

OFFICIAL REPORT OF PROCEEDINGS**Wednesday, 14 January 1987****The Council met at half-past Two o'clock****PRESENT**HIS EXCELLENCY THE ACTING GOVERNOR (*PRESIDENT*)

SIR DAVID AKERS-JONES, K.B.E., C.M.G., J.P.

THE HONOURABLE THE CHIEF SECRETARY

MR. DAVID ROBERT FORD, L.V.O., O.B.E., J.P.

THE HONOURABLE THE FINANCIAL SECRETARY

MR. PIERS JACOBS, O.B.E., J.P.

THE HONOURABLE THE ATTORNEY GENERAL

MR. MICHAEL DAVID THOMAS, C.M.G., Q.C.

THE HONOURABLE LYDIA DUNN, C.B.E., J.P.

THE HONOURABLE CHEN SHOU-LUM, C.B.E., J.P.

THE HONOURABLE PETER C. WONG, C.B.E., J.P.

THE HONOURABLE ERIC PETER HO, C.B.E., J.P.

SECRETARY FOR TRADE AND INDUSTRY

DR. THE HONOURABLE HO KAM-FAI, O.B.E., J.P.

THE HONOURABLE HU FA-KUANG, O.B.E., J.P.

THE HONOURABLE WONG PO-YAN, O.B.E., J.P.

THE HONOURABLE DONALD LIAO POON-HUAI, C.B.E., J.P.

SECRETARY FOR DISTRICT ADMINISTRATION

THE HONOURABLE CHAN KAM-CHUEN, O.B.E., J.P.

THE HONOURABLE STEPHEN CHEONG KAM-CHUEN, O.B.E., J.P.

THE HONOURABLE CHEUNG YAN-LUNG, O.B.E., J.P.

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

THE HONOURABLE MARIA TAM WAI-CHU, O.B.E., J.P.

DR. THE HONOURABLE HENRIETTA IP MAN-HING, O.B.E., J.P.

THE HONOURABLE CHAN YING-LUN, J.P.

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

THE HONOURABLE MRS. PAULINE NG CHOW MAY-LIN, J.P.

THE HONOURABLE PETER POON WING-CHEUNG, M.B.E., J.P.

THE HONOURABLE YEUNG PO-KWAN, C.P.M., J.P.

THE HONOURABLE KIM CHAM YAU-SUM, J.P.

THE HONOURABLE JOHN WALTER CHAMBERS, O.B.E., J.P.

SECRETARY FOR HEALTH AND WELFARE

THE HONOURABLE JACKIE CHAN CHAI-KEUNG

THE HONOURABLE CHENG HON-KWAN

THE HONOURABLE HILTON CHEONG-LEEN, C.B.E., J.P.

DR. THE HONOURABLE CHIU HIN-KWONG

THE HONOURABLE CHUNG PUI-LAM
THE HONOURABLE THOMAS CLYDESDALE
THE HONOURABLE HO SAI-CHU, M.B.E., J.P.
THE HONOURABLE HUI YIN-FAT
THE HONOURABLE RICHARD LAI SUNG-LUNG
DR. THE HONOURABLE CONRAD LAM KUI-SHING
THE HONOURABLE MARTIN LEE CHU-MING, Q.C., J.P.
THE HONOURABLE LEE YU-TAI
THE HONOURABLE DAVID LI KWOK-PO, J.P.
THE HONOURABLE LIU LIT-FOR, J.P.
THE HONOURABLE NGAI SHIU-KIT, O.B.E., J.P.
THE HONOURABLE POON CHI-FAI
PROF. THE HONOURABLE POON CHUNG-KWONG
THE HONOURABLE SZETO WAH
THE HONOURABLE TAI CHIN-WAH
THE HONOURABLE MRS. ROSANNA TAM WONG YICK-MING
THE HONOURABLE TAM YIU-CHUNG
DR. THE HONOURABLE DANIEL TSE, O.B.E., J.P.
THE HONOURABLE ANDREW WONG WANG-FAT
THE HONOURABLE LAU WONG-FAT, M.B.E., J.P.
THE HONOURABLE GRAHAM BARNES, J.P.
SECRETARY FOR LANDS AND WORKS
THE HONOURABLE RONALD GEORGE BLACKER BRIDGE, O.B.E., J.P.
SECRETARY FOR EDUCATION AND MANPOWER
THE HONOURABLE DAVID GREGORY JEAFFRESON, C.B.E., J.P.
SECRETARY FOR SECURITY
THE HONOURABLE DAVID LAN HONG-TSUNG, J.P.
SECRETARY FOR TRANSPORT (*ACTING*)

ABSENT

THE HONOURABLE ALLEN LEE PENG-FEI, O.B.E., J.P.
THE HONOURABLE JOHN JOSEPH SWAINE, O.B.E., Q.C., J.P.
THE HONOURABLE PANG CHUN-HOI, M.B.E.
THE HONOURABLE HELMUT SOHMEN

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL
MR. LAW KAM-SANG

Papers

The following paper was laid pursuant to Standing Order 14(2):

Sessional Paper 1986-87:

No. 35—Hong Kong Examinations Authority 1986—Financial statements for the year ended 31 August 1986.

Oral answers to questions

Air pollution in underground car-parks

1. MR. CHEONG-LEEN asked: *With regard to air pollution in underground car-parks will Government inform this Council:*

- (a) *of the general level of concentration of carbon monoxide in these car-parks especially at peak hours; and*
- (b) *what measures are being taken to monitor the level of concentration so as to assess the health hazards for the public and in particular for the security guards and ticket collectors working full-time in these underground car-parks?*

SECRETARY FOR HEALTH AND WELFARE: Sir, at the present, no regular monitoring of carbon monoxide levels in underground car-parks is undertaken. Reliance has hitherto been placed on the self-regulation of building developers to incorporate adequate ventilation systems in enclosed car-parks, and guidelines to this effect are issued by professional organisations such as the Chartered Institution of Building Services Engineers (CIBS).

A study of carbon monoxide levels in two underground car-parks has recently been undertaken by the Department of Community Medicine of the Chinese University. This concluded that while there were no immediate health hazards to the public using the car-parks, the attendants and security guards might be exposed to a potential hazard.

The Director of Buildings and Lands, in consultation with the Environmental Protection Department, the Labour Department and the relevant professional organisations, is now examining the need for legislative control over ventilation in underground car-parks. Periodic monitoring of carbon monoxide levels in enclosed car-parks will be undertaken by the Environmental Protection Department.

MR. YEUNG: *Sir, while examining the need for legislative controls over ventilation in underground car-parks, what interim measures will be taken by the Government to safeguard the attendants and security guards from the potential hazard?*

SECRETARY FOR HEALTH AND WELFARE: Sir, there is no indication at this stage that there is any particular hazard to the health of people working in these car-parks and I do not think it would be appropriate to institute any immediate measures until the extent of the problem has been assessed.

‘Alternate Saturday-off system’ in the Civil Service

2. MR. CHAM asked: *Will Government inform this Council of the policy regarding the adoption of the ‘alternate Saturday-off system’ for staff of certain government departments?*

CHIEF SECRETARY: Sir, in the Civil Service, heads of departments or government agencies have the authority to decide whether to adopt the ‘alternate Saturday-off system’ in respect of any or all of their staff. In considering the introduction of this system, they must ensure that the efficiency of their organisations is not adversely affected; the hours of work of the staff involved, as stipulated in their conditions of employment, are not reduced; and the services to the public are not impaired.

In practice, Sir, the ‘alternate Saturday-off system’ mainly applies to office staff and offices which provide a direct service to the public for which there is a constantly heavy demand, for example, the Registration of Persons’ Office, are manned at full strength on Saturdays.

MR. CHAM: *Sir, for offices other than the Registration of Persons’ Office, how do Government ensure that the services to the public are not affected bearing in mind that the demand for services fluctuates and is there any system to monitor this?*

CHIEF SECRETARY: Sir, the system is monitored by the heads of departments and where there are services to the public involved, departments have contingency arrangements to ensure that staff may be deployed from other divisions in case exceptionally large crowds develop.

MISS DUNN: *Sir, what is the rationale for this policy, bearing in mind that most companies in the private sector do not have this arrangement?*

CHIEF SECRETARY: Sir, the system has been in operation for some time and the point I would like to stress is that the system does not affect the total hours of work worked by staff over a period of a fortnight. They are not allowed to reduce their total working hours and the system enables office staff, providing the service to the public is not impaired, to occasionally enjoy a longer weekend.

MR. PETER C. WONG: *Sir, is the Chief Secretary completely satisfied that service to the public is not affected?*

CHIEF SECRETARY: Sir, I have not been made aware of any cases where service to the public has been impaired by the alternate Saturday-off system. If it were to come to our notice, obviously we would wish to take action to put it right.

MR. LEE YU-TAI: *Sir, when is it practised on the part of the Government and is it practised by the majority of government departments?*

CHIEF SECRETARY: Sir, the system has been in operation since, I believe, the late 1960s. It is not really possible to give an idea as to how many government departments operate it because, as I have mentioned earlier, it is done on a job by job basis rather than on a department by department basis. But our understanding is that probably about 45 per cent of government servants operate the system.

Environmental impact of coal ash lagoon at Tsang Tsui

3. MR. TAI asked: *Will the Government inform this Council whether it will request the China Light and Power Company Ltd. to release to the public its environmental impact report on the dumping or storage of coal ash at Tsang Tsui and will Government make a statement on the questions of pollution and environmental impact in relation to the setting up of a coal ash lagoon in Tsang Tsui?*

SECRETARY FOR HEALTH AND WELFARE: Sir, there are numerous reports and other documents covering various aspects of China Light and Power's Environmental Impact Assessment of the pulverised fuel ash lagoons at Tsang Tsui, none of which are comprehensive in themselves. To present a full picture, it would be necessary to study at least 11 detailed documents, representing a vast amount of material. The Environmental Protection Department has, however, produced a summary report which contains the main findings of the study. This report is available to members of the public upon request, and I will arrange to send a copy to OMELCO.

A comprehensive assessment of the possible environmental effects of the PFA lagoon at Tsang Tsui has been undertaken. Both the Government and the China Light and Power Company Ltd. have made clear statements on the environmental impact of the lagoons in various presentations, particularly at the Tuen Mun District Board meetings in May, June and November 1986. Of particular concern has been the need to protect the health of local residents from the possible effects of aerial emissions of PFA dust and liquid emissions (or leachate) together with the safeguarding of local mariculture and wildlife.

The aerial emissions of PFA dust will be controlled by the following measures:

- (a) the delivery of the PFA in slurry form mixed with seawater;
- (b) minimising the area of the PFA exposed to the wind;

- (c) the provision of permanent fixed water spraying equipment with a mobile back-up system;
- (d) the continuous skimming of the lagoon; and
- (e) the covering of dry PFA by inert material and subsequent hydroseeding.

Air quality in the vicinity will be continuously monitored by three separate monitoring stations to ensure that World Health Organisation standards are not exceeded.

The liquid emissions (or leachate) will be controlled by lining the lagoons with an impermeable membrane and by pumping the liquids from the lagoon back to the Castle Peak Power Station. As a result, no liquid will enter Deep Bay. As a check on the effectiveness of these measures, seven monitoring stations are already operating and will continue in operation throughout the life of the lagoons.

MR. TAI: *Sir, may I say that I am glad to hear that an environmental report will at last be made known to the public, despite the district board's request in May, June, and November. Sir, since a very comprehensive assessment of the possible environmental effect will be undertaken, will the result be made known to the public as well and when will it be made known to the public?*

SECRETARY FOR HEALTH AND WELFARE: Sir, as I hope I have made clear in my answer, the environmental impact assessment has already been completed and is summarised in this report which is available. I can assure Mr. TAI that we will make sure that district boards have it and also that Members of this Council are able to see it.

MR. LAU (in Cantonese): *Sir, in the past it was reported that some vessels had dumped the fuel ash into the sea although they were supposed to take the ash to mainland China. I wonder whether the Government has a policy to prevent the illegal dumping of the fuel ash into the sea so as to prevent our seawater from getting polluted?*

SECRETARY FOR HEALTH AND WELFARE: Sir, the arrangements for dumping the PFA into the lagoons will be subject to a licence to be issued by the Director of Environmental Protection and under the Waste Disposal Ordinance and it is an offence to carry out dumping without such a licence and also not to observe the conditions imposed under the licence.

MR. TAI: *Sir, may I ask whether any vigorous action will be taken by the Government to ensure that the illicit activity as mentioned by Mr. LAU will not occur?*

SECRETARY FOR HEALTH AND WELFARE: Yes, Sir, I can assure the Council that we will do everything in our power to detect any illegal activity and to take strict action against it.

South China Pine

4. DR. IP asked: *Will Government inform this Council how many South China Pine trees in the territory have been affected by the pine-wilt nematode and what measures will be taken to preserve this type of tree?*

SECRETARY FOR DISTRICT ADMINISTRATION: Sir, some 1 million South China Pines, representing about 70 per cent of the total stock of this species in Hong Kong, have been affected by the pine-wilt nematode since its discovery in this territory in the late 1970s.

About one third of the affected trees have died and the remainder will probably die in the next few years.

So far, no effective chemical or biological method of controlling this pest has been established, either in Hong Kong or elsewhere. The Agriculture and Fisheries Department has been trying to limit or delay the spread of the pest by cutting down and burning the affected trees. Tens of thousands of trees have been dealt with in this way since 1980.

The gradual decline of the South China Pine, which was planted as a pioneer species in the 1950s, is not an entirely unwelcome event since it will have the effect of opening up the forest canopy and encouraging the growth of native broad-leaved trees and shrubs. The ensuing mixed broad-leaved vegetation will be more resistant to fire and pest than the South China Pine.

DR. IP: *Sir, the answer is indeed quite alarming and I would like to know how long it will take for the natural regrowth of native broad-leaved trees and shrubs to cover our hillside again; and has Government got a transplantation programme to speed up this process to ensure that those hillsides affected will not lay barren in the meantime?*

SECRETARY FOR DISTRICT ADMINISTRATION: Sir, there have been a number of measures taken by the Agriculture and Fisheries Department. There is another species known as Slash Pine, an introduced species, which has been extensively planted in the 1970s and this is very much more resistant to this pest. In addition, as Members may have noticed in the countryside, there has been a lot of plantation including eucalyptus acacia and even the local species of oaks so there is a lot of afforestation going on.

Control of illegal structures

5. MR. CHENG asked: *In view of the incident on Christmas day at Kwai Chung, in which a concrete canopy of a building, together with a structure built thereon, collapsed, killing one pedestrian and injuring several others, will Government inform this Council what measures will be taken to effectively control illegal or unauthorised structures in buildings?*

SECRETARY FOR LANDS AND WORKS: Sir, I should like to say first of all that the tragic incident at Kwai Chung on Christmas day, to which Mr. CHENG refers, is likely to be the subject of a coroner's inquiry. I am not able, therefore, to comment at this stage on the cause of that collapse. It does however point to the hazards that can be caused by unauthorised structures, and the need for continuing efforts to deal with this problem.

In 1984, the Buildings Ordinance Office established a new division to deal with the problem of unauthorised building works. It was then estimated that there were probably more than 25 000 reported or known cases requiring attention. In view of the magnitude of the task a selective approach was adopted and the present operational policies may be summarised as follows:

Firstly, priority for investigation and enforcement is given to all known cases where there appears to be an imminent danger to life and limb;

Secondly, all complaints relating to new unauthorised building works are also investigated,

Thirdly, all new buildings are patrolled regularly and enforcement action is taken against any unauthorised building works, and

Finally, the dangers posed by unauthorised building works are publicised through advisory posters and pamphlets, by television and radio broadcasts, and by discussions at public meetings and seminars.

A lot has been achieved since 1984, but clearly we still have a very long way to go in what is very much an up-hill task. In order to achieve better and quicker results, the Land and Buildings Advisory Committee has recently endorsed a package of proposals for changes in legislation, policy and enforcement procedures. Briefly, these changes include a revision of priorities to concentrate resources and enforcement action on dangerous and significant new unauthorised building works; amendment of the Buildings Ordinance to empower the BOO in appropriate cases to demolish immediately unauthorised building works; and the provision of additional staff to undertake demolition. We shall very shortly be consulting district boards on these proposals. I believe they will enable Government to deal somewhat more effectively with the problem.

But I should like to emphasise in conclusion that our foremost concern in dealing with unauthorised building works has always been and must continue to be the removal of imminent danger to the public.

MR. CHENG: *Sir, will the Secretary for Lands and Works inform this Council of the time scale for implementing his new package of proposals, bearing in mind the urgency of removing the dangerous illegal structures in the public interest?*

SECRETARY FOR LANDS AND WORKS: Sir, we would hope to be in action under the new policy after consultation with the district boards somewhere about the middle of this year.

MR. JACKIE CHAN: *Sir, will the Secretary for Lands and Works advise this Council how effective it would be if his proposal is implemented in collaboration with the City and New Territories Administration, and the various district boards?*

SECRETARY FOR LANDS AND WORKS: I think, Sir, as I have said before, the primary target must always be unauthorised building works which are likely to endanger the public. The Building Authority must take action on its own initiative and without consultation in respect of such unauthorised buildings which constitute a danger. So the question of consultation with district boards arises only in respect of other forms of unauthorised buildings which aren't considered to constitute a danger to life and limb. I think that we will in that respect probably be able to improve the service to the public in that through consulting the public we will be able to concentrate some of our forces of control on the unauthorised alterations which people mind most.

MR. POON CHI-FAI (in Cantonese): *Mr. Chairman, will the Government consider taking prosecution actions against the owners, the contractors, or the tenants of the unauthorised structures if there should be accidents leading to fatalities?*

SECRETARY FOR LANDS AND WORKS: Sir, this matter has been considered in the past but it has not been considered effective. There have been prosecutions in the past on this and depending on the results of the coroner's inquiry we will have to take thought as to whether that would be a useful procedure.

MR. CHEONG-LEEN: *Sir, can an assurance be given that when the set of proposals are put forward to district boards for their views, a realistic programme will be put forward to ensure that there will be a sufficient number of demolition teams to catch up with the backlog which is mentioned in the Secretary's reply at 25 000 or thereabouts?*

SECRETARY FOR LANDS AND WORKS: Sir, I do not foresee in the next few years catching up with the backlog of reported or known cases of unauthorised buildings. What we would hope to do is to improve our knowledge concerning dangerous buildings and tackle the other priorities and also tackle those building alterations to which district boards and others give priority themselves.

MR. CHEN: *Sir, I am very pleased to hear that a lot has been achieved since 1984 but will the Secretary for Lands and Works quantify his statement by advising this Council how many of the 25 000 known cases have been investigated since 1984?*

SECRETARY FOR LANDS AND WORKS: Sir, I have some figures on that but I can only say that I recall that in the last year the Buildings Ordinance Office dealt satisfactorily with some 15 000 cases and that I shall supply figures to back that and for previous years. (See Annex I)

MR. CHUNG: *Sir, could the Secretary inform this Council what is the definition of new buildings?*

SECRETARY FOR LANDS AND WORKS: The policy which I outlined has been adopted since 1975 so new buildings cover post-1975 buildings.

MR. YEUNG: *Sir, how many patrols are actually carried out in all new buildings and is there adequate provision of manpower for the relevant authority to execute the necessary enforcement action?*

SECRETARY FOR LANDS AND WORKS: I understand that the aim is to achieve an annual inspection of new buildings. The staff is having to be built up at present and it is not considered adequate at its present level.

Review of maternity leave provision in Employment Ordinance

6. DR. HO asked: *Since the enactment of the Employment (Amendment) Ordinance in June 1981 to provide for paid maternity leave to female employees, has Government reviewed the effectiveness of the legislation in protecting pregnant workers and, if so, what are the findings?*

SECRETARY FOR EDUCATION AND MANPOWER: Sir, since this legislation came into effect in June 1981, it has been reviewed four times.

The first of these reviews, in May 1982, examined all aspects of the legislation in the light of observations made by both employer and employee organisations. It concluded that the provisions were achieving their objective, subject to some minor amendments to remove ambiguities concerning calculation of maternity leave and entitlement to statutory holiday pay during such leave. The Labour Advisory Board endorsed these amendments and they were enacted in July 1984.

The legislation was again reviewed again in 1983 and 1985, and the most recent review was completed at the end of 1986. The main purpose of this last review was to consider whether additional protection was necessary against termination of employment during the early stages of pregnancy and whether there should be provision for earlier resumption of work after confinement, if the employee herself so wishes. The Labour Department will now consult the Labour Advisory Board on proposals in both these areas.

Complaints about the operation of the legislation account for only a very small proportion of the complaints dealt with by the Labour Department's Labour Relations Service. There were 129 complaints in 1986, slightly fewer than in 1985, and less than 0.7 per cent of the total of complaints made. Analysis

of these complaints shows no evidence of exploitation of the legislation by employers to avoid liability. Most of the complaints arose from misunderstanding of the provisions.

The Labour Department will continue to review this legislation from time to time.

DR. HO: *Sir, what has Government done to promote the public awareness of the pregnant workers' entitlement to maternity leave and maternity leave payments and in the most recent review was consideration given to the possibility of extending the protection period and, if not, will Government consider that?*

SECRETARY FOR EDUCATION AND MANPOWER: Sir, yes, on the question of publicity, whenever the law is amended the changes are publicised and in addition they are dealt with in the Labour Department's Concise Guide to the Employment Ordinance which is available in both English and Chinese from Labour Department offices. In addition the Labour Relations Service organises a continuing series of certificate courses for company personnel and trade unionists on the provisions of the Employment Ordinance, including those relating to pregnant women and, of course, if the latest proposals lead to legislation they will again be thoroughly publicised to make sure that the employees concerned are aware of their rights. On the other question, yes, one of the proposals now being considered is to lengthen the period of protection as referred to by Dr. HO.

MR. TAM (in Cantonese): *In its review, has the Government considered that the women should receive full pay instead of two thirds of the pay when they are enjoying their maternity leave?*

SECRETARY FOR EDUCATION AND MANPOWER: Sir, the amount of pay paid during maternity leave has been a subject which has been considered from time to time when the legislation has been reviewed but so far the general consensus has been that the present level is reasonable.

MR. TAM (in Cantonese): *Sir, as far as I know, for some of the women employees on maternity leave, they cannot get pay accordingly. Will the Government remind the employers that they should pay according to the leave that the woman workers are entitled to and should pay on pay-day?*

SECRETARY FOR EDUCATION AND MANPOWER: Sir, the Labour Department does stress from time to time in its publicity the provisions of the Employment Ordinance and it does warn employers against breaches of the Ordinance and that they are an offence. In addition, of course, if women find that they are being abused in this way, it is open to them to complain to the Labour Relations Office and, if necessary, to the Labour Tribunal.

Fire prevention in squatter areas

7. MR. CHEUNG asked (in Cantonese): *With the commencement of the dry season, will Government inform this Council:*

- (a) *what are the existing measures for the prevention of squatter fires;*
- (b) *how Government evaluates the effectiveness of such measures; and*
- (c) *whether there are any plans to improve the current measures?*

SECRETARY FOR DISTRICT ADMINISTRATION: Sir, I made a reply to a similar question on the measures undertaken by the Government to prevent squatter fires in May 1986. To reiterate, such measures include fire watch teams, regular publicity programmes, control of illegal tapping of electricity and the squatter area improvement programme. As regards evaluation and improvement of the current fire prevention measures, this is achieved through the continuous effort of departments concerned including the Fire Services Department, the Housing Department and the City and New Territories Administration. The best way to illustrate the effectiveness of these efforts is the marked reduction in both the number of large scale fires and the fire victims involved.

To date, 187 fire watch teams of local volunteers have been formed in all the major squatter areas in conjunction with the district boards. Their primary role is to increase awareness among residents, promote better fire precaution measures and to raise fire alarms on detection of a fire.

The Fire Services Department also conducts regular visits to squatter areas to publicise fire prevention methods. In 1986, a total of 1 213 visits were made to squatter areas throughout the territory. The department also conducted seven large scale operational exercises in selected squatter areas to familiarise its staff with fire-fighting in squatter settlements. District fire prevention campaigns are also conducted regularly in every district.

The problem of illegal tapping of electricity is being tackled on two fronts. On the enforcement front, the police, in conjunction with the power company, the City and New Territories Administration and the Housing Department have stepped up action against this illegal activity. On the education front, these departments and the district boards concerned have intensified their efforts to educate residents about the dangers of tapping electricity illegally and advise them to apply for a legal connection. As a result of these efforts, this problem is now gradually being controlled. In 1986, a total of 278 persons involved in illegal tapping of electricity had been arrested. This compares favourably with the 573 persons prosecuted for the same offence in 1985.

The Housing Department's five-year squatter area improvement programme, started in 1983, has provided a considerable number of fire prevention facilities such as fire breaks, fire hydrants in the major urban squatter settlements. Although the programme initially covers only squatter areas in the urban area

and Tsuen Wan, a number of pilot projects have also been constructed in the rural squatter areas. The Housing Department is at present conducting a review to consider whether the programme should be continued and expanded to cover smaller squatter areas and those in the rural areas.

MR. CHEUNG (in Cantonese): *Sir, could I ask the Secretary for District Administration how many cases of squatter fires have there been in the past two years and how many of them have been arson cases? Have the arsonists been punished by the courts?*

SECRETARY FOR DISTRICT ADMINISTRATION: Sir, I have the figures of the fire victims affected in 1985 and 1986 and the number for 1985 was 1 200 and in 1986 the number involved was 4 400. I have not got up-to-date numbers of fires but this illustrates the seriousness of the fires. On the question of suspected arson, the Fire Services Department always investigates the cause of fires and if there is suspected arson the case is always referred to the police.

MRS. NG (in Cantonese): *Sir, I am very happy to learn that in the squatter areas there are already 187 fire watch teams set up. Could I ask whether the relevant departments provide training for the team members so that they could more effectively promote fire prevention campaigns?*

SECRETARY FOR DISTRICT ADMINISTRATION: Yes, Sir, these fire watch teams are trained with the assistance of the Fire Services Department.

MR. HUI: Sir, I think the Secretary should answer Mr. CHEUNG's question on how many cases have been prosecuted for arson and whether they have been convicted.

SECRETARY FOR DISTRICT ADMINISTRATION: Sir, I have not got the exact figures but in my last reply in May 1986 I said that 7 per cent of the fires in 1985 were suspected arson cases but arson is very difficult to prove.

Accident at a gas company's work site

8. MR. CHAN KAM-CHUEN asked: *In connection with the recent accident at a gas company's work site in Tai Po where a technical officer was found dead in a tank containing corrosive liquids, will Government inform this Council:*

- (a) *what action is being taken to identify the cause of the accident; and*
- (b) *whether action will be taken to prevent similar accidents from occurring again?*

SECRETARY FOR EDUCATION AND MANPOWER: Sir, two members of the Labour Department's factory inspectorate arrived on the scene within an hour of receiving a report of the incident and began a thorough investigation. This investigation is still in progress and at present the circumstances surrounding the incident are unclear. The inspectors' report will be submitted to the coroner's office shortly and it is likely that an inquest will be held.

The neutralising tank involved in the incident is believed to be the only one of its kind in Hong Kong. The opening of the tank was already well protected by a raised wall, railings and toe-boards of adequate height and complied with the requirements of regulation 24 of the Factories and Industrial Undertakings Regulations. However, the gas company, on the advice of the inspectors, has now sealed off the opening with wooden planks. The company has also been advised to place additional emphasis on safety in its in-house training courses. If an inquest is held, any safety recommendations which the coroner may make will be energetically followed up.

Traffic growth

9. MR. PETER POON asked: *Will Government inform this Council of its forecast of traffic growth in the next five years and what steps the Government is taking to cater for this growth?*

SECRETARY FOR TRANSPORT: Sir, the overall traffic growth in the Territory over the next five years is estimated to be about 5 per cent per annum, with higher growth rate forecast for goods vehicle trips and lower growth for private vehicle trips.

To cope with this and anticipated traffic growth beyond the next five years, the construction of a number of major highway infrastructure projects has either started or is at the detailed planning stage. These include, Route 5 from Sha Tin to Tsuen Wan, the completion of the NT Circular Road in the Western New Territories, the remaining section of the Island Eastern Corridor, the Eastern Harbour Crossing, Princess Margaret Road Flyover improvement, Connaught Road, upgrading and dualling, and Tate's Cairn Tunnel. The estimated cost of providing new roads in the next few years is in the order of \$2 billion per annum.

Public transport services will also be expanded to meet the growth in travel demand. Five-year development programmes are prepared by each public transport operator each year. The operator with the largest expansion plans is the Kowloon Motor Bus Company, which is planning to expand its fleet at a rate of about 200 buses per year over the next five years. Also within the next five years, the MTR will begin operating services through the Eastern Harbour Crossing and KCRC will begin operating the Light Rail Transit System in Tuen Mun and Yuen Long.

MR. PETER POON: *Sir, in order to ease the pressure on Government's financial planning and other resources, can the Secretary for Transport advise this Council whether Government has considered widening the scope of privatisation, for instance, in road construction bearing in mind the good example of the Eastern Harbour Crossing projects?*

SECRETARY FOR TRANSPORT: Sir, Government is aware of the option of privatisation in the construction of road projects. There are obvious advantages to it; more roads could be built within the same government budgetary limit and secondly, it also enables works on certain occasions to be completed earlier. There are however some limitations with this option as not all projects could be privatised, otherwise our job could be made much easier. Only projects which can generate sufficient income to repay capital plus reasonable financial profit margin could attract private developers. Also, up to now tolls have not been applied other than to tunnels. At this point in time, apart from the Eastern Harbour Crossing, the only other project under planning which is being looked at for the purpose of privatisation is the Tate's Cairn Tunnel. We are investigating into the feasibility and viability of the option. It is expected that it will take three months before we can arrive at a decision.

MR. POON CHI-FAI (in Cantonese): *Sir, could the Government inform this Council what is the major reason leading to the overall increase in the traffic growth and flow in Hong Kong? And aside from stepping up private projects and the provision of transport facilities, have measures of constraint been considered to prevent unnecessary traffic growth?*

SECRETARY FOR TRANSPORT: Sir, apart from the natural growth in population which is still continuing year after year, although the percentage growth rate has come down a lot recently, there is also the movement of people. Consequent upon new town development, people from the urban areas are moved to new towns in the New Territories and this has generated a lot of traffic. Furthermore, as and when the quality of life improves, people tend to take Mass Transit Railway or buses instead of walking as they did in the past. As regards the second part of the question, we have already been using fiscal measure to stop the increase in the number of private vehicles but on the other hand I don't think it is appropriate for the Government to discourage the public from using public transport for whatever purposes, whether it be for work, for pleasure or for social purposes.

MR. LAU (in Cantonese): *Sir, could the Government inform this Council about its long-term road projects and what are their effects on the north-west New Territories?*

SECRETARY FOR TRANSPORT: Sir, it is indeed our tradition to emphasise, on long-term planning for our transport infrastructure. Our first comprehensive transport study published in 1976, for example, acts as a blue-print to tell us how long-term demand up to the year 1991 should be met; and up to this moment 80 per cent of the proposals have been implemented. Last year in November, we commenced the second comprehensive transport study which apart from looking at the long-term transport policy would also examine the transport infrastructure over the long term, beyond the year 2000. It would also be assessing needs and optimum timing for implementation of projects, such as Route X connecting Yuen Long to Tsuen Wan; a railway extension which would also affect the north-west New Territories. There are, of course, other projects such as Route 7, from Sai Ying Poon to Aberdeen and also the third harbour crossing. I can assure Mr. LAU that the long-term needs of the New Territories are being looked at and the north-west New Territories is also being looked at as part and parcel of the overall study of the territory's need as a whole.

MR. CHAN YING-LUN (in Cantonese): *Sir, a lot of new projects have been mentioned in paragraph 2. Could I ask whether all those roads will be up to international standards?*

SECRETARY FOR TRANSPORT: Sir, the short answer is 'yes.' I am not an engineering expert but I do believe that facts speak louder than words because we need only to look at some of the recently completed projects such as the Island Eastern Corridor and the Tolo Highway; anyone who has driven on these highways or even looking at them at a distance, must agree that they are the result of ingenious engineering design and masterpieces of architecture. I think the quality and standard of Hong Kong roads compares very well with, perhaps the best road systems in other parts of the world.

MR. CHEUNG (in Cantonese): *Sir, after we have had this increase in traffic flow for the next five years (the MTR, the KCR and KMB will have increases), can I ask whether the demand for other modes of transport will also have increases, for instance taxis?*

SECRETARY FOR TRANSPORT: Sir, there would be a general increase in demand for additional services overall but the growth in demand for certain modes could be faster than others. Taxis, I would have thought, are something that as and when the society gets richer there is a tendency for more people to take taxis. At the moment the Transport Advisory Committee has set up a subcommittee under the chairmanship of the hon. Jackie CHAN to look into the long-term policy on taxis generally. If we were to look at other modes, such as ferries and public light buses, there could be some form of rationalisation, and in certain areas there could be some decrease; but overall it is one of increase at the rate of about 5 per cent per annum.

MRS. NG (in Cantonese): *Sir, to follow up on Mr. CHEUNG's question, that is, on the seats provided by the PLBs, could the Government consider increasing the seating capacity of the PLBs so as to alleviate the congestion on the road, that is, instead of 14 seats could we increase that to a certain number?*

SECRETARY FOR TRANSPORT: Sir, I think this question basically is slightly different in scope from the original question that has been asked, but I will try to answer it. I think we must bear in mind that a public light bus is a public light bus; it is not, in the ordinary sense of the word, a bus; so there is indeed a need to limit its member and see how far we can go, from 14 to 20, to 25, 65 or 100. I think the matter has to be studied very carefully before we can change what is now being considered as the proper figure.

In-vitro fertilisation and artificial insemination

10. DR. LAM asked (in Cantonese): *Regarding in-vitro fertilisation (IVF) and artificial insemination, will Government inform this Council whether it plans to introduce legislative controls on such programmes, and if so, when the legislation will be introduced to this Council, and what will be its spirit and general content?*

SECRETARY FOR HEALTH AND WELFARE: Sir, in-vitro fertilisation (IVF) and artificial insemination represent two technologies designed to help couples who, for a variety of medical reasons, cannot have children through the natural process of human conception.

Artificial insemination, including the insemination of sperm from donors, was introduced by the Family Planning Association in 1981. So far it has been successful in a total of 107 cases. The programme has been running smoothly and there are no plans to impose control through legislation.

In-vitro fertilisation, which is a newer technique, is being carried out on an experimental basis by the two universities and in one private hospital. Members will have seen press reports that a baby conceived by the use of IVF techniques was successfully delivered recently.

In January last year, the Medical and Health Department set up an ad hoc committee to examine the medical aspects of IVF and to identify the related social, ethical and legal issues.

The committee has recently completed its study and has recommended that in addition to existing legislation regarding hospitals and medical clinics, a code of practice should be issued as a guide for both clinical practice and research on IVF by academic institutions, clinics and private hospitals. This code of practice will include provisions for periodic inspection and the submission of statistics to the Medical and Health Department. It will also set standards on clinical practice and research, as well as on how IVF laboratories should be equipped.

Consultation is now being carried out on a draft of this code of practice which should be ready for issue within the next two months. The Medical and Health Department will continue therefore to monitor the clinical and research activities in connection with IVF.

As regards the related social, ethical and legal issues, experience in overseas countries indicates that complex questions relating to treatment and disposal of embryos and the position of surrogate mothers may arise. It is too early as yet to say whether the same problems will arise in Hong Kong because the cultural characteristics and family concepts of our people are somewhat different. But we intend to continue to monitor the situation closely and take any necessary action, including the introduction of legislation if this appears to be required.

DR. LAM (in Cantonese): *Sir, would the Government tolerate commercial activities arising from IVF for instance, the buying and selling of embryos and surrogate motherhood and so on. If the answer is 'no' should we not take preventive measures at an early stage?*

SECRETARY FOR HEALTH AND WELFARE: Sir, the question of commercial surrogacy is one of the most serious of the ethical and social questions which this technology is likely to pose. If there is any indication that this was likely to develop, I think we would have to take very early action.

MISS DUNN: *Sir, wouldn't it be prudent for the Government at this early stage to establish its position and some guidelines on these rather complex issues, such as the storage, treatment and disposal of embryos before the problems arise?*

SECRETARY FOR HEALTH AND WELFARE: Sir, the storage, treatment and disposal of embryos will be part of the guidelines which I referred to and which are in an advanced stage, so we will be taking action on this particular aspect very soon.

MR. MARTIN LEE: *Sir, how are the 'cultural characteristics and family concepts' of the people in Hong Kong different from the people in the other parts of the world as would justify the deferment of consideration of these obvious though complex questions?*

SECRETARY FOR HEALTH AND WELFARE: Sir, I think it is accepted that cultural characteristics differ in nearly every country; very few countries have identical cultural characteristics with other countries. In Hong Kong we do need to consider the attitudes of the population to these problems particularly before we decide what legal restrictions we should introduce.

MR. MARTIN LEE: *Sir, I don't think the question was answered at all. How are our characteristics different as would justify the deferment of the consideration of these complex issues?*

SECRETARY FOR HEALTH AND WELFARE: Sir, it is very difficult to say exactly in what way the cultural characteristics of the people of Hong Kong differ from those of other countries, but I believe many other countries have not yet decided exactly how they are going to deal with this problem, so I think that we would be wise to wait at least a little while before we plunge into the deep end.

MR. MARTIN LEE: *Sir, if the Secretary doesn't know in what way we are different from the people in the other parts of the world, shouldn't we just get on and consider these complex issues before legal questions arise?*

SECRETARY FOR HEALTH AND WELFARE: Sir, we are proposing to do exactly that.

MISS DUNN: *Sir, if we are not very clear about the attitude of the community, shouldn't we be using our famous consultative machinery at least to ascertain what the population's attitude is?*

SECRETARY FOR HEALTH AND WELFARE: Sir, that is a very interesting suggestion from Miss DUNN and I will certainly carefully consider whether we should initiate a consultative process on this issue.

MR. LEE YU-TAI: *Sir, may I refer to paragraph 4 of the answer and ask for the composition of the ad hoc committee and whether or not religious persons are included?*

SECRETARY FOR HEALTH AND WELFARE: Sir, religious persons, I am afraid, were not included. The membership of the committee consists of representatives of the Medical and Health Department, the two universities, the Family Planning Association, the Legal Department and the Health and Welfare Branch. The object, as I said, was to look into the medical aspects of the problem and also to identify the legal, moral and ethical aspects, but clearly if we are going into these in more detail we shall need to take into account the views of churches and other religious bodies.

PROF. POON: *Sir, I would like to make reference to the second paragraph of the Secretary's answer. Will the Secretary inform this Council in percentage terms of the rate of success of the 107 cases and how does this percentage of success compare with that of other developed countries?*

SECRETARY FOR HEALTH AND WELFARE: Sir, I don't have these statistics on hand but I will try and find them out and let Prof. POON have a written reply. (See Annex II)

DR. CHIU: *Sir, as this complicated question of surrogate mother and embryo research did arise in other countries, would the Secretary please explain why he still adopts such a passive attitude of issuing just a code of practice instead of introducing legislation to solve the problems before they arise?*

SECRETARY FOR HEALTH AND WELFARE: Sir, as I have said already, I think this is something that we need to look at very carefully before we take very drastic measures. Other countries similarly have not leapt in with legislation. Matters such as ethical and religious considerations are not always appropriate for dealing with by legislation.

Written answers to questions

Review of Town Planning Ordinance

11. MR. POON CHI-FAI asked: *It seems that the existing Town Planning Ordinance is inadequate in meeting the present development needs in Hong Kong. Recently, Government proposed that the Town Planning Ordinance should be amended in order to extend the control exercised under the Ordinance to non-urban areas. Will Government inform this Council:*

- (a) *what progress it has made in amending the Ordinance; and*
- (b) *whether the Government apart from extending control to non-urban areas, has fully reviewed the Ordinance and considered introducing more comprehensive amendments to it?*

SECRETARY FOR LANDS AND WORKS: Sir, on the whole the Town Planning Ordinance has proved adequate together with other statutory and administrative controls to meet the need for planning controls in Hong Kong. Government is still considering whether it needs to extend statutory planning control to rural areas, which certainly have been affected by haphazard development in the past, and I hope that a decision can be made shortly after further discussions with interested parties. It is also considering a number of minor amendments to the Ordinance based on suggestions made by the Hong Kong Institution of Planners and others.

The Ordinance is under constant review by a working group of the Land and Building Advisory Committee but against the background of an intensely dynamic development scene, and considerable manoeuvre in our leasehold and administrative arrangements for controls, I doubt whether more comprehensive statutory controls would be beneficial at present.

Traffic black spots

12. MR. LEE YU-TAI asked: *What steps are being taken to improve traffic safety at traffic 'black spots' where accidents are found to be relatively frequent?*

SECRETARY FOR TRANSPORT: Sir, the Transport Department identifies sites with high accident rates and ranks them in order of priority for investigation. Priority sites are sites which have, in a 12-month period, at least (a) six

pedestrian accidents; (b) 12 accidents of any category; or (c) nine accidents, of which at least 50 per cent are classified as involving fatal or serious injury. The criteria are frequently reviewed and are adjusted in accordance with the accident situation and staff resources available.

Although investigations of traffic 'problem spots' are done according to priority, a degree of flexibility is maintained so that locations which have attracted special interest are also included for investigation. With the increasing involvement of the district boards in traffic matters, there has been an increase in requests from district board members for special investigation of locations which are believed to be hazardous to road users. In addition, when a serious accident occurs at a site with a low accident record, an immediate preliminary investigation is carried out and remedial action is taken if necessary.

In most cases, remedial measures proposed for traffic 'problem spots' are formulated on the basis of a well-defined accident pattern, for which appropriate improvements can be identified. Also, standard accident reduction measures are implemented on a territory-wide basis, for example, application of skid-resistant material to the road surface to reduce skidding accidents in wet weather.

On road design and construction, the specification of and adherence to a high design of standard are important factors in ensuring that future projects will incorporate high standards of safety. In the longer term this should reduce the number of accident 'problem spots'.

As regards education and publicity, publicity campaigns on themes derived from accident analysis are organised each year to increase public awareness of road safety and to educate the public on the correct way of using roads.

Supervisory ratio and caseload in family services centres

13. MR. HUI asked: *Will Government inform this Council:*

- (a) *of the existing supervision ratio of casework supervisor to caseworkers in Social Welfare Department's family services centres;*
- (b) *of the caseload of the department's social workers dealing with child abuse cases; and*
- (c) *whether consideration will be given to improving the supervision ratio in (a) and reducing the caseload in (b) in order to provide better services to the community?*

SECRETARY FOR HEALTH AND WELFARE: Sir, the existing supervisory ratio in the Social Welfare Department's family services centres is one supervisor (at the rank of Social Work Officer) to 10 social workers (that is, a mixture of assistant social work officers, senior social work assistants, and social work assistants).

The department considers the present supervisory ratio satisfactory and has no plans to improve it; but the department will continue its present efforts to improve the workload which at present averages 99 cases per worker.

Child abuse cases are handled both by family services centres and by the Child Protective Service Unit (CPSU), a special unit set up to deal with the more serious child abuse cases. In the CPSU the average caseload per caseworker at the end of December 1986 was 48.2. With the addition of one social worker to the unit early this year, the average caseload has now been further improved to 40. In view of the complicated nature of child abuse cases, the manning ratio of CPSU is now under review by the department.

Separate taxation for married couples

14. MRS. RITA FAN asked: *With reference to the estimated cost to tax revenue of a separate scheme of taxation for married couples given in the speech by the Financial Secretary on 14 April 1983 during debate on Second Reading of the Appropriation Bill 1983, will Government provide an updated estimate on the financial implications of such a scheme?*

FINANCIAL SECRETARY: Sir, I estimate that the present cost of introducing a scheme of separate taxation for married couples would be at least \$400 million in the year of implementation and in subsequent years thereafter. In addition, because of the increased number of files resulting from a scheme of separate taxation, the Inland Revenue Department's administrative costs would increase by some \$17 million per annum.

Members will note my predecessor estimated in 1983 that the cost of introducing a scheme of separate taxation for married couples would be \$285 million in the year of implementation, and around \$180 million in a full year. The increase to \$400 million arises because of inflation and adjustments to tax thresholds since then. The difference between the implementation and full year costs given in 1983 arose because, at that time, adjustments to tax thresholds applied not only to the forthcoming fiscal year, but also to final tax liabilities for the then current year. In view of the fact that since 1985 such adjustments have applied only to the forthcoming fiscal year, there would now be no revenue loss differential between the implementation and full year costs.

Welfare services in temporary housing areas

15. MRS. TAM asked: *Will Government inform this Council:*

- (a) *of the existing policy on the provision of welfare services in temporary housing areas; and*
- (b) *whether consideration will be given to providing additional resources to improve and develop such services in temporary housing areas?*

SECRETARY FOR HEALTH AND WELFARE: Sir, the provision of welfare services is planned on a territory-wide basis, taking into account population and geographical factors. In view of the transient nature of temporary housing areas (THAs) and the relatively small number of residents, it is not the policy to provide welfare services specifically to cater for these areas. However, residents are encouraged to make use of the services provided by government and subvented welfare agencies in the vicinity.

In cases where a THA is isolated and welfare facilities are not readily available, the need for such services is considered after taking into account factors such as the location, size of population and length of tenure of the THA and neighbourhood level community development projects are set up when this is justified. These projects provide a range of services, including social and recreational activities and the promotion of self-help amongst residents. At present 29 out of 50 THAs are served by projects of this type.

Government Business

First Reading of Bills

CONTROL OF OBSCENE AND INDECENT ARTICLES BILL 1986

MAGISTRATES (AMENDMENT) BILL 1986

PROBATION OF OFFENDERS (AMENDMENT) BILL 1986

ROADS (WORKS, USE AND COMPENSATION)(AMENDMENT) BILL 1986

Bills read the First time and ordered to be set down for Second Reading pursuant to Standing Order 41(3).

Second Reading of Bills

CONTROL OF OBSCENE AND INDECENT ARTICLES BILL 1986

THE CHIEF SECRETARY moved the Second Reading of 'A Bill to control articles which consist of or contain material that is obscene or indecent (including material that is violent, depraved or repulsive), to establish tribunals to determine, whether an article is obscene or indecent, or whether matter publicly displayed is indecent, and to classify articles as obscene or indecent or neither obscene nor indecent, and for matters incidental thereto'.

He said: Sir, I rise to move the Second Reading of the Control of Obscene and Indecent Articles Bill 1986. The Bill seeks to control articles which consist of or contain material that is obscene or indecent, including material that is violent, depraved or repulsive. It proposes the establishment of a tribunal to determine whether an article is obscene or indecent or whether matter publicly displayed is indecent. The tribunal will also be empowered to classify articles as obscene or indecent or neither.

In view of the wide public interest in this matter, Sir, a draft Bill was published for public information and comment on 15 August 1986.

By the end of the consultation period in mid-October, comments and suggestions had been received from a wide cross-section of the public, including the Law Society of Hong Kong, a number of district boards and their committees, school councils and other interested organisations. In addition, there had been considerable media coverage, including editorial comment, and reactions from a large number of individuals.

Generally the Bill was favourably received. Indeed, the most frequent comment was a call for its early implementation.

The general provisions of the Bill have been given considerable publicity, Sir, and I do not intend to repeat the details here. But in summary, the legislation seeks to control the publication and display of obscene and indecent articles. A judicial body, to be called an Obscene Articles Tribunal, presided over by a bilingual magistrate sitting with at least two lay adjudicators, will be established. It will have exclusive jurisdiction:

- (a) to classify articles as obscene, indecent or neither; and
- (b) to determine whether any article is obscene or indecent.

The tribunal will be obliged to classify speedily articles submitted to it by the Crown, publishers, distributors, importers and other interested parties into three categories. Class I articles are those which are neither obscene nor indecent and may be published without restriction. Class II articles are those which are indecent but, subject to restrictions on their display, sale and access, may be sold to persons over the age of 18 years. The distributors of Class II articles will be obliged to notify vendors of the classification and the restrictions imposed. Class III articles are those which are obscene and are to be prohibited altogether. The classification accorded to articles submitted will be published in a Chinese and an English newspaper and all interested parties will be notified of the tribunal's ruling.

The process of determining whether or not an article is obscene or indecent will apply to articles referred to the tribunal by a court or magistrate in the course of other proceedings. The tribunal's ruling will be binding on the court or magistrate in the same manner as a ruling made under the classification process.

For the benefit and guidance of the tribunal members and the parties involved, the considerations to be applied in the classification process are clearly stated in the Bill to enable articles to be adjudicated on their own merits in the interest of the community at large.

Sir, I would like to draw Members' attention to the fact that the legislation before us makes the public display of any indecent matter an offence. This will include magazine covers on news-stalls, advertisements and signboards. This should substantially reduce the amount of offensive matter on public display.

In view of the potentially high profitability of the trade and the harmful effects of such material, the Bill proposes to increase substantially the fines so as to provide adequate deterrence.

Concern was however expressed on a number of aspects of the draft Bill and I would like to comment on these.

The draft Bill published in August stipulated that adjudicators serving on an Obscene Articles Tribunal should be proficient in both English and written Chinese as the language of the court is English and the bulk of material likely to be adjudicated on will be in Chinese. This has generated considerable criticism in that a large proportion of the community, who are non-English speaking, would not be eligible for service on the tribunals. The Bill before us today proposes that eligibility for appointment to the panel of adjudicators will require a proficiency in either written Chinese or written English.

Some have argued that the system of voluntary submission of articles prior to their publication might be turned into a tool for the suppression of material on grounds other than obscenity or indecency. Others have complained that the freedom of expression, the artist's freedom to create and the individual's right of access to any published material will be jeopardised with the establishment of the tribunal.

To the former, I would point out that the proposed legislation empowers the tribunal to rule only on matters of obscenity and indecency (including violence, depravity and repulsiveness). And any attempt to rule on other matters will be ultra vires.

To the claim that the system constitutes unwarranted infringement on artistic expression and individual freedom, it should be emphasised that the number of articles, likely to be adversely affected, will represent only a fraction of all the publications available in Hong Kong. The provisions in this Bill, Sir, will greatly reduce access by juveniles to indecent material, thus providing a degree of protection for the well-being of our young people, while still allowing adults the freedom to purchase them. Judging from the wide range of comments received, it is clear that these restrictions reflect the wishes of the great majority of our community.

There has also been comment that the draft Bill failed to define precisely 'obscenity' and 'indecenty'. Sir, it is neither practical nor desirable to attempt to stipulate in law in specific terms what is deemed to be unacceptable on the matters of propriety. Research has been unable to identify any jurisdiction where precise definitions of obscenity and indecenty have been made in legislation. Furthermore, the accepted standards of propriety in any community change and develop with time. If precise definitions of these terms were enshrined in law, regular legislative amendments would be required. The idea of establishing a tribunal is that its members, by virtue of their status as representatives of the public, will be capable of assessing what is generally acceptable to the community.

May I now turn to the selection of persons to serve as adjudicators. This will not be an easy task. There is always a risk of inconsistency when more than one person sits, or different persons sit at different times, on the tribunal. The risk is acknowledged but, nevertheless, community participation in the judicial process on matters of propriety is preferable to reliance, as at present, on the judgment of a single magistrate. If any party to tribunal proceedings feels that an interim ruling is inconsistent with rulings made on previous occasions by other tribunals, such party may seek a full hearing. At a full hearing, parties may be legally represented, expert opinion may be sought and, if deemed necessary, the services of additional adjudicators enlisted. This will constitute the principal check on inconsistency. The problem of inconsistency will also be further reduced as the repository builds up its stock of articles classified which will provide a source of reference for members of the tribunal and those who intend to publish material of this kind.

A panel of up to 80 adjudicators will be drawn with care from different backgrounds and interests and representing a broad cross-section of the community. Only experience will confirm the success or otherwise of this process and I assure Members that the situation will be carefully watched and assessed.

Finally, I come to the questions that have been raised on the inability of the ordinary citizen to seek a classification of an article by the tribunal. The revised Bill has expanded the categories of persons who may make submissions to include the author, copyright owner and any person who commissions the design, production or publication of an article. To extend this privilege further is likely to result in the tribunal being burdened with frivolous submissions. However, the Administration will continue to accept complaints from any member of the public and consider, on legal advice, whether the subject article justifies a submission to the tribunal. These complaints should be channelled to the Newspapers Registration Unit of the Television and Entertainment Licensing Authority or through any district office.

With these remarks, Sir, I move that the debate be adjourned.

Motion made. That the debate on the Second Reading of the Bill be adjourned.

Question put and agreed to.

MAGISTRATES (AMENDMENT) BILL 1986

THE ATTORNEY GENERAL moved the Second Reading of: 'A Bill to amend the Magistrates Ordinance'.

He said: Sir, I move the Second Reading of the Magistrates (Amendment) Bill.

In a magistrates court, the complaint, information or summons must set out the offence alleged against a defendant. However, section 27 of the Magistrates Ordinance, as presently enacted, does not allow objection to be taken to any defect in the substance or form of a complaint, or information or summons. As the law stands, the magistrate must give judgment on the substantial merits and facts of the case, and make any necessary amendments to the complaint, information or summons. The magistrate has no discretion in the matter.

Sir, the rigidity of this procedure has, from time to time, been criticised by both practitioners and by magistrates. And there is general agreement that the magistrate must have a discretion to avoid injustice and that the law should give some guidelines upon which to exercise that discretion when the case that emerges at the trial does not establish the offence alleged in the information, complaint or summons, but does disclose some other offence. For example, the date or the place may not be as alleged or there may have been some mistake in describing the offence.

This Bill repeals the existing section 27 and replaces it with a new provision which will give the magistrate some discretion over the matter, requiring him to amend the complaint, information or summons where a defect or variance between the charge and the evidence is not in his view material or where no irremediable injustice would result. The new section also prescribes the procedure to be followed where an amendment has to be made.

The Bar Association, the Law Society and the Judiciary have indicated support for the proposed amendment. And indeed, the matter was first raised, or was raised recently, by my hon. friend Mr. LEE in a question in this Council a year ago.

Sir, I move that the debate on the Second Reading of this Bill be now adjourned.

Motion made. That the debate on the Second Reading of the Bill be adjourned.

Question put and agreed to.

PROBATION OF OFFENDERS (AMENDMENT) BILL 1986

THE SECRETARY FOR HEALTH AND WELFARE moved the Second Reading of: 'A Bill to amend the Probation of Offenders Ordinance'.

He said: Sir, I move that the Probation of Offenders (Amendment) Bill be read the Second time.

The objects of the Bill are twofold: first, to improve the existing procedures for dealing with breaches of probation orders; and secondly, to empower the Director of Social Welfare to specify record forms prescribed under the Ordinance.

Under sections 5 and 6 of the Probation of Offenders Ordinance, a person who is in breach of the requirements of a probation order or who has committed a further offence during the period of probation, is brought before and dealt with by the court which made the original order. These provisions make specific reference to orders made by Justices of the Peace, magistrates, district courts or the High Court, but there is no reference to the Court of Appeal. Therefore, there is nothing in the existing legislation to enable a person in breach of an order made by the Court of Appeal, or who has committed a further offence, to be referred back to that court. Clause 2 of the Bill is designed to bridge this procedural gap.

Under rules 21 and 24 of the Probation of Offenders Rules, probation officers and superintendents of approved institutions are required to keep proper records on probationers under their supervision, and to enter the particulars on appropriate forms which are prescribed in the schedule to the Ordinance. These forms record information about the supervision given to the probationer and constitute part of the probation file which may have to be produced for the court's reference. The format of these forms requires amendment from time to time in order to reflect current practice. At present, the authority to prescribe these forms is vested in the Governor-in-Council under section 12(e) of the Ordinance. It is felt that the amendment of administrative forms does not warrant reference to the Executive Council. And clause 3 of the Bill, therefore, deletes the existing provision while clause 4 provides the Director of Social Welfare with the authority to specify the form of records to be kept under the Ordinance.

Sir, I move that the debate on this motion be now adjourned.

Motion made. That the debate on the Second Reading of the Bill be adjourned.

Question put and agreed to.

ROADS (WORKS, USE AND COMPENSATION)(AMENDMENT) BILL 1986

THE SECRETARY FOR TRANSPORT moved the Second Reading of: 'A Bill to amend the Roads (Works, Use and Compensation) Ordinance'.

He said: Sir, I rise to move the Second Reading of the Roads (Works, Use and Compensation)(Amendment) Bill 1986.

On 30 May 1986, provision was made for the delegation of the Governor's powers under the Roads (Works, Use and Compensation) Ordinance to the Secretary for Transport. However, due to the particular form of words used in section 17 subsection (1) of the Ordinance, legal advice has been that the powers under that subsection must be exercised by the Governor personally. These powers relate to the closure of roads and reclamation of Crown foreshore or sea-bed which are affected by road works. Such matters are largely routine, and there is no practical reason why these powers have to be exercised by the Governor. The object of this Bill is therefore to enable the powers under section 17 subsection (1) of the Ordinance to be delegated to the Secretary for Transport.

Sir, I move that the debate on this motion be adjourned.

Motion made. That the debate on the Second Reading of the Bill be adjourned.

Question put and agreed to.

INSURANCE COMPANIES (AMENDMENT) BILL 1986**Resumption of debate on Second Reading (7 January 1987)**

Question put and agreed to.

Bill read the Second time.

Bill committed to a Committee of the whole Council pursuant to Standing Order 43(1).

Committee stage of Bill

Council went into Committee.

INSURANCE COMPANIES (AMENDMENT) BILL 1986

Clauses 1 to 3 were agreed to.

Council then resumed.

Third Reading of Bill

THE ATTORNEY GENERAL report that the

INSURANCE COMPANIES (AMENDMENT) BILL 1986

has passed through Committee without amendment and moved the Third Reading of the Bill.

Question put on the Bill and agreed to.

Bill read the Third time and passed.

3.50 pm

HIS EXCELLENCY THE PRESIDENT: I think at this point before we begin the debate on the adjournment, Members might like a short break so that we can complete our debate in one go.

4.10 pm

HIS EXCELLENCY THE PRESIDENT: Council will resume.

Adjournment

4.10 pm

*Motion made. That this Council do now adjourn—*THE ATTORNEY GENERAL

HIS EXCELLENCY THE PRESIDENT: As 12 Members have given notice of their intention to speak, I propose to exercise my discretion under Standing Orders 9(7) and 9(8) to allow Members such time as is necessary to complete their speeches, and such time as is then necessary for the Official Member to reply to those speeches, before putting the question on the adjournment.

Development of Industry in Hong Kong

MR. STEPHEN CHEONG: Sir, in proposing this debate, it has never been the objective to seek immediate commitment from the Government to depart from or to modify specific current policies. Rather, it is hoped that this debate would serve to focus our attention as well as to stimulate thoughts on this important aspect of our economy—namely the future development of Hong Kong industries. A dozen colleagues will speak this afternoon and the subject matter will be covered from many different angles ranging from generalised observations to specific proposals. Though there was no stipulation on the length of our speeches, I believe most speakers will be as brief and to the point as possible. Hon. Colleagues therefore can heave a sigh of relief.

Viewed from the trend of its net contribution to GDP, the financial services may well be regarded by some as having replaced the manufacturing sector as the key to future growth. It is thought that these services will offer more dynamic growth prospects. Nevertheless, viewed from the provision of employment opportunities to our community, there can be no doubt that the manufacturing sector is still the cornerstone of our stability.

Sir, political reforms in any territory may be exciting and stimulating to some intellectuals and politicians. Yet, at the end of the day, whoever gains power must devise and implement policies that will help the majority of its populace to make a living. In other words, amongst the many chores of governing, economic development prospects must be accorded with top priority. In Hong Kong, our economy is heavily dependent on external factors and we are not fortunate enough to have been endowed with rich natural resources. Therefore the maintenance of economic growth can be achieved only through adaptation of consistent and pragmatic policies that foster growth.

We must try to steer away from the danger of becoming the experimental playground for political idealists, political activists, and political theoreticians. Furthermore, in our effort to strive for stability and prosperity, I am sure most pragmatic people in Hong Kong would agree that the maintenance of full or near full employment will be the key to our future stability and prosperity. This key is clearly much more vital to the people of Hong Kong than whether or not, for a start, 25 per cent of our legislature must be elected through universal suffrage in the year 1988.

Thus in my view, ensuring the continued viability of our industrial sector in the years to come must be our top priority task. We have done well in the past especially in the year 1986, but given our external-oriented economy, there can never be any meaningful degree of guarantee for continued success, and certainly there are dark clouds looming ahead. Indeed, in order to achieve our objectives, it will most certainly require patience and conscious co-operation between different sectors of the community, acting upon a set of rational policies. It is with this in mind that I make the following observations for further consideration.

First, I propose that the Government makes it a point to conduct regular reviews of all the different industries that collectively make up our manufacturing sector. Such reviews should be conducted in periods of three to five years. They should be detailed, objective and should cover areas such as performance to-date, future prospects for the next period as well as identification of problem areas that need to be addressed. Armed with results from such reviews, I believe the Government would be in a better position to develop and implement effective policies designed to encourage and to facilitate further development of each industry.

Secondly, as Hong Kong progresses economically, educationally and socially, the quality of our future work force is likely to be better suited for higher technology industries. Will we have enough job opportunities in those areas? If not, what can and what must we do? The answers to these questions will be very significant to the health of our economy in the years ahead. In a bid to find some answers to the above questions and having briefly analysed the state of most of our industries, I am of the view that further successful expansion and development of the electronic and electrical industry will be crucial in our ability to satisfy future demands for jobs.

Up to now, these industries are still mainly engaged in assembly type operations and have grown to be heavily dependent on countries like Japan, Korea and Taiwan for basic components support. This state of affairs, if it continues into the future, will most likely constrain future growth potential. In order to achieve a healthy and sustainable development, we will need to encourage the development of basic as well as modern electronic components in Hong Kong. Korea and Taiwan recognised this need at least five years back and had implemented aggressive policies designed to free their electronic industries from their heavy dependence on Japan. Hong Kong must not fall too far behind. Also, in the light of recent developments in world currency exchange rate readjustments, we are well poised to attract investments from Japan as well as elsewhere to help us close the gap. The Government should lose no time in reviving, devising and implementing policies that could contribute towards laying a good foundation to the future growth of our electronic industry.

Thirdly, assuming there will be a continuation of and steady progress in China of her modernisation policies, Hong Kong is well poised to grow economically together with China. No doubt different routes will be taken for different sectors. In so far as the manufacturing sector is concerned, anyone who has had experience of introducing new technology would recognise that success is neither easy nor simple. There are numerous bugs and teething problems that need to be ironed out before the technology so transferred can be fully assimilated. Given the wide experience we have gained through our continued interface with the western trading community, our efficient communication system with the rest of the world, and the increasing ability of our tertiary institutions to produce graduates who are better placed to handle more

technological advanced production and managerial processes, Hong Kong must be better placed than anywhere else in China as a base to effect technology transfer.

Nevertheless, China needs to be advised not to lose sight of the many advantages Hong Kong offers. They must be persuaded to recognise and utilise Hong Kong more as a base to facilitate technology transfers. Hong Kong Government must start forging closer links with the Central Government in China so as to identify areas where closer co-operation will bring a mutual economic benefit to both communities. For example, if China were to embark on establishing a meaningful import substitution programme of manufactured goods, she should be persuaded to consider putting up the first plant of such a programme in Hong Kong. Such a course of action will be, on the one hand, beneficial to China because effecting technology transfer through Hong Kong will most likely be more efficient and more cost-effective whilst on the other hand, Hong Kong will gain more employment opportunities which might not otherwise be provided.

Last but not least, I would like to remind the Administration that our manufacturing sector is totally dependent on external markets and that we will have to compete not just amongst ourselves but with the rest of the world at large. Therefore, maintenance of competitiveness of our industrial sector is vital. The Administration needs to be careful not to lose sight of the total cumulative impact on the cost of manufacturing through the push of other departmental policies. Let me hasten to add, Sir, that throughout the years, manufacturers have never been against adding reasonable benefits to employees nor had they been obstructive to environmental measures for obstruction's sake. However, we are seriously concerned that legislation in these areas might have been planned and pushed through on a piece-meal basis so that the cumulative impact on cost has never been properly evaluated.

I did urge Government, together with other hon. Colleagues like Miss DUNN, on more occasions than one, to attempt to make a start in this direction. Regrettably, so far, no meaningful response has been forthcoming. May I take this opportunity, Sir, to reiterate my advice to the Government. Hopefully, in the context of the overall review of our industrial policies, this advice would be taken up seriously.

MR. HU: Sir, I mentioned in my policy debate speech on 6 November 1986 that the manufacturing industry is still the backbone of our economy, and that we should keep our manufacturing industry active, progressive and in line with the trend of the world market in order to ensure a fair market share. I further pointed out that high technology would be the dominating factor and yet this is an area where Hong Kong is extremely weak in comparison with Japan, South Korea, Taiwan and Singapore as we have not been doing enough research and development in order to establish a strong base. This refers particularly to our electronics industry which is the second largest industry in terms of export value.

Due to the weakness in our production of hardware and software, a high percentage of which has to be imported from other countries, and our relatively high labour cost in this region, there is a tendency for our manufacturers to remove part of their production lines to China or to set up new production plants there.

Many Japanese manufacturers started to diversify their production facilities to other countries ever since the steadily strengthening of the Japanese yen from last year. Irrespective of the favourable investment environment in Hong Kong, Japanese manufacturers have invested in recent years far more in South Korea, Taiwan and Singapore than they have in Hong Kong. At the same time our manufacturers have increased their import from South Korea and Taiwan. It is evident that heavy investment, active government support and joint efforts of public and private sectors in South Korea and Taiwan in developing the technological capacity and attracting technological transfer have started to pay dividends.

I understand that there will be great increase in automated production lines in South Korea and Taiwan, to produce more complicated and high technology products for export to the United States of America. Our biggest export market. This development will seriously affect our export business.

Government and the electronics industry must jointly consider these developments seriously in order to resolve the problems before too late. What the Government has been doing in manpower training and education through the Vocational Training Council, the universities, polytechnics, and in stimulating research through the Hong Kong Productivity Council are beneficial supportive action in the longer term, but cannot solve the immediate problems. We need an urgent and comprehensive plan which will provide ways and means to enhance the quantity and quality of the products of our electronics industry. Government will have to undertake more positive role in this respect in various directions.

One way is for the Government to set up a special section to deal with technology transfer. This section should carry out detailed study and research to find out the present weakness of our electronics industry where we have to rely heavily on other countries for support now and possibly in future. This section will seek the view of and get the support from our manufacturers. As Hong Kong has no difficulty in finding investors who are looking for investment opportunities, this section may stimulate the interest of such investors in new projects or joint ventures which have good prospects and are profitable. This section can then turn to other countries such as Japan and the United States of America with the intention of looking for suitable firms which have the technology we require and to encourage them to consider technology transfer, with or without investment, to the interested Hong Kong parties on terms beneficial to both parties. Any achievement in these efforts, irrespective of the extent of success, will keep our electronics industry competitive in the world market to a certain degree.

Now is the time for the government to review the policy on industry and to act accordingly.

MR. WONG PO-YAN: Sir, I have in the past put forward various proposals on the development of industry in Hong Kong during the annual policy debates and Budget debates. I am glad to see that these proposals have all received positive consideration by the Government and that many of them have actually been implemented. I therefore welcome this adjournment debate which provides a further opportunity for me and my colleagues to put forward our proposals on developing our industry. Today, I shall concentrate on the development of high technology industry.

We all agree that higher technology is of vital importance to the further development of industry in Hong Kong. Research and development is one of the ways to acquire higher technology by our own effort. However, the cost of research and development projects is high and difficult to control and end results are not always guaranteed. As a result, we often have to look to other countries to fulfil our technological requirements. But by doing so we are faced with another difficulty as the cost of acquiring foreign technology may be equally prohibitive and secondly, the countries concerned may not be willing to share their technological achievements with us. Even so, our industrialists are still trying very hard around the world to acquire such needed technology in order to remain competitive in the international market.

Sir, the main point I am going to say today is that under such circumstances, we should not forget that a ready source in this area is just at our doorstep, and this is China. I understand that in China, many universities and higher educational institutions are conducting extensive research activities. These could be applied practically to improve the productivity of our industry. In fact, some of the technological developments in China are of a very high standard but yet the development cost is much lower than what we have to incur to conduct our own research and developments. Needless to say, we also have other constraints such as the shortage of expertise and technologically advanced equipment.

To illustrate my point, I was informed some time ago by a university professor in China that they had developed a low cost computer aided colour measuring and matching device which can be used in many manufacturing industries. Recently, I came across a similar European product which was produced at a considerably high cost. This example shows that there are many technological innovations in China which, for various reasons, are not well publicised nor known to us. However, if these innovations are made available to industrialists in Hong Kong, it could prove to be a real asset to our industry. There is no doubt that China has the advanced technology that can be of benefit to our industrialists. Even a number of major industrial countries have confidence in certain areas of Chinese technology, which are available at a cost very

competitive internationally. As another example, recently the United States, the United Kingdom, Sweden, Canada and Brazil have expressed interest in employing Chinese rockets to send their communication satellites into the earth's orbit. However, rather than accepting the end-products of technological developments in China as a package, we could adopt a more flexible approach by putting up our own requirements to the relevant research institutions in China so that specially-designed devices could be made available according to our own specific requirements in Hong Kong.

In addition, I understand that there are considerable spare capacities in some factories in China which are not run to their full capacities in the production of consumer goods. Many of these factories have expensive and highly sophisticated equipment which could be used in turn to produce advanced industrial machineries or spare parts for use by entrepreneurs in Hong Kong. In view of this, I strongly recommend local industrialists to take advantage of this large pool of resources. However, although individual enquiries may now be made with individual organisations in China, it would be helpful if the Government could assist and co-ordinate such enquiries in order to facilitate the process of communication. In this connection, I understand that the Trade Development Council is currently organising a seminar together with the Joint Technological Development Centre of Chinese Institute of Higher Learning to be held in February with an aim to encourage Chinese universities to establish contacts with Hong Kong industries. I think this is a good start. Nonetheless, in my opinion, it would be important to take follow up action on this seminar by bodies such as the Hong Kong Productivity Council. The council can work in co-operation with the Federation of Hong Kong Industries and the Chinese Manufacturers Association to investigate in detail the possibilities of such technological collaborations. These institutions can at the same time identify and collate our own needs before making a formal approach to the most appropriate institutions in China which could work together with us. I hope that as a result of these activities, a stronger liaison will develop which will hopefully produce some concrete results in the future.

MR. CHAM (in Cantonese): Sir, capital, technology and resources are the three major ingredients of industrial production. In a free enterprise economy, return to capital is often associated with the risk of investment, regardless whether it is a technological improvement or a product enhancement. Both are important. In this respect, venture capital plays an important role. To illustrate this, I would like to cite two examples.

After the Second World War, a small company, invested in the commercial production of photocopying machines based on a new technology developed by two institutions. This company later changed its name to Xerox Corporation. This is a successful case of venture capital investing in a technological breakthrough.

Another case is when DuPont invested in one of its customers which is short of funds and put in a chief executive, Mr. Alfred SLOAN Jr. into the company to strengthen its management. He adopted a strategy of market segmentation offering different lines of motor cars which suited consumer tastes. As a result, Ford Motors, which invented the motor car, had to yield its leading position in the industry to General Motors. These two cases are significant indications of what venture capital can do to the commercialisation of technology and product improvements by transferring risks to investors who can afford high risks for high returns.

With growing international protectionism, Hong Kong must seek to increase its domestic exports by diversification through technological improvement or product enhancement to maintain our past rate of economic growth. We cannot rely on a policy of duplicating established products and to market our goods by low cost and cut-throat competition. Thus, there is a need to channel capital into the manufacturing sector to enable our industries to expand their risk capacities in return for technological innovations and product enhancements.

It is generally recognised that there are different stages of financing requirements in a venture capital assessment. The most difficult financing is for a new company at its seeding stage when equity investments is usually needed. In this phase of 'startup financing', the new company has to retain its cashflow in the initial years. Interest payment at this stage will often strain the infant company. Another stage of financing known as the 'public offering' stage, appears when the company has established a record of its market share and its investment risk can be more clearly analysed. Only then will the company be in a position to raise capital publicly in a less established capital market such as an over-the-counter (OTC) market. To proceed beyond the public offering stage, the company may qualify for a full listing in the stock exchange.

For startup financing, it will not be easy for a company to be listed even on an over-the-counter market as the public is not able to analyse the investment risks involved. I would like to suggest that a new category of investment dealers, known as venture capital investment dealers (VCID) should be created. With knowledge of venture investors' profiles and capabilities, these dealers will act as media to put companies in need of venture capital in touch with willing takers. They should be registered with the Securities Commission as licensed dealers, operating under supervision to organise venture capital for small business as well as to provide advice to interested investors. Naturally, the risk of investing in these companies will be high but the judgement of whether it is an appropriate investment should be left to the investor with the assistance of professional advice from these venture capital investment dealers. We must also bear in mind that venture capital not only carry with it the injection of cash and capital into the business but also improvement to managerial skills and capabilities, which may be provided by these investment dealers.

For companies which require public offering financing, the functions of an over-the-counter market will help to transfer risk to the marketplace and is a proven mechanism elsewhere in the world. In this Chamber 14 months ago, I have already spoken on the need for a OTC market in Hong Kong. Without repeating my views, I am pleased to see that the Stock Exchange of Hong Kong is studying this in detail and will be putting forward its proposals to Government through the Securities Commission. We must expedite this. It is important to caution that the risk involved in investing in these stocks may be high although the return to investment may be substantial. The investing public must be under no disillusion that it will be like investing in blue chip stocks. Indeed, international experience is that failure rates will be high for the buyer to beware. Thus, the investor must act within his own capacity and not take risks which he cannot afford.

Venture capital also fits into the needs of the industrial community of Hong Kong, as many of our industries are medium-sized and family-owned. The provision of venture capital may mean the dilution of control to a family business. However, with the present structure of limited companies, sufficient control can still be maintained by the majority shareholder. At the same time, venture capital in the form of equity participation will mean the sharing of business risk which is not available under debt financing. Hence, an optimal mix of equity and loan financing can be used in the process of venture capital injection. Furthermore, venture capital may provide managerial, technological or professional support which may be lacking in a business consisting of only family members. Thus, for these companies in Hong Kong, venture capital will provide an opportunity for them to grow and expand for a return which is commensurate with the risks involved.

MR. CHEONG-LEEN: Sir, as I see it, one of the fundamentals of Hong Kong's economic success is the Government's commitment to a policy of positive non-interventionism in industry and commerce.

This policy has enabled Hong Kong manufacturers and merchants to adapt more quickly than their competitors in the region to changes in export markets. The results are for all to see: for example, our exports last year to Europe grew at a high rate, especially West Germany, where the value growth in our exports in 1986 rose by about 30 per cent over the previous year.

However, performance of our export to the United States in one of our main export industries, that is the electrical and electronics industry, has apparently declined in 1986, while the performance of both South Korea and Taiwan show substantial increases for the same period. One of the reasons therefore is that over the past six years, average annual growth rate of labour productivity in South Korea and Taiwan in the electrical/electronics field has been much higher than that of Hong Kong: for example, between 1980 and 1984, the average

annual growth rates of labour productivity in this field in South Korea and Taiwan have been 22.1 per cent and 13.6 per cent respectively, compared to Hong Kong's figure of only 9.5 per cent.

Nevertheless, I believe that our policy of positive non-intervention in industry has stood us in good stead throughout the years. Because of our relatively simple tax structure and low level of direct tax, we cannot afford all or too many of the tax holidays or incentives provided by Singapore, Taiwan and South Korea. At the same time, I do believe that there is still much room for Government to strengthen or fine-tune its policy of positive non-intervention in industry.

In this respect, some of the questions that come to mind are:—

Can the Government do more to build up Hong Kong's image as a potential technology centre where it would be worthwhile for investors, local and overseas, to have long-term commitments?

In which way should the policy of positive non-intervention in industry be developed or adjusted so as to support the growth momentum of Hong Kong's export industries?

At this point, I would like to say what I interpret as Government's positive non-intervention policy in industry. Simply put, it is:

- (a) that Government avoids interfering in the working of the free market; and
- (b) that Government has a responsibility to provide the necessary support facilities and services for industry to flourish and expand.

On the basis of this interpretation, I would like to put forward a few suggestions as to how Government can fine-tune its positive non-interventionist policy to make it more effective and productive in today's environment.

Firstly, more back-up support has to be given to small and medium-sized industrial firms of which about 45 000 are with less than 100 workers, and representing nearly 97 per cent of Hong Kong's total manufacturing establishments.

In South Korea, Taiwan and Singapore, there are officially sponsored organisations which have been set up to give support to small and medium-sized factories, but in Hong Kong there is as yet no such organisation. This is an area which the Hong Kong Government should study carefully as to what is being done in the three places mentioned, and establish a similar type of organisation adapted to Hong Kong circumstances.

If Government should decide to set up such an organisation, I think careful thought has to be given as to whether it should be a government organisation directly under a government department, or whether it should be a government

subvented organisation such as the Hong Kong Productivity Council. In other words, should the staff of this proposed new organisation comprise civil servants or non-civil servants—my inclination is that it should be the latter!

The establishment of such an organisation, or a unit within an existing organisation, to support small and medium-sized factories could do a world of good in assisting them in productivity growth, quality improvement, management efficiency and the handling of cash-flow product development and innovation and so on. This is what I would call 'more positivism' in Government's positive non-interventionist policy towards industry.

Secondly, Government should act more positively in strengthening and expanding the technological infrastructure to enable Hong Kong industry to move ahead and move upmarket with greater momentum.

For example, we should move ahead with all speed in establishing the proposed technology centre or science park for the purpose of encouraging innovation, facilitating the application of emerging technologies, attracting more technology transfer or investment from overseas into Hong Kong, and for overall improvement of Hong Kong's image as an important centre of technology.

Thirdly, I would urge Government to establish as soon as possible an advisory committee on science and technology for the purpose of generally making recommendations to Government from time to time on its policy towards science and technology, and if Government does not yet have a policy, then to make recommendations on what such a policy should be.

In the field of manpower training for example, the Ministry of Science and Technology in South Korea was able to get its Government to set a target expenditure of 0.6 per cent of GNP in 1981 rising to 2.0 per cent in 1986.

Taiwan's expenditure in this kind of industrial support is reported to be a target of 1.2 per cent of GNP in 1985 increasing to 2.0 per cent by 1989, based on Taiwan's Science and Technology Development Programme which was approved in 1982.

In so far as Hong Kong, is concerned, public expenditure in 1986-87 on industrial manpower training and on industrial support services amounts to \$1, 298 million or about 0.45 per cent of estimated 1986 GDP. It is no wonder, therefore, that Hong Kong is now lagging behind South Korea and Taiwan in labour productivity in the electrical/electronic field of export industries.

I put it to Government that one of the important tasks of an advisory committee on science and technology should be to advise on outline development programmes in science and technology, especially in manpower training and within the education system as a whole, and also the likely financial commitments of such programmes.

A further question which could be addressed by the advisory committee is where would Hong Kong be shaping up in the field of information technology during the coming decade.

Fourthly, I think it is timely for Government to step up the momentum to encourage more banks and other financial institutions to extend longer-term loans at competitive interest rates to industry for the installation of more up-to-date machinery and other capital equipment. I am glad that the Financial Secretary is looking into the question of more availability of venture capital for Hong Kong industry.

The Bank of China and its affiliated banks are reported to have extended \$4 billion in loans to local industrialists last year, and that 90 per cent of such loans were granted to small and medium-sized companies. I am sure that other banks are doing the same thing with varying degrees of involvement, but I would urge that Government be seen to more positively stimulate such a trend among local financial institutions.

In closing, I would like to reaffirm my support for Government's policy of positive non-intervention in industry whereby Government does not intervene in the working of the free market, is fully committed to providing necessary industrial support facilities and technical back-up services, and above all, from now on more positively goes about building up the technological infrastructure to enable industry to move ahead with greater momentum, whether related to industry generally or to certain sectors of industry.

Sir, I support the motion.

MR. CHUNG (in Cantonese): Sir, the three prerequisites in the development of industries are human resources; land and capital. Besides, one needs to consider the macro situation and make use of the favourable investment environment and overall economic policies.

The investment environment in Hong Kong has been quite stable in the first year of its transitional period. However, our industries have to face many difficulties. While many manufacturers are losing out in the competition of hi-tech industries, others are beset by the trade restrictions in our overseas markets. Though there is an increase in the first nine months of 1986, in the long-term, we have to find solutions to the problems if our economic growth still relies on export-led trade.

The most serious problem facing us now is the decline in investment incentives. Ever since the Hong Kong dollar has been pegged to the US dollar and, given the weakness of the US dollar, our competitiveness has increased. This has resulted in an increase in orders and the investment in plant and equipment by manufacturers. However, most of these investments are short and medium term in nature, and few are long-term investments. In reviewing our present industrial policies, I think the most important thing is to try to attract

more foreign capital, to encourage investment and re-investment and to raise the level of technology. Businessmen's sole objective is profit and they will invest if there is profit to make. Thus, in order to attract foreign capital and stimulate investment, we have to create long to medium-term investment opportunities, and to convince the world that Hong Kong is the most suitable place for industrial investment.

I believe that Government's indirect support to our industries will be of great assistance in upgrading our industries and will serve to stimulate local people's interest in investment in new technology, new products and new markets.

As small and medium-sized factories constitute 90 per cent of our industries and university and polytechnic graduates only take up less than 3 per cent of the total labour force engaged in industries, many of our manufacturers cannot cope with high technology and industrial diversification. The Government can therefore help in the development of our medium and small-sized industries in the following ways:

- (i) The Government should promote industrial diversification and give all kinds of assistance to our manufacturers to make them aware of the importance of high technology and the technical know-how and that they should not rely solely on materials, energy and abundant labour supply as in the past. We are facing the challenge of new technology and if we do not move forward, we will lose our competitiveness in the world market and our small and medium-sized industries will suffer great blows.
- (ii) We should expand industrial education and increase the number of technical subjects in our tertiary institutes. We should consider giving external degree courses and reinforce the training of technicians in our technical institutes. Most important, we should try to strengthen the link between technical institutes and the factories to give students a chance to put theory into practice and encourage them to work in the industrial sector after graduation.
- (iii) We should have a factory premises ownership scheme similar to the home ownership scheme. The idea is to provide factory premises of various sizes under preferential mortgage rates for investors, thereby stimulating investments in plants and industries.
- (iv) Even though the Productivity Council is providing all kinds of assistance to raise productivity and is charging small and medium sized factories preferential rates for the services, I still feel that this is not enough. I think the Industry Department and the Productivity Council should join forces and approach individual small and medium-sized factories to make them realise the importance of new technology and the need to raise productivity. Furthermore, we should promote the development of new technology in order to help our industrial diversification.

- (v) I know that medium to small-sized factories face many problems and the Government could help the relevant manufacturers to find the necessary know-how to overcome their problems and to improve their products. To do that, I think the Government can conduct researches into the problems commonly faced by our manufacturers and publish the results of such research work in periodical journals. The Government can also introduce the technical journals from overseas and also conduct technology seminars to help small and medium-sized factories.

I think that the setting up of a Hong Kong industrial development fund will help to promote industrial diversification and the development of our small and medium-sized factories. The fund can take one of the two following formats:

- (a) The Government can allocate the sum from our reserves and appoint an industrial development fund committee to manage the fund and charge a 0.2 per cent surcharge on the export value of our goods in order to service the fund.
- (b) The Government can work together with the private sector, namely, the Government can appoint a board of directors consisting of representatives from the Government, the banks and the industrial sector. The sources of the fund can come from the purchase of preference shares of the fund by the directors or from bonds or shares issued by the fund in the stock market.

The fund can also engage in other activities, for example: to provide preferential loans to small and medium-sized factories, to support industrial merges and take-overs as well as to facilitate the transfer of technologies. The fund could also flexibly be engaged in other types of capital investment. Furthermore, the fund could be used to reward, subsidise or purchase industrial inventions.

Everybody will realise that our industries are facing a period of transformation, and there is a need for automation and computerisation. However, most of our industries are traditional small and medium-sized factories, and the manufacturers as well as the 800 000 workers cannot immediately cope with the necessary changes. As a result, our industrial investments are not very high at the present and industrial development is really a very serious problem. Overall speaking, I think we need a more comprehensive industrial support scheme and I have spoken on the various questions related to manpower, land and capital.

Of course, we also realise that the tertiary sector is also very important. This is a natural outcome as we approach automation. Hong Kong can now manufacture advanced telephones, computers and other electronic equipment. Therefore, many of the labour intensive industries are beginning to hire fewer and fewer workers. But this should be a gradual transformation. We cannot ask all our manufacturing workers to join the service sector or the financial sector immediately. I think the reform of our industries should be built on our existing foundation and if we encounter problems, then we should give them the necessary support so as to achieve our objective.

MR. CLYDESDALE: Sir, like all councillors speaking this afternoon, I recognise fully the importance of manufacturing and processing industries to the health and strength of our economy, not only as an export earner of great magnitude and as the catalyst for the development of many of our service industries but also, and perhaps, more importantly as an employer of people, a creator of wealth, a spur to innovation and invention and an essential contributor to our social stability.

I have heard statements from knowledgeable and sincere people from time to time to the effect that manufacturing is losing ground to services as a contributor to our GDP growth. The media have sometimes repeated this theme with the unwritten implication that, somehow, the production and processing of goods for the markets of the world has become less important and perhaps, in time to come, can and will be largely replaced by services so that Hong Kong could once again become, as indeed we were a century ago, a service centre for China and South East Asia.

Nothing could be further from the truth. The service industry already contributes a larger proportion to the GDP than manufacturing. But many services depend heavily on manufacturing for their own expansion and development. Banking both directly and indirectly depends on industry. So does exporting and a substantial proportion of our importing as well. Shipping, insurance, air transport and a dozen other services that support and feed upon manufacturing rely heavily on our continued ability to manufacture the kind of goods that consumers in other countries want and are willing to pay for. Manufacturing itself, as a broad function, employs nearly 900 000 people directly and, as I have suggested, many many more indirectly. These 900 000 employees and the take home pay they earn represent the core of our social system and their expenditure sustains our internal distributive and retail sectors. No other sector of employment comes close to manufacturing in its contribution to our overall well being. Blue collar workers have played, and will continue to play, an essential role in our society.

It is therefore, in my view, extremely important that the Government should be able to monitor the development, the strengths, the weaknesses and the problems of this essential sector of the economy. I acknowledge that this is more than usually difficult for at least two reasons. Firstly the Government follows a non-interventionist non-subsidy policy towards manufacturing which means, among other things, that the Government does not obtain industrial statistical information on production and other important elements of manufacturing by legal requirement, thus making it difficult for there to be a continuous statistical framework within which the trends of production can be readily assessed. There is also no organised system, as in many countries, by which industrial growth opportunities, early warning signs of problems arising for manufacturers and possible solutions can be determined. The Government's policy towards manufacturing industry has been to provide, as far as possible, the infrastructure and

some of the institutions which industry has clearly needed and could not provide for itself. In other words, the Government has reacted to need after the need has become sufficiently strong as to be obvious to all. There have been times when even this support and assistance has been provided very late in the day.

Secondly—and this is a particular problem for planners at the senior government level—our manufacturing industry is geared to demand in major markets thousands of miles away and very different in character to our own. We produce largely to the designs of others, to the specifications and standards set out in our market countries and we must relate our costs and prices to what the consumers in these countries will pay. We have no domestic market of a size which would make sense to our principal industries and even if we did it would still be open to the goods of every other country in the world. Our application of the free trade principle is so absolute that we have no legal means of restricting imports even if we wanted to. Our manufacturers then must assess their own markets and must develop their own products essentially by themselves and without any form of direct assistance or protection. That is the policy we have long followed and, to date, it has proved eminently successful.

It is, however, abundantly clear that Hong Kong's manufacturing industry is already experiencing constant and increasing pressure from competitors who seek by all means at their disposal to expand their share of the same foreign markets we are selling into. Essentially these are the developed country markets and there are only a relatively few of them. All our efforts in recent years to diversify our market base have been largely unsuccessful, except for China, and we rely on only six markets for a very large proportion of our exports.

The Governments of a number of the countries which compete most effectively against us follow very different industrial policies to our own. Some have been prepared to spend large sums of public money on specialised technical training, on industrially oriented tertiary education, on research and development at both the tertiary and production levels, in setting up special institutes of learning and training related to industry and, of course, in protecting infant industries and subsidising others including those with foreign investment representing desirable high technology. For example, Taiwan and Korea have registered strong and significant industrial growth and technological expansion in recent years, partly as a result of a determined Government policy towards the promotion of domestic industry and the introduction of higher technology through various incentives. These Governments try to look ahead and to interpret the signs so that their planning of support and other services for industry may be timely, comprehensive and effective. They also rely on overseas markets to a very large extent and so are subject to the same problems as we in Hong Kong experience when trying to determine where our industry might be going and what we should do to assist it to get there.

Manufacturing today is no longer a simple matter of assembly and packing. Those manufacturers who wish to survive must constantly strive to produce higher quality goods with higher value added and aimed at a higher market segment. This needs better trained workers, better motivation and management, better productivity and better support services. It also means higher quality production equipment and probably higher cost materials and components. It certainly means that the manufacturer must look further down the line for payback of his investment. Reinvestment also requires much greater thought than ever before. Manufacturing is increasingly sophisticated and interdependent with other industries and services. The computer age has brought huge benefits but also many new challenges to manufacturers.

Hong Kong has recognised at least some of these challenges and bit by bit, but not necessarily cohesively, has managed to put together a number of supporting services quite vital to the continued development of industry. This process, including the development of industrial and technical training in our universities, polytechnics, technical institutes and special training schemes, has not been very well co-ordinated and has required almost continuous pressure from industry on Government over a period of many years. At present, thousands of our young people go overseas every year for tertiary educational training largely because we do not have the university places available here to meet the great demand. The cost of these overseas students to their parents and to the Government (by subsidy) would probably have paid for a substantial expansion of university places on our own soil. We have been slow to react to the need for expanding tertiary educational facilities, essential to our long-term economic development. A detailed study of the changing situation which I have tried to describe and its implications for the future provision of the educational facilities required would be helpful.

Productivity training is clearly essential for manufacturing efficiency. In 1986-87, we are spending about \$54 million on the Hong Kong Productivity Council and the Centre although this includes a supplementary provision for a special project valued at \$19 million. This contrasts with \$210 million on essentially export promotion through the Hong Kong Trade Development Council. Whilst I fully support the TDC programme and expenditure, I think we should remember that we must produce high quality products before we can promote their sale. I believe that a detailed examination of our productivity training and consultancy services should be carried out to see whether the existing services are adequate for the size and technological character of our industry.

Management training is largely provided by the private sector itself with the support of the Hong Kong Management Association. Here too, it seems to me that we have not recognised quickly enough the need for management knowledge by our young managers. There should surely be management training facilities in all main districts of Hong Kong organised or co-ordinated

by the HKMA. It is interesting to note the very small expenditure of public funds which is now rather unwillingly allocated to this important organisation. In 1986, only \$100,000 was provided. This seems to me a niggardly sum requiring re-examination.

Sir, I do not seek to complain about past delay and tardy consideration of industry's requests and proposals for improved facilities. Rather, I am trying to indicate that we should use our experience of the kind of problems with which we have had to deal during years, indeed decades, of uncertainty and speculation about the importance of our manufacturing industry to ensure that we take an enlightened view towards its future and that we seek by all means to assess its possibilities, its problems and their likely solutions.

I think we have tended to take an ad hoc view of industrial development for many years, dealing with problems and needs as they become impossible to ignore. We take pride in reflecting that we do not have an industrial policy as such, a comprehensive record of what we do and intend to do for industry. Whilst production systems and consumer demand were relatively unsophisticated, it was perhaps not necessary to have detailed industrial planning or plans. But times have changed and if we accept that industry continues to be vitally important to our economy, then I suggest that we must have much more information on its performance and its potential than we have now.

I believe therefore that the Government should now begin the process of updating the 1979 Report of the Advisory Committee on Diversification in order to provide us with a professional study which will highlight important trends, achievements, needs, problems and supporting facilities relevant to the continued development of an aggressive and efficient manufacturing sector. If this proposed study is felt to be too large in scope, then a series of related studies could be carried out to the same end. Co-ordination is however essential if we are to assist industry to go forward with confidence.

The Industrial Development Board should clearly consider this matter and I would hope that this can be done quickly. If necessary, international experts should be employed to assist in the study since our industry is obviously internationally oriented and subject to international market and technology influences.

In closing, the Industrial Development Board appears to meet and carry out its very important work in what could be described as a rather private manner and does not at present appear to have any formal link with major organisations such as, for example, my own, the Hong Kong General Chamber of Commerce, which represents large numbers of manufacturers. There is no distribution of papers beyond its ad personam membership nor it seems, for example, is my organisation asked to provide advice or information to the

Industrial Development Board. This is a strange state of affairs and should be swiftly examined. In this day and age, the principle of direct representation for the major organisations on government boards and councils which have the task of advising the Government on essential and fundamental policies on trade and industrial development is surely the right one to follow. In this regard, the Labour Advisory Board is a very good example of balanced tripartite representation which clearly works well.

MR. HO (in Cantonese): Sir, service industries have been playing a more important role in Hong Kong's economy in recent years. The ratio of employees in the service sector to the total employment figure is also increasing every year. By producing immeasurable wealth and securing the status of an international financial centre for Hong Kong, service industries have made an indisputable contribution to the community. Nevertheless, I cannot agree with those who doubt that industry is the basis of Hong Kong's economic development. My colleagues in this Council have pointed out on different occasions that industry is a pillar of our economy which provides many employment opportunities and is the foundation of our prosperity. It is difficult to imagine that the service sector could remain uninvolved and continue to prosper when the industrial sector as a whole is suffering from depression. It is certain that the revenue from industries will remain the major source of income for the service sector. To maintain the vitality of our industries will be a target which we all must work for with concerted efforts and a responsibility of the Government which it cannot shirk.

Sir, according to the findings of a survey, the production cost in Hong Kong during the period 1977-83 has increased by 4.4 per cent. The increase is due to the formulation of various labour law. The effect of the long service payment scheme has not been taken into account yet. We may envisage further increase in production cost in the years to come following the formulation and implementation of environmental protection legislation. Sir, I do not object to the provision of reasonable measures to safeguard the workers' interest. I also agree that we need to pay for the protection of our natural and ecological environment which belongs to everyone and our offsprings. But I must point out that these requests will inevitably increase the burden of the industrial sector. If the Government only imposes all sorts of restrictions without providing active support concurrently, Hong Kong's industrial sector, especially the small and medium-sized enterprises, will have to face more and more difficulties. When entrepreneurs feel that their profits are at risk, it will be difficult to urge them to further invest. Under such circumstances, it is impractical to believe that the regulation of the market mechanism will automatically boost industrial investment. I am not exaggerating in order to alarm people but when the entrepreneurs' desire to invest subsides and people are underemployed, our prosperity will be undermined. All the well-intentioned ideas will then turn out to be detrimental to Hong Kong's overall interest.

Sir, some people accuse the Government of being indifferent to the industrial sector. I cannot agree. Actually, the Government has provided various back-up services to the industrialists through the Industry Department, Hong Kong Productivity Council and the tertiary education institutions. These support facilities include the Standards and Calibration Laboratory and the Hong Kong Laboratory Accreditation Scheme, a series of research studies on major industries in Hong Kong and the proposed 'Science Park'. Such efforts should certainly have our affirmation and applause. But the question is: are these efforts made by the Government sufficient? Are these measures effective? It is understood that the promotion campaign launched by the Hong Kong Productivity Council to upgrade the quantity and quality of products had not been as successful as expected and the response from operators of middle and small-sized factories is particularly disappointing. Besides, the current research studies and existing support facilities relate mainly to the established industries. Obviously, the Government is not taking positive measures to introduce new industrial items and expand the industrial base so as to diversify our industry. If the situation does not change, the economy of Hong Kong will continue to depend on the performance of domestic exports and our economic growth will be determined by the demand of buyers in our overseas markets. It implies that we will have to constantly compete with our rivals for the overseas markets. However, as we all know, we are gradually losing our advantageous position to our competitors in the Asian region in terms of production cost, foundation for scientific research and government assistance. Hong Kong will find itself in an increasingly difficult situation.

Sir, I fully support the appeal made by the hon. Stephen CHEONG during last year's Budget debate that it was the right time to review our policy on industry. Not only should the Government inform this Council what measures have been taken over the past years, it should also appraise the effects of these measures and see whether they are still applicable in the years to come or if they need to be improved. Since the completion of the Report of the Advisory Committee on Diversification in 1979, there have been a number of significant changes. For instance, with the closer ties between Hong Kong and China, it is very common for businessmen in Hong Kong to set up processing factories in the mainland and it is also possible to run projects in conjunction with scientific research units in China. There is a rise of protectionism in world trade. The progress made by our trade competitors and the expansion of the local service sector that I mentioned earlier on are all new developments that the Government should take account of in reviewing the existing policy and formulating its future policy on industry.

Sir, it takes time to develop our industries. If we want to maintain a prosperous industrial sector and a thriving economy in future, we must review and plan now.

MR. LAI: Sir, Hong Kong's economic performance in 1986 was gratifying by most counts. Various economic indicators throughout the year in general and in the third quarter in particular, point to the fact that recovery of the economy is well under way. Encouraging signs as reflected by the increases in retained import of capital goods and retained import of raw materials and semi-manufactures convince me that investment activities will be bouyant for the next little while. While not intending to appear alarmist or pessimistic, which I am not, I still consider it premature to self-congratulate for such noteworthy developments. The major factor underlying the recovery is the depreciation of the Hong Kong dollar which enhanced the competitiveness of our product. We must not be complacent. Industrial development requires foresight, planning, a comprehensive strategy and of course its namesake, industry: the industry of businessmen, labour and, increasingly, Government.

Coming off a good year in economic terms, this may be a suitable time to examine the foundation of our industry and address possible underlying problems that may adversely affect its growth.

The growth of Hong Kong's industry is constrained by the particular nature of her markets, domestic and external, and her trading relations with the rest of the world. As well, her physical limitations have largely defined the characteristics of her industrial endeavours.

The non-availability of low cost industrial land, lack of a sizable domestic market, need for heavy capital outlay have diminished the prospect of developing heavy industries in Hong Kong. In the era of high technology, Hong Kong must adapt to this prevailing trend to stay competitive. However, the development of genuine hi-tech industries in the order of such undertaken by the United States, Japan, Western Europe, or even South Korea and Taiwan demands conditions that is difficult for Hong Kong to provide.

The massive capital commitment with high risk and long pay back period that come with hi-tech ventures do not suit Hong Kong industrialists' craving for quick returns and profits. Besides, the scale of operation of Hong Kong's manufacturing industry is too small to take on such ambitious projects. The average size of a Hong Kong factory is 17 people; it is impossible to ask an average firm to take up research and development in any field.

Thus the strategy that should be considered is the utilisation of existing advanced technologies instead of concentrating ourselves in and allocating our resources to the task of searching for new untried innovations. Technology transfer will enable local industries to apply the latest technologies to their needs and improve their value-added performance.

The value-added performance of Hong Kong industry is a major area in which structural change is warranted. Assembly type manufacturing still dominates our industry, but the value-added content for our manufacturing industry only amounts to 28 per cent of the final value. This compares

embarrassingly with that experienced by other newly industrialised nations. The value-added performance of South Korean products, for instance, reaches 80 per cent of the final value. We can no longer take advantage of our low-wage labour in the assembly mode of industry to be our competitive edge. We must replace our labour intensive industries with technology intensive industries to enhance the value-added performance of our economy.

Sir, one way of improving our well established, traditional industry is for the Government to introduce a field force comprising experienced industrial workers who can relate to the daily running of an average factory and the problems it may encounter. This field force may on one hand actively approach the factories and find out areas in which improvement in work process is needed and of which the factory owners or managers may not be aware or know how to deal with, while on the other hand promote the services of the Hong Kong Productivity Council, the Trade and Industry Department and other industry support organisations that are available to them. The target of this field force should be the medium-size factories where they have the willingness and resources for improvements but not a special department for the task. This approach is a more active measure to transform the existing traditional industries in general which should be able to upgrade the quality of production in the long run and further the utilisation of available industrial capability enhancement infrastructure, namely the Hong Kong Productivity Council, the Vocational Training Council and the Trade and Industry Department. Among other developing nations in this region, I understand that South Korea, Taiwan and Singapore have already established such task force to handle the needs of their respective industries. Drawing from their experience, I believe that this kind of industry support system will be beneficial to our industry as well. Other measures, such as the help with industrial loans, commercial facilities, equipment leasing, accommodation planning and assistance in overcoming environmental restrictions will go a long way to improving the total capability of small and medium industries.

Another step in the direction of enhancing the competitiveness of Hong Kong industry is the improvement in our design capability and the quality of our personnel. Only with highly trained personnel and innovative industrial design can we accomplish the goal of transforming the traditional mode of assembly industry to technology intensive activities. The improvement of the human factor in the industrial equation calls for considerable commitment from the Government. It is a pleasure to note the efforts being made by the Government in this regard.

The pilot project of sending qualified electronic engineers abroad to acquire advanced training in Applications Specific Integrated Circuits (ASIC) technology indicates the initiative taken by the Government to upgrade industry support infrastructure. This kind of scheme to facilitate technology transfer may only be a short-term incentive for the corporations to set up advanced

technology industries in Hong Kong, perhaps we should also look into the possibility of establishing a permanent research institute with fundings from Government and industry to provide specify technological application facilities.

Sir, as the deputy chairman of the Hong Kong Productivity Council, I am proud of the role it plays in facilitating the application of appropriate advanced technologies to various businesses. Over the past five years, the demand for its services has grown at an average rate of 25 per cent per annum, and it is now serving over 4 000 companies annually. The favourable reception to HKPC's proposal to establish a permanent base in the Special Purpose Building reflects the significance accorded to it. However, despite its substantial contribution to the transfer and application of technology, the Government has not agreed to upgrade the terms of services of its staff to a level comparable to that those of other subvented organisations, such as the Hong Kong Polytechnic, the Trade Development Council or the Vocational Training Council. Without active encouragement from the Government, HKPC will remain entrenched in staff difficulties, which will in turn affect its future development.

The internal restructuring of our industry must be effect in conjunction with the diversification effort. As mentioned herein before, the health of our industry, hence our economy is dependent upon the well-being of our export market. With the upheaval of international trade-protectionist sentiment, especially in the United States, whose market accounts for over 40 per cent of our export, we must equip ourselves to face the onslaught of protectionist legislation. Our export-led economy with open market without trade barriers is all the more vulnerable in an international trade war. Diversifications in market and product seem to be active measures to ride out the storm.

This is not a new call. But with our export market still heavily dependent on the US, may be we need to step up the pace of our effort. With the defacto devaluation of our currency because of its peg to the ever falling US dollar, we experience quite sizable increases in export recently. But we can export strong pressure from the United States Government to adjust the exchange rate in helping it improve its export performance and foreign payment deficit position. The question is how much longer can we enjoy the advantage of the weak dollar?

We must fully develop our marketing potentials in other promising markets like Japan which enjoys a boosted buying power in relation to the rest of the world because of the rising yen; or Taiwan which has a trading surplus larger than she knows what to do with. Of course, there are many obstacles to the entrance to these markets, but the potential gain to our economy is definitely worth a harder try.

In terms of product diversification, because of the physical constraints imposed by the kind of industrial activities we can undertake, perhaps we should look into other light industries which have not been fully exploited yet.

For instance, the food processing industry is one that shows hopeful signs for further development; the value-added and market potentials deserve our closer attention. With the enhancement of product design and marketing, it is hard to foretell the limits of the achievements this industry can accomplish. Another industry that can accommodate further growth is the traditional Chinese carving industry. Hong Kong possesses many skilled craftsman, and her Chinese furniture, especially rosewood furniture, always enjoy quite a favourable market. With proper nurturing, a more prominent position in the world market is envisaged.

In this era of fast technological development and capital formation, venture capital has been proven to be of valuable assistance to the application of advanced technologies and innovations in industrial endeavours. I call on the financial circle to give the concept a thorough examination. The well-being of our industry is a concern of each sector of our society and every means of effecting its progress and reformation must be attempted.

Sir, at the beginning of my speech, I mentioned that the development of our industry demands the industry of businessmen, labour and the Government. The traditional attitude of non-interference of the Hong Kong government towards our economy may not be the best policy in this period of fundamental structural change. Active assistance in helping the transformation of our traditional industries as well as developing new, technologically advanced ones should not be seen as contradictory to the conviction that Hong Kong is a free economy and should remain so, which is essential to the confidence of investors, here and abroad. The role of the Government should not be limited to providing a stable and free economic environment for investors; the scope of involvement should encompass the development of industry support measures in human resources and in an infrastructure that is instrumental and conducive to the transfer and exploitation of technology.

Finally, Sir, I strongly call for the Government's direct active support and participation in the establishment of the necessary industrial infrastructure, so that the development of the industry in Hong Kong will be one with purpose, direction and renewed energy.

MR. NGAI (in Cantonese): Sir, 'industry' has in itself a broad sense and can include a multitude of sectors. I shall confine my speech this afternoon to the areas concerning the manufacturing sector and concentrate on industrial diversification and industries better suited for higher technology. I shall also touch upon the relations between Sino-Hong Kong industrial co-operation and Hong Kong economic growth.

Industrial development is a key factor contributing to our economic prosperity. Starting from the 1970s and going onto the '80s, there has been an obvious change in direction for our economic growth. The financial and services sectors have been growing by leaps and bounds and their effects on the overall

economy are becoming increasingly significant; as Mr. CLYDESDALE pointed out, many people thus are inclined to think that these sectors have replaced the manufacturing sector as the cornerstone to our economic growth. Viewed from its contribution to the Gross Domestic Product and its provision of employment opportunities, however, the manufacturing industry is still an important sector in our economy. But note that the threat of protectionism on our export markets is aggravating, the cost of production is rising continuously and the neighbouring industrially developed countries are posing keen competition. All these together make the manufacturing sector feel worried about their development prospects; these are the problems we need to resolve. If this situation is allowed to prevail and persist, manufacturers with decades of experience in industrial production would probably raise a doubt—what role will industry be eventually playing in the course of our future economic growth? What is the existing value of industry in the overall economy? Should we allow it to fall under the principle of ‘survival of the fittest in a state of keen competition’? Or should the Government adopt certain measures by which industry can continue to be the major element of our economy?

Today, I will be asking several questions and I hope that the Government will pay attention to these problems. First of all, I would speak on the importance of a balanced growth in our economy. Sir, I am all for the existing free economic system in Hong Kong but I believe more strongly in a balanced growth of our economy. I therefore tend to take a comparatively conservative and prudent attitude. Hong Kong is the most free and open commercial city in the world and with its system of low taxation and unrestricted capital flow, it can well be described as a paradise for investors and speculators. It is also because of these elements that the rise and fall of our economy is easily influenced by external factors. In view of this, I consider that our economy should be developed in a balanced manner and that each and every sector, be it the manufacturing industry or the financial services sector, should have a reason and value for its existence. If too much attention is paid to a particular sector, if the prosperity or depression of certain basic industries are completely neglected, it will only sow the seeds for an unstable economic community. I believe that the Government has accumulated some valuable experience after having utilised huge amounts of resources to maintain a healthy financial structure. I consider that the Government should also set aside funds towards the strengthening and development of our industrial bases.

Now I would talk about the long-term policies for structural changes in industry. In order that the manufacturing industry might bring about balanced effects to our economy, the Government should devise long-term policies to allow for structural changes in industry. It is an essential course of development for labour-intensive industries to change progressively into capital intensive and technology-intensive industries in a bid to manufacture higher production cost and more diversified products. However, it will not be easy for us to really attain industrial diversification and enhance the level of production technology. Let us

take a look at those industrially developed countries in Asia like Japan, South Korea, Taiwan and even Singapore. They have more advanced industrial technology and are thus in a better position to manufacture higher technology products than Hong Kong. One of the main reasons for this is naturally the direct involvement and support by their own Governments. However, in the case of Hong Kong industry in which medium and small scale manufacturers form its back-bone, it would not be an easy task to ask these manufacturers to conduct researches in the development of their products, to make investments in advanced production technology and facilities, to train and produce technical personnels as well as to seek to explore new markets for their products. I wish to state here specifically that I am not urging the Government to directly fund the manufacturing industry and to give directions relating to the course of industrial development from the Central Government like what the Japanese, South Koreans and Taiwanese are doing. This is naturally impracticable in Hong Kong with its present industrial scale and structure. In any case I consider that there are still certain important tasks that need to be promptly undertaken by the Hong Kong Government in terms of providing indirect support to our industry to help strengthen the existing bases and expand the areas for investment.

Now I would talk on the setting up a product research and technology development centre. To pave the way for industrial diversification and production of higher quality goods, an urgent task for the Government is to set up a product research and technology development centre to devise a systematic working programme under which it would give technical support and advice to manufacturers in respect of product research and development, creation in design and introduction and application of new technology and so on. Product research and development is a vital step in the enhancement of manufacturing levels. However, no outstanding performance in this particular respect has yet been seen in Hong Kong. I think there are two main reasons for this. Firstly, most small to medium-sized factories are limited by their scales of operations and the availability of resources; secondly, the idea of creating new designs in products is not yet mature. Therefore, it is necessary for the Government to perform its co-ordinating and supporting functions to help Hong Kong industry make a start and achieve systematic and steady progress in the course of product research and creation of designs. Otherwise, Hong Kong would fall behind its strong competitors such as South Korea, Taiwan, Singapore and so on.

As far as introduction and application of new technologies are concerned, the Government can make use of this centre to provide systematic and substantive supporting facilities in respect of technology transfer to enable them to have technical interflows with relevant organisations in advanced overseas regions on the one hand whilst improving their production techniques through the introduction of new technology and education on the other. Practical effects can only be achieved with the Central Government or its departments being charged with the responsibility for the planning and implementation.

I have made the same proposal in my policy debate speech in 1985 and I believe it is now timely to bring it up again because Hong Kong is having a more optimistic economic prospect than it had a year ago and should consider using more of its resources to further strengthen its industrial bases.

Fourthly, I would talk about the changing and breakthrough of basic industries. While Hong Kong industries are advancing into a technology intensive stage, we must first help in making substantial changes to our basic industrial products and explore the potentials for development in our major industries in order to fully use it to bring forth a breakthrough. As market demand shifts and the taste of consumers changes, we must find ways to improve our techniques, the quality of our production facilities and design and quality control of our products as well as conduct product research and development so as to maintain the competitiveness of our products in the world markets. This needs the co-operation of the manufacturing sector and the Government. The authorities concerned has employed consultants company to examine and make recommendations on the economic and technical aspects of our electronics, textiles and garments, and plastics industries. When the feasibility of these recommendations have been fully considered and after their gists have been identified, these recommendations should be implemented as soon as possible so as to help these industries attain a breakthrough in the production of new products and the exploration of new markets. As a part of our industrial policies, I would propose that regular reviews be conducted in individual sectors on our industry.

Now we talk about relations between Sino-Hong Kong industrial development and Hong Kong economic growth, China presently adopts an open economic policy and this provides very favourable terms for co-operation in technological research and industrial investment between China and Hong Kong. In the course of developing technology-intensive industries, Hong Kong will likewise benefit if it could come into co-operation with China. There have been established in China various technological research institutions and under the 'Four Modernisation' national policy, she can provide much better terms in respect of the scale, sphere, environment and conditions for research work. It should be a worthwhile subject for further studies as regards how Hong Kong and China should mutually utilise the intelligence resource and technological capability of the other party and how they should promote co-operation between themselves. I personally believe that the following can be done as a start:

- (1) The Industry Department can liaise, through proper channels, with major technological research institutions in China in order to understand whether the areas covered by their researches are applicable to our industry. The authority should also, after having built up the liaison network, consider forming delegations consisting of interested manufacturers so that they can conduct feasibility studies on the spot to decide if the new technologies can be applied to Hong Kong industry.

- (2) The Industry Department should give positive guidance and support to Chinese-funded enterprises, particularly those in co-operation with our manufacturers in technological research work and make use of our satisfactory infrastructure, communication facilities and export market network. Hong Kong can at the same time act as the base for Sino-Hong Kong joint venture projects in introducing foreign advanced technology. Hong Kong is well poised in providing more modern and efficient managerial experience and these conditions can make Sino-Hong Kong industrial co-operation become a worthwhile new course of development. The Industry Department has been quite successful in the past in promoting industrial investment and it has accumulated some experience in this respect; this would thus be an easy task.
- (3) China and Hong Kong can effect interflows of technologies by mutually sending technicians to participate in research studies on the spot.

Sir, to conclude my speech, I wish to reiterate that intensive technology, products diversification and higher quality production are the essential phases in the course of industrial growth. In order that our industry might breakthrough its present conventional structure and successfully advance on to this important stage at an early date, I consider that new industrial policies and new supporting facilities are just indispensable.

PROF. POON: Sir, Hong Kong has had to try hard to acquire the status of a highly-competitive city state in the world market. If this status is to be maintained despite the continual threats from neighbouring Asian competitors, Hong Kong has to strengthen its foundation of trade by ensuring that its industrial and economic development is put on the right track on a medium to long-term basis. Doubts about Hong Kong being on the right track have been expressed from time to time by various people. For example, one suggestion is that Hong Kong does not apply high-technology sufficiently enough to maintain the momentum of industrial development.

In order to remain competitive in the world market, Hong Kong should aim at moving into high value-added production, diversification of its industries and expanding its use of high technology. Towards this end, one important and necessary step for Hong Kong is to strengthen its research and development in high-technology. But it does not mean that, I must emphasise, that Hong Kong should compete with other technologically advanced countries, such as the USA and Japan. These countries are always at the frontiers of high-technology and Hong Kong is unlikely to catch up with them with its present resources, not to mention the lead time for the process. In other words, there will always be a gap between the technological levels of Hong Kong and other advanced countries.

At present, Hong Kong's role in dealing with high-technology is that of a 'matchmaker'. That is, some agencies such as the Hong Kong Productivity Council import high-technology for application in the local industry. But local

industry is keen only to match the externally developed technological processes with local industrial production to ensure that the imported technology is utilised effectively. As a matter of fact, not much effort is made to understand the technology itself. This 'matchmaking' deal is very profitable in the short term but much less so in the medium or long term.

One of the disadvantages from which Hong Kong suffers badly by applying borrowed technology blindly is the lack of flexibility in industrial production. That is, any innovations in products which warrant changes in the technological processes adopted, make it necessary for the replacement of the old system with a new system. This method of industrial production would in the long run increase production costs and detract from a sound economic base necessary to sustain industrial growth at the level required to ensure the continued competitiveness of Hong Kong in the world market. However, if sufficient research is conducted prior to technological transfer, the technology can be comprehended, and it will no longer be a 'blackbox' which is unknown and mysterious. This will enable local industries to purchase only the relevant and adaptable parts of externally developed high-technology rather than importing complete systems. Furthermore, changes in technological processes will no longer then mean the purchase of a brand new technological system but only a modification of the present system, hopefully, locally.

In this connection, Sir, I am indeed very happy to learn that the Industry Department intends to develop links with those foreign industrial organisations which exist wholly or in part to promote the transfer of technology on a mutually beneficial basis. I understand that several such organisations in France, Germany, Japan, Switzerland and Scandinavia have already been identified. I would very strongly suggest, if I may, Sir, that action in this direction needs to be expedited to ensure that a workable machinery for technological transfer is established in Hong Kong either before the end of this decade or very soon thereafter.

The machinery should not only provide an effective framework for the transfer of technology from various sources abroad, but should also promote and strengthen research and development in HongKong. There may be scope in some areas for Hong Kong to develop its own technology and its own systems, for example, applications software for CAD/CAM. This does not require sophisticated equipment or large capital investment. Local expertise should be adequate to develop applications software to suit local needs.

This is just one example. There may be other areas where local expertise could be utilised to the full benefit of Hong Kong. My firm conviction is that strengthening of research and development activity locally is a prerequisite for technological transfer. A judicious combination of the two activities should produce conditions of integrity, dependability and soundness for the economy of Hong Kong.

Utilisation of local expertise effectively would enhance the speed and success of research and development. In fact, most of the local expertise could be found in universities and polytechnics in Hong Kong. For example, over 60 well-qualified professional engineers and many scientists in different fields could now be found in the University of Hong Kong alone. A majority of them have studied and worked abroad and therefore collectively have a wealth of experience and expertise. It is a well-established practice in technologically developed countries, such as USA, United Kingdom and Japan, for industries to co-operate with tertiary institutions in research and development work.

A central body is required to co-ordinate the relevant market researches, to identify areas of technology transfer and local research and development and to act as a central funding agency to ensure that the researches are adequately funded and priorities are properly established. A scheme to diffuse the technological know-how to industry could then be developed. Of course, it does not mean that the Government will be 'subsidising' any specific industry if the results of research are made available to local manufacturers. In fact, Government should consider ways of asking local manufacturers who may have benefited from these researches to pay for the technology provided. In this way, the Government will only be investing in researches of a particular technology, but not subsidising a specific industry.

This central body could provide a useful information base and even promote relevant technology locally from time to time. In addition, the body could organise seminars to promote a more intelligent use of technology than is presently done by local manufacturers.

Adequate arrangements for technology transfer coupled with promotion of research and development at an acceptable level would provide the required vitality and strength for Hong Kong industry on the technical side. Another important requirement is the strengthening of the infrastructure to support industrial development.

The Industry Development Board has in fact been functioning as the central body currently. In this capacity it has done significant and commendable work and must be congratulated. However, I hope it would be possible for the board to conduct market research more regularly and intensify its activities in other areas which I have just described.

The Government's non-intervention policy is justified on many grounds but non-intervention must not be interpreted in a negative sense, especially in view of the fact that Governments of neighbouring countries are making strenuous efforts to support industrial development aiming at the international market within their own countries. An example of government participation compatible with the non-intervention policy is, as I have said before in this Council, the setting up of a sterilisation plant which, I believe, would facilitate the growth of a number of industries in Hong Kong.

Finally, in addition to manpower training facilities available in local tertiary institutions, the Government should consider setting up training centres to train technicians and other types of persons to cope with the increase in the application of technology in industry. Local training facilities should be supplemented by overseas training courses sponsored by the Government as necessary, especially where new technology is involved. I am very happy to hear that the Industry Development Board has recently decided to send some local engineers overseas to receive training on Applications-Specific-Integrated-Circuits technology.

One final point I would like to make is that Hong Kong should explore the possibility of co-operating with China in researching on, and making the best use of, high technology. With the plentiful resources in China and China's keenness on working towards a similar goal, I am sure the industrial development of Hong Kong will then be on the right track. The versatility of the Hong Kong entrepreneur, the abundant resources of China, and the common goal of using advanced technology for ensuring steady and sustained industrial growth, provide avenues for collaboration with China, which should not only be mutually beneficial, but also help in laying the foundations for future collaborative developments between Hong Kong and China, in and after 1997.

MR. TAM (in Cantonese): Sir, in today's adjournment debate, my colleagues in this Council have already dwelt on many problems worthy of attention in the development of industry in Hong Kong. I would now like to express some views on the importance of improving labour productivity to the development of industry in Hong Kong and on how labour productivity could be improved.

It is popular belief that the foremost enemy of Hong Kong's industrial exports is the ever-growing trend of protectionism throughout the world. But according to certain information, Hong Kong's export business is not only affected by protectionism; it depends more on the competitiveness of Hong Kong products and on local technological and manufacturing standards. In fact, to evaluate the success of Hong Kong's industrial exports must take into account the local ability of supply and not just the demands of overseas markets. In 1985, Hong Kong's exports to USA dropped by almost 7 per cent. But during the same period, other Asian countries and regions like Taiwan, Japan and Singapore attained a growth of almost 10 per cent. This is good evidence of the weakened competitiveness of our products. Therefore, we should not focus all our attention on protectionism. This is because we could still deal with protectionism by exploring new markets or diversifying our products. But if our products themselves are short of competitiveness, the problem would be more difficult to solve.

In talking about the drop in competitiveness of our products, some employers would attribute the cause to the continual enhancement of labour benefits over recent years.

As a matter of fact, the existing labour benefits in Hong Kong are lower than those in some Asian countries. The unit labour cost in Singapore and Taiwan is higher than that in Hong Kong by 50 per cent and 31 per cent respectively, while that in South Korea is similar to Hong Kong's. Hence we should not merely think of reducing labour expenses; what is more important is to find out how to increase production with the same input, that is how to enhance Hong Kong's labour productivity. This would be beneficial to employers and workers alike.

According to statistics of the Asian Productivity Organisation, the annual growth rate of the added value of Hong Kong's manufacturing industry between 1970 and 1982 was but 5.6 per cent, not only is this lower than South Korea's 14.1 per cent, Taiwan's 10.9 per cent, and Singapore's 9.3 per cent, but it is even lower than Thailand's 9.2 per cent and Philippines' 6.1 per cent. This shows that the growth rate of the added value of Hong Kong's industrial products is slower than that in other Asian countries and regions. It also shows that the growth rate of Hong Kong's labour productivity is slower than that in other Asian countries and regions. The causes include: insufficient industrial investment, the shortage of training and research facilities, the development and application of technology is not quick enough, the design and quality of products still require improvement and the lack of positive promotion of industry by the Government and so on. All these factors should not be overlooked. Since my colleagues in this Council have already made in-depth analyses on them, I am not going to repeat here.

According to experience in many developing countries, there is no alternative but to improve labour productivity if a country wants to continually satisfy the expectation of its people toward themselves and their children for a better living standard. Since Hong Kong is short of natural resources and its economy is based on exports, the importance of improving labour productivity is all the more significant. Moreover, the improvement of labour productivity is the best way to raise the wages of employees without affecting the income of employers; it could satisfy employees' expectation for increase in wages and serves to promote the development of the overall economy. How to improve labour productivity will therefore be a challenging and indispensable issue in the future development of industry in Hong Kong.

The improvement of labour productivity could be attained through different efforts, for example on the technical side, by means of enhancing the degree of automation; increasing the application of technology-intensive production methods; speeding up technology transfers and application and reinforcing product research development. On the manpower side, vocational and on-the-job training could be enhanced to provide more opportunities for tertiary education and to improve the quality of workers. The Government has made certain progress in these aspects but there is still much room for improvement.

Now I would like to dwell on another aspect of improving labour productivity, that is, how management could improve labour relations. This aspect has aroused less public discussion but its significance cannot be overlooked. Although good labour relations alone might not increase labour productivity, yet without good labour relations, labour productivity definitely could not be improved, rather it would be reduced. If employers and employees are not on good terms, even the presence of new machinery and technology would not be able to function as effectively as they should. The momentum for improving labour productivity must be initiated by the management side, but if this momentum is to be sustained, the support and involvement of employees is required—in this respect, harmonious labour relations within an enterprise will be a prerequisite.

On the whole, the number of labour disputes in Hong Kong had been relatively small. Nevertheless, there were several large scale labour disputes last year which drew a lot of concern from the media and the public. From these incidents, we can identify some of the existing problems between staff and management, for example poor labour relations, insufficient channels of communication, distrust between staff and management and so on. The solution to the above problems lies mainly in the strengthening of direct communication between staff and management and mutual understanding of each other's wishes or difficulties. These incidents have also inspired us to realise that to strengthen labour-management communication is the key to better labour relations, as well as an important element in enhancing labour productivity.

Let me quote an example to illustrate the lack of communication between staff and management. Recently, I contacted a public utility company with several thousand employees, hoping to pay a courtesy visit to the company together with the union representatives of the said company. The purpose of the visit was to improve communication between staff and management. But the management of the company told me that I was welcome to make the visit without the union representatives.

The major cause of the lack of communication between staff and management is perhaps the fact that some employers are still adopting an outdated management method—running their company in a patriarchal style, declining to have direct and open communication with their employees, and discouraging workers from organising unions. Some employers even refuse to recognise the status of unions in negotiations. They regard welfare benefits for workers as a kind of privilege rather than a right. They emphasise flexibility in their management approach and would only guarantee welfare benefits to their workers by word of mouth and few things are written down in contracts. Instances like these will certainly worsen labour relations. As a result, workers cultivate no sense of involvement in their work and no sense of belonging to their company. Labour productivity is thus indirectly affected as well.

Sir, in line with their rising level of education and social consciousness, workers in Hong Kong also cherish greater expectations in life and become more ready to come forward to defend their own rights. Moreover, with a liberal political system, our society is attaching greater and greater importance to democracy and justice. So how can we still maintain such outdated management methods? Modern management should therefore lay more emphasis on bilateral labour-management communications and take the role of unions more seriously in such communications. The negotiation status of labour unions should also be recognised in labour disputes. The above measures not only help to prevent the occurrence and worsening of labour disputes, but would also strengthen the sense of belonging and involvement among workers and so stimulate their potentials. They are therefore, effective measures in improving labour productivity. Moreover, these measures require less resources than improvements measures on the technical and manpower side. By getting big returns with a small investment, it is certainly something worth going ahead!

SECRETARY FOR TRADE AND INDUSTRY: Sir, in making up the baker's dozen in this debate, my response to the range and diversity of subjects introduced by my 12 colleagues may best be assisted if I first outlined the Government's general approach towards our manufacturing industries, before proceeding to touch on recent developments. Of course, at the outset, I must stress that in the formulation and implementation of government policy for industry, the Industry Development Board has a pivotal role. It carries on where the Advisory Committee on Diversification left off. And I am glad to say that the board had a most useful and forward-looking discussion yesterday afternoon at which several colleagues who spoke before me today played their full part. The Administration will now work further on a number of the ideas raised yesterday and return to the board with its findings for their further advice at subsequent meetings.

General approach

The Administration takes the view that, because of the external orientation of our economy and the need to protect its ability to adjust efficiently, the performance of the economy would be damaged if the Government attempted to frustrate market forces or to plan the allocation of resources. While this does not rule out intervention, it clearly means that intervention should be undertaken only when it is in the long-term interest of the economy as a whole.

In practice this general approach means that, apart from ensuring the provision of the physical and legal framework within which private enterprise can operate successfully, the Government's main concern is to avoid frustrating individual enterprise and to seek to maintain incentives. To this end the size of the public sector is constrained, the tax burden is kept low and the tax regime made supportive of investment. Direct subsidies to business are avoided and market factors are allowed to be the determinants in entrepreneurial decisions.

In relation to manufacturing, this leaves room for support being provided by the Government for our manufacturers through educational programmes, the provision of industrial land, other public works and a variety of subvented or statutory business services like export promotion and export credit insurance, as well as specific schemes of industrial training, the productivity enhancement services of the Hong Kong Productivity Council and the quality promotion and inward investment services of the Industry Department.

Our objective at all times is to facilitate the growth of our industries by fostering their competitive strength on the one hand and by removing identifiable obstacles on the other.

Industrial development services

The first cycle of the techno-economic consultancy studies undertaken on the advice of the Industry Development Board is nearing completion. The electronics industry was looked at in 1983, plastics in 1985-86, the study on textiles and garments is nearing completion and that on metals fabrication and light engineering will start early in 1987-88. As a result, an overall picture of the strengths and weaknesses of the major manufacturing industries is beginning to emerge. The focus of our industrial development service is accordingly centred upon stimulating investment in productivity enhancement and quality improvement.

In the case of manpower training—in which the Industry Department and the Industry Development Board play an investigative role—the UPGC has agreed to devote priority to a larger output of electronics engineers in the next triennium and the tertiary institutions to modify their curricula, with a view to ensuring that their graduates become more knowledgeable in computer and microprocessor technologies. Furthermore, one of the reasons why our electronics industry may be lagging behind those of our regional competitors is that we have not yet caught up with the process technologies often associated with the present generation of highly miniaturised and specialised electronic products. By approving a commitment of \$6 million last November for a pilot training scheme to enable practising engineers to learn circuitry design abroad, with a view to returning to Hong Kong for work with semiconductor firms, the Finance Committee of this Council has recognised there are technologies the acquisitions and application of which is an essential step in the process of helping our industries to diversify and to grow.

Looking to the medium term future, there are technologies in the field of electronics that can usefully be acquired in this way. These include surface mounting, digital electronics, pattern recognition and networking. There are also relatively mature technologies that can usefully be imparted via more conventional methods of manpower training. These latter include better management training for staff at supervisory and middle management levels in the garments industry, in such areas as production control, cost control and reduction in lead times, and the provision of extension courses for training

engineers employed in the plastics conversion industry in the design of moulds and dies and the application of CAD/CAM.

Our productivity enhancement services are provided mainly by the Hong Kong Productivity Council, in the form of management and technical consultancy services and bureau services, and funds have been provided this year to enable the HKPC to introduce new services. As a result of the techno-economic studies that have been completed or are nearing completion, the suggestion has been made that further management consultancy services might be developed in support of the textiles, garments and metals industries, and that technical consultancy services might be developed to encourage the wider application of surface mounting in the electronics industry.

Quality promotion services, which involve the attainment of internationally recognised standards, calibration services and laboratory accreditation services, are currently provided by the Industry Department and they are of common application to all manufacturing processes. These services are quite well developed in technological terms, as evidenced by the accreditation of the Standards and Calibration Laboratory by Britain's National Physical Laboratory last year. The most logical progression for these individual quality promotion services lies in their orderly development in response to demand, and in securing international recognition for their integrity, so that certificates issued by the competent authorities here may become widely accepted by Hong Kong's major trading partners.

Turning now to inward investment promotion, steps are being taken to improve the mechanism for targeting foreign manufacturing firms, to develop contacts with foreign industrial organisations with a view to facilitating technology transfer transactions, and to reinforce our industrial promotion offices located overseas.

Infrastructural support

In providing infrastructural support for our manufacturing industries the Government seeks to ensure that an adequate supply of resources is made available, and these include trained manpower, water, energy, industrial land and capital. As a great deal has already been said during previous debates on industrial subjects about what the Government has done in providing infrastructural support (including plans for the creation of a third university), I shall confine myself to the four main suggestions that have emerged from recent deliberations of the IDB.

Firstly, in relation to industrial accommodation there appears to be a case for setting up a technology centre in Hong Kong. There are numerous examples of such centres or industrial science parks worldwide and their common theme is to provide the application of emerging technologies. These technology centres typically provide clean, dust-free, noise-free and vibration-free accommodation for companies engaged in product development and prototype production and

they depend for its incubator effect on close physical proximity to centres of academic excellence. Accordingly, the Administration is now considering whether there is likely to be sufficient demand in Hong Kong to establish such a centre, possibly in the first instance, in conjunction with the Hong Kong Productivity Council.

Secondly, as a result of the techno-economic studies there is increasing recognition of the fact that the success of end-product manufacturing-re-presented chiefly by garments, a wide range of electronic consumer goods, toys, watches and clocks-is highly dependent on the availability of the parts and components-the manufacture of which is represented by spinning and weaving, the finishing, dyeing and printing of yarns and fabrics, and the making of precision movement parts and small mechanisms. The suggestion has been made that more needs to be done to assist our supporting or linkage industries. Accordingly planning is now under way in the Industry Department to examine in conjunction with the Hong Kong Industrial Estates Corporation whether a part of the Yuen Long Industrial Estate could be used for this purpose.

Thirdly, the question of whether our manufacturing industries are getting sufficient support from the lending institutions has been a recurrent theme in previous debates on industrial policies, and the subject has emerged yet again on this occasion. I find it gratifying to see from recent announcements a greater willingness on the part of several banks to establish a more active industrial loan portfolio. It is also encouraging to note that a working party set up by the Hong Kong Association of Banks is assessing the demand for venture capital as a source of investment funds alternative to bank loans, examining how venture capital operations might be facilitated, and considering how such operations might come to the help of small and medium-size businesses that are well managed and enterprising. I understand that this working party-on which the Industry Department, the Monetary Affairs Branch and the Hong Kong Productivity Council are represented-is making good progress.

Fourthly, on the delivery of industrial development and infrastructural support services, particularly to small and medium-sized industrial undertakings, the IDB has endorsed the need for a further examination of how the marketing of such services might be improved. Here the IDB consider that while the quality of the services available from the HKPC and Industry Department is good, more needed to be done to encourage wider use of those services which help manufacturers to adopt the technologies of industrial efficiency and product improvement and innovation, and encouraging them to invest in the management and technical systems required to achieve these ends.

I hope that Members will feel assured, in the light of what I have said, that our industrial policies are evolving in a sound and pragmatic manner, and that the Government has an efficient mechanism for formulating and reviewing industrial policies and that, in seeking to do more to help our manufacturing industries, we are pursuing the right objectives, based on advice of the IDB.

Specific points

Turning now to the points not yet covered by the remarks I have made, Mr. Stephen CHEONG, Mr. WONG Po-yan, Mr. HO Sai-chu, Mr. NGAI and Prof. POON stressed the need for establishing closer links with China. There is much food for thought here. There have been very significant growth in the economic and trade relations between Hong Kong and China in recent years. This has been largely the result of the mutual needs of the two economies. I agree it is consistent with the spirit of the recommendation of the Advisory Committee on Diversification that Government should try to identify more closely opportunities for co-operative effort. The rapid growth in economic links with China has provided new opportunities for our industry, for example, in certain outward processing activities to take advantage of lower costs in China. I see such developments natural as a result of economic forces and mutually beneficial to both economies. As the suggestion that has been raised involves two-way technology transfers, there will be much scope for further expansion of such economic relations along the present pattern, despite the fact that Hong Kong and China will remain as separate economic entities with different systems. Indeed, I hardly need to stress that the greatest contribution Hong Kong industry can make to China's development and modernisation is to retain and enhance our renowned ability to adapt quickly to changing circumstances, which in turn is made possible by our current policies.

I am grateful to Prof. POON for making a number of helpful suggestions on industrial research and development and the role this plays in technology transfer. I am particularly grateful for his suggestion that, in this field, the projects that are funded by the Government should focus more on development—that is to say, the breaking down and simplifying of known research with a view to assessing whether and to what extent it could be applied to manufacturing processes—than on original research. I would like to assure him that that, in fact, underlies the IDB's criteria for endorsing industrial development projects. By and large the dozen or so projects funded on the advice of the IDB try on the one hand to avoid basic research and endeavour to translate the available research into useful industrial processes that could have foreseeable application in manufacturing and which could be marketed, on the other.

Mr. CHEONG and Mr. CLYDESDALE proposed that reviews should be undertaken of all manufacturing industries and that these should be up-dated from time to time, in order to provide the Industry Department and the IDB with up-to-date information on which they could develop effective industrial policies. Mr. LAI suggested that the same approach could be adopted in respect of the less important industries which have potential for developing export-led growth. I would like to assure them all that the Industry Department's programme of techno-economic consultancy studies encompasses not only the major industries but also the less important ones, and that the programme is indeed a continuing one.

Mr. CHUNG suggested that a scheme similar to the home ownership type mortgage arrangements be created to enable manufacturers to purchase their own industrial accommodation, and that an industrial development fund be established financed partly or wholly from public funds, as a means of providing loans at concessionary rates of interest to assist *inter alia* small manufacturing businesses towards the cost of purchasing industrial accommodation and machinery, to invest in certain businesses and to encourage industrial innovation. I am afraid the Government cannot possibly accept any such measure which is nothing more than a selective subsidy to small industry. As the Financial Secretary made it clear in his reply to a question in this Council on 22 January 1986, there is no good reason for Government involvement in a new form of venture banking that would require the Government to compete with the private sector, particularly as the banks appear to be more than prepared to provide industrial loans.

Mr. CLYDESDALE asked whether the IDB should not draw its membership by direct representation of the major trade and industrial organisations. Since its current term the board is not so constituted due to size constraints. Its present composition is selected from as wide and representative a range of interests as possible, including manufacturing, the academic world, banking and this Council. Indeed, the interests of all major trade and industrial organisations are represented on the IDB and members are encouraged to canvass the views of the organisations to which they belong whenever an item comes up for discussion-unless the subject is confidential.

Mr. NGAI and Mr. LAI proposed the setting up of a product research and technology development centre. I think we must bear in mind the limited resources that are available, and the establishment of the Hong Kong Design Innovation Company provides machinery through which we can develop our own design capability.

Mr. CHEONG-LEEN suggested the setting up of a science and technology advisory committee. The Science and Technology Support Committee under the IDB and chaired by the Director of Industry advises on scientific and technological issues which have a bearing on manufacturing industry. Whether there is a case to consider the establishment of further committees in advising Government on general matters relating to science and technology is a matter which is under further review and consideration within the Administration.

Mr. TAM has suggested that an improvement of employee-employer relations will contribute to labour productivity and that the trade unions should be more involved in solving labour disputes. I agree with Mr. TAM and with the Secretary for Education and Manpower's comments in this Council in November last on the need for a sound employer-employee relationship, and the need for a similarly sound relationship between both sides of industry and the Government. I trust that under the existing framework, co-operation and dialogue between employers, employees and the Government will continue and that in

consequence, we should see a continuing development of the existing framework of legislation to meet changing needs and to make improvements where necessary.

Mr. Stephen CHEONG and Mr. HO Sai-chu referred to the thorny question of assessing the cumulative effect to manufacturers of having to accept the requirements of new labour, employment and environmental protection legislation and suggested that this be taken up seriously. I assure them the Administration does view this matter most seriously and trust they will appreciate the difficulty of predicting with precision what impact on a given industry, the manufacturing sector or the economy as a whole a particular piece of legislation may have. At each step we do use our best endeavours to make a meaningful assessment. They may also recall that an attempt was made in 1983 to assess the cumulative cost of labour legislation in the period 1977 to 1983 and this indicated an order of cost that was sustainable. However, I have again consulted the Secretary for Economic Services who agrees that the difficult exercise of making a revised assessment should be undertaken, though we must caution that such an assessment is fraught with severe data limitations and we are none too sure that the results could be put to meaningful use.

Sir, I apologize for taking advantage of your indulgence in speaking at this length but this subject is of such importance to our economy, our people as well as our future that I feel obliged to respond to my colleagues' concern and effort with my own endeavour to explain the Government's policies and plans. May I conclude with the assurance that the views expressed by Members today will be examined in detail by the Administration and taken into account in the continuing review of our services to industry.

Question put on the adjournment and agreed to.

Next sitting

HIS EXCELLENCY THE PRESIDENT: In accordance with Standing Orders I now adjourn the Council until 2.30 p.m. on Wednesday 21 January 1987.

Adjourned accordingly at twenty to Seven o'clock

Note: The short titles of bills listed in the Hansard Report have been translated into Chinese for information and guidance only; they do not have authoritative effect in Chinese.

WRITTEN ANSWERS

Annex I

Written answer by the Secretary for Lands and Works to Mr. CHEN'S supplementary question to Question 5

I hope that the following figures answer your question and will be of assistance to you:

<i>Item</i>	<i>1984</i>	<i>1985</i>	<i>1986</i>
Complaints	8 369	7 558	5 554
Inspections	10 635	21 154	15 133
Orders served	3 836	6 312	3 833
Orders complied with (or withdrawn)	1 402	4 939	3 862

The reason why the 1985 figures for complaints and inspections was so high was that there was a drive on metal door grilles that year. This year the emphasis has returned to other structures such as cages, rooftop structures and so on, which take longer to inspect.

Annex II

Written answer by the Secretary for Health and Welfare to Prof. POON'S supplementary question to Question 10

The Family Planning Association, which runs the artificial insemination programme, has reported that the overall rate of success in Hong Kong is about 40 per cent. As artificial insemination programmes developed by other countries and the methods they use in calculating success rates are different, a fair basis for comparison is not available. However I have been advised by the Director of Medical and Health Services that the rate of success here compares favourably with that in other countries.