

OFFICIAL REPORT OF PROCEEDINGS**Wednesday, 25 March 1981****The Council met at half past two o'clock****PRESENT**

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)
SIR CRAWFORD MURRAY MACLEHOSE, G.B.E., K.C.M.G., K.C.V.O.

THE HONOURABLE THE CHIEF SECRETARY
SIR JACK CATER, K.B.E., J.P.

THE HONOURABLE THE FINANCIAL SECRETARY
SIR CHARLES PHILIP HADDON-CAVE, K.B.E., C.M.G., J.P.

THE HONOURABLE THE ATTORNEY GENERAL
MR. JOHN CALVERT GRIFFITHS, Q.C.

THE HONOURABLE THE SECRETARY FOR HOME AFFAIRS
MR. DENIS CAMPBELL BRAY, C.M.G., C.V.O., J.P.

THE HONOURABLE DAVID AKERS-JONES, C.M.G., J.P.
SECRETARY FOR THE NEW TERRITORIES

THE HONOURABLE LEWIS MERVYN DAVIES, C.M.G., O.B.E., J.P.
SECRETARY FOR SECURITY

THE HONOURABLE DAVID WYLIE McDONALD, C.M.G., J.P.
DIRECTOR OF PUBLIC WORKS

THE HONOURABLE DAVID GREGORY JEAFFRESON, C.B.E., J.P.
SECRETARY FOR ECONOMIC SERVICES

THE HONOURABLE ALAN JAMES SCOTT, J.P.
SECRETARY FOR INFORMATION

THE HONOURABLE DEREK JOHN CLAREMONT JONES, C.M.G., J.P.
SECRETARY FOR THE ENVIRONMENT

DR. THE HONOURABLE THONG KAH-LEONG, C.B.E., J.P.
DIRECTOR OF MEDICAL AND HEALTH SERVICES

THE HONOURABLE ERIC PETER HO, J.P.
SECRETARY FOR SOCIAL SERVICES

THE HONOURABLE JOHN MARTIN ROWLANDS, C.B.E., J.P.
SECRETARY FOR THE CIVIL SERVICE

THE HONOURABLE JAMES NEIL HENDERSON, J.P.
COMMISSIONER FOR LABOUR

THE HONOURABLE GERALD PAUL NAZARETH, O.B.E., Q.C.
LAW DRAFTSMAN

THE HONOURABLE WILLIAM DORWARD, O.B.E., J.P.
DIRECTOR OF TRADE, INDUSTRY AND CUSTOMS

THE HONOURABLE JOHN MORRISON RIDDELL-SWAN, J.P.
DIRECTOR OF AGRICULTURE AND FISHERIES

THE HONOURABLE DONALD LIAO POON-HUAI, O.B.E., J.P.
SECRETARY FOR HOUSING

THE HONOURABLE GRAHAM BARNES, J.P.
DIRECTOR OF HOME AFFAIRS

THE HONOURABLE SELWYN EUGENE ALLEYNE, J.P.
DIRECTOR OF SOCIAL WELFARE

THE HONOURABLE MICHAEL LEUNG MAN-KIN, J.P.
DIRECTOR OF EDUCATION (*Acting*)

THE HONOURABLE OSWALD VICTOR CHEUNG, C.B.E., Q.C., J.P.

THE HONOURABLE ROGERIO HYNDMAN LOBO, C.B.E., J.P.

THE HONOURABLE LI FOOK-WO, C.B.E., J.P.

DR. THE HONOURABLE HARRY FANG SIN-YANG, C.B.E., J.P.

THE HONOURABLE LO TAK-SHING, O.B.E., J.P.

THE HONOURABLE FRANCIS YUAN-HAO TIEN, O.B.E., J.P.

THE HONOURABLE ALEX WU SHU-CHIH, O.B.E., J.P.

THE REVD. THE HONOURABLE JOYCE MARY BENNETT, O.B.E., J.P.

THE HONOURABLE CHEN SHOU-LUM, O.B.E., J.P.

THE HONOURABLE LYDIA DUNN, O.B.E., J.P.

DR. THE HONOURABLE HENRY HU HUNG-LICK, O.B.E., J.P.

THE REVD. THE HONOURABLE PATRICK TERENCE MCGOVERN, O.B.E., S.J., J.P.

THE HONOURABLE PETER C. WONG, O.B.E., J.P.

THE HONOURABLE WONG LAM, O.B.E., J.P.

THE HONOURABLE CHARLES YEUNG SIU-CHO, O.B.E., J.P.

DR. THE HONOURABLE HO KAM-FAI, J.P.

THE HONOURABLE ALLEN LEE PENG-FEI, J.P.

THE HONOURABLE DAVID KENNEDY NEWBIGGING, J.P.

THE HONOURABLE ANDREW SO KWOK-WING, J.P.

THE HONOURABLE HU FA-KUANG, J.P.

THE HONOURABLE WONG PO-YAN, O.B.E., J.P.

THE HONOURABLE WILLIAM CHARLES LANGDON BROWN, J.P.

THE HONOURABLE JOHN JOSEPH SWAINE, O.B.E., Q.C., J.P.

THE HONOURABLE STEPHEN CHEONG KAM-CHUEN

ABSENT

THE HONOURABLE KENNETH WALLIS JOSEPH TOPLEY, C.M.G., J.P.
CHAIRMAN, COMMITTEE TO REVIEW POST-SECONDARY AND TECHNICAL EDUCATION

DR. THE HONOURABLE RAYSON LISUNG HUANG, C.B.E., J.P.

THE HONOURABLE CHAN KAM-CHUEN, J.P.

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL
MRS. LORNA LEUNG TSUI LAI-MAN

Papers

The following papers were laid pursuant to Standing Order No. 14(2):—

<i>Subject</i>	<i>L.N. No.</i>
Subsidiary Legislation:	
Buildings Ordinance (Application to the New Territories) Ordinance. Buildings Ordinance (Application to the New Territories)(Amendment) Regulations 1981	65
The Hong Kong Association of Banks Ordinance 1980. The Hong Kong Association of Banks By-Laws 1981	66
Antiquities and Monuments Ordinance. Antiquities and Monuments (Designation of Monuments) Declaration 1981.....	73
Buildings Ordinance. Building (Administration) (Amendment) Regulations 1981	75
Buildings Ordinance. Building (Construction) (Amendment) Regulations 1981	76
Air Navigation (Overseas Territories) Order 1977. Hong Kong Air Navigation (Fees) (Amendment) Regulations 1981.....	77
Telecommunication (Exemption from Licensing) Order. Telecommunication (Exemption from Licensing) (Fees) (Amendment) Order 1981	78
Sessional Papers 1980-81:	
No. 46—Chinese Recreation Ground and Public Square Yau Ma Tei Management Committee—Income and Expenditure Account with Balance Sheet and Certificate of the Director of Audit for the year ended 31 December 1980.	
No. 47—Government Minute in Response to the Report of Public Accounts Committee dated December 1980.	

Government business

First reading of bill

DEPOSIT-TAKING COMPANIES (AMENDMENT) BILL 1981

Bill read the first time and ordered to be set down for second reading pursuant to Standing Order 41(3).

Second reading of bills

DEPOSIT-TAKING COMPANIES (AMENDMENT) BILL 1981

THE FINANCIAL SECRETARY moved the second reading of:—‘A bill to amend the Deposit-taking Companies Ordinance’.

He said:—Sir, I move that the Deposit-taking Companies (Amendment) Bill 1981 be read the second time.

This Bill is intended to permit the creation of a breathing space in the registration of applicants as deposit-taking companies under section 10 of the Deposit-taking Companies Ordinance which provides that the only grounds on which the Commissioner shall *refuse* to register an application are, *first*, that its issued or its paid up capital is less than \$5 million or \$2.5 million respectively; *secondly*, that the objects of the company do not include the business of taking deposits; and *thirdly*, that the name of the company contains any word in contravention of any other ordinance or that it appears to the Commissioner that the company is not a fit and proper body to be registered.

The original purpose of the Ordinance, which came into operation on 1 April 1976, was to discover the number of non-bank deposit-taking institutions in business. A system of registration, with relatively limited and easy to fulfil criteria, was introduced with the aim of encouraging as many existing companies as possible to register.

Since 1976, the Government has adopted a more explicitly supervisory role in relation to registered deposit-taking companies, with the addition of certain prudential controls in 1978. Further prudential controls will be the subject of a bill I expect to introduce into this Council in the very near future. But no steps have hitherto been taken to *restrict* the number of companies added to the register.

The number of registered deposit-taking companies has risen particularly sharply in the last two years: from 241 at the end of 1978, to 269 at the end of 1979, to 302 at the end of 1980, and to 330 as at 23 March 1981.

This recent sharp growth in the number of registered deposit-taking companies prompted an examination of whether there is a need for some form

of quantitative control over registration. Apart from the change in the original purpose of the Deposit-taking Companies Ordinance, which I have just mentioned, there are two other arguments in favour of such an approach.

The *first* argument is that Hong Kong now has enough deposit-taking companies to cater for its domestic needs. This is particularly valid in respect of deposit-taking companies which are not connected with banks in Hong Kong or overseas. The argument is possibly not so valid in respect of deposit-taking companies which are connected with banks *not* licensed in Hong Kong. Such companies are established here primarily to carry out offshore, rather than domestic, business and their presence here enhances Hong Kong's status as an international financial centre without appreciably adding to domestic pressures.

The *second* argument is that the number of companies on the register is in danger of expanding faster than the supervisory system can handle. This is a particularly relevant consideration in the context of the proposal to create a new category of deposit-taking company which I outlined in paragraphs 287 to 293 of this year's budget speech (printed version).

Meanwhile, uncertainty must surround the effect of the proposed amendments to the prudential provisions of the Deposit-taking Companies Ordinance and the proposal to create a new category of deposit-taking company on the number of future applications for registration and the number of companies which choose to remain on the register. It could be that the number of companies on the register could continue to expand at an unacceptable rate.

In all these circumstances, it is proposed to limit *temporarily* the registration of new applications in order to allow time for the impact on *existing* deposit-taking companies of the various legislative amendments, if approved, to be observed and, equally important, to allow time for the Commissioner to supervise the implementation of the new provisions of the Ordinance.

I turn now, Sir, to the Bill itself. *Clause 2* amends section 3 of the Ordinance to empower the Governor to give directions to the Financial Secretary and the Commissioner of Deposit-taking Companies with respect to the exercise or performance of their respective powers, functions and duties under the Ordinance. It further empowers the Governor to direct the Commissioner to suspend the further registration of companies as deposit-taking companies and to refuse to register as a deposit-taking company any company by reference to any class or description. *Clause 3* makes a consequential amendment to section 10 of the Ordinance. *Clause 4* contains a transitional provision to authorize the Commissioner lawfully to suspend consideration of applications for registration as deposit-taking companies during the period from noon on Tuesday, 17 March 1981 to the date of enactment of this Bill, following which the Commissioner must comply with any direction given to him by the Governor under the new section 3B in clause 2.

Sir, on 17 March 1981, you instructed the Commissioner of Deposit-taking Companies to suspend consideration of any application for registration received after noon on that day.

At this juncture, Sir, I should explain our attitude towards the registration of new deposit-taking companies during the breathing space, that is to say, until such time as a decision has been made as to whether a permanent form of quantitative control over registration is necessary and, if so, in what form. As I stated earlier, the arguments in favour of quantitative control suggest that, during the breathing space, the only applicants which should be registered as deposit-taking companies should be companies which are subsidiaries of recognized banks.

Accordingly, Sir, you have authorized me now to state the terms of the direction which you intend to give to the Commissioner of Deposit-taking Companies on the date of the commencement of the amendment to the Ordinance. The terms of this direction are as follows—

‘In exercise of the power vested in me by section 3B(2) of the Deposit-taking Companies Ordinance, you are hereby directed to refuse, under section 10(2) of the Ordinance, to register any company unless you are satisfied that—

- (a) more than 50% of its voting capital is held by a bank which is recognized as such in the country or place in which it is incorporated; and
- (b) such bank is adequately supervised by the prudential supervisory authorities of that country or place.’

I now move, Sir, that the debate on this motion be adjourned.

*Motion made. That the debate on the second reading of the Bill be adjourned—*THE FINANCIAL SECRETARY.

Question put and agreed to.

APPROPRIATION BILL 1981

Resumption of debate on second reading (25 February 1981)

Question proposed.

MR. LOBO:—Your Excellency, as an early speaker in this debate I shall not delve into facts and figures nor split hairs. After all, my colleagues who follow today and tomorrow will have much to say about the 311 paragraphs of the Financial Secretary’s speech and related matters. I shall therefore limit my comments to some of the facts of life.

Sir, no doubt the Financial Secretary has been wondering why his budget proposals were not received with universal acclaim.

He reports a healthy economy, a favourable outlook and a handsome surplus. He proposes tax changes which exempt 85,000 people from salaries tax and reduces the liability of another 237,000. He proposes to spend more on the environment, education, housing, health, law and order, and social welfare.

The next morning, we read in the newspapers and hear on the radio that one group thinks he has not done enough for the taxpayers, and another commentator thinks he should have done more for education or social welfare.

On every side he is urged to be more generous, both in the taking and the giving.

The last thing I would wish to do is to anticipate the Financial Secretary's reply to his critics. I have no doubt he will have some sharp things to say about them and the quality of their arguments.

He sometimes seems at pains to prove, by dotting every 'i' and crossing every 't', that there is only one possible view of such matters and that opposing opinions can only be held by people who ignore logic and arithmetic. He is very often right but criticism is a natural healthy aspect of political life.

There is nothing intrinsically wrong in responding to public pressure, and it is a matter of pride that our Government takes positive steps to find out what ordinary people think about public issues. Very considerable efforts are made to bridge the gap between the governed and the governing.

Financial affairs are necessarily complicated but that does not mean that the ordinary people cannot have opinions on levels of taxation or on the disposal of public funds.

There are no absolutes in financial and economic affairs any more than in any other field of human activity. Perhaps critics of this budget would not be so irritated if our Financial Secretary took more pains to show that, methodical, dedicated and meticulous a man that he is, he is also sympathetic to the views of the less informed and is prepared to establish dialogue and to yield to reasonable arguments.

There are a substantial number of people in Hong Kong who feel themselves to be sandwiched between the affluent on the one side and the lower-income groups on the other. Their economic problems are easily overlooked but very real. They wish to be heard and heeded where they believe they have good reason to complain.

For example, the question of commercial rents and the small businessmen: I am inclined to agree with the view that control of commercial rents will not in fact solve the problem and that it is not worth breaking a vital principle for a doubtful advantage, but I recognize that these considerations are no comfort at all in cases where a family business may be wiped out or where a neighbourhood pattern may be permanently disrupted.

Too often the arguments which seem compelling in statistical terms—so many square metres of new commercial space available in some other location—are irrelevant in human terms.

We are a society which has tremendous resources and potential. Our capacity to solve the problems of housing, health, education and poverty is limited only by the decisions we choose to make about priorities.

But if we look back over these last few years of growth and prosperity I think far too wide a gap is developing between what is statistically satisfactory and what is personally satisfying; between what is good for the community taken as a whole but what may be disastrous for a man or an individual.

The very scale of our progress makes it all the more likely that vast and beneficial public projects will bring about serious personal disruption and distress.

Our public policies, including our economic and financial policies, should be expressed in terms which are universally understandable and their impact on people as individuals must be seen to have been taken into account.

We must remember that the more we spend on the physical development of Hong Kong the less we can neglect those intangible elements without which life will never be entirely satisfying or our society stable.

Two or three decades ago immigrants from China were assumed to be grateful enough to accept the material benefits which Hong Kong offered and not to worry about environment considerations. Today we dare not be so complacent. Environmental conditions which were tolerable 20 years ago are no longer acceptable.

We cannot ignore the fact that, apart from a flurry of activity ten years ago, our standard of public cleanliness has been slipping relentlessly. I hope that the revival of the Clean Hong Kong Campaign will be a determined and sustained effort and not just a short-term and expensive publicity exercise.

The first step in a successful campaign will be determined action by the Government to clean its own house. Our roads and pavements must be kept free of builders' spoil and rubble. The public areas of housing estates' must also be kept clean.

We must do something about the squatter areas too. We can no longer withhold proper public services from them just because we did not directly create the squatter areas and we wish they were not there.

In the provision of recreational services I detect a widening gap between expensive and sophisticated facilities in the central areas, which in practice are accessible and available only to a few, and the miserably inadequate recreational facilities in our other older and more densely populated city districts.

Taken together our programme for the construction of parks and sports facilities is excellent. But looked at 'in real terms' it is a mere drop in the bucket.

I hope that we will not lose the opportunity, when constructing the Island M.T.R., to snatch back a few hectares for recreation from the development bonanza which everyone seems to be expecting.

We have to do something urgently to create a better balance between tremendous physical development and the deteriorating quality of life. Without

such an effort our expenditure on public works and public services which the budget proposes will not bring about progress in real terms.

In the closing stages of his address the Financial Secretary referred to his respect for Members; he may have been alluding to the time of day. However, Sir, I wish to reciprocate his sentiments and express not only my respect but also my admiration to a Financial Secretary who, during the past decade, has managed the financial affairs of Hong Kong with great ability and dedication. My earlier remarks are therefore intended to compliment the motion.

I am upstanding to lend my agreement to his budgetary policies, and I believe the Financial Secretary's concluding comments are worthy of repetition. He said: 'Our economy and our public finances have acquired new dimensions since 1975 and I have no doubt that, notwithstanding difficulties beyond our control that are bound to arise from time to time, by 1985 yet further dimensions will be acquired.' Sir, I have no doubt and we hope the Financial Secretary's remarks will, like his other conservative predictions, turn out even more favourably than anticipated.

With this in mind I venture to suggest that as we direct our attention towards the facts and figures we must also take into account the vital factor of improvement in the quality of life of our community—our only tangible asset—for a balanced, stable and better tomorrow.

Sir, with these remarks I support the motion.

MR. F. W. LI:—Sir, the Financial Secretary is to be congratulated on attaining another record surplus, estimated at \$9,323 million for the current year. After adjustments made for analytical reasons and corrections to the revised estimates, an actual surplus of about \$6,000 million was used for considering the cumulative financial position at 1 April next. This reduced figure is nonetheless a remarkable achievement although it may be regarded in certain quarters as embarrassingly large.

He has emphasized that the satisfactory outturn is due to a flush of revenue rather than a failure of expenditure, a situation which we have been in for the fourth year running.

For the coming year he has anticipated further massive increases in revenue, in particular, in earnings and profits tax, interest earnings, and revenue from land transactions. The total budgetted increases in these three items of revenue will be in the region of \$5,000 million. He has decided to be generous and charitable by proposing five tax concessions, which will cost \$1,250 million, still leaving a most respectable budgetted surplus of \$7,881 million for 1981-82.

There is no denying that the results forecast for this year and the next are highly commendable, and have already been generally acclaimed by all sectors of this community. Indeed, press comment has been universally favourable, and

the proposed salaries tax concessions have met the aspirations of the majority of taxpayers. There are, however, sombre elements in the Financial Secretary's speech.

On the subject of the continuing development of Hong Kong as a financial centre, he sounded a word of warning on the expansion of the money supply disproportionate to the ability of our economy to absorb additional credit without inflation. He suggested that, because our economy is so externally oriented, we shall probably have to live with *imported* inflation at least until late 1982 or even 1983. He discussed the difficulties in taking remedial action against imported and domestically generated inflation.

Sir, before proceeding to my next point I must declare an interest as the chairman of a deposit-taking company and director of a licensed bank. I shall, however, endeavour to remain impartial.

The Financial Secretary in the last part of his speech spoke at some length on the management of the economy in a changing environment. He told us that bills will be introduced into this Council to improve the quality of prudential supervision over all licensed banks and deposit-taking companies. I believe no one will argue against such controls, which are so essential for the protection of depositors, or the updating of these controls from time to time to reflect changing circumstances. He has also proposed that the 1964 definition of 'banking business' should be revised to take into account the coming into operation in 1976 of the Deposit-taking Companies Ordinance. On this specific issue, it would appear that the Financial Secretary is thinking more in terms of further restricting the activities of the deposit-taking companies than anything else, both as one of the steps to reinforce the interest rate agreement of the Hong Kong Association of Banks, and as a means to minimize the serious competition offered by these companies to those banks with significant domestic deposit base.

The Financial Secretary has referred to wholesale deposits as being very sensitive to interest rate considerations. To prevent these large deposits from being transferred abroad he has concluded that legislation should be amended to create a new category of deposit-taking companies which might, somewhat loosely, be described as 'merchant banks'. Companies licensed as such would be permitted to accept deposits of \$500,000 or more, with no limitation as to their term of maturity. He has not, however, made public the criteria proposed for licensing this new type of financial institution. Deposit-taking companies not licensed as merchant banks would in future be restricted to deposits of \$50,000 or more, with original term of maturity of a minimum of three months.

In making this proposal the Financial Secretary appears to have overlooked the tendency that even small depositors are also sensitive to interest rate considerations. Excluding this important factor, there will be two likely consequences to any such amendment. Firstly, the licensed banks would be given a chance to recover from the existing deposit-taking companies a sector of

the deposit market lost in fair competition over the past years. Secondly, the new category of 'merchant banks' would be able to disregard the interest rate agreement of the Hong Kong Association of Banks in taking deposits of \$500,000 or more with any maturity.

Here it might be convenient, Sir, to consider how a merchant bank may or may not be defined. I have personally failed to find any definition which may be accepted as conclusively definitive. However, as far as I am aware, the functions of a merchant bank could, among other activities, include management of and participation in medium and long term syndicated loans; provision of corporate finance including bond issues; acceptance of deposits in all major currencies; financial and investment consultancy services; money market activities; foreign exchange transactions; trade financing and project finance. From the description I have given, it is obvious that a merchant bank is not just an upgraded deposit-taking company, but a complex financial institution capable of undertaking a multiplicity of activities which in turn will require a sophisticated system of prudential supervision. Is it the intention of the Financial Secretary to legislate for 'merchant banks' as such, or was he merely thinking in terms of a tool to help regulate local interest rates? Regardless of his reply, I would certainly understand why he used the words 'somewhat loosely' to describe the new category of financial institutions proposed.

I would therefore advocate a very careful re-examination of all the implications before any irrevocable decision is made to create a third type of financial institution. And I hope I will not be accused of being partisan if I observe that in Hong Kong with recent amendments our deposit taking system works well enough and does not stand in need of such a change.

At the opening of the 1973-74 session of this Council, I expressed the hope that Government would soon make a decision on legislation to regulate the numerous finance companies then operating in Hong Kong. Subsequently, during the 1974-75 budget debate I referred to the new Protection of Depositors Bill, the main provision of which was the stipulation of a minimum size of deposit to be accepted by finance companies from the general public. I also suggested that while a full range of statutory regulations would be preferable, in view of the time limit, that Bill should at least include other provisions relating to compulsory registration, payment of an annual fee, a minimum paid-up capital, a minimum liquidity ratio, and the filing of monthly returns. It was not until 1976 that these companies were required to be registered and to comply with prudential controls on the limitation of loans to customers in relation to size of capital, and later in 1978 to file monthly returns and to comply with a minimum liquidity requirement.

This somewhat piecemeal approach to Government's prudential role, plus the relatively low criteria for registration, has resulted in a progressive proliferation of these companies and by February this year the number of deposit-taking companies on the register stood at 316. Their contribution to the growth of Hong Kong's financial market over the last ten years is not in dispute but, as the

Financial Secretary has pointed out, the diverse characteristics of these companies require a new approach.

Whether the present proposal will provide a satisfactory solution to the problems mentioned by the Financial Secretary is a matter of conflicting opinions. Like him, I do not wish to argue the case for it in detail here. Nor do I wish to repeat the arguments against. Instead, as I have already indicated, I wish only to sound a word of warning. The activities of finance companies over the past decade have given rise to a number of issues in the overall management of the economy. To avoid a repetition of these mistakes I must stress it is essential to proceed with all due caution if in another few years we are not to face problems similar to those now posed by the deposit-taking companies.

Sir, I am delighted that the Financial Secretary has finally realized that the arguments he deployed in 1973 and 1974 against the concept of exempting foreign currency deposits from interest tax may no longer be valid in present-day circumstances, and that an examination is now in hand for interest payable on such deposits above a certain minimum to be made exempt from tax. This would allow Hong Kong not only to continue with the syndication of foreign currency loans but also to complete the funding arrangements here without offshore intervention. I applaud the idea of abolishing interest tax for foreign currency deposits held in Hong Kong. It is better to be late than never. Having regard to the lead taken by neighbouring territories, to the benefit of their financial markets and their economy as a whole, I believe this to be a step in the right direction towards further growth of Hong Kong as a leading financial centre. It is, however, unfortunate that the Financial Secretary has still not seen fit to consider abolishing interest tax altogether (*laughter*).

Sir, earlier in my speech I referred to the Financial Secretary's remarks on imported and domestically generated inflation. It appears that we can expect his forecast of 12% for the rate of increase in consumer prices in 1981 to be correct, if not exceeded. He has emphasized that the unsettling effect of inflation cannot be ignored as it affects the socioeconomic attitudes of the population, and that among other calls on the public purse anything which can be done to ease the differential impact of inflation on the disadvantaged members of our community deserves priority.

Because of the erosion of private income through inflation I feel that much more can be done for the more vulnerable groups in Hong Kong, whose quality of life must not be allowed to deteriorate further. As, no doubt, other Members will be speaking on this subject, I shall leave it to them to elaborate on their various proposals.

Finally, Sir, I would also recommend that more generous assistance should be provided for those voluntary agencies subvented on a discretionary grant basis. With a limit to other sources of income many of these organizations are hard pressed by escalation in costs, and they are beginning to reduce the scale and scope of the programmes now offered to the less privileged members of our

society. This is an alarming trend which must not be allowed to continue. With the level of our reserves at an all-time high, I would urge Government to take immediate steps to make it possible for these agencies to carry on with all their services to those in need.

With these observations, Sir, I support the motion.

MR. TIEN:—Sir, I am very glad that our Financial Secretary has not failed to mention the single most critical issue in 1981 affecting the future prospects for our external trade, namely, the future of the Multi-Fibre Arrangement. In paragraph 276 of his speech (printed version), the Financial Secretary said, amongst other things, that ‘our general posture over the coming months must be one of attack, for the arguments are certainly on our side ...’ Speaking as a textile industrialist myself, I must say I share this sentiment fully.

Let me go straight to the heart of the matter. Whilst, at this juncture, no government has yet come forward with a definitive statement of whether they want a successor to the M.F.A., and still less what this new M.F.A. should provide for, it has become abundantly clear that these governments have to contend with a variety of issues and demands expressed by their labour and industrial constituents. Our textile and clothing industries’ pamphlet, ‘Myths, Facts, Application’, has set out a few choice examples of such demands and pressures.

If we step back and look at these demands and issues in their entirety, we can see that they fall within two broad categories.

The first category relates to the very real difficulties facing the textile and clothing industries in Europe. These difficulties are very real and they loom very large in the minds of our European counterparts. But these issues are not relevant to the M.F.A. First, the M.F.A. was never designed to deal with the fraudulent labelling in E.E.C. countries of textile products made in Eastern Europe, particularly those imported into and freely circulated within the E.E.C. under special arrangements. Secondly, the M.F.A. was never designed to deal with problems arising from the subsidization of the export prices of, say, American staple fibres; nor with the dumping of artificially low-priced products. Thirdly, the M.F.A. is an instrument for regulating world trade in textile products, but it is most decidedly *not* a vehicle for achieving social justice. Fourthly, the M.F.A. is being blamed—wrongly in my opinion—because it has not helped to arrest declining employment and declining profitability in the textile industries of the major importing countries. And, finally, industrial protectionists are arguing that they are suffering from external competition. But what they have patently failed to perceive is that the M.F.A. has been applied wholly and exclusively against the exports of the developing countries and their difficulties have much wider origins. These arguments, Sir, remind me of the old truth: ‘Man is the only animal that can remain on friendly terms with the victims he intends to eat until he eats them’ (*laughter*).

The second category of issues is pertinent to the future of the M.F.A. It appears to me that demands of the labour and industrial sectors of the major importing countries can be neatly summarized in three main points. First, they wish to continue the application of 'globalization'. In other words, they wish to continue applying a policy of containment of imports into their countries from developing countries only. Secondly, they wish to achieve a re-distribution of quotas in favour of the new and small developing country suppliers, on the grounds that the more developed developing countries such as Hong Kong and South Korea—are not truly developing economies. Thirdly, they argue that it is necessary in the context of the next M.F.A. that the growth rate of their imports from the developing world should somehow be related to *their* estimation of the growth rate of consumption in their domestic markets.

Sir, those are the main arguments: I submit that they are altogether invalid.

To take the first point first, namely 'globalization'. The term itself is a myth. Sir, a myth can be an ideal or an illusion. Unfortunately, the ideals have lost as against the illusions. We all know it really means the application of the M.F.A. to the exports of the developing world *only*. It is not as it should be, under Article XIX of the G.A.T.T., designed to operate on a truly world-wide basis. Such a policy will not help the major importing countries to overcome competition from other, more efficient, developed countries. So much for that myth.

Next, Sir, the theme that textile quotas should be re-distributed, in favour of the relatively small supplying countries in the developing world, but at the expense of the major supplying countries such as Hong Kong and South Korea. If their proposal is to re-distribute quotas in the pious belief that developed importing countries and developing exporting countries stand in a donor/ beneficiary relationship, then why have quotas at all? If this view were to be maintained, surely the world should return to free trade in textiles, with the major importing countries applying only Generalized Scheme of Preferences. But as this is hardly a feasible proposition as far as the major importing countries are concerned, the point which must be made is that the developing countries accepted the M.F.A. in exchange for very explicit guarantees in respect of their rights of access. They did *not* accept the M.F.A. as a gift from the major importing countries.

The third theme propounded by the major importing countries is that developing exporting countries should not, in the next M.F.A., be allowed to export more than the estimated growth rates of domestic consumption in the major importing countries. This is old hat, for it has been repeated every time the M.F.A. came up for renewal. Such a formulation will never be accepted by the developing exporting countries. It would place in the hands of developed importing countries the sole right to determine the growth rate of their imports. Once again, Sir, I must say categorically that this proposal is the result of a further myth. For it is based on an incorrect assumption, namely that the minimum growth and minimum flexibility provisions in the M.F.A. would

oblige the developed importing countries to accept a level of imports far in excess of bilaterally agreed restraint limits. The excess, we are told, should be not less than 24% of the agreed restraint limits. But this is patently untrue. For example, our bilateral textile agreement with the E.E.C., the growth rates in the sensitive apparel categories range from 0.25% to 3.5%. The swing between these categories is limited to 3.5%. Moreover, the agreement specifically prohibits the transfer of yardage from less sensitive categories into these sensitive apparel categories. The carryover and carryforward margins, it is true, amount to 11%, but this percentage figure is not very meaningful in the context of these highly utilized categories.

What I am leading up to, Sir, is that it is most necessary and desirable for Hong Kong to speak out—again and again and yet again—against these demands, for they are both intrinsically unfair and founded on unjustifiable premises. Moreover, Hong Kong should not speak out in isolation. I firmly believe that Hong Kong should encourage other developing countries to do the same.

I would like, therefore, Sir, to seek an assurance from the Government that it will do all it can to attack these demands, by all legitimate means at its disposal. Speaking for the textile and clothing industries, let me assure my honourable Friends, we will render all necessary support to the Government at every important opportunity that may exist for discussing the M.F.A. in open forum. I would also like to seek an assurance from the Government that it will put at the disposal of the Director of Trade, Industry and Customs all the resources he requires for making appropriate representations.

Sir, the textile and clothing industries in Hong Kong do not wish to die and finish; merely to continue in the business of dyeing, finishing and exporting (*laughter*). And they must because, try as they might to diversify, they still account for half the value of Hong Kong's domestic exports.

With these remarks, Sir, I support the motion.

MR. ALEX WU:—Sir, I was particularly pleased by the Financial Secretary's reference in his budget speech to a possible scheme to assist Hong Kong students in British universities, and by the Government's subsequent prompt action to implement an emergency scheme.

Last October, when it was becoming clear that the British Government was not to be moved on this matter, I suggested that we might have to consider some form of subsidy for our students in Britain.

I was thinking then of the contribution which overseas university education makes to our total educational resources.

The loan scheme now being considered as a longer term measure should be seen in that light.

No matter how far we may eventually progress with the development of post-secondary education here in Hong Kong, we can never hope to be self-sufficient and it would not be sensible, from the educational point of view to try.

In practical terms there will be disciplines, particularly in the sciences, where our interests may be vital but not widespread and certainly not enough to justify the establishment of a full course. In these fields we rely on expertise from abroad or on Hong Kong students who have studied these subjects abroad and have returned to Hong Kong to practise. There are many examples of this process and it is healthy and sensible.

In a broader educational sense it would be unreasonable and dangerous to pretend that we could cut ourselves off from some degree of reliance on overseas education.

Fortunately this is not likely to happen because a significant number of students from Hong Kong seem to be able to find their way to post-secondary education abroad, mostly in the United States and Canada, without too much difficulty, and perhaps without being noticed by our statisticians because, I suggest, there could be more Hong Kong students in the U.S. and Canada than the 6,354 recorded in 1979-80. Even so, and allowing that only a small proportion are studying at university level, the total is a large number and should be counted as an important resource for planning purposes.

The statistics are not easy to evaluate. On page 280 of the Hong Kong Annual Report 1981, 6,354 students are recorded as having left Hong Kong to study in the U.S. and Canada and 4,255 to study in Britain. Another statistical table on the same page shows that in the calendar year 1980 there were 2,688 Hong Kong students in Britain, a 42% drop from the previous year.

The big drop seems to have taken place in secondary school studies, down from 1,617 to 836; and in the numbers of Hong Kong students studying for 'O' and 'A' level General Certificates of Education, down from 1,420 in 1979 to 715 last year.

What is more important is that the number of first degree students is also down, from 651 in 1979 to 389 in 1980, although there was a slight increase in post-graduate students, from 183 to 188.

Those students are important to us even if they are taking courses which are also available in Hong Kong because cross-fertilization is an essential ingredient of academic study. It is not simply a matter of exposure to other life styles, though that is important too.

We may be dismayed by the evidence that Britain is 'distancing' herself from Hong Kong—to use the fashionable jargon—in some important dimensions, of which student fees are only one.

But we should not confuse the expedient with the fundamental.

What Britain does about expenditure on education, how Britain behaves in trade negotiation, even how Britain arranges her nationality and immigration affairs, cannot be lumped together as evidence of a fundamental change in the relationship between Britain and Hong Kong.

There is no evidence of such a change and it is vitally important for Hong Kong that we should understand the real motives of British policies, the problems which Britain faces and the options which are open to her politicians.

Without such an understanding we may fail to identify the fundamental realities of Britain's commitment to Hong Kong. We must do everything possible to understand how Britain thinks and feels today and the steady flow back to Hong Kong of our own students from British universities is an important contribution to that understanding.

For these reasons, we should regard study in Britain as something to be encouraged. There are more practical reasons. In spite of rising fees, and considering our obvious ability to subsidize our students if we have to, British universities still provide the education which is most appropriate to many of our activities and institutions.

Even if this encouragement goes no further than loans to students there is a case for evaluating their courses of study to ensure that there is an optimum return for the community.

This would not be an easy task but it would be easier if we had made a realistic assessment of the contribution which overseas university education now makes to our total educational resources and I suggest that this should be done now.

In the context of my comment on the values of overseas post-secondary education, and particularly university education in Britain, I have referred to the political implications of the British Government's decision not to recognize the special status of Hong Kong students. As I have said, I believe that a distinction must be drawn between what is expedient and what is fundamental.

I think that we as a Government must be more realistic about these matters. We must contest each issue on which we stand to lose, whether it be money, travel status or our international bargaining position in trade. What we should not do is to hold out false hopes that Britain will refrain from some action because it would disturb our fundamental relationship when in Britain's view it would not. What we should not do either is to call that relationship in question by relating to it issues which, however important, however serious, are nevertheless not fundamental questions about the responsibility of Britain for Hong Kong.

With these remarks, Sir, I support the motion.

REVD. JOYCE M. BENNETT:—Your Excellency, I was in England when this year's budget was presented in the House of Commons and was soon aware of the

considerable hostile feeling that Sir Geoffrey HOWE's budget roused in the United Kingdom. Undoubtedly the budget of our Financial Secretary here had a much kinder reception (*laughter*). I imagine the vast majority of taxpayers have once again been pleased that there was no change in the basic tax structure and that many have now dropped out of the tax net. However, voices have once again been raised to ask for greater expenditure in certain fields. Once more those concerned for the state of our society have demanded higher expenditure in the social services. When we turn to the proposed expenditure on education, we are disturbed to learn that the percentage of the total expenditure devoted to education has gone down in the last few years. Expenditure on all educational heads in the financial year 1976-77 was 21.1% against an estimate of 18.7%. This has been cut back in this coming financial year 1981-82 to an estimated 14.7%. Please refer to the detailed figures for the years 1976 to 1981 provided in a footnote to my speech⁽¹⁾ (*laughter*). I note that the actual expenditure on education in absolute terms did increase during these years, but realize that this extra expenditure was mainly required to combat inflation. The improvement was only marginal. I wish this afternoon therefore to examine Government's educational expenditure.

We all know that the Government has during the last decade spent a tremendous amount of money on building schools. We have all been delighted to get more and more children into purpose-built schools and to keep them there for nine years. However, I do not think the Government has yet understood the need to provide more facilities within these buildings. To educate children who are eager to learn and whose parents are literate and keen for their children to do well at school is far different from educating children who are academically less highly motivated and whose parents have had little or no education. A few years ago we had perforce to concentrate on the numbers of children in school, now we must work rapidly to improve the quality of our schools. Quality, not just quantity, must be our aim.

We need therefore to examine the Draft Estimates to see what extra facilities are to be provided in education in the coming year. However, you will find little mention of any such when you read carefully Head 40 Education Department and Head 42 Education Subventions. Basically the Education Department is

(1) *Actual and Estimated Expenditure* as a percentage of total Expenditures—*

<i>Financial Year</i>	<i>Estimated Expenditure</i>	<i>Actual Expenditure</i>
1976-77	18.7%	21.1%
1977-78	19.7%	18.1%
1978-79	18.7%	17.4%
1979-80	17.6%	17.6%
1980-81	17.0%	(not available)
1981-82	14.7%	yet)

* *Expenditure on Education comprises E.D., Education Subventions, U.P.G.C. and Capital Works.*

preparing to continue along the same old groove. I take one example of this to illustrate. I see no explanatory note to show forthcoming improvements in the numbers of Laboratory Technicians to be appointed to Government and aided schools. As long ago as December 1978 the Director of Education assured me in this Council that his Department was looking into the question of increasing the number of Laboratory Technicians in these schools. He further assured me that he hoped to have the report from his Working Party on this in the spring of 1979. On the 11 June 1980 the Director of Education once again encouraged me that in fact the Working Party had reported in May 1979, but that various other hurdles had to be surmounted. I understand from later communications with the Director that formal proposals were submitted to the Government Secretariat on 12 August 1980. But will there be the money for extra Laboratory Technicians available for this September? The Advisory Inspectorate has recommended that the number of Laboratory Technicians should be assessed according to the number of classes using the laboratories for practical lessons each week. At the moment the number is calculated according to the number of laboratories in use and a Demonstration-Lecture Room entitles a school to an extra technician. The Advisory Inspectorate recognized the great need for more technicians in the large junior secondary classes which do practical work for the new integrated science syllabuses. We had some excellent Science Inspectors devoted to their task of promoting the better teaching of science subjects. Why do we not act on their advice and help forward their task? Why do we increase frustration among the staff in our schools rather than promote efficiency and better teaching? What is the point of having those 14 staff in the Advisory Science Inspectorate, if the Government does not take the advice they give? If the Government does not think their advice is worth taking, I am sure the schools will not accept it. Should we then abolish the posts in the Advisory Science Inspectorate and use those posts for more teachers in our schools?

Do the Advisory Inspectors in other subjects help improve the quality of our education? What positive action have the Advisory Inspectors taken to improve the quality of our music teaching or our physical education? Do we really need the Advisory Inspectorate? Can we abolish their posts and have more teachers? There are a number of unofficial groups working to prove that our educational system is all wrong and that changes should be made. Has the Education Department conducted any surveys on the effects of the present methods of teaching Chinese? What surveys have been done on the use of English text-books and the writing of examinations in English? How far have the proposals to improve the language teaching in both Chinese and English gone? On page 115 of the Estimates, Note No. 60 tells of an outstanding balance of \$1.1 million committed for the Consultancy for the Institute of Language in Education. What money is budgetted for the follow-up of this consultancy? Were I to be a consultant with the Department in such a field, I would be very depressed and frustrated. In these last years there have been repeated calls for more staff to be employed to teach the English and Chinese languages in our schools. Our teachers are over-burdened with large classes of children who have to rely on

their teachers for improving their language skills. Read the reports of the performance of our students in the public examinations and you will find continual criticisms of the falling standards. Has the Advisory Inspectorate made positive suggestions to combat these weaknesses? In this Council I have continually urged the improvement in staff-student ratio with an emphasis on putting extra staff at the disposal of the schools to improve the language ability of the students. I once again call for more teachers in our schools to produce better standards in the use of the Chinese and English languages.

Your Excellency, our secondary school teachers are becoming increasingly frustrated at the heavy burdens they are carrying. Recent months have added further to their disillusionment. In 1965 the Marsh-Sampson Report was implemented by a reduction in the staff-class ratio in primary and secondary schools. Under the Government's severe financial restraints as the educational system expanded, teachers had to agree to heavier teaching loads with more books to correct. This was their contribution to Hong Kong's modernization and survival programme. Fifteen years later our teachers looked for some relief in the Second Report on Civil Service Pay produced by the Standing Commission on Civil Service Salaries and Conditions of Service. However, they have been hit a heavy blow by that Report No. 5. This has abolished the Senior Master Grade which made the Vice-Principal's post reasonable and respected. Report No. 5 also widened the gap between Graduate Teachers and Senior Graduate Teachers.

I have already questioned the Director of Education in this Council about the abolition of the S.M. Grade. I am not satisfied with his answer that there is no functional difference between a School Vice-Principal and the Subject Head of a Panel of Teachers. Failure to recognize any distinction between such posts reveals a shocking failure by the Government to use its personnel properly. I had thought that the Government was concerned to improve middle management. But the S.M. position in schools has been abolished; Vice-Principals are in effect demoted to a position equivalent to 12 others in a staff of 60. Share the Vice-Principal's responsibilities and duties, we are told, by rota among all the other Senior Graduate staff. How insensitive and unrealistic is the Education Department. Clearly responsibilities shared out in this way will be no one's responsibility. Tasks will be left undone, decisions not taken—such is too clearly in evidence in organizations where responsibilities are not clearly defined. The aided schools have no desire to see their schools' administration eroded by maladministration. 'Where in the world are schools run without Vice-Principals?' I asked a high-ranking official in the Department. 'Hong Kong' (*laughter*) he replied, 'until 1974-75 when it was decided to recognize their position.' I cannot accept that Vice-Principals' duties are not significantly different from Subject Panel Heads. What complaints have been made to the Department during these years about their performance? I have heard of none.

Since this change was announced, representations have been made by concerned Aided School Principals and staff to the Education Department, to

the Standing Salaries Commission, and to U.M.E.L.C.O. What has been the result? A shrugging off of responsibility by the Education Department and the Salaries Commission: the Education Department claims it to be entirely the responsibility of the Standing Commission, while the Secretary-General of that Commission in a letter of 28 January 1981 states that the Commission, and I quote his letter, 'is only empowered to advise on the pay and structure of grades in the civil service.' He recommended the aided sector to negotiate with the Director of Education.

The teaching profession is not satisfied. In the public sector there are 883 primary and secondary schools of which only 77, or 8.7%, are run by the Government. The total number of primary and secondary teachers in the public sector is 23,493 of which only 2,334 or 10% are in Government service. Therefore the requests from the aided sector must be listened to seriously.

Teachers in the lower grades of Government service, whether graduate or non-graduate, have four avenues for promotion: in the schools themselves, in the inspectorate, as Lecturers in the colleges of education and in the administrative offices of the Education Department. That vast majority of teachers in the aided sector, nearly 20,000 more than in the Government sector, have only one avenue for promotion, to that of Principal. Now the S.M. Grade is abolished, there will be only one promotion post for all those Senior Graduate Teachers. What indeed is the rationale for providing few promotion posts for Graduate Teachers? In the Non-Graduate Teacher ranks there is a 1:1 promotion prospect—in my school for instance there are seven C.M. posts and seven posts of higher ranks for Non-Graduate staff. But if you are a university graduate you do not have such good promotion prospects within the graduate scales. In my school nineteen graduate posts are allowed, but only 14 Senior Graduate posts. And how have these Graduate posts been apportioned? Until 1980 each of those posts except one, for the Careers Teachers, was tied to the Head of a Panel.

There are many details that I could give you concerning the weaknesses of the present system of apportioning promotion posts and the duties that are linked with those posts. To enable you to understand the schools' problems, I shall highlight the position of the Careers Teacher. Careers Teachers are linked together in an Association of Careers Masters which is sponsored by the Education Department. The Association seeks to develop and stimulate the work of these teachers who hold this promotion post. But what in effect happens? I speak from my school's experience. The Careers Teacher returned from the 1980 Careers Masters' seminar demanding to teach fewer periods, so that her careers counselling among the 1,270 students could be more effectively carried out throughout the year. The Principal cannot accede to this request, because to give one teacher less teaching will increase the teaching load of others. The Careers Teacher becomes frustrated. She has been inspired by the potential of her task, but she finds it impossible to fulfil her duties in the limited time available. In many countries the Careers Counsellor is appointed extra to

the teaching staff. Hong Kong has a great need to diversify its industry. The students in our schools need help and advice to plan their careers. Hong Kong needs to develop its resources to the full—we must not continue to waste our manpower by not promoting properly the careers prospects of our young people. I ask therefore for one Careers Teacher to be appointed to each standard size secondary school in addition to the present class-teacher ratio.

I also ask for the Vice-Principal's post to be recognized again. The responsibility should be given better salary remuneration than the ordinary Senior Graduate Master; the post itself should be made extra to the present class-teacher ratio. I consider that a school with 1-17 classes in operation needs one Vice-Principal, schools with 18-29 classes need two Vice-Principals, while schools with 30 or more classes require three Vice-Principals, extra to the ordinary staff establishment. Does this seem a lot to ask? I can assure you this is less than is considered necessary under the Burnham Scale in the United Kingdom.

Why do I consider these extra staff posts so important to the efficient running of our secondary schools? I speak from direct contact with members of the teaching profession. Perhaps you will think I am biased therefore; yes, I have an interest to declare. But my interest is not merely a personal and financial interest as sometimes declared in this Council. I speak from a deeply felt concern and interest in the welfare of the teaching profession and the children we serve. For many years I have been waiting for the Education Department to do something to improve the staffing position in our schools. I have waited to no avail, so this February I decided to make my own preliminary survey of the state of the teaching profession. I have been able with the help of the Subsidized Secondary Schools Councils to assess the workload of the teachers in 19 of the schools in that Council. Some Members of the Legislative Council in the last few years have poured scorn on the amount of work done by teachers. They have pointed to long holidays and emphasized this by stressing that teachers only have a five-day 35-hour week. Sir, this is far from a true picture of the teaching profession. I can provide information to show that the average teacher puts in during the whole year hours of work very akin to the average Government employee in an office job, indeed many work longer hours. Remember that a teaching job dealing with people—teaching 40 students for 40 minutes per lesson—can be far more of a strain than dealing with 40 pieces of paper for 40 minutes. The respondents reveal a responsible attitude in completing this survey. They have answered with care and thought, so that I consider Government ought to treat the results of the survey seriously and improve the conditions of the teaching profession.

My survey shows that the ordinary Graduate Teacher on average is spending 24.51 hours per week outside school hours in school work during school days (253 Graduate Teachers responded to the survey). Teachers are expected to be in school for seven or 7½ hours per day for five days a week but in addition they are spending many extra hours in such activities as marking and lesson

preparation, in counselling and in extra curricular activities. My figures indicate that many teachers are working in fact an average of 60 hours each week during school terms. The 67 Senior Graduate Teachers are spending, on average, 25.24 hours per week outside school hours in school duties, not much greater than the ordinary Graduate Teachers. However, the 13 S.M. Teachers, who were covered by the survey, are putting in, on average, 29.5 hours extra per week. In addition, the S.M.'s on average during the year work 27 days during the school holidays, while the S.G.M.'s only use 14.36 days of their holidays. Clearly I cannot in this speech highlight all the work done each week by our teachers. But I think I have explained in sufficient detail the heavy burdens carried by the members of the teaching profession. I venture to suggest that teachers in Government and grant schools could provide comparable returns. I am not surprised therefore that teachers of special classes for slow learners request a full-time social worker to work among the 120 slow learners in their six classes. I support their request and ask for it now. I am not surprised also to learn that teachers in charge of discipline are overwhelmed by their responsibilities. Many have been trained in the good traditions of the Chinese moral code and are alarmed at the increase in juvenile delinquency and triad influence in our schools. Clearly it is unreasonable of the Government civil servants in City District Offices, the I.C.A.C., the Education Department and the Examination Authority to expect teachers to attend meetings in school hours without providing more staffing. In addition, various voluntary organizations also require teachers to assist them in their programmes.

I hope I have made it clear that the teachers in our schools are not idle, but overworked. Our schools need more staff to cope with the students' problems and needs. Today we are educating a wide range of ability. We may have more school buildings, but if we do not take care of what goes on in those buildings, we could be building opportunities for evil to grow, instead of spreading wide the lamp of true learning. To increase our expenditure on staff in our schools will benefit the whole community. To care for and educate the young and adolescent is a task demanding bigger Government expenditure. Rome was not built in a day. The Chinese say it takes a hundred years to nurture a man (十年樹木, 百年樹人). Future generations will judge us in this matter—our future citizens demand a better education. No longer can a teacher get by with a piece of chalk and a book. The teacher is now responsible for the all-round development of the students. Beware of the result of neglecting the children in our schools. There is still time to improve the teaching profession in Hong Kong. The majority of our teachers are devoted to their task, let us respect them and ease their burdens by giving more staff to our schools.

Sir, with these comments, I support the motion before us today.

MR. S. L. CHEN:—Sir, in last year's budget debate I congratulated the Financial Secretary for his supreme confidence in presenting his 'painless' budget for the year of the 'Monkey', budgeting for what we thought was a staggering surplus of over \$2,900 million. But as we all now know, the actual surplus of \$9,323

million confounded the most optimistic of the optimists. If there were a Guinness Book of Records on Hong Kong's financial and economic achievements, this all time record surplus must be reasonably sure of a place for some time to come. If the 1980-81 budget was described at the time as 'painless', the 1981-82 budget can certainly be said to contain more than a tint of sweetness. If events should prove him right, the Financial Secretary can truly be said to be like a champion who decides to retire from the ring after he has retained his title. But we are indeed thankful, Sir, that unlike the champion boxer, our Financial Secretary is not retiring from the fray but to fight on at a higher level. I would like to take this opportunity in wishing him equally successful as our new Chief Secretary.

In his Speech introducing the 1981-82 budget, the Financial Secretary said that he was budgetting for a surplus of \$7,881 million, after allowing for a loss to the revenue of \$1,250 million as a result of the five proposed tax concessions. He further advised that should this surplus be materialized, our 'free' fiscal reserves on 1 April 1982 will be of the order of \$18,000 million. That is all very exciting, but what the Financial Secretary has not told us was how the 'free' fiscal reserves, which are now well in excess of the 15% guideline ratio, might be utilized directly and positively to create additional wealth for Hong Kong. It is in this connection that I would like to make my observations.

In the five years following the deep recession of 1973-75 the capital revenue in our budgets, which is derived almost entirely from land transactions, has increased dramatically from \$644 million in 1976-77 to \$10,626 million in 1980-81. As a result, the ratio of capital revenue to total revenue increased from 8.6% to 36.6%. This means, whether we like it or not, public sector finance during this period has become increasingly dependent on land related capital contribution. This being the case, and if this is the intention in the future, it appears obvious that there is a need to produce land more efficiently and economically. The question is how can this be achieved?

A quick analysis of the financial provisions in the two public works programmes for the year 1981-82 shows that nearly \$2,500 million have been allowed for activities related to land production. But despite this, the Financial Secretary said in his speech that the main constraint for the diversification of the manufacturing sector remains the shortage of land. Surely, it would be prudent for some of our 'free' fiscal reserves to be used for creating more land, especially industrial land.

Now I return to the question I asked earlier, which was how to bring about a more efficient and economical production of land. It appears to me that what we need is an organization given the executive responsibilities and armed with the necessary muscles for its task, to work in conjunction with the Special Committee on Land Production, to implement the Government policy for producing land to meet Hong Kong's need. From my experience with the Hong Kong Industrial Estate Corporation, I am convinced that this organization can, given an extended terms of reference, fulfil this role. It would be a parallel to the Housing Authority which is the Government agent for the production of housing.

Increasing land production as well as its availability would result, as far as industry is concerned, in reducing overheads for industries already in existence in Hong Kong and encouraging new high technology industries to come to Hong Kong. Moreover, it will counter the criticism which is frequently levelled at Government, rightly or wrongly, that Government is limiting availability of land in order to maintain high land prices.

I shall now turn my attention to investments on plant and machinery by our industries. The Financial Secretary reminded us that he would like to see a higher growth rate in the private sector expenditure on plant and machinery, hence the concession in depreciation allowances which is designed to encourage manufacturing industries to re-equip and upgrade their production facilities. This is a move in the right direction. But is it enough? In my opinion, to give the necessary stimulus to our flagging industry, something more is necessary.

We have heard more than once in this Chamber that Government was unwilling to subsidize any sector of the community even though that sector is wealth creating. But such subsidy is not uncommon in most industrially advanced countries. For example, in the United Kingdom, West Germany, and in many other European countries, Governments subsidize their industries through organizations such as the E.C.G.D. in the U.K. and Hermes in West Germany which provide long-term low-interest finance to encourage exports, especially exports of heavy capital plant which often require financing over long periods.

Our industries' needs, however, are not so much assistance given to exports but rather assistance given to purchase of modern plant and machinery. This is necessary because almost all of our industrial establishments are, with due respect, too small individually to qualify for and thus to enjoy the benefit of *long-term low-interest* credits offered by exporting countries. In my opinion, no one but Government can and should fulfil this role and I would like to suggest that this is another area where our 'free' fiscal reserves could profitably be utilized.

Finally, I would like to say a few words on technical manpower development. I was very pleased to hear the Financial Secretary saying that whatever the course of development of the manufacturing sector in the 1980s, it will need to be supported by an even greater stress on technical education, an area in which he hopes to see a greater involvement of public funds. While I am not unduly disappointed with only 8% increase in the total provision for education in 1981-82 over the revised estimates for 1980-81, I hope that an adequate proportion of this would be available for industrial training which I assume was meant in his use of the phrase 'technical education', a matter on which I have emphasized more than once in the past.

With these observations, Sir, I support the motion before Council.

Introduction

MISS DUNN:—Sir, I shall be concerned in this debate with five subjects, namely, land, the machinery of Government, the control of public expenditure, textiles and the dangers of cumulative interventionism.

Land

After reporting that 156 acres of land had been sold in 1980-81, equal to twice the amount sold in 1979-80, the Financial Secretary said that 200 acres would be sold in 1981-82 and he thought that about 300 acres would be put on the market in each of the following three years. As Chairman of the Special Committee on Land Production, I think that these estimates are well founded. But, in respect of production from planned sites, there is always the possibility of slippage and of losses due to site difficulties. So, my Committee is investigating a number of new sites with a view to bringing them into the production programme to make up for any shortfall, for it is our intention to ensure that the level of production will be kept at around 1,400-1,500 acres a year over the next few years. I hope that at least one-fifth of annual production will be available for sale to the private sector.

However, successfully to meet production and sales targets does not, in itself, mean that the Government is pursuing a coherent land policy. This is certainly not the case, in my view, as regards the disposal of land for housing. On the one hand, virtually *free* land is made available for the rented public housing programme for upwards of 50% of the population; on the other hand, land for private residential development, including the Home Ownership Scheme and the Private Sector Participation Scheme, is sold at full market value. That the poor should be housed at a subsidy and that the rich should pay the full market value is indisputable. But between these two extremes is a growing number of would-be home owners in the middle income range who are excluded from the public rented housing because their incomes are in excess of the limits of eligibility, but private sector accommodation is beyond their reach.

As I understand it, the object of the home ownership schemes is to assist some people in this middle income group, namely, those with household incomes not exceeding \$6,500 per month to acquire their own flats. Whilst welcoming, therefore, the Government's intention to reconvene the Home Ownership Scheme Working Party, with a view to seeing whether the concept of home ownership can be more widely applied, I would suggest that the Working Party should, in addition, be instructed to reconsider the question of land prices. In my view, it does not make sense for the Government to continue to insist on charging full market value for land for home ownership schemes. If the object of the Home Ownership Scheme and the Private Sector Participation Scheme is to meet the housing needs of the lower middle income group, there is a strong case for an *essential* degree of land subsidy with, of course, appropriate safeguards. These may be difficult to devise, but that is no excuse for not seeking to resolve them. Furthermore, a land subsidy built into home ownership schemes would

be a once-for-all subsidy which may be contrasted with the recurrent nature of the subsidy made so readily available to those occupying rented Housing Authority flats (and that subsidy, moreover, continues to be made available no matter how far the households concerned move up the income scale).

The suggestion that the private sector should play a greater role in land production has always been met with passive resistance by the Government, although I have yet to hear a really convincing explanation as to why. The private sector generally operates under fewer constraints than Government departments and I believe that its potential role in the production of land should be examined in a more positive spirit. I can see no reason why private developers should not be offered unformed land in suitable locations, the Government having first determined the basic planning criteria for development, including roads and other infrastructural facilities. The private sector has the experience, the motivation and access to the finance to produce results.

I think the role of the private sector in the redevelopment of the old urban areas is also understated, as it were, in that I have a suspicion that the way in which modification premia are calculated discourages rather than encourages the redevelopment of old properties in private hands. I would like an assurance from the Government that, in practice, this is not so; and that, if there is evidence to the contrary, a review of the way in which modification premia are calculated will be put in hand.

My last point on land concerns administration: in response to calls from Unofficial Members of this Council, I understand that the Government has accepted in principle the idea of unifying all aspects of lands administration under one department. I sincerely trust that, such a decision having been taken, the necessary practical steps to implement it will be proceeded with without delay.

Government Organization and the Size of the Civil Service

In paragraph 89 of his speech (printed version) the Financial Secretary made a passing reference to the pressures on the civil service in the last few years. It was a passing reference only and, I must say, I remain worried that, despite the assurances I have been given on previous occasions, the civil service is still undermanaged. The civil service must have a sense of direction and, at the 'counter level', there should be a greater measure of concern when dealing with members of the public. We must have a civil service which is united and content on the one hand, and conscious of the need for productivity and a high standard of service to the public, on the other.

The Financial Secretary is right when he argued, at the end of his speech, that Hong Kong has acquired 'new dimensions' in recent years. Yet the only major reform of the Government's administrative system in recent years was the introduction of the policy secretary concept in 1974. It is true that the size of the Secretariat has increased rapidly since then: there are, for example, as many as

85 directorate posts in the Secretariat now, three times the number in the early 1970s. But three questions come immediately to mind: is the concept of a central secretariat still relevant to the government of modern Hong Kong; if so, are the staff there correctly deployed; and are they in sufficiently close contact with executive departments? I see no evidence that these three obvious questions are being asked, let alone answered. Personally, I think that the time has come for some recasting of the central machinery of Government and a reappraisal of the relationship between policy secretaries and heads of departments, the latter sometimes feeling, perhaps, out of touch with Lower Albert Road.

At the departmental level, stresses and strains are obvious, not so much from a lack of resources—the growth rate of expenditure testifies to the fact that additional resources have been made available—but, rather, from the range and complexity of problems with which departments are having to grapple. I recognize that the growth and diversification of our economy, and the new found sophistication of our society, mean that stresses and strains will emerge, particularly as there is a limit to the extent to which the Government can be, or should be, anticipatory. But that does *not* excuse a lack of perception and a sluggishness of response: at the risk of stating the obvious, but the obvious is so easily overlooked, internal departmental management systems need to be reviewed frequently and adapted and reinforced appropriately.

I *also* think that the implications of the evolving role of Unofficial for the machinery of Government need to be thought out, given that Unofficial Members have acquired, somewhat accidentally, a quasi-executive role in some cases and a monitoring role in others. To this I would add that the complexity of issues on which Unofficial Members as a body have to advise and take a view is now such that some strengthening of the U.M.E.L.C.O. Office is required, particularly for research purposes.

Government Expenditure and Inflation

Turning now from public administration to the public finances: in paragraph 79 of his speech (printed version) the Financial Secretary defined the principles on the basis of which he has sought to manage the public finances in recent years. I support them and I support also the guidelines he has used to discipline the decision-making process. His emphasis on containing the relative size of the public sector, once so unfashionable elsewhere, has now assumed a new and almost world-wide, respectability.

However, I detect a growing, and rather alarming, inability on the Financial Secretary's part to put theory into practice: the growth rate of public expenditure has been consistently in excess of the growth rate of our economy for five years now and is planned to be so again in 1981-82. Thus, on his own admission, the relative size of the public sector will be as large as 22.4% in 1981-82, having been only 14.2% in 1976-77 and 13.0% in 1970-71. It is true the public sector has been consistently in overall surplus, and recently

substantially so! It is true also that the Financial Secretary warned us all severely that, in the new three-year forecast period, there will be no room for further enlargement. But he cannot argue that ‘*the* critical task of management’ is to protect the ability of the economy to achieve growth with stability and yet run the risk of the public sector bidding resources away from the private sector thereby causing further damage through domestically generated inflation.

I admit that even I have suggested more expenditure on housing, but I hasten to take refuge in a plea for a more austere view of priorities. I would agree that the transport infrastructure, technical education, land production and housing deserve special attention, but there must be scope for economies elsewhere. I would add, with respect to Miss BENNETT (*laughter*), that I am not impressed with the complaints of those who argue that certain programmes now absorb a rather smaller proportion of total expenditure than heretofore for they overlook the priority accorded those programmes in recent years and the very high absolute levels of expenditure now prevailing.

Textiles

I would next like to join my Friend Mr. TIEN to deal with the question of the renegotiation of the M.F.A. The Oxford English Dictionary defines the word ‘crisis’ as ‘a turning-point: in particular a period of danger or suspense’. In that sense, the textiles and clothing trade and industry are certainly approaching a crisis.

In Hong Kong, textiles and clothing still account for 40% of our domestic exports reflecting *not* low wages and sweat shop working conditions, but a continuing process of modernization of plant and equipment, diversification of products and markets, and a flexibility of response to fashion changes. So, very understandably, Hong Kong exporters and manufacturers alike are filled with a sense of frustration, indignation and apprehension: *indignation*, at the repeated requests for extra restrictions in spite of the existence of bilateral agreements; *frustration*, that the M.F.A. itself, which is supposed to set a standard framework of minimum rules of behaviour, is treated so contemptuously by certain importing countries or groups of countries; *apprehension*, for the future is so uncertain.

We are resigned to the inevitability of an international instrument governing world trade in textiles and clothing, outside the M.F.A. principle of the G.A.T.T. Indeed, such an instrument is to be preferred to a jungle world of *ad hoc* bilateral agreements, not even pretending to conform to a standard framework. But such an instrument should be a *meaningful* instrument offering *some* certainty to all exporting countries as to the rules to be applied (and to all importing countries too: no one would deny that). The Government must do all within its power to ensure that any successor arrangement to the present M.F.A. will be a meaningful one and I interpreted the Financial Secretary’s remarks in paragraph 276 of his speech (printed version) as an expression of the

Government's determination to do so and of his own personal interest in the forthcoming negotiating exercise.

It would have been helpful, Sir, if he had also affirmed that the British Government would be pressed to look after Hong Kong's interests in this respect. Simply because trade in textiles and clothing between Hong Kong and the E.E.C. is also subject to a bilateral agreement does not mean that the British Government does not have a self-evident obligation to press for the M.F.A. to be renewed on terms fair to Hong Kong. Whether or not the British Government is prepared to do this will be a very practical test of good faith—and a very necessary one too, given the doubts raised in recent months by such developments as the proposed changes in British nationality law and the classification of Hong Kong students in Britain as overseas students. These developments have not encouraged Hong Kong people to believe that Britain retains a sense of real responsibility for their welfare and security. This is most unfortunate for I, like my Friend Mr. Alex WU, believe that, deep down in the corridors of power in Whitehall and Westminster, such a sense of responsibility *does* exist.

Cumulative Interventionism

The Financial Secretary claims to be, and his record is a proven one, a believer in 'the twin concepts of the market disciplined economy and the free enterprise system'. In a recent speech, he accused all and sundry of being ambivalent in that they are 'in love with the latter and despise the former'. There is, unfortunately, a great deal of truth in this. Yet, if I may say so, he must beware of the danger of being a perfectionist and of introducing too many reform measures, no matter how justified each may be, in a hurry. Confidence is a delicate flower in Hong Kong and the market tends not to listen to the case for reforms as carefully as the Financial Secretary formulates them and so is easily upset.

It is also important not to overlook the possibility of a number of reform measures, taken together, having a cumulative effect, although I would readily admit that I would be the first to criticize the Government if, in a rapidly diversifying economy, it failed to keep the institutional and regulatory framework up-to-date. But, in saying that, I would caution the Government not to be so preoccupied with the implications of Hong Kong's emerging status as an international city, requiring the alignment of that framework with internationally accepted standards, as to run the risk of damaging the freedoms of our market place and to be careless of local feelings.

Conclusion

Sir, the Financial Secretary said at the outset of his speech, that the pace of growth and change since the recession have generated 'pressures, excitements and discomforts' which have left us all 'somewhat breathless and even

apprehensive.’ Accordingly, he admitted that the objective of budgetary policy in 1981-82, namely, the pursuit of stability in a world of uncertain prospects with a view to securing stability with growth in the 1980s, is clearly an objective none too easy of achievement. Only time will tell whether his budget package will assist in the achievement of that objective; and no doubt, with the benefit of hindsight, some of us will be arguing later on that some elements of the package should have been stressed more and others less. But, in this, the debate on Sir Philip HADDON-CAVE’s tenth and last budget, I would like to pay tribute to his achievements during his reign as Financial Secretary.

The decade of the 1970s was, without doubt, one of the most momentous decades in our history. We in Hong Kong, hardworking and innovative though we may be, do have a tendency to take success for granted. Yet few of us would deny the important part played by the Financial Secretary. During Sir Philip’s ten years as Financial Secretary from 1972 to 1981 public expenditure increased by seven times without any major increases in taxation. Indeed, the fiscal system has been reformed on various occasions in favour of tax payers. At 1 April 1981 our ‘free’ fiscal reserves will represent 42% of expenditure budgetted for on General Revenue Account in 1981-82. Over the same ten-year period, in real terms, the G.D.P. more than doubled and G.D.P. *per capita* almost doubled. Furthermore, the decade of the 1970s was marked by many profound changes: the sterling area was dismantled; the Hong Kong dollar had to be floated; we had to live through a severe world recession, and under the shadow of several oil crises; sudden changes in the growth rate and direction of our economy have strained the market place; the prolonged post-recession upswing phase has been associated with rapid diversification of our economy and inevitably with inflationary pressures too; and the implications of a new relationship with China have had to be absorbed.

In all this, the Financial Secretary has had to make a whole series of fiscal, budgetary, economic and monetary decisions and yet has found time to take on such extra jobs as the chairmanship of the M.T.R. Provisional Authority, the original Home Ownership Schemes Working Party and the Advisory Committee on Diversification.

Not all of his decisions as Financial Secretary have always been popular with, or understood by, all sections of the community. But he has always been concerned to pursue the broad public interest, without fear or favour, and has always been at pains to explain his thinking—often at some length (*laughter*) and to define with great care a philosophical frame-work for the Government’s budgetary and related policies. So it is no accident that Hong Kong today has a highly sophisticated and diversified economy in which, for example, the world’s largest banks and business houses operate side by side with domestically based enterprises which, in size and scope, now have an international dimension of their own.

The South China Morning Post described the Financial Secretary as having a ‘dedication and singlemindedness of an extraordinary kind’ and praised his

‘ability to cope with (significant) changes in the structure of the economy, shifts in international events, changes in financial developments, influxes of money and major monetary institutions’. I agree with that. But those of us who have worked with Sir Philip, and have known him as a friend, also know that he is possessed of an almost instinctive belief in the importance of loyalty to the system and an ability to inspire loyalty in those who work with and for him. In his present post, he has been exposed as Financial Secretary as such rather than as a person. That is the inescapable lot of a Financial Secretary. Yet he is a compassionate man with a total dedication to Hong Kong. He leaves behind him one job well done and I, for one, wish to record a sincere vote of thanks to him and wish him every good fortune in his next.

Sir, I have much pleasure in supporting the motion.

DR. HENRY HU:—Sir, following what Miss DUNN has just said about the Financial Secretary, this year is indeed a memorable year for the Financial Secretary as he is calling it a day as our financial chief after bringing Hong Kong through a decade of financial achievement. I am sorry to see Sir Philip HADDON-CAVE leave but am happy that another financial expert will be succeeding him and that Sir Philip will continue to serve Hong Kong as our Chief Secretary. It would be fair to say that everybody in Hong Kong seems to be richer and happier than he was ten years ago. The Financial Secretary deserves to be congratulated. His promotion to the Chief Secretaryship has, however, deprived me of an opportunity to listen to his long budget speeches which I have always enjoyed (*laughter*).

In the last ten years, Hong Kong has seen a phenomenal growth and improvement in all respects. This, I believe, is a fair statement. A comparison may be made between the years 1971-72 and 1980-81. The total revenue has increased more than eight times from \$3,541 million in 1971-72 to \$29,000 million in 1980-81. In the same period, the increase in total expenditure from \$2,901 million to \$19,677 million dollars was almost sevenfold. It is estimated that in the year 1980-81 there will be a total surplus of \$9,323 million. Per capita G.D.P. at current market prices has increased from \$5,407 in 1971 to \$20,933 in 1980. It is obvious that in the last ten years, we have both the right policy and good management. From the figures of public expenditure over the last ten years, it could be seen that the Government has been spending more money to promote the general welfare of the public in terms of housing, education and social welfare, to name but a few. However, in view of the excessive and urgent demand for housing, both in terms of quality and quantity, I hope that we could spend more on public housing in future if resources permit. I also hope that more money would be spent on social welfare so as to take better care of the economically deprived sector of our community. I think that the provisions of social welfare services will have a positive meaning in that it will not only help the people who need help but during the process afford our young people a chance to serve their fellow men and women.

It is also clear that the key to success in public finance to the mind of the Financial Secretary is to maintain a balance: a balanced budget for income and expenditure; a balanced system for direct and indirect tax; a balanced expenditure on recurrent and capital expenditure; a balanced expenditure for public administration and social services. It would be a wise move to have a budget surplus in Hong Kong's special circumstances. Such a fiscal policy should not be abandoned lightly in future.

In view of this strong financial position, the Financial Secretary was able to propose a series of tax concessions in his budget speech and these are:—

- (a) increase in the personal allowances for salaries taxpayers,
- (b) reduction of corporation profit tax,
- (c) increase in the depreciation allowance for plant and machinery,
- (d) extension of the concessionary rate for stamp duty on low value properties,
- (e) a raise in the minimum amount to which estate duty is applicable.

These are indeed quite significant concessions on taxes. In particular I wish to mention the reduction of corporation profit tax from 17% to 16.5%. In doing so the Financial Secretary would strengthen our competitive position vis-a-vis other major cities in South East Asia and therefore help to enhance the status of Hong Kong as a financial centre. The increase in depreciation allowance from 25% to 35% is also welcome, especially at a time when our industry needs help and encouragement from the Government. The increase of personal allowances could alleviate the hardship of middle class people in Hong Kong. I would, however, caution the Government that the proposal to impose stamp duties on unit trust transactions may force unit trust companies to move their operations to other financial centres and in the end Hong Kong might stand to lose.

One fundamental reason for our success is our policy of free market oriented economy. However, the exorbitant rise in rents might be one of the causes of hardship to our wage-earners. If Government still continue to purchase and rent both office spaces and domestic flats in large quantities, it will only compete with the private sector and thus stimulate the unreasonable rise in rentals and selling prices of both office and domestic premises. If the Government could stop this practice, I think the rentals would be adjusted and regulated by natural market forces without having the painful effect of any rent-control. Let the free economy take its own course without Government's negative intervention, i.e. renting and buying commercial and domestic premises in the open market.

Another major reason for Hong Kong's phenomenal success in the last ten years is its geographical position. Hong Kong has benefited by the resources of a vast continent lying behind it. There is an enormous potential for Hong Kong's future development. So far we have not really derived full benefit from that position yet. How to co-ordinate our economic development and gear it to the four-modernization plan of China for mutual benefit is one of the ways that may lead us to greater prosperity. Hong Kong has gradually resumed its traditional position as an entrepot and re-export centre. The re-export value

(f.o.b.) in 1975 was \$6,973 million and increased to \$20,022 million in 1979 and to \$30,072 million in 1980. The persons employed in finance, insurance, real estate and business services have increased from 66,000 in 1975 to 110,000 in 1979 and 127,000 in 1980.

At the same time, Hong Kong's industries have achieved corresponding successes although these were not so spectacular as the previous years. Value of domestic exports rose from \$22,859 million in 1975 to \$55,912 million in 1979 and \$68,171 million in 1980. The figures do not include a part of our re-export trade, some of which require further manufacturing process before re-export could be made. However, in terms of growth rate, the year 1980 compared to 1979 is lagging behind by 15%. I therefore can only take a cautious optimistic view of our financial and economic future.

Moreover, I suggested that in order to assist our industries, the initial depreciation allowance for plant and machinery should be raised to 50% instead of the proposed 35%. Government should endeavour to build its own offices and domestic accommodation for civil servants without renting them from the private sector. I also urge the Government to build a replacement airport as soon as practicable as its delay would affect Hong Kong's industrial development. We also need to spend more for diversification and sophistication of our industries in order to enhance our competitive position in the world market. High level and sophisticated research should be pursued with vigour and may be conducted independent of our educational institutions.

In conclusion, Sir, I perceive, rightly or wrongly, a great future for Hong Kong, which in time should become one of the most significant financial and trade centres in the world.

With these remarks, Sir, I support the motion.

Suspension of sitting

HIS EXCELLENCY THE PRESIDENT:—In accordance with Standing Orders I now suspend the Council until 2.30 p.m. tomorrow.

Suspended accordingly at sixteen minutes to five o'clock.