立法會
Legislative Council

LC Paper No. CB(1)724/02-03
(These minutes have been seen by the Administration)

Ref : CB1/PL/FA/1

Legislative Council
Panel on Financial Affairs

Minutes of meeting held on
Monday, 2 December 2002 at 10:45 am
in Conference Room A of the Legislative Council Building

Members present	**:**	Hon Ambrose LAU Hon-chuen, GBS, JP (Chairman) Hon Henry WU King-cheong, BBS, JP (Deputy Chairman) Hon Kenneth TING Woo-shou, JP Hon James TIEN Pei-chun, GBS, JP Hon Albert HO Chun-yan Hon LEE Cheuk-yan Hon Eric LI Ka-cheung, JP Dr Hon David LI Kwok-po, GBS, JP Hon NG Leung-sing, JP Hon James TO Kun-sun Hon Bernard CHAN, JP Hon CHAN Kam-lam, JP Hon SIN Chung-kai Dr Hon Philip WONG Yu-hong Hon Jasper TSANG Yok-sing, GBS, JP Hon Emily LAU Wai-hing, JP Hon Abraham SHEK Lai-him, JP Hon MA Fung-kwok, JP
Non-Panel members attending	**:**	Dr Hon David CHU Yu-lin, JP Hon LEUNG Fu-wah, MH, JP

Action

Public officers attending	**:**	Agenda Item III Mr Benjamin TANG Commissioner of Insurance Miss Susie HO Deputy Secretary for Financial Services and the Treasury (Financial Services) Mr H Y MOK Assistant Commissioner of Insurance (General) Mrs Jenny CHAN Assistant Commissioner for Labour (Employees' Rights & Benefits) Agenda Item IV Mr Stanley W H WONG Deputy Secretary for Financial Services and the Treasury (Financial Services) Mr LAU James Henry Jr, JP Executive Director Hong Kong Monetary Authority Agenda Item V Mr Antony LEUNG Financial Secretary Mr K Y TANG Government Economist Mr Howard LEE Administrative Assistant to the Financial Secretary
Clerk in attendance	**:**	Ms Anita SIT Chief Assistant Secretary (1)6

Action

Staff in attendance **:** Ms Pauline NG
Assistant Secretary General 1

Mr Joey LO
Assistant Secretary (1)1

Miss Christy YAU
Legislative Assistant 7

I Information papers issued since last meeting

LC Paper No. CB(1)280/02-03	—	The Securities and Futures Commission Quarterly Report for July to September 2002
LC Paper No. CB(1)331/02-03	—	Consultation paper on Continuing Listing Criteria and Related Issues published by the Hong Kong Exchanges and Clearing Limited
LC Paper No. CB(1)331/02-03	—	Submission from a member of the public on the Sharing of Positive Credit Data

Members noted the above information papers issued since last meeting.

II Date of next meeting and items for discussion

LC Paper No. CB(1)376/02-03(01)	—	List of outstanding items for discussion
LC Paper No. CB(1)376/02-03(02)	—	List of follow-up actions

2. The Chairman informed members that for the Panel meeting on 6 January 2003, there were four items lined up for the agenda namely -

(a) Briefing by the Administration on the cost-saving proposals in respect of certain departments under the Financial Services and the Treasury Bureau;

(b) Progress on the establishment of the Deposit Protection Scheme;

(c) Enhancement of the regulation of insurers; and

(d) Business environment of the Hong Kong insurance industry and difficulties encountered by some sectors in obtaining insurance

Action

coverage.

The Chairman said that the first three items were proposed by the Administration and the last item was proposed by Mr Bernard CHAN at the meeting on 10 October 2002.

3. Mr CHAN Kam-lam said that as all the four items involved important policy issues, and in order to allow sufficient time for discussion of each item, it would be more desirable to hold an additional Panel meeting in January 2003. He also suggested that an additional item covering the issues arising from the impending abolition of the minimum brokerage commission rule of the securities brokerage industry should be discussed together with item (d) above at the same Panel meeting. Mr Henry WU opined that it was advisable to deliberate the subject matter raised by Mr CHAN in wider breadth to cover various issues relating to the business environment of the securities brokerage industry.

4. Taking note of the above suggestions, members agreed that items (a) to (c) in paragraph 2 above should be discussed at the regular meeting and a special Panel meeting should be held on Thursday, 16 January 2003 at 8:30 am to discuss item (d) and an additional item on the business environment of the securities brokerage industry. For the latter two items, representatives from the industries concerned should be invited to present their views and join the discussion.

5. Members also agreed that the regular Panel meeting for the month of February 2003 be scheduled for Thursday 13 February at 4:30 pm.

III Briefing by the Administration on the proposed Employees Compensation Insurers Insolvency Scheme

LC Paper No. CB(1)376/02-03(03) — Paper provided by the Administration

6. The Chairman welcomed the representatives of the Administration to brief members on the proposed establishment of the Employees Compensation Insurers Insolvency Scheme (ECIIS) to take over from the existing Employees Compensation Assistance Scheme (ECAS) the responsibility of meeting the liabilities arising from employees compensation (EC) insurance policies in the event of the insolvency of the relevant insurers.

7. At the invitation of the Chairman, the Deputy Secretary for Financial Services and the Treasury (Financial Services) (DS/FS) took members through the information paper (LC Paper No. CB(1)376/02-03)03)). She highlighted that presently ECAS provided payment to injured employees who were denied of their employee compensation because the responsible employers were either untraceable or uninsured. The ECAS also indemnified employers (i.e. policyholders) for compensation paid to employees in the event that the EC insurer concerned became insolvent. It was noted from the experience in recent years that the cash flow needs

arising from uninsured. EC claims and those from EC insurer insolvency claims varied in volume with the latter often causing a sudden strain on the ECAS. Having reviewed the situation, the Administration considered it more desirable to have the two types of claims dealt with separately and that claims arising from insurer insolvency should be catered for by a fund contributed by the insurance industry. On account of the plan to introduce a separate scheme, the Employees Compensation Assistance (Amendment) Bill 2002 had contained provisions to excise claims arising from EC insurer insolvency from the scope of ECAS. The Bill was enacted on 28 June 2002 and the legislative provisions in relation to the excision of claims arising from insurer insolvency would be brought into force when the proposed ECIIS was in place.

8. DS/FS continued that the mode of operation and relevant procedures governing ECIIS would generally mirror those of ECAS. The new scheme would take over the liabilities in respect of EC insurer insolvency claims some time in 2004 allowing about one year to accumulate funds. ECIIS would be administered by a newly established Employees Compensation Insurers Insolvency Bureau (ECIIB) which would be underpinned by a secretariat to work in close liaison with the Labour Department. DS/FS further informed members that, since the HIH incident (the insolvency of two of the local EC insurers of the HIH Group in April 2001), the Office of the Commissioner of Insurance (OCI) had been tightening up regulatory measures over insurers in Hong Kong. OCI would also commission consultants to examine the feasibility of establishing an insurance policyholder protection scheme and would report to the Panel when the study was completed.

Discussions with members

Structure and mode of operation of ECIIS

9. Mr Kenneth TING queried the need for setting up a new ECIIB. He asked whether it would be more cost-effective for the existing Motor Insurers' Bureau (MIB) to take on the administration of EC insurance claims arising from insurer insolvency, since MIB itself had been operating schemes of similar nature and had been running effectively since 1980s.

10. The Commissioner of Insurance (C of I) replied that MIB had been established with the object of providing payments in situations where the concerned motor insurer was insolvent or the vehicle concerned was uninsured or untraceable. As the object of the proposed ECIIS was to meet the EC insurance liabilities in the event of insolvency of EC insurers, it would not be proper for the MIB to take on the administration of the ECIIS. He however pointed out that operationally, the two Bureaux would likely share one and the same secretariat, and the purpose of this arrangement was to minimize administration expenses.

11. On Mr NG Leung-sing's concern about the staff level of the secretariat, C of I advised that it was anticipated that the administration work for the ECIIS

would not require many additional staff for the secretariat. In response to Mr NG's further enquiry, C of I advised that the OCI did not plan to issue any official guidance on the staffing level of the secretariat for the two Bureaux, as it was considered that there would be sufficient monitoring on this aspect through the scrutiny of the annual accounts and auditor's reports of ECIIB.

12. Mr CHAN Kam-lam enquired about the organizational structure of the ECIIB and how far the funding and operational matters of the Bureau were subject to Government's regulation. In reply, C of I explained that the ECIIB would be established as a non-profit making body limited by guarantee. Its operation would be overseen by a council to be elected among ECIIB members, who would be EC insurers. The financial position of ECIIB would be subject to independent audit and its annual accounts and auditor's reports would be scrutinized by OCI and made available for public inspection. An agreement would be signed between OCI and ECIIB with a view to setting out each party's responsibilities and liabilities.

Insolvency fund under the ECIIS

13. On the level of the contribution by EC insurers, C of I advised that the level of contribution had yet to be determined pending advice from an independent actuary. OCI would examine the actuarial advice critically to ensure that the level of contribution would not be excessive. Reference would be made to the rates applicable to the two schemes administered by MIB, i.e. 2% of gross motor insurance premiums for the scheme covering insurer insolvency claims and 1 % for the scheme covering uninsured incidents. He added that OCI would closely monitor the financial position of the insolvency fund under the ECIIS and review the level of contribution with the ECIIB when appropriate.

14. Mr Henry WU asked whether the future insolvency fund would be subject to any accumulation limit and whether there was any fall-back measure in place in the event where the fund was insufficient to satisfy eligible EC claims. C of I replied that the Administration did not intend to set an accumulation limit for the fund at this stage. However, this would be reviewed after the ECIIS had operated for a sufficiently long period, say 10 years, taking into account actuarial advice and the views of the insurance industry. In the event that the fund was insufficient to satisfy eligible EC claims, the probable arrangements would be to raise the contribution level and/or to pay out claims based on a queuing system, which were also the arrangements commonly adopted in other jurisdictions.

Effect of the establishment of ECIIS on ECAS

15. Mr LEE Cheuk-yan expressed support for the proposed ECIIS on the grounds that it would enable EC insurance claims arising from insurer insolvency to be dealt with separately from those arising from uninsured employers, a principle agreed to by Members during the scrutiny of the EC Assistance (Amendment) Bill 2002 (the Amendment Bill). He asked whether there was room for adjusting

downwards the level of levy on employers under the ECAS after the ECIIS was in operation.

16. The Assistant Commissioner for Labour (Employees' Rights & Benefits) (AC/L) explained that the Amendment Bill was introduced and enacted on the understanding that a new scheme would be set up to take over the responsibility of meeting the liabilities arising from EC insurance policies in the event of insurer insolvency. Hence, the impending establishment of the ECIIS had already been taken into account in setting the existing level of levy under the ECAS. In the event that ECAS was sufficiently funded, a reduction of the levy might be considered, but this would not be due solely to implementation of the ECIIS. To clarify further, AC/L said that the ECAS was introduced in 1991 at a time when the level of liabilities in insurer insolvency was not known and the levy income to cater for such liabilities was not collected . It was in the wake of the HIH incident when the ECAS had to take up the liabilities of some 2 000 cases under EC insurance polices underwritten by the two HIH insolvent insurers that the authority sought to raise the levy rate by one percentage point to help ECAS to tide over the cash flow problem arising from those claims.

17. Mr LEE Cheuk-yan pointed out that in the HIH incident, some employers had incurred litigation cost in the course of seeking to have their claims settled by the insurer concerned and under the ECAS, they had not been able to obtain recompense for this cost. He asked whether the proposed ECIIS would enable employers to seek recompense for this cost with retrospective effect.

18. C of I said that, the ECIIB would meet the liabilities arising from EC insurance policies as if it was the insurer concerned, and the compensation would be up to 100% of the claims. DS/FS supplemented that claims arising from the insolvency of EC insurers which occurred before ECIIS took over from the existing ECAS were outside the ambit of the proposed ECIIS.

19. In reply to Mr Abraham SHEK's enquiry about the current state of the HIH incident, C of I advised that a scheme of arrangement had been endorsed by the court. Under the arrangement, the majority of HIH policyholders and creditors would obtain compensation with the creditors/policyholders with a claim not exceeding $10,000 recompensed in full and the other creditors recovering a 25% of their entitled claim. It was considered that this arrangement was more satisfactory than pursuing a formal liquidation order, which could sometimes take eight to 10 years to complete the proceedings. AC/L added that the Employees Compensation Assistance Fund Board was still handling some HIH claims and she would liaise with the Fund Board to find ways to resolve the issues involved appropriately.

Action

IV Briefing by the Administration on the proposed amendments to the Bills of Exchange Ordinance

(LC Paper No. CB(1)376/02-03(04) — Paper provided by the Administration)

20. At the invitation of the Chairman to speak, DS/FS informed members that the banking industry was planning to implement a paperless cheque clearing system in mid-2003 through the application of cheque imaging and truncation technology. To put in place the new system, it was necessary to amend the Bills of Exchange Ordinance. He then asked the Executive Director of Hong Kong Monetary Authority (ED/HKMA) to introduce the project in detail.

21. ED/HKMA explained that under the current cheque clearing system, a total of some 500 000 cheques were physically transported to the Hong Kong Interbank Clearing Limited (HKICL) daily for clearing and to be returned to the paying banks when processing was completed. This paper-based cheque clearing system was not only cumbersome but also expensive. The proposed paperless cheque clearing system through cheque imaging and truncation would greatly reduce the need to transport cheques physically for clearing. Initially, the new system would apply to cheques at a value of $20,000 or below, which currently accounted for about 83% of the 500 000 cheques cleared each day. Adoption of the new system would increase clearing efficiency at a reduced cost with enhanced security as the need to transport cheques between banks and branches, or banks and HKICL would be minimized. In the course of devising the new system, the Administration in collaboration with the banking industry had considered and duly addressed the following concerns -

(a) On the question of reliability of the cheque images as evidence in court, there were provisions in the Electronic Transactions Ordinance (Cap. 553) and the Evidence Ordinance (Cap. 8) providing for the admissibility of electronic records as evidence in court provided that certain prescribed conditions were satisfied. To ensure integrity of the system, the banking industry had agreed on a common set of control policies and procedures, and the compliance of these policies and procedures by banks and the HKICL would be ensured through a Compliance Assessment Programme performed by qualified external auditors or internal auditors.

(b) At the initial implementation stage, HKMA and HKAB considered $20,000 an appropriate threshold level, as the value of a goodmajority (83%) of the 500,000 cheques to be cleared daily each fell below this mark.

(c) It was proposed that the settled low-value cheques would be retained by banks for a period of six months, a proposal arrived at after consultation with the Hong Kong Association of Banks (HKAB),

Action

the Commissioner of Police, the Independent Commission Against Corruption, the Securities and Futures Commission and the Department of Justice.

Discussion with members

22. Mr Henry WU asked whether the quality of services for bank customers would be affected by the implementation of the paperless cheque clearing system, and enquired about the rationale for pitching the threshold value at $20,000. In reply, ED/HKMA assured members that the quality and scope of services for bank customers would not be undermined in any way as cheque-imaging and truncation only involved banks' internal cheque handling process. The imaged cheque records would allow more efficient retrieval than microfilms for checking of information such as signature verification. On the other hand, as cheque-imaging was a less expensive process, there was probably room for banks to redeploy resources saved to improve services to the benefit of customers or avoid a need to impose fees otherwise on cheque handling.

23. As regards the proposed threshold value, ED/HKMA explained that both HKMA and the banking industry were inclined to adopt a conservative approach in setting the threshold value at the onset of the scheme, and hence the threshold value was set at $20,000 but not higher as in the case of many other jurisdictions. The threshold value would be reviewed in the light of experience gained, in particular the situation of fraud involving cheques upon implementation of the new system.

24. Mr CHAN Kam-lam said that while it was easily conceivable that the proposed system would enable cost savings for banks, its benefits in terms of enhanced efficiency was not so obvious. In this regard, he asked if the current processing time could be shortened to effect payment at an earlier time on "Day D+1" when the new system was put in place. In response, ED/HKMA explained that currently, the paying banks had to collect the processed cheques from HKICL around midnight on "Day D" or in the morning of "Day D+1" and then proceed to check the availability of funds and verify the signatures. Based on past experience, about 1 % of the total volume of cheques processed each day were dishonoured totaling about 5,000 bad cheques. The verification of cheques requiring special handling with payers was normally conducted by telephone in the morning of "Day D+1" and this would take some time to accomplish. This verification process would still be required with the new system put in place. ED/HKMA however agreed to see if the verification steps could be expedited such that payment could be effected sooner than 3 p.m. on "Day D+1" in respect of good cheques. He added that bank interest would in any event accrue from the day the cheque was received and unless the payee would need to spend the money from the bank account in the morning of "Day D+1", accelerating payment to an earlier time on "Day D+1" would not have significant monetary consequence on the payees in normal circumstances.

Action

V Briefing by the Financial Secretary on the latest economic situation of Hong Kong

LC Paper No. CB(1)397/02-03(01) — Paper provided by the Administration

25. The Chairman welcomed the Financial Secretary (FS), and the Government Economist (GE) to the meeting to brief the Panel on Hong Kong's latest economic situation.

26. At the Chairman's invitation to speak, GE took members through the paper on "Hong Kong's recent economic situation and short term outlook" (LC Paper No. CB(1)397/02-03(01)). GE outlined Hong Kong's overall economic situation in regard to external trade, domestic demand, the labour market and consumer prices in the recent period. He further described the latest updated economic forecasts by the Government for 2002 as a whole, and gave an overview of the economic outlook for 2003 in preliminary terms. The salient points are as follows -

(a) In the third quarter of 2002, the Gross Domestic Product (GDP) had accelerated to a year-on-year growth of 3.3% and a quarter-to-quarter growth of 2.5% in real terms. This indicated that the Hong Kong economy had been picking up visibly further in the third quarter of 2002 after a relatively modest growth in the second quarter.

(b) Export of goods and export of services had achieved a marked growth of 11.4% and 14.1% respectively in real terms in the third quarter of 2002 over a year earlier.

(c) Domestic demand remained slack in overall terms. Private consumption expenditure fell by 1.5% in real terms in the third quarter of 2002 over a year earlier, although compared with a 2.4 % decline in the second quarter, the drop had somewhat narrowed.

(d) On unemployment and underemployment rates, the former came down from the peak of 7.8% in May - July 2002 to 7.2% in August - October 2002 whereas the latter stood at 3.0% in August - October. Employment had reverted to increase, yet the labour force supply continued to rise. Labour earnings and wages stayed soft.

(e) Overall consumer prices had stayed on a downtrend for four years. The composite CPI fell by 3.6% in October 2002 over a year earlier, and by an average of 3.1% in the first 10 months of 2002.

27. On Hong Kong's economic outlook for the rest of year 2002, GE said that the performance of export of goods and services should continue to benefit from the

pick-up in regional demand, in particular in the Mainland. Nevertheless, with domestic demand yet to revive, GDP growth for 2002 as a whole was likely to be only modest, currently forecast at 2 % in real terms, i.e. half a percentage point up from the earlier forecast of 1.5%. With the decrease in both local costs and import prices leading to a sustained fall in consumer prices, the Composite CPI was currently forecast for a 3% decline for 2002 as a whole, while the earlier forecast was a 2.8% decline.

28. GE continued that the Government had yet to produce a forecast on Hong Kong's economic outlook for the year 2003. This would be rendered in detail in the forthcoming Budget Speech. Private sector entities generally expected a continued revival in the Hong Kong economy for 2003 with a growth forecast averaged at about 3%. There were uncertainties prevailing on the external front, such as a possible relapse in the US economy with knock-on effects on the rest of the world, plausible military actions led by the US in Iraq, and the resurgence of terrorist activities in recent months. All these, underlined by equity market fluctuations overseas, would have considerable bearing on Hong Kong's economic outlook for 2003. Locally, the labour market was still generally subdued, while both consumer and investment sentiments had yet to improve. Whether the growth momentum in exports could be sustained, and whether the better performance of exports could filter through sufficiently to resurrect local demand, would be of crucial significance to the overall economic condition next year. As to the price trend, on account of the prevailing downward adjustment in local costs and the on-going restructuring of the local economy, the downtrend in local consumer prices would probably continue for some time.

29. To supplement, FS said that exports in the third quarter of 2002 improved remarkably but the domestic demand remained slack amid a continued deflation. The growth in exports would no doubt bring economic benefits to Hong Kong as a whole. It also reflected positively the efforts made by the Government on promoting inbound tourism and the logistics industry. The continued slack in domestic demand was a corollary of a sustained deflationary trend as consumers and private investors would refrain from spending and making investment when they expected that prices would continue to decline. On the economic outlook, the Government remained cautiously optimistic. It was envisaged that deflation would improve gradually, on account of the robust economic growth in the Mainland, the gradual revival of the economies of the United States and European markets and the expected effects of Government's new housing policy announced recently.

Discussion with members

30. Mr LEE Cheuk-yan said that the impression he gained from FS's and GE's briefing was that the local economy was basically sound with robust export growth. The main problem lied in domestic demand. He considered that the slackened domestic consumption was attributed to the fact that the labour market was unstable and the majority of employees were striving under intense pressure and fear over

Action

keeping their jobs and wages. He also expressed concern that further cut back on public expenditure would aggravate the deflation problem. Given the circumstance, Mr LEE asked if there were measures to restore public confidence. Mr LEE further said that to help alleviate public anxiety about Hong Kong's economic prospects, FS himself should refrain from raising the problem of fiscal deficit repeatedly in public. FS should instead focus his efforts on reviving the economy and on ensuring that employees could concurrently share the benefits from an eventual recovery of the economy.

31. FS responded that the fiscal deficit problem was critical and must not be taken lightly. A slackened domestic consumption could not be enlivened simply by empty overtones. FS recalled that last year the fiscal deficit stood at over 5% of GDP and this, if not addressed, would result in the outflow of investment and capital, and undermine Hong Kong's economy. For these reasons, the fiscal deficit problem must be contained and resolved. The Administration would deal with the problem by reviving the economy, controlling public expenditure and raising revenue.

32. In response to a suggestion of increasing Government expenditure to stimulate the economy, FS said that in past years, the Government had been spending at a rate higher than the economic growth, but this had not helped the economy to recover any faster. Hong Kong was a small and very open economy and as such, stimulative effect of Government spending was very limited. A recent analysis revealed that for every dollar that the Government spent, overall GDP would only be lifted by around 50 cents. Hence, instead of further expanding Government expenditure in the share of the economy, the Government should make fuller use of the market by outsourcing Government's activities.

33. FS further said that given the limited effect of fiscal measures to stimulate economy as explained and the absence of monetary policies as an economic tool under the linked exchange rate system, the best approach for reviving the economy would be for the Government to enhance Hong Kong's economic competitiveness. The entire world was moving further into the knowledge economy and being a very open economy, Hong Kong had to win the "war for talents". In this regard, the Administration had in recent years focused on quality education developments and had made long strides to attract talents to revitalize the local businesses.

34. Mr LEE Cheuk-yan clarified that he was not asking FS to sideline the issue of fiscal deficit but suggested that FS should act more discreetly not to create ripples unnecessarily. He would however appreciate if FS could state his viewpoint on the overall downward trend for wages, notwithstanding that some business corporations were in fact making large profits. FS responded that the level of wages in the private sector was not a matter for the Government to intervene and should best be left to the market forces.

35. Mr James TIEN concurred that Hong Kong should "battle for talents" in order to enhance its competitiveness, but commented that Government's devotion

Action

was inadequate in this respect. Unlike Shanghai, which was relatively more receptive to immigrants, Hong Kong had gained little mileage in this process absorbing hitherto a mere hundred odd talents from the Mainland. In his view, the "quest for talents" mechanism should not be confined to the financial services and information technology sectors but should also include entrepreneurs and experts in other fields to vitalize local businesses and investments. He asked what strategies Government had in mind in this regard.

36. Sharing Mr TIEN's view, FS said that the Government would bring about new policies to attract more inflow of capital and talents to help revive Hong Kong's economy. Talents would come to a place for two things: opportunities and lifestyle. In this regard, the Government had a role to play to strengthen and enhance Hong Kong's position as Asia's world city with cultural diversity and as Asia's international financial and business hub.

37. FS continued that looking ahead, what was pivotal to Hong Kong's economic development was to integrate fast with its hinterland, the Mainland, on economic aspects, by enhancing the two-way flows of people, cargo, capital, information and services. On another front, the Government should focus on promoting the development of higher value-added economic activities such as financial services, logistics, inbound tourism and other niche areas of technology. The interests of the less skilled workers group would be catered for with the promotion of the tourism industry and local community economy. FS said that he was pleased to see that Government's relentless efforts had achieved progressive and steady improvement in these areas.

38. Mr CHAN Kam-lam agreed that the current fiscal deficit issue was critical and that Hong Kong could not afford to leave the issue unattended. He noticed that although GDP had registered an accelerated growth of 3.3% in the third quarter, much of this was in fact attributed to increased growth of re-export of goods and exports of services, while domestic exports remained on a downtrend. He sought FS's view on this phenomenon.

39. FS replied that this precisely reflected the process of economic restructuring Hong Kong was presently undergoing. Looking ahead, Hong Kong's domestic exports would continue to decline against an upward trend of re-exports and off-shore trading involving some local manufacturers who were moving to the Pearl River Delta in view of the lower costs.

40. In this respect, Mr CHAN Kam-lam said that improving the transportation links with the Mainland regions and the boundary crossing arrangements should be tackled as a matter of urgency. FS expressed concurrence with Mr CHAN's view and said that improving the transportation links between Hong Kong and the Pearl River Delta would benefit both sides. In fact, the Government was studying the feasibility of 24-hour boundary crossing arrangements and building a fast rail link connecting Hong Kong and Guangzhou as well as a bridge that would connect Hong Kong with

the western part of the Pearl River Delta, i.e. the Hong Kong Pearl River West Link.

41. Mr Henry WU asked what concrete measures the Government would take to assist small and medium sized enterprises (SMEs) to capitalize the business opportunities arising from the opening up and fast growing economy in the Mainland. FS replied that the Government and the Trade Development Council (TDC) had not lost sight on the interests of the SMEs, and had in fact been inducing overseas enterprises to invest in the Mainland using Hong Kong as a base. This was one of the main themes of both his recent visits to the European countries and the tour of the Chief Secretary for Administration to Japan. The message to overseas enterprises was that Hong Kong was a convenient stepping stone to Mainland China where opportunities were abundant for foreign investments, and it would be more effective for foreign investors to enter the Mainland on a joint-venture basis with local SMEs. In this connection, TDC had been relentless in facilitating off-shore SMEs to joint hands with their counterparts in Hong Kong to venture into the Pearl River Delta and other Mainland regions.

42. Mr Albert HO said that he observed that deflation had brought down prices on consumption commodities in general but not likewise on transport fares and electricity charges, which on the contrary had increased over the same period thus adding plight to the general public. He enquired about the Administration's stance in this regard and whether the Administration would continue to be blinded to such abnormality at the expense of public interests.

43. As regards the downward trend of consumer prices, FS said that a previous survey had brought to light that the sustained deflation over the past four years was attributed to a great extent (60%) to the force of a declining property market, and the negative wealth effect in turn affected local citizen's consumption. In this regard, the Government was committed to stabilizing the property market and redefining its role in the housing market. Apart from the lack of incentives to spend, deflation was also attributable to cheaper imports.

44. FS said that it should be noted that some public utilities fell outside the ambit of Government's jurisdiction while some others were subject to certain regulatory controls laid down in agreements between the Government and the utility corporations. Unilateral intervention with the operation of these utilities by the Administration would violate the contract spirit and the free market principles. FS added that the rate of reduction in Composite CPI over the past four years was higher than the rate of reduction in median household income over the same period, meaning that due to deflation, the overall buying power of the general public had not weakened.

45. In response, Mr Albert HO said that in his view there were other options open to the Administration which would not contravene the free market principles or the contract spirit. For instance, the Administration could urge the Kowloon-Canton Railway Corporation, which was a wholly Government-owned corporation, to take

Action

the lead to bring down its fares to ease the economic hardship of the public. As for public buses, there was also a case for a lower fare for public buses and the Government should be in a position to bargain for this. In short, the Government should not only refrain from adding plight to the community in the tide of deflation but should also resort to measures to relieve the public's economic hardship aggravated by unrealistic lofty transport fares and public service charges.

46. FS responded that he was fully aware of the pressure faced by the general public under the present economic conditions but considered the best approach would be to revive the economy to increase employment opportunities.

47. To follow up on Mr Albert HO's concern, Mr James TO said that in the context of the new housing policy recently promulgated in November 2002, Government was asking the two railway corporations to withhold the tendering out of railway-related property developments. Apparently, the Government's intervention with the railway corporations' property development business was not in congruence with its non-intervention in the realm of fares.

48. FS explained that a fare reduction would mean reduced income but the withholding of tendering out property developments would only result in a deferred cash flow. Not subscribing to this, Mr James TO argued that the deferred cash flow might turn out to be of lesser value, and essentially the withholding of railway-related property developments was a result of a policy decision of the Government rather than a commercial decision of the railway corporations. Noting this, FS said that a fare reduction was an income loss for certain but in the present circumstances, there were good reasons to believe that a deferred sale of properties would not necessarily end up with a lower income for the two railway corporations.

49. Mr NG Leung-sing said that he did not agree with excessive Government intervention with the market, including public utilities. He considered it more appropriate for the Government to encourage large public corporations to act as good corporate citizens and to realize that a stable society was beneficial to the well-being of the business sector as well as to the community at large.

50. Mr NG Leung-sing observed that the decline in overall domestic demand in the third quarter of 2002 appeared to have somewhat narrowed on a year-on-year comparison and asked if this could be taken as a positive sign of a rebound from the current deflation and whether further price cuts by public utilities would arrest the rebound. FS agreed that price cuts by Government and other public utilities directly would naturally enlarge deflation. The deflation pressure, if allowed to persist, would cause consumer spending and private investments to further slacken. Generally speaking, domestic spending would pick up if exports continued to improve given that Hong Kong was a small and externally-oriented economy. Looking ahead, he was confident in seeing a steady revival of the economy.

Action

VI Any other business

51. There being no other business, the meeting ended at 12:58 pm.

Council Business Division 1
Legislative Council Secretariat
14 January 2003