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Madam President,

A. Introduction

1. This is my fifth Policy Address and also my last Policy Address as the first Chief Executive of the Hong Kong Special Administrative Region (SAR) Government. I will maintain the steadfast course I first set on 1 July 1997 - implementing people-oriented policies, embracing change and rising to meet the challenges with our community. My aim is to build a more civil, affluent, stable, democratic Hong Kong that is full of vitality.

2. On 1 July 1997, Hong Kong was reunited with the Motherland. The colonial chapter drew to a close and the Hong Kong SAR was born, ushering in a new era of ‘One Country, Two Systems’ and ‘Hong Kong people administering Hong Kong’ with a high degree of autonomy.

3. The historic mission of the Hong Kong SAR is to successfully implement ‘One Country, Two Systems’ - a great challenge that has never before been encountered.

4. Over the past four years, the Government and the community have worked together to effectively uphold the rule of law and maintain Hong Kong’s liberal and open systems. In this, we have the full trust of the Central Government. The people of Hong Kong now have a better understanding of the Motherland and have affirmed their new identity with the reunification. We have successfully implemented ‘One Country, Two Systems’.

5. At the establishment of the Hong Kong SAR, I specifically mentioned that while we could be proud of our economic achievements, we had to be alert to latent problems as some of these would undermine our long-term competitiveness. Just as we were about to tackle these problems, Hong Kong was severely affected by the Asian financial turmoil. This led to the bursting of our ‘bubble economy’ and to a sharp economic downturn. Although we acted boldly and decisively and successfully weathered the Asian financial crisis, we still needed time to solve the structural problems inherent in our economy.

6. Hong Kong has won international acclaim for realising a smooth political transition and stabilising the local financial markets during the Asian financial crisis. Indeed, our success in rising to such tough challenges did not come easily.

7. Recently we have seen dramatic changes in the world around us and there are even tougher challenges ahead. We are facing the most acute economic problems for many years. The whole community is very concerned about our economic and employment prospects - let me address these issues first.

B. Preparing for Economic Restructuring

8. Hong Kong's externally-oriented economy is greatly affected by global developments. The hardships we currently face stem from both cyclical and structural factors.

Difficulties will Persist

9. In the past 12 months there has been an obvious slowdown in our major export markets, which indicates a cyclical adjustment. The cyclical adjustment of an economy usually means that it bottoms out and rebounds after a short period. However, the serious terrorist attacks in the United States on September 11 not only caused major losses and deep grief, they also depressed consumer sentiment in overseas markets and created greater uncertainty in the global economy. The gloomy outlook for world economic growth has adversely affected Hong Kong. As a result, Hong Kong faces an accelerated economic downturn, a rise in unemployment, an increase in the fiscal deficit and a delayed recovery. The sharp downturn of the external economy at a time when Hong Kong is undergoing structural adjustment has put us in a particularly difficult position. We have to prepare for drawn out economic hardship.

10. The globalised economy is continuously developing. Advances in information technology have ushered in a new knowledge-based era. The rapid rise and development of our country has brought new business opportunities as well as new challenges. All these major trends make it imperative for our economy to be restructured.

11. In the past few decades, Hong Kong has undergone several transformations: from an ordinary entrepot, to a base for light manufacturing, and into our present position as a renowned financial, trading and services centre. Today's circumstances make it essential for us to yet again reinvent ourselves. This is a new challenge for all of us.

12. This time, the transformation will be more complicated because the restructuring is the result of several different but inter-related factors. First, the world is rapidly transforming from an industrial economy to a knowledge-based economy. Previously, wealth was in the hands of those with natural resources or capital. Now, knowledge is the new currency. An important competitive edge in the knowledge-based economy is the possession of creative ideas, and the speed at which these ideas can be transformed into products or services. World economic development is changing from a quest for resources to a quest for human talents.

13. Second, globalisation has brought about tremendous challenges and opportunities. Advances in information technology and better transport links have globalised world markets. Popular products and services are now marketed worldwide; geographical boundaries no longer limit the potential of a product. That means we no longer vie for business just with local competitors, but competitors from around the world. Manufacturing industries have been able to relocate from high-cost to low-cost locations. A similar trend has been seen with white collar workers. In addition, businesses now require substantially fewer staff because of developments in information technology. The emphasis in the past was on a fine division of labour, whereas today it is on multi-skilling. The number of people employed by large corporations has dramatically decreased. As a result, more and more people have become self-employed and started their own small and medium enterprises. This will become a more prevalent trend.

14. Lastly, the bubble economy which surfaced during Hong Kong's transition period created a serious problem. The Asian financial crisis deflated the bubble, and this has changed the way people spend and invest their money. Because of the sheer speed of change, it is a tougher transformation this time. Nevertheless, if we are to preserve our economic vitality, create greater prosperity, and maintain living standards, economic restructuring is the only way. Hong Kong's operating costs are very high, so we need to move to high value-added activities. Our people, our businesses and the SAR Government must have the foresight to see changes coming, to adjust to those changes and to manage them. We must all do our best to move up to higher value-added activities.

Hong Kong's Advantages

15. Economic restructuring is never easy. The challenges we face are all the more daunting because abrupt changes in the global arena have been aggravated by difficulties in our own economic cycle. Despite this, we should remain confident about our economic prospects because Hong Kong boasts many advantages. I will briefly highlight some of them - our unique position, our favourable business environment and our pool of entrepreneurial talents and enterprises.

Unique Position

16. Hong Kong's unique position, with the Mainland as our hinterland and extensive links to all corners of the globe, is a major and enviable advantage. Although the global economy is generally slowing, China distinguishes itself with continuous economic growth. This creates new business opportunities for us and provides the impetus for Hong Kong's continued development.

17. China's imminent accession to the World Trade Organisation, and Beijing's successful bid for the 2008 Olympics, signify a rise in the status of our country as a stable society that will continue to develop economically. The 'One Country, Two Systems' principle ensures us of our country's support while also giving full play to our unique characteristics. Compared with other places, Hong Kong is indeed fortunate. At a time when foreign investors are vying to enter the China market, we are already well positioned to seize the opportunities they seek.

Favourable Business Environment

18. Hong Kong is recognised internationally as one of the world's freest economies. We have a robust legal system, a level playing field, a stringent market regulatory system, a liberal foreign exchange regime, the free flow of information, a clean government, a sound financial position and a simple taxation system. Hong Kong's vibrant lifestyle and socio-cultural mix make it a home away from home for entrepreneurs and executives from around the globe.

19. Hong Kong's infrastructure is world-class. Hong Kong International Airport has received widespread acclaim. We lead the world in international air cargo throughput while our container port has consistently ranked number one in the past decade. Our state-of-the-art telecommunications provide close links to every corner of the earth. The combination of this soft and hard infrastructure provides a favourable environment welcomed by all businesses.

Pool of Talents and Enterprises

20. We not only have an enterprising population, but also a pool of talents and professionals with management experience. We also have many world-class enterprises. These people and business firms excel in a wide spectrum of interlinked areas including finance, trade, law, accounting and insurance. Together, they form a highly efficient operational network adept at assimilating new knowledge and eager to innovate.

21. These are genuine strengths well recognised by the public. We are in the right place at the right time to benefit most from the economic development of our Motherland. Our robust systems and a large reservoir of talents, the result of years of hard work, cannot easily be replicated. We have every reason to be confident in our future.

Positioning and the Way Forward

22. Hong Kong enjoys many advantages conducive to continued development. Following comparative studies, the Commission on Strategic Development has clearly set out Hong Kong's positioning as a window on the world for the Mainland, a major city in China and Asia's world city excelling in high value-added services. To continue moving forward, Hong Kong must build on its existing strengths as well as foster further economic growth by applying new knowledge and utilising the latest technology.

23. Many Hong Kong enterprises started off in the processing trade. They later moved into designing, establishing their own brand names, and entering the international market. This is one example of adding value. By applying computer animation to movie production and businesses such as entertainment

and advertising, our outstanding software programmers are also adding value. The creativity of Hong Kong people provides the scope to add value in various trades.

Upgrading Businesses and Industries to Accelerate Growth

24. After years of effort, Hong Kong has established a competitive edge in a wide range of sectors. Examples include financial and related services, tourism, transportation and logistics, and ancillary business and professional services for multinational corporations. Hong Kong is a major international financial centre. Hundreds of banks, insurance companies and financial institutions from all over the world have a presence here. In the past year, the Hong Kong stock market raised US\$44 billion for Mainland enterprises. Our tourism sector stands at the forefront of Asian cities, with more than 13 million visitors last year. For the first eight months of this year, the figure was more than 7% higher than the same period last year. As for the freight and logistics sector, Hong Kong is among the world leaders in the handling of cargo. These sectors have the potential for upgrading and development to spur Hong Kong's economic growth.

25. We provide services to multinational enterprises. Some 3 000 overseas companies have established their regional headquarters or offices in Hong Kong. Two years ago we attracted the second highest amount of external direct investment in Asia, just behind the Mainland and far exceeding other places in Asia. That figure increased more than 1.5 times last year. China's accession to the World Trade Organisation is expected to add impetus to this momentum. Both overseas and local enterprises will look upon Hong Kong as a strategic base to expand their business networks.

Complementing Our Strengths with Those of the Mainland

26. In addition to the continuing development of those sectors with a competitive edge, Hong Kong's future development hinges on the economic

growth momentum in the Mainland. According to the World Bank, the economy of China will become the world's second largest by 2020. It is envisaged that Hong Kong will benefit from such strong growth over the next 20 years.

27. Enhancing co-operation with the Pearl River Delta (PRD) is of particular importance. Over the past two decades, Hong Kong and the PRD have complemented each other, and together developed into a highly productive economic region. With a population of 40 million and many affluent consumers in a number of cities, the PRD is an enormously attractive market. Following China's accession to the World Trade Organisation, co-operation between Hong Kong and Guangdong will rise to new heights. The Government is determined to actively promote economic co-operation between Hong Kong and the PRD region with a view to achieving a 'win-win' situation. This is a key element in our efforts to consolidate and enhance Hong Kong's position as an international centre for finance, trade, transport and logistics, as well as a premier tourist destination.

28. My colleagues and I have established effective communication channels with the leadership of the Guangdong Provincial Government to facilitate co-operation and co-ordinate our long-term development. In addition, next year we will establish an Economic and Trade Office in Guangzhou to strengthen business liaison between Hong Kong and Guangdong, and to provide better support services for Hong Kong businesses in the PRD.

The Government's Role in Economic Restructuring

29. I have highlighted some specific areas in which we have a unique edge. I want to point out that our direction is clear: using our existing solid foundations, we must move up the value-added ladder. With community consensus, we can spur economic growth by making the best use of our competitive edge and encouraging creativity.

30. Together, the Government and the people must face the dual challenges of economic restructuring coupled with the cyclical economic downturn. Recently, Members of this Council, various organisations and community

groups, have suggested a wide range of responses to our economic problems. My colleagues and I have seriously considered each one of them.

31. Taking into account community views, in tandem with our economic philosophy, the Government needs to carry out many tasks during this current period of economic hardship. Bearing this in mind, as well as our positioning for the future, we have five priority tasks. First, we must expand our investment in education. Second, we should enhance soft and hard infrastructure and improve the business environment. Third, we should enhance the quality of our living environment. Fourth, we should help relieve the hardships of the socially disadvantaged. And fifth, we should carry out the necessary structural adjustments and reforms within the Government to improve the quality of our administration. Accomplishing all of these tasks is needed to maintain Hong Kong's long-term prosperity and stability, as well as serve the fundamental interests of the community.

32. I will now speak about some of these tasks.

I. Investing in Education

33. In the course of our economic restructuring, one of the Government's most fundamental tasks is to make significant investments in education to prepare each one of us for the advent of the knowledge-based economy. We understand that people care deeply about the development of the younger generation, and hope that their children can receive an education of the best quality.

34. Over the past few years, despite tight government finances caused by the financial crisis, we have continuously increased our investment in education. Funding has surged from \$37.9 billion in 1996-1997 to \$55.3 billion in 2001-2002, a 46% increase over five years.

35. Education issues are complex and inter-related. In brief, we want to achieve three targets in the education sector: (1) raise the general standards of primary and secondary students through current education reforms to enable every student to enjoy learning, be good communicators, be courageous in accepting responsibilities, and be creative and innovative; (2) increase the

number of post-secondary places, so that 60% of our senior secondary school leavers can attain post-secondary education. We also need to improve the transition from secondary school to post-secondary education and to push ahead with reforms to our university system to nurture more outstanding post-secondary graduates; (3) continue promoting life-long learning, develop it into a trend for others to follow, and encourage Hong Kong people to actively enhance their own knowledge and skills, and participate in the development of the knowledge-based economy. We must meet these three targets if our education system is to truly and effectively lend support to successful economic restructuring.

36. I will ask the Secretary for Education and Manpower to present the details of our work on education to the public. Today, I will concentrate on only a few areas.

Upgrading the Quality of Teachers

37. Much work needs to be done in several areas to complement current education reforms and ensure that childhood, primary and secondary education is of good quality. To start with, we need to upgrade the quality of teachers. Many teachers in Hong Kong have a strong sense of mission. For years they have set admirable personal examples for their students. In so doing they have cultivated a promising younger generation for Hong Kong. Efforts should be made in two aspects to create the necessary conditions that will enable teachers at all levels to perform their best.

38. First, teachers must be given ample room to balance work, rest, learning and family life. From the last school year, an annual provision of \$500 million has been shared among all public schools to create a better environment for teachers. Many schools have spent their allocation on increasing staff and purchasing services that reduce teacher workload. In the coming year, this allocation for secondary schools will increase by 50%. For instance, a secondary school with 18 classes will have its share of funding increased from \$300,000 to \$450,000. In primary schools, we will strengthen student counselling services by allowing schools to employ a counselling teacher or to provide social work service to help student development. To complement curriculum reform, Curriculum Officer posts will be created in stages to lead internal curriculum development.

39. Second, resources will be provided to encourage teachers to further their studies. With a view to upgrading the professional standard of all teachers, we will explore ways to enhance the professional development of serving teachers, provide extra support for new teachers, and strengthen co-operation and communication among teachers.

40. The qualifications of primary school teachers have improved considerably in recent years. The ratio of graduate posts has surged from 4.8% in 1997-1998 to 35% this year. From 2005 onwards, all graduates of the Hong Kong Institute of Education will be degree holders. For early childhood education, all newly-appointed kindergarten teachers will need five passes in the Hong Kong Certificate of Education Examination, including Chinese and English, starting from this school year. From the 2003-2004 school year, all newly-appointed kindergarten teachers will be required to hold a pre-service kindergarten teachers qualification. To encourage kindergartens to recruit more qualified teachers, we will again raise subsidy levels for kindergartens in the coming year. For example, a group of 30 kindergarten students currently attracts a maximum subsidy of \$41,000. If the kindergarten employed only qualified teachers, the subsidy would increase to \$62,600.

Increasing School Places

41. Hong Kong lags behind developed countries in terms of average educational level. At present, only 18% of the population aged 15 and above has at least post-secondary education, while 48% have an education level of Secondary Three or below. To catch the train of the New Economy, we must hurry to increase the number of places above junior secondary level. In last year's Policy Address, I outlined our objective to double the number of senior secondary school leavers receiving tertiary education from 30% to 60% within ten years. In other words, we need to increase the number of tertiary education places by about 30 000 within the next decade. This has been met with an encouraging response from local tertiary institutions, which have provided a total of 6 500 self-financing places this academic year, including higher diploma and sub-degree courses. This is a good start.

42. I also pledged last year that from 2002 onwards, all willing and capable Secondary Three students who want to continue studying will be provided with subsidised Secondary Four and Five places. If we change the structure of senior secondary schools to a three-year one, in the long run all students will be able to receive six years of secondary education. In recent years, we have also launched the Youth Pre-employment Training Programme and Project Springboard to alleviate the problem of a shortfall in school places and to provide young people with an alternative path to seek employment or pursue further studies.

Whole-day Primary Schooling

43. A good learning environment and ample time for learning can facilitate effective teaching. In my 1997 Policy Address, I announced that we would expedite the implementation of whole-day primary schooling. At that time, only 21% of primary students attended whole-day schools while today the figure is 48%. Our target is to extend this to almost all primary students by the 2007-2008 school year.

School Improvement Works

44. Under the School Improvement Programme, upgrading works have been completed at 360 of around 800 target schools, while works are progressing at more than 150 other schools. We will step up the pace with a view to completing all approved projects by the 2004-2005 school year.

45. The five-year strategy on information technology in education announced in late-1998 has been implemented progressively to cope with the development of the knowledge-based economy. All schools now have computers and Internet access. A one-stop online teaching and learning platform has been provided. Students are better equipped to step into the knowledge-based economy.

Promoting Bi-literacy and Tri-lingualism

46. It is our policy to promote bi-literacy and tri-lingualism. Hong Kong is a cosmopolitan city, and it needs to promote the wider use of basic English. As part of China, Hong Kong people should also learn to speak fluent Putonghua. This will facilitate effective communication and business exchanges with the Mainland. We are now conducting a comprehensive review of the current curriculum, the quality of teachers, teaching methods and the social environment in our efforts to upgrade the language ability of our students. We expect to develop concrete proposals by the middle of next year.

47. Since the 1998-1999 school year, the Native-speaking English Teacher Scheme has been operating in secondary schools. Although the scheme encountered some teething problems, it has gradually brought about a new culture of English language teaching in our schools that is widely supported.

48. For effective language learning, it should start as early as possible. From the start of the next school year, we will strengthen English language teaching in primary schools with various initiatives. Our targets include providing native English-speaking teachers or teaching assistants in every primary school and the organisation of more extra-curricular activities using English.

Nurturing Talented Students

49. Our education system attaches great importance to raising education standards as well as helping students develop to their full potential. We want to train a large pool of talents for tomorrow's Hong Kong. Since 1999, the Government has approved the establishment of seven quality private schools and 24 Direct Subsidy Scheme schools. Subsidised schools with distinct characteristics or an outstanding performance record have been encouraged to join the Direct Subsidy Scheme.

50. It is expected that within three to five years our education system will become more flexible, with a more diversified curriculum offering a wider choice to students. We need to better nurture the various talents or exceptional

abilities of students. This we can do by implementing curriculum reforms that accord better with a student's abilities and thus provide a more equitable learning environment.

Reforming the Academic Structure of Our Universities

51. I have spoken about important areas of education reform and of the progress being made in the provision of secondary and primary education. In the long run, another major reform issue that needs to be addressed is the academic structure of our universities.

52. The University Grants Committee is conducting a comprehensive review of the future development of tertiary education. The Education Commission is also looking closely at the broad direction of changing the present three-year university degree structure to a four-year one, and the present '5+2' secondary school structure to a '3+3' system. The Education and Manpower Bureau is examining the preparatory work for such changes, which involves complex issues such as determining the demand for senior secondary school places, assessing the demand and supply of teachers, identifying sites for new schools and redesigning the curricula of senior secondary school and first-year university programmes to enable a better bridging of academic courses.

53. Four-year university degrees are an international norm. Extending the duration of university programmes requires significant additional resources. However, we believe that the community and the Government together are capable of bearing the cost. We hope that a consensus can be reached soon on all important issues relating to this matter. If it is decided to make a change, we expect that reforms to the senior secondary and university structure can be made within ten years.

Promoting Continuing Education

54. From what I have just said, you will appreciate that the Government is mobilising considerable resources to improve the levels of basic and tertiary education, in terms of quality and quantity. At the same time, the Government will set aside \$5 billion to subsidise those with learning aspirations to pursue

continuing education and training programmes. The aim is to help people to pursue continuous learning, thereby preparing us for the knowledge-based economy. Details of the plan, such as eligibility criteria and the maximum subsidy, will be announced after further public consultations. At present, many people have already enrolled in various courses in their spare time. This new subsidy will encourage this trend and help many more people to upgrade themselves.

Summing Up

55. Madam President, reform of secondary and primary education, like other social reforms, is a complex undertaking with many interlocking components. Tremendous efforts will be required to see through these important and vital reforms. They are bound to evoke different responses from the community in the early stages of implementation. There is still room to improve the implementation of these reforms. My colleagues and I will listen closely to positive and negative public feedback and take appropriate follow-up action. Because of our joint efforts, we are already seeing the initial results of education reform. The Government is determined to work closely with different educational groups and front-line educators to build a partnership that will ensure the success of our reforms and improve the quality of education.

56. Despite the pressure of economic downturn on public finances, our resolve to invest in education is unshaken. Regardless of Hong Kong's economic situation, you can rest assured that in the next five to ten years spending on education will continue to increase year after year. Our tertiary, secondary and primary education will become better and better, and the trend for lifelong learning will become even stronger through Government encouragement and the active support and participation of the people. All these efforts in the education sector will no doubt enable us to meet the needs of our social and economic development in the 21st Century.

II. Upgrading Our Hard and Soft Infrastructure

57. In developing our knowledge skills, we must not overlook the need to upgrade our hard and soft infrastructure, pushing ahead with large-scale projects and improving our business environment to take account of the changing economic landscape.

Hard Infrastructure

58. The Government is already investing over \$400 billion in more than 1 600 projects, most of which are due to be completed within the next nine years.

59. The main focus of our public works programmes will be on transport, land formation, port, housing, tourism-related developments, education, hospitals and improvements to the environment. Major works in progress include Castle Peak Road improvements, work on Container Terminal 9 back up facilities, Phase I of Hong Kong Disneyland, and the Science Park in Pak Shek Kok. We also plan to launch shortly projects such as Route 9 Tsing Yi to Sha Tin section, Route 10 linking North Lantau and Yuen Long Highway, the South East Kowloon Development and Central Reclamation Phase III.

60. Railways are one of the most environmentally-friendly and cost-effective modes of transport. The two railway corporations are currently working on six projects - West Rail, the MTR Tseung Kwan O Extension, the Ma On Shan Line, the KCR Extension to Tsim Sha Tsui, the Penny's Bay Rail Link and the Sheung Shui to Lok Ma Chau Spur Line. These projects are due to be completed in stages between 2002 and 2007 at a total cost of about \$100 billion. We are also planning other new projects, such as the Sha Tin to Central Link, the Island Line Extensions, the Kowloon Southern Link, the Regional Express Line, the Port Rail Line and the Northern Link which will involve expenditure of around \$100 billion. Work is expected to be completed in stages from 2008 to 2016.

61. In all, the Government and the two railway corporations will be investing \$600 billion in infrastructure reflecting our confidence in Hong Kong's long-term prospects. Not only will this investment help Hong Kong maintain its status as a regional transportation and business hub, it will generate many jobs.

62. In parallel with this programme, we are embarking on major infrastructure links with neighbouring Guangdong Province as part of our strategy to strengthen economic co-operation with the PRD. We have mutually agreed the target for completing the Shenzhen-Hong Kong Western Corridor in 2005. We are working to speed up the flow of people across the boundary at the Lo Wu control point by improving soft infrastructure and facilities, and are extending the facilities at the Lok Ma Chau crossing. Construction of the Hong Kong side of the Deep Bay Link will begin in 2003. The Sheung Shui to Lok Ma Chau Spur Line is due to be finished by 2007.

63. We also hope an express rail service will be built to link Hong Kong, Shenzhen and Guangzhou. The Mainland section of the link has already been planned. For our part, early stage design of the express railway from Hung Hom to Shenzhen is now being prepared. This will connect to the proposed Shenzhen-Guangzhou express line. When completed, the trip between Hong Kong and Guangzhou via Shenzhen will take just 60 minutes.

Business Environment

64. During the past few years we have been encouraging enterprises to improve management and to promote market competition as a way of improving Hong Kong's competitiveness in the face of economic change. Now we are exploring ways to further streamline licensing and reporting procedures. We will also ensure that prior to formulating new policies and legislation, the impact on the business environment will be fully assessed.

65. In Hong Kong, a number of industries such as clothing, toys and watch-making have long enjoyed a competitive edge. They are among world market leaders and have great potential for further development. They are facing an urgent need to further enhance their capabilities. I will cite two examples to illustrate this. Our fashion designers are known worldwide and their

products sell well in the international market place. However, under WTO rules, the planned abolition of the quota system in 2005 will usher in a completely new set of conditions. To help meet this challenge, we will strengthen training in fashion design at our tertiary institutions and boost promotion overseas so that our local fashion industry can carve its own niche in the world market and set international trends. Another example is our film industry, which has been competing in the international market for many years. We are doing much to provide a favourable environment for the industry to grow - promoting the establishment of an advanced film production centre, funding relevant manpower training, carrying out overseas promotions and facilitating location shooting in Hong Kong. The measures are to help this creative industry to realise its full potential.

66. Government departments should always be conscious of the need to enhance our institutional framework so that these and other industries can operate in an environment that is conducive to their further development.

67. Over the past few years, the Government has been vigorously promoting the application of technology and encouraging innovation. We have placed special emphasis on the wider use of information technology to improve overall productivity and help create new jobs opportunities. As a result, there has been a remarkable change in the community's attitude. Innovation and technology have been recognised as an important part of our restructuring. We have also set up the Council of Advisers on Innovation and Technology and established a \$5 billion Innovation and Technology Fund. The Hong Kong Science Park, Applied Science and Technology Research Institute and the Cyberport will lead to greater synergies between teaching, research and business. We are encouraging traditional industries to use technology and innovation to improve competitiveness, and provide the right conditions for the 'incubation' of emerging industries.

68. The importance of electronic commerce is increasingly being recognised. In May this year, we announced our revised 'Digital 21' IT strategy to promote the development of e-commerce under the theme 'connecting the world'.

Supporting Small and Medium Enterprises

69. Small and medium enterprises played an important role in the process of economic restructuring. We need to think of new ways to support Hong Kong's many small and medium enterprises. In a report I received in June this year, the Small and Medium Enterprises Committee proposed a series of measures to assist SMEs. The thrust of their proposal is to set up four funds amounting to \$1.3 billion to help boost training, open up markets, implement projects and programmes to lift competitiveness, and to purchase business equipment and appliances with credit guarantees from the Government.

70. In view of the present difficulties faced by SMEs, I have decided to inject an additional \$500 million into the Business Installations and Equipment Loan Guarantee Scheme which the Committee proposes to establish. This will raise from \$1 million to \$2 million the maximum loan amount for each enterprise. In addition, I will inject a further \$100 million into the SME Export Marketing Fund to provide support to more enterprises. With this injection, the total amount in the Fund will be \$300 million.

71. It will bring the Government's total commitment to the four funds to \$1.9 billion, benefiting more than 100 000 enterprises. We will also implement about 30 new proposals put forward by the Committee to actively support SMEs to raise their competitiveness.

Construction of New Exhibition Centre

72. Hong Kong is a top exhibition and conference centre in the Asia-Pacific region. Our world-class facilities drive a thriving exhibition industry. To maintain our competitiveness in the longer term, the Government will invest a maximum of \$2 billion into the construction of a new exhibition centre at Chek Lap Kok in conjunction with the Airport Authority.

Promoting Hong Kong as a Logistics Centre

73. With Hong Kong's excellent transportation facilities and the PRD's high productivity, together we can develop into a logistics hub to link the Mainland with the world. We can promote the development of an inter-modal

system and consider other supporting facilities to speed up the flow of goods and information. The provision of integrated services will also strengthen Hong Kong's competitive advantage as a supply-chain base.

74. I have asked the Financial Secretary to chair a new Steering Committee on Logistics Development. The committee will give direction on accelerating the development of a logistics industry with Hong Kong characteristics. We will also set up a Logistics Development Council to provide a forum for the public and private sectors to discuss and co-ordinate matters concerning the industry and to carry out joint projects.

Supporting the Development of Professional Services

75. The service sector accounts for over 80% of our Gross Domestic Product and professional services are a value-added component. At present, no sector can escape the challenges brought by economic restructuring. And we are doing what we can to promote the development of professional services not only in Hong Kong, but to open up markets in other places.

76. For example, the Government has assisted the legal profession in arranging visits to Beijing for local professional bodies in a bid to extend the market for their services. The Secretary for Justice has also proposed developing litigation and arbitration business in Hong Kong to enable Mainland enterprises to negotiate and sign contracts with foreign enterprises here. If necessary, they could approach our courts and arbitration bodies to settle contractual disputes. Not only will Mainland and foreign investors benefit, but new opportunities will be opened up for our legal profession. This will enhance Hong Kong's role as an international financial and services centre. After much discussion, the proposal has received a positive initial response from the relevant Central Government authorities.

77. Locally, the Architectural Services Department and the Housing Department will minimise the use of standard design to enable greater participation of architects from the private sector and to encourage creativity. Departments concerned will also review the current tendering and approval procedures for Government projects and services. The aim is to create more opportunities for local professionals and to retain the relevant expertise and

experience in Hong Kong, while upholding the principles of equality and fairness, and adhering to the rules of the WTO and safeguarding public interests.

78. To support the comprehensive development of professional services, I have asked the Business and Services Promotion Unit under the Commerce and Industry Bureau to co-ordinate the efforts of relevant departments so that they can offer active support in this regard. We will also set aside \$100 million to establish a fund to support, on an equal matching basis, useful projects that can enhance the standard of professional services in Hong Kong. We will continue with an in-depth study on the demand for continuous learning in Hong Kong's professional sector and their needs in respect of their various practices. We will join hands with the professions in promoting their services to open up new markets in the Mainland and overseas.

Attracting More Mainland Visitors

79. Tourism is one of the major pillars of our economy. It will contribute to our successful economic restructuring. Currently we are developing new tourist attractions. In addition to Disneyland, we will implement as quickly as possible five medium to long-term tourism initiatives on Lantau Island, in Sai Kung, Central, West Kowloon and Aberdeen. Coupled with hotels and other facilities, these projects will create many new jobs and investment opportunities.

80. The large number of increasingly affluent Mainland residents constitutes an important source of visitors yet to be fully tapped by our tourism industry. Mainland travellers now account for about 30% of the total number of inbound visitors. Today, I would like to announce that the Government has reached an agreement with the National Tourism Administration for the abolition of the quota system for the Hong Kong Group Tour Scheme with effect from January 2002. Initiatives will be taken to increase the number of Mainland travel agencies organising tours to Hong Kong. Our target is to allow all Mainland agencies organising outbound tours for Mainland residents to arrange Hong Kong Group Tours.

81. As the Mainland and Hong Kong develop closer economic ties, more businessmen are travelling between the two places. To further facilitate visits to Hong Kong, the Mainland's public security authorities have agreed to extend

the validity period for multi-entry business visas from the present six months to a maximum of three years, with each duration of stay extended to 14 days. This measure not only meets the needs of our economic development, but also helps promote our tourism and retail industries.

Facilitating Foreign and Mainland Enterprises

82. In helping to attract more multinational companies and Mainland enterprises to Hong Kong, we have established Invest Hong Kong to provide ‘one-stop’ services. We are also more actively promoting the wider use of English and Putonghua to facilitate communication within the community. In addition, to cater for the children of those people coming to work here, we will need to ensure the provision of enough places at appropriate schools.

83. Hong Kong permanent residents who are foreign nationals have asked for greater convenience when travelling to and from the Mainland. The Government has conveyed their wishes to the relevant authorities and has received a positive response. Agreement has now been reached in principle that three-year multiple visas will be granted to this category of Hong Kong resident and we are now working on the details.

Attracting Talents and Investment from Outside Hong Kong

84. With the development of a knowledge-based economy, the competition for talents has become worldwide. Hong Kong needs not to only invest in local human resources, but also attract talents from other parts of the world. This will be of significant value to our economic restructuring and future development. Over the past few years, the Government has, on a progressive basis, reduced the time it takes to process the admission of professionals from abroad to work in Hong Kong, and we have launched new schemes to admit skilled people and talents from the Mainland. Depending on demand, we will look at accelerating the admission of qualified people from the Mainland to work in Hong Kong, and encourage more foreign talents as well.

85. Our immigration policy recognises that overseas workers can greatly benefit our economy, including investors who set up businesses. They are welcome to work and stay in Hong Kong. The drawback of the existing system

is that it prevents people who only invest capital and do not participate in the operation of any business from living in Hong Kong. As globalisation gains momentum, various countries are adjusting their policies to facilitate the free movement of both talents and capital. The Government is actively reviewing its immigration policy with a view to relaxing restrictions on the entry of overseas investors to Hong Kong and eliminate all unnecessary restrictions and barriers.

86. Hong Kong is a cosmopolitan city. Our community is made up of many ethnic groups who have lived here in peace and harmony over many years. With more people here from the Mainland and other countries, Hong Kong people must continue to embrace a high degree of social tolerance, be courteous to our visitors and treat them as equals. There is no room here for racial or regional discrimination. I have asked the Home Affairs Bureau, the Education and Manpower Bureau and other organisations such as the Committee on the Promotion of Civic Education to examine how we can reinforce the ideals of harmony and equality through publicity and education.

Support from the Central Government

87. There are now more and more economic exchanges between Hong Kong and the Mainland. And policies implemented in the Mainland will have impact on Hong Kong's business environment. The more successful the economic development in the Mainland, the larger the number of opportunities for Hong Kong. While firmly maintaining the 'One Country, Two Systems' principle, the Central Government has been very positive and supportive of Hong Kong's needs, whether in the development of tourism and professional legal services, or in linking infrastructure developments and the movement of people. The Central Government's firm support for Hong Kong will help our economic restructuring and further development.

III. Quality Living Environment

88. The Government's third task is to enhance the quality of our living environment. As a world-class city, Hong Kong must provide its people with a clean and comfortable living environment. Together, we will build a civil society in which everyone can take pride, as well as enjoy a healthy and positive

lifestyle in a rich cultural environment. A quality living environment will also attract more business investment, more talents and more tourists coming here to enjoy their vacation. In the past, we have not paid enough attention to this, but in more recent years we have put in place a series of initiatives to improve the environment.

More Emphasis on Environmental Protection

89. In my 1999 Policy Address, I set the objectives for improving our air quality. At present, about 70% of our taxis have switched to liquefied petroleum gas (LPG) and the second batch of large dedicated LPG filling stations will come on stream by the end of this year. All franchised buses have already switched to ultra-low sulphur diesel. We can see that highly polluting vehicle emissions in the urban area have been greatly reduced. The air quality monitoring stations show that the number of instances where our air quality objectives have been exceeded has fallen by 60% between 1999 and 2000. However, we cannot be complacent. We must keep up our efforts.

90. Since September 1999, a joint study has been carried out by the SAR Government and the Guangdong Provincial People's Government to examine the problem of air pollution in the PRD. It has involved a detailed analysis of the causes of the pollution and feasible measures to improve the quality of air in the region. The study will be completed soon. Both the Governor of Guangdong, Mr Lu Ruihua, and myself attach great importance to tackling this problem. Indeed, we have agreed to reach a consensus by April next year on a plan to implement long-term measures to improve the air quality of the region.

91. Marked progress has already been made on improvements to the quality of water in our harbour and the treatment of solid waste, despite our rather late start. The Secretary for Environment and Food earlier reported on the details of her plans and she will continue to work jointly with other departments to implement these programmes.

92. As a bustling metropolis, Hong Kong also boasts a natural landscape with large green areas of countryside. However, the greening of the urban areas is far from extensive. It is irritating to see litter on some of our streets and beaches. Our public hygiene facilities leave room for improvement. In the

coming year, we will deploy more resources and manpower to improve environmental hygiene and to increase our greening efforts.

Urban Redevelopment

93. Our modern skyscrapers also hide some old urban areas still dotted with dilapidated buildings and deteriorating living conditions. People living in these areas long for improvements. The Urban Renewal Authority was set up in May this year to speed up the redevelopment of these old urban areas. But in achieving this, we plan to preserve their characteristics and cultural heritage. This will make our city look better and will increase employment opportunities.

Culture and Sports

94. Urban development and long-term planning for Hong Kong must take into account our cultural heritage. Culture and art are the soul of a community. We have established the Culture and Heritage Commission to vigorously support and promote our efforts to develop Hong Kong as a centre for the arts in all its forms. Plans are also in hand to begin constructing quality sports facilities. We are examining ways to make sports activities more popular, as well as further improve the standard of our fine sportsmen and sportswomen.

IV. Relief Measures

95. Our efforts to invest in education, push ahead with infrastructure and optimise the business and living environment all aim at laying a solid foundation for our long-term development, thus ensuring a smooth economic restructuring. However, at this time of economic downturn, it is our responsibility to help relieve the hardships faced by the community.

Creating over 30 000 Jobs

96. Unemployment is the foremost concern of our community. The creation of job opportunities should rest mainly with the private sector so the Government is making great efforts to improve the Hong Kong business

environment. In the meantime, the Government understands the employment problems facing our people. With due regard for our long-term development needs, the Government will seek to create more short-term jobs. After much deliberation within Government, we are able to create over 30 000 job opportunities. I will explain here.

97. I have mentioned that Government efforts in the areas of education, environmental protection, public sanitation and greening, together with the demand for health care and welfare services, will create new job opportunities. In these areas, we will create 8 000 more jobs.

98. The Housing Department will improve security services in public housing estates. Together with the additional manpower required for newly-occupied housing estates, some 4 000 new jobs will be created.

99. The Government will carry out improvement and remedial works on various public facilities. Projects will include slope safety works, eliminating flooding problems, starting many of the projects endorsed by the two former municipal councils to improve recreational and cultural facilities and amenities, and school improvement works. More than 20 000 new jobs will be created as a result of all these initiatives.

100. To enhance our efficiency and effectiveness, we have decided to expedite work on projects without sacrificing quality. It is, in fact, our obligation to enhance the efficiency of our work and speed up assessment processes. With projects coming on line more quickly, about 2 000 jobs will be created each year from 2003.

101. While creating job opportunities, we also emphasise the need to maintain a stable and orderly labour market under the present economic circumstances. To maximise employment opportunities for local workers, the Government will take strong action against illegal employment. Apart from moves to intercept illegal immigrants, the Immigration Department and the Police will step up efforts in joint raids and operations to eliminate illegal employment black spots. We will ensure strict compliance with the laws and regulations on importation of labour and foreign domestic helpers. People who employ illegal immigrants and those who work illegally will be prosecuted.

Consistent and vigorous efforts will be made to stamp out illegal employment activities.

102. In the course of economic transformation, it is the responsibility of the Government to improve vocational training and retraining. The Government provides approximately \$2.2 billion a year to the Vocational Training Council. From this financial year, an annual provision of \$400 million has been earmarked for the Employees' Retraining Board. We are currently reviewing the entire training and retraining framework to ensure resources are used most effectively. We will discuss these issues with the related organisations in the coming months. Given the present economic situation, we will particularly keep a close watch on the unemployment situation. We will provide additional resources to retrain unemployed workers based on actual needs.

Reducing Rates Payments

103. In response to the economic downturn, the Government has decided to reduce rates payment for all ratepayers for the coming year to ease their burden. The maximum amount to be waived for each rateable tenement is \$2,000. Public housing tenants, occupiers of private domestic property, shops, and small and medium enterprises will all benefit. We estimate that 840 000 ratepayers will not pay any rates in 2002, while the remainder will enjoy a full reduction of \$2,000. This concession will cost about \$5 billion in lost revenue.

Relief for Mortgage Holders

104. The property market has a vital bearing on our economy and people's livelihood. Recently we introduced a moratorium on the sale of Home Ownership Scheme flats. The Chief Secretary for Administration is now conducting a comprehensive review of our public housing framework. The objective is to improve efficiency and provide better services to the public. To ease the burden of home owners, we will propose to the Legislative Council to raise the tax-deduction ceiling for housing loan interest to \$150,000 per year for this and the next year of assessment.

The Path is Rough but Our Direction is Clear

105. The present serious economic situation will lead to a larger budget deficit. Despite this, our investment in upgrading our infrastructure will total \$600 billion; we will also invest heavily in education, so as to ensure the success of our economic transformation. To maintain Hong Kong's competitiveness and attract more investment, we will strive to provide a more friendly business environment and lay a solid foundation for our long-term development. We will also implement measures to alleviate the difficulties faced by our people, create employment opportunities and lower their burden. This is the responsibility of the Government.

C. Social Policies in a Changing Economic Climate

106. I have talked about the Government's economic measures as well as some short-term relief initiatives. Now, I will turn to our social policies. Our objective is to create an environment where everyone has the opportunity to fully develop their potential. Necessary support should be provided to those hardest hit by the rapid changes in circumstances, as well as to disadvantaged groups. Our aim is to help our people to enhance their ability to help themselves and to boost their will-power to do so.

Firm Commitments

107. Under this social contract, the Government is firmly committed to providing a reliable safety net as a basic guarantee for our citizens. Through various services, the Government allows people of different circumstances to demonstrate their potential and to strive for a better future.

108. We are concerned about the hardships facing the population and have made firm commitments in all major social services areas. Spending on public housing, health care and social welfare will amount to \$103.3 billion this financial year. Today, more than 3.3 million people, about half the population, live in public housing or subsidised home ownership flats. In the area of social welfare, there are 377 000 Comprehensive Social Security Assistance recipients and a further 529 000 recipients of Social Security Allowance benefits. Spending on public health services this financial year is expected to be \$33.9 billion, allowing wide access to high-quality health care services. We also spend \$2.6 billion annually on comprehensive support and rehabilitation services for people with disabilities. These services include basic life skills training, home care, day and residential services, and transportation services.

Enhancing Value for Money and Improving Services

109. To fulfil our social obligation and to face the challenges of economic restructuring, we have to respond to new demands on social services. The

Government continues to improve its work in these areas to ensure that resources effectively meet today's pressing needs. We are now reorganising the Social Welfare Department to strengthen the provision of services at the district level, to better serve local needs and to enhance the interface between the services provided by other sectors. We will strengthen community networks and outreach services, and provide one-stop services to ensure that assistance is provided to those in need. I will talk about a few major areas.

Supporting the Family

110. First of all, family services. Our society has always recognised the importance of the family. Harmonious families are a source of comfort and care for individuals; nothing can fully replace this relationship. However, in a rapidly changing society, families are coming under greater pressure. Nowadays, many young people at risk come from families experiencing problems. The Government spends \$1.7 billion annually to provide family welfare services, which include family casework, family education and various support services. We are also actively working in a number of areas, the most important of which is to reorganise our existing Family Service Centres into Integrated Family Service Centres. These new centres will strive to provide services for different needs. Each reorganised centre will include a resource unit providing general services, a support unit to serve families at risk, and a counselling unit to counsel and support families in crisis. The new structure will not only enhance service quality, but will also facilitate early identification of problems so that timely assistance can be provided.

Concern for Our Young People

111. I will now talk about youth services. Recently, I attended the Youth Summit, where I was moved and encouraged by the commitment of our young people to become responsible and contributing members of our society. Young people have always been the major driving force in our community's development. The Youth Summit elicited two clear messages: first, both the Government and the community agreed that more needs to be done in the area of youth services and that the holistic development of youth should become an important area of the Government's work plan. Second, to fulfil our

commitments to the younger generation, we have to strengthen our work in three areas. These are to provide good education to enhance the quality of our human resources; to provide support and assistance to help young people at risk overcome the difficulties they face in their development; to provide room for our young people to reach their full potential and to play an active role in building our community. We will continue to work hard in these areas.

112. As young people grow up and develop, they face many risks and difficulties. In this period of economic restructuring, they face even more problems, and are most in need of our care and understanding. Services for youth cover various areas including education, arts and recreation, employment, training, counselling and rehabilitation. The delivery of these services must fit in well with the family and community environment. Therefore, we need to promote co-operation between different departments and sectors. In particular, active parent participation and school health services are important elements that complement our work. With these joint efforts, we are able to provide a healthy environment for the growth of our young people. In addition, they are encouraged to play a more active role and become committed to building our future.

113. We need to adopt a different approach and provide additional support to those young people at risk. The Government spends about \$1.2 billion a year on youth welfare services. These include a full range of developmental, preventive, supportive and remedial services. We will create more integrated teams and promote ‘peer counselling and peer support’. To do this well, we must better understand the mindset, habits and needs of our young people. The Commission on Youth plays an important role in furthering work in all these areas.

Safeguarding the Rights of Women

114. We are very concerned about women’s rights. Despite a rapid rise in social status in recent years, Hong Kong women still face many obstacles in their development. The Women’s Commission was established to safeguard the rights and interests of women, as well as provide support to help women realise their full potential.

Care and Respect for the Elderly

115. Over the past few years, we have bolstered our efforts to improve the quality of life for the elderly. We have achieved significant results in our drive to ensure they enjoy a sense of security, a sense of belonging and a feeling of health and worthiness.

116. We adopt an holistic, integrated and client-oriented approach in providing quality, long-term care services to those elderly in need. This year we will spend \$3.2 billion on direct elderly services, a \$1.5 billion increase over the \$1.7 billion spent in 1997–1998. Apart from increasing resources for elderly services, we will also use our existing resources more efficiently to improve those services.

117. About 70% of elderly people live with their own families. It is a time-honoured tradition for children to support their parents when they are old, and we continue to encourage this. To allow our elderly citizens to better enjoy their golden years at home, we provide a range of home help and community support services that are proving very popular. By March next year, about 29 000 elderly people will have benefited from these services. If needed, we will continue to expand them.

118. Subsidised residential care places are provided for those who cannot be adequately taken care of at home. By March next year, 26 000 places will be available, a 70% increase over the 15 000 places in 1997. In addition, since March this year all private care homes have met licensing standards, an enormous improvement compared to the less than 1% of facilities that met these standards in 1997. Comparatively speaking, services provided by private care homes are now much better than before.

119. We endeavour to help the community to better understand the special needs of old age, and to promote healthy aging. This will help ensure the well-being of our senior citizens and the future elderly population. The Elderly Commission has recently launched a three-year ‘Healthy Aging Campaign’ to educate the public on the importance of a healthy and active lifestyle amongst the elderly. The Commission is also studying ways to enhance the image of

elderly people, including helping them to pursue lifelong learning and to participate in social activities.

Helping and Caring for One Another

120. Current economic restructuring will result in some profound adjustments in our society. Inevitably, this will bring about various social problems and exacerbate some existing problems. More than ever, we need a caring society with a spirit of participation and dedication.

121. We have the ability to fulfil this commitment. Most importantly, since reunification the feeling of living in a borrowed place no longer exists. It is only natural then that people want to help one another and contribute to the good of Hong Kong.

122. There have always been numerous voluntary and charitable organisations and caring people in Hong Kong devoted to helping the poor and needy. Over many years, the spirit of charity, benevolence, contribution and participation has prevailed.

123. The business community has strong long-term commitments to Hong Kong. Despite unfavourable economic conditions, their contributions to the community have not diminished. Apart from making donations, many corporations actively encourage their staff to participate in voluntary work. We highly commend these commitments.

124. The Government resolutely assumes responsibility for welfare services. We also encourage the community to come together, and pool the wisdom and strength of individuals, non-profit-making organisations and businesses. Only by doing this can we develop the most effective approach to solving social problems.

125. I have met with social workers on many recent occasions. They considered that social work must rely on society itself to work. The Government should encourage the grassroots to develop their own initiatives, and to support our people to develop their spirit of self-help and mutual aid.

Community Investment and Inclusion Fund

126. To support and promote this concept of social service development, the Government plans to provide an initial \$300 million grant to establish a ‘Community Investment and Inclusion Fund’. We would also welcome public donations to the Fund.

127. The objective of the Fund is to encourage mutual concern and aid among people, and to promote community participation in district and cross-sector programmes. This will enhance the function of different communities and foster their development. We do not believe that money alone can solve our problems. We also rely on the community’s motivation and dedication to help each other. These efforts enhance social cohesion, strengthen community networks, support families more effectively and provide services to improve the health and well-being of youth and women. We emphasise the importance of self-initiative by individual members of the community.

128. The Fund should not be seen as a kind of social welfare. Rather, it is a social investment. The Fund will support projects proposed by members of the community. We will ensure that resources are channeled directly to the grassroots level, which in turn will strengthen the motivation of our people and improve their quality of life. My colleagues from the relevant bureaux will later provide details about the operation of the Fund.

Serving the People

129. I have spoken about the Government’s thinking in regard to social policies during a period of economic restructuring. The emphasis is on the Government serving the people. We will not ignore the hardships faced by our people and we will support the disadvantaged. We want to work closely with the community and voluntary agencies in keeping with the people’s positive spirit of participation and service. Together, we will build a more harmonious and caring society.

D. Improving the Quality of Administration

130. Madam President, the Government is fully aware of the need to move with the times, to better respond to the demands of the people and to raise the overall standards of our services. This is critical to improving the business environment and enhancing Hong Kong's competitiveness.

Enhancing the Accountability System

131. In last year's Policy Address, I undertook to examine how to improve the system of accountability. The objectives are: to strengthen the accountability of principal officials in their respective policy areas; ensure the Government can better respond to the demands of the community; make sure that policies are well co-ordinated; strengthen the co-operation between the Executive and the Legislature; ensure effective implementation of policies; and provide quality services to the public.

132. Our study was conducted within the parameters of the Basic Law. Today, I will outline our initial thinking emerging from the study.

133. Our idea is to introduce a new system of appointing principal officials, applicable to the top three Secretaries (the Chief Secretary for Administration, the Financial Secretary and the Secretary for Justice) and most Directors of Bureaux. The Chief Executive would nominate and recommend to the Central People's Government (CPG) the appointment of these principal officials and would also have the authority to recommend their removal.

134. The Chief Executive could nominate suitable candidates for all these positions from within or outside the civil service. These officials would be appointed on terms different to those in the civil service, including remuneration and conditions of service. The appointment contract would clearly state their rights and obligations. Their term of office would not exceed that of the Chief Executive who nominated them.

135. These officials would each be responsible for policy areas designated by the Chief Executive and would lead the departments within their particular portfolios. Responsibilities would include formulating and explaining policies, defending policies, canvassing support from the Legislative Council and the public, and be answerable to the Chief Executive for the success or failure of their policies. They would attend meetings of the Legislative Council to answer questions, move bills and take part in motion debates.

136. Some incumbent principal officials, including certain Directors of Bureaux, would remain as civil servants. They would not be employed on contract terms and would not be included in the new accountability system.

137. As a result of introducing the new accountability system, the post-titles of those Directors of Bureaux who remained on civil service terms would be changed. Although no longer Directors of Bureaux, they would play a pivotal role between the civil service and the new contract Directors of Bureaux. They would be responsible to, and work under, the new directors. They would assist in formulating and implementing policies, listen to the views of the public and the Legislative Council, explain relevant policies, answer questions, secure support for policies and attend LegCo meetings. Their existing remuneration package and conditions of service would remain unchanged.

138. Last year, I also talked about enhancing the composition of the Executive Council at an appropriate time. To assist the Chief Executive's decision-making process, an important idea being considered is to appoint to Executive Council the principal officials under the new accountability system in addition to the top three Secretaries. Other members would also be appointed in accordance with the Basic Law. In this way, they would participate directly in the Government's overall policy-making process and help set priorities for introducing policies. Work on issues which straddle across departments would be better co-ordinated. The Government would be able to respond more comprehensively and quickly to public demands; we would also be able to prioritise better the allocation of resources and formulate policies that suit the needs of the people. This is the general thrust of our initial thinking, but we need to give further consideration to this very important issue.

139. The new system will more clearly define the roles, powers and responsibilities of top government officials. It will also build on the civil service's existing strengths, such as permanency, professionalism, neutrality, high efficiency, and freedom from corruption.

140. Since I announced the proposal to examine the accountability system, members of the Legislative Council, academics, the media and the community have enthusiastically expressed their views on the subject. In the coming few months, we will examine in detail the ideas I have just outlined and prepare proposals on the arrangements, including the remuneration package, employment conditions, and code of practice. As the Chief Executive, I have the responsibility to address issues relating to public administration and put forward feasible proposals. However, it will be for the Chief Executive in the second term to decide whether these ideas should be implemented.

Enhancing Service Culture

141. The entire Government has the responsibility to respond to the community's aspirations in a more efficient and better way. As I have said before, all our work is people-oriented and based on the premise of improving the well-being of citizens. Every person employed by the Government is there to serve the community - that is what we mean by public service. The quality of the Hong Kong civil service is very good, and our civil servants have been internationally recognised as among the least corrupt and the least bureaucratic. However, with continually increasing demands from the public, all Government bureaux and departments should enhance their 'serving the community' spirit and culture.

142. A key focus of civil service reforms implemented over the past two years has been to establish the principle of 'serving the community and being accountable'. Through training courses, we have enhanced civil servants' awareness of serving the community. And we have revised the disciplinary system to make the civil service at all levels more accountable to the public.

143. As the masters of our own destiny, we need to have a more acute sense of the pulse of the community in formulating our policies. We need to do our consultation work well to ensure that all public views are fully reflected. When implementing policies, we need to understand our community's inclinations and strive to gain their understanding and support.

144. Time is of the essence. In today's ever-changing world, we need to make rapid responses to issues as they arise. We also need to work efficiently without delay. Admittedly, we have not been able to put this into practice in everything we do. There are many reasons for this, including the complicated procedures involved, and the long lead time required. I spoke earlier of the need to speed up and simplify the approval procedures for public works projects. We have made some preliminary progress and I have asked the Chief Secretary for Administration and the Financial Secretary to accelerate the pace of handling community-related matters by the bureaux and departments. We aim to achieve notable changes from this improved efficiency which will benefit our citizens and enhance the business environment.

Curbing Expenditure and Enhancing Productivity

145. We firmly believe in the principle of 'small government'. In the long term, we need to simplify our organisational structure, curb government spending and progressively lower the proportion of public expenditure to Gross Domestic Product. This will allow the free market forces to come into play.

146. Last year, we implemented a Voluntary Retirement Scheme for the civil service. So far, about 9 000 early retirement applications have been approved. Most of these civil servants will gradually retire this year and over time we will see annual savings of almost \$1 billion.

147. Government bureaux and departments have also adopted enhanced productivity measures to increase their efficiency and to reduce expenditure. This will allow annual savings of \$6 billion starting from 2002–2003. All savings will be used to meet the community's needs. This clearly demonstrates the commitment of the civil service to enhance efficiency.

Upholding the Rule of Law and Public Safety

148. Since the establishment of the Special Administrative Region Government, we have continued to strictly uphold the rule of law. Our courts have maintained their independent judicial authority and the rights and freedoms of our citizens continue to be protected by law.

149. Public safety and security are pre-requisites for a stable and prosperous society. Hong Kong's disciplinary services maintain law and order with a high level of professionalism. During the past few years, our overall crime rate has dropped and we remain one of the safest cities in the world. Visitors feel safe in Hong Kong, but we will not be complacent; we will continue with our efforts in ensuring peace in society.

Constitutional Development

150. The Basic Law sets out the principle under which our constitutional structure should develop in a progressive manner. Our experience over the past four years has shown that this is the right approach. The election for the next Chief Executive will be held in March 2002. And the next Legislative Council election will be held in 2004. As to the constitutional structure after 2007, we have to review the operational experience of the Hong Kong SAR since its establishment, including experience gained from elections. This will provide the basis to consult widely with the public before reaching a conclusion.

E. Conclusion

151. Madam President, when we were reunited with the Motherland in 1997, Hong Kong and other Asian economies were flourishing. In my speech marking the establishment of the Special Administrative Region, I mentioned that we had to be alert to the challenges that lay ahead because I was already aware of latent problems behind the facade of prosperity. At present, the world economy is deteriorating rapidly and Hong Kong is experiencing its most difficult period in years. But we must look at the other side of the picture, our own advantages and our future prospects. We must have hope and confidence in ourselves.

152. In my speech today, I have spoken at some length on how we will facilitate a smooth economic restructuring and relieve the hardships of our people. I have also talked about social service development and raising the standards of administration. This will be the major thrust of our efforts for some time in the future.

153. Economic restructuring takes years. The recent cyclical slowdown in the world economy and the terrible terrorist attacks in the United States have aggravated the situation.

154. Hong Kong has weathered many crises in the past and since reunification we have confronted many challenges. However, after the storms, we have emerged with a new outlook each and every time. Although we are still facing unavoidable hard times, our experience has reaffirmed my belief in Hong Kong and my confidence in our future.

155. I have confidence because Hong Kong is endowed with distinct advantages - natural advantages or those that are the result of strenuous past efforts. Added to this is the firm support of the Central Government. I have confidence because I know that the people of Hong Kong have in past decades fought and overcome all sorts of adversities and difficulties. We have developed determination, indomitable strength and courage to take up new challenges. Therefore, if we can unite and work together, reinforce our advantages and invest in the future, particularly in education, we will overcome adversity,

maintain our leading edge after economic restructuring and reap the benefits of the new knowledge-based economy.

156. To push forward economic restructuring, all of us should start by embracing self-improvement, through the process of lifelong learning and the acquisition of new knowledge and new skills. Together we have an important task - to establish a continuing learning society with education as an ever-growing enterprise.

157. I have said that regardless of the economic situation in the next few years, the Government should steadfastly continue to increase its investment in education. Education sits at the top of our social policy agenda. We are determined to succeed in our education reforms and to build a partnership with all those involved. There are many individuals and organisations in Hong Kong who are devoted to the community and have contributed greatly to education. On behalf of the Government, I offer my heartfelt gratitude. I call on them to continue to actively participate in the further development of our education system. I appeal to all entrepreneurs and employers: continue to support education wherever possible and try your best to give staff time off to pursue further education or retraining. This will ultimately enhance the success of your enterprise. I appeal to all those working in the education sector: strive to bring your skills to new heights and excel in both teaching and learning. I appeal to all parents: try to spend more time with your children. Encourage them not just to study hard but to become well-rounded individuals. Finally, I appeal to all young students: grasp valuable learning opportunities and prepare yourselves well for the challenges ahead. This is my biggest hope because you are the future of Hong Kong.

158. In the face of our current economic difficulties, the most reliable source of strength is ourselves - the people of Hong Kong. In the past, when confronted with adversity, Hong Kong people always rise to the occasion. We maintain our composure, walk the extra mile, strive for excellence, better ourselves and break new ground. I firmly believe that with our intelligence, determination and adaptability, we can overcome all difficulties as we forge ahead towards a bright future.