

The 2004 Policy Address

Seizing Opportunities for Development
Promoting People-based Governance

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Madam President,

A. Introduction

1. I now deliver my Policy Address for 2004.

2. Over the past year, the people of Hong Kong have experienced a severe trial. My colleagues and I in the Special Administrative Region Government have learnt a painful lesson. After much soul searching, we have adopted various measures to get closer to the community and respond more vigorously to the aspirations of the people. In the coming year we are determined to continue improving our governance to gain the trust and support of the community, and we will take concrete action to promote people-based governance.

3. With the community's concerted efforts, we overcame the outbreak of Severe Acute Respiratory Syndrome (SARS) last year. However, the disease infected more than 1 700 people and claimed 299 lives. Drawing on the lessons we learnt, the Government has improved the alert and response system to help prevent, identify and control future outbreaks. In particular, we have ensured that frontline medical staff have all the necessary personal protection equipment they need. We all know that the risk of a possible resurgence of SARS still exists. The important tasks ahead of us are to maintain a high level of vigilance, to ensure good personal and environmental hygiene and to stem the disease at source.

4. After the difficulties of the past few years, our economy is clearly beginning to recover. The hard work of the people and the economic development strategy plus various measures adopted by the Government are gradually producing results. In these circumstances, what is most needed is to push ahead with work already planned in a pragmatic manner, to ensure that the good momentum built up in the recovery is sustained. Thus, the theme of my address today is to work with everybody in the broad direction accepted by the community to continue with economic restructuring and revival, and while allowing the community to take a respite and build up its strength, to promote comprehensive community development, to get close to the people, to improve governance and to properly plan political arrangements for the future.

B. Seizing Opportunities to Expedite Restructuring

5. Over the past six years, the Hong Kong economy has been undergoing a difficult process of restructuring. Restructuring has been particularly painful and protracted for several important reasons. First, we inherited serious and unresolved old problems including a bubble economy, and a mismatch of human resources leading to an inability to move quickly towards a knowledge-based economy. Second, the sudden onset of the Asian financial crisis pierced the bubble economy, which led to a sharp drop in property prices, the evaporation of considerable personal wealth and, for many people, the problem of negative equity. The serious adverse impact this had on consumer spending contributed to continued deflation. Third, due to globalisation, neighbouring economies have been growing and increasing their competitiveness. Higher production and operating costs in Hong Kong have seen our industries relocate elsewhere, leading to job losses and reduced incomes. Fourth, the adverse economic situation has affected public finances, causing a serious fiscal deficit. If not dealt with properly, this will undermine our financial markets. However, dealing with it too hastily will seriously affect people's livelihood and the momentum of economic recovery.

6. We have carefully evaluated the challenges and opportunities posed by these changes, and fully appreciated our own strengths and weaknesses. What we have relied upon for past success is no longer a sufficient guarantee for our long-term prosperity and stability. Hong Kong must be far sighted in defining its role in order to promote successful economic restructuring and revival.

7. In previous Policy Addresses, I have explained my thoughts on economic development, and established the strategic direction of 'leveraging on the Mainland, engaging ourselves globally, capitalising on our advantages, strengthening our core industries, deploying new knowledge and new technologies and moving up the value chain'. We are promoting Hong Kong as Asia's world city, on par with the role that New York plays in North America and London in Europe.

8. In order to achieve this objective, we have, from a macro perspective, invested heavily in education to raise the quality of our manpower. We have attracted talented people to come here to work, and strived to improve the living environment. We have embarked on the road to high added-value by encouraging new technologies. We have promoted competition, lowered costs and supported innovation. We have worked hard to preserve the rule of law, the various freedoms we treasure, a level playing field, and the many other advantages we presently enjoy. At the same time, seizing upon the historic event of the handover, we have vigorously promoted exchange and co-operation with the Mainland. In the process, we will not only boost Hong Kong's economic development but also make a greater contribution to our country's modernisation.

9. Our strategic direction and positioning has been supported by the community, investors and the Central People's Government (CPG). Various policies are being implemented and are producing results. Last year's SARS attack caused a temporary setback to economic growth, but the economy has since recovered strongly.

A Recovering Economy

10. Many indicators point to a V-shaped rebound of our Gross Domestic Product (GDP) after SARS. The unemployment rate has declined. Deflation, which has persisted for more than five years, is easing, indicating that domestic demand is gradually reviving.

11. We expect to see sustained economic growth and a continued decline in unemployment this year. Hopefully, deflation will disappear in 12 to 18 months. Our measures to stabilise the property market are gradually producing results. With deflation and a weaker US dollar, our costs have declined and our competitiveness has risen significantly. As the world economy improves, we are optimistic about our own economic prospects.

12. We must, of course, be aware of existing problems and potential concerns. Deflation and the fiscal deficit are internal issues that need to be resolved. Externally, globalisation may bring sudden and unpredictable fluctuations in areas such as shocks to financial markets, new diseases and

epidemics, and international terrorism. Geo-politics and international conflicts could give rise to wide-spread threats.

13. But, generally speaking, we possess particularly favourable conditions for overcoming such difficulties. Without doubt, Hong Kong is a blessed city. We have our own unique advantages and the staunch support of the Mainland. Our country is poised to benefit from rapid development, with GDP expected to quadruple from US\$1,000 billion in 2000 to US\$4,000 billion by 2020. Provided that we work hard at it, our economic development will undoubtedly benefit from closer ties with the Mainland.

14. In fact, we are already witnessing the practical effects of closer links to the Mainland. The CPG's decision to allow individual visits of Mainlanders to Hong Kong has provided a great boost to our retail and catering sectors. The Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) has ushered in a new phase of development, enabling Hong Kong and the Mainland to make use of institutional arrangements to promote comprehensive economic co-operation. Regional co-operation, especially recent progress in developing closer links with Guangdong and Shanghai, offers Hong Kong greater integrated advantages resulting from an expanded economic hinterland. The CPG's agreement for banks in Hong Kong to conduct personal renminbi businesses and provide clearing arrangements has strengthened our position as an international financial centre. The interaction between Hong Kong and the Mainland will naturally become even closer and more frequent. The increasing ease in the flow of people, goods and capital will be the main factor contributing to our long-term development. This increasing integration is the result of careful planning and detailed discussion on our part over the recent past and demonstrates how the CPG as well as Mainland provinces and cities are concerned about Hong Kong and ready to lend a hand in time of need. We are deeply grateful to them.

Capitalising on Our Advantages and Making Continuous Improvements

15. However, while Hong Kong's economic growth is gaining momentum, the process of economic restructuring has yet to be completed. Looking ahead,

our most pressing task is to implement the various arrangements under CEPA in time. We know clearly that, in order to translate CEPA into tangible economic benefits, it is crucial for Hong Kong's entrepreneurs, professionals and people from all sectors to seize the opportunities to re-equip themselves and do their best to innovate. We must capitalise on various favourable factors to produce results, and thereby succeed in our economic restructuring.

Continuing Improvements to Business Environment

16. Hong Kong possesses a superior environment for business – a very safe society, judicial independence, a level playing field, a prime location, well-developed infrastructure, simple and low taxes, harmonious labour relations, a clean government and highly efficient public services. We have won international acclaim in protecting intellectual property rights. These favourable conditions have given local people the confidence to continue investing in new businesses and expand the scale of their operations. They have attracted many multi-national corporations and foreign enterprises to set up regional headquarters and offices here.

17. But we should also recognise that there is considerable scope to improve our business environment. As globalisation develops and inter-regional as well as inter-city competition intensifies, we cannot afford to be content with our existing advantages. Relative to neighbouring regions, our business costs are still too high. Our human resources do not yet fully meet the demands of industries requiring advanced technology, rich knowledge content and high added value. For the future, we must continue to focus on nurturing and attracting talents, strengthen our infrastructure, and push for the application of advanced technologies and innovation. We must make further progress with environmental protection and greening to make Hong Kong an ideal home for talented people from everywhere.

18. Over the years our regulatory regime in some areas has become excessively tight and detailed, leading to frustration among business people. Due to elaborate procedures, we have been slow to implement some much-needed infrastructural projects, leading to bottlenecks. In order to step up efforts to

improve the business environment, simplify procedures and improve regulation, the Financial Secretary will merge and reorganise the committees under his purview to establish a high-level body. Its task will be to improve co-operation between government and business, strengthen comprehensively our advantages for doing business and create jobs.

Continuing to Consolidate Core Industries

19. The Government will actively facilitate the development and expansion of our core industries.

Financial Services

20. We have continued to consolidate Hong Kong's position as an international financial centre. The largest state enterprises in the Mainland have come to list in Hong Kong. Many private enterprises have also come here to raise capital and we expect more to follow. The Bank of China and the four major state-owned commercial banks in the Mainland have gradually relocated their international treasury and foreign exchange trading centres to Hong Kong. CEPA will encourage Mainland shareholding banks to do the same. The CPG has agreed to enable local banks, beginning this year, to operate personal renminbi businesses, including deposits, exchange, remittances and renminbi bank cards. CEPA provides further favourable conditions for our financial services sector to expand in the Mainland. We are working hard to establish Hong Kong as a major bond centre for Asia. We are continuing to raise the operational standards of the Hong Kong market, particularly in respect of reinforcing the corporate governance of listed companies and the professional standards of intermediaries.

Producer Services

21. Hong Kong is a renowned international city of commerce. Trading and related logistics coupled with professional services and other producer services account for more than 30% of our GDP. Since joining the World Trade Organisation, China's imports and exports have increased significantly. Last year, the Mainland's total external trade volume was the fourth largest in the

world. It is maintaining a fast rate of economic growth and is now a major world consumer market. We have always played an active role in China's external trade because our comprehensive array of producer services makes us the best operating platform for linking markets abroad and at home. This provides greater opportunities in future to participate in process management, purchasing and supply, brand name building, marketing and related activities in the production chain.

Logistics

22. An on-going joint study with the National Development and Reform Commission has confirmed the strategic importance of enhanced co-operation between the Mainland and Hong Kong in logistics and our position as the region's logistics hub. In terms of software for the development of modern logistics, our enterprises excel in supply chain management, providing fast and reliable services. In terms of hardware, we have a world-class international airport and container terminals, excellent transportation and communications networks as well as other supporting facilities. But we must bear in mind that, first, in neighbouring areas the logistics industry is developing very fast and competition is ever intensifying and, second, our operating costs are too high. We must redouble our efforts, otherwise we risk eroding the advantages we have. We will fully exploit the advantages of the Hong Kong International Airport by progressively liberalising our air services regime and actively exploring ways to strengthen our competitiveness to maintain our leading position in air transportation. For maritime transport, the remaining four berths of Container Terminal 9 will come on stream in 2004 and 2005. In order to raise our competitiveness in the long term, we will recommend building more container terminals.

23. For the long-term development of the logistics industry, we will continue to improve the hardware and supporting software for cargo clearance at our boundary crossings. We are actively expanding our transport network. The construction of the Shenzhen Western Corridor is scheduled for completion by the end of next year. Having confirmed the need and urgency for the Hong Kong-Zhuhai-Macao Bridge, a co-ordination group with representatives from the three governments has begun advance work for the project. Planning work for the Guangzhou-Shenzhen-Hong Kong Express Rail Link is proceeding.

Despite the obvious increase in clearance capacities at our land boundary crossings, we will continue to add more facilities and adopt new technologies to ease the movement of goods. In terms of software, the Government is actively developing an electronic platform to facilitate joint use by supply chain participants. We are preparing for the launch of the Digital Trade Transportation Network System next year.

24. The new container terminals may be built on Lantau. The landing point for the Hong Kong-Zhuhai-Macao Bridge will be on northwest Lantau. In future, Lantau will not only have modern transport facilities, but also a Value-Added Logistics Park and tourist attractions such as Hong Kong Disneyland. To ensure that major infrastructural and developmental projects are completed on schedule, the Government has decided to establish a Lantau Economic and Infrastructural Development Co-ordination Task Force under the chairmanship of the Financial Secretary to comprehensively co-ordinate the planning and development of these projects.

Tourism

25. Tourist arrivals have quickly recovered after the SARS outbreak. By the end of last year, over 670 000 Mainlanders had visited us under the Individual Visit Scheme, boosting consumption locally. The Scheme will be extended further this year. We expect an appreciable increase in visitors from the Mainland and overseas from now.

26. In support of tourism development, a series of major new tourist attractions, including Hong Kong Disneyland, the Hong Kong Wetland Park, the Tung Chung Cable Car System and the Harbour Lighting Plan will be completed over the next few years. Many projects to improve our tourist attractions will proceed according to plan. These include the Tsim Sha Tsui Promenade Beautification, Stanley Waterfront Improvement and the Peak Improvement projects. In addition, we are proceeding with heritage tourism projects at the former Marine Police Headquarters, and the Central Police Station, Victoria Prison and the former Central Magistracy Compound. Some 24 new hotels are scheduled for completion within the next three years. Another 35 new hotel projects have received Town Planning Board approval. Over the past year, we have organised major events such as the Arts Festival, the Rugby

Sevens, the Hong Kong International Marathon, exhibition matches by world-renowned soccer teams and HarbourFest. We will draw on this experience to actively plan and support the holding of more world-class events in Hong Kong. We will organise more cultural activities with local characteristics. We will continue to raise our quality of service to enhance our reputation as a ‘shopping paradise’ and ‘gourmet paradise’. We will also step up collaboration with the Mainland, in particular the Pearl River Delta, to promote tourism.

Promoting New Growth

27. We must continue to consolidate our core industries. Judging from our experience of repeated exposure to the impact of external factors, we must also seek to broaden the base of our economy and consolidate our existing strengths to promote new areas of growth. This will require people from all sectors and enterprises to innovate and to branch out into new areas. The Government will actively provide the necessary support and co-ordination in respect of policy, infrastructure and software.

New Opportunities for Manufacturing

28. CEPA has brought new opportunities for industrial development in Hong Kong. As CEPA allows 273 items of Hong Kong products to be imported into the Mainland tariff free, new industries and high value-added production processes may be attracted to Hong Kong. We have an advantage in areas such as intellectual property protection, design and innovation, finance and marketing. Our products have long enjoyed the confidence of Mainland consumers. Of course, due to cost and other factors, a revival of manufacturing locally will not be easy. The key is to apply new technology and innovation to develop high value-added products. Since the signing of CEPA, many Mainland and foreign enterprises have explored the prospect of setting up factories in Hong Kong. Our own enterprises are exploring the location of high value-added production processes in Hong Kong and some traditional manufacturing industries now have the opportunity to re-launch locally. We particularly welcome the development of the more competitive, high-technology manufacturing industries in Hong Kong. We will make policy adjustments to facilitate as necessary.

New and High-tech Industries

29. A key to promoting economic restructuring is the introduction and application of new and advanced technologies to enhance Hong Kong's long-term competitiveness. This has always been our long-term view. The application of technologies to products, services, infrastructural building and processes can generate many business opportunities. Over the past few years, we have built facilities such as the Science Park and Cyberport. We have promoted research and development through the Research Grants Council, the Innovation and Technology Fund, the Applied Science and Technology Research Institute and the support given to various technology enterprises and 'incubator' projects. Of course, technological development cannot be achieved overnight. Our investment in this area is relatively limited and must necessarily concentrate on developing a few areas where we have the strength. Hong Kong has amassed a group of high quality researchers who are capable of pursuing innovation in areas such as integrated circuit design, photonics, wireless communications, digital media entertainment, applied nanotechnology, biomedicine and Chinese medicine. Local enterprises have made progress in the application of new and advanced technologies – between 2001 and 2002, the total number of local organisations and enterprises engaged in research and development grew from 887 to 1 223, an increase of 38%. The number of R&D personnel employed by commerce and industry and spending on R&D also registered appreciable increases and this trend continued for 2003. We have made a good start and the Government will continue to support the application of new and advanced technologies, and promote the transition to a knowledge-based economy.

Creative Industries

30. For many decades, Hong Kong has been a place where the cultures of East and West meet. This is conducive to the development of creative industries, which have already established a solid foundation. For example, films, music, publishing, architecture, advertising, various types of design and digital entertainment have created their own markets overseas. Having regard to the needs of the respective industries, the Commerce, Industry and Technology Bureau and the Home Affairs Bureau will promote the development of creative industries, including their linkage with the resources and markets

in the Mainland so that they can reach new heights. Following CEPA, local films can be released in the Mainland without import quota restrictions starting from this year. This provides an unprecedented opportunity for our film industry to prosper. We will continue to provide the necessary support.

Local Community Economy

31. Under the joint efforts of the Home Affairs Department and District Councils in recent years, many events and projects featuring unique district characteristics have achieved good results. Sai Kung is a typical example. Through beautification of the environment and promoting creative leisure activities, it has really lived up to its name as the ‘Back Garden of Hong Kong’. The Computer Festival in Sham Shui Po, Tsuen Wan Jewellery and Goldsmith Square and other creative activities organised for young people have all been well received. There have been isolated cases where we may not have achieved our objectives, but overall, the local community economy has indeed strengthened social cohesion and generated economic benefits. Looking ahead, we will continue to facilitate such projects hand in hand with our District Councils.

Developing Education and Health Care Industries

32. As Asia’s world city, Hong Kong should be where talents from around the world congregate. The Capital Investment Entrant Scheme has been well received and since its implementation last year, overseas Chinese and foreign nationals have applied to reside in Hong Kong. We will continue to improve our living conditions in such areas as environmental protection, education, recreation and culture, and promote high quality services to attract those who meet the criteria to settle here. Hong Kong’s education, medical and health care services enjoy high professional standards. Apart from catering for local needs, they can be further developed into industries to serve people in the Mainland and elsewhere in Asia. We will study how our immigration and related policies may support such development.

International Asset Management

33. The bulk of the world's savings are generated within Asia. This is expected to be a long-term trend. Located in the heart of Asia, Hong Kong is well placed to further develop as an international financial services and asset management centre such as Switzerland. With the Mainland as our hinterland, we are working on providing Asia with high value-added services in fund management, corporate investment management, personal banking, insurance sales and various investment and savings instruments. We will work with the industry to create even more favourable conditions for these goals to be achieved.

Environmental Improvement

34. The SARS outbreak last year reminded all of us of the importance of good personal and environmental hygiene. The efforts of Team Clean have produced outstanding results, and various places in the city have become tidier than before. We attach special importance to building a high quality living environment in keeping with our status as Asia's world city. The efforts we have made to improve water and air quality have begun to deliver results. Compared with 1999, the number of hours during which air pollution levels at roadside air quality monitoring stations exceeded the Air Pollution Index dropped by 35% in 2003. Water quality in Victoria Harbour has also improved. The declining levels of bacteria have changed the living environment of marine life for the better. Protecting the environment is a long-term task. We will continue our efforts in this area.

35. The construction industry has always been important in Hong Kong. Our achievements in urban development have enjoyed a good reputation internationally. However, we have to admit that many areas in our city are showing signs of decay and there are many old buildings. The urban renewal process includes redevelopment, rehabilitation, revitalisation and preservation. Accelerating urban renewal and improving our urban landscape and environmental hygiene can provide the impetus for long-term sustainable development as well as job opportunities for the local construction industry.

As this subject involves wide-ranging implications, we will consider various options, promote discussion in the community and put forward proposals.

Support for Small and Medium Enterprises

36. The vast majority of Hong Kong businesses are small and medium enterprises (SMEs). They play a crucial role in our economy. Since their introduction, the four Funds set up by the Government to support SMEs have produced good results, particularly in the upgrading of equipment and export marketing. As of mid-December 2003, 27 000 SMEs, of which more than 60% were in the service sector, had successfully applied to the Funds for credit guarantees and assistance. The Secretary for Commerce, Industry and Technology and the Small and Medium Enterprises Committee will continue to monitor the business environment for SMEs and introduce improvements as required.

37. The main concern of SMEs is whether the threshold for entering the Mainland market can be lowered. Now that Hong Kong Permanent Residents with Chinese citizenship can set up individually-owned businesses in Guangdong, we will analyse the actual operation of SMEs and explore the next steps with Mainland authorities.

In Step with Professional Development

38. Under CEPA, our professional services, which already possess definite advantages, may now establish new business platforms in the Mainland ahead of other international competitors. The Government will continue to discuss with the Mainland matters relating to entry thresholds, recognition of professional qualifications and practice requirements, to help those wishing to pursue these opportunities. For instance, we have made progress in respect of the services that Hong Kong lawyers can provide in the Mainland, and the recognition of qualifications by the Mainland for Hong Kong architects, estate surveyors and stockbrokers. At the same time, I am aware that professionals are particularly concerned about public works projects in Hong Kong. The Government plans to earmark an average of \$29 billion per year for capital works projects for the next five years, higher than the \$27 billion for each of the past five years. Apart

from providing funding for the preliminary feasibility studies of these projects, we have also secured recurrent funding for their operation. These projects will require on average 4 200 professional and technical staff per year. Also, in awarding various tenders and consultancy contracts, the Government will try its best to minimise obstacles to the participation of local small- and medium-sized professional organisations.

Alleviating Deflation

39. In implementing our strategy for economic revival, we need to focus on two problems: deflation and the fiscal deficit.

40. Although prices, asset values and rents have been falling for more than five years, deflation is gradually easing off following Government measures to stabilise the property market, attract tourists and stimulate consumption. This has boosted local consumption and investment. We expect that deflation will taper off and hopefully disappear altogether. Following the downward adjustment over the past few years, asset and labour prices in Hong Kong have become more competitive. This has laid a solid foundation for the next phase of economic revival.

Suitably Postponing Elimination of Fiscal Deficit

41. Economic restructuring has caused structural problems for our public finances. Last year, I stressed the need to reduce the fiscal deficit because this would have a bearing on the overall stability of our financial system and thus cannot be avoided. In reducing the deficit, the public has paid a price and our civil servants have made their commitments. Due to the SARS outbreak, government spending has increased. The Financial Secretary has postponed the target date for restoring fiscal balance to 2008-2009. The ways to eliminate the fiscal deficit are to increase taxes and fees, cut expenditure and promote economic growth. Now that we are beginning to see signs of an economic recovery, we will strive to ensure sustained growth and to reduce deflation. We

will take closely into account changes in the community when considering what people can realistically bear. We will seek to strike a careful balance between reducing the fiscal deficit and safeguarding people's livelihood, and give the community adequate time to recover.

C. Meeting the Challenges of Globalisation

42. Madam President, globalisation brings not only opportunities but also severe challenges, such as intensified competition, corporate restructuring, loss of jobs, more poverty and the marginalisation of certain communities. The entire world faces these economic and social challenges that carry far-reaching implications. People in Hong Kong have also experienced asset depreciation, prolonged deflation and lower wages. They have had to bear the additional burdens arising from the need to reduce the fiscal deficit and from the SARS attack last year. In facing up to the challenges of globalisation and in dealing with economic restructuring, we have to devote at the same time serious attention to people's livelihood and social stability, and to help Hong Kong people upgrade themselves and manage these changes.

Investing in Education to Keep Up with the Times

43. The main tool for promoting economic restructuring and establishing a knowledge-based economy is to invest substantially in education and to strategically raise the competitiveness of our labour force. Hong Kong has received favourable comments worldwide for the quality of our education, thanks to the hard work and professionalism of our educators. Currently, education accounts for about 25% of government expenditure. As I have said on many occasions, every cent spent on education is an investment, not an expense.

44. It is imperative for Hong Kong to continue developing tertiary education. We should encourage tertiary institutions to take the initiative to specialise in order to achieve excellence. In 2002, we established the Continuing Education Fund with \$5 billion to promote life-long learning. To pursue continuing education, many people in Hong Kong are now eagerly enrolling themselves at the Open University, the extra-mural programmes of other

universities, as well as a variety of other programmes. The proportion of secondary school graduates who could pursue further studies has increased from 30% a few years ago to 48%. To support economic restructuring, this proportion will need to be increased. We have provided different avenues for further studies. We are establishing a qualifications framework to provide learners with a clear articulation ladder.

45. Education reforms carried out in primary and secondary schools over the past few years have been on the right track. For students, the interest in learning has increased, curricula have become more varied and there is now more scope for developing an individual's potential. All the efforts of school principals, teachers and parents have produced encouraging results. I am aware that the implementation of education reforms has increased the workload of teachers and confused some parents. Following feedback from educators and parents, we will strengthen communication with school principals, teachers, parents, students themselves and the community at large to clearly explain the concepts behind the policies and listen to views from all sectors. But, for the sake of Hong Kong's long-term interests, we must insist on education reforms.

46. In its report published last year, the Education Commission proposed changing the academic structure to three-year junior secondary, three-year senior secondary and four-year university. After consulting the education sector, the Government has accepted this direction in principle. Nevertheless, changing the academic structure of senior secondary forms and universities is a major exercise. It involves complex preparation, gives rise to many resource allocation issues and must be planned in detail. The Secretary for Education and Manpower will consult the public within this year on these changes, including the design blueprint, timetable for implementation and financial arrangements. The change of academic structure is expected to require four years of preparation. We will only implement these changes after adequate preparation and with public support. The prime mission for the next few years is to ensure the success of reforms already started and to fine-tune the various related arrangements.

Promoting Employment and Training

47. Though Hong Kong's economy is showing signs of recovery, many people, including some from the middle class, still suffer from unemployment, job insecurity and other pains brought about by economic adjustments. In the transition to a knowledge-based economy, we need to strengthen training and retraining before economic growth can bring about increased employment.

48. We need to continue to promote training and retraining. Some of the Vocational Training Council's (VTC) courses have been criticised for not meeting market demand. These have been improved. The VTC provided more than 32 000 pre-vocational places and some 90 000 in-service training places in the past school year. The Employees Retraining Board (ERB) provided over 100 000 places in 2003. Graduates from courses offered by the VTC and full-time ERB courses achieved an employment rate of 80% on average. These training and retraining courses will be better oriented towards the needs of our restructuring economy to increase the trainees' employability.

49. In the past, we have introduced a package of temporary jobs and skills enhancement opportunities. Most of the short-term jobs are due to expire by March. Although the unemployment rate is declining and the employment situation is improving, we are determined to set aside, even as we strive to reduce the fiscal deficit, about \$1.2 billion to implement three employment measures. First, we will extend about 11 000 temporary jobs; second, we will extend the Youth Work Experience and Training Scheme by two years to place into employment 10 000 young people aged 15 to 24; and third, we will introduce a one-year trial scheme to assist 1 000 young people to become self-employed.

50. We are seriously concerned about continuing learning and employment for young people. The Youth Pre-employment Training Programme has provided practical support for those leaving school and seeking employment, and will definitely continue. We have accepted the recommendations of the Commission on Youth and will set up an inter-departmental and inter-disciplinary task force to be responsible for overseeing the implementation of various youth training and employment programmes. We will establish a Youth Sustainable

Development and Employment Fund to promote trial schemes and exploit opportunities for training, placement and employment.

51. The Government has vigorously stepped up its employment service for job seekers. Last year, the 11 job centres of the Labour Department placed 66 000 persons in employment. We will continue with our Special Incentive Allowance Scheme for Local Domestic Helpers. We will review the scheme and make improvements if necessary.

52. We fully appreciate the hardship and feelings of those who are unemployed and will try our utmost to help them enter the job market. But we also understand that real economic growth is the key to effectively tackling structural unemployment. For example, the tourism sector is becoming more prosperous. New hotels gradually coming on stream over the next five years will provide not only many jobs for construction and decoration projects but also some 13 000 new service-related jobs. The capital works programme for the next five years will sustain the employment of about 41 000 construction workers annually, apart from professional and technical personnel. The Government will actively remove obstacles to the development of local businesses and encourage corporate investment. We are determined to crack down on the employment of illegal workers to safeguard job opportunities for the local workforce. We will also pay attention to whether those working on Government contracts are receiving a reasonable wage.

Enhancing our Social Capital

53. Globalisation has brought rapid changes to our social environment, with some groups and individuals facing difficult problems of adjustment. At the same time, we also face the problems and challenges brought on by an ageing population. We need to actively develop a strategy. In my previous Policy Addresses, I referred to the underlying beliefs guiding our social policies. The Government endeavours to provide the ideal environment, in which every person in Hong Kong will have the opportunity to realise his or her goals in life through individual effort. For those who face setbacks or encounter adversity, we should provide the support necessary to help them enhance their capacity and to realise

their full potential. While education and training are important for self-advancement, welfare, medical and other public health services provide the key co-ordinating and supporting role. We need to ensure that the services or assistance provided by Government can encourage self-help and mutual assistance so as to promote self-reliance and development of individual potential to the full.

54. Globalisation has aggravated poverty generally in many places around the world and we are no exception. We provide a safety net under the Comprehensive Social Security Assistance Scheme to assure a basic standard of living. We attach importance to individuals who can work to enhance their capacity for self-reliance and self-betterment. We will further examine how to help poor people elevate themselves, and to improve their economic situation through sharing the opportunities that arise from social development.

55. The Secretary for Health, Welfare and Food will engage relevant parties in developing our strategies to enhance ‘social capital’. The social welfare sector has been encouraging volunteerism, and has proposed many new ideas to involve the business community to participate in community affairs. In addition, we established the Community Investment and Inclusion Fund in 2002. These have sown the seeds for a tri-partite partnership between government, the business community and the third sector (not-for-profit sectors). I have asked the Secretary for Health, Welfare and Food to examine, in consultation with the Social Welfare Advisory Committee and the Community Investment and Inclusion Fund Committee, ways to develop this tri-partite partnership, and to consolidate and promote the successful experience of the Community Investment and Inclusion Fund. We seek to inculcate this concept in the community to help it take root.

Summing Up

56. With the gradual formation of mainstream thinking on our future economic development strategy, and the economic recovery brought about by that strategy, the community should now focus on how to foster economic restructuring and development. The Government is determined to promote economic revival. The elimination of the fiscal deficit and other measures that

we take from now on will carefully take into account the impact on people's livelihood and the economic recovery. We also endeavour to maintain a stable society and to create a tolerant environment where people can direct their energies to improving their quality of life. At the same time, we will try our best to care for the disadvantaged and those facing difficulties.

D. Staying Close to the Community and Improving Governance

57. Madam President, I am fully aware of the keen public expectation for us to improve our governance. Over the past few months, my colleagues and I have been paying particular attention to this area. We know that there are inadequacies, which will require a redoubling of our efforts to improve. We are determined to put the interests of people at the forefront of our administration. We will be modest, candid, pragmatic and open with the public in strengthening our leadership role, while working according to established systems, procedures and the law. We will respect the mainstream values of society and put more emphasis on political networking, with a view to expanding the forces that integrate the community. We will fairly and justly manage the community's different interests and points of views, thereby enhancing our policy making capabilities. We will involve a broad spectrum of society in the formulation of policies. These measures are designed to benefit our political stability and orderly development, our economic revival and social peace and the preservation of harmonious relations with the Mainland under the 'One Country, Two Systems' framework. We firmly believe that the public will see further improvement in our governance in the days to come.

Enhancing the Principal Officials Accountability System

58. The Principal Officials Accountability System was introduced as an important institutional reform to the Government's executive machinery and to our political system as a whole. After 18 months of operation, we believe it is meeting the requirements of Hong Kong's political development. We are keenly aware that time is needed for any major political reform to develop, evolve and mature. What we need to do is to try to flesh out the system on the basis of experience gained. We will focus on the political work of Principal Officials, strengthen their linkage with the community, consult relevant sectors and organisations, assess public opinion and support policy formulation.

59. Our goal is to build a government that can provide the necessary political leadership. It needs to stay close to the people, innovate and take responsibility for its actions. It needs to be very cohesive, able to work well with the community, highly transparent and efficient in administration.

Improving Policy Making Capabilities

60. In the months ahead, we will focus on improving our policy making capabilities, in particular the quality of policies. The aim is to rationalise our decision making process and ensure that policies are implemented effectively. We will involve people from different sectors to participate in the policy making process.

61. To improve our governance, we must raise the level of sophistication with which both the Government and the community handle policy issues. We need to do more public policy research, particularly from a macro and long-term perspective. Objective and concrete public policy research will help us better realise the objectives of effective governance. It will help us avoid sweeping, politicised and emotional policy debates, thus making it easier for the Government and various sectors of the community to reach a consensus on public issues. This will ensure that our policies are implemented more effectively and better able to serve the long-term development needs of Hong Kong.

62. At present, public policy research is not being pursued vigorously within the Government and in the community, and there are not enough experts in this area. To enhance the effectiveness of our governance on a long-term basis, the Central Policy Unit will in the coming year explore ways to promote public policy research and develop the human resources required. We will actively discuss the way forward with the community.

63. In striving to enhance our policy making capabilities, we are determined to involve different sectors of the community in the policy making process. We will take steps to better gauge the general mood of the people and strengthen our advisory and statutory bodies.

A Better Grasp of Public Sentiment

64. It is imperative that a people-based government is able to grasp public sentiment promptly and accurately, and to respond effectively. We will make fuller use of District Offices, District Councils, the various advisory bodies and the many community organisations to form a community-wide political network which can extensively collect public opinion. We will strengthen the monitoring of public opinion, through polls, social networking, focus group discussions, analyses of views in the press and collating views expressed on the Internet. Government departments will strengthen their understanding of public views and attitudes through contacts in various sectors. My colleagues and I will keep in touch with people through different channels and means to achieve a clearer understanding of their aspirations.

65. To gauge the pulse of the community, the Government will maintain close liaison with experts and opinion leaders familiar with community feelings.

66. We value the mass media as an important bridge for communication between officials and the public. We will step up this link and seriously consider criticisms of government and suggestions reflected in the media.

Strengthening Advisory and Statutory Bodies

67. Advisory and statutory bodies form an integral part of our political system and play an important role in supporting the administration. They are also an important channel for people to participate in public policy formulation. The Government attaches importance to the function, role and composition of some 500 advisory and statutory bodies. Our objectives are –

- streamlining structure to avoid excessive duplication in organisation and membership;
- bringing in more talents from different backgrounds to enhance representativeness;

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- reinforcing the role of these bodies as important partners of the administration and strengthening their participation in the decision-making process;
 - increasing their role in reconciling different interests in our community;
 - further using them as important channels for public participation in public affairs;
 - enhancing their role in grooming leaders;
 - reinforcing their function in connecting the Government and the community;
 - explaining public policies and encouraging public discussions; and
 - improving how their performance should be evaluated and elevating their status as public policy think tanks.

We are determined to achieve these objectives in the near future.

Reinforcing Co-operation with the Legislature

68. A legislature that monitors and co-operates sincerely with the Government is the cornerstone of effective governance. This is also something our community would be happy to see.

69. The Government will, on the basis of equality and mutual respect, strengthen its dialogue and co-operation with the Legislative Council. We will have more contacts with independent legislators and their colleagues from different political parties, so they will better understand and be able to exercise a more positive influence on the position, policy intent and objectives of the Government.

70. We will, in a spirit of mutual respect and understanding, seek support from a majority of legislators for our policies, bills and proposals for public

expenditure. We will respect the opinions and feelings of legislators in the minority who raise objections.

Enhancing Work in Districts

71. We will endeavour to promote better understanding with people in the districts, strengthen our capability to provide district services and improve relations with ordinary people. We attach importance to public calls for the Government to step up the resolution of district problems. We will better deploy the functions and resources of the Home Affairs Bureau to enable District Offices to solve problems and improve the quality of life in districts quickly and more effectively. We will strengthen our co-operation with District Councils and support their work. We will review their function and composition at a suitable time. Senior officials and I will step up our contacts with the District Councils, local organisations and residents through various channels. We will pay more attention to district affairs and try harder to understand local views. At the same time, we will make available more channels for local residents to participate in district affairs and demonstrate their leadership.

Attaching Importance to the Middle Class

72. The Government recognises the difficulties faced by the middle class. We understand their grievances, discontent and feelings of uncertainty. We appreciate their values and beliefs, as well as their aspiration to participate in politics. We believe that only a stable and fully confident middle class will guarantee the stability and prosperity of Hong Kong. We will strive to involve more middle class people in political affairs.

73. We will appoint more middle class managers and professionals into the Government's advisory boards and committees. We will interact more with political, social, cultural, religious and professional bodies whose core members come from the middle class. We will foster a closer partnership with academia and tap their expertise and research findings for the policy-making process.

Supporting the Participation of Women

74. In formulating and implementing our policies, we will take into account the gender perspective, and will strive to enhance the participation of women in the work of government advisory and statutory bodies. We are gradually introducing the use of the Gender Mainstreaming Checklist in different policy areas. The Women's Commission is moving in close step with the international community in realising women's due status, rights and opportunities in all aspects of life. We will continue to work hard to create an enabling environment for women in Hong Kong to realise their potential.

A Proper and Serious Constitutional Review

75. We understand the concern of the community over our future constitutional development and the importance of constitutional review. On the basis of maintaining 'One Country, Two Systems' and adhering to the Basic Law, the Government will actively promote constitutional development in Hong Kong.

76. As the methods for selecting the Chief Executive and for forming the Legislative Council after 2007 are important components of Hong Kong's political structure, and would affect the implementation of the Basic Law, the relationship between the CPG and the Government, the interests of various strata and sectors of the community, and the long-term prosperity and stability of Hong Kong, the Government has always attached great importance to the matter, and has consistently taken the position and stance that we will strictly follow the Basic Law in handling the matter.

77. When I was on my duty visit in Beijing recently, President Hu pointed out to me the serious concern and principled stance of the CPG towards the development of Hong Kong's political structure. Thereafter, some Mainland legal experts and certain individuals in Hong Kong have also expressed their views on the matter. We definitely need to understand the full implications of these important issues, before making appropriate arrangements for the review of constitutional development.

78. I have decided to establish a Task Force, headed by the Chief Secretary for Administration, Mr Donald Tsang, with members including the Secretary for Justice, Ms Elsie Leung, and the Secretary for Constitutional Affairs, Mr Stephen Lam, to seriously examine these issues, particularly those concerning the understanding of the relevant provisions of the Basic Law, and to consult relevant authorities of the CPG. The Government will encourage all sectors of the community in Hong Kong to continue considering and exploring these issues rationally, as well as expressing their views, so that relevant arrangements may be made as early as possible.

E. Conclusion

79. Madam President, Hong Kong has just experienced an extraordinary year. We faced the SARS attack and bore the pains brought on by various measures introduced to eliminate the fiscal deficit. The July 1 rally clearly conveyed people's dissatisfaction with, and expectations of, the Government.

80. At the same time, the SARS outbreak reinforced social cohesion in Hong Kong as people came out to support one another. Medical and health-care personnel fully demonstrated their commitment to high professional standards and ethics. We became more united, better able to deal with adversity, and more confident in our ability to rebuild our home. Our team of civil servants worked under immense pressure but remained dedicated to their work, continuing to implement Government policies and provide quality public services. Over the past year, our community generally came to reach broad agreement over our future economic development. This strategy has prompted our economic recovery and laid a good foundation for economic restructuring and revival.

81. We are glad to have witnessed significant developments in our relationship with the Mainland over the past year. The CPG's concerns and strong support have provided relief for our various problems and given new impetus to our economic restructuring and recovery process.

82. Madam President, the Government is determined to work together with the community in the days ahead to promote Hong Kong's political, economic and social development and overcome any obstacles in the process. We share a common goal of developing into Asia's world city, a city that will be the envy of the world. We will be an important link connecting the Mainland and the rest of the world, as well as an irreplaceable hub of quality services dedicated to the promotion of the Mainland's economic modernisation. We will be an enlightened and people-based government, a cohesive and vibrant society emphasising care and justice, a creative, knowledge-based economy, a community of citizens respecting others and committed to their social obligations, and a general population proud of our Chinese heritage and willing to assume our national responsibilities.

83. Provided we persevere in our endeavours, we firmly believe that we and our next generation will create a more vibrant and prosperous Hong Kong. We will make a success of ‘One Country, Two Systems’ and accomplish the mission that history has entrusted to us in the course of the revival of our great nation.