

OFFICIAL REPORT OF PROCEEDINGS

Wednesday, 26 March 1986

The Council met at half-past Two o'clock

PRESENT

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)

SIR EDWARD YOUDE, G.C.M.G., M.B.E.

THE HONOURABLE THE CHIEF SECRETARY

SIR DAVID AKERS-JONES, K.B.E., C.M.G., J.P.

THE HONOURABLE THE FINANCIAL SECRETARY

SIR JOHN HENRY BREMRIDGE, K.B.E., J.P.

THE HONOURABLE THE ATTORNEY GENERAL

MR. MICHAEL DAVID THOMAS, C.M.G., Q.C.

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

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

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

THE HONOURABLE ERIC PETER HO, C.B.E., J.P.

SECRETARY FOR TRADE AND INDUSTRY

DR. THE HONOURABLE HO KAM-FAI, O.B.E., J.P.

THE HONOURABLE ALLEN LEE PENG-FEI, O.B.E., J.P.

THE HONOURABLE HU FA-KUANG, O.B.E., J.P.

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

THE HONOURABLE DONALD LIAO POON-HUAI, C.B.E., J.P.

SECRETARY FOR DISTRICT ADMINISTRATION

THE HONOURABLE CHAN KAM-CHUEN, O.B.E., J.P.

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

THE HONOURABLE STEPHEN CHEONG KAM-CHUEN, O.B.E., J.P.

THE HONOURABLE CHEUNG YAN-LUNG, O.B.E., J.P.

THE HONOURABLE MRS. SELINA CHOW LIANG SHUK-YEE, O.B.E., J.P.

THE HONOURABLE MARIA TAM WAI-CHU, O.B.E., J.P.

DR. THE HONOURABLE HENRIETTA IP MAN-HING, J.P.

THE HONOURABLE CHAN YING-LUN, J.P.

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

THE HONOURABLE MRS. PAULINE NG CHOW MAY-LIN, J.P.

THE HONOURABLE PETER POON WING-CHEUNG, M.B.E., J.P.

THE HONOURABLE YEUNG PO-KWAN, C.P.M., J.P.

THE HONOURABLE KIM CHAM YAU-SUM, J.P.

THE HONOURABLE JOHN WALTER CHAMBERS, J.P.

SECRETARY FOR HEALTH AND WELFARE

THE HONOURABLE JACKIE CHAN CHAI-KEUNG

THE HONOURABLE CHENG HON-KWAN
THE HONOURABLE HILTON CHEONG-LEEN, C.B.E., J.P.
DR. THE HONOURABLE CHIU HIN-KWONG
THE HONOURABLE CHUNG PUI-LAM
THE HONOURABLE THOMAS CLYDESDALE
THE HONOURABLE HUI YIN-FAT
THE HONOURABLE RICHARD LAI SUNG-LUNG
DR. THE HONOURABLE CONRAD LAM KUI-SHING
THE HONOURABLE LAU WONG-FAT, M.B.E., J.P.
THE HONOURABLE MARTIN LEE CHU-MING, Q.C., J.P.
THE HONOURABLE LEE YU-TAI
THE HONOURABLE DAVID LI KWOK-PO, J.P.
THE HONOURABLE LIU LIT-FOR, J.P.
THE HONOURABLE NGAI SHIU-KIT, O.B.E., J.P.
THE HONOURABLE PANG CHUN-HOI, M.B.E.
THE HONOURABLE POON CHI-FAI
PROF. THE HONOURABLE POON CHUNG-KWONG
THE HONOURABLE HELMUT SOHMEN
THE HONOURABLE SZETO WAH
THE HONOURABLE TAI CHIN-WAH
THE HONOURABLE MRS. ROSANNA TAM WONG YICK-MING
THE HONOURABLE TAM YIU-CHUNG
DR. THE HONOURABLE DANIEL TSE CHI-WAI, O.B.E., J.P.
THE HONOURABLE ANDREW WONG WANG-FAT
THE HONOURABLE MICHELANGELO PAGLIARI, J.P.
SECRETARY FOR EDUCATION AND MANPOWER (*Acting*)
THE HONOURABLE PANG YUK-LING, I.S.O., J.P.
SECRETARY FOR HOUSING (*Acting*)
THE HONOURABLE THOMAS HERBERT TOMLINSON, O.B.E., J.P.
SECRETARY FOR LANDS AND WORKS (*Acting*)

ABSENT

THE HONOURABLE IAN FRANCIS CLUNY MACPHERSON, C.B.E., J.P.
SECRETARY FOR TRANSPORT
THE HONOURABLE HO SAI-CHU, M.B.E., J.P.

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL
MR. LAW KAM-SANG

Oath

Mr. T.H. TOMLINSON took the Oath of Allegiance.

Papers

The following papers were laid on the table pursuant to Standing Order 14(2):

<i>Subject</i>	<i>L.N. No.</i>
Subsidiary Legislation:	
Public Health and Urban Services Ordinance.	
Public Health and Urban Services (Public Pleasure Grounds) (Amendment of Fourth Schedule) Order 1986	68
Kowloon-Canton Railway Corporation By-Laws 1985.	
Kowloon-Canton Railway (Restricted Area) (No. 2) Notice 1986	69
Firearms and Ammunition Ordinance.	
Firearms and Ammunition (Storage Fees) (Exemption) Declaration 1986	70

Government Business**Motion****Interpretation and General Clauses Ordinance**

THE SECRETARY FOR HEALTH AND WELFARE moved the following motion:

That with effect from 1 April 1986—

- (a) the functions exercisable by the Director of Engineering Development by virtue of the enactments specified in the second column of the First Schedule be transferred to the Director of Environmental Protection;
- (b) the enactments specified in the second column of the First Schedule be amended in the manner specified opposite thereto in the third column of that Schedule;
- (Cap.354.) (c) section 2(1) of the Waste Disposal Ordinance be amended—
- (i) by inserting after the definition of 'collection authority' the following—
 "Director" means the Director of Environmental Protection; and

- (b) in sections 4(3) and 6(2), delete 'Engineering Development' wherever it occurs and substitute the following—

'Environmental
Protection'.

SECOND SCHEDULE

ENACTMENT IN RESPECT OF WHICH FUNCTIONS
OF THE DIRECTOR OF AGRICULTURE AND
FISHERIES ARE TRANSFERRED TO THE
DIRECTOR OF ENVIRONMENTAL PROTECTION

<i>Item</i>	<i>Enactment</i>	<i>Amendment</i>
(Cap. 358.) 1.	Water Pollution Control Ordinance	In section 12(2) and (3), delete 'Agriculture and Fisheries' wherever it occurs and substitute the following— 'Environmental Protection'.

He said: Sir, I rise to move the resolution standing in my name on the Order Paper.

Following a review of the Government's organisation for pollution control, the decision was taken by the Governor in Council in November 1985 that the existing organisation should be centralised and rationalised with the Environmental Protection Agency assuming an executive and operational role in pollution control with effect from 1 April 1986. The agency will in consequence be upgraded to a Group III department to be retitled the Environmental Protection Department and will be headed by a Director of Environmental Protection. On 12 March, the Finance Committee of this Council approved the establishment proposals relating to the creation of the Environmental Protection Department. Among other things, the statutory functions of the control authorities under the main pollution control legislation will be transferred to the new department.

In order to implement the Governor in Council's decision, this resolution seeks to effect the transfer of the pollution control authorities under the Waste Disposal Ordinance and the Water Pollution Control Ordinance. Thus, as regards the former Ordinance, the Director of Environmental Protection will become the Waste Disposal Authority in place of the Director of Engineering Development and the Director of Agriculture and Fisheries. Similarly, the Director of Environment Protection will replace the Director of Engineering Development as the authority under the Water Pollution Control Ordinance for

discharges into drains and sewers in a water control zone. He will also be the authority under the same legislation for the Tolo Harbour and Channel Water Control Zone, in place of the Director of Engineering Development and the Director of Agriculture and Fisheries.

Sir, I beg to move.

Question put and agreed to.

Second Reading of Bill

APPROPRIATION BILL 1986

Resumption of debate on Second Reading (26 February 1986)

MISS DUNN: Last autumn the Unofficials divided into five groups for the debate on your address. We have done the same for the Budget, only this time we have seven groups. The areas on which they have concentrated are: economic and community services; industry, trade and labour; security services; education; medical and health; social welfare and general services.

Members speaking after me will speak in these groups, twenty-one today on the first three subjects and twenty-one tomorrow on the remainder. We have also again limited the length of our speeches, which means that many if not all of us will not have time to say all the things we should like to say.

I have been a persistent critic of recent Budgets but I have been more concerned with what lies behind them. I have always wanted to discover the Government's true financial position and its forecasts for the future. These are matters on which the information given in the past has been far from complete.

I am happy therefore to acknowledge the Financial Secretary's effort this year to be more responsive to the criticism that has been levelled at his earlier Budgets and Budget speeches. This year, his Budget and his speech were much easier to follow. And they are supported by more detailed information on the overall financial position than in previous years.

I am particularly glad this year that he has accepted three points that I have always regarded as particularly important: the need to set the Budget in the context of a longer-term forecast; the need to base budgetary strategy on revenue rather than expenditure; and the need to achieve a balance between revenue and expenditure. In his reply to the Budget debate last year the Financial Secretary appeared to rule out the first two altogether, but he has seen the light since then. He has set this Budget within the framework of a five-year financial forecast, and he has acknowledged that 'expenditure is likely to be shaped by likely revenue over a period of years'.

Sir John's acceptance of these two points is, I think, of even more fundamental importance than his announcement of an apparently balanced Budget for 1986-87. It was in the 1984 debate that I first asked for a balanced Budget, if not that year then the next year or the year after. Of course, with all the funds we have now, especially the Capital Works Reserve Fund, any Budget can be balanced or unbalanced by increasing or reducing transfers to the funds or by transferring money back from them to general revenue. This is in fact how next year's Budget has been balanced. The Financial Secretary has reduced transfers to the funds from \$9 billion in 1985-86 to \$5.5 billion for the coming year. Even that was not enough to balance the Budget so he also transferred \$800 million *back* from the Home Ownership Fund.

However, he has offered us some justification for both these decisions and I suppose that any Financial Secretary trying to produce a balanced Budget in these difficult times must be allowed some juggler's sleight of hand.

But for all that, what a change for the better this is. Only two years ago the Financial secretary was telling us that his prime aim was only to get Budget deficits below 1 per cent of gross domestic product and that a deficit of that order—about \$2.5 billion—could be handled.

I would today like to offer a few comments on three subjects: the five-year forecast, the definition of the public sector and the Exchange Fund.

First let me say that I entirely agree with the Financial Secretary that the five-year forecast must not be regarded as a firm plan. We must never slip into that comfortable error of saying 'We have kept within the parameters so of course we are all right'. The forecast is an aid to financial planning not a guide to it. And it must be subject to critical examination each year.

I agree that it is wise to assume now only a relatively low rate of GDP growth. In recent years the trend has been definitely downwards below our recent long-term average.

I also agree that we should at this stage assume a fairly low rate of price inflation. The average of recent years has been much higher. But I hope we have all learnt our lesson from the overheating brought on by tremendous increases in Government expenditure at the same time as a real estate building and construction boom in the private sector. It may be only coincidental but it is a fact that Consolidated Account Expenditure, which had already been rising fast for several years, increased by a staggering 41 per cent in 1980-81 and that the percentage increases in the Consumer Price Index (A) reached their highest points in 1980 and 1981 before declining steadily along with Consolidated Account Expenditure until 1984-85.

So we ought to be concerned to see that the growth rate of Consolidated Account Expenditure has started climbing again since 1984-85 and that the forecast rise in the CPI(A) for 1986 at 5 per cent is higher than the increase in 1985.

The latter is also higher than the average forecast for the OECD, which includes all our major markets except China, and, in particular, it is higher than the forecast for our principal market for domestic exports. When the US still takes, as it did in 1985, 44 per cent by value of our domestic exports, we cannot be complacent about an inflation forecast in Hong Kong of 5 per cent, when America's is only 3.3 per cent.

So, while I cannot argue with the assumption that, on present trends, our inflation will be at 5 per cent in 1986 and will average 4.5 per cent between now and 1989-90, I think we will

have to get it down further and I suspect that the way the Government can influence it is by reducing the growth rate of consolidated expenditure.

I turn now to the specific Budget assumptions of the forecast. I suggest that at least two of them should be regarded as guidelines rather than assumptions. Firstly, we must not let the growth in public expenditure exceed that of GDP, and, secondly, we must go for Budget surpluses if we are to have adequate reserves. It is not enough to say, as Sir John does, that 'a cash flow balance is sought, although erring on the side of surplus to ensure that total balances in the General Revenue Account and in the funds gradually increase to maintain their real value'. The balances in the General Revenue Account and the funds can be increased only if we have surpluses, and they cannot be if we have only a 'cash flow balance'. As the Financial Secretary himself has said, it is the maintenance of the recurrent, or operating, surplus on which the stability of the Government's finances will depend. If we are to add to Hong Kong's reserves in order to maintain their real value, that operating surplus must be big enough to ensure that we have an overall cash flow surplus since capital revenue is not expected to be sufficient to meet capital expenditure. Alternatively, we would have to scale down our forecast of capital expenditure.

However, Tables 3 and 4 in the five-year forecast anticipate that we shall fail to achieve this necessary surplus. Over the five-year period, Consolidated expenditure is forecast to rise by 42 per cent, while the reserve balances rise by only 2.28 per cent. You cannot call that 'maintaining the real value' of the balances by any stretch of the imagination.

I hope I have said enough to make my point that on its first appearance the new forecast is showing a useful indicator of a longer-term trend. But it is clear that the current five-year forecast indicates that the trend in respect of inflation, public sector expenditure and the state of our reserves require careful examination and debate.

For a long time now I have also been concerned about the relationship between the size of the public sector and the GDP. As I have often said—and I know the Financial Secretary agrees with me—this is not just an arid statistical relationship. It is fundamental for the healthy growth of our economy. If the public sector is allowed to pre-empt a growing share of the economy this means

that resources of all kinds are being drawn away from the wealth-creating economic activity. And it is that on which our prosperity, and hence our ability to finance the public sector, depend.

Last year, I argued that the Government's definition of public sector expenditure, that is, Consolidated Account Expenditure, was misleading, because it excluded expenditure by organisations in which, as Sir John puts it 'the Government has only an equity position'. My point was that when the Government is the *sole* shareholder and guarantor of loans, as it is with the Mass Transit Railway Corporation, it was clearly misleading—indeed I think it is clearly absurd—to say that the Government has '*only* an equity position'. It is equally misleading to say that such a corporation is part of the private sector.

In this year's Budget speech, the Financial Secretary has defended the Government's continued exclusion of the MTRC and the KCR from the scope of Consolidated Account Expenditure. Well, all right, but then let us not pretend any longer that Consolidated Account Expenditure measures the size of the public sector. The Financial Secretary may say—and I quote—'the whole concept of the MTRC as an autonomous corporation sets it clearly in the private sector'—unquote—but that is only what his left hand says. His right hand says equally firmly in 1985 Economic Background and 1986 Economic Prospects that the public sector includes the MTRC and the KCR.

I suspect his trouble is that the people who write the green booklets use the 'national accounts' definition of the public sector, while the people who do the green page appendices to the Budget speech and volume 2 of the Estimates use the 'Consolidated Account' definition.

The Financial Secretary uses both. In his Budget speech, he sticks to the Consolidated Account figure most of the time but slips in at least one reference to 'national accounts terms'.

I am not just nitpicking, though it may sound like it. The important thing is that the two different methods of calculating the size of the public sector do not merely produce different results—one would expect that—but that their results are moving further apart. According to one method, the relative size of the public sector has been growing very slightly since the beginning of 1984, while the other method has it shrinking, and a little faster.

We should have one clear, comprehensible and defensible definition of the public sector, not two definitions, both of which are manifestly unsatisfactory. So I was very glad to hear the Financial Secretary state that a full review of our consolidated statistics is in hand.

I hope that all I have said so far will be seen as constructive criticism. I am happy to acknowledge that the Financial Secretary has tried to meet some of the points that I made last year and that this year's Budget documents do give us a

clearer picture of the Government's financial position, though not yet the true size of the public sector.

The Exchange Fund

One aspect of the Government's financial position is, however, no clearer than it was a year ago. I refer to the position of the Exchange Fund.

While I understand the Government's reasons for declining to disclose the fund's current holdings, I believe that we should be given more up-to-date information than we have. Appendix E to the 1983 Budget speech is now out of date. For instance, whereas in 1983 the Exchange Fund's assets were apparently almost entirely in the form of bank deposits and a variety of financial instruments of 'good marketability and which are issued by borrowers with high credit standing', it now holds the Government's shares in the Cross-Harbour Tunnel Co., the Hong Kong Building and Loan Agency and Hong Kong Air Cargo Terminals. Its commitment to two insolvent banks is rather more significant and, I imagine, significantly less if at all marketable. A bit short on high credit standing too. We must also take into account when considering the Exchange Fund that \$14 billion of its assets are in fact the major portion—90 per cent as at 31 March 1985 of the general revenue balance, that is to say, the major portion of the Government's liquid reserves.

Unless the Exchange Fund has easily realisable assets worth \$14 billion, the Government's 'free fiscal reserves' are not actually available to meet unforeseen budgetary deficits.

Can we have some reassurance on these points? After all, the Exchange Fund was set up to regulate the exchange value of the currency. It is, I think, stretching it a bit to use it to bail out depositors in certain financial institutions, even if it can be argued that their collapse might have temporarily affected the exchange value of the currency.

Conclusion

Sir, thanks to the Financial Secretary's changed approach, we can now see our way forward more clearly, and we can, I believe, all agree that, so long as we stick to the prudent guidelines that he reiterated in the closing paragraphs of the Budget speech, Hong Kong will continue to make that economic progress on which everything else depends.

I think we would all also agree that the present Financial Secretary has had a more difficult task than any of his predecessors since Sir Charles Follows in the immediate post-war period. I am sure he will see his greatest reward for his five years hard labour in the fact that—barring unforeseen developments between now and next June—he leaves us with a sound and still growing economy, with a population whose prosperity continues to increase and with the public finances back on an even keel. In short, he will leave a Hong Kong that can still face the future with confidence.

MR. WONG PO-YAN: Sir, after years of deficit budgeting, it is heartening to see that the Financial Secretary has now presented a Budget with a surplus for 1986-87. We are also happy to know that for the year 1985-86 we will have a surplus of \$98 million instead of a budgeted deficit of \$961 million. The Financial Secretary's tenure of office coincided with a period of turbulence for Hong Kong, with political uncertainty, external trade pressures and domestic economic downturn being the more prevalent problems. The budgeted surplus reflects the hard work of the Financial Secretary and the co-operation of the controlling officers in their successful control of public sector expenditure. I hope this achievement will be remembered as a memorable finale of the career of the Financial Secretary in conducting the Government finance.

The 1986-87 Budget includes, for the first time, a medium range forecast. As a planning tool, this forecast is useful in so far as it provides an indication of future Budgets. The Economic and Community Services Internal Working Group has examined the assumptions in the forecast. As convener of the group, I am glad to say that in general the group has found them reasonable for this purpose. The group has also studied the 1986-87 Budget broadly, and found no major disagreement with the key economic indicators quoted by the Financial Secretary in his Budget. However, with the continuing growth in the China market, it is felt that the forecast of 4 per cent growth rate in re-export may be a little conservative.

Industry

I always maintain a strong belief that the manufacturing industry is the backbone of Hong Kong's economy. Even if other forms of industry or services can be developed successfully in Hong Kong, we still have to acknowledge the importance of employment opportunities available to the ordinary workers and particularly, the new immigrants as offered by the manufacturing industry. As I see it now, we cannot expect our manufacturing industry to develop as it did over the past 20 years or so under the positive non-intervention policy because the economic scene has changed rapidly since then.

The changes are as follows: firstly, since the 1970s our strong competitors have begun to emerge and have become stronger and stronger. In comparison, some of the edges and advantages that we have over them have been diminishing or have disappeared; in some fields we even fall further behind. Secondly, the expansion of protectionism is threatening the success we have been enjoying so far. Thirdly, the standard of living of our community has improved. The simple manufacturing processes or the low value added content of these industrial processes have been unable to adapt to the changes in the labour market, and are unattractive to our experienced or skilled workers. For these reasons, our industrial development now needs to draw on the assistance or support from the Government of which we have not enlisted in the past.

In reviewing our Budget over the past 15 years, the public expenditure on general social services and in the welfare fields has increased rapidly. This cannot be achieved without the success of our industrial development. Our services in these fields have now reached a level comparable to that in many developed countries. There is, however, a price to this. According to a survey report, in the period between 1977 and 1983, the production cost in Hong Kong has increased by 4.4 per cent as a result of the various labour legislation enacted during the period. This does not include the effect of the long service payment scheme recently introduced. Sir, our manufacturing industry is now in a rather critical position. It is time that the Government should accord special attention to the manufacturing industry to facilitate its continuing dynamic development in the future. Therefore, in drawing up our future Budgets, I think the Government should, in addition to being receptive to the aspirations of the various sectors, actively consider providing additional resources to the manufacturing industry which is after all, the goose that lay the golden eggs. The Government should see to it that the industry gets the needed nourishment and should also provide for a suitable environment for its existence and growth, particularly the medium and small sized establishments. The recent allocation of funds to promote product design work is an encouraging start.

Sir, the recent decline in private sector expenditure in plant, machinery and equipment is a matter of concern for all of us. Therefore, in order to stimulate investment in our industry, I propose that Government should set the depreciation rate for capital equipment, plant and machinery other than that on lease terms at 100 per cent for the first year alone. I consider that there will be no drastic effect on the Government finance in the longer term, as my proposal, in fact, introduces a once-for-all depreciation instead of the existing gradual system. As our inflation rate now is relatively low, any financial loss to Government should be of a limited scale. I have been given to understand that the depreciation rate in some countries may exceed 100 per cent.

I pointed out in my 1983 Budget speech that 'new technologies offer enormous opportunities for our local industries'. With ever changing development in technology, our industries will benefit much more if positive steps can be taken by the Government to assist the industries in developing high technology. I understand my colleague, Prof. POON Chung-kwong, will deal with this matter in his speech and I share his concern in the need to promote the use of 'hi-tech' in local industries.

Sir, in his address to the Congregation of the University of Hong Kong, Lord Todd of Trumpington made an authoritative suggestion that Hong Kong should develop further in high technology. I believe that, with appropriate allocation of financial resources, our universities and polytechnics should be able to expand their research facilities on science and technology and sufficient provisions can still be made available for our third university.

Monetary Issues

I agree with what the Financial Secretary said in paragraph 37 of his speech that 'Thanks to the link with the US dollar, we have experienced remarkable stability in the exchange rate despite volatile conditions in the foreign exchange markets in 1985'. However, I cannot agree to the point that the maintenance of the link should be taken for granted, as the general situation in Hong Kong at present is quite different from that when the link was established on 17 October 1983. It has served Hong Kong well so far, but not necessarily forever.

Firstly, after the signing of the Joint Declaration and given the experience in the development of political affairs since, many people in Hong Kong have regained their confidence. This was not the case at the time Government abandoned the free floating of the Hong Kong dollar and linked it to the US dollar.

Secondly, when the link was adopted, the US dollar was quite stable and strong in the world currency market. Through this link, therefore, the Hong Kong dollar was provided with a stabilising factor. However, for various reasons, the US dollar has depreciated considerably over the past few months against many major currencies in the world, dragging the Hong Kong dollar to fall to the same extent. Obviously, the corresponding depreciation of the Hong Kong dollar does not reflect its actual value as our economic performance does not justify this depreciation in such a short time. I am convinced that we should not follow the US dollar any further, taking into consideration the fundamental fact that the economy of Hong Kong is different from that of the United States in many aspects.

Thirdly, under normal circumstances, a country with a weaker currency will have the effect of enhancing its export competitiveness. USA is our largest export market, but such benefit will not be realised in full with our currency linked to the US dollar. As our major imports consist of raw material which we turn into goods for export, the weak Hong Kong dollar reduces our export competitiveness as a result of the higher cost for the manufactured goods. Of course, I accept that the weaker Hong Kong dollar has a positive effect on our export to countries other than the USA but, on balance, I doubt whether such gain can compensate for the loss.

Fourthly, the artificial weakness of the Hong Kong dollar may have adversely affected the decisions by some foreign investors on investing in Hong Kong.

Fifthly, the weakness of the Hong Kong dollar will contribute to a higher inflation rate, which is undesirable.

I agree that to let the Hong Kong dollar float again may result in some speculation in the initial stage. However, the market force will, I am sure, soon find a reasonable level for our currency and I think that Hong Kong's economy will, after that, follow its natural course of development.

I realise that this is not an easy step to take, but I believe that it is time now for us to consider the matter in depth.

Public Expenditure and the Civil Service

Given the forecast of GDP growth at 4.5 per cent, measures must be taken to contain public expenditure as the sources which can be tapped for increased revenue remain limited. Based on that forecast of GDP growth, and an inflation rate of 4.5 per cent, the growth of GDP in money terms is about 9.2 per cent per annum. By setting the public expenditure growth at 75 per cent of the GDP growth, the resultant public expenditure growth rate should be about 8.2 per cent in money terms, a more comfortable figure in considering our long-term interest.

I also consider that the growth of the Civil Service at between 2 and 2.5 per cent as suggested by the Financial Secretary could be further constrained if a more restrictive criterion is applied to limit staff increase only for those essential services.

Sir, with these observations, I support the motion.

MR. ALLEN LEE: Sir, it is indeed a great pleasure for me to stand in this Council today to pay tribute to Sir John BREMRIDGE. When Sir John accepted his appointment as Financial Secretary in 1981, I was thinking that Sir John must be the first high ranking civil servant from the private sector who was chosen to take over such an important post in the Government. I wondered whether he was qualified to be the man to handle the financial matters of the Government even though he was the chairman of a major Hong Kong company before his retirement from the private sector. Prior to Sir John's takeover, Hong Kong had \$10.5 billion and \$6.7 billion surplus in 1980-1981 and 1981-1982 respectively. There were writings on the wall that not only would these surpluses be very difficult to maintain but that one of these days, the property sector would crumble. Surely in the fiscal year of 1982-1983, Sir John made an optimistic estimate of land sales and in his first year as the Financial Secretary, we experienced a \$3.5 billion deficit mainly due to a sharp decline in land sales. Then we were faced with the problem of political uncertainties over the future of Hong Kong. In the subsequent years, the question was how to return to a balanced Budget without hefty increases in taxation. It seemed unrealistic at that time to have a balanced Budget.

By the autumn of 1983, due to the political negotiations in Beijing, Hong Kong was facing the devastating moment of a dollar crisis. Even some of our supermarkets were refusing to accept Hong Kong dollar purchases on a 'Black Friday'. As the Financial Secretary, Sir John had to make a quick and sound decision which he did. He pegged the Hong Kong dollar at 7.8 to US\$1.0. Even though confidence did not return immediately, however, this pegged rate restored the confidence of the Hong Kong dollar in the money

market. From hind-sight, it seems easy to make that decision. But I am sure that Sir John had many sleepless nights particularly at that moment of uncertainty when he so bravely announced the pegged rate. It worked well for Hong Kong then and for the many years to follow. Even though I suggested in this Council to lift the linked rate in the 1984 Budget debate due to the reasons I stated then, I now think that the Financial Secretary was right at the time that what we needed was a steady course and I accept his decision. One of these days, when the linked rate does not work in Hong Kong's favour, then I am sure some action will be taken.

It is certainly not easy to be the Financial Secretary of Hong Kong during this period of our history. After three years of hefty deficits, we finally returned to a balanced Budget and based on the estimates, we will see a small surplus in the 1986-1987 fiscal year. Sir John has served Hong Kong well. I am sure a great majority of Members of this Council will join me in wishing him a happy retirement from Government service. The many various photos showing Sir John yawning and dozing during this Council's proceedings in the past will be long remembered. He mentioned to me once that the press must have at least 20 different photos of him and that it wouldn't matter if they had a few more. I would like to say to Sir John this afternoon that these photos do not justify his work both inside and outside of this Council; they just show how difficult it is to be the Financial Secretary of Hong Kong in these crisis-filled years.

This afternoon, I would like to concentrate on the economic matters of Hong Kong and comment on Government's non-intervention policy. Sir, the Government continues to insist on 'positive non-intervention'. I said it before and I would like to say it again that I do not understand the term 'positive non-intervention'. What is 'positive non-intervention'? I believe it is a term used by the Government loosely and conveniently when Government wishes to shrug off its responsibilities particularly towards industrial development. To me, any Government must intervene for political, social or economic reasons. Examples of this happening in Hong Kong can be found in the banking sector. There is no question that the Government directly intervened in the acquisition of Hang Lung Bank and Overseas Trust Bank and most recently, in the case of Ka Wah Bank where the Government uses public funds to underwrite the bad debts incurred. I cannot imagine using any other term but intervention directly and totally. I am not against these interventions. I am sure the Government makes decisions based on public interest for political and economic reasons, but I have my doubts in the ways these matters will be handled and I am against the Government using 'positive non-intervention' to shrug off its other responsibilities.

We all know how important industry and industrial development is for Hong Kong. Industry is the backbone of our economy. I would like to ask the Government how much real effort in terms of money and manpower Government

has spent on our industry and industrial development. I have noticed that we have spent large sums of money in public housing, social welfare and medical services which I agree that in a society like ours, we must take care of the less-fortunate as we are a caring community. But money must be made before we can spend it. That is the basic principle that Hong Kong must operate on. We are spending billions of dollar on these programmes that I have mentioned. What we decide today will have a strong impact on our economy in future years. For 1986, I have noticed that Sir John BREMRIDGE has predicted a 4.5 per cent GDP growth, compared with our major competitors in the Far East, namely, Korea and Taiwan, which have conservatively estimated growth rates of 7.5 per cent and 7 per cent respectively.

Sir, I am very concerned about our economy. Therefore, I urge Government to intervene positively in our industrial development. I suggest, with due respect to our Financial Secretary, that the Industry Development Board should have an unofficial chairman to look into a wider scope of our industrial development in the long-term as the Financial Secretary is preoccupied with the Government's financial matters. It is only through this type of action that we will be able to look into the 1990s and continue to compete with our major competitors in this part of the world. In case the Secretary for Trade and Industry wishes to inform us that we have five overseas offices around the world to promote industrial investment and technology transfer, I would like to tell him that I recently went through a tour of North America with him and members of the delegation of the Hong Kong/US Economic Co-Operation Committee and I noticed that the personnel involved in the industrial investment promotion were so few that you could count them with both hands. Needless to say, I was disappointed. We must strengthen our industrial investment promotion activities stressing the need of upgrading our products and technology transfer. In my view, the Government must spend money wisely in these areas which represent a long-term future for Hong Kong. Sir, there are suggestions of establishing a research council in Hong Kong. I am in favour of such an establishment. When we talk about research, we are not necessarily implying pure research. I think the Government is misled by the term of 'research'. The way I see it is that over the past 10 years our competitors have overtaken us in the areas of research. We must do something now even though it is late, it is still better late than never.

Sir, I have mentioned the importance of information technology during the policy debate of this year. It is without doubt one of the fastest growing industries in the world. I urge the Government to set up a working party on information technology with representatives from industry, commerce, Government, the universities and the polytechnics. Is this suggestion falling on deaf ears? What is the difficulty of Government in setting up such a working party? Does the Government realise the importance of this technology towards the overall development of Hong Kong's economy in the future? I said that I

believe this is vital to our future economic development because our economy is the very reason for our existence. People in the industrial and academic circles are frustrated because of Government's failure to see the impact of information technology. May I take this opportunity to ask the Government again: Is information technology important to Hong Kong and to our future economic development?

Lastly, I would like to say a few words with regard to our trade. The Trade Development Council plays an important role in promoting and enhancing our trade with the world. Even though Hong Kong is small in physical size, we are the 16th largest trading nation in the world. I hasten to say that the Government should not cut the re-export trade levy from the Trade Development Council. I hope our Senior Member who is the chairman of the Trade Development Council would agree with me that we must step up our trade promotion activities particularly during this period when protectionist pressure is growing around the world. To me, trade is our blood-line. If we have blood-clots in our system, then eventually we will have a heart attack. I am impressed with the activities of the Trade Development Council particularly when we show the world what Hong Kong has to offer to our trading partners. The council must be given adequate resources to operate effectively in the promotion of our trade. To constrain its activities by the cutting of funds is not constructive in my view. The council is in the able hands of the chairman. Will Government reconsider this issue at an appropriate time?

Sir, Hong Kong is entering a transition period. The crucial years are ahead of us. We must maintain the confidence of the Hong Kong people through continual economic growth. Let me borrow the wise words of Sir John BREMRIDGE in his Budget speech and which I agree whole-heartedly. 'All Governments make mistakes, let us make fewer than most.' Sir, I now need to pledge that Government should have a heart big enough to remedy the mistakes of the past which will enable us to have a better chance to look towards a brighter future.

With the above remarks, I support the motion.

MR. CHEONG: Sir, may I join my senior colleagues in paying tribute to Sir John BREMRIDGE for a brilliant performance in managing our crisis laden economy over the past few years. Hong Kong is indeed extremely fortunate to have his carefully balanced guidance and judgement throughout. His robust manner and straight talk might have been, from time to time, misunderstood by those who do not know him well. Far from being a hard and insensitive man, he is in fact, objective and sensitive to reasoned argument, and kind and responsive to those in need in our community.

Throughout his tenure as Financial Secretary, and despite the hard times we experienced, Sir John has deliberately and in a business like manner, maintained annual growth in expenditure in all our social services programmes. During the

period from 1982-83 to 1986-87, education expenditure increased by 71 per cent from \$5.1 billion to \$8.7 billion; medical services expenditure increased by 62 per cent from \$2.66 billion to \$4.33 billion; social welfare expenditure increased by no less than 64 per cent from \$1.71 billion to \$2.799 billion. Such records speak for themselves and I need to dwell no further. Yet, in spite of all this, his most significant contribution to our well being is, in my humble opinion, his Budget speech for this year. I am, of course, referring not to the relatively mild revenue proposals, but to the far-sighted dissertation on how, in a unique place like Hong Kong, our public finances ought to be administered, not only for 1986-87, but also, for the years to come. In my view, it will really be worth their while for serious students of public affairs and public administration to study conscientiously his strategy for public sector finances and its underlying philosophy.

Sir, Hong Kong must always strive first to maintain progress in its economic performance, for this is the only solid foundation upon which our future is based. Let there be no more illusions amongst us; constitutional reforms may be very dear and exciting to some people in our community, but in themselves are no panacea for our problems and certainly no guarantee for our future stability and prosperity. Whatever the Administration may decide in future with respect to our constitutional reforms, it must never allow such reforms to place at risk our economy and prospects for economic growth. To do otherwise will spell the beginning of the end for all of us in Hong Kong. Hence I have no hesitation at all in reaffirming my total support to the prudent and frugal approach advocated and adopted by the Financial Secretary in his management of the public finances. Public sector recurrent expenditure must continue to be kept under tight control. Our fiscal reserves, after allowing for necessary backing for our contingent liabilities, currently only stands at \$8.1 billion and this is really too low for comfort. After all, during the five years 1981-82 to 1985-86 our reserves had taken a knock of approximately \$7.0 billion. Given our economy's vulnerable exposure to unpredictable and uncontrollable external factors, it is my view that we should for the next five years consciously and conscientiously strive to increase our surpluses, with a view to restoring our free fiscal reserves to a level at least not less than \$10 billion, which is only approximately 25 per cent of projected recurrent expenditure in the year 1989-1990. In this respect, Sir, may I echo my unreserved support to Miss DUNN's far-sighted and able desertation earlier.

In so far as economic prospects for 1986 are concerned, I agree with the Financial Secretary that growth in 1986 will be export led. Current indications from different manufacturing sectors are pointing towards achieving a much better export performance in 1986 than generally expected. It is not beyond the realms of possibility that our domestic exports will out-perform the forecast growth of 7.5 per cent, and I will not be at all surprised to see even double-digit growth if the current trend continues well into the third and fourth quarters of 1986 and of course provided no tempering of the US and Hong Kong dollars

link system is undertaken or even contemplated. Re-exports too may grow at a higher rate than the forecast 4 per cent. All in all, the export sector, and in particular exports of goods will, once again, be providing the necessary impetus for economic growth this year. The share of manufacturing in the GDP has become important, especially when there are signs that the high growth rates of the tertiary sector's share of the economy may be slowing down in recent years. The continued viability of the manufacturing-for-export sector must therefore be encouraged at all times, and it is with this vital objective in mind that I wish to echo the hon. Allen LEE's feelings and sentiments. I also support the underlining message of the speech that Government should look urgently and seriously into Hong Kong's future industrial development prospects; its likely problems associated with its possible future growth or contraction for that matter and to what extent Government can afford to do in our bid to strengthen our industrial base, the survival of which undisputably will continue to remain as a vital pillar under-pinning our economy. International trade will remain our bread and butter for many years to come, and it would be penny wise and pound foolish indeed if we are to continue to misplace our priorities. Here, I share the sentiments of Mr. LEE in respect of our trade promotion activities and the levy in respect to Trade Development Council. There are certainly adequate grounds for suggesting that the Administration ought to do much more in providing the necessary support for our trading and industrial infrastructure.

Turning now to issues of a more micro nature, I would only briefly address three points. First, I would like to voice my support on the underlying principle that all major charges and tax rates should be kept up to date and that their yield should be maintained in real terms. I offered my observations on this subject in the Budget debate in 1984 and urged the Government to review and update the scale of charges for the many services rendered to our community. We must make clear to our citizens that services provided by the Government costs money which must come from somewhere. Our Government does not owe our citizens a living and they must not rely on the Government to provide them with all the material necessities of life. The Government is right, of course, to adopt a policy of casting a safety net to offer help to those who are in the greatest need but the Government certainly must not assume the suicidal role of being the ultimate provider to our citizens from cradle to grave.

Secondly, I wish to reiterate my general support for the policy of non-interventionism in so far as subsidies to industry is concerned. Important as manufacturing industries may be to our economy, we must not seek artificially to improve its competitiveness through subsidies, nor should we seek to dictate to entrepreneurs what type of industry it would be best for them to get into. Natural market forces may be brutal at times, but that is really the most effective way of maintaining our true competitiveness. Nevertheless it behoves the Government as a whole to recognise consciously the need to have a healthy industrial sector. Just as we should not seek subsidies to boost artificially our competitive edge, we should be spared of unnecessary measures which would

have the effect of further eroding our competitiveness in the international market place. In the past, my colleagues in this Council have voiced the need to assess the cumulative impact on the competitiveness of our manufacturing industries of various labour, employment and environmental protection social legislation. I would like to repeat this sentiment and to call again for the findings of this assessment to be made public when available. I do so because it is a truism that entrepreneurs will invest only if the investment climate is right, and that climate will not be perceived as being right in the face of the threatening creep of ad hoc labour, employment and environmental protection legislation. In my humble opinion, an assessment of the cumulative cost of all such legislation on manufacturing industry will help to establish a clearer base for deciding whether the cost of *additional* legislation could be sustained by the manufacturing community without adverse effect to the overall health of the economy.

Thirdly, Sir, it is now seven years since we last took a comprehensive look at our strategy for diversifying the economy. In my opinion, the time may have come for re-appraisal. Accordingly I would like to propose that Government considers establishing, in the shortest possible time, a high-powered committee, chaired either by the Financial Secretary or by hon. Sir S. Y. CHUNG, our respected Senior Member of UMELCO who has also been acknowledged as one of the most accomplished eldest statesmen of Hong Kong's industrial sector, tasked to review and assess in depth the following:

- (a) What has been done since the publication of the Report of the Advisory Committee on Diversification in 1979;
- (b) The effects, adverse or otherwise, of actions taken by the Government on our manufacturing sector in particular; and
- (c) What needs to be done in future so that the prospect of further economic growth in Hong Kong can be enhanced.

Finally, Sir, I would like to raise a point which may have been outside the ambit of the Appropriation Bill 1986-87. Yet it is important enough of an area to warrant a brief observation. I refer, of course, to the fact that Government has reported to have given a guarantee over a period of three years on Ka Wah Bank's non-collectable bad debts. I find this arrangement intriguing and puzzling. There may have been a case for Government not to have to-date briefed the Finance Committee of the Legislative Council over this subject. I fully accept in principle that Government has a responsibility to make difficult decisions for the macro-interest of the community. Yet as advisers to the Government and as a Member of this legislature, we do have the responsibility to offer our thoughts on such problems and to share when necessary the pain of making difficult decisions for the common good of the community. No doubt, no one will disagree that it will be impossible to lift up to those responsibilities if we are kept forever in the dark. Therefore, I would urge the Government to

brief the Finance Committee of this legislature as soon as possible when all the facts and figures and its implication to the public coffers of this case have been fully ascertained.

Sir, I have pleasure in supporting the motion.

MR. PETER POON: Sir, the preparation of a Budget is an art as well as a science. The decision on priorities and how to maximise the use of available resources are often controversial. It is easy to criticise any Budget by saying that it is too optimistic or it is too pessimistic. Failing this, one can always say it is unexciting. It is not possible to please everyone. I agree entirely with the budgetary philosophy and guidelines set out in the 1986-87 Budget which are based on the paramount objective of maintaining the stability and prosperity of Hong Kong. They are extremely sensible.

Hong Kong has no natural resources. We depend entirely on external trade. Hence we must maintain an environment which is attractive to entrepreneurs and conducive to economic growth. This includes efficient Government and services, stable currency, low taxation and freedom from unnecessary Government intervention. Like many others, I am also very disappointed with the growth of GDP in 1985-86 of 1 per cent. Fortunately, despite this, Hong Kong's prosperity has not been visibly affected. We had virtually full employment, rising real wages, trade surplus and low inflation. This shows the strong will and hard work of our businessmen and our work force and the resilience of the Hong Kong economy. I, however, share the Financial Secretary's view that we must not be complacent and that one year's result can be illusive. We should not allow the growth of public expenditure to be more than the growth in our GDP.

The five-year medium range financial forecast presented to us for the first time is both timely and very welcome. Businessmen here and overseas need to have some indications of future economic trends for their corporate planning. The assumption of a 4.5 per cent GDP growth may be considered by some to be conservative. However, one must not forget that we are already quite a developed economy and cannot keep on expecting high growth rates on the previous scale. In Hong Kong, we offer considerable opportunities for creating and retaining wealth. It has never been our budgetary policy so far to re-distribute wealth. This does not mean that Hong Kong is not conscious of social needs or justice at all. Our impressive record of housing, education, medical facilities and social services and our rising general standard of living are clear evidence. No one willing to work here cannot make a living. No one disabled or destitute need to starve. Within our resources, we keep on striving for a fairer and better society. Nevertheless, we have seen the difficulties of many major countries which embark on ambitious capital and social programs they cannot afford and nationalise industries and businesses which they cannot run.

From such lessons and in this unpredictable economic climate, we must be frugal and build up comfortable reserves for rainy day.

I would now like to comment briefly on the following few topics.

Revenue

Our revenue should be helped by expected improved export performance due to the sustained growth of the US economy and the lower Hong Kong dollar. This will probably be shown in the second half of 1986-87. Though Hong Kong is a low tax area, there were plenty of scope for avoidance of tax. The Inland Revenue (Amendment) Ordinance 1986 recently enacted should be able to prevent any large scale loss of revenue through trafficking of loss companies, tax-based leasing and blatant tax-avoidance schemes. The proposed repeal of the sections of the Inland Revenue (Amendment) Ordinance 1984 relating to offshore interest earned by persons or companies carrying on business in Hong Kong will alleviate the concerns of many that such legislation has created uncertainty over Hong Kong's long-established 'territorial source' tax concept.

Public sector expenditure

One of the major achievements of the Financial Secretary is his ability to control and in fact reduce public expenditure to 16 per cent of the GDP. I strongly advocate that the value-for-money studies be intensified. I would also like to see a periodic realistic review of Civil Service emoluments of both the directorate and non-directorate scales. I agree entirely with the former Chief Secretary, Sir Philip HADDON-CAVE, that the Government is and should be a good employer but we should consider whether we can afford to be too 'generous' an employer. The whole pay package including benefits which will reveal the actual total cost to the public should be compared meaningfully with the equivalent post in the private sector bearing in mind the security of tenure, free or subsidised housing, overseas education allowance, immunity from salary cuts, leave entitlement, pension rights, training facilities and other benefits. We have one of the most efficient civil services in the world. I simply wish to see facts and figures to show whether our loyal Civil Service is fairly and properly remunerated for their contribution to the growth and success of Hong Kong. Such information will clarify misunderstanding of our present Civil Service pay structure and assist in settling any grievances or inequities.

Legislation

During the past few years, there has been a series of legislation to improve Hong Kong's image as a financial centre and its prudential supervision. The amendments to the Companies Ordinance requiring disclosure of loans to directors have uncovered many inherent problem areas which, if allowed to continue, will seriously damage Hong Kong's reputation. The amendments to the Securities and Commodities Trading Ordinances also update the much needed additional requirements to control such sectors. The proposed new

Banking Bill will be another big step in this direction. I am pleased to see that there has been full consultation before the Bill is introduced. The spirit of the Bill is unquestionably right but there are a number of practical details which need to be settled as we do not wish to see 'regulation' become 'strangulation'. I am sure this can be achieved, but sophistication of business, especially in the financial services sector, is developing so fast that the relevant legislation must endeavour to keep pace with it. There is no panacea against human greed or dishonesty. No legislation can change human nature completely. It can only minimise the risks, give early warning signals, and contain the damage by providing sufficient safeguards against mismanagement and deterrence and sanctions against fraud.

Finally, we have been very fortunate to have Sir John BREMRIDGE steering Hong Kong through turbulent waters during the past five traumatic years. A lesser man might not have been able to see us through and bring Hong Kong's finance back to even keel. He has also given us a very useful framework for managing our finances for the next four years. In these rapidly changing times, all forecasts are mere guess work. One certain thing in this world is that there will always be uncertainty. However, I consider that the proposals are sound and it would be wise for us to stick to such bases. The Financial Secretary has modestly said that he is no economist and often attributes his right decisions to his hunches. Nevertheless, his remarkable record as our Financial Secretary during a period of share and property market collapses, the Hong Kong dollars and confidence crises and the banking and shipping crises will feature brightly in our history. He does his job well without fear or favour. Though he seldom minces his words and his no-nonsense Churchillian style may not endear him to everyone, he has certainly earned the grudging respect of even his severest critics. Hong Kong will long remember him as our able and pragmatic Financial Secretary during our most difficult years with much gratitude.

With these words, Sir, I support the motion.

MR. CHAM: Sir, the economy, in spite of earlier fears about the prospect of a negative or zero growth for 1985-86 due to the inhospitability of worldwide trade protectionism, has been able to achieve a modest 1 per cent growth in GDP. With this resounding signal on our economic resilience, the Financial Secretary has been able to put on a brighter forecast for the coming year, for such a GDP growth of 4.5 per cent is now predicted. For those who are concerned about the public purse, it is also worth noting that over the next five years under forecast, consolidated public expenditure is expected to remain stable at the level of 16.5 per cent of GDP. The public sector's relative share in the economy will of course probably trim down further if the latter can pick up faster in the course of future growth.

It has to be recognised that our public sector is primarily oriented to cater to the provision of social goods and services, rather than to serve as a bureaucratic

machinery. It is imperative that we should never allow the scope of our public sector to inflate to such unwarranted proportion as to become vulnerable to the ills of 'big government' that has plagued a good number of western industrial economies. It is also clear that our fiscal policy should address itself to the strategy of fostering the capabilities of the private sector—and not to contain or curb, in a rather mechanical manner, the size of the public sector. However, given the limited resources that our economy can command, too buoyant a public sector may divert away manpower and other production factors that our private enterprises could otherwise call upon. Such alternative demand might in turn impede the competitiveness of our private economy vis-a-vis its external markets and export competitors.

Thus, a measure of flexibility should be built into the public expenditure programme so that the latter may respond effectively to changing circumstances. Conceivably, the answer to the search for such contingencies cannot rely on the five-year forecast alone, simply by containing public expenditure at an artificial percentage like 16.5 per cent. The crux of the matter is that Government services must be provided cheaply, or more precisely, at competitive rates with the private sector at all times. Hence, we must ask ourselves continuously whether comparable services can be obtained from the private sector. Indeed, very often, Government services may appear cheaper in the beginning but as costs built up through bureaucratic procedures and salary increments, Government services may become increasingly costly rendering the initial analysis meaningless.

To put Government efficiency to the test, international interest has been focused on privatisation. President REAGAN, in his Budget message to Congress on 5 February, said, 'In most cases it would be better for Government to get out of the business and stop competing with the private sector.... I propose we begin that process.' The Thatcher Government has been privatising some public services since 1979 and the Japanese Government also plans increased privatisation of Government services. While Hong Kong differs in degree of the size of its public sector, a universal principle must be maintained—that Government should not do what the private sector can do. I vividly recall my visit in 1983 to the Wandsworth Borough Council, which had experienced a very successful programme of privatisation in saving 40 per cent of its cleansing expenditure, by contracting out.

I suggest that Government should be prepared to divest itself of any activities which the private sector can offer at a lower cost. Even if the relevant department wants to maintain existing service, it must first be subjected to a competitive bidding process against private contractors. This process, which I would call 'privatisation screening', will provide a constant check on the dangerous breeding of inertia, red tape and lethargy within our Government machinery.

By instilling the element of 'privatisation screening' as the principal imperative, Government activities can clearly be vitalised in both quality and

quantity. As profit-oriented entrepreneurs and managers are always motivated to perform better, they will respond to tenders competitively. Indeed, private operators do have greater flexibility for altering execution procedures and adjusting payment to optimise the use of resources. A forceful example is the management of public car parks. Privatisation has brought in automation and a mode of operation acceptable to the public. Through the competitive bidding process, Government departments will be subjected to exigencies of competition to attain comparable levels of efficiency.

Admittedly, the tendering process must be accompanied by efficacious measures of control. Regulatory mechanism has to be devised in order to safeguard their proper functioning under private enterprise. Notably, quality of service must be monitored; pricing has to be kept competitive; and the continuity of service has to be guaranteed.

In advocacy of privatisation screening, I venture to suggest public estate management as a prospective area to which such a programme can be profitably and imaginatively applied. Tenders for the management of individual housing estates could be called to compare with the cost of estate management by the Housing Department. For monitoring purposes, management committees should be set up in public housing estates, with district board participation to ensure that the quality of service is in line with costs. The benefit of lower costs can, of course, be rebated to the tenants. Such a scheme will not only help to reduce costs but also invite the involvement of residents to foster their sense of belonging and participation.

As always, the quarrelling over which specific proposals should be subject to privatisation screening will be fierce. Powerful opposition will come from empire-builders, or status-quo defenders with arguments such as maintaining quality of service, even at exorbitant costs. We must resolve to adhere to the principle of privatisation screening, as a stimuli and audit to Government efficiency.

Sir, I support the motion.

MR. JACKIE CHAN (in Cantonese): Sir, the 1986-87 Budget tabled by the Financial Secretary, Sir John BREMRIDGE, before this Council is comprehensive, convincing and in certain areas unique. It best demonstrates the strategy the Financial Secretary adopts in the management of public finances. What is more important is that the Budget is not only steady, practical and acceptable, it also forecasts a surplus of over \$300 million for the fiscal year. These are worthy of my attention and commendation.

It is evident from the comprehensive speech of the Financial Secretary that there is approximately \$100 million surplus in the revenue and expenditure account as against a forecast last year of a more than \$900 million deficit. The Financial Secretary attributes it to an almost zero growth in the establishment

of the Civil Service, the revenue incidental from the sale of land exceeding the estimates by \$2,500 million and the recovery from the KCRC of \$500 million. It is most appropriate for the Financial Secretary to describe the phenomenon as something beyond expectation. It remains a fact that in the past year, the economy of Hong Kong exhibited no sign of any turn for the better. On the contrary, the gross domestic product fell short of the forecast. It recorded only an increase of 1 per cent which was both disheartening and frustrating. Although the Financial Secretary has predicted a 4.5 per cent increase in gross domestic product in 1986-87, I am not all that optimistic. As we all know, the economy of Hong Kong is always vulnerable to incidents like protectionism around the world, economical depression in overseas markets, the incessant improvement to products of competing countries, international political climate and so on. Meantime, the fact that Hong Kong's production facilities remain traditional with its workforce being paid higher than its counterparts adversely affects the export of Hong Kong products. The economy of Hong Kong is essentially dependent on foreign exchange earnings by the export of goods to foreign countries. To avert the unfavourable situation Hong Kong is facing, the Government is duty-bound to help industrialists promote their industries. Regrettably, the Government has in past neglected the importance of enhancing industry development by adopting an unduly reserved attitude. It is my submission that the Government should take an about turn in its policy. Government should act without delay but with flexibility to prevent the situation from further deterioration. The time has now come for Government to assist and encourage industrialists in developing high technology which is the most effective way to improve local export products. There are a number of ways through which Government can assist in the development of high technology, e.g., the opening up of industrial estates, relaxation of terms and conditions, encouragement in the establishment of factories, and granting interested industrialists special concessions in depreciation allowances. Besides, the Government should set up a high technology and promotion research centre to study production technology and techniques in advanced countries, to gather information on the new trend of products most sought after by overseas markets, to assist manufacturers in the use of sophisticated technology, to improve the quality of products, to increase productivity and to foster diversification and publicity and so on. Although there is the Industry Development Board, its scale is relatively small and cannot meet the needs of the industrial sector. The setting up of a high technology and promotion research centre is in line with the trend of industrial high technology development. It is my submission that in performing the above roles the Government is indirectly assisting industry and not directly interfering in industry. I urge that the Government would give the matter serious consideration.

Sir, I now turn to the taxation aspect of the Financial Secretary's Budget. The increases in allowances for salary tax no doubt attract wide attention and

popularity. I personally welcome the increases for individuals, spouses and dependent parents. However the scale of increase is much too low. It is hoped that it could be further increased. While we aim at expanding the economy, we should not forget to improve the standard of living of our people. The majority of Hong Kong people work industriously for the prosperity of Hong Kong. They sustain their souls and mouths together on their meagre salaries. In addition, they have to support their parents, wives and children. Their essential expenses are enormous. Although they enjoy an adjustment of salary annually, the increase can hardly offset inflation and taxes. Government should have sympathy with their plight. The increases of \$1,000 for an individual and \$2,000 for spouses and dependent parents proposed by the Financial Secretary are too mean and are of little help in alleviating their burden. I hope that Government would reconsider it with a view to raising the level of the increases. I appreciate that the Government's revenue would be reduced. I venture to suggest that it could be remedied by the raising of betting tax rates. The annual betting pool amounts to about \$20 billion. If betting tax is to be raised to an appropriate percentage, the effect on the dividend to be paid is minimal. It certainly will not deter the punters, including myself, from placing bets. I think this increase is going to be applauded by the tax payer. I urge Government to give the suggestion serious consideration.

Sir, I welcome also the release by the Financial Secretary for the first time in this Council the medium financial forecast for the next five years. Terse and brief as it is, many forecasts were made on assumptions based on the amount of income and expenditure in the past. Obviously, there is little change so far as the Government expenditure is concerned. Effort is still being made to contain the total expenditure of the public sector. It conforms to the principles of regulating expenses in accordance with income, and saving for the rainy days. The medium financial forecast outlines the prospects of Hong Kong's economy. It demonstrates also that Government has a long-term plan which is encouraging. Thus the general public has greater confidence in the future of Hong Kong and investors can invest with their hearts at ease. I hope that the forecast will produce fruitful results.

Sir, the Financial Secretary has in his term of office worked relentlessly to contain the growth of the public sector and has not relied on the proceeds of land sales as a recurrent source of income. These measures are worthy of consideration by his successor in order for him to follow suit. These rules and policies contribute much to the development of Hong Kong. In his summing up, the Financial Secretary states four factors that are conducive to prosperity and increase in wealth. They are really good advice to us before his departure, which we should remember.

Before closing, I understand that my learned friend hon. Martin LEE will speak on how Government handled the Ka Wah Bank incident. His views have

my support and endorsement. Finally, I would like to take this opportunity to wish Sir John luck and happiness after his retirement.

Sir, with these remarks, I support the motion.

MR. CHENG: Sir, the Financial Secretary said many wise and notable things in his speech on the Appropriation Bill. One passage that sticks in my mind is that in which he emphasised the importance of staff quality. And in the same passage he also indicated that what he called the 'qualitative judgement' of the administrator could be more important than (again I quote him) 'quantitative compliance with technical requirements'.

You'll recall, Sir, that Sir John used these phrases in relation to banking—he was speaking about the staffing of the Banking Commission and the regulation of banking activities. But to my mind they are no less relevant to many other areas of activity—including the area with which I'm particularly concerned, Hong Kong's construction industry. There is an equal need here for staff of high quality—properly and thoroughly trained to supervise, manage and evaluate. And there is an equal need, at a more senior level, for high quality and shrewd administrative judgement.

These indeed are essential assets. Through them, properly used, the community gets value for money. Without them, the community pays dearly for resultant failures. Delays and wastage exact double payment—in cash as well as in time.

Let me give an example from the construction industry. Only a few days ago it was reported in the press that a building contractor engaged on three public housing contracts had disappeared, leaving behind unfinished contracts of a total value of a few hundred million dollars.

Apart from the impact on more than a thousand workers who find themselves suddenly out of a job, the cost is likely to be considerable. One way or another, the community will pay. Re-tendering which may well be necessary for completion of the works entails delay as well as additional expense.

I don't want to prejudge the outcome of inquiries into this particular failure. But I suggest that, regardless of those findings, now is the right time to look again at the way contractors' capacities are assessed before they are allowed to tender for such projects. It is also high time, I suggest, to look again at the way in which tenders themselves are assessed.

As we all know, there are prescribed minimal levels (in terms of assets, equipment and resources) for contractors seeking admission to the recognised categories of tenderers; these requirements, I am sure, are strictly complied with. As we also know, Government's practice is that, other things being equal, the lowest bid should normally be accepted; and this practice is generally followed.

But is this enough? In my opinion, the answer has to be 'No'. Quantitative compliance with technical requirements, I'm again quoting Sir John's expression, is never enough on its own. Qualitative judgement, his term again, is needed also.

This means that a contractor's capacity to tender for a major public project must be judged comprehensively—not just assessed on whether he meets the present pre-qualifying levels. It means that, if necessary, his capacity and fitness to handle more than one such contract simultaneously must be judged in like fashion. And it means that acceptance of the lowest tender must *not* always come to be regarded as a sacred principle. The Financial Secretary made clear that, as a pragmatist, he is shy of any such dogmas. Sir, as another pragmatist, I feel the same way.

In general, Sir, I like the Budget proposals, and I like the manner in which they were put before us—in words that were agreeably free of economic and management jargons. It strikes me as a sensible Budget, sensibly presented.

Specifically, I welcome the use made of the five-year forecast of economic performance as a framework for the Budget—though it is worth drawing attention yet again, as the Financial Secretary did, to the limitations as well as the value of this sort of annually updated forecast.

Sir John mentioned what looks like being a perceptible increase in construction activity in 1986-87, in both the private and the public sectors.

He cited, among other projects, the new container terminals, the eastern harbour crossing, the Route 5 highway and the Tuen Mun Light Rail Transit System. These enterprises, I agree, give some promise of new impetus in the industry even if they do not yet add up to a major surge forward.

Yet these encouraging signs also serve to bring me back to the point that I want to make today—and which I have sought to make previously in this Chamber.

Quantitative growth, just like quantitative compliance with technical requirements, is not enough on its own. For growth to be real, there has to be improved quality to make it so. Quality is paramount; and it follows that a real effort to improve our training resources and methods is vitally necessary, particularly during the process of localisation.

By training, I mean training in all sectors of industry and Government—and at all levels. Our aim must be to fill *all* ranks with elite workers—encouraged to work skilfully, creatively and efficiently. All methods must be used, as appropriate—practical and theoretical; part time and full time; vocational and professional; in-service programmes as well as specialist courses. Most important, work assignments and postings should be thoughtfully managed, so as to foster the experience and expertise that translate training into real productivity.

Sir John's forthright speech, was commendably brief considering the vast field he covered. I shall emulate him by drawing this brief contribution to a quick close. I am reminded here that speeches can always be cut, and are usually improved in the process. But I am also reminded that in the pursuit of excellence—which is what I've been talking about—there are no easy short cuts. It is like slogging along a hard road; yet this is the only road worth taking.

With these observations, Sir, I support the Bill.

MR. LAU (in Cantonese): Sir, in the past several years, due to economic depression world-wide as well as obscurity in the local political outlook, Hong Kong's financial situation was then in the red and there also occurred signs of recession. However, the Financial Secretary managed, during his tenure of office, to twist the financial deficit situation gradually. Furthermore, in the 1985-86 Budget, we begin to see a surplus. The Financial Secretary has at the same time prepared before his retirement a five-year medium range forecast to assist the Government to achieve a balance in its financial revenue and expenditure. This is indeed gratifying and worth congratulating upon. However, Hong Kong's economic prospects are not entirely without worries. As the Financial Secretary has said, Hong Kong's financial situation is greatly affected by external elements particularly the political ones. Despite the fact that the GDP had reached very high figures in the years between 1970-1980, the GDP has significantly decreased since last year. Considering the figures as indicated in the five-year forecast, Hong Kong's economy has gone into a stage of low economic growth. Government's revenue will definitely be affected under these circumstances. If the various items of current development projects are to be maintained and continued, we have to ensure that Government has adequate sources of revenue before a balance on the two ends can be achieved. The future public revenue, as the Financial Secretary has mentioned, will not depend on proceeds from land sale. In other words, Hong Kong will obviously have to rely on the development of its export in industrial products to activate its economic growth.

The major markets for Hong Kong's industrial exports have hitherto been the United States, Germany and China. But according to indications by facts as well as figures, the economic outlook of these three market countries would not be as optimistic in the forthcoming one to two years. It is believed that economic protectionism of the United States and Western Europe as well as China's policy of restraining foreign exchange are not expected to change or relax in the near future. This will naturally have adverse effects on the export of local products. In view of international economic recession and a growing sense of suspicion about Hong Kong's future outlook, certain local industrialists and investors mostly adopt a wait-and-see attitude. In addition, the Government is not assisting in industrial development. If this situation continues to prevail, it will be most doubtful whether the estimated growth rate of Hong Kong's GDP can be maintained at 4.5 per cent. Should the Government consider it necessary

to ensure that there are adequate financial resources, the only means then will be 'tax increase'. However, by doing so, the low tax system on which Hong Kong's prosperity has all the time been depending will be altogether damaged. I am particularly concerned about these aspects. As a matter of fact, in order to maintain Hong Kong's economic development, I consider that the Government should, in the years to come, conduct analysis and studies into the reasons for the low growth rate of our economy and work out corresponding measures to deal with the situation. At the same time, the investment desire and confidence of those investors should be enhanced. The entrepreneurs should be encouraged to make improvements to their old factories and plants and also to bring in new technologies. The Government should also make reviews in its taxation system as well as other economic and labour policies with a view to indirectly assisting in the development and competitiveness of local industry. It is hoped that the current adverse situation of economic low growth can be brought around.

The second point I want to bring up concerns the development in the New Territories. At present, the various works projects for the development of new towns in the New Territories, e.g. Tin Shui Wai and Junk Bay, are still going on. Furthermore, the improvement works to the New Territories Circular Road and other highways as well as the public housing projects and the provision of cultural and recreational facilities in the new towns are all progressing satisfactorily. Inevitably, the success in the development of new towns by the Government is easily recognisable and this has greatly elevated the quality of life of the new town residents. However, it is a pity that there are still many districts and villages outside the boundaries of new towns in the New Territories that are unable to enjoy those advantages and benefits brought about by the New Territories developments. In consideration of the fact that large scale town planning development would not be expected to be carried out in these areas in future or that we can even say such development would never be carried out in these areas. This together with the fact that the basic facilities in these areas are only minimal, there is a world of difference between the life quality of the residents in these areas and that of those in the new towns. Looking at the provision set aside for local public works by the Government in the past three years, we can see no increase in the provision whatsoever except to cover inflation. In order to narrow down the gap between the quality of life of the people dwelling in these areas, I consider that there is a need for the Government to increase significantly the provision for local public works. In the long run, the Government also has to conduct full investigations and studies in order to formulate a comprehensive programme to improve by stages the facilities of villages and districts lying outside the boundaries of new towns so as to bring them up to the present level of our community.

Finally, I wish to mention a word about the Ka Wah Bank incident. I understand that my colleague Mr. Martin LEE will comment in detail in his speech on this issue. However, in consideration of the fact that a colossal

amount of public fund has been used and that no prior notification has been given to this council, I consider there are defects on the part of the Administration concerning the procedural arrangements in handling this particular matter regardless of whatever intention it has.

Sir, with these remarks, I support the motion.

MR. LI: Sir, after three consecutive Budget deficits, it is most heartening to hear that a small surplus will be achieved in this fiscal year and the next. The much improved state of Hong Kong's public finances has enabled the Financial Secretary to present a balanced Budget in the sense that the relatively mild increases in duties and licence fees are more than offset by a number of tax concessions. Of course, as the elected representative of the financial constituency, I cannot honestly say that the 20 per cent increase in bank licence fees and the 13 per cent increase in deposit-taking companies' licence fees are universally welcomed. Our financial community questions the underlying rationale for the periodic increases in licence fees which appears to be that banks and DTCs somehow enjoy, to quote a former Financial Secretary, 'a privileged trading position'.

With 149 banks and 310 DTCs fiercely competing for business in Hong Kong, what does 'privileged trading position' really mean? Financial business is much more open to outside competition than say the fields of medicine, law, and accountancy, yet we alone enjoy the dubious honour of regular and increasing payments to the exchequer. It seems less than fair to single out the financial sector for such royalty-loaded payments. We should all be reminded of the vital contribution made by the financial industry to Hong Kong's post-war industrialisation and economic growth, and to our more recent emergence as a leading international financial centre. The financial sector's role is likely to be even more important in future given the dramatic changes taking place in the world economy.

Having said this, the financial community warmly welcomes the proposed abolition of stamp duty on Hong Kong bearer instruments in respect of loan capital, and the proposed repeal of profits tax on interest income earned on offshore deposits. Both have important implications for Hong Kong's future development as an international financial centre.

Hong Kong's capital market has long exhibited a lop-sided development, with the bond market segment virtually dormant compared to its equity counterpart. The lack of Government debt is perhaps the main reason. However, tax disadvantages may also be impeding the use of the bond market. Hopefully the abolition of this stamp duty will encourage the issue and trading of corporate debt instruments in Hong Kong and raise the development of the capital market to a level more in keeping with our status as an international financial centre. Even the much more active equity market leaves a great deal to be desired in terms of long-range economic development. Economists point out

that the distribution of listed stocks does not adequately reflect Hong Kong's economic structure. It is estimated that real estate and construction companies account for 43 per cent of listed stocks, while manufacturing companies account for only 16 per cent. Moreover, many of the industrial companies have subsidiaries specialising in real estate. Leaving aside external factors such as political shocks, it is hardly surprising that stock prices in Hong Kong tend to be dominated by, or at least correlated with, cyclical movements in the property market. Our manufacturing industries, which are the backbone of the Hong Kong economy in terms of employment and earnings, have made relatively little use of the capital market for raising long-term capital. Indeed they rely principally on bank credit for their financing requirements. It is a well documented fact that during the past 40 years, the banking industry as a whole has unstintingly supported the growth and diversification of Hong Kong's industries. But in so doing, banks have assumed considerable risks. A bank's liabilities are by their very nature of shorter maturity than its assets. In supporting the long-term credit needs of the economy, the banks therefore necessarily expose themselves to some degree of mismatch. Thus, the inability of the capital market to fulfil its capital-raising function has unfavourable implications for the liquidity and safety of the banking industry, a situation which the Government does not seem to sufficiently appreciate. How to improve the allocative efficiency of the capital market, to benefit the financial community and the economy as a whole, is a long-term task that requires careful and close co-operation among all parties concerned.

Even more important is the repeal of the contentious and unpopular tax on interest income from offshore deposits. In his speech the Financial Secretary acknowledged that the legislation for the imposition of this tax had given rise to 'absurd levels of dispute', though he still thought that the philosophy behind it was correct. The financial community holds, with justification, that the tax on offshore interest income violates the 'territorial source' principle on which Hong Kong's tax system is based. Hong Kong's rise as a financial centre is attributable not only to our relatively low tax rate, but also our simple and easy-to-comprehend tax system. It is precisely the infringement of the 'territorial source' principle that has caused the 'absurd levels of dispute'. In any case, the repeal of the tax will remove an important irritant to the smooth functioning of Hong Kong as a commercial and financial centre. This decision is therefore to be highly commended.

There are other developments in the financial sector which cause concern and require comment. In the past decade, the major financial centres of the world, including Hong Kong, have been flooded with financial innovations of all kinds. One of them is 'securitisation', namely, the granting of loans and advances in the form of marketable securities. I will not dwell here on the technical details of this development. Suffice it to say that one important consequence is that the traditional differences between loans and securities have become much more blurred. The implication for prudential regulation is

that there is no longer any clear-cut demarcation between the jurisdictions of the Banking Commission and the Securities Commission. In his speech the Financial Secretary said that the Banking Commission was being strengthened in the quality and quantity of its staff to cope with the needs of modern banking. But he did not mention the Securities Commission. May I suggest that in view of the proliferation of financial innovations, the Securities Commission might benefit from some strengthening if it is to work effectively. There should be greater co-ordination between the two bodies for supervisory and monitoring purposes. It might even be worthwhile studying the case for merging the two to form a more comprehensive and effective supervisory authority under the Secretary for Monetary Affairs. The Monetary Affairs Branch would also benefit from having a small and effective policy advisory committee to advise on the development of Hong Kong as a major financial centre.

The significant shift in the Hong Kong dollar and foreign currency components of our monetary aggregates is another recent development requiring comment. From the end of 1984 to the end of 1985, the Hong Kong dollar component of M2 declined from 54.9 per cent to 49.9 per cent, while that of the M3 declined from 53.6 per cent to 49 per cent. The cause was that foreign currency money supply, of which over 99 per cent was in foreign currency deposits, grew at a much faster rate than its Hong Kong dollar counterpart. For example, from the end of 1984 to the end of 1985, the foreign currency components of M2 and M3 grew at the rates of 38.2 per cent and 34.8 per cent respectively, against 14.8 per cent and 12.6 per cent respectively for their Hong Kong dollar counterparts. The faster rates of growth of foreign currency money supply can in turn be explained by the weakening tendency of the Hong Kong dollar against major currencies other than the US dollar, and the unfavourable interest rate differential for some currencies. There can, of course, be some quibbling about 'swap deposits', the adjustment for which may make the situation less alarming. There is also the view that a high proportion of foreign currency in money supply is a hallmark of an international financial centre. However, the fact remains that there has been a steady erosion of the Hong Kong dollar component of the money supply, which is not good for Hong Kong's monetary stability. Of course, the conduct of monetary policy will be hampered by the predominance of foreign currency money supply. The question is: what measures can be adopted to prevent the further erosion of the Hong Kong dollar deposit base? After the abolition of the withholding interest tax on Hong Kong dollar deposits, perhaps the only alternative the Government now has is to do away with the interest rate agreement, so that the unfavourable interest rate differential may be eliminated. But the abolition of the interest rate agreement would bring about its own problems, particularly for the banking sector. Our smaller banks would be unable to withstand the onslaught of the larger banks should the latter resort to a pre-emptive strike in a free-for-all interest rate war. Some people blame the linked-rate system for the current weakness of the Hong Kong dollar. But as Sir John pointed out, maintenance of

the link is a firm Government policy. Thus there is no simple solution for the encouragement of Hong Kong dollar deposits. It remains an issue that needs to be closely monitored and carefully studied.

I wish to conclude my remarks by joining my fellow Members of this Council in paying tribute to Sir John for his period of office as Financial Secretary. Sir John has, with honesty and integrity, presided over Hong Kong's economic and financial system during one of the most trying and stormy periods in our history. He has shown courage and decisiveness in presenting our position as a responsible financial centre through the swift rescue of the Hang Lung Bank, Overseas Trust Bank and Ka Wah Bank. His imaginative use of the Exchange Fund has ensured the continued operations of these banks. By adopting decisively the linked-rate system in October 1983, our Financial Secretary saved Hong Kong's financial system from total collapse; and by relentlessly pursuing a vigorous control of public expenditure, he has restored Hong Kong's public finances to their former state of health. For these achievements, Sir John deserves our warmest gratitude.

With these remarks, Sir, I support the motion.

4.35 pm

HIS EXCELLENCY THE PRESIDENT: At this point, Council might like a short break.

4.50 pm

HIS EXCELLENCY THE PRESIDENT: Council resumes.

MR. NGAI (in Cantonese): Sir, the Financial Secretary's Budget for 1986-87 reflects his usual prudence and makes a more practical assessment of the pace and direction of Hong Kong's economic development in the coming year. On the whole, it is a mild and pragmatic Budget. Understandably, it aims at making even firmer the firm economic foundation Hong Kong already has. We can see no recommendation that is radical, nor does it recommend any fundamental changes. I strongly believe that there won't be any adverse effects upon Hong Kong people in general, or the development of industry and commerce in particular. On the contrary, the maintenance of the present tax rate and the introduction of a slight increase in the additional personal allowance should be warmly received generally. I personally feel that in view of the dimensions of Hong Kong's economy, a balanced Budget should after all be more comforting and easily acceptable.

Sir John BREMRIDGE has managed to lead Hong Kong's economy safely through the most perilous moment. I take this opportunity to congratulate him and wish him and his family every happiness after his retirement.

On the local economic situation in 1985 and the prospects of 1986, particularly in relation to the export manufacturing industry, the Financial

Secretary's depiction is not encouraging. The growth of domestic exports slows down in real terms and it is pointed out in paragraph 23 of the Budget speech that last year, 'over-all expenditure on plant and machinery declined by 3 per cent, reflecting the effect of the poor domestic performance on manufacturers' investment plans.' Furthermore, it is also pointed out in paragraph 28 that, 'Protectionism remains a constant threat, and the forthcoming negotiations on the Multi-Fibre Arrangement are going to be tough. Even the uncertainty created by the threat of growing protectionism has some adverse effect on domestic export performance.' Despite the fact that I have great faith in Sir John BREMRIDGE's prudence and intellect personally, the existence of the two unfavourable factors which I have just mentioned make me wonder if the expected growth rate of 7.5 per cent for domestic export products in 1986 can be achieved. I hope to make use of this opportunity to talk about my feelings towards the pressure of protectionism.

During 1985, Hong Kong's export industry, especially textile and garment industry, was troubled by a series of protective measures and bills suggested by protectionists of Hong Kong's major export markets and in particular, the US market. The Trade Department and various other commercial and industrial bodies should be commended for lobbying against the Jenkins Bill of the US Congress and for other negotiations and making it possible for Hong Kong, to avoid for the time being, a direct severe blow. Nevertheless, there will be an endless variety of trading restrictions imposed by export markets. Hong Kong, in fact, is often placed in a passive positive. Protectionism, whether viewed in the long-term or short-term perspective is in fact a self-destructive economic policy. In the long run, it is harmful to both the implementing country itself and its oppressed trading partners. And on a short-term basis, it will only benefit an individual sector in the whole economy while other sectors are harmed. Those who advocate trade restrictions and care for immediate benefits have ignored completely the right of free choice by local importers, retailers and consumers. Therefore, it will surely encounter opposition, and Hong Kong should take this opportunity to appropriately manipulate such a force in countering protectionism.

Miss Lydia DUNN in the policy debate 1985 said, 'We need to step up sharply our efforts to keep abreast of political, social and economic developments in our principal markets in order to be able to convince those who take the decisions of the merits of recognising and respecting our GATT rights.' I agree with Miss DUNN in this respect. In fact, every entrepreneur has the duty to make full use of every chance to enhance the rights and interests of the domestic export industry by participating in all canvassing activities, be they long-term or short-term, in all cases and on all occasions so as to promote the image of Hong Kong in the world, in particular the new situation in Hong Kong after the signing of the Sino-British Joint Declaration.

Against such a background, I suggest that the Government should make use of existing resources, for example, to set up standing canvassing groups through the Trade Department or Hong Kong overseas offices. If necessary, these groups should be stationed in Hong Kong's major export countries. The responsible officers will keep in close contact with and canvass local people who oppose trade restriction policies, such as importers, wholesalers and members of consumers bodies and the legislature in a concerted effort to stop the on-going expansion of the trade barrier movement.

In view of the fact that the present trade climate throughout the world is not wholly satisfactory, it is estimated that the Trade Department would have to shoulder a heavier and more arduous task in trade negotiations and related activities overseas. Accordingly, it is comprehensible and acceptable that the Trade Department may need to deploy more Government resources in such undertakings. The Trade Department deserves our commendation for its contribution to Hong Kong's export industry and the resultant positive effects.

In the campaign to eliminate trade barriers and to promote further development of Hong Kong's manufacturing industry, the work done by the Industry Department should not be overlooked. In recent years, the Industry Department has attained distinctive achievements in the provision of industrial information, promotion of industrial investment, technical assistance and support. With a view to further enhancing the technology and quality level of Hong Kong's manufacturing industry, I wish that the Industry Department would take more vigorous action to induce industrial investment from abroad, organise more seminars, exhibitions and overseas visiting delegations. The funds appropriated for such activities have increased by \$4.6 million in the Budget. Such a sum may not be enough because apart from the allowance made for an increase in the cost of industrial investment promotion programmes, the funds appropriated will have to meet the expenses of the department's new office in New York while no promotion programme of a larger scale is taken into account. It is a pity that we have such a shortfall under similar background. Let me express my full support to my two senior colleagues, Mr. Allen LEE and Mr. Stephen CHEONG, who just gave their views on industrial development.

One particular point: the essence of development is that others will advance regardless of your progress. If we do not have a long-term industrial planning for the years ahead, including policies for product technology advancement and shifting, Hong Kong's industrial foundation would be seriously damaged; when others make progress, we stay where we are. The manufacturing industry will no longer be the lifeblood and supporting pillar of our overall economy. As we step onto the road of industrial development, we cannot help remembering past achievements and it is high time we make hay while the sun shines.

Therefore, Sir, I venture to request the Administration to allocate resources for the early establishment of an authoritative working group, who, apart from

carrying out a review on the effects since the publication of the Report of the Committee on Industrial Diversification, as suggested by Mr. Stephen CHEONG, should expeditiously devise effective policies on industrial development, in order to cope with Hong Kong's development as an industrial and trade centre.

Sir, I support the motion.

MR. POON CHI-FAI (in Cantonese): Sir, despite the fact that Hong Kong has over the past few years been experiencing property slump, political uncertainty, currency devaluation, slow export growth, annual Budget deficits and the Hang Lung and Overseas Trust Banks' incidents, the territory escaped fortunately unscathed. What is more delightful is that we are able to see a balanced Budget this year with a small surplus, inflation dropped and unemployment rate maintained at a low level. However, the drastic drop of growth rate for gross domestic products last year indicates clearly that economic problems still exist in Hong Kong. I have the following observations and comments to make regarding the Budget:

(1) *Assistance for the development of industry*

The Financial Secretary states in paragraph 128 of his speech, inter alia, that 'Government intervention is totally inappropriate for Hong Kong. Business here is best conducted by risk bearing businessmen.' I find it extremely difficult to share his view. Non-intervention policy may well in the past be acceptable, but since Hong Kong is now facing world-wide trade protectionism, global depression, lack of business confidence on long-term investment and a drastic decrease in industrial re-investments, production facilities have become obsolete, resulting in increased production costs. On the other hand, China has strengthened its control on foreign exchange, its regulation on the balance of trade, and has engaged actively over the past few years in introducing modern technology to strengthen its competitiveness. Together with lower salary levels in neighbouring countries whose Governments have assisted in the promotion of industries, we cannot help worrying that if Hong Kong did not have the benefit of any assistance from the Government and has to stew in its own juice, can it survive? Although the Financial Secretary has emphasised that the weak Hong Kong dollar will enhance competitiveness of our domestic exports in overseas markets, the fact remains that our main industrial competitors like South Korea and Taiwan have experienced a even higher degree of currency devaluation. Notwithstanding that the biggest drop in the exchange rate of the Hong Kong dollar was recorded against Japanese yens and Deutsche marks, these two countries are not the biggest export markets of Hong Kong. Besides, the low exchange rate has caused imported raw materials and production costs to go up. As such, all the advantage we have gained from the weakness of the Hong Kong dollar could very well have been offset. As a matter of fact the recent Hang Lung, Overseas Trust and Hong Kong Industrial and Commercial Banks incidents

have already dealt a serious blow to the economy of Hong Kong. It demonstrated that if Hong Kong industry lose its competitiveness with overseas countries, thus creating an industrial crisis, Hong Kong Government can hardly remain aloof and stay away. If Government could exempt profits tax on off-shore interest and stamp duties to enhance the development of the financial sector, take unprecedented action in taking over the Hang Lung, Oversea Trust and Hong Kong Industrial and Commercial Banks, and use the Exchange Fund to guarantee the bad debts of the Ka Wah Bank, I fail to see why Government cannot accord appropriate and limited assistance to the investment and development of Hong Kong industries. To sum up, the 'non-intervention' policy on industry adopted by the Government definitely warrants a review.

(2) *The strengthening of monetary supervision*

Following the Hang Lung Bank which was taken over by the Government in 1983, the Overseas Trust Bank was also received by the Government last year. This series of incidents has not only shattered the whole financial sector, seriously affected the status of Hong Kong as a financial centre and the overseas reputation of banks in Hong Kong, but also dealt a serious blow to the recovering economy. These banking crises indicate clearly that the setting up of an effective and comprehensive system of monetary supervision is a matter of utmost urgency. The Financial Secretary also has emphasised that there must be new legislation for closer supervision on the financial sector. In this regard, the new Banking Bill was gazetted on 7th of this month, which will follow the usual legislative procedures, allowing time for scrutiny and amendment. In addition, there is a significant increase in the allocation for the Commission of Banking in the new financial year, thus enabling it to strengthen supervision on the banking industry. I welcome these abatement measures which will reduce the necessity to inject public funds into problematic banks as in the past. Nevertheless, if the minimum capital to risk assets ratio announced recently in the Banking Ordinance is to be enforced strictly, it will increase the pressure on and difficulties of small and medium sized banks and finance companies which have relatively weak capital-raising power. Careful attention should be paid to this.

(3) *Personal tax allowance*

With the rise in living standard, it is necessary to raise tax allowance to ease the burdens of the middle and low income groups. Although I welcome the proposed increase in personal tax allowance, the level of the increase, which amounts to \$1,000, will not even benefit those whose monthly salary is increased by some \$80 in the coming financial year. Furthermore, the expenses for rearing children have been increasing over the years together with school fees and stationery fees, but there is no increase in the child allowance. It seems unfair to those who have to rear their children. I

suggest, when the Hong Kong economy improves, personal and children allowances should be properly adjusted in order to ease the burdens of middle and lower class families.

(4) *Training of local civil servants*

With the approach of 1997, the use of Chinese will be increasing. At the same time, the pace of localisation of the Civil Service will be accelerated. It therefore appears necessary to strengthen the training of local civil servants. Contrary to this, the staff of the Civil Service Training Centre have actually decreased and the number of civil servants receiving training this year shows a reduction, as compared with that of 1984-85, by nearly 1 700. In order to prepare for the approach of 1997 and to facilitate localisation of the Civil Service, I believe that the Government plans on the training of local civil servants should be strengthened.

(5) *Reduction of wastage and deletion of unnecessary works and projects*

The Financial Secretary has said on a number of occasions that 'we must reduce wastage, increase working efficiency and delete unnecessary works or projects'. This is very true. Therefore I am disheartened to see some Government departments failing to achieve the above aim. Nevertheless, in view of the large number of civil servants, it is very difficult to weed out all forms of wastage. I would now like to discuss what I have seen and heard in the hope that attention would be paid and improvement be made by the departments concerned.

- (a) Credits should go to the Financial Secretary who, in the past few years, successfully controlled the growth of the Civil Service. But I do not know while the growth of the establishment is under control, whether the shortage of manpower in the Civil Service will lead to reliance on consultant companies to complete Government projects. If this is the fact, the policy of controlling the growth of the Civil Service will not only become meaningless, but will also reduce the employment opportunities of local engineers and other professionals, and increase the cost of Government projects. I have discussed and studied the question of consultant companies with the civil servants concerned and learnt that in the new towns, even a simple pedestrian footbridge has to be entrusted to a consultant company for the planning and supervision of its construction. Civil servants have to devise employment contract for the consultant company, provide information and review regularly its working progress. This process not only wastes a lot of time, but also duplicates and increases construction costs. Furthermore, there are cases of consultant companies making mistakes which have resulted in additional expenses or even losses to the Government. In view of this, I sincerely hope that, while bringing the growth of the Civil Service under control, Government departments should be provided with enough hands to study, plan and supervise public projects internally.

- (b) Apart from the above problems, owing to the ill co-ordination among Government departments, temporary housings are demolished and re-constructed at the same site within a few months' time, thus wasting a lot of public funds; in addition, owing to misunderstanding among Government departments, there have been problems such as paying excessive wages to civil servants which cannot be recovered. These should be reviewed and improved.

Sir, it is very difficult to have an absolutely perfect Budget. In fact, no Budget can ever benefit and satisfy people of all strata of the society. The Budget for this year is practical, simple and moderate. The tax increase is light, and confined to taxable items which do not affect the livelihood of the general public. There are also increased allocations of funds on education, medical and health, housing and social welfare. The new medium range forecast is helpful in assessing the future economic development of Hong Kong and providing confidence in investment. In conclusion, the Financial Secretary's Budget is acceptable and should be appreciated.

With these remarks, Sir, I support the motion.

MR. CHEONG-LEEN: Sir, may I start off by congratulating the Financial Secretary on his being able to report that the 1985-86 Budget will end up with a small surplus of \$98 million instead of the budgeted deficit of \$961 million. And also for the coming financial year 1986-87, he is anticipating a surplus of \$348 million for a Budget of \$39,543 million. I welcome this Budget as a model of fiscal prudence.

So long as Hong Kong can come up with an annual Budget surplus on the average in the years to come, the question of a sales or value added tax should remain just 'a theoretical possibility' as the Financial Secretary has so succinctly put it. The Financial Secretary will find general support for his point of view.

There are excellent reasons why Hong Kong has acquired a reputation for being not only a leading commercial and manufacturing centre, but also the third largest financial centre in the world. Many factors have aided Hong Kong to acquire such a reputation, in particular, the consistent economic policies of the Government, its free port and free trade status, a balanced Budget averaged out over the years, low taxes on profits and on salaries, an industrious workforce, first-rate international communication facilities, and so on.

Therefore, it would not be out of place to reaffirm today our long-standing commitment to these policies which have stood the test of time and which will continue to make Hong Kong a going economic concern even after 1997. These policies are founded on the premise that in order to distribute wealth, we must at all times foster the favourable climate in which wealth can be further created.

There are three subjects which I would like to mention today, the first having to do with the comparatively low level of re-investment by local manufacturers

in industry, the second having to do with our public housing policy, and the third on the continuing efforts to trim the 'fat' in our Civil Service.

A matter of concern to the future economic growth of Hong Kong is the relatively slow investment rate by local industrialists in new plant equipment, especially in the export field.

Standard Chartered Bank's economists estimate that real growth in private sector investment in manufacturing from 1981 to 1985 averaged 'a mere 0.8 per cent per annum, despite the fact that domestic exports grew at a rate of 6 per cent'.

Local factories are apparently stepping up their productivity on existing equipment or replacing old equipment with new ones only if absolutely necessary, without wanting to invest in long-term growth by way of new capital investment. In other words, they are either adopting a wait-and-see attitude, or developing production facilities in China where labour costs are much lower.

There is, of course, growing interest among outside investors in establishing new factories in Hong Kong but the size of such investment is still not substantial.

Government should therefore review again the current level of incentives for local industrialists to put more money into medium and long-term capital investment. Whether this should be done by way of more substantial depreciation allowances if the investment is sizeable, say, in the region of \$50 million, is a matter for more detailed study by the Administration. What could also be reviewed is whether the cost of land is an inhibiting factor for local investors for long-term capital investment in industry.

With the introduction of the new Banking Bill that is now under consideration by the Legislative Council, there is the probability that many medium-sized banks could be in a less flexible position to assist those smaller factories which may find it difficult to obtain loans from larger banks, due to insufficient capital base or otherwise. Perhaps Government should look at the feasibility of some form of long-term credit institution, with participation by interested banks and backing by Government, which would be able to provide medium-term or long-term venture capital to industrialists, whether large or small, for plant expansion or new types of industries.

What we cannot overlook is the fact that local industries provide jobs for a larger number of people as compared with the financial and other service sectors.

Presently, about 2.5 million of our population are living in public housing and the Financial Secretary has provided figures on the number of people who will be housed either in rental accommodation or under the home ownership scheme over the next five years. This will be a substantial achievement for Hong Kong as part of its overall social services programme.

However, the time has come for us to review the direction in which the Housing Authority will be moving within the next 10 years. A conscious decision should now be taken by Government and the Housing Authority to aim for at least 50 per cent of all new public housing to be made available partly under the Government home ownership scheme and more under the private sector participation scheme over the next five or six years, and for the proportion of home ownership to rental accommodation to increase to a ratio of 7:3 10 years from now.

Also, management should not be the permanent responsibility of Housing Department staff, but should be taken over by the home owners themselves within five years of possession of their homes. Coming to think of it, Government and the Housing Authority can even go further by setting up a joint study group to examine whether an estate town council type of organisation with defined management responsibilities can be tried out in Hong Kong.

Home ownership will build a sense of identity to Hong Kong and increase the sense of duty and responsibility of home owners to the community.

Within another five or six years, the Housing Authority, with its current asset base of approximately \$34,000 million, should have enough cash flow so that the enormous public housing programme could be self-sustaining, provided, of course, that land would be made freely available and that there would be more emphasis on expanding the home ownership sector in the coming years.

My third point has to do with the need for expanding the innocuously named 'value-for-money steering group' system to scrutinise the work of major Government departments with a view to making them more efficient and cost conscious.

With the new look of Legislative Council and the trend towards more open government, the Administration should now have the political will to expand this approach to all other major departments apart from the existing five departments, one of which is the Urban Services Department.

The Urban Services Department's 'value-for-money steering group' has representatives from the Finance Branch, the Civil Service Branch, the Urban Services Department and the Urban Council itself. The signals so far all point towards positive action to eliminate waste and increase productivity and efficiency.

I understand that since the 'value-for-money steering groups' were set up a couple of years ago, savings of \$360 million have already been identified and follow-up action has been taken within the five Government departments concerned.

With the trend towards higher staffing levels and rising wage increases, I would also urge Government to aim, over the next few years, for a lower public

sector employment ratio, which is currently 3.4 per cent of population, as compared to 3 per cent in Japan.

Finally, I would ask the Financial Secretary to consider reducing the tax on soft drinks which was imposed last year and to make up for whatever will be lost in the coming Budget year by raising the duty on liquor and cigarettes.

According to representations made by the Beverage Manufacturers Association of Hong Kong: 'Soft drinks are not a luxury. In Hong Kong's environment they form an essential and safe source of liquid for the entire community, especially for young people, who consume half the 1.6 billion drinks a year'. The association has indicated that should the duty be removed, 'then soft drinks prices can be maintained for at least another year' but 'if the duty is not removed, then a price rise may be inevitable'.

I commend their representations to the Financial Secretary's benign consideration.

Before I sit down, may I associate myself with all of the valedictory statements which have so far been expressed by my colleagues about the Financial Secretary's tenure of office. They are not exaggerated but are surely well deserved. In my dealings with the Financial Secretary as Chairman of the Urban Council, I have always found him to have a mind like a steel trap, a tight financial fist but a heart of 24-carat gold. His transformation from a commercial 'tai pan' to a public servant has even added luster to his stature. He shall be greatly missed in this Council.

Sir, I support the motion.

MR. CLYDESDALE: Sir, no one would deny that the last four years have been among the most volatile and worrying in Hong Kong's financial history. Who can forget for example the Saturday morning in September 1983 when the Hong Kong dollar sank from 7.50 to 10 against the US dollar in the time I took that day to cover the first nine holes at Fanling golf course. A fundamental instability reminiscent of my golf swing itself! Although I know he would have liked to have been similarly occupied, I am sure that our Financial Secretary would also have found his swing a little uneven at the time that day and his announcement the following month of the Hong Kong/US dollar link solution was a wise and most effective decision. In the handling of this and other crises, and in his admirable addiction to the control of public sector expenditure, during the period, Hong Kong has indeed been fortunate to have had such a prudent, disciplined, cautious and conservative captain at its financial helm.

Lest I be accused of unduly trying to win friends and influence people, let me hasten to balance the picture by observing that some unkind but possibly percipient souls have ventured the notion that in his Budgets for the past four years and indeed in his general policy towards fiscal management, he has been super-conservative and has demonstrated a 'squirrel mentality' in the matter of

building and maintaining our fiscal reserves. Indeed, a good accounting case has been made by these commentators to support the contention that Hong Kong's financial situation at present is rather better than the 1986-87 Budget address would suggest. Be that as it may, few would disagree that in a territory where visible trade represents about 175 per cent of gross domestic product it would be imprudent not to tuck something away for a rainy day—quite clearly, this has now been achieved.

Sir, from a comparison of its published accounts, which I have consolidated as to general revenue account and the various capital funds, I estimate that over the past four years the Government's recorded net assets have risen from \$36.6 billion to \$46.7 billion. The rise of \$10.1 billion represents an additional investment of \$2.2 billion in the equity of the Mass Transit Railway Corporation, raising the Government's total stake in the entity to some \$7 billion; the extension of a further \$7.4 billion in recoverable development loan funds mainly for public housing, raising that total to some \$13.5 billion; and an increase by \$0.5 billion in its cash and equivalent reserve in various capital funds and general revenue account raising this to approximately \$26.6 billion. In addition the Government's investment in the Kowloon-Canton Railway is carried at no cost and all this is quite apart from any reserves which may or may not exist in the Exchange Fund. This is undoubtedly a very strong position which has been built up in what has been a very difficult period in Hong Kong's political and economic history, although in public sector fiscal terms, it is probably prudent and reasonable. No further build-up in funds is planned—nor I suggest should it be—other than to maintain the real value of the accumulated reserves over the years. This may not be too difficult as it seems reasonable to assume that by the 1990s some of these investments and loan funds may become self-generating, as indeed the Home Ownership Fund already has, and let us not forget that there is the possibility of both the MTRC and the Kowloon-Canton Railway Corporation being offered for sale to the public at suitable times in the future.

From the medium range forecast provided—a most welcome innovation—it appears that based on assumptions which are understandably conservative in relation to past performance, we can reasonably look forward to a small net surplus over the next four years. If the assumptions made in the forecast do indeed prove to be conservative and the surplus is somewhat larger, our very solid financial position will no doubt stimulate much discussion about the relative weight to be given to the various claims made on public expenditure. But in the fair division of largesse let us not forget the supply side, the source of it all, the taxpayer. Without his or her ability to generate increasing profits and income on which tax yield will depend, we can all forget claims on the public purse. Apart from continuing an intelligent process where appropriate divestment of services run by the Government as has been done, e.g. in the case of car parks and railways, it seems to me that we may well do ourselves the best possible

good in the future by taking positive action soon to invigorate the economy by a well considered programme of tax cuts.

In order to provide continued encouragement to the business sector to invest, expand, innovate and employ, we could begin by removing the illogical surcharge of 1 to 1.5 per cent applying to corporations thus taxing their profits at the standard rate, i.e. 17 per cent instead of the present 18.5 per cent. Business is widely acknowledged as the engine of the economy and, as I have said on previous occasions it is also quite clear that the level of business confidence will determine our future economic viability. A demonstration of Hong Kong's commitment to the maintenance of simple and low taxes on business and people would act as a most effective stimulant to foreign investment and an encouragement to the retention of business confidence, on which the entire economy depends.

The cost of this proposal, based on the Financial Secretary's recent assessment, would at a guess probably be about \$300 million a year, likely to be well within our capability during the next one or two years and who knows, could well 'cost' nothing in the longer term. And while I am in the process of preparing the first Budget for the incoming Financial Secretary, I may as well add the suggestion that opportunity could also be taken to remove what might be termed discriminatory and hopefully temporary taxes. I would place the taxes applied last year on cosmetics and soft drinks into that category. The main beneficiaries would be women and children who as we all know usually come first.

It should also be possible, without much strain on our fiscal resources, to provide a more generous allocation of funds to the work of the organisations which support the development of our trade and industry. I refer particularly to the Hong Kong Management Association, the Hong Kong Productivity Council, the Hong Kong Trade Facilitation Council and the Hong Kong Standards and Testing Centre. These organisations provide an increasingly essential service to Hong Kong's commercial and industrial sectors, a service which trade and industry cannot provide for itself. As we move up the technological ladder and as our economy becomes more and more sophisticated we must expect to spend more on the systems which provide the standards of excellence required.

This brings me to my final point. There is no doubt that our economy is undergoing substantial change, partly resulting from fundamental shifts in China's economic policies during the last few years and partly through the natural response of businessmen to the stimulus of changing external opportunities. Acknowledging this phenomenon in his Budget address the Financial Secretary actually wondered out loud and I quote '... I wonder if we really yet understand what is going on'. Well, we are aware of some of these changes in the macro-economic sense and we can anticipate others by examining trends and possibilities. However, it is increasingly necessary for us in future to think

further ahead than ever before given the very large stakes involved and the need to use our resources effectively. How do we set aside funds, for example, for technical training in a variety of fields if we are not able to assess with confidence what numbers of technically qualified persons will be required by our industries during the next decade? To reach expensive decisions on the expansion and upgrading across the already wide spectrum of technical training will require fairly confident assumptions on the likely development of our industries and probably of our markets as well. This in turn needs very detailed analyses of past, present and future trends, difficulties, costs, and so on, relevant to forward thinking and long-term decision making.

In using technical education as an example, I am well aware of the very extensive and continuous work done by the Government, the UPGC, the Hong Kong Vocational Training Council and many other bodies in this field in order to provide Hong Kong's trade and industry with the qualified people needed and the right numbers at the right time. This is in fact a good example of the complex issues involved and the detailed planning required.

There are many other areas requiring public funding which need equally detailed consideration and planning and in regard to which we need more than intuition and the market-place to guide us. How much do we know about the longer-term prospects for industrial development, for expansion of our re-export trade, of the growth prospects for our financial services? Where are the on-going medium-and longer-term assessments of our market possibilities? Are we diversifying our economy at an acceptable rate and are there opportunities for further diversification which are not immediately clear to us?

Similar concerns gave rise to the 1979 Report on Industrial Diversification which provided a detailed analysis of the strengths, weaknesses and needs of an industrial economy poised for further substantial growth. Many important points were highlighted and many of the recommendations of that report were acted upon and have since greatly benefitted Hong Kong industry and the economy.

I suggest it is now time for a detailed economic study to be commissioned with wide ranging terms of reference, to examine the trends of economic, trade and industrial development during the last seven years and to consider the likely trends and opportunities during the next five to 10 years. Such a study would encourage and support forward planning and aid private sector investors to reach sensible decisions. It might also indicate areas for new initiatives in both the public and private sectors.

A study of this nature could require considerable funding and might involve international professional organisations working with our own institutions and above all our own business people. It would be essentially economic in character but would of course have to take into account the political and constitutional

changes which will affect us during the next decade. But it could be time and money very well spent.

I began with a tribute to the Financial Secretary and I will close with another. I must congratulate him on achieving his aim of a well-balanced Budget for 1986-87 and in so doing without making any major changes in taxation. His proposals are reasonable in all respects and they have my full support.

Sir, with these remarks I support the motion.

MR. LAI (in Cantonese): Sir, may I start off by congratulating the Financial Secretary on his being able to produce a Budget with a surplus instead of a deficit. The 1986-87 Budget is steady and gentle, while being at the same time in accordance with the Joint Declaration's principle of continuity. In his summing up, the Financial Secretary puts forward the idea that wealth must be created first: this has my full support and I hope it will serve as a motto for future Government officials responsible for financial matters.

I have the following observations to make on the 1986-87 Budget.

The Financial Secretary has predicted that economic growth in 1986 will be largely export-led, and the forecast growth rate for the GDP in 1986 is 4.5 per cent. Since Hong Kong's exports are likely to be influenced by unstable factors, I think we have to consider the following problems when viewing the Financial Secretary's optimistic forecast. The Hong Kong dollar is linked to the US dollar, and any fall in the value of the US dollar would mean an increase in the price of raw materials we have to import. Nor would Hong Kong products enjoy any price advantage in the US market, whereas Taiwan and South Korea have one after the other depreciated their currencies to strengthen their exports. Thus Hong Kong may not necessarily benefit from the fall in value of the US dollar. Besides, fluctuation of the world monetary system brought about by the fall in oil prices may well affect Hong Kong, while protectionism will continue to have an effect on Hong Kong's exports. How much China's control of the use of foreign exchange reserves will affect Hong Kong's exports and re-exports is increasingly difficult to estimate. These unstable factors are most difficult to analyse quantitatively, so that forecasts based on economic modes often become inaccurate. I therefore have reservations about the forecast of 4.5 per cent growth.

There are some who probably think I am too anxious. But as an industrialist I would rather face the anxieties and be well prepared for every problem. In fact Hong Kong's industry is continually being threatened. Last year our domestic exports declined by 5 per cent in real terms. The contribution of the manufacturing sector to the GDP fell from 28 per cent in 1971 to 23 per cent in 1984. At present the manufacturing sector still employs about 1 million people, directly and indirectly contributing up to 40 per cent of our GDP. Unless Hong Kong's industry has sufficient competitive power to strive for overseas markets,

it will be difficult to provide enough employment opportunities both to cope with the continuously growing labour force and to maintain the value of Hong Kong's currency. Moreover, Hong Kong's stability and prosperity will be adversely affected. So I think the Government's Budget should take into account Hong Kong's industry and its contribution towards its socio-economy.

In this Budget speech, the Financial Secretary has not mentioned how the Government will assist in promoting exports, but he specifically emphasised maintaining a 'policy of non-intervention'. He optimistically forecast a growth in export trade and in the economy. Hong Kong's export of industrial products is beset with various internal and external problems. I cannot see what grounds there are for optimistic forecasts. The Financial Secretary thinks that business here is best conducted by risk-bearing businessmen. But last year Hong Kong re-investment in industry had again a negative growth rate of 3.4 per cent. I do not know what the Financial Secretary feels about this. Will there be any investigation into the problem in order to improve the situation? Has the Financial Secretary neglected the guiding role of the Government in economic activities?

In view of the above questions I think it is high time the Government reviewed the effectiveness of its 'non-intervention policy'. In principle I am not opposed to the 'non-intervention policy'. Neither am I requesting the Government to use its resources to assist industrial development. But a 'non-intervention policy' does not mean that the Government should not assist or support the development of industry. The Government should lend a helping hand to industry in order to ensure a steady development of the socio-economy. The Government should pay special attention to the more influential manufacturing industries. If the Government can take into account and come to understand the problems facing industry, then proper assistance can be provided to strengthen its competitive power. Any expenditure the Government makes on assisting in the strengthening of the competitive powers of industry will be cost effective and will not be a waste of resources. As the Financial Secretary has said, 'the total system must provide proper incentives to our entrepreneurs and businessmen'. Then why does the Government not carry out what it thinks is correct?

What is meant by the competitive power of industry is the ability of industry to provide imaginative products of high quality. In order to maintain its share in the international market, Hong Kong's industry must have ample competitive power. The Financial Secretary thinks that Hong Kong's economy is under the impact of factors beyond our control. But I think that if our products have the competitive power to maintain or increase their share in the market, then there will be more substantial foundations for forecasting export and economic growth.

In order to increase the competitive power of local industry, the Government can assist by providing comprehensive supportive services using centralised

resources through the Productivity Council, with the aid of advanced technology. Nevertheless, in 1986, Government expenditure in implementing industrial policies accounted for less than 1 per cent of total expenditure. The Productivity Council, which is providing on behalf of the Government a variety of support services will receive a mere \$35.2 million, \$1.7 million less than in the last financial year. But the Tourist Association and the Trade Development Council receive \$133 million and \$210 million respectively in this financial year. In order to promote industrial development, opening up more markets is essential, while assisting our industry to raise its competitive power should not be neglected. The two actually complement each other. I therefore propose that the Government should review present industrial policies as soon as possible, while in the meantime it should study how the Productivity Council can further assist local industry.

The Productivity Council at present mainly provides a wide range of support services. But the Government can encourage the Council to proceed with research development. Then by using the results of research development we can guide investors into developing new industries that have potential.

In order to contribute further to Hong Kong's industry through the Productivity Council, I hope the council will strengthen its co-operation with the Trade Development Council, for example by arranging for the staff of the two councils to meet more regularly to exchange ideas and information. If the Productivity Council can be given information concerning new markets and new products by the Trade Development Council, so that research development may have guidelines, then the research results would be the most important aid Hong Kong's industry could have.

Because of the decline in the property market and the provisions of the Joint Declaration, revenue from land sales has decreased, affecting the total revenue. The Government has attempted to increase the tax rates of several items to meet its expenditure. But the decline in the revenue from land sales will continue. Under the present circumstances I propose that the Financial Secretary should have an overall review of our taxation system, for example by using the principles of fairness and sensibility to arrive at a ratio between direct and indirect taxes. These will serve as guidelines for public revenue before 1997.

In implementing indirect tax the Government should not only consider the principle of fairness but should also study the ambit influenced. I suggest that the Government should reconsider abolishing indirect tax on non-alcoholic beverages, the consumers of which after all are mostly young people who have no earning power. The revenue lost can be made up by increasing indirect taxes on non-essential luxury commodities.

Sir, with the above remarks, I support the motion.

MR. PANG (in Cantonese): Sir, this is the last Budget submitted to this Council by the Financial Secretary, Sir John BREMRIDGE. I am glad to learn that the Government has been able to control its expenditure. Hence, there will be a surplus exceeding \$300 million in the next financial year; whereas between 1982 and 1984, there was a huge deficit and in 1985-86, a slight surplus.

According to the five-year forecast made by the Financial Secretary, the estimated real growth rate of our gross domestic product will be 4.5 per cent per annum on the average. I hope this is an accurate forecast. However, it is worth pointing out that the inclination to invest or reinvest in the local manufacturing industry is rather low at present. Moreover, the export trade of local manufacturers is often affected by many external factors. Therefore, I do have some reservation on this forecast.

The Government has repeatedly said that taxes paid by the public will have value for money. I would like to discuss a few items of income and expenditure in this year's Budget from this angle. On expenditure, the Government claims that it has succeeded in restraining the growth of expenditure in various departments, that the total public sector expenditure would be maintained at around 16 per cent of the gross domestic product and that it should run at about the same percentage level in the next few years.

I support the Financial Secretary's emphasis on 'thriftiness'. But I discover that quite a number of departments are wasting public funds. For example, it is estimated that the Medical and Health Department has to spend \$7,463,000 (an average of some \$20,000 each day) in the year 1986-87 on payment of travelling expenses to its staff, an increase of 18.5 per cent (\$1,163,000) over that of 1985-86. According to explanations given, the increase in expenditure is mainly due to the payment of home to office travelling expenses to staff of the Prince of Wales Hospital in Sha Tin. It is learnt that the hospital is provided with staff quarters, but no reason has been given as to why it is not fully utilised.

Another common example is that most departments have included in their Draft Estimates requests for funds to employ 'consultant firms' to conduct research or studies. Is this money well spent? I doubt it very much. Is it a must that some departments have to employ consultant firms from outside to conduct research? By common sense, Government departments should have personnel who have professional knowledge and a full understanding of their own department. Hence, if studies are conducted by departments in-house, the findings should be much more pragmatic. I firmly believe that much expenditure in this area could be saved if Government departments would cease to employ outside consultant firms to conduct research or studies from time to time.

The Labour Department provides a wide range of services, including employment counselling, labour relations, regulating employment conditions, air pollution control and enforcement of ordinances relating to prospecting, mining, quarrying, explosives and labour unions. In addition, it has to monitor

the enforcement of labour laws and industrial safety, as well as to mediate in labour disputes. As a result of the development of new towns workshops and work sites have scattered all over Hong Kong, Kowloon and the New Territories. Services provided by the Labour Department have also extended correspondingly. However, the amount of funds allocated to the department has been limited to 0.3 per cent of the total consolidated account expenditure. This has seriously affected the actual amount of work required, especially in the area of industrial safety, where appropriate preventive measures must be taken and more frequent inspections must be made. Hence, the staff establishment of Factory Inspectors should not remain frozen all the time.

I agree that to maintain a low taxation rate has always been an important investment attraction of Hong Kong. However, if our society is to develop in a stable and healthy manner, consideration must also be given to how its wealth could be fairly distributed, so as to avoid widening the gap between the rich and the poor. There has been no growth in the real wage of local manufacturing workers for several years. On the contrary, the figure in September 1985 is even lower than that in March 1982 by 1 per cent.

As regards the revenue proposals in this years' Budget, they are acceptable to members of the public because the Government has not made any substantial tax increase. However, I would like to express the following views on the Government's conservative taxation system:

- (1) While the amount of personal allowance has been slightly increased, such increase is still considered on the low side taking into account the rate of inflation over the past few years. I share the view that husbands and wives should be separately assessed for salaries tax. Since the relevant arguments for this proposal have been raised in this Council on many occasions, I am not going to repeat them here.
- (2) Last year the Government resumed to levy tax on non-alcoholic drinks. Since the consumers of such drinks are mostly from the lower class and students, this tax should either be rescinded or reduced.
- (3) As for high income earners or organisations with enormous profits, I think consideration should be given to raising the amount of tax paid by them as appropriate. I believe that this will create no serious effects on bona fide investors and that it will be of great benefit to our society's stability and prosperity.

Finally, with regard to how the Government handled the Ka Wah Bank incident, I could not agree with the Financial Secretary on using the Exchange Fund as a guarantee. Hon. Martin LEE will later speak on this issue and I fully support his views.

Sir, with these remarks, I support the motion.

6.00 pm

THE CHIEF SECRETARY: Sir, in accordance with Standing Order 68, I move the suspension of Standing Order 8(2), so that today's business may be concluded.

Question put and agreed to.

PROF. POON: Sir, I congratulate the Financial Secretary most warmly for producing a Budget which indicates a surplus in the general revenue account, and for an innovative medium range forecast in his Budget speech.

However, a closer examination of achievements and proposals for development in the future in the area of trade and industry leaves me with a deep sense of disappointment. There is an absence of a long-term plan to promote and maintain the economic prosperity of Hong Kong. Hong Kong cannot rely on good luck on a year-to-year basis. As the Financial Secretary has said, Hong Kong's whole economy depends on increasing external trade. What long-term plans do we have to improve and maintain our industrial base and external trade at a level which will ensure Hong Kong's continued prosperity?

The Financial Secretary has said in his Budget speech that he is 'not philosophically opposed to Government intervention in industry' and 'it is however a truism that Governments usually make large mistakes in this approach. Such mistakes tend then to be very expensive indeed.' I personally feel this is only a 'half-truism' and that the whole issue depends on how Government interprets the 'non-intervention' policy. Surely, this policy should not be used, if I may say this, Sir, with great respect for the Financial Secretary and other Official Members, as a veil for inaction or actions devoid of pragmatism. The Chief Secretary has stated that Government is committed to governing Hong Kong effectively with the long-term interests of Hong Kong in mind. If that is so, Government must adopt a more positive role in trade and industry by clearly distinguishing between 'non-intervention' and 'constructive participation'. In the context of the fact that many Asian Governments are devoting ever increasing efforts to helping their industries on the one hand, and the tide of international protectionism ever surging on the other, the next decade will see our competitiveness in overseas markets diminishing, if Government persists in upholding its 'non-intervention' policy.

I would venture to provide, if I may, Sir, examples of areas in which Government could participate. I understand that Government has provided some technical back-up services through the Standards and Calibration Laboratory and the Hong Kong Laboratory Accreditation Scheme; but that is not enough. In the quasi-official sector, the Hong Kong Productivity Council has reason to be justifiably proud of their results relating to their 'heat treatment unit'. The initial sum invested in this unit was about \$1 million. This has stimulated many manufacturers to use the facility to improve the quality of their products. As the number of manufacturers using this service rises rapidly, the

income from the fees charged by the unit now almost balances the operational costs. The unit has demonstrated convincingly how an initial investment by Government on a useful facility of this kind can go a long way in promoting industrial development. This by no means contradicts the Secretary for Trade and Industry's comment in his speech in the policy debate, that 'assistance to an industry means the transfer of resources from the taxpayers' pockets—i.e. including the pockets of other industrialists'. In the example I have just given, the setting up of the facility involved Government as an investor—it was not a mere transfer of taxpayers' money to assist an industry. Revenue generated includes direct income from users' fees and indirect income from taxes through increased industrial investments and employment opportunities. Such a project benefits many industries and not just one particular industry or factory.

In the same way, Government could consider investing in other kinds of facilities to actively aid industry, such as in setting up a sterilisation plant. A conservative estimate shows that the annual expenditure on medical supplies like disposable syringes for injections and blood extraction and other medical plastics consumables, such as blood donor packs, infusion sets, IV catheters and so on, used in hospitals and clinics amounts to some \$30 million this year and this is increasing annually. It should be noted that all of these items are imported! Hong Kong has the capacity to manufacture these medical supplies, but the absence of a proper sterilisation facility has prevented private sector initiatives. It might cost Government a sum of about \$8 million to set up a sterilisation facility which would stimulate industrial investment in the manufacture of sterilised medical plastics for local consumption or for export and also produce significant savings in recurrent Government expenditure in medical and health care in the long run. Furthermore, the facility could be expanded to enable the food industry to use it for keeping fresh the food products imported from China for re-export. No single manufacturer in Hong Kong at present would be large enough to make full use of such a facility, hence the absence of investment initiatives by the private sector. In the initial stage, Government would have to bear the operational costs but the facility would no doubt attract investment from manufacturers, enabling a recovery of Government's capital costs within a few years. The benefits of such a development far outweigh the need for balancing the accounts within a short time. In addition, there have been positive indications from overseas manufacturers that they would also like to make use of the facility if there is one in Hong Kong. This gives all the more reasons for Government to consider seriously the setting up of such a facility.

Apart from the sterilisation plant I have just mentioned above, the Hong Kong Association for the Advancement of Science and Technology has also been examining other viable facilities which would promote industrial development in Hong Kong.

The Secretary for Trade and Industry has said in relation to the Government's industrial policy, that one of the obligations of Government is to provide an efficient and adequate infrastructure. With great respect to the Secretary for Trade and Industry, I dare say, Sir, that it seems to me the infrastructure is rather disjointed and lacks a unified purpose. The Hong Kong Trade Development Council, the Industry Development Board, the Hong Kong Productivity Council, the Hong Kong Industrial Estates Corporation, and the Hong Kong Design Innovation Company Limited, all play a very useful role. With a common core of membership, these bodies already maintain communication and co-ordination in their work. However I consider that Government has the responsibility to ensure that there is overall co-ordination between these bodies. I must therefore reiterate my earlier suggestion to Government for establishing a trade and industry commission.

The commission must be analogous to the Education Commission, and must have a co-ordinating and comprehensive role in the area of trade and industry and for formulating long-term plans for the economic prosperity of Hong Kong.

The commission should comprise mainly unofficials, say two thirds of them should include industrialists, manufacturers and academics. The remaining one third could be Government officials. The chairman should be an unofficial. This kind of composition would ensure that the commission could operate smoothly and flexibly and would look objectively at Government's policies which affect trade and industry.

The commission would not duplicate the duties of other existing bodies but would ensure better co-ordination and provide impetus to the industrial sector to acquire new technological expertise. Furthermore, to echo my hon. colleague Mr. Allen LEE's emphasis on the importance of research, the commission might set up a science and technology research council to promote the use of 'hi-tech' in local industries, thereby securing the role of our industry and trade in the 1990s. The commission should place emphasis on formulating strategies to strengthen industrial development and better trade conditions, which may include the formulation of a comprehensive policy to tackle protectionism and other challenges, the identification of direction of industrial development, the arrangement for information and technology transfer and the co-ordination and funding of viable strategic research. Recommendations in the 1979 report on the diversification of industry need to be re-examined in view of new challenges and changing political, economical and social conditions in Hong Kong.

The commission could absorb a certain part of the responsibilities of the Government Scientist, the post to which recruitment has not been successful.

In concluding, I earnestly ask Government to consider carefully the proposals I have outlined today. The issues of technology transfer and hi-tech development and research are of great importance. The shape of our future will depend

on the results of our efforts plus Government's willingness to undertake responsibilities.

Before I leave, I would like to join my colleagues to convey to the Financial Secretary, Sir John, our very best wishes on his retirement.

With these remarks and suggestions, I support the Appropriation Bill 1986.

MR. SOHMEN: Sir, it is almost impossible to resist the temptation to turn these remarks into a *laudatio* for the Financial Secretary and his achievements during the last few rather difficult years. His conservatism, tenacity and strength of conviction, combined with an ability to acknowledge and correct mistakes have resulted in his last Budget to be the best yet of his term of office. There has been little criticism overall of either the fundamental policies adopted, or of the specific measures proposed or implemented.

Perhaps the only real disappointment in the Budget was the error in the forecast for real GDP growth last year, which turned out to be only 0.8 per cent—the lowest in a decade—against an overly-optimistic initial prediction of 7 per cent, subsequently revised to 4.5 per cent. Still, one can hardly blame the Financial Secretary for events over which he had little influence. On the contrary, we should as a result more readily accept the wisdom of the budgetary principles embodied in his speech: the avoidance of deficit financing, the build-up of working reserves in the major funds, the matching of public sector expansion with GDP growth over the medium term, the attempt not to rely too heavily on capital income for recurrent expenditure, and the commitment to a maintenance of recurrent surpluses. We also welcome the inclusion in the Budget for the first time of a medium-term forecast for Government finances, not of course because it can conceivably provide an accurate guide for Hong Kong's future financial performance, but because it will help the debate on the validity of the general economic and specific Budget assumptions that were made, and produce a better assessment of the possible longer-term effects of current actions. No doubt the production of the forecast will also have established the accuracy of the detailed assumptions underlying it and the adequacy and range of available statistics. Improvements as well as constant corrections and refinements to the forecast will over time enhance its value as a financial planning instrument. The assumptions appear realistic at this point in time.

I concur fully with the Financial Secretary's basic conclusion that Hong Kong cannot afford to engage in what he so elegantly called 'folies de grandeur'. We are terribly dependent on what happens in the outside world, and always exposed to sudden and unforeseen economic and political shocks beyond our control, as well as to the occasional attack of nerves at home; therefore the existence of substantial fiscal reserves as highlighted by the hon. CLYDESDALE is most re-assuring. Attacks on the policy of accumulating such surpluses as reflecting 'hamster tendencies', and capable of adversely affecting overall

economic growth or the expansion of social programmes are in my view shortsighted, as are complaints that the transfer of surpluses from general revenue account to the various fund accounts will make it even more difficult to identify actual revenue and expenditure. While the latter is objectively true and a source of some unhappiness even in this Council, it seems immature to downgrade the substantive benefits derived from these arrangements for the sake only of better appearances or easier comprehension. The same applies to criticisms that efforts to reduce recurrent expenditure—which have been successful in particular in achieving the zero-growth targets in the Civil Service establishment and in reductions in departmental expenses—should be suspect because they result in a build-up of such surpluses. The maintenance of balanced Budgets over the longer term, despite the inevitable cyclical fluctuations in revenue, also assures a future ability to hold overall taxation at current levels and makes the creation of such surpluses in the short term more desirable. The experience of recent years should have amply demonstrated this. Those of us in business do not need much convincing of the benefits of low direct taxation, and of the expectation that taxation will *remain* low; the Financial Secretary's caution against calls for further increases in public sector expenditure is fully appreciated. Of course, Government should give on-going consideration as to how to make the relative size of the public sector smaller, and to transfer any functions to the private sector wherever possibilities exist to do so—such as the early 'privatisation' of the KCRC already hinted on—perhaps followed by the Hong Kong International Airport in the not too distant future?

It is interesting to see that the share for education of total consolidated account expenditure at \$8.7 billion will be 18 per cent in 1986-87, the highest level since 1977-78, as against 14.9 per cent in 1983-84; while the percentage for housing has dropped from 14.5 per cent in 1983-84 to 12.3 per cent in 1986-87. I had hoped this trend suggested that Government was consciously trying to concentrate expenditure on those services which are not only critical for the future of Hong Kong but which would be difficult for the private sector to undertake. However I note that the reduction in spending for housing over the past few years is attributable mainly to improved tender prices for capital works and the phasing of construction schedules. The unit production figures of course show that there has not been any reduction in the overall commitment to provide housing, with average totals in the years to 1989-90 at well over 40 000 flats per annum.

Although Hong Kong's traditional non-interventionist policies have meant a relative lack of direct Government subsidies, the provision of public housing has always been a major exception. The ambitious housing programmes over the years have contributed to both the growth of the economy and to social stability. The home ownership scheme and latterly the private sector participation scheme have expanded on the original rental scheme, and have brought the private sector into the ambit of the housing policy while at the same time assisting in satisfying the demand for home ownership by the middle-and

higher-income groups, producing a surplus in the home ownership fund in the process. It has been suggested, and suggested by Mr. Hilton CHEONG-LEEN and I believe it an idea worth considering, that Government should now also allow those tenants involved in the Housing Authority's rental programme to purchase their flats, while putting all new public housing into the home ownership scheme. While there are obvious administrative difficulties to overcome in such a plan, the general increase in household incomes is placing many tenants in public housing outside the eligibility criteria in any event, and a willingness to sell existing flats at prices reflecting discounted subsidised rental, coupled with the ready availability of mortgage loans, would allow lower income families to also become property owners. There has been considerable debate on proposals in the Green Paper on 'Housing Subsidies to Tenants of Public Housing' last year and which will, I expect, continue. The foregoing alternative might prove more acceptable to many of the 2.7 million people now accommodated in public housing, and would add further to social stability and the political commitment to Hong Kong by this part of the population.

The Financial Secretary has emphasised the importance of the further development of, and improvement in Hong Kong's infrastructure. This means physical facilities as well as human resources. The provision of the best possible educational system, involving both secondary and post-secondary institutions, and vocational schools and industrial training establishments, is required not only because of the increasingly important contribution of the service sector to Hong Kong's economy, but also in view of the tougher competition we face from abroad in the manufacturing industries. The presence of better educated and better skilled manpower is thus becoming more essential year by year for our continued success as an export-dependent economy. Even though Hong Kong probably cannot expect to be in the forefront of technological innovation internationally, we must strive to maintain at least sufficient theoretical and practical expertise to hold our place against new competition, or be able to quickly step into the shoes of the more advanced countries should they decide to move up the escalator of manufacturing sophistication. Quite obviously the potential for Hong Kong in helping to meet the needs of China in the country's quest for modernisation will also depend largely on our on-going ability to field trained personnel.

Speaking of manpower, I would like to voice the continuing concern felt by many businessmen in Hong Kong about Civil Service emoluments moving ahead of wages and salaries in the private sector. In recent years Civil Service pay increases have occasionally surpassed those in private enterprises, and the demand now often heard about 'parity' between the public and private sectors could quickly undermine the traditional responsiveness of Hong Kong wage levels to changing economic conditions, thereby risking the possible loss of international competitiveness on cost grounds and raising difficulties in the future creation of new jobs. Pay levels in the smaller local manufacturing firms often compare unfavourably, even for university graduates, with their

counterparts in the Civil Service. The hon. Allen LEE in this debate last year thought the reluctance of young people to join industry explainable as a social trend; there could be sound financial reasons involved as well why so many are keen not only to join the commercial or services sector but the Civil Service. While we have practically full employment in Hong Kong, in itself of course a healthy sign, and see a significantly reduced rate of inflation, we must be particularly attuned to the risks arising from the possible seesaw effects of the calls for pay parity.

Sir, I would also briefly like to applaud the Financial Secretary's efforts this year to help polish Hong Kong's image as a financial centre. The repeal of the 1984 amendments regarding profits tax on interest earned on offshore deposits, the waiver of the 1 per cent stamp duty charge on Hong Kong bearer instruments relating to loan capital, and the recent introduction of the Banking Bill in this Council were welcomed by the business community, as were the Financial Secretary's various measures (except perhaps for the arrangements made for the rescue of the Ka Wah Bank) to avoid a wide-spread loss of confidence in the soundness of our financial system, following the difficulties of several more banks in the past year for various reasons except perhaps for the arrangements made for the rescue of the Ka Wah Bank which I here do not seem to have universal acclaim. Let us hope that the worst is behind us on that sensitive front; we are of course still facing a number of continuing problem situations in other industries with a high international profile, such as shipping. It is gratifying to note, however, that the property market is well on the way to recovery. The economy overall appears stable and I believe overseas investor confidence in Hong Kong remains strong. Liquidity is high in the banking system and interest rates are low; although investment in 1985 declined by 3 per cent, it seems that with the expected improvement in domestic exports in 1986, the anticipated increase by 2 per cent in local production capacity this year should be possible.

I have no problems with the Financial Secretary's forecasts for GDP, domestic export, and re-export growth figures for 1986 of 4.5 per cent, 7.5 per cent and 4 per cent, respectively, on the stated assumptions of a weaker Hong Kong dollar for most of the year, export-led growth helped by the US economy maintaining its own momentum and improved export prospects in Hong Kong's other major markets except China, lower crude oil prices, continuing import restraints in China because of her shortage of foreign exchange, which of course, is not helped by reduced income from oil exports. Let us not however become complacent by the more encouraging GDP growth estimate based on greater competitiveness arising *mainly* from the relative weakness of the currency. The volatility of the foreign exchange markets has to be accepted as a fact of modern life, and any appreciable return in the strength of the US dollar which could occur at any time as a possible result of unforeseen political developments could very quickly alter the picture; this turn of events would only put more steam behind protectionist pressures in the United States, our major

market. Difficult international trade negotiations still lie ahead of us in 1986, and while anxieties about them were tempered slightly by the relief about the news on membership in GATT, we should be prepared for all eventualities and make dedicated efforts to retain or regain our share of export markets by individual and collective marketing action on all fronts, and in new arenas as well.

There is a tendency in Hong Kong to forget sometimes how fortunate we really are, and we often let parochial issues cloud the judgment of our position in the global context. The last Budget speech has again demonstrated the resilience of our economic system in the face of an unexpectedly poorer showing. We must endeavour to keep the system strong even as, or particularly when we have to improve the regulatory framework. To paraphrase the Financial Secretary: Let us *all* make fewer mistakes than others!

Sir, in thanking the Financial Secretary for his dedication to Hong Kong during the many years of his colourful career, and in wishing him a happy retirement in due course, I support the motion.

MR. TAM (in Cantonese): Sir, in his last Budget speech, the Financial Secretary clearly explained the Government's fiscal strategy and made the first five-year forecast on Hong Kong's economic development and the Government's financial position. Although the Financial Secretary has time and again expressed doubts on the accuracy of such a forecast, it is still a commendable measure to include a five-year forecast within the Budget, as this would enable members of the public to gain a better understanding of the Government's present and future financial position and policy, and would facilitate public scrutiny and making of recommendations. The related budgetary assumptions also give the public an impression of stability. Yet there are some shortcomings in the forecast. For example, it fails to specify Government's financial commitment in capital works in the next five years. The information concerning major service programmes given in the appendices also varies in comprehensiveness. Such information is very important to members of the public in understanding the Government's financial position and the development of various services. It is hoped that next year's forecast will be more detailed, so as to enhance public understanding and discussion.

Judging from the Budget, the Financial Secretary is still adhering to the principle of 'positive non-interventionism'; and in establishing the priority of economic objectives, emphasis is placed on the 'correct allocation of resources' and a 'high degree of stability', whereas 'growth momentum' and 'economic equality' are placed in a very secondary position. The world economy is having a low rate of growth. In confronting this situation, the Government's fiscal policy is to provide a stable economic environment and to prevent the public sector from taking up too much community resources, so that the overall economy could have a higher degree of stability and adaptability. It is

understandable why the Government has to adopt such a fiscal policy. However, in addition to maintaining stability, the Government should also pursue the objectives of prosperity and equality.

Based on the above objectives, I propose that the Government should consider initiating the following social development services: the establishment of a provident fund scheme and the provision of assistance for industrial development.

During this year's policy debate, I stressed the importance of setting up a central provident fund. Today, I am going to further discuss the urgency of setting up a provident fund scheme.

- (1) Ageing population: Some 620 000 of our population are now over 60, i.e. 11.5 per cent of the total population. Some 40 000 of them have to rely on public assistance for their living, and some 220 000 are receiving old age allowance. Most of these old people used to be workers who have contributed to the economic prosperity of Hong Kong. However, owing to the lack of a retirement security system, they could now only rely on public assistance for a meagre livelihood. According to statistics, the aged population is increasing rather rapidly in Hong Kong. It is predicted that by the year 2000, as many as 900 000 of the population will be over 60, i.e. 14 per cent of the total population. We cannot take this lightly. Moreover, the experience of industrialised countries shows that technological innovations will seriously affect the employment opportunities of elderly workers. More elderly non-skilled workers will be dismissed and forced to retire, resulting in many social problems. Hong Kong's industry is now moving in the direction of technological reform and this will aggravate the problem of ageing in our population.
- (2) Social security becoming an increasing burden to Government: in the next financial year, Government expenditure on social security amounts to \$1.72 billion, 80 per cent of which will be spent on old age allowance and public assistance. As many as 63 per cent of the cases receiving public assistance are old people. Hence, in the absence of a comprehensive retirement security system, the Government is shouldering a heavier and heavier financial burden in looking after the elderly. Over the past six years, the average growth rate of the expenditure on old age allowance and public assistance is 17.1 per cent and 19.3 per cent respectively. Based on this trend, it is expected that by the year 2 000, the total expenditure in these two areas will be increased by 10 and a half times, amounting to some \$14.3 billion.

'Make hay while the sun shines'. Otherwise, taxes or fees will have to be increased on a large scale in order to pay off financial commitments in social

security. The establishment of a provident fund scheme will enable employers and employees to jointly share the burden of financing the livelihood of employees after retirement. The employee's income will thus be redistributed at various stages of his life and it will give the employee a stronger sense of belonging.

A central provident fund does have many advantages, e.g. it is a comprehensive and stable social security system which carries no risks when individual enterprises wind up, workers can continue to enjoy the security when changing to another job and so on. Nevertheless, the establishment of a central provident fund has to be implemented step by step: we must first acquire the administrative experience in managing a central provident fund and we must also relieve medium and small enterprises of the pressure caused by this scheme. Hence, the enacting of legislation to implement a provident fund scheme of a 'promotive' and 'compulsory' nature might probably constitute an interim goal in the implementation of a territory-wide central provident fund scheme.

In pursuance of this objective, the Government could stipulate that organisations with a certain number of employees or above must set up provident fund schemes and strengthen its management so that more employees in Hong Kong would be covered by the retirement security scheme. In addition, further tax relief could be granted to the approved provident fund schemes as a form of incentive. On one hand, this promotive and compulsory provident fund scheme would reduce the pressure on small enterprises. On the other hand, through joining the scheme employers and employees would gradually recognise the significance and merits of a provident fund scheme. What is more important is that it can be implemented within a comparatively short period of time, safeguarding the rights of employees, and solving the increasingly serious problem of retirement security. All these are beneficial to the stability of Hong Kong. The Government should, of course, study and devise a territory-wide central provident fund scheme as soon as possible.

Industry and exports constitute the foundation of Hong Kong's economic development. According to a survey conducted by the Hong Kong Federation of Industries, industry directly or indirectly contributes 40 per cent to our gross domestic product and it provides nearly 1 million jobs for our workforce. Unless Hong Kong's industry maintains its competitiveness, it can hardly provide adequate employment opportunities for the expanding labour force and sustain the value of the Hong Kong dollar. Economic growth and full employment constitute the real foundation for social development and harmony.

In his speech, the Financial Secretary said that governments usually make large mistakes in intervening in industry and that the burdens would have to be carried by the wretched tax payer. His objection to intervention is not philosophical but wholly pragmatic and he considered intervention totally inappropriate for Hong Kong.

This approach may have suited Hong Kong's development in the past when its industry was in its developing stage. But is the policy of non-intervention still appropriate for the future development of Hong Kong? At present, local industry is faced with keen competition and immense pressure from neighbouring regions. The contribution of the manufacturing industry to GDP dropped from 28 per cent in 1971 to 24.6 per cent in 1984 and the drop in local exports in 1985 amounted to 6 per cent; all these mark the gradual decline of our industry. It appears that the Financial Secretary has over-emphasised the dependence of Hong Kong industry on the uncontrollable overseas markets, and overlooked that we could internally implement positive and progressive reform in industry. In the face of changing situations, the idea of 'avoiding mistakes' may itself constitute a big mistake.

My present proposal to provide assistance to industry is not the same as asking Government to support one type of industry and to suppress another, or to subsidise the operation of industry. I expect that the Government should assist the industry sector by providing a better infrastructure which includes the three important elements of industry, viz. expertise, technology and capital. In fact, this coincides with the spirit of what the Financial Secretary has said: our infrastructure must be seen to be getting better. I believe that if Government could mobilise more resources to the study and launching of programmes on 'expertise', 'technology' and 'capital', it will certainly be beneficial to the development of our industry and the prosperity of Hong Kong.

Having discussed the social development services of setting up provident fund schemes and the assistance to industrial development, I would now like to comment on some aspects of taxation.

The Financial Secretary considers it appropriate to lower the ratio between direct and indirect taxation to 59:41. However, he did not explain why. He should explain his rationale to the public.

It is commonly known that progressive direct taxation has the function of re-distributing income and thereby improving social equality. However, in recent years, the increase in taxation has concentrated on indirect taxes. Indirect taxes, in fact, are shared by the general public. Hence, in accordance with the principle of fairness, the Government should study in more detail the proportion between direct and indirect taxation.

Coming to tax concessions, the increase in personal tax allowances is only sufficient to make up for inflation; wage-earners do not enjoy much real benefit. When the financial situation permits further concessions should be considered.

Sir, the Financial Secretary has said 'wealth must be created before it can be divided.' That may be so in the past. But, as a concluding remark, I would like to point out that creation and distribution is a twin procedure similar to the old unsolvable problem of 'chicken and egg'. When there is a lack of wealth, people of course have nothing to share; but without a reasonable distribution of

wealth, people will have no incentive to create more wealth. Besides trying to maintain a surplus, the budgetary objectives of the Government should include the building of a harmonious society, the improvement of the economic and social life of citizens, the enhancement of employment opportunities and assistance in the operation of the market mechanism.

With these remarks, Sir, I support the motion.

MR. PETER C. WONG: Sir, when the going is tough, the tough gets going. During the past five years, when Hong Kong was beset with an avalanche of problems, not least of which was the serious setback of our public finances, the Financial Secretary has with his characteristic toughness skilfully steered Hong Kong's public finances out of the wood. For this, Hong Kong owes Sir John a debt of gratitude, which we will remember long after he has departed from the scene. I wish him a happy retirement, when he can look back with pride and satisfaction on the many contributions he has rendered to Hong Kong, both in the private and the public sectors.

Worthy of note is the Financial Secretary's tough control of public expenditure without compromising the quality of services provided. This may sound simple but to those who are familiar with the huge and complex Government establishment and the endless demands for expansion of services, such exercise could at times be most frustrating. It is to the Financial Secretary's credit that he has been able to enforce the 'zero growth' policy during his term of office and it is mainly due to the success of this policy that we have been able to contain the rapid expansion of our public expenditure, thereby obviating the need to resort to sizeable increases in taxation.

If the overwhelming favourable public response to this year's Budget is any indication of its soundness, then it is obvious that the Financial Secretary's proposals and budgetary strategy are highly commendable. We can look forward to continuing low inflation and almost no unemployment. Government expenditure and growth in the Civil Service has been controlled, and the forecast for the growth of the gross domestic product is a respectable 4.5 per cent. This Budget must be the envy not only of other countries in the region but of countries throughout the world.

Sir, I had the honour of convening the group of Unofficial Members to study the draft estimates for security services. At a special meeting of the Finance Committee on 5 March, 18 Members asked a total of 52 questions, 36 of them for oral reply and 26 for written reply. The detailed and informative replies given by the Administration were generally satisfactory.

Following our close scrutiny of the draft estimates the group also looked at a number of connected policy questions and their financial implications. These questions were many and wide-ranging. No doubt, my colleagues will in the course of this debate dwell on some of these issues. Mr. Martin LEE will be

speaking on the subject of legal aid of which the legal profession holds constructive and objective views. Sir, my view on this subject is well known and I agree with Mr. LEE that the time has come for legal aid to be independently administered by the legal profession. On my part, I would confine my comments today to only two issues, both relating to immigration.

Sir, I shall begin on cost of immigration facilities. The total annual number of passenger crossing at border crossing points between Hong Kong and China is estimated to have risen from 14.7 million in 1984-85 to 21 million in 1985-86. This represents an increase of more than 40 per cent. According to figures supplied by the Administration, the number is expected to rise by another 30 per cent in 1987 and 20 per cent in 1988, when the number of crossings is likely to amount to 33 million, or more than double the number in 1984-85. A new permanent terminal will open at Lo Wu in January 1987; 207 new posts in the field of immigration control are proposed for 1986-87; and a new computer system to be introduced later in 1987 will, I understand, reduce the average time for processing a passenger from 30 seconds to 21 seconds.

Sir, all these improvements cost money. The expenditure on immigration control for 1986-87 is estimated to be \$73 million or 42 per cent more than the approved expenditure for the year 1985-86. The principle of recovering administrative costs is already well-established in the charging of fees for licences, passports, examinations, and other services. It is not revenue-raising for its own sake, but a means of ensuring that at least some of the costs of administering services are met by those who choose to use them, and not by the general taxpayer. There is, I believe, every justification for extending this principle to our immigration facilities, and I recommend that the Government give the proposal serious consideration.

I would now turn to the immigration policy on the importation of labour. Sir, may I take this opportunity to put on record that Unofficial Members support Hong Kong's long standing policy on the importation of labour. This policy provides that an applicant should possess a special skill, knowledge or experience of value to and not readily available in Hong Kong or must be in a position to make a substantial contribution to the economy of Hong Kong. This policy is based on the important principle that Hong Kong labour should not be subject to competition from imported labour.

The recent controversy on this aspect of our immigration policy has, in my view, been satisfactorily resolved. While appreciating that the admission of Filipina maids may not be in strict accordance with the stated policy, the UMELCO Security Panel accepts the fact that Hong Kong has been admitting Filipina maids for the past 17 or 18 years and that it would be unrealistic to expect that they would disappear overnight from the local scene. The panel recommends that efforts be directed towards reducing or minimising the impact or problems, if any, created by the presence of some 25 000 Filipina maids in Hong Kong. The panel further recommends that the policy of admitting

Filipina maids, which was last reviewed by the Executive Council in November 1984, be looked at again as soon as possible so as to ensure that a reasonable balance is maintained between adhering to the stated policy on the one hand and exercising discretion in favour of flexibility and expediency on the other.

Sir, before I conclude, I would like to make a few remarks. The UMELCO Security Panel is currently looking into a number of important issues, including the so-called 'Certificate of No Criminal Conviction', required by most consulates as a pre-requisite for the issue of immigrant visas and which has been the subject of much concern both within and outside this Council, the controversial law on loitering and the recent petition by lawyers from the Attorney General's Chambers alleging, inter alia, that the Legal Practitioners Ordinance is discriminatory. Time, however, does not permit me to dwell on these and other issues relating to security services. I would, if I may, stress that the policy in this field is never static and rightly so. Every effort is being made to ensure that policy in this field as in others reflects the realities of the ever changing local scene.

Many pieces of legislation are due to come to this Council before the end of this session. They will all, no doubt, contribute to the improvement and expansion of existing services, but many of them will also require more resources and more expenditure. The draft estimates for the coming year show enormous increases in expenditure on legal and immigration services, and substantial increases in expenditure on almost all other security services. Their aim is to foster a safe and peaceful society, to protect the innocent and bring the guilty to justice. Stability is one of the twin pillars supporting Hong Kong now and in the years to come, and without it prosperity cannot exist. The need for spending more on security services is well-recognised, but, as with every other service, it is essential to keep the expenditure within reasonable limits.

Sir, may I conclude by quoting a few words, extracted not in sequence, from a passage by Bertrand Russell—

'In 1997, if we still exist, ...we... will proclaim a public holiday to celebrate the glorious victory!'

Of course, the eminent philosopher did not have Hong Kong in mind. Although the mention of 1997 was purely fortuitous, it does serve as a poignant reminder that we must do everything in our power to see to it that the Sino-British Joint Declaration and the principles it enshrines be translated into a reality that will endure and preserve the best of what makes Hong Kong tick.

For the attainment of this goal, may I leave hon. Members with the following thought—

'In a shipwreck, the crew obey orders without the need of reasoning with themselves, because they have a common purpose which is not remote, and the means to its realisation are not difficult to understand. But if the captain

were obliged like the Government, to explain the principles of currency in order to prove his commands wise, the ship would sink before his lecture was finished!

Sir, on this philosophic and pragmatic note, I have great pleasure in supporting the motion.

MR. YEUNG (in Cantonese): Sir, this year's Budget can be said to be balanced and conservative. None the less, it has achieved the effect of reassuring public confidence. The fact that public sector expenditure has fallen from the height of slightly over 19 per cent of gross domestic product in 1982-83 to just over 16 per cent in 1985-86 shows that Government has positively achieved some success in controlling public sector expenses. Although the Budget appears to be lacking in progressiveness and originality, it is encouraging to note that growth in Government expenditure has been successfully kept under control and that the Budget deficit has been turned into a surplus. Furthermore, the Financial Secretary's parting remarks have profound implications, provide food for thought and are useful in self conduct and the conduct of business as well as budgeting in general. These remarks include 'Hong Kong looks forward not back', 'We live and learn', 'But I always acknowledge my mistakes', 'Let us consequently be modest', 'Folie de grandeur always exacts a high price', 'We must be frugal', 'Further continued increase in wealth...must be created before it can be divided' and so on. These brilliant remarks deserve our deep deliberation and may be noted down as 'quotations from BREMRIDGE' for reference purposes. Thus the Budget has its own philosophy in teaching us how to conduct ourselves in society as well as having far-reaching impact and value for existence from economic and educational viewpoints. It also provides a financial theory and statistical support.

History tells us that if we wish our country wealth and our people stability, Government must rouse itself for *vigorous effort* to make the country prosperous. Sir John's penetrating remarks and in particular, the Chinese transliteration of his name, are more meaningful, especially at this time when he is leaving us soon. They bring to mind the situation three years ago when Hong Kong was experiencing the most difficult time financially. Apart from the impact due to a slowing down of the economy, both internally and externally, Hong Kong was hit by political currents before and after the signing of the Sino-British agreement. Consequently, there was a Budget deficit every year. But the considerable Budget deficit is offset this year and there is even a slight surplus. This shows that it takes consistent stamina, substantial confidence, tremendous courage, strong will power and a spirit of pragmatism to overcome difficulties. I fervently hope that in the years to come, our basic financial policy which is taking the right path currently may be flexibly modified in accordance with social changes and needs in order to strengthen our finances.

'A wealthy country and a stable people' is not only a slogan but also the objective of all Government policies. A strong and wealthy Government reflects social prosperity while stability depends on good law and order. Government's major task is to combat crime and maintain law and order. The estimated expenditure on security services in 1986-87 is \$6,227 million representing an increase of 11.7 per cent over last year. It can be seen that Government attaches an importance to this matter. I hope Government will consider the following points when it makes its policies regarding security services:

- (1) The number of travellers passing through the various check points of the Immigration Department is constantly increasing. Facilities at these check points should be improved accordingly in order to meet the relevant needs. When these facilities become operational, Government should provide adequate manpower in order to make full use of these facilities and further facilitate travellers going in and out of Hong Kong. Furthermore, Government may consider collecting fees from all travellers to recover all or part of the administration costs in providing such service.
- (2) To meet the ever changing needs in police work, modernisation of the police force itself and its resources and equipment should continue in order to improve its ability to prevent and fight crime. In case of emergency, the auxiliary police force gives support to the regular force. Under normal circumstances, they assist the regular force in executing their daily duties. The Royal Hong Auxiliary Police Force was formed in January 1959. In commemorating the force's silver jubilee, the former Commissioner of Police, Mr. ROY HENRY, pointed out that 'In this long period of 25 years, the auxiliary police and their colleagues in the regular force have worked together under different circumstances to maintain social order. They have displayed incomparable courage, loyalty and an esteemed spirit. I deeply believe that nobody knows better than I do in realising how important a role the auxiliary police is playing. Social tranquility depends on your efforts in executing your daily duties and the esteemed spirit which you display under emergency situations.' I am glad to learn that Government has decided to make the force's temporary headquarters and training centre presently situated at Kowloon Bay permanent premises. I also hope that Government will actively carry out preparatory work as soon as possible and provide adequate resources so as to render the present premises a place where better results in the combat against crime can be achieved in future.
- (3) As to the question of localisation of the Judiciary, the present condition shows that the Judiciary, Legal Department, Legal Aid Department and Registrar General's Department have a craving for talents. Due to the relatively high income in the private sector, Chinese lawyers are reluctant to join the Civil Service, thus localisation of the Judiciary is hindered

seriously. Besides, with more and more multinational corporations being set up in Hong Kong, there is a great demand for locally-trained counsel, which makes it even harder for Government to recruit local lawyers. In order not to hinder localisation, Government may consider particularly the supply and demand factor in the talent market while deciding the salary levels of civil servants. It should increase the salary of local counsel to such a level that they find it attractive enough to join the Civil Service. Moreover, Government may consider the idea of disestablishing the legal aid service from the Civil Service structure and transferring it to the Hong Kong Bar Association and Law Society of Hong Kong so that Government expenditure in this area can be reduced.

- (4) The programme to translate all laws of Hong Kong into Chinese reveals the importance of translators. The Education Commission report No. 1 has pointed out that 'Hong Kong must educate its younger generation to be competent in both Chinese and English... From a wider economic and political perspective, Chinese is likely to assume greater significance while English will still be essential as an international means of communication in commerce and industry.' In order to cope with the society's needs in terms of languages, the University and Polytechnic Grants Committee has approved the introduction of translation and interpretation courses in the City Polytechnic of Hong Kong. This meets the society's needs and thus deserves our support. In order to maintain Hong Kong's position as a leading international centre of finance, trade and industry, Government has to provide adequate resources to speed up the implementation of 'bilingualism' which is recommended by the Education Commission. In this case, publishing textbooks in both English and Chinese versions should be arranged as soon as possible.
- (5) The increase in commercial crime cases not only affects the expenditure of the Legal Department but also reflects the corrupt aspect of human nature. The ICAC has been trying hard to educate people about the evils of corruption, promote moral education in primary and secondary schools, and produce social morality programmes and supplementary teaching materials. In fact, civic education is to train young people to become good citizens of society. In this respect, school social workers play an important role. Their main objective is to provide service to young people in schools so that they will become responsible members of society. The 1982 Government review ascertained the value of school social workers, acknowledged the workload of school social workers and agreed in principle that the proportion of school social workers to students should be improved with the increase of social workers. The target is to lower the proportion of school social workers to students from one to 4000 to one to 2000. Four years have passed and yet the target is still unattained. I earnestly hope that Government would place emphasis on

this service which helps to improve the quality of secondary school education and eases the youth problem, so much so that young people would really become the backbone of society helping Government to rid society of social evils. In this way, everyone works together towards an upright society and highly responsible Government.

Sir, with these remarks, I support the motion.

Mr. MARTIN LEE: Sir, I do not think the Financial Secretary expects to hear any complimentary remarks from me because like him, I am a straight talker and hence I have been condemned to be the last to speak today.

Localisation of the Civil Service is the avowed policy of the Administration. But I submit that in pushing for localisation, we must try to ensure that the quality of the service provided will not suffer as a consequence.

Sir, the Legal Department is very short of local lawyers. The Administration's standard explanation is that private practice is more lucrative. It may be so, but the statement is nevertheless unfair. It implies that local lawyers are more money conscious whereas expatriates are more public spirited. I submit that the real reasons which mainly account for the Legal Department's failure to attract local persons are:

- (a) top posts have been denied to locals who only occupy the lowest posts; and
- (b) more favourable terms have been afforded to expatriates.

As to the former, out of 40 directorate grade posts in the Legal Department, only two are filled by locals: one on DJL 1 and another on DJL 2. As to the latter, it betrays the Administration's double standard. Expatriates are offered better terms because the Administration claims that without them expatriates will not join, but local lawyers are not offered even equal terms although it is clearly admitted that on the existing unequal terms they would not join. I call for equal terms without delay.

As for the Judiciary, two out of nine Justices of Appeal, three out of 22 High Court Judges, six out of 32 District Judges, and nine out of 54 Magistrates are locals. And if one were to take into account all other judicial posts, then about 23 per cent are locals.

Sir, I appreciate the difficulties encountered by the Judicial Service Commission in seeking to attract lawyers of good standing to join the Judiciary. It is repeatedly said that a successful lawyer will be making a financial sacrifice in joining the Judiciary. But this is not the only reason, for even today, local Judges and Magistrates are still discriminated against in their terms of employment; and this is clearly wrong.

For years, the legal profession has advocated separating the Judiciary from the Civil Service so as to enhance its independence in the eyes of the public. Such a move, which may result in better terms of employment, will make it easier to attract good lawyers to join the Judiciary.

As for the Legal Aid Department, only 14 out of 43 lawyers employed are locals. I cannot possibly understand how it can be in the public interest to employ so many expatriate lawyers in this department, particularly bearing in mind the nature of the work involved.

Sir, I submit that the Administration should, without any more delay, conduct a full review on these three departments and to come up with positive suggestions to reduce their number of expatriate officers.

Sir, the Legal Aid Department has grown into a very large law firm over the years. I submit that legal aid should no longer be administered as a department of the Government, and that the time has now come for it to be administered independently by the legal profession with public funds. There are three reasons. The main one is that the administration of legal aid then will not only be independent, but will also be perceived to be so. It will also eliminate the possibility of an unscrupulous Government stopping access to the courts by citizens who have a legitimate grievance against the Government or using the distribution of legal aid work as a leverage on the profession. Secondly, I submit that administration outside the Government will lead to a more efficient use of public funds. Thirdly, there has for some time been disquiet in the profession that the distribution of work is not equitable. I submit that an independent administration will be able to tackle this matter more satisfactorily.

Sir, I wish now to voice my criticism of the way the Administration has handled the recent increase of salaries of our civil servants.

First, it was unwise for the Administration to deal with this single matter in two stages: giving an increase of at least 6.4 per cent to the directorate sector while only offering a meagre 2.7 per cent to the non-directorate sector. There are some of us who do not believe that the only criterion to gauge a civil servant's salary is by comparison with the private sector. But quite apart from the merits or demerits of such a practice, it should have been apparent to all that dealing with such an issue by two stages would bring nothing but problems. Mr. Andrew So indeed voiced his protest when the matter of the increase of salaries for the directorate sector came up before the Finance Committee last Summer; but alas, he was the lone voice crying in the wilderness.

Secondly, I submit that the non-directorate sector has made out a strong case that it is no longer being properly represented by the people recognised by the Administration. This must be reviewed as soon as possible so that an equitable solution can be found.

Thirdly, I submit that the Administration is taking an unnecessarily firm stand on the 2.7 per cent increase now offered to the non-directorate sector, but refusing to back date it to 1 August 1985, the same date that the pay increase for the directorate sector took effect.

Sir, in relation to our Civil Service, I do hope that the biblical prophecy will not come true, this is to say: 'The rich will become richer, and the poor, poorer.'

Sir, on the Administration's handling of the Ka Wah Bank matter, I wish to express my deepest concern in two respects.

First, from what I can follow from the press, it appears that China International Trust and Investment Corporation (CITIC) may have got a good deal at the expense of the Exchange Fund. But as the terms of the agreement are not made known to Members of this Council, I am unable to judge whether they were indeed favourable to CITIC or not. There are no doubt some people in Hong Kong who think that it was very good of China to come to our rescue; but there are others who are adamant that the Administration has brought another 'tribute' to China following Tin Shiu Wai and the Daya Bay Nuclear Plant. That is the consequence of making secret decisions behind closed doors; for secrecy always begets suspicion.

Second and more importantly, this is a very dangerous precedent for side-stepping the Finance Committee of this Council, which is supposed to scrutinise all financial transactions involving public expenditure. It appears that \$600 million or more may have to be paid out from the Exchange Fund in discharge of the Government's obligation under the agreement with CITIC as the guarantor of the many creditors of the Ka Wah Bank. Sir, I am not asking for any information about the Exchange Fund. But I am concerned that the Administration should have seen fit to incur a liability of such a magnitude without the approval of this Council. Sir, a number of questions cry out to be answered:

- (1) What are the terms of this agreement?
- (2) Is there any better alternative open to the Administration in dealing with this matter?
- (3) Why was this matter not referred to this Council, as in the cases of the Hang Lung Bank and the Overseas Trust Bank?
- (4) What is the Administration's policy in relation to other banks in future which may find themselves in a similar situation?

Sir, until answers are provided to these questions, this Council is not in a position to judge whether this agreement is really in the interest of the people of Hong Kong for whom we are all responsible. Sir, I recognise that the answers to one or more of these questions may have to be supplied confidentially, in which case such information can be disclosed to this Council in a closed session.

Sir, I submit that this matter raises a constitutional point of fundamental importance as to the powers of the Financial Secretary under the Exchange Fund Ordinance and the manner in which he has sought to exercise those powers. I regret, Sir, that I am unable to support the Appropriation Bill 1986 until the Administration has supplied to this Council all the material information relating to the Ka Wah Bank deal.

Suspension of sitting

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

Adjourned accordingly at fifteen minutes past Seven o'clock.

Note: The short titles of the motion/bill listed in the Hansard Report have been translated into Chinese for information and guidance only; they do not have authoritative effect in Chinese.