

OFFICIAL REPORT OF PROCEEDINGS

Wednesday, 10 May 1989

The Council met at half-past Two o'clock

PRESENT

HIS EXCELLENCY THE GOVERNOR (PRESIDENT)

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

THE CHIEF SECRETARY AND THE FINANCIAL SECRETARY\*

THE HONOURABLE PIERS JACOBS, O.B.E., J.P.

THE ATTORNEY GENERAL

THE HONOURABLE JEREMY FELL MATHEWS, C.M.G., 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 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, O.B.E., J.P.

THE HONOURABLE CHENG HON-KWAN, J.P.

THE HONOURABLE CHUNG PUI-LAM, J.P.

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

THE HONOURABLE HUI YIN-FAT, O.B.E., J.P.

\*The Financial Secretary doubled up as Chief Secretary.

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 SZETO WAH

THE HONOURABLE TAI CHIN-WAH, J.P.

THE HONOURABLE MRS. ROSANNA TAM WONG YICK-MING, J.P.

THE HONOURABLE TAM YIU-CHUNG

DR. THE HONOURABLE DANIEL TSE, O.B.E., J.P.

THE HONOURABLE ANDREW WONG WANG-FAT, J.P.

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 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.

THE HONOURABLE ALISTAIR PETER ASPREY, O.B.E., A.E., J.P.  
SECRETARY FOR SECURITY

ABSENT

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

THE HONOURABLE POON CHI-FAI, J.P.

PROF. THE HONOURABLE POON CHUNG-KWONG, J.P.

IN ATTENDANCE

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

Papers

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

Subject

Subsidiary Legislation

L.N. No.

Eastern Harbour Crossing Ordinance Harbour Crossing Road Tunnel Regulations 1989.....	128/89	Eastern
Import and Export Ordinance Export (Fees)(Amendment) Regulations 1989.....	129/89	Import and
Telecommunication Ordinance Telecommunication (Amendment) Regulations 1989.....	130/89	
Holidays Ordinance Holidays Order 1989.....	131/89	General
The Hong Kong Association of Banks Ordinance The Hong Kong Association of Banks (Replacement of Schedule) Order 1989.....	132/89	
Public Health and Municipal Services Ordinance Slaughter-houses (Regional Council) (Amendment) By-Laws 1989.....		

Sessional Papers 1988-89

No. 69 -- Kowloon-Canton Railway Corporation  
Annual Report 1988

No. 70 -- The Government Minute in response to the Public Accounts  
Committee Report No. 12 of January 1989

Address by Member

Kowloon-Canton Railway Corporation Annual Report 1988

FINANCIAL SECRETARY: Sir, in accordance with section 4(5) of the Kowloon-Canton Railway Corporation Ordinance, the annual report and accounts of the Kowloon-Canton Railway Corporation for the year ending 31 December 1988 are tabled today.

The corporation enjoyed a successful year in 1988 with a total revenue of \$1.4 billion, representing a 49% increase over 1987. Profits rose to \$563 million in 1988, assisted by a windfall of \$239 million from property development above the light rail terminus at Tuen Mun Pierhead. Net profit, exclusive of property, rose by some 17% to \$324 million.

In addition to returns from property development, the corporation has made significant gains in its commercial activities. Revenue from this source in 1988 was well over \$106 million.

Total net assets increased during the year from \$3.2 billion to nearly \$4 billion,

while borrowing was contained within \$1.5 billion. These encouraging returns have enabled the corporation to create a Development Reserve of \$270 million, from which future infrastructural improvements and expansion may be partly funded.

All areas of activity of the corporation saw strong performance in the past year. The Heavy Rail Division has grown from a small railway transporting 40 000 passengers a day before electrification to a mass carrier of nearly 500 000 passengers a day. Growth of 14% was achieved during the year and 153 million journeys were undertaken. Trips on cross-border travel at Lo Wu also increased by 16% to 27 million.

To cope with this level of demand, train capacity was enhanced by 23% when delivery of 75 cars was completed in mid-1988. A further order of 54 cars, to be delivered during the next 18 months, has been placed to meet the increasing need. In addition, work began last month on a multi-million-dollar redevelopment of the workshop and depot facilities at Ho Tung Lau to cater for the expansion of the train fleet and the accompanying maintenance work. A new station at Tai Wo was opened on 8 May 1989 to serve the growing population at Tai Po north.

Freight traffic on the railway continued to grow during the year. While in-bound cargo dropped by 10%, this was more than offset by a 30% growth in the more profitable outbound traffic.

Phase I of the Light Rail Transit System was completed on time and within budget in August 1988 and it began operation on 18 September 1988. Five rail and several feeder bus routes are now in operation. By the end of 1988, the system carried over 180 000 passengers per day compared with 140 000 previously carried by the internal bus network. In addition, some 40 000 passengers a day were making use of its feeder bus services.

In the first four months of operation, the Light Rail Transit System suffered an operating loss of \$32 million. The corporation is now conducting a full-scale study to identify ways of improving the viability of the system. Despite teething problems, I am confident that the Light Rail Transit System will soon establish itself as an essential service to the people in the north western New Territories.

The Kowloon-Canton Railway Corporation has continued to move from strength to strength and has demonstrated its success in providing high quality transport services to the community. I would like to thank the chairman and the board, and

the management and staff of the corporation for what has been achieved during the past year.

Motion

#### TRAFFIC ACCIDENT VICTIMS (ASSISTANCE FUND) ORDINANCE

THE SECRETARY FOR HEALTH AND WELFARE moved the following motion:

That this Council approves an amendment to the Outline of Traffic Accident Victims Assistance Scheme.

He said: Sir, I rise to move the motion standing in my name on the Order Paper.

The aim of the Traffic Accident Victims Assistance (TAVA) Scheme is to provide immediate financial assistance to victims of traffic accidents, or to their dependants in the case of death. The Traffic Accident Victims (Assistance Fund) Ordinance establishes the fund from which assistance is granted, and provides for the raising of levies for the purpose of financing the fund.

Members will recall that the Traffic Accident Victims (Assistance Fund) (Amendment) Bill was passed by this Council on 3 May. In moving the Second Reading of the Bill, I explained that its main purpose is to extend the Ordinance to light rail vehicles operated on the North-west Railway so that victims of accidents involving light rail vehicles may apply for assistance from the fund. I also stated that the Bill contained a provision which would enable persons who have been injured in an accident involving a light rail vehicle since public trials on the North-west Railway began on 1 March 1988 to be eligible for assistance from the fund.

To enable victims of accidents involving light rail vehicles which took place more than six months ago to apply for assistance from the fund also requires an amendment to the administrative document which governs the operation and eligibility criteria for assistance under the scheme. This document, which was approved by resolution of this Council under section 4 of the Ordinance, stipulates, amongst other things, that applications for assistance must be submitted within six months of the date of the accident. It is proposed, therefore, that this document be amended so that persons who have been injured in a traffic accident on the North-west Railway



since 1 March 1988, are not subject to the six-month application rule. The relaxation of this rule would apply only to accidents involving a light rail vehicle, and not to accidents involving any other class of vehicle. It is further proposed that this amendment would expire on 1 September 1989, which will give the injured persons concerned or their dependants more than three months within which to submit an application.

Sir, I beg to move.

Question proposed, put and agreed to.

Second Reading of Bill

APPROPRIATION BILL 1989

Resumption of debate on Second Reading which was adjourned on 27 April 1989

SECRETARY FOR EDUCATION AND MANPOWER: Sir, I made the mistake of being off sick on the day when the Officials met to discuss their responses. As a result I found that I had apparently volunteered to speak first.

Education: quantity and quality

Sir, in my reply to your speech at the opening of this Session, I stated my belief that no theme was more important than increasing educational opportunities and improving educational quality. I said that this was likely to be a recurring theme in the years ahead and I note that Members have indeed made frequent reference to it in this debate.

Our massive expansion of tertiary education, to which I referred in November, continues. In the schools, where educational opportunities are already adequate, we are making improvements to the quality of education. Further improvements will be the theme of the Education Commission's Report No. 4, which we hope to publish later this year.

Sir, I will now respond briefly to the more specific points raised by Members before turning to labour policy.

## Pre-primary

Several Members urged greater government assistance to the pre-primary services. Traditionally kindergartens have been provided entirely in the private sector, and when the Education Commission studied the matter in 1986 it concluded that this should not change. The commission did however make recommendations for improving the standards of kindergartens. After much hard thought and detailed consideration of various options we are nearly ready to put proposals to the Executive Council.

Our priority will be to ensure that all kindergarten teachers receive basic training and that trained teachers are properly paid. Members have suggested that fees should be allowed to rise to enable operators to improve their standards. The Director of Education does in fact already approve fee increases to cover improved standards. I nevertheless agree that in principle market forces are a better method than government regulation and we will examine the practical implications of a relaxation in fee control.

We must ensure that no child is deprived of a kindergarten place because the family cannot afford the fee. Some Members criticized the fee assistance scheme for being too mean. The number of parents benefiting from fee assistance is related to fee levels and will rise automatically as fees increase to pay for improved standards. The Director of Social Welfare is, moreover, reviewing the basis on which assistance levels are set, and some changes may be possible. The procedures involved in applying for assistance have also been criticized. I agree that they should be simplified and we are now looking into how this can be done.

## Primary

Several Members have again urged fast progress towards whole-day primary schools. As I said in this Chamber in April, complete conversion to whole-day operation would require up to 170 new schools. These would cost \$4 billion. Another difficulty lies in finding suitable sites, since it is not reasonable to expect primary school children to travel long distances. It may be more realistic to think in terms of converting the upper primary classes, while retaining half-day sessions for the younger children. We are working out the implications of various options.

## Secondary

Several Members made suggestions for improvements to the administration of schools. We shall certainly look at the possibility of providing computers and additional clerks in school offices. The case for providing deputy principals is also being examined.

Some of these matters of detail may be looked at by the Education Commission in its Report No. 4. But the point needs to be made that individual schools have different needs. A more general solution may be to give additional flexibility to schools in the use of resources and in school management. The Director of Education is now considering how the Codes of Aid might be liberalized for this purpose. The Direct Subsidy Scheme, proposed by the Education Commission in its Report No. 3, would also serve as an experiment in increasing the freedom of participating schools to raise and use money flexibly. We will be putting proposals on this scheme to the Executive Council in the near future.

#### Expatriate English language teachers

There has again been criticism of the Expatriate English Language Teacher pilot scheme. This scheme will be evaluated during the summer, and we must wait until then before we can claim to know whether or not it has contributed to improving English standards. We shall examine the results of the evaluation carefully before developing longer-term proposals. In the meantime, it is only reasonable to allow schools and teachers to continue to participate, if they wish.

As Members know, there is also an in-service training programme for local English teachers and this scheme includes total immersion language training in the United Kingdom. At the same time we are considering another pilot scheme to provide intensive language training in Hong Kong for local primary school English teachers.

#### Teacher training

Several Members commented on the apparent decline in the attractions of teaching as a career. Partly this can be attributed to our booming economy. We must be careful not to understate the enthusiasm and dedication of those now in the profession. However, we could perhaps enhance the quality of teaching by providing more in-service training opportunities. We have now, after consultation with the teachers unions,

worked out a programme which will double the numbers of primary teachers being retrained each year. We are also exploring how the numbers of teachers attending secondary retraining courses could be increased. Some of the wider aspects of teacher training are being examined by the Education Commission in its study of the colleges of education.

## Tertiary

When the former American president, Jimmy Carter, was told that the pyramids had taken 20 years to build, he is said to have exclaimed "I am surprised a government organization could do it that quickly". Our progress in providing tertiary education places has been equally surprising, though the product is, I hope, more useful than the pyramids. In the early sixties there was only one university with less than 2 000 places and opportunity for less than 1% of the young people in the relevant age group to start degree studies. We now provide 35 000 full-time places in five institutions with about 7% of the age group taking degree courses and 4% taking diplomas. We have plans to further expand to 62 000 places by the year 2000. A major part in this expansion will be played by the Hong Kong University of Science and Technology and this is most important in view of Members' comments on the need to train more young people for middle management and technology. In addition, the Open Learning Institute will start enrolling students before the end of this year. Its aim is to provide both degree and sub-degree courses to as many people as possible studying at their own pace.

On the need to increase research and strengthen ties between industry and education, the obvious point to make is that the governing councils of the tertiary institutions and the University and Polytechnic Grants Committee (UPGC) already include representatives of the business and industrial sectors. Furthermore, all the tertiary institutions seek to involve industrialists in identifying training requirements through advisory or curriculum development committees. We accept that the adequacy of these arrangements needs to be reviewed. The UPGC is now studying future research requirements and will discuss the issue at its September meeting. The Education Commission has been asked to conduct a study of education in relation to technology and to publish its findings next year.

## Staff recruitment at tertiary institutions

One Member referred to the important problem of recruiting and retaining teaching

staff in the non-university institutions. I appreciate the challenges posed by competition from both abroad and in Hong Kong. We are prepared to address specific problems as they arise. In our examination of pay and conditions of service for staff, we will have to take into account the existing structure of the tertiary sector as well as the implications for the public sector.

#### Financing of education

A number of Members have referred to the proportion of the total budget allocated to education. I leave it to the Financial Secretary to respond to these views. But I would like to emphasize that education continues to account for the largest single portion of the Government's expenditure. Moreover, there are always proposals for improvements and new initiatives which need to be considered. No matter how large our allocation, hard choices have to be made between competing priorities. We must always be sure that what we now start we can afford to maintain and, where necessary, expand. To help us in the increasingly difficult task of planning the financing of education, we are developing, with the help of consultants, a sophisticated computer model which will store information from all educational sectors and enable complex comparisons and projections to be made of different policy options. We hope that this model, which will be the first of its kind in the world, will be fully operational by 1991.

#### Labour shortage

Sir, I turn now from education to labour policy. There has been much discussion recently of the question of labour importation, both inside and outside this Chamber. I do not think it is necessary for me to repeat what I said last November in the policy debate. The arguments on both sides have been well rehearsed.

It is worth noting, however, that all Members who spoke on this matter in this debate agree that Hong Kong workers should share the fruits of prosperity during an economic boom, and that their wages should not be adversely affected by labour importation. This view is apparently shared by most people in Hong Kong. According to an opinion poll in a recent Radio Television Hong Kong programme, 80% of the respondents were against labour importation as a measure to solve the labour shortage problem for fear that it would affect local wages.

The Government's recent re-affirmation of its policy of labour importation control is in line with these views. While stressing that the importation of

unskilled labour will not be allowed, we will apply the policy towards skilled labour more flexibly to provide relief to areas which suffer from acute shortages. As Members know a steering group has been examining this issue and details will be announced shortly.

I would like to respond to two specific points raised by Members. The idea of a levy on imported workers is worth considering. The steering group will examine its possible implications before coming to a final view. Members have again emphasized the need for a clear dialogue between employees, employers and government officials. I fully agree on the importance of maintenance of such a dialogue and I believe that the Labour Advisory Board and its various committees provide one useful forum for such discussions. The OMELCO Manpower Panel provides another such forum. In addition there are many other opportunities for dialogue in a range of formal and informal contacts between employees, employers and government officials. I do not myself believe there is any real risk of the three groups losing touch with each other, since none is particularly shy in putting forward its views.

Sir, I support the motion.

SECRETARY FOR HEALTH AND WELFARE: Sir, I should like to begin by emphasizing the continued importance placed on meeting the needs of the aged, who represent a growing proportion of Hong Kong's population. The provision of services specifically for the elderly accounts for almost 20% of the subvention allocation for social welfare. Furthermore, nearly 70% of the total social security budget is targetted at our senior citizens. Efforts continue to expand and accelerate the provision of places in both residential and day centres for the elderly. Over the next four or five years, for example, I expect to see at least 1 000 care-and-attention places produced annually. The benefits of providing outreaching services to the elderly will be examined through two pilot schemes, details of which are being drawn up in consultation with the voluntary welfare sector.

The majority of Members who spoke on social welfare matters referred in one way or another to our system of social security. I believe that Hong Kong can be proud that it has developed such a comprehensive social security scheme, targetted at the needy and vulnerable in society, on an entirely non-contributory basis. In doing so, it has had to balance, on the one hand, concern expressed in some sections of the community that Hong Kong should beware of developing into a welfare state with,

on the other hand, equally eloquent views from other quarters that we should be moving beyond the concept of catering to those who are least able to help themselves.

The backbone of our social security system is of course the Public Assistance scheme, which is fully means-tested. The other key element in this system is the Special Need Allowance scheme which comprises the Old Age and Disability Allowances. These are designed to assist with the additional expenses associated with aging and with being severely disabled. Historically, these allowances have not been means-tested. The Disability Allowance is, however, "needs-tested" in the sense that a person must be certified by a government doctor, under tightly defined criteria, to be disabled to a serious degree.

Until 1988, the Old Age Allowance was also non-means-tested. But when we announced in 1987 a package of measures to improve social security benefits, including the phased extension of eligibility to this allowance, we proposed in turn that new applicants should be subject to an income and asset declaration. However, the concept of means-testing this allowance, even in this relatively simple form, did not find favour with a significant section of our community. Criticism in the Social Welfare Advisory Committee as well as by some Members of this Council was particularly directed at its proposed application to those aged 70 and above. In the light of these views, we subsequently decided to require only those in the 65 to 69 age group to complete such a declaration.

Concern has been expressed as to whether the rates of benefits available under our social security system are adequate. The figures quoted in this Council do not, however, reflect the full picture. The basic Public Assistance rate is designed to maintain daily living requirements such as food and clothing, but there are a variety of additional supplements to meet other essential expenditure such as rent, school fees, and so on. Taking into account payments under all the various elements of our social security system, a single person receives on average almost twice the basic Public Assistance rate and a two-member family more than twice the basic rate.

I should like to take this opportunity to re-affirm Government's commitment to our social security system, as reflected for example by the increases in expenditure on the various schemes from \$1.4 billion in 1984-85 to \$2.21 billion in 1988-89. As part of this commitment, we will continue to keep the rates of payments under these schemes under regular review to ensure that they keep fully in pace with inflation and thus maintain their purchasing power in real terms.

In response to concern over the relative proportions of the total social welfare budget which go to social security payments and to welfare services, I would simply note that any improvements to social security are considered on an equal footing with improvement to welfare services, although both of course have to compete for the allocation of resources.

Unfortunately, an additional resource constraint which we are facing in improving a number of welfare services is the shortage of trained social workers. This has been instrumental, for example, in delaying the implementation of agreed manning ratios in the provision of various welfare services and has prevented reductions in social workers' caseloads. However this manpower problem is being addressed as a matter of priority and, following Finance Committee's approval last week of the necessary funds, there will be three substantial annual intakes of additional social work students into our tertiary institutions commencing this September.

There has been a call for the increased provision of family welfare services, particularly in the new towns. To meet this growing need, the Social Welfare Department has over the past three years increased by one-third the number of Family Services Centres it operates and there are now a total of 53 such centres, run either by the department or by the voluntary sector. Since 1987 alone, five such centres have been established in the new towns and there are plans for further centres over the next two years in Yuen Long and Tsuen Wan-Kwai Chung.

Attention has been drawn to the need to expand the number of social workers who are fully equipped to undertake marriage counselling. This service is available at all of the Family Services Centres, as well as through the Catholic Marriage Advisory Council. I accept that this is specialized work which requires particular skills and we are seeking to upgrade the quality of this service through regular training programmes for caseworkers.

Another service area which has been mentioned is foster care. With regard to the adequacy of the allowances in attracting foster parents, I can advise that the monthly payments are already under review by the Social Welfare Department. Apart from a monthly maintenance grant, there is a monthly incentive payment plus an initial setting-up grant.

Turning now to rehabilitation matters, reference was made to the limited



employment opportunities for the moderately mentally handicapped. That such persons can become productive members of the labour force is indeed recognized. To this end, various educational and vocational training programmes are provided at special schools, day activity centres, sheltered workshops and other centres. The Selective Placement Division of the Labour Department organizes and promotes employment opportunities for disabled persons, including the mentally handicapped, through a variety of means including exhibitions and demonstrations, as well as seminars for employers' organizations and personnel managers of private firms. We are planning to launch a supported employment pilot scheme which will involve training of moderately mentally handicapped persons to prepare them for participation in the cleansing industry. If successful, this scheme could lead to a substantial widening of employment opportunities for such persons, as well as to an easing of the demand for sheltered workshops.

#### Medical and health services

Members have generally welcomed the intention to establish a Hospital Authority and were keen to ensure that adequate preparations were made to enable the authority to get off to a good start. Since its establishment in October 1988, the Provisional Hospital Authority has been working energetically to make preparations for the setting up of the Hospital Authority on 1 April 1990.

As an independent statutory body, the Hospital Authority will enjoy a good deal of autonomy and flexibility, which is not so readily available within the existing civil service framework. This will help to optimize the utilization of hospital resources, and to attract to and retain within the public sector well-qualified and experienced medical staff.

Concern has been expressed over the delays in implementing the staff-to-patient ratios recommended by the Medical Development Advisory Committee (MDAC). In this respect, I should point out that MDAC ratios represent the standards of patient care that one would like to achieve. In some grades it has been possible to apply these standards in full, but in others there are limitations of financial and manpower resources which mean that achievement of these targets would not be realistic except in the longer term.

As regards medical equipment, each application for equipment, whether from government or subvented hospitals, has to be vetted against operational needs, other

competing applications and the availability of financing resources. As financial resources are not unlimited, inevitably not all such applications can be approved. As regards the suggestion that the MDAC should assess and categorize the equipment needs of all public hospitals, I believe that this task would be outside the scope of the MDAC, which is to advise generally on the development of medical and health services.

I am very conscious of the medical profession's concern to improve arrangements for post-graduate training. Careful thought is being given to the report by the Working Party on Post-graduate Medical Education and Training. The proposal in this report for an Academy of Medicine to be responsible for the further training of doctors to specialist level was endorsed by the MDAC in March this year. I am confident that an announcement of the Government's intentions in the matter will be made in a few months' time.

Public medical services in Hong Kong are heavily subsidized and the charges levied are very low and can be easily afforded. Regarding the suggestion that such services should be provided free to the elderly, the majority of the local population, including our senior citizens, should have little difficulty in paying the charges, and there seems to be no reason for not levying these charges on those who can afford them. Anyone who is in genuine hardship can have these charges waived.

The present definition of non-entitled persons was designed mainly to stop residents of neighbouring countries from coming to Hong Kong specifically to take advantage of the more advanced and heavily subsidized treatment and facilities in our public hospitals. Regarding the proposal to extend the concept of non-entitled persons to include imported workers, we should bear in mind that our immigration laws require that it must be demonstrated that a suitable local candidate is not available to fill the post for which a foreign worker is proposed. Thus, in that sense, the foreign workers contribute to the economy in ways for which local manpower is insufficient, and they are subject to the same laws and obligations including taxation law as other Hong Kong residents. In these circumstances, I doubt whether we should deny them public medical facilities on the same terms as other Hong Kong residents.

Members have raised the need to provide reasonable benefits within the public hospital system for the middle-income group. There are plans to introduce a limited number of B class beds in a few pilot projects. Occupying this new category of bed will cost patients somewhat more, but they will enjoy more privacy and a better

environment, although the same standard of medical treatment will continue to apply to all categories of patient. Care will be taken to ensure that the implementation of this scheme will not be at the expense of third class beds.

Whilst we recognize the role of private hospitals, we do not consider that reduction of land premium would be sufficient or an appropriate means to encourage new private hospital development. Of greater importance are the high costs of building and equipping such hospitals as well as a long period of cost recovery.

Some Members were anxious that the needs of primary health care services should not be overlooked. We are committed to undertake a comprehensive review of primary health care services. This review will cover the various aspects of primary health care and will focus on general out-patient services and the role of Government in providing such services to the community. It will also consider the interface between out-patient services and hospital in-patient care provided by the future Hospital Authority.

With these remarks, Sir, I support the motion.

SECRETARY FOR LANDS AND WORKS: Sir, in supporting the motion I would like to concentrate my remarks on pollution, rural development, the property market and the Buildings and Lands Department.

I will only mention pollution very briefly here today, because as I announced here, on 16 November last year, Government will be shortly publishing a White Paper on pollution. This will be released on World Environment Day, the 5th of June. I understand that it will be debated in this Chamber in July, which will give me an opportunity to speak at greater length about it. So I will not dwell on it now -- except to say to those who have sought assurances for more legislation, funding and resources, that Government is seriously committed to the environmental pollution programme, and acknowledges that these programmes have to be funded and that more effective legislation is required, and the resources to enforce it.

Fairly closely related is the Government's commitment to rural improvement and planning set out in the recently released strategy document. The strategy aims at building proper rural infrastructure, which will help control floods and pollution and provide proper access both to existing villages and rural settlements and to areas

suitable for rural development. To do this it is necessary to build up a team centred on the Territory Development Department to concentrate on the rural construction programmes and also to introduce tighter planning control over both the areas we would wish to develop and those we would wish to conserve. Rural development can be centrally planned only up to a point; its success will depend heavily on local co-operation and initiative. This is why the consultation stage of this strategy is important and I am happy to say that our first discussion of the strategy with the Heung Yee Kuk seemed very promising.

Sir, in Hong Kong where people generally cannot wait for anything, rents tends to reflect the immediate relationship between supply of and demand for available accommodation rather than a complex balanced judgment comprehending the prospects of future supply. So this year's land sales figure small in this year's rents. Nevertheless the medium-term prospects for releases of new land for commercial offices would not on their own satisfactorily meet a simple projection of present day demand, and the real estate market is clearly taking what steps it can to increase supplies by other means. Over the last five years the Town Planning Board has been agreeing a fairly steady stream of conversions of Residential A lots to office use along the Mass Transit main lines. It has however been more hesitant to rush into a large-scale conversions of factory lots to offices, because of the general uncertainty of industrial demand in a changing scene. Nevertheless some changes of zoning to commercial use have been agreed in areas where industry is no longer really compatible with the environment and these are likely to continue.

Sir, the line dividing ordinary dealing in real estate, which we must assume is good, from property speculation in some bad sense has always been very fine. There is certainly evidence of wholesale buying of property on a perfectly legitimate basis, but there has been little real evidence recently of malpractice.

As regards the efficiency of the Buildings and Lands Department, I accept, as does the Director of Buildings and Lands, a Member's exhortation that we should look to our procedures, particularly as regards small house land grants and construction and the payment of resumption compensation, to ensure they are the speediest and most efficient possible. By and large, I believe we get through a great deal of land administration business of all kinds without difficulty, and a great deal faster than a great deal of other administrations, but there will always be problem cases. In the director's regular discussions with the Heung Yee Kuk for instance, procedural questions and other related matters including any particularly difficult cases can

be examined to identify the problems and devise solutions.

The New Territories of the late 1980s and the 1990s and its land administration problems and requirements cannot, I fear, be compared with the 1960s and 1970s. Apart from the development of the new towns, the pressure, both economic and social, for development, whether for small houses in already expanded villages or for non-agricultural uses in agricultural areas, is phenomenal. And staff, though greatly increased over that of the '60s and '70s are still short. So there must be priorities and some cases inevitably have to take their turn.

Sir, I support the motion.

SECRETARY FOR TRANSPORT: Sir, I am much encouraged by the very positive comments made by many Members on the importance of a comprehensive transport system.

Indeed, transport facilities play a vital role in our vibrant and energetic community: in improving the mobility of people and goods; providing an essential link between the new towns and the metropolitan area; facilitating the dynamic growth of economic activities and upgrading the quality of life. An efficient transport system is clearly a prerequisite of land use development and a key factor in influencing the locations of expanding social and economic activities.

An adequate transport infrastructure is an important component of our transport system and Government is firmly committed to its continued development. Over the past 10 years, for example, more than \$38 billion has been spent in expanding our road and railway network: \$16 billion in the construction of highways and \$22 billion in the development of a comprehensive railway network. As a result, 900 lane kilometers were added to our highway network, including the Island Eastern Corridor, the Tolo Highway, the dualling of Tuen Mun Highway, the West Kowloon Corridor and the Second Tsing Yi Bridge. New and improved railway systems, namely the Mass Transit Tsuen Wan and Island Lines, the modernized Kowloon-Canton Railway and a Light Rail Transit System for the north-west New Territories were also completed. It would be difficult to imagine what life would be like without our modern railways and highways.

That the momentum of our building programme is maintained is best illustrated by the total value of all public and private highway-related investments, currently under construction or committed for completion before 1992, which stands at nearly \$23 billion. Facilities now under construction include the Eastern Harbour Crossing,

Tate's Cairn Tunnel, Kwun Tong Bypass, Route 5, Junk Bay Tunnel, the final stages of the New Territories Circular Road and the new border crossing at Lok Ma Chau. Many of these projects are not only essential for alleviating congestion on some of our major corridors and for the continued growth of our economy, but also in maintaining Hong Kong's unique position as an important trading partner of China, a point rightly emphasized by some Members.

Sir, we are also conscious of the need to plan ahead with our transport infrastructure. It is for this reason that the Second Comprehensive Transport Study (CTS-2) was commissioned in 1986 to forecast the transport demand and traffic conditions up to the end of the century and to identify the transport infrastructure projects necessary to help meet the demand. An essential feature of the study is the development of a computerized transport model which can be updated regularly to take into account future changes in policies, plans and circumstances. Important data such as the locations and development of future port and airport will be fed into the computer model so that an optimum and practical road and rail network can continue to be devised to cope with changing needs.

I hope to table in this Council, Sir, very soon a Green Paper on transport policy which, among other things, will outline a package of options for the infrastructure building programme identified in the CTS-2. The major trunk roads and railways recommended include:

- (a) Route 3 from north-west Hong Kong Island to Yuen Long to provide a high capacity link between the border crossing at Lok Ma Chau and the container port, and the urban areas of Kowloon and Hong Kong;
- (b) Route 7 from Causeway Bay along the northern and western coast of Hong Kong Island to Aberdeen to take the through traffic away from the primary distributors and local roads;
- (c) a new route extending the Hung Hom Bypass from Tsim Sha Tsui to Kwun Tong;
- (d) a Mass Transit Railway extension from Lam Tin to Junk Bay;
- (e) a new railway linking the north-west New Territories with the urban area; and
- (f) a new rail urban harbour crossing.

This ambitious building programme should also provide ample opportunity for the private sector to take part in the financing, construction and operation of components of this programme. We have had excellent examples of successful private sector involvement in transport projects. The present Cross Harbour Tunnel has been in operation for over 15 years. In the coming summer, we will be served with a new Eastern Harbour Crossing, a combined road and rail tunnel linking Quarry Bay with Cha Kwo Ling. The Tate's Cairn Tunnel on which work started last July will come into operation in mid-1991. All these provided the way forward for other similar projects and demonstrated clearly the confidence of the private sector in the future of Hong Kong and in the continued growth of our economy.

Sir, some Members stressed the need for efficiency in the delivery of government services. This is particularly true in the case of transport matters where, in parallel with the expansion and improvement of our transport infrastructure, we must develop and implement management schemes to make the most efficient use of these projects. Much effort has been, and will continue to be made, in devising traffic management schemes and traffic engineering measures and in applying the most up-to-date technology to maximize the efficiency of our road system. Such schemes are often small and localized in nature, but their overall impact will ensure that our transport network and services are provided in an efficient and cost-effective manner.

Finally, Sir, in our continuous search to enhance efficiency, consideration is now being given to contracting out our vehicle examination centres and parking meters, drawing on the successful experience we have gained with the private management of government car-parks. We are also proposing to dispense with photographs in driving licences to help reduce processing time. The possibility of extending the validity period of driving licences from three years to a longer period will also be considered.

With these remarks, Sir, I support the motion.

SECRETARY FOR ADMINISTRATIVE SERVICES AND INFORMATION: Many Members touched on the subject of emigration. I propose to address all the comments made in a general statement.

Almost exactly a year ago when I spoke in this Council for the first time about emigration, our knowledge was fairly limited. We had only a rough idea of the numbers involved and were in no position to rebut the often wild speculation in the media

and elsewhere. We knew very little about the profile of those leaving. Our thinking on possible counter measures was at a very preliminary stage.

The situation today is rather different. We now have a good grasp of the overall numbers leaving. These figures can of course only be estimates -- in a free society such as ours they could be hardly anything else -- but we are satisfied that our estimates are reasonably accurate. They show that emigration is now levelling off at a little over double the rate prevailing in the early 1980s. That is a serious situation, but it falls a long way short of the calamity propagated by the rumour mill one year ago.

Our knowledge of profile has also improved. We now have a better picture of the age breakdown. We have a reasonable general picture of the education level of those leaving. We have a clearer picture of the employment breakdown. In the latter two areas we have established the information systems to improve our knowledge still further. In all that we have done, and in all that we propose to do, we will of course honour the undertaking that I gave to this Council last year: there will be no encroachment on the freedom of the individual.

Sir, turning to the matter of counter-measures, I must emphasize that this is a responsibility shared by many and is not restricted to the Government. As a recent report to the Executive Council showed, the fact of emigration is being taken into account by a number of branches and departments in the Government. In noting that report, the Executive Council directed that efforts should continue in a number of areas.

We must continue our fact finding so that our understanding of the situation is as complete as possible. I might just add that in that area, we have no particular axe to grind. We are certainly not publishing figures to advance a particular line of argument. We simply want our estimates and assessments to be as accurate as possible. We must also carry out more research into what made people leave, and what factors they see as possible obstacles to their return. We are looking at how information about job opportunities in Hong Kong -- including civil service vacancies -- can be better brought to the attention of people overseas, including, of course, former Hong Kong residents. The education facilities for children of returnees are under review. We are looking at the possibility of boosting still further the production of tertiary graduates each year.



We have also taken on board the other suggestions made in this debate and they will be considered by the relevant Secretaries.

Having said all that, Sir, I would not wish Honourable Members to gain a false impression that somehow this package of measures is going to "solve" the "problem" of emigration. Emigration is not a problem; it is a situation. It cannot be solved but it must be addressed. Those who wish to leave will always be free to do so; those who wish to return must always be made welcome though they should not expect a special bonus on top. Most important, those who stay -- and it is sometimes forgotten that by any measure well over 90% of all our people can be expected to stay come what may -- will enjoy a higher standard of living, an improved environment, enhanced education and training opportunities. And the sheer thrill of living in the most vibrant city in the world.

#### Lotteries fund allocation

Turning to the rather different matter of dividing the proceeds of Mark Six lotteries income, Mr. HUI has kindly reminded us once again of the points he made in his speech on 21 April last year, and indeed the year before. Only one of Mr. HUI's points falls to my policy area: that is the Jockey Club's administration fee.

When the Jockey Club is allocated 7.5% of the lotteries fund proceeds, it uses the money to cover administrative expenses involved in managing the Mark Six lottery. If for some reason this 7.5% should turn out to be greater than the expenses to be covered, any such surplus would be available for allocation for social welfare and similar purposes.

I am touched by Mr. HUI's persistence, but I dare not alter what seems to me to be a reasonable and logical arrangement.

#### Data protection

Sir, Miss TAM raised the subject of data protection and I am most grateful to her for giving me the opportunity to inform this Council of the progress we have made in that area.

On 10 March 1987 the Governor in Council decided that, in principle, data protection legislation should be introduced in Hong Kong; and that a working group

including representatives of the private sector should be set up to conduct an examination into the legislation adopted in other countries, as a reference point for our work in formulating legislative proposals for Hong Kong. It was recognized that this was likely to be a lengthy and complex process. We therefore decided that in the interim a data protection code of practice should be compiled governing the use of computers in Government.

There are two main issues involved here which led us to the view that the subject deserved close attention. First, the need of data users to enjoy a free flow of the kind of information which is essential to the successful conduct of their business, and secondly the rights of those people about whom data are collected, that is, data subject, to enjoy a proper degree of protection.

There is another point too which I would like to explain in a little more detail. We need to look at the possible threat to Hong Kong's position as a financial and commercial centre because several countries have enacted their own data protection legislation and have ratified a Convention for the Protection of Individuals. This convention provides an international legal basis for restrictions on the flow of personal data to countries or territories which do not have similar legislation of their own. At this stage the threat does not seem imminent but it is clearly something which we cannot ignore.

As far as the rights of data subjects are concerned the International Covenant on Civil and Political Rights, to which Hong Kong subscribes through the United Kingdom, provides that no one shall be subjected to arbitrary or unlawful interference with his privacy and that everyone has the right to the protection of the law against such interference. We are therefore looking at ways to ensure that the protection afforded by the covenant is enshrined in statute.

The aim of legislation is therefore to protect and indeed to reconcile the interests of all parties.

The code of practice issued to government departments is, by and large, being followed. Although the code does not have the force of the law and therefore cannot be policed, my office has served as the recipient of any queries from both government departments and the private sector where the code has either been incorrectly interpreted or not fully adhered to. We follow these cases up and offer advice where appropriate.

Our next step will be to legislate. Drafting of legislation is a complex business. It is in everyone's interest that we should proceed cautiously. Experience in other countries has shown that it is only too easy to over-, or indeed under-, legislate in this area. We do not want to fall into the traps that have snared others. Our aim is to devise legislation of the minimum complexity which will none the less balance the interests of the data user, the data subject and the community at large.

And this work is in hand.

Sir, I support the motion.

SECRETARY FOR DISTRICT ADMINISTRATION: Sir, I am grateful for the constructive comments and suggestions made by Members regarding housing, building management, sport and recreation.

#### Housing

On the subject of housing, Members have expressed a desire to see further promotion of the assisted home purchase schemes. In fact, to enable more households to benefit from these schemes, the Housing Authority has already, with effect from 1 April 1989, revised the Home Ownership Scheme income limit from \$8,500 to \$10,000, increased the loan amount of the Home Purchase Loan Scheme from \$70,000 to \$110,000 and the quota from 3 500 to 6 000, and at the same time extended the Home Purchase Loan Scheme to households in the private sector whose family income is below Home Ownership Scheme income limit. Since these revisions have just been introduced, it would be premature to consider any changes at this time. However, the Housing Authority will closely monitor the implementation of the revised schemes to see whether any further revisions will be necessary.

On the production programme, while there is a strong demand for assisted home ownership, there is also a sizeable outstanding demand for rental public housing from squatters and other applicants on the general waiting lists. Although this very substantial demand for rental public housing will be satisfied by the mid-1990s under the Long Term Housing Strategy, in the meantime, the Housing Authority has to strike a suitable balance in its production programme to meet the various housing needs of the public.

## Building management

As regards building management, I would like to take this opportunity to stress that the duty towards the management of private buildings primarily rests with the owners themselves. It is certainly not the intention that the Government should in any way assume any portion of that responsibility. The Government is of course concerned about the consequences of consistent neglect of management in certain private buildings. The Government's aim is to ensure that the right legislative and administrative framework exists for a multi-owned building to be properly managed. I have previously outlined in this Council the current measures being taken by the Government to enhance and improve the management of private buildings, such as increasing the number of district management teams and improvements to the contents of new Deeds of Mutual Covenant and so on, and I shall not repeat myself here except that the Advisory Committee on Private Building Management has been putting a great deal of efforts into its work since its formation seven months ago.

The support services for private building management, such as educational programmes for the office-bearers of the owners' corporations and mutual aid committees, publication of building management hand-books and various promotional activities, have always been funded under various expenditure items in the Estimates. The suggestion that there should be a specific expenditure subhead in the Estimates for private building management activities may appear to help to simplify the existing arrangements, but it may lead to practical problems which have to be considered carefully.

## Sport and recreation

Turning to quite a different subject, I cannot agree more with Members that something has to be done to promote sport activities in Hong Kong. Since 1973, with the setting up of the Council for Recreation and Sport (CRC), the Government has accepted that it has an obligation to try to ensure that there is "recreation for everyone" and great strides have been made towards the achievement of this aim. Thanks to the work of the CRC, the municipal councils and other organizations involved in building facilities and promoting sport, Hong Kong people now have a wide choice of facilities where they can enjoy physical recreation.

After careful consideration of the report by Mr. Emyln JONES who was appointed

in 1987 to look into the way ahead for sport promotion and development in Hong Kong, it is proposed, subject to the approval of funds, to establish a sports development board, a statutory body, to act in well-defined areas on behalf of the Government. It is envisaged that the board would include both appointed and ex-officio members representing all the principal organizations involved in Hong Kong sport. This new body would have as its object the development of sport and recreation throughout Hong Kong. It would work to co-ordinate the various elements in local sport and help overcome existing problems, such as insufficient and complex funding arrangements and difficulties in the booking of facilities, without direct government involvement in the affairs of the governing bodies of sport. Upon establishment, the board would decide whether to consider the recommendations in the Jones report for implementation over a phased programme, in accordance with agreed priorities and subject to the availability of resources.

Apart from the establishment of the sports development board, the Government has already announced the appointment of the new Secretary for Recreation and Culture later this year to oversee the development and promotion of sport and recreation. He will provide the important link between the Government and the sports development board and ensure that sport and recreation will receive adequate attention from the Administration.

All the new initiatives which I have just mentioned illustrate the Government's recognition of the importance of sport and recreation to the well-being of our community.

Sir, with these remarks, I support the motion.

FINANCIAL SECRETARY: Sir, I am grateful to the Senior Member, Mr. Allen LEE, for his thoughtful opening speech, in which he endorsed the main themes of my budgetary strategy and set the tone for this year's debate, and to the other Members who spoke for their many helpful comments, as well as the usual leavening of constructive criticism. I shall not attempt to cover or respond to every point that was made. And I hope Members will forgive me if I restrict myself to some of the broader issues. In so saying, let me add that all matters raised will be carefully reviewed in order to see whether any follow up action is needed.

I would like to begin my concluding address by up-dating the revised estimates

of expenditure and revenue for the year 1988-89 and commenting on the implications of the changes for the 1989-90 Budget and beyond. I shall also refer briefly to recent developments on the economic front before responding to the comments and suggestions made by Members. First, then, the revised estimates for 1988-89.

#### REVISED EXPENDITURE AND REVENUE ESTIMATES FOR 1988-89

The Government's accounts will not be finally closed for some weeks yet but provisional outturn figures indicate that expenditure on General Revenue Account will be somewhat less than the revised expenditure estimates tabled in the Budget speech. Although underspending has been identified in all components of expenditure there are no particularly noteworthy items. The result is that the provisional expenditure outturn is about 1% less than the revised estimate. A fuller analysis is given in the Appendix.

The provisional outturn for revenue indicates that receipts from profits tax, stamp duty and motor vehicles tax will exceed the revised estimate, although the total figure will be within 1% of that estimate.

Expenditure from the Capital Works Reserve Fund and Development Loan Fund is now likely to be about \$0.4 billion less than the revised estimate. This is mainly because of the delays in land acquisition payments and a lower than expected level of housing loan advances to civil servants. Revenue to the funds will be as in the revised estimate. Consequently, the result is a consolidated surplus of \$15.7 billion compared with the revised estimate of \$14.2 billion given in the Budget speech.

Sir, some Members have commented on the variance between our original estimates, the revised estimates and the forecast outturn. There is a danger of overstating the problem; the fact is that some variation is inevitable. Because we operate a cash accounting system for the Government's accounts, the timing of the recording of transactions towards the end of the financial year has a material effect on the results. Furthermore, because most of our revenue is from sources which are significantly influenced by economic activity, actual outturn recorded in a particular year is likely to vary, in either direction, because of short-term fluctuations in Hong Kong's economic performance. We continue to seek improvements in our forecasting methods, but for the reasons I have given, absolute precision is probably unattainable.

## IMPLICATIONS FOR 1989-90 AND BEYOND

In terms of the implications for 1989-90 and beyond, the adjustments I have mentioned will not affect the 1989-90 estimates or the assumptions I have made in the Medium Range Forecast. The further increase in receipts from profits tax and stamp duty is a direct consequence of the continuing strong performance of our economy. It also emphasizes the fact that our revenue continues to be increasingly dependent on direct taxes which are highly susceptible to fluctuations in economic performance. The trend needs to be borne in mind when we consider any proposals for broadening our tax base and widening the scope of indirect taxation.

Despite the somewhat larger consolidated surplus, I still do not consider that further tax concessions or increases in expenditure are appropriate at this time. We must avoid adding to inflationary pressures.

## THE ECONOMY

Turning now to the economy, Mr. Stephen CHEONG and Mr. McGREGOR, among others, expressed views on the effects of the labour shortage and the outlook for inflation. In my Budget speech, I forecast that the growth rate of the economy would slow down further in 1989, but that the rate of inflation might be pushed higher before it too began to fall, probably in the latter part of this year. Although the latest economic indicators suggest that the adjustment process is taking place only slowly, the indicators are nevertheless generally consistent with my forecast.

The growth rates in real terms of our domestic exports and re-exports, at about 6% and 34% respectively in the first quarter, were slower than in the latter part of last year. While the labour market remains tight, with the current unemployment rate at around 1.3%, the property market has shown some signs of consolidation, following the upsurge in property prices and rentals over the past year or so. The recent increases in interest rates are also beginning to have some effect. The slower growth in trade, coupled with the pressure on costs, should in due course restrain domestic demand.

For the first quarter as a whole, the rate of increase in the Consumer Price Index (A) over a year earlier was 9.8%. This compares with the corresponding increases

of 8.1% in the third quarter, and 7.9% in the fourth quarter of last year. Probably because of this increase in inflation, some Members have commented that my forecast of the rate of increase in the CPI(A) of 8.5% for 1989 as a whole is conservative. That may or may not be so, but there is in my view no case for changing my Budget strategy or, as yet, for revising my forecasts. Indeed, a slower adjustment adds force to my decision to run a significant Budget surplus this financial year.

At present, interest rates remain relatively high, and in fact over the past three months Hong Kong dollar rates in the interbank market have been kept above the corresponding US dollar rates within the constraint of maintaining exchange rate stability. This is helpful in relation to inflation since it provides an incentive for borrowers and others to limit their spending.

In addition, the exchange rate of the US dollar has been firming up since December 1987. This has resulted in an increase of over 2% in the effective exchange rate of the Hong Kong dollar between the end of 1987 and the end of April this year. By limiting this scope for increases in import prices this has been of some help in restraining inflation. Thus, over the past 16 months at least, contrary to what some have argued, the link with the US dollar has not contributed to inflation.

I share the concern of Mr. David LI and Mr. NGAI Shiu-kit regarding our forecasts of economic growth. Forecasting in a volatile situation is never easy. The greater interdependence of our economy with those of the rest of the world, especially that of China, and the internal restructuring of our economy that is taking place, have also made forecasting more difficult. I accept that from time to time we need to consider our methodology. There is now a need to review the Government's GDP forecast more frequently, say at quarterly intervals instead of only once in September. I am therefore preparing for more frequent reviews and intend to release the first results later this month to coincide with the publication of the First Quarter Economic Report.

## TRADE AND INDUSTRY

I would like now to speak about trade and industry, a subject of concern to many Members. Despite the rapid growth of the services sector and the re-emergence of our traditional entrepot role, particularly in relation to China, manufacturing is still an important component of our economy, and will remain so for many years to



come. Our manufacturing industry is undergoing important changes in that the more labour intensive operations are expanding elsewhere. But at the same time, we are witnessing vigorous investment by industry in advanced equipment as a means of improving productivity and of upgrading quality and standards. Although some still argue otherwise, Hong Kong's manufacturing sector is adjusting to changing circumstances. We must keep in mind that the ability to adapt quickly lies in the freedom for industrialists to make their own decisions, and this freedom will be ensured by letting market mechanisms operate.

This does not mean that the Government has no role to play. On the industrial front, techno-economic studies are regularly commissioned to identify the strengths and weaknesses of key industrial sectors including textiles and clothing, electronics, metals and plastics. Forward looking reviews and proposals of long-term strategic importance to the manufacturing sector are debated in the Industry Development Board, and decisions are implemented mainly through the Industry Department and the Hong Kong Productivity Council. The establishment of the Plastics Technology Centre and improved targetting of our inward investment promotion efforts represent two of the many examples of such initiatives.

The Government is also putting in place facilities and institutions which will assist industrialists in continuing to compete in the quality-conscious markets of Europe, Japan and North America. Last month, the Hong Kong Laboratory Accreditation Scheme signed a mutual recognition agreement with its counterpart in Britain. This should pave the way for acceptance of Hong Kong-tested goods by the EEC. Later this financial year, the Government will establish a Quality Assurance Agency to help industrialists manufacture in accordance with internationally-recognized standards. A great deal more needs to be done to drive home the importance of quality; hence the launch of a quality drive and the introduction of a new Governor's Award for Industry during this financial year.

Better quality, higher technology and improved productivity are all interrelated. In these areas much is already being done by the Hong Kong Productivity Council, which is soon to establish a Clothing Technology Demonstration Centre.

Several Members, including Mr. Allen LEE, Miss TAM and Prof. POON, have urged the Government to pay greater attention to science and technology and to improve Hong Kong's capability in these areas. I agree. This is an important subject affecting many areas of economic activity. Here I might add that the development of higher

technology is a subject which the Central Policy Unit has been asked to consider. I accept that there is much to be done but we must use our resources effectively. Projects must be fully considered if we are to get value for our money.

On the trade front, we will continue to do all we can to counter protectionism in our overseas markets. A current example concerns the recent spate of anti-dumping actions instituted by the EEC against a number of Hong Kong products. The Government has reacted swiftly by appointing special advisers in Europe to assist in the formulation of counter measures. Local manufacturers are being provided with technical assistance in defending themselves against the anti-dumping investigations. We are reasonably optimistic about the outcome of these efforts.

At the multilateral level, Hong Kong will continue to participate actively in the Uruguay Round of Multilateral Trade Negotiations to promote the cause of free trade. This involves not only securing and maintaining access to world markets for manufactured goods, but also the negotiation of access rights in the field of services which are increasingly important to Hong Kong.

#### INFRASTRUCTURAL DEVELOPMENT

Sir, I am grateful for the support given to me in the debate on the move to set aside funds for major infrastructural projects. In due course, the Resolution to set up the proposed investment fund will require the approval of this Council. I regard this setting aside of funds not only as a prudent budgetary measure but as a clear statement of intent.

I share the view expressed by many Members that the Government should make early decisions regarding the future development of the port, the airport, the major harbour reclamation projects, and the territory's transport network. In relation to the last item, we have just completed the Second Comprehensive Transport Study, to which my colleague the Secretary for Transport has already referred. This has recommended a series of road and rail projects as well as traffic management policies. These will be considered in the light of public opinion after the publication of the Green Paper on Transport Policy and those regarded as acceptable will be implemented progressively.

As to the airport, we have critically evaluated the capacity of Kai Tak and the

options for the future. As I have indicated before, a comprehensive improvement programme to enable Kai Tak to meet demand until the mid-1990s has been put together. The Chek Lap Kok Replacement Airport Master Plan has been updated, and the various options for siting a replacement airport in the Western Harbour are being examined. Those involved are under great pressure to come up with results.

Members will appreciate that the expenditure involved in all these projects will be unprecedented in the history of Hong Kong. It is only right that we fully assess all the implications before we take any decisions. But again, I recognize the urgency.

## RESOURCES PRIORITIES

Sir, a number of Members commented on my strategy for government expenditure. Some wanted more to be spent on education and the social services. While it is worth stressing that resources are always limited, it should also be noted that the share of the cake consumed by education and the social services is expected to grow from 32% in 1988-89 to almost 35.5% by 1992-93. In cash terms, this increase would, on present projections, amount to a sizeable sum.

In relation to hospital services, the Government is looking to the Hospital Authority to produce improved and more cost-effective methods of delivering those services. In this regard, I agree that if this objective is to be achieved, we must adopt a flexible approach in drawing up arrangements for the funding of the authority. This indeed is our intention. It would be wrong, however, to exempt the Hospital Authority from competing for funds in the resource allocation system. Any move in that direction would inevitably lead to calls for parity of treatment for other programme areas and would undermine the system which is a key feature of the Government's financial management.

In the course of the debate, there was some criticism by both Dr. Henrietta IP and Dr. C. H. LEONG of the fact that the medical expenses of civil servants are subsumed in the overall medical budget and cannot therefore be separately identified. I anticipate that this situation will cease after the establishment of the Hospital Authority, since it will be necessary to introduce charging arrangements for services provided to the Government by the authority.

A number of Members commented on the growth rate overall of public expenditure, particularly in the early years of the forecast period. They have repeated the warning that I myself gave in the Budget speech. The growth of public expenditure will have to be monitored carefully, and difficult choices made, if growth is to be contained within the budgetary guidelines. In this connection, Mr. McGREGOR suggested that public expenditure should not be restrained by arbitrary guidelines. As I explained, these are merely guidelines, and I accept that there can be occasions when we might need to step outside them, but only for a limited period. We need some yardsticks if we are to contain public expenditure.

## REVENUE PROPOSALS

Sir, I turn now to Members' comments on my 1989-90 revenue proposals. I shall not repeat everything I said in my Budget speech beyond reiterating that, despite the large forecast surplus, my proposals were formulated having regard to the overall economic situation, and specifically to avoid adding to inflationary pressures.

Against this background, I shall deal first with direct taxation. A number of Members, including Mrs. Peggy LAM and Mr. LAU Wong-fat, have argued for further reductions in the standard rate, whilst others such as Mrs. Elsie TU and Mr. David CHEUNG, have suggested that existing salaries tax allowances be increased, and new allowances introduced. There are very few of the suggestions made that I would quarrel with in isolation. But what I have sought to achieve is a package that is not inflationary, and one that strikes a balance between revenue requirements and lowering the tax burden. Had I proposed taxation measures which fuelled inflation, all sectors of our community would have been adversely affected.

Some Members suggested that tax relief be provided for home purchase payments. I am uneasy about this proposal. It would be expensive in terms of revenue lost, and perhaps more important, would result in an inappropriate stimulus to demand.

Others called for the abolition of the clawback on additional personal allowances. In this regard it has been said that the clawback is unfair. The concept of the clawback is based on the ability to pay. Through its operation, a person's entitlement to additional personal allowances diminishes as his income increases. This does not seem to me to be inequitable. Moreover, the reintroduction of the clawback in 1987 enabled the benefit of an additional allowance to be more fully focused on the less affluent than would otherwise have been possible.

Some, including Mr. Martin LEE and Mr. LAU Wah-sum, spoke about the desirability of providing personal and other related taxation incentives to help stop the brain drain. Whilst I share their concern about this issue, it is unlikely that feasible adjustments to the standard rate, or revisions of the salaries tax structure, would significantly influence those who are considering leaving Hong Kong, generally for places with considerably higher rates of tax than we have here.

I was cautioned about a potential leak of profits tax revenue arising from the abolition of interest tax. I am grateful to Mr. Peter WONG for voicing this concern, but I can assure him that the matter was carefully considered before the final decision was taken. In arriving at the cost to revenue of the abolition of interest tax, account was taken of the likely level of profits tax leakage which might occur. I am confident that the existing law can, as Mr. Peter POON suggested, contain the leakage; but if it cannot then appropriate amending legislation will be introduced into this Council at an early date. Sir, I might add that the Commissioner of Inland Revenue will continue to monitor the situation carefully.

Mrs. Nellie FONG commented on the difficulties which arise when there is double taxation of income or profits. Given the territorial source concept inherent in our taxation system, double taxation should not normally arise. However, I recognize that, from time to time, exceptional measures may be needed to deal with taxation anomalies.

## SALES TAX

So to a sales tax. I was advised, after Members spoke, that my constant references to a sales tax would be better understood if I referred to it as a wholesale tax. It translates better, and is what I have in mind. Having said this, I am grateful to the many Members of this Council who have indicated that any proposals for tax diversification should, at least, be carefully examined to determine their suitability for Hong Kong.

Many Members, including in particular Mrs. TU, have rightly warned of the possible adverse effect of a sales tax on the less well-to-do members of our community. I agree that this is clearly an important aspect that we must take into account.

Without going into all the pros and cons of a sales tax or a wholesale tax, I would, however, ask Members to consider carefully the effect on the less well-to-do members of our community of our present narrowly based tax system. From time to time it is inevitable that the economy will turn down. When it does so, this is bound to have a serious effect on our revenue, dependent as it is on direct taxes, in particular business profits tax. If our revenue yield were to drop sharply over a number of years, our programme of public services would be placed in jeopardy. Yes, we can draw down our reserves -- that is what they are there for -- but as I have indicated, we have a very heavy programme of public expenditure in relation to the infrastructure, environmental protection and so on. To ensure that we can implement our programmes without disruption, we must have a more stable revenue base.

There is another point. Undoubtedly a broadening of the indirect tax system would enable me to rationalize or bring down other taxes. The rest of the world is moving in this direction. Hong Kong must not lose the competitive edge that it gains from having low direct taxes. If we lose that edge, it is likely that investors would look elsewhere, and ultimately this could hit our labour force. Would I really be performing such a service for the less well-to-do members of the community if I were to allow this to happen? These are the things that we shall have to think about in putting together our proposals. I shall, of course, have more to say on the subject when we are further advanced.

In due course, should we decide to bring forward a wholesale tax, there will be ample opportunity for Members to examine our proposals. Indeed, I regard it as essential and proper that public discussion on this issue should take place in this Council.

## OTHER ISSUES

I turn now to a number of other issues that were raised in the debate.

### Exchange Fund bills

Several Members commented on and supported the proposal to issue Exchange Fund bills. Mrs. Nellie FONG, however, considered that the money borrowed through the issue of bills by the Government should not be for the account of the Exchange Fund because there was a lack of accountability in relation to the management of the fund. Presumably, she would like the proceeds to be taken instead into the general revenue.

It would be inappropriate, in my opinion, for the Government to do this if the purpose of the borrowing is to pursue a monetary policy objective. The proceeds must be for the account of the Exchange Fund and managed along with other assets of the fund. If we were to take the money into the general revenue, the Government might drift into deficit financing under the guise of pursuing monetary policy.

As to accountability, the control and use of the Exchange Fund is governed by the Exchange Fund Ordinance, which specifies that the control of the Financial Secretary shall be exercised in consultation with an Exchange Fund Advisory Committee. The Committee now comprises representatives from the two note issuing banks, two Members of this Council and the Secretary for Monetary Affairs, and is under my chairmanship. The accounts of the fund are further subject to the close scrutiny of the Director of Audit. In terms of accountability, and as Controller of the Exchange Fund, I am entirely satisfied with the professional competence of those who sit on the Advisory Committee and those who audit the accounts.

#### Estimates presentation

The presentation of the Budget documents is usually commented upon by some Members, and this year Mr. ARCULLI and Dr. LEONG suggested that more time be given for the draft estimates to be studied. It would be difficult to advance the preparation of the various Budget documents. The actual passage of the Appropriation Bill through this Council already requires a 10-week period to complete, but I will certainly consider whether we could publish the draft estimates a little earlier or extend the time allotted to the Appropriation Bill, and also whether additional information can be provided. We do review the format and presentation of the estimates each year and the points made will certainly be kept in view.

#### Statutory corporations

During the debate, some concern was expressed about the Government's monitoring of statutory corporations. At present, there are no formal arrangements in place for agreeing the strategic issues and framework of objectives within which each corporation or statutory body should operate. Having said that, I should add that the Governor does normally have specific powers of direction, but these are intended for use only in extreme circumstances. Each organisation, however, operates within the requirements of its parent Ordinance. Some time has elapsed since these corporations were established and it is now appropriate to review the relationship between these organisations and the Government in the light of experience. Action is already in hand on such an exercise. While we would not wish to encroach upon

their proper operational autonomy, we need to ensure that the corporations are fulfilling their statutory responsibilities.

#### Vietnamese boat people

Sir, a number of Members spoke on the subject of the Vietnamese boat people. They expressed forcefully the frustration of the community at this seemingly intractable problem. The recent influx, which is now running at its higher level for 10 years, has stretched our resources to the limit and has left us facing a crisis in accommodation and manpower. This whole question is to be the subject of a debate next Wednesday, and I shall leave until then a fuller reply by the Administration on the points raised by Members.

#### Civil Service

Before I conclude, and in the absence of the Chief Secretary, Sir David FORD, I wish to respond to a number of points made about the Civil Service.

Mr. MCGREGOR spoke of discontent in recent years in the service. Although there has been some restlessness amongst certain groups of civil servants of late, the vast majority have continued to carry out their full duties loyally and conscientiously. I am grateful to them. Like the rest of the community, some are apprehensive about the future. But there are no signs that the efficiency of the Civil Service has in any way been adversely affected. As other Members pointed out, the existing civil service salary structure, which was determined 10 years ago, may no longer be keeping pace with the rapid changes in the employment scene during the last few years. For this reason, the Standing Commission on Civil Service Salaries and Conditions of Service headed by Sir Sidney GORDON has been invited to carry out an overall review of that structure. I have no doubt that Members will agree with me that unless we have a committed and well-motivated Civil Service, we will not be able to meet our ambitious programmes for new and improved services for the public.

As regards the growth of the Civil Service, I am conscious of the need to keep a vigilant check on this. The growth rate of 3.9% for 1989-90 is a projection and, inevitably, the actual growth is subject to the state of the labour market, the progress of projects, and operational considerations. It is therefore by no means certain that all the posts will be created and filled during the year. Nevertheless, while curbing and controlling the growth of the Civil Service is of the utmost importance, we must ensure that the Administration is adequately staffed to meet the demand for any new or improved services that may be approved.



A final point on the Civil Service. Mr. Edward HO suggested that professional officers in the service should be given equal opportunities to rise to policy making levels. Members will appreciate that I personally have no quarrel with this proposition. Perhaps I could simply confirm, without undue immodesty, that such opportunities already exist.

## CONCLUSION

Sir, I said in my Budget speech that I had to reconcile three key factors: inflation; the accumulation of large surpluses; and the need for a major programme of infrastructural works. In so doing, I recognized the degree of conflict inherent in these factors and sought to achieve a balance.

While seeming to agree generally with this approach, many Members entered special pleas for me to increase the allocation of funds to various worthwhile causes. Health, education, social welfare, the sandwich class, all had their advocates. I was not unaware, of course, that if I had devoted part of the accumulated surpluses to increasing spending further in areas such as these, or given further tax concessions, I would perhaps have delivered a more popular Budget. But I was, and still am, aware that to have done so would have increased the inflationary pressure on all sectors of the community, including the sandwich class. In my view, that would have been irresponsible.

In relation to my overall strategy, I was taken to task by Mr. James TIEN for contradicting myself by urging restraint on public expenditure on the one hand while still proposing major spending on the infrastructure on the other. The key here is the timing. If we were to embark upon substantial additional expenditure this year on the kind of major projects to which I referred in my speech -- a new airport, port development and so on -- this would indeed have an inflationary effect and thus run contrary to my overall policy objective of not fuelling inflation. But such capital works require a considerable lead time, and while I think it prudent to earmark funds now, actual spending on any scale will be at least two years away.

Sir, in conclusion, after listening carefully to this debate and having heard and read a variety of commentaries by outside observers, I remain convinced that the strategy I have adopted in the 1989-90 Budget is the right one for Hong Kong today.

Sir, I beg to move.

APPENDIX

GENERAL REVENUE ACCOUNT

REVISED ESTIMATES 1988-89

Printed	Updated	Revised	Revised	Estimates	Estimates		
(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)		

Recurrent account:

Revenue	63,656	64,140					
Expenditure	41,781	21,875	41,270	22,870			

Capital account:

Revenue	1,474	1,430					
Expenditure	7,829	-6,355	7,670	-6,240			

Surplus	15,520		16,630				
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Printed	Updated	Revised	Revised	Estimates	Estimates		
Component	(\$m)	(\$m)					

Personal emoluments	15,901	15,830					
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Personnel related expenses

Pensions	1,580	1,610					
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Other	1,665	1,600					
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Departmental expenses	3,771	3,700					
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Other charges

Defence costs agreement	1,441	1,320
Other	5,464	5,300
Subventions	11,959	11,910

Total recurrent expenditure 41,781 41,270

Plant, equipment and works

Defence costs agreement	39	30
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Other	449	360
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Other non-recurrent 794 770

Subventions 237 200

Transfers to funds

Capital Works Reserve Fund	6,200	6,200
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Student Loan Fund	10	10
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Mass Transit Fund	100	100
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Total capital expenditure 7,829 7,670

Question on the Second Reading of the Bill put and agreed to.

Bill read the Second time.

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

Adjournment and next sitting

HIS EXCELLENCY THE PRESIDENT: In accordance with Standing Orders I now adjourn the Council until 2.30 pm on Wednesday, 17 May 1989.

Adjourned accordingly at six minutes past Four o'clock.

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

