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**Notes on the Special Briefing for Finance Committee Members
on Friday, 10 March 2000, at 10:45 am
in Chamber of the Legislative Council Building**

Members present:

Hon Ronald ARCULLI, JP, Chairman of the Finance Committee (Convenor)
Hon CHAN Kam-lam, Deputy Chairman of the Finance Committee
Hon Kenneth TING Woo-shou, JP
Hon David CHU Yu-lin
Hon Cyd HO Sau-lan
Hon Edward HO Sing-tin, SBS, JP
Hon LEE Wing-tat
Hon LEE Cheuk-yan
Hon Eric LI Ka-cheung, JP
Hon LEE Kai-ming, SBS, JP
Dr Hon David LI Kwok-po, JP
Hon Fred LI Wah-ming, JP
Hon NG Leung-sing
Hon Mrs Selina CHOW LIANG Shuk-ye, JP
Hon MA Fung-kwok
Hon CHEUNG Man-kwong
Hon HUI Cheung-ching
Hon Christine LOH
Hon CHAN Yuen-han
Hon CHAN Wing-chan
Hon Mrs Sophie LEUNG LAU Yau-fun, JP
Hon LEUNG Yiu-chung
Hon Gary CHENG Kai-nam, JP
Hon SIN Chung-kai
Hon Andrew WONG Wang-fat, JP
Hon Jasper TSANG Yok-sing, JP
Hon LAU Chin-shek, JP
Hon LAU Kong-wah
Hon Mrs Miriam LAU Kin-ye, JP
Hon Emily LAU Wai-hing, JP

Hon Andrew CHENG Kar-foo
Hon Timothy FOK Tsun-ting, SBS, JP
Hon LAW Chi-kwong, JP
Dr Hon TANG Siu-tong, JP

Attendance by invitation:

Mr Donald TSANG Yam-kuen, JP	Financial Secretary
Miss Denise YUE, JP	Secretary for the Treasury
Mr Philip YUNG	Administrative Assistant to Financial Secretary

Staff in attendance:

Ms Pauline NG	Assistant Secretary General 1
Miss Polly YEUNG	Chief Assistant Secretary (1)3
Ms Anita SIT	Senior Assistant Secretary (1)8

Mr Ronald ARCULLI welcomed the Financial Secretary (FS), Mr Donald TSANG, and the Secretary for the Treasury (S for Tsy), Miss Denise YUE, to the briefing. He advised that the purpose of the briefing was to provide an opportunity for members to ask questions on the 2000-01 Budget announced by FS on 8 March 2000.

Financial Secretary's introductory remark

2. FS expressed gratitude to the Hong Kong community for their hard work, which had enabled a steady recovery of the economy over the past year. He highlighted the following aspects of the 2000-01 Budget -

- (a) The encouraging 8.7% year-on-year growth in Gross Domestic Product (GDP) in the fourth quarter of 1999 had substantially reduced the pressure on the Administration to increase taxes in 2000-01. Nevertheless, the Administration remained deeply concerned about the successive operating deficits continuing beyond 2000. The Administration would need to critically examine whether this was cyclical or structural in nature.
- (b) The GDP was forecast to grow by 5% in real terms in 2000, assuming continuous growth in our major markets in the United States and Japan. Notwithstanding such impressive

economic growth, the Government and the community still needed to work very hard to tackle the high unemployment rate, currently standing at 5.7%. The Budget had put forward a number of measures to boost employment.

- (c) The Enhanced Productivity Programme (EPP) in the public service had so far been very successful and the resultant savings could be used to finance new initiatives/services.

Economic prospects for 2000

3. Members sought assurance from FS on whether Hong Kong's economic prospects for 2000 was as sound as he had predicted. Referring to FS's remarks in his Budget Speech about the investment earnings on the fiscal reserves in 1999-2000 which had led to the decision against imposing any new tax this year, Miss Christine LOH enquired whether the \$44 billion investment earnings had already been realized and how the investment earnings on the Exchange Fund related to those on the fiscal reserves.

4. FS said our fiscal reserves currently accounted for about 40% of the total assets of the Exchange Fund. As manager of the Exchange Fund, the Hong Kong Monetary Authority (HKMA) would appropriate earnings to fiscal reserves from the Exchange Fund on a pro-rata basis annually. S for Tsy added that HKMA would credit the return on the fiscal reserves for 1999 to Government accounts for the fiscal year ending 31 March 2000. Therefore, from the perspective of the Government, the estimated investment earnings of \$44 billion on the fiscal reserves for the year 1999-2000 would be realized earnings.

5. Mr Eric LI said that the \$44 billion investment earnings accounted for a significant portion of Government revenue in 1999-2000. He sought clarification on the dividend policy of the Exchange Fund and the arrangements for the distribution of dividends from the Exchange Fund to the Government.

6. FS said that the HKMA distributed earnings on the fiscal reserves at the same rate as the earnings on the overall assets of the Exchange Fund. He had the statutory authority to direct HKMA to appropriate additional funds from the Exchange Fund to the Government to meet the latter's operational needs. This statutory power however had never been invoked. On the administrative arrangements, S for Tsy advised that the financial year of the Exchange Fund ended on 31 December whereas the financial year of Government accounts ended on 31 March. Whilst the return on the Exchange Fund and fiscal reserves from 1 April to 31 December 1999 had been confirmed, the return for the period 1 January to 31 March 2000 was based on an estimate worked out by FB. Hence, a minor portion of the \$44 billion

investment earnings in 1999-2000 was an estimate which should not deviate greatly from the final outturn.

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7. In view of members' concerns, the Convenor requested and S for Tsy agreed to provide a note to explain the administrative arrangements relating to the investment income of the fiscal reserves placed with the Exchange Fund.

8. Miss Emily LAU commented that FS had often referred to the fiscal reserves in justifying his proposals in his Budget Speeches. She asked if the policy on the use of the fiscal reserves had been reviewed regularly as FS had promised and what plans had been made on utilizing the reserves for the benefit of the community.

9. FS responded that it was the Government's policy that fiscal reserves should be used to protect the stability of the monetary system and maintain government spending programmes when we faced fiscal deficits in the short term. The benchmark the Government had adopted as the appropriate level of fiscal reserves was the total of 12 months' government expenditure plus Hong Kong dollar money supply under the M1 definition, allowing a range of plus and minus 25%. Due to the deficits in the past two years, the present level of fiscal reserves was approaching the lower margin of the benchmark range. FS stressed that the existing policy on fiscal reserves had served Hong Kong well and should continue. Monetary organizations such as the International Monetary Fund had also commended the existing policy for its important role in stabilizing Hong Kong's currency and inspiring confidence in the local economy.

10. In the absence of any community-wide consultation on how the fiscal reserves should be utilized, Miss Emily LAU queried the extent of public support for the existing policy. FS said the general public recognized during past financial turmoils, particularly the one over the last two years, the importance of the linked exchange rate system, the stability of which hinged on the adequacy of the fiscal reserves. This was the key to the stability of our monetary system and the economy at large.

Forecast of deficits in the Budget

11. Referring to the forecast in the Budget that investment spending in 2000 would recover to a growth of around 6% in real terms, Mr NG Leung-sing sought further information on the respective forecast growth rates for major economic sectors. In reply, FS said that prevailing concerns over the business outlook, high real interest cost and credit squeeze had driven the majority of incoming capital in 1998 and 1999 to the financial markets. Only a small proportion had gone directly to long-term projects. As a result, overall investment spending had shrunk in real terms by 6.4% and 17.6% in 1998 and

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1999 respectively. As the economy continued to recover and business prospects improved, the Administration forecast a 5.6% real growth in investment spending for 2000. Details were set out in page (6) of the supplementary notes to the Budget Speech. At Mr NG's request, FS would ask the Government Economist to provide information on investment spending by economic sectors for reference.

12. Noting from FS's remarks that the surge of the Hang Seng Index (HSI) in 1999 had a significant effect in reducing the revised estimated deficit in 1999-2000, Mr TSANG Yok-sing enquired whether assumptions on the Index had been made in drawing up the Budget for 2000-01. FS said that the 70% surge in 1999 was exceptional. The estimate on the investment earnings on the fiscal reserves for 2000-01 was based on assumptions of normal market performance.

13. Mr LEE Kai-ming enquired about the major factors that would lead to a forecast deficit of \$6.2 billion for 2000-01, which was much higher than the revised estimated deficit of \$1.6 billion in 1999-2000, notwithstanding a forecast real growth of 5% in GDP for 2000-01. FS explained that Government revenue in 1999-2000 was much higher than originally estimated as a result of the substantial rise in HSI (about 70%), bringing much higher-than-expected investment earnings on the fiscal reserves, which helped reduce the forecast deficit substantially. Since the windfall in 1999-2000 was not expected to recur, the Administration had adopted a prudent approach in forecasting revenue. There had been operating deficits in 1998-99 and 1999-2000 and such phenomenon would continue up to 2002-03.

14. As regards criticisms against his warnings on tax increases and new taxes prior to the announcement of the Budget, FS said he had noticed operating deficits in 1998-99 and 1999-2000 when he began to prepare the Budget in late 1999. Although our fiscal position for 1999-2000 had eased considerably after the launch of the Tracker Fund in November 1999 and the further rise in HSI, the prospect of structural deficits remained a cause for concern. He had given thoughts to various ideas to broaden the tax base with a view to removing the structural defect and restore fiscal balance. He had raised his concerns during all the budget consultation sessions to see what advice the participants could give him. FS stressed that all along, he had never said that he would increase any particular tax in 2000-01. The critical turn of events occurred in the second week of February 2000, when figures for the last quarter of 1999 showed an 8.7% real growth in GDP and pointed to a much better financial outturn. These had reduced the pressure on tax increases and introduction of new taxes in the short-term, thus allowing a more in-depth examination of our existing tax regime.

15. Mr LAU Kong-wah commented that FS should have informed the public of the favourable financial outturn on the fiscal reserves and deficit as early as in February 2000. FS explained that he had noted strong sentiments against tax increases and introducing new taxes during his consultation process. The encouraging figures made available to him after Lunar New Year had not eliminated his concerns about structural budget deficits. He had thus sought to assure the public that any new taxes would only be introduced after efforts to control public expenditure had been exhausted.

16. Referring to FS's remarks in the Budget Speech that Hong Kong was reinventing itself as a knowledge-based and technology-intensive economy, Mr LAU Kong-wah queried that this might only be a virtual reality as some fundamentals of the local economy were still weak. He also expressed concern about the recent craze for technology stocks among local people, which might be indicative of another period of bubble economy.

17. FS responded that the rush for hi-tech investments was not unique to Hong Kong. The Government was in no position to say whether decisions by investors were right or wrong. On the so-called bubble economy, FS said most of the time, stock markets would either be in a bubbly state or in the doldrums. Perfect equilibrium was seldom known. But he was confident that local investors had become more rational in making their investment decisions having learned the lessons of the Asian financial crisis.

Containing the size of the civil service

18. On the target of reducing the total civil service establishment by 10 000 posts over the period 2000-01 to 2002-03, Mr CHAN Kam-lam sought clarification on how this target was related to the implementation of EPP. FS said that the 10 000 posts were in addition to the 617 posts cut under the 2000-01 Draft Estimates published on 3 March 2000. The civil service would have to make strenuous efforts to cope with the extra workload arising from the introduction of new services while maintaining the quality of existing ones.

19. Mr MA Fung-kwok commented that applying a standard 5% EPP target across-the-board on all Government bureaux and departments might not be fair, as some bureaux/departments had already improved on their productivity prior to the implementation of the EPP and their establishment was in fact quite lean. He enquired whether the Administration would take into account the varied circumstances of individual bureaux and departments and require those with the potential to achieve more than 5% saving to attain a higher target.

20. FS reiterated the determination of the Administration in achieving the 5% EPP target. In fact, some bureaux and departments would achieve even

greater productivity gains. It was on this basis that he had worked out with the Chief Secretary for Administration a higher target of deleting 10 000 civil service posts during the next three years. He assured members that the Administration would closely monitor the situation to ensure the quality of public services would be maintained in the process of raising productivity. FS also invited members to visit the Finance Bureau web-site for detailed information on the EPP exercise.

21. Mr LEE Cheuk-yan commented that the reduction of 10 000 civil service posts would impact on both serving civil servants and the unemployed. He queried whether the forecast by FS in the 1999-2000 Budget on the number of new jobs to be created was still valid.

22. FS said the employment opportunities to be created under his 1999-2000 Budget should not be mixed up with the proposed reduction of 10 000 civil service posts, as the former were jobs in the private sector. FS added that where existing civil service vacancies were deleted in favour of contracting out, this would create jobs in the private sector and help promote employment.

23. Mr CHAN Wing-chan was concerned about possible redundancy as a result of increased out-sourcing and the planned reduction of 10 000 civil service posts. In response, S for Tsy confirmed that the Government would not force any civil servants to retire early or resign from the civil service in order to achieve the target of reducing 10 000 civil service posts in three years. The target would be achieved through the Voluntary Retirement Scheme (VRS), which would be entirely voluntary, and other measures as detailed in the Budget Speech (paragraph 119) including a continued freeze on civil service recruitment and deletion of vacancies. She also informed members that after completion of consultation with the staff side, the Administration would discuss details of VRS with Members and thereafter, submit the relevant funding proposal to the Finance Committee. As regards out-sourcing, S for Tsy advised that since the implementation of the EPP in 1999-2000, a number of departments had out-sourced some of their services. Whilst the out-sourcing arrangement had enhanced cost-effectiveness, it had not given rise to any redundancy problem.

24. Mr LAW Chi-kwong noted from the draft Estimates 2000-01 that there was a planned increase in the establishment of the Social Welfare Department (SWD). As FS had announced the planned reduction of 10 000 civil service posts in the next three years, he enquired whether FS considered it appropriate for SWD to contract out its non-statutory direct services to the private sector instead of creating new posts to meet planned service requirements.

25. FS said out-sourcing would enhance cost-effectiveness in the provision of public services, both at the professional and non-professional levels. In this connection, S for Tsy clarified that notwithstanding the target of a net reduction

of 10 000 posts within three years, some departments might be allowed to create posts to meet operational requirements during the three-year period if there was strong justification for the posts concerned.

Employment

26. Miss CHAN Yuen-han expressed concern about the adequacy of job opportunities for local low-skilled and unskilled workers, in particular young persons and women workers. She considered that the experience of the United States in the past twenty years and that of Hong Kong in its previous structural changes in the economy as referred to by FS in his Budget Speech might not apply to the present unemployment situation in Hong Kong. She considered that the Administration should adopt a fresh approach in tackling the problem of unemployment in the provision of training and retraining, lest the size of population relying on Comprehensive Social Security Assistance would further expand in the foreseeable future.

27. FS responded that while the Government would spare no efforts in helping the unemployed to rejoin the workforce, the solution to unemployment lied ultimately with economic recovery. He believed the employment situation for both skilled and unskilled workers would improve as the economy picked up.

28. Noting that \$300 million had been earmarked for the provision of various vocational training and retraining schemes for employees in 2000-01, Mr LEUNG Yiu-chung queried why the funding was not injected directly into the Employees Retraining Board (ERB) to strengthen and expand the retraining programmes for low-skilled workers. FS said ERB was funded through capital grants instead of recurrent subvention. At present, ERB had sufficient financial resources to run its planned programmes. He added that apart from ERB, many other non-government agencies and educational institutes also provided vocational training and retraining for local workers.

Adult education

29. Miss Cyd HO referred to calls from Members of the Frontier to improve adult education and noted that the Administration had earmarked about \$2 million to increase places for adult education in 2000-01. She pointed out that according to a survey conducted in 1998, some 400 000 female and 120 000 male adults in the local population only had an education level at or below the kindergarten level and nearly 2 million had not completed primary education. Given that only 14 000 adult education places were offered annually, it would take an unduly long period before the entire adult population could become literate. She was concerned that this would hinder Hong

Kong's transformation into a knowledge-based and technology-intensive economy.

30. In response, S for Tsy explained that the Government tackled the issue on various fronts. For example, a provision of \$170 million had been earmarked in 2000-01 for a non-means-tested loan scheme for people who wished to pursue continuing education. The loans were to be repaid over a ten-year period after completion of the course in question. A provision of \$300 million had also been earmarked to help secondary school leavers to undertake pre-employment or on-the-job training under the Youth Pre-employment Training Programme.

31. Miss Cyd HO doubted that those 520 000 adults who had not received primary education at all could hardly benefit from the aforesaid loan scheme and training programme. S for Tsy added that these adults might avail themselves of the evening adult courses run by the Education Department if they wished to improve their education standard. In this regard, the Convenor suggested that Miss HO might pursue the subject further at the relevant Special Finance Committee meeting with the Secretary for Education and Manpower if she so wished.

Review on the tax system

32. Mr Fred LI questioned the appropriateness of designating S for Tsy as the head of a task force to examine the viability of the existing tax regime, which in his view should be undertaken by tax experts, professionals and academics. He also considered it inappropriate to appoint outside professionals to the independent committee to undertake the detailed study of new types of broad-based taxes, which in his view were mainly technical in nature. Mr LI thus asked if the membership of the two could be swapped.

33. FS said that as S for Tsy and her colleagues in the Finance Bureau were well versed in the background, principles and operation of the existing tax system and she would be the right person to head the task force to critically examine the tax regime. On the other hand, he also recognized a lack of in-house expertise in new tax types. Thus, the task of examining the suitability of introducing new taxes and analyzing the different options would be vested with experts from outside the Administration.

34. Mr Fred LI commented that while he would not query Government officials' knowledge of the existing tax regime, he considered that a critical review which might involve the evaluation of the existing tax system should more appropriately be conducted by independent persons. He added that the same view had been expressed by some critics on public policies. FS stressed that the purpose of the aforesaid studies were to assess the nature and

seriousness of successive recurrent fiscal deficits and to explore taxation measures that would help attain the long-term goal of fiscal balance. Issues related to the redistribution of wealth through taxation measures were outside the purview of the studies. FS added that one consideration for making the review of tax system an in-house exercise was because commercially sensitive issues might be brought up during the review. Nevertheless, he reiterated that the Task Force would listen to the views of Members and outside experts as and when appropriate.

Sales tax

35. Mrs Selina CHOW said that while Members of the Liberal Party did not object to undertaking a study on new types of broad-based taxes, they were gravely concerned that FS might have a pre-conceived stance on introducing sales tax. She therefore asked whether the Administration would conduct an open and transparent public consultation on the issue. FS said that the independent committee would examine various types of broad-based taxes, including but not restricted to sales tax. As the committee would publish its report, its recommendations and the considerations behind them would be made known to the public.

36. Mrs Selina CHOW then sought clarification on whether the decision to introduce broad-based new taxes would hinge on whether or not a problem of structural fiscal deficits existed. In reply, FS said if the study found that the problem did not exist, there would be much less urgency to introduce expedient revenue measures to widen the tax base and the tax net.

Government fees and charges

37. On Government fees and charges that directly affected people's livelihood, Mr LAU Chin-shek sought the Administration's assurance that these fees and charges would not be raised unless the unemployment rate dropped and the median household income rose to a certain level.

38. FS said the "user pay" principle for fees and charges should be restored now that our GDP was firmly on the rise again. Fees that had not been adjusted for a long time would be increased in phases so as not to impact on users too heavily. At the same time, the Administration would continue to exercise vigorous cost control to reduce the pressure for fee increases. The Administration would discuss with Members the revision of fees affecting people's livelihood in due course. Any big increases to recover cost would also be introduced in phases.

Rates and Government Rent

39. Noting from the publication "2000 Economic Prospects" which stated that compared with the peak in the third quarter of 1997, flat rentals in the fourth quarter of 1999 had dropped by 30% on average, Mr LEE Wing-tat enquired whether the 30% drop had been fully reflected in the relevant General Revaluation exercises. He commented that apparently, the accumulative reduction in Rates for domestic flats effected/to be effected in 1999-2000 and 2000-01 did not fully reflect the 30% drop.

40. In response, FS said that General Revaluation of the ratable values of properties was conducted on an annual basis from 1 April 1999 onwards. The ratable values of properties had been revised downwards in 1999-2000 and there would be further reduction in 2000-01. He remarked that there were sufficient appeal channels for property owners who were unhappy with Government's valuation.

41. For the average reduction in ratable values and rates payments effected in 1999-2000, the Secretary for the Treasury referred members to the information set out in the supplementary note to the 1999 Budget Speech and cited the following information -

<u>Property type</u>	<u>Average reduction in Rates payment</u>
Industrial premises	-13.5%
Offices	-18.8%
Public domestic premises	-10.9%
Private domestic premises	
- large	-11.3%
- medium	-12.2%
- small	-7.4%

42. Mr LEE Wing-tat was still of the view that the accumulative reduction in ratable values of domestic flats in 1999-2000 and 2000-01 did not fully reflect the reduction in market rental values during the period taken into account. At the Convenor's request, the Administration agreed to provide clarification on the matter after the briefing for Mr LEE's reference.

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Stamp duty and brokerage commissions on stock transactions

43. Mr FUNG Chi-kin said that the financial services sector welcomed the reduction, albeit small, in the stamp duty on stock transactions by 10% from 0.25 per cent to 0.225 per cent. He however expressed reservation on FS's comment that brokerage commissions also needed to be reduced to increase the

competitiveness of the local stock market. He pointed out that brokerage commission fees were essentially a commercial matter between the brokers and its clients and therefore FS's comment was neither appropriate nor fair to brokers.

44. FS replied that the reduction in stamp duty would result in a reduction of Government revenue by \$500 million in 2000-01 and by \$2.9 billion in the medium term. Nevertheless, the Administration still considered it appropriate to reduce the stamp duty to make the local stock market more competitive. FS added that brokerage commission fees, which constituted the bulk of total stock transaction cost, should also be reviewed. He highlighted the need to remove unnecessary restrictions on market participants in the face of competition from overseas markets.

45. In this regard, Mr FUNG Chi-kin pointed out that overseas brokerage firms were free to join the market and there was no barrier in this regard at present. He cited the offering of the Tracker Fund in October 1999 and opined that there was unhealthy competition among local brokerage firms in offering commission rebates to clients on that occasion.

Diesel Duty

46. Mrs Miriam LAU expressed strong reservation on the proposal to maintain the concessionary diesel duty rate at \$2.00 per litre up to 31 December 2000 and to revert the duty rate to \$2.89 per litre thereafter. She did not concur with FS's explanation that as funds had been earmarked for helping diesel taxis to switch to LPG taxis in the coming financial year, the transport industry would be less dependent on diesel by January 2001. Mrs LAU pointed out that the LPG scheme for taxis would only be implemented in late 2000 and due to limited supporting facilities, only a few thousand taxis could switch to LPG in the initial implementation period. As there were over 100 000 diesel-fuelled vehicles some 18 000 of which were taxis, the increase in diesel duty constituted some 15% of the fuel cost for operators in the industry. She therefore expressed concern that the duty increase in January 2001 would cause undue hardship to the industry.

47. FS advised that the concession on diesel duty effected in June 1998 was a relief measure during the economic downturn. As the economy further improved, the income of taxi operators by early 2001 would return to the 1996-97 level when duty rate was \$2.89 per litre, the grounds for the concession would no longer exist. Meanwhile, the Administration would make the best endeavour to facilitate the switching of diesel taxis to LPG taxis.

48. Mrs Miriam LAU commented that while the economy as a whole seemed to be recovering, the current operating environment of the transport

industry was no better than that in 1998. She therefore maintained her view that the abolition of concessionary diesel duty in early 2001 was inappropriate.

Profit tax on commercial activities on the Web

49. Mr SIN Chung-kai said that as e-commerce was at the budding stage of development in Hong Kong, levying tax on e-commerce activities might stifle the development. He enquired whether the Administration had any specific tax policy for e-commerce in Hong Kong. FS noted that the Government supported the development of e-commerce in Hong Kong and would continue to provide the necessary infrastructure. But, like other businesses in Hong Kong, companies which were engaged in e-commerce business would have to pay profit tax for locally derived income.

Promotion of local professional services in overseas countries and the Mainland

50. Referring to the plan to set up a dedicated agency under the Trade and Industry Bureau to attract investment into Hong Kong and implement policies and initiatives formulated by a steering committee under FS's chairmanship, Mr Edward HO enquired whether the Administration had any specific plans to introduce and promote local professional services in other countries and in the Mainland. In response, FS said the Trade Development Council (TDC) was responsible for promoting external trade. For this purpose, it ran a global network of overseas offices, including over 10 offices in the Mainland. He acknowledged Mr HO's concern that the TDC might not have made professional services promotion its key target in the past and undertook to convey it to the Chief Executive of TDC.

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Promotion of the re-export trade

51. Mr HUI Cheung-ching said that while FS forecast a 10% growth of re-exports and 8.2% growth of total export of goods for 2000, it should be recognized that the growth of cargo throughput in Hong Kong compared unfavourably with those in Shekou and Shenzhen. He opined that Hong Kong should seize the opportunities of rising exports from the South East and South West regions of the Mainland, and enquired about plans, if any, in this regard.

52. In reply, FS said that the reduction in rent and wages as a result of market adjustments during the past two years had lowered the operating costs for manufacturers and traders. The Administration would continue to strengthen the liaison and co-operation with relevant Mainland authorities, in particular Guangdong, on improving transport links with the Mainland. This

would enable us to yield the potential benefits from the Mainland's accession to the WTO and economic development in the less developed regions.

53. The Convenor thanked FS and his colleagues for attending the briefing. He reminded members to forward written questions on the draft Estimates 2000-01 as soon as possible and in any case, not later than the deadline at 12:00 noon on 11 March 2000.

54. The briefing ended at 12:17 pm.

Legislative Council Secretariat

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