

**LEGISLATIVE COUNCIL**  
**OFFICIAL REPORT OF PROCEEDINGS**  
**LEGISLATIVE COUNCIL CHAMBER**

**Wednesday, 10 October 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 HO SAI-CHU, O.B.E., 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 SZETO WAH

THE HONOURABLE TAI CHIN-WAH, J.P.

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

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 PAUL CHENG MING-FUN

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

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

THE HONOURABLE RONALD CHOW MEI-TAK

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

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

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

THE HONOURABLE MRS. MIRIAM LAU KIN-YEE

THE HONOURABLE LAU WAH-SUM, J.P.

DR. THE HONOURABLE LEONG CHE-HUNG

THE HONOURABLE LEUNG WAI-TUNG, J.P.

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

THE HONOURABLE KINGSLEY SIT HO-YIN

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

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

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

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

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

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

THE HONOURABLE PETER TSAO KWANG-YUNG, C.B.E., C.P.M., J.P.  
SECRETARY FOR HOME AFFAIRS

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

**ABSENT**

THE HONOURABLE POON CHI-FAI, J.P.

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

THE HONOURABLE TAM YIU-CHUNG

**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):

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Honourable Members of the Legislative Council,

## (1) INTRODUCTION

At the start of this crucial decade, Hong Kong is, and must remain, a community facing its future with realism and the determination to succeed. After the problems of 1989, we have made steady and significant progress this year — economically, socially and politically. We have continued to deal successfully with the challenge of preparing for the transfer of sovereignty in 1997. But, once again, we have had to face new strains. This summer saw the sudden eruption of a crisis in the Middle East which has cast a dark shadow over the world economy.

2. Last year, I described the Government's new initiatives for the 1990s and beyond. At a time of economic difficulty, and uncertainty in the Middle East, Members will not expect me today to unveil a further range of major new initiatives. Nor do I intend to do so. We are now in a period when we should take stock of the programmes already launched, and also of the services we provide, and consider how best to provide them. We will need to take decisions on how to fund these services and programmes and see whether there are ways of improving the scope for individual choice and quality. So today I will focus on the progress we have made so far and on what the next decade holds for ordinary families in Hong Kong. I will start by reviewing some of the issues we have dealt with during the year and then look forward to the decade ahead. I will conclude by speaking of Hong Kong's role as both an international and a Chinese city — a bridge between China and the world.

## (2) HONG KONG TODAY

### A. ECONOMIC PROSPECTS

3. Last year, I warned that we faced a slowdown in the rate of economic growth. This has indeed been the case. Our prospects have been further dampened by the Middle East crisis. Higher oil prices will mean, inevitably, some increase in the cost of living. At the same time, our major trading partners face a new check to their economic expansion. This will reduce their demand for the goods and services we export. Our rate of economic growth for 1990, although healthy by world standards, will be modest in terms of our own past performance. We estimate that GDP will increase this year by 2.5% in real terms.

4. Fortunately, Hong Kong learnt the lessons of the oil crises of the 1970s. In 1979, oil was our principal source of energy. Today, by contrast, we generate virtually all of our electricity from coal. Because of this successful adjustment to our energy sources, we are better placed than many other economies to cope with the sluggish world markets we must expect in 1991.

5. Nevertheless, we must accept that, partly because of the Middle East crisis, we face a harsher economic environment in which it will be much tougher going to defend our share of existing markets and to develop new business. To retain their competitive edge, firms will need to make better use of existing resources. This means higher standards of management; restraint in setting prices and profit margins; and, above all, realism when it comes to wage demands. Wages have kept ahead of increases in consumer prices; but we must be alert to the dangers of a wage and price spiral. This would benefit nobody — neither employers nor workers. We are an open economy. The world will not allow us to pay ourselves more than our products will earn.

## B. INFLATION

6. Our current estimate is that inflation will average 9.5% for 1990 as a whole. With inflation of this level and the prospect of it rising as a result of the Middle East crisis, rather than falling as we had expected, we clearly cannot afford to be complacent. Nor can we expect an easy cure for inflation. Drastic measures aimed at suppressing price increases would be counter-productive. They would frustrate the free play of market forces and do lasting damage to the economy. This sort of interference with the market would not be in character for Hong Kong. But we can, as well as being sensible about wages, try to limit the damaging effects of rising prices.

7. Our first priority must be to ensure that we do not create undue pressure on scarce resources — and, in this way, fuel inflation. We will all have to accept that, for the immediate future at any rate, we will not have the surplus revenue to meet all the competing claims for additional public spending. There will be difficult choices to make between demands for new services. There can be no ducking these hard choices. Current economic conditions dictate that public expenditure must be kept under tight control.

8. As the territory's biggest employer, the Government is determined to make sure that it does not add to the pressures on an already strained labour market. Accordingly, next year, many departments will face zero growth. If standards are to be maintained, individual branches and departments will have to strive for productivity gains through the better use of the staff and other resources under their control. This will be a real challenge. It will be a test of management and leadership.

9. The bluk of the labour force works in the private sector. The success of the economy depends heavily on the ability of private employers to maximize productivity. In practice, there are limits to how far employers can replace workers with new plant and equipment. The Government accepts that many firms have already reached these limits: in some cases they cannot expand their businesses any further because they cannot find enough workers locally. There is a genuine danger that the acute shortage of labour may act as a brake on

future economic growth. When that happens, everybody suffers. Our policy has been, and will remain, to encourage growth.

10. That is why we have relaxed the controls on the importation of labour in certain crucial areas of the economy. This does not mean cheap labour: employers will be required to pay imported workers market wages. There will be no indiscriminate importation of untrained labour. Effective enforcement arrangements will be made to prevent abuse by employers. The scheme will be kept under careful review, and will be adjusted if necessary, to make sure that it continues to meet the changing needs of the economy. A similar flexibility of approach — involving adapting to new circumstances in a way which will benefit Hong Kong, rather than sticking rigidly to outdated policies — lies behind the decision to allow the private sector to recruit students from China to work in Hong Kong, provided they have completed at least two years' study overseas and are properly qualified.

11. All of these things matter because a successful economy is crucial to everything we do. Without it, we lack the means to achieve any of our goals. At the same time, we also have a responsibility to protect the disadvantaged members of the community from the most damaging effects of inflation. Social security benefit levels are reviewed regularly and are adjusted to compensate for changes in consumer prices. It is worth noting that, so far this year, these benefits have been increased by 10.5%. While encouraging the successful, we will continue to protect the weak.

### C. THE ROLE OF GOVERNMENT IN THE ECONOMY

12. Our economic philosophy is one which is clear and has served Hong Kong well. We believe in the efficiency and effectiveness of free markets. These allow our businessmen to be flexible and dynamic. The Government's main role in the economy is to facilitate efficiency and growth. As far as possible, both the businessman and the investor must be left free to perform their roles. They must not be hampered by excessive official restrictions. They must not be deterred by excessive taxation. We need to be sure that the spirit of enterprise flourishes — to allow individuals the freedom and opportunity to succeed by their own efforts. Of course, we must also ensure that our business practices conform to the standards of a major international centre of trade and finance. Otherwise, we cannot attract the outside investment we want and welcome. We are stepping up our protection of the ordinary investor in areas where we have identified potential for abuse. After a period of necessary tightening up, I believe we now have the balance about right. We will make sure that it is kept right — neither too little nor too much.

13. Hong Kong did not invent the free market private enterprise economy. But over the past 30 years we have become one of its most successful exponents. By holding firm to our principles, we have achieved notable economic success domestically. Now, internationally, we are playing an important role in

supporting freedom of trade in goods and services. It is essential not only for us, but for the world economy, that the current Uruguay round of negotiations about the General Agreement on Tariffs and Trade reaches a successful conclusion in December. We will continue working hard to this end.

14. The Government also has a responsibility to create an environment in which the economy can continue to expand and diversify. This means making major investments in our physical infrastructure. I will revert to this later. Without these investments, the economy could not produce the prosperity on which families base their plans for the future.

15. At the same time, as we grow richer, the Government must see to it that the community has adequate housing, medical and other services. The labour force is entitled to a decent working environment, as well as to proper rewards. Through publicity and legislation, we are steadily improving conditions in the work-place, be it office or factory. Both the Government and the community have consistently, and rightly, been willing to invest heavily in creating the public services necessary to meet the community's essential needs.

16. The last decade has seen a radical change in economic thinking throughout the world, and a growing realization that the free market offers the best prospect of economic success. Hong Kong has been a model in the revival of free trade and free market economics. With a clear vision of our essential objectives, plus prudent management, we can enter the 1990s with confidence that Hong Kong will continue to surprise the world and confound the pessimists.

#### D. LAW AND ORDER

17. Some recent criminal cases have shocked us all. They are a reminder that we cannot take for granted Hong Kong's record as one of the world's safest and most law-abiding urban communities. Nevertheless it is still the case that our crime rates, in relation to the size of the population, remain significantly below those of major cities in the West. They compare favourably to those in our own region. And the general level of reported crime per thousand of the population has actually declined over the past decade.

18. These generally healthy statistics are not a cause for complacency. They describe a state of affairs we must now fight hard to maintain. There has been a recent increase in violent crime. That cannot be tolerated. In particular, we must take firm and effective action against criminals who use firearms and against any revival of triad activities. In the months ahead, we will make increased efforts to prevent the illegal importation of firearms. We have had good co-operation from the authorities in Guangdong in tackling this problem. At the same time, we will be targeting organized crime. Draft legislation, aimed specifically at organized crime syndicates, including triads, will be published for public consultation as soon as possible in the new year.

19. There is a vital role for the community to play in maintaining an orderly and peaceful society. We all have a responsibility to work together with the police and other law enforcement agencies — by reporting crime, including triad activity and corruption; by co-operating with investigations; by coming forward with evidence; and by taking preventative measures in our own homes. The Fight Crime Committee and its network of District Fight Crime Committees will work hard to get this message across to the public. It will look for ways of making it easier for the public to play their part by, for example, improving reporting procedures. And it will mount special publicity campaigns against juvenile crime and in support of parental care and authority. Responsible, caring parents are our first line of defence against the sort of law and order problems that threaten many other urban societies.

20. Success in fighting crime depends on the professionalism and integrity of our police. To keep our streets safe, we must have a well-trained, strongly motivated and adequately rewarded police force. At a time when a tight labour market makes recruitment difficult in all sectors of the economy, it is important to find ways to improve the ability of the force to recruit and retain staff, so that it can continue to provide the effective service upon which we all depend. Part of that effort has been a review of the salary levels of junior ranks in the police and other disciplined services. That review has been completed. It is now the responsibility of the police, and the other disciplined services, to maintain a high standard of efficiency and service to the public. We have had this in the past. We expect to see it continue in the future.

#### E. EMIGRATION AND THE BRITISH NATIONALITY SCHEME

21. However smooth we can manage to make the transition to Hong Kong's new status in 1997, there will inevitably be those who feel the need to seek stronger personal safeguards for the future. Last year, I noted that there had been a surge in applications for emigration. This year, about 62 000 people may emigrate: the highest level for many years. Nearly a quarter of these are likely to be professionals, managers, technicians, businessmen and other key members of the community.

22. Against this background, I welcome the enactment of the British Nationality (Hong Kong) Act, which provides full British citizenship and right of abode in the United Kingdom for up to 50 000 Hong Kong families. Subject to parliamentary approval, we intend to invite applications under this scheme from 1 December. It bears repeating that the objective of the Act is to give those selected the confidence to stay in Hong Kong up to and beyond 1997. I have no doubt that the community as a whole will benefit from the continued presence of the people whom this scheme, and schemes introduced by other countries, will keep in the territory.

23. The Government has done what it can to meet the anxieties of those who, often reluctantly, have considered leaving Hong Kong. We will continue to do

so. We have also taken steps to remove the disincentives for those who want to return. But I must make it clear that our primary concern is with the vast majority of our people who will stay here permanently — the real Hong Kong belongers. I shall come back later to what is being, and can be, done to improve their future.

#### F. VIETNAMESE BOAT PEOPLE

24. Members of this Council need no reminding of the fact that the problem of the Vietnamese boat people is still with us. But the picture is not as bleak as it was this time last year. Last October, I had to report the arrival of 34 000 Vietnamese, the highest number in any year since 1979. Since then, our efforts to deal with the problem, and those of the international community, have produced some results.

25. Arrivals so far this year have dropped sharply, to less than one in six of the number during the same period last year. The careful operation of our screening procedures; the voluntary repatriation scheme; the publicity effort in Vietnam; and the mandatory repatriation flight last December have all given potential boat people an unambiguous message — the days of automatic resettlement through Hong Kong are over.

26. Taking the camp population as a whole — refugees and people who do not have refugee status — there has been a net outflow of over 2 700 since last October. This is the first year since 1986 when the numbers in Hong Kong have actually gone down. The resettlement programme for refugees is on target. We expect over 7 000 to leave this year. And some 4 500 have returned to Vietnam over the past 18 months, that is since the beginning of the voluntary repatriation scheme.

27. The Government's policy will continue to be directed towards the full implementation of the 1989 Comprehensive Plan of Action. This means that all those who do not qualify for refugee status must return to their homes in Vietnam. The Plan of Action has been under great strain elsewhere in Southeast Asia during the past year. If it is to be the basis for policy throughout the region — and I have no doubt that this is the most humane and effective answer to a long-standing problem — then we must get in place arrangements for the orderly return of non-refugees. The agreement reached in Hanoi on 21 September is a welcome step in this process. We now look to the staff of the United Nations High Commissioner for Refugees to do all they can to counsel and persuade non-refugees to accept the reality of their position, and to return to their homes in Vietnam. We will give our full support to this effort.

28. Meanwhile, we must continue with the task of housing, feeding and caring for all those who are already here. I should like to express my appreciation for the work of all the men and women of the government departments, as well as the voluntary agencies, who are responsible for looking after the 54 000



Vietnamese who remain in our camps; and also for the important financial assistance Hong Kong has received from the United Kingdom, which has totalled over \$500 million over the past two years. I hope that we can now move towards a humane solution which will bring this tragic migration to an end.

### (3) THE NEXT TEN YEARS

29. At the start of the new decade, it is worth reflecting on where we now stand in world terms and where we have come from. By the standard of income per head, Hong Kong today ranks among the world's top 20 economies. In the 1950s and 1960s, this community struggled and made sacrifices to achieve even minimal standards of health care, shelter and social services. Now the facilities provided by the public sector in medicine, housing, welfare and education meet the basic requirements of our families. Indeed, in some areas, these services match the standards of much more affluent societies. We have created a thriving, well-equipped, urban community.

30. The social and economic progress we have made, particularly during the 1980s, has created new aspirations. People are no longer content simply with a basic level of provision. In an increasingly prosperous and educated Hong Kong, they expect a higher quality of service and more opportunities for the individual to choose particular types of service. The desire for more personal control over the individual's and the family's quality of life will be a key trend in the 1990s. There will be, quite rightly, a demand for choice. Families will look for more sophisticated medical care; for opportunities to buy their own homes; and for access to good private schooling. The cost of this wider range of services cannot all be borne by the taxpayer. Greater choice and higher incomes mean that families must increasingly pay for services which go beyond the basic level.

#### A. SOCIAL INFRASTRUCTURE

##### (a) *Housing*

31. Let me now turn to the specific areas in which Hong Kong families can expect to see major improvements during the next decade. I will start with housing. By the year 2000, it is likely that two out of every three families will own their own homes. This is an encouraging trend. It means greater family cohesion; deeper commitment to Hong Kong; and the reinforcement of individual responsibility and self-respect.

32. A more immediate aim is to eliminate the squatter problem. Over the next five years or so, we will be able to clear most of the squatter huts from the urban areas. This will be a great achievement. All of us here can remember the squatter-crowded hillsides of the 1960s and 1970s. We should also have rehoused the majority of families living in temporary housing.

33. These are ambitious goals. To achieve them, we will need to build some 430 000 new public housing flats by the year 2000. We are currently on target. Last year's public housing production reached the record number of 53 000 flats. We expect to achieve a similar performance this year.

34. As I have already pointed out, numbers alone are no longer the yardstick for public services. Quality counts more and more. The last blocks of the Mark I and II estates, built nearly 30 years ago, will be demolished next year. The flats now being built are 10% larger on average than their immediate predecessors, and four times the size of the old Mark II units. They have a full range of community facilities, set out in a pleasant and carefully planned environment. Rents may need to be increased in line with the community's growing prosperity; but they will continue to be fair and affordable.

35. In the public sector housing programme, we must respond to the wish of more and more of our families to own their own homes. More than 100 000 families are already living in flats built under the Home Ownership Scheme and the related Private Sector Participation Scheme. By the end of the decade, the number of flats built under these schemes will have more than trebled to 350 000. The years ahead will also see the Housing Authority offering good quality rental units for sale to sitting tenants. And the Home Purchase Loan Scheme will continue to help more of the Authority's tenants to buy their own homes.

36. But the demand for better-designed and more spacious flats, increasingly owner-occupied, cannot be met by the Government alone. Indeed, it would be wrong for this responsibility to fall on the public sector as heavily as it has in the past. So we look to a further expansion of the private sector's contribution. By the end of the decade, we expect the private sector to be producing nearly half of all new housing in Hong Kong.

(b) *Education*

37. In education, as in housing, we are facing pressures both for improved basic standards and for greater choice. The growing sophistication of our economy has put a premium on better educated and better trained people. The rapid growth of our services sector in the 1980s has created an upsurge in demand for new skills and qualifications.

38. Our present supply of graduates is not sufficient to keep up with the growing requirements of employers. Last October, I said that we must increase the number of local graduates as quickly as possible. Also, that I had asked the University and Polytechnic Grants Committee (UPGC) to consider how to achieve a major increase in the number of first-year, first-degree places. The Committee has now produced a plan which will deliver the numbers we need and, at the same time, maintain internationally recognized standards. Its proposals will mean that, by 1994, six out of 10 students leaving the sixth form

will have an opportunity to study for a degree course at one of our tertiary institutions. The University of Science and Technology, which will open on schedule next autumn, will play a significant role in this expansion.

39. I said last year that this programme of expansion was ambitious. The strain will fall particularly heavily on the teaching staff. We shall need to recruit up to 3 000 new university teachers, against a worldwide shortage of academics and a local background of losses through emigration. This will not be easy; but the UPGC has already put forward recommendations on ways to meet the challenge.

40. Nowhere is the need to move from quantity to quality so clear as in the field of schooling. We now have sufficient school places. We need to raise their standard and tackle many quality-related issues. We have already introduced into the curriculum a series of subjects designed to meet modern expectations, including art and design, design and technology and computer studies. We have reformed the sixth form curriculum; and A-Level examinations will be held in the medium of Chinese in 1992. These improvements are part of the constant updating required to keep up with new demands and reach higher standards.

41. Both higher standards and greater choice are important. Giving families greater freedom of choice is the philosophy behind the new Direct Subsidy Scheme. Existing aided or private schools which qualify for entry to this Scheme will have substantial freedom in selecting their own pupils; setting their own curricula; and managing their own finances. The government subsidy they get will be in direct proportion to the number of pupils they attract. The Scheme is intended to develop a thriving and innovative private sector in education. Parents will then have a viable alternative to what is offered by the public sector.

42. But these improvements do not go far enough. There are still some complex and controversial problems which we will have to tackle with imagination and determination. The time has come to review the strengths and weaknesses of our basic curriculum, and to decide whether it meets the needs of all children. We must look at how to develop a system which establishes targets for students and then tests how well they and their schools have done in meeting these goals. We must face up to the hotly-debated question of language in education and decide what is the right answer now for this community. All these issues will be dealt with by the Education Commission's fourth report, which is due to be published next month. There will then be a chance for public comment. The decisions we take after that will be crucial in determining the quality of the education in our schools in the 1990s.

43. A good education remains one of the most important aspirations of every Hong Kong family. By the end of the century, all parents will be able to send their children to primary and secondary schools which provide a relevant

curriculum, modern facilities and well-trained and motivated teachers. There will be a greater variety of schools to choose from, including private schools offering their own curricula. For those with the inclination and the ability, there will be the opportunity to go on to higher education or vocational training within Hong Kong. The education they receive will be directly relevant to the needs of the economy. And, for those who have not benefitted from higher education, or who wish to update their skills, there will be organizations like the Open Learning Institute to provide the opportunity for self-improvement.

(c) *Medical and health services*

44. The 1990s will also see major improvements in medical services and facilities. We can already be proud of our achievements in providing virtually free medical and health services to all. Hong Kong people live longer, healthier lives than people in many developed countries. Our average life expectancy is 74 years for men and 80 for women. This is two years longer than in either Britain or the United States. But, as with housing and education, expectations have risen in line with greater prosperity. At the same time, the rate of progress in medical knowledge and technology is so rapid that there is constant pressure to introduce new facilities and types of treatment.

45. New services are enormously expensive. Already the average cost of providing a bed in a government hospital is over \$1,000 per day. Of this, 97% is met by the taxpayer. We can be proud that proper treatment for the sick is not a privilege reserved for the better off. But we cannot continue to provide more and more sophisticated treatment, or the choice of service that people increasingly want, unless we begin to move away from our traditional "public assistance" approach to hospital care. This has tended to assume that the average in-patient is impoverished. In the Hong Kong of the 1990s, such an approach will be out of date.

46. The establishment of the Hospital Authority is a major step towards achieving an improved and more efficient standard of provision. The birth of the Authority was not painless. This was no surprise, given the size and complexity of the changes involved. Now that the initial hurdles have been cleared and we have the new management team in place, I hope that all concerned will work together to take advantage of the scope for improvement which the new system will offer. By next year, the Authority will have taken over the management of all public hospitals. The distinction between government and subvented facilities will gradually disappear. All public hospitals will be integrated into a system which will permit both the better deployment of resources and the elimination of overcrowding.

47. Once better services are in place, we can consider a fee structure that takes more account of the improved incomes of so many of our families. But we will still have a system of waiving charges for those unable to pay. It will remain a key principle that no one will be denied adequate medical treatment

because of lack of means. As a result, hospital services will remain highly subsidized by the taxpayer.

48. Nevertheless, I believe that a growing number of families in the 1990s will wish to use their increasing incomes to purchase the type of health care they want. Their ability to do so will be made that much greater by the expansion of medical insurance schemes. In addition, we can expect both public and private hospitals to find ways to cater for this new type of demand for health care. One proposal now being considered is the introduction of "B-class" wards into public hospitals. These would provide more space and privacy for those who are prepared to pay for a level of service above that of the ordinary public wards. This is all part of giving people a wider range of services from which to choose.

49. With the establishment of the Hospital Authority, we can move forward to the second stage of reform: the better provision of primary health care. The aim will be to provide a high quality service directed at the specific needs of the individual. We need to place greater emphasis on the continuity of care, from prevention through to cure, and achieve a better balance between health care and hospital treatment. Improved primary health services can bring further improvements in the general standard of the community's health and reduce the need for hospitalization.

50. The Working Party on Primary Health Care is now examining the special requirements of women, the young and the elderly. It is looking at how to involve health care workers, teachers, social workers, parents and volunteers in improved programmes of health education. It is studying how a computerized system could provide essential information for medical research, and how to improve training in family medicine for doctors and nurses at out-patient clinics. I look forward to seeing the recommendations of the working party before the end of the year.

51. 1991 will be a landmark year in the health field. It will see the establishment of the Academy of Medicine; the integration of public and subvented hospitals into the Hospital Authority; and new initiatives from the Primary Health Care Working Party. These are all investments in the long-term health of our community.

52. Some of these changes involve a fundamental re-building of the medical and health system. But if we can meet the challenge, we will soon see an end to camp-beds, to long queues at clinics and to many other unsatisfactory features of our present system. By the year 2000, there will be accessible, district-based hospitals run efficiently and cost-effectively by the Hospital Authority; international standards of specialized medical training; more extensive use of preventive health care; and a wider choice of higher quality medical services for all the people of Hong Kong at prices they can afford.

(d) *Social welfare*

53. I have already referred, in the context of inflation, to the importance of our social security system. The fact that benefit levels are regularly reviewed to maintain their real purchasing power shows the commitment we have made to providing comprehensive assistance for those in need of financial help, care or protection. We have in place a safety-net for the needy and the vulnerable.

54. But, once again, we cannot be satisfied with achieving simply a level of basic provision. Hong Kong is a dynamic and constantly developing society. Full employment means that jobs and reasonable wages are available to virtually everyone. But changing life styles and social habits, changes in the population structure and new pressures on traditional institutions like the family create, inevitably, new tensions and strains. And some individuals and families cannot cope without outside support. Our existing social services already take care of the basic needs of these people. Increasingly, they now tend to require professional guidance rather than financial help — a significant break with the past in the welfare field. The challenge for Hong Kong is to improve our social services without creating the sort of dependency culture found in some western welfare states.

55. Last year, I said that the time had come to take stock of the progress we have made in our welfare services since the publication of the 1979 White Paper. A new White Paper has now been published in draft for public comment. This important document will be issued in its final form early next year.

56. The draft White Paper emphasizes the development of services to support the integrity of the family. Rightly so. The family has a crucial role in providing care, mutual support and emotional security to its members. Changes over the next 10 years will bring with them increasing pressures on the fabric of our society. In such times of change, it is essential for our social welfare services to preserve, strengthen and support the family as the foundation of our community.

57. One important proposal which has emerged in the draft White Paper is the suggestion to give families on public assistance a child supplement to help towards the extra costs of the food and recreation which every child needs for healthy development. In addition, more services in the form of day care centres, after school care programmes and home help services will be needed to ease the burden upon the increasing number of families where both parents are at work. Next year will also see the introduction of new legislation to give children better protection from the risk of abuse or neglect.

58. Longer life expectancy and a low birth-rate are now producing an older society. Soon 15% of our population will be over the age of 60. This underlines the importance of providing adequate services for the elderly. The

Old Age Allowance will be extended in April next year to include all Hong Kong residents aged 65 or above. It will then be payable to some 380 000 people — nearly 7% of the population. As the draft White Paper makes clear, we will also have to provide more residential care for the elderly and develop new approaches, such as self-supporting but non-profit-making homes. Legislation will be introduced to ensure that residential services for old people meet acceptable standards.

59. Another important group with special needs is the disabled. Some measures to improve the range and quality of our rehabilitation services are already in hand. But we need now to stand back and re-examine our policies in this area. I have, therefore, asked the Secretary for Health and Welfare to prepare a comprehensive Green Paper, recommending the way forward for our policy on assistance to the disabled in the 1990s. In doing so, we should avoid preconceived ideas about the abilities of handicapped people. We must accept a responsibility to work with them to help them lead lives as dignified and fulfilling as the able-bodied.

## B. PHYSICAL INFRASTRUCTURE

60. Last year, I dealt at length with the Port and Airport Development Strategy; or PADS for short. This year, I will bring Members up-to-date on the progress we have made with PADS and the other ambitious infrastructural projects which the Government is undertaking in the 1990s. But first I should like to dispel some common misconceptions about the nature of PADS and its long-term costs and benefits.

61. PADS — the Port and Airport Development Strategy — is not, of course, a single project. It is a co-ordinated package of projects which will transform our transport infrastructure over the next decade and beyond. There should be no doubt that these projects are essential to Hong Kong's future prosperity. Naturally they are expensive. Sound financial management will be necessary. We will also have to strike the right balance between the demands of the Government's current and medium-range commitments and these large capital projects, whose benefits will not be felt until the latter part of the 1990s. Nevertheless, there is no doubt that, properly managed, these projects are within our financial capacity.

62. By any measure, PADS offers excellent future returns as a sound investment. In the medium term, the most obvious benefit will be the new land which it will open up for development. On the north Lantau coast, some 200 hectares of land will be formed for industrial development along the approaches to the new airport. The West Kowloon Reclamation will give us about another 70 hectares of land for industrial, commercial and residential development.

63. In addition, once the new airport is built, the 270 hectare site of the present Kai Tak Airport will be available for development, and the way will be open for reclaiming over 300 hectares of new land in Kowloon Bay.

64. Taking into account only the areas I have just mentioned, this means that the new airport project alone will create a potential revenue from land sales of nearly \$40 billion at present day prices. Further potential for re-development will result from the removal, in due course, of height restrictions in Kowloon after the closure of Kai Tak. And, of course, PADS will give us the airport and port facilities that are essential for our rapid growth as a major business centre in the next century.

(a) *The airport*

65. Since my announcement last October of the approach we will take to port and airport development, the case for building a new airport at Chek Lap Kok has become even more compelling. Our earlier forecasts of growth in traffic at Kai Tak have proved too conservative. Over the past 12 months, the number of passengers using the present airport has increased by 11% and the number of aircraft movements by 12%. At this rate, Kai Tak will reach saturation point by 1994. Last year, 16 million air passengers landed or took off from Kai Tak. In terms of international flights, Kai Tak is now the sixth busiest airport in the world. It is the fourth busiest in terms of international freight. According to our present projections, by the year 2000, Hong Kong will need to handle some 32 million passengers a year, or an average of over 80 000 passengers every day of operation.

66. As I said last year, we cannot afford to have Hong Kong's economic development constrained by inadequate airport capacity. This is not simply a question of convenience for travellers. If Hong Kong is to maintain its role as the region's key financial, trading and commercial centre, we must be able to move increasing volumes of passenger and cargo traffic quickly and efficiently.

67. By contrast, failure to move ahead with the new airport would mean postponing our plans for continuing economic development. Without a new airport, the air transport and tourist sectors would obviously lose substantial earnings. And, of course, the rest of the economy would face a loss of business: business which would be quickly snapped up by our rivals. In the end, we would find it hard to maintain Hong Kong's role as a regional business centre, and both profits and wages would be put at risk.

68. This is not something which just affects Hong Kong. The new airport will make a significant contribution to the economic development of south China in general and Guangdong in particular. In turn, economic expansion in south China will generate more than enough business for the other existing and proposed airports in the vicinity of Hong Kong. We have provided the Chinese authorities with comprehensive details of our plans, and will continue to do so



as these plans are updated. I hope to see their support for a project which will provide the cornerstone of the continued prosperity of the Hong Kong Special Administrative Region.

69. The new Airport Authority will come into existence next year. In the meantime, the Provisional Authority is hard at work and has made significant progress. In July, it appointed consultants to draw up the airport master plan; to carry out engineering design work; and to assess the impact the new airport will have on the environment. The consultants have finished the first phase of the master plan, including recommendations on the alignment of the two runways. The Provisional Authority will soon take decisions on the overall layout of the new airport. The consultants will then be able to go ahead with their detailed design work. This will be finished by November next year. I expect the main site formation works for the airport to begin in the second half of 1991.

70. The present estimate of the cost of the new airport is approximately \$38 billion at today's prices, excluding its related transport links and other supporting infrastructure. Consultants have been appointed to advise how best to handle the financing of this major investment. By June next year, they will have made detailed recommendations on an effective financial strategy. A crucial part of their brief is to develop plans for co-operating with the private sector, to make sure that the airport is not only commercially viable, but also makes the maximum possible contribution to our economic development.

71. To sum up, last October I announced that we would build a new airport at Chek Lap Kok. This decision followed detailed investigations over many years. 1990 has seen the laying of the vital foundations for the project, with experts at work on the financial packages, as well as the engineering and other feasibility studies. We have made a good beginning, and some contracts associated with the project have already been let. The first work on the ground will begin in January next year. Soon afterwards, we will be calling for tenders for the Lantau Fixed Crossing, the centrepiece in the new road and rail system which will link the airport to Kowloon and Hong Kong Island. Progress will accelerate as the team of professionals being assembled, including a Chief Executive for the Airport Authority, take up their posts in the months ahead. And we still have some flexibility to tailor individual elements within the total project in response to additional data and further analysis by the experts.

(b) *The port*

72. Separate from the new airport, but closely linked to it as part of Hong Kong's essential infrastructure, is the development of our port facilities. As with the airport, this project is vital to our continued prosperity. With more and more ocean-going ships entering the port, we must plan ahead to ensure that Hong Kong keeps its position as a key communications centre for both Southern China and Southeast Asia.

73. Most of the port expansion will be financed by the private sector. This is a well proven approach in Hong Kong. The record shows that the private sector can make a first-rate job of financing, constructing and operating the major facilities in our port. Progress on Terminal Seven at Kwai Chung is a good example. The first phase was completed in the record time of 19 months. That is two years ahead of schedule. It will be fully operational in two weeks' time. The site for Terminal Eight will be let for private sector development in the first quarter of next year. The aim is to have it ready for use during 1993.

74. The Government, too, has an important role to play in port development. Part of this is to provide breakwaters, typhoon shelters and additional land for cargo handling and container storage. Another, crucial, role is to ensure that additional facilities become available at the right time and in the right place. In carrying out this task, the Administration will now have the advantage of advice from the Port Development Board, which started work in August.

75. The estimate of the total cost of the new port development is some \$55 billion at current prices. But it is important to remember that this expenditure will be committed in phases, between now and the year 2006, and that the commercial viability of the development is expected to induce private business to invest some 80% of the finance required. The policy is to provide new port capacity as soon as, but no sooner than, it is required. This incremental approach means that the detailed phasing of expenditure will be subject to continuous adjustment, so that it matches the changing requirements of the economy.

76. By the end of the decade, the focus of activity in our port will have shifted to the western harbour. New container and multi-purpose terminals will be developed on a port peninsula extending from northeast Lantau. In the year 2000, the best estimates suggest that Hong Kong's port will handle nearly 200 million tonnes of cargo per year, well over twice the present level. We will have the ability to be not only the major export outlet for Hong Kong and Southern China, but also the major trans-shipment centre for East Asia.

(c) *The environment*

77. It is already possible to see in the mind's eye an outline of what Hong Kong will look like in the year 2000. The new airport will be in operation, with road and rail links to Tsing Yi and Kowloon via a string of bridges and tunnels. The Kowloon peninsula will have expanded in size by a third as a result of reclamation in the west. In the area surrounding the old Kai Tak runway, reclamation equivalent to almost the entire size of Kowloon today will be nearing completion. On Hong Kong Island, the central business district will have been transformed by its expansion onto the new harbour reclamation. New and well-designed towns will be under construction in Tung Chung and Tai Ho on Lantau.

78. In carrying out these massive development plans, both the Government and the community must continue to pay attention to our environment. Here again, there are hard choices to be made. We cannot shy away from development in an attempt to preserve the status quo. That would be stagnation. Nor can we press ahead regardless of the consequences. That would be wanton destruction.

79. Last year's White Paper on Pollution forms the basis for the Government's programme of environmental protection. We are already operating the main provisions of the Noise Control Ordinance; and the requirement for lower sulphur content fuel, introduced in July, has resulted in a dramatic improvement in air quality. The average level of sulphur dioxide in the air we breathe has fallen by over 40% territory-wide, and by as much as 80% in some areas. By early next year, when we introduce unleaded petrol and take other measures to deal with smoky vehicles, we should be able to look forward to still cleaner air.

80. Meanwhile, the Water Pollution Control programme is beginning to improve the water quality at our beaches. The number of beaches closed because of unacceptable levels of pollution was halved this year to three. But we have still a long way to go. The next stage is to strengthen the Water Pollution Control Ordinance. This will happen in December, when amendments already passed by this Council will take effect. As a result, some 11 000 factories will have to adopt more stringent anti-pollution standards, setting up treatment facilities where these are necessary. The amendments also remove previously permitted exemptions, which virtually amounted to a licence to pollute. But that will not be the end of the story. Further amendments will be put to this Council next year. We must also press on with our \$14 billion sewage programme. Site investigation and engineering studies for this have already begun. All these measures will improve dramatically the quality of water in our nullahs and streams and, most notably, in our harbour.

81. Legislation is only part of our effort to improve the environment. The commissioning in April of Hong Kong's first Refuse Transfer Station at Kowloon Bay has made it possible to close the Jordan Valley Landfill. Within the next few months, the Lai Chi Kok Incinerator will have been shut down — welcome news to those living nearby. Tenders are being evaluated for a second Transfer Station; a third is being planned; and a contract for a Chemical Waste Treatment Centre is due to be signed shortly. Nor have we lost sight of the fact that pollution is no respecter of borders. The establishment of a joint Hong Kong-Guangdong Environmental Protection Liaison Group in July shows yet again the importance we attach to co-operation with China on specific issues which affect us both.

82. Encouraging as these developments are, there is much more still to be done. I hope that not only the Government but also our major trading and industrial organizations will take part and show their determination to protect

our environment. The adoption of recycling schemes by companies and housing estates is a sign that the community is becoming increasingly conscious of its responsibility for the environment. One welcome move was the opening in November last year of a Centre of Environmental Technology for Industry at the City Polytechnic, funded by the private sector.

83. I believe that major improvements to the environment are well within our reach. By the end of the decade, Hong Kong's hospitals will have fewer patients with lung disease. The air we breathe will be cleaner. With the widespread use of unleaded petrol and the reduction in the number of diesel-engine vehicles, there will be fewer complaints about noise and air pollution. More people will enjoy a good night's sleep, uninterrupted by noise from pile-drivers, machinery or aircraft landing and taking off. Cleaner beaches will attract more visitors. Our country parks will remain intact, including those in Sai Kung, Pat Sin and south and west Lantau, as well as the internationally famous bird sanctuary at Mai Po. Even our massive infrastructural developments should have the capacity to improve rather than damage the environment. That is because they provide the opportunity for less overcrowding and better urban planning.

### C. GOVERNMENT AND ADMINISTRATION

#### (a) *Public participation*

84. I should now like to deal with the development of our system of government. This system is a product of our unique circumstances: our status as a non-sovereign territory; our special relationship with China; the requirements of our economy; and the increasing political awareness of our population. Our system has evolved to meet the special needs and position of Hong Kong. The next stage in this evolution will be three sets of elections in 1991.

85. The first direct elections to this Council next year will be a significant step in the development of our system of government. It is very important that all sectors of the community respond positively. We need candidates of high calibre, representing a wide range of interests. Taking part in elections means being prepared not just to win, but to lose as well. There is no dishonour in that. We also need the public to exercise its right to vote. The people of Hong Kong will be able to make their full and proper contribution to shaping Hong Kong's future only if they accept a personal responsibility for enthusiastic and well-informed participation in the political process.

86. Many people are still uninterested in politics. They prefer to be left to get on with what they do best — helping their families to achieve a better standard of living. There is nothing unusual in this, nor is it unique to Hong Kong. But we must encourage such people — we must encourage all our community — to support those who will speak on their behalf. Equally, our politicians must be

prepared to find out what people really think — not just those who make their presence felt, but those who keep quiet as well — and provide leadership which meets the overall needs of Hong Kong.

87. By this time next year, the composition of this Council will be substantially different. Official membership will be reduced to the three ex officio Members. There will be a substantial elected majority. The community will look to Members of this Council to play a greater part in the conduct of government business. This is a natural and welcome development. Inevitably, these changes will have their impact on the day-to-day workings of the Council. We will have to look again at some of our rules of procedure. The changes will also affect the way the Administration and the Executive Council work with this Council in dealing with the business of government. As our system of government evolves and becomes more complex, we must work together to make sure that all the key parts of that system remain effective as well as responsive to the needs of the territory.

(b) *The Civil Service*

88. The Civil Service too will face adjustments as a result of next year's changes in the political system. But the need to maintain close links between this Council and the Administration will remain. It will, if anything, be greater. At the same time, we must draw a clear distinction between politicians and civil servants. As our political institutions evolve, it is important that the Civil Service should remain politically neutral. The service exists to serve the overall interests of Hong Kong. It must not be identified with sectoral interests.

89. I have already made the point that the size of our Civil Service will remain virtually static next year. As we enter a period of minimal growth in numbers, we need to look at ways of increasing the productivity of those involved if the level of service to the public is to be maintained. Our civil servants already perform well by any standards, in terms of their integrity, competence, commitment and professionalism. To improve productivity in this context will be no easy task.

90. We will have to look first to the quality of management. We have been experimenting with ways to give departments the incentive to become more efficient, and to give policy Secretaries increased responsibility within their policy areas. We have also identified scope for devolution of central authority to improve the quality of personnel management throughout the service. One step which has already been taken is the delegation to heads of departments of the authority to deal directly with the Public Service Commission on all appointments and promotions below directorate level. There are further plans for devolution, including giving heads of departments the financial and administrative responsibility for the professional training of their staff. At the senior level, civil servants must not only have dedication, integrity and balanced

judgement: they must also be good at the management of resources and people, and their performance will be judged accordingly.

91. The application of modern information technology to improve productivity and to compensate for labour shortages will be crucial. This is an area where the Government has much to learn from the private sector. Investments in upgrading essential office equipment will enable the Civil Service to achieve the productivity gains which are necessary if we are to meet new demands and maintain standards at a time of minimal growth in manpower. Computerization is now an integral part of long-term planning in government departments. And more civil servants at different levels will be trained in the use of computers.

92. There is also a need to pay careful attention to civil service morale. This goes beyond maintaining a fair system for determining pay and conditions of service. I am, for example, conscious of the concerns which many civil servants express about the security of their pensions. We believe that pensions are secure: they are now a statutory right and there are firm commitments to their payment in both the Joint Declaration and the Basic Law. Nevertheless, we are looking to see if there are other measures which might be taken to address staff worries. But I must caution that any changes which require substantial resources will not be possible in the short term.

93. Civil servants' attitudes and aspirations have changed, as they have in the community as a whole. The Government, as an employer, must respond to this situation. We must look for new ways both to attract and retain staff. For its part, the Civil Service has a responsibility to maintain its impartiality and keep up its fine tradition of service to the public. The community, rightly, expects a good deal of its Civil Service. So does the Government. A well-motivated and committed Civil Service is essential to the success of Hong Kong in the 1990s and beyond.

#### **(4) HONG KONG'S PLACE IN THE WORLD**

##### *(a) Hong Kong and China*

94. The ambitious social, economic and political programmes which I have described are being undertaken against the background of the transition to Chinese sovereignty. In our evolving relationship with China, there are still, inevitably, stresses and strains which can only be overcome by mutual effort and mutual understanding. One thing is clear. A constructive relationship with China is fundamental to the future well-being of Hong Kong, both before 1997 and after. Neglecting this truth, or making no attempt to foster such a relationship, would do no service to the people of Hong Kong.

95. The Hong Kong Government — and the British Government — have therefore tried over the past year to dispel misunderstandings and to improve

our working relationship with Peking. My own visit to Peking in January was part of this process. Mr. MAUDE's visit in July provided a further valuable opportunity for discussions with senior Chinese leaders.

96. We have tried to convince the Chinese Government that actions taken over the past year about which they have expressed doubt — for instance, the British nationality package and the introduction of a draft Bill of Rights — have been part of a sincere effort to bolster Hong Kong so that it will have the strength to prosper as a Special Administrative Region after 1997. Similarly our major infrastructural plans, such as the building of the new airport and the expansion of the port, are part of the long-term expansion which must be started now if the Hong Kong Special Administrative Region is to be given the best possible chance of success.

97. The working atmosphere between ourselves and China has improved during the year. The Joint Liaison Group met in September and made progress on some of the matters it is handling. It has a great deal of important work still to do in the years ahead. Following the understanding reached earlier this year which will allow the 1995 legislature to continue beyond 1997, we now need to plan for the continuity of day-to-day administration. There are many complex legal matters to be sorted out — international agreements affecting Hong Kong, the localization of laws and arrangements for Hong Kong to continue to be responsible for key elements of its economic life. The continuity of the judicial system is another area of great importance to the stability of Hong Kong after 1997. We need to get in place arrangements for establishing in Hong Kong our own Court of Final Appeal. So there is much to do, and a need to tackle it quickly, pragmatically and efficiently.

98. As we get nearer to 1997, there will be an increasing need to make sure that the Chinese Government is well informed on important matters of policy which will extend beyond 1997. For Chinese leaders to have a full understanding of how Hong Kong works, what our key priorities are and how we go about taking decisions, will be helpful to Hong Kong both now and after 1997. An increase in the exchange of information in this way should not be seen as giving the Chinese Government a veto over decisions which are properly for the Hong Kong Government to take. They have not sought this; nor would I expect them to do so. The extensive autonomy in many fields which Hong Kong now enjoys is of long standing. Its continuation after 1997 is guaranteed in the Joint Declaration and provided for in the Basic Law. Meanwhile, the Chinese Government has undertaken in the Joint Declaration to give its co-operation to Britain in the administration of Hong Kong up to the transfer of sovereignty in 1997. It is in this context that over the next few years we aim to improve consultation, achieve a greater exchange of information and build up better understanding on both sides.

99. We already have extensive contacts with the Chinese authorities at the working level on specific matters such as cross-border traffic, control of

smuggling and illegal immigration, pollution control and health. These exchanges mean that a significant number of Hong Kong officials have frequent contact with their Chinese counterparts. This is a relatively new but important development. So far this year, over 60 official visits have been made by Hong Kong civil servants to various parts of China. I hope to see more such contacts in the coming year, and also to see more Chinese officials visiting Hong Kong.

100. We need also to make members of our Civil Service better-informed about China. We will, therefore, develop our present China training programme so that civil servants, at different levels and with different responsibilities, can become more familiar with China and the way in which China operates. I believe that greater familiarity, and more personal contact at all levels, will help us to handle differences of opinion, when they occur, in a more constructive way.

101. Above all, it would be difficult to overstate the importance of our economic relationship with China. China is our largest trading partner and a major contributor to our GDP growth. The flow of capital, technology and commercial expertise from Hong Kong into Guangdong, as well as other parts of Southern China, is a long-term feature of our economy. So is the flow of goods and foodstuffs from China to here. In 1989, no less than 14 000 Hong Kong-based factories employed some 2 million workers in Southern China. This has not only strengthened our production base, but has also played an important part in bringing about an average annual increase in our total China trade of 30% over the past five years. The southern coastal belt of China, and the Pearl River Delta in particular, is set to be an area of substantial economic growth for the next two or three decades. Hong Kong must be ready and able to play a major part in this process.

(b) *An international business centre*

102. Economically, we have a global, as well as a regional, role to play. Last year, we set up the International Business Committee, under the chairmanship of the Chief Secretary. This Committee is more than just a symbol of the key role which overseas investors and companies will continue to play in Hong Kong. It brings together representatives of all the foreign chambers of commerce in a high-level forum where major practical issues of concern to the overseas community can be discussed. This community is growing fast. The total number of overseas companies based in Hong Kong has increased for the last five years at the rate of nearly 60 per year. This is a net figure: new arrivals far more than compensate for the few, over-publicized cases of companies deciding to leave.

103. These international links are important, not only because of the investment they bring into the territory, but because Hong Kong will continue to depend in the 1990s on its ability to respond quickly to the fluctuating demands of worldwide markets. This does not mean that we can afford to neglect our



traditional trading partners, such as the United States. But it does mean that we must take advantage of the new commercial and financial relationships emerging, not only in China, but around the world.

104. In 1992, the European Economic Community will establish the Single European Market and remove all internal trade barriers. This market has a total of 320 million consumers, and already accounts for nearly 40% of world trade. The transformed political climate in Eastern Europe will also give our exporters new, long-term business opportunities. And, above all, we must look to the expanding economies of the Asia-Pacific region as major trading partners — as well as rivals. In the first six months of this year, 60% of our total trade was with countries in this region, and the growth rate of our domestic exports to Asia-Pacific countries outpaced those to all other areas. Selling our products in all these fast-developing markets will require new skills and even greater adaptability. The competition, particularly in the present economic climate, will be fierce. The potential rewards are correspondingly great.

#### (5) CONCLUSION

105. I should like to conclude by restating the essential messages of my address to you today. 1990 has been a year of consolidation. The 1990s will be a decade of steady progress. We face the immediate prospect of a tougher trading environment and higher costs and prices. We have faced difficult times before. We have always had the ability to bounce back and to do so quicker than the rest of the world. We must put ourselves in a position where we can do that again. It is essential that we retain our competitiveness in world markets. To do so, we must minimize the effects of wage and price increases. In a free enterprise economy, this means allowing market mechanisms to operate efficiently. Public expenditure must remain under tight control, but at the same time we must take steps to protect those members of the community who are most vulnerable to increases in the cost of living.

106. Last year, we began a series of programmes which will transform our infrastructure; upgrade our social services; and modernize our political system. We have not been intimidated by these challenges. Today I have reported on a year of significant progress towards our objectives.

107. Work on the new airport, expansion of the port and the development of the related transport links is well underway. We still have some hard decisions to make, and many of the details have yet to be settled. Nevertheless, these projects are essential investments in Hong Kong's future, and we should be clear in our determination to see them carried out.

108. In the next decade, there will be major advances in the quality and range of our social services, on which the quality of life of ordinary Hong Kong families depends. We have moved into a new phase. The essential structure of

our social services will remain, and standards will improve. Protection of the vulnerable in our community will remain a priority, but we have no intention of moving towards a state welfare system which carries the inevitable risk of undermining the role of the family and creating dependence on government services. In our next stage of development, services will be upgraded. There will be a much wider choice. No one will be deprived of our higher level of standard services through lack of means. But those who can afford to will be asked to pay more for the standard services they receive, and they will have the chance to choose, and pay for, additional services beyond the basic level.

109. The essence of the Hong Kong way of life is the individual's ability to take decisions and to take responsibility for himself and his family. This will be the decade of greater freedom of choice. Politically, we have reached the point where the people of Hong Kong must assume greater responsibility. The three sets of elections in 1991 are the next stage in the evolution of our political system. Now is the time for Hong Kong to develop its own leaders: to find Hong Kong solutions to Hong Kong problems.

110. We are now developing the physical, social and political infrastructure upon which our prosperity and quality of life will depend in the year 2000. We will not be knocked off course by short-term difficulties. Nor must we be paralysed by self-doubt. We are determined to reach our goals, because we are convinced that they are necessary to ensure the well-being of Hong Kong families well into the next century. We should have confidence in ourselves, and get across that message of confidence to others, so that they too have confidence in us. The past efforts and good sense of our community have created a city of which we can be truly proud. That record should give us the strength to be ambitious in our vision of the future — the vision of a Hong Kong that is confident not only in its unique role as a bridge between China and the world, but also as an international centre for business and finance and a decent home for its people.

### **Adjournment and next sitting**

HIS EXCELLENCY THE PRESIDENT: In accordance with Standing Orders I now adjourn the Council until 2.30 pm on Wednesday, 17 October 1990.

*Adjourned accordingly at one minute to Four o'clock.*