

OFFICIAL RECORD OF PROCEEDINGS

Wednesday, 2 April 2003

The Council met at half-past Two o'clock

MEMBERS PRESENT:

THE PRESIDENT

THE HONOURABLE MRS RITA FAN HSU LAI-TAI, G.B.S., J.P.

THE HONOURABLE KENNETH TING WOO-SHOU, J.P.

THE HONOURABLE JAMES TIEN PEI-CHUN, G.B.S., J.P.

DR THE HONOURABLE DAVID CHU YU-LIN, J.P.

THE HONOURABLE CYD HO SAU-LAN

THE HONOURABLE ALBERT HO CHUN-YAN

IR DR THE HONOURABLE RAYMOND HO CHUNG-TAI, J.P.

THE HONOURABLE LEE CHEUK-YAN

THE HONOURABLE MARTIN LEE CHU-MING, S.C., J.P.

THE HONOURABLE ERIC LI KA-CHEUNG, J.P.

DR THE HONOURABLE DAVID LI KWOK-PO, G.B.S., J.P.

THE HONOURABLE FRED LI WAH-MING, J.P.

DR THE HONOURABLE LUI MING-WAH, J.P.

THE HONOURABLE NG LEUNG-SING, J.P.

THE HONOURABLE MARGARET NG

THE HONOURABLE MRS SELINA CHOW LIANG SHUK-YEE, G.B.S., J.P.

THE HONOURABLE JAMES TO KUN-SUN

THE HONOURABLE CHEUNG MAN-KWONG

THE HONOURABLE HUI CHEUNG-CHING, J.P.

THE HONOURABLE CHAN KWOK-KEUNG

THE HONOURABLE BERNARD CHAN, J.P.

THE HONOURABLE CHAN KAM-LAM, J.P.

THE HONOURABLE MRS SOPHIE LEUNG LAU YAU-FUN, S.B.S., J.P.

THE HONOURABLE LEUNG YIU-CHUNG

THE HONOURABLE SIN CHUNG-KAI

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

DR THE HONOURABLE PHILIP WONG YU-HONG

THE HONOURABLE WONG YUNG-KAN

THE HONOURABLE JASPER TSANG YOK-SING, G.B.S., J.P.

THE HONOURABLE HOWARD YOUNG, J.P.

DR THE HONOURABLE YEUNG SUM

THE HONOURABLE YEUNG YIU-CHUNG, B.B.S.

THE HONOURABLE LAU CHIN-SHEK, J.P.

THE HONOURABLE LAU KONG-WAH

THE HONOURABLE LAU WONG-FAT, G.B.S., J.P.

THE HONOURABLE MIRIAM LAU KIN-YEE, J.P.

THE HONOURABLE AMBROSE LAU HON-CHUEN, G.B.S., J.P.

THE HONOURABLE EMILY LAU WAI-HING, J.P.

THE HONOURABLE CHOY SO-YUK

THE HONOURABLE ANDREW CHENG KAR-FOO

THE HONOURABLE SZETO WAH

THE HONOURABLE TIMOTHY FOK TSUN-TING, S.B.S., J.P.

DR THE HONOURABLE LAW CHI-KWONG, J.P.

THE HONOURABLE TAM YIU-CHUNG, G.B.S., J.P.

DR THE HONOURABLE TANG SIU-TONG, J.P.

THE HONOURABLE ABRAHAM SHEK LAI-HIM, J.P.

THE HONOURABLE LI FUNG-YING, J.P.

THE HONOURABLE HENRY WU KING-CHEONG, B.B.S., J.P.

THE HONOURABLE TOMMY CHEUNG YU-YAN, J.P.

THE HONOURABLE MICHAEL MAK KWOK-FUNG

THE HONOURABLE ALBERT CHAN WAI-YIP

THE HONOURABLE LEUNG FU-WAH, M.H., J.P.

DR THE HONOURABLE LO WING-LOK

THE HONOURABLE WONG SING-CHI

THE HONOURABLE IP KWOK-HIM, J.P.

THE HONOURABLE LAU PING-CHEUNG

THE HONOURABLE AUDREY EU YUET-MEE, S.C., J.P.

THE HONOURABLE MA FUNG-KWOK, J.P.

MEMBERS ABSENT:

THE HONOURABLE CHAN YUEN-HAN, J.P.

THE HONOURABLE FREDERICK FUNG KIN-KEE

PUBLIC OFFICERS ATTENDING:

THE HONOURABLE DONALD TSANG YAM-KUEN, G.B.M., J.P.
THE CHIEF SECRETARY FOR ADMINISTRATION

THE HONOURABLE ANTONY LEUNG KAM-CHUNG, G.B.S., J.P.
THE FINANCIAL SECRETARY

THE HONOURABLE ELSIE LEUNG OI-SIE, G.B.M., J.P.
THE SECRETARY FOR JUSTICE

THE HONOURABLE HENRY TANG YING-YEN, G.B.S., J.P.
SECRETARY FOR COMMERCE, INDUSTRY AND TECHNOLOGY

THE HONOURABLE MICHAEL SUEN MING-YEUNG, G.B.S., J.P.
SECRETARY FOR HOUSING, PLANNING AND LANDS

PROF THE HONOURABLE ARTHUR LI KWOK-CHEUNG, G.B.S., J.P.
SECRETARY FOR EDUCATION AND MANPOWER

THE HONOURABLE JOSEPH WONG WING-PING, G.B.S., J.P.
SECRETARY FOR THE CIVIL SERVICE

DR THE HONOURABLE PATRICK HO CHI-PING, J.P.
SECRETARY FOR HOME AFFAIRS

THE HONOURABLE MRS REGINA IP LAU SUK-YEE, G.B.S., J.P.
SECRETARY FOR SECURITY

THE HONOURABLE STEPHEN IP SHU-KWAN, G.B.S., J.P.
SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR

DR THE HONOURABLE SARAH LIAO SAU-TUNG, J.P.
SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS

THE HONOURABLE FREDERICK MA SI-HANG
SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY

THE HONOURABLE STEPHEN LAM SUI-LUNG, J.P.
SECRETARY FOR CONSTITUTIONAL AFFAIRS

CLERKS IN ATTENDANCE:

MR RICKY FUNG CHOI-CHEUNG, J.P., SECRETARY GENERAL

MR LAW KAM-SANG, J.P., DEPUTY SECRETARY GENERAL

MR RAY CHAN YUM-MOU, ASSISTANT SECRETARY GENERAL

TABLING OF PAPERS

The following papers were laid on the table pursuant to Rule 21(2) of the Rules of Procedure:

Subsidiary Legislation/Instruments	<i>L.N. No.</i>
Quarantine and Prevention of Disease Ordinance (Amendment of First Schedule) Order 2003.....	79/2003
Prevention of the Spread of Infectious Diseases Regulations (Amendment of Form) Order 2003	80/2003
Maximum Amount of Election Expenses (Village Representative Election) Regulation	81/2003
Electoral Procedure (Village Representative Election) Regulation	82/2003
Libraries (Amendment) Regulation 2003.....	83/2003
Securities and Futures (Contract Limits and Reportable Positions) (Amendment) Rules 2003	84/2003
Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) (Amendment) Notice 2003.....	85/2003
Employees Retraining Ordinance (Amendment of Schedule 2) (No. 2) Notice 2003	86/2003
Legal Practitioners (Amendment) Ordinance 2000 (42 of 2000) (Commencement) Notice 2003.....	87/2003
Barristers (Admission) Rules (L.N. 5 of 2003) (Commencement) Notice 2003.....	88/2003
Legal Practitioners (Fees) (Amendment) Rules 2002 (L.N. 6 of 2003) (Commencement) Notice 2003	89/2003

Practising Certificate (Barristers) (Amendment) Rules 2002 (L.N. 7 of 2003) (Commencement) Notice 2003	90/2003
Barristers (Advanced Legal Education Requirement) Rules (L.N. 8 of 2003) (Commencement) Notice 2003	91/2003
Barristers (Qualification for Admission and Pupillage) Rules (L.N. 9 of 2003) (Commencement) Notice 2003	92/2003

WRITTEN ANSWERS TO QUESTIONS

Extension of Scope of Container Security Initiative

1. **MR HOWARD YOUNG:** *Madam President, it has been reported that the United States Customs is considering extending the scope of the Container Security Initiative (CSI) for ocean-going containers to air cargoes in October this year. Under the CSI, freight details are required to be submitted at least 24 hours before cargoes are loaded. In this connection, will the Government inform this Council:*

- (a) *whether it has consulted the air cargo logistics industry on the above extension;*
- (b) *whether it has assessed the impact of the extension on the air cargo logistics industry and the Hong Kong economy; if it has, of the assessment results;*
- (c) *whether it has any measures to help the air cargo logistics industry to comply with the CSI and ensure that it will not hinder the development of the industry; and*
- (d) *whether it has examined if air cargoes may warrant different treatment due to their fast moving nature; if it considers different treatment is warranted, whether it intends to make representations to the United States Government on behalf of the air cargo logistics industry?*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR:

Madam President, the proposal announced by the United States Customs on air cargo security is different from the CSI^{Note 1} and the 24-hour rule on sea cargo^{Note 2}. This air cargo security proposal requires the submission of electronic information on air cargo to the United States Customs eight hours prior to lading the cargo onto aircraft in respect of courier shipments and 12 hours prior to lading in respect of other shipments. Apart from carriers, other companies in the supply chain including deconsolidators, freight forwarders and express consignment operators are also required to provide advance information to the United States Customs, either directly or through carriers within the same proposed time frame. The United States Customs have indicated that they are considering views from different quarters and the relevant rule on the proposal would be published by 1 October 2003.

The Government recognizes the unique nature of the operations of the air cargo industry, that they need to operate with speed and flexibility to meet the shippers' just-in-time delivery requirements. Furthermore, the air cargo industry is already subject to a number of security requirements including the Regulated Agent Regime (RAR) promulgated by the International Civil Aviation Organization (ICAO) which requires various parties in the supply chain to implement measures to enhance air cargo security. The RAR implemented in Hong Kong is in full compliance with the ICAO standards.

Since the announcement in January 2003 of the United States Customs proposal for advance submission of air cargo information, we have been consulting closely with the local industry and have held two meetings with them together with the relevant bureaux and departments. The affected sectors of the industry include carriers, freight forwarders, air cargo terminal operators, logistics companies and shippers. Their views are that the United States Customs proposal does not take into account the unique nature of the air cargo industry and the high standard of security which the industry has already complied with. The proposed timeframe within which advance information has to be submitted to the United States Customs will push back considerably the cut-off time for acceptance of cargo shipment and render the air cargo industry unable to provide time critical delivery services. This will in turn affect the whole supply chain, increase inventory and storage costs and affect the flow of trade and goods. The United States is the major market for Hong Kong's air

cargo exports. In 2002, the value of total air cargo exports from Hong Kong to the United States amounted to HK\$86.4 billion, accounting for 22.2% of our total exports by air. Hence, the Government recognizes the potentially significant impact of the United States Customs proposal on Hong Kong.

Apart from holding consultation meetings with the local industry, we have also arranged for the United States Government representatives to meet the local industry representatives on this United States Customs proposal. We have already co-ordinated a written submission from the local industry representatives and forwarded it to the United States Government. The Hong Kong Economic and Trade Office in Washington D.C. is also assisting in presenting the local industry's views to the United States Government. We will continue to consult the local industry and assist them in lobbying the United States Government for the local industry's views to be taken into account when they revise the proposal.

Note 1 The CSI is a bilateral customs co-operation arrangement initiated by the United States Customs to address the perceived risks of terrorist attacks through ocean-going containers destined for the United States. The Hong Kong Customs and the United States Customs signed a Declaration of Principles (DoP) on it on 23 September 2002. Under the DoP, the Hong Kong Customs and United States Customs will exchange information and work together closely to facilitate the identification and screening of high-risk containers. A CSI pilot scheme in Hong Kong is expected to commence in April 2003.

Note 2 Under the 24-hour rule, carriers or non-vessel operating common carriers of ocean-going containers are required to submit detailed cargo information to the United States Customs 24 hours before lading the related cargo aboard a United States-bound vessel at a foreign port. It is a mandatory requirement promulgated by the United States Customs. The rule has been implemented since December 2002 and strictly enforced since 2 February 2003.

Default Cases in Loan Schemes for Tertiary Students

2. **MS AUDREY EU** (in Chinese): *Madam President, will the Government inform this Council:*

- (a) *of the number of default cases in repayment of loans, and the total amount of default payment involved, in respect of each loan scheme for tertiary students in each of the past three financial years; and*
- (b) *whether it has formulated measures to assist the graduates who are unable to repay their loans; if so, of the details; if not, the reasons for that?*

SECRETARY FOR EDUCATION AND MANPOWER (in Chinese): Madam President,

- (a) There are four student finance schemes that provide loans for meeting tuition fee payments and/or living expenses. On completion of their studies, loan borrowers repay their loans in quarterly instalments. Failure to repay two or more consecutive quarterly instalments constitutes a default case. The number of default cases and the amounts in default relative to the loan repayment portfolio in the past three financial years are as follows:

<i>Fiscal year</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i> ^{Note(1)}
(i) Local Student Finance Scheme ^{Note(2)}			
Number of default cases	1 306	1 501	2 364
Amount of loans defaulted (\$m)	10.58	22.80	31.80
Number of repayment accounts	82 938	78 097	75 051
Outstanding loan principals under repayment (\$m)	2,232.09	2,019.84	1,872.62
(ii) Student Finance Assistance Scheme ^{Note(3)}			
Number of default cases	21	52	47
Amount of loans defaulted (\$m)	0.11	0.32	0.27
Number of repayment accounts	1 074	1 137	1 117
Outstanding loan principals under repayment (\$m)	22.51	24.21	26.63
(iii) Financial Assistance Scheme for Post-secondary Students ^{Note(4)}			
Number of default cases	-	-	-
Amount of loans defaulted (\$m)	-	-	-
Number of repayment accounts	-	-	110
Outstanding loan principals under repayment (\$m)	-	-	2.65
(iv) Non-means Tested Loan Scheme ^{Note(5)}			
Number of default cases	136	397	641
Amount of loans defaulted (\$m)	0.55	2.62	4.46
Number of repayment accounts	5 158	7 378	11 924
Outstanding loan principals under repayment (\$m)	208.94	385.30	546.70

- (b) The Student Financial Assistance Agency will consider applications for deferred loan repayment on the merits of individual cases. Approval may be granted if the applications are made on grounds of financial hardship, further studies or serious illness. The applications have to be supported with such valid documentary proofs as financial records, student cards or medical certificates.

Notes:

- (1) Figures as at 28 February 2003.
- (2) The Local Student Finance Scheme provides means-tested financial assistance in the form of grant and/or loan to eligible full-time students of the University Grants Committee-funded institutions, the Hong Kong Academy for Performing Arts, the Hong Kong Institute of Vocational Education and the Prince Philip Dental Hospital.
- (3) The Student Finance Assistance Scheme provides means-tested financial assistance in the form of grant and/or loan to eligible full-time students of approved post-secondary colleges. At present, the Hong Kong Shue Yan College (HKSYC) is the only institution participating in the Scheme.
- (4) The Financial Assistance Scheme for Post-secondary Students, introduced in 2001-02, provides means-tested financial assistance in the form of grant and/or loan to eligible full-time students, aged 25 and below, pursuing accredited, self-financing post-secondary education programmes leading to a qualification at or above the levels of higher diploma, associate degree and/or professional diploma.
- (5) The Non-means Tested Loan Scheme provides loans to eligible students of publicly-funded institutions, the Open University of Hong Kong, the HKSYC, accredited post-secondary institutions and persons pursuing continuing and professional education courses provided in Hong Kong by registered schools, non-local universities and professional and recognized training bodies.

Fringe Benefits for Civil Servants

3. **MR ABRAHAM SHEK:** *Madam President, depending on their rank, length of service, terms of appointment and other requirements in the Civil Service Regulations, civil servants enjoy a number of fringe benefits, including medical and dental care, education allowances, housing, leave passage and pensions. To tackle the fiscal deficit, the Government has committed itself to reducing the operating expenditure and set an expenditure savings target of \$20 billion to be achieved by the 2006-07 financial year. In this connection, will the Government inform this Council:*

- (a) *whether the Administration plans to introduce measures to further encourage civil servants to purchase their own flats in the private property market in order to reduce its spending on housing benefits;*

- (b) *of the rationale for providing leave passage for the spouse and dependent children of a directorate civil servant who joined the Government before 1 June 2000; and*
- (c) *in view of the above expenditure savings target, whether the Administration plans to conduct a comprehensive review of the current fringe benefits package for civil servants; if it has, of the details of the plans?*

SECRETARY FOR THE CIVIL SERVICE: Madam President,

- (a) It has been our policy objective to replace the provision of civil service housing benefits in kind with the payment of housing benefits allowances with a view to containing the Government's expenditure on such benefits. In line with this policy objective and to encourage home ownership, we introduced the Home Financing Scheme(HFS) in 1990 to replace the non-time-limited Private Tenancy Allowance and Non-departmental Quarters for civil servants offered appointment on and after 1 October 1990. Civil servants offered appointment before 1 October 1990 are given an option to join the HFS by relinquishing their eligibility for other housing benefits including Private Tenancy Allowance and Non-departmental Quarters subject to meeting the eligibility, terms and conditions of the HFS. In June 2000, we introduced the Non-accountable Cash Allowance Scheme for eligible new recruits in place of the HFS and other housing allowance schemes. The new scheme allows the claimant flexibility to use the allowance for home purchase, rental payment or other purposes.
- (b) The provision of leave passage for the spouse and dependent children of eligible officers as fringe benefits started some years ago for overseas terms officers to enable them to maintain home ties. With the approval of the Finance Committee in 1981, the provision, which was in line with the practice in the private sector then, has since been extended to directorate officers on local terms. This provision has ceased for officers offered appointment on or after 1 June 2000, following a review of the employment package for new recruits.

- (c) It is stated government policy to keep our civil service management system under review and to make improvements from time to time to ensure that the continued provision of the allowances is justified and is in line with present day circumstances. Given the Administration's commitment to achieving significant economy in the Government's operating expenditure in the next few years, we have recently undertaken to carry out a comprehensive review of civil service allowances, including allowances payable as fringe benefits. The purpose of the review is to examine all possible options of reducing expenditure, having regard to legal and other considerations. Our objective is to achieve substantive savings in government expenditure on civil service allowances in the next few years. We are now considering the priorities and the timeframe of the review. We will report to the Legislative Council on our specific proposals and on subsequent progress of the review in due course. We will consult civil servants fully in the review process, and adopt the principle of lawfulness, reasonableness and fairness in taking forward the matter.

Corporatization of Commercial Business of Housing Authority

4. **MR LEUNG YIU-CHUNG** (in Chinese): *Madam President, it has been reported that the Government is planning the corporatization and public listing of the commercial business of the Housing Authority (HA). In this connection, will the Government inform this Council:*

- (a) *of the details and the implementation timetable of the plan;*
- (b) *of the impact of the plan on the staff of the Housing Department (HD) and the corresponding measures to take;*
- (c) *whether the current rental policy will be changed after the corporatization of the HA's commercial business; if so, of the details; and*
- (d) *of the measures to prevent the rights of sitting tenants from being prejudiced as a result of the implementation of the plan?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Chinese): Madam President, the proposal to divest the HA's retail and car-parking facilities is still at a conceptual stage. The HD is examining possible divestment options before recommending the way forward to the HA later this year. No concrete proposal, implementation details or timetable has been drawn up at this stage.

The proposal is still preliminary and all the different options involve complex legal, financial and operational issues which take time to examine. No conclusion has been reached. Before deciding on the way forward, we will carefully assess the implications of various options on our staff, commercial tenants and the existing rental arrangements. We will consult relevant parties to facilitate the formulation of satisfactory and appropriate arrangements.

Sale and Purchase of Duty-not-paid Light Diesel Oil

5. **MR FRED LI** (in Chinese): *Madam President, regarding the sale and purchase of duty-not-paid light diesel oil, will the Government inform this Council:*

- (a) of the quantities and values (based on the retail prices of duty-paid light diesel oil) of such diesel oil seized by the Customs and Excise Department (C&ED) in each of the past three years;*
- (b) of the estimated loss of revenue concerned in each of the past three years;*
- (c) whether it has found cases in which duty-paid light diesel oil purchase receipts were used as cover by law-breakers to evade prosecutions against them for selling duty-not-paid light diesel oil; if so, whether such cases were common and what counter-measures the authorities have; and*
- (d) of the purity and quality of such oil seized by the C&ED; and whether it has assessed the impact of using such diesel oil on the environment, the maintenance costs of the vehicles concerned and road safety?*

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Chinese): Madam President,

- (a) The C&ED has seized the following quantities of duty-not-paid light diesel oil, including detreated oil, marked oil and smuggled oil, in each of the three years from 2000 to 2002. Their values, based on the retail price of duty-paid light diesel oil (about \$6 per litre on average during 2000 to 2002), are also set out below:

<i>Year</i>	<i>Duty-not-paid light diesel oil</i>	
	<i>Seizure quantity (litres)</i>	<i>Value (\$)</i>
2000	4 345 447	26,072,682
2001	1 387 858	8,327,148
2002	1 554 594	9,327,564

- (b) The duty potential of the seized duty-not-paid light diesel oil, calculated on the basis that the duty rate is \$1.11 per litre in each of the three years from 2000 to 2002 is as follows:

<i>Year</i>	<i>Duty-not-paid light diesel oil</i>	
	<i>Seizure quantity (litres)</i>	<i>Duty Potential (\$)</i>
2000	4 345 447	4,823,446
2001	1 387 858	1,540,522
2002	1 554 594	1,725,599

- (c) In 2002, the C&ED has detected 19 cases whereby law-breakers used duty-paid light diesel oil purchase receipts to cover up selling of duty-not-paid light diesel oil, seizing about 140 000 litres of duty-not-paid light diesel oil. The C&ED will continue to conduct more intelligence-led operations to tackle such illicit activities.
- (d) The environmental implications of using the duty-not-paid light diesel oil depend on the illicit fuel's composition. If it has a sulphur content higher than the duty-paid light diesel oil complying with local standards, a vehicle using the illicit fuel will emit more particulates and sulphur dioxide. It may also contain certain substances, some of which may affect the vehicle and result in

increased maintenance costs. The Government will take all possible measures to stop the use of any illicit fuel in Hong Kong for not only environmental, but also safety and revenue protection reasons.

Unauthorized Display of Publicity Materials

6. **MISS CHOY SO-YUK** (in Chinese): *Madam President, it has been reported that unauthorized on-street display of publicity materials has become increasingly rampant. Of the unauthorized publicity materials removed by the Food and Environmental Hygiene Department (FEHD) recently, almost 40% were from the same finance company. Even though the FEHD has issued warnings and fixed penalty notices to the relevant company for a total of 117 times, such non-compliance remains unrestrained. In this connection, will the Government inform this Council:*

- (a) of the maximum penalty and fine imposed by the Court over the past six months for unauthorized display of publicity materials;*
- (b) whether it has studied how to curb the repeat commission of the relevant offence; if it has, of the study result; and*
- (c) whether it will consider increasing the penalty for display of bills or posters without permission prescribed under the Public Health and Municipal Services Ordinance (Cap. 132) and the Fixed Penalty (Public Cleanliness Offences) Ordinance (Cap. 570), with a view to enhancing the deterrent effect and thereby curbing unauthorized display of publicity materials; if it will not, the reasons for that?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Chinese):
Madam President,

- (a) A person displaying or affixing a bill or poster on government land without the written permission of the FEHD commits an offence under section 104A of the Public Health and Municipal Services Ordinance (Cap. 132) and is liable to a maximum penalty of

\$10,000 upon conviction. The maximum fine imposed by the Court over the past six months for this offence is \$2,400.

- (b) According to the FEHD's operational experience, enforcement actions taken against unauthorized display of publicity materials are generally effective in restraining the commission of such offence. The repeated breach of law by the finance company mentioned in this question is an exceptional case for which the FEHD has issued 72 warnings and instituted 53 prosecutions. The relevant legal proceedings are under way, with the court trial for the first batch of prosecutions scheduled for the end of this May.
- (c) We will keep under review the existing legislative framework and the relevant penalty provisions on unauthorized display of publicity materials in the context of their adequacy in deterring and curbing such offence in general. We will continue to monitor the situation and take effective enforcement actions to tackle the problem of unauthorized display of publicity materials on street.

Preventing Medical Staff from Contracting Atypical Pneumonia

7. **MR MICHAEL MAK** (in Chinese): *Madam President, as at 23rd of last month, there were more than 200 atypical pneumonia cases, with over a hundred of these involving health care workers who were infected. In this connection, will the Government inform this Council:*

- (a) *of the enhanced measures that the Hospital Authority (HA) has taken to prevent front-line medical staff from contracting the disease;*
- (b) *given that nurses working in public hospitals have complained that their hospitals had, for reason of avoiding causing public panic, prohibited them from wearing masks, and had failed to provide them with N95 masks which offered the best protection, whether the Government knows why these public hospitals have made such decision, and whether it knows if such decision is related to the lack of financial resources; whether the Government has, in response to the above cases, provided the HA with additional support; and*

- (c) *whether it has assessed if the health care workers of public hospitals who have contracted the disease in the course of looking after patients fall into the category of suffering from work-related injuries and are eligible for claiming compensation from the HA, and whether it has assessed if the HA should be held responsible for the health care workers' families or relatives who have consequently been infected; if the HA is held responsible, whether the HA will consider providing them with assistance or compensation?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Chinese):
Madam President,

- (a) The HA has promulgated enhanced Infection Control Guidelines against the Severe Acute Respiratory Syndrome to all its front-line staff by circular and electronic mail. The HA has also reminded the hospital management to strictly enforce the promulgated control measures, and ensure the provision of adequate support facilities and supply of all necessary items (such as hand-washing and shower facilities, overnight rooms, surgical masks, gloves and goggles) for preventing the spread of the disease within the hospital premises. The HA has organized refresher courses on infection control for its front-line staff (including nurses and health care assistants) and issued guidelines on the use of surgical masks and N95 masks for reference of all the HA staff. The HA has also stepped up services provided by its staff clinics and psychological counselling units to meet the physical and psychological needs of its health care staff. That apart, the HA has extended the coverage of infection control to non-clinical areas of public hospitals, such as offices and canteens.
- (b) The HA extended the use of masks to different sections of hospital premises based on operational need and having regard to the extent of spread of the virus in the community. In view of the spread of the virus, the HA has already extended the use of masks to the entire hospital premises. So far, there is adequate supply of surgical/N95 masks for use by the HA staff. The HA provides its staff with appropriate masks for use by staff in appropriate areas, while at the

same time addressing the psychological need of staff members. In this connection, a study conducted by the HA showed that surgical masks are just as good as N95 masks.

In combating the spread of the Severe Acute Respiratory Syndrome, the HA is committed to deploying all necessary resources (including additional funding) to various clinical departments as required, and providing necessary support to its staff and their families. The Finance Committee of the Legislative Council has approved, on 31 March, a new commitment of \$200 million to provide additional funds for treatment of patients with Severe Acute Respiratory Syndrome and to strengthen infection control and public health education. Prior to the creation of the aforesaid commitment, the Government has separately granted the HA a supplementary provision of \$10 million to provide extra resources for the HA to combat the crisis.

- (c) While Severe Acute Respiratory Syndrome is not a prescribed occupational disease under the Employees' Compensation Ordinance (ECO), section 36 provides that an employee shall have the right to recover compensation under the Ordinance in respect of a disease if the disease is a personal injury by accident arising out of and in the course of employment. Health care staff involved in taking care of patients with Severe Acute Respiratory Syndrome and have contracted the virus may therefore have contracted the disease out of and in the course of employment for the purposes of the ECO. In any such case, the Labour Department would make reference to the medical records of the employee, relevant information of the case and the provisions of the ECO to ascertain the disease contracted by the employee and whether the employee concerned had contracted the disease out of and in the course of employment. The Labour Department will process any such claims of employees in accordance with the ECO.

Families and relatives of health care staff who may have contracted the disease through contact with the health care staff will not have contracted the disease out of and in the course of their employment,

and would not therefore be covered by the ECO. The HA will deal with any claims for compensation according to applicable laws taking into account the individual facts and circumstances of each case.

Two-way Exit Permit Holders Giving Birth in Hong Kong

8. **MR ALBERT CHAN** (in Chinese): *Madam President, regarding women from the Mainland who give birth to babies in Hong Kong after entering on Two-way Exit Permits (TEPs), will the Government inform this Council:*

- (a) *of the number of cases, in each of the past three years, in which such women continued to stay in Hong Kong on expiry of the period of stay marked on their TEPs and gave birth to babies during the overstaying period and, among them, the number of such women who were*
 - (i) *granted formal permission by the Immigration Department (ImmD) to extend their stay to wait for childbirth in Hong Kong, and the reasons for the Department's granting such permission;*
 - (ii) *sent back to the Mainland immediately after their childbirth; and*
 - (iii) *prosecuted for overstaying in Hong Kong, the results of the prosecutions and the penalty imposed by the Courts on the convicted persons; and*
- (b) *whether, in view of the precedent in which the wife of the Financial Secretary gave birth to a baby while staying in Hong Kong with TEP, the Administration will allow pregnant women from the Mainland who are in Hong Kong to overstay and wait for their childbirth, and discuss with the relevant mainland authorities the relaxation of the restrictions on issuing TEPs to Hong Kong residents' spouses in the Mainland who are pregnant?*

SECRETARY FOR SECURITY (in Chinese): Madam President,

- (a) According to records of the ImmD, the number of female visitors holding Exit-entry Permit for Travelling to Hong Kong and Macao (commonly known as TEPs) who have given birth in Hong Kong in the past three years is set out below.

<i>Year</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	
Number of babies born	6 847	7 049	7 975	
Number of women on Exit-entry Permit for Travelling to Hong Kong and Macao and a relevant visit endorsement who have given birth in Hong Kong	Number of persons who have given birth within limit of stay Number of persons who have given birth during overstaying period Total	346 6 442 6 788	347 6 633 6 980	600 7 300 7 900

- (i) The ImmD will not grant extension of stay to a visitor on the ground that she intends to give birth to a child in Hong Kong.
- (ii) Among those female visitors coming to Hong Kong on the strength of Exit-entry Permit for Travelling to Hong Kong and Macao who overstayed and gave birth to their children in Hong Kong, many had entered Hong Kong early during their pregnancy. They then went into hiding whilst they were overstaying and only after reaching an advanced stage of pregnancy would they go to hospitals or surrender themselves to the ImmD, and apply for recognizance so as to give birth to their children in Hong Kong. If their health conditions render them unsuitable for immediate repatriation, the ImmD would consider, on humanitarian and safety grounds, to repatriate them only after they have given birth to their children in Hong Kong.
- (iii) All visitors must leave before expiry of their limit of stay. Pregnant women overstaying in Hong Kong to give birth to their children are subject to essentially the same prosecution and repatriation arrangements as are other overstayers. In 2002, a total of 14 807 holders of Exit-entry Permit for Travelling to Hong Kong and Macao, including women who

have given birth in Hong Kong, were prosecuted for overstaying. The ImmD does not, however, keep statistics on overstayers on the basis of whether they have given birth in Hong Kong. When the relevant prosecution and other legal procedures are completed, all overstayers will be repatriated to the Mainland. Penalties imposed on convicted overstayers last year are set out below:

Fine	\$100 to \$10,000
Imprisonment	Three days to 15 months
Suspension of imprisonment	Seven-day imprisonment suspended for 12 months to seven-month imprisonment suspended for 36 months
Suspension of imprisonment and fine	Seven-day imprisonment suspended for 12 months and a fine of \$100 to six-month imprisonment suspended for 36 months and a fine of \$8,000

- (b) Article 22 of the Basic Law provides that people from other parts of China must apply for approval for entry into the Hong Kong Special Administrative Region. Under existing arrangements, mainland residents who wish to visit their relatives in Hong Kong should apply for an Exit-entry Permit for Travelling to Hong Kong and Macao and a visit endorsement for visiting relatives from the Exit-entry Administration Department of Public Security authorities at their place of household registration. Since mid-2002, mainland residents may apply, for as many times as they like in a year, for a multiple-entry visit endorsement if they are visiting their spouses in Hong Kong. Holders of this multiple-entry visit endorsement may stay in Hong Kong for a maximum of 90 days, and may enter and leave Hong Kong for as many times as they like during this period. Subject to normal immigration requirements, mainland residents, including pregnant women, holding an Exit-entry Permit for Travelling to Hong Kong and Macao with the relevant visit endorsement for visiting relatives may stay in Hong Kong as visitors, but they must leave before their limit of stay expires. This is a well-established policy and has not been altered in recent years. If a pregnant woman visiting Hong Kong on the strength of Exit-entry Permit for Travelling to Hong Kong and Macao subsequently overstays and is considered unsuitable for immediate repatriation, the ImmD will, pursuant to our existing policy, consider on

humanitarian and safety grounds whether she should only be repatriated after having given birth in Hong Kong. It is however not our policy to comment on individual cases.

Work of HKCERT

9. **MR SIN CHUNG-KAI** (in Chinese): *Madam President, the Hong Kong Computer Emergency Response Team Coordination Centre (HKCERT) coordinates the efforts in handling local computer security incidents. Its duties include receiving incident reports, handling requests for assistance as well as providing responses and recovery support. According to the findings of the Information Security Survey 2002, in the past three years, most of the computer attacks on local small and medium enterprises involved computer virus attacks. In this connection, will the Government inform this Council:*

- (a) of the respective number of requests for assistance handled by the HKCERT and the average response time, with a breakdown by their types;*
- (b) of the number of various security alerts disseminated (such as virus and vulnerability alerts) since the establishment of the HKCERT, the methods of dissemination and the average difference in the time required for the HKCERT and other computer security companies to disseminate security alerts to the public;*
- (c) whether it has reviewed the operation and effectiveness of the HKCERT's mechanism for disseminating security alerts to the public; if so, of the outcome of the review; if not, the reasons for that; and*
- (d) whether it has formulated policies to cope with computer virus attacks?*

SECRETARY FOR COMMERCE, INDUSTRY AND TECHNOLOGY (in Chinese): Madam President,

- (a) The HKCERT was established in February 2001. As at the end of February 2003, the respective numbers of reports and requests for

assistance handled by the HKCERT with breakdown by types are as follows:

<i>Type</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>Total</i>
Information Security incidents such as hacking and denial of service	150	240	37	427
Computer virus	481	217	42	740
Others	2	0	0	2
Total	633	457	79	1 169

Normally, the HKCERT will respond to phone-in requests immediately. For requests received through e-mail and fax, the HKCERT will respond within three hours if the requests are received during business hours (8.30 am to 8 pm) or within the first three hours of the following working day if received outside business hours.

- (b) Since its establishment, the HKCERT has disseminated a total of 70 computer virus alerts and some 280 other information security alerts (for example, software vulnerability alerts). These alerts were disseminated through the HKCERT's website, e-mail, short message service, press release, and so on.

Apart from computer security companies (such as anti-virus software suppliers, information security services providers and security monitoring companies), the HKCERT also receives information and alerts on information security from computer emergency co-ordination centres of other places, software developers and those seeking assistance from the HKCERT. Upon receipt of such information, the HKCERT will conduct technical analysis and risk assessment, and collate the findings into a clear and simple alert for dissemination to the public. The alert will

include a summary of the incident, relevant preventive and remedial measures, as well as technical recommendations. The aim is to help the public understand the development and impact of the incident so that effective preventive and remedial actions can be taken. Normally, the HKCERT can issue such alerts within three hours upon receipt of the information.

- (c) The HKCERT keeps under review the operation and effectiveness of its mechanism for disseminating security alerts to the public with a view to introducing improvements. One such improvement introduced recently is the free short message alert service launched this January. In addition, the Information Technology Services Department (ITSD), the Hong Kong Police Force (HKPF) and the HKCERT are planning to set up a 24-hour notification system in order to more closely exchange intelligence, monitor developments and disseminate alerts on computer virus and information security incidents.
- (d) The Government takes computer virus attacks seriously. We have been tackling the problem by stepping up public education and preventive measures, disseminating information, providing support services, carrying out follow-up action and conducting review. The HKCERT, established by the Hong Kong Productivity Council with funding from the Innovation and Technology Fund, coordinates the handling of local information security incidents. It receives incident reports, deals with requests for assistance, and gives recommendations on recovery and remedial measures, and offers other support services. It also closely monitors information security situation in other places and disseminates timely alerts to remind the public of the need to enhance preventive measures. Cases involving computer crime will be investigated and followed up by the HKPF. The ITSD and the HKPF, in collaboration with international and local information security experts, also monitor latest developments regarding computer virus and its possible impact on Hong Kong, and review existing preventive measures.

The ITSD, the HKPF and the HKCERT will continue with their efforts to strengthen public education and the various support

services. The objective is to raise public awareness of computer virus attacks, enhance their capability to deal with such attacks, and reduce the possible impact of computer virus attacks on Hong Kong.

Ensuring Independent Functioning of ICAC

10. **MS EMILY LAU** (in Chinese): *Madam President, Article 57 of the Basic Law provides that a Commission Against Corruption shall be established in the Hong Kong Special Administrative Region, and that it shall function independently and be accountable to the Chief Executive. In this connection, will the executive authorities inform this Council:*

- (a) *whether the Chief Executive held regular meetings with the Commissioner of the Independent Commission Against Corruption (ICAC) in the past three years, and of the date of their last meeting;*
- (b) *whether or not the Chief Executive has discussed with the Commissioner the incident in which the Financial Secretary was suspected of avoiding tax because he had purchased a vehicle shortly before announcing the Budget; if he has, of the reasons for that; and*
- (c) *of the measures in place to ensure that the ICAC can independently investigate the incident mentioned in (b) above without interference from anybody?*

CHIEF SECRETARY FOR ADMINISTRATION (in Chinese): Madam President,

- (a) Under the Independent Commission Against Corruption Ordinance, the Commissioner is directly responsible to the Chief Executive and carries out the duties under section 12 of the Ordinance on behalf of the Chief Executive. The Commissioner reports to the Chief Executive regularly regarding the work of the Commission. Their last meeting was held in mid-March 2003.

- (b) It is not appropriate for the Administration to disclose details of the Commissioner's report to the Chief Executive for reason of confidentiality pertaining to the ICAC's operation or cases being handled by the Commission.
- (c) Under the Independent Commission Against Corruption Ordinance, the Commissioner shall not be subject to the direction or control of any person other than the Chief Executive. The ICAC has a duty to conduct its investigations independently and free from interference.

All investigations and reports by the Commission are subject to the monitoring of the Operations Review Committee (ORC). The ICAC cannot terminate any investigation without the ORC's agreement. Furthermore, the decision of whether to prosecute upon the completion of an investigation rests with the Secretary for Justice.

Enhancing Public Awareness Against Improper Disposal of Cigarette Ends

11. **DR RAYMOND HO** (in Chinese): *Madam President, it has been reported that a flat in Wah Ming Estate, Fan Ling caught fire as a result of a smoker throwing a lighted cigarette butt from an upper floor. In this connection, will the Government inform this Council:*

- (a) *of the number of similar cases and the number of persons prosecuted as a result, in each of the past three years;*
- (b) *whether the cases mentioned in (a) include those in which the persons prosecuted and fined for improper disposal of cigarette ends were repeat offenders; if so, of the number of such cases; and*
- (c) *of the measures taken in the past three years to enhance public awareness against the improper disposal of cigarette ends and the effectiveness of such measures?*

SECRETARY FOR SECURITY (in Chinese): Madam President,

- (a) According to the Fire Services Department (FSD), the numbers of fires believed to have been caused by the improper handling or disposal of lighted objects such as cigarette butts, matches or candles were 3 726, 3 749 and 2 976 in 2000, 2001 and 2002 respectively. The FSD does not maintain statistics on the number of fires caused by the improper handling or disposal of cigarette butts. In addition, our records suggest that in the past three years, no one was prosecuted for causing a fire at a lower floor by throwing cigarette butts from an upper floor.
- (b) As mentioned in the reply to (a) above, no one was prosecuted in the past three years for causing a fire by improperly discarding cigarette butts. It follows that there were no repeat offenders who had previously been convicted of and fined for such an offence.
- (c) During the past three years, the government departments concerned have been actively taking various measures to disseminate to the public the messages of fire safety and anti-littering.

The FSD, in conjunction with the District Fire Safety Committees, has organized a wide range of fire prevention activities, including fire station open days, fire safety carnivals, fire safety slogan competition, seminars and the Fire Safety Ambassador Scheme, to promote fire safety at home and to foster a fire safety culture. In addition, the FSD has also stepped up publicity on fire safety through television and radio announcements of public interest (APIs). For instance, in March 2003, the FSD launched a publicity programme targeting the improper handling of cigarette butts.

Meanwhile, the Food and Environmental Hygiene Department, the Housing Department, the Home Affairs Department and other departments concerned are committed to promoting the "Clean Hong Kong" campaign through an array of publicity channels, including APIs, posters and banners, advertisements on public transport, and so on, to educate the public on anti-littering and keeping Hong Kong clean. Eighteen District Clean Hong Kong

Committees have been set up for organizing a variety of promotional activities to further disseminate the "Clean Hong Kong" message at the district level.

Furthermore, since the implementation of the Fixed Penalty (Public Cleanliness Offences) Ordinance (Cap. 570) in June 2002, the Administration has issued over 13 000 fixed penalty notices, of which 80% were issued to offenders littering in public places. Vigorous law enforcement actions can have an important deterrent effect.

Promotion of public awareness of fire prevention and anti-littering can help reduce the number of fires caused by the improper handling or disposal of lighted objects. We are pleased to note that the number of fires of this nature decreased by more than 20% in 2002 over the previous year. We will continue with our efforts in organizing public educational activities and taking law enforcement actions in the years ahead.

Shenzhen-Hong Kong Land Boundary Police Co-operation Scheme

12. **MR LAU KONG-WAH** (in Chinese): *Madam President, under the Shenzhen-Hong Kong Land Boundary Police Co-operation Scheme (the Scheme), which came into operation on 19 January this year, police facilities at the land boundary crossing points at Shenzhen and Hong Kong handle crimes and police related matters that take place in the land boundary area. In this connection, will the Government inform this Council:*

- (a) of the number of crime cases reported to or requests for assistance received by the Hong Kong police from members of the public at each land boundary crossing point each month since the implementation of the Scheme, together with a breakdown by their nature;*
- (b) of the details of the liaison between the Hong Kong police and the mainland authorities on these cases, and the main assistance provided by the mainland authorities; and*

- (c) *whether it has reviewed the adequacy of publicity to the public on the implementation of the Scheme, and of the effectiveness of the Scheme in the prevention and investigation of crimes?*

SECRETARY FOR SECURITY (in Chinese): Madam President, on 19 January this year, the Hong Kong police, in collaboration with the Shenzhen Public Security Bureau, implemented the Scheme. The objective of the Scheme is to enhance cross-boundary police liaison on law enforcement matters in the boundary area, with particular emphasis on the land boundary control points, so that both sides can co-operate more effectively to combat criminal activities and maintain law and order in the boundary area. In addition, the police authorities of both sides aim at providing quality and convenient police-related services to boundary crossers through the Scheme.

The reply to the Honourable LAU Kong-wah's question is set out in the ensuing paragraphs.

- (a) In the first two months of the implementation of the Scheme (that is, 19 January to 18 March), the Police Report Centres at the four land boundary control points on Hong Kong side received a total of 48 crime case reports/requests for assistance under the Scheme. A breakdown by the nature of the cases received is as follows:

	<i>19 January to 18 February</i>				<i>19 February to 18 March</i>			
	<i>Lo Wu</i>	<i>Man Kam To</i>	<i>Lok Ma Chau</i>	<i>Sha Tau Kok</i>	<i>Lo Wu</i>	<i>Man Kam To</i>	<i>Lok Ma Chau</i>	<i>Sha Tau Kok</i>
Robbery	8	0	1	0	8	0	0	0
Theft	4	0	1	0	3	0	0	0
Assault	2	0	0	0	0	0	0	0
Fraud	1	0	0	0	2	0	0	0
Other requests for assistance	8	0	1	0	9	0	0	0
Total	23	0	3	0	22	0	0	0

- (b) The Scheme is applicable to the handling of incidents that took place in the boundary area (including the land boundary control points) covered by the boundary formations of the police authorities of both sides. Under the Scheme, the police authorities of both sides make use of the existing Police Report Centres or public security facilities at the land boundary control points to render assistance to boundary crossers. In the case of Hong Kong, the duty officers at the Police

Report Centres at the control points will, with the consent of the informants, immediately pass the information about the reported cases to the mainland public security authorities at the land boundary control point concerned upon receipt of the reports of crimes or incidents within the boundary area of Shenzhen so that their mainland counterparts can apprehend the situation in the first instance and take appropriate action and measures promptly to detect or prevent crimes. The Hong Kong police will also arrange for the victims or witnesses to go to the Mainland to assist in the investigation, if necessary, upon request by the mainland public security authorities. Similarly, if the mainland public security authorities receive reports of crimes or incidents in the boundary area or control points in Hong Kong, they will provide reciprocal assistance to the informants and the Hong Kong police.

Furthermore, police officers of both sides who oversee the law enforcement of the land boundary control points will meet regularly to review the operation of the Scheme, work progress and follow-up actions on cases, to exchange information and intelligence on daily crimes and to discuss the fight crime strategies and operations in the boundary area.

- (c) To promote public awareness of the Scheme, the Hong Kong police have launched extensive publicity through various channels. On the day when the Scheme was implemented, a press conference was held to announce the details. In addition, the programme of "Police Report and Police Magazine" produced by the Radio Television Hong Kong has also run features on the operation and related matters of the Scheme. To further enhance travelers' awareness of the Scheme, the police authorities of both sides are considering the production of leaflets on common crimes in the boundary area for distribution to travelers at land boundary control points. We believe that the present publicity arrangements are adequate. The police authorities of both sides will continue to monitor the operation of the Scheme and arrange suitable publicity, if necessary.

The police authorities of both sides acknowledge the effectiveness of the Scheme in the prevention and investigation of crimes in the

boundary area. Since its implementation, the general response of the public towards the Scheme has been positive. According to the police assessment, the Scheme can effectively deter criminal activities in the boundary area. Through the enhanced police co-operation in the boundary area, demand for police related services from the public can be better served.

iPermit Scheme

13. **MR HOWARD YOUNG** (in Chinese): *Madam President, the iPermit Scheme under which Taiwan residents may apply for and receive Taiwan Visit Permits through the Internet was launched in March last year. In this connection, will the Government inform this Council:*

- (a) of the total number of iPermits issued so far;*
- (b) of the organizations through which Taiwan residents may apply for iPermits; and*
- (c) whether it has plans to provide iPermit service to people from other regions or countries; if so, of the details and the progress; if not, the reasons for that?*

SECRETARY FOR SECURITY (in Chinese): Madam President,

- (a) From the introduction of the Scheme on 18 March 2002 to 23 March 2003, the Immigration Department has issued 160 184 iPermits (on average 432 per day).
- (b) Taiwan residents can apply for iPermits through authorized airlines. Currently there are six airlines participating in the iPermit Scheme. They are Lauda Air, Cathay Pacific Airways, China Airlines, Hong Kong Dragon Airlines, EVA Airways and Pacific Airlines.

There are about 30 travel agent offices in Taiwan handling iPermit applications for Lauda Air. Cathay Pacific Airways, China

Airlines, Hong Kong Dragon Airlines and EVA Airways have over 150 travel agent offices in Taiwan handling iPermit applications for them. There are three travel agent offices in Taiwan handling iPermit applications for Pacific Airlines.

- (c) The Immigration Department has no plan to extend the iPermit Scheme to other countries/regions at this stage. Currently people of about 170 countries/regions may visit Hong Kong visa-free. Only people of 39 countries/regions are required to apply for a visa/entry permit from the Immigration Department before visiting Hong Kong. As these applications require more detailed examination in general, it is inappropriate to process them in a way similar to those under the iPermit Scheme.

Replacement of Pavement Railings

14. **MISS CHOY SO-YUK** (in Chinese): *Madam President, I have noticed that the Highways Department (HyD) is replacing a large number of pavement railings in various districts on Hong Kong Island, including Central, Admiralty, North Point, and so on. However, the replaced railings appear to have no apparent defects on the surface. In this connection, will the Government inform this Council:*

- (a) *of the reasons for replacing the above pavement railings;*
- (b) *of the place(s) of origin of such railings;*
- (c) *of the cost of the material for replacing one metre of railing and the removal and installation costs involved;*
- (d) *when the newly installed railings need to be replaced; and*
- (e) *of the total length of pavement railings that the HyD replaced in each of the past two years and will be replacing in the coming year, and the respective amounts of public funds involved?*

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS

(in Chinese): Madam President,

- (a) The HyD replaces defective railings as part of its normal maintenance of road furniture. In North Point, 2 600 m of railings which are coming to the end of their service life have been replaced recently. All the replaced railings were in dilapidated conditions. There has not been any major railing replacement programme in Central and Admiralty recently.

As part of the Government's effort to enhance the environment and beautify the streetscape of Hong Kong, the HyD has developed a Master Streetscape Plan for Pedestrian Schemes in the Central District. A total of 700 m of stainless steel railings has recently been installed along a section of Des Voeux Road Central and Chater Street on a trial basis. Stainless steel railings have been chosen since they match better with the enhanced streetscape, are more durable and corrosive resistant and require less maintenance.

- (b) Standard galvanized mild steel railings are mostly sourced from the Mainland; whereas the stainless steel railings used in Central are from Finland.
- (c) The cost for the standard railing is about \$230/m (\$200/m for material and \$30/m for installation) and that of stainless steel railing is \$1,020/m (\$990/m for material and \$30/m for installation).
- (d) The service life of railings depends on the type of material used and their surrounding environment. Generally speaking, they would have a service life of about seven to 15 years.
- (e) In the past two years, the HyD has replaced about 133 000 m of railings. The total cost was about \$31.4 million.

In the 2003-04 financial year, the HyD estimates that about 45 000 m of railings would need replacement. The total estimated cost is \$10.5 million.

Chief Executive's Consultation with Executive Council on Appropriation Bill 2003

15. **MS EMILY LAU** (in Chinese): *Madam President, regarding the Chief Executive's consultation with the Executive Council on the Appropriation Bill 2003, will the executive authorities inform this Council:*

- (a) *as it is provided in Article 56 of the Basic Law that the Chief Executive shall consult the Executive Council before introducing bills to the Legislative Council, whether the Chief Executive had consulted the Executive Council on the contents of the Bill before introducing it; if so, of the date and time of the consultation; if not, the reasons for that; and*
- (b) *how a balance is struck between consulting the Executive Council and preventing the divulgence of confidential information?*

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Chinese): Madam President, in accordance with the procedures which have been followed by the Executive Council since at least as early as 1977, the Appropriation Bill was not referred to the Council for advice as to whether it should be introduced into the Legislative Council.

Sections 5 and 6 of the Public Finance Ordinance (Cap. 2), provide for the preparation of estimates of revenue and expenditure of the Government and require the inclusion of the estimates of expenditure in an Appropriation Bill which shall be introduced into the Legislative Council at the same time as the estimates. Since the contents of the Bill are prescribed and its introduction into the Legislative Council is mandatory, no decision on the Bill's introduction, on which the Executive Council could be consulted, is required.

Disposal of Computers by Police

16. **DR RAYMOND HO** (in Chinese): *Madam President, it has been reported that a member of the public bought a second-hand computer and discovered that the hard disk of the computer contained confidential police information. In this connection, will the Government inform this Council:*

- (a) *of the normal police procedure and avenues for disposing of computers;*
- (b) *whether and how the police destroy the confidential information stored in the hard disks before disposing of the computers; and*
- (c) *of the measures to prevent the recurrence of similar incidents?*

SECRETARY FOR SECURITY (in Chinese): Madam President:

- (a) The police have specific guidelines and procedures on the disposal of government computers. In order to ensure that data stored in the hard disk will not be released to unauthorized person, whenever a computer is to be disposed of, the hard disk of the computer will be physically detached. The detached hard disks will be returned to the Information Systems Wing (ISW) of the Force for centralized disposal. All these returned hard disks will then be degaussed centrally by the ISW to ensure that no information can be recovered from the hard disks by any ways or means. The degaussed hard disks will finally be centrally destroyed. Other obsolete computer parts without any data storage will be sold through auction.

There are also guidelines concerning privately-owned computers used for official purposes. If these computers are to be removed from the office, prior notice must be given and all official data must be completely erased before removal. All staff of the Force have been properly briefed of the above guidelines and instructed to strictly adhere to them.

- (b) As covered in Part (a) of this reply, all information stored in the hard disks of the computers to be disposed of, regardless of its confidentiality grading, will be completely degaussed by the ISW to prevent the recovery of the information.
- (c) Provisions concerning the use of privately-owned computers for official purposes are constantly reviewed and are considered adequate for general regulatory purposes. Following the recent

incident at Wan Chai in early March, the Force management at all levels have reminded their officers to strictly adhere to the laid down procedures. Salient points of the existing procedures are as follows:

- Prior approval from formation commander must be obtained prior to the use of privately-owned computers in the office;
- Approval is subject to conditions such as requirements for licensed software;
- All software used for official purposes must be capable of recording data in a compatible format to those of government computers;
- Prior notice has to be given before a private computer is removed from the office;
- All official data must be completely erased before the privately-owned computer is removed from office;
- Files in the computer are subject to inspection by formation security officer.

Protection Gear for Personnel Escorting Cash and Valuables

17. **MR LAU KONG-WAH** (in Chinese): *Madam President, will the Government inform this Council whether:*

- (a) *it has reviewed if the protection gear currently provided by various security service companies can adequately protect the personal safety of their staff deployed to escort cash and valuables; and*
- (b) *it will consider enacting legislation to require security service companies to provide suitable protection gear for their staff deployed on such escort duties?*

SECRETARY FOR SECURITY (in Chinese): Madam President,

- (a) At present, the Security and Guarding Services Industry Authority (SGSIA) has specified, in accordance with the Security and Guarding Services Ordinance (Cap. 460), the matters to which it shall have regard when determining an application for a security company licence. Included in the matters are requirements for security companies to adopt various measures to ensure the personal safety of their employees.

In respect of security companies providing armoured transportation services, the companies are required to be appropriately insured, include employee compensation, for the extent of the business that they pursue. The companies must also ensure that before performing operational duties, all employees must undergo and pass a training course not less than three working days. Moreover, those who have to carry firearms while on duty are also required to attend a course on use of force and firearms, and have to pass the examination conducted by the Licensing Team of Police Weapon Training Division upon completion of the course. Subjects examined include use of force, use of firearms, theories on safety precautions and firearms handling test. Vehicles used for security transit duties are also required to meet the specified security standards. These include the cabs of the vehicles must be ballistically resistant, the vehicles must be fitted with a legal alarm for use in an emergency, and must be fitted with a vehicle radio capable of communicating with the company control room at all times on frequencies approved by Office of the Telecommunications Authority. The above measures help safeguard the personal safety of the guards engaged in armoured transportation duties.

Besides, the Crime Prevention Bureau of the police organizes meeting with security companies providing armoured transportation services annually to exchange views on matters of common concern, including safety measures to protect their employees. In case any robbery of armoured vehicles occurred, the Bureau will also contact the security company concerned to evaluate the safety measures taken and provide professional advice on how such measures can be further enhanced, for example, arrangements for armoured transportation and enhancement of security devices.

The SGSIA and the police will maintain close liaison with the security industry and, taking into account the views of different sectors, review the matters to be considered in determining an application for security company licence, including whether an applicant has taken sufficient safety measures to protect their employees, in order to ensure the requirements are in line with the needs of the community.

- (b) The safety measures required to be taken by security companies providing armoured transportation services to protect their employees mentioned above are specified by the SGSIA in accordance with the Security and Guarding Services Ordinance (Cap. 460) and by way of publication in the Gazette. Although the requirements are not statutory, they are important factors regarding which the SGSIA will consider when determining an application for security company licence. Hence, an applicant must take appropriate safety measures in order to be granted a security company licence.

Moreover, the existing Occupational Safety and Health Ordinance (Cap. 509) already stipulates that every employer must, so far as reasonably practicable, ensure the safety at work of all of their employees. This requirement governs also the security companies providing armoured transportation services.

Tender Conditions for Petrol Filling Stations

18. **MR ERIC LI** (in Chinese): *Madam President, it is learnt that the Administration is planning to introduce new tender conditions for petrol filling stations (PFS) in order to encourage competition in the local fuel market. In this connection, will the Government inform this Council:*

- (a) *whether the new tender conditions will include:*
- (i) *government rent exemption;*
 - (ii) *awarding the contract to the bidder who offers the lowest retail prices of fuels; and*

(iii) giving priority to non-conglomerate PFS operators unless the retail prices of fuels offered by conglomerate operators are lower;

if so, whether such conditions will create unfair competition for existing operators; if the above conditions will not be included, of the new tender conditions;

(b) of the number of PFS sites to be put up for tender under the new conditions and, among these sites, the numbers of sites which are:

(i) existing PFS sites;

(ii) existing sites modified for PFS purpose; and

(iii) new PFS sites;

(c) of the estimated revenue from the sale of PFS sites under the new tender conditions; and

(d) of the estimated revenue from the sale of such sites by awarding the contracts to the bidders offering the highest tender prices, in situations where there are no other bidding requirements?

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Chinese): Madam President, the Government has endeavoured to promote competition in the local fuel market by maintaining an open market and by removing entry barriers. To this end, a number of measures have already been initiated. They include:

- waiving, as from July 2000, the requirement that a tenderer bidding for PFS sites must hold a Special Import Licence or a fuel supply contract;
- putting up for open tender existing PFS sites upon expiry of their respective leases;

- publicizing the Government's readiness to consider applications for combined development of PFS with other retail uses and for modifying land use for the development of PFS; and
- specifying in new land leases that operators are required to put up oil price information boards, to enhance transparency of competition on oil prices.

We are considering further proactive measures including the tender arrangements for PFS sites, to encourage further competition in the local fuel market.

We estimate that about 15 PFS sites might be put up for open tender in 2003-04, of which:

- (i) four are existing PFS sites with expiring leases;
- (ii) four are sites modified for PFS purpose with permissions from the Town Planning Board; and
- (iii) seven are new sites zoned for PFS use.

As we continue to consider ways of enhancing competition in the fuel supply market, including the tender arrangements for PFS sites, we are not in a position to assess the amount of revenue from the sale of the above-mentioned PFS sites under any new tendering conditions. It has been an established practice of the Government not to publicize or comment on the estimated revenue from any land to be sold in order not to influence the outcome of the land sale.

Procurement and Disposal of Computers by Disciplined Services

19. **MR SIN CHUNG-KAI** (in Chinese): *Madam President, it has been reported that some police officers have casually discarded computers in which police confidential files are stored, resulting in leakage of police information. According to the Chief Superintendent of the Police Public Relations Branch, as the computers available in police stations are limited, police officers may work on their own personal computers with the approval of their superior officers. In this connection, will the Government inform this Council:*

- (a) *of the respective percentages of government-owned and private computers used by various disciplined services officers for work at present;*
- (b) *whether it has plans to increase the percentage of government-owned computers; if so, of the details of such plans; if not, the reasons for that;*
- (c) *of the respective numbers of computers purchased and discarded by various disciplined services officers in each of the past three years and the amounts of money involved; and*
- (d) *whether it has conducted regular reviews of procedural guidelines for disposal of government-owned computers and private ones used by civil servants for work; if so, of the outcome of these reviews; if not, the reasons for that?*

SECRETARY FOR SECURITY (in Chinese): Madam President,

- (a) The disciplined services comprise the Correctional Services Department (CSD), Customs and Excise Department (C&ED), Fire Services Department (FSD), Government Flying Service (GFS), Hong Kong Police Force (HKPF) and Immigration Department (ImmD). Except for the HKPF, the disciplined services only use government-owned computers to carry out official work. The percentage of personally owned computers used for official purposes in the HKPF is very low, accounting for less than 0.6% of all computers used in that department.
- (b) The HKPF expects the percentage of personally owned computers used for official purposes in the HKPF to reduce further after the implementation of a plan in 2003 to add 110 sets of computers to be made available to the officers.
- (c) The number and value of computers procured by the disciplined services for the last three years are tabulated as follows:

<i>Department</i>	<i>2000-01</i>		<i>2001-02</i>		<i>2002-03</i>	
	<i>Unit</i>	<i>⁽¹⁾Total Value (HK\$'000)</i>	<i>Unit</i>	<i>⁽¹⁾Total Value (HK\$'000)</i>	<i>Unit</i>	<i>⁽¹⁾Total Value (HK\$'000)</i>
CSD	465	5,196	326	3,753	308	3,473
C&ED	⁽²⁾ 536	9,133	⁽²⁾ 387	6,876	⁽²⁾ 335	6,180
FSD	⁽³⁾ 214	3,691	412	5,575	68	819
GFS	33	334	17	171	37	473
HKPF	608	6,108	1 713	13,008	2 072	16,456
ImmD	501	5,500	325	3,600	1 668	18,350

(1) Total Value includes hardware, software and installation services.

(2) Including 105 sets of notebook computers for 2000-01, 122 sets for 2001-02 and 146 sets for 2002-03.

(3) Including 30 sets of notebook computers.

The number of computers disposed of by the disciplined services for the last three years are tabulated as follows. As most of the disposed computers are of obsolete models, for example, 486 model PCs, which are either inoperable or cannot be upgraded, they have little residual value, if any.

<i>Department</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>
CSD	86	195	100
C&ED	37	29	153
FSD	0	33	9
GFS	10	24	17
HKPF	84	⁽⁴⁾ 585	⁽⁴⁾ 1 796
ImmD	113	147	0

(4) The large number of computers disposed of are a result of a major PC Refreshment Programme. Most of the disposed units were traded in for new PCs.

- (d) The Government has comprehensive guidelines and procedures in place which conform to industry best practices to ensure that all information will be completely erased from storage media (including hard disks on computers) before disposal or re-use of the computer. Under these guidelines, any method that only temporarily erases the

information or allows alternative means of recovery must not be used. If the information cannot be completely erased, the media is to be physically destroyed in a manner that prevents recovery of any information.

The Government has also issued guidelines to bureaux and departments relating to the use of personally owned computers in the office. Without the express permission of the Head of the Bureau/Department, staff are forbidden to bring their own computers to the office to carry out official work.

We keep abreast of technology developments in the market and regularly update the guidelines and references as and when required.

Policies on Oil Reserves

20. **MR ERIC LI** (in Chinese): *Madam President, in view of the fluctuations in oil prices resulting from the gravity of the tension in the international arena, will the Government inform this Council whether it has formulated policies on oil reserves in order to ensure sufficient oil supply and prevent oil companies from making excessive profits; if it has, of the details of the policies; if not, the reasons for that?*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Chinese): Madam President, there are legislation and an industry code of practice in place to set out minimum reserves level of essential fuels and to deal with situations arising from disruption of oil supply. To ensure that sufficient reserves of essential fuels are available to meet local demand, the Director of Oil Supplies (that is, the Director of Electrical and Mechanical Services) together with the four major oil companies and the Hong Kong and China Gas Company Limited have drawn up a code of practice requiring these companies to maintain a minimum of 30 days' supply of gas oil and naphtha. The Director of Oil Supplies also monitors the oil stock and supply situation in Hong Kong on a weekly basis. Over the years, this arrangement has served the purpose of ensuring that sufficient reserves of essential fuels are available to tide Hong Kong over in case of a temporary disruption of oil supply.

Moreover, under the Oil (Conservation and Control) Ordinance (Cap. 264), the Government is empowered, in special circumstances, to regulate or prohibit the storage, supply, acquisition, disposal or consumption of oil. The Government has also put in place a contingency plan which co-ordinates both the public and private sectors to enforce conservation measures in allocation and consumption of essential supplies in the event of an oil supply disruption.

The Government also monitors the local pump prices of unleaded petrol and ultra low sulphur diesel against monthly average Singapore FOB prices (the generally accepted regional benchmark for pricing in the Asia Pacific Region). As stated in the information paper on adjustments in oil prices submitted to the Legislative Council Panel on Economic Services last month, for the period from January 2002 to 20 March 2003, in terms of trend movements and magnitude, changes in local pump prices have been broadly in line with those in the monthly average Singapore FOB prices. Besides, the increase and decrease in pump prices also tailed behind the respective increase and decrease in the monthly average Singapore FOB prices. We will continue to monitor closely the local pump prices against the changes in international oil prices.

BILL

Second Reading of Bill

Resumption of Second Reading Debate on Bill

PRESIDENT (in Cantonese): Bill: Second Reading. The Second Reading debate on the Appropriation Bill 2003 resumes today and tomorrow. Members will be speaking. The question before Council is: That the Appropriation Bill 2003 be read the Second time.

I will try to maximize the number of Members speaking on the question today, and will suspend the meeting at an appropriate time.

Under the Rules of Procedure, each Member has a maximum of 15 minutes for his/her speech. I will direct a Member to discontinue when he/she speaks in excess of the specified time.

APPROPRIATION BILL 2003**Resumption of debate on Second Reading which was moved on 5 March 2003**

MR AMBROSE LAU (in Cantonese): Madam President, in the opening remarks of his Budget speech this year, the Financial Secretary quoted from *A Tale of Two Cities* by Charles DICKENS that "it was the best of times; it was the worst of times". Unfortunately, the Financial Secretary's prophecy has been fulfilled. Hong Kong has been facing "the worst of times" since the delivery of the Budget speech. Hong Kong is under the attack of atypical pneumonia; the lives and health of the people are being threatened. The consequences of the disease on our economy are emerging. The tourist industry and other related trades, such as catering, hotel and retail, have been the hardest hit. When business is already slack in all trades, the atypical pneumonia epidemic deals a further blow to Hong Kong. This Council cannot disregard this factor in the debate on the Budget.

The Hong Kong Progressive Alliance (HKPA) thinks that the series of natural and human disasters happening after the announcement of the Budget have brought the Budget under attack and criticisms from all sides. However, from a practical point of view, this year's Budget has in general struck a balance between the interests of various sectors. The Budget has attained the objective of sharing out the burden among society as a whole. It has endeavoured to minimize the fiscal deficit and stabilize the financial markets of Hong Kong. For example, the international financial market and rating agencies, in general, consider the Budget acceptable. This illustrates that the Budget does have merits.

The reason for criticisms of the Budget is simple. The primary aim of this year's Budget is to resolve the fiscal deficit problem. To this end, cutting expenditure and raising revenue is inevitable. Thus the Government can no longer afford concessionary measures like tax relief and reductions in fees and charges. It has to, on the contrary, make the public and the business sector to contribute more to the public coffers, and cut benefits provided to the underprivileged. Given all this, it is only natural that criticisms are leveled at the Budget.

Therefore, the HKPA is of the view that the prevailing fiscal deficit is caused by structural factors drawn out from the past, so it should be settled by

structural adjustment, including reasonable measures to cut expenditure and raise revenue and revitalization of the economy. Regarding the measures proposed in the Budget in this connection, the HKPA would like to state our opinions as follows.

Firstly, to apply stringent control over expenditure. To contain expenditure below the rate of economic growth is a correct approach and the first step towards resolving the fiscal deficit. The Budget has proposed a package of measures to eliminate the fiscal deficit. In controlling public expenditure, there are measures like cutting the size and pay of civil servants, adjusting expenditure on social welfare, optimizing the use of resources and introducing flexible financial management. With these measures, the target to reduce the operating expenditure to \$200 billion by 2006-07 will gradually be achieved. However, it is stated in the Budget that the operating expenditure for this financial year is \$201.3 billion, and \$199.8 billion for the year 2006-07, with the reduction in expenditure being only \$15 billion but not \$20 billion as the Government stated. In calculating the \$20-billion reduction, the Government has used the estimation that the operating expenditure will increase from \$200 billion this year to \$220 billion in the year 2006-07 as the basis. It thus regards that the non-event of such an increase means the operating expenditure has been reduced by \$20 billion. This reveals that the reduction in expenditure is not as much as \$20 billion. The HKPA thus considers that the Government should step up its effort in cutting expenditure. The next thing the Government should do is to streamline its structure. Measures like privatization, corporatization and process outsourcing should be introduced to substantially reduce the staff establishment of government departments and public sector organizations, so as to remove redundant staff effectively. At the same time, the Government should reform the pay adjustment and recruitment mechanisms of the Civil Service as soon as possible, so as to narrow the gap between the salaries and benefits of the Civil Service and the market. To minimize public expenditure, the Government should, without any delay, adjust the pay and benefits of the staff of subvented organizations, to make them flexibly adjustable in response to upward and downward movements in the market rates. The Government must genuinely practise the principle of "big market, small government", for only this can resolve the problem of structural deficit for good.

Secondly, different sectors in society are psychologically prepared for the tax hike and increase in fees and charges. The revenue-raising measures proposed in the Budget are within the general expectation of society. The concern of the public, however, is whether the approach adopted by the

Government is fair. Objectively speaking, the strength and procedure of the revenue-raising measures proposed in the Budget have basically taken account of the actual situation and affordability of different sectors. However, a right balance has not been struck. According to the Budget, 40% of the total inland revenue in the new financial year will come from profits tax and 30% from salaries tax. Given this proportion, if the increase is shared out equally, revenue generated by the increase in profits tax should be greater than that from salaries tax. Nevertheless, according to the estimation of the Government, the full implementation of the increase in salaries tax will generate about \$6.8 billion of additional revenue in a full year, while the increase in profits tax will only generate \$3.5 billion. The burden on income earners is obviously heavier. Moreover, with the salaries tax allowance reverted to the level before the concession made in 1997, 90 000 people will fall into the tax net again. The series of government fees and charges, including rates, water charge, sewage charges and various licence fees, that were frozen or waived last year will defroze or will be implemented. Comprehensive Social Security Assistance (CSSA) payments will also be reduced. In addition, there will be a rise in property tax and the introduction of the boundary facilities improvement tax. Given all this, it is fully understandable that the public will feel aggrieved under pressure. The vulnerable are affected by the welfare cuts; the middle class is further burdened by the increase in salaries tax. In times of an economic slump, revenue-raising measures are particularly painful and the responses of different sectors of society vary. However, to resolve the problem of fiscal deficit, every sector of society must share the burden together. The Government should also minimize the pain caused by these measures. Arrangements like the implementation of increase in salaries tax and reduction of CSSA payments in phases do illustrate the Government's considerate thinking.

Thirdly, the Budget plans to raise additional revenue of \$20 billion in the next four years. However, the actual amount that can be raised is only \$14 billion. Will the Government make up for the remaining \$6 billion by introducing new taxes and fee increases? Details in this respect are not announced in the Budget, evident that the Government does not have a blueprint. The HKPA is of the view that, to adhere to the principle of financial prudence, the Government should not include in the Budget revenue of an uncertain nature. Otherwise, it will be misleading and will cause confusion. Though the Government's projection on economic growth may turn out inaccurate, such an error is not uncommon given that the projection may be affected by the economic environment. However, if the revenue projected in the Budget cannot be attained, the prudence of the Budget will be undermined. If the inclusion of

such revenue estimate is to foreshadow a further increase in tax and charges, it is even more inappropriate. The lyrics of the song "For A Bright Future" are quoted at the end of the Budget, that is "We dare to scale the mountain height: from topmost peak our vision bright." Is this foreshadowing that before us is a mountain of tax increase and fee increases? The Government should clarify this.

Fourthly, the focus of the Budget has been put on reducing the fiscal deficit, rendering the Budget inadequate in terms of the measures and strength in revitalizing the economy. The fiscal deficit is certainly a major obstacle to the revitalization of the economy. Resolving the fiscal deficit problem will provide the environment for revitalization. In fact, the Government cannot become the engine of economic recovery. There is not much it can do because direct participation of the Government cannot be very effective in promoting economic development. However, the Government should further improve the business environment and the utilization of various funds of different scale set up over the past few years.

Madam President, in respect of financial affairs, the provision in the 2003-04 Budget has been increased by 6.9%. Given the staff establishment remaining unchanged, the increase is on the high side. In the year 2003-04, the Financial Services and the Treasury Bureau should step up its supervision of the implementation of the newly enacted Securities and Futures Ordinance. It should also monitor the implementation of the series of measures on improving the financial infrastructure and launching of scriptless securities transactions, and the implementation of the Commercial Credit Reference Agency by the Hong Kong Monetary Authority and the banking sector. The HKPA thinks the implementation of the above measures will help to maintain and enhance Hong Kong's status as an international financial centre.

In the area of administration of justice and legal services, the increase of 0.5% in provision for courts and tribunals for the year 2003-04 is acceptable, and will be conducive to maintaining an independent judicial system up to professional standard. The Legal Aid Department (LAD)'s provision for processing legal aid applications will be increased by 1.1%. Since the Audit Commission has revealed that the LAD had provided legal aid services to unqualified persons and there have been public opinions criticizing the abuse of legal aid, the LAD should therefore ensure that legal aid services will be provided to the eligible only in the new financial year.

Given the prevailing economic conditions, the HKPA will object to any increase in charges directly affecting the people's livelihood and the business environment. I hope, after the Budget is approved, "the best of times" quoted by the Financial Secretary will come.

Madam President, I so submit.

DR DAVID LI: Madam President, our Government is living beyond its means. Public spending will account for 22.3% of Gross Domestic Product (GDP) in 2003-04, up from less than 18% six years ago. This year, the Government will run a fiscal deficit of more than 5% of GDP. There are alarming figures. They demand strong action.

We heard much about our dire fiscal position in the lead-up to the Budget. We were alerted to a tax rise. We knew that we would have to dig deep into our pockets. In return, we were led to believe that the Government would make a concerted effort to reign in public spending. Did this Budget deliver?

Let me say that this Budget represents a good beginning. High public-sector salaries are being addressed, in a way that maintains the morale of the Civil Service and avoids disruption of services. These are important considerations, given the frailty of our economy. Furthermore, the size of the Civil Service is being contained, through both a hiring freeze and a voluntary retirement programme. The Financial Secretary has also pledged to increase efficiency in the Government. These are all welcome initiatives.

There are also a number of imaginative new proposals in the Budget. I am gratified to see that the Financial Secretary has taken on board the suggestion that I made in my response to the Budget last year, to raise the tax allowance for charitable donations. This is an excellent measure, one that will bring lasting positive benefit.

May I propose that next year, the Financial Secretary can go one step further: Allow donors to claim a deduction of 120% of the amount of any donation to a registered charity or approved educational institution. This will help to promote a culture of giving, encourage private support of worthy causes, and reduce the burden on the public purse.

My constituency and I were also very pleased to see the Financial Secretary take the farsighted step of providing favourable tax treatment to the trading of debt instruments and offshore funds. These measures will help foster the growth of Hong Kong as a global financial centre, and earn returns many times over through improved economic activity.

However, while recognizing the value of these important steps, my constituency and I remain far from satisfied. We are alarmed that this Budget does not contain firm measures to reduce the role of the public sector in our economy.

The Financial Secretary informed us that the Government has set a target to reduce operating expenditure from his original estimate of \$220 billion in 2006-07 to \$200 billion. We are led to believe that the impressive sum of \$20 billion will be slashed from public spending. But that is not the case. Public spending stood at \$200 billion last year. It will stand at that same \$200 billion in 2006-07. While we pay very real taxes, the Government will cut make-believe dollars.

Where is the promise to share the burden of returning Hong Kong to fiscal responsibility? Where are the bold measures to implement the slogan "small government, big market", which featured so prominently in the Budget and in the policy address?

The role of the Government in our lives has grown, even as the Administration proclaimed its belief in private enterprise and individual initiative. What we need is a thorough rethink of the Government's proper role. I am still waiting to hear how "small government, big market" will be achieved in practice. I am certain that it will not be achieved by new spending programmes, no matter how well-intentioned. I am certain that it will not be achieved by raising taxes. I am concerned that, when announcing the tax rises, the Financial Secretary made no commitment to uphold our simple, low-tax regime. I am concerned that he made no commitment to reduce taxes once conditions permit. I am also very concerned about the way in which new taxes have been introduced. Consider, for example, the increase in first registration taxes for motor vehicles.

Here, I must declare an interest as a Director of Sime Darby Berhad, owner of the licensed agent for BMW in Hong Kong, and as member of the International Advisory Board of DaimlerChrysler.

The increase in first registration taxes is not a mere adjustment in the tax rate. This is a punishing increase, one which will have a severe negative impact on turnover in the trade. Dealerships will close, and staff will lose their jobs. Is this a tax measure, or a clumsy attempt to restrict car ownership? Certainly, the banking industry, which counts hire-purchase financing for motor vehicles among its core businesses, would like to know.

The tax-paying public has shown that it is willing to make sacrifices. It is willing to do its share. But public support will disappear quickly if the Government does not demonstrate a willingness to carry the greater burden. The public will not be satisfied until public spending is pared to the bone.

Hong Kong's fiscal deficit reached \$70 billion last year. The new tax measures announced to date are expected to generate \$14 billion in new revenue. A further \$6 billion will be raised through as yet undisclosed taxes. Where will the remainder come from? Growth, we are told. The Financial Secretary says that growth will generate the extra revenue, and our fiscal shortfall will evaporate as a result. But what assurance do we have? Compare, for example, the Budget's medium-term forecast with the hard facts.

The Financial Secretary projects that the Hong Kong economy will grow at 3.5% per year in nominal terms over the entire 2004 to 07 period. Yet, our economy has not seen such growth since mid 1990s, an era our Government now labels as "the bubble economy". Furthermore, the Government reminds us that our old economic model no longer works. Our future lies with the knowledge-based economy. Economic restructuring will be a long and painful process. How do we reconcile these statements with the Financial Secretary's rosy projections? By relying so heavily on growth to close the fiscal shortfall, the Financial Secretary leaves himself open to the charge that he is simply playing with numbers.

The message is clear. More must be done to reign in the size and cost of the Government. Of course, services must be delivered more efficiently. But more than that, my constituency would like to see this Administration ask itself:

- What is the Government's proper role?
- What services should be provided by the Government?

- How can we mobilize the private sector and reduce the size of the Government?
- How do we implement "small government, big market"?

These are the questions that must be asked. These are the questions that must be answered.

Thank you, Madam President.

MR LAU CHIN-SHEK (in Cantonese): Madam President, Mr LEE Cheuk-yan and I will speak on this year's Budget on behalf of the Hong Kong Confederation of Trade Unions.

Madam President, despite the fact that the immediate economic outlook of Hong Kong would be affected by the American-Iraqi conflict and the spread of the atypical pneumonia virus, the economic data show that the economic situation has improved slightly as compared to that one year ago. As the Financial Secretary said in the Budget speech this year, Hong Kong economy was on an upward trend, with economic growth in real terms having picked up significantly, rising from 0.6% in 2001 to 2.3% in 2002. It is estimated that there will be an economic growth of 3% in real terms this year (2003).

Madam President, at a time when the economic figures have turned somewhat better, we can see that not only is public confidence in the future not boosted, but that the frustration and despair among the people are more serious than ever.

Why has such a situation emerged? Why has Hong Kong become such a pathetic city? Why do frustration and despair spread like an epidemic that engulfs the entire city?

Madam President, we must admit that the people of Hong Kong are disenchanted with those ruling the city and it is because of this disenchantment, plus the absence of a way out of the present impasse, that the people of Hong Kong see no future ahead.

Some people are of the view that this year's Budget is an attempt to fleece the middle class. In my opinion, this Budget with its numerous proposals to

increase taxes and fees and to cut expenditure will not just affect the middle class, but also the lower class as well. For the people from the lower class will have to face the reduction in CSSA rates, the increase in medical fees, and pressure from the cut in social services and the lifting of the freeze on government fees and charges. The elderly, the vulnerable and the handicapped are the groups most affected. So I think people from all walks of life will be affected by the measures proposed in the Budget.

Madam President, at a time when the economy has yet to fully recover and when the jobless rate rises again, wage earners from all sectors are threatened by pay cuts and small and medium enterprises are struggling to survive, I think no matter how this year's Budget is written, it can hardly remove the grievances voiced from all quarters. The Financial Secretary may think that it is unfair and he may continue to explain to the public that the measures proposed by him will serve to reduce the fiscal deficit, and that they are beneficial to the long-term and overall interest of Hong Kong. I would like to point out to Secretary Antony LEUNG that given a government lacking in acceptance, how will the people of Hong Kong be expected to believe that Mr LEUNG is a superman who can save them? The Government does not even care to be the Santa Claus and it is playing the role of a cool killer brandishing its knife at the people. The poor, the middle class and the high-income earners all suffer from multiple wounds. When all of these are added to the pay cuts, layoffs, bankruptcies, and so on, how can the people not air their grievances as they sizzling in the hot pan?

Madam President, I have always thought that the solution to the deficit problem lies in improving the economy so that the people may see the prospects of an economic recovery and the impetus to economic growth. At a time of an unstable economy and a lack of confidence among the people, the proposals to increase taxes, government fees and charges and to slash public expenditure will all make the life of the people worse off than before, and these proposals are bound to backfire.

Ours is a situation where misfortune never comes alone. The economic downturn is aggravated by the atypical pneumonia outbreak and all public confidence is shattered. I now call on the Government to restore public confidence and compile another emergency budget which aims at abandoning or postponing as many as possible those measures proposed in the Budget which seek to increase taxes or cut public services.

I hope that when the Financial Secretary and other Bureau Directors make their responses next week, they should respond clearly to the following five suggestions I am going to make. First, to formulate comprehensive and effective measures which address the spread of atypical pneumonia and its impact on the economy and people's living; second, to announce that a review will be made of the timetable to implement the measures to increase taxes and fees in the Budget; third, to announce that the thousands of government fees and charges will continue to be frozen and will not be raised in the near future; fourth, to review the contraction of public expenditure in the light of the needs of the community to examine if service quality will be affected; and fifth, to announce the number of jobs to be created in the following year. I believe only when there are clear and specific policies that public confidence can be restored and social instability minimized.

Madam President, I so submit.

MR BERNARD CHAN: Madam President, our Financial Secretary's first Budget, one year ago, was in some ways disappointing. It did not tackle any of the big challenges that the Government faces because of its high spending and low revenue. It did not please people who were impatient for swift change. But this timid approach was understandable. The community was not in high spirits. It would have been politically difficult to take radical measures to raise revenue and cut spending. It could even have damaged our economy to make drastic changes. So he took the easy way out. With such huge reserves to draw on, why not?

The Government was lucky. The timid, lazy way out was probably the right way to go, politically and economically — thanks to those huge reserves.

For his second Budget, our Financial Secretary has become slightly bolder. He is still basically taking the easy way out, and relying mainly on our reserves to fill the gap between income and spending. But he is proposing some increases in revenue, and some cuts in expenditure. Compared with the size of the deficit, the numbers are perhaps marginal. But he is sending out a message. And judging from protests in this Council, in the media and on the streets, the message is being heard.

The message is that changes have to come. At some stage in the future, major changes to the way the Government raises revenue and spends money are inevitable. Opposition to these changes is equally inevitable.

I would encourage the Administration not to be timid about this, but to carry on sending out these messages, even though the audience does not want to hear them. The Government must continue sending the message that we need a broader-based source of tax revenue.

We used to have broad-based, invisible tax. It was so invisible that it did not even have a name. Essentially, it was land premiums and other property-related revenue. You paid it in your rent, your mortgage, or you simply paid it whenever you bought goods and services from people paying rents and mortgages. Everyone was paying it in some form, without realizing it. We need a replacement for that, and the only practical way to raise a large, stable flow of income is a sales tax of some sort. The Financial Secretary should be congratulated for making that clear in his Budget speech.

The Administration should send out two other messages.

The first message is to itself — the Government is too big, and too active. Article 5 of the Basic Law says that the socialist system shall not be practised in Hong Kong. But our officials make many decisions on the allocation of resources that could be left to the private sector and free markets. They call it "encouraging" technology or "supporting" small and medium enterprises. But it is costing taxpayers' money, and it is ignoring the disciplines and incentives provided by market forces. It is probably hurting the economy, putting good money to bad uses.

And our public-sector workforce is, without a doubt, too large and costly. I fully appreciate the Government's desire to maintain good morale in the Civil Service, but there must be limits to this. There is a relatively small number of poor performers in the Civil Service, and there are people with no useful work to do. The procedures involved in making civil servants redundant are far too lengthy and difficult. The result is a government that is becoming a burden on the community. I would also like to point out that in the insurance industry, weeding out poor performers is good for morale, not bad.

I would like to mention here the Financial Secretary's proposal to make the Insurance Commission an independent agency. Some people in the insurance industry are a little bit suspicious of this idea — they are afraid that such a new agency will rent luxury offices, hire hundreds of expensive staff, and pass the bill onto them. The current Insurance Commission is fairly lean and mean, and it is important that it stays that way. Whether it is independent of the Government is perhaps less important.

The second message is to everyone in the community — if you want good quality services, you have to pay for them. Alternatively, if you want low taxes, you cannot expect a wide range of services to be available to large numbers of people at virtually no cost.

This is especially important in view of our ageing population, which will put more and more pressure on health and welfare services in the future. We cannot go on having half the population in subsidized housing, and over 90% of our hospital treatment provided virtually free of charge. In future, subsidies will need to be concentrated where they are most needed. But that raises difficult questions.

To many people, the Comprehensive Social Security Assistance (CSSA) is a handout. People complain that it goes to newly arrived mainland immigrants, or it keeps people from finding jobs. In fact, over 60% of recipients are elderly or handicapped.

We need to ask ourselves — who deserves assistance? Should the Government find a way to separate aid for the young and able-bodied from the help given to the old and infirm? And we need to ask how much assistance is appropriate. Should the CSSA be a pension plan? Or should it provide the elderly with food and shelter to survive, but no dignity or comfort?

Whatever happens, it is inevitable that in future, many people will need to look after themselves a bit more. The Administration should be honest about this.

I can understand the Financial Secretary, and our Chief Executive, being nervous about sending out messages of this sort — spelling out the need for a broader-based tax, a leaner public sector, and fewer subsidies.

However, if it is any help to them, they might want to know that my colleagues in the insurance industry are certainly quite willing to hear these messages. I have asked my constituents this year to give me some pretty detailed feedback on the Financial Secretary's Budget proposals and the Government's overall fiscal policies. There are very clear and consistent themes coming from my electors.

Number one — they do not mind paying something extra in tax. They understand the need for more revenue. They would obviously prefer to see salaries and profits tax stay down. But they are willing to play their part.

Number two — they are very unhappy at what they see as wasteful, big government. They feel very strongly that the Government should behave more like the private sector in such areas as personnel, outsourcing, office accommodation, and so on. They believe that the Government should start cutting its costs sooner rather than later.

Number three — they resent the fact that so many people are paying no tax at all, yet are entitled to subsidized health care, housing and other services. They are happy to see public funds being spent wisely on education. And they are happy to see funds go to the elderly poor. But they are actually quite angry that so many subsidies go to so many able-bodied, working people who pay no tax.

Number four — they want to see a broader tax base, and they are very much in favour of some sort of consumption tax.

The Government might not think that the Insurance Constituency, with just a few hundred people, is worth listening to. But I believe that the Government should listen to these comments. These views were largely unprompted, yet they were overwhelming. In some cases, 80% or more of the responses were saying the same thing. And I do not believe that these views are confined to managers in insurance companies. I strongly believe that this is the voice of the private-sector middle class. They are willing to play their part. They are willing to contribute. But they feel that there is a burden. And they believe that they are carrying most of that burden.

This brings me to the overall issue of fairness.

There was a time when everyone in Hong Kong was happy just to be here. People were living in shanty towns. They worked seven days a week. They knew some people had Rolls Royce cars and had meat on the table every day. But they were not jealous. It just made them more ambitious.

Well, those days are over. Nowadays, people are cynical if the Chief Executive's granddaughter is kept away from school because of the pneumonia outbreak, and other children have to go to school. People get upset if their mainland wives cannot come to Hong Kong, but a senior official's wife can. People are angry when wealthy members of the Executive Council complain about the new tax on luxury cars.

Rightly or wrongly, people are starting to resent privilege and wealth. People in power, and people with wealth, need to be sensitive to the friction that is growing between different parts of the community.

Fairness, as I have just said, means a lower burden on the middle class, a broader-based tax system, and a more selective and targeted welfare system. But fairness also means that the rich and the powerful must be seen to play their part. When the Government says that everyone must be prepared to make sacrifices, it must mean "everyone".

Madam President, I look forward to future and more effective action to reduce the burden as much as possible, and to spread the rest of it fairly. Thank you.

MR TIMOTHY FOK (in Cantonese): Madam President, the Middle East war crisis is dragging on; the atypical pneumonia epidemic is spreading. Both of these add uncertainties to the economic prospects and social stability of Hong Kong. Yesterday, rumours were doing their round in society. From all this, we can tell how seriously the confidence of Hong Kong people has been shaken. If we allow this situation to go on, the overall development of Hong Kong will be adversely affected. In this critical moment, whether Hong Kong can overcome the difficulties and revive our economy depends significantly on the unity of the people of Hong Kong and their commitment to sharing the burden.

Early last month, during my attendance of two meetings, I had the opportunity to witness the smooth succession of the new leadership of the State,

as well as the launching of the long-term construction planning. I feel that with rapid development, our country is full of vigour and vitality. The entire society, having a common goal, is heading the same direction of advancing the economy and consolidating the strength of the country to a new pedestal. It bears a strong contrast to the situation in Hong Kong. Given the historical background of Hong Kong and its social development, we can hardly find the coherence we need in society. The strength of society is dispersed and public opinions are divided. These factors have significantly undermined the effectiveness of economic adjustment, and dragged down the pace of economic recovery. In times of difficulties, we should be more optimistic and united; we should be more creative and flexible so that we can turn adversities into opportunities and lead Hong Kong back onto the track of prosperity and stability. The situation we are now facing is just like a ball game. Once a team is lagging behind, all of its members have to pull together and redouble their effort. Only this can give the team a chance to salvage a victory from defeat.

Madam President, the Financial Secretary has emphasized in the Budget the importance of cutting expenditure and raising revenue to reducing the fiscal deficit. This is a right direction. We all know that, in times of an economic downturn, any measures seeking to cut expenditure and raise revenue will suppress investment and consumption to a certain extent, and will inevitably affect the interest of certain groups. However, the fiscal deficit will snowball; it will increase rapidly. If it is not effectively contained at this stage, it will become more and more difficult to control later. This may end up in a tragic avalanche. The financial crisis of Argentina has demonstrated clearly how destructive this snowball effect can be. However, to depend on the Government or a single class to eliminate a fiscal deficit amounting to tens of billions of dollars is not only inadequate, but also unfair. The entire society must be pulled together to share out the burden. Everyone must play his part. Only this can enable the fiscal deficit problem make a "soft landing". If everyone is reluctant to commit himself, what can the Government do? In fact, Hong Kong and the world at large are facing troubled times. If we cannot cut expenditure and raise revenue to reinforce our foundation, our economy will encounter major challenges and risks. The consequences may be inconceivable.

Cutting expenditure and raising revenue is of course important. However, this is only an internal redistribution of social resources that alone can neither create nor take Hong Kong back to the days of high economic growth. Even if

the fiscal deficit can be eliminated this way, this will not bring immediate benefits to Hong Kong economy. To overcome adversity and to create wealth, we must have new thinking and creativity. At present, creativity economy is the most promising economic item with great potentials of development. Moreover, with the advantages we have over our neighbours in terms of the fundamentals, the Government should step up its effort in promoting the industry. It should also expand the coverage to all creative industries disregarding the constraints laid down by the former British Administration. The constituency represented by me covers such sectors as culture, film, art, publishing and sports. These are precisely trans-boundary industries with the highest degree of creativity, the greatest circulation coverage, the greatest number of recipients and the greatest potentials of development. Successful enterprises are making money and establishing a reputation, winning them both fame and fortune. The Government must therefore explore from a new perspective the strength of these sunrise industries. It has been well recognized and widely adopted by the world that integration of industry concepts and offer of tax concessions are effective measures in promoting economic growth. I hope the Government will learn from the success of other countries to formulate an "all-win plan" for the culture and sports sectors and the creativity economy. Recently, the State has already granted tax exemption to donations, sponsorship and other proceeds related to the 29th Olympic Games. How much longer do we have to wait?

With these remarks, I support the motion.

MR LAU WONG-FAT (in Cantonese): Madam President, the controversy over the purchase of a car by the Financial Secretary has yet subsided, now Hong Kong has to face the horrifying outbreak of atypical pneumonia. As the outbreak is so menacing that the situation has continued to spread, seriously affecting not only the tourism, retailing and catering industries, but also the transport and property industries. It has deeply troubled the public. Besides domestic troubles, external difficulties, poverty and illness, the improbability of a swift end of the war in Iraq will surely aggravate the already depressed economy, adding significant uncertainties to the road to economic recovery. At this critical moment, it is particularly inopportune and unrealistic to make the reduction of the fiscal deficit and the raising of revenue the principal goal of this year's Budget.

Let us forget about whether or not the saying of "it is everybody's job to deal with the fiscal deficit" is tenable, despite we have all along been told that "every man is responsible for his country"; let us set aside taxpayers, in particular the middle class, who already feel extremely disgruntled by the fact that the more means they have, the more they have to pay when the retrenchment measure of the Government is so ineffective; the most important questions are, under the current circumstances: Can the tax increase resolve the deficit problem? Can the anticipated results be achieved?

Several years ago, after the financial turmoil had swept across Hong Kong and the bursting of the bubble economy had brought devastating impact along with it, the series of relief measures introduced by the Government did alleviate the pain of the public to a certain extent. However, to date, the unemployment rate is still high here in Hong Kong in addition to a persistent deflation, there are a general slump in the market and a rise in the number of negative assets owners, and the fiscal deficit is astoundingly high. However, this year's Budget had not only withdrawn or reduced the past relief measures, it has gone against the tide by proposing a tax increase, thus dealing a double blow to the people. I am afraid this "rooting out everything" approach would not help to achieve the objective of raising revenue, instead, it would dampen investment desire and consumer sentiment. After the introduction of "SUEN's Nine Strokes", the property market has kept plummeting; and after the increase of motor vehicle first registration tax, the business of car dealers took a nose-dive. All of these are alarming signs. If such measures persist, deflation, unemployment and the aggravating business environment would only impede economic recovery.

I know nothing about profound theories of economy, but people from the restaurant industry and I know that when the market dwindles, business declines and operators can hardly make ends meet, we could attract customers only by cutting prices or offering concessions and putting the principle of "small profits and good sales" into practice. Increasing prices is only something we do in good times, but we dare not think about it now. Of course, small businesses and the overall economy should not be placed on a par, but if we look around the world, in this tackling of the economic doldrums, no countries distant and big like the United States and Russia or close and small like Singapore, are not introducing tax concessions to stimulate the economy. What qualities do we have here in Hong Kong to go against the global trend?

Undoubtedly, reducing the fiscal deficit is important, but we should not ignore the reality. Just as the Financial Secretary said, the problem of the fiscal deficit has to be solved with a three-pronged approach, namely to boost the economy, cut expenditure and raise revenue. He once said that the Government had overspent in the past. For that reason, the Government should try its best to cut expenditure. It is just like rescuing a heavily-bleeding person, of course the bleeding must be stopped in the first place, otherwise, it would only be a waste of time to pump as much blood as possible into him. In this respect, the Government has failed to convince the public entirely. In addition to acting sluggishly, hesitatively and irresolutely in the civil service pay cut issue, its waste of resources in many aspects would be far too numerous to name, such as the construction of an observation elevator in a school, the costly and superfluous noise barriers which spoil the scenery of Tolo Harbour, and the use of extravagant European floor tiles to pave sidewalks.

Madam President, in these times of economic difficulties and huge fiscal deficits, the Government should take the initiative to observe stringent self-discipline, set a good example of a frugal government and act in the interest of the public. Besides solemnly instructing relevant departments to uproot extravagance and wastefulness in the course of vetting and approving public projects, the Government should also conduct a comprehensive review within every government department to examine the possibility of cutting overall operational expenditure, such as drawing up new guidelines on energy consumption in government offices and abolishing unnecessary government canteens and out-of-date allowances. These measures would play a positive role in reducing the fiscal deficit and improving the image of the Government. I have never heard that a big spender can convince others to join him to tide over the difficulties.

Frankly speaking, the resolution of the fiscal deficit problem relies on the invigoration and revitalization of the economy, as many problems could be readily solved when the economy improves. Although the Government's plan of revitalizing the economy is correct in direction, it could not be achieved within a short time. There are urgent issues that the Government should consider without delay, such as restoring the confidence of the public in future, which includes the confidence of the public in the prospects of the economy and the governance of the Government, in addition to encouraging spending by the people. Overstating the problem of fiscal deficit and increasing taxes at all costs would not help improve the situation in this respect.

Without considering the war factor, the pneumonia outbreak alone has already sent the Hong Kong economy on a nosedive. I hope the Financial Secretary will take the proposal of modifying the Budget according to changes into consideration in the course of reviewing the original over-optimistic forecast of economic growth. Methods can be changed as time changes, why can the Budget not be modified according to changes in the objective circumstances? Had the "85 000" housing construction target been swiftly modified after the Asian financial turmoil, I believe the property market would not have landed in today's circumstances. With regard to the decision of non-closure of schools to the ultimate decision of closing them, the public would not blame Prof Arthur LI for making changes in policy at will, because such changes are in the best interest of the public and the entire community.

The eagerness of the Government to resolve the fiscal deficit problem deserves our understanding. However, just as the saying goes, haste makes waste. It would be very likely that things would not turn out they way the Government wishes if it acts against the circumstances. Although the Administration has stated that it has no intention to issue government bonds, I hope it will reconsider this proposal. Certainly, the issue of bonds will not help tackle the structural deficit problem, but just as some experts have pointed out, it can still help gain territory by giving up time, so that the Government may make an all-out effort to promote its revitalization strategies and dispense with the urgent need to tackle the fiscal deficit problem. Moreover, the public may also take a breather with a view to regenerating, consolidating and fostering the vitality. Even our great Premier ZHU Rongji who came to boost our morale a month ago said that the issue of bonds was possible, why has the Government simply said no to that?

Madam President, due to the rampant attack of pneumonia, the people in Hong Kong are so panic-stricken that shopping malls, restaurants and places of entertainment are practically deserted. As a result of this, many businesses are facing the crisis of closing down. For this reason, I have to take all the trouble to urge the authorities to consider suspending the ill-timed Mandatory Provident Fund (MPF) schemes temporarily with a view to helping the business sector to tide over this most pressing plight. The biggest advantage of this is that it will benefit both the employers and employees, without incurring any expenditure of public money. Furthermore, suspending MPF contribution temporarily will not cause any impact on the long-term MPF schemes. At this time of emergency, what luxury do we have to emphasize storing up grains against famine? If the

present moment does not exist, where on earth could the future be? Of course, the relevant authorities could hold on to their own views, but this is a time for the hero to make, and this is a time for the people to look up to our leaders, whom I implore to come up with a better solution.

Madam President, I so submit.

MR JASPER TSANG (in Cantonese): Madam President, the theme for the Budget this year is raising revenue and cutting expenditure. In other words, the Government wishes to collect more money and spend less. So this will certainly not be a Budget which will win a lot of applause. I think the Financial Secretary was already psychologically prepared for that in the course of compiling the Budget, that he would be greeted by boos, grumbles and curses. But no matter what kind of psychological preparation he had made, I do not think that he would have foreseen the kind of situation we have experienced over the past few weeks. At least, he would not have imagined that he has to wear a face mask and come to this Council to hear the debate on the Budget.

It is only a matter of four weeks after the Budget was delivered. When we were preparing for this debate, we could hardly believe that so many things had happened during these four weeks. When the Financial Secretary was going on a tour to expound the various initiatives proposed in the Budget, there broke the sensational news and controversy about his car purchase. And so media and public attention shifted from the contents of the Budget to the Financial Secretary himself. Then came the incident of the leaking of confidential papers of the Executive Council and the whole ruling team of the SAR was dragged into the furore.

The excitement lasted only a few days when war started and the lethal pneumonia broke out. These two events have dominated the air time of electronic media and the columns of newspapers, even to the extent of taking away some of the space which should have carried reports of the suicide of a famous artiste. When people watch the television, read the papers or listen to the radio, they will invariably come across such stories as the advances of the Anglo-American coalition, the resistance they encounter and speculations on when the war in Iraq will end. Then people learn about the number of atypical pneumonia cases reported, how many people are quarantined and speculations on the time needed to contain the epidemic, and so on. All these become the talk

of the town. As regards the issues raised by the Financial Secretary four weeks ago, or the proposals, figures and projections, I think that the general public must have resigned them to secondary importance, if not having forgotten about them all.

Madam President, the problems identified in the Budget are still there and they may even worsen. It looks that all these measures proposed in the Budget to raise revenue and cut expenditure will have to go ahead. In circumstances as these, what new insights do we have for the Budget? Just as those Honourable colleagues speaking before me have said, we are facing some new economic problems which have never occurred before.

For example, the Budget puts the tourist industry as one of the four pillar industries of Hong Kong, and it is indeed the fastest growing industry in Hong Kong in recent years. It has tremendous potentials for growth and it can be said to be linked with the prosperity of the retail and catering industries of Hong Kong. Now the tourist industry has been badly hit by the war and the epidemic. Some analysts think that, assuming the atypical pneumonia epidemic is contained within two months, inbound tourists in the second quarter will fall by about 25% and the losses borne by the tourist industry will lead to a 0.2% fall in the Gross Domestic Product (GDP) for the year. However, if the epidemic continues two months later, the decline in the number of tourists in the second half of the year will be 40%. In the end, the economic growth in the full year will fall by 0.9% and that means more than \$10 billion of losses.

Originally, the SAR Government has been discussing with the Guangdong authorities on how to facilitate visits by residents of Guangdong. That is good news mentioned in the policy address delivered at the beginning of this year and also in the Budget speech delivered four weeks ago. Residents of Guangdong will soon be allowed to make multiple trips to Hong Kong for travel purposes in their personal capacity. The tourist, retail and catering industries of Hong Kong have hoped that this arrangement will be implemented as soon as possible, for it will certainly spur economic growth. Unfortunately, the unexpected outbreak of atypical pneumonia has dealt a heavy blow to the interflow between Hong Kong and Guangdong. Recently, the number of mainland residents who join package tours to Hong Kong has fallen sharply and many people have withdrawn from the tours even though they have signed in. It does not help things at all when tourist agencies give away face masks to their clients. Some

pessimistic estimates have put it that the "golden week" of long vacation this year for the Labour Day would not see the kind of influx of tourists into Hong Kong as we saw during the last couple of years.

The epidemic threat also takes away the consumption desire among Hong Kong people as they shy away from crowded places. That is also due to the advice given by the Government, warning people against going to such places. So shopping malls, restaurants, cinemas and other places of entertainment are left without any patrons. Only the drug stores are doing a roaring trade as people flock there to buy face masks, alcohol and bleach.

Four weeks ago, the Financial Secretary forecast that there would be a 3% growth in real terms in the GDP for 2003. But recently, some economists said that it would be lucky if there would be no negative growth and just zero growth in the economy for this year. Against such a background, how should we look at the proposals in the Budget?

According to a school of thought, the greatest economic problem we have is not the fiscal deficit, but deflation. The most pressing task for the SAR Government is to boost the economy and resist deflation. If we buy this idea, it will mean that given the economic downturn and the possible swell in the unemployed ranks, what the Government should do is to reduce taxes, increase public expenditure and boost the economy. Then by this token, just as Mr LAU Wong-fat has said earlier, this is not the right time to increase taxes, for it will only aggravate deflation and impede economic recovery.

Apparently, the Financial Secretary does not subscribe to this view, for in his Budget speech he emphasized that the deficit problem was grave and he said, "If the situation continues deteriorating, it may lead to an outflow of capital, thus pushing up interest rates. It will also impede the trend of economic recovery and could even trigger a financial crisis." The Financial Secretary also quoted the views of the delegation from the International Monetary Fund (IMF). The IMF "called on the Government to formulate a "well-specified deficit reduction plan to bolster market confidence. Despite the uncertain economic outlook, credible fiscal consolidation has to begin in fiscal year 2003. This will require the implementation of sizeable structural deficit reduction measures in fiscal year 2003 and a commitment to more substantial consolidation, supported by concrete measures, in the next three years."".

Madam President, we have had persistent deflation for almost five years and during this five-year period, the Government has been pursuing an expansionist fiscal policy as taxes and government fees and charges are remitted, investment increased, the economy spurred and job opportunities raised, and so on. The Budget last year proposed reductions in government rates, water tariff, effluent surcharge and business registration fees, and all of these caused public revenue to lose more than \$10 billion. In addition, the Government also used all sorts of means to create temporary jobs in order to boost employment. Facts have shown that this kind of expansionist fiscal policy has caused a continual decrease of our fiscal reserves and no marked effects have been seen in the stimulation of the economy.

Madam President, the Democratic Alliance for Betterment of Hong Kong (DAB) agrees that effective measures have to be taken to achieve fiscal balance. The Basic Law stipulates that the "Hong Kong Special Administrative Region shall follow the principle of keeping expenditure within the limits of revenues in drawing up its budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its gross domestic product." This should have been the principle of public finance management which the Hong Kong Government should follow, but owing to various subjective and objective reasons, the Hong Kong Government has deviated from this principle over the past decade and so the rate of public expenditure growth is higher than the economic growth rate and public expenditure is taking up an increasingly larger share of the GDP. Currently, public expenditure accounts for an excessive share of the GDP. Public revenue is less than expenditure and that has become an obvious structural problem. If this problem is not addressed seriously, sooner or later it will undermine the stability of our financial system and make economic recovery all the more difficult.

As pointed out by the Government, reduction of the fiscal deficit will be pursued in the following three directions: revitalize the economy, cut expenditure and raise revenue. The budget deficit for the 2002-03 fiscal year is about \$70 billion and according to the proposal made by the Financial Secretary in the Budget, if the deficit problem is to be resolved within four years, economic growth should offset \$30 billion of the deficit, while cutting expenditure and raising revenue would each account for \$20 billion. Now we face another problem. If economic growth fails to reach the level forecast by the Financial Secretary, then there is no way to eliminate \$30 billion of the deficit and would this mean that more rigorous measures of cutting expenditure and raising revenue should be taken?

In our opinion, we do not have to make a decision like this in a hurry, for it is difficult to estimate how the economy will grow. What we should do is, as the IMF said, to formulate "a well-specified deficit reduction plan". In other words, we must not aim at an instant restoration of fiscal balance. Rather, we have to formulate effective and practicable measures and draw up a specific timetable for their implementation, so that people will know these targets can be achieved within a specific timeframe.

When the Government adopts such measures to raise revenue and cut expenditure, it has to consider the impact of these measures on the economy. We notice that the tax increase proposals made by the Financial Secretary have taken into account the affordability of the public indeed. For example, the salaries tax rates will be reverted to their levels before the concessions made in 1998 and this objective will be achieved in two phases in two years. We are glad to note such an arrangement. However, the DAB thinks that, in order to achieve fiscal balance, the Government should make greater efforts to cut expenditure while adopting milder measures to raise tax and fees.

Madam President, I so submit.

DR YEUNG SUM (in Cantonese): Madam President, the Financial Secretary started his Budget speech by quoting a famous line from Charles DICKENS' *A Tale of Two Cities* to describe the present situation of Hong Kong — "It was the best of times; it was the worst of times." The second part of this quotation can indeed vividly depict the circumstances surrounding Hong Kong now. This is no doubt the worst of times for Hong Kong. The war between the United States and Iraq is raging in the Middle East, and people are all panicking every day under the fear of contracting atypical pneumonia. As estimated by the Secretary for Health, Welfare and Food, Dr YEOH Eng-kiong, the number of atypical pneumonia cases will still rise substantially in the next couple of weeks. Due to the atypical pneumonia, the passenger throughput of the airport has gone down by 20% to 30%, while the number of Hong Kong-Mainland travellers is also declining drastically. As pointed out by the Hong Kong Retail Management Association, atypical pneumonia has led to a marked drop in the number people visiting shopping malls. This, coupled with the effects of the war between the United States and Iraq, has resulted in a 10% drop in retail volume compared to the figure of the corresponding period last year. In

addition, the occupancy rates of our hotels have also fallen by as much as 30% to a record low in recent years.

A number of financial institutions have indicated that it is very likely for them to adjust their projections on Hong Kong's economic growth. The Fitch Ratings is still sticking to a 2.8% growth forecast, but if the atypical pneumonia problem cannot be solved in the coming three to four months, it may consider lowering this year's growth projection. A research report of BNP Peregrine points out that the number of visitors to Hong Kong has gone down because of atypical pneumonia, and if the problem continues into May and June, the number of visitors may decrease by 30% to 50%, offsetting 0.6% to 1% of the local GDP. The overall situation of Hong Kong is such that it is somewhat like a remote, uninhabited island, battered by inclement weather and lost in the vast ocean.

The situation of Hong Kong has changed markedly since early March when the Budget was announced. The Government should really look back and note the changing circumstances. Can it appreciate people's heavy psychological pressure? Can it understand their anxieties in the face of the stormy uncertainties ahead? The current difficulties of Hong Kong are the severest in a hundred years. We think that if the Government has any sense of responsibility and courage at all, it should look at the realistic situation of Hong Kong with a flexible attitude. At this very time, it should examine the Budget much more pragmatically. It should adopt the perspective of the people, reverse the untimely measures on tax increases, stand by them in times of difficulties and give up the political decision, the politically motivated measure, of huge tax increases.

The Budget aims basically to eradicate the fiscal deficit by the year 2006-07. As a matter of fact, the Government has, out of mere political consideration, set down a "dead line" and insisted on eradicating the fiscal deficit by 2006-07. It has advanced mainly two "grand" reasons. First, the European Union requires its member states to cap their fiscal deficit at 3%, and so the Government argues that the 5% fiscal deficit of Hong Kong is on the high side. Second, it says it agrees with the International Monetary Fund (IMF) that "a definite scheme on eradicating the fiscal deficit" should be set down. However, as quoted by the *Financial Times Deutschland* in mid-March, in a bid to revitalize the sluggish European economy, the IMF will, in its World Economic

Outlook to be published in April, call upon the European Union to relax the fiscal deficit restriction on its member states should the world economy continues to deteriorate, so that they can allow their fiscal deficit to exceed 3% of the GDP. The policy direction of the Government seems to be running counter to the latest position of the IMF.

Hong Kong is now experiencing untold miseries. But the Government still asks the people to help the Chief Executive make his "great achievement" of eradicating the fiscal deficit before his retirement in 2006-07. In a way, the people are being asked to pay a very high price for that. This is nothing but a politically-oriented economic decision, something which the Democratic Party does not support and accept at all. The Democratic Party firmly opposes the Government's politically-oriented decision, the decision to set the deadline for eradicating the fiscal deficit in the year 2006-07. We are of the view that the deadline for eradicating the fiscal deficit can be deferred for one to two years. That way, the Government will be able to tackle the economic difficulties more flexibly and do not have to increase taxes drastically this year or in future for the sake of eradicating the fiscal deficit.

This morning, in my capacity as Chairman of the Panel on Education, I received a letter from Prof NG Ching-fai, signed by the Presidents and Vice-Chancellors of the eight tertiary institutions. The heads of the tertiary institutions express deep concern about the 10% cut in university funding and the 3% reduction of salaries in the year 2004-05. This is the first time that they have ever signed a joint letter, challenging the Government's massive cuts in tertiary education funding because of the need to tackle the fiscal deficit. I shall follow up the letter in the Panel on Education.

Madam President, the Democratic Party is not indiscriminately opposed to all kinds of increases. Given the long-term imbalance of the Government's recurrent expenditure and revenue, the Democratic Party agrees that recurrent revenue should be increased under the principle of "those who have means pay more". The Democratic Party supports an increase in profits tax by 1.5%. We are of the view that since only companies making profits are required to pay profits tax, so they should have the ability to pay more. This shows that the Democratic Party will also support reasonable tax increases.

In regard to the Budget, the Democratic Party is most dissatisfied with the fact that the middle-class people are made the targets of tax increases. The

Democratic Party thinks that the rate of salaries tax increase is much too high and will thus deal a most serious blow to the middle-class people. After studying all the tax increase measures, one will see that a good part of the increased tax revenue will come from salaries tax, meaning that the middle-class people are going to be the victims of eradicating the fiscal deficit. Among all the tax increases, salaries tax to be paid by the middle class will account for \$6.8 billion representing half of the new tax revenue. Besides, according to the government estimates, an additional \$6 billion should come from new revenue the details about which are lacking. Also, many economists have commented that we may well fail to achieve the 3% annual economic growth as projected. That being the case, if the fiscal deficit must be eradicated in 2006-07, will fees and taxes be increased again to meet all the expenditure? I can foretell that the middle class will again be the victims?

Following the announcement of the Budget, the Democratic Party conducted an opinion poll on the tax increase measures. According to the findings, 66% of the respondents were not satisfied with the Budget, and the middle-class people belonging to the income bracket of \$25,000 to \$120,000 were the most dissatisfied, and as much as 73% of them said that they were dissatisfied. This is a rare phenomenon, because the middle-class people seldom expect anything from the Government. They can earn their own living; many of them are professionals with good prospects. Basically, they have been financially well-off. Little can they imagine that in this Budget, announced five years after the reunification, they are made the victims of eradicating the fiscal deficit.

The middle-class people have to face various financial difficulties, such as unemployment, salary reduction, negative equity assets, and so on. Extortionate taxation will only plunge them into greater misery and add to their already heavy burden. The Government should handle the discontent of the middle class very carefully because they are the pillar and driving force of Hong Kong's economic development. If the Government ignores the aspirations of the middle class and imposes on them the main burden of eradicating the fiscal deficit, they will only be forced to organize themselves into confrontation with the Government. In the "March of the Middle Class" organized by the Democratic Party recently, at least 1 000 people took part. This number of participants has been very rare so far. The Hong Kong Special Administrative Region Government must not ignore the voices of these people, or else social stability and its governance may be endangered, knocking the situation out of control.

Madam President, war has broken out in other parts of the world and the impacts of atypical pneumonia on the community are beyond measurement. People's discontent has already reached the boiling point. Yesterday, there was panic buying in the supermarkets. Though the news that caused the panic buying was eventually disproved, happenings like this are bound to further inflame the masses. The pressure felt by the people is so heavy that we are deeply worried about the emergence of social instability.

In view of the current difficult situation of Hong Kong, the Democratic Party will shortly put forward a new proposal under the seven-party coalition, demanding the Government to consider these three points: first, shelving all proposals on increasing salaries tax; second, freezing all government fees and charges for one year; and third, waiving rates, water charges and sewage disposal charges for one quarter. To begin with, the shelving of all proposals on increasing salaries tax will definitely avoid adding to the already heavy burden of the middle class. And, the freezing of government fees and charges and the waiving of rates, water charges and sewage disposal charges for one quarter will lessen the financial pressure felt by the middle-class people and the community at large. This is completely in line with the realistic situation.

Not too long ago, I visited some middle-class housing estates to gauge the residents' views on the Budget. Their criticisms of the Government, of the Budget, were extremely severe, and, as soon as some specific issues were mentioned, they said they were "outraged". They even used other expletives, but I do not think it is appropriate to quote them in the Chamber. I simply wish to impress upon the Financial Secretary that the people are really boiling with discontent. All is just like a camel with a very heavy load on its humps — its back will certainly break if it is further burdened by even a few more straws.

Madam President, as a response to the above proposals, the Democratic Party reiterates that the Government should issue bonds. I am very glad that our viewpoint is supported by Mr LAU Wong-fat. Once bonds are issued, the Government will not need to cut its expenditure drastically; it will not have to cut tertiary education funding by 10%, for example. Nor will it have to make the middle-class people targets of heavy tax increases, pulling even a person earning just some \$8,000 a month into the tax net. In these extraordinary times, the Government should employ extraordinary measures. It should respond to people's aspirations, take steps to address their anxieties and help them ride out the current difficulties of Hong Kong.

When I consulted members of the public, they kept asking me what Legislative Council Members could do. If the Government can issue bonds on the one hand and consider our proposals on the other, I believe it will be able to placate the discontented masses and bring about social solidarity.

Thank you, Madam President.

DR RAYMOND HO: Madam President, in the Budget speech delivered by the Financial Secretary last month, Mr Antony LEUNG, highlighted the seriousness of the deficit problem. Within the framework of the Government's three-pronged approach, namely to boost the economy, cut expenditure and raise revenue, he proposed a number of measures to tackle the deficit problem.

Overview of the Budget

I agree that our fiscal deficit as high as 5.5% of Gross Domestic Product is unsustainable. However, I do not see the reasons why the Government must achieve fiscal balance by 2006-07. To observe this rigid fiscal deficit reduction timetable, the Financial Secretary will have his hands tied. Why do we need this objective? When did we establish this target? Have we had any public consultation? Have we had any consensus?

To attain this goal, he introduced a number of measures which include increases in taxes and reductions in public expenditure. However, I am doubtful if they are the best prescription for Hong Kong as we are suffering from persisting deflation and high unemployment. Some of these measures will definitely accelerate the deflationary spiral rather than curb it.

Indeed, the Government's obsession in deficit reduction has made the so-called three-pronged approach a hollow one. The proposed increases in salaries tax and pay cut of civil servants are dampers rather than boosters to our economy. These measures will further deflate our economy with the subsequent reduction in individuals' spending. It is highly likely that the vicious cycle will set in and send our economy further downward along the deflationary spiral. Even if the fiscal balance can be achieved by 2006-07, our economy will pay a very high price. The cost may even be higher if we take into consideration social and political factors.

Instead of adopting fiscal measures, such as substantially raising taxes and cutting expenditure, that are detrimental to the recovery of economy, the Government should give priority to revitalizing the economy. Issuance of bonds will allow us a more flexible alternative to solve our fiscal deficit problem through the revitalization of the local economy. For this purpose, funds so raised must be channeled into specific purposes or projects, for instance, investment in infrastructure, that will create more employment opportunities and facilitate economic recovery. Once our economy is on the rise again, the fiscal deficit will be eliminated, and so will the debt.

As long as the amount of debt to be raised is within an acceptable level, it is very unlikely that the market confidence in Hong Kong's public finance will be undermined. The Government should consider seriously issuing bonds to finance short-term fiscal deficit.

Now, I would like to offer my views on some selected areas:

Investment in infrastructure

I welcome the Financial Secretary's reiteration in the Budget that an average of about \$29 billion annually for infrastructure works is earmarked over the next five years, similar to that for the past few years, that is, \$147 billion in total. I hope that Mr LEUNG's latest commitment in investment in infrastructure will bring some kind of closure to the discussion on cutting infrastructure spending.

Much to my delight, Mr LEUNG is also receptive to my suggestion on adopting the private finance initiatives (PFIs). The Government is going to introduce a list of recreational and cultural facilities projects worth about \$2.5 billion for private sector participation on a trial basis.

This is obviously a step in the right direction. But the Government should widen the scope of private sector participation. The Government could either grant the development rights to the developer submitting the plan or give it credits in an open tender. Otherwise, there will be no incentive for private companies to be creative or innovative. The provision of necessary incentives to interested parties is particularly crucial in view of the slow economy.

Unfair tax burden to middle-income earners

The Government insists that the Budget is fair and well balanced. However, the middle-income earners, and among them professionals constitute a high percentage, think otherwise. They have to bear the brunt of the proposed salaries tax hikes, though they are to be implemented in two equal phases in 2003-04 and 2004-05. The proposed tax hikes are particularly unfair to people in the middle-income bracket group. For instance, a person earning \$20,000 per month will pay 40% more in tax after the increases while a person with a monthly income of \$120,000 will only pay 7% more.

Indeed, the middle-income earners have been facing an array of problems, namely, declining property prices, job losses or insecurity, and pay reduction, since 1997. Even so, they are seldom in the receiving end of government assistance. But when the public coffers are in red, they are asked to take an unfair share in bailing the Government out.

Acceptable revenue raising measures

I object to the proposed increases in salaries tax as they are unfair to the middle-income earners. Nevertheless, I agree with the proposed increases in profits tax, property tax, air passenger department tax and betting duty. These increases will generate additional revenue for the Government and help reduce the fiscal deficit. In the same vein, proposed new taxes including boundary facilities improvement tax and football betting duty should be introduced, the sooner the better.

Reduction in size and pay of Civil Service

The Budget confirmed that civil service pay will be cut by 6% in two phases over the next two years. In order to reduce the operating expenditure, the Government will reduce the civil service establishment by 10%. It will also introduce a second round of the Voluntary Retirement Scheme and freeze civil service recruitment.

Given the downsizing and pay cut of Civil Service, the Government must take the necessary steps to ensure that the quality of public service will not be compromised and no succession problems will be created within the ranks of

Civil Service as a result. The latter concern is particularly relevant to the professional grades in the Government. On the issue of working out a pay adjustment mechanism, the Government must allow full participation of civil servants in the exercise.

Concluding remarks

Madam President, the Iraqi War and the atypical pneumonia outbreak in Hong Kong have already dealt severe blows to the local economy. If the Government insists on achieving fiscal balance by 2006-07 by deflationary fiscal policies, this will definitely push our economy further downward. We need to recoup our courage and re-establish our confidence in striving for a healthier economy. We need breathing space to create an upward spiral for our economy. We must join hands together and work towards the same goal. We want strong leadership. I therefore earnestly hope that the Government will reconsider its strategy and explore the option of issuing bonds.

With these remarks, I so submit. Thank you.

MR LEUNG FU-WAH (in Cantonese): Madam President, when faced with financial stringency and a huge fiscal deficit, to raise revenue and to cut expenditure is a feasible approach for the Government to take in public finance management. However, when the Government takes such an approach to solve the deficit problem, in raising revenue in particular, it is meeting all sorts of obstacles and opposition. Take the Budget which Mr Antony LEUNG, the Financial Secretary, delivered at the beginning of last month as an example, as it proposes to raise taxes, government fees and charges, as well as reducing Comprehensive Social Security Assistance (CSSA) payments, it has led to criticisms and accusations from the public of the Government only knowing to fleece the people, especially the middle class, but not making more rigorous efforts in retrenchment. Now the Government is putting in a lot of resources every year in education, social welfare, medical services and such like public services and there is a rising trend for more such investment. Against a background of acute financial stringency, if people would just oppose any revenue measures or ask for more input of resources, that is expanding public expenditure indefinitely and decreasing revenue, then the first question we have to ask is: Where will the money come? Where do we have the money to maintain the level of expenditure if public revenue is not increased?

Now that Hong Kong is under the threat of the SARS and the whole community of Hong Kong is now fighting this deadly disease. If we become less vigilant or if the health of the public weakens, then the virus may strike and take its toll. By the same analogy, our financial situation and fiscal reserves are like our resistance to diseases and if the Financial Secretary can manage our finance properly and increase taxes and adjust public expenditure when necessary to achieve a fiscal balance, that is like keeping our state of health at its best. That will also give no handle for attack by viruses or international speculators. To resist the attack of international speculators and avert fiscal deficit, the people of Hong Kong have the responsibility to maintain a sound level of fiscal reserves and they should work for the common interest of Hong Kong when necessary. I am confident that we will have a better future soon if we work hard to fight SARS and the deficit problem.

In a debate of this Council on 19 March, I said that while it was not always right for the Government to raise taxes, fees and charges or to slash public expenditure, should we oppose all such proposals to raise taxes, fees and charges? Or should we object to every proposal to reduce public expenditure? In fact, there are no absolute answers to these two questions. The answers will depend on different circumstances and the policy areas in question. There should be a balance struck between the operations of the community and public interest. It does not really matter if members of the public or Members of this Council lash their attacks on the Budget on public occasions or in this Council, the most important thing is while scathing attacks are being made, those people who make such attacks should ask themselves this question: Where does the money come from? That will make the debate rational and constructive.

There are criticisms that this Budget is obviously pinpointing some groups of people, in particular, the middle class and contravenes the call made by the Government repeatedly to urge people from all sectors to ride out the storm together. What in fact is the middle class? There is no clear-cut definition for it and it is normally defined in terms of income. The term "middle class" is defined under different economic circumstances and the income bracket for the middle class also varies. Now people earning \$30,000 to \$50,000 a month are regarded as belonging to the middle class in Hong Kong.

The Budget proposes to revert the allowances, the marginal tax rates and tax bands under salaries tax to their levels in 1998. Some people regard this as a measure entirely targeted on the middle class. However, it is a fact that many

taxpayers from the middle class do enjoy allowances for dependent parents, grandparents and children. So the actual amount of tax payable after these tax increase proposals are put into effect does not account for a great share of their income. For example, a middle-class person earning an annual income of \$400,000 to \$600,000 will on average pay about \$9,000 more in tax every year. Those with an annual income of \$300,000 to \$400,000 will pay about \$5,000 more in tax every year. The revised actual tax rate is about 8.1% and 5% respectively. Will an additional tax liability of \$500 to \$700 monthly be considered to be extortionate? I think we should be fair about it.

As people from different classes are caught in different circumstances, it would be impossible to compile a budget which is absolutely fair. All that can be done is to make it as fair and objective as possible. So from a rational perspective, and given the acute fiscal deficit, it would be understandable if the middle class is required to pay more tax. However, as the saying goes, "what is taken from the community must be used in the community", since the middle-class people who can afford to pay more tax have paid more tax, the Government should do something more for the middle class, only by doing so would they feel that they are not unfairly treated. I think that at this time of an economic downturn, it would be difficult to make the middle-class people feel that they are fairly treated or that their financial demands are met. Conversely, would it not be more practical to raise the importance which the Government attaches to the middle class so that they would feel that they are not neglected?

On this issue of raising taxes, there are criticisms that the drastic tax increase proposed by the Financial Secretary for motor vehicles first registration tax will deal a heavy blow to the sales of motor vehicles at the upper and middle ends of the market. Two days after the delivery of the Budget speech, there were newspaper reports that after the motor vehicles first registration tax was raised, some motor vehicles companies had to close down their showrooms because of the nose-dive in their business. I would like to point out that this is not caused by the rise in motor vehicles first registration tax, for the decline in the business of motor vehicles companies can indeed be traced back to two years ago after the September 11 attacks. According to figures from the Census and Statistics Department, there has been a constant decline in the number of newly registered cars over the past two years. The number was 34 900-odd in 2001, 29 000-odd in 2002 and the figure for this January is 2 400-odd, or 169 less than that of last year.

Car prices in Hong Kong have been falling since the September 11 attacks and as the insurance companies refuse to insure certain types of vehicles, even if certain motor vehicles companies wish to offer some kind of insurance, the premium or the loading which vehicle owners have to pay will be quite expensive. That is why the automobile business in Hong Kong has been very sluggish over the past two years. Coupled with this, motor vehicle prices have plunged during the same period and even if the motor vehicles first registration tax is raised, motor vehicle prices will only return to the levels of two years ago or even lower. That is why it is unfair to say that the raising of the motor vehicles first registration tax this time is the reason leading to the closure of many motor vehicles companies.

On the proposed adjustments in CSSA payments in two phases starting 1 June, there are criticisms that the Government should not be making an across-the-board cut by 11.1% on the payments to the elderly, the vulnerable and the disabled as this is not sympathetic to their plight. But we should also realize that the proposed adjustment in CSSA payments is made through a mechanism endorsed by this Council which makes a downward adjustment to the CSSA payments with a buying power which has increased in the light of the persistent deflation since 1999. Theoretically, the rate of downward adjustment will not affect the real buying power of CSSA payments. Therefore, the adjustment in CSSA payments should not be regarded as a cut in social welfare — that would be too simplistic. For the recipients, especially the elderly recipients, their special allowances will not be affected even when the standard rate is reduced. In the final analysis, the actual reduction will be in the order of 5% to 6%. Does this warrant such an indiscriminate opposition to the adjustment proposal? Is this not very different from wasting public funds?

I would like to stress, however, that it is the responsibility of the Government to provide assistance to those from the lowest stratum of society and those who are least able to help themselves. For this reason, the Government should continue to provide vulnerable members of the community and others in need with a basic "safety net" while also striving to achieve the goal of making the best use of public resources.

At present, Hong Kong is in an economic downturn and the fiscal deficit problem is acute. It is impossible to compile a budget which will please everyone. The Financial Secretary assumed office at a time when the Hong

Kong economy was in recession. The greatest problem he has is that he does not have any candies to give away and so it is hard to win any acclaim from the public!

Last year Secretary Antony LEUNG delivered his first Budget and made all kinds of assumptions to solve the deficit problem. These included assuming that civil servants would have their salaries reduced by 4.75%, but that plan fell flat and the deficit grew to \$70 billion. The Budget which Mr LEUNG delivered last year was the first one compiled by him. As this was the first one, so it is understandable that there might be some errors or inaccuracies. But he is no longer a greenhorn this year and if in the following year, the Government is not able to go in the direction proposed by him in the Budget, not only will the public query his abilities in public finance management, but that this will also erode the confidence of foreign investors in Hong Kong. That is something we must avoid. I therefore would like to commend the civil servants who have now taken into account the macro situation and are willing to make commitment for Hong Kong by reaching a pay-cut consensus with the Government. This will enable the Government to go in the direction set out in the Budget and avoid causing any adverse effect on the confidence of foreign investors.

Many people from the business sector also make the criticism that the Government has not made any substantial cuts in public expenditure, or in civil service pay, benefits and size. But I think that the agreement made on civil service pay cut in phases will have a positive stabilizing effect on the Civil Service and this would also serve to dispel some uncertainties about the Budget.

Madam President, I really hope that Honourable Members and the public can really consider this key question when they discuss the Budget. Where does the money come from? If we ignore this question and merely ask the Government to increase funding and reduce taxes, then the only thing I can say to the Financial Secretary is that I wish he could be a magician with the golden touch, that he could turn everything into gold to meet our needs. That would not be a realistic hope after all. The most practical thing is to hope that the Government, and the Financial Secretary in particular, can vigorously promote the growth of our economy and ameliorate the problem of unemployment which is the most urgent for Hong Kong.

Madam President, it seems that lending our support to the Budget is a sensible and practical choice for this Council!

I so submit.

MR LEUNG YIU-CHUNG (in Cantonese): Madam President, the Financial Secretary quoted this line in his Budget speech: "It was the best of times and it was the worst of times." Many Honourable colleagues have said today that it is the worst of times. However, Madam President, I do not dare to pass any rash judgement as to whether it is the worst of times now. We all hope that it will not go from bad to worse, but no one can say certainly that this is already the worst of times. I would like to ask on the contrary whether or not it is the best of times. I think, insofar as the Financial Secretary is concerned, this could well be the best of times, for media attention has shifted to the SARS epidemic and the war in Iraq. And today came the news of the death of Canto pop star Leslie CHEUNG. And so the car purchase incident is put aside and the Financial Secretary can catch some short breath. For him, it is indeed the best of times.

Insofar as the public is concerned, the solidarity in the community is rarely seen for the past five or six years. As Miss Margaret NG writes in her column, Hong Kong is witnessing a solidarity drive of people joining hands to ride out a storm. It is beyond our wildest imagination that this outbreak of SARS could be more effective than any call for solidarity by the Government. Many people hope that this sense of unity can be embodied in a community-wide effort to drive away our economic woes and eliminate the deficit. It is unfortunate that what the SAR Government is doing is precisely to shatter this foundation of unity among Hong Kong people, which is most heartrending.

In the battle against atypical pneumonia, the sacrifice made by the medical workers has moved many people. People pitch in to tackle the problem and they have formed a moral bulwark against the difficulties. It is sad to note that on the economic issues and the deficit problem, our Government is not putting the best of its efforts and officials are just shirking off their responsibilities. I think everyone would agree that the solution to the problem lies in revitalizing the economy, but it is unfortunate to see that amidst this fanfare of calls to revitalize the economy, the Government is doing much to aggravate the unemployment problem. The Budget this year does not have concrete measures

to create jobs, for it has only mentioned three employment programmes, that is, the Re-employment Training Programme for the Middle-aged, attachment training for university graduates and the Intensive Employment Assistance Projects. All these programmes are not plans to create jobs in the real sense, but they only give short-term subsidies to employers in the hope that they will employ trainees of these programmes. I think that these are just short-term relief measures. They are not long-term measures, nor are they concrete ones. Job prospects for the unemployed are still bleak as ever, and in a highly unstable market and in the absence of security, no wonder the people refrain from spending. And so how can the economy be expected to recover? What is more disheartening is that in the new financial year to come, not only will the Government not be going to create any jobs, but that it is ruthlessly slashing more than a thousand temporary posts, jeopardizing the livelihood of more than a thousand grass-roots families. In addition, starting from the new financial year which began yesterday, the contracts of more than 500 staff not on civil service terms will not be renewed. The Government has always been calling for efforts to revitalize the economy and ease unemployment, but on the other hand it is creating unemployment and impeding economic recovery. With this kind of discrepancy in words and action, how can the people be expected to tide over the difficulties with the Government? And how can a moral basis for cohesion and unity be formed?

Moreover, the Government has repeatedly stressed that it is everyone's responsibility to solve the deficit problem. So measures aiming at raising revenue and cutting expenditure are proposed, that is why there are increases in salaries tax, profits tax and motor vehicles first registration tax for people in the high and middle income brackets, the reductions in the allowances in salaries tax for people in the middle and lower income brackets and even an 11.1% cut in payments for those CSSA recipients who are in most need of help. And on top of all of these, the previous freeze of government fees and charges is lifted, with increases in some items. So all the people of Hong Kong are affected. We cannot help but ask, "With a Budget which is affecting the lives of all the people in Hong Kong, is it a fair one and is it the best solution to the deficit problem?"

What can be seen from this Budget is the absence of any wisdom on the part of the Government in terms of the principle of equity and financial policies. Joseph YAM, the Chief Executive of the Hong Kong Monetary Authority, said before the publication of the Budget that the Budget must have credibility, for if not, the Hong Kong dollar might come under attack. Madam President, I

would like to point out that while no one in Hong Kong would wish to see the Hong Kong dollar coming under any attack, that does not mean that we have to accept a Budget which is not fair. Should the Hong Kong dollar come under any attack, it is the Financial Secretary who compiles this Budget is to blame, not the people. For at times of hardship, he still proposes to increase taxes in total disregard of the impact on the consumer market. The Budget is too optimistic about the positive effect of tax increases in proposing that the concessions in allowances be reverted to their levels in 1998. But this is made without considering the rock-bottom consumer sentiments, that any tax increase will keep people away from spending and so deflation will worsen. The desired effects of tax increase will backfire. Companies in trades related to consumption will be threatened by closure and the problem of unemployment will deteriorate. How can such a Budget be hoped to make our economy recover and ease our unemployment problem? Against such a background, how can the public be convinced that they can all rally behind the same goal and tackle the problems before them?

Not only is the Budget ineffective in eliminating the deficit, but that it will aggravate recession. I would like to appeal, against such hard times as these when the United States and Iraq are fighting a war, the external economic conditions are uncertain, an epidemic is raging, domestic consumption is sinking and massive closures are threatening hard-hit industries like the catering and service industries, to the Government to withdraw all of its proposals to increase fees and charges and the lift of the freeze on fees and charges. If only the Government can do this, it will be sensing the urgent needs of the people and thinking in the way they think.

As a matter of fact, the Budget does have some unfair treatment, for when people all have to pay more taxes or fees, the effect on the big bosses may just be spending less on one or two pieces of luxury items, but for the common people, they may have to tighten their belts and spend less on their meals. The proposal to slash CSSA payments by 11.1% will mean a monthly cut of \$201 for a single person, from the original \$1,805 to a mere \$1,604. And the payment is meant to cover all of his expenses. The payment is far less than the poverty line drawn up by international organizations, that is, half of the mean household income, or about \$2,500. For these people, it will be difficult for them even if they want to buy a couple of face masks. Perhaps some of them would even want to be a resident in the Amoy Gardens, for although they will be living under the constant

threat of SARS, at least they can be sure full meals. So I feel that we should have a budget which is really fair and looks after the grassroots.

The profits tax regime as proposed in the Budget is very unfair. We have repeatedly emphasized that a progressive profits tax regime should be adopted, for the operators of small businesses should not be required to pay profits tax at a rate similar to the big companies. These big companies monopolize the market, exploit the people and make huge profits year after year while the people are struggling in adversity, all the while refusing to share the hardship with the people. This uniform tax rate is exerting enormous financial pressure on the small and medium enterprises and in the end they can only resort to layoffs and pay cuts. The people's hardship is not relieved and they will face an even worse predicament. In addition, the rise in salaries tax will lead to more people who used to pay no salaries tax being caught by the net, and their life is made harder. All of these are what I call the unfair treatment handed out by the Budget. The result is an intensification of the conflicts between different classes, in detriment to the forming of cohesion in the community.

We have always stressed that the problem does not lie in the fiscal deficit itself, but in how it is to be borne by the community. We agree that everyone has a responsibility to ease the fiscal deficit, but their responsibility must be shared according to their affordability and how they are affected. The famous political philosopher, John RAWLS, who has passed away recently, mentions the "difference principle" in his book *A Theory of Justice*. He thinks that there is indeed an unequal distribution of social and economic resources, but such an unequal distribution must be beneficial to the most vulnerable in society, in other words, they must be given more resources. This is the only kind of unequal distribution of resources which is acceptable. When this principle is applied to solving the problem of sharing the responsibility for the fiscal deficit, we can conclude that such responsibility can be borne in an unequal manner, but the goal is to enable the vulnerable in society to bear the least of it. In other words, this is similar to the principle of "those who have means pay more".

Perhaps some people will say that it is unrealistic to require the Government to compile a budget which will take care of the needs of the grassroots. The Government has to take care of the vested interests. But a more important question is that it fails to set itself as an example. Given this, how can we expect it to compile a budget which will impress the people as one

which is fair and will take care of the needs of the grassroots? The reports made by the Director of Audit each year show that while the Government is doing as much as it can in cutting expenditure on social welfare and so on, it is spendthrift in many areas. For example, the unequal agreements entered on the purchase of water from Dongjiang River results in fresh water worth billions of dollars being dumped into the sea each year. In comparison, the boundary facilities improvement tax which the Government proposes to introduce will only generate additional revenue of about \$1 billion a year according to optimistic estimates by the Government, but this will not offset the \$1.7 billion wasted in purchasing Dongjiang water over the past few years.

In addition, the Budget gives the public an impression that it is unfair because it does not have any credibility at all. What I am referring to is the car purchase saga. The Budget loses its credibility because the compiler, as the highest decision-maker in financial affairs, gives people the impression that he is using his position to avoid tax. What makes the people even more exasperated in this incident is the Chief Executive has time and again defended the shortcomings of his subordinate. The credibility of the SAR Government is again shattered. No wonder the findings of an opinion poll conducted by The Chinese University of Hong Kong shows that public confidence in the Government has fallen into a single-digit low, that is, 8%.

The actions by the SAR Government have been fast eroding the unity and cohesion in society as the very foundations in morality, equality and justice are depleted. As the saying goes, "an act of God can be forgiven, but human actions cannot". We have no choice in front of epidemics and natural disasters, but economic problems and the deficit are clearly not natural disasters but man-made catastrophes caused by the kind of policy failures mentioned above. So the public should not be required to bear the consequences. We have no choice when it comes to natural disasters, but as for human failures, we have a right to ask who should be held accountable. If this problem is not solved, it would be hard to unite the community to face adversities. Unfortunately, we know who should be held accountable, but there is no system that lets us to identify the person.

A democratic system enables the people to hold officials who have committed errors accountable, but the Accountability System for Principal Officials which was passed so hurriedly last year is powerless in checking the

Government. The car purchase saga demonstrates fully that the accountability system remains only a system which is useless in uniting the people of Hong Kong and facilitating a consensus. It is a system which Mr TUNG has talked so much about but remains nothing more than words. Therefore, I think if we are to revitalize the economy and solve the deficit problem, the most important first step is to form a democratic system so that a consensus can be forged in society on how to face the problems.

Recently, there have been stories about the secrets of the Executive Council. One of these is that the Executive Council thinks that a review of the political system should be conducted as soon as possible so as to break the present political impasse. Apparently, this shows that the top officials are of the view that the most urgent task is to embark on a constitutional reform. It is sad to see that the Secretary for Constitutional Affairs is deliberately delaying the whole thing. I think that is the reason why Ms Emily LAU proposes to amend the expenditure of the Constitutional Affairs Bureau in the Budget. She thinks that the pace of a constitutional review is much too slow and it is not clear when the authorities will announce the scope of the review. That is why she makes such an amendment.

Madam President, in the face of a fiscal deficit and economic downturn, we must show the same unity with which we fight the SARS epidemic. Unfortunately, what the Budget shows is that while the people are required to shoulder the burden, the Government has failed to set itself as an example. Nor has it the moral forces to harness solidarity in the community. It is doing things to undermine social justice and equality. What is more disappointing is that the Government is not doing anything positive to build a democratic system facilitating universal participation, hence social unity is weakened.

The Financial Secretary concluded his two Budget speeches by quoting from the lyrics of songs sung by Roman TAM. Last year, he exhorted the people by saying, "All discord set aside." Now he teaches them to "dare to scale the mountain height". Now I wish to conclude my speech by quoting from the lyrics of a song called "Striking the Chord of Life" (有誰共鳴) sung by Leslie CHEUNG: "undaunted by fate, we toil with our bare hands, though powerless to stop the conflicts and clashes of life." Madam President, the people of Hong Kong are undaunted by fate. They are determined to toil and struggle, but they are powerless in ending conflicts and clashes. It is because

they have a government which is constantly creating conflicts and division, hence impeding social unity. And the root of the problem is we do not have democracy.

Madam President, I so submit.

MRS SOPHIE LEUNG: Madam President, the Financial Secretary has delivered his second Budget which primarily focuses on fixing our deficit, in the hope of achieving a balanced budget by 2006-07. Despite diverse views about this approach, I commend our Financial Secretary for the efforts that he has made in drawing up this Budget.

However, it worries me that our prime focus is on the deficit. We might have totally overlooked the causes of it. As much as the increase in taxation and lowering of public expenditure help in balancing the books, they do not address the underlying issue.

Thus, what causes our deficit today? The Financial Secretary has already admitted that our deficit is partly due to economic restructuring, the public generally feels that it is largely a consequence of unjustified over-spending, and some economists attribute it to our low productivity compared to our neighbours. Well, these views are all inter-related. Just imagine, our inflation rate between 1997 and 1998 averaged to about 8.8% per year. In an era of regionalization and globalization, can any economic region sustain this level of turmoil, we ask?

Instead of trying to realize what is really happening, we have gone losing our confidence, disbelieving in ourselves, blaming whoever we can point our fingers at, and totally gone "soft". We have a situation where our competitiveness is quickly eroding. According to a widely-quoted-study on Global Competitiveness by World Economic Forum, Hong Kong's global ranking dropped from the seventh in 2000, to the thirteenth a year later, and down further to the seventeenth in 2002.

Overcoming this requires efforts from everyone, including the Government. It is unfair and undesirable to distribute responsibility to selected groups as a result of some yielding to political posturing and others resorting to bargaining. The more well-off may be able to afford a higher tax, the poor and the needy may be able to survive with limited social assistance, but it takes

everyone in our society to work together as a united force to fight our way through this economic restructuring.

Thus, what can we do to lift ourselves out of this situation? "Self-construction" or "self-building" (自身建設) is a term that I learned at this National People's Congress meeting held in the Mainland which I first attended, and I think that it is just aptly to apply it to us here. If we adopt this self-construction concept to enhance ourselves to better adapt to this rapidly changing environment, to raise our productivity, to quickly improve our competitiveness as compared to our neighbours and the outside world, we can make a serious comeback.

Individuals could help by acquiring new knowledge and skills, to cope with the new demands of technology and markets, thus improving our productivity and hence this city's competitiveness. However, the answer does not lie in seeking more government rescues for retraining programmes or employment-seeking courses. Rather, it is individuals' commitment to self-enhancement and a drive towards realization of one's full potential. Taking the initiative to pursue lifelong learning is fundamental to capacity building for economic competitiveness.

On top of knowledge and skills, entrepreneurial instincts and attitudes are also called for in this dynamic economic environment. We need to approach our work with a new dimension, an attitude similar to that of an entrepreneur, to spot new opportunities, to embrace innovative ideas, to envision the impossible and to see it through with dedication and perseverance. With this mentality, we equip ourselves better to combat all sorts of adverse situations, and to help those who are in need along the way.

So much for individuals. The Government has its own part to play in the economic restructuring. I think there is no dispute that we need a more efficient and effective governance which shows a vision, conviction, and the ability to implement change and bring about a vibrant investment climate.

It is encouraging to see the Budget suggesting a small government. The 170 000-strong Civil Service is far too enormous for our population which is only about 7 million. Cutting down on manpower by 10% by 2006-07 will be unpleasant definitely, especially to the staff who remain or those who have to leave, but I believe that by doing this, our Government's structure will be

streamlined, or hopefully will be streamlined, and organization functions redefined, for maximum cost-effectiveness that creates an investment friendly environment.

Structure and organization help, but they only provide the "hardware". It also takes the right "software" to stay efficient and effective. In saying this, I am referring to the quality of people and in particular, people's mindsets. These attributes can neither be reflected by the size of the Civil Service, nor the amount of public expenses. However, they are key to a government that aims to build Hong Kong into a regional metropolis. And I will elaborate on their significance by citing a few obvious examples.

In our integration with the Pearl River Delta (PRD), it was not until last year that our Government really set its mind to this policy direction, years after local investors, like people in my industry, started making strategic moves into the region. And yet our Government has been totally oblivious to such transition. Provisions of infrastructure, cross-border passenger and traffic arrangements still fall seriously behind the ever-increasing demand. What needs to be done is done only when it is absolutely necessary.

Or, as the Chinese saying goes: "curing the head when there is a headache and curing the feet when they are sore". Such a piecemeal and one-dimensional approach may provide a quick fix for the time being for the killing pain, but it falls short of being a strategy or a total solution to cure the illness in its entirety. More often than not, the pain will come back again in much greater seriousness. It is pointless now to feel sorry for the time and opportunities that we have lost which we so desperately need to build up our foothold in the PRD Region.

But I wish to highlight that a new mindset is in demand for the new economic order or regionalization. It involves an extension of horizons into the diversities of culture, technology, social and economic institutions. It also requires a high level of economic sensitivity and swiftness in responding to changes. Should our officials have displayed more of these qualities in our economic integration with the PRD, I believe that we could have enjoyed a head start in the economic rivalry and a better investment climate than we have today.

Our education system is to be blamed for our people failing to keep up with the economy's demand. For decades, our education system has been characterized by a highly bureaucratic culture, marked by tremendous efforts to

encourage quantitative targets and accreditation, and is set up with excessive protectionism that shuts students off from the real world, not to mention the teachers who are also well guarded against the quick pace of an ever-changing environment.

In the real world, we have witnessed a huge transformation of our economic landscape engineered by the power of knowledge in the last decade, but changes in our education system do not reflect the same, neither in content nor in speed. We have ended up with mismatches in knowledge, skills and mentality between demand and supply. Worst of all, our youth is misled into a false perception of our realities, causing frustrations and feelings of helplessness. To bridge this gap, we need to revamp our education system without delay.

It makes me wonder if our Administrative Officer system is the best one to use throughout our civil service system, especially at the uppermost decision-making level. If we could instill this concept of self-construction (自身建設) within our civil service individuals as well as the system itself, we would see a hope of much better governance.

Madam President, crisis management is about how to manage the unexpected. It starts with minimizing uncertainties before the crisis hits. When a crisis happens, it is a job of minimizing the impact and containing the damage by implementing a crisis management plan. This leads me to wonder whether our officials have taken the initiative of assessing the health risk to a globalized city such as Hong Kong, after the outbreak of bird flu a few years ago. How aware and prepared are our officials on crisis management and its concepts? How aware are they over their charges, or was it simply a "no news is good news" situation or attitude? Inevitably, the price that we pay is Hong Kong's reputation as an international city free of health hazards, an asset that attracts investors both local and overseas.

The list will go on if I continue. What I want to show here is, there really is a lot more that our Government should do to become efficient and effective, as its policy decisions shape economic development and determine our economic growth. In becoming efficient and effective, the Government also drives everyone else in society to a higher standard of excellence, hence empowering all to better look after our own living at a time of economic hardship.

Economic restructuring is an ongoing process, unlike our deficit which may one day go away. It is time we stopped hoping for miracles to happen, as I believe that the future is in our own hands, and we are all in the same boat. Let us all stand up to the challenges by doing our own bit of self-construction, and in so doing, motivate others to follow suit.

Thank you, Madam President.

MR YEUNG YIU-CHUNG (in Cantonese): Madam President, it is the worst of times. The United States has acted in blatant disregard of strong opposition from the international community and launched a ruthless attack on Iraq. The war is making an immense impact on the world economy as oil prices become volatile and people just ask when the war is going to end. We all face an uncertain future. With the outbreak of atypical pneumonia and its spread, the frail Hong Kong economy now goes from bad to worse, and it is therefore a great barrier and cause for concern in fighting the deficit problem and promoting an economic recovery.

It is also the best of times, for in our fight against atypical pneumonia, front-line medical workers hold fast to their positions and their sacrifice commands our respect. Officials show a readiness to tackle the changing situation. The people give encouragement and support to each other. Political parties and the mass media forge an unprecedented unity and all sectors in the community put aside their differences and disputes and unite as one. We are glad that the spirit of perseverance, determination and unity has returned to our community and we trust that with this spirit, we can overcome the difficulties and ride out the storm.

Madam President, the Budget this year may have been the most difficult one to compile. In order to resolve a huge fiscal deficit which amounts to \$70 billion, the Government is obliged to cut expenditure, reduce civil service pay, raise revenue and increase taxes and fees. People from all walks of life have to share the burden. I agree with the thinking and approach taken by the Government in trying to solve the fiscal deficit. However, though the Government has to raise revenue, and increase taxes and fees, the first task that it has to complete is to cut expenditure. Apart from effecting a pay cut of 6% for civil servants and staff of subvented organizations, the Government should also make great efforts in cutting the size of the establishment, reduce those

allowances given to civil servants which are not necessary and to avoid wasting resources. It is only when government expenditures are genuinely cut, when economizing measures are vigorously taken and when the spendthrift practice of some departments is eliminated, that the Government can convince the public in proposing increases in taxes and fees in a bid to raise revenue. Otherwise, the public will not be convinced and they will only feel aggrieved.

The plan of the Government is to raise revenue by \$20 billion and cut expenditure by \$20 billion over the next four years, with the rest of the \$30 billion deficit being made up for economic growth. This estimate is a bit too optimistic and it hinges on many uncertainties, given that an average annual economic growth of 3% is assumed for the next four years. The crisis factors posed by the war in Iraq and atypical pneumonia have not been taken into account. I hope that when budgets and plans made in future, the Government can have a greater sense of crisis and make more allowance for the difficulties caused by these crises so that more effective contingency measures can be undertaken to resolve the deficit problem as soon as possible.

Now I would like to speak on behalf of the DAB on the resources and policies in the areas of education and manpower.

Government expenditure in education for the coming year will be as much as \$61 billion and that is almost 24% of the total government expenditure. It is the policy area which is given the most resources. Now with the financial stringencies and that every bureau and department has to reduce its operating expenditure by 1.8%, this budget of about \$60 billion is something which the DAB can understand and considers acceptable.

In the total expenditure on education, 68% will be used on basic education in response to the demand made by the DAB over the years. There is a small increase in the expenditure on primary and secondary schools, with an increase of 8.8% for primary schools and 5.1% for secondary schools. The increase in resource allocation is mainly used to implement the pledges made in the past, including the provision of an additional teaching post for each public sector primary school in three years and assisting the schools in implementing curriculum reform, expand the Native-speaking English Teacher Scheme to primary schools, increase the funding for student financial assistance and to provide enough Secondary Four places and training places for qualified junior secondary school leavers, and so on.

Just like other policy areas, the policy area of education is obliged to have its operating expenditure cut by 1.8% when the Estimates were computed. According to information from the Education and Manpower Bureau, those items with a reduction in expenditure do not involve any important measures in education. For example, the merger of the Education and Manpower Bureau with the Education Department will achieve a saving of \$100 million, and there is a 10% cut in the expenditure of the University Grants Committee, the Vocational Training Council and the Student Financial Assistance Agency, and so on. The DAB supports the reduction in the allocation of resources for the departments concerned and enhancing their efficiency without affecting the pace of educational reforms and the quality of education. It is because we understand that resources are limited and we should distribute resources from a rational and pragmatic perspective so that every single cent is used properly and no waste of any kind is made.

The Chief Executive sets out the principle of "big market, small government" as the principle of governance and the purpose of this is to improve the use of resources and provide more effective services to the public. Under this principle, the authorities should identify the kinds of service which should be provided by the Government and the kinds of service which should be provided by market participants. The principle has been put into practice in many advanced countries such as Britain and New Zealand where it is applied in a majority of government services including education. If we agree to this principle, we may use it as a basis to think up ways to save on expenditure, in particular when there is the problem of a huge deficit and that the bureaux and departments have to reduce their expenditure by 9% or more in the future.

The papers of the Education and Manpower Bureau have set out many proposals to reduce expenditure, and they include the contracting out of adult education services, closing down schools with low cost-effectiveness, reviewing the subsidies to the English Schools Foundation schools, and so on. The Administration has pointed out that the contracting out of adult education services is in line with the principle of "small government". Adult education programmes provided by the Government has been very successful and they can offer a second chance of regular education to adults. Students of adult education programmes value such a learning opportunity and they will work hard in their studies. Now they are most worried about the possible drastic rise in school fees after the contracting out of adult education programmes. Therefore, the DAB suggests that the authorities should give a sufficient amount of subsidies

to the operators to maintain school fees at a low level, or even at a level not more than the present. In addition, if the students are capable and if they are willing to study Secondary Six, they should be given assistance. Although the principle of "small government" can be realized in the process of saving resources, a balance of the interests of all parties should be struck.

The Financial Secretary also mentioned the "3R" approach. I hope that in the process of saving on resources, the Education and Manpower Bureau should adhere to this 3R approach besides the "small government" principle. In other words, departmental expenditure should be reduced by reprioritizing the provision of services, reorganizing the departmental structure and reengineering procedures, so as to minimize as much as possible the impact on education policies and measures. For this reason, the DAB supports the adoption of measures to reduce manpower demands in the Education and Manpower Bureau through such measures as the natural wastage of staff, the voluntary retirement scheme, reorganizing procedures, and so on.

In the new resources set aside for education, about \$1 billion is earmarked for the award of matching grants to universities which succeed in securing private donations. The DAB supports this proposal, for if universities manage to accumulate a fund and earn interest from it, in the long run the financial pressure faced by the universities will be eased. Currently, all universities in Hong Kong do make efforts to solicit donations from the business sector, but the amount of donations is not steady and they are mostly in the form of contributions to set up scholarships or for the construction of campus buildings. Therefore, the matching grants fund can enable universities to formulate a long-term and sustained donation campaign, thereby helping universities to raise revenue. Though it is not that easy to solicit donations from the business sector or from individuals at this time of an economic downturn, when the authorities have relaxed the ceiling of the amount of donations for education and charitable purposes to 25% of the total income or profits made, it will help encourage the making of donations to the universities.

In addition, the Financial Secretary also proposed attracting young people to receive basic education here and remain in Hong Kong to further their studies and work here. This is in line with the proposal made by the DAB to turn Hong Kong into an education hub of the Asia Pacific. We are of the view that not only should Hong Kong raise the quality of its talents, but also active steps should also be taken to attract foreign talents to come here. For it is only when

more talents and money are attracted here that Hong Kong can hope to undergo a successful restructuring and that our economy can be revitalized.

Madam President, the Government will continue with the Re-employment Training Programme for the Middle-aged this year and set aside funds saved from freezing the recruitment of civil servants to provide attachment training for university graduates. These show that the Government is making great efforts to help the unemployed while promoting expenditure-cutting measures. It also provides training and retraining assistance to the youths, university students, the middle-aged and long-term CSSA recipients. The DAB is supportive of all this.

However, the DAB thinks that these schemes have been in force for many years and since the Government has a good knowledge of the various forms of employment training programmes and since all changes will invariably boil down to the same principle, the most important thing to note in introducing new programmes is to study the latest supply and demand situation for manpower and job vacancies in the trades in order that the most cost-effective employment training programmes can be launched to pinpoint the situation accurately and avoid wastage of resources. It is hoped that the newly established Manpower Development Committee will undertake work in these aspects more effectively. We note that whenever employment schemes are to be launched, different persons will be appointed to head each scheme and that is a considerable waste of human resources. The DAB suggests the Government to review this mode of administrative arrangement so that there will be enhanced efficiency and productivity.

In the face of the atypical pneumonia attack, I cannot help but address my concern to the disputes between employers and employees in the taking of leave as a result of this infectious disease. Now thousands of people have to ask their employers to grant them sick leave or they are asked by their employers to take leave since they have contact with atypical pneumonia patients or that they are residents of Amoy Gardens. The number of people under such a situation is bound to increase. In normal circumstances, they do not have a right to be granted sick leave. To make things more complicated, some of these people may have already exhausted their sick leave or annual leave entitlement under the existing labour laws, and if there is a need for them to take a longer period of sick leave, their relationship with their employers will become tense since they may have a different interpretation of leave entitlement from that of their employers.

Therefore, the DAB urges that both employers and employees should show greater understanding to each other at this time of special circumstances. If there arise any disputes in leave entitlement and wage reduction, they should be postponed for settlement until after the epidemic is contained. It remains, of course, that the SAR Government is also obliged to address these problems. Those officials in charge of economic development and labour matters, in particular, should examine employment legislation and problems caused by atypical pneumonia and make corresponding amendments when necessary.

I so submit. Thank you, Madam President.

DR TANG SIU-TONG (in Cantonese): Madam President, as some Honourable Members have said, it is now the worst of times for Hong Kong. Feelings of anxiety, fear and helplessness are felt by everyone. We are caught in an even more acute situation than when we were hit by the financial turmoil some years ago. When the Financial Secretary drafted the Budget, he had taken into account the impact likely to be posed by external conditions like the Middle East on Hong Kong and he still forecast that there would be a 3% economic growth this year. Unfortunately, Hong Kong is suddenly hit by an atypical pneumonia outbreak and this would deal a heavy blow to our economy which is already weak. Current estimates put a 0.2 to 0.5 percentage point fall in economic growth as a result of this epidemic outbreak, however, the actual impact could be more serious. It is no exaggeration to describe the losses suffered by the tourist industry, the catering industry and the retail sectors as catastrophic. It is not known when Hong Kong can rid itself of the impact caused by atypical pneumonia. On the other hand, it is very likely that the United States-Iraq war may drag on for a longer time than expected and the impact of the war on the United States and global economies is likewise grave. So the most pressing task for the people of Hong Kong is to unite and overcome the atypical pneumonia threat. What the SAR Government should do is to make a renewed assessment of the economic conditions in Hong Kong and devise measures to save the economy and anchor public confidence.

The focus of this year's Budget is on resolving the deficit problem through raising revenue and cutting expenditure. I agree with the Government's point that it has the responsibility to introduce specific measures to eliminate the fiscal deficit. As a matter of fact, the deficit problem is so acute that the Government has to resort to using the Land Fund, and that is worrying. The Financial

Secretary said that the transfer of funds from the Land Fund to the General Revenue Account is like transferring funds from a fixed deposit to a savings account to solve the cash flow problem faced by the Government. But the question is, changing the use of the Land Fund will cause a drain of our fiscal reserves. According to the Hong Kong Monetary Authority, a fall in the reserves would cause instability to the linked exchange rate. However, the Financial Secretary has said that under the currency board system, the stability of the linked exchange rate depends on the interest rate, not the reserves. Which one of these two totally different view is correct? I hope the Government can give a further explanation to the public. In the last Budget, the Financial Secretary said that the fiscal reserves should be maintained at a level equivalent to 12 months of government expenditure, but this time he said that a level equivalent to nine months would suffice. This kind of guessing and speculation cannot put our minds at ease. Besides, we all know that the interest rate for fixed deposits is higher than that for a savings account. If the Government transfers money from its fixed deposit, that would certainly affect its income. We do not know how long the Government can continue using this practice of selling family silver, so it had better be careful about it.

Despite the acuteness of the deficit problem, as the Government has repeatedly said, the key to solving the deficit problem lies in revitalizing the economy. Measures aiming at eliminating the deficit should be premised on not affecting the revitalization of the economy and where possible, the approach of cutting expenditure first before raising revenue should be adopted. According to the Budget projection, from now to the year 2006-07, we have to raise an additional revenue of \$20 billion. The proposals made by the Financial Secretary in this year's Budget would generate a revenue of \$14 billion and the outstanding \$6 billion would be raised by proposals to be made over the next three years.

The question remains that the scope and coverage of proposed increases in taxes and fees are so extensive that they are rarely seen over the years. The impact of these on the economy and the people's livelihood would have to take a long time to digest. The public is very concerned that more moves would be taken by the Government to fill the \$6 billion gap. We are very scared of the possibility of more tax and fee hikes. I must remind the Government that this kind of wholesale raising of taxes and fees will only serve to dampen consumption desire and aggravate deflation. The economic outlook for Hong Kong is not encouraging as the raising of taxes and fees may lead to a decrease of

revenue rather than an increase. And so government plans will backfire. It is doubtful, for example, that the sharp rise in motor vehicles first registration tax will bring in an extra \$700 million to government coffers.

It is not that the public does not understand the Government's situation, but deficit elimination measures must be fair and reasonable, with full regard being given to the affordability of the public and the businesses. The Government has stressed time and again that the deficit problem is everyone's responsibility. This I can agree. Despite repeated denials made by the Government that tax increases are not pinpointing any class in particular, the fact remains that the tax increases proposed in the Budget are extremely disadvantageous to the middle class. The extra money they have to pay is relatively much more than those paid by people from other classes. Of course, the Government may say that the basic principle of taxation is those who have the means pay more. But many people from the middle class are already hard pressed by the problem of negative equity properties and threatened by pay cuts and layoffs, so they should not be made targets of these tax increases.

The Budget reverts the level of personal tax allowance back to that in 1998 and this has the effect of catching 90 000 employees into the tax net again. But tax revenue from those in the low-income bracket would not be too much and the raising of the standard rate for salaries tax by 1% would mean an increase of tax liability by 10% for these high-income earners. The reduction in the width of the tax bands and the upward adjustment to the marginal tax rates serve to shift the tax burden to the middle class. Under the new tax regime, a middle class family with an annual income of \$400,000 to \$800,000 would have an increase in their tax payments for the year 2004-05 ranging from 20% to 110%. That would certainly add to their burden.

I urge the Government to introduce more measures to assist the middle class and the professionals to make them more competitive and help them tap the vast business opportunities on the Mainland. When the confidence of the middle class in the future is restored, there will be hopes that Hong Kong can climb out of the doldrums.

Madam President, apart from increasing salaries tax, the Budget also proposes to introduce the boundary facilities improvement tax and the football betting duty to raise additional revenue for the Government.

The Hong Kong Progressive Alliance is in principle not opposed to the introduction of a boundary facilities improvement tax. Having said that, however, I hope that the Government can take into account the realistic situation in the economic integration between Hong Kong and the Mainland and avoid doing anything to impede the exchanges between Hong Kong and Guangdong Province. Concessions should be given to those people who have to frequently travel between the two places on business. Railway fares for the section running from Sheung Shui to Lo Wu should be reduced. Although the Kowloon-Canton Railway Corporation (KCRC) holds the view that fares and taxes are two separate issues, the public would see tax implications in the fares for that section of the line. The public would not care whether the money collected would be placed in the coffers of the KCRC or the Government. If this boundary facilities improvement tax is introduced, then the KCRC must reduce its fares. This will prevent the public from having to pay tax twice in effect. The KCRC claims that if fares for cross-boundary trips are reduced, then it will raise the fares for local trips. That is tantamount to threatening. Since the KCRC has billions of dollars of surplus every year and it is not operating the local line at a loss, so it must give the public a reasonable explanation if it is to raise fares.

Another issue which is related to the boundary facilities improvement tax is the levy on private cars. In my opinion, the levy of \$100 in tax on private cars is open to question. Why is the tax for private cars levied per vehicle and not per head? The response from the Government is that if the tax is levied per head on the passengers in the cars, it will cause congestion at the control points and that is why a uniform tax is imposed on cars. Madam President, this argument just fails to convince the public, for if the design of the tolling system is sound, it would not cause any impact on the efficiency of cross-boundary traffic. Since it is a facilities improvement tax that is being levied, the Government has the responsibility to facilitate cross-boundary passengers and do things from their perspective, and it should not just try to collect more money and look at the whole issue from the perspective of administrative convenience. I hope that the amount of tax to be levied on cross-boundary private cars can be reconsidered.

As for the introduction of a football betting duty, personally I have reservations about it. Although football betting is legalized, and that it has some support from public opinion, the Government has yet to provide sufficient information and data for public discussion on the social problems to be caused

and the social costs to be incurred by the legalization of football betting. The annual revenue to be generated is estimated to be \$1.5 billion and this is minimal compared to the huge deficit. But the youth and family problems would be far greater than the gains in revenue. The increase in the number of pathetic gamblers is only one of the many problems that may be caused by legalized football betting. A more far-reaching implication is the adverse impact of the spread of this trend in gambling on the values of young people and their behaviour. I am very disappointed to see that the Government has made football betting legal when it has not made enough preparations for it. Though the legalization of football betting is already a decision, I hope that the Government will make more educational efforts in schools and families, as well as stepping up the crack-down on illegal off-course betting so that the chances of young people participating in football betting can be minimized.

Madam President, after talking about taxes, I wish to turn now to the issue of increasing fees and charges for medical services. Frankly speaking, when new fees and charges came in force on 1 April for all medical services, the subsidization rate for medical services is still kept at 95% of the costs. There is no questioning of the Government expecting the community to share the financial burden and shoulder part of the expenditure on medical services. But the question is that different groups in the community have various degrees of affordability. It is both unfair and unreasonable to require each user to pay, and that applies especially to the elderly. Although a waiver system is in place, the elderly will have to face some practical problems when they wish to apply for waiver. These problems include the refusal to co-operate from their family members. Also, the new system does still have some grey areas. I think a half-fee waiver should be granted to all elderly persons so that they do not have to worry about the fees. In the absence of a retirement protection system in Hong Kong, most of the elderly persons do not enjoy any income protection and it would not be asking too much, if after considering the responsibilities, that the elderly should be given a half-fee waiver. Moreover, the elderly persons have made long-standing contribution to society and it is only right that they should be rewarded in their later years. I therefore ask the Government to uphold the principle of care and support for the elderly and refrain from being too miserly with them.

At this time when fightings are raging in the Middle East and when atypical pneumonia is taking its toll every day, the economic outlook for Hong Kong is overwhelmingly dismal and the people have no confidence in the future.

It is certainly the worst, and nothing but the worst of times to increase fees, charges and taxes. I call upon Honourable Members to put aside their differences and work together to help Hong Kong ride out this unprecedented storm.

Madam President, I so submit.

MR SIN CHUNG-KAI (in Cantonese): Madam President, in his policy address in his second term of office, Chief Executive TUNG Chee-hwa described the current economic situation of Hong Kong as severe and unprecedented in decades. In fact, I believe the present situation is even more severe than that in January. I agree with the remark made by Dr TANG Siu-tong just now, that the present situation is worse than that during the financial turmoil in 1998. We can see that business is dwindling in many trades and industries and all places of entertainment, food establishments and restaurants have been affected by the atypical pneumonia incident. I believe only supermarkets have promising prospects.

The latest unemployment figure released by the Government before the outbreak of the atypical pneumonia incident has risen from 7.2% to 7.4%. I believe we will soon be able to see if the unemployment rate will continue to rise in the following quarter. I dare not say if the figure will reach a historical high in June, July or August for it is very difficult to estimate. The war in the Middle East may last longer than we anticipated earlier and it will have effects on the economy as a whole for a longer term.

Quite a number of investment institutions, securities companies and banks have modified their forecasts on our economy in some measure. Let me give an example. The securities organization, Morgan Stanley, has adjusted its economic growth forecast from 2.7% to 2.1%, and said that if the epidemic remains for two more months, some economies in the region will go downhill and Hong Kong will bear the brunt. The Dao Heng Bank has also pointed out that, with the tourism industry accounting for 6% of the Gross Domestic Product (GDP), so assuming that 30% of business involving tourists has been affected after the outbreak of atypical pneumonia, the GDP lose 0.1% every month. The catering industry has also been badly hit and it is estimated that the monthly loss is equivalent to 0.1% of the GDP. The two factors above have brought about a loss of more than \$2.6 billion in a single month. BNP Peregrine has

also published a report on the further downward adjustment to 0.9% of the 1.5% economic growth forecast which has already been adjusted downward by the Government. USB War-burg has indicated that, assuming a 20% reduction in private spending as a result of the atypical pneumonia incident and a reduction of the export and import of services by 30% and 10% respectively, the economic losses will be approximately \$41 billion. Moreover, the Goldman Sachs Group has also adjusted the economic growth rate downward from the original 3% to 1.7%. These figures show that the economic situation is much worse than that when the Budget was released on 5 March. A securities analyst has said that the profits of blue-chip corporations, the major source of government revenue from profits tax, will substantially decrease by 15% to 20%. Under such adverse economic circumstances, if the Government continues to increase taxes substantially, it will continue to affect spending and investment, thus intensifying the existing economic difficulties and making the situation even worse. When the economy is in the doldrums, many governments will slightly increase public expenditure to stimulate the economy, and it is also the idea of the academic or financial sector.

I really wish to ask the Financial Secretary this question. Had he known that the atypical pneumonia incident would break out a month ago, would the Budget be the same as it is today or when it was released on 5 March, or would there be some modifications? If the way in which it is written will be different, I think the Government should have the courage to make certain amendments next week because the general environment has changed to a state much worse than it was on 5 March. In fact, the forecast made on 5 March, such as a 3% economic growth, was not too optimistic when we thought that the war between the United States and Iraq would end very soon at that time. Nevertheless, at present, all of us do not think that the atypical pneumonia incident can be resolved within one week or a couple of weeks. In that case, can the Government consider taking short-term measures or revising the Budget in the light of the changes in the prevailing circumstances?

We have a debate on the Appropriation Bill today related to government expenditure and, concerning tax revenue, the Government will gradually introduce legislation related to revenue. I believe there will not be much room for the Government to present changes to the part related to expenditure to this Council. Even though changes will be made, they may only be reductions. Nevertheless, there is actually room for the Government to make changes to the part related to revenue. Can the Government really grasp the opportunity to make certain changes?

In the following, I am going to discuss the sale of assets. The Government has proposed in the Budget to sell or securitize a total of \$112 billion worth of assets in the next five years, including loan funds, the two railway corporations, the Airport Authority, eight tunnels and the shopping centres and car parks under the Housing Authority. The Government is going to sell approximately \$21 billion worth of assets in the following financial year, 70% of them amounting to around \$15 billion will come from loan funds while the remaining 30% of them amounting to \$6 billion will come from securitizing some government tunnels. The Democratic Party supports the direction. Using Mrs Margaret THATCHER's jargon of "privatization", that is, privatization or corporatization, the projects split this way can generate short-term revenue. Of course, such short-term revenue is not sustainable, but it can relieve the fiscal deficit of the Government in the books. If public sector departments make profits or improve operation after privatization, government income will be increased through tax revenue, which is killing two birds with one stone. However, I wish to say that although the direction is correct, the Government must sell government assets at the right moment to avoid creating social and economic instability. After all, it is not easy to sell \$120 billion worth of assets and the sale must be handled carefully, the public must be widely consulted before the sale and the process must be highly transparent.

Under the present circumstances and market situation, we are worried that the assets may not be sold at good prices, therefore, staff of the Treasury must carefully avoid the sale of government assets at very low prices. I wish to stress that I support this direction, but efforts must be made to avoid wasting government assets and the money people earned by hard toil. Besides, owing to their nature, monopolization may arise in some public utilities after sale. What regulatory framework does the Government have to strike a balance between profits and public interest? It is a very important point. Let me give a simple example. If a tunnel is securitized, the Government will cash in and only owns the tunnel through a company. If the Government can still control the whole company and the tunnel tolls, it can look after public interests. Otherwise, if the privatized company is allowed to increase tolls, contradictions between the Government and the public may arise in future. More importantly, in the course of privatizing public sector departments, there may be redundant manpower and transfers within the Government, and there will inevitably be conflicts between civil servants and the Government. The staff of the Housing Department raised strong opposition when the Department briefed out a number of works projects two to three years ago. Therefore, in the course of

privatizing and securitizing assets, the Government must carefully handle the contradictions between itself and civil servants. Nevertheless, if it is handled well, I think there will be plenty of room. In fact, some public bodies such as the MTR Corporation Limited (MTRCL) not only operates in Hong Kong but also undertakes consultant services for mass transit railway companies on the Mainland or overseas and generates earnings in foreign exchange. If the corporatization and securitization of other services can be achieved in Hong Kong, the relevant organizations can follow the footsteps of the MTRCL. If they can achieve sound operation, they can also export their services through the provision of consultant services.

An Honourable colleague has just said that, in the course of the total sale of government assets, the Government can use the securitization of assets as a buffer and sell them only when the prices are satisfactory. This is also the idea of the Democratic Party. As I have mentioned this idea before, I am not going to repeat what I have said here.

Next, I would like to spend a few minutes on the views of the information technology (IT) sector. The local IT sector comprises mainly small and medium enterprises. When they compete against large companies overseas, the Government must assist local companies in getting some internationally recognized certificates or qualifications. Let me take the CMM recently implemented by the Government as an example. I support the correct direction but the Government should consider how more companies can be benefited and the standard of the whole sector improved. However, a more important point is the idea of the Pearl River Delta (PRD) put forward by Chief Executive TUNG Chee-hwa. It is a good idea and many IT companies do hope that their services or businesses can extend to the PRD. Actually, the Economic and Trade Office can play more roles rather than just being prepared to provide assistance. For instance, when an industry wishes to enter the mainland market, the Government must provide it with assistance and it should also comprehensively consider whether individual companies would not be able to provide services if the door is shut. I find that many foreign governments will assist individual companies overseas in entering other markets and I think the Government can reconsider that. Of course, the Government also has some new measures including the introduction to mainland or other overseas markets of companies that have won tenders for government works or services and have good performance. I think that it is a policy issue. So when the Government opens up a market, is it true that it cannot consider assisting individual companies at all?

In fact, the mainland market is an entirely different environment. Quite a few mainland organizations are rather particular about well-matched status and they ask for contact between counterpart organizations more often than not, that is, contact between governments. It would certainly be very good if the economic and trade offices can do more. When we discussed the relevant provision, I said that the operating expenditure of the 10 existing economic and trade offices was more than \$200 million. So if a Bureau Director or Secretary of Department could reconsider the matter and if \$250 million were spent on the reorganization of these 10 economic and trade offices, the distribution of the 10 existing economic and trade offices might be different. Assuming that the expenditure is maintained at the existing \$250 million, the Government should reconsider where the money should be spent in the light of the market situation to benefit Hong Kong more or facilitate the development of Hong Kong companies. I have queried whether too much is spent on the office in London and whether it should be scaled down further. I have also queried whether the office and branch offices in Europe can be scaled down further. Insofar as the deployment of resources is concerned, now that an office has been established in Guangzhou, should an office be established in Shanghai or should the resources be used for other markets on the Mainland? I believe the Government should reconsider these matters.

In a word, I think the task of the Hong Kong Government is to assist local companies in winning tenders for government or IT projects on the Mainland. I believe it is also the demand of other or government service industries. For instance, it is very difficult for a local construction company to win a tender for a mainland construction project. Is it true that the Government cannot provide any assistance? Dr David LI has earlier asked about these specific measures and I hope the Government can elaborate them in detail in future. I so submit.

MS AUDREY EU: Madam President, I rise to explain why I will be voting against the Budget. I do so for two main reasons.

First, I have utterly lost confidence in our Financial Secretary over his Lexus incident. On Sunday, 9 March, when the news first broke, I was working at home. A reporter rang to ask if I had watched the Financial Secretary's press conference where he admitted that he bought a car in January this year before the hefty increase in the Budget for motor vehicle first registration tax. She asked me if he was guilty of misconduct in public office.

At the time, I found that difficult to believe. I told the reporter that it was a criminal offence and required a high standard of proof. But as events unfolded in the next two weeks, my dismay grew. As a lawyer, I do not lightly make accusations without factual basis or objective reasons. So let us look at the facts.

On 14 January, the Financial Secretary chaired a meeting of the Budget task force which discussed 18 new tax measures, some of which, including the motor vehicle first registration tax, were singled out for further study. That was a Tuesday. On 11 January, which was the Saturday before, and on 18 January, which was the Saturday after, the Financial Secretary went shopping for his new car. He bought the Lexus on 20 January, within a week of the Budget meeting. I find it utterly incredible that he could have forgotten about the Budget measures when he was buying the car. The most charitable way of looking at it is that, at the time, he did not realize that it was wrong for him to make use of privileged insider information. That in itself shows that he is unfit to be the Financial Secretary for, as such, he possesses immense power, not the least of which is being privy to valuable information, and he has to initiate inquiries into insider dealings.

On 18 March, the Government has confirmed that at the Executive Council meeting on 5 March, prior to the announcement of the Budget, the Secretary for Health, Welfare and Food had declared his recent purchase of a new car when he heard about the increase for the motor vehicle first registration tax. Up to this day, there is no whisper of any explanation from the Financial Secretary as to why he did not declare the purchase of his car then. If he had not previously recognized his mistake, he must have realized it by then. Yet he chose to keep quiet until the matter was exposed by the press on 9 March. And even then, he told half truths in saying that the tax was only approved in February after he had purchased the car. This is not the behaviour that we expect from a principal accountable officer, let alone the Financial Secretary.

Madam President, there is another reason why I cannot support this Budget. That relates to the \$400 levy on foreign domestic helpers and the corresponding reduction in the maids' minimum salary. May I declare here that I am an employer who will be subject to this levy. The Financial Secretary says that this is not a Budget measure. Indeed it is not to be found in the Budget. But that is exactly my complaint. Why is this not in the Budget? Why is this

\$400 levy not a tax? The Financial Secretary says that since it does not go to the general revenue, but only to a fund specially earmarked for the retraining of employees, then it is not a tax. If we accept this kind of reasoning, any levy on road users for a road building fund, any levy on parents for a school building fund will not be a tax. This kind of devious argument simply infuriates me. It is a tax and should be approved by the Legislative Council in accordance with Article 73 of the Basic Law.

As for the corresponding \$400 reduction in the maids' minimum salary, if this is a *bona fide* reduction because of deflation, it should be properly dealt with by the Secretary for Economic Development and Labour, Mr Stephen IP, and not by the Chief Secretary for Administration as part of the population policy. In any case, it is unclear how this \$400 is to have any effect on population. It is clearly part of a plan to increase revenue by taxing those with the least bargaining power. Instead of being honest about it and putting all these fiscal measures in the Budget, they are disguised as part of the population policy. I can accept tax increases or levies but not trickery or administrative shortcuts. I deplore a government and a Financial Secretary that stoop to this kind of level.

Madam President, there are other reasons why I cannot accept this Budget, it is a shortsighted budget that concentrates on the deficit rather than revival of the economy, the tax burden is inequitably concentrated on the lower and middle classes, and it again fails to consider green taxes. But these other complaints pale into insignificance when compared to the two main reasons that I have given. My only regret is that I have but one vote. Voting once against this Budget cannot adequately express the extent and strength of my anger. When the Lexus incident first erupted, I felt sorry for Mr LEUNG. But I am afraid that my sympathy has since evaporated. His bare face denial is treating us like imbeciles and his insistence in remaining as Financial Secretary is treating us with contempt. Some people say that the Lexus incident is a "small" matter. I cannot agree. Integrity of the Financial Secretary is a matter of First Principles, Madam President. Hong Kong deserves better than a Financial Secretary with a cloud over his integrity. Anyone who thinks that the Financial Secretary should stay belittles Hong Kong. It also makes a mockery of the accountability system. If he has any ounce of decency left, for his sake and for our sake, I hope he gets this message loud and clear, please GO. As many of my colleagues have said, Madam President, with the atypical pneumonia and the war, the revival of the economy and the readjustment of budget assumptions may need

a serious rethinking, it is high time Mr TUNG should change his mind and give us a new Financial Secretary.

MR KENNETH TING (in Cantonese): Madam President, the prevailing economic situation of Hong Kong is very critical, for not only are we in a painful process of economic restructuring, we are also affected by external uncertainties posed by the war between the United States and Iraq. Adding to this the outbreak of atypical pneumonia, it can be said that misfortune never comes alone and we are truly beleaguered insofar as Hong Kong economy is concerned.

For the above reason, I think that the most important thing now is to revitalize the economy. This is especially true when we consider the fact that over 90% of the companies in Hong Kong are SMEs and amid the turbulent economic situation, it is a worthy concern as to how these SMEs should be given assistance to enable them to tie in with the economic integration with the Pearl River Delta, given their limited financial and manpower resources. As I have said during the last debate in this Council on assisting the SMEs, the Government should step up its efforts to promote its SME support measures so that the SMEs can make use of the various SME funds and find a way out of the economic predicament early.

I would like to speak now on the impact to be made on the business environment by the various measures on raising revenue and cutting expenditure as proposed by the Government to eliminate its huge deficit.

As a member of the industrial sector, I understand perfectly well the determination of the Government to eliminate the fiscal deficit, and I agree with the Financial Secretary when he said that if the fiscal deficit caused a constant drain on our reserves, that would in the end undermine the linked exchange rate system, pull up interest rates and make the financial market volatile. Then the adverse impact on the Hong Kong economy would be far more serious.

Even as a member of the business sector, like many other people in the sector, I do not agree to the idea of raising taxes at a time of an economic downturn. I can only accept with reluctance the proposal to raise profits tax by 1.5 percentage points across the board. It is because the civil servants had a pay rise two years ago despite the fact that all the trades and industries were threatened by pay cuts and layoff. As for this year, it is only after a lot of

delays and procrastinations that civil servants accepted with great reluctance to slash a mere 6% off their salaries over a three-year period. The kind of strength and determination shown as compared to the tax increase proposals are completely disproportionate and too frail to show any commitment to sharing the burden.

A more important point to note is that our competitors, such as Singapore and Taiwan, have lowered their profits tax rates to 22% and 25% respectively and they are edging in and becoming closer to our rate. For investors, this would imply that the tax regime in Hong Kong is becoming less attractive and hence this is a blow to our competitiveness. Therefore, we hope that when after our economic and financial conditions have improved, we should revert the profits tax rate at once to its former relatively low level. This would help maintain our established edge in low tax rates and anchor the confidence of foreign investors which is wavering.

The crux of the problem is, however, whether or not the Government has done a good job of retrenchment before embarking on revenue-raising measures. Such expenditure-cutting efforts include putting a brake on the huge public expenditure, cutting all unnecessary and costly spendings, and so on. We hope that the Government can really fulfil its pledge of "big market, small government" and launch reforms to streamline its bloated structure.

In a bid to achieve the goal of fiscal balance, the Budget only focuses on raising taxes and proposes to lift the freeze on government fees and charges, without taking into account the effect of the war between the United States and Iraq on the Hong Kong economy. Now with the atypical pneumonia outbreak, various sectors like tourism, catering, retail, import and export trade and all related trades have been badly hit. The impact is comparable to if not worse than that of the September 11 attacks two years ago.

If the Government, after lifting the freeze on government fees and charges, should ask the departments to review their fees and charges, that is tantamount to robbing the trades and industries which have been struggling hard to survive. The trade effluent surcharge, water tariff and sewage charge, plus an increase in other fees and charges, will greatly add to the operating costs of the trades and industries. The effect may be forcing many SMEs which are on the verge of closing down to close down. Therefore, we hope that the Government can reconsider such proposals. For in the present economic downturn, even if no

remissions on fees and charges are made, a freeze should continue to be imposed. In addition, public expenditure should be greatly reduced to lower costs, fees and charges should also be lowered as well. These will give a boost to the trades and industries, make them stay competitive and enable them to climb out of the predicament.

Madam President, another kind of fees which has important implications for the business sector is the handling fees at container terminals which have remained high over the years. Please allow me to make use of this opportunity to voice my concern.

Last October, I moved a motion debate to urge the Government to reduce the handling fees at the container terminals since they were the most expensive in the world. Unfortunately, not much improvement has been made since. As we all know, the cargo handling fees at Yantian, Shenzhen are much cheaper than those in Hong Kong, that is, by 25% to 90%. This would only compel those manufacturers in the Pearl River Delta Region to use the Yantian port and other ports on the Mainland which are less costly for export. As a result, our export and manufacturing industries will become less competitive and it will also not be conducive to our ambition of becoming a regional logistics centre. We think that the authorities should study into how the cargo handling fees can be lowered and determined in a more transparent manner. It is only when such efforts are made that Hong Kong can stay competitive and that our import and export trade, as well as all other trades and industries, can continue to grow and prosper.

Madam President, I so submit.

MR CHAN KAM-LAM (in Cantonese): Madam President, coronavirus pneumonia is the first major epidemic in this century that threatens the lives and health of people in more than a dozen countries in the world every second and minute of the day although a war has not broken out.

In this war against the virus, an expert has said that the infectious disease will stop spreading only when more than 80% of the people have developed the antibody and he has therefore reminded people not to expect the rapid elimination of atypical pneumonia. It is generally estimated that the development of a vaccine for the disease will take a few years, therefore, in any

case, the problems caused by this brand new virus will continue to threaten the health and lives of mankind in the foreseeable future.

Is the fiscal deficit problem confronting the SAR Government not also a war against virus that will take very long? On the basis of the solutions proposed by the SAR Government and the Financial Secretary, it will take four to five years to resolve the enormous fiscal deficit and the process will undoubtedly be long.

Nevertheless, the crux of the problem is whether the Government can devise good strategies. The Democratic Alliance for Betterment of Hong Kong (DAB) thinks that it is very likely that the estimates made in the Budget are too optimistic. Therefore, the DAB urges the Government to make a comprehensive assessment of the latest situation as soon as possible and grasp the opportunity to control expenditure, otherwise, the fiscal deficit cannot be resolved within the foreseeable future and the problem will deteriorate.

First of all, the United States has obviously suffered a setback in the first round of fightings between the United States and Iraq, and it is forced to re-evaluate its strategies and dispatch more troops. If the war that is expected to be a quick kill turns into a protracted war, it will have significant impact on the financial burden of and deflation in the United States and the Americans will evidently become less willing to spend. The demand for goods and imported services will substantially drop and the volume of exports from Hong Kong and our economy as a whole will be adversely affected. In 2002, exports to the United States accounted for 21% of the total exports of Hong Kong. If the protracted war cannot come to an end within a short period of time, oil prices will definitely rise substantially as a result of reduced supply. The progress of war and the market sentiments will obviously be reflected in the stock market, causing substantial fluctuations in stock prices.

After this war, the world will definitely continue to be engulfed by the crisis of terrorist activities and it is a fact that the SAR cannot overlook. Besides stepping up anti-terrorist security measures, once there is a new round of terrorist activities, their effects on our economy will certainly be more significant than that of the September 11 incident.

Secondly, with the atypical pneumonia causing havoc, the Government has to additionally appropriate \$200 million for fighting atypical pneumonia, and it is

20 times the initially proposed amount of \$10 million. By inference on the basis of objective facts, I believe the expenditure by the SAR Government in this aspect will continue to increase in the next few years. At present, the disease has already dealt a heavy blow to spending and the catering and tourism businesses have come to a standstill in individual districts. An economic analyst has also estimated that the GDP will go down by at least one percentage point as a result of the disease.

In the light of the speed of community spreading of the disease, opinions may differ on whether the forecast of one percentage point is accurate. However, the Government must expeditiously conduct an economic assessment for it should know that the emergence of atypical pneumonia has dealt a blow to the tourism and aviation industries in many countries and regions. Unless a vaccine is successfully developed, tourists will continue to adopt a wait-and-see attitude and dare not come to Hong Kong rashly.

Thirdly, if a heavy blow is dealt to our economy, the growth forecast of 3% cannot be achieved and the target of a \$14 billion in increased revenue as budgeted by the Financial Secretary may not realize. What counter-measure does the Government have if the target cannot be reached? Will it further increase the projected \$6 billion that have not yet been finalized to put a heavier burden on the public?

The position of the DAB is that it can absolutely not accept further raising the increases in fees and charges on top of the \$6 billion and the Government must pledge that there would only be downward but not upward adjustment to the \$6 billion.

The existing fiscal deficit of Hong Kong is largely structural and the SAR Government must further reduce expenditure in order to deal with the problem of an enormous fiscal deficit. The DAB urges the Government to ensure that the expenditure reduced must offset the shortfall in revenue raised and it cannot think about modifying the \$6 billion.

Moreover, the SAR Government has already changed its strategy of fiscal management in order to resolve the fiscal deficit and the minimum fiscal reserve will remain at a level equivalent to nine months of government expenditure within the next five years. The DAB emphasizes that an excessively high level of reserve will bring about low efficiency and a low growth rate for the economy

as a whole. But we cannot accept a drawing down of our reserves to such a level that it can only meet five to six months of expenditure for there may be very serious economic impact on Hong Kong.

Therefore, the Government has obviously done not enough to reduce expenditure. It must be noted that the Government has continued to allow the rate of increase in the total public expenditure to exceed the rate of economic growth this year for we see that the nominal growth rate is 4.9% while the real growth rate is 7.7%. The DAB urges the SAR Government that it must spare no efforts to conscientiously reduce expenditure.

Before 1997, the British Hong Kong Administration was less restricted by the bureaucratic structure of the Government and, on the premise of providing people with more efficient services, it actively established several public organizations independent of the Government to take charge of the work in certain aspects. However, the public money used by such kinds of subvented organizations, especially the pay and remuneration of the senior officers of these organizations, was very often a few times more than that of the Bureau Directors or Secretaries of Departments within the government structure, and the growth in the number of staff was also suspected to be excessive. Now that civil servants will be given a pay cut, there are no reasons why the staff of subvented organizations should stay aloft from this.

In this second Budget of the Financial Secretary after his assumption of office, it is stated that the growth in public expenditure should be controlled to prevent the public sector from becoming a social and economic burden and it is the basis on which the principle of "big market, small government" can be implemented. The DAB hopes that the SAR Government will do its utmost to reduce public expenditure on the worst case scenario so that the goal of attaining a fiscal balance by the year 2006-07 would not become a post-dated cheque that can never be cashed.

Madam President, let me quote the Budget: "As Hong Kong's economy is externally-oriented," "a more effective way to address the problem of deflation without increasing our financial burden is to increase external demand, which means attracting more visitors". The DAB also believes that it is the most effective way to stimulate our economy and increase revenue.

The DAB has all along actively promoted enhancing the economic, trade and tourism co-operation with the Mainland. Last year, we proposed that the

SAR Government should issue permits for Hong Kong visits to the residents of Guangdong Province with which they can travel to Hong Kong freely, so as to attract more people from Guangdong Province to come and spend money in Hong Kong. It is reported that the relevant authority will shortly relax the arrangements for people in Shenzhen and Guangzhou to travel freely to Hong Kong and the DAB supports the guiding principle of this policy. However, in view of the recent outbreak of atypical pneumonia on the Mainland and in Hong Kong, we think that the departments in charge of tourism affairs must closely monitor the development of events on the Mainland and in Hong Kong and enhance the flow of information between Hong Kong and the mainland authorities. On the premise of health and safety, prudence must be applied in determining the pace of relaxing the arrangements for travellers to Hong Kong, and we urge the Government to enhance communication with tourism bodies, evaluate the impact of the incident on the tourism industry in Hong Kong and assist the sector in tiding over the difficulties.

In the Budget last year, the Financial Secretary proposed reinforcing four types of tourism activities including business, family, cultural and ecological tourism. During the past year, the SAR Government has done quite a lot to promote tourism and it is encouraging to note that the number of visitors has increased by more than 20% during the year. However, the series of promotional activities seemed to have put emphasis on business and family tourism and the pace of promoting the new eco-tours is a bit slow. As far as I understand it, the Tourism Commission has completed a study on the development of green and cultural tourism in the North New Territories and consultation will be conducted next month. We hope that the relevant department will expedite the progress of consultation and implement the plan as soon as possible. In the past, the DAB has made specific proposals on the development of ecological tourism time and again, including the development of leisure fishery in Tolo Harbour and the Sai Kung waters as well as opening up Sha Tau Kok for the development of marine ecological tourism there and in the Starling Inlet, Kat O and Yan Chau Tong. I hope that the SAR Government will seriously consider these proposals.

In view of the fact that there are more and more venues for tourism on the Mainland and their scale and quality is coming on par with that of Hong Kong, the general recreational facilities in Hong Kong can hardly appeal to the mainland visitors. The DAB thinks that Hong Kong should continue to develop more play venues, but we need large thematic play facilities with characteristics,

and the Disney theme park, the cable cars in Tung Chung, the cruise terminal in South East Kowloon whose construction will be completed in the next few years are hot expectations to us. Nevertheless, the Government should put emphasis on the review of the future development of existing recreational facilities, for instance, how the Ocean Park should be positioned in the future for it to achieve synergy with the Disney theme park and avoid direct competition that will affect the performance of the two projects. According to the response by the Government, the development of the Ocean Park will be co-ordinated with the development of the adjacent Aberdeen Bay tourism area, but a more specific direction has not yet been determined and the slow pace of the review is worrying. We should know that the Disney theme park will complete on schedule the year after next and there are less than two years from now. The DAB urges the Government to grasp the remaining time to step up negotiations with the Ocean Park management in order to maintain the competitiveness of the Park.

Madam President, the economic situation of Hong Kong has been on a slide recently and it is not at all easy to reduce expenditure, let alone increasing revenue. Since economic development depends heavily on improvement in the external factors, we cannot do anything. It is extremely difficult to solve the problem of a structural fiscal deficit indeed. Many people in the community have criticized some measures of increasing revenue and reducing expenditure as proposed in the Budget. When it comes to the reduction of public expenditure, they have criticized that civil servants should not be victimized. But when it comes to increasing revenue, they have criticized that the public should not be made the victims. The DAB thinks that their criticisms must be rational and constructive, and they should not think that they can solve the problem of an enormous structural fiscal deficit confronting us by expressing views that would divide the community. Nevertheless, the unexpected incidents taking place recently have really dealt a heavy blow to our economy. The Government must judge the hour and size up the situation and reconsider on the existing basis the measures that can alleviate the difficulties of the people in the existing economic predicament.

With these remarks, Madam President, I support the motion.

MR CHEUNG MAN-KWONG (in Cantonese): Madam President, in short, the Budget has given Hong Kong "extra hardship".

Hong Kong has been facing hardships as a result of the economic recession for six consecutive years and waves of unemployment, pay cut and retrenchment. Now Hong Kong is facing extra hardships as a result of the war launched by the United States against Iraq and the serious blow dealt by the outbreak of an epidemic to Hong Kong. Going down the road from prosperity to recession, Hong Kong is witnessing the gradual vapourization of its accumulated wealth. With people demonstrating a change of mentality from self-confidence to inferiority, the Government is becoming increasingly indulgent in empty talk. At this time when Hong Kong is suffering extra hardships, should the Budget move in a direction of gradually reviving the economy in order to restore people's confidence, or speedily eliminating the deficit to achieve fiscal balance in compliance with the Basic Law requirement of "keeping expenditure within the limits of revenues" before Mr TUNG Chee-hwa leaves office?

In his Budget, the Financial Secretary has obviously made eliminating the deficit his paramount political assignment. In order to reduce the deficit, \$20 billion in government expenditure must be immediately cut. As the cut will involve expenditure on education and welfare, the well-being of youngsters and the disadvantaged groups will be jeopardized. In order to reduce the deficit, the Government has even tried every possible means to increase \$20 billion in government revenue by substantially raising taxes and increasing government fees and charges across the board. This move will certainly injure the interest of the middle class and small and medium enterprises (SMEs), and eventually impede Hong Kong's economic recovery. The Budget has even made an assumption that Hong Kong will record an annual economic growth of 3% and thereby eventually bring \$30 billion to the coffers. The Financial Secretary's assumption is becoming a faraway dream. With the war on Iraq still waging and the internal injury inflicted as a result of the epidemic outbreak remaining unhealed, such sectors as commerce and industry, trade, tourism, retail and catering in the SAR are all affected. The impact produced by the war, an epidemic outbreak, internal and external troubles, and stagnant businesses is so profound that it is unfathomable, making the date of recovery totally unpredictable. How can one be convinced that Hong Kong can sustain a 3% economic growth? How can one be convinced that the deficit can be eliminated when TUNG Chee-hwa leaves office?

Moreover, the application of excessive force to eliminate the deficit will on the contrary impede economic recovery, stifle SMEs, hurt the middle class, and neglect the grass-roots disadvantaged groups. Despite its intention to reap

quick results, the Budget will fail in the end, bringing disappointment to every one of us. Besides, the Budget will make the middle class the biggest loser. The middle class has been suffering internal injury in the past six years as a result of the trilogy of pay cut, unemployment and negative equity assets. Now the Financial Secretary has made them suffer even more badly with his Budget. Among the tax increases amounting to \$14 billion, nearly half, or approximately \$6.8 billion, will come from salaries tax, twice the expected \$3.5 billion to be generated from the increased profits tax. Every member of the middle class is set to bear the brunt of the introduction of new tax items, including a lower deduction for home loan interest payment, increases in motor vehicle first registration tax, property tax and a wide range of increased charges related to the people's livelihood, such as water charges, medical fees, and perhaps tuition fees.

Madam President, it is unfair and immoral of the Budget to wield its axe at the middle class who have always remained silent. For six years, the TUNG Chee-hwa Administration has been criticized of being stupid and ignorant, biased, indulgent in ambitious ventures, and of running the Government in a chaotic manner. All this has triggered the anger pent up in the spleens of the middle class for a long, long time. Apart from feeling indignant, the middle class cannot help asking this question: Why are we made to give constantly for the sake of this government which is constantly making mistakes? Are the taxes paid by us worth what we receive in return? In short, the middle class feel aggrieved.

It takes more than one cold day for the river to freeze three feet deep. The middle class's opposition to the Budget has been brewing for quite some time — for both economic and political reasons. The middle class has been hoping that Hong Kong can have a clean, clear and democratic political system so that the people can live and work with contentment and be self-reliant. However, the reunification has given the people a saddening and disappointing experience: Each of these incidents — the Sally AW Sian case, the interpretation of the Basic Law by the Standing Committee of the National People's Congress, Article 23, the Accountability System for Principal Officials, the car purchase scandal, the epidemic outbreak of the century — has made the people of Hong Kong lose faith. Fairness, justice, freedom, the rule of law and cleanliness are all retrogressing in Hong Kong. The people of Hong Kong have no options because there is no democratic election. We can only let the TUNG Chee-hwa Administration keep on ruling Hong Kong, a stupid administration which knows only raising taxes.

Madam President, shortly after taking office, the Financial Secretary declared that Hong Kong was to become "Manhattan-plus", though it finally turned out to be "local community economy". For now, "Manhattan-plus" has probably disappeared, and the "local community economy" has probably died for no apparent reason. This is typical of "hollow politics", which come from sudden inspirations flashed through the mind in the course of "fishing" or "soup brewing". In the end, the "all thunder but no rain" economic policies disappeared all of a sudden. For now, Hong Kong is still facing the same old problems of unemployment, deflation, closure, and recession. Where is our "cheese"?

Madam President, last year's Budget was packed with a number of dishonoured cheques: It was a miscalculation that civil service pay adjustment could allow a 4.75% cut. Despite an estimated \$20 billion from land sale proceeds, land sale was eventually halted and the target could not be reached. It was also estimated that the sale of the MTR shares could reap \$30 billion, the plan was again eventually revised, falling again short of the target. The result of miscalculating three major items and the economic growth has aggravated the deficit position. As a result, the axe was again wielded at the middle class and SMEs. What do the Hong Kong people feel? Now the Financial Secretary has added that, according to the new estimate, the deficit position would be "neutralized" by the year 2006. Will Hong Kong people believe in the Financial Secretary? For the purpose of "neutralizing" the deficit, the Financial Secretary is prepared to raise taxes and all sorts of fees and charges. At the same time, he fails come up with any plans to revive the economy. How can he expect Hong Kong people to give for the sake of this new dishonoured cheque?

Madam President, reflecting mobility and upward movement in the community, the expansion of the middle class is symbolic of social prosperity and stability. The period from the late '70s to the reunification was the time when the middle class enjoyed expansion and Hong Kong enjoyed prosperity and stability. The biggest failure experienced in the six years since the unification was the dwindling of the middle class to its original state. As a result of substantial depreciation in property values and assets, the negative-equity-burdened middle class was even driven into bankruptcy. How can a negative-equity holder or a bankrupt be considered a bourgeois? The number of bourgeois has not only reverted to the 1997 level, but also way back to the 1979 level, or 25 years ago. Looking back, anyone who cares about and loves Hong

Kong will surely feel heartbroken and sad. "Being caught in a threatening thunderstorm to the regret of the Pearl of the Orient" is a true reflection of the grievances of the middle class, and also the grievances of the people of Hong Kong.

Disappointment befalls the middle class like petals falling without making a sound and nuts from big trees drifting around. Should any of them still harbour any hopes, it must be their hopes for their children's education. After TUNG Chee-hwa took office, his investment in education commanded the most support from the community. Even in his previous policy address, TUNG Chee-hwa still steadfastly said: "Regardless of Hong Kong's economic situation, in the next five to ten years spending on education will continue to increase year after year". He even commented in a press conference in an even more lively manner that "the Government will definitely spare no efforts in investing in education".

The Financial Secretary, Mr Antony LEUNG, once Chairman of the Education Commission, was given the entire responsibility of promoting education reform. He once said, "Education is meant to be investment, not expenditure. Education determines the future of Hong Kong, or more seriously, the life and death of the territory. Without investment, Hong Kong will not stand any chance of standing in the line of advanced countries. Therefore, we must do what we should do." Nonetheless, the ambitious words of TUNG Chee-hwa and Antony LEUNG failed to stand the test of the fiscal deficit. The current expenditure on education is going to face a 10% cut. This will mean no more subsidy in terms of rent and rates for certain kindergartens, trimming of flexible grants which are most welcomed by primary and secondary schools, reductions in special education allowance, abolition of subsidy for sub-degree programmes, substantial reductions in university funding for the ninth consecutive years, close-to-nothing subsidy for adult education, slow down in the pace of full-day schooling, closure of village schools one after another, and finally, small-class teaching becoming a even more faraway dream. There is a song called "jiu liao ge" in "*A Dream of Red Mansions*", in which some of the lines read "Witnessing its rising up, witnessing its collapse." A variety of investments made for the purpose of supporting education reform have now turned into something like the "jiu liao ge", very much like red mansions in the realm of education — in *A Dream of Red Mansions*, how can one count in his dream the number of falling flowers?

Madam President, Mrs Fanny LAW once drew an analogy between a story about space shuttle Challenger travelling into space in 1986 and the education reform launched in Hong Kong. She said enormous shock would definitely be produced when the space shuttle was launched and the sky would be filled with smoke and fumes. After penetrating the atmosphere and reaching the space orbit, the space shuttle would then fly in a smooth and steady manner. Madam President, I wonder if Mrs Fanny LAW knows that Challenger met a tragic end. It exploded shortly after taking off in 1986, and one of the killed astronauts was a woman teacher named S C McAULIFFE. I hope the education reform will not follow in Challenger's contrail and end in failure.

Recently, another United States space shuttle Columbia disintegrated on its return trip because of overheating, and all astronauts on board were killed too. In searching for the causes of explosion in the wake of the accident, it was found that the aerospace authorities of the United States had, ignoring the 3 500 defects identified a long time ago, misappropriated the maintenance funding supposedly earmarked for the Columbia and eventually led to the tragic disaster. The American space shuttle is different from the education reform in Hong Kong in the sense that the former is heading for the sky in exploration of the infinite universe high above, while the latter is carried out on land for Hong Kong's future. We definitely wish it every success. However, the foundation for success hinges on a solid foundation of government investment and reasonable policies in addition to man-made factors. Slashing education reform funding right at the beginning is not only stupid but also irresponsible. Consequently, the education reform may fail because of a lack of support. Madam President, I hope the Government can turn back at the eleventh hour and refrain from wielding its axe at education and students. In addition, it must not stifle the earnest hopes of countless parents pin on their children in times of adversity.

Madam President, the Budget has sought merely to resolve the deficit while failing to recover the economy. It has pinpointed not only the middle class, but also education. As a representative of the education sector, I am extremely regretful and disappointed. I so submit.

MR LAU PING-CHEUNG (in Cantonese): Madam President, the latest financial situation as announced by the Government shows that, up to the end of

February this year, a deficit of \$67.7 billion has been recorded within the first 11 months of this financial year and the reserve has dropped to \$304.8 billion during the same period, reflecting that there is still a serious fiscal deficit. Originally, the release of the Budget for the coming year by the Financial Secretary was a very good opportunity for the public to discuss the public finance arrangements of the Government, seek a consensus and make joint efforts to turn around the existing economic difficulties. It is a pity that unexpected incidents have taken place in the international arena and Hong Kong — the United States and Britain have dispatched troops to attack Iraq in the Middle East and Hong Kong is being plagued by the atypical pneumonia epidemic. These incidents have dealt a heavy blow to our externally-oriented economy. Since the release of the Budget by the Financial Secretary on 5 March, it seems that the public has been excessively concerned about these two incidents and it is a great pity that they have not discussed the Budget in a comprehensive, detailed and rational manner.

As in past years, after the release of the Budget by the Financial Secretary, I have written to the voters in my constituency and invited them to express their views on the Budget. I have also interviewed the trade unions of the relevant professional grades in various government departments and listened to their opinions. Moreover, I have taken the opportunity to conduct a short questionnaire survey among these voters. I have collected 309 questionnaires eventually and the response rate is approximately 5.4%.

I have asked a total of seven questions in the questionnaire and six of them are directly related to the Budget. The first question is: Should the Government set the target of achieving a fiscal balance in the year 2006-07? 74% of the respondents agree and 26% of them disagree.

The second question is: If you agree, what measures should be taken by the Government? They can choose among the following options: 1. stimulating economic growth; 2. increasing revenues; 3. reducing expenditures; 4. the three options above. Similarly, around 28% of them have chosen stimulating economic growth and reducing expenditure and only 5% of them have chosen increasing revenue while 39% of them have chosen the three options. If they indicate that they disagree in answering the first question, they are asked how the Government should face the fiscal deficit and the questionnaire also gives them four options: 1. using the reserve; 2. issuing bonds; 3. selling assets; 4. other

options. 17% of them agree to using the reserve, 31% agree to issuing bonds, 38% agree to selling assets and 13% choose other options.

The third question is: If the Government wishes to increase revenue, which option is acceptable? There are five options: 1. increasing charges for various services; 2. imposing new levies such as the Boundary Facilities Improvement Tax; 3. increasing salaries tax to the 1997 level; 4. increasing profits tax; 5. other options. 19% agree to increasing charges for government services, 29% agree to imposing new levies, 15% agree to increasing salaries tax, 25% agree to increasing profits tax and 12% have chosen other options.

The fourth question is: If the Government wishes to reduce expenditure, which option is acceptable? 1. Slowing down public works projects; 2. adjusting civil service pay; 3. reducing the number of civil servants; 4. reducing social welfare expenditure; 5. other options. 10% agree to slowing down public works projects, 32% agree to adjusting civil service pay, 32% agree to reducing the number of civil servants, 20% agree to reducing social welfare expenditure and 7% choose other options.

The fifth question is: Is the pay reduction proposal agreed upon by the Government and civil service unions acceptable? 29% have answered that it is acceptable, 55% have answered that it is unacceptable while 16% have chosen other options.

The sixth question is: Although the Government and civil service unions have reached an agreement on the pay reduction, does the Government still have to conduct various kinds of pay level surveys? 50% of them have answered that it should implement a pay survey proposal under which either additions or reductions can be made; 24% have answered that it should conduct a pay level survey; 16% have answered that it should conduct a pay trend survey while 10% have chosen other options.

The last question is whether the respondents work in government/statutory bodies or are in private practice. 26% of the respondents work in government/statutory bodies and 74% are in private practice.

Madam President, we can clearly see from the result of the survey that though 74% of the respondents agree that a fiscal balance should be achieved in

the year 2006-07, there are a few points that are worth noting. First, 26%, a very high proportion, of the respondents still disagree to setting the year 2006-07 as the target and it reflects that many people have reservations about this rigid target.

Secondly, even if government expenditure could be reduced by \$20 billion and the revenue could be increased by \$14 billion by the year 2006-07 according to the plan of the Government, the difference of \$6 billion will still be a headache. When the Government released the Budget, it was assumed that there would be a 3% growth in the GDP this year. As the large-scale outbreak of atypical pneumonia was still a non-event at that time, the adverse effects of atypical pneumonia on the economy have obviously not been factored into the calculations. Recently, a number of international credit rating agencies have adjusted downwards their forecasts of the GDP one after another. We can very easily become aware of the very significant impact of the epidemic on our economy, and the retail, catering, tourism and real estate industries have been affected to various degrees. It can be anticipated that the unemployment rate will rise and it is very likely that the growth in the GDP will not reach 3% as originally forecast. If the growth in GDP fails to reach 3%, various tax revenues will decrease and the Government will ultimately fail to achieve a fiscal balance in the year 2006-07.

Madam President, 74% of the respondents to the survey agree to achieving a fiscal balance in the year 2006-07. As far as I understand it, most people agree that the Government should set fiscal balance as its middle-to-long-term target in line with the principle of keeping expenditure within the limits of revenues under the Basic Law. Nevertheless, it is not a rigid target that must be achieved by 31 March 2007. In other words, as economic recovery has slowed down, I believe the public can understand and accept it if the target of achieving a fiscal balance is postponed six months or even a year, or if the reserve level is drawn down just as the Financial Secretary has done this year. I do not wish the Government to set it as a rigid target that must be reached by increasing charges and taxes or by reducing public expenditure, which will induce a hard landing of our economy. If so, the general public has to suffer more severe pain.

Among various items of increases in revenue and reductions of expenditure, I wish to particularly point out that increasing salaries tax and charges for government services are the most unwelcome. Whenever the

Government was financially tight in the past, it very often wielded its axe at the middle class who was the most convenient target, and there is no exception this year. Taking a singleton with a monthly salary of more than \$30,000 and an annual income of \$400,000 as an example, he has to pay \$10,600 in additional tax, representing a rate of increase of 25.7%, after the tax increase. According to individual circumstances, the salaries tax liability of some middle class people may increase by more than 50%. Since most professionals and civil servants belong to the middle class, they will not be spared. In the \$14 billion budgeted increase in revenue, \$6.4 billion will come from salaries tax, representing 48% of the total sum. Other items of increases in charges are most probably also targeted on the middle class. Therefore, I must advise the Financial Secretary to review the proposed rate of increase in salaries tax or to implement tax increases a year later to avoid making the middle class more discontented.

Concerning the expenditure-cutting items, the respondents support slowing down public works the least, for only 10% of them support doing so and quite a few respondents have appended the notes that they should only be limited to projects that are not cost-effective. The Financial Secretary indicated time and again in the past that the Government would not reduce expenditure on public works. However, the Hong Kong Institute of Architects related to the functional constituency represented by me has pointed out that, although the Government will maintain an annual expenditure of \$29 billion on public works, it has actually reduced construction works because most of the expenditure will be used on railway and civil engineering projects. As more workers are employed for the construction of buildings and more job opportunities can be created, the Government should more wisely adjust the priority of projects to enable the expenditure by the Government on public works to more effectively ameliorate the unemployment situation, increase the multiplier effect and stimulate our economy. Moreover, the Government should endeavour to introduce private sector participation and investment into public works projects and use the market force to stimulate and rescue the construction industry which is the hardest hit by unemployment. The construction cost of the proposed new Central Government Complex at the Tamar site exceeds \$6 billion, so the Government should reconsider constructing it not with public money and offering a long-term lease to encourage private sector investment and participation in order to create more job opportunities and comply better with the principle of "big market, small government" advocated by it.

Insofar as reducing expenditure is concerned, another important means is curbing bureaucratic waste. While the Government wields its axe at the middle class for the sake of the fiscal deficit, the public discovers from time to time that endless public spendings are made because of some bureaucratic bad habits and taxpayers think that it is not worthwhile for them to make tax payments with money earned by hard toil. Many respondents to the survey have taken the initiative to mention bureaucratic waste. There are very good examples of waste such as the noise barriers along Tolo Harbour Highway and the \$1.1 billion to be spent on the installation of noise barriers along the Deep Bay Link proposed to be constructed, the Western Corridor and Road T3 in Sha Tin. To comply with the legislation on environmental assessment, officials have not considered other better options at all. Following the old routine and installing noise barriers will only benefit a small number of foreign manufactures of noise barriers, but it will help local employment very little and become a laughing stock of the community.

Based on the principle of "big market, small government", the Government is going to reduce the civil service establishment in stages until it is reduced to 160 000 in the year 2006-07. Madam President, I absolutely support the principle of "big market, small government", but even if it is a small government, the Government still has to provide the core services. Taking a construction project as an example, the whole process covers various aspects of work including design, drawing and plans printing. Design is professional work, but drawing and printing of plans are mostly technical work. Since the Government has to downsize and reduce non-core work, it should consider reducing technical staff and retaining professionals because it takes a shorter time to train up a technical worker and it would be easier for the Government to recruit and train up a technical worker in future when the economic situation turns better and the Government has to recruit talents again.

There may still be surplus professionals after downsizing and the Hong Kong Institute of Architects and the trade unions of professional grades in some government departments have suggested that the Government should deploy surplus professionals to take up research and development work. In the past, Hong Kong had not set its own standards and had only referred to or quoted the standards of foreign countries, thus, there were limited choices when stores and equipment had to be procured at pretty high costs. Taking this opportunity of downsizing, if there is surplus manpower, the Government can deploy some

suitable professionals to participate in the research, development and setting of the standards of Hong Kong. We cannot say that there are no talents in Hong Kong, but the bureaucratic system has restricted the opportunities for them to give play to their talents. Taking the Architectural Services Department as an example, the Government intends to brief out most of its work without making any specific arrangements, so the morale of staff has been affected as a result of this. I have contacted the trade union of the professional grades in the Architectural Services Department and I found that the relevant civil servants are not afraid of rising to the challenges brought by the changes in their work. But they think that the Government has not given them a roadmap or outlined the road ahead to enable them to understand clearly their future and make suitable arrangements in advance.

Madam President, with the general target of "big market, small government", this Budget of the Financial Secretary wishes to achieve a fiscal balance in the year 2006-07 through various measures to increase revenue and reduce expenditure. I support the guiding principle, but I hope that the Financial Secretary can take extraordinary measures at extraordinary times and prudently reconsider the latest developments, especially the sudden changes, and adjust the pace. In particular, I hope that he will make suitable adjustments or postpone implementation when the Revenue Bill 2003 is considered and avoid rigidly implementing measures to increase taxes and charges or reduce the civil service establishment across the board, in order to relieve the burden of the middle class and anchor public confidence. Otherwise, I will not support these proposals in future. I so submit.

MS MIRIAM LAU (in Cantonese): Madam President, the shadow of war has been looming over the world recently. Insofar as Hong Kong is concerned, more faraway there is the war between the United States and Iraq, and nearer to us there is the battle against the epidemic. I sincerely hope that Hong Kong can defeat the virus soon, so that the living of the people can resume normal. In fact, Hong Kong is at the same time caught in another protracted war and that is, the war against the fiscal deficit. To tackle the fiscal deficit, the Government has identified three battlefronts. The first is to revive the economy; the second is to increase revenue; and the third is to cut expenditure. But much to our regret, the Government's strategy is far from comprehensive, for it has directed all its efforts at increasing revenue only to the neglect of the other two fronts.

As a result, the measures to revive the economy still lack punch and the extent by which expenditure is cut is inadequate.

To revive the economy, a weapon of the Government is strengthening the pillar industries. But insofar as logistics is concerned, the Government has made all sorts of thunder but no rain. I agree that Hong Kong enjoys many advantages in the development of the logistics industry. We are still second to none in terms of sea and air freight, and last year also saw growth in the total cargo throughput. However, our growth has slowed down considerably in recent years, and the growth registered in the territory has been far lower than that in the Mainland. Although the Government has stated that promoting logistics would be a focus of this year's work, only \$4.7 million is earmarked for the promotion and studies of logistics. A commitment of just a few million dollars is insufficient, as the relevant studies might already account for a substantial part of the provision and the rest of the money might not be enough for extensive and pervasive promotion initiatives.

Besides, the Government is currently studying with the logistics industry the introduction of the Digital Trade and Transportation Network as soon as possible, including finding ways to encourage application of the system by participants of supply chains, particularly the small and medium enterprises (SMEs). But to encourage more SMEs to adopt the system will require the SMEs to enhance their capacity for handling information technology by, among other things, acquiring computer hardware and software and training up more employees. Given resource constraints on their part, the SMEs may not wish to channel resources into employee training in the present economic environment. Although government subsidy is available under the various training schemes initiated by the Government to support the SMEs, the SMEs still have to meet half of the costs, thus making it difficult to attract SMEs to release their employees to participate in such training schemes. So, I hope the Government can consider increasing the percentage of its subsidy to, say, 75% of the training costs, in order to attract more applications from SMEs.

Madam President, apart from the four pillar industries, the Government actually has another heavy weapon. However, the Government has only brandished this weapon once in a while without loading it with live rounds to tackle the fiscal deficit. This heavy weapon is the shipping industry. The Government has always said that Hong Kong is an international shipping centre, boasting complacently about how significantly the total tonnage of ships

registered in Hong Kong has increased and about how many ships more have been registered here. But in the eyes of the shipping industry, Hong Kong still lags behind such international shipping centres as London and New York because the Government has not attached importance to the shipping industry and has not loaded this shipping centre of Hong Kong with live rounds. The development of the shipping industry as well as shipping-related industries, such as maritime insurance, arbitration, vessel leasing, vessel management, and so on, has been tardy.

The most obvious example of the Government not attaching importance to the shipping industry is the training of talent. According to a survey conducted by the Marine Department, there is now a serious shortage of senior seamen. This is not the first time that I cited this as an example, but I must keep on mentioning this example, because if we still allow this problem to continue, the gap between the management and junior seamen in the local shipping industry will only widen continually, in which case we might have to rely on the admission of foreign talent in the end. This problem has further deteriorated recently as a result of a cut of resources for universities. The Hong Kong Polytechnic University, the only institution providing training of shipping talent, cannot be spared, and some of their courses related to shipping will have to shrink or to be scrapped. In fact, the industry already proposed a specific solution to the problem about a year ago, suggesting co-operation between the industry and the Government in the provision of training. Such a training scheme, which will cost a mere \$3 million annually, can train up 24 successors a year. If 24 successors can be trained up, there will be 48 in two years and 72 in three years. In that case, a pool of successors will be trained up for the industry. Regrettably, the Government still cannot find a way to make this \$3 million available, which is disappointing indeed.

Training of human resources aside, the shipping industry also proposed years ago the setting up of a maritime museum to enhance research and development. But regrettably, the Government has not given any positive response, and this has made the industry feel very disappointed. The shipping industry is highly mobile. While its members may register and develop in Hong Kong today, they may register in Panama or other places tomorrow. I am not raising alarmist talk, but this will happen sooner or later if the Government continues to neglect the shipping industry. The Government must keep on steaming ahead aggressively. If it sets eyes only on vessel registration figures,

it would only chart a course of self-destruction, and Hong Kong would be set to lose its status as an international shipping centre sooner or later.

Madam President, as I said at the outset, the Government has directed its efforts only at resolving the fiscal deficit, paying no attention to everything else. This cannot revive the economy and, on the contrary, will even undermine the economy. The increase in motor vehicle first registration tax (FRT) is a case in point. Although the Government stated that it had already assessed the impact of adjusting the tax bands of the FRT and substantially increasing the tax rate for up-market vehicles, and that it still expected an additional revenue of \$700 million even though the sales volume would drop 15% and the industry would be made to shoulder 10% of the retail price, I doubt if the outcome would be as good as envisaged by the Government. It is because back in 1994 when the Government revised the FRT regime and effected an increase in the tax rate though covertly, government revenue from this had subsequently dropped to \$2.8 billion from \$4.6 billion in the previous year, representing a decrease of as much as 40%. In fact, since the proposed increase took effect on 5 March, 30% of buyers have forfeited their deposit, and some of the new vehicles that have already been shipped are "wanted by nobody", and this lot of "crab stock" is estimated to cost more than \$400 million. As vehicle dealers placed orders for the vehicles using the credit provided by banks or finance companies, the Government's sudden drastic increase in FRT has caught the dealers totally unprepared. Many of them face serious cashflow problems due to buyers' forfeiture of deposits. So, I hope the Government will consider adjusting downward the tax rate of FRT to strike a balance between the sales volume of vehicles and the Government's tax revenue. I also hope that the Government can grant the industry a grace period, so that new vehicles that have arrived in Hong Kong and those that have already been shipped can be exempted from the new tax rate, thereby enabling vehicle dealers to digest this lot of "crab stock".

Moreover, apart from affecting the vehicle dealers, the increase in FRT and the abolition of exemptions for vehicle accessories and distributors' warranties have also produced a domino effect, as the peripheral industries have also been adversely affected. First, there is the used-car market. If people do not purchase new vehicles, naturally, there will not be used cars flowing into the market. In that case, the used-car market will gradually shrink, and this will directly affect hundreds of used car dealers. Furthermore, vehicle owners must make a declaration of any replacement or installation of vehicle parts within six months after the registration of their new vehicles, or else they will be liable to a

fine and imprisonment. This measure will directly affect the business of vehicle parts companies. In this connection, the industry calls on the Government to levy a tax on vehicle parts on a one-off basis upon delivery of the new vehicle to replace the measure under which replacement of parts within a six-month period is taxable.

Some members of the industry have criticized the Government of knowing only to generate revenue but not caring about how such revenue will be generated, and of punishing the people and the companies concerned once it does not receive the money. The abolition of exemptions for vehicle accessories and distributors' warranties is an example. The levying of the Boundary Facilities Improvement Tax is another example. The imposition of this tax will create lots of difficulties for the industry. I hope the Government, before giving effect to the relevant proposals, will continue its discussions with the industry, in order to work out a proposal that is acceptable and satisfactory to both sides.

Madam President, things with "wheels" are often made targets of the Government's bombardment. Although the Financial Secretary decided to extend the duty concession for ultra low sulphur diesel for another year to the end of March 2004, for which the industry is thankful, the industry still has to pay a diesel duty of \$1.11 per litre. I have repeatedly urged the Government to offer more concessions on the diesel duty, but there has been no response from the Government and instead, the Government has launched another attack. Although it goes in a different direction this time, the target remains to be things with "wheels". Examples are the increase in the FRT and the levying of a vehicle-based Boundary Facilities Improvement Tax on private cars. As the Financial Secretary has stated that consideration will be given to other proposals in the next few years in order to generate an additional revenue of \$6 billion, the transport industry and vehicle owners are worried that they will again be made targets of another bombardment. I hope the Government will not pinpoint things with "wheels" anymore. If it intends to increase revenue by \$6 billion, it must not grind its axe at the licence fees or vehicle examination fees.

As I said in the beginning, there are three battlefronts in the war against the fiscal deficit. The first is to revive the economy; the second is to increase revenue; and the third is to cut expenditure. But insofar as the battlefront of cutting expenditure is concerned, the Government has failed to launch an all-out offensive and instead, it has been lax in defence. Take consultancy fee as an

example. The Government used to spend hundreds of millions of dollars on it annually. As the fiscal deficit prevails, I believe the Government will exercise greater restraint in this financial year. But according to the limited information provided by the Government, the expenditure on consultancy incurred by the Transport Department is \$13.78 million whereas that by the Commerce, Industry and Technology Bureau is as much as \$20.46 million. The consultancy fees of one Bureau and one department will already exceed \$34 million, and this does not include the same expenditure incurred by other bureaux and dozens of large and small departments. I have no idea how many hundreds of millions of dollars this will cost at the close of account. To effectively control expenditure, the Government must reduce its reliance on consultants as far as possible, in order to minimize the cost of consultancy.

Consultancy fee aside, I believe there are many other areas in which expenditure can be cut by the Government. For instance, with the introduction of the taxi hiring scheme by the Government to provide services to civil servants, six motor driver posts and six medium-sized saloons can be deleted, thus achieving a savings of \$1 million per annum plus other capital costs for the replacement of vehicles. As long as the Government has the resolve to cut expenditure, and with \$1 million being saved here and another \$1 million being saved there, I believe more savings can be achieved.

The war against the fiscal deficit certainly requires close co-operation from all members of the public. But it is necessary for the Financial Secretary, being the chief commander, to make appropriate adjustments to the strategies. Efforts must not be solely directed at increasing revenue. Vigorous efforts must be made to reinvigorate the economy and cut expenditure. If the Government can win on the three battlefronts, public confidence can be significantly restored and Hong Kong will then be led out of the economic woes very soon.

Finally, Madam President, I wish to say that in the present economic environment, many SMEs, including those in the transport and logistics industries, are subject to immense financial pressure. The Liberal Party hopes that the Government can employ unusual measures at this unusual time by allowing employers and employees to suspend their contributions to the Mandatory Provident Fund schemes for one year. This can not only give employers a breathing spell, but also enable the needy SMEs to spare resources

for technology upgrading and training. Moreover, employees can also keep their salary for spending, which will be conducive to stimulating the weak market.

Madam President, I so submit.

MR CHAN KWOK-KEUNG (in Cantonese): Madam President, in a poem entitled "*Seeing off Meng Haoran off at Yellow Crane Tower* (送孟浩然之廣陵)" composed by LI Bai, it reads: My friend has left the west where towers yellow crane, For River Town when willow-down and flowers resign (故人西辭黃鶴樓，煙花三月下揚州)¹. Hardly could we have imagined that immediately after watching the firework display in February, we were plunged into a dark March. With atypical pneumonia going rampant, the virus remains unchecked in early April. Hong Kong was seriously ill even before this fiscal year commences. We need tonic and recuperation to boost our body resistance.

The general public, who are already quite vulnerable, have never ceased strengthening their bodies and minds. However, government assistance is required before we can win this battle. It is simply impossible for the badly injured bodies of the people to bear excessive burdens. The Government should therefore revise the Budget to boost our tonic intake, instead of feeding us with "tranquilizers" and insisting that we should keep cool and wait patiently.

It is believed that the rampant spread of atypical pneumonia will further impede economic recovery. We hope the Government can tackle the disease expeditiously since the extra provision of \$200 million might not be sufficient to sustain a protracted battle against the epidemic. In the meantime, front-line health care staff are facing tremendous pressure. It is hoped that the Hospital Authority can, despite its financial stringency, provide its staff with more protective gear by such means as ensuring an adequate supply of masks, designating areas for its staff to take rest and perform cleansing, offering paid sick leave, and even soliciting additional manpower and lifting the freeze on recruitment of nurses, because it is evident from the incident that there is a severe shortage of health care personnel. Although the relevant estimates of expenditure are going to be passed by way of legislation in this Council today, I

¹ Extracted from 300 Tang Poems New Translation, The Commercial Press 1996

believe it is acceptable for the estimates to be expeditiously revised for re-submission to this Council for passage should the Government wish to increase medical expenditure to a reasonable level.

As a representative of the labour sector, I am naturally concerned about the working environment of health care personnel. However, the authorities concerned might not always be willing to communicate with the labour sector. While doctors and nurses are represented by their respective professional bodies, front-line staff such as ward assistants, administrative officers and workers are not necessarily supported by professional bodies. As such, labour groups become their representatives. It is hoped that the authorities can put aside their established views, allow labour groups to participate, and refrain from holding fast to old practices.

Faced with the fiscal deficit, the Government naturally needs to be cautious with spending. It must not, however, ignore the needs of grass-roots workers. The Government is going to apply to the Finance Committee for funding on 11 April in order to launch the "Re-employment Training Programme for the Middle-aged". This measure, which is intended to benefit 12 000 unemployed persons, will definitely win our support.

As a representative of the labour sector, I hope the Labour Department can, in addition to increasing funding and helping the unemployed to re-enter the labour market, step up inspection and law enforcement and spare no effort in combating illegal employment, with a view to protecting the job opportunities of local workers. Last year, a total of 8 600 illegal workers were prosecuted, representing a 56% rise over the figure in 2001. 383 employers, 24% up from 2001, were prosecuted for alleged employment of illegal workers. The result is evident to all. Yet we still hope the Labour Department and the Immigration Department can pinpoint specifically such districts as Yuen Long and Tin Shui Wai, where there is a larger concentration of illegal workers who even work as decoration workers in public housing estates. The authorities must pay more attention to this.

On the other hand, the amount of claims involved in the 433 dispute cases handled by the Labour Department last year exceeded \$730 million. However, the sum of money awarded to employees fell far short of the total amount of claims. A 100-strong team under the Labour Department is specifically

responsible for prosecuting offences under the Employment Ordinance. It is hoped that improvements can be made in terms of collecting evidence and investigation to strengthen the force of law enforcement.

Besides making efforts in providing training and employment counselling, the Government should also assist in the development of emerging industries to further strengthen Hong Kong's industrial structure and make it more diversified. Only in doing so can the economy be revived so as to provide impetus to industries and services, as well as giving momentum to the market to create more jobs on its own.

Now that the Asian economy has reached a new milestone in terms of its mode of development, it is simply impossible for Hong Kong to rely solely on export and re-export to explore opportunities. This year, the Financial Secretary has specially proposed to help creative industries. This is worth encouraging, particularly in view of the indications that Hong Kong's movie industry is turning onto a road of flourishing. This gives the Government more justifications to significantly raise the amount of the fund to lure more investors to produce more quality movies and thereby consolidate the territory's edge in Asia. Thanks to numerous "rocket" industries such as film-making, electronics, cell phone games and design, the Korean economy has managed able to recover speedily. These industries have also succeeded in leading the Korean economy to re-bounce from the bottom to enjoy the present boom.

However, the Financial Secretary has not acted positively enough for he has failed to outline in the Budget detailed plans on helping creative industries. Instead, he has merely stated that the industries are welcomed to present suggestions to the Commerce, Industry and Technology Bureau and the Home Affairs Bureau. The reply given by the Commerce, Industry and Technology Bureau to my question concerning the measures and work for the promotion of creative industries was somewhat vague. I was only told that \$23 million would be spent on the promotion of the relevant work. I hope the Government can expeditiously announce its specific plans so that the industry and the community can respond and make suggestions promptly.

In the light of the heated fightings in the Middle East, I have earlier proposed a motion on the opposition of war. In this connection, I cited a survey by the DAB in which 70% of the respondents had expressed worries that the local economy would be damaged. War is harmful not only in the economic

sense for it is also inhumane, and endless disasters will follow. I would like to remind the Government that war will do no good but great harm to oil prices and tourism. As pointed out by a number of colleagues earlier, oil prices are bound to face pressure to rise. The Economic Development and Labour Bureau should therefore constantly maintain close liaison with oil companies to discuss ways to tide the transport industry and other related industries over their difficulties. Actions must be taken to prevent oil prices from spiralling and Hong Kong's vitality from being badly injured.

The year 2003 can be described as a year of turbulence. Shortly into the Year of the Sheep, we are already disturbed by global tensions, widespread fears in Hong Kong, and busy districts becoming deadly still. A number of restaurants and entertainment establishments are crying out loud for help. Employers are worried and employees frightened that numerous labour disputes might emerge. I hope the Government can, after sizing up the situation, re-adjust and revise the Budget in the light of all these unfavourable factors by such means as redistributing resources to help trades and industries affected by atypical pneumonia, and actively intervene in cases in which employees are demanded by their employers to take no-paid leave so as to prevent the latter from becoming preys of exploitation by employers. The fact that the disaster is rarely seen in Hong Kong in a hundred years makes it necessary for extraordinary measures to be taken to rescue the affected industries and workers out of the disaster-stricken area.

Madam President, I so submit.

DR LAW CHI-KWONG (in Cantonese): Madam President, I am not going to talk about atypical pneumonia in this debate on the Budget because many colleagues have already touched upon the issue and other Members from our party have talked about what should be done about the overall strategies of the Budget given that the circumstances have changed. I will focus on some essential issues in the Budget. In particular, I wish to discuss some issues related to fairness and credibility in relation to compiling the Budget, and I also wish to discuss whether the drawing up of the Budget should be policy-driven or budget-driven.

I would like to discuss fairness first. I think nobody will object to increasing revenue and reducing expenditure and asking the community to share

the burden together. But the problem is how they can share the burden together. Very often, members of the community are not necessarily dissatisfied with the Government's asking them to bear responsibilities or putting a heavier burden on them. I think that they are very often most dissatisfied with the fact that they have not been treated fairly. The Budget proposes increases in salaries tax by \$6.8 billion and profits tax by \$3.5 billion. The middle class will often times asks why salaries tax should increase by \$6.8 billion while profits tax will only increase by \$3.5 billion. Why does the middle class have to bear more responsibilities? Is it because there are more middle class people? Or are there other reasons? If different classes have to bear the same responsibilities, the increase in profits tax should not be less than the increase in salaries tax. Where is the principle of fairness?

Members must be aware that I belong to the social welfare sector. Actually, the social welfare sector has different opinions when we discuss the reduction of Comprehensive Social Security Assistance (CSSA) payments. Some of them may think that not even a cent can be reduced while some others think that an adjustment can be made according to the deflation rate. However, when the Government announces an 11.1% reduction in CSSA and that civil service pay would be frozen this year, reduced by 3% next year and by 3% the year after, those in the social welfare sector, especially the CSSA recipients think that it is very unfair. This "zero-three-three" arrangement of civil service pay cut is founded on the reasoning that civil servants should be given time to make adjustments slowly. So the Government will reduce their pay in phases, that is, zero adjustment this year, 3% reduction next year and 3% reduction the year after.

Yet, why CSSA recipients have to bear an 11.1% cut in one go? Do they have more room for adjustment than civil servants? I believe everybody knows that those who have lower income have less room for adjustment and more difficulties in adaptation. If civil servants have to take two and a half years to adapt to the "zero-three-three" arrangement, why can CSSA recipients fully adapt to the 11.1% reduction within a few months? We have to consider the principle of fairness.

Evidently, different policies are usually made on the basis of individual decisions, but it does not apply to policy-making by the Government because various policies cannot be independent of one another. There are interrelation

between departments and policy areas and members of the community will ask whether they have borne more responsibilities than others and whether the responsibilities that they have borne are reasonable. How can a judgement be made? How can different people share the responsibilities for increasing revenue and reducing expenditure? How can fairness be measured?

The second issue is credibility. Very often, the Government has to be very careful when it makes decisions and it has to make thorough considerations. We do not wish the Government to make changes to a decision it makes today after a certain period of time. Therefore, we very often have to think over the relevant issues again and again when we make government policies. Of course, the case will be different when a decision has to be made urgently without delay. We have to be so very careful when we make policy decisions because we have to avoid overturning decisions already made in future. So, when we make amendments to laws and changes to policies, we usually have to try our best to avoid giving any amendments to policies or laws retrospective effect. Of course, there are exceptions and we will change our policies and give the changes retrospective effect when the situation is particularly urgent or very special.

Members may know what I am trying to say. When we made the CSSA policy in 1999, we said that CSSA would not be reduced when there was deflation and deductions that should be made when there was deflation would only be made when there was inflation. The decision made at that time was wrong because we failed to anticipate that there would be deflation for several consecutive years. When we review the policy today, we find that the policy was wrong and it should be amended in such a way that CSSA can be reduced when there is deflation. But now that the policy has been amended, we have to ask ourselves today whether we should give the policy retrospective effect. If the problem has become very serious, we may also have to consider the extent to which it should have retrospective effect. If we say that the fiscal deficit problem is so very serious that we must do something and give the policy retrospective effect, I will not argue and I will even suggest that the policy should have retrospective effect since 1999. It is because the decision made in 1999 was that deductions that should be made when there was deflation would only be made when there was inflation, so, deductions that should be made when there was deflation would basically be made later. Therefore, the decision made at that time was that the principle of the policy would remain unchanged, but an adjustment would be made to the strategy, that is, deductions that should be made

when there was deflation would only be made when there was inflation in future. If the policy is amended today, it should have retrospective effect since 1999.

Why do I object to giving the policy retrospective effect from 1996? It is because the Government's policy during the three years from 1997 to 1999 was that the extra pay-out in CSSA would not be recovered since the level of CSSA remained relatively low each year. How can we make a decision today to give the policy retrospective effect covering the three years from 1997 to 1999? Besides, the reason for doing so is also entirely contrary to the reason given at that time. How can we say that there is room to do so now? We said at that time that there was no room to do so during those three years but we are now saying that there was room to do so during those three years and the additional CSSA should be deducted.

Therefore, credibility is very important although very few people may be affected by this policy. However, when the Government makes a decision, it has to think about the basis for making a decision in the past and whether the decision was made hastily then. Was the decision made at that time because of wrong assessment so that we have to overturn the decision made then today? What are the grounds for doing so and when should the policy be back dated?

It will be very difficult for the Government to any policy if it lacks credibility because the community would not have confidence. In fact, many people do not have confidence in the Government insofar as the atypical pneumonia incident is concerned, and if the Government does so, it will make people more frightened and worried.

Another issue is whether the compilation of the Budget should be policy-driven or budget-driven. Many a times we will discuss whether public finance should be budget-driven or policy-driven, and I always tend to think that the administration by the Government must be policy-driven and financial management is only intended to tie in with administration. Nevertheless, we can see that the opposite is at the back of or reflected by the Budget today in that financial management has become the prime consideration.

I am running out of time, so I only wish to cite a policy area as an example to illustrate this point. For instance, it is stated in the policy address that we should build up a caring community. I cannot help asking how the aspiration for a caring community is reflected in the Budget. I really fail to find anything

in the Budget that is related to the hope expressed in the policy address that a caring community would be built up. If one says that we care for civil servants so civil service pay would therefore be reduced over two and a half years. But how can Hong Kong be called a caring community if we do not care for the poorest CSSA recipients?

What have we done in health care and social welfare to care for the needy in the community? Talking about health care, the Hospital Authority will cut 1 200 beds next year. Of course, the Secretary, Dr YEOH Eng-kiong, can cite many reasons. For instance, the services can be provided in the communities, however, the actual problems will not be seen within a year and human behaviour will change after all. He has said that the numbers of doctors will increase, but he has not told us another story, that is, after he has taken over the clinics of the Department of Health, the numbers of doctors will certainly increase. Actually, he still has to take over the clinics of the Department of Health though the number of nurses has decreased, so, the total number of people providing services will be reduced. After he has taken over the clinics and the nurses have been transferred to those clinics, how many fewer nurses will there be in hospitals? This issue has not been discussed. Have we cared for the patients? If the Budget is a tool to show the direction of administration by the Government, is there anything in the Budget that can tell or show us that the Government cares for the community? I hope that the Financial Secretary will later have a chance to tell us how building up a caring community as stated in the policy address is expressed in the Budget.

Madam President, we have discussions on the Budget now and, as Members have just said, there may have been a lot of changes but no matter how the situation has changed over the past few weeks, the core of the problem is still what kind of care the community needs. The community has a lot of worries, many people may have financial problems and many others may have business difficulties. Have we cared about the pressure they are facing? How can the Budget reflect that the Government cares about the pressures that Hong Kong people are experiencing? I look forward to hearing the Financial Secretary's explanations in future. Thank you, Madam President.

DR PHILIP WONG (in Cantonese): Madam President, the Chinese General Chamber of Commerce of which I am a representative supports various measures proposed by the Financial Secretary in the Budget this year to eliminate the fiscal

deficit, increase revenue and reduce expenditure. During such extraordinary times when a war has broken out between the United States and Iraq, atypical pneumonia is spreading, the global situation is tensed and the people have little confidence in the economic prospects, I think that the Budget has already looked after the interests of various strata in the community as far as possible. That the Government will moderately reduce expenditure and increase revenue in phases shows that it has really given much thought to the matter. I wish to focus my discussion on three points.

The first point is related to the structural fiscal deficit. I highly appreciate the fact that, in the first Budget after assuming office, the Financial Secretary pointed out bluntly for the first time that we had a structural deficit. I have also noted that he has frankly admitted in his second Budget that there is a severe fiscal deficit. At present, our fiscal deficit is equivalent to 5.5% of our GDP, far beyond the warning level of 3% for members of the European Union. A failure to resolve the fiscal deficit early will definitely affect our status as an international financial centre and our rating by international financial organizations, and slow down economic recovery. People have gradually come to realize that our fiscal deficit and globalization are two different things and we cannot just put the blame on external factors or passively wait for the peripheral environment to turn better. We must look for the source of the problem internally, look squarely at the causes and suit the remedy to the case, otherwise, the problem can hardly be resolved. The industrial and business sectors also understand that the fiscal deficit is a problem of Hong Kong as a whole, not just a problem of the Government. If the fiscal deficit can be resolved and the financial system can be stabilized, Hong Kong will only become more business-friendly. I believe various sectors of the community would take the situation as a whole into consideration and make concerted efforts to support the series of government measures.

In respect of increasing revenue, besides increasing the tax rates and levying new taxes, the Budget has also proposed concessions that should be able to look after the affordability and needs of various strata. The rate of profits tax that is directly related to the industrial and business sectors will increase by 1.5%. Although the rate of increase is higher than the rate generally anticipated by them, a profits tax rate of 17.5% is still relatively low in the region and it will not injure the confidence of investors. Profits tax is levied on the condition that profits are made and so it complies with the principle that those who have the

means should pay more and benefit other people as well as themselves. Therefore, I think it is acceptable. I also hope that the profits tax rate can be reduced to the existing level of 16% or below when the Hong Kong economy improves.

In respect of reducing expenditure, the Budget has set out a specific target of achieving a fiscal balance in the year 2006-07. It is not easy and very painful to fight this battle. Just like increases in taxes, fees and charges, all measures of reducing expenditure will put heavier burdens on people especially the middle class. However, various sectors of the community have to tide over the difficulties together if we wish to resolutely resolve the fiscal deficit. In my opinion, while various sectors of the community sacrifice their interests, the Government should be more determined and take stronger measures to reduce expenditure, for instance, it should think more about and make more efforts in reforming institutions, downsizing, enhancing efficiency and reducing civil service expenditure. Although civil service pay has been frozen, the established practice of annual increment seems to have gone against the original intent of freezing civil service pay and this indeed warrants examination. Moreover, public money of hundreds of millions of dollars is presently spent on the consultant and lawsuit fees of some departments. We should also review whether the expenditures of some offices and government works are value for money and try our best to put an end to waste and reduce expenditure.

The second point is related to social welfare expenditure. The Financial Secretary has pointed out that one of the important causes of our structural deficit is the change in policies. Since the 1980s, on the one hand, the Government has narrowed the tax base and reduced taxes, fees and charges, and yet on the other, it has expanded the Civil Service, increased civil service pay and social welfare expenditure. It is pretty rare in the world for a simple and low tax rate regime to support a high wage and welfare structure.

The figures provided in the Budget show that the social welfare expenditure in the year 2002-03 is \$32.6 billion, four and a half times the expenditure in the year 1992-93, and the increase is quite substantial. I remember that I participated in the compilation of the last Budget of the British Hong Kong Administration in my capacity as an adviser on the Chinese side. I found that government expenditure accounted for an excessively large proportion of the GDP, in particular, there were excessive increases in recurrent welfare

expenditure, so enormous that our fiscal reserves would be used up. Mr CHEN Zuor, some other people and I expressed views about this situation. I criticized that the British Hong Kong Administration would put an unbearably heavy burden on the Hong Kong Special Administrative Region if it did not give consideration to the enormous welfare expenditure, and it would give people the wrong message that they should not worry because the Government had a lot of money that it could give out to support them. The message that Hong Kong had money to give out was spread all over the towns and villages in South China and to the distant border areas. At that time, I thought that this was inconsistent with the fiscal management principle of keeping expenditure within the limits of revenues, fiscal balances and proper utilization of limited resources, and it went against the traditional concepts of the Chinese. It was essentially a spiritual opium that was easy to give away but difficult to control.

Some people may be oversensitive to the mention of "opium". Actually, opium can only relieve transient pain, but it will cause pain that lasts a long time. It cannot cure diseases for good and it would foster reliance. If people poison themselves by relying excessively on the Government and taxpayers, they will only reap what they have sown at the end. The analogy of "spiritual opium" that I drew at that time was distorted and criticized by some people, but my worry has finally happened. The "spiritual opium" given out at that time has gradually taken effect after the reunification and serious detoxification is really needed. To achieve the goal of detoxification, it is pressing for the Government to do more to invigorate the economy and stimulate investments. Such efforts should include planning large-scale infrastructure projects, increasing external demand, supporting small and medium enterprises, improving the business environment and expediting the creation of job opportunities. In my opinion, the Government should cut much expenditure, but it should not reduce expenditure on psychological counselling, employment support, retraining, lifelong learning and the promotion of healthy living. On the premise of establishing a basic safety net for the disadvantaged and people who are genuinely in need, families, schools, communities and the media should give play to their roles and inspire people to become enthusiastic about self-reliance, standing on their own feet, making improvement and taking the initiative to start businesses.

I have noticed that, to control the gradually increasing structural expenditure on the CSSA and change the reliant mindset that "receiving CSSA is

better than working", the Government has adopted the opinions of the community and made suitable adjustments to the CSSA payments, eligibility, duration of receiving CSSA and the methods of payment. Many members of the community have suggested that we have to plug the structural loopholes for abuse of CSSA by new arrivals and we can draw reference from the established practices of various countries in the world such as a system of support assurance. For CSSA recipients who are able to make a living, we should try to guide them to rebuild self-confidence, take up a job and participate in social services early. We should encourage the old, infirm, sick and disabled to choose to return to their native places for recuperation and retirement because the environment and medical treatment in the Mainland are not inferior to those in Hong Kong, but the living expenses are certainly cheaper there. Therefore, it is better for them to return to their native places and rely on the CSSA and Old Age Allowance than remain in Hong Kong. I think these suggestions are rational and reasonable and the Government should consider the specific measures and negotiate with the mainland authorities to make the mechanism as sound as possible and the arrangement satisfactory to both sides.

The third point is related to the consultation on and implementation of the Budget. First of all, it gives no cause for much criticism for the Financial Secretary to extensively consult Members and people from various sectors before drawing up the Budget, and the practice has also been adopted by the former Financial Secretary. However, I believe Members and the general public cannot fully grasp the complex situation of Hong Kong. The officials concerned have to make decisions after independent consideration, analysis and deliberation of the opinions of various parties. Under the Accountability System for Principal Officials, it would not be acceptable to the people if such senior officials shift the responsibilities onto them under the pretext that they have wrongly listened to public opinion.

In respect of the implementation of the Budget, I hope government officials can be resourceful, good at making decisions and courageous to bear responsibilities. They have to fight for people's support and pull the community into consensus. More importantly, after they have found a good solution, they should grasp the opportunity to implement it. In the course of implementation, they should constantly sum up experience and take satisfactory matching measures to achieve the expected effects. They should never be mindful of personal gains or losses. It is impossible that policies or measures

would not be criticized or resisted by some people with vested interests, but so long as what they do is practical, conducive to public interest and down-to-earth, they can move forward courageously.

Madam President, I so submit.

MR JAMES TIEN (in Cantonese): Madam President, since 1988 when I had the chance to take part in the work of this Council, I have taken part in the Budget debate every year. My impression is that the difficulty in handling the Budget this year is unprecedented. Since the end of last year, the Financial Secretary has been consulting various sectors and different strata of society on compilation of this year's Budget.

Of course, since the publication of the Budget on 5 March, two events as mentioned by many Members have occurred, namely, the outbreak of war in Iraq around mid-March and the aggravation of the atypical pneumonia problem, which also occurred in mid-March. These events have made it no longer possible for us to adhere to our original views on the two parts pertaining to expenditure and revenue in the Budget framework published on 5 March and also put Members in a bind. Of course, we also noticed that from the angle of the Government, it already found the fiscal deficit to be very serious at the end of last year.

The Liberal Party supports the Government's proposal to achieve fiscal balance by 2006-07. In that case, we wish to ask whether the enormous fiscal deficit should be allowed to exist in the run-up. Should the deficit be allowed to stand at over \$50 billion? Is it possible to reduce the deficit next year? Under such circumstances, what can be done to increase revenue and cut expenditure? If fact, the Government is already toiling over this, however, Madam President, our grave concern is the effect of the recent atypical pneumonia incident on the economy of Hong Kong as a whole. I share the concerns of those Members who have spoken before me. I think that, at present, it is still too early for an assessment of the effects of the atypical pneumonia incident on the economy of Hong Kong this year.

(THE PRESIDENT'S DEPUTY, MRS SELINA CHOW, took the Chair)

I think that the atypical pneumonia incident certainly will not have any long-term effect. Even if this matter cannot be resolved within a short time, its effects on us will only be limited to the current year. However, even though this is the case, how is the Financial Secretary going to handle the Budget this year? Before 5 March, it was impossible for him to foresee this incident, therefore it may now be necessary for him to reconsider the Budget drawn up before 5 March. If we put aside the part on expenditure, as far as the part concerning revenue is concerned, there are numerous hurdles in taking forward the relevant measures in whatever social stratum.

According to the Government's original proposal, there will still be a deficit of over \$50 billion in this year's Budget. However, as we can see, the general atmosphere in town is gloomy and the impact of atypical pneumonia on industries at the forefront, such as the catering, retail and tourism industries, has been enormous. In the past two days, I have made enquiries on the overall occupancy rate of hotels in Hong Kong and the answer was around 30%. Compared with the figure at the beginning of the atypical pneumonia outbreak, the occupancy rate has fallen from between 80% and 90% to between 60% and 70%, and further to 30% now. Every hotel is suffering heavy losses. Mr Tommy CHEUNG has also pointed out that the drop in the turnover of restaurants cannot be described in terms of 10% or 20%, but to 10% or 20% of the original. Under these circumstances, how can restaurant owners keep their concerns going? How can they pay the wages of their employees and how can they pay the rent?

The initial view of the Liberal Party is that society as a whole should reassess this problem. Should employees, employers, property owners, banks and the Government examine if a reassessment can be conducted on this issue as soon as possible? What I mean is that, if employers have to give their employees leave or employees suffering from atypical pneumonia have been taking paid leave, employers will gradually find it difficult to go on this way. With the drop in business and employees absent from work, their income will not be enough to meet the rent. We do hope that employers can continue to pay wages to their employees, but can landlords reduce the rent payable by employers in small businesses? In this regard, the Liberal Party will examine this matter with big property owners with its utmost, however, with regard to individual property owners, there is nothing we can do and we can only hope that they will hold discussions with their tenants, that is, employers in small businesses. Of course, it is possible that property owners would say that they

have their own difficulties too. They may have borrowed heavily from banks and have to pay a lot in interest. In that case, they should discuss with banks to see if their term of repayment can be extended and whether there is any room for a reduction in interest.

I believe the Financial Secretary will also think that the estimates made in the whole Budget may not be accurate now since business has declined so much and the profits made by companies will definitely drop substantially. Even though the profits tax is increased by 1.5%, the revenue as a whole will not be as much as projected in the Budget. This is also the case for salaries tax. If a lot of enterprises show signs of floundering, they will be forced to start laying off employees or to close down, so the income of wage earners in general, including that of the middle class, will also drop and no matter if the salaries tax reverts to the 1998 level in one or two years' time, all revenues from tax will miss their marks. I think the Financial Secretary will find himself walking a tight rope in these unusual times and if he wants to juggle between the livelihoods of various groups in the near future, then the fiscal deficit this year will even be greater.

Under the present circumstances, I believe many small and medium enterprises (SMEs) will voice even stronger objections to the 3 000-odd government fees and charges, in the hope that the Government will not raise them. Some may even request an extension of the \$5,000 waiver on rates, sewage charges, water charges, and so on, offered last year. Such calls will definitely be heard again. In fact, the Government is also in a difficult position. Without its help, SMEs will close down and tax revenue will be lost; with the present deficit standing at over \$50 billion, so if it offers help, and if we go on alleviating the public's hardship this way, an extra \$5 billion or \$10 billion may be required, and the deficit will rise to as high as \$60 billion or \$70 billion. How should the Government allocate funds in this Budget? What will the international ratings be? All of these considerations place the Government in a very difficult position.

Madam Deputy, after discussing these problems, the Liberal Party cannot offer any particularly good advice to the Government. However, coming back to the fundamental issue of increasing revenue and cutting expenditure, the Liberal Party feels that the Government has not done enough in this regard in its Budget published on 5 March. Certainly, we understand that the Government has its own difficulties. It has reached the so-called "zero-three-three" agreement with civil service unions. It can be said that this is the farthest the Government can go in cutting expenditure. We wonder if there is any more

room for the Government to step up its efforts? We hope the Government will continue to exert itself. Of course, making an effort means the Government has to continue to discuss with civil service unions. However, if no agreement can be reached with them, the Government still has to spend a very large sum of money each year. Therefore, if it is not possible to increase revenue, it will be undesirable for such a state of affairs to go on, particularly because, it is not possible now to assess the effects of the atypical pneumonia incident and the war in Iraq on Hong Kong's economy.

Regarding the bill on government revenue, its scrutiny and the final vote on it may have to be deferred to May or June, by which time hopefully the war in Iraq will have ended and the atypical pneumonia incident will have been resolved. Only under such circumstances can we calculate more specifically the economic losses suffered in these several months. If an assessment is conducted today, it will be as though none were conducted, since even if we say that the losses amount to a certain sum, the war may drag on for a few weeks or even a few months more, or the atypical pneumonia problem cannot be resolved within this week but has to stay for one or two more weeks, then how would the situation be like? As long as the atypical pneumonia problem is not solved, the number of patients will continue to rise, that is, the situation has not yet stabilized and it will be difficult for us to evaluate our losses. From the viewpoints of overseas visitors and business communities, unless the number of atypical pneumonia cases begins to decline steadily, otherwise no matter what the World Health Organization says and whether it issues any advisory or not, they are not going to come to Hong Kong. If most of the people in the business sector or most visitors do not come here, the impact on the economy of Hong Kong will definitely be severe.

Earlier, the seven parties have expressed some of their views on the atypical pneumonia incident. Since the Liberal Party has contributed views in this issue, it will of course lend its full support in the hope of making the Government take more decisive steps and proceed more boldly as far as possible when dealing with the atypical pneumonia problem, so that the people of Hong Kong will not unduly panic and they will be informed of what they want to know, for example, of the residential blocks in which people who have contracted atypical pneumonia live, their workplaces, and so on. With all this, people who are not affected can have greater peace of mind to go out and spend. If members of the public dare not go out and spend, and the vicious economic cycle is thus allowed to repeat itself on a protracted term, the situation will deteriorate very badly.

As to reducing expenditure, we hope the Government will reduce the establishment of the Civil Service by a further 10% in four years. We also think that if the voluntary retirement scheme turns out to be a success, all would be fine as a matter of course. However, in the event that the outcome of the second voluntary retirement scheme is not satisfactory, then I think the Government should examine whether layoffs are possible under the existing civil service framework. In fact, the government expenditure in this area already accounts for 70% of its recurrent expenditure and 23% of the GDP. Whatever we do, it will be difficult to balance the books. Moreover, in view of the present economic recession, we believe the GDP will decline. In that case, even if the 23% is reduced to 20%, the Government will still face a tremendous problem in respect of its expenditure.

In addition, many members of the Liberal Party consider that the fringe benefits and allowances granted by the Government may be outdated. Under the colonial political system of the former British Hong Kong Government, these allowances were necessary. However, if we examine the present allowances, such as the overseas education allowance, in 2001-02, over \$390 million was spent and this year, the amount has to be increased to over \$430 million. Is it still necessary to spend such a large sum on overseas education allowance? Can it be reduced in some measure? Another example is the expenditure on the purchase of air-conditioners and furniture for the Civil Service. In 2003, \$1.12 billion is needed, whereas in 2002, over \$900 million was spent, that is, an increase of \$200 million. Another example is that, according to government information, various government departments spent over \$340 million on work-related allowances last year. I wonder if the Government can examine the array of allowances, since to taxpayers, if the Government can reduce the expenditure in this area, it will have more funds at its disposal.

Concerning profits tax, the industrial and commercial sectors have so far maintained their support for this proposal and said that they will not request a reconsideration of the matter because of the war in Iraq or the atypical pneumonia problem. On the issue of tax levied on the middle class, I understand that the Government has made concessions. The original plan of the Government was to effect the increase in the profits tax levied on the commercial sector within a year. After listening to the views of many parties, the Government will effect the increase over two years. However, the atypical pneumonia incident has unfortunately dealt a severe blow to SMEs, as much as it

has to the middle class. Is there still any room for the Government to make adjustments in this area? I call on the Government to give some consideration to this matter.

Madam Deputy, I think I had better not go into the issue of first registration tax for motor vehicles. I will leave it to other Members of the Liberal Party to express their views on this.

Another point raised by many Members is the issue of "those who have the means pay more". The Liberal Party supports this, but should everything be borne by those who have the means? If this is the case, then we cannot agree with it. At present, the industrial and commercial sectors are perhaps considered to be those who have the means, followed by people of the middle class, with members of the lower class coming next. We are of the view that among over 3.4 million wage earners, only over 1.1 million have to pay tax. If the former tax bands are restored, that is, the personal allowance is reduced from \$108,000 to \$100,000, the tax net will be cast wider. However, the additional amount of tax receivable is in fact small. Therefore, we agree with this point.

Another point has to do with government fees and charges. Of course we will have the opportunity to discuss them in detail in the future, but I only hope that the Financial Secretary will, in view of the two major issues mentioned by me, that is, the war in Iraq and the atypical pneumonia incident, reconsider these 3 000 items of fees and charges that affect that people's livelihood, and examine if there is any room to review them further. Thank you, Madam Deputy.

MS LI FUNG-YING (in Cantonese): Madam Deputy, the economy is sluggish and the people are battered by all sorts of difficulties in life. At a time when the living quality of the common masses is declining continuously, the Financial Secretary has put forward a Budget with the theme of eradicating the fiscal deficit. To the general public, it is indeed a very bad time, but when it comes to whether it is already the worst of times, I am far less optimistic than the Financial Secretary. When there is a fiscal deficit of \$70 billion, particularly when this is mainly caused by the fact that the Government's operating receipts are far exceeded by its operating expenditure, the Financial Secretary is duty-bound to prevent the problem from deteriorating. As a representative of grassroots workers, how should I look at the Budget? How can I judge whether certain expenditure-saving measures will seriously affect the grassroots and

vulnerable members of the community and thus should not be supported? How can I determine if certain other measures must require us to discharge our social obligation and show our commitment? All these questions, to quote the words of the Financial Secretary in the introduction of the Budget, have "put me in a dilemma".

I agree that the Financial Secretary should introduce measures to improve the finances of the Government, but this does not mean that I agree to all the proposals in the Budget. As a matter of principle, I do not think that the Budget, which can otherwise serve the functions of redistributing wealth, reducing the wealth gap and helping the vulnerable, should be used for the sole purpose of eradicating the fiscal deficit. Externally, Hong Kong is facing the uncertain prospects of the war now raging in the Middle East, and internally, it is faced with a re-surge of the unemployment rate and the onslaught of atypical pneumonia. It is indeed battered by both external and internal problems, so one simply cannot be so optimistic as to think that the local economy can really achieve a 3% growth this year as projected by the Budget. I fail to understand why the Financial Secretary has to specify the year 2006-07 as the deadline for achieving fiscal balance. That is why I do have some reservations about all those measures founded on the target of eradicating the fiscal deficit by 2006-07. I am even worried that the Financial Secretary may simply disregard all changing circumstances and make the people of Hong Kong pay an even higher price for the achievement of his promised target. Just this Monday, the Legislative Council passed a funding provision of \$200 million to enable the Government to combat atypical pneumonia. I do not know how many more incidents affecting the economy or even requiring extra resources may crop up in the run-up to 2006-07. So, how can the Financial Secretary possibly achieve the "rigid target" of eradicating the fiscal deficit by 2006-07?

The Budget this year is markedly different from that of last year. For one thing, the Budget this year is not the show of the Financial Secretary alone. It covers a host of other initiatives, including the reduction of CSSA payments and revision of medical fees announced by the Secretary for Health, Welfare and Food beforehand, the levies and reduced welfare benefits for new arrivals under the population policy of the Chief Secretary for Administration, as well as many other imminent but hitherto unknown measures to be announced by the various Bureau Directors to lift the freeze on government fees and charges. As a result, any comprehensive discussion of the Budget this year will necessarily and

directly involve policies already announced by various Bureau Directors and Secretaries of Departments. The areas involved are wide-ranging, and in some cases, the relevant details are not even fully known yet. The second difference is that having learnt a lesson from last year's experience, the Financial Secretary no longer makes any unilateral assumption on the rate of civil service pay cut. Instead, he has chosen to negotiate with civil service unions, with a view to reaching a mutually acceptable agreement.

Although society is not unanimously satisfied with the agreement reached on civil service pay cut — some maintain that the rate of reduction is too low while others think that the pace is too slow, I would say that the agreement is definitely the fruitful outcome of the understanding and accommodation demonstrated by both sides. Such an open and sincere attitude, characterized by mutual understanding and accommodation, should be adopted as the basis on which society as a whole seeks to settle other disputes. Of all those organizations voicing dissatisfaction, employers' organizations have presented the strongest views. At one time, they even said that, like the civil service pay cut, the profits tax increase should also be phased in. However, in the end, they still accepted an increase of 1.5% all in one go as proposed in the Budget. To a certain extent, this reflects that employers' organizations are willing to consider the general interest of society. I hope that all employers in Hong Kong will not shift the burden resulting from standing by the Government onto the shoulders of the salaried classes. I understand that in this time of economic adversities, businesses, especially small and medium enterprises (SMEs), are also faced with difficulties. For this reason, I wonder if the Government can consider the possibility of increasing profits tax on a progressive basis, so as to relieve the pressure felt by SMEs. From the macro perspective, this idea may also do good to the salaried classes.

In February this year, the Executive Council endorsed the downward adjustment of CSSA payments by 11.1%. Able-bodied CSSA recipients will be the first ones to be affected on 1 June this year. The CSSA payments for the elderly and the disabled will be adjusted in two phases. Besides, the report on population policy also proposes to tighten the eligibility for CSSA. It is proposed that new arrivals aged 18 or above should be eligible to apply for CSSA only after seven years of residence. The Financial Secretary estimates that the implementation of these proposals will enable the Government to save \$1.71 billion.

I agree that the Government should review the CSSA system, but I must add that the findings of the review have aroused huge controversies in society. To begin with, the current benchmark of the review, namely, the Social Security Assistance Index of Prices, is criticized of failing to reflect the realities. Besides, there is also the criticism that the Government already reduced the CSSA payments for three-member and four-member families in 1999. The Hong Kong Council of Social Service and Prof Nelson CHOW of the University of Hong Kong are conducting a study on the expenditure and living standard of CSSA recipient families. I hope that this study can resolve the arguments concerning the rate of adjustment to CSSA payments. I also hope that in very much the same way as how it tackled the rate of pay cut for civil servants, the Government can withhold the reduction of CSSA payments and determine the rate of adjustment only after the study on the expenditure and living standard of CSSA recipient families has reached its findings. That way, the further division of society can be avoided.

When it comes to the population policy, the Government, on the one hand, encourages the mainland children of Hong Kong residents to come to Hong Kong as early as possible, but, on the other, it has imposed the restriction that new arrivals aged 18 or above shall be eligible to apply for CSSA only after seven years of residence. There appears to be nothing wrong with these two aspects to the policy when they are taken separately. But I am worried about their combined effect, as low-income families, out of financial considerations, may be forced to let their children come to Hong Kong first, leaving behind other family members and in turn creating new social problems for Hong Kong.

CSSA payments aside, the Government's charging policy on health care is another thing that directly affects the grassroots. I agree that such fees and charges must be adjusted, but just as I pointed out in this Council's earlier debate on the medical fee waiver mechanism, the waiver for the elderly should not be based on any means test. The Government no doubt revised the waiver ceiling for the elderly last month, and this can be regarded as a well-intentioned response to this Council's request, but the adjustment is still not satisfactory enough. I understand that the Secretary for Health, Welfare and Food is under immense financial pressure, so if he finds it impossible to exempt the elderly from the new medical fees. Still I hope that the Government can offer them a 50% fee remission, so as to realize the Chief Executive's policy objective of caring for the elderly.

What is more, there are also two measures connected with salaries tax which require people to shoulder a heavier burden. The first one is an adjustment of the marginal tax rate and the second one is the lowering of the personal allowance. Last year, when I gave my views on the Budget to the Financial Secretary, I asked him to review the marginal tax rate. The proposed adjustment of the marginal tax rate will add to the burden of the salaried classes, but for the sake of showing that people are prepared to stand by the Government in times of difficulties and help relieve its financial pressure of having to look after the vulnerable groups, I will still support the Financial Secretary's decision. But the lowering of the personal allowance, I must say, will directly affect the livelihood of the lower strata of society. In the budget question time of the Legislative Council, the Financial Secretary stressed that only an extra 90 000 people would fall into the tax net, and that the tax payable by each of them would just be less than a hundred, up to a maximum of several hundred dollars. To the Financial Secretary, such amounts of money are of course negligible. But to a grass-roots person earning just \$8,000 or \$9,000 a month, travel expenses alone will already constitute a very heavy burden. So if they are required to pay several hundred dollars more in tax, their daily expenses will definitely be affected.

It looks highly likely that the Boundary Facilities Improvement Tax will be introduced. However, I still have some reservations about it. When the Financial Secretary raised this proposal last year, he stressed that it was not related to fares of the Kowloon-Canton Railway. This is not the case in reality, I must say. The fare for the Sheung Shui — Lo Wu section of the East Rail is unreasonably high, so it will be most unfair to people if they are still required to pay Boundary Facilities Improvement Tax. If the Government wishes to introduce the tax, it should at least first sort out the relationship of the tax with the fares of the East Rail.

The unemployment rate has started to rise again. According to the survey conducted by an American human resources management agency, one in every four Hong Kong residents interviewed is worried that he may lose his job in the coming year. This reveals another social crisis. The Financial Secretary proposes in the Budget to make an additional non-recurrent provision of \$270 million to ease unemployment. I do not think that this can be called a new initiative to ease unemployment. In his policy address 2000, Chief Executive TUNG Chee-hwa made this commitment: "Increase the number of supporting staff in personal care, outreaching services and ward services to offer

better services to patients. This will increase expenditure by \$243 million per year in the first two years." The Financial Secretary's provision is nothing but a continuation of the policy. The additional funding provided by the Financial Secretary is at most a mere \$28 million.

"The cleverest wife cannot cook a meal without any rice". Truly, the reserves of the Government of the Hong Kong Special Administrative Region (SAR) are no longer as huge as they used to be. But the SAR Government still possesses more than \$300 billion in fiscal reserves and another US\$112 billion in foreign exchange reserves, so the Financial Secretary is not required to cook a meal without rice anyway. As far as the Budget is concerned, besides seeking to improve the Government's finances, the Financial Secretary should still have spare capacity to promote the cause of social justice, to help the lower strata of society, who least benefited from economic growth in the past, but whose living standard has been rapidly declining as they become the first victims of recent economic adversities. The \$28 million of additional funding to ease unemployment cannot even achieve any window-dressing effect.

Madam Deputy, the Financial Secretary says in the Budget that "besides controlling public expenditure, the Government considers that it is necessary in the long term to introduce a Goods and Services Tax to broaden the tax base and secure a stable source of public revenue." In view of the increasing job insecurity of the salaried classes and also the prevalence of the financial and psychological pressures resulting from unemployment and fear of unemployment in society, the Government must also formulate an integrated unemployment policy covering unemployment assistance, so as to help the unemployed to ride out their pressing difficulties and ensure social stability.

Madam Deputy, I so submit.

MS EMILY LAU (in Cantonese): Madam Deputy, I believe Hong Kong is now facing the greatest challenge after the handover. Hong Kong people are now very confused and scared, the executive authorities lack popular acceptance and cannot offer any leadership, and some people even question its competence.

As regards the economy, many colleagues have already said that apart from the war in Iraq, the atypical pneumonia incident has also dealt a blow to

Hong Kong in many areas. Though the actual impact is yet unknown, Secretary Stephen IP told the media earlier outside this Chamber that the situation was very serious. I believe if more and more people are unwilling to come to Hong Kong and we cannot visit other places, then our tourism industry and local consumption will be greatly affected. Therefore, I very much agree to what many colleagues (including Mr James TIEN) said earlier, that we have to review the situation. Madam Deputy, you have also attended the meeting of the seven political parties earlier and we would hold another meeting tomorrow. Madam Deputy, you must also be aware that — no consensus could be reached among us unless because of some exceptional difficult times or incidents. However, after the September 11 incident, thanks to the call of the Liberal Party, the then eight political parties soon reached a consensus over certain issues.

As regards the Budget this year, meetings were also held for discussions but little consensus was reached. Since Hong Kong is now suddenly confronted by such a serious crisis, I believe Members of the Legislative Council will take part in the discussions. I hope we can reach a consensus tomorrow and pass on some messages for the consideration of the authorities who will examine whether certain items in the Budget could be modified.

I hope the Secretary will agree that the greatest problem facing Hong Kong is not the fiscal deficit, though it is also a problem. Later on, I shall also talk about what can be done to deal with it. The greatest problem at the moment is not the deficit, but rather how public confidence can be restored; and as regards the issue of atypical pneumonia, how international confidence can be rescued. Otherwise, if more and more people refrain from coming to Hong Kong for business and visiting relatives, then Hong Kong would certainly be unable to cope.

Therefore, in this regard, once again I have to pay tribute to the health care personnel. I hope they can be given sufficient support. However, as I told reporters outside the Chamber earlier, I think hospital staff who do not have a heavy workload (since not every health care worker is engaged in atypical pneumonia-related duties) can be redeployed. Sometimes, the executive authorities will not consider such matters and the prevailing phenomenon is that some health care personnel may have an extremely heavy workload due to shortage in manpower while the work of others may be very leisurely for no patients seek treatment at hospitals. I hope all of us can look at the actual circumstances.

As regards various tax increases, originally, the Frontier has also agreed to certain issues, such as those who have the means pay more, but at the present difficult times, who would have the means? What should we do? I am prepared to hold discussions with the seven political parties to see in what way can the hardships of the public be really alleviated.

However, insofar as this Budget is concerned, some issues have given me the impression that it has particularly pinpointed the grassroots and people who are least able to fight back. For example, the CSSA payments are reduced by more than 11% in one go. No sooner had some of my friends from abroad got off the plane than they asked me why the level of CSSA has been reduced. I fail to understand why news of the cut in CSSA payments has travelled to Canada and the United States. They could not understand why the civil service pay reduction of 6% has to be implemented in stages while the 11.1% cut in CSSA payments has to be effected in one go (of course, the cut for some people will be effected in two phases). However, it has given people the message that this is unfair. Furthermore, there is the levy on foreign domestic helpers. I have also received many enquiries from my local and foreign friends. They asked me why the most vulnerable are being attacked again. Do we really have to rob the beggars? Is Hong Kong really so poor? In order to achieve fiscal balance, is it really necessary to attack those who are most vulnerable? So, for these reasons, the Frontier opposes the Budget.

Madam Deputy, I earnestly look forward to working together with the seven political parties and we would also like to make some suggestions. Of course, if we refuse to give way to each other, no agreement can be reached. However, if we can reach a consensus, I hope the executive authorities can listen to our views.

Over the past few years, Ms Cyd HO has been very good in asking quite a number of questions about consultancy fees. The expenditure this year is \$500-odd million and we have also asked about the funding for each department and whether there has been any wastage in relation to consultancy fees. I hope the public can comment on this. At the same time, I also hope that the consultancy reports can be made public because the studies are commissioned with public funds and such information should be shared. However, Madam Deputy, I must sing you praises because the question you asked this year has hit the nail on its head. Like Ms Cyd HO, your question was about the number of posts in each department and the number of substantive appointments.

Madam Deputy, you know that the Financial Secretary has advocated 3Rs and 1 M (that is, the so-called "三重一用" in Chinese), (I do not like to use both Chinese and English at the same time), and in Chinese, it means reprioritization, reorganization and re-engineering, while fully utilizing the private market. I do not have any objection to this, but I believe this is only a proposal by the Financial Secretary, and there is always this phenomenon of "when a policy is devised at the top, there are always ways of getting around with it from below". It could be said that Mrs Selina CHOW has done the Secretary a favour for she has helped him to find out all the figures. But I am not going to go over all those figures, otherwise, all my 15 minutes will be exhausted.

Let us just take a look at the establishment of the Lands Department. I am only talking about people who hold posts at MPS 45 or above. The salary for MPS 45 is already very high, at more than \$70,000 or \$80,000 monthly. There are 173 such posts on its establishment, but only 153 substantive appointments, which means there are 20 vacancies. When Mrs Selina CHOW asked what plans they had in relation to the target of "3Rs and 1 M", they said there were plans to cut six non-Directorate posts, while the rest was still unknown. The problem is, if there are 20 vacant Directorate posts and those posts will not be cut, while the posts below the Directorate level have to be cut; how are they going to effect this? This will be done through natural wastage. Posts at below this level are known as the basic ranks. Since the basic rank officers provide service for the public, service provision will be inadequate if such posts are cut, and this will lead to complaints. But the top echelon is fat, so this retention of high level posts is known as fattening the top at the expense of the bottom. I believe Members may have already heard about this many times.

What about the Labour Department? The Labour Department has got fewer Directorate posts or posts at MPS 45 or above. When we ask how 3Rs and 1M could be implemented, they said they would consider cutting two posts and freezing four others. What are the posts that will be cut? These are posts of personal secretaries and clerks. So, what could be done?

The other department I would like to mention is the Transport Department. The Transport Department could be said to be "very outstanding" and the Secretary is also present in the Chamber. The Transport Department has an establishment of 103 with 86 substantive appointments and 17 vacancies. Such posts are at MPS 45 or above with monthly salaries of \$70,000, \$80,000 or above. What will the Transport Department do about 3Rs and 1M? They said

they had cut 20 posts last year, but all of them were typists and clerical posts. Then what about 3Rs and 1 M? They said they have to consider. Actually, they have much more to think about!

The Drainage Services Department has an establishment of 87 but only 81 substantive appointments and six vacancies. What will the Department do about 3Rs and 1 M? It said it has to consider. I do not want to go on about the situation in different departments. Madam Deputy, there are actually many things to talk about. If all departments are willing to freeze posts at MPS 45 or above — Secretary Michael SUEN is also in this Chamber and there are also such incidents in his department. In fact, as I said earlier, there are also such incidents in every department without any exception — if all departments are willing to think about it and cut these vacancies, then cutting 10 such vacancies is better than cutting 100 or 1 000 posts at the basic ranks. Vacancies that have been cut should not be filled again. I hope all departments could act accordingly.

Furthermore, Madam Deputy, it is good that the Secretary, Dr Sarah LIAO, is here. As regards the water leakage problem, the water leaked amounted to \$400 million a year. The Secretary indicated that pipes were not repaired in the past and with the purchase of Dongjiang water, it does not matter if a little bit more water is leaked for it is very normal. This certainly should not be allowed. How could we allow \$400 million worth of water to be leaked each year? The Secretary said leakage also occurred in other places, but I certainly hope we can do better. I hope the wastage can be reduced to \$100 million a year. Is this too much of a request? So many hundreds of millions of dollars have gone down the drain, while the Government can actually find out what is happening by employing more people or building more new pipes. So can this be done? How can the wastage be amounted to several hundreds of millions of dollars?

Furthermore, Ms Cyd HO asked Secretary Frederick MA whether he could tell us how much electricity was consumed by the Government each year. The answer is \$1.785 billion. Ms Cyd HO's question was very simple. She only asked the Secretary to tell us what were the respective electricity bills of CLP Power Hong Kong Limited (CLP) and the Hongkong Electric Company Limited (HEC), but the Secretary said he could not provide an answer. When asked for the reason, he said it was because the Government had not asked for a

breakdown from different departments, and he said it was not even possible to break down the amount of money paid to the CLP and the HEC. So, he said he could not provide an answer. A more important point is that each department is not required to report how much has been paid in electricity tariffs. Of the sum of \$1.78-odd billion in electricity tariffs, if each department can report the amount spent on electricity tariffs, then we may be able to tell which department has used too much electricity. Should the public be informed of this? I hope Secretary Frederick MA will try to work towards this target next year.

Madam Deputy, I would now like to talk about the Chief Executive's Office and in fact, I do not have to go into too much detail. Here, it is listed that the expenditure is \$29-odd million with an establishment of 86 posts. The Chief Executive's Office employs six chauffeurs and I do not know why Mr TUNG has to employ six chauffeurs and 27 domestic helpers, but when I asked about their duties, I could not get an answer. I asked whether the Chief Executive's Office had a performance pledge and whether they had a pledge for answering mails. The answer I got was: Normally, an initial reply would be sent within 10 days. But they do not know about other aspects. They said this was the general practice of the Government. The Government has performance pledges, but what about the Chief Executive's Office? This \$29-odd million, however, does not include the annual salary of Mr LAM Woon-kwong, and that means the total expenditure amounts to more than \$30 million. Do we get value for money with such an expenditure,?

Furthermore, Dr LAW Chi-kwong also asked a very good question. He referred to the Hospital Authority (HA). While there are about 1 600 Directorate posts within the Government, there are 556 such posts in the HA which is rather shocking. So what should be done? For an establishment as big as the Government, there are only 1 000-odd Directorate posts while there are already 500-odd such posts in the HA alone. I think we have to do something about this for our taxpayers' money is very hard earned. I believe Secretary Frederick MA can actually do a lot more. He should consider how savings can be made, instead of thinking about taxes and fare increases, and there are already a lot of civil service issues for him to deal with. Since there are so many posts for which substantive appointments have not been made, why are such posts not frozen or deleted? No more acting appointments should be made.

Mr James TIEN said \$880 million would be spent next year on local and overseas education allowances and I understand that these allowances are part of the civil servants' terms and conditions of service. However, I also heard that some civil servants have indicated that they are willing to negotiate and I hope they will appreciate the social and public sentiments. However, we certainly do not encourage, nor do we support, that their entitlement be stripped by means of legislation. I only think that sometimes they have to think about the public sentiments for the people will ask why we have to allocate more than \$800 million to send so many people to study abroad and attend international schools in Hong Kong. Should we continue to offer such terms and conditions of service? I believe we should hold a discussion on this matter. I hope civil servants would also make an effort to enter into negotiations.

Madam Deputy, I have moved an amendment, so I will not go into too much detail now. My amendment proposes a 30% cut in the \$37-odd million provision for the Constitutional Affairs Bureau for it seems that when Secretary Michael SUEN was in charge of the Bureau, he was also in favour of dissolving the said Bureau. My present proposal of a 30% cut on its provision is already very lenient. I hope the Liberal Party and other Members will support my proposal.

Finally, I would like to say that I strongly support the request made by Mr SIN Chung-kai in the Special Finance Committee meeting. He requested the Hong Kong Monetary Authority (HKMA) to submit its accounts to the Legislative Council. Not only that it is out of question for us to monitor the finances of the HKMA, Madam Deputy, it is not even possible for us to look at its accounts. However, even the Securities and Futures Commission (SFC) has submitted its accounts to us. On 20th of last month, at the meeting of the Panel on Financial Affairs, we also asked Mr Andrew SHENG, the Chairman of the SFC, why the SFC had to relocate its office from the Landmark to Chater House. Although it is said that the rental has been cut by 10%, the rental of other office premises has now dropped drastically. Even the Urban Renewal Authority has achieved savings of 50% to 60% by relocating to its own properties, so what are the SFC's justifications for such a move? Madam Deputy, I told them last year that even if they had to relocate, they should move farther to Sheung Wan or North Point for the rental in those areas could at least be reduced by half. But now the rental is only reduced by 10%. But even so, at least there is some transparency. Mr Joseph YAM has to use another million-odd dollars for no

apparent reason. I hope to draw Members' attention to this and I also hope he can at least let us have a look at his budget next year. We would have a lot of opinions to offer.

I so submit.

MR WONG SING-CHI (in Cantonese): Madam Deputy, in the face of financial difficulties, it appears the Government is transferring these difficulties onto the socially disadvantaged who have to bear the brunt of government efforts of retrenchment and economizing. Before the delivery of the Budget, the Government announced that CSSA payments and all other welfare benefits would be slashed across the board. Though the elderly and the handicapped are treated somewhat better in that their CSSA rates will be reduced over a two-year period, they have to bear a 6% cut in payments this year.

Dr LAW Chi-kwong has talked about the reasons why the CSSA payments should not be reduced. But the issue is not yet closed, for we are very worried that the Government will continue to slash CSSA payments and all kinds of welfare benefits according to deflation next year. The Budget has also sounded out that various social security schemes will be kept under regular review. The argument advanced is to "establish an effective and financially-sustainable basic safety net". Although no specific details and timetable are given, a knife is still pressed against the necks of the socially disadvantaged as their CSSA payments and welfare benefits are bound to be slashed again. This haunting spectre possessing the socially disadvantaged adds to the general concern that various other pretexts will be used to cut the CSSA payments and other benefits.

The Democratic Party fully appreciates the financial pressure being experienced by the Government, but in such times of difficulties, would it be fair to wield the axe at the socially disadvantaged?

What adds to my worries is that, now with the atypical pneumonia epidemic, there is no sign of life in the stagnant economy of Hong Kong and recovery is pushed further back into the distant future. The deficit problem has become more thorny and hard to solve. Caught in such financial straits, will the Government once again resort to pinpointing the CSSA recipients? Will negative messages like "getting CSSA is better than working" and "some people depend on CSSA for a long time" be sent out across the community? Will the

community become further divided as people turn hostile to CSSA recipients? Will welfare expenditure be cut again in this way?

I hope all these will never become a reality, that I am just worrying too much. At this time of financial hardship, I hope the Government can send out a positive message to the people, that it hopes to overcome the adversities with them. That will prevent society from being divided.

In hard times as these, we hope that the Government can assist the CSSA recipients, especially those who are out of work, so that they can re-enter the job market. In reducing the CSSA payments, we hope that the Government will raise the prescribed limit of disregarded earnings in CSSA. Now the prescribed limit is raised from \$451 to \$600. Though this is a step forward, the amount increased is too small, for it will not really help to pay the expenses incurred when these CSSA recipients look for a job. The Democratic Party hopes that this amount can be raised to \$903 so as to encourage more people to look for a job. We also hope that the job placement services can be improved to facilitate CSSA recipients re-entering the job market.

I wish to remind the Government that at this time when the jobless rate is high and there are not enough jobs to go around, it is difficult to find a job. The Democratic Party hopes that the Government can give these people some concrete assistance, rather than stomping on their hands when they have to cling to the ledge struggling for survival.

Moreover, I notice that the Social Welfare Department has extended the hours of medical social services in large hospitals from 6 pm to 8 pm. That is a good arrangement. I understand that it is never easy to deploy resources and straighten out services, but I hope the Government can also understand that many people who badly need support from social workers, especially those victims of domestic violence, often come to hospitals for help during the night or even late in the middle of the night. They are in most urgent need of help from social workers. Therefore the hours of such services should preferably be extended for improved service delivery.

Madam Deputy, I would also like to speak on behalf of the Democratic Party on issues related to lands and planning, as well as on works. I hope that the Government can respond to the needs of the community and appreciate the hardship of the industries.

Official figures show that industries which are the hardest hit by unemployment are the manufacturing, transport and construction industries. It is easy to understand why the construction industry is a great loser because private sector developers are reducing the production of flats and the Government has stopped the construction of Home Ownership Scheme buildings in addition to keeping the construction of public housing to the minimum. That is why the construction industry is going from bad to worse, and this sharp downturn in the industry has thus forced many workers out of work. The number of people affected increases as even professionals like architects and surveyors are involved. In view of this, the Government should provide more assistance to these people so that their jobs can be more secure. For example, more repairs and maintenance projects can be launched to give these professionals and workers work to do.

The Financial Secretary indicates that about \$29 billion would be set aside on average each year for infrastructure projects. A list of infrastructure projects for private sector participation is also drawn up and private sector developers will be invited to take part in a dozen or so projects to build sports and leisure facilities and submit letters of intent. I hope that the Government should take note that the tender process of these infrastructure projects must be carried out in an open, fair and just manner and private companies should be allowed to bid. As long as the proposals submitted by private sector companies are suitable, then these companies should be given a chance to take part in the projects. We do not wish to see a scenario where at the end of the tender process, only the large developers or the giant consortia are awarded these projects, with the small and medium developers being virtually any opportunity of participation. I hope the Government will improve this situation to allow small and medium developers more room of participation in the construction of Hong Kong.

The Democratic Party is also very concerned about the small house policy in the New Territories. We can see that the review of the small house policy is making very slow progress. The Lands Department only grants about 500 permits to build small houses every year. As a result, indigenous inhabitants of the New Territories have to wait for more than a decade before their applications are approved. Such a long waiting time is simply unfair to these indigenous inhabitants.

It is the hope of these indigenous inhabitants that their applications for construction of small houses can be processed more quickly. They also hope that more attention will be given to issues like environmental hygiene, density of houses and illegal structures, and so on. To improve the living conditions of these people, I hope the Government can make an expeditions decision on the small house policy and solve the related problems. If these problems are left unresolved, the grievances will grow and the Government will find it hard to effect governance over the indigenous inhabitants. When that happens, they will not support the Government anymore.

On issues related to the supply of land and its use, the question we must ask is: Does the Government have not enough land for development or does it have no suitable land for use? The area of developed land in Hong Kong takes up less than 20% of the total area of land. When land used as country parks and with conservation value is discounted, there are about 40% of land which can be developed, including that in the rural areas. Large areas of land are left fallow for many years for no obvious purposes. The Planning Department has completed a consultancy report in which it is recommended that the plot ratio control of "Residential (Group D)" rural land be relaxed and a review of the functions of agricultural land be conducted in the hope that planning can be undertaken on land with potentials for development. However, no actual work has been done in these aspects and the land concerned is still left fallow. That is a sheer waste of resources and it will not do any good to the economy and prospects of Hong Kong. I hope more proactive actions can be taken soon.

(THE PRESIDENT resumed the Chair)

Talking about rural land, another issue which is a cause of much trouble for the indigenous inhabitants is disputes in land boundary. At present, there is no mechanism to handle land deeds which are lost or unidentifiable. The Legislative Council is scrutinizing a relevant bill. A more important problem is that there are substantial discrepancies between the land boundaries demarcated in some land lots at different points in time. Some officials have told me that land boundaries used to be drawn by Indian officers and now they are drawn by computer and so they are much more accurate and entirely different from those drawn in the past. In the new zoning plans, some indigenous inhabitants even fail to find their own lots drawn in these plans and it seems that the Government

is doing nothing to help these landowners solve the disputes over land ownership. The disputes are very often dismissed as disputes over wordings and between villagers. This leads to many lawsuits filed and the lucky winning party will resume the land under dispute.

The Land Titles Bill which is presently being scrutinized by this Council will not address the above problem indeed, but only the registration system for land titles. As for disputes over land titles, in the last meeting of the Bills Committee, it was stated clearly that they would be left to the villagers themselves and the Government would not be involved. Certainly, we understand that the related legislation and mechanisms are highly complicated and technical, but if the problems are left not resolved, the situation will only deteriorate. It is because some people may be using public money for the proceedings as a result of legal aid. I have no idea as to whether or not their applications for legal aid will be approved, but if they do, then they will be using public funds to file their suits. The issues involved are quite extensive and the administrative costs to be incurred by the Government in handling these cases will also be great. So I hope the Government can do something to deal with these land disputes and to minimize such disputes as much as possible. That will help foster greater harmony in society.

I so submit. Thank you, Madam President.

MR HOWARD YOUNG (in Cantonese): Madam President, the Financial Secretary confirms once again in the Budget that the tourism industry is one of the pillars of the Hong Kong economy, and he also pledges that the Government will continue to promote the development of the industry. The tourism industry welcomes all this.

I am very pleased that the Government has decided not to introduce any new taxes, such as a Goods and Services Tax, at this time of economic sluggishness. The introduction of the Boundary Facilities Improvement Tax, however, is connected with the tourism industry. We are of the view that if the tax can really improve the boundary clearance facilities and lead to longer clearance hours, people will have no grumble about it. The important thing is that before actual implementation, the Government must clearly inform the public of all the details of the tax, including the types of organizations

responsible for collecting the tax, the categories of exemption, the methods of payment, and so on, so as to avoid any unnecessary chaos. Continued efforts of the Government to improve the clearance facilities between Hong Kong and the Mainland as well as the construction of new boundary crossings will, I believe, promote the tourism industries of the two places.

The Financial Secretary proposes to raise the Air Passenger Departure Tax from \$80 to \$120, at a rate as high as 50%. I have consulted my industry on this tax increase, but those who manifestly oppose the increase are just in the minority. The reason for their opposition is that such an increase runs counter to the government policy of promoting the tourism industry and may well impede its recovery. However, the majority operators of the tourism industry are aware that the Government has run into an acute fiscal deficit. And, since the increase is not yet so high as to make this tax of Hong Kong the highest of its kind in Asia, they believe the number of inbound travellers will not shrink drastically afterwards, so they do not object to the tax increase proposal in principle. They are instead concerned about the effective date of the increase; they hope that the Government can allow ample time before enforcement, so that the travel agencies and airlines collecting the tax on its behalf can make sound preparations. I wish to put down a reminder here: \$120 should already be the maximum tax level. I have conducted a study on this tax in the Asia-Pacific Region, and found that following the increase, Hong Kong's Air Passenger Departure Tax, now just about the average level in Asia, will become the second-highest in the region, just after Japan. I hope the Government can note this point.

The huge increase in Motor Vehicles First Registration Tax as proposed in the Budget will increase the financial pressure felt by hotels, car rental companies and some travel agencies which intend to replace their fleets. Hong Kong being an international financial centre naturally attracts many business visitors who will very often ask their hotels, travel agencies and even airlines to provide them with transfer. The demand for vehicles, mostly expensive ones (for reasons of Hong Kong's image), is naturally quite large. If the Government raises Motor Vehicles First Registration Tax drastically, the desire of hotels and travel agencies to replace their fleets will be adversely affected, and so will their quality of service in turn. Therefore, we think that the proposed rate of increase should be adjusted, or the rate applicable to specific vehicle types should be lowered.

Some people have questioned whether there is any urgent need to restore fiscal balance in 2006-07. Honestly, we think that the purpose of the deadline is just to urge the Government to balance its recurrent expenditure and revenue in the long term. Whether or not the fiscal deficit can be effectively controlled, on the other hand, is largely related to the stability of the Hong Kong Dollar. The resolution of the fiscal deficit problem may lead international rating agencies to upgrade the ratings of Hong Kong and to maintain their favourable outlook on us. As far as the tourism industry is concerned, if the exchange rate becomes unstable, leading to a drop of the Hong Kong Dollar, inbound tourism will benefit because lowered tour prices will understandably induce more visitors to come. This will however produce negative effects on outbound tourism. Most travel agencies in Hong Kong are engaged in the business of outbound package tours instead of inbound ones; a drop of the Hong Kong Dollar will boost tour prices and dampen Hong Kong people's desire to join outbound tours. Anyway, the fluctuations of the Hong Kong Dollar will produce both good and bad effects on the tourism industry, but we should never make any risky moves; we should try to stabilize the Hong Kong Dollar as much as possible. As for what level of fiscal reserves should be required to stabilize the Hong Kong Dollar, it is a judgement for the Government to make. However, I still hope that when deciding on the level of fiscal reserves, the Government should note that it must refrain from introducing hasty tax increases just for the sake of maintaining the desired level of reserves, for this may seriously affect the people's livelihood.

The exchange rate and the interest rate are closely related. Currently, middle-class people having a home mortgage or renting a flat will generally have to bear an interest rate of around Prime (P) - 2% to 3%; most banks now offer P - 2% to 3%. If the interest rate can be maintained as it is, that is, below P - 3%, I believe most negative equity homeowners will still be able to cope and willing to pay their mortgage instalments. However, if the Hong Kong Government fails to eradicate the fiscal deficit, the exchange rate will be affected and the interest rate will in turn fluctuate. The interest rate may well rise by 2% to 3%, that is, by roughly two times. Since small and medium enterprises (SMEs) generally mortgage their properties to banks to obtain capitals, if the linked exchange rate is attacked and the interest rate soars as a result, both SMEs and middle-class people will suffer. In view of this, we think that the stability of the Hong Kong Dollar must be maintained and the fiscal deficit eradicated as quickly as possible, so as to prevent fluctuations in the financial markets.

The Financial Secretary has said that in the next few years, he will consider the introduction of other proposals to bring in an additional revenue of \$6 billion. I think that all consideration of this topic should be deferred until society fully recovers. It is very unfortunate that atypical pneumonia broke out shortly after the announcement of the Budget, dealing a sudden and serious blow to the economy, in particular the retail and catering businesses. People's consumption desire has been plummeting, and even the tourism industry, which has performed very well, cannot dodge the blow as the number of visitors to Hong Kong declines sharply. At this stage, we should first join hands to prevent the further spread of atypical pneumonia, with a view to restoring the confidence of the international community in Hong Kong. At these very difficult times, if the Government still turns its "axe" at the people and the business sector, particularly SMEs engaging in catering, retail and tourism, it will be rubbing salt into their wounds.

When the Government considers how to obtain an additional revenue of \$6 billion later on, it should not confine its attention to the business sector; for example, it should not think only about increasing licence fees — like hotels, travel agencies must also pay licence fees — or else the pace of economic recovery will be slowed down. The Financial Secretary should instead explore a greater number of expenditure-cutting initiatives, some examples, as mentioned by Mr James TIEN just now, being the acceleration of the civil service reform and the abolition of outdated allowances. It should refrain from turning the "axe" at the people and the business sector as much as possible.

I so submit.

DR LO WING-LOK (in Cantonese): Madam President, when an ordinary housewife finds that her family cannot make ends meet, has run into the red, the simplest thing, and also the thing that can be done immediately, is to go thrifty, to buy fewer things. At the same time, she may decide to work part-time to increase the household income. Although what the Government is facing is a fiscal deficit amounting to billions of dollars, it should similarly adopt the approach of increasing revenue and cutting expenditure.

A housewife only has to deal with a small family consisting of three to five members, so it is only natural that she will find it easier to prioritize the items of

household expenditure. That is why even if there cannot be any immediate increase in income, the whole family can still manage by going thrifty together.

In contrast, our Government is too large indeed. There are as many as 180 000 civil servants, and besides that, there are still 150 000 or 160 000 public organization employees. What is more, over the years, people have grown used to the provision of all sorts of government services to cater for their many different needs, resulting now in a huge demand for public services. So, it is indeed difficult to ask them to reach a consensus on measures to cut expenditure and curtail services immediately.

The main reason why we now have 340 000 people serving the 6 million residents of Hong Kong is the sharp increases in government revenue as a result of the bubble economy in the 1990s. Backed up by huge financial resources, the then Government was understandably ready to respond to the endless aspirations of society. That was why the range of public services provided by the Government could be described as all-embracing, and such services simply kept on expanding. So, to cater for the huge demand for public services, it was necessary to increase manpower and other resources.

Unfortunately, good times never last. By now, Hong Kong has experienced an economic downturn for some five years in a row. The Government no longer has the means to be a parent who takes care of everything. Instead, it must seriously set down a positioning for the numerous public services, or else no matter how hard it tries to create new sources of revenue, it will still fail to cater for the ever-increasing demand.

We know only too well that resources can never be unlimited. If we are not prepared to conduct an overhaul of Hong Kong's taxation system, our only alternative will be to set down a positioning for the various public services.

In the case of health care services, for example, the annual funding for public health care amounts to more than \$30 billion, or roughly 15% of all public expenditure. This is by no means a small sum. However, the Hospital Authority (HA) has never set down any clear positioning for our public hospitals since it took over them. As a result, practically all Hong Kong residents have come to rely on public health care services. The point is that the Government has now run into a fiscal deficit as high as \$70 billion. In this financial year, the HA is faced with the first ever reduction of total funding since its

establishment — a reduction of 1.1%, or \$327 million. But while the funding is cut, the HA cannot curtail its services immediately, so it is now under immense pressure. More unfortunately, the recent outbreak of atypical pneumonia has exerted even heavier pressure on public health care services, highlighting the shortage of resources. For this reason, the authorities must hasten to apply to the Legislative Council for an appropriation of \$200 million. Luckily, though, Hong Kong still has some modest savings to enable it to cope for the time being. However, in view of the huge fiscal deficit, and also considering all those never-ending crises of varying proportions, we cannot but ask, "For how much longer can the reserves of Hong Kong last?"

I hope that the recent outbreak of atypical pneumonia can bring home to both the Government and all Hong Kong residents the need to think of danger in times of safety. Owing to resource constraints, the Government must make efforts to preserve its strength whether in the best of times or the worst, so as to ensure that whenever any emergency arises, it can always utilize its preserved strength, can always have sufficient capability and resources to act as a protector of last resort for the people. Conversely, a "big government" that seeks to govern Hong Kong by doing everything in times of peace and prosperity will only end up spending public resources on too many fronts. In that case, when a crisis comes, such a government will find it very difficult to cope.

Another point is that following the recent outbreak of atypical pneumonia, the Government must re-examine the distribution of public health care funding. The health care system of Hong Kong has in the main been "remedial" in nature, based as it is on hospitals and high-tech equipment. The funding for public health care services is slightly more than \$30 billion a year, and of this, almost \$30 billion is allocated to the HA to meet its expenditure. In contrast, only \$300 million is allocated to the Department of Health, which is responsible for promoting public health. In other words, the sum allocated to the Department of Health is just about 10% of the total funding.

The recent outbreak of atypical pneumonia has shown us that a large-scale epidemic outbreak may paralyze the entire health care system. In times of a large-scale epidemic outbreak, a health care system biased towards hospital treatment instead of promotion of public health will find it very difficult to deal with the spread of the epidemic outside the hospital system. The Department of Health is relatively a rather powerless department. In the past few years, having been burdened over and over by the work of dealing with various

emergency situations, could the Department of Health still spare any manpower and resources to do other kinds of work? Does the Department have any spare resources, time and manpower to formulate a visionary strategy on the promotion of public health in Hong Kong?

Infectious diseases know no national boundaries. With the increasingly frequent flows of people and goods among different places in the world, an infectious disease may spread from one place to another within a very short time; it is capable of destroying a whole place, a whole city, and a whole country and even the whole world. In brief, once an infectious disease breaks out, no country or place can possibly remain unaffected. Therefore, I maintain that we should re-examine our health care strategy and funding arrangements and accord top priority to the prevention of infectious diseases. And, when it comes to "prevention" and "treatment", I think more importance should be attached to "prevention" because the experience of the recent outbreak has shown us that the treatment of an infectious disease may be a very painful and costly process.

Madam President, I so submit.

MR HUI CHEUNG-CHING (in Cantonese): Madam President, since a stable exchange rate is extremely important to the import/export trade of Hong Kong, I, as the representative of the sector on this Council, maintain that at a time when the fiscal deficit is as high as \$70 billion, the various tax increases proposed in the Budget this year should be excused somehow due to the need to reduce the fiscal deficit and protect the linked exchange rate against any attacks. The Government's measures on eradicating the fiscal deficit are presumably founded on a series of prudently optimistic expectations: the Mainland as the manufacturing plant of the world may lead to a sustained recovery of the local import/export trade; the Hong Kong economy may be boosted as the changed Central leadership continues to accelerate the progress of institutional reforms; there may be increased inward investment as the Central Authorities further relax the restriction on mainland visitors to Hong Kong and as Hong Kong itself introduces the policy of investment immigration; and, people's confidence in the future may increase as the effects of the various measures to stabilize the property market start to be felt. But in just less than a month since the announcement of the Budget, all these prudently optimistic expectations have come under severe challenge. To begin with, the situation in the Middle East has not become any clearer as a result of the outbreak of the Second Gulf War.

Quite the contrary, a protracted war may further dampen the economies of Europe and the United States, thus in turn casting uncertainties on the foreign trade prospects of both the Mainland and Hong Kong. Second, while the Second Gulf War is bad enough, atypical pneumonia has dealt a far more serious blow to the lifelines of our economy, such as the tourism industry, the catering trade and retail businesses. What is more, the probable lack of any effective ways to eradicate the disease in the year to come will inevitably impose a longer-term, heavy burden on government finances and the economy as a whole. I think that if the Budget is to serve its desired purposes, it must adapt to the changing circumstances. Circumstances have changed, so one just wonder whether the implementation of the tax increase proposals in the Budget, such as those on Motor Vehicles First Registration Tax and sewage disposal charges, should be deferred or shelved for the time being, or even whether the proposed increases should be reversed to decreases instead. In any case, the Government must re-examine the situation with a view to formulating a contingency scheme. With respect to those fee increases already implemented as from 1 April, the Government must closely monitor their effects. If it is noticed that any of them are too heavy for society, they should be withdrawn decisively.

However, whether the economic prospects are at all clear, whether the fiscal deficit is serious, there is still one task which the Government must not defer any further. This is the task of decisively cutting the huge public expenditure, which is constituted mainly by civil service salaries and allowances. As rightly pointed out in the Budget, the operating deficit of the Government, being 5.3% of the GDP, has exceeded the rate of 3% set down by the European Union. Worse still, the stability of government revenue has been upset by the uncertain prospects of economic recovery. However, the Budget just proposes to save a total of \$20 billion in the next four years; this is far too weak in force. Therefore, the Government must speed up the progress of the review on civil service pay levels instead of waiting until 2004. Besides, it must set down a timetable for implementing the civil service pay policy and conducting a structural review, so as to reform the obese and outdated structure of pay and allowances. In the meantime, the Government must strictly control the expenditure of its various departments. As noted from the expenditure information recently disclosed to the Legislative Council, government departments are still indulging the same bad habit of "extravagance". Work-related allowances have shot up from \$190 million to \$340 million. There are also numerous kinds of consultancy reports, each costing at least \$1 million and covering a wide range of fields like engineering, law, architecture, health care

and even supplies management. Decision-makers are reluctant to make decisions and will commission a consultant to conduct studies before they do anything, so that once anything goes wrong, they can toss the blame around. Such is the deep-rooted practice going on year after year, much to people's regret. I am of the view that in order to ensure that government departments can be effectively supervised to reduce squandering, whenever any department is deemed by the Audit Commission as having wasted public money in the previous year, its expenditure estimates should be reduced in the following year, at a rate roughly equivalent to the amount wasted in the previous year. In the course of imposing tight control on expenditure, the Government must act decisively, or else it will be very hard for it to persuade people to accept its tax and fee increase proposals.

Besides, I agree that the Government may try to ease the fiscal deficit by selling its assets. However, since it will not be easy to sort out the technicalities and disputes involved, it must take actions as soon as possible and grasp the best sale opportunities. Concrete schemes must be worked out as soon as possible on the sale of assets worth \$110 billion. Those assets which have been in operation for many years and which still carry substantial market value should either be sold or listed for the purpose of liquidation. The capitals thus obtained should be ploughed back to the construction of infrastructure facilities meeting practical demands. The Government should introduce private-sector investment into infrastructure projects as much as possible. That way, the Government may also stimulate private-sector investment while rationalizing its structure and increasing its revenue.

Frankly speaking, instead of racking its brain on fee and tax increases, the Government should try to improve the economy. Early this year, in his policy address, the Chief Executive set down the direction of boosting the economy — supporting the development of creative industries and core industries like logistics, tourism, financial services and professional services. But it is a pity that the Budget has not dealt with and followed up all this at any great length. For example, there are no concrete plans on how we can avoid drawing demands from one sector to another in developing the local community economy, how mainland capitals can be allowed to buy and sell Hong Kong securities legally here in Hong Kong, when an investment immigrant policy will be implemented and how the Government is going to help the Hong Kong business sector expand into the Mainland following the forge of a Closer Economic Partnership

Agreement with the Mainland. The only concrete proposals are the \$50 million Film Guarantee Fund, the \$200 million promotion project on the Greater Pearl River Delta and the \$2.5 billion recreational and cultural facilities projects for private participation. The average capital expenditure in the coming few years will just be roughly the same as that in the past few years. Since there will not be any major measures to promote economic restructuring, even if the Government increases taxes, it may not necessarily get any additional revenue; the tax increases may even result in reduced revenue, adding uncertainties to the achievement of fiscal balance by the Government. Another equally important point is that Hong Kong's simple taxation system and low tax rate have been the main reasons why it can still attract talents and capitals despite its lack of natural resources. The Government must not upset its own house because of the fiscal deficit; it must not increase taxes and introduce new ones year after year, or else the taxation system may become very complicated. In the end, I am afraid the only one that will benefit will be the accounting profession.

The powerful rebound of external trade since the middle of last year has become the impetus to Hong Kong's economic recovery, so I am of the view that the Government should seek to promote trade as the main means of revitalizing the economy. The promotion efforts concerned should not be affected by any expenditure-cutting measures. The Government is now exploring how best to reorganize our overseas trade offices, to prevent the studies concerned from being reduced to mere empty talks, the Government should work out a concrete scheme as quickly as possible, in order to save expenditure on the one hand and promote trade effectively on the other. Overseas trade offices have all along been serving nothing more than a window-dressing function. Since the Government is still of the view that they should be retained, it should enhance their function of attracting investors and collecting market intelligence. It should also explore the possibility of merging overseas trade offices with the overseas offices of the Hong Kong Trade Development Council and the Hong Kong Tourism Board, so as to enhance the effectiveness of planning, co-ordination and resource deployment, or to spend the resources saved on setting up permanent offices in the major cities and provinces of the Mainland to promote trade links. That way, Hong Kong businessmen can be helped to identify business opportunities in the Mainland. Besides, the Government should also accord priority to cross-boundary infrastructure projects conducive to external trade. I especially hope that the bridge linking Hong Kong, Macao, Zhuhai and Shenzhen can be completed as soon as possible, for this will

minimize the danger of Hong Kong being marginalized in the course of nationwide economic development.

Madam President, Hong Kong is now battered by both internal and external problems. I thus call upon the various government departments to mobilize all their resources and proactiveness to boost the economy and give people a clear direction. It is only in this way that Hong Kong may overcome its current difficulties and regain its vigour. Madam President, I so submit.

MR ERIC LI (in Cantonese): Madam President, the Budget debate today is being conducted against a most unusual setting of a raging epidemic and fierce fightings on the other end of the horizons. The Hong Kong people's confidence in their economic prospects is low enough already, and they now have to face an acute fiscal deficit. This really adds to my depression. The current situation poses a test not only to those in power and those engaged in politics, but also to you, me, Legislative Council Members and all people in Hong Kong. Will the debate during these two days show that the political scene of Hong Kong continues to be marked by complaints and shifting of responsibilities? Or, will it show that there is now more solidarity and enterprising spirit in Hong Kong? This is going to be a historic test on our people's political maturity, on the maturity of our parliamentary politics, after the many years of development of our system of limited democracy.

We may approach the Budget from many different angles. However, regardless of the objective changes that have emerged, I will still try as much as possible to discuss and analyse the Budget from three perspectives only — the objective perspective of professional accountants, that of a politically impartial citizen and that of a typical middle-class member of the public.

As a professional accountant, I am very concerned about the concepts of truth and equity. An accountant will always try to make accurate estimates and projections on the basis of reasonable assumptions. As financial experts, we will accord priority to expenditure control lest there may be huge operating losses in the end, and we may thus regret our own lack of foresight.

The projections made by the Government in the 2002-03 Budget were completely inaccurate. Squaring the accounts at the end of the financial year, the losses amounted to as much as \$70 billion. This is a completely

unacceptable outcome. And, also since the Government lacks the ability to control public expenditure effectively, it will be small wonder that a professional account will assess this Budget with "enormous reservations".

Since the Budget debate in 1999, I have repeatedly warned that we must pay attention to the acute structural deficit, and demanded the Government to introduce measures to reform our public services, with a view to controlling expenditure and increasing the value of government assets. In the Budget debate last year, I also reminded the Financial Secretary that "major financial indicators, including investment returns, land proceeds, civil service pay cut, economic growth, and so on, are still 'strategically' risky over the medium term". Unfortunately, my warnings have come true and become the principal reason for the huge fiscal deficit.

When the Government introduced the legislation on reducing the pay of civil servants, I made it a point that the Government should not waste any more time, but it should act decisively. I also said that the Government should overhaul the civil service pay mechanism through consultation and legislation, with a view to enabling, as far as possible, civil service pay to be subject to upward or downward adjustments, thus narrowing the gap between civil service salaries and those in the private sector. Unfortunately, the Government once again missed this good opportunity. Due to its desire for short-term, immediate results, the Government has deferred all this long-term work until now. Nevertheless, the Government has now demonstrated a clear determination to eliminate the fiscal deficit. So, after all, it has started to move in the right direction. For this reason, I will do my utmost to support it in the course of my work from now on.

In drawing up the Budgets of the past 10 years, the Government would always seek to reach a consensus of some kind with major political parties and organizations through consultations. But it has failed to do so this year. In the absence of any consensus, it has put forward a series of somewhat over-ambitious proposals. This is particularly true in the case of creating new sources of revenue. The Government has accepted practically all the proposals made by various political organizations, and not only this, the Financial Secretary has even dialled up the punch of these proposals. Obviously, the Government has adopted a tough approach in a forcible attempt to overwhelm a reluctant Legislative Council. Such an approach has plunged the Budget into substantial political risks. While the Budgets of the past few years may be

described as not very well-thought-out in terms of expenditure control, it can be said that "political foolhardiness" has made the one this year not sensitive enough to people's aspirations.

If the Government lays its hand on the fiscal reserves as a means of getting the capitals required, it will not have to pay any political costs at all, and this will certainly be welcomed by politicians. Another alternative is to borrow at low costs. The costs incurred will be paid in the future, and no pain will be felt for the time being. But in the long run, the financial costs are going to be enormous. We will have to incur more expenditure to meet interest payment, and not only this, this approach will not in any way help us eradicate the problem of over-spending. At the end of the day, persistent reliance on borrowing will also affect the financial stability of the Government. I think the Financial Secretary's refusal to resort to this approach does indicate his commitment to and determination of addressing the deficit problem. This is a proper attitude and a show of his courage. That said, it must be added that though the Government does not have to pay any financial costs for drastic tax increases, there is still no "free lunch" anyway. If the increases go beyond the limit, go beyond the people's commitment and ability, the Government will have to pay a very high political price.

Although the people of Hong Kong agree that under the current economic difficulties, all of us should each take up some responsibility to relieve the fiscal deficit, they still differ on who should shoulder more responsibility and who should shoulder less. At a forum organized by the media on 14 December 2002, I already advanced a "1:2:3" scheme as a means of solving the \$70 billion deficit problem. What I mean is that, if additional revenue can contribute one part to the reduction of the fiscal deficit, then the parts that can be contributed by economic revitalization and expenditure control should be two parts and three parts respectively.

However, in this Budget, the Government instead puts forward a "2:3:2" scheme, meaning to say that it is going to reduce the fiscal deficit by \$20 billion through increasing revenue, another \$30 billion through economic revitalization and just \$20 billion through expenditure cutting. This is disappointing. When compared with my scheme, the Government's proposal is too severe in the introduction of new taxes, too reliant on economic recovery, which is far too difficult to predict. And, the force of controlling its huge internal expenditure is instead far too weak.

Regarding the revenue part, the projections made by the 2003-04 Budget are marked by many strategic risks. The Government thinks that economic revitalization can reduce the fiscal deficit by \$30 billion. This is a very unscientific and dangerous assumption. I have repeatedly stressed that the taxation system of Hong Kong has lagged behind the realistic economic circumstances. With more and more commercial activities being conducted off-shore, economic data have gradually become less relevant to government revenue. So, even if the GDP growth is as satisfactory as projected, revenue from tax may not necessarily increase in the short run as a result.

Second, the Government thinks that a downsizing of the Civil Service by 10% will lead to a saving of \$7 billion per annum. But as projected by the Government, 8% of the downsizing is to be achieved through natural wastage, that is, through retirement. This effectively means that the actual downsizing in the four financial years from 2003-04 to 2006-07 will just be 2% per annum. Natural wastage alone is certainly not the best human resources management practice. What is more, if "slimming" is to be achieved through outsourcing and privatization, some young civil servants not yet of retirement age will have to resign before the Government can save any money. In the next few years, a manpower mismatch — those should stay behind are required to resign while those who should resign are reluctant to do so — will continue to occur.

Third, the Government plans to sell its highly profitable assets in order to obtain a non-recurrent revenue of \$100 billion to finance its extravagant infrastructure projects costing several hundred billions of dollars. Let us not argue whether this amount of anticipated revenue is founded on excessive optimism. Even if the Government really manages to sell its assets at good prices in the unsteady financial markets over a short period of time, its investment returns will however decrease correspondingly because its assets have been sold. Its recurrent investment returns will decrease correspondingly by \$15 billion or more up to 2007-08. In that case, the next Financial Secretary will again have to work out more ways to create new sources of revenue under even more difficult circumstances.

The Government anticipates its tax revenue to increase by \$20 billion a year by 2006-07. But the tax base of Hong Kong is very narrow, with the revenue from profits tax amounting to roughly \$50 billion and that from salaries tax less than \$30 billion. Given such a narrow tax base, it is virtually

impossible to get an additional revenue of \$20 billion. If this is really to be done, the one million or so high- and middle-income taxpayers will have to shoulder the bulk of the tax burden. This will be most unfair.

Although, in the end, the Government did not ask for an immediate tax increase of \$20 billion and decided to bring in an increase of \$14 billion as a first step, the whole society, all strata included, has become very worried. The radical taxation proposals have even led the two political party leaders on the Executive Council to voice their discontent despite their long-standing support for the Government. Even running the risk of being accused of contravening the spirit of collective responsibility of the Executive Council, they have said that they intend to amend the revenue proposals of the Government.

In my capacity as the representative of the accounting sector, I have undertaken to support the Government's tax increase proposals. The amount of increase I propose is \$11.7 billion, and under the "1:2:3" scheme, this is roughly one-sixth of the \$70 billion fiscal deficit. However, the \$14 billion proposed by the Government has exceeded my bottomline. This is not to speak of the fact that nearly half of this \$14 billion will come from salaries tax. Therefore, my prime concern will still be how we can relieve the burden of the pitiable middle classes.

If Government had not "closed the door itself" and "worked out the tax proposals behind closed doors", I believe it would have drawn up a better Budget. I fail to see any economic justifications which make it imperative for the Government to achieve fiscal balance in 2006-07. Neither can I see why the Government must promise not to lay off any civil servants, must promise to let them stay on until retirement. Nor can I understand why the Government must continue to work on a narrow tax base, adding to the burden of a small number of taxpayers on the one hand and refusing flatly to introduce a Goods and Services Tax on the other, instead of trying to increase public revenue equitably by first conducting any comprehensive review and reform. An especially important point is that the Government must first let taxpayers see a beam of hope, see the light at the end of the tunnel, before it turns to them for more tax money.

A "microscopic" examination of the Budget will reveal many flaws and loopholes in the various particulars. However, even so, the Budget may still be

able to achieve the two major objectives of maintaining the stability of our financial system and conserving the financial strength of the Government.

Although the pay adjustment mechanism of the Civil Service is as staunch and ancient as a dinosaur, although the mechanism is also like a panda which is lovely in some ways but is entirely unable to survive on its own, we should note that if the dinosaur and the panda do not die, all laws of evolution will collapse. As early as the Budget debate of 1998, I already demanded a reform of the Civil Service most unequivocally. I do not think that people who hold this opinion are trying to divide society. The reason is that if public organizations and private enterprises proceed with their reforms at vastly different paces, like a hare and turtle in a running race, then divergent views on the Civil Service may emerge in society, thus leading to rising discontent about civil servants. This is only natural and not the result of any slanders. The mentality of "stability above all" is not in line with the needs of a fast-moving Hong Kong. Flexibility and endurance are instead the strengths of Hong Kong's way of management. The momentum of public service reforms must be increased; if not, if any division of society emerges in the future, the authorities and decision-makers should be blamed for their poor management and the leaders of civil service unions for their myopia, lack of firm social commitment and over-protection of their own interests.

The Government has now demonstrated its determination to solve the problem. International financial institutions are satisfied with the Budget, so Hong Kong's credit ratings will not be lowered. Besides, the linked exchange rate can also be free from outside attacks for the time being, thus enabling our Government and financial framework to conserve their strengths.

The Budget is not entirely without any merit. The Financial Secretary has rendered active support to the idea of private-sector participation in public services and infrastructure development advocated by quite a number of independent Members and me. He has also undertaken to examine the feasibility of a Goods and Services Tax. That way, the preparation for this significant measure to widen the tax base can now commence, and the salaries tax rate can hopefully be adjusted downward as a result. Regarding the industrialization of education service and the policy of opening, the authorities will take the first important step of setting up a \$1 billion fund. With respect to taxation, the Financial Secretary has accepted the proposal repeatedly made by

the accounting sector over the past few years — the tax deductible rate of charitable donations will be raised by 25%. The Financial Secretary should be given credit for this.

Under the executive-led system of government, Legislative Council Members really have very little power to make any detailed changes to the Budget. This is exactly what is meant by "take it or leave it" in English. In these stormy times, when misfortunes just keep coming one after another, this Council may perhaps have to accept this not-so-perfect Budget instead of repeatedly putting up opposition just for the sake of putting up opposition and using the Budget as a means of creating any unnecessary constitutional crises.

There is a saying in the Mainland which means roughly this: "Always adhere to the broad direction while remaining critical over minor policies". Over the past five years, our country has experienced many vicissitudes such as financial turmoils and natural disasters. But the Central Government and the people have managed to adhere to the broad direction calmly and without panicking. They have moved on boldly and thus thrived economically, to the envy of the whole world. Hong Kong is also facing difficulties now. If we should still continue to allow politics to deplete our own strength, then I must ask, "Is this really necessary?" This prescription of reducing expenditure and increasing revenue is correct in general direction, so let us give it a chance to work. Thank you, Madam President.

MISS CHOY SO-YUK (in Cantonese): Madam President, the "atypical" fiscal deficit is vexing Hong Kong like an albatross around its neck. Showing even signs of deterioration and compounded by the economic downturn in the background, the fiscal deficit has led to intense anxieties in society. It is small wonder that the Government has identified the fiscal deficit as its arch-enemy, something which must be eradicated, or something which, if not eradicated, will render the Government unable to restore people's confidence in its governance. However, much as the "atypical" fiscal deficit may require "atypical" treatment, a proper remedy must be administered, or else the indiscriminate use of medicine may aggravate the conditions and lead to eventual death, instead of curing the disease. The Government of the Hong Kong Special Administrative Region (SAR) must learn from past experience and proceed with extreme caution.

Honestly, since the Budget contains various proposals on taxation and fee increases, it is only understandable that its announcement has been followed by rather strong voices of disagreement in society. But people's reaction is not so much a refusal to stand by the Government in times of difficulties and share the responsibility of eradicating the fiscal deficit. Nor do they intend to force the Government to watch over our public money like a miser who is completely tight-fisted. Instead, the people's greatest concern is that public money must be used properly, with each plan having clear directions and yielding obvious results. Only this can make them willingly support any plans to create additional sources of revenue. Unfortunately, the Government's image as an extravagant spender ignoring cost-effectiveness has been deeply embedded in the minds of the people over the years, and there have indeed been many cases of squandering. The subject of my written question today is an example. I have received a complaint about the Government's wholesale replacement of totally 130 000 m of railings located in different places of Hong Kong last year. It is alleged that some of the replaced railings were in fact still quite new, and that in some cases, the Government even bought the stainless steel railings from Finland at a cost of \$990 per metre instead of using those from the Mainland which were just priced at \$200 per metre. In the past, when the economy was booming, people would still let it go, but now, when life is so difficult, they will inevitably grumble about incidents like this and their discontent is manifested by their reluctance to accept the various tax increase proposals.

All of us do understand that these problems have existed for quite a long time and are no new ones which suddenly emerged after the establishment of the SAR. But these problems have remained unresolved even up to now. This either reflects that the SAR Government simply lacks any vision, lacks any awareness of the seriousness involved or shows that the Government is reluctant to correct mistakes and prevent the problems from continuing to deplete the public coffers. Either way, the Government is still to blame.

Madam President, I wish to illustrate my point today by discussing a major issue relating to the policy on environmental protection. The three strategic landfills in Hong Kong are filling up to their capacities at an increasingly fast pace, but the Government has delayed again and again the measure on levying a landfill charge. The "polluter pays" principle has thus remained a high-sounding but empty slogan. As a result, the objective of preserving the Earth's resources continues to remain a mere theory, and besides that, and more importantly, this will continue to deprive Hong Kong of any effective economic

incentive and mechanism to induce people to take steps to implement the concept of "waste reduction". If this situation continues, the huge sums of money spent on waste disposal every year will only be washed down the drain eventually.

Madam President, recently, I have had the opportunities to conduct fact-finding trips to South Korea and Taiwan, during which I obtained an in-depth understanding of the waste disposal systems there. A comparison of our system with theirs makes me rather sad. I wish to share my observations with the Financial Secretary here.

Let me talk about South Korea first. As early as 1995, the South Korean Government already set down a 10-year programme on "waste reduction". It is stated, among other things, that with effect from 1 January 2005, no kitchen waste shall be disposed of at landfills. At the same time, all households are strictly required by legislation to practise waste separation, and anyone failing to comply may be imprisoned. Besides, waste collection fees are also imposed on all households. With all these measures, the volume of waste transported to landfills for disposal has been greatly reduced. In addition, the Government there has also allocated additional resources to finance the construction of composting facilities and provide subsidies to environmental products to upgrade their market competitiveness. Following the introduction of all these measures, the recovery rate of kitchen waste climbed up from 20% in 1998 to 60% four years later, that is, 2002.

In Hong Kong Dollar terms, the waste disposal cost in South Korea is \$600 per tonne, while that in Hong Kong is roughly \$840. But since the systems adopted are different, the results are vastly different, mainly in four ways. First, the costs of waste disposal in South Korea are borne by the people themselves under the "polluter pays" principle. And, in Hong Kong, the costs are all paid by the Government. Second, with effect from 2005, South Korea will no longer dispose of any kitchen waste at landfills, but in Hong Kong, we still fail to think of how we should deal with kitchen waste, which contributes to roughly 40% of all household waste, except continuing to dispose of it at landfills. Third, there is wholehearted participation by all people in South Korea, showing that the civic education and environmental awareness publicity there have indeed been highly effective. But in Hong Kong, there is a lack of public participation. Lastly, the waste disposal system in South Korea is by now highly developed, capable of manufacturing environmental products that can satisfy not only

domestic demand but also that of those places where waste disposal technologies are comparatively backward, one example being Hong Kong. Frankly speaking, in terms of environmental industries, Hong Kong is no doubt the last on the list among the Four Little Dragons of Asia.

The situation in Taiwan is similar to that in South Korea. For instance, in Taipei, where circumstances are similar to those in Hong Kong, the volume of waste has been reduced by almost 50%. Let us also look at wet waste as another example. Taiwan Province, with a total population of 20 million, only produces roughly 2 200 tonnes of kitchen waste daily, but Hong Kong, where there is a population of just 7 million, the daily volume of wet waste is as much as 3 700 tonnes. This is not to speak of the fact that Taiwan Province spends far less on waste disposal than Hong Kong.

If we follow the example of South Korea and subsidize the manufacture of kitchen waste composting products at \$600 per tonne to increase the market competitiveness of the product, kitchen waste will become a valuable commodity. Then, the problem of wet waste can be solved without asking people to pay even one single cent. This, together with the money saved from disposing of dry waste, can enable the Treasury to save \$1 billion in public money every year, and there will also be some 10 000 new jobs. If people are also required to pay a waste disposal fee under the "polluter pays" principle, the combined economic benefits of all these measures will be more than \$3 billion. Is this not far more effective than the highly controversial Boundary Facilities Improvement tax, commonly called the "departure tax"?

The simple analysis given above shows that a clear objective and an appropriate system are vital to the successful implementation of any plan. It is hoped that while the Financial Secretary spends our money, he can bear in mind that all money must be used properly.

Naturally, we cannot rigidly copy others' experience. And, it must be admitted, the harsh laws of South Korea are totally incongruous with the governance culture in Hong Kong. Similarly, the very complicated system of waste separation in Taipei is not so appropriate to our densely populated Hong Kong either. However, the clear objectives set down by the governments of these two places, their systems of penalties and rewards and their strong determination to achieve the targets should all serve as valuable reference to us.

Madam President, having read the Budget, we all know that the Financial Secretary is very familiar with the famous novel *A Tale of Two Cities* written by Charles DICKENS. It is hoped that the Financial Secretary can carefully compare the systems of Hong Kong and those of other cities. That way, he may be inspired and may realize why different cities have achieved so different results on the same kinds of issues.

Madam President, I so submit.

DR LUI MING-WAH (in Cantonese): Madam President, Hong Kong has been reunited with China for more than five years. During this period of time, Hong Kong has undergone significant economic, political and social changes. Hong Kong is now markedly different from what it was before the reunification. The root causes that triggered the changes were the financial crisis in 1997 and the September 11 incident that happened in the United States. The Government of the Hong Kong Special Administrative Region (SAR) has made an inaccurate assessment of the impact brought about by the external factors on the local economy and has committed errors in adopting the right policies to cope with the changes. As a result, the economy of Hong Kong has plummeted and suffered from a sustained downturn, caught in the longest recession in the past 50 years. The unemployment rate has surged to a record high, and layoffs have become rampant. There are more than 100 000 owners of negative equity assets awaiting help. While the territory faces a worsening deflation, the economic prospects are not optimistic at all. The people are very dissatisfied with the Government.

Against such a background, in the face of the worsening fiscal deficit which has continued for five consecutive years, Financial Secretary Antony LEUNG announced his second Budget in the Legislative Council on 5 March 2003. He realized that if the fiscal deficit is not eliminated as soon as possible, the international credit ratings of Hong Kong will be adjusted downwards, leading to surging interest rates, undermining investor confidence, hampering the recovery of the local economy and even triggering off a financial crisis. The consequences could be very serious. Therefore, in the whole Budget, the elimination of the fiscal deficit is his main direction. In his plan, the Government will adopt a three-pronged approach to solve the problem of fiscal deficit — he wishes to solve the problem and make up for the \$70 billion deficit incurred in 2002-03 by saving \$20 billion through the expenditure-cutting

measures, generating \$20 billion through revenue-raising measures and reaping \$30 billion additional revenue through boosting the economy. By adopting these measures, he hopes that the target of striking a balance between revenue and expenditure can be achieved by 2006-07.

On raising revenue, the Government will increase profits tax by 1.5%, salaries tax by 1%, property tax by 1%, horse betting duty by 1% and will increase Motor Vehicles First Registration Tax and Air Passenger Departure Tax, as well as introducing the Boundary Facilities Improvement Tax and soccer betting duty. As a result, the Treasury could look forward to an increased revenue of about \$14.1 billion. However, even with the above measures, the Government will still be unable to reach its designated target of \$20 billion. Therefore, in the Budget, the Government announced that it would lift the freeze on more than 3 000 items of government fees and charges. Moreover, it will discontinue the policy of waiving certain charges and the sewage charge introduced last year. These measures would make way for more future increases in fees and charges related to the livelihood of the people, in a bid to make up for the \$4 billion gap. This brings extra pressure to the people, as they will worry that the Government may introduce more tax increases in future.

On cutting expenditure, the Budget does not elaborate too much in this aspect, and the punch of such measures is limited. As for the streamlining of the Civil Service, the Chief Executive has already announced in his policy address that the civil service establishment will be reduced by 10% in the next five years, that is, about 20 000 posts will be deleted. It is estimated that the annual expenditure on salaries could be reduced by \$4 billion to \$6 billion. Moreover, a pay cut of 6% will be introduced to the Civil Service in two phases. Therefore, the Government will be able to save about \$7 billion each year in its expenditure on civil service salaries as well as its funding to subsidized organizations. However, the pay cut and "streamlining" of the Civil Service will only be completed by 2006-07, and only by then could the saving of \$14 billion be achieved. As the Government has launched the voluntary retirement scheme, it will see an increase in its expenditure on paying the costs arising from the retirement benefits of outgoing civil servants under the scheme in 2003-04. Although the Government has decided to reduce the Comprehensive Social Security Assistance (CSSA) payments by 11.1%, that is, about \$1.71 billion, the increase in the number of applicants will make the overall CSSA expenditure increase from \$16.2 billion in 2002-03 to \$17 billion in 2003-04. The salaries and benefits of the Civil Service account for 70% of the total government

expenditure. From this, we can see that the success of the pay cut and the "streamlining" of the Civil Service will be instrumental to the elimination of the fiscal deficit. It is an issue of concern to the people.

In order to resolve the fiscal deficit, the performance of the local economy in the next few years, to a certain extent, will be pivotal. The Government estimates that if our economy can enjoy a real growth of 3% annually in future, the Treasury will see an increased revenue of \$30 billion, which is sufficient for eliminating the fiscal deficit. However, the dual measure of raising revenue and cutting expenditure has already reduced the real economic growth by 0.14%, and coupled with the impact brought about by the war in Iraq and the special circumstances in North Korea, as well as the uncertain factors in the global economic prospects, it would be over-optimistic for us to predict that Hong Kong may have a real economic growth of 3% per annum in the future.

As our economy has suffered from prolonged sluggishness for many years, government revenue from the various sources has decreased. However, the structure of the Government has expanded quickly in the past five years, resulting in the ever escalating expenditure on staff costs in the Civil Service and public organizations, and that is why we have a fiscal deficit for five consecutive years. As the controller of government finances, Mr Antony LEUNG ignores the strong opposition voices in society and chooses to increase taxes and fees. This is within the expectations of the people, because raising revenue means the Government is forcing the people to contribute money and to make sacrifices and redistributing social resources. As a result, the wealth will flow to the Government, whereas the people will become poorer. In recognition of the reality, the people of Hong Kong could only accept this unwillingly and helplessly. However, what makes Hong Kong people most dissatisfied is that the Government on the one hand levies increased tax and charges on the people with great efficiency and determination, but on the other, it could not match up with the same effectiveness when it comes to cutting expenditure. In the face of the existence of a large population of redundant staff and unreasonable remuneration within the Government, the Administration appears to be weak and helpless in tackling such problems. Nor could it control medical and welfare expenditure effectively. If the Government cannot effectively live up to its commitment in cutting expenditure, and consequently the measures for eliminating the fiscal deficit eventually have increased the burden of taxpayers, it is definitely not what the Hong Kong people would like to see, and this is certainly not a blessing for the Government.

In order to resolve the fiscal deficit, deflation and high unemployment rate thoroughly, the Government should adopt the positive strategy of moving in the direction of boosting the economy and creating wealth for society. Although the Budget did list "boosting the economy" as one of the three key initiatives in resolving the fiscal deficit, it was unfortunate that the mention of this point was just very brief. The Financial Secretary, Mr Antony LEUNG, repeatedly stressed that we needed to enhance our four pillar industries, namely, financial services, logistics, tourism, and producer and professional services, as well as promoting creative industries and high-tech industries, yet he had not gone into more specific details. According to the statistics, the financial services industry accounts for 11.5% of the GDP; the logistics industry accounts for 4.8% to 5%, employing about 200 000 employees; the tourism industry only accounts for 6% of the GDP, directly or indirectly employing about 360 000 employees; but there are no statistics on the contribution of producer and professional services industries to the GDP. All the four pillar industries are service industries. Without any local manufacturing industries among them, the four pillar industries are very fragile because their service targets are all out of the territory, so the scopes of their services are restricted and they are vulnerable to influence by the external economy. As a mature economy, Hong Kong cannot just rely on the service industries to support its economic development and to provide sufficient job opportunities. The experience of the poor economic performance of Hong Kong during the past few years has adequately proved this viewpoint.

Moreover, Financial Secretary Antony LEUNG proposed to create wealth for Hong Kong by the provision of services. He proposed that we should "..... increase external demand, which means attracting more visitors, overseas talent and investment immigrants to come to Hong Kong; more foreign enterprises to set up regional offices here; more people to attend schools in Hong Kong and seek medical treatment at our private hospitals; and more foreign capital inflows into Hong Kong's financial market. These measures will reinforce the vigour of various sectors." However, obviously the above service industries could only serve supplementary functions. It is doubtful whether they could "reinforce the vigour of various sectors" as envisaged by the Financial Secretary.

Looking back on the past 50 years, the brilliant achievement of the economy of Hong Kong actually relied on the export of locally manufactured products which had earned substantial foreign exchange and provided job opportunities for the people of Hong Kong. In turn, it enhanced the service industries and promoted domestic consumption, thereby motivating the

expansion of the property sector. Today, the high costs in Hong Kong make it impossible to support the development of labour-intensive manufacturing industries. However, it is possible for Hong Kong to support new industries which are based on high technologies, bio-technologies and new materials — high value-added manufacturing industries. Hong Kong possesses the necessary conditions to promote a new phase of industrialization. However, the Government must take the initiatives and closely provide the necessary co-ordination and assistance. In order to promote a new industrialization in Hong Kong, the top management of the Government must act with foresight and vigour, realize the significance of new industrialization, and gauge the strategic importance of manufacturing industries in the economy. Mr Antony LEUNG had said explicitly, "As Hong Kong's economy is externally-oriented, any attempt to stimulate it through expenditure increases and tax reduction will have limited impact." In view of this, Hong Kong must put forward positive industrial policies with relevant matching measures, and provide specific and directional assistance to the manufacturing industries, so as to enable them to drive the economic growth of Hong Kong. The Hong Kong Government should make reference to the success experience of other countries in this regard.

Lastly, Hong Kong people must understand that, in the face of a severe fiscal deficit, long-standing deflation and a sustained high unemployment rate, it is very difficult for the Government to put forward a budget which is acceptable to all sectors in society. However, the Government should, first of all, conduct an in-depth study to find out why Hong Kong has lost its enormous energy and vigour during a short span of five years, and review the approach of its governance as well as its economic policies. The Government would be able to implement more effective administration only after gaining a clear understanding of the history of the past economic development of Hong Kong. As long as our economy can continue to move upwards, such problems as fiscal deficit, deflation and unemployment would eventually be resolved one after the other. Summing up the Budget of the year, we have the impression that the Government is adopting a negative attitude and taking a easier path instead of the more difficult one; it has not considered making adjustments to the economy as a whole. It just seeks to achieve a balance in the revenue and expenditure of the Government in 2006-07. Of course, the elimination of the fiscal deficit is a noble cause. While the measures of raising revenue and cutting expenditure will provide quick relief to the deficit, the increases in fees and charges are nothing more than short-term measures. Their negative impact on society and the economy as a whole should not be underestimated. However, if the

economic downturn should continue in the next few years, can we increase taxes and fees every year in order to sustain the excessive expenditure of the Government? Therefore, I hope that the Administration can give serious consideration to these issues. Thank you, Madam President.

SUSPENSION OF MEETING

PRESIDENT (in Cantonese): Honourable Members, altogether 34 Members have spoken today. I now suspend the meeting until 2.30 pm tomorrow.

Suspended accordingly at eight minutes to Nine o'clock.