

1 HONG KONG LEGISLATIVE COUNCIL -- 12 October 1988

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THE LEGISLATIVE COUNCIL DEBATES  
OFFICIAL REPORT

IN THE SESSION OF THE LEGISLATIVE COUNCIL OF  
HONG KONG  
WHICH OPENED ON 12 OCTOBER 1988  
IN THE  
THIRTY-SEVENTH YEAR OF THE REIGN OF HER MAJESTY  
QUEEN ELIZABETH II

LEGISLATIVE COUNCIL CHAMBER

Wednesday, 12 October 1988

The Council met at half-past Eleven 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 ALLEN LEE PENG-FEI, C.B.E., J.P.

THE HONOURABLE DONALD LIAO POON-HUAI, C.B.E., J.P.  
SECRETARY FOR DISTRICT ADMINISTRATION

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

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

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

THE HONOURABLE MARIA TAM WAI-CHU, C.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 PETER POON WING-CHEUNG, M.B.E., J.P.

THE HONOURABLE CHENG HON-KWAN, J.P.

THE HONOURABLE CHUNG PUI-LAM

THE HONOURABLE HO SAI-CHU, M.B.E., J.P.

THE HONOURABLE HUI YIN-FAT

THE HONOURABLE MARTIN LEE CHU-MING, Q.C., J.P.

THE HONOURABLE DAVID LI KWOK-PO, 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 SZETO WAH

THE HONOURABLE TAI CHIN-WAI

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 PETER TSAO KWANG-YUNG, C.P.M., J.P.  
SECRETARY FOR ADMINISTRATIVE SERVICES AND INFORMATION

THE HONOURABLE CHAU TAK-HAY, J.P.  
SECRETARY FOR HEALTH AND WELFARE

THE HONOURABLE RONALD JOSEPH ARCULLI, J.P.

THE HONOURABLE MARTIN GILBERT BARROW, O.B.E.

THE HONOURABLE PAUL CHENG MING-FUN

THE HONOURABLE MICHAEL CHENG TAK-KIN, J.P.

THE HONOURABLE DAVID CHEUNG CHI-KONG, J.P.

THE HONOURABLE RONALD CHOW MEI-TAK

THE HONOURABLE MRS. NELLIE FONG WONG KUT-MAN, J.P.

THE HONOURABLE MRS. PEGGY LAM, M.B.E., J.P.

THE HONOURABLE DANIEL LAM WAI-KEUNG, J.P.

THE HONOURABLE MRS. MIRIAM LAU KIN-YEE

THE HONOURABLE LAU WAH-SUM, J.P.

DR. THE HONOURABLE EDWARD LEONG CHE-HUNG

THE HONOURABLE LEUNG WAI-TUNG, J.P.

THE HONOURABLE JAMES DAVID McGREGOR, O.B.E., I.S.O., J.P.

THE HONOURABLE KINGSLEY SIT HO-YIN

THE HONOURABLE MRS. SO CHAU YIM-PING, J.P.

THE HONOURABLE JAMES TIEN PEI-CHUN, J.P.

THE HONOURABLE MRS. ELSIE TU, C.B.E.

THE HONOURABLE PETER WONG HONG-YUEN, J.P.

ABSENT

THE HONOURABLE GEOFFREY THOMAS BARNES, J.P.

SECRETARY FOR SECURITY

IN ATTENDANCE

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

Affirmations and Oaths

MR. ALLEN LEE PENG-FEI made the Legislative Council Affirmation.  
MR. STEPHEN CHEONG KAM-CHUEN took the Legislative Council Oath.  
MR. CHEUNG YAN-LUNG made the Legislative Council Affirmation.  
MRS. SELINA CHOW LIANG SHUK-YEE made the Legislative Council Affirmation.  
MISS MARIA TAM WAI-CHU made the Legislative Council Affirmation.  
DR. HENRIETTA IP MAN-HING took the Legislative Council Oath.  
MR. CHAN YING-LUN made the Legislative Council Affirmation.  
MRS. RITA FAN HSU LAI-TAI made the Legislative Council Affirmation.  
MR. PETER POON WING-CHEUNG made the Legislative Council Affirmation.  
MR. MARTIN LEE CHU-MING took the Legislative Council Oath.  
PROF. POON CHUNG-KWONG took the Legislative Council Oath.  
MRS. ROSANNA TAM WONG YICK-MING took the Legislative Council Oath.  
MR. RONALD JOSEPH ARCULLI took the Legislative Council Oath.  
MR. MARTIN GILBERT BARROW took the Legislative Council Oath.  
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MRS. NELLIE FONG WONG KUT-MAN took the Legislative Council Oath.  
MRS. PEGGY LAM took the Legislative Council Oath.  
MR. DANIEL LAM WAI-KEUNG made the Legislative Council Affirmation.  
MRS. MIRIAM LAU KIN-YEE took the Legislative Council Oath.  
MR. LAU WAH-SUM took the Legislative Council Oath.  
DR. EDWARD LEONG CHE-HUNG made the Legislative Council Affirmation.  
MISS LEUNG WAI-TUNG made the Legislative Council Affirmation.  
MR. JAMES DAVID MCGREGOR took the Legislative Council Oath.  
MR. KINGSLEY SIT HO-YIN made the Legislative Council Affirmation.  
MRS. SO CHAU YIM-PING took the Legislative Council Oath.  
MR. JAMES TIEN PEI-CHUN made the Legislative Council Affirmation.

MRS. ELSIE TU took the Legislative Council Oath.

MR. PETER WONG HONG-YUEN made the Legislative Council Affirmation.

Suspension of sitting

HIS EXCELLENCY THE PRESIDENT: I should like to welcome all new Members to this Council and should have a chance to welcome you all again this afternoon and meanwhile in accordance with Standing Orders I suspend the Council until 2.30 pm this afternoon.

Suspended accordingly at ten minutes to Twelve o'clock.

Council resumed at half past Two o'clock.

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Hon. Members of the Legislative Council,

(1) INTRODUCTION

I welcome you all, and particularly those who have just joined the Council, to the first meeting of the new session. The Legislative Council plays an increasingly important role in our community. Those who join the Council make a major commitment of their time and energy to public service. However arduous the task, I feel sure that you will also find it rewarding.

2. This new session of the Council is part of an important evolutionary process. Three years ago, 24 elected members joined the Council for the first time. This year the proportion of elected members has been further increased. We have with us today the representatives of two new functional constituencies and we have two fewer appointed members.

3. The process of development will continue. In 1991 we shall welcome to this Council ten members who will be directly elected to represent geographical constituencies. There will then be further changes in store as we move towards a system in which all members of the Council will be elected, by one form or another.

4. These changes to the composition of the Legislative Council are an important part of the evolution of our system of government in the years up to 1997 and beyond. As

our society develops, our increasingly well educated and prosperous population both seek, and deserve, to play a greater part in public affairs and have more say in the decisions that affect their own lives. It is right that this should happen. It is a trend which I welcome. The Government will continue to respond to it.

5. One by-product of this changing scene is more lively public debate on issues of concern to the community. During the last session it was clear that wider membership of the Council has brought with it a greater diversity of views and a closer scrutiny of the work of the Government. The Government does not shrink from scrutiny. Nor, as a community, should we shrink from expression of different views. We must, however, try to ensure that diversity remains a force for constructive change. It is the task of the Council to try to reconcile different views in a way which acts for the good of the whole community.

6. The work done by this Council during the last session was substantial. I see no reason to believe that it will be any less so in this new session. The policies of the Government which I shall put before you this afternoon will require a great deal of work from the Administration; and from this Council. I know that the community will continue to be well served by Council members, working with the common goal of maintaining Hong Kong's stability and prosperity and improving the quality of life of its people. I look forward to working together with you to ensure these aims.

## (2) ECONOMIC AND FINANCIAL SITUATION

### (a) State of the Economy and Prospects

7. A healthy and growing economy is the essential foundation for all our efforts to improve the quality of life for the people of Hong Kong. Over the past decades we have prospered by maintaining an open economy; by welcoming competition; and by encouraging the free flow of goods, capital and technology. This has enabled us to keep abreast of new developments; to remain competitive; and to maintain economic growth to the benefit of the whole community. It has also helped Hong Kong to play an increasingly active role in the development of China's economy and external trade.

8. This year, our economy has continued to grow. But the rate of growth has been slower as the economy consolidates after very rapid advances in the past two years. Last year domestic exports increased by 23% in real terms a remarkably high figure.

This year we expect further growth of about 6% - slower but still significant. Re-exports continue to increase rapidly this year by about 35% in real terms. These continuing high increases in our re-export trade - over 250% in the last 5 years show that Hong Kong is resuming its historical role as an entrepot for trade with China and the rest of East Asia.

9. Overall we can expect our gross domestic product to increase this year by about 6% in real terms. Although this is a slower rate of growth than we have experienced in the past two years, it is still remarkably high by world standards. It would give us an average annual growth rate of 10% in real terms over a three-year period.

10. With the economy operating close to capacity, our two main domestic worries are inflation and a shortage of labour. Consumer price inflation is now running at slightly over 7%. This is too high. But as the pressure of demand begins to slacken, inflationary pressures should also gradually ease.

11. Over the longer term, I remain confident that the outlook for the Hong Kong economy is bright. We are investing heavily in our physical infrastructure and human resources so as to create the conditions for continuing growth. Nevertheless, we have to recognise that we are dependent not just on ourselves but on the economic performance of our major overseas markets and on our continuing access to them, as well as on global exchange rate movements. In these circumstances we must increase the capacity and competitiveness of our manufacturing industries and continue to fight for a more open world trading system.

(b) The China Dimension

12. One key element in our economic future is the growth of Hong Kong's economic relations with China. We are now each other's largest trading partners. China is the second largest market for our domestic exports; the largest supplier and market for our re-exports; and the second largest source of our retained imports. Hong Kong in turn is the most important source of external investment in China, accounting for about two-thirds of all external investment.

13. Access to business opportunities and economic resources in China have been major factors in sustaining the rapid growth of our economy. Not surprisingly, our neighbouring province of Guangdong plays a vital role in this. It has been estimated that, in Guangdong Province alone, there are between 1.5 and 2 million people employed

directly or indirectly by Hong Kong businesses. This is more than the total number employed in the manufacturing sector in Hong Kong. At the same time, companies with Mainland interests are making substantial investments in Hong Kong.

14. With the continuation of the open door policy, China's economy seems set to become increasingly externally oriented. The Pearl River Delta region in particular shows all the signs of continuing to be an area of high growth. Hong Kong already has an important role to play in the economic development of southern China and, more widely, of China as a whole. I hope we can continue to be not only a source of trade and investment but also an economic and financial centre linking China with the rest of the world. This will benefit both ourselves and China.

(c) Trade

15. The Government's trade policy can be stated simply. It is to expand our access to overseas markets and promote a freer world trading system. Our ability to argue for freer trade has been strengthened since Hong Kong became a separate contracting party of the GATT. We are, for instance, active participants in the current Uruguay Round of Multilateral Trade Negotiations.

16. Given our reliance on trade, protectionism in our major markets is a constant threat. Recent United States omnibus trade legislation is, I am pleased to note, less protectionist than earlier drafts foreshadowed; and I welcome the President's veto of the recent protectionist Textile Bill. But we must continue to be aware of, and guard against protectionist sentiment in the United States Congress.

17. The Trade Department and the Government's Overseas Offices are constantly alert for the emergence of protectionism in new forms and in new places. So far their efforts have been rewarded with quiet success and they have earned respect and influence in the international trading community. But our efforts must not flag. We have recently set up a new Economic and Trade Office in Tokyo. We are also expanding the programme of sponsored visits to Hong Kong by representatives from our major trading partners, so that they can see for themselves our free trade system and economic potential. We set a good example in our trading practices. We must continue to make sure that this fact is widely known.

(d) Industry

18. Manufacturing industry remains a key element in Hong Kong's prosperity. We face

stiff competition both from other economies with lower production costs and from the established industrialized countries where there is a strong thrust towards higher productivity, better quality and innovation. In order to stay competitive, it is clear that we must continue to move towards high value-added, technology based, production and reduce our dependence on the labour-intensive sector.

19. The Government will continue to give a high priority to providing land and other infrastructure for industry. We recognise that traditional flat factory buildings are not always suited to the needs of the new generation of manufacturing activities. To meet these needs, we already have two industrial estates. These have helped to attract investment in technology intensive industries and new manufacturing processes. We are now planning to build a third industrial estate of about 90 hectares. This will increase the size of our industrial estates by 50%. We intend that this new estate should be at Junk Bay, with the first part of the site formation to be completed in 1992 and land to be available for sale from 1993. We also need to provide more industrial land with waterfront access. There is a strong demand for this, particularly from the chemical processing industries. We have identified an area in Tuen Mun which could provide the right facilities.

20. One of the most crucial factors in keeping up with change is the capability of our workforce. New programmes in manpower training are now being introduced with the assistance of the Vocational Training Council and our tertiary educational institutions. These will provide more trained staff in areas such as computer aided design as well as manufacture, precision tooling and metal working.

21. Automation is a key element in moving Hong Kong towards higher productivity. It can also help in tackling the problem of labour shortage. The Productivity Council is increasing its efforts to promote greater automation, for example in computer aided design and manufacture. The Government are also funding a research project in this field at the universities, at a cost of about \$4 million.

22. In our modern, competitive world, quality is vital. We cannot afford to lag behind our competitors. Starting next year, the Government will mount a quality campaign aimed at the manufacturing industry. And to encourage the further improvement of our manufacturing sector I propose to expand the scope of the Governor's award scheme for industry. We already have an award for design. This has helped encourage manufacturers to upgrade their products. We plan to introduce new awards next year in other areas such as quality, productivity and innovation.



23. Another important initiative is the establishment of Hong Kong's first technology centre. Consultants are carrying out a detailed feasibility study. If we decide to proceed, as I hope we will, this centre will become the focal point of our effort to encourage innovation in industry. It will promote the commercial exploitation of new ideas and technologies and will have access to technical and research facilities. It will also help to reinforce the partnership between industry and those in academic circles who are engaged in practical research and development.

24. We need to attract to Hong Kong a high level of foreign investment that will bring with it modern processes and new technology. Over the past few years we have done well. More than 150 foreign firms have invested in manufacturing facilities since 1984. The majority have brought with them new or improved technology. We need to keep this up and to make sure that more investors are aware of the possibilities and prospects in Hong Kong. We are therefore upgrading and strengthening our inward investment programme. This will include improving the services provided by our industrial promotion offices in North America, Europe and Japan, and targetting their operations more precisely on key sectors and individual companies.

#### (e) Labour Shortage

25. During the past year, the labour supply situation has been extremely tight. The excess of labour demand over supply has created difficulties in some sectors. The Government have already taken a number of measures to try to reduce the size of the problem. We have relaxed restrictions on overtime work by women; examined ways of inducing more people to enter the labour market; and expanded the advisory services of the Productivity Council. In addition, we are now carrying out a thorough review of our present policy on entry for employment to make sure that it is fully understood and fully used.

26. These measures should help to ease the problem. The long term solution lies in increased automation, greater productivity and improved wages and working conditions which attract more people to seek employment. Hong Kong has already made great strides in these areas in recent years. But more can be done.

27. It has been argued that such measures will not relieve the immediate problem in the construction industry. This industry is very labour intensive and the compactness of most construction sites limits opportunities for greater mechanisation. There have been calls for the Government to change its policy to allow

contractors to import workers for specific projects.

28. But there are also strong arguments against such a scheme. It would interfere with the normal adjustment process within the economy. It would also conflict with our aim of allowing the workforce to share the benefits in good years as they share the difficulties in lean years. We do not at present, therefore, plan to change existing policy and allow the import of substantial numbers of workers from outside Hong Kong.

#### (f) Co-ordination of Science and Technology

29. In a world where technology is developing at a tremendous pace, we must ensure that we in Hong Kong keep up with what is going on elsewhere and turn it to our own benefit. Six months ago, I appointed a Committee on Science and Technology under the chairmanship of a member of this Council, Professor Poon Chung-kwong. Its aim is to seek out and develop new scientific ideas which might be of use to Hong Kong and advise the Government on how these might best be applied. The Committee has started its work by giving priority attention to areas that are essential in enhancing Hong Kong's economic efficiency and competitiveness, including, in particular, the wider application of information technology. We aim to develop further the role of the Committee as a source of innovative ideas on scientific and technological development. We aim also to make good use of the Committee's expertise, for example by encouraging it to organise exhibitions, conferences and educational programmes, and to engage local and overseas experts to work in areas of particular value to Hong Kong. We are now working out how to give the Committee the back-up facilities it needs to enable it to operate more effectively.

#### (g) Regulation of Financial and Commercial Sectors

30. In recent years, Hong Kong has become a leading international financial centre. We must preserve that position. This means making sure that there is international confidence in the integrity, and the efficiency, of our markets. We do not wish to over-regulate. But we must make sure that we meet international standards.

31. Hong Kong, like other markets around the world, was severely affected by last October's stock market crash. One of the main lessons we learnt then is that we are part of a global market. The financial world is increasingly integrated and

international. This calls for more coordination and more uniformity of standards of regulation in the main financial centres.

32. Following the events of last October, I appointed a Securities Review Committee to examine the powers, management and operation of the Stock and Futures Exchanges and of the various regulatory bodies in Hong Kong. It did an excellent job.

33. The Government have accepted the general thrust of the Committee's recommendations. In particular, we have agreed to the setting up of a new regulatory authority, outside the civil service, to be called the Securities and Futures Commission. Legislation will be introduced into this Council before the end of 1988 to allow the new Commission to become fully operational early next year.

34. The Securities Review Committee also recommended fundamental revision of the constitution and internal management of both the Stock Exchange and the Futures Exchange. These recommendations have been accepted by the Stock Exchange which has, to its great credit, taken the initiative to implement them. The Futures Exchange will be putting proposals to its members in a few weeks time.

35. On the settlement system for stock transactions, the Securities Review Committee recommended that the old arrangements, which were unable to cope with sudden increases in trading volume, should be replaced by a central clearing system under the management of a new statutory clearing house. It also recommended an extension of the settlement period. The Stock Exchange and other parties involved, including a number of major banks, are now working on the detailed design of a new system which should be in place by early 1990. And in the meantime, interim arrangements have been introduced by the Exchange to improve efficiency.

36. Thus, within a relatively short period, Hong Kong has made great efforts to learn from the weaknesses which were revealed last October and to put more durable structures in their place.

37. Another problem which needs to be tackled is insider dealing. This abuse undermines the fairness of the market. We must do all we can to see that it does not occur. Legislation will be introduced this session to increase substantially the range of sanctions which may be imposed by the Insider Trading Tribunal. These measures are designed to create a more effective deterrent than we have now.

## (h) Management of Public Finances

38. In managing the public finances, the Government's main aim is to ensure that the growth of public expenditure does not outstrip the underlying growth of the economy as a whole. This is currently about 6% a year. I shall be outlining later this afternoon a number of areas in which we plan to expand or improve services in the coming year, within the parameters provided by this underlying growth rate.

39. In expanding Government services we must be careful that public sector demands do not undermine the ability of the private sector to generate the economic growth on which our prosperity depends. Our economy is now running very close to full capacity. In expanding public services we must not act in a way which accelerates inflation or puts further pressures on the labour market. This means that public sector growth must be both gradual and restrained.

40. In the next few years we shall need to spend much more than we have in the past on improvements to our transport, economic and environmental infrastructure. This expenditure has to be planned carefully against the background of other important and continuing capital programmes. We have to adjust our priorities within a gradually increasing capital budget in such a way that the overall programme matches the developing needs of the community. Inevitably this means difficult choices.

41. It is equally important that we do not crowd the private sector out of the labour market. The number of civil servants has grown over the past five years by an annual average of 1.7%. Of itself, that rate of increase is not particularly worrying. But there are signs that the rate of growth is accelerating. This could result in the Government absorbing a greater proportion of manpower than is desirable. If we are to meet the demand for more and better services, we are bound to need more civil servants. But we must be careful to ensure that the civil service grows by no more than is absolutely necessary.

42. To keep the balance between the public and private sectors right, the civil service must do all it can to raise productivity; to increase efficiency; and to improve the cost-effectiveness of our existing services. We must also provide a framework for public sector management that encourages managers to get more from the resources they are consuming: that is, to seek better value for money. To achieve this, the Administration has been making major changes in its annual planning and resource allocation procedures. These are designed primarily to encourage policy secretaries to take a clearer view of priorities and a much closer interest in what

is being achieved by programmes carried out by both Government departments and subvented organisations.

43. In both the formal Estimates and in day-to-day management, the Administration is placing much greater emphasis on the results it intends to achieve rather than simply the volume or vigour of its activities. It is giving priority to exploiting advances in office automation and computer technology. And it continues actively to look for opportunities to provide services through bodies outside the Government where there are clear advantages in terms of cost-effectiveness and management flexibility.

44. Taken together, these reforms represent a major management challenge to the civil service as a whole. They provide an opportunity for the civil service to show that it is equal to the important managerial demands placed upon it. That is an opportunity which I believe the civil service will seize with both enthusiasm and confidence.

### (3) DEVELOPMENT OF INFRASTRUCTURE

45. To sustain economic growth and to provide an adequate infrastructure, we must continue to invest in a major capital works programme. An efficient port and airport are vital to the territory's continued prosperity. Hitherto, it has been sufficient to expand the existing facilities incrementally to keep pace with demand. Now, following a period of rapid economic growth, we have reached the stage where decisions must be taken on the future of our airport and on the location of a new generation of port facilities, as well as the supporting road networks and transport infrastructure these will require.

46. These major issues are being considered in a range of studies grouped under the Port and Airport Development Strategy. They are due to be completed in the middle of next year.

#### (a) The Airport

47. Hong Kong International Airport is now the second busiest in Asia. Over the past two years the number of passengers using it has increased by almost 40%. In the same

period, aircraft movement and freight traffic have each risen by about 30%.

48. An international commercial centre such as Hong Kong must have an airport of international standard within its own boundaries. Recent studies have shown that, without constraint, Kai Tak will reach capacity before the end of the next decade. Some travellers would doubtless say it has reached saturation point already. It is therefore becoming increasingly clear that we are going to need a new airport.

49. This is a decision of great importance to Hong Kong. It involves the question of where and when an airport should be built. It also means making sure that the project is financially viable. Building a new airport would be the biggest project ever undertaken in Hong Kong, costing tens of billions of dollars. It would require massive investment in land formation, roads and transportation systems. Wherever it was sited, it would attract industrial and residential development to the same area.

50. The successful outcome of a project of this sort would give a major boost to confidence in Hong Kong's future. So we must make sure that we get the decision right. This means having all the facts clear before we take it. It does not mean allowing any unnecessary delay. I intend that a decision will be taken before the end of next year.

51. A new airport in a place like Hong Kong, where there is no spare land, is a huge undertaking. It will take between 7 and 12 years to build depending on the site chosen. In the meantime we must continue to rely on Kai Tak, which will be expanded to ensure that it can carry us through the period until the new airport is available. Later this year, passenger handling capacity will be increased from 12 million to 20 million per year. Additional aircraft parking will be provided in 1989 and improvements to cargo handling and other facilities in 1991. These improvements will be costly; but they are essential if Kai Tak is to bridge the gap until the new airport is built.

52. Kai Tak has a good safety record. The recent aircraft crash, with tragic loss of life, was the first at the airport for more than 20 years. The response of our emergency services was magnificent. Without their efforts, the loss of life could have been much greater.

(b) The Port

53. An efficient port is vital for the continued development of Hong Kong. As our domestic trade has flourished, and as trade with China has boomed, our port has become busier than ever before.

54. In 1987, more than 70 million tonnes of cargo were loaded and discharged in the port of Hong Kong. This is double the amount handled in 1980. In the first 6 months of this year, cargo tonnage increased by 13% over the same period last year. Kwai Chung is now the busiest container port in the world in terms of throughput. There have also been rapid increases in the shipment of non containerized cargo. Continued growth at a similar rate will require massive investment in new port infrastructure.

55. The development potential of Kwai Chung and the container port there will be exhausted once Terminal 7 is built. Decisions on the location of Terminals 8 and 9 will be taken at the end of this year. Before the end of next year we shall need to decide where, and how, the next generation of port facilities should be provided, in the light of the findings of the port and airport development studies.

(c) Transport Network

56. Rapid economic growth has led to an enormous increase in the volume of commercial traffic using our roads. Private car ownership has also risen sharply since early 1987. In recent years, the opening of the Mass Transit Railway and the upgrading of the KCR have helped to relieve pressure on the road system. But we still need to invest heavily in transport infrastructure. That is why we shall be spending \$1.9 billion on new roads this year compared with \$1.6 billion in 1987/88.

57. A number of major facilities are currently being built by the Government, including the Kwun Tong By-pass; Route 5 linking Sha Tin with Tsuen Wan; the final stages of the New Territories Circular Road; and the Junk Bay road tunnel. In addition, private companies have demonstrated their confidence in Hong Kong's future by investing in the construction of the Eastern Harbour Crossing and the Tate's Cairn Tunnel: projects with payback periods extending well beyond 1997.

58. Road traffic between Hong Kong and China has increased eightfold since 1981. There are now more than 300,000 vehicle trips across the border each month. Road links are being improved to meet this ever increasing demand. Stage I of the new Lok Ma Chau bridge will be opened in the middle of next year, and the second stage

by the end of 1990. The upgrading of Sha Tau Kok Road will start in 1989.

59. Other major road projects and railway improvements are being actively planned for the longer term. I will list some. They include Route 3 (formerly called Route X) linking the north-west New Territories and Hong Kong Island via Tsing Yi and the proposed west Kowloon reclamation. A detailed engineering study will begin shortly to identify the best alignment. Early next year, we will be in a position to decide whether it is feasible to build a rail link between the north-west New Territories and the urban area, as well as the best route for such a link. And arrangements for extending the Mass Transit Railway to Junk Bay are already being discussed with the MTR Corporation. In addition, consultants have been asked to advise on the proposed KCR freight yard expansion at Hung Hom Bay and the associated marshalling yard at Lo Wu: we intend to take decisions on these projects by the end of the year.

60. How we deal with the longer term projects will be decided in the context of the second Comprehensive Transport Study. This will examine the policy and planning options involved in maintaining an acceptable level of mobility for passengers and freight up to the year 2001. The major findings of the study and the policy implications will be set out in a Green Paper on Internal Transport Policy. This will be published in the first half of 1989 as a basis for public consultation.

61. It is already clear that transport demand will rise substantially between now and the end of the century. We will go on building up our infrastructure. But inevitably there are economic, financial, physical and environmental limits on the extent to which it can be further expanded, particularly in the urban area. Road congestion will continue to be a problem. We will be faced with difficult policy decisions, for example on priorities for road usage, if we are to keep Hong Kong moving into the next century.

(d) Metroplan

62. A key issue in our consideration of future urban development is how to improve the metropolitan area around the harbour so as to make it a better place in which to live and work. This is being examined in Metroplan, a study started in late 1987.

63. The aim is to bring living conditions and amenities in the older urban districts, such as Yaumatei and Mongkok, up to the same standard as in the new towns. The newly established Land Development Corporation, the Housing Authority and private



developers all have important roles to play in achieving this objective.

64. The Land Development Corporation will soon begin to have an impact on the revitalization of the older urban districts. Since its establishment in January this year, it has put forward plans for 16 urban redevelopment projects. Five of these have already been approved by the Town Planning Board. Properties are now being bought and work on the first project should begin by the end of 1989.

(e) Rural Planning

65. While living conditions in our new towns are generally satisfactory, the situation in the rural New Territories is not so good. Many villages still lack basic amenities such as proper access roads, drainage and sewerage. Over the years, some improvements have been made on a piecemeal basis, through the City and New Territories Administration's local public works programme and the Territory Development Department's urban fringe improvements programme. These must continue. But, in order to make real progress, there is a need for a new and comprehensive strategy. This is now being worked out. I expect details to be made public by the middle of next year. Essential elements of the strategy will be the improved planning of public and private development and the tightening of control over land use, so as to ensure that the improvements achieved are sustainable. The task will not be easy. Much of the land in rural areas is privately owned. There will be problems of access and land acquisition.

(f) Water Supply

66. Water shortage used to be a recurring problem in Hong Kong. Members of this Council will remember the 1963 to 1964 drought, when only four hours of water was supplied every four days. Younger members of the community will be unfamiliar with such harsh conditions. In recent years we have become accustomed to receiving a 24-hour supply. This is mainly due to increased purchases from China which now supplies 70% of the water consumed in the territory. Our present water agreement expires in 1994. Discussions have already started with the aim of renewing the agreement and ensuring supplies sufficient to meet Hong Kong's requirements well into the next century.

67. As a result of unusually dry weather in the earlier part of this year, the storage level in our reservoirs was reduced to 32% of capacity at the end of July. Rainfall in August and September provided some relief. In addition, the Chinese authorities

have recently agreed to supply extra water. I am pleased to say that, as a result, water restrictions should not now be necessary during the coming dry season. Nevertheless, more Chinese water has been requested to guard against the possibility of low rainfall next year.

(g) Housing

(i) Public Housing Programme

68. Housing is a very important part of our social infrastructure. The Government have taken a number of steps in the past year towards achieving our objective of providing adequate accommodation for all by the turn of the century. The Housing Authority was reorganized in April. It was given greater financial autonomy so that it can put its resources where they are most needed to implement the Long Term Housing Strategy.

69. As part of this strategy, the Authority has drawn up a programme to redevelop over 500 older public housing blocks between now and the end of the century. About 500,000 tenants of these blocks will be allocated flats in modern estates with lower population densities and a better living environment. To meet public demand, the Authority is also providing greater opportunities for home purchase, both in the public sector and, through the recently introduced Home Purchase Loan Scheme, in the private sector. 12,500 Home Ownership Scheme and Private Sector Participation Scheme flats have been sold this year. And 2,500 loans have been made available for the purchase of private sector flats. This does not of course lessen our commitment to provide rental flats for those who need them.

70. Due mainly to the acute shortage of labour in the construction industry, housing production in the 1987/88 financial year fell below our annual target of 35,000 rental and Home Ownership Scheme flats. Completion of the delayed projects, however, will boost production in 1988/89 to 54,200 flats. This will be the highest number of flats ever completed in a single year and more than sufficient to offset last year's shortfall. But I must emphasise that this high figure is mainly the result of delays in the programme. For the future, the labour shortage casts a worrying shadow over prospects for keeping the building programme on track.

71. To improve the standard of public housing still further, a new generation of block designs is being introduced-the Harmony Blocks. The first of the new style

flats in these blocks will be ready in the early 1990s. They will have 10% more space, larger kitchens and a better internal layout. The new Harmony Blocks will also use a less labour-intensive construction method but still at a cost comparable to the existing designs.

72. Squatter housing in the urban area is a long standing problem which has proved difficult to resolve. We are now making real progress. This year, 32,000 residents of the two largest remaining urban squatter areas, at Shaukeiwan and Diamond Hill, will be rehoused. Our target is to provide housing for all urban squatters by 1994/95. We must make sure that this is achieved.

73. In addition, a good start has been made on the clearance of the Kowloon Walled City. So far 4,200 of the original 33,000 residents have accepted offers of rehousing. Clearance and demolition will be completed in 1992 and the site will be developed as a public park. A major eyesore and health hazard will then have become a much needed public amenity.

#### (ii) Building Management

74. The management of private multi-storey buildings understandably remains a subject of public concern. The Government's policy is to provide a legal framework which will give owners of private buildings the opportunity to manage their buildings effectively. Legislative amendments are being drafted which will make it easier to form owners corporations, and to improve the way in which these bodies operate. I expect this legislation to come before the Council early next year.

75. In addition, a new Advisory Committee on Private Building Management is being established. This Committee will include a majority of non-government members, one of whom will be its Chairman. It will advise the Government on what further measures are needed to improve the management of private buildings.

76. The demand for cheap tourist accommodation has led to an increase in the number of guest-houses. We must ensure that these are safe. The Administration have therefore decided to license the operation of these premises so as to ensure acceptable standards of fire safety, structural safety and environmental hygiene. Work on the necessary legislation is already in hand.

(h) Telecommunications

77. Hong Kong's continued growth as a financial and commercial centre requires that we keep pace with increasing sophistication of telecommunications services. We have been well served by our telephone and telecommunications systems. But, in this area as in others, competition can act as a spur to innovation and can make a wider variety of services available to domestic and business subscribers.

78. In making a decision to introduce cable television, the Government have therefore decided to allow the new cable network to provide alternative transmission facilities for competitive telecommunications services such as data and facsimile. These services are outside the Hong Kong Telephone Company's present exclusive franchise, which covers the conventional local telephone service. Consumers, particularly business users, will be able to benefit from a wider choice at competitive prices in a field which offers great potential for growth and technological innovation.

79. The Government have invited proposals locally and overseas for the introduction of the new cable television network. As Hong Kong has the potential to support the largest such network in the world, there is likely to be substantial commercial interest in building it. By mid-1989, we expect to have identified a successful bidder, or bidders, for the licences. One of the Government's aims is to make sure that the new service will quickly become available in homes throughout the territory. A condition for the tender is that at least 750,000 households should have access to the service in the first 3 years and at least 1.5 million, that is 75% of all households, after 10 years.

(4) ENVIRONMENT

80. One unfortunate by-product of our economic success and population growth has been serious environmental pollution. Many major cities have suffered similar problems. Water quality at our gazetted beaches has deteriorated. Discharges of industrial waste are an increasing threat to public health. Our harbour is now heavily polluted.

81. I am increasingly convinced that one of our major priorities must be to halt

this decline and to do more to improve our environment. This will require better planning; major initiatives to control pollution discharges; and large scale investment in facilities for the proper disposal of sewage and municipal and industrial wastes. Work has already begun on all these areas. More comprehensive and far reaching plans are now required.

(a) Sewage Disposal

82. Take, for example, our sewage problem. Hong Kong's sewerage system has been built, piecemeal, over the last hundred years. Its development has not kept pace with the growth of population and industry. The inadequacy of the system has become increasingly evident. The volume of industrial and human waste has increased substantially. Major reclamations have also affected water flows in the harbour and the sea's natural capacity to assimilate and disperse sewage. Hence the deterioration of our coastal waters.

83. We are now carrying out a major review of the territory's sewerage facilities. A programme for the construction of sewage collection, treatment and disposal facilities costing about \$10 billion has already been mapped out. This will be implemented over the next ten years. Construction of projects costing about \$2 billion has either started already or will start during the next year. These include the north-west New Territories trunk sewer and a scheme to pump treated effluent from Shatin for discharge into the Kai Tak nullah. This imaginative proposal will reduce the pollution of Tolo Harbour while at the same time helping to improve the condition of the Kai Tak nullah. A start is being made on the detailed design of new sewerage systems for east Kowloon and Hong Kong Island (south), as well as the preparation of master plans for Tsuen Wan and Kwai Chung, north west Kowloon, Tolo Harbour and Port Shelter. We shall need more treatment and new outfalls constructed sufficiently far out to sea.

84. The task of implementing this ambitious programme will be given to a new Drainage Services Department. This will be set up next year. It will bring together functions at present carried out by a number of existing departments. It will be responsible for the design, construction, operation and maintenance of sewers, drains and sewage treatment and disposal facilities. It will also have an important enforcement role in ensuring that sewage and industrial effluent are disposed of properly.

(b) Livestock Waste Control Scheme

85. For many years, the indiscriminate dumping of livestock waste in streams and watercourses has been one of the major causes of water pollution. In June, the keeping of livestock was banned in the urban area and in the new towns. Controls were introduced to cover Tolo Harbour, Anglers Beach at Tsuen Wan, and Silvermine Bay on Lantau. Most of the livestock farms in the prohibited areas have now ceased business: the remainder will soon follow. In the newly controlled areas there are some 300 farms. Of these, around 200 will give up livestock farming. The others intend complying with the controls. Demonstration projects are now being set up on private farms to show farmers how to dispose of their livestock waste in an acceptable and economic manner. Over the next 8 years, the controls will be extended gradually to other parts of the territory. We cannot expect an instant, overall improvement. But the problem is now being tackled. In time, cleaning up the watercourses will lead to a significant reduction in the pollution of our coastal waters, particularly in Tolo Harbour.

(c) Water Control Zones

86. Bathing beaches provide Hong Kong's most popular form of recreation. Gazetted beaches attracted about 18 million visitors in 1987-about 500,000 every summer weekend. The declining quality of our coastal waters has resulted in some beaches being declared unsuitable for swimming. Others are now only marginally acceptable. This trend must be reversed. As one step towards achieving this goal Hong Kong's second Water Control Zone, covering the area to the south of Hong Kong and Lantau Islands, was designated on 1 August. This will control sewage discharged from residential and commercial premises. It should halt the deterioration of water quality at many beaches during the next bathing season and pave the way for a gradual improvement in future.

87. The next two water control zones will be at Junk Bay and Port Shelter. The Junk Bay zone will control waste discharges from the new town. The Port Shelter scheme will protect the waters around Sai Kung which are much used for recreational purposes. Within the next five years, all Hong Kong waters will be protected in a similar way.

88. We must also give careful thought to the future development of mariculture, which is another source of water pollution. Although it contributes to our economy, it must not be allowed to add to the pollution of the water around our shores.

89. A great deal of effort goes into collecting floating refuse from Hong Kong waters. 22 vessels are now engaged on this task. They retrieved well over 4,000 tonnes of rubbish in 1987. Great efforts are also made to clear rubbish from the country parks and barbecue sites. But, as I know all too well from travelling by boat in Hong Kong waters and from walking in the New Territories, more still needs to be done. This is something on which individuals as well as the Administration can help. Everybody should see it as part of their personal responsibility to help keep Hong Kong clean. I am pleased that some major private sector organisations are eager to play their part in tackling the pollution problem. I hope others will follow suit.

(d) Waste Disposal

90. Proper disposal of domestic refuse is an important part of improving our environment. Good progress is now being made in implementing a long-term waste disposal strategy. The design of two huge landfill sites in the New Territories is at an advanced stage. In December a contract will be awarded for the construction and private operation of Hong Kong's first refuse transfer station, in Kowloon Bay. As more transfer stations are built we shall be able to close down the municipal incinerators which are themselves a source of air pollution. This programme will start with the closure of the Lai Chi Kok 'B' plant around the end of this year. The remaining Lai Chi Kok and the Kennedy Town incinerators will be closed by the early 1990s and the one in Kwai Chung at the turn of the century.

91. Some 100,000 tonnes of chemical waste are produced in Hong Kong every year. Much of it is dumped into the nearest drain or nullah to become a major source of pollution. We must provide facilities for its proper disposal. Early next year a contract will be awarded for the construction of a Chemical Waste Treatment Centre at Tsing Yi. It will provide a means for industry to dispose of chemical wastes in an environmentally acceptable manner. It will not have any adverse effect on the environment of those who live on the island.

(e) Noise Control

92. We can also improve our environment through the control of excessive

noise. After a long period of preparation, the Noise Control Ordinance was enacted in July. The Ordinance consolidates existing legislation and expands considerably the scope of control, particularly in relation to manufacturing and construction activities. The major provisions of the new legislation should be fully implemented by the middle of next year. These measures are not going to make Hong Kong a quiet city. It is far too dynamic a place for that. But they will help to keep noise to a more tolerable level.

93. I have devoted a good deal of time to the environment. This is because I believe that the conditions in which we live, like the continued growth of our economy, are essential aspects of making Hong Kong what we want it to be - a place where people want to go on working and living.

## (5) THE STRUCTURE AND MACHINERY OF GOVERNMENT

### (a) Top Level Structure of the Civil Service

94. We need good plans for the future. We also need the right organisation to carry them out. The Administration must have the ability to respond effectively to new demands. These demands stem both from the growing range and complexity of the services provided by the Government, and from the development of our political systems. To ensure that we are able to meet these challenges, we recently carried out an examination of the top management structure of the civil service.

95. The review has shown that the basic structure of the Administration remains sound. There is no need for major re-organization. Hong Kong has a civil service of which it can be proud, with an organisational structure which has stood up well over the years. But some re-adjustments are now needed to provide a better balance of responsibilities between Branch Secretaries and to take account of changing needs and priorities. We also need to bring in some new ideas to support policy making and policy makers.



96. One important organisational change is to create a new policy branch specifically responsible for planning and environmental protection. These are key policy areas in our effort to improve the environment. A high degree of co-ordination is needed between them. This must be done at the Secretary level. The establishment of this new branch will require some regrouping of the functions presently carried out by the Secretary for Lands and Works. An internal study, to be carried out over the next two months, will work out the best answers to these organisational questions.

97. Another significant change will be the creation of a new policy branch responsible for sports, recreation and culture, entertainment and broadcasting. Increasing public interest in sports and culture has led to the formation of many new and active voluntary organizations in these fields. The new branch, under a Secretary for Recreation and Culture, will be able to devote more time to ensuring that the activities of the various organizations are well co-ordinated.

98. In a fast developing society such as ours, complex policy issues arise which require concentrated study in order to produce the best solutions. Many cut across the boundaries of several different Government branches and departments. With their day to day pre-occupations, secretariat branches may not always be best placed to deal with these issues. In any case it is often valuable to be able to look at a problem from the outside. A small "think tank", to be known as the Central Policy Unit, will be set up early next year to consider and advise on such matters. I expect the unit to produce imaginative solutions to difficult problems. It will have both full time and part-time members, from within and outside the Government. The unit will work directly to me, the Chief Secretary, and the Financial Secretary.

(b) Commissioner for Administrative Complaints

99. However good our Civil Service, it is important for the maintenance of public confidence in the Government that there should be a reliable and independent means of investigating allegations of maladministration. Following public consultation, legislation was enacted in July this year to provide for the appointment of an independent authority for this purpose - the Commissioner for Administrative Complaints.

100. I am pleased to announce the appointment of Mr Justice Garcia as the first Commissioner. Mr Garcia has served as a Judge of the High Court since 1979. He will retire from the Judiciary and take up his new assignment in early 1989.

## (6) PUBLIC ORDER AND SECURITY

### (a) Defence and Public Order

101. The past year has seen some important developments on security matters. After long and sometimes difficult negotiations, a new Defence Costs Agreement was signed in July. It covers the period up to 1997. Our objective in the negotiations was to reduce the amount paid by Hong Kong to maintain the garrison during a period when we shall be spending more on building up our own security forces. As a result of the negotiations, Hong Kong's share of the cost of the garrison has been reduced significantly. Even allowing for the expansion of our own security forces, defence expenditure is unlikely to exceed 0.5 % of GDP in the period up to 1997.

102. By world standards our expenditure on defence is small. But this does not mean that we take the security of Hong Kong lightly. The withdrawal of British troops will be planned on a prudent and gradual basis with no sudden changes. I do not expect any significant withdrawals before 1992.

103. We have already started developing our own local services to ensure that we can meet all commitments for the maintenance of public order both before and after 1997. In particular, we are now establishing a new unit within the Police Force. Starting in 1990, this will progressively take over full responsibility for preventing illegal entry into Hong Kong : a task in which the British garrison at present plays a major role. I am confident that the Police will be capable of undertaking this new task with the same dedication and effectiveness as the garrison forces.

### (b) Crime

104. The fight against crime continues to be the major pre-occupation of the Royal Hong Kong Police Force. Recent figures show that overall reported crime in Hong Kong has decreased slightly this year. The fall in theft cases, including a recent sharp decline in the number of shoptheft offences, is particularly encouraging. But the level of violent crime, such as woundings and serious assaults, continues to give rise to concern. This year will see the introduction of further measures to combat crime and to encourage people to protect both themselves and their property.

105. In particular, we will step up our efforts against triads. The Triad Renunciation Scheme will be launched at the end of 1988. This will give triad members a chance to renounce their membership and make a fresh start in society. The Government will also propose legislation to curb illegal gambling and reduce the problems caused by vice establishments. I hope these measures will help break up the organised crime syndicates behind these activities. We shall also consider the feasibility of legislation aimed specifically at organised crime syndicates and the formation of special task forces to enforce such legislation.

106. It is particularly important that we should do all we can to discourage young people from becoming involved in crime. We shall therefore continue to examine ways to improve the rehabilitation of young offenders. The Young Offender Assessment Panel will continue to offer advice on appropriate sentences for juveniles; special Outward Bound Courses will be run for young offenders; and the Superintendents' Discretion Scheme will allow young people a second chance, when otherwise they would be burdened with a criminal record which could taint them for the rest of their lives.

(c) Drug Abuse

107. We have been reasonably successful in containing the drug abuse problem. The number of new addicts reported to the Central Registry has again declined in the past year. We have also had success in tackling drug trafficking. The quantity of No. 3 heroin seized during the first half of 1988 exceeded the total amount seized in the whole of 1987. Close cooperation with overseas law enforcement agencies, particularly in the United States, has been very productive. As a result, some major international drug syndicates have been neutralized.

108. But we must not be complacent. Drug trafficking can produce huge illicit profits. A large proportion of this is often re-cycled into the drug trade or used to finance other illegal activities. To strike more effectively at the financial roots of this dangerous trade, the Government is preparing new legislation which will give the courts powers to confiscate the proceeds of drug trafficking. It will also contain provisions aimed at preventing drug traffickers from benefitting from their illegal profits. The draft legislation is now in the final stage of preparation. It will be introduced into this Council shortly.

(d) Corruption

109. The number of corruption complaints against the public sector, including the Police, has continued to decline. There has however been a rise in reports relating to the private sector. The Independent Commission Against Corruption (ICAC) is devoting increased resources to investigating major corruption-related fraud. One positive development is that more businessmen are making use of the free and confidential corruption prevention advice provided by the Advisory Services Group of the ICAC.

(e) Public Order Ordinance, Section 27

110. The Public Order (Amendment) Ordinance was much in the news last year. It was introduced by the Administration as a liberalising measure. Nevertheless section 27 was seen by some as placing excessive restrictions on press freedom, through the provision for dealing with 'false news'. In January, the Government gave an undertaking to review this provision. The review will begin shortly. It will take full account of public views.

(7) EMIGRATION/IMMIGRATION

111. Population mobility has long been a feature of Hong Kong. Many of our residents migrated here from China. Throughout Hong Kong's history, many have chosen to move overseas for education, training, career reasons or permanent settlement.

(a) Emigration

112. Recent increases in the number of people emigrating must be seen against this historical and cultural background. Nevertheless they are a cause for concern. Added to the traditional reasons for movement is a degree of uncertainty about the future and the search for some sort of insurance policy. It would be helpful to have accurate statistics to assess the real nature of the problem. But these are hard to come by. We do not keep a record of the reasons why people leave Hong Kong nor of how long they propose to be away.

113. To get a better understanding of the problem, a Government task force was set up earlier this year to gather information about emigration. Their estimate, and I stress that it is no more than an estimate, is that some 30,000 people left

in 1987, while at the same time about 3,000 former emigrants returned using their old Hong Kong travel documents. In addition an unknown number probably returned using their newly acquired passports. The task force estimates that some 45,000 people will emigrate this year. It is not possible to say with any certainty how many former emigrants will return in 1988. But it seems likely that the net outward flow will exceed 40,000.

114. These figures need to be seen in perspective. Emigration from Hong Kong has always fluctuated a great deal. For example, in the mid-1970s, the average net outflow was about 38,000 people a year. The latest forecasts should be set against this background although they do of course represent an increase compared with the period 1981 to 1986, when it is estimated that on average 20,000 people a year emigrated. It is also important to note that the estimates I have quoted include all members of the family, from the elderly to the very young. Only just over half of those emigrating are in full-time employment. Of these, less than half are in professional, administrative or managerial positions. It is therefore not correct to assume that 45,000 professionals will leave Hong Kong this year. The true figure is less than a quarter of that.

115. Another significant factor is that opportunities for emigration are probably higher now than they have ever been. Destination countries with a global quota system have increased their overall number of places, thus making more room for Hong Kong people. In one significant case, where there is a country by country quota, Hong Kong's share has been increased. Moreover, the points systems operated by some destination countries give strong preference to the better educated and in Hong Kong we have a large number of people who are well educated.

116. Now that we have a better idea of the numbers involved, the next step is to analyse the problem as carefully and accurately as we can and then decide what we can and should do about it. I shall begin by stressing what we will not do. There is no question of interfering in any way with the freedom of people to travel and settle elsewhere. This freedom is fundamental. Its continuation after 1997 is also guaranteed in the Joint Declaration.

117. We need to obtain as much practical information as possible about the qualifications and professional experience of those who are leaving. We can then make sure that our education and training programmes provide a sufficient flow of qualified people to fill the gaps. At present the evidence suggests that the overall

number of new university graduates each year exceeds the number lost to emigration. We must make sure that this continues to be the case and that the new graduates have the knowledge and skills we need, although of course a fresh graduate gained does not equate immediately with an experienced person lost.

118. We also need to consider what can be done to make it easier for people to return. Many people who have moved abroad remain strongly attached to Hong Kong and our unique way of life. No wonder. Other places seem tepid by comparison. Moving away from family and friends and settling in an alien environment is no easy matter. But are there any obstacles to their coming back which we can remove? For a start, we are looking at the need for more international schools to cater specifically for children who return from overseas with their parents. Such schools would make it easier for children who have started their education abroad to continue it in Hong Kong. We are also looking at how to improve contact with Hong Kong people who have moved overseas and who may be thinking of returning. We need to keep former residents up to date with what is happening in Hong Kong, the investment opportunities and the continued attractions of living and working here.

119. Emigration is not a short term phenomenon. It is likely to continue. We must face up to it realistically and deal with it in practical ways. The more we do to make Hong Kong a better place to live in, by maintaining our buoyant economy, by improving education, housing, the environment and the quality of life, the less likely people are to want to cut themselves off from their roots and leave this remarkable territory to which they are so deeply - and rightly - attached.

(b) Illegal Immigration

120. Just as emigration is a long standing historical phenomenon, so is immigration, both legal and illegal. Earlier this year illegal immigration was reaching serious levels. In May we were returning an average of 100 illegal immigrants a day to China. Such large numbers represent a serious problem. Illegal immigrants who can never legitimize their position are all too easy a prey for criminal elements and may turn to other illegal activities themselves. To curb the number of illegal immigrants entering Hong Kong, the Government have since May prosecuted groups arrested at their places of employment, as well as employers found aiding and abetting them. This measure has proved effective. There has been a sharp drop in the number of illegal immigrants arrested on entry. But we must maintain our vigilance. We must continue to be active in deterring would-be illegal immigrants.

(c) Immigration Control

121. For legal travellers, who are of course the majority of the huge numbers of people who enter and leave Hong Kong every day, significant improvements are in hand to simplify and speed up immigration procedures. Computerised immigration control was introduced at Kai Tak on 1 August. This has resulted in a welcome increase in the speed with which Hong Kong residents can be processed. It has also been possible to reduce the waiting time for visitors to the territory. But the situation is still far from ideal for a major centre of business and tourism such as Hong Kong.

122. Two new immigration control points, at the China Ferry Terminal and the Lok Ma Chau border crossing, will be computerised in December this year and in mid-1989 respectively. Adult Hong Kong residents will then be able to use these departure points without having to carry Hong Kong re-entry permits. This will benefit the many residents who visit China - some 16 million journeys a year at present.

(8) VIETNAMESE BOAT PEOPLE

123. For 13 years Hong Kong has had to cope with the problem of Vietnamese boat people. We have a record to be proud of. Since 1975, 133,000 boat people have arrived in Hong Kong. In 1979 alone almost 69,000 came here. None of them has been turned away. But, as the years have passed, our community has found it increasingly hard to accept that this phenomenon has turned out to be not a short term emergency but a continuing outflow.

124. At the UNHCR organised conference on refugees in Geneva in 1979, there was an understanding that all boat people leaving Vietnam would be classified as refugees. The places where they arrived would give them temporary shelter: countries of resettlement would provide a long term home. We in Hong Kong have been prepared to play our part by providing temporary shelter on the basis that other countries were prepared to offer permanent re-settlement.

125. In recent years it has become apparent that this complementary arrangement has broken down. In 1987 the number of boat people resettled from Hong Kong fell by 42%. In the same period the numbers arriving here increased by 65%. In addition,

the type of people who were arriving changed. They are now almost all ethnic Vietnamese, most of them from what was formerly North Vietnam. Many of the resettlement countries have questioned whether these people are not economic migrants rather than refugees as defined under accepted international criteria: they have been unwilling to provide resettlement places for them. Most Vietnamese boat people do not want to stay in Hong Kong. They are seeking a new life overseas, in the United States, Canada or Australia. The tragedy is that doors are no longer open for them. They are people on a journey to nowhere.

126. It was against this background that the Government introduced a change in policy on 16 June. Since then all boat people arriving from Vietnam have been carefully screened. Those who are identified as genuine refugees can remain in Hong Kong until they are resettled overseas. Those who are not must be returned to their country of origin, as is the case with illegal immigrants anywhere in the world. Their repatriation to Vietnam must of course be under conditions that are acceptable to us and the international community.

127. In deciding refugee status, we follow guidelines established by the United Nations High Commissioner for Refugees (UNHCR). In addition, under a recently concluded understanding, we have invited the UNHCR to monitor our procedures and provide advice to people who wish to appeal against decisions to refuse them refugee status. The UNHCR have also agreed to provide funds for the care of all Vietnamese boat people in Hong Kong, whatever their status. This will reduce the cost borne by Hong Kong by some \$150 million a year.

128. The central element of our policy must remain the search for durable solutions. For those who are screened as economic migrants, the only solution is repatriation. Starting such a programme is the main objective of our discussions with the Vietnamese Government. We made some progress in the first round of talks in August. We hope to make more in the second round taking place in London this week. The sooner we can start returning some people to Vietnam, the quicker the message will get through that the only way to leave Vietnam is by means that are legal and safe - the Orderly Departure Programme.

129. For those who are defined as refugees - some 15,000 who were here before mid-June plus those who arrived after that date and are found to be genuine refugees - our aim remains to find resettlement places overseas. We will continue to press for more generous treatment from resettlement countries.



130. While we await the return of economic migrants to Vietnam and the transfer of refugees to resettlement countries, we must continue to provide shelter for large numbers of boat people. We are doing this to the best of our ability in the difficult circumstances of a greatly increased inflow. It has placed a heavy burden on our facilities and on those Government departments who deal with the boat people. All concerned have responded magnificently to the crisis. I would like also to record my appreciation of the work of the UNHCR and the voluntary agencies who contribute significantly to the welfare of these unfortunate people.

131. As part of the policy change announced on 16 June we undertook to liberalise the conditions of those who are defined as refugees and are awaiting resettlement. This will be a gradual process. It will result in the UNHCR taking over full responsibility for the camps. It will enable refugees to acquire educational qualifications and work skills which will make them more acceptable to resettlement countries. Job placement locally will be carried out with care by the UNHCR. There will be no sudden flooding of the labour market, or the streets, by people who were formerly in closed camps. The new centres, once they are opened, will be properly managed. Their existence will not affect the services available to local people. Where extra policing is required, this will be provided.

132. In dealing with the influx of boat people from Vietnam the Government will be both fair and firm. We must be conscious both of humanitarian principles and the needs of our own community.

#### (9) HEALTH AND SOCIAL PROGRAMMES

133. Our health services and social programmes are another area of Government activity which has a profound effect on the life of our community.

##### (a) Medical and Health Services

134. We can be proud of our record in providing medical care, and in improving public health. But the enormous expansion of medical services in recent years has made it increasingly difficult to manage their delivery through the normal Government organisational structure. This is the reason for setting up a new Hospital Authority. Planning and preparatory work for this is now going ahead. A Provisional Hospital

Authority was established earlier this month under the chairmanship of Sir Sze-yuen CHUNG. Its main task is to develop proposals for the integration of Government and subvented hospitals under a new management structure.

135. I should like to make it clear that the Government's commitment to maintaining public health will not in any way be reduced. Our aim is simply to ensure that the very substantial resources allocated to the medical programme are used in the most efficient and cost effective manner. The new authority will benefit from having access to management skills and experience available in the private sector; it will enjoy greater flexibility in the use of resources; and, very importantly, its existence will encourage public participation in an area which is of great concern to the community.

136. Naturally, staff of the Medical and Health Department are concerned about their future. They can be assured that their terms and conditions of employment under the new Hospital Authority will be no less favourable than at present. Also that they will be consulted before any changes are made. Those in the subvented hospital sector have generally welcomed the proposal to establish a Hospital Authority. They see it as a measure which will ensure a more equitable sharing of resources. For their part, they can be assured that their separate traditions and characteristics will not be jeopardized.

137. I realize that the period of waiting is not easy for those who are directly affected by the changes. But in such an important field we must take the time necessary to get the best solution, both for the community as a whole and for those dedicated people who work so hard in our medical and health services.

138. Meanwhile, the Administration has been examining the working conditions and terms of service of Government doctors. There is clearly room for improvement. A package of measures is now being considered. In particular, we are examining the possibility of creating more senior posts, which would increase promotion prospects, and of providing additional remuneration for doctors who work unusually long hours. In addition, we shall be looking at post-qualification training for doctors in the context of the forthcoming report of the Working Party on Post Graduate Medical Education and Training. As the Provisional Hospital Authority has a long term interest in the well-being of our doctors, I have asked them for urgent advice on these matters. I hope that firm proposals will be made by the end of this year.

139. The expansion of the medical infrastructure continues. The 1,600 bed Tuen Mun Hospital will be completed by the beginning of next year. The Queen Mary Hospital Extension and the Pamela Youde Hospital in Eastern District will be completed in 1989 and 1991 respectively. These will provide not only a more even distribution of medical facilities in the territory, but also a large measure of relief for the severe overcrowding in our existing hospitals.

(b) Social Services

140. One of the Government's most important responsibilities is to ensure that our welfare services provide adequate levels of support for the poor and vulnerable in our society. Over the years, we have improved the range and quality of services, in step with the development of Hong Kong generally and the changing needs of our people. But we have not reached the stage where we can stand still. Hong Kong's thrusting capitalist society rewards hard work, initiative and success. Nothing we do in expanding our social services should undermine this. But there will always be people in any society who, through no fault of their own, cannot fend for themselves. Our expanding services for the very young, the elderly and the physically and mentally handicapped recognize this. There is increasing pressure to do more for these groups. As a prosperous and caring society, we must do our best to ensure that they too are able to share in the rising standards we have all come to expect.

(i) Social Security

141. An important safety net for those in need is provided by our non contributory social security system. This gives financial assistance, sufficient to meet the costs of food, accommodation and other essentials. Additional allowances are payable to the disabled and the elderly.

142. Last year I announced the introduction of increased levels of assistance and improvements to the range of benefits. Most of these were introduced on 1 April. The gradual extension of the Old Age Allowance to persons aged over 65 began in September. Those aged 68 and 69 are now eligible. People aged 67 will become eligible in April 1989. The scope of the Disability Allowance will also be significantly extended. The higher rate for people requiring constant care and attention, which is now payable to those aged over 60, will from next April be available to eligible persons aged 16 and above. This is an important step forward in helping those who cannot help themselves.

## (ii) Regulation of Private Retirement Schemes

143. Private retirement schemes and provident funds make a useful contribution towards meeting the financial needs of the elderly. At present these schemes operate without official supervision or regulation. In June, the Government published a consultative document proposing the introduction of a regulatory framework. The aim was to ensure that assets held under these schemes for the future benefit of employees were given proper protection. There has been general support for the proposed scheme, although there are divergent views on some issues such as the qualifications of trustees and the need for investment guidelines. Details of the scheme are now being finalized and legislative proposals are being drafted for introduction into this Council during the current session. I hope that the enactment of the legislation will encourage the establishment of more private retirement schemes so as to give better protection to our workforce.

## (iii) Social Welfare Services

144. There are a number of social welfare services to which we will pay particular attention this year.

145. One area of concern is the increasing number of private homes for the elderly and the variable standards of service they offer. The Social Welfare Department has just introduced a voluntary registration scheme: homes which meet approved standards will be issued with a registration certificate. Through this scheme the public will have a measure for the standard of each registered home. It will encourage those which are not up to standard to improve the quality of their services. The next step will be to make the operation of these homes subject to legislative control by 1990. In parallel, the Social Welfare Department will conduct a review of the role of private homes in the overall provision of care-and-attention places for the elderly.

146. We are also planning to build a holiday centre which would cater for the special needs of the elderly. Some old people are confined to hostels and care-and-attention homes. Others need the full time care of their relatives. Many more are unable to afford any sort of break from their daily routine. The new holiday centre will provide an opportunity for large numbers of elderly people to enjoy fresh air, exercise, and a complete change of surroundings. Construction of the project

will be funded from the Gold Coin Account.

147. Last year, I mentioned the need to improve services for vulnerable groups in the community such as street sleepers. Existing hostels for the homeless generally provide only short stay accommodation. We therefore need to look at the provision of permanent hostel accommodation in the urban area. With the support of the Social Welfare Department, the Salvation Army is going to open a hostel in Yaumatei next month as a pilot project, so as to first test the practicality of this approach. We can then see whether the scheme should be extended.

148. During the past year both my wife and I have visited many projects run by the voluntary agencies and have seen the important work they are doing. The contribution they make shows what can be achieved through a close working partnership between the Government and the welfare agencies.

#### (iv) Rehabilitation

149. Services for the rehabilitation of the disabled have developed rapidly since the publication of the White Paper in 1977. Our achievements have been considerable. But a great deal still remains to be done. Apart from meeting quantitative targets, we need also to raise the quality of our services. In particular, we intend gradually to improve the staffing levels of day activity centres; extend the Rehab Bus service; and further develop the curriculum for special education. Paramedical and psychological services for disabled adults will also be improved.

150. The provision of employment opportunities for the disabled is another major concern. We plan to expand the sheltered workshop programme and increase facilities for skill training in the next few years. The Government will also continue its efforts to make employers aware of the capabilities of disabled people, so as to increase their opportunities for employment.

151. Work on rehabilitation needs to be associated closely with policies on social welfare. In order to achieve better co-ordination, the Secretary for Health and Welfare will shortly add rehabilitation to his schedule of responsibilities.

#### (c) Labour Legislation

152. We will continue to improve our labour legislation. The aim is to achieve

a level of statutory benefits and controls governing safety, health and conditions of employment, broadly comparable to the best prevailing in the region. We have made good progress. In the past year the Occupational Safety and Health Council was established to promote a safer and healthier working environment; the Long Service Payment Scheme was extended to cover resignations on grounds of old age or ill health; and new controls were introduced over the use of dangerous substances in factories. In this session, the Government will propose legislation to protect employees' compensation in default cases; to impose a general responsibility on employers and employees for safety and health in the work place; and to introduce custodial sentences for serious lapses in industrial health and safety standards.

(10) EDUCATION

153. Education is a subject which I see as holding the key both to the upward mobility which is such an important feature of Hong Kong society and to our continuing prosperity as a community. The aim of our education policy is to provide opportunities for every child, according to his or her abilities, at a cost which both parents and the community can afford. We have made good progress over the past few years. I believe we need to do still more in the future.

(a) Schools

154. In describing the education programme a year ago, I said that the emphasis in recent years had been on the provision of as many school places as possible to meet rising demand. I added that increasingly we would need to concentrate on improving quality.

155. Language training is particularly important in a city which is essentially Chinese, but which is also an international commercial centre. We must continue our efforts to improve the teaching of both Chinese and English. Next year each secondary school with 18 classes or more will be provided with an additional graduate teacher of Chinese. As for English, a two year pilot scheme to provide secondary schools with native English speaking teachers recruited overseas was started in September 1987. Perhaps inevitably, there have been some teething problems with this ambitious undertaking. The scheme is being monitored carefully throughout the trial period before we take a decision on its future. Meanwhile, the number of local secondary school English teachers to be trained in both Hong Kong and in the United Kingdom

will be doubled: some 150 teachers will take part in the scheme next year.

156. Mother tongue teaching enables many pupils to make better progress in subjects where they might otherwise have difficulties. The Government is therefore encouraging schools to switch to mother tongue teaching. Over 100 secondary schools have opted to increase the use of Chinese as the medium of instruction this year. A further 270 are expected to do so next year. In support of this change, publishers are being helped to produce good quality Chinese textbooks and teachers are being trained in how to make greater use of Chinese in the classroom. In switching to the greater use of Chinese, we must not lose sight of the importance of a high standard of English. So these schools are being provided with additional equipment and extra English teachers.

157. Pressures on space in this crowded territory have meant that about 80% of our primary schools are bisessional; some children attend only in the morning and others in the afternoon. 460,000 primary school pupils are taught in this way. The system was introduced in the 1950s to meet the high demand for school places by maximising the use of school buildings. It has obvious disadvantages from the educational viewpoint. Our aim is gradually to phase out bisessional schools. We are now considering how, and by when, this can be done.

158. Experience in many developed countries has shown that private schools can contribute to the overall standard of secondary education. They allow a greater variety of curriculum and parental choice than is possible in a purely public educational system. Unfortunately many private schools in Hong Kong, although they have usefully filled a gap in our system, are not of a sufficiently high standard to make such a contribution. The Education Commission have now put forward a range of proposals aimed at improving the situation. These seek to raise the standard of private schools where Government buys places and ultimately to replace the present Bought Places Scheme with a system of direct subsidies to private schools which attain a good standard. The aim is to provide a strong private sector to supplement our existing system of aided and Government schools. In deciding how to implement these recommendations, the Government will take account of what is said during the current public consultation exercise.

159. In an important development earlier this year, the Government accepted the Education Commission's recommendations for strengthening the standard 2 year sixth form course. This will allow for a more varied and broadened curriculum, giving

students a greater choice and providing the possibility of a common entry point to tertiary education. It will also provide a separate level of educational attainment for students who advance beyond the Hong Kong Certificate of Education. A working group, including representatives of all types of secondary schools and the tertiary institutions, has now started work on implementing the recommendations.

(b) Higher Education

160. As Hong Kong continues to grow and prosper, there will be an increasing demand for well educated young people to fill professional and managerial positions. We will also need to train people to replace those who emigrate. To meet these demands, it is important that the Government should continue to accord a very high priority to the expansion of higher education. That is what we intend to do.

161. At present we have 36,000 full-time equivalent places in our tertiary institutions. These provide first degree courses for about 6.5% of young people in the relevant age group, and non-degree studies for another 4%. These percentages are low by international standards. The number of places in tertiary institutions therefore needs to be expanded steadily. We aim to provide 40,000 full-time equivalent places in 1991; over 48,000 in 1994; 58,000 in 1997; and over 62,000 by the turn of the century. In other words, tertiary education will be growing at a rate of 5% a year. By the year 2000, more than 14% of young people in the relevant age bracket will be able to pursue first degree courses and 6% to pursue studies at the non-degree level. This will be an impressive achievement. It will be made possible largely through the opening of the Hong Kong University of Science and Technology in 1991.

(i) Structure of Tertiary Education

162. In its recent report, the Education Commission recommended a common entry point to tertiary education after 2 years' sixth form education. It also recommended that the length of first degree courses at all tertiary institutions should in principle be the same for any given subject, regardless of the institution where it is being studied. The Commission's recommendations have stimulated some lively discussion during the four month public consultation period, which began in mid-June. Few people have challenged the idea of a common entry point. Attention has focussed on whether the ideal length for undergraduate courses is three or four years.



163. In its report the Commission made it clear that it did not believe an absolute case could be made out either for three or four year courses, or indeed for any particular course length. Institutions offering both three and four year courses have proved themselves able to produce graduates of a good standard. The Commission has recommended that whether particular courses should last three, four or more years should be determined by the tertiary institutions themselves, subject to the approval of funds. It has also given a clear recommendation that, in general, where more resources for tertiary institutions are available, the first priority should be to increase the number of students entering tertiary education each year.

164. The period of public consultation on the Commission's report ends this week. Members of the Council have already requested a debate on the subject. The Government will take careful account of all the points made in that debate and during the period of public consultation. The decisions to be taken are important ones. The central issue is how we can best use our resources to provide the form of education most suited to Hong Kong's needs now and in the medium term future.

(ii) Open Learning Institute

165. We must also cater for the needs of those who have not had the opportunity to benefit from higher education, as well as those who need to learn new skills. This will be a role for the Open Learning Institute. The Planning Committee for the Institute was appointed in January this year under the chairmanship of a member of this Council, Mr CHENG Hon-kwan. It has already made good progress. A director will be recruited in the near future and legislation establishing the institute will be presented to this Council within the next few months. We expect that 3,000 students will enrol in the autumn of 1989, and that this will increase to 20,000 students by the mid 1990s.

(c) Technical Education and Industrial Training

166. Technical training is another important area of education. The Vocational Training Council makes a major contribution to ensuring that we have an adequate supply of trained manpower to sustain the growth and competitiveness of our commerce and industry. It operates eight technical institutes with 62,000 full-time and part-time places at both craft and technician levels. More than 19,000 students graduate from the institutes each year. Three of these institutes are now being expanded so that another 3,000 full-time and part-time places will be provided

by 1990.

167. In addition, the Council operates 16 industrial training centres with 20,000 places. A new training centre offering courses in wholesale, retail, import and export trades, will open in 1990. I hope that employers will make full use of the training facilities provided by the Council. Also that they will tell the Vocational Training Council if they have specific training needs which are not being catered for at present.

#### (11) CULTURE AND RECREATION

168. Hong Kong's growing prosperity means that more time and more resources are available for cultural and recreational pursuits. Improving our facilities in these fields is an important part of improving the quality of life for our community.

169. The Government's policy is to maximize the opportunities for people to take part in cultural and recreational activities. We aim also to ensure that performances of the highest standards are available for those who wish to watch them. The importance that we attach to these aims is shown by the creation of the new policy branch to which I have already referred. The branch will work closely with the two Municipal Councils, which make a major contribution both to the arts and to the provision of facilities for recreation and sports. I am pleased to say that this contribution has recently been extended by the Urban Council taking on responsibility for the Hong Kong Philharmonic, a move which will ensure the orchestra's financial future.

170. When the Hong Kong Cultural Centre opens at the end of 1989, we will have more than 21,000 seats in theatres and concert halls. This is more than 5 times the number available in 1978, a rate of growth probably unmatched anywhere in the world. We must now ensure that these seats are filled. This means organizing high quality performances by both local and overseas artists.

171. The Government have accepted in principle some of the proposals made by the Council for the Performing Arts to increase the level of Government funding for the arts in the next financial year. But it is wrong for performing groups to rely too heavily, or too completely, on public funds. We therefore aim to encourage the private sector to increase its sponsorship of the arts. The Council for the Performing Arts is being asked to put forward proposals to achieve this, drawing on

experience elsewhere in the world where private funding for the arts has proved remarkably successful.

172. It is also time to take stock and to make plans for the future in the fields of recreation and sport. A consultant has recently carried out a thorough review of sports administration. His report was published in May. The Government are now studying his proposals in the light of the public comments they have generated.

173. For many years we have concentrated on encouraging maximum public participation in sports and recreation. We now need to provide more opportunities for the development of those with particular skills and potential. To help in this, a Sports Aid Foundation has been set up with the assistance of a \$10 million donation from the Royal Hong Kong Jockey Club. The first scholarships were awarded in June. These will enable promising sportsmen and women to spend more time on their training and so reach higher standards. Excellence of this sort not only benefits the individual; it spreads out to raise standards in the community as a whole.

## (12) IMPLEMENTATION OF THE JOINT DECLARATION

### (a) Relations with China

174. We have continued to build up and develop contacts with China at all levels. I visited Peking, Guangdong and Shanghai at the end of last year. The Chief Secretary went to Peking and Chengdu in May 1988. Later this year I shall make a further visit to Peking and go also to Fujian.

175. In June we were able to welcome the Director of the Hong Kong and Macau Office of the State Council, Mr JI Pengfei, on a second visit to Hong Kong. I was also pleased that Vice Premier TIAN Jiyun spent 5 days here in May. He is the most senior Chinese leader to visit Hong Kong since 1949. I see such high level visits as being helpful to both sides. They enable Chinese leaders to see for themselves how Hong Kong works; and they enable many people in Hong Kong to meet senior Chinese leaders personally.

176. Our relations with our neighbours in both Guangdong and the Shenzhen Economic Zone have continued to develop. I visited Shenzhen in March this year and the Mayor of Shenzhen accepted my invitation to pay a return visit to Hong Kong in May. Both official contacts, and the multitude of private contacts which are now a regular part

of our relationship with the Mainland of China, are important in building greater understanding on both sides and laying lasting and mutually beneficial foundations for the future.

(b) Draft Basic Law

177. A development of great importance to the future of Hong Kong was the publication of the first draft of the Basic Law in April. This long and complex document has emerged from a two-year drafting process in which Hong Kong people played an important part. The Chinese Government have made it clear that they attach great importance to the views of the people of Hong Kong on the draft. Mainland members of the Drafting Committee have visited the territory twice. They have shown a welcome willingness to listen to views on the first draft and to take them into account when it is revised.

178. The second draft of the Basic Law will be put to the Standing Committee of the National People's Congress next year and will then be published for further consultation. The final version is scheduled for promulgation in 1990. The Basic Law will set out the constitutional framework for the Hong Kong Special Administrative Region for the 50 years after 1997. But before that date - indeed as soon as it is published - it will be a crucial factor in maintaining confidence in Hong Kong's future both here and overseas. The people of Hong Kong will be looking to the Basic Law to state in clear and workable terms the details of the policies set out in the Joint Declaration and its annexes, including the provision of a high degree of autonomy under the formula of "one country two systems". So too will the international business community whose investments are so important to Hong Kong.

(c) Joint Liaison Group/Land Commission

179. The Joint Liaison Group (JLG) and the Land Commission have both continued to make good progress in implementing the Joint Declaration and have registered a steady stream of practical achievements in their respective fields. I will list some of these.

180. Through the work of the JLG there is now agreement on transitional arrangements for all Hong Kong travel and identity documents, thus allowing documents issued before 1997 to continue to be used after the establishment of the Hong Kong SAR. Agreement has also been reached on Hong Kong's continued participation after

1997 in eight more international organisations, including the International Labour Organisation, the World Health Organisation, the International Atomic Energy Agency and Interpol.

181. As a result of agreement reached at the JLG, Hong Kong has concluded its own Air Service Agreements with Switzerland and Canada. Other separate agreements are being negotiated. Both sides have also reached agreement on the principles underlying future arrangements for the surrender of fugitive offenders, and on improvements to the terms of service of the Judiciary, which have implications beyond 1997. They have also agreed that a new unit of the police force, to which I have referred earlier, should in future take over responsibility for preventing illegal entry into Hong Kong.

182. One important new area that the JLG has been considering is the localisation of UK legislation which now applies to Hong Kong. Changes will have to be made so that Hong Kong will have its own laws covering the same ground as the existing UK legislation. Agreement has been reached on the principles which should govern the localisation process. Members will be asked soon to consider the first item of this localised legislation, which deals with Admiralty jurisdiction.

### (13) CONCLUSION

183. I have tried to paint a picture of Hong Kong as it is: a dynamic, bustling society with a remarkable record of economic growth an