

立法會
Legislative Council

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Legislative Council
Panel on Financial Affairs

Minutes of Meeting held on
Monday, 6 December 1999, at 10:45 am
in the Chamber of the Legislative Council Building

- Members present** : Hon Ambrose LAU Hon-chuen, JP (Chairman)
Hon Eric LI Ka-cheung, JP (Deputy Chairman)
Hon James TIEN Pei-chun, JP
Hon Albert HO Chun-yan
Hon LEE Cheuk-yan
Hon Martin LEE Chu-ming, SC, JP
Hon NG Leung-sing
Hon Ronald ARCULLI, JP
Hon James TO Kun-sun
Hon CHEUNG Man-kwong
Hon Ambrose CHEUNG Wing-sum, JP
Hon HUI Cheung-ching
Hon SIN Chung-kai
Dr Hon Philip WONG Yu-hong
Hon Jasper TSANG Yok-sing, JP
Hon Emily LAU Wai-hing, JP
Hon FUNG Chi-kin
- Members attending** : Hon LEE Kai-ming, SBS, JP
Dr Hon LUI Ming-wah, JP
Hon CHAN Yuen-han
Hon Mrs Sophie LEUNG LAU Yau-fun, JP
- Members absent** : Dr Hon David LI Kwok-po, JP
Hon Bernard CHAN
Hon Timothy FOK Tsun-ting, SBS, JP

- Public officers attending** : For Item IV
- Hon D Y K TSANG, JP
Financial Secretary
- Miss Elley MAO
Acting Government Economist
- Mr Philip YUNG
Administrative Assistant to Financial Secretary
- For Item V
- Mr M M GLASS
Deputy Secretary for the Treasury
- Clerk in attendance** : Ms LEUNG Siu-kum
Chief Assistant Secretary (1)4
- Staff in attendance** : Ms Pauline NG
Assistant Secretary General 1
- Ms Connie SZETO
Senior Assistant Secretary (1)1
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I Confirmation of minutes and matters arising
(LC Paper No. CB(1)509/99-00)

1 The minutes of the Panel meeting held on 11 October 1999 were confirmed.

II Information papers issued since last meeting

- LC Paper No. CB(1)264/99-00 - Publication "Regional Monitor, Issue No. 26, October 1999" provided by the Stock Exchange of Hong Kong
- LC Paper No. CB(1)351/99-00 - The Stock Exchange of Hong Kong Annual Report 1999
- LC Paper No. CB(1)405/99-00 - Report on Hong Kong's Economic Future published by the Business and Professional Federation of Hong Kong

LC Paper No. CB(1)454/99-00 - Press statement from the Hong Kong Federation of Insurers regarding the recent High Court judgement against the Insurance Claims Complaints Bureau

LC Paper No. CB(1)516/99-00 - Information paper provided by the Administration on the Tracker Fund of Hong Kong

2. Members noted the papers issued since the last meeting.

III Items for discussion at the next meeting scheduled for 3 January 2000
(LC Paper No. CB(1)510/99-00(01) and (02))

3. Members agreed to discuss the following items at the next Panel meeting scheduled for 3 January 2000, at 10:45 am -

- (a) Briefing by the Chief Executive of the Hong Kong Monetary Authority; and
- (b) Briefing by the Business and Professionals Federation of Hong Kong.

IV Briefing by the Financial Secretary on Hong Kong's latest economic situation

("Third Quarter Economic Report 1999" issued on 26 November 1999 and briefing material tabled at the meeting and subsequently issued vide LC Paper No. CB(1)510/99-00(03))

Opening remarks by the Financial Secretary

4. At the Chairman's invitation, the Financial Secretary (FS) briefed members on Hong Kong's latest economic situation, including recent developments in external trade, employment, domestic consumption and factors affecting Hong Kong's sustained recovery.

5. By referring to the charts showing Hong Kong's economic performance since the first quarter of 1997, FS pointed out that the economy had bottomed out in the third quarter of 1998, and gathered further momentum in its recovery in the third quarter of 1999, bringing an encouraging growth of around 4.5% in real terms in the Gross Domestic Product (GDP) over the same period of 1998. The growth in GDP was attributed to a phenomenal increase by 8% in Hong Kong's total exports in the third quarter compared to the same period last year. As a

result, visible trade deficit had dropped from \$73 billion in 1998 to the most recent \$31.5 billion. The surge in total exports was largely due to the 11% increase in Hong Kong's exports to Asia, which had suffered a drastic drop in 1998 following the financial crisis. Tourist arrivals also saw a growth of 11% in the third quarter of 1999.

6 Apart from the remarkable recovery in the export sector, the Hang Seng Index rose to new post-crisis high towards the end of November 1999, when China and the United States (US) agreed on the former's accession to the World Trade Organization (WTO). Local consumer spending had picked up in tandem with the recovery in overall economic activities; and the employment situation had recently remained stable. According to FS, retail sales had been declining since late 1997 and did not return to positive growth until July this year. Improved sales were recorded in particular for products with prices substantially reduced, e.g. cars, jewellery and watches. Improvement in unemployment and underemployment, which usually lagged behind economic recovery, was not yet significant. The labour market was going through consolidation. But recent indications were that the number of job seekers registered with the Labour Department had dropped while job vacancies risen.

7. On Hong Kong's economic outlook for 2000, FS held a cautiously optimistic view. He forecast that the economy would continue to benefit from the revival of demand in East Asia and the continued growth in US and European markets. Local consumer spending and investment sentiment would continue to improve. He informed members that the Organization for Economic Co-operation and Development and the International Monetary Fund had forecast Hong Kong's GDP to grow by 4% and 3.6% respectively in 2000. Nonetheless, sustained revival would hinge on a number of factors, including a stable exchange rate between the Japanese Yen and the US dollar, the interest rate trend in the US and the stability of its stock market, improvement in Hong Kong's unemployment situation including structural unemployment, as well as maintenance of Hong Kong's competitiveness in the long term upon the Mainland's accession to the WTO.

Discussion with members

Unemployment and underemployment

8. Mr LEE Cheuk-yan and Ms CHAN Yuen-han expressed disappointment over the lack of improvement in unemployment situation despite the figures showing a recovery in Hong Kong's economy. Ms CHAN, in particular, raised concern about the unemployment of young people and underemployment in the construction sector. Mr LEE saw signs of a structural change in the labour market, hence making certain types of jobs obsolete. He enquired if new job opportunities could be created from new industries, such as environmental

protection industry. In this connection, Mr LUI Ming-wah pointed out that new opportunities were in fact inherent in the manufacturing sector which could be revitalized through high-technology and development of innovative ideas.

9. ES pointed out that although unemployment and underemployment still remained high, the situation had stabilized as compared with the previous two quarters. He explained that unemployment usually lagged behind economic performance and would not improve immediately even after the economy had begun to pick up. The employment situation would not see marked improvement until 2000.

10. As to whether Hong Kong was undergoing structural changes in its labour market, ES said that the Asian financial turmoil had speeded up Hong Kong's economic restructuring. Whilst recognizing the contribution of the manufacturing sector to Hong Kong's economic growth in the past decades, he pointed out the inevitable and logical need to move from labour-intensive industries to innovative, high value-added, knowledge-intensive economic activities. During the transformation process, structural changes in the economy were natural. It was necessary for the workforce to adapt to changes and to better equip themselves with new knowledge and skills. The Task Force on Employment had been pressing ahead with a wide range of measures to ease unemployment and help creating jobs, including strengthening employment services, speeding up public works projects and enhancing vocational training and employee retraining. The Youth Pre-employment Training Programme specifically designed for school leavers between the age of 15 and 19 had also been launched successfully. Moreover, the Disney Theme Park project and the development of environmental protection industry were expected to bring about new job opportunities. ES re-iterated the Government's commitment in developing Hong Kong's human capital and in upgrading skills and knowledge of the workforce. The Government would keep under review the cost-effectiveness of the retraining agencies.

11. In response to Miss CHAN Yuen-han's question on the fall in wages, ES said that wages had continue to rise in 1998 and in the first quarter of 1999 until they fell by 1% in money terms in the second quarter. He pointed out that given the relatively large decline in consumer prices, overall labour earnings had actually increased in real terms.

Small and Medium Enterprises

12. Mr Eric LI believed that the recent rebounding of economy might have been the result of external factors and it did not necessarily mean that the fundamental problems faced by the business sector had been resolved. The recovery of economic growth might also mean a rebounding of operating costs, e.g. rents. Coupled with the lack of improvement in the local investment

environment, i.e. bank loans not forthcoming and consumer market remaining weak, small and medium enterprises (SMEs) would have difficulties coping with the changing environment. Mr LI pointed out that with the shrinking of marginal profits, there was the danger of capital outflow to the Mainland and other East Asian economies where the business environment was more competitive.

13. FS said that there had not been any sign of capital outflow. On the contrary, capital had been flowing in since August this year. However, as capital investment could take different forms, due to the restructuring in Hong Kong economy, such capital might not have been invested in fixed assets. Although Hong Kong might not have an edge over its neighbouring economies as far as rents and labour costs were concerned, the increase in commodity trade would generate, through multiplying effects, secondary and tertiary economic activities such as banking and insurance. FS agreed that SMEs would have to face new challenges, but they, being largely service providers, would be the first of those to benefit from China's accession to the WTO. Government had been actively supporting to SMEs by providing the special finance schemes and assisting them in adapting to new technologies. The Government, however, would not direct the business sector what to do.

Linked Exchange Rate

14. Mr James TIEN raised question on the effect of the Linked Exchange Rate (LER) on Hong Kong's economy because Hong Kong had to follow interest rate movements in the USA resulting in high interest rates in real terms in Hong Kong. Miss Emily LAU also enquired about whether the LER was hindering economic recovery. In response, FS said that interest rate was not the only factor affecting the viability of a business. Those in the business sector would be in the best position to find out in what way they could maintain marginal profit. In this context, a stable exchange rate with the US dollars was of paramount importance. He further pointed out that negative inflation would not last too long given the open economy of Hong Kong. He did not envisage prices to continue to come down substantially.

15. FS stressed that whilst the Government was acutely aware of the price Hong Kong needed to pay for keeping the LER, the system had helped maintain stability of the Hong Kong dollar during the Asian financial turmoil and had prevented a possible collapse of Hong Kong's monetary and financial systems. He considered that although the sharp depreciation in currencies of East Asian economies might be able to enhance the competitiveness of these countries in the short term, the involvement of their governments in directing the lowering of costs and wages might have adverse impacts on these economies in the long run.

Banking

16. Responding to Mr NG Leung-sing's enquiry about whether the Government would consider issuing guidelines to banks regarding refinancing of residential mortgage loans in view of recent keen competition for business, ES said that the Hong Kong Monetary Authority (HKMA) had been closely monitoring the matter. Whilst competitive strategy for mortgage business was a commercial decision for banks and that competition would bring about benefits to customers, HKMA had issued a circular to authorized institutions in late October 1999 re-iterating the importance to uphold prudent lending policy to avoid over-exposure to risks. HKMA also suggested to banks that they should review their current lending strategy. ES assured members that the sound regulatory framework of the Hong Kong banking sector had helped it to emerge from the Asian financial turmoil in good shape. Hong Kong banking system was rated one of the healthiest and most robust in Asia by the international financial community.

Tourism

17. In reply to Mr Ambrose CHEUNG's enquiry about concrete measures to promote the tourism industry, ES said that the industry had achieved remarkable growth in the third quarter of 1999 and the number of inbound tourist had increased by 11% over the second quarter. Besides appointing the Commissioner for Tourism to strengthen the co-ordination in implementing tourism-related initiatives, the Government had announced a series of projects, including the Disney Theme Park project, to strengthen Hong Kong's attractiveness to tourists. The implementation of these projects was in good progress.

China's accession to the World Trade Organization

18. Sharing that the Mainland China's accession to the WTO would open new business opportunities for Hong Kong, Mr LEE Kai-ming expressed concern about new competition that Hong Kong would be facing. Mr HUI Cheung-ching was concerned about the possible adverse impact on Hong Kong's position as an important port to China. They requested details on Government's strategy in helping business in adapting to and taking advantage of the new development.

19. ES said that the Mainland China's entry to the WTO would benefit Hong Kong as a whole. Apart from benefiting Hong Kong businesses operating in the Mainland, the opening-up of the Mainland market would offer new business opportunities for Hong Kong. Hong Kong would remain an important gateway to China contributing to its development in four main areas, namely foreign capital, information technology, trade of goods, and trade of services. It was anticipated that the local service sector including banking and insurance, retail business, tele-communication and tourism industries would experience considerable growth.

20. As regards concerns about new competition and impact on Hong Kong's re-export trade, ES said that Hong Kong was strategically located with easy access to major cities of the world. Its infrastructural facilities, including the airport, container terminal, transport network etc., were on par with the best international standards and had greatly enhanced Hong Kong's competitiveness against many other economies. Nonetheless, globalization would bring about new challenges for Hong Kong. Hong Kong economy had to respond by developing high technology and high value-added industries. It was also necessary to upgrade the skills of our local workforce and to strengthen communication with the Mainland authorities on economic and trade issues. ES added that an inter-departmental group under his chairmanship had been set up to liaise with relevant Central Government authorities and experts on matters related to the Mainland's accession to the WTO with a view of getting updated information on the agreements China had entered into with its trading partners, as well as keeping in pace with the progress of, and the arrangements for the opening up of the Mainland market. The group also maintained contact with local business and professional bodies to facilitate their understanding of the opening-up process which would enable them to make most of the new business opportunities. The Government would brief members on the details of the work of the group at an opportune time.

The 2000-01 Budget

21. Concerning the formulation of 2000-01 Budget, ES said that with a view to achieving prudent management of public finance and meeting the Basic Law's requirement of avoiding budgetary deficits, the Government had to step up efforts to contain growth in expenditure through continued implementation of the Enhanced Productivity Programme and the Civil Service Reform on the one hand, and to explore new sources of revenue including revising Government's fees and charges and expansion of the tax base on the other.

22. Pointing out that a sustained economic recovery had yet to be seen, with unemployment rate remaining high and business environment difficult, Mr CHEUNG Man-kwong considered it inappropriate to consider proposing any increases to government fees and charges at the present moment.

23. ES said that the deficit in 1998-99 had amounted to over \$23 billion. He expected that the deficit in 1999-2000 would be less than the original forecast of \$36 billion. While a deficit budget would still be unavoidable in 2000-01, his aim was to reduce the deficit to between \$5 billion and \$6 billion so that Hong Kong could return to fiscal balance over the medium term. The estimated 3 % real growth in government spending in 2000-01 had to be met by increases in revenue. However, substantial income from land sale, property tax and rates might not be forthcoming due to the stabilizing of the property market. Income

from diesel duty would decrease as use of liquefied petroleum gas, which was not levied, was being encouraged. Increase in tobacco duty would in fact result in reduction in government revenue. Income from betting duty had decreased due to increase in other gambling options not being taxed. The development of electronic-commerce might also affect revenue from profits tax. Currently, only 40% of the workforce were paying salaries tax and profits tax was levied from a small proportion of population. The tax base was narrowing and the size of tax net reducing. As such, the taxation system had to respond to structural changes of the economy. The Government had to explore alternative sources of taxation to provide a more stable source of revenue.

24. On income from fees and charges, FS pointed out that subsidies in public services had been increasing and the Government was being forced to depart from the principles of "user pays" and "full cost recovery" in setting fees and charges for most of its services because of Legislative Council's objection to their revision. At present, income from fees and charges had accounted for less than 10% of government expenditure. Whilst he fully recognized the political implications, the revisions would be inevitable if the Government were to avoid excessive deficits. FS assured Members that he would consult them in considering new taxes or major fee revision exercises.

Electronic-commerce

25. In reply to Ms Emily LAU's enquiry about the possible impact of the development of electronic-commerce on Hong Kong economy, FS said that the new development presented a great challenge for globalization in business transactions. The Government had joined international financial community in studying the issue. Whilst some local business would benefit from this trend by apply advanced technology, government revenue might decline as more business activities could occur outside Hong Kong.

26. Concluding the discussion, the Chairman thanked FS for briefing the Panel.

V Ground rules for special consideration of private sector initiatives (LC Paper No. CB(1)510/99-00(04))

27. The Deputy Secretary for the Treasury (DS/T) briefed members on the information paper which set out the seven ground rules for special consideration by the Administration in the examination of future initiatives proposed by the private sector for the disposal of land and the procurement of goods and services. He said that the paper was provided in response to members' concern raised at the Public Works Subcommittee meeting in May 1999 about the process through

which the Administration arrived at the decision to grant the development right of the Cyberport project to a single private company without a tendering exercise.

28. Miss Emily LAU expressed grave concern about the proposed ground rules. She considered that the Administration had provided too much flexibility for a departure from the norm of following an open, fair and competitive bidding process. The Administration could easily justify itself anytime for a departure from existing practices.

29. Mr CHEUNG Man-kwong echoed Miss LAU's view. He expressed further dissatisfaction that given the proposed lenient approach, these ground rules were still by no means intended to be exhaustive. He also expressed dismay that the proponent's stance to an open and competitive bidding exercise was one of the circumstances to be considered for a departure from the normal open and competitive bidding process.

30. Mr Eric LI remarked that except the time-sensitiveness of the proposed initiative, which to some extent might worth special consideration by the Administration, all other ground rules did not justify the Administration for departing from the norm. In order to uphold the principle of maintaining a level playing field for all interested companies, he stressed the importance for the Administration to follow the normal open and competitive bidding process when other companies had expressed interest in the proposed private sector initiative.

31. DS/T advised that, as a general rule, the Administration would continue to consider and process private sector initiatives in accordance with approved government policies and procedures and to follow an open, fair and competitive bidding process in awarding projects.

32. Responding to the concern about the broad nature of the ground rules, DS/T explained that as the circumstances of each private sector initiative would be different, the rules were essentially guidelines consisting of broad principles, rather than detailed procedures to be followed. The rules could be regarded as a template to assist bureaux and departments in the examination of individual private sector proposals as and when they arose. They served as the bases on which departure from the norm could be considered, but it did not necessarily imply that the Administration would automatically permit a deviation from the norm when a proposal met one or more of the rules. Departure from the norm had to be fully justified on a case-by-case basis. Subject to the particulars of an individual case and having regard to the ground rules, the Administration might seek special approval from relevant decision making body for such a departure. DS/T assured members that the Administration had to follow the established procedures on processing proposed projects initiated by the private sector. It did not have a complete free-hand in the decision making process. Besides taking into account of the public acceptability of the proposal and views of the relevant

Legislative Council (LegCo) Panels, the Administration had to seek approval from the LegCo and its Finance Committee (FC) when legislation or funding application were required.

33. Mr LEE Cheuk-yan queried whether the paper was written to create a retrospective rationalization of the Administration's decisions in the Cyberport project and the Disney project. He also sought clarification on the decision making process as to whether the decisions to proceed with the projects were actually made by the Chief Executive without the relevant decision-making body examining the projects against the ground rules.

34. DS/T re-iterated that the paper was put forward in response to Members' specific request in May 1999. They were drawn up after discussion in a number of departmental meetings with a view to putting together all the probable circumstances that might justify a departure from the norm. They were not used to rationalize any Administration's decisions. On the decision-making process for a private sector initiative, DS/T replied that at some stage it was necessary to seek approval from the Chief Executive in Council concerning the policy aspect of a proposal. However, he reiterated that the Administration did not have a complete free-hand in awarding public projects. Approval from the LegCo would need to be sought where legislation or funding support were required.

35. Mr Albert HO and Mr SIN Chung-kai cast doubt on whether the Administration would put forward all private sector initiatives for approval of LegCo. Mr Albert HO illustrated his point by citing the examples whereby the Administration granted the exclusive right to the Mass Transit Railway Corporation (MTR) and Kowloon-Canton Railway Corporation (KCR) for the development of the superstructures of MTR stations and KCR stations respectively without seeking LegCo's approval.

36. DS/T stressed that equity investment into public projects and funding applications for construction of related essential infrastructure facilities required FC's approval. He further clarified that the granting of property development rights of railway station superstructures to the concerned corporations was included in the project agreements of respective railway projects which had been fully discussed by Members. He undertook to provide copies of relevant project agreements for members' reference after the meeting.

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37. In connection with Government's direct invested projects, Mr HUI Cheung-ching raised concern about the criteria under which the Administration decided to make a direct investment and enquired whether the ground rules also applied. DS/T responded that in the case of the recent Disney project, the Administration had considered all the options, and believed that making a substantial initial investment of public fund in the project was the only way to bring the project to fruition. In view of the substantial upfront capital investment

required for the project, it was not feasible to obtain private sector investment at the initial stage. Nonetheless, the Administration expected that the private sector would be interested in taking over Government's equity shares once the project had been successfully launched. He stressed that the arrangement was consistent with the Administration's policy of fostering an economic and regulatory environment facilitating private sector enterprises to flourish and keeping the public sector relatively small. He added that there were precedents where the Administration had taken the lead in developing essential infrastructure facilities with a view to eventually passing them over to the private sector once their operation had been firmly on track. For example, the railway projects as well as the new airport and its related facilities were built with equity investment from the Government but operated on a commercial basis. The partial privatization of the Mass Transit Railway Corporation through listing of a minority shares of the corporation was a further step in encouraging private sector participation in the economy. Essentially, the same arrangement would be made for the Disney project. The project was the linchpin of the development in Lantau and its realization was expected to bring substantial economic benefits for Hong Kong as a whole.

38. In conclusion, members could not accept the seven ground rules adopted by the Administration for special consideration of private sector initiatives. They were of the view that the rules did not serve any useful purposes except rationalizing the Administration's decisions regarding the Cyberport and Disney projects. DS/T said that it was precisely the purpose of the ground rules to allow Government to consider special cases such as the Disney project. Government needed some discretion to take such proposals forward in the knowledge that they would eventually need to be accepted by the legislature. Members decided to move a motion to express their disappointment at the ground rules. Proposed by Mr Albert HO and seconded by Ms Emily LAU, the following motion was unanimously passed by Panel members present at the discussion -

"That this Panel objects to the seven ground rules adopted by the Administration for justification of a departure from the norm of following an open, fair and competitive bidding process for the disposal of land and the procurement of goods and services, and urges the Government to reconsider policy guidelines for future initiatives proposed by the private sector and to submit another information paper on these guidelines for members' consideration."

FB 39. The Administration was requested to give an early response to the motion.

VI Any other business

40. There being no other business, the meeting ended at 1:05 pm.

Action

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Legislative Council Secretariat
27 January 2000