

1 HONG KONG LEGISLATIVE COUNCIL -- 9 May 1990

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OFFICIAL REPORT OF PROCEEDINGS

Wednesday, 9 May 1990

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

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

THE FINANCIAL SECRETARY

THE HONOURABLE SIR PIERS JACOBS, K.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 STEPHEN CHEONG KAM-CHUEN, C.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, O.B.E., 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, O.B.E., J.P.

THE HONOURABLE CHUNG PUI-LAM, J.P.

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

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, J.P.

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

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, O.B.E., J.P.

THE HONOURABLE GRAHAM BARNES, C.B.E., J.P.
SECRETARY FOR PLANNING, ENVIRONMENT AND LANDS

THE HONOURABLE MICHAEL LEUNG MAN-KIN, J.P.
SECRETARY FOR TRANSPORT

THE HONOURABLE EDWARD HO SING-TIN, J.P.

THE HONOURABLE RONALD JOSEPH ARCULLI, J.P.

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

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. 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 YEUNG KAI-YIN, J.P.
SECRETARY FOR EDUCATION AND MANPOWER

THE HONOURABLE MRS. ANSON CHAN, J.P.
SECRETARY FOR ECONOMIC SERVICES

THE HONOURABLE MRS. ELIZABETH WONG CHIEN CHI-LIEN, I.S.O., J.P.
SECRETARY FOR HEALTH AND WELFARE

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

THE HONOURABLE ADOLF HSU HUNG, J.P.
SECRETARY FOR HOME AFFAIRS

ABSENT

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

THE HONOURABLE SZETO WAH

THE HONOURABLE PAUL CHENG MING-FUN

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.

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.

Dangerous Goods Ordinance

Dangerous Goods (Classification)

(Amendment) Regulations 1990..... 126/90

Immigration Ordinance

Immigration (Vietnamese Boat People)

(Detention Centres) (Designation) (No. 2)

Order

1990..... 130/90

Immigration Ordinance

Immigration (Vietnamese Boat People)

(Detention Centres) (Designation)

(Amendment) (No. 2) Order 1990..... 131/90

Immigration Ordinance

Immigration (Vietnamese Boat People)

(Detention Centres) (Amendment) (No. 3)

Rules

1990..... 132/90

Immigration Ordinance

Immigration (Vietnamese Boat People)

(Detention Centres) (Amendment) (No. 4)

Rules

1990..... 133/90

Telecommunication (Hong Kong Telephone Company) (Exemption
from Licensing) Order

Telecommunication (Hong Kong Telephone Company)
(Exemption from Licensing) (Fees)
(Amendment) (No. 2) Order 1990..... 134/90

International Organizations and Diplomatic
Privileges Ordinance

The Organization for the Network of
Aquaculture Centres in Asia and the Pacific
Notification 1990.....
135/90

Supplementary Medical Professions Ordinance

Supplementary Medical Professions Ordinance
(Application of Section 29) Notice 1990..... 136/90

Supplementary Medical Professions (Amendment) Ordinance 1989

Supplementary Medical Professions (Amendment)
Ordinance 1989 (Commencement of Section 9,
11 and 12(c)) Notice 1990.....
137/90

Supplementary Medical Professions, Midwives Registration
and Nurses Registration (Amendment) Ordinance 1985

Supplementary Medical Professions, Midwives
Registration and Nurses Registration (Amendment)
Ordinance 1985 (Commencement of Section 14)
Notice
1990..... 138/90

Sessional Papers 1989-90

No. 70 -- The Government Minute in response to the Report of the Public Accounts
Committee dated January 1990

No. 71 -- Report by the Commissioner of Correctional Services on the Administration

of Correctional Services Department Welfare Fund for the year ended 31 March 1989

Oral answers to questions

Civil service productivity and compensation

1. MR. LI asked: In the light of the steady growth in the Government's recurrent expenditure, the main cause of which has been civil service wages, will the Government inform this Council:

(a) if increases in civil service productivity have matched the increases in civil service compensation; and

(b) whether the Government would consider commissioning another independent study of the problem, as was done some years ago with the McKinsey Report?

CHIEF SECRETARY: Sir, civil service wages are of course only one of the causes of the growth in the Government's recurrent expenditure. Other major causes are the expansion of existing services and the introduction of new services; much of this additional spending on services directly benefits the public. For example, improvements to social services in 1990-91 will cost an additional \$72.6 million, improvements to education will cost an additional \$21 million, and the setting up of the Sports Development Board will cost \$35 million. Personal emoluments for the Civil Service and subvented sectors have been maintained annually at just above 60% of recurrent expenditure over the past three years. Of this proportion, the civil service element has been maintained at around 38-39% per year of total recurrent expenditure, the remainder is on the voluntary agencies.

Unlike the private sector, civil service performance cannot be measured by profitability. The nature of public sector work makes it impossible to draw an absolute correlation between civil service productivity and compensation. Nevertheless, targets and objectives are set within programme policy areas, and performance indicators have increasingly been included in Controlling Officers' reports in the annual Estimates. We are also making strenuous efforts to improve productivity in a number of other ways, for example:

-- The management services teams which have a staff of over 100 are involved in a series of top down studies which review departments as a whole, the direction they are taking and the activities they are involved in. Ten top down studies have been completed in the past 18 months.

-- About 30 value for money studies are currently being carried out.

-- Strategic reviews of the information technology requirements of four major departments are taking place and more are planned.

In addition we have introduced the Star Chamber and the Resource Allocation System which the Financial Secretary will describe in his speech later this afternoon.

I do not believe that yet another overall management or organizational study is necessary at present. Since McKinsey we have had the 1988 Hay Management Study of the top structure of government which resulted in the reorganization of responsibilities amongst secretariat policy branches and we do use consultants to assist us on specific issues; a current example is the review of the Registrar General's Department.

MR. LI: Sir, is it true that the civil service wastage rate is significantly lower than that of the private sector? And if so, might this not suggest that the total compensation package for the Civil Service is already considerably more attractive than those offered by the private sector?

CHIEF SECRETARY: Sir, I think the reasons for the wastage rates being low in the Civil Service are complex and not simply a reflection of the comparative pay rates between the Civil Service and the private sector. The overall pay package for the Civil Service is regularly reviewed by the pay levels surveys, which are carried out in respect of both the directorate and the non-directorate, and there have been small adjustments. But I think that we can rest assured that the overall package is broadly comparable with the private sector package.

MR. PETER WONG: Sir, with due respect to the Chief Secretary, I do not think he has answered the Honourable David LI's question which asked whether the civil servants really earned their 15% rise.

HIS EXCELLENCY THE PRESIDENT: Mr. WONG, you must ask a question please, not comment.

MR. PETER WONG: Sir, does the Chief Secretary think that the civil servants have earned their 15% wage increase?

CHIEF SECRETARY: Sir, with respect to Mr. WONG, I do not think I heard Mr. LI ask me whether we had earned our 15% pay rise, but I am quite prepared to try to answer his question. This subject indeed will be addressed in some detail in my speech later on this afternoon. But the fact of the matter is very straightforward -- that the annual pay award is made by reference to the private sector; it is based on the private sector awards over the previous year, and indeed, on this occasion, the government system was tested by an Institute of Personnel Management figure which came out with a higher rate than that provided by the Government Pay Trends Survey Committee. So as far as the figure is concerned, it seems to be a fair figure for the Civil Service compared to the private sector. Whether the Civil Service has earned it, Sir, I will leave it to the public to judge.

MR. TAI: Sir, may I ask, within the civil service mechanism, how the element of incentive ties in with the element of productivity by civil servants?

CHIEF SECRETARY: Sir, what we are doing as a result of our recent review is to ensure that management, and resource management in particular, is a factor which is taken into account when the promotion of individual civil servants is concerned. We have asked all the reporting officers to comment on this, and therefore there is a tremendous incentive for people who wish to advance within the Civil Service at whatever level to prove themselves as successful managers.

MR. LI: Sir, zero-based budgeting could prove to be a useful tool in the fight to contain public expenditure and to keep up the productivity of the Civil Service. Is the Government in favour of implementing such a system; if not, why not?

CHIEF SECRETARY: Sir, if I may, I will ask Mr. LI to be patient. This subject will be addressed in considerable detail by the Financial Secretary later this afternoon. Rather than repeat large elements of the Financial Secretary's speech, if I may ask Mr. LI to be patient and wait for that speech.

MR. DAVID CHEUNG: Sir, will the Chief Secretary inform this Council whether the 10 top down studies which have been completed in the past 18 months shed any light with regard to the civil servants' productivity?

CHIEF SECRETARY: Yes, Sir, the top down studies which I have referred to are very comprehensive in terms of the way in which they deal, as I have suggested in my answer, with the whole policy, the strategy of the department concerned, and the way in which they carry out their task. What we are finding is that we need to ensure that the policy objectives of the department are much more clearly defined in future, that there is a way of monitoring both at head of department and at policy secretary level, and that we have, as far as possible, measurement of those performances against the objectives. That is part of an on-going process that is taking place throughout the Administration under our public sector reform, and I will report to Members from time to time as to how that is progressing.

Pornographic items

2. MRS. LAU asked: In view of the apparent increase of pornographic publications and video-tapes on the market, will the Administration inform this Council:

(a) of the number of pornographic publications, video-tapes and other articles seized by the authorities over the past five years;

(b) of the number of articles which have been submitted to the Obscene Articles Tribunal for classification since the Control of Obscene and Indecent Articles Ordinance came into effect in September 1987, and the number of articles which have been classified as indecent and obscene respectively;

(c) of the number of prosecutions brought under the Control of Obscene and Indecent Articles Ordinance since September 1987 and the success rate of such prosecution; and

(d) whether the Administration will consider reviewing the effectiveness of existing legislation in controlling pornography in Hong Kong?

SECRETARY FOR HOME AFFAIRS: Sir, over the past five years, a total of 126 513 pornographic publications and articles were seized by the enforcement departments.

Since the Control of Obscene and Indecent Articles Ordinance came into force in September 1987, a total of 2 140 articles have been submitted to the Obscene Articles Tribunal for classification, of which 1 661 have been classified as indecent and 309 as obscene. In addition, the Tribunal has dealt with 2 127 articles referred to it by the court for determination under section 29(1) of the Ordinance. These articles were seized by the police and the Customs and Excise Department during enforcement operations. Among them, 81 have been classified as indecent and 2 039 as obscene.

Since September 1987 and up to the end of February this year, a total of 515 cases have been prosecuted in court, of which 453 cases have been convicted, representing a success rate of 88%.

Sir, the current legislation is operating effectively as indicated by the high success rate in prosecutions. Nevertheless, the Government intends to undertake a review on the legislation shortly to ascertain whether there are any loopholes which should be plugged, and to examine whether the legislation, in both letter and spirit, reflects current attitudes in the community.

MRS. LAU: Sir, can the Secretary give a breakdown by year of the number of pornographic publications and articles that were seized as referred to in the first paragraph of his answer, and if such a breakdown shows a rising trend in pornographic items seized, can the Secretary provide any reason for such a trend?

SECRETARY FOR HOME AFFAIRS: Sir, I think I have the figures. The number of articles seized over the past five years are as follows:

1985	45 021
1986	12 790
1987	6 336

1988	7 177
1989	55 189

Total	126 513

The much larger figures for 1985 and 1989 are due to successful major raiding operations carried out by the enforcement departments.

MR. LAU WAH-SUM: Sir, if the current legislation is operating effectively, can the Secretary explain why, as would seem to be suggested by the result of enforcement action, there is still such a large number of pornographic items available on the market? And in relation to the review of legislation to be undertaken shortly by Government, can the Secretary inform us how short is "shortly"?

SECRETARY FOR HOME AFFAIRS: Sir, one has to accept that there is public demand for pornographic publications, video-tapes and other items and that people can make good money out of their sale, otherwise there would not be a large number of such items on the market. However, it is necessary to ensure proper control of such items so that they are not available to juveniles, whom we would like to protect against any undue influence of pornography. Sir, this is the very spirit of the Control of Obscene and Indecent Articles Ordinance, and the Ordinance has provided adequate machinery for action to be taken against pornography if necessary. As regards the second part of Mr. LAU's question, the Government intends to review the legislation within the next 12 months.

MR. MICHAEL CHENG (in Cantonese): Sir, pornographic scenes are shown on some Karaoke videos recently. Will the Administration inform this Council whether the Obscene Articles Tribunal has ever screened and classified them? Besides, since Karaoke is an open form of entertainment as well as family entertainment, will Government take measures to prevent any further increase of pornographic scenes on Karaoke videos?

SECRETARY FOR HOME AFFAIRS: Sir, video-tapes and discs come within the definition of "articles" under the Control of Obscene and Indecent Articles Ordinance. So I should presume that the Television and Entertainment Licensing Authority (TELA) would

be looking at these items as well and they will be subject to the same sort of control as other items, such as publications and newspapers.

MRS. TAM (in Cantonese): Sir, the Secretary mentioned in his reply that Government intends to review the legislation shortly, so as to find out whether the legislation, in both letter and spirit, reflects current attitudes in the community. Will Government inform this Council what methods it will employ to learn about the opinions of the community on the control of obscene and indecent articles? Will the Administration consider conducting a community survey?

SECRETARY FOR HOME AFFAIRS (in Cantonese): Sir, the outline and procedures of the review are being studied by the Recreation and Culture Branch. Members will be informed when the Government has come to a decision on how to conduct the review.

MRS. CHOW: Sir, according to the breakdown given by the Secretary, it seems that from 1987 there have been over 70 000 seizures but only 515 prosecutions. What in fact accounts for this very low percentage -- less than 1% -- of prosecution? Does this reflect that enforcement has been tardy?

SECRETARY FOR HOME AFFAIRS: Sir, the difference is mainly due to the fact that one prosecution may cover a number of pornographic articles seized and some of the articles could be similar copies. That is why when proceedings are taken before the court, they are referred to as cases and not in terms of number of copies.

MRS. LAU: Sir, can the Secretary inform this Council whether he was aware that pornographic publications and video-tapes are being advertised in the newspapers, as well as by placards and posters in the streets and in the shops? If so, does the Administration intend to take any action in respect of such advertisements?

SECRETARY FOR HOME AFFAIRS: Sir, the advertising of pornographic publications and video-tapes in newspapers or by placard or posters in the street is subject to the Control of Obscene and Indecent Articles Ordinance. Two senior foremen of TELA who carry out daily surveillance of newspaper and publication stands, bookstalls, and video-tape shops to monitor publications and videos have also, as part of their duty,

to scan these advertisements and to pay attention to these placards and posters. Action has been, and will continue to be, taken in respect of such advertisements.

MR. DAVID CHEUNG: Sir, will the Secretary kindly explain what he means by the "current attitudes in the community"?

SECRETARY FOR HOME AFFAIRS: Sir, I think attitudes of the public do change from time to time, and this will be taken into account by the Commissioner for Television and Entertainment Licensing when he carries out the review of the legislation. He will have regard to the current thinking of the public on moral standards and the standards to be set when examining these articles.

MR. CHUNG: Sir, would the Secretary inform this Council what the average penalty handed down by the court is in successful prosecution cases, and whether the Secretary considers that this penalty constitutes an adequate deterrent?

SECRETARY FOR HOME AFFAIRS: Sir, of the 453 convicted cases, 77 resulted in prison sentences ranging from two to 18 months per charge. Of the remaining cases, the fines imposed varied from \$300 to \$50,000 per charge. As regards the second part of the question, I do not think that it is appropriate for me to comment on the sentences meted out by the court.

Whitehead Detention Centre breakout

3. MR. SIT asked (in Cantonese): In view of the recent breakout of a large number of Vietnamese boat people from the Whitehead Detention Centre, will the Government inform this Council of the cause of the incident, whether contingency measures have been drawn up to deal with such incidents, and what remedial action will be taken in the light of the event? Will the British garrison be stationed outside the detention centres to prevent further escapes and assist in searching for the escapees in case of a shortage of staff, and will consideration be given to moving the detention centres to locations further away from residential areas?

SECRETARY FOR SECURITY: Sir, early in the morning of 29 April, 102 Vietnamese boat people (VBP) escaped from the Whitehead Detention Centre in what was clearly a planned breakout. Correctional Services Department (CSD) and the police responded in accordance with the established contingency plan, and the breakout was contained. Five were apprehended almost immediately and returned to the camp. A further 39 were arrested within 24 hours of the escape. In a search at Pillar Point following the breakout the police arrested two more. Further searches will be made.

Security is our highest priority in the design and operation of detention centres. We are taking immediate steps to ensure that security arrangements at all VBP centres are strengthened. I announced last week the following measures which I believe will go a long way to prevent a repeat of the Whitehead incident.

(a) first, the programme of searches at all Vietnamese refugees and VBP centres for weapons and escapees will be stepped up. Those caught will be prosecuted. If they are found to have weapons they will face additional charges;

(b) secondly, the existing fence at Whitehead will be strengthened;

(c) thirdly, the CSD will mount a mobile perimeter patrol using officers from the Tactical Response Unit;

(d) fourthly, security at all detention centres is being reviewed and where necessary additional measures will be implemented;

(e) finally, the police will place a platoon of Police Tactical Unit officers on standby close to the Whitehead centre.

The Government does not rule out a request for assistance from British military units, should this be necessary. However, I believe that at present CSD and the police are able to cope with their present responsibilities without assistance from the military.

The Government's policy is to locate detention centres away from the main centres of population wherever possible. Hence our plans to develop Tai A Chau. If the arrival rate remains low we will, once Tai A Chau is completed, be able to close down camps such as Argyle which are located on the urban area. I hope that we shall also

be able to reduce the population at Whitehead.

MR. SIT (in Cantonese): Nowhere in the Secretary's answer could I find a response as to the cause of the breakout. And as regards the contingency measures, will Government inform this Council under what circumstances the British garrison will be brought in? Furthermore, since the breakout in the early morning of 29 April, 56 armed boat people are still at large and hiding in Sha Tin or other parts of the territory. Could I ask what measures are being taken to arrest these people? In the contingency plan has consideration been given to effecting the early arrest of escapees?

HIS EXCELLENCY THE PRESIDENT: May I ask Members to please keep supplementary questions short and, if possible, on a single issue. It is easier for those who are trying to answer.

SECRETARY FOR SECURITY: Sir, there is inevitably some guesswork in trying to explain the causes and the motivation of such an escape. As I said, it was clearly a planned breakout, and therefore I believe that at least part of the motive must have been a wish to publicize their plight, and perhaps to embarrass the Hong Kong Government. Additionally, I believe that a simple quest for excitement in what is clearly a very monotonous life in detention will have played a part, and added to this, we believe, is the simple wish to go and visit friends and relatives in the other camps. As regards contingency measures, I am afraid I can only give a general reply to this. Clearly we would ask the garrison for assistance if we thought things had got to the point where our own resources could no longer cope and we needed further assistance from the military. As I said, I do not think that we have reached that point yet. As regards the boat people still at large, the police will carry out further searches and indeed further searches and sweeps at various places are planned in the near future. However, I do not think I would wish to say now when and where these searches will take place.

MR. POON CHI-FAI (in Cantonese): Sir, it has been mentioned in paragraph one of the main reply that the incident of 29 April in Whitehead Detention Centre is a planned breakout. Will the Government therefore inform this Council whether this incident involved the participation of or assistance from people outside the camp? What action is the Government going to take to penalize the masterminds of the breakout?

SECRETARY FOR SECURITY: Sir, I do not believe that anybody outside the camp was involved in this breakout. It was, I believe, planned because the CSD had previous intelligence that a breakout was planned for 27 April; they took contingency measures on that night to contain such a breakout. However, it took place in fact two nights later. As I said, I do not believe anybody outside was involved in this. But for those who did escape, they will be prosecuted, and in a number of cases prison sentences of three months have already been handed down.

MR. CHOW (in Cantonese): Sir, at present quite a number of boat people who escaped from the Whitehead Detention Centre are still at large. Will the Government consider mobilizing the police and the military to comb the nearby hillsides for the escapees so as to allay the fear of the residents in Sha Tin. If not, why not?

SECRETARY FOR SECURITY: Sir, as I said, the police will be conducting further searches. I will certainly follow up the suggestion that further searches in the vicinity of Whitehead and the surrounding villages themselves should be carried out. I believe that those searches should be carried out by the police who have the resources to do it.

MRS. FAN: Sir, the Secretary has told us that he hopes to reduce the population of Whitehead pending development at Tai A Chau. But we understand that that would also depend on the rate of arrival. Now, apart from the possible reduction of the population at Whitehead and apart from strengthening the security measures at that centre, can the Secretary tell us whether he has given consideration to other measures which will defuse the tension inside the centre, and if so, what other options there are?

SECRETARY FOR SECURITY: Yes, Sir. Clearly, simply dealing with escapes after they happen is a fairly negative way of dealing with it. I think that we also need to take a more positive approach. There is no doubt that many boat people have become institutionalized. They have little control over their own lives and they certainly do not have enough to occupy them. We are therefore, in conjunction with the CSD, the voluntary agencies, the UNHCR, and indeed the boat people themselves, considering how we can increase the scale of social welfare, education, recreation, work and

occupational programmes in the camp. I feel that involving the boat people more in the life of the camp and occupying them should help to reduce tension.

MRS. CHOW: Sir, in his reply, the Secretary said that he believed that at present the CSD and the police are able to cope with their present responsibilities without assistance from the military. It is therefore logical to assume that such deployment is only possible at the cost of normal, local services that they render. What are the local services that have been sacrificed as a result of these recent actions, and why is the Government so reluctant to request assistance from the British military units?

SECRETARY FOR SECURITY: Sir, perhaps I could take the second part of that question first. We believe that the management of this problem is essentially a problem for the Hong Kong Government, and while we have the resources and the ability to deal with it, we feel we should do so. As I said, the option of asking the military for help remains an option, but it is not one which we feel we are required to exercise at present. It is not entirely true to say that the CSD and the police are dealing with the problem entirely out of their own normal resources. Certainly the CSD do have staff provided specifically for this purpose. I agree that staffing is a constraint, but it is not a constraint that we feel they are unable to accept at present.

MR. MICHAEL CHENG (in Cantonese): Sir, could the Government inform this Council whether the penalty imposed on the escapees from Whitehead is an effective deterrent? Would the Government place the escapees and troublemakers in an isolation centre for a long period so as to achieve a better deterrent effect?

SECRETARY FOR SECURITY: Sir, yes, I believe that a sentence of imprisonment will provide a deterrent. It will take these people away from association with their families and their peers in the camp. It is also our intention that the troublemakers should be separately detained; some 180 have been removed from Whitehead and are at present being detained in prison. We expect to have developed before the end of this month a separate detention centre at the Chi Ma Wan Upper Camp which will be able to hold some 500 people. That is intended primarily for those who exert a bad

influence in the camp and who create trouble in the camps.

MR. SIT (in Cantonese): Sir, could the Secretary inform this Council of the progress of the Tai A Chau development and the likelihood of meeting the target date in October?

SECRETARY FOR SECURITY: Sir, work on the Tai A Chau Camp has recently started; it was started a few weeks ago. At the moment the scheduled date of completion is October, and I have no reason to believe that that target date will not be met.

Statement

Upgrading of electricity voltage

SECRETARY FOR ECONOMIC SERVICES: Sir, Members may recollect that last May, the proposal to upgrade the electricity voltage in Hong Kong was brought up in this Council. At that time, Members were informed that the matter was under active consideration by the Administration.

I am pleased to inform Members this afternoon that following consideration by the Executive Council, it has now been decided that the supply voltage in Hong Kong should be upgraded through a carefully phased programme from the current 200 volts single-phase and 346 volts three-phase to 220 volts and 380 volts respectively. The Government has also decided that an advisory committee, to be known as the Supply Voltage Advisory Committee, should be set up to plan and oversee the implementation of this upgrading exercise.

The decision to upgrade follows a series of consultancy studies, practical tests and consultation with a wide cross-section of relevant bodies, for example, the Consumer Council, industrial and commercial organizations and the engineering profession and so on. The proposed upgrade will offer the following benefits:

- (a) it will put Hong Kong on a system which is currently the most common in the world and therefore offer wider consumer choice;
- (b) a substantial proportion of our appliances and equipment are already rated at 220 volts and with the upgrade, their performance will be enhanced and their life

span extended;

(c) the capacity of existing low voltage system of power supply will be enhanced through the upgrading of voltage; and

(d) for industry the proposed upgrade will improve plant efficiency which is likely to result in deferral of capital expenditure.

In our detailed examination, we have also considered fully the likely impact on the public. On the whole, we are satisfied that the upgrade will not adversely affect the operation of existing equipment and appliances. Those equipment and appliance which are rated at 200 volts, if properly maintained, can still be safely operated before they are eventually replaced. Furthermore, with the recent overhaul of the electricity legislation, which will provide stricter standards on wiring works and the performance of electrical contractors and workers, there should be adequate means of ensuring safety.

As to the question of cost, it is likely that some of the existing equipment or parts of it will have to be modified or replaced to make it compatible with the upgraded voltage. We have nonetheless been advised by the power companies that the proposed upgrade will not involve capital expenditure of any magnitude that will have a knock-on effect on tariffs. Consumers will be given ample notice of the upgrade so that any likely increase in capital costs can as far as possible be absorbed into the normal replacement programme. In any event, such short-term disruptions should in the long run be offset by savings achieved from enhanced efficiency and extended life span of the equipment and appliances after the upgrade.

On recurrent expenditure, consumers may initially experience some small increase in power consumption after the voltage upgrade. However, the effect is likely to be minimal and limited in duration, particularly having regard to the fact that electricity consumption accounts for less than 1.8% of average household expenditure and for an average 1.2% of the total operating costs for our manufacturing industry.

Nonetheless, we intend to proceed cautiously by adopting a phased programme spread over approximately seven years. For the initial Stage, the upgrade will apply to installations inside government buildings; this will then be followed by those in buildings of the Housing Authority in Stage II and by those in the private sector in Stage III. The whole programme will rely chiefly on education, promotion and

persuasion. Legislative requirements will be kept to a minimum.

Considerable preparatory work is necessary to ensure that the upgrading exercise proceeds smoothly. For this purpose, we propose to establish a high-powered advisory committee, to be known as the Supply Voltage Advisory Committee, to advise on and oversee the implementation programme. The Committee will be appointed by the Financial Secretary and will form the focal point of liaison on all matters relating to the upgrading exercise. It will collect and disseminate the necessary information and co-ordinate publicity efforts for the exercise. The Committee, which will be headed by a non-official chairman, will include representatives of consumers, commercial and industrial organizations, the supply companies, the engineering profession, tertiary institutions, community groups and government departments concerned.

The decision announced today will affect all of us in one way or another. There may be some short-term inconveniences but in the longer term, both the community and the economy should stand to benefit. I am confident that with the community's support, the programme will be implemented smoothly.

First Reading of Bills

MUNICIPAL SERVICES APPEALS BOARDS BILL 1990

DIRECTOR OF INTELLECTUAL PROPERTY (ESTABLISHMENT) BILL 1990

ROAD TRAFFIC (AMENDMENT) BILL 1990

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

Second Reading of Bills

MUNICIPAL SERVICES APPEALS BOARDS BILL 1990

THE CHIEF SECRETARY moved the Second Reading of: "A Bill to establish the Urban Services Appeals Board and the Regional Services Appeals Board, to provide for the

powers and procedures of these boards in respect of appeals against certain administrative decisions, and for related matters."

He said: Sir, I move that the Municipal Services Appeals Boards Bill 1990 be read a Second time.

The purpose of this Bill is to establish appeals boards to determine appeals against decisions made by the municipal councils under the Public Health and Municipal Services Ordinance, the Dutiable Commodities (Liquor) Regulations and the Places of Public Entertainment Ordinance. To this end, the Bill seeks to establish the Urban Services Appeals Board and the Regional Services Appeals Board.

At present, where there is a right of appeal against a municipal council decision, the appeal lies to the Governor in Council. Such decisions relate mainly to licensing matters.

The Bill provides for the Boards to have the same chairman, who will be appointed by the Governor. One or more vice-chairmen may also be appointed. The chairman and any vice-chairman are to be legally qualified persons eligible for appointment as a District Court Judge and may not be a member of the Urban or Regional Council. There will also be two or more members of the relevant municipal council and an equal number of non-council members. Thus a quorum of five persons, including the chairman, will be required and the majority of a Board will not be members of a municipal council. Any municipal council member who does sit on a Board must not have been involved in making the decisions under appeal.

So, while it is important that the Appeals Boards should enjoy an independent status, it is also important that the municipal councils' authority should not be undermined. It is for this reason that members of the municipal councils will sit on the Board but they will never be in the majority. It is also important that the Boards should be well versed in municipal council policies and the Bill requires the Appeals Boards to have regard to any material statement of policy made by the relevant municipal council, provided that appellants could be expected to be aware of the statement.

The Bill requires hearings to be conducted in public, except in special circumstances, and the Boards to state in writing the reasons for their decisions. It also provides for the parties to the appeal to have the right to attend and be

represented at board hearings.

Decisions of the Appeals Boards will be final, although there will be a right of access to the courts to seek judicial review.

Sir, the Municipal Services Appeals Boards Bill provides for the establishment of a channel through which persons who feel aggrieved by decisions made by the councils may seek redress. I believe the Municipal Services Appeals Boards will prove to be fair and independent bodies which will gain the confidence of the general public and that of the municipal councils.

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

Question on the adjournment proposed, put and agreed to.

DIRECTOR OF INTELLECTUAL PROPERTY (ESTABLISHMENT) BILL 1990

THE FINANCIAL SECRETARY moved the Second Reading of: "A Bill to provide for the establishment of the office of Director of Intellectual Property and the appointment of other officers, to define their powers and duties, and to make provision for connected purposes."

He said: Sir, I move that the Director of Intellectual Property (Establishment) Bill 1990 be read the Second time.

The Bill provides for the establishment of a Director of Intellectual Property to replace the Registrar General as the statutory authority for the registration of patents and trade marks, and for the appointment of other officers, both legal and professional, to staff a new Intellectual Property Department.

The Intellectual Property Department would take over the Trade Marks and Patents Registry of the Registrar General's Department, and would in due course expand to encompass protection of other intellectual property rights. Setting up this new department would demonstrate to our trading partners Hong Kong Government's commitment to protect intellectual property rights.

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

Question on the adjournment proposed, put and agreed to.

ROAD TRAFFIC (AMENDMENT) BILL 1990

THE SECRETARY FOR TRANSPORT moved the Second Reading of: "A Bill to amend the Road Traffic Ordinance."

He said: Sir, I move that the Road Traffic (Amendment) Bill 1990 be read the Second time.

This Bill has two main objectives. First, it empowers the Commissioner for Transport to specify the requirements for motor vehicles used for driving tests. Second, it requires light goods vehicles over six years old to be examined at designated car testing centres before they are relicensed.

The high accident rate of light goods vehicles in recent years has been a cause of public concern. To further improve road safety, a separate driving test for persons wishing to drive these vehicles was introduced on 1 January 1989. However, while candidates are asked to provide test vehicles of a specific weight, load, length and dimensions to test fully their driving skills, there is no such legal requirement other than to provide a light goods vehicle. As the gross weights of light goods vehicles can range from under 1.9 to 5.5 tonnes, it is proposed to amend the law to empower the Commissioner to specify the details of such test vehicles and to require candidates to provide such vehicles, so as to ensure that candidates are tested on an appropriate type of vehicle.

In the last two years, light goods vehicles in use are often found to be improperly maintained, thereby increasing the likelihood of traffic accidents and vehicle breakdowns which in turn cause road congestion. Under the proposed amendments, the current private car inspection scheme requiring all of the vehicles over six years old to be inspected annually will be extended to cover light goods vehicles to ensure their road worthiness. Initially, only those light goods vehicles under 1.9 tonnes will be inspected. Inspections of others over 1.9 tonnes will be implemented as soon as present testing facilities have developed the capacity to meet the demand.

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

Question on the adjournment proposed, put and agreed to.

APPROPRIATION BILL 1990

Resumption of debate on Second Reading which was moved on 7 March 1990

Question on Second Reading proposed.

CHIEF SECRETARY: Sir, Members will note from the Order Paper that only four official Members will speak this afternoon. But what we lack in quantity no doubt will be made up in terms of quality. The small number of speakers on our side, and I choose my words carefully, is a reflection of non-official Members' speeches which unusually tended to concentrate on budgetary and economic matters rather than the broad sweep of government activities. Education, social welfare and health nevertheless featured strongly and will be dealt with by the respective Secretaries. Our keynote speaker is of course the Financial Secretary, but the jester has to prepare the way for the king; so I speak first and would like to address two issues: the labour shortage and the Civil Service.

Sir, no fewer than eight Members have asked us to take a fresh look at our policy on the importation of labour. All have argued that since inflation is caused mainly by wage increases as a result of an excess of demand over supply in the labour market, we must import labour so that wages will not continue to rise.

Let me first assure Members that we are reviewing our policy in this difficult and controversial area. I expect that recommendations will be put to Executive Council shortly. That said, it might be helpful if I were to outline some of the factors upon which our review of policy is based.

Under existing policy the importation of labour is limited to areas where there are shortages, and is largely confined to the professional and managerial level and, to a limited extent, to technician, craft and supervisory levels. The fundamental principle of this policy is that some pressure of demand for labour will both encourage employers to raise labour productivity through capital investment and training, and also enable our workers to upgrade themselves and share in the fruits of economic growth. These objectives are being met to some degree. Clearly, in the review of our policy for importing labour, they must not be unduly compromised.

Nevertheless, there is now growing evidence that the slow growth rate of the labour force over the long term may be posing a serious constraint upon the ability of our economy to grow. It has been argued forcefully, moreover, that there are limits to the advantages of mechanization, that in many industries mechanization and automation cannot provide an adequate substitute for labour, and that in other industries additional investment would have to be complemented by an adequate supply of suitable manpower.

In our review of policy therefore we are addressing the question of how these constraints upon the growth of the economy might be removed.

Our approach will be selective. Assuming that a case can be made for importing additional labour, the quality of any workers brought in must be such that it stimulates investment in plant, machinery and productivity. That suggests that we might widen the existing scheme to include experienced operatives in addition to skilled workers. But we must also look carefully at the numbers involved. I would emphasize that we are not contemplating large-scale, indiscriminate importation of untrained, inexperienced labour.

We are looking separately at the likely needs of our construction industry, particularly during the period when the port and airport developments are in full swing. There may well be a case for allowing tenderers for such major projects to import labour if there continues to be pressure on the construction industry as a whole.

Some Members have referred to unnecessary bureaucracy in the workings of the existing scheme for the importation of skilled labour. I have taken these arguments on board and have asked those who are reviewing our policy to try to simplify procedures. But I am bound to say that some degree of control is unavoidable since to have a free for all in this politically charged area would be asking for trouble. We must ensure that there is a genuine shortage of labour which needs to be met, and that those coming into Hong Kong are paid the "going rate" for the job.

I move now to the Civil Service.

The public service has been a focus of attention during the Budget debate and some harsh things have been said about the attitude of civil servants and their

productivity. Concern has also been expressed by many Members over unrest in the Civil Service and the level of the March pay rise.

Sir, before I address particular concerns of Members I would like to make a general comment. Knocking the Civil Service is a popular sport. Politicians the world over are enthusiastic participants. There is never a shortage of cheering fans in the media and in the public to applaud their efforts and urge them on.

We in the Service welcome constructive criticism and indeed it is essential for any civil service to be open to criticism and to take careful heed of it and to do something about it. But it is much easier to do something about criticism if it is accompanied by constructive suggestions on where improvements can be made.

We are told that the Civil Service is too big and is taking up too large a slice of public expenditure. The Financial Secretary will describe some of the measures we have been taking through the Star Chamber, value for money studies and the resource allocation system to tackle that problem. We have achieved considerable savings and are determined to do even better in the years ahead. But when we have done all we can to squeeze the fat out of the system, some more difficult decisions will have to be taken if we are to reduce the public sector further. And here it may be worth pointing out that the Civil Service does not consist of a huge pool of anonymous tea-drinking bureaucrats sitting in offices pushing paper. Policemen, correctional services officers, nurses, social welfare officers and teachers are civil servants too. Indeed although since 1987 the Civil Service has expanded at an annual average rate of 1.6% most of the additional staff involved went into such services such as health (2 100 people), (immigration -- 890, police -- 820, fire services - - 650), social welfare (620) and education (350). My point is a simple one. There will come a time when reducing the size of the Service further means either cutting service to the public or at least limiting the range of services provided. At that stage, which may come sooner rather than later, I hope that Members will come forward with their ideas on which public services should be curtailed and which group of civil servants made redundant.

Several Members referred to unrest in some sectors of the Civil Service and of course I share their concern. But the problem should also be seen in proportion. Over the last three years, only 13 out of 340 grades have been involved in any form of industrial action. Without wishing to condone such actions, I should of course record that in the main they were restrained and shortlived. With the exception of

one incident, none involved a full strike.

There have, of course, been several other disputes between management and employees. Some attracted public attention. But, and this is the important point, all were successfully resolved through direct and frank discussion. They had no impact on either the level or quality of service provided to the public. These simple statistics illustrate the effectiveness of the existing consultative machinery.

The machinery is elaborate. It starts at the personal level with several avenues for complaints and advice. These are well-known to staff and well-used. At the next level, each of the 52 departments has a consultative committee, in some cases more than one, in which grievances and suggestions can be voiced. Representatives of the Civil Service Branch attend these to act as a link between departments and central government. And, at the centre, there are four consultative councils in which management and staff representatives discuss service wide matters such as pay reviews, allowances, housing and other conditions of service.

Staff associations within the Service are well organized and fight hard for their members. We have encouraged their development because we believe in consultation and the settlement of disputes through frank formal negotiation. With 190 000 people in the Service we must have proper machinery for consultation in all grades and at all levels; the informal style of the private sector simply would not work. The success of our system should be measured by the quiet consensus which ends the majority of disagreements. Not by the few, noisy instances where, for whatever reason, agreement is not possible.

There will, of course, always be room for improvement. Indeed, the Administration is finalizing some proposals for change in the consultation arrangements.

Queries have been raised both inside and outside this Chamber, most recently this afternoon, about the validity of the pay trend survey system. Some Members have focused on the whole basis of civil service pay policy. This is natural at a time when there is a downturn in economic growth.

For the avoidance of doubt, let me say that there has been no change in the Government's policy in determining the size of pay adjustments. The principle remains that we follow the private sector, not lead it; that we establish what the

private sector has awarded its employees in the preceding year before awarding the civil servants anything. We do this by an independently conducted survey of 70 companies of various sizes: 33% employ fewer than 500 staff, 27% between 500 and 1 000, and 40% over 1 000. They do not represent a complete cross section of Hong Kong firms because the Government aims to compare itself with good employers in the private sector. But good does not mean best, and the list is carefully vetted by members of the Independent Pay Trend Survey Committee to ensure a fair selection. Here I would emphasize that all the committees dealing with civil service pay have strong representation of private sector employers who are no doubt very conscious of the impact which civil service pay has on the business sector.

Last year's survey showed that overall the private sector had awarded its staff an average 17% pay increase between 1 February 1989 and 31 January 1990. A similar survey by the Institute of Personnel Management showed a higher average of 17.9% over the same period. The pay trend survey is, however, not the only factor which we take into account. The general economic and financial situation and budgetary considerations also play an important part. That is how it should be, because the Civil Service must be expected to share both the ups and downs in the performance of our economy.

It was against this background that the Executive Council and a large majority of the Finance Committee of this Council considered an award of 15% across the board to be both fair and reasonable in all the circumstances. I would urge all in the Civil Service to recognize this, and indeed private sector employers too.

Some Members have suggested that the whole policy covering civil service pay and conditions of service should be reviewed. But if such a review were to be undertaken we would need to hear from Members their ideas on the principles on which any new policy should be based. The present system has evolved over many years, has survived detailed scrutiny by several independent committees and has been reaffirmed by the Executive Council within the last year.

In the final analysis it must be evident that any policy must ensure that government salaries and terms of service must be competitive with the private sector, or it will not be able to attract or keep quality staff.

Sir, I am sure I do not need to stress the importance of maintaining the morale of civil servants during the transition and beyond. Despite their personal anxieties

about the future, the vast majority of civil servants are responding to the onerous demands placed on them with a sense of mission and commitment. As a responsible government, as I have made clear, we accept the right of the public to monitor our performance; and recognize that we gain from constructive criticism. By the same token, I believe the Civil Service deserves credit for doing a good job under sometimes very difficult circumstances.

For our part, we will ensure that civil servants fully appreciate the crucial role they have to play in the years ahead not only in providing efficient service but also as a source of stability within the community. By so doing I am sure that they will help to develop a sense of mutual understanding and support between civil servants and the public they serve.

Sir, I support the motion.

SECRETARY FOR HEALTH AND WELFARE: Sir, I should like to turn first to social welfare issues and am most grateful for the very constructive proposals put forward by Members regarding possible future developments in this area.

Many of the points made, such as the suggested introduction of some form of supplementary allowance for children under the Public Assistance Scheme, are currently being addressed by the working party which, in consultation with the Social Welfare Advisory Committee, is in the midst of formulating proposals in the form of a draft White Paper on social welfare.

In reviewing our social welfare services, members of this working party have set their eyes very much to the future. The intention is to produce a White Paper which will give a clear direction as to the way ahead. Innovative as I hope the new White Paper will be, this exercise is essentially designed to build on the significant progress already made in the social welfare field, particularly over the past decade.

In response to the fear expressed in some quarters that, at some time in the future, Hong Kong could face an unsustainable social welfare burden, I should like to make two points. I would first reiterate the remarks made by you, Sir, in your annual address to this Council last October when you affirmed that it was not our intention to develop a western-style welfare state in Hong Kong. However, we do have an important duty to ensure that our welfare infrastructure is responsive to the changing needs of society and in particular caters to the vulnerable and the disadvantaged amongst

us. The rate at which further progress can be made will depend on a number of factors including, for example, the availability of trained manpower. We have arrangements in place to increase the output of social work students from our tertiary institutions over the next few years and I hope that the recent recommendations of the Standing Commission on Civil Service Salaries and Conditions of Service will be of assistance in improving retention and reducing wastage rates of social workers in both the Government and the voluntary sector.

I should now like to refer to the present Old Age Allowance. Without in any way pre-empting the findings of the working party which, as part of its terms of reference, is examining all the component elements of our social security system, I should like to offer some observations at this stage. I believe that, as a community, we can take some pride in the fact that the Old Age Allowance and, indeed, our whole social security system, is entirely non-contributory in nature. This would not, however, be the case if the conversion of the Old Age Allowance to old age pension, as one Member has suggested, were to be pursued in the context of the practice in those overseas countries, including the United Kingdom, where the award of such a pension is subject to contributions made by the recipients during their working lives.

With regard to the doubt expressed about the adequacy of the Old Age Allowance, I should like to clarify that this is designed to assist in defraying the additional expenses associated with being elderly. Those amongst our senior citizens who do not have sufficient resources of their own to maintain a basic standard of living are not expected to rely solely on the Old Age Allowance and can obtain financial assistance under our social security system. The elderly in our midst make up a substantial proportion of the beneficiaries under this system, which provides for a variety of grants and allowances including payments through the Public Assistance Scheme and the award of disability allowance to those in need of constant care and attention. Elderly recipients of social security are, in fact, drawing on average a level of financial assistance approaching four times that of the Old Age Allowance, and some could be drawing a sum up to six times higher, depending on need. There remains in our community a traditional respect for elderly people and this is commendable. We shall continue with our endeavours to promote the well-being of elderly people to assist them to grow old with dignity in the community.

Medical and health

Turning now to medical and health issues, I am encouraged by the richness in the diversity of views expressed by Members, many of whom have supported increases in

expenditure on medical and health services but have cautioned that an equitable balance be struck between hospital and health services.

Hong Kong can justifiably take pride in the health indices which are unequivocally among the best by world standards. For example, in 1989 the infant mortality rate was 6.9 per thousand live births and the maternal mortality rate 0.06 per thousand total births. Both rates are lower than many advanced countries including the United States and the United Kingdom. The life expectancy in Hong Kong is 74 for male and 80 for female which is higher than in many advanced countries. Our success in the prevention and control of communicable diseases and the effective public health services including maternal and child health and immunization have no doubt made significant contribution to these achievements, which have also been highly commended by the two World Health Organization consultants who have recently visited Hong Kong to review the primary health care services.

Over the past two decades, we have built seven new hospitals and extended the capacities of existing institutions. We have now some 25 500 hospital beds, which represent an increase of 9 000 beds or 54% over what we had in 1970. Last year, about 650 000 patients were treated in our public hospitals. These figures are again impressive, as this means in effect we treat two and a half times more patients compared with two decades ago. We have also introduced new specialist services and sophisticated equipment and high technology treatment modalities in many areas to meet the demands of complex medical procedures and the rising aspirations from both the professionals and the community. In fact we have been able to maintain a professional medical service at minimal expense to the majority of the community, and at the same time we have developed many specialist clinical services to a level of international standing.

We have also been able to maintain a dedicated and largely enthusiastic and efficient staff within the public sector. We have increased the levels of both local and overseas training for our doctors, nurses and allied health professionals, whose work performance commands international recognition and respect.

Notwithstanding our many achievements in the past years, we are now poised to reach new heights with renewed energy and vision to accomplish important reform measures.

We have established a Working Party on Primary Health Care which is currently

examining many issues to enable us to meet the needs of Hong Kong into the 1990s and beyond. A shift in emphasis and attention to primary health care is in line with the world trend. The World Health Organization has declared that priority health care is a key to achieving "Health for All by the year 2000". Many of the world's industrialized countries are re-examining their health care provisions in the light of soaring costs arising from expensive, highly specialized and hospital-based services, in an effort to promote preventive care.

The primary health care review has, thus, come at the right time and will help to complement the major reform measures planned for hospital services through the proposed setting up of the Hospital Authority.

However, a good primary health care system is no panacea to the problems of financing public medical and health services, the costs of which are likely to rise dramatically in the years to come. New sources of funding will have to be found and references have been made during this debate to the "user-payer" concept, to medical insurance, and some form of contributory scheme. Before a decision could be reached, however, on the most acceptable alternative sources of funding for our medical and health services, the merits and demerits of each approach will have to be considered in detail having regard to the Government's long-standing policy to provide subsidized quality health care services to the community and the socio-economic realities of a low tax system.

As far as hospital fees and charges are concerned, I made clear in this Council last week when introducing the Hospital Authority Bill that the Government will not abdicate its financial responsibility towards the Hospital Authority and, that the process of setting up the Hospital Authority is not a move towards privatization. With the proposed setting up of the Hospital Authority, the Government will retain adequate powers over the level of fees to be charged and no real increases in fees will take place until new arrangements for fee waiver are put in place and until there are demonstrable improvements.

Sir, I am very encouraged by the generous remarks from Mr. Ronald CHOW and Dr. LEONG Che-hung. To put in focus the important proposals for the future establishment of the Hospital Authority, I would reassure this Council and the general public that the decision to establish the Hospital Authority has taken a number of years to reach and has not been taken lightly. The setting up and implementation of new reforms and improvements to the management structure including some new training opportunities

at today's price will cost HK\$2 billion per annum in additional expenditure and cash outflow. I shall look forward to Members' generous support in voting the necessary funds from the public purse in due course.

In deciding to proceed with the establishment of the Hospital Authority, the Administration has committed itself to the integration of the public hospital system. Integration will be achieved by bringing government and subvented hospitals under the umbrella of a single authority and by providing common terms of service for staff in the two sectors. However, while integration of the two hospital sectors will take place as soon as the Authority is established, it will be some years, I think, before all staff will be employed on the same terms of service. This arises because, in the interests of ensuring a smooth transition to the new arrangements, the Administration has given an undertaking that staff should have the option of retaining current terms. Thus, for some time the Hospital Authority will be faced with a mixed staff situation. This is not ideal but it should not prevent the Authority from achieving its objectives.

The Authority's terms of employment have been designed on the basis that the overall cost should remain comparable to that of civil service terms. Within this constraint, the new package includes several attractive features, such as encashment of certain fringe benefits, which would not be possible for those remaining on civil service terms. Whether the new terms are more advantageous than civil service terms will depend on an officer's individual circumstances and requirements.

The Administration considers that the options given to staff are fair and reasonable. They will facilitate the early setting up of the Hospital Authority.

Far from wishing to emulate Mr. Ronald CHOW's classical "smoke-screen" allusion drawn from the Romance of the Three Kingdoms, I would like nevertheless to quote from a modern scientist E.C. WILSON, who said "Times of change are times of fearfulness and times of opportunity. Men feared the uncharted space of the seas but Columbus found a new world. Men feared the skies and pictured demons in the air, but wise men of today have conquered the skies and face the future unafraid". In a curious way, this twentieth century quotation found a similar vein in the ancient writings of Lit Yu Kou on courage and against groundless fear.

I have no doubt in my mind that the proposed reform measures will bring change and with it unprecedented new opportunities. In managing change and planning for the

future, I take comfort in the wonderful words of Mr. Paul CHENG who advised us in this debate to recognize the need to give of our best so as to achieve a shared vision, and to demonstrate leadership by example through restraint. I also take courage from Mr. David CHEUNG's brave call for "pride in service to our community".

Sir, I have no doubt that given a shared vision and in our endeavour to serve, we will achieve long-term goals by first overcoming short-term difficulties. I look forward to the continued support of this Council in taking up this challenge in service to the Hong Kong community.

Sir, I support the motion.

SECRETARY FOR EDUCATION AND MANPOWER: Sir, no fewer than eight Members expressed strong views on the need for improving pre-primary education or bringing it under full subsidy. Before I respond it might be helpful if I were to recapitulate the Government's strategy for the development of education for the 1990s.

This strategy is based on two important premises. They are, first, that the quality of our tertiary education is not in doubt but the number of places has fallen far short of our economy's needs and our community expectations. Secondly, the number of places available in the school system is adequate but improvements should be made to its quality. This situation, Sir, will be with us for quite some time.

Last year, Sir, during the debate on your address to this Council, it seemed clear that we had reached a large measure of consensus that the rapid expansion of tertiary education was the right direction for us to take, given the way our economy was moving towards knowledge and technology intensive employment. Indeed, my Branch's manpower projections have confirmed that, unless we doubled the number of first-year, first-degree places by the mid-1990s, our economy would be in trouble. I say this because, in spite of the planned increase in the local supply of graduates, we will still be heavily dependent on overseas supplies of graduates at that time. The only doubts Members had last year was whether this unprecedented rate of expansion was achievable. I can repeat my assurance to Members that our plans, albeit ambitious, are achievable and that we have made good progress.

One Member has suggested that the majority if not all the higher diploma work currently undertaken by the polytechnics should be transferred to the Vocational

Training Council. I agree that this is an economical way of expanding the provision of degree places and, indeed, I understand that the University and Polytechnic Grants Committee (UPGC) will be recommending that the polytechnics be allowed to expand their degree programmes substantially. But economy is not and cannot be our only consideration. In the interest of preserving the overall balance between the tertiary institutions, as well as the quality and variety of our tertiary education, we must allow the universities and other non-polytechnic institutions an appropriate share in the expansion programme. It may not be possible, therefore, to permit the polytechnics to expand their degree programmes as much as they would wish.

Given that education is expensive because it is heavily subsidized, the corollary to our expansion of tertiary education is that other sectors of education will have to take a lower priority. As you, Sir, made clear in your address, "In practical terms, this means slower progress in some other areas which, however desirable in themselves, have to take their place in the queue". The queue is long, because it has to include all the recommendations that the Education Commission has made in its second and third reports, and will make in its fourth, to improve the quality of our education in schools. These recommendations cover, for example, the introduction of a new sixth form curriculum, the improvement of the Bought Place Scheme and the creation of the Direct Subsidy Scheme. They will also include possible changes to the core curriculum for our nine years of compulsory education, improvements to the way we develop curriculum, whole-day schooling at Primary Five and Six and the reform of our policy on language in education.

Many of these recommendations have been accepted by the Government as playing an essential part in improving the quality of education in schools. Their implementation and financing will need to be carefully planned and carried through, very probably in phases. For example, the introduction of full-day schooling at Primary Five and Six, which two Members were dismayed to learn would only begin in 1992-93, cannot be achieved overnight. It requires territory-wide planning against demographic trends as well as district-by-district implementation, so that the spillover of teachers and pupils from one school to another can be carefully timed and co-ordinated. Some 33 additional schools, moreover, will have to be built to accommodate the additional classes involved, at an estimated cost of \$802 million at today's prices. In addition, extra teachers will need to be trained and employed, and this will also be costly. The provision of funds for these proposals has not yet been considered, let alone agreed.

Against this background, Sir, I am afraid that the improvement of pre-primary education on the scale that Members wish to see has necessarily to take its place in the queue. But that is not to say that the Government is either insensitive or unsympathetic. Members may believe that the \$11 million set aside for the new fee remission scheme is inadequate, and that the level of household income determining eligibility for fee remission borders on meanness. The fact is that we have drastically simplified the means of providing assistance, increased and improved training opportunities for teachers and, most importantly, probably doubled the number of needy families to be brought within the net. I might also add that even the scraping together of the \$11 million in last year's resource allocation exercise was not accomplished without the sacrifice of other items, but it was done because the Government recognized the strength of public and parental sentiment which many Members have reflected.

What, then, of the future? Several Members have asserted strongly that kindergarten education is essential and that overseas practices and research may not be relevant to Hong Kong's circumstances. I am afraid I have difficulty swallowing these arguments in their entirety given the fact that 141 nations, or nearly 70% of the world, do not subsidize education until at least the age of six. None the less the Director of Education has started to research the long-term effects of pre-primary education upon the development of children in Hong Kong. And in the meantime, Sir, within the very limited amount of new resources allocated to me each year for services within my programme area, I shall try not to forget our kindergartens and kindergarten teachers.

At least four Members have suggested that I should take a good hard look at existing activities within my programme area, with the aim of contracting or phasing out those services which are no longer required or being duplicated elsewhere, so as to generate savings that could be re-deployed towards, for example, kindergartens. Adult education services were cited as a possible candidate for pruning. Sir, this review process has, in fact, been going on for some time as part of the Government's response to leaner times ahead, and it is led by the Chief Secretary and the Financial Secretary, to whom all Branch Secretaries are required to make proposals. As a result, within my programme area the Director of Education and I have already identified several existing services, the pruning and phasing out of which will generate some useful savings. Without the savings I would not be able to allocate funds to authorize the Director of Education to introduce, for example, the reformed sixth form curriculum next year.

With these remarks, Sir, I support the motion.

FINANCIAL SECRETARY: Sir, contrary to the general tenor of the comments made by Members in this year's debate on the Budget, Hong Kong has not been brought to its knees, although anyone listening to the debate could be forgiven for reaching that conclusion. We have a number of problems, which I addressed in my Budget speech, and I shall be saying more about some of them this afternoon. But there is absolutely no need to talk ourselves into a state of gloom and despondency, and indeed to do so does not serve the interests of our community in any way whatsoever.

Before I turn to matters raised by Members, there is a further comment that I would like to make. The tone and character of the debate this year seemed to be quite different from that of earlier years. On this occasion, many of the speeches seemed targetted at other audiences, rather than contributions to a Budget debate. This, I think, was a pity. In the past the thoughtful and constructive comments by Members have been helpful in enabling the Administration to shape its policies. In this Council, a budget debate overburdened by short-term political considerations can distort the picture. Something is lost.

STRATEGY

I shall begin by enlarging on my approach to this year's Budget, with a description of the process leading to it. Some Members called for a long-term, strategic approach, suggesting that this did not exist. I did, of course, set out at length in the Budget speech my strategy for the public finances, as I have done in my previous speeches. The strategy clearly covered more than one financial year and indeed marked the way forward for the years ahead. But, nevertheless, there are two points I would like to stress in answer to Members' comments.

First, successive Financial Secretaries, including myself, have followed a broadly similar and consistent financial strategy. It has to be faced, however, that the measures which flow from that strategy will differ markedly, according to factors such as the current and forecast state of the economy. The strategy for a Budget does not exist in a vacuum. This year one of the key factors I have had to take into account is the dramatically lower growth rate of our gross domestic product (GDP) compared with the heady and quite recent days of 1986 and 1987, when we had double

digit growth.

Secondly, the image that sometimes seems to be in people's minds of the Financial Secretary dashing off the Budget in a couple of weeks just after Chinese New Year is in a sense flattering. Would that it were possible. The reality is quite different. The process by which budget strategy is developed is year-long, and involves three Branches -- Finance, Economic Services and Monetary Affairs. We have already begun strategic meetings for 1991-92. And preparation of the Budget rests firmly on long-term assessments. We do not just look one year ahead. We have regard both to a broad 10-year forecast and to a somewhat more detailed five-year forecast, the latter being the Medium Range Forecast. Both are essential to our planning.

We pay considerable attention to our guidelines, and particularly to the need to keep public expenditure growth broadly in line with the growth of GDP. But the long-term, strategic nature of this process is underlined by the fact that we do not try to meet this guideline year by year, but rather over a period -- a point emphasized a number of times in the strategy section of my Budget speech.

That said, I welcome the calls by many Members for controlling public expenditure, and in particular recurrent expenditure, more tightly. It was a key theme of my Budget speech -- and indeed I sounded initial warnings on this problem in the 1989 Budget speech. But what I also need from Members is their support, their real support, in the implementation of this tighter control. To give this support will not always be easy or politically popular. Restraint cannot easily be combined with pressure for more expenditure and more new services. Members might recollect that in the 1989 Budget debate, well over half the speakers called for additional expenditure, tax concessions, or both. I take considerable comfort from the fact that this year the pressure for funding new items was noticeably less. Yet still some Members pressed for increased expenditure on pre-primary education, tertiary education, manpower training, social welfare, dental services, hospital and health care, research and development, science and technology, improving Hong Kong's image, and so on. All this and a range of suggested tax concessions.

Sir, it may be helpful in further explaining the approach underlying the Budget if I expand upon the situation as I saw it when I put together my proposals. For 1990-91, we were faced with a deficit. Two basic decisions had to be made.

First, whether to balance the Budget. I decided this was essential, bearing in

mind the infrastructural programme ahead of us, and other priority areas such as tertiary education and the environment, where increased expenditure is highly desirable. I also took into account the relatively low GDP growth likely in the next few years, with the probability of lower tax yields. I believe, as I explained, that the Government must seek to maintain a strong financial position, having regard to the tighter budgetary situation that may be encountered in the short and medium term.

The second question flowed naturally from the answer to the first, namely how best to raise the additional revenue. The reason for relying on indirect taxes was not only my concern over our narrow and vulnerable tax base -- a point I will return to later in this speech. It was my judgement that to increase direct taxes on this occasion would have risked sending entirely the wrong message, particularly to overseas investors. The general trend in more advanced economies, including some of our key competitors in the region, is in the other direction -- towards lowering direct taxes. I do accept that if circumstances so dictate in future it may become necessary to reconsider the option of increasing direct taxes. But an increase would not have been wise this year, nor was it necessary. I believe in low direct taxes.

I also believe that the tax measures chosen were consistent with our general strategy, and that some of the criticism has been ill-considered. I will elaborate later on the impact of the Budget on the majority of Hong Kong citizens.

In the context of my strategy, an area of expenditure which was the focus of a considerable number of comments was spending on the infrastructure. There was no common theme. I was amazed that one Member thought we had been too hasty in reaching the port and airport decision; after eight consultancies stretching back to 1973, I had thought this was the one charge from which we were safe. But I am disturbed that some Members questioned the value of these infrastructural works. We had just the same sort of faint-heartedness when the Cross Harbour Tunnel and the Mass Transit Railway projects were under consideration. I would ask Members to try to imagine how Hong Kong would be today if these two projects had not gone ahead. Let there be no doubt that the economic and social cost of not having adequate external communications would be high -- in my view, much too high. The engine of growth and prosperity is our visible and invisible trade. Without a first class port and airport, Hong Kong would soon cease to be a first class and dynamic economy, an economy that has brought benefits to the population as a whole -- not just to businessmen and industrialists. Remember that as a community we have enjoyed an unrivalled combination of assured employment and rising real wages.

As regards the cost of the port and airport, this is understandably a matter for concern to Members, and it will need careful watching. It is no doubt true that costs could increase in real terms; we have emphasized from the beginning that the initial estimates were necessarily only broad orders of costs. That is one of the reasons why we cannot refine our financing plans until more detailed designs are available and costings have been carried out. The relative requirements of the Airport Authority for debt and equity, for example, will depend on revised cost and revenue estimates, and on the economic and financial climate at the time.

IMPACT OF THE BUDGET

And so to the impact of the Budget. Many Members took me to task over the various revenue measures, claiming that people in the lower and middle income groups particularly would be seriously affected and that their standard of living would be eroded. This ignores, however, the increases in real earnings in recent years and the continued growth in expenditure on government services.

The great majority of those to whom Members seemed to be referring would not be liable to salaries tax, and therefore their contribution to government revenues would be limited to the payment of indirect taxes. But it is precisely this same group who are likely to benefit from government spending on health, education, housing and welfare, all largely paid for from general revenue. The revenue measures I proposed are expected to yield \$3.1 billion in 1990-91, which would not suffice even to meet the planned additional expenditure of \$3.96 billion on social services alone. What I am saying is that, in general, the less-advantaged members of our community should not have suffered a reduction in their standard of living overall. Their wages have increased to a greater extent than their contribution to indirect taxes and the services they enjoy have been improved.

Lower and middle income earners who are liable to salaries tax should find that the effect on them of my indirect tax measures are neutralized by the tax concessions I proposed and from which they will benefit. The zero-rating of the clawback on personal allowances and the reduction of the rates of salaries tax applicable to the first two \$10,000 bands of net chargeable income are particularly to their advantage. Again, they will also have benefited from real improvements in earnings.

INFLATION

Sir, I appreciate that the concern expressed by Members regarding the impact of the Budget goes beyond the actual budgetary measures themselves, and includes the effect on inflation. Inflation was described by more than one Member as public enemy number one. Let me say at the outset that I share Members' view that inflation is a very real problem indeed. I would like, therefore, to address the problem in more detail.

The rate of increase in the Consumer Price Index (A) rose to 10% in March, after moderating from 9.8% in January to 8.4% in February. This increase was due in part to higher utility charges and, as I acknowledged in my Budget speech, fiscal duties. Nevertheless, for the first quarter as a whole, the rate of increase in the CPI(A), at 9.4%, has eased from the peak level of 11% in 1989.

The current inflationary pressures are mostly domestically generated rather than imported. This is apparent from the faster increases in prices for those items in the CPI which have a high local service content, such as meals at restaurants, public transport, and various types of services. The tight labour market has led to keen competition among employers for scarce labour resources. The consequent surge in wages and prices demonstrates clearly that demand is outstripping supply. Hong Kong is, however, not alone in this problem. Many economies elsewhere are currently facing mounting inflationary pressures from the same cause. The Chief Secretary has already responded to those Members who, in this connection, pressed for a further relaxation of our policy on the importation of labour.

Price increases are never welcome, but I should point out that in recent years incomes have risen faster than inflation. For example, earnings of employees in the manufacturing and service sectors rose by an average of 5% and 6% respectively in real terms last year. As a consequence, our standard of living has continued to improve. This is reflected in the continuing strong demand for small to medium-sized residential flats and in increased expenditure on leisure activities.

I have explained on previous occasions that with our small open economy and the need for exchange rate stability within our linked exchange rate system there is little scope for the Government to pursue monetary policies to regulate demand. Given the relatively small size of the public sector in the economy, the scope for applying fiscal policies to regulate demand is also limited. Moreover, widespread price controls are impracticable in Hong Kong's circumstances and would prove harmful

to the economy.

But there is one thing we can do. I fully agree that we need to keep government expenditure tightly under control. By economizing on the use of labour resources within the public sector we can ensure that more resources are available to the private sector. This will do much to help. We intend to pursue this aim vigorously.

PUBLIC SECTOR EXPENDITURE CONTROL

The growth of public sector expenditure

So I now turn to public sector expenditure and the concern expressed by some Members that the growth in public sector expenditure exceeds GDP growth. Of all the matters raised in the debate, this is the most important. As I have explained before, the Government's budget strategy cannot precisely match year by year changes in economic conditions. The aim is to provide for steady growth on the basis of projected trends in GDP. Corrective action to achieve this aim takes time to work through the system. To some extent we have to live with the legacies of the past.

Thus to understand the present we need to look into the past. In the early 1980s the rate of growth of expenditure exceeded 15% in real terms and the public sector share of GDP rose to over 19%. The economic recession of 1982 and the revised estimates of GDP growth required corrective action. We entered a period of low growth rates in public sector expenditure and, as a result, the public sector share of GDP fell to 16% in 1984-85. It fell further to below 15% by 1987-88 mainly as the result of very high rates of growth of GDP. At the same time we were enjoying comfortable cash surpluses and building up our reserves. It was right in those circumstances to answer calls for improvements and extensions to government services, otherwise we would have had masses of cash in the kitty and nothing to show for it.

The economic climate has now changed again, and my forecast of the medium-term trend growth rate of GDP of 5.5% a year will require a moderation of the rate of growth of public expenditure that has taken place since 1988-89. As I have indicated, this will take time because governments cannot change course abruptly. An obvious example relates to the building of new hospitals and extensions to existing hospitals. Decisions made in this area some years ago are now bearing fruit. Almost one quarter of the additional posts provided for in the draft estimates are for hospital services alone.

But now the growth rate of public sector expenditure has to be reduced. The Medium Range Forecast annexed to the printed version of my Budget speech suggested that the rate will continue to exceed the trend growth rate of GDP (the budgetary guideline) until 1992-93. I aim to improve on this. In my speech last year, I said that we would have to be increasingly vigorous in our attack on baseline expenditure in order to provide resources for new or improved services.

We therefore embarked on the process of reducing the growth rate of expenditure well before the Budget debate this year, but I am pleased to have Members' support for what we are doing. As I said in my Budget speech, last year, for example, Finance Branch carried out an exercise to delete the excessive number of vacant posts. The establishment ceilings in the 1989-90 estimates would have permitted a total establishment of about 166 000 posts by the end of March 1990. As a result of the Finance Branch's exercise, this figure fell to about 157 000 posts; a reduction of 9 000 posts or about 5%. The main purpose of this exercise was to reduce the potential for future growth.

The Chief Secretary has already mentioned the series of so-called Star Chamber meetings he and I have held with Policy Secretaries to review baseline expenditure. Over 200 different areas have been identified for further examination.

In addition, we are working on an overall strategy for controlling more tightly the rate of growth of recurrent expenditure, and hence also of the Civil Service. Many departments will have to live with zero growth for a number of years; some will experience reductions.

In order to assist departments to achieve the necessary increase in productivity, the Finance Branch will continue its programme of value for money studies. In recent years these studies have enabled the deletion of some 2 500 posts valued at about \$500 million a year. As the Chief Secretary said, another 30 studies are currently under way. I expect further savings as a result.

Underpinning these various initiatives, of course, is the resource allocation system -- a system of comprehensive long-term planning of expenditure. This system was introduced in 1987 to improve forward planning. It is designed to ensure that public spending requirements are identified early and that levels of spending can be maintained without making an unacceptable claim on the economy.

The starting point is the expenditure baseline. This is not simply last year's expenditure adjusted upwards for inflation; it may be adjusted downwards as a result of the value for money studies and the Star Chamber meetings to which I have referred. Discussions are held between the Finance Branch and individual departments on the baseline. At the end of this process, the total amount of money remaining for new initiatives is established. Policy Secretaries bid competitively for this "new" money, and the Chief Secretary and I, from our respective viewpoints, take a close personal interest in the process to ensure that the outcome is in balance with approved policies.

Public sector capital expenditure

As regards capital expenditure, many Members did voice support for the port and airport infrastructural developments and recognized their role in facilitating the growth of our economy. The implementation of these infrastructural development projects, plus essential projects in other areas such as the public housing construction and school building programmes, the expansion of the water supply system, the provision of landfills and other environmental-related projects, will mean that capital works expenditure in the coming years must be, more than ever before, carefully controlled, monitored and constrained as appropriate.

But unlike recurrent expenditure, which once committed locks the Government into perennial expenditure, capital expenditure must be considered in terms of total commitment and the phasing of expenditure against this commitment over time. There are well-established mechanisms in place to achieve the control required. I refer, of course, to the annual resource allocation exercise which covers a five-year planning period, to the Annual Review undertaken by Members of the Public Works Sub-Committee of Finance Committee, and to the regular scrutiny of proposed projects by the said committee before referral to Finance Committee for approval.

Additional commitments

Before I leave the subject of public expenditure, I wish to explain the purpose of the additional commitments subheads and the way in which they operate. Some Members' comments suggested that there was confusion here. These subheads (for both recurrent and capital) were created to anticipate expenditure which may be required in excess of the amounts individually provided for in the estimates, but which cannot

at the time be determined with precision and specifically allocated. The amounts represent the maximum additional provision for the year which it is estimated will be required under all other votes. In this way, the Appropriation Bill is comprehensive, in the sense that it represents the maximum amount that it is estimated will be spent during the year.

The provision in the additional commitments subheads represents an assessment by Finance Branch of the cost of proposals that are to be put to Finance Committee during the course of the year. It is not possible to provide a precise breakdown as this could be misleading. In the event, some of the proposals might not proceed.

This year, by far the greater part of the provision in the recurrent subhead is for the civil service pay award and for the Standing Commission's review of civil service grades. In answer to one Member, this is the main reason for the increase over the previous year. The provision also attempts to anticipate the likely cost of the setting-up of the future Hospital Authority and the pay package of its employees; and covers adjustments in relation to certain programmes, such as social security, to cover inflation.

I should stress, however, that nothing is debited directly to these additional commitments subheads. For example, if public assistance rates are increased, supplementary provision is approved for the subhead for the public assistance scheme, offset by deleting an equivalent amount from the additional commitments subhead. And the normal rules for supplementary provision must be applied, that is, for amounts that exceed the limit of delegated powers, Finance Committee's specific approval must be sought in each case.

Public sector reform

One last point in relation to public expenditure. Some Members have called for further corporatization, privatization or other aspects of public sector reform, while others sounded a note of caution.

Our prime concern is to ensure the most appropriate method of delivery of public services. We are not doctrinaire in our approach. Core activities will necessarily continue to be carried out by government departments, but where we can see clear advantages in so doing (particularly where a quasi-commercial role is involved) we will consider other ways of delivering services. Currently, for example, we have the Provisional Hospital Authority and the Provisional Airport Authority. Trading

fund status is being considered for the Electrical and Mechanical Services Department and parts of the Registrar General's Department. A new status is planned for Radio Television Hong Kong. We will continue to keep watch for appropriate opportunities to increase efficiency in this way.

BROADENING THE TAX BASE

Sir, the need to broaden the tax base has been an important theme of all my Budgets. I note with regret that not all Members are entirely at one with me on my suggested solution, although at long last there is a growing recognition of the problem. Because it is an important issue, I shall again set out the argument. The starting point of my fiscal policy is that it must be consistent with our economic policies. This means that I must always ensure that our fiscal system does not endanger the stability and continued growth of the economy. At the same time, I must also ensure that adequate revenue is available to fund such public sector expenditure as is permitted by the state of our economy.

In so doing, my constant preoccupation must be to see that revenue is raised as equitably as possible as between particular classes of taxpayers or potential taxpayers. But I must also have regard to the productivity, stability and efficiency of existing and possible new taxes. And I have to strike an optimal balance within the taxation system between direct and indirect taxes, and in particular seek to increase the proportion of broad-based, stable taxes.

Lest it be thought that this concern over the tax base is just a quirk of mine, let me reiterate that it is an issue of long standing. Browsing through some old Budget speeches the other day (one of my favourite pastimes) I came across this passage in Sir John COWPERTHWAITTE's 1970 speech:

"I am sure (particularly if we must maintain for economic reasons, and I believe we must, a low standard rate of tax) that it is important to broaden the basis of personal taxation if we are to provide the social services we all want."

Incidentally, he went on to say:

"..... the main reservoir of taxation is no longer in the hands of the rich I am constantly surprised, although perhaps my surprise is naive, to find the same persons who are loudest in their advocacy of expanded social services are also the

most prominent advocates of a substantial increase in personal allowances for income tax and so narrowing the tax base."

Some things have not changed.

In my first Budget speech, in 1987, I said:

"As both the economy and government services grow, the stability of public finances can best be assured by endeavouring to develop a broadly based tax system, because such a system is more resilient. I am not suggesting a case for higher overall taxation: simply a way of spreading the tax burden more widely across our community.

We must be practical in our approach. We do not want complex new taxes. Neither do we want taxes that are costly to administer or damage incentive. We have done very well without them.

But one way of achieving a broader tax base is by widening the scope of indirect taxes

I took up the theme yet again in 1989, when I said in my concluding speech to this Council:

"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?"

On the role of fees and charges, in my 1987 Budget speech to this Council, I said:

"Our policy remains that services should generally be paid for by those who use them, unless a positive decision has been taken to deviate from this policy. It is of great importance in our low tax economy that we do all we can to observe the principle that services should not in general be subsidized ... and to ensure that those services which are not a fair charge on the general taxpayer are paid for by those who benefit from them."

Thus, contrary to what has been claimed by some Members, I have mapped out a clear and consistent fiscal policy.

Sir, it has been suggested by some Members during the debate that Hong Kong's taxation system would benefit from review by a committee.

Let me first say that our tax system is alive and well. By comparison with systems in many other developed economies the Hong Kong tax system is a model of simplicity and stability. Its rates are low. It is also tailored very much to the special needs of Hong Kong in that it is non-tariff based; it encourages investment both by foreign investors in Hong Kong and by Hong Kong people in local enterprise; and it allows people to enjoy the rewards of enterprise and hard work.

No system, however, is perfect; from time to time a number of ways have been brought to our attention in which our system could be improved. As far as possible, we respond to justified criticisms. For example, in that spirit, we have introduced changes to deal with the double taxation problem vis-a-vis Hong Kong people working in China on a temporary basis; we have done away with withholding tax on interest; and we are in the process of finalizing arrangements for profits tax exemption for mutual fund corporations in the same way as is already available for unit trusts.

A tax system cannot be viewed in splendid domestic isolation. May I remind Members that Southeast Asian economies are now on a fast track and that the jockeying for position is becoming intense. Favourable tax regimes form an important part of the pull of our competitors, although it is still difficult to beat Hong Kong in the low taxation stakes. In the same vein, I am not yet persuaded that a committee brought in to train and manage our entry in this particular race would win us first place. I do not want to find myself coming down the home stretch on a camel. But I do acknowledge the points made by Members and I intend to seek the assistance of the Joint Liaison Committee on Taxation in taking a broader view of our overall taxation philosophy. We should work closely together to identify problems and find solutions.

As to some of the specific revenue measures, many Members of this Council commented on the proposed increase in rates and in duties on diesel and petrol as regressive and inflationary. I shall deal with rates first. Rates are an important source of revenue, broad-based and stable. But they are related to the rental value of property, and the revaluation of properties is a mammoth task which can only be completed periodically. In between revaluations, the yield from rates diminishes

in real terms.

In our more difficult circumstances this year I considered it necessary to make an interim adjustment to restore the yield to some extent. The effect will only be to raise the share of rates in terms of overall rentals from 3.1% to 3.9%. In mid-1986, it stood at 4.9%. Since those on higher incomes tend to live in more expensive accommodation and so pay more in rates, I would not regard the adjustment as regressive. The increase of 1.5 percentage points in the general rate amounts, in dollar terms, to an additional payment of an average of only \$20 per month per household for the roughly 50% of the population accommodated in public housing estates.

My proposal to increase the duty on hydrocarbon oils has been attacked for impacting severely on the lower paid sections of the community. Insofar as public bus fares are concerned, the increases in fuel costs, after taking into account the public subsidy in the form of the existing rebate, is not expected to exceed an average of 2% for KMB and 1.7% for CMB fares, or roughly three to four cents per passenger trip. I take the point made by one Member that taxi drivers had to bear the burden of higher fuel tax in the first instance; this has now been dealt with by an approved increase in fares.

As for the remaining indirect taxes on commodities which the man in the street is faced with paying directly, I wish to point out that a choice exists. There is no obligation to buy alcohol, tobacco or new cars.

In a low direct taxation regime like Hong Kong, it is important also that appropriate opportunities are taken to raise revenue through fees and charges for government services, including those operated as public utility undertakings. We have always attempted to ensure that the costs of provision of services are recovered through the charges levied. We must also be prepared to use fees and charges for fiscal purposes where that is appropriate. But having said this, we shall continue to take care that government services are not priced out of the reach of the less well-off. As an example, I would cite our policy on water charges. Water in Hong Kong is not a cheap commodity to provide. I believe that as a consumer uses more water, thus requiring the development of progressively more costly additions to the supply system, the increased cost of that water should be passed back to him. Otherwise people who are careful in their use of water will have to subsidize the excesses of others. This is why we have provided a free allowance equivalent to about seven gallons a person a day. It would not be reasonable to expect an individual to use less than this amount for basic cooking and cleaning; or for the consumer to expect

to be allowed more without charge. Domestic consumption in excess of this free allowance is subject to a differential pricing system structured to encourage conservation.

I should not leave this subject of the revenue measures and their impact without reminding Members yet again that all members of the community benefit, whether directly or indirectly, from major government initiatives such as the airport, transport improvements, water supply and environmental protection. In environmental protection, particularly, I believe that it is often the less well-off, those who have the least choice of where they live and of the environment they work in, who stand to benefit the most.

APPROPRIATION BILL PROCEDURES

There was some criticism this year of the procedures in this Council for considering the Budget. While there were no major changes in procedure from that adopted in previous years, there seemed to be a sense of frustration and dissatisfaction this year. I have to say that the feeling is shared by the Administration. The problem needs to be addressed.

The root of the problem appeared to be the timetable for the legislative processing of the Bill, which had been relaxed over the years and now spans some two and a half months. This is no good. The impact of the Budget is lost and the debate is less focused.

We have discussed this in the Administration and have consulted the Senior Member on how the passage of the Bill might be streamlined while affording Members generally an opportunity to participate in discussions in a more positive and rewarding way. I will not go into detail today as to what has been proposed, but a principal feature is that one week after the Budget speech, Finance Committee would meet each Policy Secretary in turn for a presentation on policies in his or her programme area and on the allocation of resources. Secretaries would also provide supplementary information, as required, on the written replies they had previously given to questions raised by Members.

The timetable for completing the passage of the Appropriation Bill would be compressed, with the various stages -- Finance Committee meetings, the second, third and fourth Budget sittings -- taking place at weekly intervals. In that way, the

1991 budget timetable might begin on 25 February with the release of budget documents; Budget day would be on 6 March and the whole process completed in the first half of April. Such a compact programme would, I am sure, go far to meet Members' concerns and lead to a crisper discussion on the Budget itself.

There was also some misunderstanding this year about my decision to issue the draft estimates of expenditure ahead of Budget day while deferring the release of the revenue estimates and consolidated summary until one week after I spoke. This was done deliberately in order to discourage pre-Budget speculation. What I propose for next year is that expenditure estimates should be issued in advance again, so that Members may have time to prepare questions. The revenue estimates and a consolidated summary, adjusted to take account of the revenue measures, would be released immediately I finish my Budget speech. Thus, on the day of the Budget speech, Members will have the lot.

PROMOTION OF HONG KONG

Hong Kong as a financial centre

So to other matters. One Member, in a speech which in his usual style was long on rhetoric but short on facts, accused the Government of not making adequate efforts to enhance Hong Kong's competitiveness as a financial centre. The implication was that Hong Kong, as a financial centre, was going down the drain. Let us look at some of the facts. The fact is that more and more foreign financial institutions are establishing themselves in Hong Kong. Last year, 11 bank licences were granted, the largest increase in recent years. More securities and commodities dealers have registered here. Our foreign exchange market, without any stimulus coming from the Government, chalked up in April last year an average daily turnover which is the sixth highest in the world. And Hong Kong remains an important loan syndication centre, arranging the lion's share of the financing deals of the region. The steady development of Hong Kong as a financial centre has been, and continues to be, one of the most striking characteristics of our economy. In sum, Hong Kong as a financial centre is highly competitive and thriving.

The competitiveness of Hong Kong as a financial centre, of course, owes much to the ingenuity of those in the financial sector, who have been quick to respond to market opportunities. The Government also has a role to play. This is to ensure, where necessary through proper systems of regulation and supervision, the integrity

of our financial markets and an appropriate degree of protection to investors. Only when these are achieved can Hong Kong remain competitive in the long run.

On the securities side, a great deal has been done in recent years to revamp our regulatory system, to bring it up to standards acceptable to international players and commensurate with Hong Kong's status as a major financial centre. We are working on a new settlements system, which is of vital importance to our future development, and we continue to move towards the right balance of responsibility in the field of regulation.

On the banking side, new capital adequacy requirements were introduced in 1988 and revised to meet international standards set by the Basle Committee at the end of 1989. The three-tier system has also been modified recently to replace licensed deposit-taking companies and registered deposit-taking companies by the new categories of restricted licence banks and deposit-taking companies. This facilitates foreign banks with total assets falling short of the minimum size criterion for obtaining a banking licence in Hong Kong to operate here. In view of the growing interdependence of financial markets around the world and across different markets, we are now devoting efforts to building up a proper framework for consolidated supervision.

On the monetary side, we have introduced reform measures to facilitate effective monetary management under the linked exchange rate system. The Accounting Arrangement introduced in 1988 has proved a useful mechanism for pursuing our monetary policy objective of maintaining exchange rate stability. The Exchange Fund bills programme introduced recently will further give us an additional monetary policy instrument for this purpose. We have been successful in maintaining overall a stable monetary environment. This has undoubtedly helped the continued development of Hong Kong as a financial centre.

The removal of disincentives so as to enhance Hong Kong's competitiveness as a financial centre has long been our policy. But there is an important qualification which is that it must also be clearly in the wider public interest for particular disincentives to be removed. Everybody knows that the removal of stamp duty would encourage stock market activity, at least in the short term. Everybody knows that the removal of profits tax on interest income would stimulate development of the capital market in Hong Kong. Everybody knows that taxpayers would be richer if they did not have to pay tax. But that does not mean that we should remove the various forms of tax concerned without proper consideration of all the implications,

including the cost of doing so. I note that my rhetorical friend, to whom I referred earlier, produced a shopping list of five major tax concessions. They would, despite his claim to the contrary, push the Budget well into the red.

The consequences of introducing tax changes have to be fully explored. The complexities which may arise are well illustrated by the recent history of the taxation of interest, one of the items on the shopping list I mentioned. In 1982, foreign currency deposits placed with licensed banks and deposit-taking companies were exempted from interest tax. This was an exception to the Hong Kong source principle. This led, in 1983, to interest tax on Hong Kong dollar deposits with licensed banks and deposit-taking companies being abolished as well, because the different treatment had weakened the Hong Kong dollar. Now the focus of the debate has shifted to the rather more narrow area of the taxation of interest income from capital market instruments. Specifically, the question is, why interest income from Hong Kong dollar capital market instruments should be subject to profits tax while that from foreign currency capital market instruments, sourced as they are outside Hong Kong, is not.

This then is the background to one taxation matter upon which immediate action, action this day, is now demanded. Members will wish to know that it has been the subject of detailed discussions between the Capital Markets Association and the Administration. I have personally kept in touch with the discussions. I am quite prepared to consider proposals which will not lead to any further departure from the underlying principles of our tax system or any unacceptable erosion to its productivity. We recognize the problem and will continue with our work on this issue. There will be further consultation with those in financial markets. But as I have attempted to demonstrate, changing the taxation of interest is not as easy as some would think.

Overseas Investment in Hong Kong

Turning now to the question of overseas investment in Hong Kong, I agree with Members that it plays an important role in the economy. Manufacturers with overseas interests account for nearly a quarter of Hong Kong's total domestic manufactured exports and their technology transfer potential has proved to be considerable. The question is, however, how do we best encourage overseas investment?

Experience has shown that specific tax incentives are not the over-riding factor in attracting overseas investments, although a simple and predictable tax regime with

low rates is naturally of great importance. According to the ninth World Competitiveness Report, published in July 1989 by the World Economic Forum based in Geneva, Hong Kong maintained its top ranking amongst the newly industrialized economies as an attractive investment location. This is also borne out by the growth of overseas manufacturing investments, now at an estimated value of HK\$26 billion. This is 24% more than in 1987 and almost double the level in 1984.

In particular, Hong Kong is the second most favoured investment destination in Asia for Japanese firms. In the fiscal year 1988 alone, Hong Kong gained the largest share of Japanese investment in Asia, almost double that for Singapore, which lies in second place. This represented an increase of 37% over the fiscal year 1987, compared with an average of 21% for the whole of Asia. A number of significant investments in manufacturing industries from various country sources continued to materialize in the latter part of 1989 and afterwards. These included nine Japanese investments, mainly in electrical, electronics and steel and concrete composite piles production sectors, with total investment exceeding HK\$240 million, and four US investments of which one involved an investment of HK\$100 million.

With the increasing globalization of business activity, large multi-nationals are likely to remain diversified in the world's economic "tripod" -- North America, Europe, and the Asia-Pacific region, where Hong Kong is expected to play an increasingly pivotal role both as a regional business centre and the gateway to China.

Hong Kong's externally oriented economy, however, will remain vulnerable to the vicissitudes of outside world. There is little doubt that the many challenges of the 1990s will render inward investment even more competitive. Historically, Hong Kong will transform itself from a British territory to a Special Administrative Region of China. Industrially, the age of technology and information unfolds at a rapid pace. Regionally, competing dynamic economies are growing by leaps and bounds. Internationally, the world economic order, market frontiers, expectations and opportunities are shifting with the development of the Single European Market and Eastern Europe, the strengthening of the United States/Canada economic nexus, and closer Asia-Pacific economic co-operation.

To stimulate further our industrial development, our inward investment promotion efforts are geared towards the attraction of beneficial technologies. A computerized targetting system is expected to be in place this year initially covering North America, later to be extended to other regions. Our One-Stop Unit in the Industry

Department is now supported with research and pre-feasibility services designed to meet potential investor's individual requirements. Regional directors are being provided to co-ordinate our investment promotion activities overseas and cultivate readier access to top business decision-makers. Moreover, Hong Kong's forthcoming infrastructural projects on an international scale will add further dynamism to our economy as a highly attractive investment proposition in the region.

China's MFN status in the United States

Sir, just one other matter before I conclude. Several Members have expressed concern over the possibility of the United States withdrawing the Most Favoured Nation, or MFN, treatment for its imports from China. I fully share their concern. Although this is, strictly speaking, a matter between the United States and China, Hong Kong is very much an interested party. We stand to suffer considerably if the threatened action came to pass.

The loss of MFN status would mean that Chinese goods would face very much higher tariff (in some cases more than 10 times higher) upon entry into the United States. Hong Kong's re-exports of Chinese goods to that market, which were worth HK\$66 billion in 1989, could be reduced by as much as 50% overnight. China's direct exports to the United States, some of which are manufactured in Hong Kong-owned factories, would also suffer greatly. There would also inevitably be serious knock-on effects on other sectors of the economy and above all on the general level of confidence in Hong Kong.

The full impact, human as well as economic, is difficult to quantify. The Government is taking the threat very seriously. We are doing all we can to draw the attention of key policy makers and legislators in the United States to Hong Kong's concerns. I understand that Members of this Council as well as the main trade and industrial organizations in Hong Kong are also making representations. Sir, I trust that our friends in America -- there are many of them -- will not choose to do anything which would undoubtedly harm Hong Kong and investors in our economy, many of whom are Americans.

CONCLUSION

Sir, to conclude. This afternoon I have spoken at some length. I have done so for two reasons. First, I felt it necessary to lay to rest the belief that the Budget

is a simple book-keeping exercise which involves, to quote comments made by some Members, "nothing more than housekeeping", or "tinkering with tax rates". As I have demonstrated, there is much more to it than that. Secondly, because of the general tone of the remarks made by some Members, I thought it essential to speak of Hong Kong's success and of the opportunities that undoubtedly exist. They are sometimes ignored.

In listening to the debate in this Council a fortnight ago, I was reminded of words that you yourself, Sir, used when you spoke to the Outstanding Young Persons Association earlier last month. You said, if I may quote:

"I have no doubt that Hong Kong will continue to surprise the world. To do so we must shake off a fashionable trend of negative thinking and show the world, and ourselves, what this place, and the remarkable people who live here, can do by their energy, realism and determination."

The Budget that I presented to this Council in March correctly and judiciously faces the problems that now confront us. Yes, some might argue for slightly different mixes of fiscal measures. But the basic strategy of the Budget is correct. Nothing that I have heard in this debate has changed my view. Lastly, Sir, if we take your words to heart then Hong Kong will overcome its temporary problems and will prosper, and that surely must be what we all want.

Sir, I beg to move.

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, 16 May 1990.

Adjourned accordingly at five minutes to Five o'clock.

Note: The short titles of the Bills/motions listed in the Hansard, with the exception of the Municipal Services Appeals Boards Bill 1990, the Director of Intellectual Property (Establishment) Bill 1990 and the Appropriation Bill 1990, have been translated into Chinese for information and guidance only; they do not have authoritative effect in Chinese.