

1 HONG KONG LEGISLATIVE COUNCIL -- 26 April 1989

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OFFICIAL REPORT OF PROCEEDINGS

Wednesday, 26 April 1989

The Council met at half-past Two o'clock

PRESENT

HIS EXCELLENCY THE GOVERNOR (PRESIDENT)

SIR DAVID CLIVE WILSON, K.C.M.G.

THE CHIEF SECRETARY

THE HONOURABLE SIR DAVID ROBERT FORD, K.B.E., L.V.O., J.P.

THE FINANCIAL SECRETARY

THE HONOURABLE PIERS JACOBS, O.B.E., J.P.

THE ATTORNEY GENERAL

THE HONOURABLE JEREMY FELL MATHEWS, C.M.G., J.P.

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

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

SECRETARY FOR DISTRICT ADMINISTRATION

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

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

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

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

THE HONOURABLE CHAN YING-LUN, J.P.

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

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

THE HONOURABLE CHENG HON-KWAN, J.P.

THE HONOURABLE CHUNG PUI-LAM, J.P.

THE HONOURABLE HO SAI-CHU, M.B.E., J.P.

THE HONOURABLE HUI YIN-FAT, O.B.E., J.P.

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

THE HONOURABLE DAVID LI KWOK-PO, 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, J.P.

PROF. THE HONOURABLE POON CHUNG-KWONG, J.P.

THE HONOURABLE SZETO WAH

THE HONOURABLE MRS. ROSANNA TAM WONG YICK-MING, J.P.

THE HONOURABLE TAM YIU-CHUNG

DR. THE HONOURABLE DANIEL TSE, O.B.E., J.P.

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

THE HONOURABLE LAU WONG-FAT, M.B.E., J.P.

THE HONOURABLE GRAHAM BARNES, C.B.E., J.P.
SECRETARY FOR LANDS AND WORKS

THE HONOURABLE RONALD GEORGE BLACKER BRIDGE, O.B.E., J.P.
SECRETARY FOR EDUCATION AND MANPOWER

THE HONOURABLE MICHAEL LEUNG MAN-KIN, J.P.
SECRETARY FOR TRANSPORT

THE HONOURABLE EDWARD HO SING-TIN, J.P.

THE HONOURABLE GEOFFREY THOMAS BARNES, J.P.
SECRETARY FOR SECURITY

THE HONOURABLE PETER TSAO KWANG-YUNG, C.P.M., J.P.
SECRETARY FOR ADMINISTRATIVE SERVICES AND INFORMATION

THE HONOURABLE CHAU TAK-HAY, J.P.
SECRETARY FOR HEALTH AND WELFARE

THE HONOURABLE RONALD JOSEPH ARCULLI, J.P.

THE HONOURABLE MARTIN GILBERT BARROW, O.B.E.
THE HONOURABLE PAUL CHENG MING-FUN

THE HONOURABLE MICHAEL CHENG TAK-KIN, J.P.

THE HONOURABLE DAVID CHEUNG CHI-KONG, J.P.

THE HONOURABLE MRS. NELLIE FONG WONG KUT-MAN, J.P.

THE HONOURABLE MRS. PEGGY LAM, M.B.E., J.P.

THE HONOURABLE DANIEL LAM WAI-KEUNG, J.P.

THE HONOURABLE MRS. MIRIAM LAU KIN-YEE

THE HONOURABLE LAU WAH-SUM, J.P.

DR. THE HONOURABLE LEONG CHE-HUNG

THE HONOURABLE LEUNG WAI-TUNG, J.P.

THE HONOURABLE JAMES DAVID MCGREGOR, O.B.E., I.S.O., J.P.

THE HONOURABLE KINGSLEY SIT HO-YIN

THE HONOURABLE MRS. SO CHAU YIM-PING, J.P.

THE HONOURABLE JAMES TIEN PEI-CHUN, J.P.

THE HONOURABLE MRS. ELSIE TU, C.B.E.

THE HONOURABLE PETER WONG HONG-YUEN, J.P.

ABSENT

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

THE HONOURABLE TAI CHIN-WAH, J.P.

THE HONOURABLE RONALD CHOW MEI-TAK

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL

MR. LAW KAM-SANG

Papers

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

Subject

Subsidiary Legislation

L.N. No.

Public Health and Municipal Services
Ordinance

Imported Meat and Poultry (Amendment)

Regulations 1989.....

116/89

Registration of Persons Ordinance

Registration of Persons (Application
for New Identity Cards) (No. 4) Order

1989.....

117/89

Customs and Excise Service Ordinance

Customs and Excise Service (Discipline)
(Amendment) Rules 1989.....

118/89

Public Health and Municipal Services
Ordinance

Designation of Libraries (Urban Council
Area) Order 1989.....

119/89

Urban Council Ordinance

Urban Council (Fees for Official
Signatures and Miscellaneous Services)

(Amendment) By-Laws 1989..... 120/89

The Chinese University of Hong Kong

Ordinance

Statutes of The Chinese University of

Hong Kong (Amendment) Statutes 1989..... 121/89

Sessional Paper 1988-89

No. 67 -- Report of the Director of Audit on the results of value for money audits
March 1989

Director of Audit's Report No. 13

Second Reading of Bill

APPROPRIATION BILL 1989

Resumption of debate on Second Reading which was moved on 1 March 1989

Question on Second Reading proposed.

MR. ALLEN LEE: Sir, I would first of all like to congratulate the Financial Secretary, for the succinct yet comprehensive manner in which he introduced the Appropriation Bill 1989.

As in the past few years, my colleagues have divided themselves into seven groups for the detailed study of the different aspects covered by the Draft Estimates: Economic and Community Services; Industry; Trade and Labour; Education; Medical and Health; Social Welfare; General Services; and Security Services. Twenty-two Members will speak today on the subject of Economic and Community Services and 22 tomorrow on the others.

The economy

I am encouraged that our economy remains strong and robust. Although the growth rate somewhat slowed down over last year, we would still be able to achieve an admirable 7.5% increase in our gross domestic product in real terms. The stock market

crash in October 1987 did not affect us as badly as some might have originally thought. Our trade continued to prosper, and in 1988 it recorded a 30% increase in total exports over that of 1987.

The sustained growth of our economy has indeed brought additional wealth to many and increased benefits for the community at large. But growth has also brought with it related problems like inflation and labour shortage. Before I dwell on these and other problems in greater length, I should like to raise some general principles regarding our overall economy. And at the outset, I would like to stress that we cannot afford to become the prisoners of our own success. We must strive to keep up the momentum of our growth. And given the ingenuity and the resourcefulness for which the Hong Kong community has been traditionally known, I am confident that we will be able to overcome our problems and achieve even better economic performance results in the future.

An overall perspective

Over the past two decades, Hong Kong has made enormous strides in developing its economy. We now rank 10th in the world trade. We are still the largest exporter in garments, toys, watches and clocks. Furthermore, we have become the biggest container port in terms of throughput and we are one of the major financial centres in the world. This is, by any standards, no mean achievement for an overcrowded city which has no natural resources to fall back on.

How do we account for this phenomenon which some people have labelled an "economic miracle"? In my view, Hong Kong's achievements are by no means miraculous. They are made possible, in the main, through two important factors. The first is our people. We have a diligent workforce of which we are proud, and enterprising manufacturers who know how to market the right products in the right place and at the right time. The second factor is the right environment created through a stable government. I, like many others, have been critical of certain policies of our government. But this does not erase the fact that it has in the past provided an environment conducive to prosperity and economic development.

Currently, we are in the process of discussing the Basic Law, a document that will be of paramount importance to our future as a Special Administrative Region after 1997. There has been much talk about what is the best political formula for preserving our prosperity and stability. This debate will continue in order that

we can come up with a structure that can be acceptable by the majority of the community. But in the process, we must not forget that the economy still remains our lifeline. We have to maintain our prosperity and continue to be useful and instrumental in helping with China's modernization. This will be impossible without an effective economy. Whatever our political ideals, we must be alive to economic realities.

Having said this, I now turn to some salient issues regarding our economy, and offer some suggestions for the Financial Secretary's consideration.

Inflation

One of the more immediate problems facing us this year is inflation. I agree with the Financial Secretary's observations about the inflationary pressure to which our economy has currently been subjected. In 1988, the Consumer Price Index (A) rose by 7.5%. This year, it is expected to rise by another 8.5%. In my opinion, this is a very conservative estimate, and I fear that we may not be able to hold on to a single-digit increase for long. The effects of rising inflation, reverberating through increased prices in essential commodities such as food and clothing, is most felt by men in the street. We must guard against any public measure that would fuel further inflationary pressure onto our economy. I therefore support the Financial Secretary's cautious approach in dealing with the surplus of this year, not only because we need to save up for the development of some major infrastructural projects in the years ahead, such as the new airport, port development and so on, but also because of the need to prevent further overheating of our economy.

Government expenditure

Against the background of rising inflation, I would like to point out my unease with this year's expected increase in government expenditure. The 9% increase in the Consolidated Account expenditure is well above the trend growth rate of GDP of 6% over the period of the Medium Range Forecast. Also, the size of the Civil Service is expected to expand by 3.9% which compares uncomfortably with the target of 2.5% growth per year. This trend is worrying, particularly amidst the recent spate of industrial actions being taken in certain quarters of the Civil Service. To be sure, there can be no question about the need to improve the government service to the community. But government expenditure, if allowed to increase regardless of its inflationary effects on the overall economy, would be irresponsible. I hope the Administration will handle this question with care, and not favour expediency at the

expense of the general interests of the community.

Labour shortage

I would now like to turn to the problem of labour shortage which in many ways is brought about by our own economic success. The issue has already generated much debate in the community, and many different points of view have been put forth either in support of or against the idea of importing labour to resolve the problem. I do not intend to rehearse the arguments here. But I, for one, concur with the view that it is necessary to approach the problem in an objective manner.

At a time of strong economic growth, it is not uncommon for labour to be in very tight supply. Some industries have already responded by moving their operations across the border, and it is estimated that the number of workers employed there could be twice as many as those in Hong Kong. This only underlines the ever growing economic link between Hong Kong and China, a topic to which I will revert.

Notwithstanding, it is pragmatism and objectivity, rather than dogmatism, that matters. Recently, the Administration has decided to consider that the present criteria for bringing in skilled workers from outside could be applied in a more flexible manner. I can well understand that this may not be a popular decision: the employers would say that it is hardly an adequate measure to meet their needs, while the employees would say it is against their interests. But in fairness, I feel it is a step in the right direction, and it will be interesting to see what the practical effects are to be. I hope that the situation will be closely monitored so that its results can be critically assessed.

Science and technology

I have already spoken at some length about the problem of labour shortage and some of the possible options for the short and medium terms. As regards long-term solutions, the answer obviously lies in upgrading our technology with a view to moving up-market for our manufactured products. In this connection, I regret that I cannot conceal my disappointment about the lack of emphasis or a focal point in this year's Budget on the development of science and technology. Information in this regard in the Draft Estimates is at best sketchy, and at worst fragmented.

When I moved the Motion of Thanks to Your Excellency's address on 9 November,

I strongly urged that a department of science and technology should be set up to co-ordinate developments in this area. I know that the Committee on Science and Technology under the chairmanship of my honourable friend, Professor C. K. POON, has already done a lot of work. To complement this, the Administration should seek to pull together all the resources available, with a view to placing under one roof all the executive authorities engaged in the development of science and technology in the territory. The scene on science and technology is a fast moving one and we have to catch up promptly if we are not to fall behind further other competitors of the region. I am puzzled by the Administration's apparent inertia in responding to this challenge. What we need now is the will and determination to get on with the work of this important area in a systematic and co-ordinated manner.

Trade with China

Another major area concerning our economy which I have just mentioned is the increased economic link between Hong Kong and China. The Mainland is now our major trading partner, responsible for 29% of our total trade; 31% of total import; 17% of total domestic export and 34% of total re-export. About two million workers are estimated to have been employed by Hong Kong manufacturers in China mainly in export related work. We have already become the largest source of investment capital in China accounting for over 65% of the total. By the same token, China has also made massive investments in Hong Kong.

There are ample opportunities for growth in trading with China, and given Hong Kong's strategic position at the gateway of the Mainland, we should see our way to developing these opportunities to the full. I am pleased to see that we are already gradually building up our infrastructural network to facilitate trading development with China, for instance, cross-border facilities, the new container terminals and so on. We should build on the existing foundation and further expand our economic relationship with China. It is important for Hong Kong to be of use to China in its modernization process and this can only be beneficial to the Special Administrative Region after 1997.

Brain drain

At this point, Sir, I would like to comment on a topic which has recently become a major concern: the brain drain. While it may be too much to directly relate our labour shortage to the brain drain, it is undeniable that the latter has resulted

in a very tight manpower situation at the managerial levels and the professional ranks. According to government statistics, about 75 000 are believed to have already emigrated within the last two years. It is estimated that among these emigrants, about a quarter were our managers and professionals. Many attribute this phenomenon to the uncertainties surrounding the 1997 question. Others, however, see it as an evolutionary process in the development of Hong Kong as a free place for people to come and go. Some even think that emigration would make Hong Kong more global in outlook as those people who return from overseas would also bring back experiences from outside. Whatever the factors that have made people leave, I do think it is prudent for the Government to consider ways to ensure that the economy does not unduly suffer as a result. I suggest that we can only do this by building up people's confidence through sustaining Hong Kong's growth as an economic and financial centre in the region. We should continue to invest heavily in our people through training and education, particularly our young people, to take up jobs left open by emigrants. We probably have to live with this problem for some time but there is no reason why we cannot find ways to overcome it. Pessimism is certainly no solution for us.

As a positive move to encourage our middle income level groups, popularly known as the "sandwiched class", to remain in Hong Kong, I feel the Financial Secretary could consider further salary tax concessions. The analysis of estimated Salaries Tax Yield (after budget concessions) by income group in 1989-90 indicates that of 790 000 taxpayers, only 7.3% are estimated to pay tax at the standard rate of 15%. This small group of taxpayers, however, will contribute about 56% of the total salaries tax yield. This 7.3% of the taxpayers are largely composed of taxpayers with annual incomes as low as \$171,000 for a single person or \$256,000 for married couples. Anyone in Hong Kong could tell the Financial Secretary that with the cost of living being what it is today, and spiralling property prices and inflation, the burdens on this group of taxpayers are considerable. And without the occasional relief or assistance which is sometimes available to lower income groups. Yet this 7.3% of our taxpayers are very much the backbone of our economy, and once they emigrate, they cannot be replaced within a short period of time. I strongly recommend, therefore, that the Financial Secretary considers the best means possible to provide a much needed measure of tax relief for our sandwiched class in the next financial year. In making this recommendation, I know I have the strong support of my honourable friend Mrs. Selina CHOW who cannot be present today.

Sales tax

Finally, I would like to say a few words about the possible introduction of a form of sales tax. I recall that this subject has attracted strong reaction within this Council as well as from various sectors of the community. Some have supported the idea and others have opposed it. In my view, the form of sales tax proposed by the Financial Secretary deserves further examination. I am glad that a consultative document will be issued to a number of professional bodies and other organizations towards the middle of this year. In general, I feel our tax system is good but narrowly based. I would support a sales tax in wholesale form if it is manageable, and I will await the consultative document with great interest.

With these remarks, Sir, I support the motion.

MISS TAM: Sir, Hong Kong is indeed a unique place. While many mighty governments are struggling to balance their books we have the problem of managing an almost embarrassing surplus of \$14.2 billion. I say it is embarrassing because it is way above the Financial Secretary's own forecast, and also because he cannot even spend it freely for fear of fueling inflation. Nevertheless, in his Budget we see all the virtues in the cautious but effective management of our finance which has become the hallmarks of success and I must congratulate him on a third bumper harvest.

Sir, Members who will speak on economic and community services will deal with financial and budgetary matters concerning public utilities, port and airport development and other developments on the "physical infrastructure" that are vital to Hong Kong. There will also be in-depth discussions and debate on the cause and effect of inflation.

For my part, I have spoken at length in this Council on the subject of transport; but as the Green Paper on the comprehensive transport study second round will be due for public consultation in the near future, I have today decided to wear my not so public hat and that is one of an investor and manager of export manufacturing and speak on the subject of developing human resources, technology, legal and transport infrastructure in Hong Kong which will be essential to our transformation into a regional manufacturing and financial services centre and a technology and business entrepot to China.

Human resources : manpower infrastructure

The opportunity

Hong Kong is no longer a manufacturing centre with low cost labour. Except for manufacturers which must operate "home based" in Hong Kong, a great majority have already moved into the Pearl River Delta. With acute labour shortage and a problem of brain drain, clearly we must channel our human resources into the most productive and profitable economic activities and increase the value-added contents of such activities. To achieve this we need workers with skill (including technology skill) and who can improve on the quality of their work. We need management teams which look for and attain higher productivity. Both employers and employees must be adaptable to new techniques and technologies, and be innovative in the services or products that they offer.

Hong Kong is well poised to reap the benefits of foreign investments in both Hong Kong and China. An increasing number of joint venture took place in the Pearl River Delta and the economic zones, and there is a growing demand for managers or technology skilled personnel educated and trained in Hong Kong to work in China and such demand is all the time increasing. There is no doubt that we can benefit enormously as the entrepot for trading, goods and services to China if we can move more rapidly in increasing the value-added contents of our economic activities.

The question is, have we got the right kind of manpower?

The problem

(i) Labour shortage

The reasons for labour shortage has been identified as:

A growing economy in Hong Kong for the past years which needs more manpower;

The abolition of the touch-base policy;

Improved education facilities and attainment have delayed the participation of Hong Kong's youth in economically productive activities; and

Workers' expectations have risen and they shift toward financial, property and business management.

I shall not go into details because I think Members are very familiar with them.

(ii) The second problem is brain drain

Since 1988 the emigration figures stood at over 40 000 per year and it is reported that we are losing middle rank managers and technologists, computer operators and academics. Foreign companies are devising ways of maintaining their staff, and chances are that giving their employees right of residence or passports may even have a brain gain effect for the bank or the company. Then what is the answer?

The answer

(i) Import labour as a temporary measure

Basically, I am not in favour of contract labour and it must be restricted to "skilled" persons. Although the debate has taken a long time from beginning to end I believe that the workforce in Hong Kong must be allowed to share the fruit of economic success and I have been most conservative in this subject matter. If there should be imported labour, there must be restrictions on conditions of stay and with no extra burden on transport, housing, social welfare or other public services. The employers must be fully responsible for the workers' departure from Hong Kong at the completion of a project or contract.

I am only sympathetic towards reducing delays in capital projects such as construction of highways, sewage systems and public housing by engaging "imported labour". I do not see this as giving an unfair advantage to the Government because it will release much needed local construction workers to the private sector.

I also believe that employers should get together and work out proposals on adoption of labour-saving technology and/or improved management measures to make sure that import of labour is only a short-term phenomenon. Hong Kong can upgrade its labour skills to face the challenges to come.

(ii) To slow down or minimize the effect of brain drain

I believe we should encourage the return of the brain drain emigrants. They are better alternatives than relying on expatriate professionals to keep our economy

humming.

The first way is to delay the departure of those who are professionally skilled. We can promote or advance training, give tax incentives to sponsorship of training in the Open Learning Institute (OLI), for example, and other institutes to give second chance on education opportunities.

We should invest in the people of Hong Kong by providing further and more opportunities in tertiary education.

We should entice the return of those with a foreign passport by concentrating our efforts in passing to them information on job opportunities, availability of housing and education for the younger generation and so on so that they will be lured to return.

(iii) Matching manpower needs with education

How are we going to produce a steady flow of managers and key personnel? The central issue is the quantity and quality of tertiary education in Hong Kong. It offers a relatively small number of tertiary education opportunities considering the rising economic and social standing in the development of the world. Tertiary education must be the key answer to training our skilled personnel in future. The target at the moment is set at providing 40 000 full-time places by 1991, rising to 48 000 in 1994 and over 62 000 by the year 2000.

Although the target was set only recently, we must not rule out the possibility of revision when necessary.

Upgrading of skill is essential in industries when an unprecedented number of junior technical and managerial personnel are moving rapidly into positions of increased responsibility, without the proper experience or training. Hence, the demand for continuing education opportunity has grown as a remedy to the situation. Our new strategy must be to make advanced education more accessible to adults and the Open Learning Institute may consider running courses orientated towards demands in industry, especially on a higher skill level.

(iv) Using advanced technology

We should explore potential for off-shore work that might be carried out by Hong Kong companies to overcome labour shortage. I had sought advice from an expert in telecommunications on the technical feasibilities of such a development and I am convinced that the following services may be done "off-shore" by telecommunications, for example in Shenzhen.

- (a) Any telephone answering service, such as directory enquiry and travel information;
- (b) Data entry. Hard copies can be sent off-shore for operators to key the data onto magnetic tape or directly onto a telecommunication link to the required computer;
- (c) Typesetting operations for various publications. The writer's material or data can be transmitted by fax and typesetting arranged off-shore;
- (d) Back office operations. Almost any office activity which does not require direct contact with the customer can be remotely located, with telecommunication links providing voice, fax, data and even video communications between the main office and the back office;
- (e) Typing pool. A typing pool can be remotely located, with fax and handsfree voice communications between typists and managers.

No doubt that lead time is required to train the staff "off-shore". But in the long run, it can become an established practice supervised by a minimum number of staff from Hong Kong.

At present, electronic data interchange (EDI) is not widely used in Hong Kong. There are at least five different commercial organizations here using EDI to exchange information on trading transactions. The common international standard for EDI was only established in 1987 and it will take a long time to achieve standardization of forms and documents. In Britain and the United States the size of the trading operation is so large it makes it difficult for nationwide application. But Hong Kong with only one airport at present, one seaport and one external rail link is far more suited in using EDI to transmit clearance documents for trade, shipping and freight transport industries. I am told by an expert that while "closed" EDI system may benefit a small number of users, for example, the banks, an open system may lead to a reduction of up to 20% of the clerical staff required to process and exchange

documents.

Technology infrastructure

No doubt there are gaps in the development of automated manufacturing and office automation. The reason for this is that our economy has been traditionally too dependent on low cost manpower. Our technology development stands at "deployment", and to some extent "application" level and this is a serious obstacle for increasing innovation in key industries (textile, electronics) and may make us fail in maintaining the competition with South Asian countries which have abundant supply of cheap labour.

High value-added design, management and technical operations must be pursued in Hong Kong. Hong Kong can match its entrepreneurial skill and capital with Chinese land and labour to develop new industries.

Traditionally our interest in research and development (R&D) is small. It is a pity because we are well positioned to become an R&D, design and administrative centre for a new partnership with China to rival the other developed Asian countries. We must now enlarge the number of advanced technicians and technologists and ask ourselves whether the polytechnics and the three universities will be prepared to gear their development towards such aims.

Legal infrastructure

I congratulate the Financial Secretary on the recent regulatory reforms that he has introduced in securities market and stock exchanges. And I welcome his proposals for introducing legislation against insider trading. Hong Kong must establish itself as an honest broker safeguarding the interests of international investors in Hong Kong and China so that we can continue to be favoured as a financial services centre.

With the advance in information technology computer, stored data can be transmitted easily within and out of Hong Kong. I wonder if the working group on data protection is still looking into the subject of trans-border data flow and whether data protection legislation may be necessary as Hong Kong's trade and industrial operations are moving out of the territory. This kind of legislation will require a long lead time for introduction and it may be appropriate now to examine

the progress that has been made since 1987.

Transport infrastructure

Subject to the decision of the Governor in Council, there will be published the Green Paper on the Second Comprehensive Transport Study for Hong Kong, and details of the proposals will be made available for public comment.

Suffice it to say that it may be difficult for the Secretary for Transport to "look closely at the development of all resources within his areas of responsibility, in particular baseline expenditure, that is, expenditure on current activities, response to demand and the recurrent consequences of capital projects." (a quote from "Public Sector Reform")

There are all together 12 major and 14 medium highways projects recommended in the Second Comprehensive Transport Study and the total comes to \$19,000 million. Of these projects only three involve the construction of tunnels and are by practice candidates for private participation in its construction.

My colleagues, Mr. Martin BARROW and others will speak on the second airport construction and no doubt the Administration will have our support on this project.

However I feel it absolutely necessary to make it a policy that we invite and encourage private participation in the building of roads and do not rule out the possibility of introducing a toll system on roads so that we will in future, although limiting our expenditure on transport infrastructure to 4% or may be 4.5%, be able to complete all the projects that we have listed out in the Second Comprehensive Transport Study. Finally a few comments on this year's Budget proposals:

I also believe that the "sandwich class", that is, people who have got a fixed income but not being able to enjoy public or rental housing has very little to gain in this particular Budget because I believe:

(a) The tax concession does not result in reduction of tax burden. The standard rate is being reduced from 15.5% to 15% but the actual wages and salary level have risen higher than that. As a result all of us who are already in the tax net are moving into a higher marginal rate and there are new comers coming in just the same. So

I believe the 0.5% reduction does not create any real benefit for the sandwich class. Also except for the pleasure for a small sector, I cannot see the 0.5% reduction on profit tax as essential. I feel sure it could have been deployed in some other way such as giving tax allowance to employees who are contributing to provident funds.

(b) There has been no lowering of margin in the baseline of payment of estate duty. The amount of \$2 million is still there and it was decided, I believe, in 1982. With the property prices now rising high in even the new towns, it is time to lift that baseline to, say, \$2.5 million and therefore alleviate hardship to the middle income class whose family may have only one major asset in time of crisis to be able to escape estate duty.

Sir, all in all I believe the Budget is an extremely good one. For those of us who have to argue on articles 105 and 106 of the Basic Law, I suggest the best solution is to just write down the words "Retain Mr. Piers JACOBS".

Sir, I support the motion.

MRS. FAN: Sir, the Financial Secretary is a man with a "pot of gold". Not only is his pot overflowing with last year's and this year's windfall, the Medium Range Forecast further predicted surpluses for the coming five years. Like any man with such a large "pot of gold", the Financial Secretary must expect to be nudged, pressed and even criticized on how he should distribute his gold. However, from past experience, it is not difficult for the Financial Secretary to defend himself, because most of us in pressing him to spend more in certain areas rarely fail to offer suggestions on which areas he should not over-spend, and thereby offer him the shield with which he can divert the spears from other directions. So before I throw my spear at the budget proposal, let me first state the areas that I am in agreement with.

I agree with the cautious approach of the Budget. The transfer of \$7 billion into the Development Loan Fund to prepare for major infrastructural projects is sensible. With the \$14 billion surplus, it is difficult to keep the lid on civil service expansion and total government expenditure. These two items are projected to increase by 3.9% and 19% respectively. While the demand for more and better services by the community is fully appreciated, the growth of the Civil Service at a rate substantially above the target of 2.5% for two consecutive years is a matter that requires close monitoring. I do not doubt that the increase in the number of

new posts and the total amount allocated for personal emoluments are supported by valid reasons and in accordance with policy decision. The Finance Branch would have made sure of that any way. However, it is normal practice in the Civil Service to request additional establishment when new services are implemented. But it is not necessarily normal practice to question whether services which have been provided over the years are still serving useful purposes, nor is it usual for people working in large bureaucracies to query the need for strict adherence to regulations. A fresh look at such areas can be most fruitful, but the initiative should come from within the Civil Service or better still, from inside each department through the encouragement and support of controlling officers.

On tax concessions, the Financial Secretary appears to follow his strategy of the last Budget, that is, "offer something for all sectors of our community". This is certainly a politically desirable tactic. However, the drawback is: it lacks a central theme. With large surpluses on hand and more to come, this provides a rare chance to try to do something innovative. Has the Financial Secretary thought about the middle class lately? By the middle class, I mean those people earning between \$100,000 to \$300,000 per year. This group of people are reasonably well educated and are working in middle management or supervisory level posts. They are the backbone of our economy. They contribute about \$3.43 billion in salaries tax and there are about 260 000 of them. This middle class are also the prime target for brain drain. A recent survey conducted by the Hong Kong Institute of Personnel Management revealed that 75% of the emigrants in their sample were earning between \$72,000 to \$300,000 per annum.

Let us see what benefits the middle class obtain from the Government and how the salary tax system is affecting them in comparison to the high and low income groups. The middle class are not qualified for low cost housing as their monthly income far exceeds the limit. Even with the raising of the eligibility for Home Ownership Scheme to income level of \$10,000 per month in April this year, the middle class I am talking about are still unlikely to benefit from subsidized housing. They have to put up with increasing rent ranging from a few thousand dollars to over \$10,000 a month, or they can buy their own little flats by raising a sizable mortgage with the bank. The escalating price of realty and the high interest rate make life difficult for them and their families. The worst part is that after paying much more, their living conditions probably compare less favourably to those in low cost housing, in terms of recreational and shopping facilities, management of the estate, and proximity of services such as kindergartens and child care centres. As for other forms of

government subsidy, the middle class are unlikely to benefit from any assistance which is based on a means test. Most middle class people run a private car. This is one luxury which the Administration seems intent on discouraging. Since 1984-85, there has been annual revision of vehicle and driving licence fees. Notwithstanding the rationale behind all these measures which I am sure is most reasonable, the fact still remains that the middle class get little back from the Government for all their contributions.

The reduction of standard rate of tax in two consecutive years only benefits a small portion of the middle class, namely, single persons earning more than \$171,000, married couples earning more than \$256,000, and married couples with children and/or dependent parents earning more than \$288,500. But the clawback provision introduced in 1987-88 affected the vast majority of the middle class in that few can benefit fully from the additional allowance of \$7,000 for a single person and \$14,000 for a couple. For a single person whose income is \$110,000 or above, the allowance is in effect \$32,000 not the \$39,000 of total allowance because the additional allowance of \$7,000 has been wiped out by the clawback provision. For a couple, wife not working, the additional allowance of \$14,000 will be totally cancelled out if their income reached \$220,000, and their tax liability will be \$29,400. If the wife is working, then the trigger point is at \$235,000. The whole concept of clawback makes the Government look like an "Indian giver" to the middle class. If the public purse cannot afford the additional allowance, why give it in the first place? If we can afford it, why do we want to complicate our simple tax system unduly?

Over the past years, many colleagues had spoken on the need to be more generous to the middle class; Mr. Allen LEE and Miss Maria TAM spoke on this as well. As they point out rightly, they are the "sandwiched" class. Out of fairness and in recognition of their contribution to our community, more should be done for them, so that their sense of belonging towards Hong Kong can be enhanced. Today, I reiterate the need to give due recognition to our middle class. May I humbly suggest to the Financial Secretary for his consideration, a strategy for his future Budget proposal, that is, "offer the middle class of our community what they deserve".

If the Financial Secretary agrees with me on the importance of looking after the interest of the middle class, then may I recommend the following four measures to him for future implementation:

(a) abolish the clawback provision;

(b) offer tax deductions on the mortgage interest paid by first time owners of self-occupied properties;

(c) offer tax deductions on the employees' contribution to approved retirement schemes; and

(d) widen the gap on the progressive rate on salaries tax.

Sir, in the education sector, there is a group of people who are in a similar position to the middle class. They are the kindergarten teachers. They have provided quality pre-primary education for our young children. Through their caring and gentle ways, the children start to learn and work in a group environment and are able to form positive attitudes towards going to "school". However, their contribution is not rewarded with appropriate recognition and support from the Government. The education offered by kindergartens was considered to be desirable but not essential. Based on this, decision was taken against directly subsidizing the kindergartens. So the kindergarten sector is now a totally private sector. In 1986, the Education Commission did make recommendations on the teachers to pupil ratio in kindergartens, the ratio of qualified teachers to unqualified teachers; and a set of normative salary scales for teachers, among other things. None of these recommendations are implemented. Some of the kindergartens simply cannot afford to achieve the recommended teacher to pupil ratio, or offer the normative salary scale to teachers, or even to promise salary increments after a teacher has completed the training course, because the present fee levels do not generate sufficient income for such improvements. Other kindergartens operators are not prepared to reduce their profit margin. The Education Commission suggested a "split contribution factor" approach to enhance the fee assistance scheme to kindergarten pupil so that a high level of fee could be afforded by families of lower income, and the additional income from fees received by the kindergartens can be used towards improving the pay of the teachers and thereby encourage serving teachers to get professional training. Although the basic reasoning of the commission is sound, the "split contribution factor" approach is too complicated and received little support, so the existing fee assistance scheme continues. Unfortunately, this scheme offers little help to the parents so many kindergartens dare not raise their fees. A child from a family whose income is \$2,500 per month after deducting rent can only receive \$11 of assistance towards fees which average at about \$200. The lowest salary point of a minor staff in the Civil Service is \$3,345. If that minor staff lives in a housing estate, then

his child is unlikely to receive more than \$11 of fee assistance. How many parents will consider it worthwhile to go through all the bureaucracy, for example, being interviewed by Social Welfare Department staff, complete lengthy forms, provide proof of rent paid and income earned and so on, in order to get such a small subsidy? This is why the budget for kindergarten fee assistance scheme in 1989-90 can be a mere \$6.5 million, while the total number of children in kindergarten is estimated at 210 000. In order to distribute this extremely small assistance to parents, the Government is spending \$2.64 million on the administration of the scheme. Can that be right? Surely there must be a better way of doing things. If the Government is sincere about helping parents with kindergarten fees, then the bureaucracy must be reduced and the minimum level of assistance must be increased. Otherwise, I would suggest the abolition of the scheme, so that the \$9 million can be put to other use.

Sir, the kindergarten sector is experiencing considerable problem, the teachers, trained and untrained, are leaving for greener pasture in other sectors, and suitable newcomers are small in number. Although the job nature is attractive to some people, the workload, the low salary, the lack of career prospect, are taking their toll on the enthusiasm of these teachers. Considering the fact that 88% of our three to five years old are in kindergartens, can we afford to let this group of teachers leave their posts out of disappointment and frustration?

Sir, I believe pre-primary education is an integral part of a child's education, and Government should give recognition and support to this area of work through appropriate subsidy and assistance before the problem deteriorates beyond repair.

Lastly, I like to make a suggestion on the format of the estimates summaries. This year, the activities of the Education Department and the subvented sector are grouped together and this made it impossible to compare the activities undertaken by the subvented sector vis-a-vis the government sector. Since the unit cost of similar services offered by the government sector and the subvented sector is different, this merging under one heading can be misleading. May I suggest that clear distinction be made between the two sectors in future estimates, although I have no objection to an overall summary of the services provided and the resources allocated. I believe the same problem arises with social welfare and medical and health subventions. Perhaps similar adjustments can be made next year.

Sir, with these remarks, I support the motion.

MR. PETER POON: Sir, some people will say that it would be the easiest job to be the Financial Secretary of Hong Kong who has a large surplus of \$14.2 billion from 1988 and virtually no government debt. It would be so tempting for him to fall into euphoria and present a popular Budget by giving everybody what they want. But, our Financial Secretary is a level-headed person who knows only too well that our financial success brings its own problems and he has to consider all aspects of our economy and that of the world in the years to come in formulating his Budget proposals.

I shall speak on aspects of the Budget which relate to economy and taxation matters.

The economy

The world expected an economic doom after the 1987 stock market crash. People began to realize that with fast communications and efficient financial market links, the world is just one big market place and the economies of countries are more inter-dependent than previously thought to be. It was not surprising that our Financial Secretary, knowing how vulnerable Hong Kong was to a downturn in world economy, prepared his Budget last year on a conservative basis. Things turned out to be much better. The big nations co-operated to stabilize their currencies. Governments, preparing for a "soft landing" agreed on measures for economic fine tuning. Peace talks and attempts at disarmament gave people renewed confidence and hope in the world economy. However, despite all these, problems with the world economy have not been solved. Many countries still have huge deficits and their people's spending sprees have not been abated. The pace of economic growth is bound to slow down after over six years of rapid increase. Hong Kong has been lucky in several aspects. Despite the decline in the growth of our export, re-exports remained strong and internally-generated growth was also significant. Our tourist industry continues to grow at a creditable rate bringing in substantial revenue for Hong Kong. The relief on the pressure of our workforce provided by Chinese workers in some of our labour-intensive industries which have been moved into China has also increased our competitiveness in the world market. There was a rebound in the stock and property markets. Although the 7.4% growth of our GDP in 1988 compared less favourably with the 14% achieved in 1987, a growth in revenue had resulted in a massive surplus, this is most welcome.

The Financial Secretary has forecast a 6% growth in GDP in 1989 but as he has

pointed out inflation will be our biggest problem and there are few viable policy options since we have a small and external oriented economy. Although he estimated that inflation will be 8.5% in 1989, I am afraid that I cannot agree with such a conservative estimation. With the problem of labour shortage and our over-heated economy, the rate of inflation may increase to over 10% unless the high interest rate and the recent sharp increases in rents and wages bring about an automatic adjustment before the end of the year. However, I do not foresee runaway inflation which we cannot live with as the growth in wages in real terms has been in line with the rate of inflation at the time when we are facing a serious labour shortage problem. Nevertheless, we should try to achieve increased automation and productivity to preserve our competitiveness.

Another problem which we will continue to face in the future is protectionism. Luckily, such voices have for the time being been contained but should there be an economic downturn, economic blocks like the single market in the European Economic Community which will be in full swing by 1992, and the North American Market consolidated by the US-Canada Free Trade Agreement signed recently may increasingly resort to protectionist measures. If that happens, the whole world suffers and Hong Kong will be hard hit. We must realize that in future there is such uncertainty facing our economy. The Financial Secretary is right in making substantial provisions for major capital expenditure in our infrastructure. Government spending on housing, social welfare, medical, education, and environmental protection will have to be increased to meet increasing aspirations and needs and we must have sufficient funds in reserve in order that our projects will not be affected in the years of slower growth. Having considered our various commitments and annual expenditure, I agree with the Financial Secretary that we are at a comfortable but not excessive level of accumulated reserves.

I must compliment the Financial Secretary for having maintained the stability of the Hong Kong Dollar. I also support the proposal for issuing short-term Exchange Fund bills which will enhance the Hong Kong Dollar paper market and will also be a good instrument to absorb or provide liquidity in the money market. One point which has to be emphasized, however, is that such bills are not intended for financing fiscal deficits or public expenditure.

Taxation

The Financial Secretary referred again in this year's Budget to the examination

of the introduction of some form of sales tax as a means to achieve a wider and more stable tax base and to reduce too much reliance on direct tax which is estimated to account for 65% of all direct and indirect taxes in 1989-90. He was conscious of the repercussions of any shift in our tax policies and confirmed the criteria which must be met before any such sales tax should be introduced. It is worthwhile to have research carried out and consultation conducted on the technical aspects of such a tax. However, it would be undesirable to introduce the sales tax without the most careful consideration of its impact on the people of Hong Kong. It is certainly inadvisable at the time when inflation is on the high and the annual surplus is substantial.

I would now like to turn to personal taxation, the reduction of 0.5% in the standard rate is welcome. One can understand that any greater reduction may have inflationary effects and also invite criticisms of polarization of rich and poor. The increase in basic personal allowance, from \$29,000 to \$32,000, for a single person, however, merely catches up with current inflation. The level of personal allowances in Hong Kong also appears to have left behind that of the other countries for the past five years or so. At the time when we have such a huge surplus, I believe that measures like a more generous increase in personal allowances, the further widening of tax bands and the abolition of the clawback provision are justified. The cut in standard rate will only benefit those who pay tax at the standard rate but not those whose income has not reached that level. I consider that the child allowance for the first and second child should be increased and the allowance after the fourth child may be cancelled. Nevertheless, I welcome the introduction of the new single parent allowance.

I also welcome the Financial Secretary's confirmation that plans for the introduction of separate taxation for married women are well in progress and is intended for implementation in 1990. This effectively means that separate taxation will apply to income for the year commencing 1 April 1989, that is for the final tax assessments for the year 1989-90. The proposed increase of initial capital allowance from 55% to 60% to encourage capital investment expenditure will also benefit businesses and encourage investment in plant and machinery. The new 60% initial allowance, together with a 30% annual allowances, will give manufacturers a 72% write off for tax purposes for new investment in factory machinery. This is indeed an attractive tax benefit for encouraging capital investment in Hong Kong. The Financial Secretary has also proposed the abolition of interest tax which means that interest paid by entities other than financial institutions in Hong Kong will no

longer be subject to interest tax, thereby bringing the interest in line with interest paid by financial institutions which is not at present subject to interest tax. The loss of revenue will be small. There will be substantial saving in administrative costs. Entities other than financial institutions will also be encouraged to borrow since the interest that they pay will not be subject to tax. This will do away any withholding tax on interest which has been considered as an inhibition of Hong Kong as an international capital and financial market. People who may be concerned about possible tax avoidance because of the proposed abolition of interest tax, may rest assured that under section 16(2)(c) of the Inland Revenue Ordinance it is provided that interest shall not be deductible for tax purposes if such interest is not chargeable to tax under the said Ordinance.

Sir, with these remarks, I support the motion.

MR. CHENG HON-KWAN: Sir, this year's Budget has been encouraging, particularly with its emphasis on growth in spending on infrastructure, which is so vital to our continued prosperity, for such a move demonstrates the Government's determination to raise the quality of life of a growingly affluent population through more abundant and accessible public services.

In his speech, the Financial Secretary mentioned that the Government would be earmarking some of our accumulating surpluses to finance our infrastructural development programme over the next 10 to 15 years, which I believe would include some major projects such as the new airport, road and rail networks, port development as well as drainage and sewerage works. All these are important in upgrading the infrastructure framework and in improving the environment, an area to which I also attach much weight. The Financial Secretary has rightly envisaged transfers from the General Revenue Account both to the Capital Works Reserve Fund and also to a new fund for investment in those projects which might attract the private sector or which might be implemented by statutory authorities. I applaud such a move. The Government's commitment to these long-term investments will definitely boost the confidence of our people, a crucial element in maintaining Hong Kong's stability and prosperity.

Having said that, Sir, I believe that like myself, many Hong Kong people find the skyrocketing rentals of both commercial and residential premises a subject of increasing concern. This is particularly so for commercial premises as there is no control over office rentals. It is appalling to learn that rentals for office space

in Central, in some cases, increased by as much as over 70% last year alone. And even in fringe areas, such as Admiralty, Wan Chai, Causeway Bay and Tsim Sha Tsui, rents are spiralling to the extent that some are almost touching the levels in Central.

Such high rents, Sir, are a genuine reflection of the acute shortage of and high demand for office accommodation, especially quality office accommodation in prime locations. There is an urgent need for the Government to make available additional land for commercial development, if we are to maintain our competitiveness with neighbouring countries in Southeast Asia. This is because a continued limited supply of office accommodation will inevitably lead to a continuing increase in rentals. And the continuation of the current rental spiral is bound to deter newcomers from setting up offices in Hong Kong and cause international firms which are already here to consider relocating their bases. If this really happens, it will be a great blow to the booming economy which Hong Kong has been enjoying.

While land formation programmes for the provision of additional land for office development in Central and other locations will require a few years to complete, there are measures which the Government can implement to provide relief with immediate effect. One of these is the re-zoning of industrial land in suitable locations for commercial use. The Government should exercise flexibility in relocating industrial sites for commercial purposes. The recent surge in the supply of industrial premises would definitely facilitate the Government in this task.

The rental spiral has been a subject of concern for some time and it is high time the Government tackled the problem -- and tackled it urgently if Hong Kong's prosperity is not to be jeopardized. Any undue delay would only result in higher inflation and bring about adverse effects to our economy. I firmly believe that this will be against the wishes of the people of Hong Kong.

Another area which can strengthen public confidence is the provision of more places for higher education, especially at a time when Hong Kong is beginning to feel the impact of the so-called "brain drain" problem. There is indeed an urgent need to seriously train our young people to take up professional and managerial posts to keep Hong Kong prosperous. Sir, it is encouraging to see the Government's commitment of a greater provision of higher education in recent years. This is the correct direction in which the Government should continue to move. But there is one particular area which I would like to highlight and which must command the Government's attention if we are to provide more higher education places. I am

referring to the difficulties in providing sufficient qualified staff for our tertiary institutions, especially the non-university institutions. In saying this, I must firstly declare my interest in the matter as the chairman of the City Polytechnic Council. The less attractive salaries and conditions of service of staff in these institutions are a major factor behind the difficulty in finding the required staff. These institutions are shouldering increasing responsibilities in the education of our young people at a time when unfortunately the recruitment and retention of high calibre staff is increasingly difficult.

The two polytechnics in Hong Kong are rapidly becoming well established at first degree and postgraduate levels, as well as in research work. In due course, they will each have about 5 400 full-time students enrolled in degree programmes -- a figure which is not only comparable to the present size of either of the two existing universities, but greater than many universities in the United Kingdom and elsewhere in the British Commonwealth.

As far as staff qualifications are concerned, the academic achievements of those who join the polytechnics are now no different from those who join the universities. Furthermore, the nature of the work of polytechnic staff is being more closely monitored by outside bodies as courses of the polytechnics are subject to external validation to ensure that they are at least of comparable standard to those of the United Kingdom universities. This denotes that polytechnic staff are undertaking work of an increasingly complex nature, with different levels and modes of study within the courses offered.

In order to retain existing staff and to continue to attract others of similar calibre, it is essential that the salaries offered to staff at these non-university institutions are comparable to those at the universities. Parity of treatment is a key factor in determining the ability of any higher education institution in recruiting and retaining qualified staff. Today, the rationale for two sets of scales in the University and Polytechnic Grants Committee-funded institutions can no longer be justified. Indeed, the question of parity of treatment among the six institutions, which are components of one system of higher education, is an issue which should be dealt with without any delay. This is especially so when we are facing a shrinking pool of available talent in Hong Kong against a growing demand for staff of high calibre essential for the training of our future leaders. It is also important to bear in mind that keen competition for high calibre staff does not only exist among the six higher educational institutions but also with the commercial,

industrial and other professional sectors.

Sir, as you yourself once stressed, the demand for well educated young people to fill professional and managerial positions is increasing, particularly under the impact of the so-called "brain drain". I cannot agree with you more and this is why priority should be given to solving this problem to ensure that there are sufficient qualified academic staff to train our masters of tomorrow.

The Government's long-term commitment in the improvement of these two vital areas of infrastructural development and higher education shows that it is a responsible government. This is indispensable for a better Hong Kong.

With these remarks, Sir, I support the motion.

MR. MARTIN LEE: Sir, the most important task facing this Administration today is to stem the emigration tide and make the people stay here, particularly professional people and those in middle management, who are often called "the sandwich class".

The proposals by the Administration to build more international schools, to improve contact with Hong Kong people who have moved overseas, and to train more professional people will alleviate the problem in some small measures. But a much more effective way is to make Hong Kong a more attractive place to live in.

Sir, the people we can least afford to lose belong to the sandwich class. And as in a sandwich, what is in the middle provides the meat, which in this case is the revenue to our Administration. For these are the people who have traditionally borne the brunt of the tax burden, yet they enjoy very few benefits in return.

And quite apart from the worries of 1997, many of these people are finding it more attractive to live in Canada, Australia and the United States, where they pay higher taxes, but get a lot more in return in terms of quality of life and social benefits like cheaper and better housing, education and medical care.

Positive measures are therefore called for if we want these people to stay.

The first thing we can do is to help these people buy their own homes, which is the aspiration of every family in Hong Kong. But in a spiralling property market

with high interest rates, it is now getting quite impossible for those in the sandwich class to buy their own homes. And yet if their dream of buying and living in their own homes keeps on slipping away from their grasp, their commitment to Hong Kong will definitely be reduced. And the temptation must be great to invest their savings overseas where property is much more within their reach. I therefore urge the Administration to help them by allowing tax deductions for interest payments on mortgage loans for owner-occupied flats.

The second thing we should do relates to the ever growing speculation in the property market relating to both domestic and business premises. There are a few well-known malpractices in this field. First, many so-called estate agents are more concerned with speculating in the property market themselves than to serve their clients. Secondly, many domestic units are reserved by the directors of the redevelopment companies and other company employees, who do not really want to buy them, but just want to make a quick and handsome profit by almost immediate re-sale. Thirdly, there have been frequent reports of triad activities among the people queuing up for flats.

I suggest that the Administration should study these problems and try to find out whether people are buying properties for investment or for speculation, and decide whether it is desirable in the long-term interest of Hong Kong to introduce a property gains tax on transactions relating to properties as well as shares of companies which are used primarily as vehicles for holding properties. I am not suggesting that such a tax should be introduced right now, for there are wider implications. But this is a measure which has found favour in other countries, and it may be a necessary weapon to use in order to cool down the property market if it gets any hotter.

Sir, another effective way to make Hong Kong a better place to live in is to improve our environment. To this end, the Administration has committed to spend billions of dollars. And I am sure that it has the full support of the people of Hong Kong, for everyone will benefit from a better and cleaner environment, whether he lives on the Peak or in Kwun Tong.

Indeed, it may be that this policy of cleaning Hong Kong up will benefit our poorer people more because they live in more crowded areas where the existing environments are in a rather sorry state.

Sir, but to clean up Hong Kong is no easy task, particularly after many years

of almost utter neglect on the part of the Administration. And if it is to work effectively, it needs the full co-operation of all our people, and some may even have to make sacrifices for the common good. For some time in the past, our industrialists have been quite vocal in objecting to anti-pollution measures because it hurts their pocket. But I could sense a distinct change of attitude in our community as a whole. And more and more people, including industrialists, particularly those with large factories, are prepared to join in the fight against pollution. But the small factory owners or operators are in a different situation, for some of them may be driven out of business if, for example, they have to spend more money in order to switch to low-sulphur fuels.

One way to alleviate their problem is to give them more time. But I am against that because in many areas, our fight against pollution is already long overdue. I therefore suggest that the Administration should press on with their programme as contained in the White Paper about to be published; and try to cushion the hardship which may befall some of our smaller factory owners or operators by allowing them tax deductions for capital outlays for new equipment in order to comply with new anti-pollution regulations. Further, I suggest the setting up of an environmental fund with contributions from the Administration as well as from the industry itself so that low-interest loans or even interest-free loans may be given to factory owners or operators who need financial assistance in order to install new equipment or to take other necessary measures to comply with the law, which should then be strictly enforced.

In this way, I hope all the people of Hong Kong will work together to make Hong Kong a much cleaner place to live in.

Finally, Sir, I come to the vexed question of sales tax. When the Financial Secretary proposed in his last Budget speech last year that this matter be studied, I gave him my qualified support. And now he has indicated that a consultative document on sales tax will soon be published and that it will be studied further by professional bodies and other organizations. As I understand it, the Financial Secretary is not saying that he will definitely introduce a sales tax either in the foreseeable future or at all; for what he is saying is that he would continue to study it, and that even if it be introduced in the distant future, it will only come as part of a package. His intention to broaden the tax base is unobjectionable, as the lion's share of our revenue comes from a very small number of taxpayers and many of them are leaving Hong Kong. And although I expect this issue is likely to attract

emotive objections from my honourable colleagues in this Council, I stress the importance of keeping an open mind on this matter until after the consultative document has been fully studied, and we are in a position to judge for ourselves whether the introduction of a sales tax will lead to a fairer and more balanced tax system, and whether there is any benefit to the community as a whole, and particularly those in the sandwich class as well as the small man.

As to the sandwich class, the benefit is obvious. For while people belonging to this class will pay more when they buy things, they will definitely enjoy a reduction in the tax rate.

But as to the small man, the benefit is not obvious at all. For today, the small man is not paying any tax. But with the sales tax, he will have to pay more for practically everything he buys. In the circumstances, it is difficult for the concept of sales tax to have the support of the small man or our district boards.

But I am sure the Financial Secretary will study these problems. And it will therefore be wrong not to encourage him to do even the preparatory work.

Sir, with these remarks, I support the motion.

MR. DAVID LI: Sir, the Budget presented to this Council last month was an articulate statement of a particular vision of Hong Kong's financial future. That vision puts premium on caution. It emphasizes stability. It seeks safety. As a result, it is conservative -- indeed, it is so conservative at times that one might have thought the much predicted recession is already upon us.

This conservatism, perhaps, betrays some nervousness within the Government at the prospect of economic forecasting. Since Fiscal Year 1986 the Government's projections for GDP growth have been off by an average of more than 40% annually. The margin of error on inflation between Fiscal Year 1986 and Fiscal Year 1988 averaged some 25% a year, while the annual gap on the budget surplus in the period was over 75%.

Did the Government try the old bureaucrat's trick of underestimating some numbers in order to look good? No, the Government knows the danger of crying wolf too often.

Rather, it seems clear the Government has problems in this area and needs to upgrade its capability. It is one thing to misjudge economic performance when times are good. What would such margins of error mean if they went against us as the economy was sliding into a recession?

Errors aside, not everyone will be comfortable with the Budget's vision for Hong Kong. Some may find it more a schedule for routine maintenance. Others may ask whether the Government does have, or indeed -- given this particular vision -- can have, a fiscal policy beyond merely reacting to events. More may question the Government's commitment to *laissez faire*, particularly in the financial sector.

Nevertheless, there was much that was good in this year's Budget. The Financial Secretary should be congratulated for his decision to increase capital allowances on qualified machinery as well and to abolish the withholding tax on interest as well as his promise to introduce separate taxation for married women. All these issues were mentioned by Members in the 1988 Budget. This is encouraging evidence of his responsiveness.

The Financial Secretary should also be commended for starting to pre-fund major capital projects. The present infrastructure backlog reflects a lack of just such foresight on the part of previous administrations.

The Financial Secretary should be praised as well on his prudence in dispensing tax cuts. When surpluses grow large, there is always a temptation to curry favour. Self-discipline is needed. Recurrent expenditure should not be allowed to grow too far out of line with the receipts likely to come in the leaner years of the economic cycle.

Arguably, the Financial Secretary could have been a little more generous. But at least he is now alive to the rapidly worsening problem of inflation, which -- if unchecked -- could destroy Hong Kong's competitiveness and erode its economic and social gains.

Of course, the Financial Secretary is correct when he says a small, open, *laissez faire* economy such as Hong Kong's has few policy options. We all know that to jettison our basic principles in favour of interventionist policies would hurt us far more in the long run.

Therefore, Hong Kong must be particularly clear-sighted about the nature of its

inflation. Yes, the territory is paying for its success, as the Financial Secretary pointed out. But inflation is also fuelled by higher user fees and increased indirect taxation.

Hong Kong imports inflation as well. Some trickles in from China. More flows in from the United States by way of the US dollar peg. We need to realize --and, perhaps more important, the Government needs to realize -- that one of the costs of currency stability under the linked exchange rate system, as presently constructed, is the potential for just this kind of inflationary pressure.

It is too early to assess the Financial Secretary's major tax initiative, the proposed sales tax at the wholesale level. We must await his proposals.

Ideally, his presentation should do more than examine just how this particular tax would work. If we are to evaluate it properly, should we not consider how it relates to other taxes? Indeed, given the amount of tax litigation, is this not a good opportunity to conduct a full-scale review of the entire inland revenue system to ensure its simplicity and competitiveness are being maintained?

The timing is right. Hong Kong likes to think it has a competitive edge as a low tax environment. This is true for the wealthy. But more than one tax accountant has demonstrated that for the middle class -- for the people most likely to fall prey to the brain drain -- the limited number of deductions and the relatively quick pace of graduation can wipe out any initial rate advantage.

Can Hong Kong afford this? Do we not have to maintain our competitive edge, especially now? Should we introduce a deduction for owner-occupied home mortgage interest? What about estate duty? Collection is efficient. But does it drive wealth --and people -- out of Hong Kong?

This year the Government increased the basic allowance for individual and married taxpayers, providing both groups some relief from inflation. But if inflation significantly worsens, dare Hong Kong take the next step and introduce indexing? Or would this open the door to even greater dangers? Once again, we see just how perilous inflation can become if it ever gets out of control.

The Government should also try to avoid reaching for the taxpayers' wallet whenever it has trouble balancing its books in a recession. If times are hard for

the Government, they are just as hard for the taxpayers. Is it not saving for a rainy day a central justification for amassing surpluses?

As to the proposed sales tax itself, the Government argues rightly it must bring with it no large and costly bureaucracy. In recent years there has been a steady trend towards more efficient tax collection -- between Fiscal Year 1983 and Fiscal Year 1987, for example, the ratio of tax revenues to the cost of collection rose by more than 28%. We need to continue improving this efficiency.

If a sales tax is imposed, it is important that the Government -- and the Members of this Council -- recognize there will be trade-offs. It is one thing to tax the people who benefit most from Hong Kong's pro-business policies. It is quite another matter to tap the less fortunate.

The more the Government taxes the population as a whole, the more the population as a whole, so long so passive, are likely to begin asking what they are getting in return for the privilege of paying the tax. Might they not expect -- or even demand -- more from the Government? Is that a Pandora's Box the Government is eager to open?

At stake here is a decent environment in which to live; roads even children and the elderly can cross in safety; rush hour public transport fit for people, not sardines; hospitals that cure, not kill; an education system geared to the needs and jobs of the 1990s and beyond, not to nostalgia for the colonial past; and, perhaps most important, a public administration which ordinary people feel is fully responsive to their needs and aspirations. It will not be easy.

Ultimately, the Government may discover it has to rethink how it deploys its resources. Already we have seen civil service growth 50% higher than the Government's own target and twice the increase in the size of the labour force. This not only adds substantially to the recurrent cost of the Government -- an extremely dangerous trend with that much predicted recession still looming -- it also increases inflationary pressure in the economy.

There will come a point -- a point not too far off, I fear -- when such numerical growth simply can no longer be sustained. The Government will have to learn the lesson the private sector is now mastering: to do more with less. The time has come for the Government to press ahead aggressively with genuine zero-based budgeting.

The more the Hong Kong Government is expected to do, the more it must shift

resources from Lower Albert Road to the firing line. The Government will have to improve its procedures, ration its paper-shuffling, emphasize efficient service.

If this means more automation -- fine. If it means more pay for teachers and health care workers, police and firemen, public works engineers and the staff who service business and the public -- fine. If it means larger subventions to charities -- fine. But in the end it must add up to a far more productive, a far more efficient government.

The Government hopes to provide better service to the public by hiving off housing and health care and shifting its responsibilities and authority to separate corporations. But will quangoization really have the predicted impact? Or will it induce frustration when directly elected Legislative Councillors look at what is left of the Government?

For any who may have forgotten, a quango -- a quasi non-governmental organization -- is an entity that dwells in the never-never land between the public and private sectors. As a result, it all too often has neither civil service rigour nor free market discipline.

The logic behind quangos is that certain activities or services can best be rendered outside that traditional governmental apparatus. The advantages are many -- less public scrutiny or political interference; fewer salary constraints; the ability to operate off the Government's balance sheet, if need be.

But the disadvantages are just as numerous -- from cronyism to waste and inefficiency to corruption. Quangos can also lose touch with their clientele: public representation on quango boards sometimes actually reduces the quango's responsiveness to the needs of the general public. This is especially true if place-holders and yea-sayers are named to these bodies.

I am not saying that Hong Kong's new quangos for housing, hospitals or regulation of the securities and futures markets will necessarily degenerate in this manner. So long as good people are appointed, there is little chance of this. But the Members of this Council have a responsibility to monitor these bodies regularly, read their annual reports closely and debate their activities fully.

The funding of quangos poses other questions, questions that extend beyond the vital need for fiscal accountability to the Finance Committee. Ideally, a quango

should be self-financing. But in that case, given Hong Kong's laissez faire philosophy, why not turn responsibility over to the private sector? Alternatively, if the quango must look to the Government for its funds, what is the net efficiency or savings in creating a new body?

Rather than focus on establishing quango after quango, perhaps it is time the Government came to grips with its own rhetoric on privatization. Is it really necessary for the Government of Hong Kong to own a public utility in order to regulate it? In fact, it is not inconsistent with our laissez faire philosophy for the Government to own a utility at all?

With a net profit of some \$560 million last year, the Kowloon-Canton Railway Corporation -- on whose board I sit -- would seem ripe for privatization. Even a partial sale of the Government's shareholding, at a good multiple, would yield a billion or more that could be re-invested in the next generation of infrastructure projects essential for future growth.

By the time privatization of the Kowloon-Canton Railway Corporation has begun, the Mass Transit Railway Corporation ought to be ready. Right now the conversion of debt to equity might be attractive -- especially if it brought a reduction of debt-related costs and gave the corporation the resources it really needs to be a full step ahead of Hong Kong's long-term mass transit requirements. A sale at some future date would again generate substantial funds that could be re-invested.

Philosophically, action on privatization is much more in keeping with the laissez faire principle which built Hong Kong. There is no end of good and worthy tasks the Government can take on, no end to the number of wrongs it can try to right. But unless Hong Kong is prepared to abandon its commitment to low taxation, the territory simply cannot afford to look to the Government to do them all.

There has to be self-restraint. Hong Kong must try to curb the growth of the Government. Thus, it must also limit what it asks the Government to do. The emphasis must shift back from public sector action to private sector initiative, from bureaucratic interference to community involvement, from Government intervention to self-regulation, from increasing dependence to self-reliance.

But getting this concept across to the general public will require a much more effective programme of civic education than Hong Kong now has. The present trend is in the opposite direction and is likely to gain in momentum as political rhetoric

and public policy raise expectations.

Historically, the role of the Hong Kong Government has been to provide leadership, to create an environment right for growth. This remains true today. Sir, the Government must be on the cutting edge of change -- and, thus, it must help shape that change. It must see the dynamic that drives Hong Kong not just in terms of dollars and cents or bricks and mortar, but of people and talent as well -- not just the rich, not just the middle class, the entire population.

The challenge of the 1990s will be to forge a comprehensive public policy that combines true fiscal prudence and our laissez faire philosophy with a commitment to develop as fully as possible all our human resources. More, it will be to state that policy so clearly, so concisely, that everyone understands what he or she can and should do to help build a better Hong Kong.

With these remarks, Sir, I support the motion.

MR. NGAI (in Cantonese): Sir, The Financial Secretary pointed out right at the beginning of his budget speech that inflation, the accumulation of substantial budget surpluses and a major programme of infrastructural works were the three key factors which he had to take into account in preparing this year's Budget. Through these three factors, we may see that the performance of our economy, while reflecting a year of buoyant growth and prosperity, exposes certain conflicting situations which our economy has to face.

It is clear to us from the Financial Secretary's budget speech that the root of these conflicting situations lies in the accumulation of huge surpluses and the fact that we cannot reduce the surpluses by substantial increases in expenditure lest inflation should spiral. On the other hand, we have to reserve funds for a number of expensive major infrastructural works programme and such rapid expansion in expenditure on capital works will also lead to inflation.

It is a difficult task to reconcile the conflicting situations and strike a balance, in particular, when the community generally yearns for a share of the surpluses and demands the return of wealth to the people. Pressure on the Financial Secretary will grow. I must congratulate the Financial Secretary for his efforts in preparing the Budget, though I do not entirely agree to certain proposals contained

therein. The following are the topics that I would like to speak on.

Utilization of the substantial surpluses

Sir, according to the figures released by the Financial Secretary, our overall budget surplus is expected to strike a record over the years at \$14.2 billion. For the general public, various tax concessions as a result of the surpluses are of course foci of their attention. As a member of the industrial and commercial sector, I care more about how a suitable proportion of these huge surpluses may be utilized to promote the future development of our economy.

It is a wise and reasonable proposal by the Financial Secretary to transfer part of the accumulated surpluses to the Capital Works Reserve Fund to make provision for infrastructural works programmes in the next 10 to 15 years. A prosperous economy has to tie in much with various capital projects. Both aspects will be mutually benefited only if a balanced development is maintained.

Over the past years, the new airport project has been more said than done. I am glad the Financial Secretary clearly told us in his budget speech that the new airport study was making satisfactory progress and a decision on it might be made known by the end of the year. As we all know, a new airport plays an important part in the future development of our economy. It will definitely promote the overall interest of the community substantially. I believe the establishment of the Capital Works Reserve Fund will help solve the financing problems in relation to the construction of a new airport and many associated ancillary facilities and speed up the pace of development as well.

Sir, as I said earlier, how to make good use of the surpluses is my main concern. I fully agree with the Financial Secretary in saying that it is wrong of us to look upon our reserves, sound as it may be at present, as a "pot of gold" available to be spent regardless. However, I have to point out though it is good to be prudent, excessive prudence may turn into inertia. After going through the Budget, I am disappointed that the Financial Secretary has not drawn up any relatively specific plan to encourage industrial development and technological research. Neither have any preferential schemes been made in that field. The tax exemptions on certain industrial and commercial activities are so insignificant that they are just better than none. They have little effect in stimulating or attracting investment.

Today, our industry is facing the impact of economic transformation. We have to emerge from the traditional labour intensive model and follow the footsteps of other developing Asian regions into a new technology intensive era, or else our days shall be doomed. As our industrial sector is mainly composed of medium or small-sized factories, if Government does not provide adequate and proper support in technological research and development, it will be difficult for these factories to catch up with our major rivals in technology. With a prosperous economy and substantial reserves, the Government can no longer shun its responsibility in providing support to industrial development. A longer-term industrial development strategy should be drawn up. Since we hold an advantageous position now, it is time we should take action.

Labour shortage

Sir, in the policy debate 1988 and on many other occasions, I have repeatedly urged the Government to amend the present legislation in the light of the varying conditions, and adopt a more flexible policy for limited importation of foreign labour, so as to solve the problem of acute labour shortage experienced by Hong Kong in recent years. I will take this opportunity to dwell at great length to reiterate my standpoint in the hope that the authorities concerned would make a decision prudently and seriously in the overall interests of Hong Kong.

I must stress that in appealing for importing foreign labour, we are not seeking to save costs and exploit the workers by depriving them of the opportunities for better pay and fringe benefits. The raw fact is that while our economy is growing fast, there is a decline in population growth and our community is generally better educated now resulting in serious labour shortage problems in some sectors. The nine industrial and commercial organizations, including the Chinese Manufacturers' Association of Hong Kong which I am representing, have looked into the problem of labour shortage in great detail and pointed out that there are at least 200 000 vacancies in various sectors in Hong Kong. Labour shortage has become an indisputable fact. Though the Government has agreed to extend the definition of "skilled labour", the effect is, however, like a drop in the ocean. I hope that the public will appreciate that the request of the nine industrial and commercial organizations to import non-skilled labour does not carry the motive of importing cheap labour in great number to compete with local workers. What have been in their minds are the overall socio-economical needs and a measure to ease the problem of labour shortage.

Sir, should we go on allowing Hong Kong to be troubled by the problem of labour shortage, our booming economy at present is bound to suffer; not only those employers who are labelled as "caring only for their own interests and disregarding the rights of the workers" would be affected but it would also be difficult for local workers to sustain the benefits of short-term wage rise brought by the labour shortage too. I earnestly hope that both the employers and employees would focus their attention upon the overall interests of Hong Kong, and take a wider view. We should make concerted efforts to contribute to the thriving economy of Hong Kong.

The introduction of sales tax

Sir, I hear with much regret that the sales tax proposal has been brought up again by the Financial Secretary. As I reiterated in the last Budget debate, sales tax is an unfair and retrogressive way of taxation which has more demerits than merits. It is not suitable for Hong Kong. We have all along adopted a simple taxation system and practised free trade. The introduction of sales tax will inevitably turn our taxation system into a complicated one and infringe seriously on the principle of social equity. The lower income group, those living on assistance or those who cannot afford the tax such as children, the aged or the unemployed, will have to pay the same amount of tax when buying the same dutiable goods as the better-off. This is already a clear illustration of how the introduction of sales tax violates the most basic principle of equity in taxation. Moreover, the introduction of sales tax, even if at the wholesale level only, may involve complicated procedures and operations, implying a great departure from a simple taxation system.

Sir, I agree to the view that it is advisable for Hong Kong to plan ahead with a view to rectifying its present shortfall of relying its revenues on an unduly narrow tax base. Nevertheless, is the introduction of sales tax our only solution? After all, Hong Kong is only a place that practises territorial economy which is vulnerable and sensitive to any undesirable impact. Much deliberation and caution should be taken before any taxation system which is inconsistent with the principle of equity is implemented.

I hope the Financial Secretary will consult the public, especially experts in this field, fully and extensively and look into its implications carefully before a right decision is made.

Economic forecast

The new Budget embodies strongly the concept of making hay while the sun shines. It is noteworthy that in anticipating a slowing down in economic growth, the Financial Secretary's estimation on surpluses and inflation rate for the following year appears to be rather conservative. Sir, a conservative approach in economic forecast may easily give rise to passive attitudes. The industrial and commercial sectors will find it difficult to formulate plans for investment. Sir, as I mentioned in the Budget debate 1988, "Past Financial Secretaries have admitted that preparing economic forecast is a thankless task but I believe the Government has full responsibility to provide the best investment guidance, including preparation of the highly analytical economic forecast. In this respect, I think more resources should be devoted to setting up high-quality econometric models so as to obtain data of greater reference value for the preparation of economic forecast." Judging from the present circumstances, the above view still applies.

Training up management and technical personnel

Another problem inflicting upon the future development of our economy is the wastage of mid-level management personnel and technical workforce. According to the information from related sources, we lost about 80 000 to 90 000 people from the mid-level management and the technical groups this year and the year before. It produces a grave effect on our economical development. Indeed, the Government has to make an effort to step up the training of management and technical personnel. In this respect, I am glad that tertiary and technical institutions, the Industry Development Board, the Productivity Council and the Vocational Training Council have given a stronger role. Yet as to how training should be stepped up and enhanced, we pin high hopes on the Government to work out an immediate solution.

Sir, this years' Budget is cautious and well balanced with only moderate increases and decreases. It is a good Budget welcomed by the public.

Sir, with these remarks, I support the motion.

MR. POON CHI-FAI (in Cantonese): Sir, the economic boom in recent years has brought us considerable surpluses annually. We have a historic surplus of \$14.2 billion this year. This huge surplus inevitably leads to expectation from the public for more

and better services. The Financial Secretary indicated in his budget speech that endeavours had been made to meet the needs of the community. Yet he also highlighted the serious effect of inflation and the constraints behind increasing expenditures in the public sector. We are disheartened by what he said. If the Government is reluctant to step up improvements on medical and education services and to relieve the tax burden of "sandwich class" during the good years for fear of inflation, such improvements and reliefs will naturally be shelved during the lean years. In other words, all these improvements and tax concessions will never come into effect. On the other hand, we note that the Government is spending billion of dollars on the Vietnamese refugees without any worry of inflation.

Sir, the problems of importation of labour and expenditures on Vietnamese refugees will have far-reaching implications on our economy. They are also subjects of utmost concern to the public. I therefore would like to give my views on these two issues as follows:

Importation of labour

In the budget speech, the Financial Secretary said that the demand for labour resources was outstripping supply and the economy was already operating at full capacity, thus leading to higher prices and costs of production. On the other hand, he also considered that employees as a group should continue to be able to share the fruits of prosperity through ample job opportunities and better pay. However, I wonder if the workers can really share the fruits of prosperity even if the supply of labour is falling short of demand as it is today?

Over the past year, Hong Kong had sustained a very low unemployment rate at 2% or below. The unemployment rate as released by the Census and Statistics Department for January to March this year is only 1.3%, indicating that our labour market remains tight. It is undeniable that labour shortages do exist in certain trades. As the effects of labour shortage intensify, more and more local factories are moving out of the territory. Inflation is growing at an accelerated speed too. The workers of some trades have already sensed the threat caused by the relocation of factories. The pay rise that workers got last year could not catch up with the spiralling inflation and thus their purchasing power was weakened. Although there are many factors leading to the relocation of factories and high inflation, shortage of labour is definitely one of them.

Owing to the shortage of labour and the difficulties in recruitment, some factory owners turn down orders which are eventually taken up by other places for good. Labour shortage has pushed up wages and weakened the competitiveness of our export trade. As labour and production costs and factory sites in our neighbouring area are comparatively lower than ours, more and more factories are moving out of Hong Kong. This has already become a trend which cannot be stopped. Although the Government can do nothing to intervene with the lower labour and production costs and improved infrastructural support in other places that have attracted Hong Kong manufacturers, it should try its best to seek a proper solution to the labour shortage problem so as to alleviate the consequential effect on workers resulting from the relocation of factories to other places. In fact, it will be advantageous to both the employers and the employees if limited and conditional importation of labour is allowed in case of real deficiency in our manpower resources whereby factories may continue to operate for further economic growth and profit-earning activities, as well as for the diversification of our industries to strengthen competitiveness.

Sir, some people consider that due regard should be given to the regulating mechanism of a free market economy. They also believe that the problem of labour shortage can be solved by providing better wages and fringe benefits to the workers and that importation of labour will seriously affect the transformation of our industries and will eventually hinder the process of automation and development in high technology. However, we should note that economic competition is increasingly keen. We can no longer rely on the self-regulating process of the market to overcome problems. When the supply of labour is exhausted, we cannot turn down orders and raise the prices of products indefinitely to wait for adjustment in the market. Such negative and unpractical approach will only turn the orders away forever and speed up the relocation of our factories, thus putting Hong Kong in disadvantageous position in its competition with the three "Little Dragons" of Asia. In fact, if the supply of manpower has reached its limits, increase in wages and fringe benefits alone cannot help much to improve the size of the labour force. This will only lead to scramble for workers by higher wages, but the problem of labour shortage remains. Furthermore Hong Kong cannot afford high production costs because we have to compete with other countries. Although automation and development in high technology may be helpful in tackling or alleviating the problem, they are really long-term solutions that cannot produce instant effect. Furthermore automation and development in high technology require large amount of investment and long period of research, thus these long-term solutions may not be applicable to every trade, particularly when most of

our factories are small factories.

At the present moment, labour shortage has seriously affected the normal operation of our economy; factory owners are unable to fill orders; consignments have to be delayed; factories have to be relocated and many infrastructure projects have to be postponed. Under such circumstances, the Government should formulate a policy or the importation of labour as soon as possible. Hesitation by the Administration will mean further loss of orders. This will stifle our economy and reduce the competitiveness of our products in the international market. In the end, our economy will suffer an unrecoverable loss. The long-term interests of the public and our workers will suffer too. On the other hand, the outstripping demand will also intensify the pressure on inflation.

Sir, the diligence of our workers and their attitude to work for the benefits of the whole community have a close connection with the prosperity and stability of our community which we have enjoyed in the past. Workers have shared the weal and woe with their employers in overcoming the hurdles in depression periods. When the good year comes, it is quite reasonable for them to expect a share in the fruits of prosperity. It will be unreasonable if large amount of labour is imported purely for the sake of lowering the labour cost for the benefits of the employers. Sir, in order to prevent unreasonable situation, I would like to make the following suggestions for the consideration of the Administration regarding any decision on the issue of importation of labour:

(a) The Administration should ensure that it is for the overall benefit of Hong Kong that imported labour is allowed.

(b) The Administration should ensure that the employers will not make use of massive importation of labour as a means for pursuing their own benefits. Safeguards for the benefits of the local workers must be provided to prevent any decrease in wages or increase in unemployment rate.

(c) Importation of labour should be implemented according to certain criteria based on the unemployment rate and the actual labour demand of different trades. Provision should be laid down to suspend the importation of labour when the unemployment rate recovers to a certain level. Besides, a levy on imported labour should be made compulsory.

(d) Revenue derived from the levy should be allocated for the promotion of labour welfare, development and advancement of high-technology industries as well as various facilities for the territory.

(e) In order to monitor the implementation of the above suggestions and review the strategy of importation of labour on a regular basis, a standing committee should be set up comprising government officials, labour representatives, economists and social celebrities.

(f) Action should be stepped up to collect and analyse data on the demand of labour, which will form the basis in making decisions in respect of the importation of labour and the quota permitted.

(g) Workers should be imported from various places to avoid over-dependence on a certain country or a certain place. Should anything happen in that country or place, the supply of labour will not be affected. Nor will the importation be monopolized.

Sir, in last year's policy debate, I criticized the Government for stipulating a minimum monthly salary for foreign domestic helpers. Furthermore, on 27 April 1988, I raised a question in the Legislative Council concerning the rationale for such stipulation. It was stated in the reply of the Secretary for Security that ".....a foreign national is permitted to enter Hong Kong to work, one of the conditions is that the salary to be paid should not be less than the current market rate for the job to be performed. The rationale behind this policy is to protect the interests of local employers who would suffer a loss of real earnings." Sir, I submit that such a policy is wrong and it violates economic principles. In a free economy, people can order and import goods, services and even labour from overseas market. As consumers, we are entitled to reasonably priced goods of high quality and cheap labour services. Take the salaries of Filipino, Thai or Chinese domestic helpers as an example, a monthly salary of \$1,000 is already a great attraction to many domestic helpers from these countries to come to work here. Government's stipulation on minimum monthly salary at \$2,500 will only benefit the labour exporting countries to get more foreign exchange earnings while on the other hand greatly increase the burden on the Hong Kong people. This is contrary to the Government's saying that it always "has the interest of the public at heart". It is also not in line with the economic principles and consumers' right. In fact, the current monthly salary of foreign domestic helpers being \$2,500, plus the handling charges for applications for employing these helpers, round-trip air tickets, board and lodging, extension

visa fees and premiums, have already exceeded the average income of a working wife in Hong Kong and are beyond the affordability of some families. The chain effect is that some working wives have to stay at home and the labour shortage problem is further aggravated. The Government argues that it does not want the salaries or benefits of local domestic helpers to be affected. Such argument is far-fetched and unrealistic. There are in fact very few live-in domestic helpers in the territory. Furthermore, if the Government worries that there will be too great a difference between the salaries of local and foreign domestic helpers, the difference can be transformed into a form of labour import tax to be levied on the employers. Such tax can be directed to improving the welfare of Hong Kong workers, the provision of more social welfare services and financing various facilities. In this way, Hong Kong can benefit most from these foreign domestic helpers. Sir, the erroneous salary policy of foreign domestic helpers is beyond remedy at this stage because any salary reduction will only cause dissatisfaction among these domestic helpers and affect their morale. Yet annual increment to wages should be checked. The Government should now learn a lesson. In formulating future policies on the importation of labour, priority should be given to the interests of Hong Kong. The rule that "the salary to be paid should not be less than the current market rate for the job to be performed" should not be blindly followed. In order to ensure that the employers will not, for their own benefits, engage foreign workers indiscriminately, the Administration can levy labour import tax to safeguard the job opportunities and income level of local workers. The tax levied should be slightly higher than the difference in salaries between local and foreign workers and it should be spent on improving the workers' welfare and promoting industrial development towards high technology as well as on Hong Kong's infrastructural projects. As the costs of employing foreign worker is slightly higher, employers will be encouraged to consider local workers first.

Expenditures on Vietnamese refugees

Sir, dissatisfaction towards the Vietnamese refugees (VR) issue has built up over the past few years. Objections have been raised in the Legislative Council when allocations of funds to the Vietnamese refugees are examined. In fact, Hong Kong's expenditures on the Vietnamese refugees is on the increase. For instance, on 22 June 1988, the Finance Committee approved a provision of \$127,360,000 to fund the capital works projects for the Vietnamese refugees and a supplementary provision of \$176,540,000 as recurrent expenses. On 24 August 1988, an additional \$175,600,000 being project estimates of accommodation for Vietnamese refugees was approved. On

16 November, approval was given to an increase in the project estimate of accommodation for Vietnamese refugees from \$218,150,000 to upwards of \$297,000,000. On 25 January this year, a further \$1 million was approved to meet part of the expenses for the voluntary repatriation of the first batch of Vietnamese boat people (VBP) back to Vietnam and it was originally scheduled that approval for the provision of \$200 million would be sought today for the construction of another VBP centre. These expenses, amounting to billions of dollars, will to a certain extent affect our public finance and building developments. Apart from all these expenses, the provision of medical services and other social facilities, supply of land for the construction of VR camps, miscellaneous expenses as well as the direct and overhead costs in manning the camps may amount to as much as \$1 billion annually. Hong Kong people have expressed strong resentment against such unending commitments. Sir, it is unfortunate that it is under British pressure that Hong Kong has become a port of first asylum. But it is even more unfortunate that we are forced to a position that we have no alternative but to allocate funds to accommodate the Vietnamese who have arrived here. This is unreasonable and cannot be accepted as the majority of the Hong Kong people are against taking more Vietnamese refugees.

Sir, in the past, some people had high hopes on the screening policy and repatriation programme as solutions to the VBP problem. Their hopes are dashed because the implementation of the screening policy since last June and the repatriation of the first batch of VBP in March this year failed to achieve any deterrent effect. Arrivals of VBP are not checked and the number of VBP stranded in Hong Kong soars to a record high. We can see from the television that the repatriated VBP were the envious of their countrymen because they were well fed and well-clothed after several months from home and they were sent back in chartered flight bringing with them electrical appliances and financial assistance to re-establish their homes. Under such circumstances, how can other Vietnamese be not tempted and encouraged to flee to Hong Kong? Furthermore, the wages in Hong Kong is higher than that in Vietnam by tenfold. When the people in Vietnam learn from the letters of the VBP that they are allowed to work in Hong Kong drawing the same wages as the Hong Kong workers, nothing will prevent them from braving the sea to make a fortune in Hong Kong.

Sir, according to international practice, all illegal immigrants, whether voluntarily or not, have to be repatriated to their place of origin. We are greatly disappointed by the British Government's acquiescence in the Vietnamese Government's demand that only those who want to return home "voluntarily" are to be repatriated.

We are also disappointed about the objections to mandatory repatriation of non-refugees raised by United States and United Nations High Commissioner for Refugees (UNHCR). Their objections are unreasonable and baffling. I wonder whether the United States and British Governments are also so lenient to the illegal immigrants in their own countries? Can their illegal immigrants stay on permanently if they do not wish to return home? It annoys us most when UNHCR, which is supposed to be strict and impartial, have also made statements contrary to international practice and in favour of Vietnam. Sir, the decision of these countries/institution not only disappoints us, it also seriously hampered an early solution to the VBP problem. On the other hand, it indirectly prolongs and increases our expenditures on the VR, delays the Government's effort in improving the quality of people's lives and slow down our infrastructural projects.

Sir, the VR/VBP issue has already imposed great financial burden as well as social pressure on our community. It has become a cause of unrest that cannot be overlooked. Repatriation of VBP is becoming more and more difficult and the number of VBP in Hong Kong is increasing. Under such circumstances, the solution Hong Kong should consider is to abolish its policy of being the port of first asylum. Sir, we can no longer put up with others' decisions. If we cannot strive for any reasonable improvement measure to the issue or do away with Hong Kong's status as "port of first asylum", and solution to the VBP issue is not at hand, we as Members of the Legislative Council can do nothing but object to any application for provision to meet the expenses in connection with the VBP in order to alleviate the heavy financial burden on the Hong Kong people.

Sir, to wind up my speech, I would like to say something on pre-primary education -- a topic which I already dwelt upon at some length at last year's debate and which I will not spend too much time on. I agree with Mrs. Rita FAN in her views on pre-primary education and would like to give her my full support. It is indeed true to say that pre-primary educators are unfairly treated. The meagre salary inevitably drives away many devoted persons as they also have to make a living. To encourage them to stay and work towards educating the future masters of our society, I hope the Administration will review the issue and improve their conditions of work as soon as possible. This is the way to persuade pre-primary educators to stand fast at their posts and concentrate on education.

Sir, with these remarks, I support the motion.

4.50 pm

HIS EXCELLENCY THE PRESIDENT: Members might like to take a short break at this point.

5.11 pm

HIS EXCELLENCY THE PRESIDENT: Council will resume.

DR. TSE: Sir, I would like to confine my comments this afternoon mainly to the issue of inflation.

The Financial Secretary has explicitly identified inflation as one of the most important problems facing Hong Kong and has forecast an inflation rate of 8.5% in 1989 compared with 7.5% in 1988. However, such a forecast would seem to be an under-estimate given that the rise in wages and salaries has been way above 10% in the private sector. If the salary adjustments in the Civil Service are to follow suit, as are widely expected, our inflation rate would almost certainly be in the double digit column.

In his speech, the Financial Secretary suggested that the inflation rate might begin to fall, "probably in the latter part of the year", but a quick look at our economic environment may convince us otherwise.

Firstly, the labour market seems to continue to remain tight.

Secondly, expectations of a rapid rise in wages and salaries seem to have been heightened.

Thirdly, the increase in the accumulated trade surplus on the part of our surrounding Asian countries, notably, Japan, Taiwan, and South Korea has forced up the value of their currencies and their purchasing power. Their pent up demand on our products and services has exerted immense pressure on our domestic resources. Indeed, already we see people from these countries buying up residential properties and commercial premises in increasing quantities.

Thus, it seems likely that double digit inflation is going to be with us for a

while and we need to take a more careful look at it. Of course, the Financial Secretary did explain that inflation was "caused by the very success of our economy". However, this explanation may not be completely valid as most of our surrounding countries like South Korea, Taiwan, Singapore, and Thailand all enjoyed higher economic growth but lower inflation rates than Hong Kong.

Sir, it is now high time for us to evaluate some of our existing institutional setup which may lead to such a high inflation rate. One of the candidates on the list is the linked exchange rate system. There is little doubt that part of the inflation that we are experiencing now is imported from the United States which has an inflation rate of around 5%. However, it is still not too clear why ours is much higher than theirs. Indeed, our inflation rate has diverged from that of the United States since 1986, and the differential has become larger over time.

I have no intention to condemn the linked exchange rate. In my own view, it has served Hong Kong well and did help us survive the political turmoil in 1983. However, that should not exempt it from being reviewed periodically for its adequacy. One very obvious side effect of the existing system is that it creates a psychology of depreciation for the Hong Kong dollar given the United States government's inability to reduce its twin deficits. This has induced people to put more of their money in non-US dollar foreign currency deposit, the growth rate of which in 1988 was 35.4% compared with 12% for Hong Kong dollar deposits. Thus, the system has turned the man on the street into foreign currency portfolio manager and this is not healthy as the small investors may not know how to hedge against currency risk.

I suggest therefore that Government should study more closely the operation and the problems of the existing system and keep an open mind on possible alternatives such as the basket-pegged currency system.

Apart from the linked exchange rate, there are two commonly accepted explanations for high inflation in Hong Kong. One is the very rapid increase in local and foreign demand on our domestic resources, which I have mentioned earlier but we cannot do much about. The other is the very tight supply side constraint. As ways to relieve the supply side constraint, I welcome the proposal to increase the capital allowances from 55% to 60%, which would encourage more imports of machinery, and to introduce separate taxation for married women which would increase the supply of female labour.

Regrettably, both of these proposals were not made in the Budget speech as part

of a comprehensive plan to alleviate the capacity constraint and, in fact, the introduction of separate taxation for married women was seen to be a mere yielding to public pressure.

The Financial Secretary admitted that "beyond keeping our own house in order, there is only a limited amount we can do to alleviate inflation". This sounds very passive and gives the impression that our Government does not have a forward looking plan.

Although the Financial Secretary did mention that our Government would still be fully committed to infrastructure investment and that he had already set aside funds for some of the future projects such as a new airport, new roads and tunnels, there was no indication at all in the Budget speech as to how we could increase our production capacity to accommodate such a vast public investment in the near future.

Moreover, the transfer of current tax revenue to finance future capital projects would beg the question of making the present generation pay for the benefit of future generations. Although it is a traditional Chinese virtue to save for our posterity, we must also keep in mind that some benefits should also be given to the present generation in order to make Hong Kong a better place to live and work.

However, the current Budget does not seem to care enough about the capacity constraint problem as evidenced from the fact that education expenditure will increase only 5% in real term which is even lower than the predicted real economic growth of 6%. As manpower is one of our most valuable resources, it is extremely important that the growth in education expenditure should be at least in step with that of the economy. I would even argue that education expenditure should grow at a faster rate than the economy in view of the so called "brain drain" problem that the community is facing.

Thus I would like to suggest that the capacity constraint problem be looked at in greater detail. In particular, the following items should be treated with high priority:

1. To review the relative share of the existing education expenditure in the total Budget, and to evaluate whether the existing fund allocation system to different educational sectors is optimal.

2. To examine the factors that would influence the supply of labour especially for married women.
3. To determine how some of the current surpluses can be used to improve the quality of life so that the talented people can be retained and those who have left are attracted to return.

In closing, I must say that the Budget is a very good one, in that the Financial Secretary has clearly identified the problems that we have to face and he has also explained how and why various government policies are implemented given such problems. However, I would have preferred to see the Budget serving more like a lighthouse beaming across the misty sea.

Sir, I support the motion.

MR. LAU WONG-FAT (in Cantonese): Sir, this year's Budget continues to reflect the cautions and pragmatic attitude of the Financial Secretary in his management of public finances. In normal circumstances, especially when the economic atmosphere is not that favourable, such an approach would undoubtedly be appropriate and easy to accept. However, in a booming year with a huge surplus to spare, it would not be advisable to introduce economic measures that are too conservative. In the present financial year, I think the Administration has the need and ability to adopt a more aggressive financial strategy to lay a firmer foundation for the future development of Hong Kong and quicken the pace of raising the quality of life.

A continuous buoyant economy has given Hong Kong a record breaking surplus of \$14.2 billion surplus in 1988-89. By March next year, our consolidated reserve balances are expected to reach \$71 billion. It is anticipated that there will again be a huge surplus in the coming year. The Financial Secretary forecast a figure of \$11.5 billion, but experience tells us that it is very likely to be another underestimation by the Financial Secretary. The accumulation of enormous surpluses indicates that Hong Kong has been enjoying a robust and healthy economy. The Government's immediate responsibility is to do its utmost to make effective use of the surpluses in order to seize this golden opportunity to get the best out of a favourable environment.

I could not agree more with the Financial Secretary when he said at the Second Reading of the Appropriation Bill that "we simply could not afford to delay unduly

the upgrading of our infrastructural framework if Hong Kong's economy was to continue to develop in the years ahead." However, I beg to point out quite frankly that there is a long-standing problem that keeps on worrying us. That is, the pace of infrastructural improvement has failed to meet the need of social development. Despite repeated urges from various sectors of the community, many crucial infrastructural projects still remain at a stage of being studied or considered. A case in point is the Tuen Mun Highway which is expected to reach its saturation point in three years' time. By this time, the Administration has yet to decide whether a railway link between Tuen Mun and Tsuen Wan should be constructed. Should there be any further delay to a decision on this issue, the Tuen Mun Highway will inevitably become as seriously congested as the present Lion Rock Tunnel. As a result, the fast growing population of the north-west New Territories will suffer severe inconvenience as far as traffic and transport are concerned. Another classic example is the new airport project. Owing to undue delay in making a final decision on this matter, a large sum of money was spent to expand the facilities of the Kai Tak Airport just to put back the due time of its saturation point for a limited period of time. In any case, the capacity of the Kai Tak Airport will be stretched to its limit in a few more years' time. As the new airport is not expected to have been completed by that time, one can reasonably envisage heavy losses for our economy.

Of course, much capital investment is required to finance these large-scale infrastructural projects. Our decisions on these schemes should therefore take into account the important factors of the financial situation and resources of the community. For this reason, the Administration should commission and expedite the implementation of infrastructural projects as far as possible in the fat years. The Financial Secretary has warned in his budget speech that increasing public expenditure by a wide margin would push up inflation. I agree that the problem of inflation should be given due consideration. However, caution should also be taken not to over-emphasize this risk or else we will fall into a paradoxical situation of shelving major infrastructural projects indefinitely for either a lack of fund in the lean years or the fear of aggravating inflation when the public coffer is awash with revenue. This certainly is not a blessing to the community. On the one hand, I support the Financial Secretary's move to put aside funds for impending major infrastructural projects in the years ahead. On the other hand, I consider it necessary that the Government should strive to clear all hurdles to the smooth commencement of these projects so as not to defeat the purpose of reserving these funds.

Sir, rapid economic development brings prosperity as well as serious environmental pollution to our community. It is an undeniable fact that the Government has not done enough in the area of environmental protection. It is commonly known that if environmental problems are not contained and improved upon, one can hardly expect to raise the quality of life. Moreover, pollution has an adverse effect on ecology and our health. It will eventually bring about grave disasters to our community. In order to save our environment from further deterioration, the Government should grasp at the opportunity of a huge surplus to speed up the improvement of our environment with a substantial increase of funds for such purposes.

Another thing which I would like to draw attention to is the severe shortage of infrastructural facilities in urban fringe areas and village areas resulting from the lack of government concern for New Territories rural development over the past years. The living environment has stayed the same way for a long time and the difference in the provision of facilities for urban and rural areas becomes more readily visible. Thanks to the unflinching efforts of the New Territories residents in reflecting their views and fighting for improvement, recently the Government has finally agreed to increase the allocation of funds and formulate new development strategy for improving rural facilities. Relevant departments will start holding discussions with the Heung Yee Kuk next month. The development of events is indeed encouraging and gratifying. I would not venture to comment on this issue at the present moment because details of this new development strategy and the expenditure figures involved are not yet available. This project may meet with certain problems as it proceeds but I believe that with concerted efforts, the Administration and the Heung Yee Kuk will surely be able to find their solutions. I sincerely hope that the Administration will take active measures to put into effect this overdue rural development scheme.

I would like to mention another point. In recent years, the Hong Kong population has continued to age. The present level of services and facilities for the elderly is demonstratively insufficient. Hence, I think it is imperative for the Government to increase allocation for the upgrading of such services so as to further improve the welfare of the old people in Hong Kong.

Sir, I would like to avail myself of this opportunity to speak on personal tax concessions proposed in the Budget. The Financial Secretary proposes to lower the standard rate of personal taxation from 15.5% to 15% which was the percentage point

five years ago. When Hong Kong has such a huge surplus and a promising outlook of next year's economy, I think the reduction of a mere 0.5% in the standard rate is too little. A further deduction of 0.5% would be more reasonable. Five years ago when the economy in Hong Kong was in a bad shape, the Government raised the tax rate to boost up its tax revenue. In other words, extra tax burden was heaped upon the general public to help the Government tide over its crises when the economy was at the low ebb. When the economy is now taking an upturn, the Government should, by the same token, concede on direct taxes and reimburse part of the resources to the individuals so that the public can share the fruit of prosperity. To reduce taxes when the economic circumstances permit is not a favour but rather a demonstration of the responsibility the Government bears towards its citizens.

As far as economic performance is concerned, the Hong Kong five years ago was greatly different from what it is to-day. It is hardly convincing to taxpayers that the Government has done them justice by restoring the income tax rate to that of five years ago when there is such a huge surplus. The Financial Secretary could not offer a tenable argument when he used inflation as an excuse for not further reducing the tax rate. The March issue of the Hong Kong Economic Report points out that a further reduction of 0.5% would only equal the reimbursement of \$1 billion from the Government to the individuals in the next financial year. Judging from the gross personal expenditure of \$255 billion in 1988, this sum of money would only have negligible effect on inflation in Hong Kong, not to mention that instead of spending it all, the public would probably keep a part of it back as their saving.

As the cost of living index in Hong Kong continues to rise, the expenditure of the sandwich and lower classes keeps spiraling up. The Administration does have a responsibility to alleviate their tax burden at a time of thriving economy. Hence, I hold the view that there is a need to introduce a more substantial increase in personal allowance in this financial year. The Budget proposes to raise personal allowance from \$36,000 to \$39,000. Obviously, this increase fails to reflect the actual standard of living and expenditure in presentday Hong Kong. It would be more realistic to raise that allowance to \$48,000 as suggested by the Federation of Trade Unions. Similarly, I think there should also be bigger concessions for child and dependent parent allowances.

Another tax concession in the Budget concerns capital allowances. The Financial Secretary proposes to increase the initial allowance for qualified machinery and plants from the 55% set down in 1982 to 60% with a view to encouraging investment.

I think the adjustment is on the low side. Being in the course of its transitional period, Hong Kong is now plagued by the problem of brain drain and a lack of confidence. Our economy is gradually transforming from a manufacturing economy to a service-oriented one. It is a worrying trend because the manufacturing sector has all along been the life blood of our economy, providing most of the job opportunities. In the circumstances, the Government should actively commit itself to attracting and encouraging inward investment. I think it is worth raising the capital allowances by a wider margin. Although tax concessions would reduce public revenue in the short term, the benefits generated from increased investment in the long term would be many times more than offsetting the cost of these tax concessions.

While the economy and society in Hong Kong are undergoing changes, studies and researches are needed to establish a correct prospective for our industrial, commercial and social developments. The funds provided for research work in the universities and polytechnics at their present level fall short of demand. In order to make the maximum use of our talents for the benefit of the long-term development in Hong Kong, I propose to allocate funds for the setting up of an economic and social development research centre for academics to conduct researches into the economic and social developments in Hong Kong.

It is manifestly clear that the Financial Secretary cannot take his mind off the idea of introducing a sales tax. However, sales tax is not a fair form of tax. It will cause damage to our "simple tax system" and tarnish Hong Kong's reputation of being a "tax free paradise" and "shopping paradise". As a result, it will have certain adverse effect on tourism and inward investment. At the end, Hong Kong will probably lose a lot more than it tries to save. Therefore, I still hold the view that it is not desirable to introduce sales tax in Hong Kong.

Sir, with these remarks, I support the motion.

MR. EDWARD HO: Sir, we are witnessing a very unusual phenomenon in Hong Kong. By all accounts and expectations, if one were to read international media reportage, Hong Kong should be sinking day by day into a sea of gloom and doom: most Hong Kong people have lost confidence in the future and they are emigrating in droves and bringing with them out of Hong Kong vast sums of capital.

There is no denying that Hong Kong is experiencing some of these problems, and

they may become more serious as we approach 1997. But, how are we to explain our third successive year of impressive economic growth, surpluses and full employment? What has pulled us through the stock market crisis of October 1987, to the extent that even the Financial Secretary and his expert advisers have failed to predict?

No doubt, the state of world economy helped: our economy is after all dependent on external market demands. The cynic might view our booming economy as a short-term phenomenon, a phase, a last flash in the pan. I shall leave my answer to this to the final part of my speech.

The Financial Secretary, in presenting his Budget for 1989-90, had found himself in a most peculiar position. Under normal circumstances, he would expect a pat on his back for a job well done. And indeed he received some of that this afternoon. After all, many major countries in the Western World (and the Eastern bloc) have been, and still are, struggling to cope with colossal deficits and problems of unemployment. Instead, the Financial Secretary has to ready himself to face the question of how he would justify the retention of huge amount of surplus in the Budget with inevitable public pressure for increased spending on various public services, not to mention the lowering of taxes. At the same time, he will have to cope with his perceived problem of growing inflation.

I agree with the Financial Secretary that inflation will be one of our main problems. Indeed, I know that many find it hard to agree with him that consumer prices in 1988 only rose by 7.5% and not a lot more.

What is extremely disturbing to me is that, having identified inflation as a problem, the Financial Secretary's conclusion is that there is virtually no solution to it until our economy slows down; and that in particular, the slowdown will be the result of a reduction of our competitiveness. His speech has been sprinkled lavishly with such expressions as "operating at full capacity", "supply-side constraints", "available resources", and "capacity constraints".

Are we then presented with the proposition that we should risk higher and higher inflation coupled with reduction of our competitiveness rather than to seek a reasonable solution to relieve our tight labour supply situation?

No one should deny our labour force their "share in the fruits of prosperity", as the Financial Secretary puts it; but neither should we perpetuate a situation that

the so-called "fruits of prosperity" are eroded by inflation before they can be properly enjoyed.

Many who object to the importation of labour today were immigrants themselves from Mainland China. Many may not remember that Hong Kong's success in the last few decades owed a lot to the contributions of these immigrants.

And now, Sir, I turn to some general issues that will have an impact on our economy.

Infrastructural development

Hong Kong is now at an historic moment when it has to consider and decide upon some major infrastructural development that will set the pattern for not only its physical and environmental shape, but also its social and economical development in the 21st century.

I am of course referring to the detailed considerations and decisions on:

1. A new international airport for Hong Kong. There can be no question that we need one as current projections are that the capacity of Kai Tak Airport will be saturated in 1992 (and not 1994 according to Government's estimation). We need to decide as quickly as possible where and how the new airport is to be constructed.
2. The further expansion of our port facilities.
3. A comprehensive strategy and development of our land transport systems in order to keep Hong Kong moving, and
4. The harbour reclamations to give us the land we need to ease our density problems and to renew our urban blights; and to provide much needed space for commercial development.

All of the above major developments will have to be skillfully integrated together into a strategic plan to maintain Hong Kong as a major international city in the Pacific Rim for the next few decades. The studies and gestations of these developments have taken several years. It is vital that decisions are made, before the end of this year, as we have been promised.

After decisions are made, there should be expeditious and efficient

implementation of these plans into realities. This would depend not only on the organization of financial resources; but also on an effective and efficient town planning system, both of which are subjects of current studies.

On the question of town planning, we should be reminded that perhaps for the first time in the history of Hong Kong, due to the various interrelated infrastructural developments and all of such magnitude, we have in fact to engage in the macro-planning of the territory as a whole.

The Outline Zoning Plans are plans at district level.

The so-called Metro Plan only deals with the urban areas surrounding the harbour. It is essential that this exercise should be carried one step further so that the plan should take into account the future development of the remainder of the territory.

Furthermore, this Macro Master Plan should take into account the future development of Hong Kong in relation to the neighbouring regions in the Pearl River Delta, a point that I have made in my very first speech in this Council in November 1987, a point that has apparently escaped the attention of the Administration entirely.

A case in point: as Hong Kong's principal economic activities move towards those of an entrepot, and as more and more manufacturing facilities are moved across the border, there needs to be some fundamental rethinking on land use in some of our older industrial areas.

Should we, for instance, systematically move industrial operations away from the urban areas to improve our environment, and at the same time to re-zone to commercial use as also suggested by my colleague Mr. H. K. CHENG?

Civil Service

1. There is a need for more tangible action to limit the growth of our Civil Service. The growth of the Civil Service in 1988-89 at 3.3% is in excess of the Government's own target of 2.5%. The estimate for 1989-90 at 3.9% will even further exceed that guideline.

One obvious way of limiting the growth of the Civil Service is that, where possible, let the private sector do some of the work of the public sector. This can be accomplished through the creation of public corporations, privatization or simply subcontracting work to the private sector.

2. In the past year, we witnessed a series of protests and even industrial actions from some sectors of the Civil Service, especially in relation to the disciplined services and the professional services. Government should examine whether the rigid Master Pay Scale is able to cope effectively with those sectors of the Civil Service which are in direct competition with demands from the private sector.

3. It is essential that motivation and morale of our Civil Service be maintained at the highest order. Besides equitable pay and compensation packages, professionals in the Civil Service should be given equal opportunities to rise to policy making levels.

4. For government departments that provide services either to other government departments or to the public there are very few means of measuring of their level of efficiency and productivity.

For these departments, I support the idea of the establishment of a "trading fund accounting system." I believe that this will not only improve efficiency and accountability but will indeed provide better motivation to those who work in the departments.

5. We should also examine the system by which government departments charge for their services. Some government offices that I am familiar with, such as the Buildings Ordinance Office, the Town Planning Office and the District Lands Office are under tremendous work pressures in providing services to the public due to inadequate staff. Such services, generally rendered to enhance real estate developments, have to be provided expeditiously. If efficiency can be enhanced, there is no reason why property developers should not be willing to pay for these services on a full cost recovery basis.

Finally, I turn back to my introductory remark when I posed the question whether we are experiencing a short-term boost in our economy.

I am reminded of a passage in the lyric of a popular song: I can hear my friend Mr. Stephen CHEONG singing it. "The answer, my friends, is blowing in the wind". Except that here one should say: "The answer, my friends, is in our minds". Our society is how we ourselves want it to be. We have two natural assets:

1. The initiative, resiliency and industriousness of our people, and
2. A dedicated Civil Service.

Whilst we are fearful of the uncertainty of our future, as long as we are committed to preserve these natural assets, we shall be able to maintain our position in the highly competitive world market, as well as holding our community together with a positive outlook to the future.

With these remarks, Sir, I support the motion.

MR. ARCULLI: Sir, it will not be the first time that one says that the Financial Secretary of Hong Kong must be the envy of many. Hong Kong seems to embarrass that high office continuously by producing surplus after surplus. To a limited extent, we seem to be the victims of our own economic success with inflation being the price of such success. Hong Kong has always been a wise and prudent community seldom if ever enjoying the fruits of our hard work to the limit. We certainly do not believe in mortgaging our future for today's benefits. I believe that this conservatism has stood us well in the past and will continue to sustain us in the future. Nevertheless, it is only natural that expectations rise and this does not mean that every expectation is misplaced or indeed that all of them have to be met. I imagine it is in this respect that the Financial Secretary rightly feels that a balanced compromise should be struck. In so doing we must never forget that, whatever the community's expectations may be, we are not going to achieve any of our objectives unless, as you, Sir, said in your policy address last October, our economy remains dynamic and prosperous. Notwithstanding our past successes and our confidence in the future, we should not always assume that a forecast is a reality.

Sir, the one reality that is with us is inflation. The Financial Secretary tells us that there is little we can do to contain or influence inflation. On the monetary side, the constraint is simply US dollar interest rate as Hong Kong interest rates generally have to follow suit. The Government's commitment to the present linked

exchange rate system seems firm as witnessed by its determination to introduce negative interest rates earlier last year. I cannot help but wonder whether we should continue with the linked exchange rate and if so whether we should link the Hong Kong dollar to more than one currency. On the fiscal side, tax rates or the level of public expenditure gives us little scope as a reduction in tax rate is inflationary (or so we are told) as is increasing public expenditure. I believe that we could be somewhat more generous in personal allowances without fueling inflation. I sincerely hope that we do not need a recession to see inflation brought down to an acceptable level.

Sir, before I make some brief comments on the Financial Secretary's strategy for public finances, there are two general points I would like to make : the first concerns the timing when Members of the Council are supplied with the Budget and the Draft Estimates and the second concerns the details in the Estimates. Bearing in mind the demand on Members' time in other matters both in and out of this Council I believe Members can do with more time for reviewing the Draft Estimates. This would also help controlling officers and those assisting them in dealing with questions. As for the details in the Estimates and bearing in mind the Financial Secretary's statement that it is important to ensure that value for money is obtained, I would suggest that Estimates also indicate the reasons for variations where the Revised Estimate is less than the Approved Estimate.

Sir, the importance of close monitoring of public expenditure cannot be understated and I confess some anxiety over the Financial Secretary's statement that it is possible that the actual average growth rate of expenditure over the forecast period will significantly exceed the projected 4.8%. With the overall growth rate of 9% for 1989-90 which we can assume to be pretty accurate, the significantly lower growth rates of 2.5%, 3.1% and 4.6% for the three years thereafter, you do not have to be a mathematical genius to see that the average of 4.8% is arrived at by stretching out the projected 9% for 1989-90. There is a discernible change in the pattern of resource allocations over the forecast period with social services, education and environmental protection programmes accounting for an increasing share. This is a most welcome change and indeed, Sir, in line with your most recent policy statement. Apart from the adverse impact on the community if resources allocated to such programmes were to be turned on and off we also put up with the success of such programmes if we were not to continuously nurture them. Sir, I therefore want to emphasize once again the importance of value for money and vigilant monitoring of public expenditure, particularly when there are major infrastructural works in the pipeline in an inflationary environment.

In dealing with strategy for revenue the Financial Secretary has once again uttered those horrible words : Sales tax! The Financial Secretary has quite fairly restated the criteria. I am sure that those who do not favour the introduction of sales tax will examine the consultative document in due course with the aim of making him eat his words. Whether they will succeed remains to be seen. In my view there are two equally compelling reasons against the introduction of sales tax: The first is that it represents a fundamental change in our taxation policies. Let us not forget that not so long ago a change in the rate of taxation was regarded by some critics as a fundamental shift in taxation policy. What we need is consistency and stability. Some may even argue that it is as important if not more important than the linked exchange rate. The second is that it affects the less fortunate members of our community the most.

Sir, I should like now to deal with measures referred to by the Financial Secretary which I believe to be beneficial to Hong Kong other than in dollar terms. I welcome the introduction of a programme for the issue of short term Exchange Fund bills and therefore await details with great interest. I doubt whether it will help alleviate inflation, but if we are wedded to the linked exchange rate system, let us at least have the benefit of developing the Hong Kong dollar paper market and in this respect the streamlining of Protection of Investors Ordinance as indicated by the Financial Secretary would be another step in the right direction. There can be no doubt that Hong Kong's continued development as a leading financial centre is essential. In this respect several measures introduced in the Budget will be of assistance, namely, the abolition of interest tax and stamp duty on lending and borrowing of share scrip. The cost of these two measures is \$180 million, less than the budget of the Securities and Futures Commission, although all three emerged from the Securities Review Report. Despite my earlier comments on conservatism I do not know why we have had to wait so long for such abolitions. I suppose it is better late than never. I am particularly delighted the Financial Secretary has impliedly recognized that the abolition of interest rate tax will remove an inhibition in the development of the financial markets and in abolishing stamp-duty on lending and borrowing of share scrip, we are following internationally accepted practices in share settlement procedures because it would be extremely detrimental to Hong Kong if such measures were to be re-introduced in future. Given the objective of Hong Kong's continued development as a leading financial centre, I urge the Financial Secretary to crystalize his thinking as soon as possible on the issue of exempting unit trusts and mutual funds from tax on a wide range of profits they currently make as well as

whether gains made by venture capitalists on sale of venture capital type investments are liable to profits tax. In the same context I question whether the recovery of supervision costs in respect of deposit-taking companies is the correct approach. On the other hand if it were the correct approach it seems to me that they should be charged the rate that will permit full recovery of supervision costs, a course which I do not believe to be right.

Sir, with these remarks I support the motion.

MR. PAUL CHENG : Sir, I would like to pay special tribute to the Financial Secretary, the controlling officers and all relevant Civil Service staff members for their hard work and dedication in preparing the 1989-90 Budget.

The Financial Secretary must be the envy of many of his counterparts around the world to be in a position to announce a set of results which included a GDP growth rate of 7.5% in real terms, an increase in per capita GDP from \$65,000 to \$75,000, a surplus of \$14.2 billion and a consolidated reserve approaching one year's expenditure.

This was achieved during a year of global uncertainties following the financial crisis of October 1987. The unexpected surge of trade between Taiwan (and to a lesser degree Korea) and China using Hong Kong as the "middleman" certainly helped. But in the final analysis, it is still the ingenuity of the Hong Kong people who made it happen.

Having now served on this Council for some six months, I have come to realize that a Legislative Council Member is like an outside board director of a private sector corporation. We are here to give advice and make comments, some louder than others, but in the final analysis the management runs the show. The 1989-90 Budget has been printed with the word "draft" on the covers. They are called "Estimates". However, I am led to believe they are indeed the approved final Budget.

As such, I will refrain from commenting on specific numbers but instead express some general observations and put down some markers in the hope that they will be helpful to those who will be preparing next year's Budget.

Sir, the nationality question, the Vietnamese refugee problem, the Basic Law and

the future political structure are all undeniably important issues. On the other hand, we must not forget the things which form the basis of what many regard as the "Hong Kong miracle". We must give equal time to ensure that Hong Kong continues to be the place of choice for international organizations wanting to play a role in the upcoming Pacific Era -- by either making direct investment here or using Hong Kong as a staging point for the region. We must assume the commercial leadership role as we move to become part of a 100 million population market through our vanishing border with southern China. Where there are risks -- equally there are opportunities.

6.00 pm

HIS EXCELLENCY THE PRESIDENT: Mr. CHENG, I am afraid I must interrupt you at this point since it is now six o'clock and, under Standing Orders 8(2), the Council should now adjourn.

ATTORNEY GENERAL: Sir, with your consent, I move that Standing Order 8(2) be suspended so as to allow the Council's business this afternoon to be concluded.

Question proposed, put and agreed to.

HIS EXCELLENCY THE PRESIDENT: Mr. CHENG, please continue.

MR. PAUL CHENG: I am in full support of the budgeted plans to continue to increase tax concessions, and spending on social services, education and housing to the degree that these areas will represent 45% of total expenditure during this fiscal year. I had hoped the Financial Secretary would have taken the corporate profits tax down to 15% in order that we could maintain our distinct advantage as a favourable tax environment, especially as some other countries have recently been quite aggressive in lowering their profits tax. There is no real justification for maintaining the differential between tax on corporations and on individual taxpayers in a free market.

As for personal taxation, the increase on personal allowances should have been increased by a higher margin than those recommended for both individuals and married couples. The clawback feature should have been abolished so that the "sandwich" class

would not be "sandwiched".

Whilst still on the subject of tax, let me just say that the issue of sales tax must be carefully thought through. From a public relations point of view it should probably be called a wholesale tax to avoid the possible confusion of the public thinking that it is a levy at the retail level. I agree with the Financial Secretary's plan to seek "technical" consultation from selected professional groups. I just hope it does not mean he plans to by-pass a more open debate on the issue. I am all for being prepared but the implications of such a levy are so wide that it would be wrong to push it through without proper consultation. There may well be alternatives. With projected surpluses for the next few years there is no real rush. On the other hand, I am glad some concrete action is being taken on a separate taxation for married women. The abolishment of interest tax, the fact that there seems to be light at the end of the tunnel on taxation of the shipping industry and a promise to look further into dropping or reducing taxation on profits derived from unit trusts, mutual funds and venture capital activities are all welcoming news. These will all contribute towards maintaining international investment interests in Hong Kong at a high level.

I would like to propose consideration be given to the establishment of a taxation advisory committee so that appropriate expertise can be drawn from the community to help Hong Kong take a comprehensive look at our taxation system -- both technically and from a socio-economic point of view.

I applaud all the plans to continue to improve the infrastructure. But, let us please get on with the new airport. How can we possibly remain a leading business and financial centre if our airport is inadequate? Do we have to wait for the technical consultants to decide where we should build it before we make a definitive commitment? It worries me to hear the Financial Secretary merely mentioning in his speech "..... we expect to be in a position to announce a decision before the end of this year". I hope we are not still debating whether we need a new airport or not. The sales tax can wait but the airport cannot.

I am pleased to see that the Government is finally "on the move" in the fight against pollution. It is certainly good news to learn that the Executive Council has rectified the White Paper with its \$20 billion package yesterday. I fully support waiving the usual public consultation in the form of a Green Paper. I am sure there is no question in anyone's mind that urgent action is required. I just hope it is not too late. If we do not declare an all out war we may have to swim upstream in

polluted waters for a long time to come. Money alone is not enough. It must be accompanied by tough legislation. Take the issue of leaded gasoline versus unleaded. Many countries have banned leaded gasoline. Why are we so slow in making a decision which is so obvious? Finally, I must also call on the industrialists to play their part as responsible community citizens.

Another marker I would like to put down is on subventions. Just on "miscellaneous" we are talking about over \$1 billion -- not to speak of subventions under all the other headings. From social welfare to medical health care to culture to sports -- many worthwhile projects and organizations, some very well managed, others are not -- receive subventions. Do we have a quality control procedure so that valuable funds can be directed more to the right bodies and institutions? Is there an overall policy governing this area? To what degree should we privatize? Perhaps it is time a comprehensive audit is conducted to reduce wastage and ensure taxpayers get their money's worth.

In conclusion, let me say that it is unlikely we will see World War III, but a major trade war is certainly on the horizon. Protectionistic blocs such as the European Community, the North American alliance and ASEAN (recently making overtures to the United States) are all gearing up to counter the Japanese invasion. Where does that leave Hong Kong -- a tiny dot on the map? There does not appear to be too much choice other than for Hong Kong to play a major role in the emerging Greater China, that is, People's Republic of China, Taiwan, Macau and Hong Kong. We must base our future economic and political strategies on this premise, even as an autonomous Special Administrative Region.

Sir, with these remarks, I support the motion.

MR. MICHAEL CHENG (in Cantonese): Sir, the main objective of the Budget should be the maintenance of social stability and continuous economic growth. It is evident from this year's Budget that with the sustained economic growth, the bumper revenue and a sound financial system, Hong Kong is financially capable of maintaining and promoting social prosperity and stability. However, upon analysis, the Budget can be simply described as "long on prudence but short on innovations". There is a lack of concern for the community as a whole in the allocation of resources.

In the previous financial year, the overall surplus amounted to \$14.2 billion. This substantial surplus is more than double the \$5.5 billion budgetted surplus.

This indicates, on the one hand, that the Financial Secretary's projection last year was less than accurate and, on the other hand, that the Financial Secretary was over conservative in financial management. Despite the colossal surplus this year and a generous increase in expenditure estimates, the allocation of resources seems to have been done in a "perfunctory" manner, failing to reimburse to the community in areas where actual needs are identified. The allocation is less than fair and far from innovative.

Without doubt, the "sandwich class" makes up the overwhelming majority of the community. They can be aptly described as "the pillar of the community". However, I think the allocation of resources in the Budget is made without sufficient regard for them. This runs counter to the principle of fair distribution of wealth. The commercial and industrial sectors of Hong Kong are faced with threats and difficulties brought about by the slowing down of domestic exports growth, the diminishing demand in overseas markets, a more integrated European economy and the intensification of international trade protectionism. Nevertheless, the Financial Secretary has failed to make any contingency arrangements. The Budget is indeed a bit wanting in foresight.

In this connection, I would like to make the following suggestions.

Taxation

This year the Financial Secretary proposes to increase the basic personal allowance by \$3,000 for a single person and by \$6,000 for a married couple, thus bringing the personal allowances for these two categories of taxpayers from \$36,000 to \$39,000 and from \$74,000 to \$80,000 respectively. I think this adjustment is a bit on the low side. The general feeling is that the inflation rate last year was more than 15%. The increases in these allowances, being less than 10%, fail to keep pace with it. As a result, the quality of life for the sandwich class is eroded. Therefore I think that it is more reasonable to further increase personal allowance from \$39,000 to \$43,000.

At present, the younger generation is more willing to respond to the Family Planning Association's "two children" appeal. It does not make sense to most families to retain the child allowance for the third to ninth child. I consider more appropriate that their aggregate allowances of \$12,000 should be evenly split between the first and second child. Such an arrangement will benefit more taxpayers and

indirectly encourage birth control.

For single-parent families, the Financial Secretary has created an allowance of \$20,000 for single parents who are solely or predominantly responsible for the care of their dependent children. On the face of it, it does sound like a generous offer. However, a close scrutiny reveals that a single parent with one child making an annual income of \$72,000 will automatically fall into the tax net. It is doubtful that the offer can be of any genuine help to them. It is hoped that the Government will take better care of these families, which are growing in numbers.

Sales tax

The Government is making preparation for the introduction of sales tax. Sales tax is complicated in nature and has profound implications. Its imposition will only be detrimental to Hong Kong's simple tax system. Our simple and flexible tax system is one of the major attractions to many investors in Hong Kong. Any change from a simple tax system to a complicated one will only make the investors feel uneasy and undermine our economic prosperity. At the same time, the complicated system of sales tax will inevitably lead to expansion of the administrative machinery and a rise in cost after implementation. The natural result will be a reduction in the actual revenue and we will stand to lose more than to gain.

The Financial Secretary plans to introduce sales tax at the wholesale level. However, the distinction between wholesaling and retailing is often vague. Necessities probably will not be subject to sales tax. But, what are luxuries? What are necessities? Again, they defy a clear line of distinction. These will definitely create numerous problems when it comes to implementation.

Sales tax is like a powerful vacuum cleaner which spares nobody. It is to be indiscriminately levied at a uniform rate on everybody in the community, from the rich to the poor. This does not concur with the principle of social equity. At a time when Hong Kong is coming under the pressure of inflation, the introduction of a sales tax will only result in higher commodity prices. This will not only deal a blow to the purchasing power of the general public but also exacerbate extra burden on the sandwich class. The lack of care for the interest of this group and the additional tax burden heaped upon them will give rise to anxiety, thus impairing social stability. Take Japan for example where sales tax was recently introduced. Since the introduction of sales tax, the shops there have to mark up prices in order

to make good their dwindling business, thus directly weakening the purchasing power of the general public and lowering their quality of life.

In view of the above, it is feared that it will not be easy to achieve the principles of "minimum interference with the economy" and "easy implementation and at low cost" as stated by the Financial Secretary. I urge the Financial Secretary to think twice.

I think that a more reasonable approach is to maintain a balanced budget and keep expenditure under due control. Besides, efforts should be made to plug up loopholes for tax evasion. I believe that this will be more advantageous to the development of Hong Kong than the introduction of sales tax.

Housing policy

In view of the huge budget surplus, I think that some of our reserve balances should be effectively used to help the middle-income families satisfy their need for housing which is one of the necessities of life. With the sky rocketing property prices, people of the "sandwich class", who have exceeded the income limits for public housing or Home Ownership Scheme flats, find it extremely difficult, if not impossible, to become flat owners. Although the Financial Secretary generously lowered the rate of stamp duty payable on assignments last year, it did not help much in solving the problem. Hence, I propose that the Government should try to help the middle-income group by taking the following measures: 1) Partially or wholly tax free loan, in the form of mortgage, should be made available to people who buy their first flats for self occupation; 2) Home Ownership Scheme Fund should be increased, preferably by 30%, to enable a larger supply of Home Ownership Scheme flats in the market. On the other hand, income restriction for qualified buyers of Home Ownership Scheme flats should be raised from \$10,000 to \$12,000 and subject to annual re-adjustment so that more people of the "sandwich class" can be benefited; and 3) The interest-free home purchase loan should be revised from its ceiling point of \$110,000 to \$150,000 so as to keep in line with the current high level of property prices. Besides, quota for home purchase loan should be increased to provide the sandwich class with better chance of acquiring a home of their own.

Medical services

A 8.9% increase in the estimates of expenditure on medical and health services as compared with that in 1988-89 is noted in this year's Budget. However, many areas

in medical and health services are in need of improvement and further development. In his speech during the adjournment debate on Medical and Health Services in Public Sector Hospitals this March, the Secretary for Health and Welfare committed himself to the task of "upgrading the quality of our medical and health services", which include additional provision of medical facilities, improvement in the working conditions of the doctors and the establishment of a special committee to deal with practical and staffing matters. To couple with this improvement plan, there is an increasing demand for the expansion of medical services. It is rather doubtful that a meagre budget of some \$5.56 billion would be sufficient to bring about the necessary improvement to our medical system and the quality of its services, not to mention that these two areas have been the subjects of constant criticism for decades.

During the same adjournment debate, I have urged the Government to improve the ventilation systems in public sector hospitals by providing more air-conditioning facilities to reduce the risk of cross-infection. This, despite its substantial cost, will have great recuperative effect on the patients. It is hoped that the Government will take this matter seriously and speed up the installation of these additional facilities. I have also put forth a series of proposals on how to improve the quality of various medical services, including the out-patient and dispensary services, provision of hospital blankets and clothes, provision of hospital beds and staffing arrangements. I beg to request the Government for prompt action in allocating the necessary fund for the implementation of these proposals.

Industrial and commercial developments

At present, the industries in Hong Kong can still manage to survive the pressure of labour shortage and exorbitant factory rents by taking advantage of the expanding back-up areas in cities along the Chinese coast, which serve them as workshops for their production and processing activities. However, under the growing threat of international protectionism, low production cost is no longer an advantage we can rely upon to hold our competitive edge in the overseas markets. In his budget speech, the Financial Secretary expected "domestic exports to rise by 7% and re-exports by 22% this year." In fact, "re-exports have increased by an average of 34% annum" over the past three years while "re-exports overtook domestic exports in 1988". These are signs that the development of our economy is now undergoing a transformation process. Thus, there is a pressing need for the industries in Hong Kong to make early adjustments and, at the same time, take the course of going high-tech.

Almost all major industrial countries have now started developing high technology and making progress in that direction. If Hong Kong is to enhance the competitiveness of its industrial products in overseas markets, we will have to catch up with the other countries and keep pace with their progress. The development of high-tech industry is the only means to maintain the momentum of our industries. The Government has already set up the Industry Advisory Board to advise on ways to promote industrial technologies. Notwithstanding this, I still consider it a task of utmost urgency to assist our industries to go high-tech. The Government should make every effort to show its commitment to the high-tech development in Hong Kong by providing sufficient resource and the necessary facilities to enable local industries to go high-tech.

In order to go high-tech, we need to have the necessary expertise and personnel responsible for research, management and development. Of course, the training of personnel will certainly take time. I therefore urge the Government to make available funds for the setting up of a "High-tech Industry Development Council". This proposed council should be entrusted with the task of conducting researches into the world trend of industrial development, co-ordinating the promotion work on local high-tech development, facilitating Hong Kong industries to keep abreast with the prevailing trend of development in the world and stepping up the training of skilled engineers and technicians. It should also work closely with the Trade Development Council in promoting local technology products and strengthening the competitiveness of our industries. This is, indeed, a worthy project we should rightly endorse as our long-term plan.

On the other hand, the industries and economic structure in Hong Kong are undergoing changes as a result of growing re-exports and the opening up of industrial back-up areas across the border. In the light of the prevailing development trend of Hong Kong's economy, it is envisaged that the service industry will become increasingly important in the days to come. Since a great number of professionals in the service industry have emigrated to other overseas countries in recent years, I would like to urge the Government to make appropriate adjustments in response to the development trend. Funds should be made available for the training of professionals needed by the commercial and financial sectors in order to tie in with the future economic development in Hong Kong.

I firmly believe that if the present transformation process of our economy can proceed without a hitch, we shall be able to expect a greater degree of prosperity

and advancement in Hong Kong.

Vietnamese boat people

Sir, before I conclude my speech, I would like to say a few words about how I see the Vietnamese boat people problem from the budgetary point of view. Today, we are beset by a continuous influx of Vietnamese boat people. The number of Vietnamese stranded in Hong Kong has already swollen to a total of 28 963. Accordingly, Government's expenditure on these boat people has also increased considerably. In the Budget, a 37.5% increase in the expenditure estimate on the Correctional Services Department is observed. This increase is presumably the direct result of its involvement in the management of the various centres of the Vietnamese boat people. Besides, hundreds of million dollars was spent to meet the huge cost of setting up new detention centres and the extra expenses on the management and supervision work arising therefrom. Members of the public have long felt that such enormous public spending on these Vietnamese boat people is in fact "money wasted". Should this colossal sum of public money be devoted to help the needy in our community, it will definitely be more beneficial to the people of Hong Kong. Moreover, the centres for these boat people have taken up much of our land resources which could otherwise be developed for more useful purposes, thus jeopardizing the strength of our economy. The Financial Secretary has made it clear that the growth of public sector expenditure has exceeded our economic growth and that the civil service establishment has grown at a greater rate than that recommended by the government guideline. This is a disturbing trend. Worse still, the influx of the Vietnamese boat people has been aggravating this worrying situation. I therefore call upon the Government to urge the British Administration to adopt a positive attitude in implementing the mandatory repatriation policy. Besides, all expenses arising from these boat people should be borne by the United Nations High Commissioner for Refugees and the United Kingdom instead of leaving Hong Kong to take the lion's share of this expenditure. I ardently hope that a solution to our Vietnamese boat people problem will soon be coming in sight to enable us to save some of our public expenses.

Sir, with these remarks, I support the motion.

MRS. FONG: Sir, the 1989 Appropriation Bill has a refreshing element. It is the awareness of the need to set money aside into a reserve account for future infrastructural development programmes.

The historical approach of trying to balance the Budget each year is very short-sighted. Making minor upward and downward adjustments to the tax rates, personal allowances, or licence fees because of an increased demand for revenue, or every time an increased level of business activity threatens to provoke a surplus, is not the proper way to plan. As with business, Government should take a long-term view. It should look at periods of from five to 10 years to project both its capital and recurrent expenditures. The Government should not be embarrassed by a surplus. It should not feel pressured into reducing the tax rate just because there are surpluses, if there could be a need for the revenue later in the plan period. Likewise, if the economy should suddenly fall short of expectations, and provoke a sudden shortfall of revenue, the Government should not be embarrassed to accept the fact that it is to have a bad year, and either cover its needs from reserves, or borrow. If this was to happen, members of the public would not be surprised by being told to pay less when they earn more and to pay more when they earn less.

Sir, I think it is timely to have a thorough review of the Hong Kong tax system. It is not that the territorial concept, or the low tax policy, have not worked. It is because Hong Kong is becoming increasingly important in the international scene. In these circumstances, we need to focus on several areas in order to position ourselves in the international arena. Examples of matters that indicate this need are:

(1) As China increases its participation in the world economy, and in international trade, it has concluded double taxation agreements with over 20 countries. Hong Kong, however, does not have double taxation agreements with any country, including China. This gives Hong Kong, and its residents, a disadvantage in relation to China.

The issue is that the Hong Kong and China tax laws overlap when it comes to companies and people from one having an activity in the other, or in both Hong Kong and China. In these circumstances, tax can be due to both governments if the tax laws of each are observed to the letter. The same overlap exists in the case of other countries and China. But they agree on how to apply the rules equitably, to avoid double taxation and set out their agreement in their tax treaties. The taxpayers then end up paying tax only once; either totally to one government or to both, with the aggregate not exceeding what would be due to one. As a result, trade and other business activities between the two countries are given conditions in which they can

prosper. For China and Hong Kong, the amount of tax involved (the double tax) is not large. But for the companies, and the people concerned, it is. Furthermore, the fact that they pay it, or may be required to pay it, is counterproductive. It is, in fact, against the interests of both Hong Kong and China. Accordingly, I believe it is time for the Chinese and Hong Kong Governments to enter into a memorandum of understanding to put Hong Kong companies and residents on an equal footing with those countries that have tax treaties.

Trade and investments between Hong Kong and China have increased immensely despite this problem and Hong Kong companies are progressively expanding their activities in China. However, the situation is not as good as it looks. Some companies, and their employees, are not even aware that they could be required to pay, or should be paying taxes to both governments. If they were, they could realize that the economics of the business are not there. This could lead to their relocating their bases to another country which has a tax treaty with China.

As a general rule, overseas investors have not been taxed on profits from dealing in shares in the Hong Kong stock market. This is because it has not been made clear that consistent dealing amounts to carrying on a trade or business. Thus, either they, or their agents, have taken steps to compute and report their profits from these activities. In my view there is a need to clarify whether or not these activities are taxable.

When matters consistently come up for review or appeal, there is usually an indication that there may be a problem with the rules that cover the matter. Over the years, there have been many cases that were handed down with varying decisions on a number of issues by the Board of Review and the courts. The Inland Revenue Department and the taxpayers spent a lot of time and money arguing the cases. The most common issue is on the determination of the revenue versus capital nature of transactions. Another issue that has attracted a lot of attention recently relates to the taxation of benefits-in-kind. In my view, there is a need for the tax laws to be reviewed in these areas.

A learned colleague earlier had mentioned about the need to examine the taxation of unit trust and venture capital gains. These are certainly areas that should be focused.

In the past, the Government formed Inland Revenue Ordinance review committees

to review the Ordinance. The committees examined the Inland Revenue Ordinance and suggested ways in which it could be improved. The last review committee presented its report in 1976. Prior to that date, reports were presented in 1967 and 1954. If we count the years between the reviews, it is clearly time for another review. In the light of increasing confusion over the interpretation of the tax laws, and supporting Hong Kong's growth as an international financial centre, such a review requires our attention. Sir, the next area I would focus on is the general sale tax.

The Financial Secretary has suggested an increase in the proportion of indirect taxation, to broaden the tax base to provide a more stable source of revenue. The advantages of increasing the percentage of tax collection from indirect taxation are clear, but it would be ill-advised to think that a general sales tax is a solution and ignore other serious implications.

Because of the enormity of the decision to impose a general sales tax, and considering that it is a radical change to our tax system, the issue should be carefully examined. It is not enough for the Government to propose a sales tax and then publish a consultative document. The Government should appoint a special committee to examine the issue, weighing the advantages and disadvantages of imposing a sales tax and looking at other feasible alternatives.

My final point is on monetary issues. With regard to the proposed issuance of Exchange Fund bills, I believe that we must study the entire proposal carefully. I understand that the proposal is that the Exchange Fund bills are to be short-term bills, used as a monetary instrument and not for revenue-raising purposes, and that they are to be available only for exchange fund purposes.

While I support the issuance of government bills, it is the Exchange Fund connection that I am questioning. We understand that the Exchange Fund plays a major role in Hong Kong's monetary affairs, but the assets of the Exchange Fund are managed by the Exchange Fund Committee which is completely separate and not within the control or surveillance of the Legislative or Executive Councils. There is a lack of public accountability or information available in relation to the management of the funds, usage and so on.

The Government should be free to issue bills to finance large capital projects, such as the building of tunnels, highways, or the second airport, or merely to act as monetary instruments. The exchange fund could still be awarded a role to play on the management of the bills. However, the Government must be accountable to the

public for the money so raised. For these reasons, I am not in favour of it being grouped together with the existing exchange fund.

In conclusion, I do believe that a well prepared budgetary plan, and a fair but effective tax system, are key factors to a sound economy. In this respect, we need to review the concept of budgeting, to eliminate the yearly minor adjustments to tax rates and to concentrate on formulating longer-term budget plans. We must completely and systematically review and revise our tax system to promote investment in Hong Kong and to encourage and support Hong Kong's growth as an international city. We must also focus on the issuance of the exchange fund bills to achieve full accountability if money is to be raised from the public.

Sir, with these remarks, I support the motion.

MISS LEUNG (in Cantonese): Sir, when the Financial Secretary presented the 1989-90 Budget to this Council on 1 March, he made it very clear in the first place that in preparing the Budget, he had to take into account three key factors: inflation, the accumulation of substantial budget surpluses and the need to embark upon a major programme of infrastructural works. These factors, especially the last one, will constitute the salient points of my speech.

Sir, no matter when a public budget is presented, it is not easy to please everybody. Any revenue or expenditure proposal, be it a suggestion for some changes or no changes at all, is bound to affect the vested or anticipated interests of certain groups or individuals.

A proposal in favour of certain groups or individuals may very often than not be unfavorable to others. It is impossible to keep everybody satisfied. Those groups and individuals that stand to gain from a proposal would of course applaud it while the affected ones would, on the other hand, criticize it or even become so emotional as to lash out at the Government. Tax concession proposals are perhaps the only exceptions that can easily find favour with everybody and are welcomed by all. There is nothing peculiar about this. I think it only reflects the selfish nature of mankind. Although this very nature is the prime impetus for creating wealth and sustaining a prosperous society, we must not allow it to go beyond the commonly accepted limit to the extent of hampering public interest.

I think that as a member of the community, everyone has the obligation to maintain

the effective functioning of the machinery of Government and to safeguard its ability to serve the people. We should understand that it is our fundamental duty to pay a right amount of tax at regular intervals; the tax paid should not be regarded as Government's money. It belongs to the people. I believe that only with sufficient revenues from tax collection can the Government obtain enough resources to operate, make plans for development and strive to raise the average living standard of the general public.

Sir, Hong Kong's economic growth has begun to show unmistakable signs of slowing down since last year. It seems that Hong Kong will not be able to achieve the tremendous economic growth of the past two years for some time. However, our economy remains buoyant and is still operating at full capacity. As a result, the supply of various resources has gradually fallen short. The strong demand for resources, which leads to a steady rise in production costs and prices, has the effect of inhibiting economic growth. In fact, every time when economy develops to a certain level, it will unavoidably slow down to start on another economic cycle.

Hong Kong's externally-oriented and export-led economy has, on the whole, been performing quite well so far. In looking forward, we can still optimistically expect sustained economic growth in a few years ahead. Such remarkable economic performance is, I believe, the result of a favourable economic climate and the geographical advantage of Hong Kong and more significantly the concerted efforts of both our people and the Government. Local residents working in various sectors are mostly industrious, quick-minded and responsive. Their contribution towards the local economy has eventually made Hong Kong an economic success. Moreover, the Government has been able to make suitable arrangements at the right time and firmly maintain the linked rate by keeping the local currency steadily pegged to the US currency. Thanks to this protective measure, our domestic exports have remained highly competitive against our major rivals whose currencies have appreciated considerably.

Sir, our economic success has given rise to the aching problem of inflation. This is largely due to our fast growing economy which is already overheated. The overheating has readily pushed up inflation and it is quite unlikely that this inflationary pressure can be eased in the near future.

I believe there is little the Government can do in view of this unfavorable development. The Financial Secretary has stated that given Hong Kong's circumstances, no effective monetary or fiscal measures were available to curb

inflation. The only thing that could be done was to try our best to keep our own house in order. I think this point of view, though it sounds resigned, is understandable.

Though inflation may not be avoidable, I think if the Government tries to handle those tractable problems with caution, for instance, to try to selectively curb some of the internal demands, it may to a certain extent help prevent inflation from spiralling out of control.

Sir, the Financial Secretary said that government expenditure in 1988-89 would surely exceed what was estimated. As for public revenue, the out-turn would be significantly higher than expected. He expected an overall surplus in 1988-89 to be in the range of \$14.2 billion, exceeding the original estimate by \$8.7 billion. He also admitted that such substantial surplus would far exceed the amount needed to maintain the level of reserves in real terms.

Purely from an economic point of view, I think that as we have unexpectedly accumulated such a huge surplus, it is quite appropriate under the present condition to save it up for the need of future developments. Although this arrangement would dash the hope for an increase in the provision of public services or disappoint those who are looking forward to tax concessions, it helps ease the inflationary pressure and thus prevent inflation from picking up speed. On the other hand, it can also put us in a better financial position to take on major public development programmes in the years ahead.

Sir, the Financial Secretary believed that there was a need for stability and continuity in the management of our public finances. I think this is beyond dispute as far as major objectives and broad principles are concerned. He also insisted that central to the strategy for managing public finances was the discipline that public expenditure should be based on the trend growth rate of GDP. He argued that as the trend growth rate was subject to considerable variations, we must therefore seek to maintain stability in public expenditure growth. Undoubtedly, steady growth is essential to the orderly development and expansion of public services. To maintain stability in public expenditure growth, I think the best way is to make use of the Medium Range Forecast in the advance planning of future expenditure programmes.

The Financial Secretary claimed that the allocation of resources over the various programme areas had, in general, remained fairly steady in recent years. In looking

forward, he expected the social services and education programmes to account for an increasing share of resources in the next few years to come. Nevertheless, he also pointed out that in order to take the opportunity to go ahead with our major essential infrastructural development, we have to accept public expenditure that exceeds the level stipulated by the budgetary guidelines. I agree that his view has taken full account of the actual situation in Hong Kong.

Sir, regarding the strategy for revenue, the Financial Secretary is of the view that sales tax is a more satisfactory form of taxation. Sales tax would widen the tax base and generate much more stable income. I think this is only partially true. As regards the aim to create a source of stable income, it may not be easy to achieve this end by introducing such a tax as there may be various circumstances rendered by a booming economy or an ebbing economy. As far as tax base is concerned, sales tax is meant to expand the scope of taxation with a view to reducing certain existing taxes, especially direct taxes. However, direct tax rates in Hong Kong have always been very low. The corporate profits tax rate and the standard rate for income tax are low enough to astound any foreigners. I think, when necessary, we can consider raising the rates of certain direct taxes, the two I have mentioned for instance, so that we can move closer to the ideal of having those who can afford it taxed more and those who cannot less. Basically, I would not welcome such tax policies as to be unfavorable to the lower income group.

Sir, for the sake of sustaining our economic growth in the '90s so as to place Hong Kong in a better position to face the challenges of the next century, I think substantial improvements to the existing infrastructural facilities and implementation of adequate new infrastructural projects of large scale are the correct approach that should be adopted without delay. I believe that if we embark upon the various essential infrastructural programmes, it will not only provide a better foundation for our future economic growth, but also be of great political value. The more major projects and public development programmes are carried out, the more confidence we would have in Hong Kong's political future and more secure our prosperity and stability would be. With the admirably hefty budget surpluses and reserves at present which are expected to continue to grow at least for the next few years, I think it is the right time to use the surpluses to improve and develop the necessary infrastructure.

It is heartening to learn that the Financial Secretary has indicated the need for the Government to make provision for those major infrastructural projects that

are likely to start in the years ahead, including road and rail networks, port development and drainage and sewage projects. Some of them are not included in the on-going basic public works programme. Also, it is now certain that the new international airport project will be implemented. The Government will make a decision on how best to integrate this project with the overall infrastructure programme and other developments such as the new generation port facilities before the end of this year. This project will be the largest infrastructural project ever undertaken in Hong Kong, costing more than \$40 billion. It is going to have far-reaching implications on our future. These are indeed very good news.

Sir, I always hold the view that when it comes to major infrastructural developments, it would be best if we could make full use of private sector resources. It is worthwhile to allow non-government organizations the opportunities to undertake some of those projects. As I pointed out during the policy debate on 10 November last year, "This will lessen reliance on public money and avoid bureaucratic red tape on the one hand, and provide investment opportunities for private capital and bring about greater operational flexibility on the other". As for the new international airport management framework, I propose to set up a statutory body after the fashion of the Mass Transit Railway Corporation and the Land Development Corporation for this purpose. Statutory bodies of a similar nature can also be set up for other projects of equal scale, such as the new-generation port facilities.

Sir, since the Financial Secretary feels that the Government has now the ability and need to put some money aside to meet some of the considerable expenditure involved in infrastructural development, he proposes to start making regular transfers from the General Revenue Account to appropriate funds in the forthcoming financial year of 1989-90. In this way, some of the accumulating surpluses will be earmarked to finance the infrastructural development programme over the next 10 to 15 years. In general, funds will be transferred both to the Capital Works Reserve Fund and to a new fund. These proposals convince me that the Government is trying to cash in on the healthy state of public finances at present and for the next few years to come to upgrade and develop our infrastructural facilities with a view to providing a better economic groundwork for the future development of the territory in the hope that our quality of living be enhanced.

Sir, with these remarks, I support the motion.

MR. MCGREGOR: Sir, on this Council I am the elected representative of, I believe, the largest employer organization in Hong Kong whose members' collective contribution to our trade-led economy is also very large indeed. I have therefore to try to keep this in mind when commenting on the Budget proposals. I am glad to say that the members of my constituency, broadly speaking, seem to have taken a relaxed and generally supportive view. At least they have not complained or even grumbled much. They have described the proposals as unexciting, unimaginative and not unexpected. In other words, a very good Budget. The comments I offer are therefore my own and I shall probably be hung for them -- if the death penalty is ever applied!

The mass of figures appearing in the Financial Secretary's budget speech and its accompanying documents spell out a picture of strong economic growth, solid infrastructural and institutional development, diversification of external trade, expanding co-operation with China in a wide variety of economic activities, and very considerable forward planning in all sectors of the economy and society. The budget speech also highlighted some of the major problems and worries with which we have had to contend and which continue to pose a threat to the continued rapid expansion of our economy. A worrying problem is the growing rate of inflation, already at an uncomfortably high level. Another is the fear of trade protectionism applied by the governments of some of our major markets. I would remind Council Members that such restrictions are not always easy to detect in their early stages nor do they apply only to tariffs or import volumes but can be, and are, dressed up in a variety of guises by governments determined to protect domestic industries by limiting competition from imports. The recent European Community anti-dumping actions against Hong Kong are indicative of this kind of unfair barrier to trade.

Our problems also include the impact on the economy, and of course, on inflation, of a very large and apparently growing labour shortage. This is a complicated issue which is now being addressed in representations from the private sector to the Government so I will not dwell upon it except to say that imported contract labour could be important, in my view, to the further growth of the economy.

The Financial Secretary has explained how inflation occurs in Hong Kong and why it has risen to a rather high level. He has also expressed the view that later this year some reduction in demand for our goods and services should begin to bring inflation down. I would suggest that this is problematical. Part of the inflationary pressure arises from the HK-US dollar link and the relative weakness of the US dollar against other major currencies. Our exports are thus in strong

demand and our imports, greater in value than our total exports, are heavily purchased from countries whose currencies have greatly appreciated against the US and HK dollars during the last two or three years. The higher costs for Japanese, Korean, Taiwanese and West European materials, machine equipment, components and so on feed through the economy and have an effect on domestic prices and, eventually, on wages. This situation is likely to continue as long as the US dollar remains relatively weak.

I do not for a moment suggest that the HK dollar link with the US dollar should be removed or adjusted but I believe that it should be acknowledged as at least one factor in the build up of our inflation rate. The shortage of labour across almost the entire economy is certainly another factor, driving up wages and reducing efficiency. This has to be taken in conjunction with a further, and deeper seated, problem, the brain drain.

I accept, however, that much of our inflation is caused by factors beyond our influence and control, determined by what is happening in our principal markets and to the principal currencies of the world. In this kaleidoscope of shifting economic and financial relativities, it is fortunate that China, despite very considerable domestic, economic and fiscal problems, has continued to deal with Hong Kong even-handedly. The Chinese Government has clearly tried to ensure that prices for PRC products are not prohibitive to Hong Kong and also that Hong Kong companies, in their thousands, can continue to develop mutually beneficial business in and with China. The 1.5% overall increase last year in prices of Chinese goods supplied to Hong Kong was obviously far below the Chinese inflation rate for 1988.

We have had three years of very large economic growth and, as a result, we have salted away some massive surpluses in public funds adding these to our already large financial reserves, which now stand, I believe, at about \$60 billion rising probably to about \$71 billion by the end of the present tax year or about equal to our proposed expenditure for 1989-90. Very few countries can lay claim to such a satisfactory state for national financial reserves, especially given the fact that further substantial surpluses can be fairly confidently predicted for the years immediately ahead. Most countries, if they ever record a surplus in government accounts, need to use some of it to reduce the national debt. Nigel LAWSON has just done so and must envy Piers JACOBS who has put his surplus in the bank. I have therefore read carefully the Financial Secretary's statements on his strategy for public finance bearing in mind the need, on the one hand, to contain inflation as far as possible and, on the other, to provide sufficient funds for steady and productive public sector

growth. I applaud the policy he has set out but I should like to suggest that the state of our public finances is such that he need not worry too much about slavishly following arbitrary formulas and guidelines for public sector expenditure. The trend GDP growth rate of 6% he has estimated for the next five years might well be exceeded. Indeed, if results for the last three years are anything to go by, that estimate will be exceeded. Even if it is not, there may be strong and good reasons for the Financial Secretary to spend more on certain essential functions within the economy which could result in a higher public expenditure growth level than a 6% GDP growth would appear to justify.

The Consolidated Account expenditure has in recent years been kept at around 15% and 16% of the GDP. This historical relationship between Consolidated Account expenditure and GDP should not, however, inhibit the Financial Secretary when determining whether money should be spent on important economic and social projects especially if these in turn will improve our ability to compete in the international market place and to generate wealth.

Equally, the Financial Secretary need not apologize for being unable to keep the growth of the Civil Service to 2.5% during this financial year. A growth rate for 1989-90 of 3.9% is not the end of the world and I, for one, was not at all surprised that this guideline had to be exceeded. A contented and efficient Civil Service is just as essential to our future as a competitive private sector. The Bremridge years were marked by a determined reduction in the growth of public sector spending and especially in expenditure on the Civil Service which had to accept a policy of zero growth for some time. We are beginning to see the effects of this somewhat arbitrary action with many government departments understaffed, some under-equipped and, some people would claim, in at least some cases, underpaid. There has certainly been a great deal of discontent in recent years in the Civil Service and this cannot be good for Hong Kong.

I suggest we should not operate a stop-go growth policy in public expenditure. When we have experienced the occasional deficit and the possible threat of another, we have tended to panic a little and to reduce growth in expenditure on sometimes essential economic infrastructure and social services too sharply. The delays in construction of the Tolo Highway and the Island Eastern Corridor spring readily to mind. Our government medical services may well be another example. It is ironic that we can apparently afford to spend millions of dollars on charitable donations to other countries when we cannot adequately look after our own sick and handicapped

people and those who minister to them; when we can claim to have some of the most expensive real estate in the world yet we cannot house squatters and underprivileged persons who have been waiting for accommodation for many years.

I do not therefore believe that there is any special magic in precise proportionate budgetary guidelines. They should be realistic aiming points but they should also not be used to hinder public spending on essential infrastructure and services. With the present strength of our economy, our reserves and our prospects, I am sure that the Financial Secretary can safely place the public interest in the longer term above arbitrary mathematical constraints.

I am glad to note the intention to continue to privatize and, where appropriate, corporatize public services wherever this may be possible and more efficient. The operation of the government car parks is a typical example where a private sector operator has vastly improved the standard of efficiency, cleanliness and safety of our car parks. The car-owning public benefit and so does the Government with a very large and rapidly increasing income with no observable effort on its part.

The Financial Secretary has once more touched upon the question of a sales tax and has said that a consultative document will be issued this year for discussion. The motive is laudable but the proposal -- if one is made -- will, I think, be resisted by many in Hong Kong. I find it interesting to read remarks by some very eminent economists and tax experts lamenting the fact that a high proportion of corporate profits tax is paid by a small number of large companies. This is somehow felt to be inequitable and potentially unstable. I would point out that the same small group of companies are making profits commensurate with their tax payments. I doubt if they are complaining about this situation. They are also mostly publicly quoted companies with a very large number of local shareholders who all benefit from their success.

Hong Kong is a capitalistic society with a very different wealth distribution pattern than in other countries with different economic philosophies. The majority of Hong Kong people do not pay income tax because they do not earn enough in wages to qualify them as taxpayers. They already pay indirect taxes however in many ways and I feel that the Government should think most carefully about introducing a further and much more extensive indirect tax, especially if it has not been proven that an additional tax source is going to be needed. A paper will be issued by the Government on this somewhat contentious issue. I can assure the Financial Secretary that the

Taxation Committee of the Hong Kong General Chamber of Commerce will examine this paper, and any proposals it may contain, most carefully and, I am sure, constructively.

I am glad to note that the Financial Secretary is taking prudent measures to set aside large sums of money to help pay for massive infrastructural projects such as the new airport. There is no question, in my mind, that a decision will have to be made this year in favour of building a new airport. When the decision is made, I would urge the Government to proceed with all speed in detailed planning and in bringing to fruition this exciting, massive, costly and totally essential project so that it can start to receive aircraft within seven years of work beginning. May I also say that we have a poor record of assessing airport development and capacity requirements in the past. We have never thought big enough and we have almost never caught up with the actual operational needs. Expansions at Kai Tak have been very costly at times, because they have had to be done in an already overcrowded environment. As fast as one expansion has been completed, another has begun. I suggest this time we must recognize from the outset that the new Hong Kong International Airport will be one of the largest in size and throughput in the world and plan accordingly.

The same goes for planning on our harbour development. We are already the world's largest container port. We will need further massive developments to stay in that proud position. We should not delay these developments which include essential rail and road links with China.

We will therefore face an extraordinary level of public expenditure during the next decade, no matter how much private sector participation there may be, and, again, I would urge the Financial Secretary not to be afraid of long term commitment of our financial resources.

It is sometimes not realized, even by our planners, that we are no longer a simple economy following uncomplicated economic rules based on a general philosophy of free enterprise. We have become a very large and sophisticated economy which, by its nature and international significance, is increasingly complicated requiring greater government involvement and participation at many levels. That in turn demands higher levels of knowledge and skill in the Civil Service and greater attention to functional efficiency and long-term planning. The administrator is gradually giving way to the specialist in many areas of the public service. This trend also has significance for public sector spending.

I have little to say about the proposed increases in duties, fees and charges. These are unexceptional and not likely to cause much pain. The reduction in personal and corporate taxes, the increases in capital allowances, and the elimination of interest tax have been widely welcomed. The improved allowances for children, dependent and single parents and widows all reflect our financial viability and a caring but rather cautious attitude towards the less affluent.

I wish it had been possible to remove the taxes on soft drinks and cosmetics. These are temporary in nature and discriminate unfairly against certain categories of consumers. With such a surplus, these taxes could surely have been eliminated.

I have one further point to make, Sir. There has been a great deal of talk in recent years suggesting that our manufacturing industry is gradually moving into China, that the service sector, which is growing faster than manufacturing as a contributor to our GDP, will replace manufacturing in the near future and that the Hong Kong economy will become service oriented towards China.

I believe, personally, that this is rather dangerous thinking which will discourage investors. It is also inaccurate. At the highest point in our manufacturing cycle, some five or six years ago, we employed over 930 000 workers in this sector. Despite the fact that over 1.5 million Chinese workers are presently producing goods for and on behalf of Hong Kong companies, we are still employing over 840 000 industrial workers and our garment industry alone could use another 50 000 workers. Our manufacturing industry is far from dead or dying. Indeed, the upgrading of quality, design and standards has been very marked in recent years and much more can be accomplished. I hope that the Government will continue to have faith in our manufacturers and in their ability to continue to move upmarket and to produce goods which will sell on quality, design and perhaps even, eventually on brand name. Last year, our manufacturers exported Hong Kong products to the value of \$217 billion. That should certainly silence the doubters and the critics.

Perhaps some of the misconceptions about the alleged demise of our manufacturing industry results from a lack of information on what is actually being done by the Government and by industrialists to improve product standards and penetrate new markets. Many of these measures need careful assessment and co-ordinated action. They are very often expensive. The principal adviser to the Government is the Industry Development Board whose chairman is the Financial Secretary. I would urge him to adopt a less secretive policy on board discussions and papers, publishing these

when possible and seeking consultation and advice from major industrial institutions represented, some of them, in this Council. At present, I believe there is a lack of effective co-ordination in this respect. It is also the case that when the board does seek advice on important and often complicated issues, the time given to the private sector associations to respond is much too short resulting in frustration and probably inadequate replies. That really is not good enough.

A major private sector study on the Hong Kong economy will be completed by mid year. This study should, among other things, suggest new opportunities and perhaps outline new problems for our manufacturing industries. I suggest it might be appropriate for the Government to follow up this economic study, by commissioning a structural and strategic study on the manufacturing sector. This could examine in detail the structure, trends, problems and opportunities affecting manufacturing in Hong Kong and perhaps suggest new or modified strategies of government support and assistance. Industrialists, I am sure, would also welcome expert opinion on the further development of manufacturing in Hong Kong.

Sir, we are passing through difficult and challenging times. We look to you, Sir, and your executive for wise leadership, responsible to public opinion, and to economic, social, and increasingly political needs. I believe that the Government is measuring up to these insistent demands and that the people of Hong Kong are very well served.

Sir, with these observations and suggestions I congratulate the Financial Secretary on fair and reasonable Budget proposals which I endorse and support.

MR. SIT (in Cantonese): Chinese leader DENG Xiaoping once said, "It does not matter whether the cat is white or black. It is a good cat if it catches mice." Gauging from the 1988-89 surplus of over \$14 billion, the Financial Secretary is obviously a man of rare talent. Under your brilliant leadership, Sir, he has over-fulfilled his charge of filling the coffers. If we speak of value for money, the Financial Secretary has done a good job and Members will agree that such merit of his should be recorded.

Sir, in reading the Financial Secretary's Budget carefully, there was one point that I appreciated very much. He said, "We need to make provision for some major infrastructural projects that are likely to start in the years ahead, such as road and rail networks, port development and drainage and sewerage projects. This

includes the need for a new airport." These words reflect and give effect to what you, Sir, indicated in your policy address delivered on 12 October 1988. You said, "We must be ready for the changes which will take place in 1997 and provide a firm foundation for a prosperous, stable and lively Hong Kong Special Administrative Region in which the energy and initiative of Hong Kong people will have full scope."

Therefore, Sir, we have reason to believe that as the Hong Kong Government under your leadership strides towards 1997 and the 21st century, we will be much encouraged by the various construction projects and facilities. By that time, our new port, airport and other infrastructural projects will have been completed, standing in their newest gloss on this territory called the "Pearl of the Orient". But as I revel in this rosy picture I am suddenly reminded of the need for management personnel. For our future financial centre, port and airport facilities, however good they might be, need to be run effectively by efficient personnel.

In other words, it is not enough just to have the facilities. We also have to rely on the human factor. For that reason, in order to prepare Hong Kong for its future development, we need to cultivate a younger generation possessing not only cultured sophistication, sense of belonging and knowledge in financial activities and high technology but also, more importantly, strong physique. Education, recreation and sport, therefore, are areas that should not be overlooked.

I would ask: what has the Government provided by way of direction and subsidy in the promotion of recreation and sport. When I came to the Promotion of Sports column in the draft estimates, I found the figures shocking -- not that the figures were surprisingly large but that they were pitifully small. In the Budget of \$70 billion, only \$11.043 million or 0.016% is earmarked for sports promotion. Given no increase to this provision and given nearly double-digit inflation, it is inevitable that the public will doubt the Government's sincerity and effectiveness in achieving its stated targets: (1) to increase sports participation by 10% and (2) to increase the number of sports event by 10%. But speaking both in terms of quality and quantity, \$11 million is no more than a Barmecide feast!

There is a Chinese tale known as: "Through a tiny water drop one visualizes the entire world". Judging from the Budget's allocation on sports promotion, members of the public might well be able to figure out why Hong Kong should, with occasional exceptions, lag so far behind world standards when it comes to sports performance, despite the territory's proud standing as a most successful international financial centre and sea and air transport centre. Can it be attributed to a lack of human

resources or material resources, or is it rather because we do not have a long-term sports policy?

Sir, is sports promotion and development deemed a crucial priority or is it merely an area that can be lightly reckoned with?

Sir, may I refer to the policy address you delivered in this Chamber last October regarding the direction and planning of sports. You said, "Hong Kong's growing prosperity means that more time and more resources are available for cultural and recreational pursuits."

You also said, "The Government's policy is to maximize the opportunities for people to take part in cultural and recreational activities."

Then you further added, "For many years we have concentrated on encouraging maximum public participation in sports and recreation. We now need to provide more opportunities for the development of those with particular skills and potential. Excellence of this sort not only benefits the individuals; it spreads out to raise standards in the community as a whole."

Sir, from your policy address we have every reason to believe that you, Sir, have keen concern for and give high priority to sports promotion and development. Given the allocation for sports as provided in the Budget, could it not be claimed that the Financial Secretary has done you an injustice, Sir?

Sir, sports development in fact does not only serve to enhance physical fitness, but it also has a vital bearing on the well-being of our community as a whole. According to a recently published review report on youth policy our youths comprise a good 25% of our total population. Young people are full of energy and verve at this prime formative stage. Sports activities serve as a suitable outlet for them to let off excess steam, while training and competitions of the appropriate sort can further foster amongst them a sense of achievement. On the other hand sports development also has a positive role to play in resolving the worsening youth problems our community are confronted with today.

With these points in mind the Government should now proceed to formulate a specific long-term sports policy, drawing up distinct guidelines for sports promotion and development and providing effective subsidy allocations and physical co-

ordinations. A sports policy should be comparable to the housing policy and social welfare and services policy adopted by the former governor Lord MacLehose. With what we have now, the sports promotion and development functions carried out by voluntary bodies are beset with financial difficulties and fragmented as a result of lack of central policy and funds. Sir, the Secretary for Municipal Services indicated that a consultancy report on sports affairs would soon be submitted to the Executive Council for consideration of and decision on the recommendations. In any event, with such a huge budget surplus as we have today the public cannot but feel disappointed and baffled at the amount of allocation for sports! Given also that there are recent proposals that cigarettes wholesalers and manufacturers be banned from sponsoring sports events, there is thus all the more an urgent need for the Government to expedite its allocation of subsidy on sports promotion. Hence I plead that the Financial Secretary refrain from exhibiting such a lack of generosity!

Sir, as representative of the south Kowloon constituency I am duty-bound to reflect other views on the Budget. These should include opposition to the imposition of sales tax which will place an extra burden on the public. I must also urge the Financial Secretary to first consult the public before finalizing the consultative document. In this respect views of the district boards will be particularly valuable as the boards are statutory bodies with the widest base of public representation in the three-tier structure.

Furthermore since the rate of estate duty was last adjusted in 1982 commodity prices have gone up drastically and inflation has also been on the upsurge. A reasonable threshold for levying of estate duty should be \$4 million.

Sir, lastly, may I again refer to paragraph 183 of your policy address which said, "In looking ahead I have put before you a range of policy initiatives which are designed to deal not just with the short term or the medium term, but the long term as well. As a society, as a Government, our horizons are not limited by 1997: they extend well into the next century." I have great pleasure in dedicating this statement to the Financial Secretary.

Sir, with these remarks, I support the motion.

MRS. TU: Sir, my remarks concern what Mr. Martin LEE called the little man. I was delighted that the Financial Secretary echoed the sentiments of your opening speech

to this Council on 12 October, by saying "that employees as a group should continue to be able to share in the fruits of prosperity through ample job opportunities and better pay".

However, the remainder of the budget speech made me suspect that the Financial Secretary had his eye on taxing any higher wages the workers might earn, by contemplating imposing a sales tax, and that he would in fact continue to channel the fruits of prosperity into the bank accounts of the better-off.

On the surface it appears that increased taxes on cars, oil, liquor and licence fees are taxes on the better-off which will put \$620 million into revenue. But taken side by side with the proposal to reduce income and profits tax by 0.5% for more or less the same income group, it is clear that the Budget will hand back to that group nearly three times as much as it takes, by making tax concessions of \$1.7 billion, enough to pay their extra taxes on luxuries, and more.

While handing back \$1.7 billion to those who earn most, there is nothing in the Budget to benefit the lower income group except a paltry \$3,000 increase in the income tax entry point and small extra allowances for families. Looking at the census and statistics figures, I find that nearly 60% of our workers earn less than \$6,000 a month. This means \$3,000-\$4,000 for the average worker, with some 10% earning less than \$2,000. A single person earning \$3,250 a month under the new income tax entry point will receive a handsome handshake from this Budget of \$99 a year, less than \$9 a month. Against that, the Budget speech threatens to broaden the income tax base by introducing a sales tax. Such a step would not only take away far more than the \$9 a month handshake of the lowest taxable wage-earners, but it would also give a negative handshake to those who earn less than \$3,250 a month. Sir, this sales tax proposal worries me. Early in his speech the Financial Secretary said that tax concessions can be inflationary. I heartily agree. But then why introduce tax concessions and also a broad-based sales tax, which would be a more inflationary measure than Hong Kong has ever seen? A sales tax would surely trigger an immediate demand for higher wages which in turn would trigger inflation. It is naive to say that the sales tax would be only at the wholesale level. That would certainly make it easier for the bureaucracy to commit the robbery! But whoever heard of a wholesaler who does not pass on more than he loses to the retailer, who in turn passes on more than he loses to the consumer? Sir, I hope this step will never be taken, but if it is, may I suggest that it be confined to luxury items such as furs, jewellery, expensive cars and other things that the higher income group, who get the real golden

handshake, like to buy?

The Financial Secretary mentioned that "the rest of the world is moving towards lower direct taxes" and presumably that means introducing more indirect taxes such as the sales tax. Yes, it is true that other countries like the United States have begun to squeeze the poor to reduce the burden of taxation on the rich. Perhaps the Financial Secretary will have noticed that this step has also led the United States into heavy debt, and the poorest people into squalor. But at least there are welfare benefits for low wage-earners in those other countries which we do not have here, and do not want to see here. Our people here like to support themselves, but in my opinion this spirit of independence will be undermined if we begin to place the burden of taxation on those least able to bear it.

Our standard income tax in Hong Kong is still very low, and as one of those who will benefit a little from the 0.5% reduction, may I say to the Financial Secretary "Thank you, Sir, but I do not need a reduction". Nor do others in that kind of income bracket. I can think of old people less fortunate in health who need that extra 0.5%. There are people lying uncomfortably in camp beds in hospitals. They need the money you are donating to the better-off.

May I suggest too that the superfluous fat of administrative costs, which you say are a worrying part of the Budget, could be cut off by hiving off departments which duplicate the work of other departments, and by, for example, uniting the two municipal councils into one council? Another way would be to examine how many civil servants' perks belong to the era of sailing boats, plague and hand-manipulated fans, which dictated long holidays after long sea journeys. Is wide-based participation in taxation conducive to a sense of belonging, if the less privileged tax-payers see their money being used on these luxury jaunts for one sector of the community?

Sir, I return to the Financial Secretary's statement that it was his intention that employees should share the fruits of prosperity. May I ask that this sharing should not be changed into depriving the employees of the fruits of their labour and shifting the burden of taxation from the better-off to the worst-off. To reverse this trend, may I propose that he scrap the idea of a sales tax, that he raise the personal allowance to \$48,000 (which is only \$4,000 a month), and that he leave the present standard and profits tax as it is. Such an action would prove that the Financial Secretary means what he says and is not talking hollow words of comfort to the lower paid workers.

Sir, with these remarks, I support the motion.

DR. IP: Sir, the expenditure on medical services had never reflected the true spending for the public at large. Nor does Government's commitment to medical services reflect the real demand. Underspensing and underplanning allow little contingency for emergencies and we are now faced with an acute on chronic manpower shortage. It has been said before and I repeat that "under tight budgetary control, it is not right to pretend, or possibly to even try to provide everything for everyone."

I shall qualify my statements.

Firstly on the statement that, "expenditure on medical services had never reflected the true spending for the public at large," I have this to add. After years of pressure, Government has finally admitted that 90% of the expenditure on dental services are for civil servants and their families. This amounts to \$150 million. Furthermore around 80% of the annual first and second class bed occupancies in government hospitals, which should have brought in \$80 million for general revenue, were by civil servants. In another words, some \$230 million spent on medical service are not for the public at large. Unless and until the concept of "trading fund", as suggested in a question by my colleague Mr. TAM Yiu-chung, clearly extends to charging other departments for medical services rendered to their staff, the public will never know how much is really spent on them per se.

Secondly, Government's commitment to medical services does not reflect the real demand. Using capital commitments on medical equipment as an example, although Government boasts that a high percentage of its total commitments are met every year, the public at large are unaware that the majority of the commitments are on replacement of equipment which is outdated and falling to pieces. For the small amount Government spends on new equipment, a huge slice goes to the opening of new hospitals, a small slice goes to the many government hospitals. What is then left over this year, is only \$11 million for all the subvented hospitals put together. Many will realize that with inflation, and increasing sophistication, even one piece of such machinery costs over a million dollars. Neither must we delude ourselves to think that all equipment the professionals consider necessary to save lives gets on this list for capital commitments. There is yet another 10-fold long waiting list, kept by each individual hospital, waiting to get on this list. Those who decide what goes on this

list of capital commitments guard the volume of procurement based not on the genuine needs as they should, but on the funds likely to be made available.

Turning to manpower, it has been frustrating for me to sit as member of the Medical Development Advisory Committee (MDAC), where members are unable to recommend the staff-to-patient ratio they consider necessary, because of the heavy Government input, with members all appointed, are reminded again and again and again to believe that there is absolutely no use recommending something Government is unlikely to meet through budgetary control and manpower shortage. The committee then has to reluctantly agree to scale down their expectations to a discounted proposal. It becomes more frustrating for me when I attempt to follow up such proposals, as a member of the OMELCO Health Panel, to see that Government does not implement the latest MDAC discounted proposal until after a few years, while giving the impression to the non-MDAC members of the panel that they are. As a member of the Legislative Council, I have now come to the limit of my tolerance, to see that when Government finally introduces the new MDAC discounted proposed ratio, they are only doing so for the yet non-existent new government hospitals and NOT the overcrowded urban ones.

Sir, such delay in implementing the discounted proposed MDAC ratio for all hospitals does me no harm. Sometimes I ponder to think why I fight so hard! It will certainly be to my advantage to see the public medical service fall to pieces and patients flock to private medical practitioners of which I am one. But, Sir, such chronic underspending and underplanning allows no contingency for emergencies and we are now faced with an acute chronic manpower shortage. Those who suffer, and it is for them that I hollah and shout, are those who cannot afford to see private doctors. Government also suffers! Look at the series of strikes ranging from government doctors to nurses from subvented agencies. More will come if the situation does not improve! This chronic underspending has taken off a vicious circle, in that the training institutes dare not respond beyond the underrated demand. We have now a true manpower shortage which in itself creates yet another vicious circle, as staff resign from overwork.

Government must learn from its mistakes and must not allow this to continue.

Sir, my suggestion is that all hospitals, government and subvented alike, should be invited to submit in full their needs for new equipments based on their professional judgement. And before the Hospital Authority is fully operational, the Medical Development Advisory Committee should be designated the responsibility to categorize

them into categories A to C like that of the public works. All replacement items should be put on a separate list and a fund should be set aside every year, aiming to replace all broken and outdated equipments within that year. The most recent discounted MDAC proposed staff-to-patient ratio should be implemented with immediate effect in all government and government subvented hospitals, old or new. Last but not least, the MDAC should be invited to review this ratio as a matter of urgency to what members see fit. "Under tight budgetary control, it is not right to pretend or possibly even to try to provide everything for everyone." If this is so, come out and say so! It was not until a few years ago that Government has implemented my proposed concept of "the non-entitled person for medical services". I have imported this idea from the United Kingdom. They are very good at excluding people! In the 1970s rising medical cost in the United States caused American citizens to fly over to the United Kingdom for medical treatment offered free for all by the National Health Service hospitals. It took the United Kingdom nearly half a decade to close this loophole, by making all non-entitled person pay the full cost. At present the Hong Kong Government defines a non-entitled person as one who do not hold an identity card. We are well aware that it is not difficult to obtain one. In fact, it is a must, for anyone staying in Hong Kong for over three months. I would like Government to look into extending this concept further. With the impending importation of labour, it is not too much to ask employers to underwrite the full medical cost or purchase private medical insurance for all these imported labourers. The only medical service that all should be entitled to at heavily subvented cost is the accident and emergency and ambulance service. We offer public housing only to those who have lived and contributed to the economy of Hong Kong after seven years. Thinking along the same line, it is not fair to dilute the quality of medical services to these hard earned residents of Hong Kong, by offering medical services free for all, even to the most recent arrivals. Having said that, I wish to point out that I am not suggesting such to be implemented for those who are already in Hong Kong. However, planning ahead, Government should think thrice before all future immigrants or imported workers are offered free medical service. The policy must change! In the same light, it is also important that whosoever is responsible for the Vietnamese in Hong Kong should also be responsible to pay the full costs of their hospital medical fees as well!

There are many who can afford private medical services when the needs arise. More can afford to purchase medical insurance in case they need it. If only Government would consider ways to encourage the use of medical services from the private sector, there is a huge sector of our community which can opt out of government medical service.

I have repeatedly urged Government to consider tax exemption as an enticement for those who purchase medical insurance. Their immediate reaction was no different to that of separate taxation for married women, namely, that it would complicate our simple tax structure. None the less, separate taxation has been introduced. Just think of the benefit we would get. My estimate is that at least another 20% of our community would take this option. Undersubscribed private hospitals will then be occupied thereby reducing the overcrowding in public wards. We can divert huge sums of money to improve our existing medical and health services rather than to build more public hospitals. By losing a small amount in tax exemption for medical insurance, the Government will gain from the increased revenue in taxes on the expanded income of insurance companies, private doctors and private hospitals. In passing, it is not a bad idea if Government were to allow parents to use the Government's \$80 per student for the School Medical Service towards private medical insurance. We will immediately do away with complaints by doctors, parents and ICAC, without overburdening our government outpatient clinics.

Has Government considered encouraging the development of private hospitals by granting free but restrictive land leases. Has Government considered waiving premium on lease modifications to maximize the use of private hospitals. Government offers restrictive land leases to the development of schools, educational and religious institutes, all of which, including hospital services, are recognized community needs. If the argument is that private hospitals are profit-making there is no reason why a hospital tax like that of hotels cannot be introduced for those future private hospitals which are granted free restrictive land lease. Such tax can then serve as revenue to operate the future Hospital Authority. Please do not forget that with the factor of high land cost out of the way, more private hospitals will be developed and for every one person housed in a private hospital there is one person less in a public one.

Sir, let us not attempt to provide everything for everyone.

Sir, all these new ideas are for Government to consider in the attempt to offer better services for a smaller sector of our community by excluding non-residents and those who can afford private medical services. It is too simplistic to think that the provision of a good medical and health service to the community equals building more public hospitals. The interlocking relationship of private medical service, medical insurance, population expansion, the aging of our population, the adequacy of old people's homes, community services, the income, the rising cost of private

medical services have to be looked into in its totality.

Sir, I would like now to turn to the employment of the moderately mentally handicapped. We have here another set of interlocking relationship. It is again too simplistic to relate their employment to increasing the provision of sheltered workshop per se. At present it costs Government over \$1,500 per month to house one moderately mentally handicapped adult receiving disability allowance in a sheltered workshop. It has been proven beyond any doubt that such an attendee can earn over \$1,800 per month in open employment. In conjunction, what it means is that Government saves no less than \$18 million per annum if jobs can be found for every 1 000 of these moderately mentally handicapped persons. There will be a real income increase of over \$1,300 per month for each of them, not to mention the reduction of Hong Kong's labour shortage and the boosting of the morale of the handicapped since they no longer have to rely on social security. Furthermore, the building programme for more sheltered workshops can be reduced.

Sir, if this idea is given full support, with government, subvented sector, the Queen Elizabeth Foundation of the Mentally Handicapped and public spirited private firms working in unison, I have confidence that the deficiency of services for the adult mentally handicapped can be solved within three years. The support we need is in placing high priority in approving and hiring of instructors to train and to effect the placement of these moderately mentally handicapped persons in open employment, particularly in the cleaning industry. Sheltered workshops must not be taken as a permanent place of abode for the mentally handicapped. Rather it must be looked upon as a training ground for open employment. Specific objectives to acquiring a skill must be planned and realized for each new attendee of such workshops.

Government should organize a massive campaign to advertise, and to familiarize employers in the hiring of such persons. This can be done by means of publicity, exhibitions, demonstration and seminar. To be effective, our target must be the personnel managers of all large and small, government, subvented or private organizations. Government as an employer must of course take the lead.

Sir, with these words, I support the motion before Council.

DR. LEONG: Sir, being the last speaker of today, may I through you thank my honourable colleagues of this Council for their perseverance. I would of course use my usual

very loud voice just to ensure that they be all kept awake.

Sir, I would like to start off with some general remarks. As a person trained only in the art of healing, it poses a tremendous challenge for me to ponder over the volumes of Draft Estimates full of nothing but figures. Unfortunately, considerations have never been given to Members of this Council to allow adequate time to go through these estimates, to pose meaningful questions to help us understand the drafts better, nor, I dare say, is there adequate time or will for the controlling officers to prepare a more comprehensive answer to the satisfaction of the Members of this Council. Furthermore, such haste produces a severe strain on the staff of the OMELCO in spite of their dedication. I would venture to suggest that the Administration should take this into consideration in the future.

Having made my general remarks Sir, I would like to devote the rest of the deliberation to the budgetary provision of the Medical and Health Services, taking into consideration the present needs of both the medical profession and the community at large and what will be needed in the future.

Sir, I am acutely aware of Government's responsibility and considerations to come up with a reasonable budget to best fit this community, and that giving a bigger slice to any sector would mean cutting down that of another. Yet let me sound a word of caution -- maintaining the health of the community is never cheap and should never be considered as a business exercise. Returns on investment often is intangible and difficult to quantify. Let me remind the Administration too that it should be Hong Kong's health policy to aim at providing the best quality of health services affordable to those in need and to the community in general. This fundamental concept should in no way be adulterated despite the setting up of the Hospital Authority nor any other Authorities to take care of health care needs in the future.

Hong Kong, being so advanced in everything and our inhabitants enjoying numerous sophisticated facilities, it is ironic, yet behind all the glamour, our public hospitals are overflowing with camp-beds, our outpatient clinics are swarming with patients queuing up to be treated and our needy patients may have to wait some nine months to a year for an appointment to attend specialist clinics.

Sir, in this context, there is nothing to be proud of in the Financial Secretary's allocation of an actual net increase of \$112.6 million in provision over last year to maintain the existing service, nor is it even barely sufficient in view of the huge increase in the cost of medicine and the need to upgrade our medical standards

to international level.

It is incomprehensible that in spite of our accumulation of a total surplus of over \$14 billion, there is an actual decrease from 9.3% in 1987-88 to 8.9% of the total budget spent on medical and health services for the year to come. This figure is based on Appendix B of the Financial Secretary's budget speech in forecasting the trends in public expenditure.

Let me now turn to a few specific items which I feel warrant special consideration and call for improvements in the near future.

Unfair inclusion of medical and dental service expenses incurred by civil servants in the total public expenditure on medical and health budget

This was just mentioned by Dr. Henrietta IP. I would like to echo in more detail what she has just said.

There is currently a total of some 196 648 permanent posts and 59 supernumerary posts in the Civil Service as from December 1988, and an unknown number of retired civil servants. Based on the number and the average of some 2.7 dependents per person, one can roughly estimate that the total number of civil servants and their dependents would be in the range of something in the region of 730 000. If one were to calculate the expenses based on the mid-range commercial rate of medical insurance package (which is an annual premium of \$700 for hospital services and \$1,100 for outpatient services), then the amount of money spent on civil servants and their dependents for similar medical services would amount to some \$1,300 million. This amount, being some 22.6% of the total annual budget on medical and health, is being spent on providing medical services to civil servants and their dependents! Incidentally, this has not taken into calculation the amount spent on maternity benefits and dental care, both of which civil servants and their dependents enjoy.

On the issue of dental care, a total sum of \$174.6 million has been allotted, of which only 3%, which represents \$5.2 million, is for the promotion of dental education. Out of the rest, \$99.5 million is for dental services which currently extend only to the civil servants and covers emergency services to the public. Based on available information from the controlling officer on the number of visits, some 90% (which amounts to 503 000 visits) are for dental treatment for civil servants, pensioners and dependents, while 10% (amounting to only 52 000 visits) are for

emergency dental treatment for the public. That is, some \$90 million are used for dental services to the civil servants and their dependents, while only \$5.2 million are used for dental education for the benefit of the public.

I am in no way, Sir, disputing whether civil servants and their dependents should be accorded these benefits which are due to them but it only stands to reason that this and similar expenditures should be recovered from other respective government departments under staff costs, and the money so recovered properly spent on the provision of services to the general public for which the budget is so allotted. It may be argued that not all civil servants or their dependents utilize the public medical services. In that case, one then has to ask why they are not utilizing these services and, is it fair to the civil servants or to those in need of public medical services?

Sir, let me point out to you that similar queries have been put forward by my honourable colleagues in the past and by Dr. Henrietta IP just now in this Council but no satisfactory consideration had so far been forthcoming. May I urge that this problem be given special consideration in the light of the imminent establishment of the Hospital Authority which I understand will be running on a new set of management and budgetary arrangements.

On the same chord, Sir, similar irrational channelling of income derived from private patients in government hospitals also occurs. The money obtained through charges to private patients or money recovered from dispensing medicine goes directly to government main revenue account. It is only logical that its income should be reflected back into the accounts of the Medical and Health Department, and channel back for the improvement of medical and health services! Incidentally, the current charge for a government private ward bed is in the region of \$1,060 per day!

Discrepancies between budget provisions for government and subvented hospitals

It has always been a belief that there exists a bias towards government hospitals. This suspicion appears to be substantiated by the marked differences in budgetary allocations between government and subvented hospitals are current as well as capital expenditure. The sum allotted to subvented hospitals appears to be mainly for replacement of worn-out equipment and not for providing new and up-to-date ones for the improvement of services in these hospitals!

Let me now dwell on some thoughts for the future. It is important to re-focus the direction and priority of resource allocation. The following are some areas that will need special considerations:

Hospital Authority

The community and the medical profession await the establishment of the Hospital Authority which is earmarked to be April 1990. Amongst other things, for the Hospital Authority to work, budgetary considerations must be given to at least two aspects:

1. The provision for the establishment of a significant number of senior management posts;
2. The provision for extra resources to at least equalize the terms of service and benefits for the staff of subvented hospitals to those of government hospitals, and to upgrade the standards of subvented hospitals to that of acute government hospitals.

Academy of Medicine

The need for an Academy of Medicine is real. It is, in essence, the life-line for the medical profession to establish their own independent body to brace the onslaught of the advancement of medical sciences. The idea is fully supported and endorsed by the Medical Development Advisory Committee. Special provisions will be required to have more senior posts for experienced doctors to act as trainers to young doctor trainees, better doctor-and-patient ratio will have to be established to provide more time for vocational training and not just simply to provide service.

Provision for training

It is most discouraging that the Budget has made no provision whatsoever for staff training in the medical field. Postgraduate staff training is a must for the future. Not only is such necessary to equip our workers with up-to-date advancement, but it also maps out a career programme for them which is so vital in the process of the retaining of existing staff in the public sector.

Primary health care

The provision of total health care is never completed without taking into consideration an efficient primary health care system which regrettably does not exist. The Medical Development Advisory Committee again has endorsed this and it should be totally overhauled.

In any case, special consideration in the financial aspect is vital for any overall review and for ultimate improvement.

Tertiary care

Too little has been done for tertiary care, that is, home for the aged, care and attention centres, rehabilitation centres and so on are very deficient in Hong Kong. Improvements of these services are necessary, not only to provide total care to the community but also to relieve critical congestive condition in acute hospitals where expensive emergency beds are being occupied by these chronic cases.

Sir, the Financial Secretary in his budget speech states that he has taken into account three key factors, one of which being to embark on a major programme of infrastructure work. I would like to conclude, Sir, and put it to you that development for the improvement of health delivery is a major infrastructure exercise; for without health, stability and prosperity can be meaningless.

With these remarks, Sir, I support the motion.

Suspension of sitting

HIS EXCELLENCY THE PRESIDENT: That concludes today's sitting. We will continue with the debate tomorrow. Now in accordance with the Standing Orders I suspend the Council until 2.30 pm tomorrow afternoon.

Suspended accordingly at three minutes past Eight o'clock.

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