

OFFICIAL REPORT OF PROCEEDINGS**Wednesday, 20 April 1988****The Council met at half-past Two o'clock****PRESENT**HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)

SIR DAVID CLIVE WILSON, K.C.M.G.

THE HONOURABLE THE CHIEF SECRETARY

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

THE HONOURABLE THE FINANCIAL SECRETARY

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

THE HONOURABLE THE ATTORNEY GENERAL

MR. JEREMY FELL MATHEWS, J.P.

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

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

THE HONOURABLE ALLEN LEE PENG-FEI, C.B.E., J.P.

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

THE HONOURABLE WONG PO-YAN, C.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 JOHN JOSEPH SWAINE, C.B.E., Q.C., J.P.

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

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

DR. THE HONOURABLE CHIU HIN-KWONG, J.P.

THE HONOURABLE CHUNG PUI-LAM

THE HONOURABLE THOMAS CLYDESDALE, J.P.

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 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 PANG CHUN-HOI, M.B.E.
THE HONOURABLE POON CHI-FAI
PROF. THE HONOURABLE POON CHUNG-KWONG
THE HONOURABLE HELMUT SOHMEN
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, C.B.E., 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 MICHAEL LEUNG MAN-KIN, J.P.
SECRETARY FOR TRANSPORT
THE HONOURABLE EDWARD HO SING-TIN, J.P.
THE HONOURABLE GEOFFREY THOMAS BARNES, J.P.
SECRETARY FOR SECURITY
THE HONOURABLE PETER TSAO KWANG-YUNG, C.P.M., J.P.
SECRETARY FOR ADMINISTRATIVE SERVICES AND INFORMATION

ABSENT

THE HONOURABLE PETER C. WONG, C.B.E., J.P.
THE HONOURABLE CHEUNG YAN-LUNG, O.B.E., J.P.
THE HONOURABLE DESMOND LEE YU-TAI

IN ATTENDANCE

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

HIS EXCELLENCY THE PRESIDENT: Good afternoon. I should like to start by welcoming Members back after the Easter break. I am sure that Council would also wish to congratulate the Senior Member on her Easter activities.

Papers

The following papers were laid on the table pursuant to Standing Order 14(2):

<i>Subject</i>	<i>L.N. No.</i>
Subsidiary Legislation:	
Bills of Sale Ordinance	
Bills of Sale (Fees) Regulations 1988	71/88
Marine Fish (Marketing) Ordinance	
Marine Fish (Marketing and Exportation) (Amendment) Regulations 1988	72/88
Public Health (Animals and Birds) Ordinance	
Dairies (Amendment) Regulations 1988	73/88
Public Health (Animals and Birds) Ordinance	
Public Health (Animals and Birds) (Animal Traders) (Amendment) Regulations 1988	74/88
Public Health (Animals and Birds) Ordinance	
Public Health (Animals and Birds) (Exhibitions) (Amendment) Regulations 1988	75/88
Public Health (Animals and Birds) Ordinance	
Public Health (Animals) (Boarding Establishment) (Amendment) Regulations 1988	76/88
Public Health (Animals and Birds) Ordinance	
Public Health (Animals) (Riding Establishment) (Amendment) Regulation 1988	77/88
Public Health (Animals and Birds) Ordinance	
Public Health (Animals and Birds) (Amendment) Regulations 1988	78/88
Waste Disposal Ordinance	
Waste Disposal (Livestock Waste) Regulations 1988	79/88
District Boards Ordinance	
Declaration of Districts (Amendment) Order 1988	80/88

<i>Subject</i>	<i>L.N. No.</i>
Electoral Provisions Ordinance Declaration of Constituencies (District Boards) (Amendment) Order 1988	81/88
District Boards Ordinance Declaration of Urban Council Area and Regional Council Area (Amendment) Order 1988.....	82/88
Electoral Provisions Ordinance Declaration of Constituencies (Urban Council) (Amendment) Order 1988	83/88
District Boards Ordinance District Boards in the Urban Council Area (Date of Establish- ment) (Amendment) Notice 1988.....	85/88
District Boards Ordinance District Boards in the Urban Council Area (Numbers of Appointed and Elected Members) (Amendment) Order 1988.....	86/88
Electoral Provisions Ordinance District Boards (Urban Council Area) Constituencies (Number of Vacancies) (Amendment) Order 1988.....	87/88
Public Health and Municipal Services Ordinance Designation of Libraries (Urban Council Area) (No.2) Order 1988	88/88
Public Health and Municipal Services Ordinance Public Health and Municipal Services (Civic Centres) (Amend- ment of Thirteenth Schedule) Order 1988	89/88
Public Health and Municipal Services Ordinance Public Health and Municipal Services (Civil Centres) (Amend- ment of Thirteenth Schedule) (No.2) Order 1988.....	90/88
Public Health and Municipal Services Ordinance Public Health and Municipal Services (Public Pleasure Grounds) (Amendment of Fourth Schedule) Order 1988	91/88
Waste Disposal Ordinance Waste Disposal Ordinance (Amendment of Second Schedule) Notice 1988.....	92/88
Public Health and Municipal Services Ordinance Abattoirs (Urban Council) (Amendment) By-Laws 1988	93/88
Registration of Local Newspapers Ordinance News Agencies Registration (Amendment) Regulations 1988	94/88

<i>Subject</i>	<i>L.N. No.</i>
Registration of Local Newspapers Ordinance Newspapers Registration and Distribution (Amendment) Regulations 1988	95/88
Registration of Local Newspapers Ordinance Printed Documents (Control) (Amendment) Regulations 1988	96/88
Trade Descriptions Ordinance Trade Descriptions (Definition of Platinum) Regulations 1988	97/88
Trade Descriptions Ordinance Trade Descriptions (Marking) (Platinum) Order 1988	98/88
Waterworks Ordinance Waterworks (Amendment) Regulations 1988	99/88
Merchant Shipping (Safety) Ordinance Merchant Shipping (Safety) Ordinance (Amendment of Schedule) (No.2) Order 1988	100/88
Telecommunication (Hong Kong Telephone Company) (Exemption from Licensing) Order Telecommunication (Hong Kong Telephone Company) (Exemp- tion from Licensing) (Fees) (Amendment) Order 1988	101/88
District Court Ordinance District Court Civil Procedure (Fees) Rules 1988	102/88
Landlord and Tenant (Consolidation) Ordinance Landlord and Tenant (Consolidation) Ordinance (Amendment of Fourth Schedule) Notice 1988	103/88
The Hong Kong University of Science and Technology Ordinance 1987 The Hong Kong University of Science and Technology Ordinance 1987 (Commencement) Notice 1988	104/88
Legal Aid Ordinance Legal Aid (Assessment of Resources and Contributions) (Amendment) Regulations 1988	105/88
Banking Ordinance Banking Ordinance (Amendment of Fifth Schedule) Notice 1988	106/88
Supplementary Medical Professions Ordinance Supplementary Medical Professions Ordinance (Application of Part II) Order 1988	107/88
Public Health and Municipal Services Ordinance Public Swimming Pools (Regional Council) (Amendment) (No.2) By-Laws 1988	108/88

<i>Subject</i>	<i>L.N. No.</i>
Supplementary Medical Professions, Midwives Registration and Nurses Registration (Amendment) Ordinance 1985 Supplementary Medical Professions, Midwives Registration and Nurses Registration (Amendment) Ordinance 1985 (Commencement of Sections 3 and 15) Notice 1988.....	109/88
Hong Kong The Hong Kong Letters Patent 1988	110/88
Hong Kong The Hong Kong Additional Instructions 1988	111/88
Inland Revenue Ordinance Inland Revenue (Interest Tax) (Exemption) (Amendment) (No.3) Notice 1988	112/88
Tax Reserve Certificates (Fourth Series) Rules Tax Reserve Certificates (Rates of Interest) (No.2) Notice 1988.....	113/88
Legislative Council (Electoral Provisions) Ordinance Legislative Council (Electoral Provisions) (Registration of Electors and Appointment of Authorized Representatives) (Amendment) Regulations 1988.....	114/88
Legislative Council (Electoral Provisions) Ordinance Legislative Council (Electoral Provisions) Ordinance (Amendment of Schedules) Order 1988	115/88
Registration of Persons Ordinance Registration of Persons (Application for New Identity Cards) (No.3) Order 1988	116/88

Government Business

Second Reading of Bill

APPROPRIATION BILL 1988

Resumption of debate on Second Reading (2 March 1988)

Question proposed.

MISS DUNN: Sir, the Financial Secretary closed his Budget speech with some lines from T. S. ELIOT: 'The end is where we start from'. I am, of course, glad that we start next year with reductions in direct taxation. But the beginning of his speech provides me the point from which I shall start this debate. There he shows concern about the impact of external events, the overheating of our economy, and the prospects for future growth. I shall therefore give my main comments on the Budget in the context of the Medium Range Forecast. Before doing so, I should like to say a few words about the Budget document and the proposed 'tax concessions'.

Budget document

The Financial Secretary is to be commended on the continued improvement in the content and presentation of the Budget document, a task he initiated when he took over as Financial Secretary. I should also like to extend my congratulations to the army of backroom boys and girls who cheerfully worked long hours to produce all this information and whose labours have recently been increased by the requirement to improve and amplify the information we are given.

However, as the quantity of information presented to us increases—and that has been one of the effects of the improvements—the need to prune it increases too. As I have said before, there comes a point where the quantity of information absorbed varies inversely with the quantity presented. I fear we may have gone past that point already.

This is one of the reasons why I still think it would be a good idea to appoint a single editor for all of the Budget documents. One thing he should do is to encourage more people to read the important booklets on the Economic Background and Prospects by removing as much jargon as possible. If technical terms like ‘aggregate demand’, which I understand has nothing to do with piles of stone, and ‘total final demand’, which they tell me is not a rude red letter from the Inland Revenue Department—if these terms must be used, they should be clearly defined in a glossary. One should not have to search through the footnotes for definitions.

There are, in any case, far too many footnotes: five in the first nine lines of Economic Background and a total of over 100 in the two booklets. Yet I have not found anywhere a note about the margin or margins of error in our masses of statistics, though it is clear from the introduction to the GDP booklet that there is a considerable margin of error in those statistics. We should be told what are the margins of error and we should also be told which of the calculations are based on actual figures and which are extrapolations from samples.

There is one more important matter of definition for which I am still waiting. The Financial Secretary says that he is particularly conscious of the need to give further consideration to the refinement of our Consolidated Account expenditure. May I say that it is not refinement that we need, just commonsense. When we all acknowledge that the relationship between public sector spending and the GDP is of prime importance for the economic health of Hong Kong, it is absurd that we still have no satisfactory definition of, and consequently no reliable figures for, the size of the public sector. Both the present measures, namely, the Consolidated Account expenditure and the ‘national accounts’ definition exclude large items that are clearly in the public sector and that are part of the demands the public sector makes on the economy. For instance, as I have pointed out before, Consolidated Account expenditure excludes the MTRC and the KCR but includes subventions to non-government organisations. On the other hand, the national accounts definition, includes the two railway corporations but excludes subventions to non-government organisations. So I ask yet again for one clear definition of the size of the public sector.

Tax 'Concession'

So, I turn now to the tax 'concessions' in the Budget. Someone told me he had recently seen in a London paper a headline: 'It is our money, Nigel'. There is a great and often forgotten truth there. It is indeed our money, Piers! It follows that if the tax system is producing more money than the Government needs to finance the activities that we have all agreed on, then it has an obligation to propose a reduction in taxation. There is no concession about it. It is our work, our enterprise that produced the money in the first place.

Furthermore, we taxpayers are all morally, though in Hong Kong not yet legally, entitled to see tax allowances increased in line with inflation. The reason is, of course, that if this is not done, then taxpayers whose money income has increased only in line with inflation, find themselves paying a higher proportion of an unchanged real income even if no increase in taxation has been legally authorised. The jargon for this is 'fiscal drag'.

The Financial Secretary claims that 'allowances will be raised broadly in line with inflation'. For many taxpayers this is not true because he has proposed that the increases should be applied only to the 'additional' allowances which are subject to the claw-back provision re-introduced last year. This means that for many taxpayers, these allowances will be reduced or eliminated altogether.

Fiscal drag also operates if the child allowances and dependant parent allowances are not increased each year in line with inflation and if the tax bands are not widened or the rates within them reduced. So these adjustments should always be made so long as inflation continues.

This year the Financial Secretary has proposed both some widening of the tax bands and some reductions in the rates applied within them, but he has not distinguished between the adjustments for inflation and the genuine reductions. I believe that our entitlement to adjustments for inflation should be recognised and that they should be dealt with separately from any other changes to the personal taxation system which may be called for by the need to increase or reduce taxation generally.

So far as taxation of married women is concerned, my long-standing support for the principle of separate taxation owes nothing to my recent change of status. It is indefensible that the law should force a wife to disclose her income to her husband and force that husband to pay tax on his wife's separate income. But it seems to me equally indefensible that the family in which the wife receives a salary should now receive a special tax advantage but not the family where the wife stays home to work without pay.

Housewives are working wives. They are not paid a salary for the work they do but running a home, looking after children and old or handicapped relatives is at least as valuable to the community. A tax allowance for a particular group of working wives merely replaces one anomaly with another and puts the family in which the wife works at home at a disadvantage—as can be seen in the tables at Appendix F to the Budget speech. If this proposal goes through, it will

not be long before such families are advised by their tax consultants to register as a business and pay the wife a salary in future.

Medium-term forecast

Let me now leave the tax concessions in this Budget and turn now to the Medium Range Forecast. I must say that I have some sympathy with the Financial Secretary. With a reported surplus of over \$10 billion for the current year and another \$7.3 billion expected next year, he would find it very difficult to convince the public that he could not afford to reduce taxation. Nevertheless, as he himself acknowledges, he is in fact taking a gamble. The economic outlook is, as usual, or perhaps rather more than usual, uncertain. The only certainty is inflation, which has been accelerating through 1987 and will continue to rise in 1988.

The Medium Range Forecast is a praiseworthy attempt to shorten the odds. The most important assumptions in it are that GDP will continue to grow by an average of 5.5 per cent in real terms over the next four years, which seems to me a fair assumption, and that inflation will also average 5.5 per cent, which seems a bit more doubtful. I take no comfort from the Financial Secretary's remark that inflation remains fairly moderate by historical standards. It may seem so judged against the recent past but that is only because the 1978 Budget generated such overheating in the economy that we had four years of double digit inflation peaking at over 15 per cent in both 1980 and 1981.

Surely the comparisons that are far more important for our export-oriented economy are those with the rates of inflation in our principle markets and among our principle competitors. The average inflation forecast for the OECD countries in 1988 is 3.8 per cent against 7 to 8 per cent for Hong Kong. The Financial Secretary has also told us and I quote: 'Increases in wages and other production costs in 1987, which were faster than those of Hong Kong's competitors, are likely to have an adverse effect on the competitiveness of Hong Kong's products in 1988.'

What worries me is not just the Budget for the new fiscal year but the way things are forecast to go over the period up to 1991-92. Let us just focus on the key indicators in the forecast.

- external demand is not likely to provide the main impetus for growth in 1988;
- money supply has been growing a good deal faster than GDP in each of the last three years;
- inflation, which rose from 2.8 per cent in 1986 to 5.5 per cent in 1987 and is forecast at 7 per cent for 1988, will, nevertheless, average only 5.5 per cent over the forecast period;
- GDP is forecast to grow at an average of 5.5 per cent;
- Consolidated Account expenditure will rise from 4.6 per cent in 1987-88 to 7 per cent and 6.5 per cent in the next two years, that is, faster than GDP;

- Consolidated Account expenditure as a percentage of GDP will rise from 15 per cent in 1987-88 to 16 per cent over the next two years;
- there is a 19 per cent increase in capital expenditure budgetted for 1988-89;
- the growth in civil service establishment will rise from 3 per cent in 1987-88 to 4 per cent and then to 4.5 per cent without ever getting down to the target figure of 2.5 per cent throughout the forecast period;
- the share of Consolidated Account expenditure that goes on social services will rise steadily reaching 48.5 per cent in 1991-92—that is to say nearly half of total expenditure and this will only cover actual and planned commitments, without allowing for any new or improved services.

What do these indicators suggest? First, a number of them seem to me to show that the inflationary pressures in 1988-89 are liable to be even greater than expected. Second, the Financial Secretary said only a year ago that, and I quote: 'If the objective of low taxation is to be achieved, the growth in expenditure on public services must stay within, rather than run ahead of the expansion of our economy'. I agree, but over the next two years he is planning to let Consolidated Account expenditure run ahead of economic growth. And the Consolidated Account forecasts for the following two years are set higher now than they were a year ago. These figures also remind us that the margin of error is inevitably greater the further ahead we try to look.

Third, the Financial Secretary also said only a year ago that the size of the Civil Service remains the major determinant of Government spending. The fact that the growth in the Civil Service is expected to remain well above the target figure throughout is one of the most disturbing features of the Medium Range Forecast.

So, the reason I am making these comments is that the trends in the medium term are not altogether healthy. We shall not be able to afford to increase spending any more than has already been planned unless the GDP grows much faster. I fear we may be heading back towards expenditure-led Budgets from the much healthier revenue-led Budgets to which this Council eventually converted the previous Financial Secretary.

Perhaps, this is why the Financial Secretary is so keen on a new indirect tax, not just to broaden the tax base but also to increase total revenue in order to meet demands for increased spending.

But whether we can afford to spend more is not just a question of whether we have, or can raise, the revenue or reserves to pay for it. Even if we have, we must take into account the effect on the economy if Government spending pre-empts a higher proportion of the economy's resources. So, unless the Financial Secretary has in mind a major switch from direct taxation to indirect taxation, I think he might as well put his 'form of sales tax' on the back burner.

In any case I think we should be proud that we have been able to sustain such a high level of expenditure with a limited range of taxes, a relatively small number of direct taxpayers and low rates. No one in Hong Kong can claim that

his or her tax burden is crippling or even onerous. It is heartening to see such countries as the United Kingdom, the United States and Germany at last following our example. The case for changing this successful formula now can hardly be said to be self-evident. But if the Financial Secretary is looking for additional ways of increasing revenue, let us at least have a thorough review of all possible sources of revenue, not just a sales tax. Such a review should include non-official representation. It is after all very important that any far-reaching changes in our tax system should be properly considered and fully argued if they are to obtain the essential public acceptance.

To sum up, Sir, there is no doubt that in the short term Hong Kong makes good progress under full sail through calm waters. In the medium term, we may be entering more choppy seas. We shall depend upon the Financial Secretary, like all good shipmasters, to keep a very good lookout.

I support the motion.

DR. HO: Sir, the 1988-89 Budget was termed 'Middle Class Bonanza' by a local English newspaper. In fact, the proposals in the Budget brought tax relief and improved services and assistance to all sectors of the community including the elderly and the disabled. Major capital works projects budgeted to begin in this fiscal year amount to \$4,355 million, reflecting the Government's long held policy to invest heavily on infrastructural development in order to ensure that our economy will continue to grow with optimum support and that business confidence, locally and overseas, might be bolstered. In a closer analysis, the Budget is a balance of prudence and expansion, of consumption and investment, of tax cuts and increases in fees and charges, and of benefits for the haves and have-nots. While many societies struggle to even out their annual expenditure with revenue, we anticipate an estimated overall surplus in the order of \$6 billion for the year 1988-89 fiscal year. The Financial Secretary must be congratulated for such prudent management of public finances.

Personal allowances

Among the tax concessions, it has been proposed to increase personal allowance by \$2,000 for a single person and by \$4,000 for a married couple. If the Financial Secretary wants the middle-income earners to benefit from his tax concessions and to have a larger disposable income, the \$2,000 and \$4,000 increases should be added to the basic allowance rather than to the additional allowance. The increase in the additional allowance will be clawed back at a 10 per cent rate as the individual's income increases. Hence, single people with an annual income between \$36,000 and \$106,000 or a married couple with an annual income between \$74,000 and \$240,000 will receive benefits of varying amounts from this form of tax concession. However, for the up-and-coming enterprising individuals, the increase in the additional allowance does not yield a long-lasting advantage.

I suggest that the Financial Secretary should dispense with the additional allowance and review the basic allowance to permit a minimum but decent standard of living without tax liability and consistent with the level of our economic development and affluence.

Stamp duty for property

It has also been proposed to reduce rates of duty for properties to facilitate the middle-income earners to purchase their own homes. No doubt this measure would stimulate the property market, but at the same time it would trigger speculative transactions, thus inflating the prices of flats. When this speculation occurs, the advantage to be accrued from the reduced duties would be transferred from the home purchasers to the property developers. I therefore urge the Government to consider tax exemptions or partial tax concessions on mortgage payments for home owner-occupiers. Whilst I appreciate that this proposal would cost revenue losses for the Government, there are economic as well as social merits for introducing this proposal. Given the estimated size of the potential home-buyers of 100 000, the construction and related industries would be boosted considerably. Hence, corporate and income taxes and other forms of revenue arising from these stimulated industries and trades for the coffers would be substantial. Furthermore, home-ownership would certainly strengthen a sense of belonging, which would, in turn, act as a hedge against the brain drain. This group of home-buyers would consist largely of professionals and technologists and constitute the mainspring of our economy.

District fight crime committees

The Fight Crime Committee, district fight crime committees, area committees, mutual aid committees and owners corporations, form a core group of anti-crime activities. The role of the district fight crime committees is especially significant in that they co-ordinate all crime fighting planning at district level and transmit criminal intelligence upward to the central committee for formulating anti-crime policies and drafting legislation. Each year, individual district fight crime committee is allocated some funds to perform its law and order functions and I have been approached on several occasions by different chairmen of the district fight crime committees to the effect that the funds allocation formula needs to be reviewed with particular regard to the following considerations:

- (a) population and the demographic structure of the district, for example, the predominance of teenagers or transient elements in the population make-up;
- (b) geographical size of district and the geographical spread of the population;
- (c) environmental features of the district with reference to the existence of urban ghettos, temporary housing areas, vacated squatter huts pending redevelopment or empty, demolished building sites, and so on, and the stage of its economic development; and lastly

- (d) general state of law and order in the district, with and without crime black spots, and the need for district-based crime fighting projects over and above the annual publicity campaigns with main themes promulgated by the central fight crime committee.

Inordinate reliance on commercial sponsorship for carrying out anti-crime activities does not necessarily result in achieving the intended original objectives. There are instances reported where compliance with sponsor's requirements would jeopardise the security needs or the general interests of the residents, resulting in the cancellation of the campaign. However, private sponsorship on a moderate scale should continue to be encouraged and fostered because such civic involvement is the most potent instrument in nurturing and arousing public support and participation in anti-crime publicity and activities.

The funding of the district fight crime committee activities comes from two sources, namely, the district services vote of the City and New Territories Administration and the community involvement activities vote of the district board. Each of the funding sources has to finance a wide spectrum of activities such as district festivals, cultural, recreational and sports activities, civic education, road safety, keep Hong Kong clean, fight crime, anti-narcotics, fire prevention and many other community building projects. It must be pointed out that the chairmen of the district fight crime committees may not be members of district boards with the result that the urgency of funding for counter-crime campaigns may not be adequately channelled to the City and New Territories Administration and the district boards. Under such circumstances and having regard to a multitude of competing objectives, it is difficult to ensure that provision for fight crime projects is assigned with proper priority and weight. This is a matter which requires immediate review. I propose that the Government should consider including a separate sub-head for anti-crime publicity projects organised by the district fight crime committees in the annual estimates of expenditure of the City and New Territories Administration.

With these remarks, Sir, I support the motion.

MR. HU: Sir, I would like to congratulate the Financial Secretary for achieving last year's impressive surplus. A large part of the credit should go to the people of Hong Kong, whose drive, determination and diligence to overcome adversity and to exploit every opportunity are the foundations upon which the territory's prosperity is built.

The success we enjoy today was not achieved easily and how we are to sustain it poses a task not any less difficult. It is highly praiseworthy that the Financial Secretary is fully aware of the uncertainties ahead and sticks to a prudent approach.

We share the principle that in the management of the territory's finance, public services have to be planned carefully in the light of what we can afford in the longer term. This underlying theme is fully reflected in the Budget report.

However, in the face of such an impressive surplus, one could easily be lured to adopt a spending mood. Without disputing the Financial Secretary's cautious approach we have to consider how best to treat the prosperity which we have built up in the past two years.

Investment in the future

No doubt piling up money is one of the good and safe methods in preparing for future uncertainties. However, it is not the kind of mentality a modern government should adopt, particularly the Government of Hong Kong. This policy appears to be both passive and conservative. The positive way is to invest in necessary and appropriate areas to strengthen the territory's potential.

The large scale infrastructural projects highlighted by the Financial Secretary which are indeed positive steps in the right direction, represent only the physical aspect of these investments. There are other aspects like education, social services, sports and recreation which all deserve our serious attention.

Furthermore, Hong Kong's major asset is its people not the huge reserve it has put in stock. This is specially important since Hong Kong is not only vulnerable to outside economies, but is also on the sensitive route of transition to 1997, and there are uncertainties generated from within. To ensure that Hong Kong can survive and meet the challenges ahead we have to make sure the local community as a whole is ready and fully equipped.

Shortage of labour

I would now turn to another aspect which will also have significant implications on Hong Kong's long-term well-being—the shortage of labour, especially in the manufacturing sector. This has become a controversial topic in the past months and yet no effective measure has been taken. It is disappointing that the Government is unwilling to tackle this problem directly and is adopting instead a wait-and-see attitude, hoping it will vapourise as Hong Kong's economy takes a downward turn.

The labour shortage faced by us is not a problem of adjustment in the labour market. If no practical solution is devised in time, it will have long-term adverse effects on our economy. The quality of services and products will deteriorate while costs will go up, and as a result, this will hamper our competitiveness and ultimately affect Hong Kong's economic well being.

This is because basically Hong Kong does not have a labour force large enough to perform the work required to keep the territory going. Therefore, in spite of all the automation and increasing efficiency and as the lukewarm measures encouraged and adopted by the Government, the problem still exists. Be it an economic boom or a recession, the problem of labour shortage is only a matter of degrees and will continue to haunt Hong Kong.

It is now time for the Government to tackle the problem by taking the bull by its horns. Bolder steps have to be taken to find practical solutions, such as importing workers from neighbouring countries on contractual basis. Under

this arrangement we can ensure that there will always be a sufficient supply of labour for our industries. The contract arrangement can make sure that the foreign workers concerned will not be staying in Hong Kong when demand for them has dropped. This method, which is being practised in Singapore and other countries, has proved to be a success. And Macau is now at an early stage to implement a similar arrangement to import workers from China. If Hong Kong is to maintain its economic growth, it should open itself and learn from other places lessons which have been proven effective.

Sales tax

The probable introduction of sales tax is noted with interest. I agree that there is a need to develop a broadly based tax system and to spread the tax burden more widely across the community. It is because compared with direct taxation, revenues from indirect taxation are less prone to economic fluctuations. However, caution must be exercised in determining which kinds of commodities are to be taxed. At the moment, only commodities like tobacco, liquor, cosmetics and petroleum products are taxed. We must avoid including basic necessities if a large scale sales tax was adopted as it would affect the whole population, leading to rising costs and fuelling inflation.

Public housing

The change of Housing Authority into a statutory body, taking over the responsibility for the home ownership scheme, home purchase loan scheme, temporary housing areas and cottage areas is a welcome move. This will enable it to have a greater degree of flexibility and independence in operation. The authority also will have a freer hand in co-operating with the private sector in developing more comprehensive housing programmes for the local population.

However, in this process of change, the Government must take into account concerns that the authority's financial independence might compel it to impose higher rents, despite its clearly defined rent policy that the level of rent should be affordable to the tenants and must not exceed 15 per cent of their income. I hope the Government's undertaking to support the housing programme with finance and land as necessary would help dispel such worries.

There is no dispute that Hong Kong as a whole is becoming more affluent and it is the general desire of the public to have better housing, as people are willing to pay more for better living environments. It is thus the Government's responsibility to upgrade reasonably the standard of the flats provided in its housing programmes. However, we should not overlook the fact that there are also some less fortunate ones around us. Provisions should be made to cater for those who cannot afford a higher standard of living.

I fully support the long-term housing strategy and its aim to extend the redevelopment of older public housing estates to Mark IV and Mark VI. But I want to point out that in the process of redevelopment, there is a need to retain some of the better blocks. A lower level of rent should be charged for these units

to ensure that the less fortunate people will have a place to live in at affordable cost. Of course, some minor improvements to their basic facilities have to be made wherever required, to ensure that these estates will continue to be habitable.

Housing mix

The pace of urbanisation is so fast in Hong Kong that some areas which were far away from town centres just 10 or 20 years ago have now become part of the urban area. They include the Kwai Cheung, Tsuen Wan and the east Kowloon areas. It is noted that a large number of these areas are predominantly occupied by public housing estates. In redeveloping these areas, the Government should draw up a comprehensive plan to provide for mixed usage. Instead of merely a public housing estate area, there should also be high, middle and low rank housing, together with provision for industrial and commercial use.

Due to the limited supply of land in Hong Kong, we must ensure that every bit of land is utilised in the most efficient way. Hong Kong cannot afford to have its precious land used for purposes which do not reflect its real value or yield the maximum return.

In saying so, I do not mean the public housing estate tenants should be discriminated against or penalised by moving them from one remote area to another. One important pre-condition must be observed in any redevelopment plan which involves the resettling of public housing estate tenants. The newly developed area has to be self-contained, equipped with adequate social, educational and other community facilities, together with industrial and commercial undertakings to provide employment so that residents there will not be inconvenienced or feel that they are outcasts of the community. Failure to do so would be unfair to the tenants affected and forced implementation of the plans might just create social unrest.

Furthermore, such self-contained design can help reduce the pressure on transport demands. Residents in the newly developed areas can conduct most of their daily activities within the area. This will not only improve transport efficiency but will also help save public expenditure in coping with the ever growing demand on transport.

Student travel scheme

We are planning to spend \$265 million in the coming academic year to reimburse public transport operators in subsidising full-time students on their transport. The calculations of the amount of reimbursement was based on survey data from the Transport Department. However, there is no guarantee that this arrangement is the most cost-effective one and can realistically reflect the amount of travel fares the students actually spent.

The proposed changes to the scheme, which will involve means-tests for applicants, might make the issue more complicated and will boost administration costs tremendously. I would suggest the Government consider a use-orientated method in determining the amount of reimbursement to replace the existing arrangement. The principle of this method is that the Government will only pay

the subsidies which are actually incurred. This new arrangement may increase the schools' workload in administration, but only to a certain degree. I believe this is a realistic method as only the actual amount spent will be reimbursed and that it will help reduce further public expenditure in this respect.

Statutory authorities

The Financial Secretary has mentioned the making of greater use of statutory authorities as Hong Kong is becoming increasingly a complex society to govern. This trend is demonstrated by the establishment of the Land Development Corporation and the independence of the Housing Authority. This is a welcome development since these statutory authorities will not be bound by bureaucratic limitations and will be more flexible and prompt in meeting the community's needs. And as they have to look after their own finances, they can much better utilise the resources available to them. Furthermore, they can generate greater involvement from the community and will reflect the actual needs of the community.

However, setting up statutory authority to take charge of the various facets of community activities does not mean that the Government can shrug off its responsibilities over these areas. Besides the ultimate responsibility to back up these authorities with finances, the Government also has to play an active part to co-ordinate the work of these authorities to ensure that there will not be conflict or over-lapping and that the agreed projects will be effectively and efficiently implemented.

The role of the Government as a co-ordinator amongst the various statutory authorities is very important because as these bodies will be operating independently, it is feared that there may be communication gaps, particularly in cases where the authorities concerned, such as the Land Development Corporation, Housing Authority and Housing Society are dealing with similar issues. If their works are not well co-ordinated, the aim of fully utilising public and private resources may not be achieved.

Cultural and sports activities

I would now turn to the cultural side. With the establishment of the Academy for the Performing Arts and the emergence of a number of professional performing companies in the local cultural scene, it is important to ensure that there will be adequate financial support so that their standards will be upgraded continuously and talented artists will have ample scope to achieve their fullest potential. However, it is very disappointing that the subventions for performing arts activities remain on the low side with only an estimated \$21 million in the coming year.

Although the amount is 18 per cent higher than the previous year, it is still far from being adequate even to meet the request from general support grant applicants. Many development items proposed by the applicants could not be fully supported. There is indisputable evidence for bigger demand but the

provision of government funding was getting out of line and was not catching up with the realities of the situation.

In the same deplorable situation are sports activities. Funds provided for sports in the 1987-88 financial year were \$9.9 million, while those for this year are \$11 million. However, it must be noted that of the increased amount, \$1 million will be spent on the Olympic Games this summer. So virtually there is no increase at all.

It is gratifying to hear that the Government has accepted recommendations to improve the administration and staff efficiency of sports organisations. These bodies are also encouraged by the Government to draw up development plans in the promotion of sports. However, to carry out the proposed improvements, these organisations will have to face increased administrative costs and the need for more staff. In other words, they will need greater financial help from the Government to fund their activities and future development, but under the present conditions where government funding remains stagnant, these sports bodies cannot possibly improve their administration and implement respective development plans without cutting back expenditures on regular activities, not to mention inflation which is eating into their share of government fund. The shortfall of the funds in 1987-88 from the amounts requested by sports governing bodies is nearly \$5.6 million. The estimated current shortfall will be well over \$12 million.

The prime movers of the sports activities usually are the voluntary organisations, which, in turn, seek financial help from the private sector for voluntary sponsors. Unlike the pressure groups which are so common today, the sports organisations have exerted little pressure on the Government for improving their situation. As a result, sport organisations are the neglected groups and their needs are often overlooked by the Government.

Ironically, although the Government tends to overlook the financial needs of these sports organisations, it nevertheless makes up for it in its enthusiasm for interfering with the usage of funds in promoting sports. As unnecessary bureaucratic restrictions are imposed on using of the funds, the Council for Recreation and Sport often finds their hands tied and is unable to proceed with worthwhile projects. The Government must review the situation and get rid of all unnecessary restrictions and increase provision of funds if sports and recreation are to really flourish in Hong Kong.

Sports, cultural and recreational activities make up a major part in a community's quality of life. But regretfully, the importance is often overlooked especially in a materialistic society like Hong Kong. The Government is very willing to spend on activities which will generate money directly. But when it comes to sports, cultural and recreational activities, the Government is reluctant.

I would like to point out that the promotion of sports, cultural and recreational activities in a sense is more important than the provision of social welfare services. It is because the latter only aims at providing remedies to the

problems in our society while the former aims at prevention and personal enhancement. These activities can help shape a healthier public in both body and mind and they should be pursued consistently.

I have mentioned investment earlier and these are the worthwhile areas where we should invest. In planning how public money should be spent, we cannot only look at the materialistic side—we must be certain that the quality of life for the general public will be promoted, alongside the territory's economic well-being.

Closing remarks

In the coming 10 years, Hong Kong will not only be confronted with outside economic uncertainties, but also non-economic uncertainties coming from within this community. To ensure that Hong Kong will come out on top of these uncertainties, just sharpening our edge as an economic entity is far from being enough—we have to make sure that the inhabitants in this territory will feel that Hong Kong is not only a battle ground for survival, but also a place where they and their future generations can call home.

Sir, with these remarks, I support the motion.

MR. CHAN KAM-CHUEN: Sir, an abundance of material and figures have again been supplied but the time for one's speech is limited. I shall, therefore, speak only on a few points.

The economy

Our US dollar linked prices have attracted more orders than we can produce in Hong Kong and the surplus orders are spilling over into mainland China and created over 1 million jobs there. As long as the cost of labour and material in depreciated RMB prices is commensurate with the Hong Kong dollar, we can still harvest profits in the short term.

In the long term, inflation and competition in China may erode our profit margin. We must invest more in sophisticated equipment, transfer of technology and training of staff to transform our manufacturing sector from a labour intensive one to a capital intensive one with higher technology.

The October 1987 crash with four days closure of the stock and related markets is unprecedented in Hong Kong. Not only the speculators betting on the wrong side suffered but also the man-in-the-street who has made a deposit for the purchase of some property and was feeling sure that he can get money the next day to pay the balance by selling his shares, is also caught by this stoppage and lost his deposit or caught in a legal battle. What is past is past and it is no use crying over spilt milk. The Government must take all necessary steps to restore the confidence of investors, large or small, in the stock market which is of paramount importance.

Until this is done, small investors will use the forex and property markets to invest their savings, hence the boom. All in all, 1987 was still a good year.

Hong Kong dollar

I strongly support the HK\$7.80 to a US dollar link, which is not only beneficial to our economy but also provides the stability so vital to our economy during this transition period.

Before we link our dollar at \$7.80 to US\$1 on 17 October 1983, our free floating dollar hit \$9.60 to a US dollar and Hong Kong people clean out the daily necessities from the supermarket racks.

From the above figures, our dollar has appreciated \$1.80 or 18.75 per cent since October 1983. This fact must be made known to our trading partners who say that our dollar has not appreciated with other developing countries in Asia. Besides this, our free market policy is our shield against protectionism.

Vietnamese refugees

As to the expenses of refugees not in correctional services institutions, we have already spent some \$900 million from January 1979 to date and if we continue to spend the estimated \$126 million per annum until 30 June 1997, it would be a public burden of some \$1,166 million.

As the majority of Hong Kong people were refugees or are descendants of refugees, they were sympathetic to the plight of the Vietnamese refugees at first on humanitarian grounds. Public opinion is now shifting when this privilege is abused and off-take by other countries dropped.

Besides the good name of being humane, what other benefits do we derive from spending this huge sum of money? Perhaps, by slightly amending the last sentence of a loose-type poem (阿房宮賦) by Tang Dynasty poet, Tu Mu (杜牧) on Shih Wang Ti's (秦始皇) Grandiose Palace in Hsien Yang (咸陽) there may be a valuable lesson to learn. (越人不暇自哀, 而港人哀之, 港人哀之而不鑑之, 亦使後人而復哀港人也。) That is, 'the Vietnamese have no time for self pity. If Hong Kong people pity them but do not take their plight as a warning, some day Hong Kong people would, in turn, be pitied by others in the future'. The climax is in today's news reporting 30 desperate men from Hong Kong landed in Canada destroying their passports and claiming that they are refugees from China.

Brain, capital and skill drain

It is this 'refugee mentality' which resulted in the serious brain drain in the middle class and skill drain of supporting staff such as secretaries, mechanics, waiters and so on. Capital drain to foreign currencies may be due to the low interest rate of the Hong Kong dollar and as long as our tax is low (in the post-war days, the standard tax rate was 10 per cent), administration by law, and with an adequate trained workforce, there is no lack of outside capital to fill the vacuum.

In paragraph 7 of my speech on 16 October 1984 on the motion of the Draft Agreement on the Future of Hong Kong, I pointed out those who have qualifications for emigration and in paragraph 8 I first used the application for 'Certificate of No Criminal Conviction' as a confidence index from—12 408 applications in 1979 to some 53 000 applications in 1987.

By acknowledging the fact and significance of this brain drain as advertised daily in the local newspaper with over 100 pages of vacancies, we can then address this problem.

In the short term, expatriate contract staff may do the job. However, they may wish to return to their home countries in a few years before they find that they are at the end of a queue and lost their seniority, status and pay.

For the longer term, we must expand our training facilities in all fields. The new graduates have to come in as juniors and use the nine year time gap to gain the necessary working experience. A good administrator, engineer or other professionals, like a good liquor requires a long time to mature.

Do not treat the Hong Kong emigrants to other countries as deserters. Employers should keep contact with them and offer them expatriate terms after they have obtained their passports. They may find it rewarding as these ex-employees may have new working knowledge of one more country which may be beneficial to the employer and of mutual benefit to both countries in trade promotion and so on.

Insurance on a consignment of goods is for something which may or may not happen but life assurance is for something which will eventually happen.

Besides seeking assurance they are also climbing two rungs up a social ladder. The order of boarding an aeroplane was:

1. foreigners
2. overseas Chinese with foreign passports
3. Chinese from Taiwan
4. Hong Kong and Macau Chinese
5. Mainland Chinese.

Indirect taxation

In the past year, I have strongly supported indirect taxation for unnecessary items. However, we must be careful not to tax daily necessities otherwise it may cause inflation and hit the low income group.

With these observations, Sir, I support the motion.

MR. CHEONG: Sir, I would like to offer my thanks to the Financial Secretary for his budgetary proposals for the year 1988-89. Adverse reactions have really been insignificant and seem to have concentrated on just a couple of areas. In

this debate I will offer three brief observations covering taxation, economic outlook and social welfare. Also, I will discuss in more detail the issue of land for our future industrial developments.

First, in the policy debate last year, I strongly urged the Government to offer better deals to our middle-income group in the year 1988-89 when Government should be able to afford it. I am pleased to see that the Financial Secretary has been able to make some meaningful concessions for the benefit of that vital group this year. I support it wholeheartedly and I will continue to urge Government to give priority to this area in formulating budgetary proposals for the year 1989-90 when the time comes. There will no doubt be heated debates this year over the issue of separate taxation. I support separate taxation in principle. Nevertheless, it is fair to say that the practical benefits to our taxpayers through the introduction of the working wife allowance cannot be lightly dismissed. It is also true to say that there are many practical problems to be resolved before separate taxation can effectively take place. Hence, it behoves all of us to be patient and Government should now make a firm commitment to the community, not just in principle alone, but also a reasonably acceptable date of implementation to which the community can look forward to.

Secondly, the performance of our economy over the past year has pleasantly surprised everyone. It fully demonstrated the ability of our business community to take full advantage of continued growth in the economy of developed nations. It also reflects significant contributions to our economic growth by increased trading opportunities with China.

In the coming year, that is, 1988, despite a slow down in forward order books for the first couple of months, business outlook has recently improved beyond most expectations. If the present trend continues for another six months, we may well see a reasonably healthy performance of economic growth this year. Forecast GDP growth at 5.5 per cent could well then be conservative and it would not be beyond the realms of possibility to achieve a minimum growth of 8 per cent this year.

All seems well so far, yet we must not and cannot afford to ignore the dark clouds that lie on the horizon beyond 1988. Most world renowned economists have predicted a slow-down in the US economy beginning in 1989. Corporate decision makers have displayed extreme caution in their preparations to meet this predicted down turn. This will certainly affect our export and other related services sector, thereby adversely affecting our ability to grow in 1989. What is even more worrying is the possibility that such a slow down will not be just confined to the year 1989. We may well be faced with a similar situation for another two to three years.

Hence, thirdly, I support the Financial Secretary's 'steady' approach in his management of our public finances. We should spend wisely on areas that need improvements. Social welfare services receive a much welcome boost this year

and I support it. Generally, it is my belief that our people accept that this Government has been, and I am sure that it will be in future, a responsible, responsive and compassionate Government. I am also sure that in future there will be firm commitment in recurrent expenditure designed to help improve the quality of life of our citizens and those expenditures will be committed as long as we have the ability to earn what we can spend.

To ensure that we will be able to afford such services for a long time in spite of the cyclical nature of our economy, we need to spend cost-effectively as well as to concentrate on helping those who really need help. The concept of means-testing should be an acceptable guideline to adopt in the design of most welfare services and I strongly urge the Government to bear this important concept in mind in future when new programmes are to be designed or when old programmes are to be reviewed.

Drawing on the experiences of some developed nations, it is the scuttling of the concept of applying means-testing to welfare services programmes that has contributed significantly towards running up huge national debts. Hong Kong in no way can afford to run up debts year in, year out, in order to finance more and more recurrent welfare expenditures.

Sir, spending wisely and cost-effectively naturally helps preserve scarce resources. This is a very important factor if we strive to achieve a balanced trend in the equation of revenue and expenditure. Yet, a significance may well take a lesser place when compared with the need to maintain and enhance wealth creation opportunities for the community. For example, Government had to repeatedly deploy resources in the Exchange Fund totalling billions of dollars intervening in the banking and financial services sectors in order to protect the integrity of our wealth generation markets.

I supported those measures as I accept that it is the responsibility of the Government to preserve as much as possible both the opportunities and the environment to be conducive to further wealth creating activities. If that was one of the major reasons leading us to make decisions as we did then, Sir, I submit that other major components of our GDP might be usefully examined. It is in this context that I wish to make a more detailed observation on the subject of future industrial land needs in Hong Kong.

Given Hong Kong's topography—hilly terrain with little flat land—there are obviously many competing demands for what developable land is available. One basic demand that must be met is to provide sufficient land for industrial purposes. Since the end of the Second World War, Hong Kong's economic and physical development, that is, housing, schools, recreation facilities and so on have been heavily dependent upon the successes of our manufacturing industry to create wealth to pay for the expenditure items.

Until recently, Hong Kong's industry has been relatively labour intensive in nature, relying less on the physical form of its factories and capital investment

than on the skilled and manual dexterity of its workers. That picture is now changing. More and more Hong Kong's labour intensive processors are moving to lower cost areas, notably the People's Republic of China. In their places are gradually emerging capital intensive production processors employing a greater degree of automation. This trend is becoming increasingly evident in design as well as production.

It is in this process of change that the future supply of industrial land becomes an important issue of the present. No longer can Hong Kong continue to rely solely upon conventional flatted factories to meet production requirements. The new industrial processes will increasingly call for longer uninterrupted floor areas with heavier floor loadings, as well as vibration, humidity and particle control environments. Under such circumstances, industrial accommodation should ideally be designed around the production processes, instead of being compromised by the constraints posed by conventional flatted factories. Attempts have been made in the past to design more multi-storey industrial buildings. Indeed, several such buildings exist. But commercially they are failures, because the cost of producing this type of accommodation is not commensurate with the return the property developer has to make on his investment in the land. Some other solution will have to be devised.

The demand for land for industries employing higher levels of technology is not a new phenomenon. As far back as 1973, the Government recognised the need for land to be set aside for such processes when it created its special industries land policy. This recognition led in 1976 to the establishment of the Hong Kong Industrial Estates Corporation and the development of the two industrial estates in Yuen Long and Tai Po.

Initially, land sales at the two estates were relatively low, but with the signing of the Joint Declaration and opening up of China, demand for sites has increased significantly to the extent that unless further land can be made available through, for example, the development of a third estate—land at both estates could quite conceivably run out by the end of 1989. In the year 1986-87, the Hong Kong Industrial Estates Corporation sold a total of 10.73 hectares of sites. Last year, 1987-88 the figure was 19.58 hectares and already in the first month of 1988-89 the corporation has approved applications totalling 7.22 hectares. By way of comparison, Sir, Government sales of industrial land outside the estates was only 2.29 hectares for the year 1986-87, 5.15 hectares for the year 1987-88 and the latter, including 2.23 hectares for development as a trade mart.

Significant amongst the new industries that want to establish themselves in Hong Kong are those that require sites, either on or close to a waterfront location capable of berthing ocean-going vessels. Several multi-nationals and we have serious enquiries from them, primarily from the chemical processing and storage industries, have sought and are continuing to seek sites. These industries, if located in Hong Kong, will not only provide vital raw materials,

notably plastics, for Hong Kong's exporting industries, but also introduce knowledge and expertise in the use of new materials which can underpin Hong Kong's drive for better quality, higher value products.

The areas of land required are not small. A third industrial estate would have to be about 100 hectares in area and the demand for waterfront sites, as indicated by applications already made to either the Industry Department or Industrial Estates Corporation, would require the formation of about a further 100 hectares of waterfront land to enable us to meet meaningfully the future demands of the very land intensive industries.

Unfortunately, land for such industries is not currently available and preliminary investigations indicate that such land can only be created through reclamation, a process which will take several years to complete. Both the Secretary for Lands and Works and the Secretary for Trade and Industry recognise the importance of this issue and are giving high priority to their administrative processes required to enable the formation of such land to proceed as quickly and as smoothly as possible. Yet, the bureaucratic machinery constraint is still cumbersome and we may well need to respond more swiftly to potential demands of this nature for foreign and local investors alike. Further-more, it is incumbent upon us, the legislature, to make sure that the two policy secretaries and their departments are allocated sufficient resources for the job.

Finally, Sir, it must not be forgotten that the Joint Declaration places limits on the amount of land which can be disposed of in any one year. There would thus be a need, if the demand for industrial land is to be met efficiently, to seek the agreement of the Land Commission at the appropriate time, the earlier the better. If we believe in the merits of vigorous diversification and broadening of our industrial base, we must move with speed to iron out administrative restraints and all the other difficulties involved. The capital investment involved admittedly will be huge but it will be well worth it for our future.

Sir, I have pleasure in supporting the motion.

MR. PETER POON: Sir, I welcome the Financial Secretary's Budget for 1988-89 which demonstrates his comprehensive approach to fiscal prudence. In the beginning of his speech, he rightly warned us of Hong Kong's vulnerability as an open economy to world economic downturn expected in 1988 or 1989. We had two consecutive good years in 1986-87 and 1987-88 and our GDP growth of 13.5 per cent in 1987 is one of the highest in the world. His proposals for 1987-88 have the three laudable objectives of considerably easing the tax burden for businesses and individuals, while increasing expenditure on public services and maintaining the value of our reserves. 1987-88 was a good year for Hong Kong with vibrant exports and a booming local economy. One must remember that a substantial part of the surplus is from the unusual high revenue from stamp duty in the bull market for most part of the year and our strong exports under full capacity. Despite the forecast decline in the growth of our

GDP to 5 per cent for 1988, the Financial Secretary still forecasts substantial surpluses of \$3.8 billion on general revenue account and a per capita GDP of HK\$72,000 (equivalent to US\$9,200) for 1988, after his revenue proposals. This is most encouraging and with Hong Kong's flexibility, adaptability and originality, I am confident that we can achieve such goal. I am, however, less certain about the Medium Range Forecast to 1990-91 because a lot depends on whether the world economy will be on a downwave in the years to come and whether inflation in Hong Kong can be kept under control so that our competitiveness will not be lost. Shortage of labour is already at present a serious problem.

The rest of my speech will be confined mainly to various aspects of taxation. In general, the Financial Secretary has given tax concessions estimated to cost \$2.2 billion in 1988-89 and \$3.2 billion in a full year to benefit most sectors. These are very substantial amounts. The business sector gets 1 per cent reduction in the tax rate on business profits. This is in line with the trend in other countries which find that the reduction in tax rate is a good incentive, and past experience shows that total tax revenue may in fact rise instead of fall as a result of the reduction which may be a stimulant for an increase in productivity. Some may question whether it is necessary to further reduce our already low profits rate by 1 per cent. The business sector, mainly the Chamber of Commerce, has been asking for such a reduction as other countries such as Singapore, the United States of America, Australia, Canada, New Zealand, Japan and more recently the United Kingdom have substantially reduced or propose to reduce their tax rates: we should follow suit, even in a mild manner, to maintain our relative advantage. It should be noted that personal tax, property tax and interest tax have also been reduced by 1 per cent. Therefore, the current proposal has been able to benefit a broad spectrum of taxpayers. It would be pertinent to note that there has been no cut in public expenditure on social programmes. In fact, increased allocations are proposed in the Budget.

As to personal taxation, the various proposals, which include the reduction of 1 per cent in the standard rate and the change in the progressive rate, in fact, give relief to a considerable number of taxpayers, in particular the middle class. Seven hundred thousand taxpayers will benefit to a lesser or greater degree and the tax savings are clearly shown in the comprehensive tables in Appendix F(3) of the Budget. Tax concessions for salaries tax alone for 1988-89 amounts to \$1.1 billion which is more than double those granted in 1987-88, and is nearly nine times those in 1986-87.

However, there are a number of points which I would like to raise.

Firstly, the increase in additional personal allowance by \$2,000 will give rise to an increase of around 6 per cent in the combined basic and additional personal allowances, which is just over the 5.5 per cent rate of inflation in 1987-88. The element of inflation, however, has not been properly reflected in the adjustment of the basic and other personal allowances in the past few years. Furthermore,

the additional personal allowance is subject to the unpopular 'claw-back' provision which means it will be reduced as the taxpayers' taxable income increases until it is totally withdrawn. For example, it will be the case when a single man earns about \$8,000 per month. I would suggest that the 'claw-back' provision be abolished. 'To give or not to give, this is the problem'. Such claw-back complication is quite unnecessary and we can afford to be more generous.

Secondly, the basic allowance ought to be adjusted more often to be in line with inflation. It has been an area of grievances since many people who have a much lower real income than they had 10 years ago are caught in the tax net.

Thirdly, since big families with a large number of children are less common nowadays, a larger increase in the allowance for the first two children in a family and the abolition of the child allowance for the fifth child onwards are worth exploring, and it may also help in the Family Planning Association's work.

I first raised the issue of separate taxation in my speech in this Council on 29 March 1984. There is clearly an inequity in tax burden where both spouses are working and, I suggested at that time that the Financial Secretary should address the problem in the expectation of mounting pressure to rectify the inequity. I also propose the reintroduction of the working wife allowance as an interim measure. I am pleased that a working wife allowance of \$15,000 is now proposed. This should go a considerable way in easing the unfair tax burden on working wives. In my speech on 18 March 1987, I expressed my disappointment that the Financial Secretary had, despite the large surplus and the cogent arguments against the excuses for not introducing separate assessment, decided that it was not appropriate to introduce separate taxation.

I fully understand that separate taxation may complicate our simple tax system and create considerable operational difficulties for the Inland Revenue Department. Although the working wife allowance will alleviate considerably the unfair tax burden, the principle of separate taxation should not be taken lightly: the equality of women should be respected in a modern society like ours. Technicalities can be overcome within a reasonable time and should not be used as an excuse with the improved and efficient computer facilities. I also realise that the work of the Commissioner of Inland Revenue will be made difficult especially in preparing estimates assessments and refunds if separate taxation is made optional. If, however, it is not optional, a large number of taxpayer will lose, especially if a spouse is not working. Many countries adopting separate taxation do not allow for option. Solutions, however, can be found after careful consideration. Taxation can never be totally fair, but every effort should be made to make it reasonable and fair.

I am pleased to note that the Financial Secretary is aware of the trend in some other tax administrations in the direction of separate taxation for married women. He must have a crystal ball as that is exactly what the Chancellor of the Exchequer, Mr. Nigel LAWSON, proposed in the recent United Kingdom Budget for 1988-89.

Let me quote some statements from the United Kingdom Financial Statement and Budget for 1988-89: 'The present system of taxing husbands and wives, under which a married woman's income is treated in law as if it belonged to her husband, has been unchanged since the early days of income tax. There is general agreement that the present law is no longer acceptable and wide support for an early change to a new and more up-to-date system. A major reform is therefore proposed to give husbands and wives independence and privacy in their tax affairs and remove the tax penalties on marriage which can occur under the present system. The new system will be introduced from 6 April 1990 to allow time for the necessary preparation.'

The Chancellor of the Exchequer's proposal for independent taxation for married couples ought to give us a good example. May I add that the question of transferability of allowances and tax avoidance are not insuperable problems or justifiable excuses for further delays. Our tax system is simple. We do not have complicated problems of capital gains tax, investment income and so on which exist in the United Kingdom. Furthermore, I hope that efficient as we are in Hong Kong, we can introduce separate taxation preferably in 1989-90 if at all possible. If consultation is required, I am sure that the OMELCO Taxation Panel, various professional bodies and others concerned will be only too pleased to assist in suggesting how separate taxation for working wives may best be introduced. The additional administrative cost estimated at \$17 million in the 1987-88 Budget, and the difference between the cost of introducing separate taxation, which is estimated at \$400 million in the 1987-88 Budget, and the proposed \$340 million working wife allowance concession, is not too high a price to pay to remedy an unfair tax treatment. Admittedly, the figure may be revised upwards in view of the new and considerable concessions in 1988-89. I would urge the Financial Secretary to make a commitment to introduce separate taxation as soon as possible in his reply.

I shall now come to the highly controversial subject of a broadly based indirect taxation possibly in the form of sales tax at the wholesale level. It is fully recognised that our tax base is extremely small. It is estimated that may be only about 100 000 people in Hong Kong pay more than 65 per cent of all direct taxes whereas Government has to finance massive and increasing education, medical, social and capital programs in view of ever growing demand and public aspirations. The proportion of direct tax to indirect tax is 60:40 at present. Since many people are enjoying the stability, prosperity and improvement of environment of Hong Kong are not paying any direct taxes, some forms of indirect tax may be considered, especially in the event of business down-turn when direct taxes in such narrow base can no longer be relied upon to finance our future Budgets. My own feeling is that to have a plan along such lines for the rainy days should be considered, but I see no need or justification to implement it at once if our forecast can be met, that is, if we will continue to have surpluses of over \$2 billion through 1990 according to Medium Range Forecast. There is already a polarisation of the rich and the poor in Hong Kong. I am

afraid that it is easier said than done to have a new indirect tax which would produce a stable and worthwhile revenue yield at a low tax rate, should cause minimal distortion to the economy and should be simple and cheap to administer. To have it accepted by the public is even more difficult. Edmund BURKE once said: 'To tax and to please, no more than to love and be wise is not given to man'. Though I agree that we should consider it as a contingent plan, I would, however, ask for extreme caution for its introduction while we have substantial surpluses. Though the trend in other countries is to reduce direct taxes and increase indirect taxes, it is mostly a 'zero sum game'. Our direct taxes are low by world standards, so such line of thought can hardly be accepted by the general public. It is conceivable that one day such tax may in fact have to be introduced if public expenditure cannot be met by existing taxes and revenue and the increase of direct taxes will either be non-productive because of business down-turn or it will change our low tax regime so as to affect our whole economy unfavourably.

Finally, I would like to compliment the Financial Secretary, not only for his excellent analysis of our finances and balanced proposals, but also for the very clear and informative format of the Budget and the Draft Estimates.

Sir, with these remarks, I support the motion.

MR. CHAM: Sir, having gone through two lengthy Special Finance Committee Meetings to examine the Draft Estimates, I must congratulate the Financial Secretary for the improvements in the presentation of the Draft Estimates. The objectives are clearly identified with the related expenditure and activities. Hence, government departments will have their targets clearly specified for the coming year together with the budgeted expenditure. This is indeed a great improvement from the past. When developed properly, this can be a powerful management tool for government departments. In the coming year, we shall be able to assess the achievements of each department and the accomplishment of department heads in meeting their specific targets. It is an encouraging sign that management tools are introduced into Government by the Financial Secretary.

On the question of separate taxation for married women, I agree that in terms of equality, separate taxation is an important principle which should be introduced into our tax regime. On the other hand, one must recognise that there will be important questions of principle to be laid down which will form an indispensable part of the basis of the separate taxation. The taxation panel under the able chairmanship of Mr. Peter POON has offered to assist the Administration in assessing and analysing the difficulties and technical problems associated with separate taxation. Indeed, there are matters of importance which must be addressed. Important questions need to be tackled, such as the treatment of related allowances, the combat of emergent anti-avoidance devices, the necessary changes to be introduced in terms of computer programming, and the impact on tax legislation, other than the question of transferability which the Financial Secretary referred to in his Budget speech.

With these complications, I think that we shall need time to work out all technicalities and I am sure that the taxation panel will be only too pleased to assist. Nevertheless, these difficulties are not insurmountable. I think Government should accept the principle of separate taxation, leaving details to be worked out. Moreover, I support the working wife allowance.

While many discussions will focus on separate taxation for married women, I must raise once again the need for Government to consider introducing a single parent allowance. We must accept that in our society today raising children by a single parent is admirable, aside from other strains and stresses which the parent has to face. As these parents would not be entitled to the married couple allowance, an additional allowance for single parents with children is appropriate. I urge that serious consideration should be given to this important issue.

I cannot disagree with the Financial Secretary's proposal to reduce the departure tax from \$120 to \$100, further to our call for a reduction last year. However, I must point out that this meagre reduction only repositions our Kai Tak Airport from being the second most expensive airport in terms of departure tax to become the third most expensive in the world, after Japan and Australia. In fact, we are still some 23 per cent more expensive than Taiwan, which is in the fourth place. Surely, having attained the reputation of a shoppers' paradise, we do not wish to charge travellers exorbitantly and so as to hamper our reputation. Nevertheless, I must insist that full costs should be recovered. I think this principle of no subsidies for non-essential services must be maintained in line with our balanced Budget approach. Indeed, only strict financial discipline will ensure sound public finance management. We cannot expect and afford lavish subsidies.

The present conditions of continuous economic growth, low unemployment and stable prices can be causes for our complacency. Yet in our economy, there are both internal and external potential difficulties. Internally, the affluence of our fully employed society and rising costs led by increases in property values and essential charges, together with a further weakening of the US dollar, may soon be putting pressure on our domestic cost structure. Externally, competition from our neighbouring low-cost manufacturers, countries with sizeable trade and fiscal deficits, all add to the uncertainties of the world economy. Thus, with both cost-push and demand-pull factors, the prospect of continuous economic growth brings with it the danger of increasing inflation. Despite our non-Keynesian economy, we must do what we can to contain inflation. In my view the most effective anti-inflationary policy is to exert stringent cost-control and increase productivity rather than to rely on the relative rise in price level abroad to preserve our competitiveness. One must bear in mind that it would be unwise to depend on the adjustment mechanism after inflation has got out of hand. Only consistent efficiency enhancements can provide Hong Kong with a vibrant business sector to remain competitive in the world today.

Sir, I support the motion.

MR. CHENG: Sir, there is a Chinese saying that if you please your elder brother you will somehow offend your sister-in-law. (順得哥情失嫂意) meaning that it is hard to please your brother and sister-in-law at the same time. The art of pleasing everybody is indeed a difficult one especially when it comes to money matters. However, I think the man-in-the-street would join me in giving credit to the Financial Secretary for his successful endeavours this year in producing a Budget that pleases all sectors of the community in one way or another.

The Financial Secretary's decision to lower the standard taxation rates, increase personal allowances, and reduce stamp duty has undoubtedly been well received by the general public, in particular the middle and lower-income groups who form a very important sector of our economy.

The introduction of the annual tax allowance of \$15,000 for working wives this year has been viewed as a compromise on the part of the Financial Secretary. He has remained firm in his stance in refusing to introduce separate taxation for married couples this year despite the clamour for this. While acknowledging that half a loaf is better than no bread, I would like to echo the call made by some of my hon. Colleagues to the Government to introduce separate taxation for married couples as soon as possible. Married couples should be offered an option to choose whether to have their incomes assessed either jointly or individually. Mr. Piers JACOBS said in his speech that he is now prepared to consider further how separate taxation for working wives might best be introduced. I take his words, and like the general public, am anxiously awaiting the good news from the Financial Secretary in the near future.

Turning to the controversial issue of sales tax, I must say, Sir, that I detest very much the plans of the Government to broaden its revenue base through such a vehicle. The reasons are simple. A sales tax—be it at the manufacturing, wholesale or retail level, would be unfair to consumers as they will be the ones to shoulder the final burden. This, in turn, would lead to higher inflation and would definitely hit people's livelihoods. Unlike the more luxurious items such as imported cars and tobacco, daily necessities are a must to maintain a reasonable standard of living. If daily necessities were taxed, people's quality of life would inevitably suffer.

Furthermore, as we all know, Hong Kong has long been crowned the shoppers' paradise and enjoys a flourishing tourist industry. Its highly competitive prices have attracted numerous tourists from all over the world. But I must warn that the imposition of a sales tax would not only jeopardise Hong Kong's reputation as a shoppers' paradise but would also encourage visitors to turn to other Asian countries with cheaper consumer goods. Hong Kong's tourist industry was the largest earner of foreign exchange last year, bringing in \$25,400 million. The Government should thus beware of any actions which may be detrimental to the industry.

Hong Kong has enjoyed a double-digit growth rate in the last two consecutive years and ended the 1987-88 financial year with a record \$10 billion surplus. The Government's finances have now clearly improved. Although the outlook

for Hong Kong's economy is reasonably bright, we must bear in mind that the introduction of a sales tax would have an adverse backlash on a buoyant economy in the long run. In view of these arguments, I feel the need to urge the Government to think twice about whether it would be wise to implement such a proposal.

Turning to community services, Sir, I fully agree with the Financial Secretary that the efficient movement of people and goods within Hong Kong is essential to maintain economic progress. It is important that the development of the infrastructure should keep pace with the economic growth. In this area, I am pleased to see a greater priority will now be given to transport to strengthen both our internal and external transport links. It is also satisfying, in my opinion, to see that the consolidated account expenditure forecasts for community services is to increase from \$12,330 million last year to \$13,707 million this year. As Hong Kong is to witness in the years ahead major capital projects such as the improvement of the cross-border road links, the expansion of the existing container port, the development of better facilities at Kai Tak, and a study of the new port and airport facilities, the Government has made the right move to continue to put aside a sensible share of the expenditure pie for community services.

In view of the expansion in community services, including land and engineering, I deem it necessary to reiterate the need for a registration system for engineers to maintain Hong Kong's professional standards. There is presently no system for the registration of engineers for statutory purposes, apart from the one for the structural engineer. I had, in late 1985, asked the Government in this Council what action had been taken regarding the registration of engineers and what progress had been made so far. The Government then replied that it would be able to finalise the registration procedure by the end of 1986. The Government, however, had still failed to come up with a registration system in early 1987. I then raised the issue again at another Legislative Council meeting. The reply was that the Government was still studying the matter.

The Government later took the initiative to start a dialogue with the four professional institutions of engineers, architects, surveyors and planners on the formulation of a registration system which may be common to these institutions. But I regret to say that the progress is far from satisfactory as there are still diverse views on a number of subjects. It is high time that the Government speed up the process and set up a registration system as soon as possible. Professional standards are indispensable in maintaining Hong Kong's reputation as an international city. A high standard of professional service is vital, not only in the transition period, but beyond 1997 as well. Professionals' confidence in the field will be hampered if a high standard cannot be maintained and will not be subject to a proper peer judgement system. In this respect, I hope that this registration system could be legislated during the transition period to protect the interests of local professional engineers, architects, surveyors and planners, and to make sure that the services given to the public are of the highest quality.

Another subject that I am concerned about relates to building management. I am aware that a reconstituted inter-departmental working group convened by the City and New Territories Administration has been set up to look into the inadequacies of the existing deed of mutual covenants. There have been long-standing complaints that owners' corporations and mutual aid committees are not properly supervised by the Government, and that the decision-makers of both bodies are not properly protected from liabilities. With more and more buildings in need of repair and maintenance, this issue should be treated as a matter of urgency so that a solution could be worked out without further delay. The Government should also strengthen its manpower to tackle the serious problem of illegal structures, in particular those which pose imminent danger to life or property. I hope that the recent setting up of a special unit empowered to clamp down on illegal structures will be able to demonstrate a greater efficiency and effectiveness in handling this matter.

Sir, although I am not a member of the ad hoc group on Vietnamese refugees, I would like to seize this opportunity to express my support for the views of the group under the capable leadership of my hon. Colleague Mrs. Rita FAN, that Hong Kong should not be taken as a place of first asylum. It is appalling to learn that with the current rates of resettlement and continued arrival, it would take decades to clear the 10 000 plus refugees presently in the camps, if at all possible. Last year, some \$126 million was spent on refugees from the public purse and a larger expenditure is envisaged this year if a fourth closed camp is to be built. Whitehall has warned that it would be improper for Hong Kong to shun its obligations as a place of first asylum for the refugees. What about Britain's obligations towards Hong Kong in this matter then? Has it fulfilled its responsibility to us by accepting only about 20 Vietnamese refugees from Hong Kong per month, while choosing instead to take refugees directly from Vietnam for family reunions? And how can we expect other countries to help out if Britain declines to take the lead in the resettlement of refugees from Hong Kong? Repeated calls have been made to the British Government to help tackle the problem but to our total disappointment, no positive actions have been taken so far. Britain should respond to Hong Kong's needs and acquiesce to Hong Kong relinquishing the role of first port of asylum. And it must respond quickly.

Sir, the fact that Hong Kong reaped a record surplus for the last financial year would, I believe, be envied by many. But we should not be complacent about the Government's healthy finances and must continue to strive hard to keep Hong Kong prosperous, no matter how rugged the road ahead may be.

Sir, I support the Bill.

4.22 pm

HIS EXCELLENCY THE PRESIDENT: Members might like to take a short break at this point.

4.48 pm

HIS EXCELLENCY THE PRESIDENT: The Council will resume.

MR. CHEONG-LEEN: Sir, if I were asked whether the Financial Secretary's Budget speech had any sort of central theme, I would said that even though many of us in Hong Kong are now worrying about the brain drain of talent so vital to our economic growth, the central theme could be summed up in a few simple words: 'Cautious confidence in Hong Kong's future as a viable economic and financial centre'.

The economy

I am of one mind with the Financial Secretary that Hong Kong with its free-port status and open-market economy remains as vulnerable as ever to external forces. And no matter how well our economy is doing in any given year, we should not let our guard down and become dangerously exposed to adverse shifts, whether abrupt or sliding, in the world economy.

Hong Kong is still very much an export-led economy. One of our main concerns has to do with keeping the spectre of protectionism at bay and preventing it from rearing its destructive head any higher.

Like many other financial centres, Hong Kong did not come out unscathed from the stock market crash which reverberated round the world last October. But on the positive side, the reorganisation that is now taking place within our stock exchange and futures exchange is re-establishing and even strengthening Hong Kong's status as an international financial centre.

Fiscal prudence

It is anticipated—whether with some foundation or not I do not as yet know—that last year's Budget surplus might be closer to \$9,500 million or even more, instead of the original \$2,400 million estimate. This should put Hong Kong's public finances in an even healthier position and our economy better able to withstand any economic downturns looming on the horizon within the next year or two.

I support the Financial Secretary's policy of fiscal prudence, coupled with moderate tax concessions, plus steady increases in expenditure on social welfare, public housing, medical and other social services, so as to uplift living standards and the quality of life.

Hong Kong-China economic relations

Hong Kong's economic relation with Mainland China are expanding by leaps and bounds, so much so that with an industrial workforce of about 850 000, Hong Kong is directly or indirectly employing over 1 million workers in Guangdong Province alone.

In order to stay competitive in exports, Hong Kong will have to keep on expanding economic integration with the mainland, through more subcontracting of manufacture of goods in the labour-intensive industries.

Hong Kong's economic future is already inexorably linked with China's economic reforms, and the faster that China opens up, the faster will be the economic interface between Hong Kong and the cities in China which are seeking to export their products to the outside world.

As a regional commercial, industrial, communications and financial centre, Hong Kong is playing an indispensable role in China's economic development into the 21st century.

As the hub of Asia and an important international city in the region, Hong Kong is already China's strongest economic link with the rest of the western industrialised world.

Trade with Eastern bloc countries

I am surprised that the Government is taking such an over-cautious attitude in selling more to Eastern bloc countries, and in attracting more tourists and participants for conventions and meetings from such countries. With the opening of the convention centre imminent, I urge Government to review the existing policies with eastern bloc countries, both as to trade and tourism.

High-tech centre

For many years, there has been discussion on the possibility of having a science park or high-tech centre in Hong Kong.

Taiwan already has a large and thriving science park. The Singapore science park which was opened three years ago now has about 40 firms. Shenzhen is now considering building a science park. Birmingham in the United Kingdom, started a few years ago in a modest way a project something similar to a high-tech centre and it has now apparently successfully gotten off the ground.

Hong Kong meantime still keeps on talking about how to set up a science park or a high-tech centre; now that the Industrial Development Board has decided to commission a feasibility study on a technology centre, can we expect that something will finally be done to expedite this project and overcome the bureaucratic delay and procrastination?

Construction of a new airport

Last year approximately 12.6 million passengers used Kai Tak Airport and during the next few years, subject to any significant downturn of the world economy, the number of passengers expected to use Kai Tak Airport will keep on rising substantially.

If Hong Kong's tourist industry is to keep on expanding into the 21st century, we must take positive steps to plan for a new international airport as soon as feasible.

The construction of any new international airport in Hong Kong should not be financed solely by the Hong Kong Government. We should seek financial

participation from the private sector as well as participation from Chinese Government financial institutions, which would naturally attract more long-term investment in other areas and strengthen long-term confidence in Hong Kong's future.

With studies on the port and airport development strategy, the metro plan and the potential future use of Kai Tak Airport proceeding apace, the question has to be addressed in the next 12 months or so as to whether Kai Tak will reach saturation point well before the end of the century. If the answer is in the affirmative, it would seem that Hong Kong has no better choice, or perhaps no other option at all than to go for a new international airport, and the sooner the better, since it takes eight years at least to build.

Even if a decision could be made in principle to construct a new international airport within the next 12 months, construction work, with the inter-related massive infrastructural planning, could not proceed until the early 1990s. In this respect, we must plan for the future with vision, imagination, boldness and confidence in Hong Kong's economic future as a strong catalyst in China's modernisation and economic development.

Tourism

Last year, Hong Kong had a good year in tourism, with a record number of 4.5 million visitors, spending an estimated \$25,000 million.

Tourism is a major and expanding service industry for Hong Kong, with increasing visitor traffic expected to rise this year to about 5 million.

The Financial Secretary has recognised the importance of supporting the tourist industry by reducing the air passenger departure tax from \$120 to \$100 for an adult, and from \$60 to \$50 for a child. However, the tourist industry would have preferred the tax reduced even further and I hope that the tax will be reviewed again next year when the visitor traffic will have expanded even more.

To further encourage transit visitors who would be departing from Kai Tak Airport on the same day to go sightseeing and shopping, it has been suggested that the Financial Secretary introduces a dawn-to-evening transit tax of \$50 for an adult and \$25 for a child. However, administratively this suggestion could be difficult to implement and I would urge Government to allow transit passengers who would normally have to wait in the airport transit lounge to be permitted to come out for shopping or sightseeing or other legitimate purposes without having to pay any departure tax at all providing they leave on the same day.

In his Budget speech, the Financial Secretary stated that the reduction in the airport departure tax will cost the Treasury \$120 million in 1988-89. The hotel industry is under the impression that the Government is seeking to recoup this amount by steep rate increases which could amount to over \$100 million annually.

Hong Kong hotel room charges are reported to be among the highest in the world, and if you wish to avoid killing the goose which lays the golden egg, the Commissioner of Rating and Valuation should review complaints of excessive rate increases from any hotel sympathetically and fairly.

Stronger co-ordination is required in promoting annually territory-wide courtesy campaign. This will give tourists an even better impression of Hong Kong people and can even encourage them to stay on longer, and to spend more money shopping and enjoying the top cuisine of Hong Kong. An annual courtesy campaign would also stimulate civic consciousness at all levels of the community.

What is worrying to the tourist industry is the possibility that the Financial Secretary could introduce a sales tax on various classes of goods and services in addition to the existing items such as cosmetics, soft drinks, imported cars, petrol, tobacco and liquor. Government should be warned that any move towards a sales tax at the retail level would not only increase prices to the consumer, not to mention the added cost of administration, but would also seriously damage Hong Kong's international image as a low taxation territory, and frighten away potential investors.

Should the Financial Secretary have in mind raising additional revenue by tax levies at the wholesale level on a wider range of items other than the existing ones, such items should be kept to the absolute minimum and on the understanding that there should be a balanced reduction in the standard rates of taxation for personal and corporate taxes.

A potentially serious problem facing the tourist industry is the shortage of seats, not only out of but especially into and through Hong Kong by air. This could be the biggest single disincentive to the growth of the tourist industry, and Government should urgently study what can be done to relieve the situation before it escalates to crisis proportions. Otherwise, before we know it we could be losing by default valuable tourist business to some of our south east Asian neighbours.

A further boost could be given to our tourist industry through more sponsorship by international companies with offices or close connections with Hong Kong, of major cultural, entertainment and sports events. This is already happening to some extent and I hope more can be done. These international companies could provide more advertising and promotional exposure of Hong Kong as an international city of trade, finance, shopping, good food, culture and entertainment. They will help us to attract more high quality and high spending tourists travelling in Asia, in competition with the many other attractive destinations in the region.

Other activities related to the tourist industry which could do with closer co-ordination are territory-wide promotion of traditional Chinese culture and festivals, upgrading in the maintenance of Chinese temples, encouraging taxi drivers to speak at least one foreign language, such as English or Japanese and so on.

Separate taxation for married women

Although the Government has introduced this year an allowance of up to \$15,000 for working wives, the issue of separate taxation for married women has not yet been resolved.

In his Budget speech, the Financial Secretary warned that there are a number of difficult questions involved which would not make it feasible to introduce separate taxation overnight. While I agree with him on this, I believe that the principle of separate taxation has to be accepted by Government sooner or later and the earlier the better. Once the principle is accepted, the manner and timing of implementation in an equitable way can then be carefully investigated.

The other day I came across a statement made by the Singapore Finance Minister when he presented his Budget to the Singapore Parliament this year; he said: 'Our personal tax rates are not onerous and are low compared to many other countries. By way of illustration, it is often not realised that a large number of taxpayers in Singapore with assessable incomes below S\$150,000 and that is equivalent to HK\$585,000 per year, actually pay less personal income taxes than their counterparts in Hong Kong'. And this is what he said when he introduced this year's Budget in the Singapore Parliament.

I wonder whether the lowering of the standard rate for personal tax from 16.5 per cent to 15.5 per cent as mentioned in this year's Budget proposals will make a substantial difference for this income group when compared to Singapore? If the statement by the Singapore Finance Minister is accurate, it should come as a rude shock to all of us in Hong Kong that our middle-income groups are paying higher taxes than their counterparts in Singapore.

Beverage tax

The Financial Secretary has no doubt received the submission from the Beverage Manufacturers' Association of Hong Kong urging removal or reduction of the duty on non-alcoholic beverages. I hope that the Financial Secretary will consider this request sympathetically and let them know where they stand with a detailed explanation as soon as possible.

Defence costs

Although the terms of the new agreement on defence costs have not yet been finalised, it is possible that the British Government is only prepared to reduce Hong Kong's contribution to 70 per cent of the cost of the Garrison from the current agreement of 75 per cent, as against Hong Kong's proposal which I gather could be that the costs could be on a 50:50 basis.

As the border control functions currently performed by the British army will in future be taken over by Hong Kong police, I believe it would be fairer to Hong Kong if the percentage were to be progressively reduced year by year by 5 per cent to 10 per cent until parity for sharing the costs is reached.

Vietnamese refugees in Hong Kong

With each passing year, the problem of Vietnamese refugees coming to Hong Kong seems to get more intractable with no light at the end of the tunnel.

The Vietnamese refugee problem is an international issue, but the British Government should assume the major financial responsibility in the caring for the 10 000 Vietnamese refugees now in Hong Kong.

The Hong Kong Government should start negotiating with the British Government to pay for half of all the 1988-89 expenditures to be spent by Hong Kong on Vietnamese refugees. Should a fourth closed camp be built, half of the cost of the construction should be paid for by the British Government.

In order to minimise the cost of managing such closed camps while still maintaining a reasonable level of security and efficiency, consideration should now be given to transferring the management to the voluntary agencies, with the support of the Civil Aid Services.

Housing

The Government is to be commended on its strategic programme to build a million new flats by the year 2001, at the rate of 80 000 flats annually, out of which 35 000 flats will be produced by the private sector.

More home ownership schemes should be encouraged, not only for low-income families but also for middle-income families as well.

At this particular point of time when Hong Kong is feeling the effects of a brain drain from our middle-income groups, it should be Government's policy to make it attractive and worthwhile for them to stay in Hong Kong for a longer period of time. One further step could be a one-off tax deductible allowance of up to \$50,000 on any down payment on the purchase of the first home of any head of a household. I doubt very much whether the new concessions on stamp duty whereby the threshold has been lifted on a sliding scale from \$500,000 to \$1.5 million before the 2.75 per cent rate begins to apply is much of a concession or incentive for a professional to purchase a home in Hong Kong rather than emigrate from Hong Kong.

Provident fund schemes

I welcome Government's intention to have legislation to monitor and regulate provident fund schemes for our working community. In the absence of a central provident fund scheme such is the least that should be done by Government.

To encourage our working population to have some sort of savings schemes for their old age and bearing in mind the continued grain of our population due to better living environment and other factors, I suggest that Government introduces the following measures:

- (a) employees contributions to private provident funds be exempted from personal taxation up to a maximum amount of \$5,000-\$10,000 per annum,
- (b) Government should consider setting up a plan, a long-term plan to make it compulsory, within five years or so, the participation by our working population jointly with employers in any approved non-government provident fund.

Care of the elderly

The Central Committee on Services to the Elderly has been set up to review the policy on services to the elderly in the light of social changes and the changing needs of the elderly.

More could be done to organise careers' support groups for the elderly, and more seminars whereby such groups can share knowledge and skills, and exchange experiences.

There is a strong tendency for senior citizens to want to remain active either in some gainful work or community activity after retirement at age 55 to 60. The Central Committee on Services to the Elderly might wish to give more priority to this issue.

An important objective of the committee should be to help Hong Kong's senior citizens to age gracefully and to participate in some economic or volunteer community activity. We should be concerned not only with increasing the length of life of our senior citizens and keeping them in good health, but with a quality of life for them as well.

Dental services

I understand from some members of the dentistry profession that Hong Kong is now beginning to over-produce dental graduates. The Prince Philip Dental Hospital produced 67 dentists last year, and approximately the same number will graduate over the next five years.

According to some sources, it has been estimated that it costs \$1.3 million a year to train a student in dentistry, and if indeed there could be an over-supply of dentists in the coming years, the Government should consider reducing the annual intake of new students from about 60 to 40 or even less.

Also, Government should review the possibility of privatising the provision of dental services to pensioners and their dependants, and to provide more access by monthly paid civil servants to private dental practitioners than is presently the case. The overall aim would be to provide a more efficient and satisfactory dental service at the most economical cost to the public purse.

Labour shortage

The labour shortage is still as tight as ever in a number of key industries, such as the construction industry, the textile industry and the hotel industry, to name a few. Macau has recently enacted legislation to allow workers from Mainland China to work on contract in Macau through two agencies designated by the authorities in China. I would urge the Government to monitor the success of this venture and to see if it can be adapted to resolving Hong Kong's labour shortages in different industries from time to time.

In order to encourage more women to join the labour force, the number of subsidised child care centres should be increased as rapidly as practicable. Also, the system whereby parents can apply for a subsidy for their children to attend kindergarten classes should be further simplified and the maximum amount of the monthly subsidy which is at present \$173 per child attending half-day school and \$321 for the whole-day school should be increased to a more realistic level.

In the hotel industry in particular, there is a continued shortage of management and other trained personnel. Government could explore with the hotel

industry the possibility of setting up in Hong Kong a hotel training institute affiliated to a top hotel training institution of international repute.

With regard to prison industries, the time now seems ripe for more orders to be sought for in the private sector, and not to concentrate principally on doing work for government departments. By so doing, prison industries and the prisoner workers could become more competitive and more flexible in work attitude and capabilities. Prisoners would be even better paid and be better prepared to earn a living after they have served their sentences. I urge that the prison industries should become self-financing within the next two or three years so as to reduce the financial burden on the public purse in this particular area.

Brain drain

The brain drain, as many Members of this Council have already made reference to, is beginning to gather momentum. I do not think the Government should just gloss over the problem; it is too serious for that. Instead the Government should now plan a long-term concerted effort to attract back to Hong Kong those who have already emigrated and have obtained their citizenship overseas.

If the Hong Kong Government, with the support of the British and Chinese Governments, do not vigorously seek to face up to this issue, we will have a confidence crisis on our hands in regard to Hong Kong's capability to expand economically during the rest of the transition period.

Government's decision to embark on the open university approach in tertiary education is to be applauded as this will be one of the ways to reduce the brain drain due to emigration during the run up to 1997.

Another way to tackle the brain drain could be to encourage the setting up of a few private universities in Hong Kong which would be branches of internationally reputable universities. Government support would be by providing the land and other forms of assistance.

However, our manpower projections must be carefully worked out in order to avoid serious potential imbalances which in turn would create a disillusioned better educated group whose expectations could not be satisfied.

Hong Kong's goal for the 1990s should be to build up a highly educated workforce whereby workers would be trained to be multi-skilled which would help them to better cope with change, especially change in Hong Kong's export-led economy.

Government should encourage the habit for life-long education and training. This would not only raise productivity and flexibility on the part of our work-force, but would also ensure that Hong Kong's economy would continue to be resilient and competitive and in tune with changing world economic trends.

Noise pollution in urban flyovers

For many years I have expressed concern at the increasing noise pollution in the urban areas, especially in places where traffic flyovers pass through densely populated housing areas.

I welcome the proposal of the Environmental Protection Department to experiment with using light-weight transparent material to cover flyovers carrying high volume traffic which are close to housing.

Hong Kong is one of the noisiest cities in the world, and anything which can be done at reasonable cost to lower noise levels by another 20 or more decibels on flyovers running through densely populated housing areas will be a boon to residents. I would urge that such work should not be held up because of lack of funds.

Water quality at the Urban Council gazetted beaches

The Urban Council is seriously concerned at the rapid decline in the water quality at Repulse Bay, Stanley Main, and the Chung Hom Kok beaches which are at present ranked only as 'marginally acceptable'.

The water quality at Rocky Bay Beach has recently deteriorated so badly that the Urban Council, because of the health risk to the public, will have to declare Rocky Bay unfit for public swimming, and put up warning signs to advise the public not to swim at Rocky Bay Beach for the 1988 swimming season.

I understand that the Environmental Protection Department has both short-term and long-term remedial measures for Urban Council beaches on the south of Hong Kong Island. This will include designating that part of Hong Kong Island as a water control zone and provision of a full sewage disposal system. I urge that these measures be decisively implemented by Government, and meantime no unfettered building development be allowed to continue as had happened in the past. Otherwise, many of our popular beaches, particularly Repulse Bay Beach, will soon become totally unfit for swimming from a health point of view.

Culture—Music Office

The Music Office runs a full-scale instrumental music training programme in both Western and Chinese instruments for trainees aged from six to 23. As at 1 March 1988, there were a total of 3 609 trainees, and this figure is targetted to increase to about 5 000 in the 1988-89 period, and an amount of \$11 million out of the total provision of \$25.86 million for personal emoluments and departmental expenses of the Music Office will be spent on training.

In order to strengthen the music appreciation of these trainees, I think it would be a good idea if they should have more opportunity to listen to Urban Council and Regional Council sponsored programmes of the Hong Kong Philharmonic Orchestra and the Chinese Orchestra, and other instrumental music groups coming from overseas.

Training awards and subsidies for artists

With approximately 22 000 audience seats becoming available throughout the territory in the next couple of years, it is timely for overseas training awards to be granted to artistes in both the performing and visual arts fields. Each award should cover tuition fees, a subsistence allowance, and return airfare.

Training subsidies, specifically in the visual arts field, should be awarded on an annual basis to cover part of the artistes' formal arts training overseas. All applicants should be permanent Hong Kong residents before their applications can be considered.

Art and sports patron awards

In encouraging more companies to donate more tax-deductible contributions to culture and to sports, arts patron and sports patron awards should be granted to individuals or companies contributing say \$1 million or more in a year to promote these activities.

Performing arts

Since the setting up of the Council of the Performing Arts several years ago, the Government has increasingly relied on the council for its advice on the allocation of public funds in support of the various fields in the performing arts, such as drama, music, dance, and the technical arts.

With the large number of seats in the various performing venues coming on stream soon, the council will play an invaluable role in advising Government on the allocation of public funds, that is Central Government public funds for major companies such as the Hong Kong Philharmonic Orchestra and the Hong Kong Ballet Company. The council will have to be assured that such companies have sound long-term strategies with active and well-balanced boards and efficient management to ensure that funds allocated are wellspent. Only by doing so will the council be able to responsibly advise Government on the proper allocation of funds.

The council should also be able to suitably advise Government through the Municipal Services Branch on the allocation of funds to other performing companies and individual artistes.

It is hoped that the role of the Council of the Performing Arts will become even more significant in the coming years. As regards visual arts, we are still patiently awaiting the Government's working party on the way forward for visual arts.

Finally, on sports, I associate myself fully with the views expressed today by Mr. F. K. HU on the subject, and urge that Government systematically follow up on the various points that he has made.

Sir, I support the motion.

MR. LIU (in Cantonese): Sir, I welcome the Budget for 1988-89 proposed by the Financial Secretary. It is an informative document presenting evident improvement to the development strategy and an economic forecast based on a pragmatic and enterprising approach. In addition, the mild tax increase and certain tax concessions should be welcomed by the general public. I would like to make some comments and suggestions on the Budget and I hope that the Government will give me some responses.

On the presentation analysis of the Budget and the information, I find great improvement in editing and arrangement. Not only are all the heads and items set out clearly, but both graphical and verbal explanations are presented more clearly, and the more systematic and detailed analysis of the information has made our understanding of the Budget much easier.

On the financial strategy, I welcome the Medium Range Forecast and I hope that the Financial Branch and all related departments will continue with their good efforts in enhancing the accuracy and reliability of the forecasts. I think the best thing to do is to make adjustments whenever the practical situation make it necessary. It would be best to have adjustments after every quarterly report to provide more reliable figures and a more effective guideline to the spending department.

Now I would like to talk about the strategy on expenditure. The Financial Secretary has laid emphasis on caution and continuity. I think that we should try to spend less on the Civil Service so that our burden would not be beyond our means in the long run. In view of the fact that world economy is still volatile I am in full support of the Financial Secretary's strategy and principle which ensure that Hong Kong would not be too badly hit when there is economic recession.

According to the Financial Secretary's estimate there will be a growth rate of 4 per cent for the Civil Service in 1988-89. This is greatly in excess of the targetted 2.5 per cent. We know that our targetted labour population growth rate would only be 1.4 per cent, so I am afraid the labour shortage to be faced by the Government and the private sector would only aggravate. This will certainly lead to dramatic increases in wages and in turn the inflation rate. Of course this will have serious effects on production costs and efficiency. This is why I urge the Government most strongly to review our labour resources distribution as soon as possible so that we will be able to solve the problem of labour shortage now and hereafter.

When the Financial Secretary commented on the imposition of revenue, he said that his aim is to benefit everyone in the community, in particular those in the middle-income group, and he would also like to provide assistance to people who are less well-off. That is why the Financial Secretary has made various proposals including the increase of personal allowance, extra tax allowance for married women, the increase in child allowance and dependant parent allowance, reduction of standard tax rate to 15.5 per cent, and also introduction of a more progressive tax system. All these will benefit the salary earning class.

Although the Financial Secretary has not accepted the proposal of separate taxation for couples, he had already introduced the working wife allowance with a ceiling of \$15,000. I think this is an acceptable compromise for the time being.

In order to encourage more people to buy their own flats, the new Budget introduced a special stamp duty rate of 2.75 per cent for property worth \$500,000 to be lifted to \$1.5 million, and there will be an exemption of property stamp duty for properties worth \$250,000 to \$1.5 million. Certainly this will benefit the sandwich class and help the property market to prosper.

On expenditure, I find that the Financial Secretary has had a more positive approach in the support to our industry in Hong Kong. He pointed out that industry is the mainstay of our economy, and suggested a reduction of corporate tax to 17 per cent, in addition a vast increase in industrial expenditure has been made to attract more investment.

Since Hong Kong has already become the main export and entrepot market for China, and because the Hong Kong currency has depreciated, together with the US currency, we have had very good performance in both export and entrepot last year. But since there will be more protectionist measures coming from the states and the world economic situation is still uncertain, there will likely be an economic recession in Hong Kong. I think that we must change the nature of our industry from labour-intensive to capital and technology-intensive. We should use more advance and modernised machines to improve the quality of our products, and develop new products. I am glad to see that there will be an extra allocation of \$15.3 billion to the Hong Kong Productivity Council so that it will provide more supporting services to the electronic and metal industries, and I am also glad to see that there will be a vast allocation to the Industry Department so that it will be able to set up a plastic technology centre for the Polytechnic.

On the whole, although the Government is more positive in supporting our industry, I still think that Hong Kong is still an export-led economy and industry is still the main pillar of Hong Kong economy. Our industry is mainly relying on light industry. The main difference in the machines used by light industry when compared to that used by heavy industry is that they are less durable. At present, the depreciation rate of these machines for the first year is 55 per cent, and this will reduce to 30 per cent in the coming years. I am afraid that there will be less incentive for our manufacturers to invest since there is estimated to be economic recession, so I think that Government should increase the depreciation rate for the first year. This on one hand can attract more foreign investment and on the other hand, it can introduce new technology and advanced equipment. Moreover, it can provide services to our international distribution network and introduce modern management techniques for industry.

I have certain comments to make concerning individual expenditure items.

I welcome the increase on social welfare in recent years, particularly in the fields of education, social welfare, and medical services. We should be glad to see such increases. I support such a move but I hope that we can spend more for

welfare for the elderly, mental health, environmental improvement, education and medical development.

Welfare for the elderly is a topic that all advanced and healthy societies, in particular a traditional Chinese society like Hong Kong must address. I support the Government's improvements in this field for the past few years but it seems that supply still lags far behind demand. As sanitation improves in our society the population of our elderly will certainly increase very dramatically. If we do not invest to improve the services now, I am afraid that the problem of elderly welfare will be aggravated and this will be a misfortune and a disgrace for society. I hope that we will see a rapid increase in the number of beds in government homes for the aged and also try to utilise the charitable donations from the public and encourage voluntary agencies to run homes for the aged. The Government should also give more positive support in subvention, accommodation, land and training of staff. I hope that we will achieve the goal of taking care of all our elderly people, since we do not have enough beds in government subsidised homes for the aged, we have more private homes for the aged, but these are essentially profit-making and they have very low standards of provision and services. We should not overlook this point. The codes of practice for homes for the aged are not legally binding, they are not applied very often and so legislation in this field is most urgent.

Talking about education, I welcome the setting up of the University of Science and Technology which will have its first enrolment of students in 1991. But I am more concerned about the progress of open education. Now we have a lot of working youths who do not have the chance of entering university but hope very much to improve themselves. They are using their spare time to join correspondence courses or other more flexible courses to gain higher qualifications and skills. So we should set up the open educational institution as soon as possible. We should take over the temporary venue of the City Polytechnic in Mong Kok once it moves out and we can use it as a venue for the open educational institution. This is the quickest and ideal way to achieve our goal.

Sir, I welcome the Budget again. I support the pragmatic and enterprising spirit. I hope that my comments and suggestions would serve some constructive purposes.

With these remarks, Sir, I support the motion.

MR. ANDREW WONG: Sir, the year before last at a similar debate I paid my respects to the then Financial Secretary, Sir John BREMBRIDGE. I spoke of my inability to decipher Greek alphabets, but had the audacity to invoke the alphas and betas of Aldous Huxley's *Brave New World* and to venture into a brief discourse in pragmatic philosophy on the proverbial hen and egg problem, and on the fallibility of we mortals, including you, Sir, and myself, and of course Huxley's *Mustapha*. I do hope my hon. Colleagues will have read Huxley's fantastic yet realistic version of *Brave New World* and shun and reject it.

Sir, at last year's Budget debate I moved on to the more mundane aspects of the Budget. I quoted Sir Y. K. KAN who chastised the Government for its conservative, hence under estimation of revenue, and I warned against the introduction of separate taxation for married couples and the very idea of a general sales tax.

This year, Sir, forgive me for not elaborating on these three themes except to say that my views have not changed. The actual surplus for 1986-87 turned out to be \$3.9 billion for the General Revenue Account, and \$5.9 billion for the Consolidated Account, instead of revised estimates of \$3.1 billion and \$4.9 billion respectively. For 1987-88, it looks likely that the surplus figures might exceed \$10 billion instead of the revised estimates of \$6.1 billion and \$7.6 billion for the General Revenue and Consolidated Accounts respectively.

Sir, I welcome the introduction of a working wife allowance, but regret that apparently the Financial Secretary has already conceded defeat when he said that he was 'prepared to consider further how separate taxation for working wives might best be introduced'. I submit and I suggest that a working spouse allowance is simpler and more equitable scheme, as I insist on not only the sanctity of the family but also the socially more equitable arrangement regarding the household, not the individual, as the tax unit. After all, if married life is a life of sharing, with love shared, joys and sorrows shared, expenses shared, why should income not be regarded as shared? Now, without going into details, may I simply refer you, Sir, and my hon. Colleagues to an article written by Dr. SUNG Yan-wing (宋恩榮) which appeared in the 133rd issue, April 1988 of the Hong Kong Economic Journal Monthly, (信報財經月刊) pages 36-40. I fully agree with his arguments, I only wish to add that our Inland Revenue Ordinance ought to be amended to the effect that wives are no longer appendages to their husbands for tax purposes, and that both men and women as married couples ought to be regarded as spouses to each other.

As for the general sales tax, I still hold on to my view that as an indirect tax it is by definition regressive, and contrary to the principle of ability to pay, and is therefore objectionable in principle. May I refer you, Sir, and my hon. Colleagues, to an article again written by Mr. CHEUNG Kwok-leung (張國樑), and Mr. KWONG Kwok-sie (鄺覺仕), which appears today, this morning, in the daily paper the Hong Kong Economic Journal (信報), page 13.

Incidentally, all three are academics with the Chinese University of Hong Kong. Perhaps birds of a feather flock together. (laughter)

Sir, allow me to concentrate on the expenditure side of the art of balancing the Budget. First let me say a few words on the size of the Civil Service. Without going into actual expenditure figures, a simple examination of how our Civil Service has grown and grown during the last 10 years and the last 25 years will suffice. In 1977, the establishment was 114 000, or just over 100 000, representing 25 civil servants per 1 000 population. Ten years later, in 1987, it was 183 000, or nearly 200 000, representing 33 civil servants per 1 000

population. Now this civil servant per 1 000 population figure has been creeping, no, it has been climbing from 25 in 1977 to 26 in 1978 through 1980, to 31 in 1982, to 32 in 1983 through 1986, and to 33 in 1987. These figures are worked out from the population and civil service figures contained in the various editions of a little pamphlet entitled 'Hong Kong in Figures', and are detailed in the table appended to my speech. I have also worked out the civil servants per 1 000 population figures at five-year intervals between 1962 and 1987, and these figures are even more telling. The leviathan, perhaps begin, perhaps monstrous, has grown from 17 per 1 000 in 1962 to 20 in 1967, 24 in 1972, 25 in 1977, 31 in 1982, and 33 in 1987. I am awaiting the release of the 1989 edition of the pamphlet to bring this table to 1988 and up-to-date. The figures given on page 245 of the draft estimates supporting details section 1 show a low figure of around 193 000, and a high figure of 201 000 for 1988. Although they do not strictly suit the purposes of updating the table, they do point out the fact that the establishment is set to increase from 183 000 in 1987 to 193 000 or 201 000 in 1988, or 5.4 per cent to 10 per cent, or in other words to expand by some 10 000 to 18 000 civil servants all within a year. I wonder if all these increases are necessary? As a member of the Establishment Sub-Committee of this Council's Finance Committee, obviously I am to blame. Now will the Government share my blame too? Please do not tell me that every single post, every single request for every single post, additional post, receives the utmost careful scrutiny and vetting. Just remember one of C. Northcote PARKINSON's famous laws that 'civil servants create work for each other'.

Sir, this reminds me of the proceedings of this Council of 14 October 1987, when I was the lone dissenting voice speaking and voting against the Waste Disposal (Amendment) Bill 1987, and had the nerve to request you, Sir, to split the question when the Bill and two other Bills were lumped together and put to a vote on the Third Reading. Inter alia during the Second Reading debate, I spoke of the 125 additional posts required for the implementation of the animal waste control policy, and I said to the effect that had an alternative policy been adopted, pollution problems could be tackled with a very small establishment indeed.

Now this, Sir, underscores my second point on the expenditure side of the balancing act or the balancing act. If I am not too unkind or destructively critical, very often misguided or muddled or convoluted policies are at the root of unbridled growth in public expenditure. The animal waste control policy is a very good case in point. At the same debate I estimated that had the policy been a total ban on livestock keeping even with the ex gratia compensation boosted by 100 per cent, the total expenditure would be in the region of \$573 million only, instead of an estimated total expenditure of \$609 million under the policy adopted. The \$573 million could be lowered if we decide for a less than 100 per cent booster for ex gratia compensation, and to the \$609 million under the present policy, we should add a personal emoluments bill of \$180 million for the 125 posts mentioned earlier. I wonder what has gone wrong during the

policy-making process? Even now negotiations are still dragging on between the farmers and the Administration. Since the passage of the amended Bill, Government has already committed a further sum of \$8 million to carry out demonstrations in private farms in order to convince or appease the farmers, and I cannot imagine what the final Bill will look like.

Another case of convoluted policy is the student travel subsidy scheme which, if I am not mistaken, has not been submitted to the Executive Council yet, but which I suspect from the way the Administration is handling it, will sail through Executive Council and become the revised policy. If my understanding is correct, the evolution or convolution started in 1971, when the Government decided to reimburse Kowloon Motor Bus for loss in revenue arising from concessionary fares given to students above the age of 12. The scheme was later extended, a year later, to other public transport operators. Here, I have no wish to fully trace the development of the policy, but simply wish to point out that had a policy been to require and allow public transport operators to balance their books by absorbing the loss in revenue through incremental increases in general fare levels, there would not have been public criticism including that from this Council, that the Government is misusing public funds, that the subsidies from public funds are disproportionately high, or that a subsidy should go only to the needy.

Sir, bearing in mind that practically all trips are educational in one sense or another for those who are still in their learning and formative years, their education is subsidised and heavily so even in the voluntary stage of education, that is from Form IV through to university, that there is cross-subsidisation already by other passengers to those below the age of 12 which practice has never been challenged or objected to in principle. What is so wrong with my alternative policy which involves no public expenditure, which saves all of the \$265 million annually budgetted under head 186, sub-head 223, instead of only saving \$106 million, and which incidentally also reduces the size of the bureaucracy, and how do we compare the existing and revised policy with this my alternative policy, which in a way is akin to an indirect tax, but for an ear-marked purpose and not involving any tax collection or administration costs? And how do we compare this alternative with the contemplated introduction of a general sales tax across the board?

Sir, I suggest we have not been imaginative enough in our policy-making. I realise there are constraints in policy-making and, among them, political constraints loom large. However, let us not forget what policies are for—they are first and foremost for the solution of public problems. Politically feasible policies are not necessarily proper solutions, and proper solutions are not necessarily infeasible politically. Let us not forget that the cart should never be put before the horse.

Sir, with my sincere compliments to the Financial Secretary for having proposed a most sensible Budget, I beg to support the motion.

Appendix

Number of civil servants per 1 000 population 1979-87

<i>Year</i>	<i>Source*</i>	<i>Population</i>	<i>Establishment</i>	<i>No. of civil servant per 1 000 population</i>	<i>say</i>
87	(88)	5 613 000	183 000	32.6	33
86	(88)	5 533 000	177 000	31.9	32
85	(87)	5 456 000	175 000	32.1	32
84	(86)	5 364 000	172 000	32.1	32
83	(85)	5 313 000	168 000	31.6	32
82	(88)	5 264 000	162 000	30.7	31
81	(82)	5 183 000	147 000	28.3	28
80	(86)	5 039 000	133 000	26.3	26
79	(85)	4 879 000	126 000	25.8	26
78	(84)	4 597 000	120 000	26.1	26
77	(83)	4 510 000	114 000	25.3	25

* Hong Kong In Figures, Year indicates the edition.

MR. LAU (in Cantonese): Sir, the 1988-89 Budget has followed the characteristics of the Budget of last year in its prudence and steadiness, and has given rise to benefits for all walks of life. Although the issue of separate taxation in the Budget does not fulfill the wishes of many people in Hong Kong, such proposals as lowering the standard rate for salaries tax, increasing personal allowances, and lowering the stamp duty for the purchase of property should be very welcome measures. And for those reasons, I find the Budget basically acceptable.

However, there are a number of points for which we ought to consider further. The Financial Secretary has once again mentioned widening the tax base, and says that a study is on hand to examine the feasibility of imposing a sales tax. The Financial Secretary pointed out that in introducing any major new indirect tax, three criteria must be considered, they are: (i) that it should produce a stable and worth-while revenue yield at low tax rate; (ii) it should cause minimal distortion to the economy; and (iii) that it should be simple and cheap to administer. These are very reasonable principles, but I feel that in studying the imposition of new taxation measures, there is one point that must be borne in mind, and that is any new tax should never increase the financial burden of those in the middle and lower strata to avoid contradiction with the spirit of imposing tax and lead to a greater gap between the poor and the rich.

At the last Budget debate, I asked that the Government should give very careful thought before imposing the idea of a sales tax. Today I still stand by the opinion that it is highly inappropriate to impose a sales tax in Hong Kong. Introducing such a tax in Hong Kong at this time would definitely fuel

inflation thereby affecting adversely those in the middle and lower-income groups. It would also widen the gap between the rich and the poor, and under the circumstances when social welfare facilities are still not up to our expectations, such attacks would violate the principle of fair taxation.

The imposition of a sales tax would not only jeopardise Hong Kong's reputation as a shoppers' paradise but would also reduce the number and the purchasing power of visitors to Hong Kong. That will also affect indirectly Hong Kong's position as a financial and trading centre, and many investors, especially foreign investors, would be reluctant to invest in Hong Kong. As we are in the best of times at the moment with such a large surplus, is it necessary to consider imposing a sales tax? I think that the Government should consult very widely and give this very careful thought before a wise decision is made.

Sir, there is another point I would like to make and that concerns the improvement of the fringe areas to new towns, and the serious inadequacy of infrastructure in the rural areas. In the last Budget, the Government had spent over \$20 million on certain improvement programmes in this regard, but as far as I understand the progress of such programmes are far from being satisfactory and have not achieved their originally intended purpose.

In view of the fact that the fringe areas of new towns and the rural areas are very extensive, it is already complicated to come up with an order of priority to improve the several hundred villages involved. Also, the process may involve resumption of private land resulting in the rights and interests of land ownership being affected. The land resumption process is a very complicated one and the situation becomes worse since very often Government officials involved in the process belong to different departments, and each department has its own order of priorities and standards. In addition to that, lack of coordination amongst various departments leads to delays and unforeseeable problems.

I think that in order to solve these problems, the Government should increase the fundings for such projects, and it should actually set up a rural development committee to oversee the progress of such improvement projects. The committee should ensure that there is no clash with the projects that are proposed by the Regional Council or the district boards and in any case the development committee should only limit its scope to rural roads, drainage facilities and other infrastructural and social facilities. In order to meet the needs of the rural areas and to solve related problems, I suggest that the memberships of the committee should comprise people familiar with the New Territories. In view of the fact that the Heung Yee Kuk is the only statutory consultative body on the rural welfare of the people in the New Territories, I suggest that the Heung Yee Kuk be given full participation in such a committee. Only then will the needs of individual villages, the priorities of such improvement projects can be implemented fairly and effectively.

I think that for this purpose the Government, apart from setting up the rural development committee to co-ordinate such improvements plans, should also increase its provisions for the first few years. And the Government may have to recruit more staff to form a departmental division to implement such projects.

Sir, the new town development plans have brought a decent living environment for many people who have moved to the new towns, but it is extremely unfair for the long suffering existing residents who live in the urban fringe and in the rural areas to continue tolerating a severe shortage of infrastructure for a longer time. I think that it is Government's responsibility to review the situation and make improvements as soon as possible to narrow the urban/rural gulf in the quality of life, so that those in the rural areas will also be able to participate in the fruits of progress of Hong Kong.

Sir, with these remarks, I support the motion.

MR. EDWARD HO: Sir, when obvious improvements are made, one is often tempted to ask why they have not been put forward before. Nevertheless, I must pay tribute to the Financial Secretary in two important areas. Firstly, his presentation of the Budget: both his speech and the accompanying information and illustrations have the desired effect of being concise if one is interested in the essence of the Budget, and yet contained adequate back-up information for a deeper examination.

Secondly, and a much more important aspect, is the value for money approach the Government has introduced into its system of control of expenditure. For the first time, we will be able both to monitor government departments' performance and targets against their objectives, and to measure their performance against their expenditure.

I have counted at least six places in the Financial Secretary's speech that he has used such words as 'prudent', 'steady management', 'caution' and 'care'. It is apparent to the main philosophy underlying his Budget is one based on that of achieving a cash flow surplus each year and a tight control of expenditure growth. Few would disagree with that philosophy.

Hong Kong has enjoyed a steady growth, a safe recovery of its economy since the jittery days of the Sino-British talks to the extent that it has now had two consecutive years of double-digit growth. Our surplus for the year 1987-88 has exceeded all expectations and our surplus for the year 1988-89 should continue to be just as good, as we would be reaping the benefits of the tax revenue from the present year. Our active property market, our negligible unemployment rate, and our modest inflation rate are to be envied by many other countries.

Despite all these, the people of Hong Kong are not unaware of the uncertainty of the future and the many external and internal factors that may

dramatically affect the economy of Hong Kong. Their innate pragmaticism means that they do not expect the Government to indulge in uncontrolled increases in expenditure, even in these apparently prosperous times.

As the Financial Secretary mentioned in his speech, there is undoubtedly a prevailing climate of uncertainty in the world economy. And as I said, this climate of uncertainty prevails also in Hong Kong.

On the other hand, with the characteristic determination resilience and industriousness of the Hong Kong people, I am optimistic that we will weather the possible cyclical nature of our economy.

Sir, as you stated in your policy speech last October, Government is embarking on the study of some very major and significant infrastructural development projects in Hong Kong. Notably, decisions on the replacement airport, the expansion of our port facilities and the vast road and rails network linking these facilities to the metropolitan area, itself the subject of a major strategic study, will be made in late 1989 or early 1990.

In addition to being a tremendous boost to our confidence in the future during the transition period, these projects are vital to Hong Kong if it is to maintain its position as a major international financial, commercial and tourist centre. It is now quite clear that the handling capacity of Kai Tak Airport for passengers and cargo handling will be oversaturated before a new replacement airport can become operational. Hong Kong's already prime position as a container terminal port is rapidly increasing trade to China, and the associate growth of re-exports all mean that we will need to continue to extensively increase our port facilities. Also, massive harbour reclamation will have to be carried out to accommodate our increasing population.

All these projects will place a very heavy demand on our reserves. The Financial Secretary's Medium Range Forecast indicated a satisfactory level of reserve for the period up to 1991-92. Yet, if one examines both the forecasts on consolidated cash surplus and on reserve balances as a percentage of Government expenditure, one would notice that the amount will be on a declining trend after 1989-90.

The Medium Range Forecast does not include the very major capital intensive infrastructural development projects that are likely to start right after the forecast period, in the early 1990s. I therefore subscribe whole-heartedly to the prudent approach that is evident in the Budget.

In discussing infrastructural development, it has been suggested by some Members in the past that Government should not rely on consultants. Rather, it should shoulder more of such work itself. I hold a different view. Of course, a study or a project must be proved to be absolutely necessary. It also must be established that Government does not possess the manpower or the expertise in-house to carry out such work. Once these two factors are established, I see nothing wrong in the engagement of consultants from the private sector to carry out such work.

My reasons are twofold.

Firstly, I agree with the Financial Secretary that we must aim to contain the growth of our Civil Service. Sudden increases of workload should not lead to automatic increase of staff. Instead, such work should be contracted out to consultants in the private sector.

Secondly, although it is essential that there should be a good core of professionals in the Civil Service to execute and manage regular and routine projects, the civil service should never attempt to replace or complete with the private sector.

In fact, it has been proven in several recent large scale infrastructural development projects that the private sector can contribute much to the implementation and success.

Naturally, when I refer to consultants, I mean the maximum utilisation of local consultants. Foreign consultants should only be engaged when local expertise is not available. Even during such cases, they should be encouraged to associate themselves with local consultants so that we can build up our own resources of experienced professionals.

We must ensure that there is a viable environment for the continued growth and flourish of our own power resources in the private sector. Much concern has been expressed recently on the potential problem of 'brain drain' of the professional and managerial class of people from Hong Kong.

Sir, as I said in my policy debate speech half a year ago in this Council, I am concerned about this problem. From my own knowledge gathered from my fellow professionals, colleagues, associates, and my staff, I know that there is potentially a problem of brain drain. I do not know the magnitude of the problem and whether it is going to be a serious one and what its impact will be on our economy. Nevertheless we should not bury our heads in the sand and try to convince ourselves and others that everything is going to be fine, at least not until we try to find out the true situation. It is only when we know the facts that we can deal with the problem. Sir, I wrote this speech a few days ago, I was further encouraged last night to learn from your statement to the press that you do acknowledge that we should face the fact that there is a problem.

I urge the Government to set up, with the help of the private sector, a study of future manpower supply and demand, up to the year 2001. This should co-ordinate with the various planning studies and projects for infrastructural development, the long-term housing strategy, and the work of the Land Development Corporation.

6.00 pm

HIS EXCELLENCY THE PRESIDENT: Mr. HO, I must interrupt you, since it is now six o'clock, and under Standing Order 8(2) the Council should now adjourn.

CHIEF SECRETARY: Sir, with your consent, I move that Standing Order 8(2) should be suspended so as to allow the Council's business this afternoon to be concluded.

Question proposed, put and agreed to.

HIS EXCELLENCY THE PRESIDENT: Mr. HO, please continue.

MR. EDWARD HO: While on the subject of housing, I must express some concern in the following areas.

Firstly, the ambitious public housing programme and the current active construction activities in the private sector, have contributed to an acute labour shortage problem—again, back to manpower resources—unusual construction costs inflation and undesirable workmanship. There is a shortage of experienced contractors and skilled labour to provide a healthy competition in the construction industry.

Secondly, it is questionable at this stage whether land production can keep pace with demand to cater to a public housing programme after the mid-1990s. In addition to the building of new housing estates, many of the old estates will have to be redeveloped either because they have outlived their economic lives or because their unsatisfactory general living environments and densities would not be considered acceptable today. Part of this demand for land can be met by rezoning, but I strongly believe that the full demand can only be met by major harbour reclamation schemes, the work on which should commence in the next two year in order to generate the necessary lead time in production.

Lastly, although many opinions have been expressed in this Council by Members last year and this year on various aspects of taxation, I shall briefly put forward my views on this subject.

Since there are only 700 000 taxpayers in Hong Kong, and 7.6 per cent of them, or 0.94 per cent of the total population, contribute to 56 per cent of the salaries tax yield. Clearly, it would be desirable to broaden the tax base if we are to follow the philosophy of prudent management of our economy. This inevitably means that any proposed taxation measures should be designed to increase the number of taxpayers. This move might be an unpopular one to certain sectors of our community, but as the Financial Secretary pointed out, social services will occupy an increasingly large slice of the cake in the coming years. This can only be achieved at a price.

On the question of separate taxation of working wives, I accept that it would require a slightly more complicated administrative process to implement. However, apart from merely considering the financial impact on the taxpayers concerned, I am persuaded that separate taxation for working wives does make a significant impact socially on family structure. I have found that at least five of my staff have decided to hold off their marriage registrations with their mates

until they can reach the flat rate tax bracket, or when they have a child, whichever is the sooner. With much respect to my hon. Colleague Mr. Andrew WONG, there would be no sanctity of marriage before there is a marriage. Clearly, to these people, the additional tax burden was considered so significant that it influenced them in their decision on such an important event in their lives. Unfortunately, the Financial Secretary is not here, but I am going to ask him: 'Will he set a date for their marriage registration?'

Sir, with these remarks, I support the motion.

MR. WONG PO-YAN (in Cantonese): Sir, first of all, I would like to congratulate our Financial Secretary for bringing us a string of encouraging news in his second Budget speech. Apart from announcing a surplus of \$7 billion in the year 1987-88, which, according to latest report, could possibly reach \$10 billion, he also pointed out in paragraph 3 of his speech, '...(this) will enable me not only to increase the provision of Government services but also to ease the tax burden on the community...' I really wonder how many places outside Hong Kong can do the same. While unfavourable descriptions about Hong Kong are spreading far and wide, this year's Budget is indeed a confidence booster to some panic-stricken locals. Hence, we ought to thank our lucky stars that we are blessed with a good Financial Secretary and the supporting evidence that Hong Kong's foundation is as sound as it was before. At the same time, I also want to highlight the marked improvement in the presentation of the Estimates and the supporting documents for this year's Budget. We have found it easier to have a clear picture of the matters of our concern. Now, I would like to put forth my views as follows.

Tax revenue

I agree to the foresight and attitude our Financial Secretary has shown in handling the Budget. In most cases, careful forward planning is very important and necessary. However, I am dismayed at his mention of the idea of introducing 'sales tax' under the circumstances that there is a surplus and a reduction of 1 per cent in the standard tax rates. Our Financial Secretary conveyed this idea with extreme care in paragraphs 49 and 50 of his speech. Though he pinpointed the fact that such an idea had first been mentioned last year and emphasised that the proposed tax which aimed at 'a wider and more stable tax base' would be given 'most careful consideration' to ensure that it meets the three 'basic criteria', I still want to register my strong reservation on this idea. The following are my reasons:

Firstly, sales tax would be a burden to all, irrespective of their financial status. As a matter of fact, the rich would not mind a 5 per cent or an even higher sales tax as they are too affluent to care about it. As for the poor whose purchasing power has always been low, their contribution towards the public coffer through sales tax would be minimal. None the less, such kind of indirect tax may put another straw to their burden. As for the 'sandwich class', the majority of them

have always had the feeling that their tax burden, as far as direct taxes are concerned, is already heavier than that of the well-off class. They are the group that has the greatest anticipation for tax concession. They have just begun to share the fruits of Hong Kong's economic success in the last few years and are now capable of raising their living standard a little or planning to have a flat of their own through cutting family spending to the bone. The introduction of sales tax is bound to have greater effect on them and would probably deal a heavy blow to them psychologically and materially. We must note that they are the backbone of our society and it would be most undesirable to upset them at this moment.

Secondly, there have long been ups and downs in our economy. As our Financial Secretary pointed out in paragraph 4 of his Budget speech, the economy of Hong Kong is characterised by its cyclical nature and undergoes a period of lower growth rate after every interval of a few prosperous years. However, our past experience has rendered us sufficient assurance that each of our economic ebbs would last no longer than two to three years and that our resilience is always very strong. I can therefore see no compelling reason to justify the need to discuss at this time the introduction of a completely new tax which was unheard of in the history of Hong Kong and would have an extensive and far-reaching effect on our community. On the other hand, after weighing its advantages and disadvantages, I do not think it is absolutely necessary for us to maintain a certain ratio between direct and indirect taxes because the balance between these two kinds of taxes would adjust itself with the cyclical change of our economy. It is my personal view that even when there is a genuine need for increasing revenue, the idea of sales tax should be the last thing for consideration.

Thirdly, Hong Kong has established a long-standing reputation as a shopping paradise which is a major attraction to many tourists. As a result, the tourist industry has become one of the supporting pillars of our economy. The introduction of sales tax would inevitably have a negative effect on tourism and is undesirable to the overall economy of Hong Kong.

Fourthly, the collection of sales tax would require considerable increase in administration cost. Hence, it would be difficult in actual practice to meet the 'simple and cheap administration' requirement which was set out by our Financial Secretary as the third basic criterion in paragraph 49 of his Budget speech.

Housing policy

The Government's determination to deal with the housing problem is worthy of our appreciation. In recent years, I have always been advocating that our housing policy should place greater emphasis on encouraging home ownership and more participation of the private sector. I am very pleased to learn from paragraph 58 of the Budget speech that 12 160 flats are expected to be produced under the Home Ownership and Private Sector Participation Schemes next year,

which is 21 per cent over the average annual production target of these schemes. Nevertheless, it only represents 21.3 per cent of the combined production figure of 57 160 flats after counting in the 45 000 rental flats to be built. It is my opinion that our Government should make every endeavour to speed up the growth rate of these two schemes and set the ultimate target that 50 per cent of the total public housing units produced annually should come from these schemes. The approach to step up our efforts to solve our housing problem on the one hand and to adjust the proportion of public housing tenants in the overall population on the other hand will, in the long run, be beneficial to Hong Kong's economic and political development.

The science park—bridge the gap in infrastructural development

In the last decade or so, Hong Kong has made substantial achievements in its infrastructural development. Transport facilities such as roads, piers and the MTR system won worldwide acclamation. As regards education, we saw the completion of secondary and primary schools, technical institutes, prevocational schools, and vocational training centres each year. Moreover, we now have two polytechnics. And 24 years after the founding of the second university, the construction of the third university, that is the Hong Kong University of Science and Technology, has now commenced. There have been notable achievements in the annual provision of education facilities. Over the past years, recreational facilities such as cultural centres, community halls, playgrounds, stadia and swimming pools are built every year. The Hong Kong Convention and Exhibition Centre which has been in the pipeline for some 20 years is now near completion. Despite all these remarkable facilities, Sir, I deeply feel that there is still a significant gap which needs to be filled up as soon as possible by the establishment of a science park.

I believe that all those who are concerned about the future of our economic development are well aware of the importance of a science park to the development of our high-tech industry. In simple words, the development in various territories have gradually made the low value-added, labour-intensive industries out of place in Hong Kong. There is a pressing need to develop high-tech industries. As such, infrastructural support in this regard must be made available. The establishment of a science park can mark possible not only the carrying out of certain researches within our ability, it can also serve as a centre for the cognition, introduction and application of scientific achievements from other countries and for further development in this respect. I do hope that the Government would help motivate the establishment of a science park with the determination and speed as it has shown in setting up the third university. I also expect that the Industry Development Board chaired by the Financial Secretary and the Committee on Science and Technology chaired by Prof. C.K. POON with work twice as hard to carry out this task. It is hoped that within a short period of time this gap could be readily bridged.

Higher education

The social development in Hong Kong has brought about a pressing demand for well-trained people from universities and tertiary institutes. I have pointed out previously that insufficient places in local tertiary education has caused many students to study abroad and thus promoted their chances of working overseas. This situation should be remedied. I therefore think that we should explore as far as possible and make the best use of our potential in the development of higher education. In the past few years, we managed to obtain valuable experience in this area. In 1983, an additional tertiary institute was made another recipient of subsidies from the University and Polytechnic Grants Committee. We have learned from experience that graduates of non-subsidized tertiary institutes are also very competent in their jobs. Sir, it is therefore my hope that the Government could take an active, sympathetic and supportive attitude and policy towards these educational institutions with a view to further improving their academic standard and embracing them in the net of subvention so as to enhance their contribution towards higher education in Hong Kong. There has been a lapse of a quarter of a century between the establishment of the second and the third university. In fact, the second university, that is the Chinese University of Hong Kong, was formed by the conglomeration of a few colleges which were already in existence at that time. We cannot afford to wait another 25 years to have a fourth university. Comparing our population size and economic activities with some of the advanced countries, Hong Kong should have seven to eight universities. It is hoped that the Government and educationalists could pay heed to this question.

The size of the Civil Service

Sir, I am deeply concerned about the rate of expansion of the Civil Service. At first glance, the increase rate of 4 per cent for this year is a little bit high. Yet in the light of the possible pulling out of the British Garrison and the resultant necessary expansion of the police force, together with the increase of staff to strengthen the medical, social welfare and educational services, this rate of increase is considered reasonable. Thus we need not be too particular about this rate of increase in the Civil Service. Nevertheless, the target of a 2.5 per cent staff growth a year after 1989-90 is deemed to be too high. It is hoped that, in a few years' time, the average annual staff growth could be brought to a lower level. It is my opinion that all possible means should be introduced to enhance the efficiency of the public service. For instance, to use the most sophisticated office equipments; to conduct researches for the improvement of working procedures and to avoid duplication of work could attain this objective as well as to help slow down the expansion of the Civil Service.

Sir, with these remarks, I support the motion.

MR. JACKIE CHAN (in Cantonese): Sir, generally speaking, I welcome Mr. JACOB'S second Budget since he has become the Financial Secretary. The content of this Budget is even more concise and precise than the last one.

Although it is concise, it can describe all expenditure items in details. This deserves our congratulations, even though some items have led to heated debates. Undoubtedly, the public is glad to accept the Draft Estimates.

Concerning the support of our industry, though the Government will spend more, apparently there is no other innovative measures to achieve the goal. I think the development of high-tech industry is our important goal. The Government should encourage its development by giving positive assistance, such as more resources for research and drawing up of long-term development plans.

Regarding investments in high-tech industries, Hong Kong lags behind our three competing neighbouring countries. The Government does not have preferential treatment for the industries. Our industrialists do not have the avenues for low cost capitalisation. Comparing with other industries, high-tech industries require bigger investments and they take longer to have a positive yield. The risk involved is higher. Hong Kong faces a lot of problems in developing high-tech industries. The industrialists can do little by themselves. In the face of strong competition, to ensure that Hong Kong products are still competitive in the international market, industrial reforms must be implemented. Apart from providing better infrastructures for industrial development and training up more people, the Government should provide more incentives for people to develop high-tech industries, such as higher depreciation rates and cheaper industrial land. I firmly believe that such measures will be welcomed by the industrialists and will attract overseas investments.

Sir, in connection with civil engineering projects, there will be additional projects for public housing and new towns development, but insufficient attention has been paid to the upkeep and redevelopment of the old urban area which deserves more attention. Within the old urban area, many outdated facilities should be improved. For example, the sewerage system cannot cope with the present requirements because of the putting up of new buildings, increase in population density, and a lack of adequate maintenance. As a result, the drains are often choked and the sewerage spills on to the streets, thus seriously affecting the environmental hygiene. I hope the Government will promptly allocate funds to repair or redevelop facilities in the old urban area, and to draw up a long-term plan for it. I trust that the Land Development Corporation in its programme will redevelop the old areas and actively co-ordinate these improvement plans to better the environment.

This year's Budget proposes a growth in the Civil Service of about 4 per cent. This is higher than the 2.5 per cent in the past. The Administration needs more staff to handle a growing volume of work. This is understandable and reasonable but I hope that the Government should be more careful in the deployment of staff so that no department will have too many staff or too few staff, and that no expenditure will be wasted. In order that the public will not be

overburdened with excessive public expenditure, the Government should carefully keep in view the expansion rate of the Civil Service and the problem of staff deployment.

Sir, even though we have huge surpluses, the Administration still proposes the extension of indirect taxation and the idea of a sales tax. The Financial Secretary wishes to seek public views on this but he has not given more hints on the proposed scope of the sales tax; how it will be levied and what its rate will be. If the Financial Secretary really wants to seek public opinions, he should provide more detailed information.

Obviously, this proposal is very unfair to the low-income group. We all know that any indirect tax or sales tax will tax the poor and the rich alike, even though different people earn different incomes. The levy of a sales tax will have different impacts on the high-income group and the low-income groups. To increase the indirect taxes on daily necessities and entertainment activities will have little effect on the high-income group, but will be an extra burden to people with lower incomes. In other words, the burden of increasing indirect taxation is inversely proportional to people's income. Those who earn less will receive a bigger blow. Such taxes will also make it more difficult to do various businesses. Therefore, I hope the Government will very carefully consider public opinion on this matter.

Sir, the Financial Secretary has proposed tax reliefs and increases. The tax concessions include brandies but not soft-drinks. This is unfair because young pupils and ordinary residents cannot benefit from this tax concession. I feel that the Government should not tax children and young people who are not income earning.

Sir, the Vietnamese refugees have no relationship whatsoever with Hong Kong, but Vietnamese refugees have become a regular item, annually, on the Governor's policy address and the Budget. Since more than 10 years ago, the Hong Kong public has spent huge sums of money on these boat-people. Although we have raised strong objections, the Government has still been unable to solve the problem. We have spent more than \$1 billion to remain as a place of first asylum, the honour of which was bestowed on us by Britain. We are very tired of this high-handed measure. I want to ask—'We have to wait until when to change this tide?'—Sir, may I beg Britain to open her door to resettle more refugees and to allow Hong Kong a free-hand to repatriate or to turn away the refugees. I hope, in the next Budget, there will be no more proposal to spend more on the Vietnamese refugees.

Sir, with these remarks, I support the motion.

6.27 pm

HIS EXCELLENCY THE PRESIDENT: Members might like to take a further short break at this point. There are still a number of Members due to speak and there

is a Finance Committee after this session. So, I propose that the break now should be for 10 minutes. Those who wish to eat upstairs can of course do so at any time.

6.43 pm

HIS EXCELLENCY THE PRESIDENT: The Council will resume.

MR. CLYDESDALE: Sir, I hope that I may be forgiven if I open my remarks on matters which, although directly relevant to the Budget proposals and the economic and financial information provided by the Financial Secretary, also have much wider implications for the Hong Kong economy and perhaps also for our political future. It is of course the case that economic and financial development cannot easily be divorced from political and social development.

I should therefore like to make a few general observations on Hong Kong's economic, trade and industrial development and on the essential factors which will permit continued real growth in these sectors. I speak as the representative of a business constituency, and if I speak without euphoria or excessive optimism, that is because the business view towards most things tends to be conservative, cautious and based on logic rather than hope.

There are certain fundamental factors which affect and often have a strong influence on the development and growth of business operations. One of these is the level of confidence shown by principals, investors and shareholders, that is those who finance, deal with and otherwise support the business function. If confidence is sustained at a high level, a great deal more can be done by the business enterprise. I am sure this simple observation will not be refuted. Confidence is the basis for all genuine growth in any enterprise.

Hong Kong is a very large business enterprise indeed. Again, I am sure that no Member of this Council will disagree when I say that business, and particularly international business, is the core, the very nucleus, of the Hong Kong economy, perhaps to a greater extent than virtually any other territory in the world, except perhaps, some of the OPEC countries. Our remarkable economic, trade and industrial success, which has fuelled equally remarkable social development, has been achieved because local and foreign businessmen have had confidence in our vitality, our potential, and our future. This has enabled investment decisions to be made in an atmosphere of stability and trust. Investors have been able to commit their companies and their resources to long-term development in the sure and certain knowledge that Government policies affecting their investment would not change, that promises given by the Hong Kong authorities would be kept and that they would be operating within a free enterprise, low tax environment, without any form of discrimination against them.

We now have a situation where our changing constitution and political future is placing stresses and strains on local confidence in our ability to maintain economic success and our existing life style. It is not difficult to see why there is a considerable brain drain from Hong Kong, one which is largely concentrated in the middle management group, and therefore one which we can ill afford. No matter how well China is progressing economically and despite China's obvious and sincere efforts to allay any fears in Hong Kong as to the future under the People's Republic of China, it is inevitable that some of those people who have a choice will exercise it in favour of departure. Quite apart from the question of the economic viability of Hong Kong, there is the very real and personal question of the family. Many Hong Kong Chinese parents may be prepared to accept China's assurances and stay fully committed to Hong Kong but they are not willing to commit their children. That is a natural and completely predictable position to take. So we will continue to lose people from our middle class and this in turn will place some strains on middle management throughout our business sector and also academia and Government. These effects are already apparent and they may grow progressively more difficult.

In all circumstances, we cannot persuade those who wish to leave to stay here and take their chance, as it were. They will make personal and family decisions based on their own perception of the future viability and safety of Hong Kong.

But what we can do, and what China can strongly support us in doing, is to spell out as often as may be necessary, the many good reasons for believing that Hong Kong has a secure, safe and happy future as an SAR with a unique and lasting relationship with, and within, China. Fears of changes in People's Republic of China leadership and policies can be laid to rest only over a period of time and with an established track record which supports their general contention that our local population have nothing to fear. China has a heavy responsibility towards Hong Kong and in getting this constructive and reassuring message across. Quite apart from ensuring that fundamental constitutional and operational policies affecting Hong Kong are enlightened and applied with sensitivity, China must also remember that good public relations are necessary to explain these policies in layman's terms.

How often in the past have we seen events in China, and sometimes only the perception that events are about to take place, cause serious concern in Hong Kong with the inevitable results. I need not catalogue these unhappy occasions since we are all only too well aware of them. That we have largely recovered from periodical upsets can be attributed to the fact that the people of Hong Kong have been, or have become, aware that the Hong Kong authorities, backed by the British Government, have held firm on the maintenance of the status quo and have continued with the existing successful economic and social policies and programmes.

We are now moving into an increasingly sensitive period in our constitutional development. We cannot afford to make mistakes and especially mistakes that could upset and worry local people as well as international investors and businessmen. The loss of many trained executives and their families is worrying enough and could be taken as a kind of barometer of local confidence. The loss of investors would be very much worse because that would signal a corporate rather than a personal view.

Fortunately, as this Budget demonstrates, we appear to be doing the things which continue to appeal to corporate investors, at least as far as can be judged by our economic, trade and industrial statistics, also by the prices achieved at auction for recent land sales and the many major new long-term projects started, or about to start, in the private sector. There seems no doubt therefore that corporate Hong Kong, both local and foreign, has accepted that there is every chance of continued economic success.

I believe that this is a true picture and that part of the confidence displayed by investors is predicated on the belief that Hong Kong will continue to have an executive-led administration with a responsive and responsible legislature and with an absence of disruptive and confrontational party politics.

I do not want to return here to the subject of the development of our future political system. The recent debate on the White Paper provided more than enough opportunity for such discussion. I would, however, like to repeat a point I have made many times in this Council, and elsewhere, which is that business prefers to work in an environment which is familiar and stable. Business planning relies on continuity of successful policies and procedures. The White Paper seemed to me to recognise this essential ingredient for our future as does this Budget presented by the Financial Secretary.

Let me now turn to the Budget proposals.

It is difficult and indeed it would be most uncharitable not to take a bullish view towards the Financial Secretary's package of tax proposals. Any Financial Secretary who reduces the level of direct taxation, whatever else he does, is bound to be looked upon with favour. A Financial Secretary who does so in two consecutive years takes on the mantle of a financial guru, if gurus wear mantles and even if they do not. A Financial Secretary who may be able to do it at least once more in his next Budget will be accorded God-like status, permitting him to enter Nirvana and perhaps even the Hong Kong Club without vetting or producing a passport.

Whilst joining the happy throng of Budget admirers and supporters, however, I do have one or two comments to make. I do so with humility and a true sense that I am but casting rose leaves at the feet of the master to step on as he will.

Firstly, and at last to get to the point, I strongly support the obvious intention to provide separate taxation for working wives in the next Budget. I accept that

this issue requires very detailed assessment and consideration but, frankly speaking, this work should have been done already and the system introduced this year. The Financial Secretary, in referring to the subject in his Budget speech last year, said very much the same thing as he did this year. It sounds to me as if there has been very little further work done in the meantime. It is time, perhaps in the response by the Financial Secretary to the points now being made in this Council, to confirm that he will introduce separate taxation for working wives next year.

It is also time for some statement by the Financial Secretary on his intentions in regard to the differential between the profits tax on corporations and other profits taxpayers. The 1.5 per cent difference was the result of action, one could almost say unnecessary action, to obtain compensation for revenue that was intended to be obtained from the highly unpopular dividend withholding tax proposed by a former Financial Secretary. There is no real justification for maintaining the differential and we should be aiming, in my opinion, as a matter of principle, to return to a standard tax rate of 15 per cent for all.

Last year, I spoke against the concept of a value-added tax and I also expressed doubt about the introduction of a broadly based consumption tax. Any consumption tax is, by its nature, regressive and affects poorer people more than it affects the wealthy. It could and probably would work inequitably in our society. I am pleased to note that the Financial Secretary has not taken this possibility for tax revenue into any specific proposal this year. He has, however, referred to the general question of indirect taxation and has suggested certain criteria that should apply to the introduction of any new indirect tax. He expresses himself as leaning towards the view that some form of sales tax would best meet these criteria.

I have no objection whatsoever to detailed consideration of the application of a sales tax at some future stage. I would object very strongly, however, if such a tax is introduced without any real need for it, and as things stand at present, I cannot see any real need arising within the foreseeable future.

It would be a new concept for Hong Kong, quite difficult to get started, and to have accepted within a society not accustomed to such a regime. I would have to include many exceptions and it would be open to many abuses. The cost of administration would probably be quite high. It would impact more on the poorer members of our society.

If we continue to receive sufficient tax from the existing tax system to meet the needs of the public sector, we should not tamper with the system to try out new ideas or to seek to change the proportionate relationship between direct and indirect tax revenues, simply to comply with perceived financial theology, no matter how exalted the High Priest (or Guru). In other words, if additional revenue must be obtained and it cannot be obtained from the existing tax system, then, by all means, consider the possibility of a sales tax but not until that situation is imminent.

Remember also that an expanding economy will produce additional revenue in real terms every year or at least will show an average real growth over a period of years. The greatest contribution to the maintenance of an expanding economy is a simple and low-based taxation system. That has been a major strength for Hong Kong and it should be altered only to the extent absolutely necessary.

Before moving from this particular point, I inferred last year that the full impact of tax revenues, flowing from a bouyant economy, would produce a very healthy surplus for 1987-88, which would much enhance government reserves already then in excellent shape. Although my expectation was nearer the mark than the modest surplus then projected by the Financial Secretary, recent media reports indicate a final out-turn for the year, which should make the 'master' blush. I would now like to infer once again that conditions may well be set for a repeat performance this current year. After all, when you can sell a small but strategic stretch of seabed for a sum in excess of \$4 billion right at the beginning of your financial year, things cannot be too bad, can they? Is there any evidence thus far that the incidence of these 'extraordinary profits' as Sir John BREMRIDGE used to call them is diminishing? All of this leads me further to suggest that besides the 1.5 per cent premium rate of tax on corporate profits, the duties on cosmetics and soft-drinks should be removed. As I said two years ago, I was always taught that women and children should come first. There is really no need for discriminatory levies of this nature given the present healthy state of Government finances.

I mentioned the sale of a small piece of seabed for \$4 billion. This is a direct sign of confidence in the further development of our magnificent port facilities. I must also however mention a serious potential problem for Hong Kong shipowners using these facilities. I am aware that my hon. Colleague Mr. Helmut SOHMEN, will provide more detail on the problem later in this debate, but I wish to express the concern of the Hong Kong General Chamber of Commerce about the effects of the US Tax Reform Act of 1986 on shipowners domiciled in Hong Kong. I would like to suggest to the Financial Secretary that he takes these concerns seriously. Shipping is a very important part of business in Hong Kong which we must strive to maintain here.

I will finish with a compliment, and then a complaint. I am delighted with the progress made by Government over the last two years in the presentation of its financial data and with the efforts made to provide a financial forecasting framework (FFF;—the alliteration should appeal to Government.) May this trend continue as constructively as it started.

Finally, perhaps Government should do more than it seems to be doing to prevent apparent leaks of confidential and important information on matters which have to be considered in this Council. We are being accustomed to hearing from the media what government officials wish to do or intend to do before those exalted personages release the information themselves or seek

advice through the normal channels. Some of the apparent leaks appear to be more than inspired guesswork based on a nod-and-a-wink. And in particular, I congratulate the South China Morning Post on publishing a most accurate record of the Financial Secretary's Budget proposals, a few hours before he delivered them to this Council.

Sir, I support the motion.

MR. HO SAI-CHU (in Cantonese): Sir, the Financial Secretary, in preparing the 1988-89 Budget, takes into account the rapid economic growth in Hong Kong in the last two years, the huge surplus, the favourable Medium Range Forecast which estimates continued surplus and proposes concessions in salary tax, profits tax and property tax. Undoubtedly, those who benefit from such concessions in the industrial and commercial sectors, will definitely welcome the proposals.

However, even though the Budget talks about assistance to the manufacturing sector and additional funds are allocated to enhance new technology, I feel that not enough has been done. We all know that in order to raise the standard of our industries, one of the prerequisites is to have advanced equipment to improve the quality of our products, to increase productivity and to solve the labour shortage problem. To bring in new machinery is therefore essential. In the Budget, however, allowance for depreciation has not been increased to produce the necessary stimulation for manufacturers.

There is one worrying fact. In the long term, the Financial Secretary proposes the widening of the base for indirect taxation. Many of my colleagues have already given their views, but since this is something that is very important, I would also like to give my views. This, in fact, contradicts the optimistic view he holds of our prospects. Even though the Financial Secretary explains that this is just to be prudent, I feel that excessive prudence verges on pessimism. Hong Kong has always been world famous for its low taxation and for being a shoppers' paradise. Should we broaden the indirect tax-base, such a reputation will be lost. The general public will immediately be affected as they will have to shoulder the burden eventually. However low the rate may be, the sums add up to a huge amount. At the same time, in studying and collecting such taxes, the Government has to greatly increase its staff. Expenses in this respect, will have to be borne by the general public eventually. Prices will rise, the purchasing power of the people will decrease, the standard of living will go down, and there will be clamour for wage increases. This will accelerate inflation, dealing a blow not only to the industrial and commercial centre, but will also affect tourism. Cheap commodities will become expensive and tourists will spend their money elsewhere. All these will be detrimental to our economy. It may even affect our position as an international financial centre. The broadening of the indirect taxation net will actually lead to more losses than gains.

The levying of taxes on non-alcoholic drinks has caused resentment in our society. Hong Kong's environment is different from some other countries, tap water is not drinkable. Our people, particularly young students, usually quench their thirst by drinking soft-drinks. This is not a luxury but rather a daily necessity.

Should we further widen the base for indirect taxation to cover other daily necessities? I am sure it will be met with greater resentment. In short, those most affected by the broadening of the indirect tax base, are the grass roots. They cannot enjoy the concessions in profits tax and property tax and they will have to share the burden of indirect taxation with the better-off in society. This is unfair. No wonder, the suggestion of the Financial Secretary to widen the base of indirect taxation, is met with immediate objection from the masses.

Therefore, I would like to suggest the following. If our economy continues to be good, the Government should not widen the base for indirect taxation. Rather, regarding some commodities on which tax is levied unreasonably, for instance, non-alcoholic drinks. The situation should be reviewed and exemption considered. Even if there is an economic downturn and we have to increase revenue to meet expenditure, we should think of other means to do so. We do not want to see the day when our people have to pay an indirect tax on everything they do. This is all too different from the optimistic forecast of our future.

Perhaps, I will have to say something that will be more pleasant to the ears of the Financial Secretary. Firstly, I support and I wish to emphasise the point that we support the US dollar link and at the same time we feel that we should not make any changes to the rate rashly.

Secondly, or lastly, I wish to congratulate the Financial Secretary. He has been extremely prudent and we have been able to accumulate a very good surplus, even though this is the result of the work of all sectors of our society. However, it is something that very few other countries can match and so let us continue to work and make Hong Kong an ideal place to live in.

Sir, with these remarks I support the motion.

MR. LAI (in Cantonese): Sir, the Financial Secretary has brought us a Budget that has generally taken care of the interests of all social strata. Although Hong Kong has experienced an historical stock crisis last October, our economic performances on the whole are encouraging. Although the Budget fails to balance the interests of different parties, it has given us some very welcome proposals. For example, the reduction of our standard tax rate, the increase of various allowances and the increase of expenditure on social and medical expenditure. All these proposals reflected some benefit gained from an economic boom.

As I said last year, the Budget is prepared along the conventional lines of public finance policy, but it lacks farsightedness and it fails to use our existing resources to tie in with our future economic development. This is indeed most regrettable. For the past two years we achieved a two-digit economic growth rate and we have achieved a 13.5 per cent of growth rate last year, which is more than the 11.2 per cent in 1986. With such a big surplus, the proposal of the Financial Secretary to increase various tax allowances to protect the lower middle-income class from inflation should have been most welcome, yet the small scale of adjustment is inadequate.

Now I turn to the controversial issue of separate taxation for couples. This has already attracted a lot of comment last year but the Budget this year again centred around certain insolvable difficulties. The proposed working wife allowance can be regarded as a form of compensation in lieu of separate taxation and as a simpler and more practical measure enabling married women to share the fruits of a booming economy just like any other taxpayer. The tax allowance for married women who are working has another implication. It encourages more women to work and engage themselves in production; although it is forecast that there will be a slower economic growth next year, we still face the problem of labour shortage. The reduction in tax will help ease some manpower shortage. The objective of separate taxation for couples is to alleviate the financial burden for families, but I would like to point out that we must further study the issue to find out whether separate taxation for couples would really benefit everyone in our society. I would also like to point out that once it is implemented we must have a flexible approach. Separate taxation for couples does not necessarily mean less tax than combined taxation. This is influenced by two elements of difference: first of all, the total amount of combined income and, secondly, the proportion between the respective incomes of husband and wife. High-income families and low-income families may not get the same benefits under the system of separate taxation. For some families this may have a counter-effect. In cases where the income of the husband doubles the wife's income, there would be different bearings on the amount of tax to be paid under either a separate or combined taxation system, so I am afraid that the above two factors will complicate our tax system. If we just look at the benefits to the public, then the introduction of optional separate taxation would benefit everyone since the couples would have the choice of a calculation method that is more advantageous to them.

Doubtless, separate taxation or combined tax assessment will create some problems of financial and administrative arrangements for the Government. For example, how are we going to distribute various tax allowance items and the right of custody of children after divorce? Moreover, it will bring about further increase in administrative cost and some moral problems to the society. But I hope that we will be able to adjust the tax allowance every now and then for our working wives so that it can catch up with the inflation rate and attain a reasonable level.

As for the issue of direct tax and indirect tax, first of all, we must acknowledge one basic principle of taxation: that is, redistribution of our resources so that we can have a balanced allocation of our resources, in particular a lessening of the financial burden for people in the lower stratum. Direct tax like income tax, profits tax and property tax, have the function of redistributing our resources. There will be greater tax burden for higher-income class. Yet indirect tax is equally borne by everyone. If we look at it from the point of social equity, it is inappropriate to increase indirect tax. It is true that indirect tax is more stable and it can avoid or supplement the revenue loss resulting from a reduction of revenue from direct tax during economic recession. At the same time, the imposition of indirect tax on commodities such as tobacco and alcohol, helps to bring down the sales volume of cigarettes and wine and this may have an educational effect, but it fails to achieve a balanced distribution of wealth. The Financial Secretary mentioned the levying of a sales tax. I must voice my strong objection to the proposal, not only from the point of view of social equity but also from the angle of economic growth on the whole. Sales tax will mean higher cost of materials and higher production cost and thus weaken the competitiveness for Hong Kong. We cannot overlook this long-term impact. Hong Kong is a famous low tax rate free port and shoppers' paradise. If we have to raise the price of our commodities and increase the inflation rate, the reputation of our low tax rate port and shoppers' paradise will certainly be affected.

As I said, indirect tax will be borne equally by everyone; whether it is to be raised from the wholesale or retail level, it will add to the burden of the lower middle stratum, in particular if we are levying a sales tax for daily necessities. Of course, we need to have the support of our general public before this can be implemented. I must emphasise again that this is an unreasonable proposal. We must consult widely the community before we make a decision, and even if it is to be supported by the majority we must only levy a sales tax for luxury items in order to avoid serious blows to the poor.

Sir, after commenting on revenue, I would like to say something about government expenditure. The document gives us a better format this year. It has more coverage on the section regarding controlling offices and we have more information concerning the distribution and manpower resources among different departments. I think it is commendable that the Government is able to increase expenditure for social welfare and medical services and at the same time introduce tax concessions. I am sure not many countries can achieve the same. This year, the Government is spending much more for the Environmental Protection Department. This proves the government's awareness of the significance of pollution to our environment. We will have our animal waste control measures introduced in June this year and this will provide us with a comprehensive control of the problems resulting from animal waste. Government's huge increase in provision shows its determination to tackle the pollution problem, but it is regrettable that the Government has not spend

enough on labour services. The Government should further step up labour education and measures to protect the safety and livelihood of our workers.

Although the Financial Secretary emphasises government's assistance to the industry and also the value of our industry to our economic government, I do not think we are spending enough. We should increase provision for the Hong Kong Productivity Council so as to facilitate production. We know that the Industry Department will be providing more supporting services but we still lack a comprehensive industrial development programme which can bring our industry into a new era. At present, over 90 per cent of factories belong to small and medium manufacturers employing less than 100 workers. Since they lack capital, government's assistance in improving their products and competitiveness is therefore badly needed. The Government should indeed address such a need. If we look at the other 'three dragons', Taiwan, South Korea and Singapore, we would see that their Governments all have comprehensive technological research programmes so that they can keep on improving their products and also their competitiveness.

Doubtless, Hong Kong's industry is still largely labour-intensive and low technology in nature and we have already transferred our manufacturing to other areas which have lower salary for their workers, for example, Mainland China, the Philippines and Thailand. We are lagging far behind the other Asian countries in our development of high-tech industry. I must say that if we want to have high-tech industry, the government's positive support is most important. We have to encourage investors to bring in machinery, alter our industrial structure and increase competitiveness. Reduction of profits tax is inadequate. A more direct way to help our manufacturers is to increase our depreciation rate and also reduce our registration fees. The profits tax rate in Hong Kong is, relatively speaking, lower and 1 per cent of reduction provides inadequate incentive to our investors. What is more, frequent adjustments of profits tax rate would cause chaos. Even from the point of view of a businessman, an unstable tax rate would bring difficulties to the calculation of operational costs and long-term investment figures, so I think it is beneficial to us to maintain a stable profits tax rate for our businesses.

Sir, in the beginning of my speech I pointed out that the Budget this year only concentrates on keeping what we have and lacks farsightedness. I think we must have a comprehensive development programme for public utilities and we should not pull our resources to too many items at the same time. It is impossible for us to have adequate infrastructure construction overnight. The Government must have determination in infrastructure-building. I hope that major constructions, such as the new airport, the New Territories Circular Road will all be completed on time. We hope that projects will not be delayed while we have a great surplus and on the other be shelved on the grounds of inadequate funds when we have economic recession. This will only stimulate criticisms of the Government.

Sir, with such remarks I support the motion.

MR. LI: Sir, our responsibility here is to ensure that the Administration does its best to meet today's needs whilst safeguarding tomorrow's prosperity. Hong Kong stands or falls on its own resources, its own abilities. No one will bail it out if it gets into trouble. No one will kill the fatted calf if this Council lets Hong Kong become a fiscal prodigal.

The Budget speech called for a sales tax. The argument is that a sales tax would provide the Government with a more stable revenue base. If a world recession hits corporate and individual tax receipts, the Administration at least would still get by taxing the rice, congee and noodles that most of us eat. Could it be that despite these enormous reserves and huge surpluses, the Government is worried about its future?

No. Sir, we are witnessing bureaucratic ideology run wild. Since 1982 per capita indirect taxation has more than doubled. The proportion of total tax revenue coming from indirect taxes has increased by more than a third to 40 per cent. That puts Hong Kong more or less in line with the major industrial economies—the United States at 39 per cent, Japan at 34 per cent and West Germany at 45 per cent.

Apparently this is not enough for some of our financial planners. Slavishly they want to ape Britain. They want parity. They do not seem to realise that equity and efficiency are the best tests of a taxation system, not some misguided pursuit of aesthetic symmetry.

Grave concern has been expressed that 10 per cent of the salaries tax payers pay 65 per cent of the salaries tax. Why this concern? That is the whole point of progressive taxation. The fact is that 10 per cent of the households receive well over 50 per cent of the taxable income.

There has been similar concern expressed about the unreliability of our taxation system in which 20 companies pay 30 per cent of the corporate profits tax. What does this mean? The fact is that just 10 companies—that is to say, 0.005 per cent of all the registered companies in Hong Kong—garner over a fifth of all corporate profits. If this concern is some devious backhanded way of suggesting that the likes of Swire, Hutchison and Wharf should be broken up, it should be rejected categorically.

Ironically, it is not at all clear that indirect taxes will provide the stable revenue base some in the Government crave. At least that was not Hong Kong's experience in the last recession. Nor is it apparent that draining billions of dollars out of the economy into the Government's already overflowing coffers is a prudent, productive use of Hong Kong's limited resources.

What is obvious, though, is that the cost of a sales tax would be enormous. Think about the administrative expense. Even if a sales tax were levied at a non-retail level, the Government would have to establish a whole new bureaucracy.

In fact, if such a tax were applied to a wide range of products, including necessities, as has been suggested, a horde of new civil servants would have to be hired to assess and collect and police it.

Then there is the commercial cost. Such a tax would fuel inflation. It would devastate our tourist industry. It would force manufacturers and wholesalers to spend millions just to handle accounting for the levy. It would exacerbate our shortage of skilled labour.

Finally, there is the social cost. Someone fatuously suggested that a sales tax would only be slightly regressive. That is like being slightly bankrupt or only a little dead.

The Government already squeezes money out of our Hong Kong school children by taxing their soft drinks through a levy still imposed three years after the crisis it was designed to counter has passed. A full-scale sales tax would be even more regressive—totally contradicting the Government's oft-repeated commitment to social equity in the taxation system.

A 5 per cent sales tax, Sir, would rob the average industrial worker of about 3 per cent of his income. That is equivalent to six months of lunch boxes. The same tax level would milk the typical middle manager of some 2 per cent of his income—say the cost of commuting to work for a whole year. But for the well-padded brokers who crave this tax, it would mean a mere 0.6 per cent of their total compensation. What is that? A few drinks with the boy.

Is this to be the final legacy of the once-renowned British Administration? Is this what the Government wants? That the poor subsidise the rich? That the factory workers and middle managers carry the top brokers on their backs right to the gangplank of the Canberra? Frankly, I find such a situation morally repugnant and politically explosive.

We all know that there are those who scuttle around Hong Kong whispering that anyone who questions the decision of the Finance Branch on fiscal policy is undermining confidence in Hong Kong. The people of Hong Kong are not stupid. The world financial community is not naive. Mindlessly applauding ineptitude, rubber-stamping incompetence will do more to erode the foundations of Hong Kong's economy than a few voices crying the truth in the wilderness.

Sir, the urge to tax is one of government's basic instincts. Our Government should resist temptation. Rather than pile on unnecessary, possible irresponsible taxes, the Administration ought to be looking for ways to cut taxes to promote business competitiveness and growth. Hong Kong likes to think it offers a uniquely attractive environment. But all around the world countries are slashing their corporate tax rates. Even with the proposed 1 per cent reduction here we just are not as competitive as we used to be.

Hong Kong's manufacturing sector consists mainly of light industries. Machinery and equipment in those industries tend to have a short life. Any lapse in new investment will soon show up in the export competitiveness. This investment in plant and equipment increased by an aggregate of 40 per cent over the last two years, the forecast for this year is just 3 per cent and 1989 could be even worse if the long-awaited recession arrives. The present 55 per cent initial depreciation allowance may seem high to the uninformed, but in real business terms it is not. Both the initial and annual allowances should be made internationally competitive.

Another productive tax cut would be the abolition of the withholding tax on the Hong Kong dollar debt instruments. Although the revenue involved is a measly HK\$17 million, the Government clings to this levy. Yet this tax effectively blocks the development of a broad-based capital market.

This is not just a matter of academic interest. The failure of the recent MTR Bond issue to spark greater public involvement was largely because those who might have bought the bonds would have had to pay tax on the interest earned. By discriminating against Hong Kong dollar instruments and thus against companies committed to the growth of Hong Kong, this tax causes Hong Kong companies and the Hong Kong Government money because the capital market has too narrow a base to support funding needs at reasonable interest rates. It was Winston CHURCHILL who said: 'There is no such thing as a good tax—this one is ludicrous.'

But if the commercial paper withholding tax is questionable, the Budget's recommendation that annual licence fees for banks and deposit-taking companies be increased by 8 per cent is potentially dangerous and certainly unfair. After all, the last round of increases for these fees was only two years ago when banks were hit with a 20 per cent rise and deposit-taking companies with a 13 per cent.

The timing of the proposed fee increases only adds insult to injury. Earlier this year banks in Hong Kong bore the brunt of the defence of the link exchange rate jeopardising their business. They spent millions on negative interest rates, reprogramming computers, informing and soothing irate customers and then being faced with the threat of litigation over the legality of the whole system. Yet, as one influential reporter quipped, the Budget proposals prefer brandy to banks. What is the purpose? To kill the goose that lays the golden egg?

Instead of undermining our banks and deposit-taking companies, why does the Administration not look for ways to help the financial sector? At this moment our banks are digging deep into their pockets to meet the stringent new capital adequacy ratios, set to take effect later this year. At the same time banks in Hong Kong are also compelled to make significantly larger provision for doubtful sovereign risk loans in response to the world debt crisis. While we do not want to be a dumping ground for every international bank's bad debt, the

Government could help our financial sector by taking a more sympathetic view of the deductibility and the method of evaluation of loans looked through Hong Kong.

In setting tax policy the Administration should also pay closer attention to the wishes of the people. Why does a government which objects to the 'lame duck' label give the impression of being an ostrich when it comes to separate taxation for married couples? This issue has been raised almost annually since the late 1970s and the OMELCO Taxation Panel pressed the matter repeatedly in the months the Government's Budget proposals were being framed. But they were stonewalled. The idea did not fit in with bureaucratic views of what Hong Kong is like.

But it is no longer possible to make simplistic assumptions about the family as an economic unit. Trying to impose a single standard in the name of equity merely creates new inequities. The present system penalises married women. It discourages them from going out to work at a time when we need to keep married women in the workforce. It falls particularly hard on the middle class, the very people we want to stay in Hong Kong.

The estimated cost of the proposed extra tax allowance for working wives is HK\$340 million. That is just about what separate taxation would cost. Indeed, if separate taxation encouraged more spouses to enter the workforce, tax revenue might actually rise.

Likewise, Hong Kong needs more than halfway measures to promote home ownership. Almost everyone agrees that Hong Kong should encourage people to buy their own home. Home owners are hardworking permanent citizens. That is why the Budget proposed trimming stamp duty for property sales under HK\$1.5 million.

But is there not a better, more efficient way to accomplish this goal? While reducing stamp duty may encourage speculation, making mortgage interest tax-deductible for home owners can have only a positive impact on our economy. The cost to Government revenue would be negligible. The proposed stamp duty reduction amounts to HK\$300 million, while a mortgage interest deduction would only be HK\$760 million.

On the expenditure side there is a need to be more realistic about what Government can do. At a time when trained manpower is scarce and expenditure must be closely watched, Hong Kong is fortunate that the private sector, through voluntary service agencies, carries so much of the burden for our social welfare programme. Although subventions to voluntary agencies amount for only 20 per cent of the Hong Kong Government's total social welfare expenditure, these agencies provide more than 70 per cent of our welfare services. This indicates the resourcefulness and efficiency of the voluntary agencies and the crying need for the Government to recognise the inadequacy of its present subvention policy and to shift funds to where they will do the most

good by liberalising the subvention system. The Government's short-sighted approach limits the quality and extent of the services voluntary agencies can offer the needy.

As the brain drain shows no signs of abating, Hong Kong must invest more in its human capital. At present only 5 per cent of secondary school graduates are able to continue their studies at one of our universities. Even if we add in other tertiary institutions, the rate is possibly less than half of what Taiwan achieves.

The new Hong Kong University of Science and Technology and the open learning institute are steps in the right direction, but the Government should not ignore the importance of on-the-job training such as that being provided by the Vocational Training Council, the Hong Kong Management Association. Such programmes do much to fill the experience gap caused by migration and improve our industrial competitiveness.

The brain drain must also be a consideration whenever we think about fiscal policy today. It affects the Government just as it does the private sector. Indeed, the problem may be even worse for the administrative machinery. In the first nine months of the last fiscal year, resignations from the Civil Service increased 34 per cent compared to all of 1986 to 1987. This high turnover has to have an impact on administrative efficiency.

Strangely enough, at a time when the Administration cannot keep the people it has, the Budget sets civil service growth at 4 per cent. That is 1.5 percentage point higher than the rate earlier estimated by the Administration and 2.6 percentage points greater than the projected expansion of the Hong Kong's total workforce.

A bigger Civil Service will aggravate an already acute labour shortage. Even in the short term, it will have negative impact on the economy by driving up salaries and thus fuelling inflation as it pits the public and private sectors against each other in a fierce competition for a limited pool of eligible job candidates.

Right now we have one of the best and probably the most underrated Civil Service in the world. If we cannot be sure of recruiting the best possible staff for government service, we do not want them. Hong Kong cannot afford to lower its standards. If this means cutting back on what we ask of the Government, if it means looking even more to the private sector, if it means actually getting on with privatisation instead of merely talking about it, then that is what we must do.

Sir, the Financial Secretary's Budget speech closed with a quotation from T. S. ELIOT, who was a banker as well as a poet. That quotation is worth repeating: 'What we call the beginning is often the end. And to make an end is to make a beginning. The end is where we start from.'

Sir, if our Budget policies do not make the most effective use of our fiscal resources for the coming year, then another quotation from T. S. ELIOT may

be more appropriate: 'This is the way the world ends—not with a bang but a whimper.'

Sir, with these remarks I support the motion.

MR. NGAI (in Cantonese): Sir, first of all, I want to congratulate the Financial Secretary for presenting to us a Budget with tax concessions, which brings good news to the majority of taxpayers. At the same time, I also have to congratulate the Hong Kong people who, with their superb resilience and flexibility, have managed to push Hong Kong's economic achievement to another summit after the general economic downturn in 1983 and 1984. The latest revised growth rate of our Gross Domestic Product in 1987 is 13.6 per cent in real terms which has far exceeded the Government's forecast made a year ago.

In the wake of two consecutive years of double-digit growth in real terms in our economic performance and the stock market crash last October, the general forecast is that our economy will unavoidably be overshadowed by the climate of uncertainties. The Financial Secretary believes that as the aftermath of the worldwide stock market crash has not yet emerged, Hong Kong's exports will be subject to the strong influence of factors beyond our control. Furthermore, paragraph 3.11 of the '1988 Economic Prospects' states that 'according to the OECD Economic Outlook, total imports of all OECD countries combined are expected to grow by 4 per cent in 1988.' With a combination of the above factors, the Financial Secretary forecasts an increase of 6 per cent in the total exports of our domestic products, a growth of 12 per cent in re-exports and a growth rate of 9 per cent for the total exports goods. The GDP growth rate is estimated to be 5 per cent.

Personally, I feel that the Financial Secretary may be too conservative in his short-term forecasts and the parameters used are open to question. For the Medium Range Forecast which covers a period of more than 12 months, it is beyond doubt that Hong Kong's economic performance hinges on many outside factors, such as world demand, effects of the stock market crash on world finances and so on. However, for the short-term forecast of within nine months, our economic performance depends to a great extent on factors such as the stability of the linked exchange rate system, the degree of psychological optimism of investors in the commercial and industrial sectors as well as Hong Kong's industrial and trade relations with China. As far as we know, the 1987 momentum for economic growth continues into 1988. At least there should still be a substantial growth in the first half of this year. Secondly, worldwide economic recession has not yet set in as a result of the stock market crash and there is no obvious sign that our export market will reduce their demand for our products. The OECD's estimation of international economic growth quoted by the Government is usually too conservative, and its accuracy is doubtful. It is also important to note that the purchase of plants and machineries by local manufacturers for enhancing productivity has been on the increase. They also have their goods contracted out for processing in China or even set up factories

there to solve the problem of labour shortage and to increase the competitiveness of Hong Kong's products as well. Furthermore, the boom in the property market and the unabated power of consumption by the public all contribute to a more sanguine economic performance as compared to the Government's forecast. I personally predict that the growth in real terms in 1988 will be around 8 per cent to 9 per cent and I shall not be surprised if we could have a double-digit growth for the third consecutive year.

Sir, theoretically, a major function of the Government's forecast on economic growth is to serve as a guideline to industrial and commercial investors so as to help them make decision in investment. We all understand that both investing at the inappropriate time or not investing during the economic boom will mean losses. I do not know how many investors rely on the regular official publication: 'The Quarterly Economic Report' as a guideline in their investment. Past Financial Secretaries have admitted that preparing economic forecast is a thankless task but I believe the Government has full responsibility to provide the best investment guidance, including the preparation of the highly analytical economic forecast. In this respect, I think more resources should be devoted to employ better-quality econometric models so as to obtain data of higher reference value for the preparation of the economic forecast.

Sir, I would now like to say something about taxation.

The proposed 1 per cent reduction in the rate of tax on corporate profits is warmly welcomed by the industrial and commercial sectors. However, I think this kind of tax concession can only be regarded as part of an across-the-board reduction when we have a large surplus so that all sectors of the community can have a share. It will not, however, serve the purpose of stimulating massive investment.

Hong Kong's profits tax rate has been kept at a low level of not exceeding 20 per cent for many years. Compared with other advanced or developing countries, this rate is very low indeed. Furthermore, our taxation system is a simple one, with neither heavy levies nor petty duties. Therefore the reduction in profits tax by 1 per cent basically will not be of much stimulus to foreign investors. The more determining factors to local and foreign industrial investors will be our future political stability, the availability of technical support and expertise as well as our wage level. To the commercial and industrial sectors, the greatest advantage of the concession in profits tax is, rather, to allow them more capital for reinvestment. The Financial Secretary estimates that the cost of the reduction is \$760 million for a full year. If a large portion of this were spent on reinvestment, our economy will definitely be boosted. However, the most efficient way to stimulate economic growth is to encourage the manufacturing industry to make long-term investment.

On providing incentives to the manufacturing sector, the Financial Secretary said frankly in paragraph 96 of the Budget speech that he 'does not believe that the selective inducement of an increase in capital allowances is what is needed at

this time'. Instead, he 'considers that the proposed reduction in the rate of tax on corporate profits will provide appropriate and proper encouragement to all those in business'. Sir, I think this policy is very short-sighted. All along the Government has been advocating the renovation of plant and machinery in the manufacturing industry to improve productivity. Yet we all know that investments in plants, equipment and technology normally cannot come to maturity within one or two years. Even for proprietors of small and medium-sized factories, a repayment period of three to five years is usually required for the mortgage of one or two new machines priced at less than a million dollars. Hence, to promote productivity in the manufacturing sector, the Government should increase the allowances for the outlay as well as the depreciation of machinery so as to enable manufacturers to plan longer-term investments. At present, the Government reduces the profits tax slightly only when there is a surplus. It is likely that the tax will again be increased if the revenue diminishes. It is, therefore, not a positive approach to stimulate industrial investment.

Sir, on the question of taxation, I think we are now faced with an important issue which concerns the livelihood of the general public and has far-reaching implications and significant repercussions. This is the question of sales tax mentioned by the Financial Secretary in paragraph 50 of the Budget speech. I understand that the Government is considering widening the base for indirect tax and will present the proposals for public debate in due course. I am afraid I have to 'jump the queue' to express my views on this issue here out of a sense of duty. I hope it will not be considered as a pre-emptive move.

First, why is it necessary to widen the base for indirect tax? I gather there are only three major reasons for this: (1) to reduce the rate of direct tax; (2) to lessen the heavy dependence on direct tax for revenue; (3) to follow the example of other advanced countries to make sales tax a means to maintain a stable revenue. My initial views on these reasons are as follows.

First, as I have mentioned earlier, the rate of direct tax in Hong Kong is already very low and is indeed lower than any advanced or developing countries. It is really very doubtful whether it should be or can be further reduced.

The second reason mentioned should be of more significance. The present taxation system depends very heavily upon the direct tax from the so-called 'sandwich class', so much so that it has almost reached an unreasonable level. As far as the 1988-89 Budget is concerned, over 66 per cent of the total salaries tax yield comes from 9.9 per cent of the salaries taxpayers. It is also widely known that the Government relies a great deal on a handful of large listed companies for profits tax. While the desire of the Government to broaden the tax base is understandable, I wonder whether it is because the Government has already anticipated difficulties in future revenue yield or uncertainties in the revenue from direct tax and therefore has to consider widening the indirect tax base to make it a major source of revenue. Otherwise, I really fail to see the reasons for making such a significant change in our taxation system.

Finally, it is well-known that the tax system in Hong Kong is simple and relatively easy to administer. Therefore, there is no need at all to make it complicated by following foreign examples.

Sir, whether it be charged at the wholesale or retail level and whether the rate is high or low, the sales tax will invariably affect the livelihood of the people. For instance, the sales tax will increase the burden of the low-income group which do not have to pay salaries tax. On the other hand, for those who have to pay salaries tax it will mean an additional tax burden. It is therefore doubtful whether the aim of an equitable taxation system can be achieved. Moreover, the introduction of a sales tax will definitely affect the tourist industry and increase the administrative cost of the Government and businessmen.

Sir, in the philosophy of economics, sales tax is considered as a kind of regressive taxation. A billionaire and a beggar alike will have to pay an equal tax when they purchase the same dutiable commodity. At first the tax rate may be set at a low level such as below 5 per cent. However, it will not too difficult for those in power to raise the level gradually year after year to 6 per cent, then 7 per cent, and then to 8 per cent, 9 per cent and even 10 per cent or more. Just to think that may happen is worrying and disturbing enough. In fact, experience in other countries tells us that sales tax is just like a monster. Once it is born, it will go out for preys. Eventually, it will grow into a mammoth and do great harm to this world. Hence I urge that the Government be absolutely careful in handling this issue and allow more time for discussion and consultation. It should definitely not be implemented in a hurry next year.

Sir, having spoken on taxation, I now turn to the subject of public expenditure.

During the Budget debate last year, I spoke at length on budgetary guidelines. It is a pity that the Government did not make any definite response. In brief, in order to attain a balanced revenue and expenditure, to avoid raising loans, to maintain low tax rates and to keep public expenditure at a low level, the Government has established a set of budgetary guidelines (which can be traced back to the years when Sir Philip HADDON-CAVE was the Financial Secretary) with a view to exercising certain control on public revenue and expenditure. I have drawn the Government's attention to the guideline of 'recurrent expenditure not exceeding 65 per cent of total expenditure'. As we all know, salaries and staff-related expenditure form a major part of the Government's recurrent expenditure; however, in recent years, the usual percentage of 65 per cent has been moving upwards consistently, 81 per cent in 1987-88 and up to 82.5 per cent in the estimates of 1988-89. This indicates clearly that the result of the Government's effort in containing the growth of the Civil Service and expenditure on salaries is unsatisfactory. According to the Financial Secretary, the estimated staff growth rate for the coming year is about 4 per cent. No matter what the reason is, this rapid growth is really a cause for concern. Unless the Government financial experts are able to conduct careful

studies, come up with more realistic budgetary policies and criteria and adhere to them closely, it would be difficult to contain the increasing expansion of annual public expenditure, irrespective of the overall economic performance.

Sir, another issue concerning public expenditure that we should pay attention to is the percentage changes (in real terms) in spending for service groups comparing 1987-88 and 1991-92 as illustrated in Diagram 4 of Appendix B to the Financial Secretary's speech. It can be seen that in the next five years, spending on social services will be increased sharply by 27 per cent while spending on economic services will increase by 13 per cent. Sir, to my understanding, in theory, when a society becomes more affluent, the income of the public will increase and the average standard of living will also go up. Hence, the reliance on the welfare services of the Government should correspondingly decrease instead of increase. Hong Kong is not a welfare state and should not develop into one. What the Government should do is to provide a free and sound economic framework in which every citizen can make a living through his own efforts and be free to create wealth. The purpose is to enable each member of society to be self-reliant instead of seeking assistance from the Government. I see no reason why the Government should not be more positive by allocating more funds for infrastructural development to facilitate economic growth and to provide more job opportunities when the revenue increases so that the majority of people can be self-subsistent. Certainly, I am not opposed to offering assistance to those who are unable to support themselves, particularly the elderly, the weak and the disabled. However, we must bear in mind that welfare assistance should not be the ultimate aim of economic development and financial policy. Rather, it should be the creation of wealth so that the whole community can benefit from it and the standard of living can be improved. Sir, I must point out that there has not been any significant increase in the proportions of economic services expenditure in the past five years. Instead, its slice of the cake will even be slightly reduced in the next five years. Since 1983-84, the average share would have been maintained at 4 per cent or below for nine years. As for community services such as transport, land and civil engineering and water, the share of spending on these services would have been reduced from 27.2 per cent in 1983-84 to 21.1 per cent in 1991-92. Yet no concrete decision has been reached on some of the long-term infrastructural development projects that are of great importance to the future development of Hong Kong and to cope with the continuous industrial and commercial development, such as the new airport and the further expansion of the container port. This situation is indeed worrying. I earnestly hope that the Government will give detailed explanation and conduct a review on these issues.

Sir, lastly, I would like to touch on the subject of the fiscal reserves in the Government General Revenue Account. During the Budget debate last year, I pointed out that the reserves appeared to be relatively low and that there was a need for review. Last month, the Financial Secretary stated in his speech that 'there can be no absolute guideline as to a satisfactory level of reserves', possibly

as a response to my earlier comment. I agree that it is difficult to have an absolute objective guideline or rule to determine the level of reserves. However, I think that with the Government's budgetary philosophy such as: 'to live within one's means', 'to keep a balanced revenue and expenditure account' and 'low tax rates' the Budget, the key to the financial policy is to 'save for the rainy day', that is, the reserves should be expanded in the years when the revenue yield is high (as in the past two years), so that during times of economic downturn when the revenue level is low, they can be used as an instrument to avoid tax increase. In this respect, I have mixed feelings towards the tax concessions proposed this year. On the one hand, I am happy because as a member of the business sector, I shall pay less tax; on the other hand, I feel rather disturbed because the Government is not going to transfer a greater proportion of the surplus to the reserves or plan to use more funds on strengthening the infrastructure to promote our economic development.

Sir, with the above observations, I support the motion.

Suspension of sitting

HIS EXCELLENCY THE PRESIDENT: Since it's now 8 o'clock, I propose that the debate should continue tomorrow and, in accordance with Standing Orders, I now suspend the Council until 2.30 pm tomorrow afternoon.

Suspended accordingly at Eight o'clock.