benefits of electronic road pricing, and so on. These measures will not only increase revenue but also improve the living conditions and the business environment of Hong Kong.

With respect to taxes, the Democratic Party still holds the same position as in the previous years and opposes increasing the salaries tax. We demand that, in the prevailing economic downturn, the second-stage increase in salaries tax should be frozen. Even though the economy is turning for the better and there would be more revenue from profits tax, stamp duty and land sales, it is expected that the benefits of an economic recovery will not benefit the wage earners in the short term. In addition, the jobless rate still perches at over 7%. According to estimates made by human resources companies, the extent of wage increase is very limited in the next few years. Meanwhile, the bankruptcy cases for individuals have kept on rising. According to figures from the Official Receiver's Office, the number of personal bankruptcy cases for the month of March this year is 1 296, representing an increase of close to 11% over that of February. At this time when the rice bowls of the wage earners are never secure, if the salaried class is required to bear the major responsibility of eliminating government deficits, it would only lead to weaker domestic consumption and hence the economy of Hong Kong will be directly hit and suffer further damage.

The Democratic Party demands that in years of financial stringency and when the Exchange Fund has sufficient assets and maintains a surplus, the Government may transfer more revenue from investment made by the Exchange Fund as general revenue. The way to do it is for the Government to, on top of the usual share of the investment return, transfer half of the remaining sum to the Government. We suggest setting the upper limit at \$10 billion. Take the year 2003 as an example, the investment income from the Exchange Fund was \$89.6 billion. The Government may obtain \$25.7 billion and the remaining sum is about \$63.9 billion. The Government may then take half of that sum as revenue,

that is, about \$32 billion. Then the Government may get an additional \$10 billion as general revenue. For the Exchange Fund, the remaining some \$50 billion should be adequate to ward off attacks on the Hong Kong Dollar by international speculators and it will serve to stabilize the Hong Kong Dollar. In addition, the transferred sum is only taken from the investment returns of the Exchange Fund and not its capital, so it is only the "interest" and it will never eat into the bones of the Exchange Fund itself.

Madam Deputy, I so submit.

**DR LUI MING-WAH** (in Cantonese): Madam Deputy, the first Budget compiled by Mr Henry TANG, the Financial Secretary, since he has assumed office, despite some criticisms from some sectors, is accepted by the community generally. The Financial Secretary, Mr TANG, who comes from the business sector, is able to see clearly that the economy of Hong Kong is recovering on stimulation by the Individual Visit Scheme and the Mainland/Hong Kong Closer Economic Partnership Arrangement (CEPA). The consumer market is buoyant, the property market is booming, and the number of households with negative equity assets is falling sharply. It seems it is not the right time now or necessary to introduce any new economic policy. What needs to be done is to follow what the Chief Executive said in his seventh policy address, that is, "what is most needed is to push ahead with work already planned in a pragmatic manner, to ensure that the good momentum built up in the recovery is sustained." It appears the Government has fulfilled its responsibility in governing Hong Kong.

At this moment in time, the balanced and practical Budget prepared by Financial Secretary Henry TANG has not brought any pleasant surprises to the people of Hong Kong, nor has it made the people take to the streets in protest. Compared with Budgets prepared in the past, the present Budget is more closely in line with the prevailing economic conditions and can better reflect public sentiments and aspirations. I agree that this is an acceptable Budget. Having said that, and after an in-depth analysis, we can see that this maiden Budget by Mr TANG only depicts the present economic scene and the conditions for its operation. As for changes in the external economic conditions, the Hong Kong economy is powerless in defence and resistance. So the Budget is lacking in the foresight and sense of crisis required of politicians, and it has failed to give

sufficient attention to the inadequacies of our economic structure and the negative impact produced. Thus no matching measures and policies are proposed.

With the ups and downs of more than two decades, the Hong Kong economy has become almost a purely service economy. A service economy has two main features. First, the target clients of our service industries such as the logistics industries are outside the territory; and for the tourist industry, it is completely dependent on foreign visitors. So the boom or bust of our economy hinges entirely on overseas demands. Second, as a service economy relies on overseas places and it is not subject to any internal adjustment or regulation in Hong Kong, it is hence very vulnerable to external influences. Last year during the SARS outbreak when visitors stopped coming to Hong Kong, the market seemed to be a dead pool of water. But during the past few months, that the retail, catering and tourist industries have boomed and market sentiments have turned buoyant is entirely a result of the Individual Visit Scheme. This is the best example. Since the outlook of a service economy is so unpredictable, the Government should be more vigilant and as a long-term measure, it should readjust the economic structure. As evident in the experience of other countries or places, the Government must take the lead in effecting economic regulation on a macro level and it must play a role in co-ordination and assistance.

The Chief Executive says in his seventh policy address, "Judging from our experience of repeated exposure to the impact of external factors, we must also seek to broaden the base of our economy". That means we must create some new areas of economic growth. The Chief Executive also states, "We particularly welcome the development of the more competitive, high-technology manufacturing industries in Hong Kong. We will make policy adjustments to facilitate as necessary." In this regard, Financial Secretary Henry TANG further states that the Government will provide support to the industrial sector, including the provision of land at competitive prices. We can therefore see that there is a marked change in the attitude of the SAR Government to industries. However, there is a need for the Government to come fully out of the spectre of "positive non-intervention" and launch an industrial policy with a positive and forward-looking mindset. This will map out the direction for future development. Mr TANG also says, "As a long-term solution [to the structural problem of unemployment], we should promote Hong Kong's economic restructuring, become more competitive, and broaden and deepen our markets." He also says, "As Hong Kong gradually transforms into a knowledge-based



economy, our industries need to embrace new concepts, break with tradition and move towards higher value-added outputs. The Government will proactively encourage research and development, innovation and design to help our industries move up the value chain." These remarks of his entail some matching concrete measures and plans by the Government, for the economy can never transform by itself and our wishful thinking, no matter how good it is, will never produce wealth. On top of this, our overseas competitors are strong and powerful and they will not give us any brief respite.

Recently, Prof Jeffrey D. SACHS, a famous American economist from Columbia University pointed out in Hong Kong that the insufficient input into technology-based industries had slowed down our economic development. In his view, trade and commerce would not propel the development of a city, it is only by making use of high technology that a lasting momentum for economic development can be gained. The input made by the Hong Kong Government into technology-based industries is glaringly disproportionate to the local GDP. That has long been a cause of criticism. I hope Mr TANG and the decision-makers in the Government would take this piece of advice from a foreigner and attach importance to technology and industry and increase the amount of resource input. Only in this way can there be new areas of growth for Hong Kong economy to resume an upward path of development. Thank you, Madam Deputy.

**MR ANDREW WONG** (in Cantonese): Madam Deputy, I speak in support of the Second Reading of the Appropriation Bill 2004 and the 2004-05 Budget.

This is the first Budget prepared by Mr Henry TANG, the Financial Secretary, and I am glad to lend it my support because its contents are very well-balanced and practical as already pointed out by Dr LUI Ming-wah just now. On 10 March, the Financial Secretary moved the Second Reading and some friends from the media asked me to give a score to the Budget, and I gave it a high score of 90. It is because the Budget is not only well-balanced but also appropriate to the times.

Madam Deputy, Mr Henry TANG has followed the conventional practice of past Financial Secretaries in consulting Members of the Legislative Council before compiling the Budget. As the meetings were held in camera, I think

there is a need for me to make my views and proposals raised at these meetings public here and put them in the records so that I can be answerable to the public.

Madam Deputy, I raised the following three points with respect to the economic problems of Hong Kong. First, as the unemployment rate is still high, the Government should adopt more measures to boost the local economy. Second, the authorities should speed up the implementation of infrastructure projects so as to improve the employment situation of construction workers. Third, in view of the current economic conditions, the Government is not very likely to eliminate its deficit in five years. If economic recovery is not as satisfactory as expected, the Government must increase public expenditure to boost the economy.

What I mean is as the economy is robust, public revenue will increase and the deficit will naturally disappear. Although the total expenditure for 2004-05 is \$265.6 billion, which is higher than the expected \$252.9 billion for 2003-04, total expenditure is expected to reduce gradually over the next four years. I think that public expenditure should increase at the initial stages of economic recovery in order that the economy can be stimulated. Therefore, for the year 2004-05, there is a need to make supplementary appropriation and for the coming four years, the reduction figures as listed in paragraph 60 of this year's Budget should not be adhered to in a dogmatic manner. For if the economy has begun to improve and the deficit problem is not so serious, there would not be a need to follow the figures in paragraph 60 to achieve the reduction targets.

Madam Deputy, with respect to the remuneration of public sector employees, I raised two points. First, I think that there is room for civil service pay to adjust downwards. I suggest that when the Government assesses the remuneration of civil servants, it should carry out pay trend surveys and pay surveys specific to different work types. It should not just divide civil service jobs into senior, middle and lower levels regardless of the types of work and compare the salaries with those in the private sector. This kind of comparison without taking into account the different work types at all was the approach taken during the past 20 years.

Second, I suggest setting up a committee on the remuneration of senior employees in public sector institutions to determine the remuneration of senior employees in the public sector, including government departments and other public sector institutions. Such work should not be left in the hands of the

management of institutions like the Hong Kong Monetary Authority, the Securities and Futures Commission, the Mandatory Provident Fund Schemes Authority, the Kowloon-Canton Railway Corporation, and so on. They should not be allowed to take the matter of the remuneration of their senior employees into their own hands so that they are given the most lucrative terms. As a matter of fact, when someone holds a public office, he should not compare himself with the senior managers in the private sector, for in that case, the Chief Executive and the Financial Secretary may have to be given a very high pay.

However, it seems that the Government is not inclined to accepting my views. I wish to urge the Government here again that this matter should be reviewed. I understand that this does not fall in the portfolio of the Financial Secretary himself, but that of the Secretary for the Civil Service. I would continue to express my views to him in the Panel on Public Service.

Madam Deputy, with respect to the selling of government assets and the privatization of public sector institutions, I raised two points. First, in view of the current economic conditions, the Government must act in prudence in selling its assets. This is to avoid the selling price being suppressed to an extremely low level, so low that it turns out to be a rock-bottom price. Second, a management body should be set up to monitor the sale of government assets and related matters. These assets would include the shopping malls and car parks of the Housing Authority, the Hung Hom Peninsula development, and so on, which have been mentioned by other Members earlier. All these are government assets.

The Government appears unwilling to consider my proposal on a management body and insists that each sale or privatization case should be handled separately in determining an appropriate way to dispose of such assets. I urge the Government to give due consideration to this proposal. In the absence of a management body which formulates a set of uniform assessment standards, the Government will always say that the disposal approach adopted by it is always right and proper.

Madam Deputy, with respect to taxation, I raised five points. First, as a matter of principle, I do not object to the introduction of a goods and services tax, but I think this is not the right time for it. The Financial Secretary agrees with this and presently only a study is being made.

Second, I urge the Government to introduce the land departure tax or as it has been ingeniously named, the Boundary Facilities Improvement Tax. For the past two years, I had urged for the introduction of this tax but the Government turned down the idea and refused to consider introducing the tax within the current term of the Council. I consider this self-contradictory and irresponsible on the part of the Government. If the land departure tax, as I would insist calling it, is not to be introduced, then the passenger embarkation fee should be abolished too. For there is no justification for a tax to be charged for embarkation by sea but no tax is to be charged for departure overland. In pursuance of uniformity, the two taxes should both be abolished, with the possible exception of air departure tax.

Third, I would support the abolition of estate duty. I wish to thank the Financial Secretary for the Government is making a review of the issue of estate duty and there may be a decision on it in the next Budget.

Fourth, I would like to propose to the Government that the basic allowance for salaries tax be lowered. To put it frankly, I propose that more people should pay tax. In the past when there was a need to open a tax file, a lot of manpower and resources might have to be put into it and the tax collected might not even be able to cover even the costs. But now almost everything is computerized. And if the tax base is widened, there may be a less likelihood to increase taxes or to raise the tax rates. The Government has decided not to lower the basic allowance for the time being and it only seeks to implement in 2004-05 the arrangement passed last year, that is, to lower the basic allowance to \$100,000. That would mean some revenue for the Treasury.

Fifth, there are many people, including Members, who suggest that a progressive tax rate be introduced for profits tax. I would beg to differ. I think private companies may split up into smaller companies or downsize in order to avoid paying tax of a higher band in a progressive tax regime. That would be a contradiction of the original intention of a progressive tax regime. The Government noted my view and so the Budget has not introduced any progressive tax rate.

Madam Deputy, though I did raise some other points as well, I would not take the trouble now to repeat them here.

With these remarks, I support the Second Reading of the Appropriation Bill 2004.

**MRS SOPHIE LEUNG** (in Cantonese): Madam Deputy, after listening to the speech made by Mr Andrew WONG just now, I agree very much with his views.

Madam Deputy, we can now see that the local economy has picked up somewhat, and the overall market sentiments and the confidence of the consumers have gradually improved. The Budget released by the Financial Secretary last month has taken into account the conditions of an economy which is at the initial stage of recovery. So generally I think that the Budget is pragmatic and well-balanced and it has fairly and accurately assessed the expectations of the people for public finance.

With respect to revenue, the Budget has not proposed any tax hikes or adjustments to government fees and charges. I agree to the direction of giving the people a respite and consolidating our strength, avoiding causing any adverse impact on people's living and sustaining the momentum of recovery. The Budget also affirms the "market leads and government facilitates" principle. It will provide the business sector with more leeway to seize business opportunities, thereby achieving the goal of a prosperous economy. So public revenue can hopefully increase.

However, I do not wish that the "market leads" notion will become an excuse for the Government to sit back and do nothing. For in foreign trade policies and arrangements, there are still a lot of work which should be done on a government-to-government level. There is a recent example in the textile and garment industry to which we belong. The difficulties in customs clearance encountered by industry colleagues in the importer countries of their products show that there should be more co-ordination between the SAR Government and the importer countries on measures related to "the country of origin". Members of the industry have personally liaised with these countries but their requests have been repeatedly delayed. Financial losses are thus incurred and in some cases, some companies have been unfortunately forced to close down. I believe the problems could have been solved if officials had intervened on a government level.

Members know that the worldwide quota system for textile products will be abolished in January 2005. In view of this, international trade competition will become extremely heated and some countries have even launched trade measures of a heavy protectionist tone. So I hope very much that the Government can provide stronger support to the industry on a government-to-government level.

With respect to government expenditure, the community holds the view that efforts to reduce expenditure should be more rigorous. I share the same view, for not only is the public expenditure in the coming year, that is, 2004-05, not lower than the revised estimate last year, but also there will be an increase of about \$6.9 billion. This trend will only start to level off slightly by \$700 million in the year after, that is, 2005-06.

In order to meet the goal of "small government, big market", and to maintain public expenditure at 17%, as a share of the local GDP, there is a burning need for the Government to reduce expenditure proactively. The first thing that can be done is, like what Members have said, to review civil service pay which takes up about 70% of the operating expenditure of the Government. However, I must emphasize that any change would have to take into account the situation of individual departments and an across-the-board approach should not be employed. Other factors such as the stability of the Civil Service, the overall operation of the Government and service quality, and so on, should be considered. Moreover, the Government should reduce wastage and step up the monitoring of resources to ensure that they are used effectively and that the principle of using money where it should be used as espoused in the Budget should be adhered to.

The deficit for this year has been revised from the previous estimate of \$78 billion to \$49 billion, and I am very much in agreement with the approach stated in the Budget, that is, to "cut down on expenditure before raising revenue". But I think that the responsibility for the elimination of deficits should not rest on the Government alone, for it is a responsibility of everyone. It is also because the Budget is a reflection of the overall economic conditions of Hong Kong. A reduction in public revenue is in fact indicative of the fundamental problems which exist in our economic structure, productivity and competitiveness in general. So we should aim at enhancing our industries and continuously upgrading ourselves to build an economic strength which is sustainable.

In view of this, I hope sectors from across the community can pool their talents and come up with ideas on the best way out for our long-term economic development. On my part, I also hold this idea and I will try my best to suggest some workable plans from my perspective. I hope Hong Kong can make the best use of its edges, work hard to make up for its shortcomings, create a driving force for prosperity and enhance the overall benefits of Hong Kong.

As my sector and I myself have pointed out repeatedly, in order that Hong Kong can be turned into a world-class fashion centre, the vacant buildings owned by the Housing Department in Cheung Sha Wan Road and its neighbourhood should be converted into fashion and design centres. The location is convenient and it can achieve a synergy effect with the fashion industry which has already moved into the district. Thus the district can be shaped into a landmark of fashion centre. That will also consolidate our position in textile and garment industries and our status as a regional hub for fashion. I have talked about this idea many times in this Chamber. Members can see that recently a small outlet in Mong Kok District has become a showcase for other outlets in Southeast Asia and so we know that our position as a world-class fashion centre can truly be entrenched. The most important thing is whether or not we have the will to bring it into fruition.

Recently, I have had a chance to visit the bonded goods zone in Futian and I was amazed by its great development. The zone offers tax exemption and though it is small, it has become a multi-functional economic zone which embodies R&D, production, processing, trade, and warehousing. It has drawn businessmen from 22 countries and places to engage in hi-tech industries like the electronic, biomedical engineering, computer industries. A multinational company based in Europe, for example, has invested more than US\$200 million in the zone. The zone also has excellent matching facilities in the form of banks, law firms, and so on. It has convenient transportation links with other cities and provinces and it is only one hour's drive from Hong Kong. The investment conditions there are excellent. Despite its small size, many goods produced on the Mainland and sold in Hong Kong are using this zone as a service and R&D centre.

(THE PRESIDENT resumed the Chair)

If the concept used in Futian is transplanted to the river loop area at our boundary and if the leading edges of various trades and industries are made good use of, I believe we can unleash an enormous economic power. Therefore, I have repeatedly proposed that we should set up a boundary industrial zone there. Though it remains that there are many factors which we have to consider carefully and that discussions will have to be made with the Mainland, the project

can create a win-win situation for both places and it has obvious advantages. I would not go into the details here because the proposal is supported by all major political parties.

Today I would like to talk only about the importance of the boundary industrial zone on the attraction of talents into Hong Kong. We all know that there is an insufficient supply of research and technical personnel in Hong Kong and that our training work is not satisfactory at all. To raise our standards in R&D within a short time, the fastest and most effective way is to attract hi-tech and high value-added industries to invest in Hong Kong, for the scientists of international standing who come here subsequently can bring in some technology transfers which are breakthroughs and which can greatly enhance the productivity and competitiveness of Hong Kong in production technology and product R&D. They can also form a talents pool which can become a strategic base for our development of new industries or the upgrading of conventional industries. New and cutting-edge technologies can become a great driving force to our creative industries for the benefit of local talents in creative endeavours and design. Some people may ask, "If this is the case, then why do these scientists not relocate to China?" Perhaps you need to talk with people from so many sectors as I have done to know that they would rather come to Hong Kong instead of stationing in China now. However, the small differences between the two places should be able to serve a complementary function. In Hong Kong, we are standing right at such a stage and we would regret it if we let this business opportunity slip through our fingers.

As the Budget says, human resources are "our single most precious asset". We have entered the age of regional economic development. As Hong Kong and Shenzhen are major cities in the Pan-Pearl River Delta (Pan-PRD) Region, the competitive edges of Hong Kong are founded on the power of the region to form into an integrated economic entity. So the two places should share with each other their respective strengths and complement the other's inadequacies in talents, resources, technologies, institutions, facilities and capital. I think the river loop area along the borders of both places would be the best testing ground for it. It has vast potentials to become a key area in the Pan-PRD Region in the economic sense. On that day when I was in Futian, I stood in a cosy reception room on the first floor of one of the buildings there, looking at Tuen Mun which was just on the other side of the Shenzhen River. The feeling I got was the two places were actually very very close to each other.



It has been reported that Shenzhen officials have already some preliminary ideas about how to develop the river loop area. I hope officials of the SAR can give serious thoughts to developing the area into a diversified economic entity. Personally, I would continue to lobby through various channels to make this idea a reality. I would also strive to get the support of various sectors across the community to agree to this idea. The Government has been sitting on this idea for so many years and I do not think it would do anything good to wait any longer. It would not do us any good if we go on sitting back and indulge in the short-term gains brought by the Individual Visit Scheme. I hope the SAR Government can be more eager and fast-acting than I do in bringing another piece of good news to Hong Kong.

Actually we have a lot of edges over others, such as in the areas of law, finance and professional services, as well as corporate professionals. But these professionals will become useless in eight or 10 years if there is no place for them to put their skills into use. In some aspects of our business environment, there is still room for improvement. I really think we have to be innovative and willing to change. We need to search for new impetus for economic growth. I hope people from all sectors and government officials will break away from the fetters of a conventional mindset in confronting the 21st century, and be bold enough to take up new ideas. I believe, if we can do this, we will surely find a way out of the pains of the restructuring process we are undergoing.

In Hong Kong we do have many examples of people making proactive efforts of innovation. Recently, a manager of a six-star hotel told me that they wanted to convert some floors of the hotel to install advanced spa and massage facilities. It will be the first executive hotel in Asia to provide such facilities. It will greatly strengthen our leading position in the international tourist business. And it is precisely because the idea is so innovative that it also highlights the inflexibility of the laws, regulations and government measures we have. Officials in Hong Kong are resistant to changes and they only follow the book. Even though this hotel manager has spent a lot of extra time and efforts to explain to the officials about his idea, the plan cannot become a reality. The only option left is to slash and change his new idea enormously before the Government can give the green light.

In the face of such rigid laws and fossilized mindset, if the big companies are finding it suffocating, how can the small and medium enterprises be able to

cope with these? I hope that when the industrial sector goes about putting into practice the ideas of "fostering creativity and innovation" and "moving towards high value-added industries" as proclaimed in the Budget, the officials should also make efforts to make themselves innovative. They should attend related courses, give their full support and learn. They should exercise flexibility in dealing with some fossilized policies, measures and administrative procedures, and they must never nip innovation in the bud.

Innovation and creativity are the advantages of Hong Kong. The faster our brains work, the greater advantage we will enjoy. Innovation and creativity are the prime impetus of our economy. If we do not have brilliant ideas and if brilliant minds are left idle, then all would be reduced to empty talks. Brought into active play, innovation and creativity would be the best medicine to our ailing economy. For they can bring in more money for us. At a time when efforts to cut expenditure seem such formidable tasks, raising revenue would be highly appreciated.

I am glad to note that under the leadership of the new Financial Secretary, those officials responsible for improving the business environment have recently planned to launch a "DesignSmart" initiative with the creation of a \$250 million fund. I trust the plan will be well-received by the industry and by all sectors and strata across society. I hope the plan will not become burdened by too many procedures. Application formalities and procedures must be made as simple as possible. Officials should be flexible enough to accept innovation. Vetting and approval should be properly done to avoid excessive leniency or stringency or even harshness. That will ensure innovative business ideas can be put into practice and tested, and the community will then be able to share the economic benefits of innovation and creativity.

With these remarks, Madam President, I support the motion.

**MS CYD HO** (in Cantonese): Madam President, I support the Second Reading of the Budget.

Madam President, compared to the interpretation of the Basic Law by the National People's Congress, this Budget has not caught the attention that it

deserves. It has been silently brushed aside. That, of course, means luck for the Financial Secretary. His maiden Budget has not attracted too many criticisms and basically it is a continuation of the plans devised by the former Financial Secretary, with the adding of some room of manoeuvre in it. That is why it has not been heavily criticized. One such example is the postponement of the deadline to eliminate deficits from the year 2006-07 as set by the former Financial Secretary to the year 2008-09. Of course, people would breathe a sigh of relief when they hear it.

Having said that, despite the inheritance of the major direction from his predecessor, the new Financial Secretary has also retained some of the ruthless measures in public revenue and expenditure formulated by his predecessor. There is no relaxation at all in slashing expenditure. The annual expenditure as a share of the local GDP would scale new lows, that is, 16.9%. It is a total reversion back to the level of 1994-95. At a time when our demographic picture is made up of a fast ageing population, an influx of newly arrived immigrant children and surging domestic violence, a drastic cut in public expenditure to the level of 16.9% is really worrying. The fact is after the slashes in expenditure over the past three or four years, a host of social problems are slowly surfacing. If we are to cut the level of public expenditure from 20% by a further 3%, the results would be really alarming. Unless the GDP rockets, making it possible the retention of the same amount despite a smaller percentage, that will not work. But I do not know if the Financial Secretary would give his assurance that he is sure that this will happen.

Madam President, the quantity as well as the quality of social services should be kept in pace with the times. If resources are excessively slashed with the result that the disadvantaged groups will not get the right kind of assistance, then the quality of our population will never improve and it will take a step backward. There is a very close relationship between politics and the economy. In politics, we are striving for one person, one vote and equal opportunities in political participation. In economics, we are hoping that there will be a level playing field and fair competition. But if we slash our resources so drastically, there would be increasingly less assistance given in education and to the grass-roots families. And children from grass-roots families may then not have the same abilities to make contribute to society in future. They may never be able to rid themselves of poverty and they will forever be haunted by it. And when

this vicious cycle of poverty is formed, the SAR Government will then have to shoulder a burden which it can never cast off.

In fact, the economy of many politically open countries is likewise open. Conversely, the economy of a politically closed place may grow from a society of poor peasants to a society with light industries and manufacturing industries. But it may be difficult for the economy in these places to advance further. In Hong Kong, we have passed the stage of manufacturing industries and light industries, but though our society is advanced, we still have to forge ahead. We therefore ask the Financial Secretary to look into this and enact a fair competition law so that this area can be more open and transparent.

When budgets are compiled in future, there is a need to listen to views from various sectors. The Secretary has made a website and asked the people to browse it and leave messages, that is already a progressive step compared to the past. But that is, after all, not a formal channel, for ideas cannot really be pooled in on website and that the voices of people from different sectors such as the academic sector, the business sector, the grassroots and the trade unions, cannot be collected to forge a consensus. I hope the Secretary can consider holding political and economic summits next year, and despite the fact that we do not have equal participation under the present political system, I really hope that a democratic procedure can be adopted to compile a budget. That approach will hopefully enable the budget to gain the support of various sectors and the Secretary will encounter less difficulties when he puts the budget into implementation next year.

Madam President, many views have been expressed in the recent controversies over constitutional reform to the effect that democracy means social welfare which is a bad thing because that will easily deplete our scanty reserves. Madam President, this labelling of social welfare as welfarism, irrespective of whether or not they are genuine concerns or some makeshift excuses, will result in impeding the progress of constitutional reform and make it impossible to get out of this quagmire of governance in which the SAR is caught. So I hope that the parties involved in the disputes will not look at the issue irrationally. I only hope that the parties can put forward arguments which are objective and scientific and try to convince the other side with them.

Recently, some scholars from the Social Welfare Practice and Research Centre at the Department of Social Work, The Chinese University of Hong Kong, conducted a research and released their findings on the relationship between democratization and welfare expenditure. They made an analysis on the relationship between public expenditure from 1975 to 2002 in areas related to people's livelihood such as social welfare, health care and education, and the number of seats in the Legislative Council returned by election. The findings show that the increase in welfare expenditure does not bear a direct relationship with matters like democratization and economic development. Therefore, Members can rest assured that democratization will not lead to a surge in welfare expenditure.

Any increase in welfare expenditure should be based on practical needs. We should never think that it is because some Members see that the SAR has huge sums of money in its coffers and so they want the Government to hand out every cent of it. As for the present controversies, I hope that the parties involved can put forward well-grounded arguments and call in the scholars to undertake studies. I also hope that the Government can fund such studies so that conclusions acceptable to all can be reached. I hope that I will never hear people say again that if some trade union leaders — I do not think it matters if I name these people anyway, such as Mr LEE Cheuk-yan or Mr LEUNG Yiu-chung are elected the Chief Executive, free lunches will be handed out in Hong Kong. I do not think that will happen. For even if there can be one person, one vote elections, I do not think people will elect Mr LEUNG Yiu-chung, not even I myself. Sorry, Mr LEUNG.

About social welfare policies, at the time before the hand-over of sovereignty, we actually borrowed the British system. The Government at that time would consult the social welfare groups, the voluntary agencies and draw up a direction for the future development of a social welfare policy. The findings would then be published for public consultation by way of a Green Paper. Formerly there was the paper entitled "Social Welfare into the 1990s and Beyond", but after 2000, there has not been any continuation of such studies, nor any comprehensive assessment of the future needs of Hong Kong society. However, there have been monumental changes in society during these 10 years, particularly in population mobility. Therefore, I urge the Government to give serious thoughts to the formulation of a new social welfare policy for the next decade and publish a White Paper on it. This will give the community a platform to discuss how social resources should be distributed.

Madam President, in recent years and because of the deficit problem, government departments and subvented organizations have all been subject to the impact of a universal policy to slash manpower. Take the Social Welfare Department as an example. It will reduce its size from 5 326 employees in 2001 to 4 946 in 2005, or a cut of close to 10%. In subvented organizations, salaries are slashed in addition to cuts in manpower, so new entrants to these organizations are offered salaries reduced by 30%. Thus there has already been reduction in salary expenditure. But on the other hand, we can see that there is no decline in demands of society. Recently, cases of domestic violence occurred again. Every time when such tragedies occur, people would say these are unfortunate and pitiful events and they have sympathy for the victims. But two or three weeks later, the cases would be forgotten and there is no attempt to review the policy and the deployment of resources. So it is very likely that in just a matter of a few months, similar tragedies will happen again. Actually, the demand for social services from families of new arrivals to Hong Kong and single-parent families is always on the rise. But it is sad to see that simple services like the single-parent family service centres are being stopped. Those who need such services are all required to seek help from other integrated family service centres. That will deny the people of the kind of service they should be duly provided.

Therefore, I hope the Secretary can really think about making a review of the resource allocation in the light of the changes in our demographic profile. Resources should not just imply manpower. More importantly, it is the kind of assistance which social workers can offer after they have received the cases. Previously, the normal number of cases handled by a social worker was about 70 cases, but now the number has gone up to more than 90 cases. Many social workers are committed to their job and I think if they are asked to handle 100 cases, they would be pleased to do so. But if after they have received these 100 cases, what they can do is just listening to their clients complain and expressing their sympathies, such that the battered spouses cannot move to another public rental unit and so they have to live with their spouses who have battered them, or if in some cases these battered spouses do not qualify to apply for Comprehensive Social Security Assistance (CSSA) because they have not yet lived in Hong Kong for seven years, so they are frustrated but they cannot leave their spouses, then even if we have more social workers, the problem may not be solved. For this reason, Madam President, when we talk about resources, we do not simply mean the number of social workers, their wages, and so on, but also the resources at their disposal and with which they can use to help their

clients. Here specifically, we mean more public rental units, more sheltered homes and we should lower the residency requirement for CSSA from seven years to an assessment based on the merits of each individual cases.

We have also seen a surge in the number of child abuse cases which has risen from 1 843 in 2001 to 2 250 in 2003. Madam President, we often say that childhood development will affect a person's adulthood. If we do not use more resources to prevent these problems, then in future we may have to use more funding and adopt more measures to rectify these problems.

We understand very well an increased demand must be met by a commensurate increase in revenue. We therefore agree that the tax regime should be reviewed. Now the world is getting smaller with globalization, and so taxation can be done in more ingenious ways and the offshore mode can be adopted. Many companies have set up subsidiaries overseas and the authorities are unable to levy tax on them. The situation is likely to worsen with CEPA, for many high-income professionals may not have to pay their income tax in Hong Kong.

So I would like the Secretary to consider two points. First, consideration can be given to introducing a sales tax. But the Secretary must not forget to grant exemptions for the daily necessities and that he would consider tax rebate arrangements. He may fix a basic living expenses amount first and then arrange for rebates to families whose income is lower than the figures for the basic living expenses. That will prevent them from being exploited under a retrogressive tax regime.

Second, tax should be collected for extraterritorial personal income. The issue should be discussed by the community over a sufficient length of time and it can only be pursued after a common understanding is reached. It would be difficult for us to achieve fiscal balance if there are people who earn income outside Hong Kong but use the infrastructure, facilities and welfare of Hong Kong.

The Secretary is a very creative person. He proposes to launch a Personalized Vehicle Registration Marks Scheme to raise revenue. That has made the community engage in enthusiastic talks for one whole week. People have come up with all sorts of weird letters and numbers to put into their licence plates. I hope the Secretary can review the tax regime with the same kind of

creativity and that, besides putting into practice the ideas of those who can afford it pay more and users pay, he can also assume the Government's responsibility to protect the disadvantaged groups.

**MR HOWARD YOUNG** (in Cantonese): Madam President, the SARS epidemic in 2003 plunged the tourism sector into greater hardship than that inflicted by the financial turmoil, the September 11 incident and the war between the United States and Iraq combined. At that time, both inbound and outbound tourism almost came to a halt; the number of flights to and from Hong Kong plummeted, and the hotel occupancy rate once dropped to 10%, or, in some cases, even lower than 10%. Fortunately, those in the industry did not despair and instead joined hands to tide over the difficulties. In the wake of the SARS outbreak, the Central Government relaxed the restriction on mainland residents wishing to visit Hong Kong in their individual capacity in a bid to revitalize Hong Kong's sluggish economy and tourism industry. As a result, in a short span of just several months, the number of visitors to Hong Kong soared. All Hong Kong people can see clearly that the revival of the tourism industry and the increase in visitors have in turn boosted many other trades and industries, bringing forth many additional jobs. The economic climate today is far better than that of last year.

The Financial Secretary, Mr Henry TANG, emphasized in his first Budget that economic revitalization and promotion of employment are crucial for Hong Kong's development. For this reason, the Government has established the Economic and Employment Council (EEC) to pool the wisdom of different social strata for the promotion of economic activities. Under the broad principle of "market leads and government facilitates", which the Liberal Party very much supports, the Government will seek continuously to create a favourable business environment. The tourism industry welcomes the Financial Secretary's establishment of the EEC. We of course do not wish to see the EEC being reduced to what is called a mere "talk shop" in colloquial parlance. In other words, we hope that the EEC can, instead of engaging in mere empty talks all the time, put forward some concrete proposals in the future. As for the business environment, we hope that the Government can refrain as much as possible from introducing any legislation that may adversely affect the business environment, so as to avoid unnecessary increases in business costs.

I am very pleased to note that, in line with the principle of allowing the community to take a respite as specified by the Chief Executive in the policy



address announced in January, the Financial Secretary has refrained from taking any drastic moves or introducing any substantial changes in respect of tax revenue. The Financial Secretary has refrained from saying concretely how he will deal with increases in licence fees and business registration fees, but in the long run, will the Government explore whether there is any room to lower the various government fees and charges? For example, in the case of some travel agents that are just small or medium in scale, there may just be three staff members, but in addition to a business registration fee of some \$2,000, they also have to pay a travel agent licensing fee amounting to some \$5,000 and various other membership fees. All these fees taken together do constitute quite a heavy burden. This is a burden for small businesses. The Government has all along emphasized that the levels of its fees and charges are set according to the "cost recovery" principle. But if the fees charged are very high, higher than market levels, simply because of the need to recover the costs incurred by an obese bureaucracy, can the situation be considered right? Since the Government has now implemented measures to rationalize its manpower establishment and reduce expenditure, can there be any room for further lowering the relevant licence fees to a reasonable level? It is hoped that the Government can keep the matter under constant review.

The Financial Secretary forecast that when the Individual Visit Scheme is extended to the whole of Guangdong Province, roughly 100 million mainland residents will be eligible to visit Hong Kong under the scheme. He also promised that the SAR Government would continue to fight for the extension of the Individual Visit Scheme to more provinces and cities. I am very happy to note the Government's announcement yesterday that with effect from 1 July, the residents of nine more cities will be eligible to visit Hong Kong under the scheme. This is very encouraging news to the tourism industry. At present, those from Beijing and Shanghai aside, individual visitors come mainly from the cities in Guangdong. Guangdong residents generally come on land and return home on the same day, so their demand for hotel and flight services is not so keen. I remember that during the Chief Executive's Question and Answer Session on the policy address in January this year, I raised the same issue and was severely criticized by the mass media for talking for the interests of the tourism industry only. But the truth is that, as the hotel industry has pointed out to me, the hotel occupancy rate has just risen by a mere 1% since the inflow of individual visitors. Many mainland residents coming to Hong Kong in their individual capacity now, especially those from Guangdong, have been to Hong Kong once or several times before, so they already know Hong Kong very well. That is why they seldom

join the local tours organized by travel agents — the Secretary did join one of these tours, and their itineraries are actually very rich. Therefore, I hope that the inclusion of the nine cities can bring benefits to more trades and industries. In order to cope with the coming of residents from the coastal provinces, the Government should strive for the launching of more flights between Hong Kong and the Mainland, strengthen the air service arrangements between them and foster the tourism industries of the two places.

Some may of course wonder whether we will be able to cope with the influx of visitors from these cities during the "1 May" and "1 October" holidays. The industry and I are confident that we will be able to cope. But it does not mean that there is no problem in our view. I think we may need to discuss with other government officials two issues that are outside the Financial Secretary's portfolio. One of the issues concerns the system of entry clearance. Are we going to follow the example of Britain, where British citizens, European Union nationals and aliens are divided into three separate groups for entry clearance? I know that a similar system is currently adopted at Lok Ma Chau. Is it possible to expedite entry clearance in the future? The other issue, also outside the Financial Secretary's portfolio, is highly contentious — whether or not Home Ownership Scheme units can be converted into hostels. Some of my constituents, the hotel industry, for example, oppose the idea, but others, such as travel agents, support it very strongly. The issue is therefore highly contentious. But can there be a win-win solution? I think we really need to look at all these issues following the liberalization of individual visits.

To upgrade Hong Kong's competitiveness and make it a major tourism spot in the Asia Pacific Region, we will need to introduce a wider range of tourism products. It is widely recognized that Hong Kong lacks natural tourism resources, so we should make continuous efforts to develop new tourism spots, so as to turn Hong Kong into a place with never-ending excitements and attractions. The Financial Secretary has undertaken to conduct a series of studies to formulate a strategy for future tourism development, which will cover the potential for developing spa resort facilities and eco-tourism on Tung Ping Chau and in Tolo Harbour, so as to increase the number of tourism attractions in Hong Kong and induce more visitors to come. The tourism industry very much welcomes such studies. But it also hopes that the Government can launch the relevant proposal as soon as possible, instead of conducting any empty and fruitless discussions or spending time on rounds and rounds of consultation.

The first consultation document on developing Aberdeen in Southern District and a fishermen's wharf, for example, was published in 2001, but so far there has been no progress at all. There is also the construction of a cruise terminal, an issue which has been discussed for years. So far, nothing has been finalized, and some liners are even forced to, literally forced to, berth at container terminals. But then, perhaps it is only due to the Secretary's help that they are allowed to do so. Anyway, this is not a satisfactory solution, so some liners may simply call on other ports.

The Government intends to introduce a goods and services tax, but it should first weigh the pros and cons instead of focusing solely on eliminating the fiscal deficit and widening the tax base. Hong Kong used to enjoy a good reputation as "The Shopper's Paradise". It was famous for inexpensive but quality goods in the past. Although the prices of our goods are no longer so inexpensive, we can still offer many brand name goods; the range of such goods in Hong Kong is much wider, so we still have an edge. The statistics of the Hong Kong Tourism Board persistently show that shopping is the main form of visitors' consumption in Hong Kong. This is something quite unique. In many other countries, such as Malaysia and Thailand, shopping may not necessarily be the main form of visitors' consumption. But in Hong Kong, shopping constitutes 55% of visitors' consumption. Such a rate is rarely found in other places of the world. It can thus be said that the foreign exchange earned by the local tourism industry still comes mainly from visitors' shopping. The introduction of a goods and services tax will inevitably raise the prices of goods, thus dampening visitors' consumption desire and reducing the income from tourism.

I know that in Europe, sales tax or value-added tax (VAT) is very common, with the tax rate ranging from 5% to even 25%. However, in order to encourage visitors to purchase goods, tax refunds are offered to non-European nationals whose purchases exceed a specified level, and the methods of refund are designed as much as possible with visitors' convenience in mind. Well, things can sometimes be quite interesting. Visitors shopping in Europe may sometimes think that tax refunds are fun. They may not intend to buy anything at the beginning, but because of tax refunds, because they think that tax refunds are fun, they may simply purchase more goods. So, quite unexpectedly, tax refunds may serve to stimulate consumption desire. Since foreign visitors know that they are exempt from sales tax, they may buy more goods deliberately, just to derive some fun.

It can be observed that in European countries, sales tax will dampen visitors' consumption desire, but if there are tax refunds, they may be induced to purchase more goods. I do not deny the truth of this, but Members must not forget one point. If the Government really thinks that with tax refunds, the consumption desire of visitors will not be affected, and that it can thus introduce a goods and services tax as a means of widening the tax base, I must cite the example of Britain. The VAT rate there is 17%, but when it comes to the actual tax refund, the rate will at most only be 15% or lower. The rate may even be still lower if various excuses are found. As a result, after the deduction of administrative costs, the tax refund rate may be reduced by 3% to 5% or more. We are now looking at European countries, where the rates of sales tax are 10% or higher. This explains why they can do this. Of course, I am not saying that we should fix the rate of our sales tax at 10% or higher. Actually, the rate we have in mind may just be 5%, which means that there may well be no refund to visitors, because nothing will be left for refund after deducting administrative costs. This therefore may not necessarily be an economically efficient scheme, and prudent studies may be in order.

According to the Financial Secretary, it will at least take three years before this tax can be introduced, meaning that the soonest possible time of introduction will be 2008. However, I still wish to propose that when considering the tax regime and any possible tax refund mechanism for visitors, the Government must, in addition to taking account of the economic conditions of society, consult the various sectors widely, so as to minimize the impact on society in general and the tourism industry I represent in particular.

With these remarks, Madam President, I support the Budget of this year.

**MS AUDREY EU** (in Cantonese): Madam President, at the press conference held on the day when the Budget was announced, Financial Secretary Henry TANG described this first Budget of his as "pragmatic" and "people-oriented". The whole Budget indeed looks so mild and moderate. The Government says that under the current economic conditions, it will give people a respite and avoid any drastic moves as much as possible. This I agree entirely. But I also think that he is the Financial Secretary, so people do expect him to formulate a clear and visionary blueprint on public finance and even economic development. It is a pity that the Budget cannot give Hong Kong people any assurance in this respect.

As pointed out in the Budget, the local employment situation may not improve despite our economic recovery. In other words, there may be a jobless recovery. However, the Financial Secretary has not put forward any long-term solutions in the Budget. The additional jobs proposed in the Budget are all temporary ones which cannot provide any substantial help in tackling structural unemployment.

According to government studies, between 1997 and 2003, our economic growth averaged 2.3% per annum, and during the same period, the total employment increased at an average annual rate of 0.3%. Enterprises have been trying to enhance their economic efficiency by layoffs, structural rationalization, replacing workers with capital equipment and technologies and quickening the relocation of production lines out of Hong Kong. As a result, the new posts created are mostly for upper/middle positions and skilled jobs.

Owing to changes in market demand, a substantial number of workers with a low level of skill and little education will find it very difficult to secure any jobs. Even if employment retraining is enhanced, there cannot be too much help anyway. It is expected that the unemployment rate will remain high, and there may not necessarily be any room for upward wage adjustments.

As a result of the structural unemployment problem mentioned above, and also because of our ageing population, it is expected the number of low-income households will only increase, thus aggravating the wealth gap problem mentioned by various Members. The Government must formulate a long-term policy to tackle this problem. For instance, there must be detailed planning on such areas as health care, social welfare and social security, or else society as a whole may well fail to cope with the resultant problems of social division, domestic violence, increasing welfare demands, and so on. Unfortunately, the Budget has not accorded any treatment to this problem, thus leading people to wonder whether the Government is aware of its gravity.

Last year, the Chief Secretary for Administration submitted the Report of the Task Force on Population Policy, in which it was pointed out that factors such as population ageing and people's quality did pose many problems to the long-term development of Hong Kong. It was also said that a review should be conducted every year. Perhaps because he has recently been too pre-occupied with constitutional development, I am not aware that he has conducted any population survey or put forward any proposals so far. Nor can I see any

follow-up measures or proposals on solving or tackling all those long-term problems mentioned in the Report of the Task Force on Population Policy.

Recently, in his second report on issues of principle relating to constitutional development, the Chief Secretary for Administration mentioned the lack of political talents in Hong Kong and the poor quality or inadequacy of public policy research. I must make it a point to say that under the existing system, only the Government possesses the resources required to conduct large-scale public policy research. The Government has criticized political parties, various organizations and individuals for a lack of experience in political participation, for being politically immature and unwilling to conduct public policy research, but very unfortunately, as far as we can observe, the Government has never made any real efforts in this respect despite all the resources in its possession.

The Budget sets down a new target for the elimination of the fiscal deficit. However, with respect to one of the root causes of the fiscal deficit, that is, the narrow tax base, it has put forward only one measure to tackle it — studies on a goods and services tax, commonly called a sales tax — as if the introduction of such a tax would solve all problems. No treatment is accorded to some fundamental issues, such as the fairness or otherwise of the existing tax regime, nor can I see that the Government has conducted any in-depth studies on these issues. Frankly speaking, I am open about the introduction of a sales tax. I agree to Ms Emily LAU's earlier remarks and also the opinions of various academics — if a comprehensive study, a study covering all other types of taxes, can be conducted before a final decision is made, I am sure that many people will accept a sales tax or services tax after looking at the relevant statistics.

Honestly, it is not entirely impossible to find others ways of increasing tax revenue. One example is a progressive profits tax regime proposed by many people. This is in line with the principle of equity and also able to lighten the burden of small and medium enterprises. I also support the Government's implementation of the "user pays" principle. As a matter of fact, the Government did put forward many proposals consistent with the "user pays" principle, one example being the Boundary Facilities Improvement Tax. However, it backed down on all these proposals due to the pressure from political parties and public opinions. But I believe members of the public are still willing to listen to reason. As long as the Government can provide

sufficient data and explain the pros and cons clearly, the public will accept its proposals, because decisions on all these issues must be made on the basis of available data after all. If the Government does not prepare the data required or conduct any studies, it will be very difficult for it to convince the general public and obtain support for any proposals to broaden the tax base or increase tax revenue.

The creation of new sources of revenue also requires a new mindset on the part of the Government. I am very pleased that the Financial Secretary has put forward the idea of "green" taxes in the Budget. I have talked about this many times before, for years really, and I also think that such taxes can help reduce acts of pollution. It is a pity, however, that with respect to the implementation of the "polluter pays" principle, the Government has only put forward some piecemeal measures such as disposal fees for construction wastes and the proposed tyre tax, instead of formulating any integrated strategy. The Government should broaden the scope of its relevant studies and learn from the experience of other places, so as to draw up a long-term strategy.

In regard to capital expenditure, the Budget proposes to further expand the co-operation of the public and private sectors in the construction and operation of infrastructure and cultural facilities — Public Private Partnerships (PPP) in other words. In view of the tight finances of the Government, this is no doubt an acceptable compromise, one which can bring in the creativity, skills and management concepts of the commercial sector to upgrade the quality of public facilities and services.

However, the controversies surrounding the West Kowloon Cultural District have shown us that PPP as a development mode can actually enable a project to bypass the appropriation mechanism of the Legislative Council's Finance Committee. It is worth noting that in order to encourage private sector participation, the Government may sometimes offer some kinds of incentives, such as property development rights. But such incentives may well jeopardize public interests. Even if government officials do not have any private motives, their lack of business experience may sometimes put them in a very disadvantageous position in dealing with the business sector. This can be aptly illustrated by the Hung Hom Peninsula incident. Even Secretary for Housing, Planning and Lands Michael SUEN has admitted that he is not so "smart", or the Government has not been so "smart" in its handling of this matter.

PPP is a very common mode of development in other countries, and I am not saying that the Government should go against this trend. The point I am trying to make is that, it is not so satisfactory to adopt PPP in a piecemeal manner, because in that case, people will fail to see the criteria adopted by the Government. For example, they may not know when PPP will be adopted and when the Government will undertake a development project on its own. Therefore, it is necessary to draw up an integrated policy or a set of criteria. A sound mechanism should be included, so as to ensure that the public and the Legislative Council can fully participate in every development project, and that the interests of the public are duly protected.

With respect to education, in 2004-05, the total expenditure on education will be \$59.542 billion, which is 2.4% less than that of the previous year. Madam President, I do appreciate the Government's predicament of still having to provide quality education despite its tight finances. However, the Government can nonetheless consider various other measures such as the development of private universities, attracting more foreign students, soliciting large donations, and encouraging sponsoring bodies and the commercial sector to establish more secondary and primary schools under the Direct Subsidy Scheme. Besides, the Government may also invite the technological research institutes of universities and other organizations to bid for government projects on, for example, planning research or the provision of consultancy services. Therefore, even in the field of education, there can be many ways to create new sources of revenue.

New sources of revenue aside, effective deployment of resources is also very important. I therefore agree to one of the recommendations made by the University Grants Committee (UGC), that is, the recommendation that there must be a clear division of roles among all tertiary institutions according to their respective areas of strength and unique features. Having said that, I must add I am rather puzzled as to why the Government should openly support the founding of a law school in The Chinese University of Hong Kong while slashing the funding for the law courses offered by the University of Hong Kong and the City University of Hong Kong. This seems to run counter to the principles advocated by the Government itself.

The UGC is the "treasurer" of the university education sector, but it is a pity that it has not performed this role quite so satisfactorily, evident in the frequent complaints received by the Legislative Council from teachers, administrative staff and students of universities and other stakeholders. I also



know that the UGC has withheld 10% of each institution's funding and will not release the funding withheld until the institution concerned has defined its own role and met the relevant performance requirements. Such a paternalistic mentality explains why the relationship between the UGC and the various institutions has been so poor. The UGC should reflect on its style of governance, so that the institutions can enjoy genuine autonomy.

So much for education. With respect to welfare expenditure, the Budget has earmarked \$200 million to promote the development of a tripartite social partnership comprising the Government, the business community and the welfare sector, and to encourage corporations to take part in helping the disadvantaged. The Government has not disclosed any further details about the plan so far. To encourage the business community to take part in social welfare provision is nonetheless a proper direction. But it must of course be added that all will ultimately depend on the Government's commitment if we are to provide satisfactory social welfare and adequate care for the disadvantaged. The business sector cannot be expected to replace the Government.

Madam President, finally, I wish to say a few words on reforming the securities market, because last year, the Expert Group appointed by the former Financial Secretary, Mr Antony LEUNG, following the penny stocks incident recommended that the listing function should be transferred from the Stock Exchange of Hong Kong to the Securities and Futures Commissions as a means to solve the problem of potential conflicts of interests. The former Financial Secretary supported this recommendation, but the Stock Exchange of Hong Kong was strongly against it. So, the former Financial Secretary said that he would need to conduct further studies.

Following a year of uncertainties, the Government has recently announced that the Stock Exchange of Hong Kong will retain the listing function, and only the more important provisions of the Listing Rules will be incorporated into the relevant ordinances. After so much ado, the efforts to reform the listing regulatory framework has ended up marking time. Hong Kong has long since lagged behind Europe and the United States in terms of securities market reforms. For example, in Britain, the listing function and regulation of listed companies were already transferred from the London Stock Exchange to the Listing Authority under the Financial Services Authority years ago. When the Government behaves so indecisively even in dealing with the perfection of

market regulation rules, how can it be expected to consolidate Hong Kong's status as an international financial centre?

Some have dismissed the Financial Secretary as "waiting passively for Lady Luck smile on him". On my part, I would say that it is fine even if not too many measures are proposed, or even if the measures are just very mild. But the most important point is that the Financial Secretary must demonstrate that he is visionary, knowing clearly what next steps to take. Unfortunately, I fail to see this in the Budget.

Madam President, I so submit.

**MS MIRIAM LAU** (in Cantonese): Madam President, in the first Budget during his term of office, the Financial Secretary proposes to extend the duty concession for ultra low sulphur diesel (ULSD) for a further nine months, maintaining the duty rate at \$1.11 per litre in the meantime, so as to give the transportation industry a respite. The Government may think that this is already a measure showing great compassion for the industry. But from the standpoint of enhancing the competitiveness of the industry, the measure is only of very little actual help.

The Financial Secretary met with the transportation industry in February, so he should be well aware of the demand of the industry. Despite the extension of the concession period, the demand of the industry has not yet been met. What the industry wants is a reduction or the abolition of diesel oil duty. The industry is not being unreasonable in its demand, nor is it in any way greedy at all. The fact is that given the existing business conditions of the industry, there is no way that it can accept or bear the statutory duty rate of \$2.89 per litre. Therefore, the Government should conduct a further review and lower the duty rate to a reasonable level, so that the industry does not have to approach the Government for an extension of the concession period every one year or every several months; this is something which even the Government itself may find very annoying. Besides, due to the competition from within and outside Hong Kong, the transportation industry must lower its costs, so as to upgrade its own competitiveness and that of Hong Kong as a whole. Therefore, the industry hopes that the Government can abolish diesel oil duty or set it at a lower level.

The Government may think that the duty concession has benefited to the industry enormously, so let me just cite some statistics to give the Government and the public a clearer picture. Over the past six years, diesel oil prices have been rising continuously, remaining at a high level all the time. Before June 1998, the diesel oil duty rate was \$2.89 per litre, and the post-tax pump price was \$6.58 per litre. When ULSD was first introduced into Hong Kong in July 2000, its duty rate was set at a lower level of \$1.11, and the post-tax pump price was \$6.35 per litre, which was just \$0.2 less than the diesel oil price in 1998. Even with the extension of the concession period now, the post-tax pump price of ULSD will still be \$6.48 per litre, which is higher than the price in July 2000 and just 10 cents per litre lower than the price in June 1998, when the Government put forward the proposal on lowering diesel oil duty to ease the plight of the industry. The industry has received very little benefit throughout; members of the public have instead been the greatest beneficiaries, because ULSD is very environmentally-friendly, and its use by the industry has led to great improvement in air quality, thus enabling the Government to receive great applause. On the basis of current oil prices, if the duty rate is restored to \$2.89 per litre, the pump price of ULSD will soar to \$8.26 per litre, which is totally beyond the affordability of the industry.

As a result of globalization, it is not at all meaningful to look at our diesel oil prices in isolation, so comparisons with those in the rest of the world must be made. From the statistics I have collected, I notice three characteristics of diesel oil prices in Hong Kong. The first characteristic, as we all know, is that the pump price of diesel oil in Hong Kong is the highest in Asia. This is a conclusion drawn by a German study conducted in 2003, and even globally, the diesel oil prices in Hong Kong are also among the highest.

The second and third characteristics may have been overlooked. The second characteristic is that relative to the purchasing power of the people, diesel oil prices in Hong Kong are the second highest in the world. Hong Kong drivers thus have to pay more than their counterparts elsewhere to purchase diesel oil, which means that the passenger transportation industry of Hong Kong has to pay higher operating costs. High passenger transportation costs are not good to passengers or visitors taking minibuses and non-franchised buses, and high freight transportation costs are not conducive to the overall development of Hong Kong's logistics industry. The third characteristic concerns the diesel oil

price differences between Hong Kong and its neighbours. The biggest difference is found between Hong Kong and its greatest competitor, that is, the Mainland. This means that Hong Kong is less competitive than the Mainland in terms of freight transportation. As a matter of fact, in order to upgrade the external competitiveness of the cross-boundary container lorry industry, the Hong Kong Logistics Development Council is now working with the industry on an analysis of the operating costs of container lorries, with a view to identifying possible items of savings, one example being diesel oil duty. If diesel oil duty can be lowered or abolished, the price difference between the two places will be reduced, thus helping to upgrade the competitiveness of the local cross-boundary container lorry industry.

According to the Government, as a result of the duty concession, the cumulative loss in government revenue will add up to \$6.8 billion. If the Government regards diesel oil duty as a kind of tax it should rightly levy, as something that the transport industry owes it, it may of course say so. But I wish to point out that \$6.8 billion is just a nominal figure, and the basis of its computation is also somewhat misleading. I wish to remind the Government of one point. In July 2007, it fixed the duty rate of ULSD at \$1.11 per litre, which was lower than that of ordinary vehicle diesel oil by \$0.89 per litre. Since the price of ULSD per litre was then higher than that of ordinary diesel by \$0.89, the Government thus offered a duty concession of \$0.89 per litre for the former, so as to equalize the prices of the two types of diesel oil and encourage drivers to use ULSD. Since the \$0.89 goes only to the pockets of oil companies, not those of drivers, it should not be counted as drivers' benefits. The only benefit for drivers all along has been the duty concession of \$0.89 put forward by the Government in June 1998. The Government simply should not attribute all the so-called diesel oil duty losses to drivers.

In order to upgrade Hong Kong's overall competitiveness, I have repeatedly urged the Government to review the diesel oil duty rate, ascertain the room for reducing or abolishing diesel oil duty and then set down a new duty rate or simply abolish the duty. Actually, the abolition of diesel oil duty is not entirely without any justifications. With a view to assisting industrial development, the Government has already waived the duty on industrial diesel oil. It will be very disappointing if the Government flatly refuses to reduce or abolish diesel oil duty for the logistics industry, one of the pillars of our economy. Not only this, people will also think that the Government is extremely myopic,

failing to take account of Hong Kong's competitiveness. I hope that the Government will not shun this problem.

Madam President, like the logistics industry, the tourism industry is also a pillar of Hong Kong economy. Hong Kong is comparatively scarce in tourism resources, so it must develop a greater number of unique tourism attractions. In recent years, many tourists like to tour Hong Kong by air, on board of a helicopter. Our picturesque scenery on the two sides of the Victoria Harbour and in the countryside appeal to them greatly, giving them fond memories of their trips to Hong Kong. As a result, helicopter tours have gradually become a tourist attraction of Hong Kong. Helicopter trips as a tourism activity are quite rare in other places, especially the Mainland, so the Government should capitalize on this advantage as a means of further consolidating Hong Kong's tourism industry.

Since fuel duty accounts for 18% to 29% of the price of a helicopter trip (which is a rather sizeable percentage), the helicopter industry once asked the Government to exempt it from airplane fuel duty, so that ticket prices could be lowered to attract more tourists, especially those from the Mainland. However, the Government simply replied that since it had been a long-standing policy to levy fuel duty on vehicles and airplanes operating in Hong Kong, fuel duty must continue to be imposed on helicopters operating locally in the interest of fairness. The excuse of "fairness" flaunted by the Government has in fact led to doubts about the Government's determination to upgrade the competitiveness of the tourism industry. The point is that the exemption of helicopters operating locally from fuel duty will only lead to a very small loss in tax revenue, but the benefits to the tourism industry will be very great.

On the one hand, the Government claims that in the interest of fairness, fuel duty must be imposed on vehicles and airplanes operating locally, but on the other, it has itself created unfair competition between cross-boundary passenger transportation by sea and by land. All along only passengers departing by sea are required to pay an embarkation fee of \$18. In addition, ferry companies using the two ferry terminals have to pay various fees to the Government. In contrast, the operators of cross-boundary land transportation do not have to pay any fees to the Government. For this reason, Guangdong-Hong Kong-Macao passenger ferry operators have been unable to compete with their land counterparts on a fair basis. Passengers also find this very unfair.

The Administration once proposed to replace the embarkation fee by a Boundary Facilities Improvement Tax applied to both passengers departing by sea and land, so as to accord equal treatment to both industries concerned. For this reason, the passenger ferry companies did not object to the introduction of a Boundary Facilities Improvement Tax. I suppose the Financial Secretary is well aware that the Liberal Party was in support of the proposal. However, in the end, the Government withdrew the proposal. Following the withdrawal, the Government did not abolish the embarkation fee, and liner companies were thus extremely outraged and discontented. If the Government is really fair, not just selectively fair, it should abolish the embarkation fee right away, so as to enable Guangdong-Hong Kong-Macao passenger ferry operators to enjoy the same treatment in tax as their land counterparts.

Madam President, in the Budget debate last year, I already said metaphorically that anything which ran on wheels would come under government bombardment. The target last year was the motor vehicles first registration tax, and this year, the targets are vehicle tyres themselves.

In order to reduce the number of used tyres dumped in landfills and to encourage tyre recycling, the Environmental Protection Department (EPD) is currently exploring various feasible schemes with the industry concerned, one example being the levying of a tyre tax. As far as I understand it, the industry is basically supportive of the "polluter pays" principle. But actually, the industry has long since been paying a fee of \$10 or so to operators of tyre recovery. The industry is worried that the implementation of a new scheme by the Government may lead to more expenditure on design, administration and management. People in the industry are worried that they may have to pay much higher fees for the disposal of used tyres in the future.

Since the EPD will conduct a formal consultation exercise only after formulating a specific scheme later this year, I am still holding an open attitude at this stage. But I wish to remind the Government that even if a tax is levied, it may not necessarily be able to solve the problem of used tyre dumping, nor will it definitely be able to reduce the number of used tyres dumped in landfills. To eradicate the problem, we may have to look at it from the demand side. Since used tyres can be recycled like scrap iron or used paper and are thus articles of value, if the Government can offer assistance to recovery and recycling operators and help them develop new markets such as the Mainland, the industry will not

have to pay any money for the disposal of used tyres; instead, money will be paid for the used tyres collected.

Although things running on wheels often become the Government's targets of bombardment, I still hope that it can free itself from this mindset and turn things running on wheels into tools of wealth creation. The Capital Investment Entrant Scheme took effect on 27 October 2003, but the investment projects under it were limited to properties and financial assets. The Government should assess the effectiveness of the scheme on a continuous basis and expand the scope of specified investment projects. I hope that the Government can include investments in taxi and minibus licences; this will help create more employment opportunities.

Madam President, I now wish to discuss another pillar of the Hong Kong economy — the shipping industry. The Government often talks about financial services, producer services, logistics and tourism, but nothing has been said about the shipping industry, much to its disappointment, much to its disappointment every time. Actually, shipping and logistics are two separate industries. Discussions on the logistics industry cannot possibly cover the shipping industry. The focuses of development of the two industries are different, so they must not be lumped together in any discussion.

Over the past few years, I have been urging the Government to allocate additional resources to the training of management personnel able to cope with the needs of Hong Kong's shipping and logistics industries, so that Hong Kong can capitalize on its advantage as a shipping centre and a regional logistics hub. The Government has finally taken the first step this year by allocating a total of \$9 million in the next four years to the implementation of a sea training award scheme aimed at assisting students of sea training courses in receiving compulsory practical training. This can prepare students for obtaining the professional qualifications required and provide manpower to the shipping industry. This is a good beginning, and I hope that as a next step, the Government can make vigorous efforts to develop the shipping industry and other trades related to it, such as marine insurance, arbitration and chartering, management and repairs, so as to turn Hong Kong into a true shipping centre. Besides, I also hope that the Government can launch the Zhuhai-Hong Kong-Macao Bridge project as soon as possible and make investments in the construction of a Logistics Park and other infrastructure projects, including the

Digital Trade and Transportation Network System, with a view to consolidating Hong Kong's status as a logistics and shipping hub.

With these remarks, Madam President, I support the Bill.

**DR DAVID CHU** (in Cantonese): Madam President, during the Budget debate last year, I stated that the Government had placed the emphasis wrongly on eliminating the fiscal deficit, thus leading to a whole series of measures such as tax increases, fee rises and expenditure reduction which would all cause negative impact on our economic recovery. I also pointed out that the Government had not made any attempt to directly tackle the problem of deflation, which had dealt an even more serious blow to our economy. The Budget this year focuses on relaunching the economy, which is a proper direction. What is more, the authorities have forsaken the attitude against borrowing money and issuing bonds; they are now prepared to raise capital by issuing government bonds, so as to buy time for easing the fiscal deficit. I have consistently advocated that the prime task of the Government should be to enhance its infrastructure investments for the purpose of laying the foundation of economic recovery. It should not cut back on its investments or adopt any measures that may dampen investment and consumption desires even when there is a fiscal deficit. The Democratic Party and I were the first ones to propose the Government to issue bonds. On the one hand, the issuing of bonds can reduce the fiscal deficit and the need to cut back on investments in the social and economic infrastructure for deficit reasons. On the other hand, from a positive perspective, the revenue thus generated can be used specifically for the provision of tax concessions to the middle class, so as to assist owners of negative equity assets in tiding over their difficulties.

Having said that, I must add that the bond issuing scheme proposed in the Budget is not aggressive enough, because \$20 billion is really a very small sum. According to international standards, a government's indebtedness can be as high as 60% of the Gross Domestic Product (GDP). The GDP of Hong Kong in 2003 was \$1,367.6 billion, so the Government can in theory issue bonds exceeding \$800 billion in value. I think it will not be too much for the Government to issue bonds amounting to \$200 billion or \$300 billion, but then, the capital raised can be used to expand investments in manpower resources and the infrastructure, so that greater room for improving the business environment can be created.



So far, the Financial Secretary has not considered the issuing of bonds as a means of raising more capitals for improving the lot of middle-class people in Hong Kong. All of us are well aware of the role and contribution of middle-class people in the community of Hong Kong. Constituting an integral part of Hong Kong's manpower resources, they have been creating many employment opportunities for society, mostly in their capacity as proprietors of small and medium enterprises. We are very concerned about the vulnerable, but we should not ignore the middle classes either.

Although the 2004-05 Budget contains no new measures on increasing taxes, the tax increase measures initiated in 2003-04 will nonetheless enter the second phase. The Hong Kong Progressive Alliance (HKPA) at the time agreed to lowering the personal allowance for salaries tax to the level of 1997-98, thinking that this could manifest the support of all strata for society and thus avoid an over-concentration of the tax burden on certain social strata, particularly the middle classes. However, it did not agree to lowering the tax bands and raising their respective marginal tax rates, because we thought this would add to the burden of existing taxpayers and hence run counter to our original intention. These viewpoints were included in our recommendations to the incumbent Financial Secretary, and we also urged the Government to provide tax concessions and assistance to the middle classes. The Budget proposes to extend the period for salaries tax deduction for home loan interest from five years to seven years. But apart from this, there are no further concessions. Admittedly, following our recent economic recovery and rises in property prices, the problem of negative equity assets has been eased. By March this year, the number of such assets had dropped to 60 000 only. But many owners of negative equity assets are still caught in severe financial hardship, so the Government should seek to unleash their economic vitality as soon as possible.

Although the property market has shown signs of recovery and some in the banking industry even fear that the very quick pace of a market rebound may lead to the re-emergence of speculation, it must be realized that thousands of families owning negative equity assets are still suffering immensely. Therefore, the Government should not interfere with the property market; it should maintain a stable policy on housing and land and continue to regulate their supply prudently, in the hope that property prices can rise by 20% to 30% as soon as possible.

The Budget highlights the importance of training up talents required for designing and building up brand names, with a view to fostering the smooth development of creative industries. I must add the point that manpower training should start with the provision of basic education. I am indeed very pleased to note that the Government will continue to invest huge resources in the provision of education. But I fail to see why the authorities should be so reluctant to implement teaching in small classes. The birth rate in Hong Kong has been declining continuously, resulting in a shortage of students that has necessitated the closure or merger of many kindergartens and primary schools. It is actually an opportune time to implement teaching in small classes. I believe that with our financial strength, we should be able to make it.

Ms Audrey EU expressed her support for the "user pays" principle just now. I also support this principle because it is more in line with fairness and can lighten the pressure of tax increases exerted on the Government. However, I also wish to remind the Government of one precondition for the "user pays" principle: the costs of service provision by the Government, the costs to be recovered from users, should always be reasonable costs, instead of any exorbitant costs resulting from low efficiency. When it comes to sales tax, I oppose the idea, because this kind of tax does not have a right focus. The sales tax paid by low-income people will occupy a very large proportion of their incomes because they have to spend most of their incomes on daily necessities. In contrast, sales tax payment will represent only a very small proportion of rich people's incomes. In addition, sales tax will cause a lot of trouble to Hong Kong, a city that attaches so much importance to tourism. I think anyone who has been to the United Kingdom can understand my point. Every time when a visitor leaves the United Kingdom, he will have to fill out a form at the airport for tax refund. This is certainly not conducive to the development of tourism.

Madam President, I so submit. Thank you.

**DR RAYMOND HO:** Madam President, I must commend our Financial Secretary, Mr Henry TANG Ying-yen, for lending us his ears. Indeed, he has actually acted on some of the proposals put forward by Members of this Council, including myself.

*Measures Conducive to Economic Recovery*

In this Chamber, about the same time last year, I queried why the Government had to achieve fiscal balance by 2006-07 as set out in the Budget of last year. The rigid approach in reducing deficit to attain that target in three years' time almost bordered on obsession and served no particular purpose. It would probably send our economy further down its downward spiral.

In this connection, I have raised the issue on many occasions with the Chief Executive Mr TUNG, the Financial Secretary Mr TANG and his predecessor, urging the Government to take a more flexible approach in restoring fiscal balance so as to introduce more fiscal policies to spur the economy. Now, the Government is finally able to see the point. I am happy to learn in this year's Budget that the Government has agreed to extend its deadline for eliminating fiscal deficit for two years to 2008-09. The extension of the deadline will definitely make the public feel better in the present state of economy, and boost their confidence in the future.

Indeed, the Government is also receptive to the idea of issuing securitization instruments and bonds to finance major infrastructural projects. Nevertheless, I am worried that the Government may simply take these steps to help finance the earmarked infrastructural projects which are \$15 billion short in funding. If the initiatives in issuing bonds are to make a meaningful impact on our economy, proceeds from the sale of \$6 billion in bonds based on revenues from five government-owned tunnels and the Tsing Ma Bridge, and another \$20 billion bond issuance, must be used for projects other than or in addition to those totalling \$29 billion already earmarked. As we all know, starting infrastructural projects will spur the economy and create employment opportunities, but it will also require a huge amount of capital. Take the Harbour Area Treatment Scheme as an example, its first stage alone already costs \$8.3 billion.

The \$20 billion figure in bond issuance is obviously on the conservative side, and is barely sufficient to finance new infrastructural projects of moderate scale. Given the fact that Hong Kong's economic fundamentals and public finances are still in good shape, I believe the Financial Secretary should consider raising the amount of public borrowing to at least \$100 billion. The revenues so raised must be used to finance new projects in order to make a real boost to the

economy. After all, it is wise for the Government to tap the private sector's deposit of \$3,600 billion sitting in local banks earning unattractive interest rates. In any circumstances, the Government must keep the public informed of what exactly it is going to do with the sale proceeds, or what infrastructural projects it is going to undertake. Simply telling us they will be used for financing capital projects is not good enough.

*Essential Infrastructure for the Development of Hong Kong*

I welcome that the Government has made a priority of actively promoting the logistics industry with the development of a value-added Logistics Park on Lantau Island. Besides the huge development potential in its own right, a well-developed logistics industry will allow us to reap the opportunities arising from the economic integration of the Pearl River Delta (PRD) Region and give us a headstart in international trade.

Talking about economic integration with the PRD Region, cross-boundary transport networks and facilities must be strengthened as a matter of urgency. For this purpose, the Government should expedite the improvement works at major road-crossing points, including Lok Ma Chau, Lo Wu and Sha Tau Kok, and the construction of the Shenzhen Western Corridor. The Government should speed up the study on the proposed Zhuhai-Hong Kong-Macao Bridge as well as all the necessary supporting infrastructure and the express rail link between Guangzhou, Shenzhen and Hong Kong, with a view to reaching an agreement with the mainland authorities for their early implementation.

On the other hand, I would also like to draw the Government's attention to the following projects which have already been dragged on for a long while: the Central Kowloon Route, the South East Kowloon Development and Wan Chai Reclamation Stage II. I believe it is time for the Government to clear up the uncertainties surrounding these projects and get them back on track as soon as possible.

*Adoption of Public Private Partnerships (PPP) for New Facilities and Services Only*

On the issue of financing capital projects, it is worth noting that the Government has further expanded the scope of the PPP. While I have been

advocating Private Finance Initiatives, I believe the Government should use such an arrangement to encourage private companies to initiate public works projects which are NOT already on the Government's list and definitely NOT existing facilities. But it is important that sufficient manpower should be deployed from the works or related departments to monitor the works being undertaken by private companies/contractors.

In any case, facilities pertaining to essential services, such as water supply, must not be brought into the Government's proposed PPP. The Sha Tin Water Treatment Works falls into this category, and the proposed inclusion of such existing facilities into PPP is particularly worrying. Trials of other countries in privatizing similar facilities resulted in a lapse of water quality which raised serious safety concern to public health. This was exactly what happened to Sydney and Adelaide in Australia when these cities privatized their waterworks, resulting in very serious consequences. In the case of Atlanta of the United States, the city pulled the plug on its water privatization deal in 1993 when the promised savings never materialized. I am of the view that the Government should drop the proposed PPP of the Sha Tin Water Treatment Works or any other existing water treatment plant, drawing from other countries' bitter experiences.

#### *Recurrent Funding for Public Works Projects*

Earlier this year, the Chief Executive has mentioned in his policy address that the Government plans to earmark an average of \$29 billion per year for capital works projects for the next five years. Paragraph 38 of his policy address goes, "Apart from providing funding for the preliminary feasibility studies of these public works projects, we (the Government) have also secured recurrent funding for their operation". According to my understanding, the Chief Executive's initiative is to reverse the policy as laid down in a circular issued in August 2002 by the Secretary for Financial Services and the Treasury, Mr Frederick MA, who has just left the Chamber, calling for suspension and cancellation of some infrastructural projects and maintenance works, requiring all works departments, and indeed all departments, to find their own funding for recurrent expenditure of any project they intend to undertake.

To my knowledge, the abovementioned circular still stands and the new policy has yet to be put into full effect. When I raised the issue with the

Financial Secretary and the Secretary for Financial Services and the Treasury, they told me the otherwise, and that fundings for related items have been released to the departments. But I have been told by reliable sources that the new policy has been applied only in selective areas, such as staff costs. Funding policy on other areas, including maintenance costs, remains uncertain. In this regard, I would like to invite the Financial Secretary to give us a clear indication on the actual government policy in this respect — whether what the Chief Executive said in paragraph 38 of his policy address is only a kind of lip service.

### *Conclusion*

Madam President, there is growing evidence that Hong Kong is on the road to economic recovery. However, some sectors, including those of engineering and construction, have yet to benefit from the growing economy. In order to keep the momentum of economic growth, we must ensure a healthy recovery of the construction industry which has always been a major pillar of the local economy. Meanwhile, we must also keep investing in our infrastructure and building works to meet the requirements in the future.

Madam President, against this background, I give my comments on the Budget. Thank you.

**MR NG LEUNG-SING** (in Cantonese): Madam President, society is generally of the view that the 2004-05 Budget is both pragmatic and prudent, marked by the absence of any major changes, whether in respect of revenue or expenditure. At this time when the economy of Hong Kong is in the process of recovery, the various trades and industries naturally do not wish to see the introduction of any fiscal measures that may add to their burden. Nor do the ordinary public wish to see any fiscal measures that may exert additional pressure on their life. From the perspective of macro economics, a respite for the people and the various trades and industries will invariably have positive impact on the promotion of business activities and consumption, thereby further fostering our economic recovery; this will ultimately benefit the cause of improving our public finances even more. I am therefore of the view that when it comes to resolving the difficulties of public finance, the endurance of society, and minimizing the impact on the people's livelihood, the Budget has struck a proper balance. It is basically acceptable to most of the people.

At the same time, we must realize that the task of resolving the difficulties of public finance, that is, the work of restoring fiscal balance in the Operating and Consolidated Accounts and of bringing public expenditure down to 20% as a share of the overall economy, will still be protracted and formidable. After taking into account the impact of the SARS outbreak last year, the Government has already deferred the target for achieving fiscal balance to 2008-09. The determination and ability of the Government to eliminate the fiscal deficit will thus meet even greater challenges, because there is little room to fall back on. A pay cut scheme for civil servants has been finalized, and it is not so easy to cut back on education, social welfare and health care expenditures. As a result, the Government cannot possibly do much to revise its expenditure. The achievement of fiscal balance must therefore depend largely on whether the Government can achieve its revenue targets. This means that much has to depend in turn on the stability of economic growth in the medium range. Under the better economic climate now, the Budget projects a trend growth rate of 4.5% in the medium range. But the external economic setting is still marked by many uncertainties, such as whether or not the mainland economy can maintain its momentum of rapid growth, whether an overheated economy will emerge, the effectiveness of macro-adjustment, the economic performance and interest trends of Europe and the United States, international relations, regional clashes and even the risks posed by the recent spates of terrorist attacks. Hong Kong has always been more susceptible to the influence of external factors, so the road to the achievement of fiscal balance in 2008-09 will not be entirely smooth. The Government and members of the public must make preparations for promoting the stability of public finances, so as to cope with any possible ups and downs. This naturally also means that all in society must be mentally prepared that they may need to make joint commitments.

At this time when the interest rate is at a record low, the Budget proposes to issue government bonds not exceeding \$20 billion in 2004-05. I think this measure should be welcomed by the general public and the financial industry, and I also agree to the principle laid down in the Budget — the revenue from the issuance of bonds must only be invested in capital projects which will bring long-term economic benefits, instead of being used to make up for the operating deficit. The issuing of bonds can increase the Government's flexibility in capital utilization, offer more options to the sale or securitization of government assets and promote the development of the local bonds market. I believe the bonds newly issued in the market should be widely welcomed. However, it

must be emphasized that in the long run, Hong Kong must not follow the path of issuing government bonds on a large scale. The issue of government bonds is unlike the ordinary listing of an organization for capital raising because the former will bring new risks to the economy and financial system of Hong Kong, including the currency exchange rate. Besides, although the issue of bonds can enable the Government to have more funds for infrastructure investment, it must still prudently assess and select investment projects, so as to ensure that actual social and economic benefits can be achieved.

The Budget also suggests the introduction of a goods and services tax as a means of broadening the tax base and ensuring steady revenue. It is indeed an incontestable fact that Hong Kong's tax base, on which our public finances depend, is rather narrow. As I have just mentioned, the economy of Hong Kong is susceptible to the influence of external factors, so for this reason the tax revenue from asset changes, personal income and corporate profits is understandably marked by potential instability. If we are to maintain the competitiveness made possible by the low tax rates applicable to personal income and corporate profits, it will be worthwhile to explore the introduction of a goods and services tax. But we must carefully study and assess the impacts of such a tax on public finances and the overall economy in the short, medium and long terms. We must also note the unique circumstances of Hong Kong in comparing its taxation system with those of other countries or places. For instance, although the level of our public expenditure as a share of the GDP has exceeded 20% in recent years, it is still on the low side relative to the public expenditure levels in other economies. We must also realize, for example, that Hong Kong does not incur any national defence expenditure, which is why it has been able to meet huge public expenditure despite its narrow tax base. If Hong Kong can observe strict financial discipline and seek to maintain a comparatively low proportion of public expenditure as a share of the GDP, the urgency of introducing new taxes can then be correspondingly reduced.

In any case, before the Government considers any measures to increase revenue, it must first examine how it can cut down on its expenditure. Only this can facilitate the forging of a social consensus essential to the introduction of any taxation reforms. The reduction of expenditure will require rationalization, meaning that public money should always be spent on meeting only genuine needs. One very important thing is that we must seriously review the existing services provided by the Government. Services that are not indispensable, or



those which can be provided by the market in place of the Government, should be reduced as much as possible and handed over to the market, so as to realize the principle of "big market, small government". For example, it is frequently pointed out that some of the health care, education and housing services provided by the public sector in Hong Kong, and even some public broadcasting services which I have repeated mentioned, are obviously duplicating the services provided by the private sector. Therefore, all these services must be examined *seriatim* to ascertain if they are absolutely essential. And adjustments and curtailment must then be made on the basis of the findings, with a view to avoiding any unnecessary competition with the private sector and providing the condition for rationalizing government and public expenditure.

In addition, both the Government and society must handle all requests for new public services in the future with prudence, because what Hong Kong needs after all is an enterprising spirit, not an over-reliance on the Government. When it comes to helping the vulnerable, the Government must of course make commitments to improving the employment situation, but it must at the same time strictly rationalize the levels of social welfare and health care provision, so as to ensure that resources can be spent on assisting those in genuine need. Specifically, on the provision of social welfare, the Government should try as much as possible to replace cash subsidy by vouchers or assistance in kind. Clothing, food, accommodation and public transportation vouchers should be issued. Misuse of public resources, which may easily result from the temptation of cash subsidy, can then be minimized, and recipients of assistance can also be prevented from spending cash assistance on things that are not daily necessities. Regarding public housing, tenures should be specified in lease agreements, and upon the expiry of a lease agreement, the tenant must be required to undergo another asset and means test, with a view to eliminating the situation under which public housing is reduced to some sort of permanent welfare benefit. With respect to public health care, the Government should, on the premise of ensuring that the public will not be denied basic medical services, consider the possibility of bettering the service and fee structures of public health care institutions, so that public hospitals and even subvented hospitals run by charitable organizations may structure their fees into different categories and tiers, allowing members of the public to receive services of varying quality according to the fees they choose to pay. Even the care services for the elderly can be divided in different classes according to the fees charged. That way, the huge health care subsidy now can be lowered to a reasonable level.

Madam President, the past few years have been a period of painful economic restructuring for Hong Kong. Although the situation is now gradually improving, we must not lose our crisis awareness. The Government, the industrial and commercial sector and members of the public must continue to uphold the spirit of persevering amidst adversities and continuously upgrade themselves to rise to different challenges and opportunities. Only this can enable Hong Kong to have brighter prospects.

With these remarks, I support the Bill.

**MR FREDERICK FUNG** (in Cantonese): Madam President, last month the Financial Secretary released his first Budget since he had assumed office. The contents of the Budget are as expected, and no mention is made of any new tax. At a first glance, the Budget seems to contain no drastic moves and propose no new taxes. This is in line with the major direction of "people-based governance" and "allowing the community to take a respite" as espoused in the policy address. However, upon close reading of the Budget and analysing its bits and pieces, then it can be seen that there are hints and implications between the lines, hidden like mines. In the long run, they will only have an adverse impact on the general public. Therefore, the comment from both the Hong Kong Association for Democracy and People's livelihood (ADPL) and I myself on the Budget is that "the respite is a sugar coat and the introduction of a sales tax is the poison".

That the Government of the Hong Kong Special Administrative Region (SAR) is plagued by the deficit problem in recent years is known to all. Therefore, the desperate moves made by the authorities to grab cash are understandable. And most people would admit that the Government is really subject to so great a financial pressure that it has never experienced before and so it should try every means to bring the deficit down to an acceptable level. But the question is whether or not the measures actually taken to achieve this goal would affect the daily life of the general public, especially those who belong to the lower and middle classes, the low-income group and the disadvantaged. In other words, the concern of the ADPL and I is that when the authorities devise various measures to raise revenue and cut expenditure, and when they determine the target groups, the proportion and extent of these measures, whether consideration will be given to the needs and life of the grassroots. This is the basic criterion which the ADPL and I have used to examine this Budget.

With respect to the revenue-raising measures proposed, the one which has received the greatest attention is undoubtedly the intention expressed to introduce a sales tax in Hong Kong. The Financial Secretary said in the Budget speech that a sales tax is broad-based and equitable, and it is capable of yielding a sizeable and steady revenue. It is also less sensitive than direct taxes to the cyclical movement of the economy, thus it can enhance the Government's ability to withstand the pressure of an economic downturn on public finance. Both the ADPL and I think that in view of the unique background of economic development in Hong Kong and the lifestyle of Hong Kong people, related overseas experience may not be fully applicable to Hong Kong.

First of all, a sales tax can only theoretically enhance the horizontal equity of a tax regime, that is, irrespective of the income of taxpayers, they are all required to pay tax at a uniform rate. However, a sales tax cannot improve the vertical equity of a tax regime. More often than not, it will severely damage the function of redistribution of wealth which is expected of an equitable tax regime. The adverse impact on the low-income group is obvious. Both the ADPL and I think that as sales tax is an indirect tax of a retrogressive nature, that is, the proportion of tax paid by those with less income is far greater than those with a higher income, and as more and more basic necessities fall into the net of sales tax, the low-income group will have to bear an increasingly heavier burden. In the end, this will inevitably aggravate the problem of the disparity between the rich and the poor in Hong Kong.

Second, currently there are two major direct taxes in Hong Kong, that is, profits tax and salaries tax. There are problems with the vertical equity of these two taxes. The former is charged at only a uniform rate while the latter, despite its progressive nature, is capped by a standard rate. So if a retrogressive sales tax is introduced, it will not only make it impossible for the vertical equity of our tax regime to manifest itself, but that the Government will also become an accomplice in aggravating the problem of disparity between the rich and the poor in Hong Kong.

Third, the Government has all along been stressing that presently there are 120 countries in the world which have a sales tax and that Hong Kong is the only advanced economy which does not have a sales tax. In this regard, the ADPL and I would like to ask the authorities, "Has Hong Kong made itself on par with these advanced economies in terms of other social institutions when these

economies already have a sound social security system in place?" Both the ADPL and I think that Hong Kong does not have the kind of employment protection in the form of a minimum wage and unemployment assistance like these foreign countries. Moreover, the coverage of our social welfare safety net is far smaller. For example, not long ago the Government drastically extended the residency requirements for new arrivals in applying for public assistance, imposed more restrictions on the income ceiling of the applicants for public housing, and recently there are rumours that the authorities want to table again the issue of a mandatory medical insurance scheme for all members of the public. So if a sales tax is introduced, that would only rub salt into wounds, making the life of the lower and middle classes more difficult.

From the perspectives of doing business and promoting economic growth, the introduction of a sales tax in Hong Kong would bring more losses than gains.

First of all, a sales tax would have an effect of suppressing domestic consumption and demand. This must not be overlooked. The adverse impact on the retail, catering and tourist industries are particularly obvious. It will also affect the reputation of Hong Kong as a "Shopper's Paradise". At present, Hong Kong still has a long way to go before full economic recovery, so the introduction of a sales tax will only be counter-productive as it will pose obstacles to a full recovery of Hong Kong economy.

Moreover, as the scope of a sales tax is very wide and the varieties of goods and services covered huge, so it is expected that the procedures and formalities involved in collecting the tax would be very cumbersome. It will also give great incentives to business operators and consumers to engage in all sorts of tax evasion activities, not to mention indirectly promoting informal transactions like those by itinerant hawkers on the streets. Eventually it would only add to the administrative and social costs incurred on the Government.

Also, the unique mode of consumption in Hong Kong is different from that in foreign countries and this implies different costs in introducing a sales tax. In general, in foreign countries, as the area is large and the population is not dense, so the lifestyle there is different. Most people there would only engage in shopping once a week and that is done in large amounts and mainly on necessities. In Hong Kong, as our population density is one of the highest in the world, business activities are close to or even overlap with the living

environment of the people. Therefore, the operation costs of a sales tax in Hong Kong would only increase with the number of transactions made. In other words, as the people make more spendings, the expenses incurred on the authorities in monitoring the enforcement of the sales tax would only be higher.

In view of such considerations, both the ADPL and I think that, seen from the perspectives of the general public, the business operators and the practical conditions, it would not be feasible to introduce a sales tax in Hong Kong. It is in fact a revenue-raising measure which may bring meagre gains but huge losses. Moreover, it may provoke public grievances and affect social stability. Therefore, both the ADPL and I are determined in opposing the introduction of a sales tax in Hong Kong.

Besides, with respect to public expenditure, though the Government is beset with financial stringency, bearing in mind that our economy has not yet recovered, both the ADPL and I have reservations about the Government's move to impose a cap on public expenditure arbitrarily. I think the commitment from the authorities to the people should be adjusted in the light of changes in economic sentiments. Those public services related to the people's livelihood must not be disrupted. Only by doing so can we forge ahead and stay competitive. As expenditures on education, welfare and health care all have a bearing on the people's living, so no matter if the economic conditions are good or bad, the authorities must continue to put in resources to show its commitment to the young and the elderly in order that a "just and caring society" can be built.

Madam President, once I took a ride in a taxi and the driver suggested something to me in the hope that I can include that in my speech today. He mentioned that the Government planned to auction some vehicle registration marks, including some consisting of eight letters or numerals. He pointed out that for middle-aged people like him, many of them did not know much English. Currently the vehicle registration marks are composed of two English alphabets and four numerals. When there is an accident such as when a car crashes or knocks down a person and runs away, they can still identify the letters and numerals on the licence plates. But if they are in eight alphabets and all in English, such as "I LOVE U" with a space between the words, then he would not be able to identify the registration mark. So even if the driver of the car has clearly committed an offence, he would not be in a position to record the registration mark and report to the police.

We know that a similar practice had once been adopted in Beijing, but due to the many problems which arose subsequently, the practice was later dropped. So with respect to this proposal, that is, of changing the current practice of having two alphabets and four numerals to eight alphabets or numerals and these may all be English alphabets, incidentally Secretary Ambrose LEE is here, I do not know if this would affect the work of the police in tracking down the vehicles concerned. Should the police want the public to help locate some vehicles, this kind of registration marks would make people who are middle-aged or older hard to offer any help. So I would like to convey the view of the taxi-driver here. I hope the Government can reconsider this issue.

Thank you, Madam President.

#### **SUSPENSION OF MEETING**

**PRESIDENT** (in Cantonese): Thirty-one Members have spoken today. I now suspend the meeting until 2.30 pm tomorrow.

*Suspended accordingly at twenty-three minutes past eight o'clock.*